Media Release

pbb reports slightly higher year-on-year third quarter pre-tay profit of €75 million – concerns persist about developments on real estate markets

- At €106 million, the nine-month result is down on the same period of the previous year, due to risk provisioning in the first half of the year
- Moderate risk provisioning of €14 million in the third quarter – additions of €84 million this year to date
- New business in the REF segment rises to €1.6 billion in the third quarter – €4.3 billion reached after nine months, with margins exceeding 180bp
- No concrete guidance given due to uncertainty in relation to the pandemic – pbb nonetheless continues to expect a solid result for 2020

Munich, 11 November 2020 – pbb Deutsche Pfandbriefbank achieved profit before taxes of €75 million in the third quarter of 2020, slightly exceeding the previous year's period (consolidated figures in accordance with IFRS; Q3 2019: €70 million). On a nine-month horizon, profit before taxes of €106 million stayed below the same period of the previous year (9m2019: €187 million), due to significantly higher risk provisioning required as a result of the COVID-19 pandemic. The third quarter benefited from a further increase in net interest and commission income to €127 million (Q3 2019: €113 million), defined by stable interest income from the operating business on the one hand and by the interest benefits from the Bank's participation in the ECB's Targeted Longer-Term Refinancing Operations (TLTRO III) on the other hand. Net additions to risk provisions of €14 million (Q3 2019: €10 million) were required due to further reduced valuations for UK shopping centres in the loan portfolio. General and administrative expenses were virtually unchanged at €48 million.

pbb expects a solid operating result before risk costs for the fourth quarter and 2020 as a whole. Due to ongoing uncertainty about the potential risk provisioning required in conjunction with COVID-19 and the latest deterioration of the pandemic, pbb will continue not to issue an earnings guidance.

New Commercial Real Estate Finance business developed positively in the third quarter, with both the volume increasing to €1.6 billion (Q2 2020: €1.1 billion, both including extensions beyond one year) and higher margins, resulting in an average gross margin on new business of above 180 basis points (bp) for the first nine months of the current year. pbb continues to take a risk-conservative approach to new business commitments and extensions.

CEO **Andreas Arndt** commented: "The third-quarter result is based mainly on the forecast good operating performance. While it supports our expectations for solid net interest income and stable administrative expenses in 2020, it does not eliminate concerns about the impact of a second lockdown and structural changes in the real estate markets brought about by the COVID-19 pandemic. We remain cautious in all respects but continue to see ourselves as well positioned with a conservative risk strategy, good capital base and a comfortable liquidity position."

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FACTS AND FIGURES for – 9m 2020 results
(consolidated figures in accordance with IFRS)

1. New business and portfolio

The market environment for Commercial Real Estate Finance has changed in the course of the COVID-pandemic. Investor demand and the demand for rented space have fundamentally deteriorated, with the hotel and retail sub-markets – except for food retailing - particularly hard hit. In this environment, pbb with its risk-conservative strategy is taking an even more selective approach.

After a first quarter in which **new business volume** reached a normal level of €1.7 billion across all business segments, the volume fell to €1.1 billion in the second quarter pbb before climbing again to €1.6 billion in the third quarter (including extensions beyond one year in Commercial Real Estate Finance).

Commercial Real Estate Finance accounted for €4.3 billion of aggregate new business volume of €4.4 billion for the first nine months of the year. Gross new business margins performed well, increasing from quarter to quarter and reaching an average level of above 180 bp over the first nine months (9m 2019: approx. 160 bp)

Germany remained pbb's most important individual market for Commercial Real Estate Finance, accounting for a slight lower share of 43%, followed by the US in second place with a slightly higher share of 14%. Office buildings continued to account for the majority of financed properties, with a share of 50%. pbb has not extended any new loan commitments for shopping centres and hotels – which are especially affected by the coronavirus pandemic – since the second quarter; new business here only concerned extensions of performing exposures.

At €32.7 billion, the **financing volume in the strategic portfolio** as at the end of the third quarter of 2020 was stable relative to the previous quarter's figure of €32.7 billion. Lower early repayments and higher long-term extensions continued to offset the decline in new commitments owed to the pandemic.

2. Funding

During the first nine months of 2020, pbb issued new long-term funding of €3.4 billion (9m 2019: €5.5 billion); around €1 billion was attributable to the third quarter and the predominant share to the first quarter, before spreads on funding markets started to widen in the wake of the coronavirus pandemic. Pfandbriefe accounted for approximately €1.9 billion (9m 2019: €2.6 billion), unsecured issues for €1.6 billion (9m 2019: €3.0 billion), where pbb focused on senior preferred bonds. pbb also used foreign-currency placements in both instruments, in line with its lending business.

In the second quarter, pbb participated in the ECB's TLTRO III programme with a volume of €7.5 billion, of which €1.9 billion were used to repay drawings under the TLTRO II programme. As with the TLTRO II programme, pbb is thus using the

ECB's targeted longer-term refinancing operations – which are designed to facilitate access for businesses and private households to bank loans in the current environment of economic distortions and elevated uncertainty – to make a contribution to the real estate sector.

3. Regulatory indicators

Following a slight increase driven by technical factors in the quarter under review, risk-weighted assets (RWAs) stood at €17.8 billion at the end of September and were therefore almost unchanged from the year-end 2019 level of €17.7 billion. The slight change in RWAs in the third quarter despite the crisis, is also the result of the recalibration to expected Basel IV levels, which pbb carried out in the fourth quarter of 2019 and which tends to enhance the stability of risk-weights. There were no material changes to pbb's capitalisation as at the reporting date compared with the reported figures as of the end of December 2019. CET1 capital amounted to €2.7 billion, while own funds remained constant at €3.6 billion.

- The **CET1 ratio** increased slightly to 15.3% (31 December 2019: 15.2%); the **tier 1 ratio** was 17.0% (31 December 2019: 16.9%).
- The **own funds ratio** remained constant at 20.4%.
- The **leverage ratio** rose to 5.7% (31 December 2019: 5.4%).

4. Income statement – 9m 2020 results

Net interest income of €354 million was slightly higher than the previous year's figure (9m2019: €341 million), benefiting from lower funding expenses due to maturing bearer bonds and participation in the Bundesbank's US dollar repo tenders at temporarily better terms, whereby more expensive funding could be replaced by foreign currency exposures. Participation in the ECB's TLTRO III from 24 June 2020 also had a positive effect; related interest-rate benefits are accrued over the term. As in the same period of the previous year, pbb Group profited from floors in client business, given the negative interest rate environment. However, the slightly lower portfolio of disbursed (and hence, interest-bearing) financings in REF with an average of €26.9 billion (9m2019: €27.5 billion) burdened net interest income, as did the decline in the non-strategic Value Portfolio, which is in line with the Bank's strategy. The contribution from the investment of own funds was also lower due to the low interest rate environment.

Net commission income includes fees that were recognised directly through profit or loss. At €4 million, net commission income in the reporting period reached the previous year's value (9m 2019: €4 million).

Net income from fair value measurement (€-12 million; 9m 2019: €-2million) was burdened mainly by pull-to-par effects (whereby market value approaches zero towards maturity). This was also impacted by the effect of widening credit spreads for non-derivative financings, which must be reported at fair value through profit and loss. The greatest effect was attributable to risk exposure to

German federal states. Their fair values declined significantly in the first months of 2020 before at least partially recovering towards the end of second and during the third quarter.

The changed economic situation led to a marked decline in market transactions in commercial real estate financing from March 2020 onwards as well as to a change in the competitive dynamics. This led to lower early redemptions of financings driven by the current terms available, among other things. The total decline in the volume of early repayments also led to a lower volume of prepayment fees received, resulting in **net income from realisations** of €20 million, which were lower year-on-year (9m 2019: €31 million).

Net income from hedge accounting (€4 million; 9m 2019: €-3 million) included income of €5 million from the conversion of the reference interest rates to the euro short-term rate (€STR). Since the changes in the value of derivatives and hedged items almost completely compensated each other in relation to hedged interest rate risk, there were hardly any other factors impacting upon profit or loss.

Within **net other operating income** (€4 million; 9m 2019: €0 million), reversals of provisions for legal and tax-related matters exceeded additions.

Risk provisions for financial instruments is based on probability-weighted estimates of expected loan losses. While consistently applying the accounting methods, pbb adjusted the estimations' underlying parameters, such as expected gross domestic product and the probability weighting of the scenarios, to the current new economic situation. For example, in the most likely scenario, pbb now assumes a 7.0% decline in German gross domestic product for 2020, whereas the 2019 financial statements still predicted a 1.1% growth rate.

Net income from risk provisioning totalled €-84 million (9m 2019: €-10 million). €41 million net (9m 2019: net reversal of €6 million) of the additions resulted from financings without indicators for a deterioration of credit quality (as defined in IFRS 9) – in other words, financial instruments with stage 1 or stage 2 impairments. This includes the effect from the reclassification of financings with a gross carrying amount of €7.6 billion from stage 1 to stage 2 impairments. pbb carried out this reclassification, without resorting to the regulatory relief currently in place, although the changes were triggered by the economic recession caused by COVID-19. There is no evidence of data suggesting that the issuers or borrowers of the financings in questions are in significant financial difficulties. pbb also did not carry out any adjustments that would have led to a reduction in loss allowances within the meaning of management overlays, which would have been in line with the recommendations of the IASB and the European supervisory authorities ESMA, EBA and ECB. As a result of the additions to risk provisions, coverage – defined as the ratio between loss allowances and gross carrying amount on stage 1 and 2 commercial real estate financings – rose significantly to 32 basis points (31 December 2019: 18 basis points; 30 June 2019: 8 basis points).

Furthermore, net additions to risk provisioning for financings with indicators of impaired credit quality rating (impairment stage 3) were necessary (€43 million net; 9m 2019: net additions of €15 million). This increase in loss allowances was attributable almost exclusively to loans for shopping centres in the UK, reflecting structural changes in the retail industry, among other things.

The coverage ratio of the real estate financing portfolio as the ratio of loss allowances and portfolio size was 69 basis points at the end of September, and is relatively high for a collateralised exposure – also compared to other banks.

General and administrative expenses of €145 million were slightly above the same period of the previous year (€141 million). This was attributable to higher personnel expenses resulting from the increase in the average number of employees, and to higher non-personnel expenses due to regulatory projects.

Expenses for bank levies and similar dues (€25 million; 9m 2019: €23 million) mainly comprised expenses for the bank levy to be recorded already for the full-year 2020 in compliance with IFRIC 21, taking into account pledged collateral amounting to 15% (€23 million; 9m 2019: €20 million). The year-on-year increase in expenses for the bank levy resulted in a significant increase in the fund's target volume at EU level. This line item also included expenses of €2 million (9m 2019: €3 million) for the private Joint Fund for Securing Customer Deposits and the statutory deposit guarantee scheme.

Net income from write-downs and write-ups on non-financial assets (€-14 million; 9m 2019: €-13 million) included scheduled depreciations of tangible assets and amortisation of intangible assets. The year-on-year increase reflected scheduled amortisation of the right of use (capitalised in mid-2019) for pbb's corporate headquarters in Garching. Material impairments on non-financial instruments were not required.

There were no material additions to, or reversals of restructuring provisions during the reporting period. **Net income from restructuring** related to income from the reversal of provisions for the same period of the previous year related to Human Resources.

Income taxes (€-35 million; 9m 2019: €-32 million) were attributable to current taxes (€-31 million; 9m 2019: €-12 million) and to deferred taxes (€-4 million; 9m 2019: €-20 million). The changes are mainly due to the tax treatment by the tax authorities of the higher loss allowance, some of which is not tax-deductible.

Profit after taxes amounted to €71 million (9m 2019: €155 million), of which €58 million (9m 2019: €142 million) was attributable to ordinary shareholders and €13 million (9m 2019: €13 million) to AT1 investors on a pro rata basis (based on the assumption that the discretionary AT1 coupon is serviced in full).

Overview of the pbb Group

Consolidated Income Statement (in accordance with IFRS; € mn)	**Q3/19**	**9M/19**	**2019**	**Q1/20**	**Q2/20**	**Q3/20**	**9M/20**
Net interest income	112	341	458	111	117	126	354
Net fee and commission income	1	4	6	2	1	1	4
Net income from fair value measurement	5	-2	-7	-17	1	4	-12
Net income from realisations	15	31	48	14	2	4	20
Net income from hedge accounting	-2	-3	-2	-1	-1	6	4
Net other operating income	2	-	3	1	3	-	4
Operating Income	**133**	**371**	**506**	**110**	**123**	**141**	**374**
Net income from risk provisioning	-10	-10	-49	-34	-36	-14	-84
General and administrative expenses	-48	-141	-202	-48	-49	-48	-145
Expenses from bank levies and similar dues	-1	-23	-24	-21	-4	-	-25
Net income from write-downs and write-ups on non-financial assets	-5	-13	-18	-5	-5	-4	-14
Net income from restructuring	1	3	3	-	-	-	-
Pre-tax profit	**70**	**187**	**216**	**2**	**29**	**75**	**106**
Income taxes	-14	-32	-37	-	-8	-27	-35
Net income	**56**	**155**	**179**	**2**	**21**	**48**	**71**

Key ratios (%)	**Q3/19**	**9M/19**	**2019**	**Q1/20**	**Q2/20**	**Q3/20**	**9M/20**
CIR	39.8	41.5	43.5	48.2	43.9	36.9	42.5
RoE before tax	9.2	8.1	6.9	-0.3	3.4	9.7	4.3
RoE after tax	7.3	6.6	5.7	-0.3	2.3	6.0	2.7

Balance sheet (€ bn)	**09/19**	**09/19**	**12/19**	**03/20**	**06/20**	**09/20**	**09/20**
Total assets	59.8	59.8	56.8	56.6	60.7	60.2	60.2
Equity	3.2	3.2	3.2	3.2	3.2	3.3	3.3
Financing volume	46.3	46.3	45.5	45.0	44.5	44.4	44.4

Please note:
The following applies to the entire press release: Quarterly figures are unaudited; half-year figures were reviewed by external auditors; all annual financial statement figures are audited.

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