Media Release

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pbb posts markedly higher pre-tax profit of €52 million in Q1 2021

- Net interest and commission income increased by more than 10%, to €125 million
- Risk provisions at a low level of €10 million and significantly below the previous year
- New business volume increased to €2.1 billion, with only slightly lower gross margins
- CEO Arndt: Strong first quarter confirms our expectations to exceed last year's pre-tax result – we maintain our overall cautious risk assessment for 2021

Munich, 10 May 2021 – Deutsche Pfandbriefbank AG (pbb) starts 2021 on a strong note. With pre-tax profit of €52 million, the real estate lender exceeded the previous year's figure of €2 million by some margin (IFRS, consolidated, unaudited). Once again, the strong results were driven by higher income from the lending business, combined with markedly lower pandemic-related burdens on risk provisions and fair value measurement.

Net interest and commission income rose by more than 10% to €125 million (Q1 2020: €113 million). Net income from risk provisioning declined from €34 million to €10 million, whilst net income from fair value measurement improved from minus €17 million to €2 million. Results also benefited from higher prepayment fees, shown in net income from realisations, which rose from €14 million to €21 million. General and administrative expenses showed a moderate increase, in line with expectations, to €51 million (Q1 2020: €48 million), particularly reflecting pbb's initiatives to drive digitalisation. Pre-tax profit was burdened by bank levies and similar dues in the amount of €28 million (Q1 2020: 21 Mio. €); the bank levy is recognised for the full year already in the first quarter.

Along with the figures for Q1 2021, pbb has also confirmed its full-year **guidance** for 2021. pbb expects stable or slightly higher net interest income compared to 2020 as well as lower additions to risk provisions and stable administrative expenses. In view of the persistent macroeconomic uncertainty, pbb refrains from giving a profit range for the time being, but expects lower risk costs overall and a pre-tax result above the previous year's level.

Andreas Arndt, pbb's Chief Executive Officer, said: "The robust level of income from our lending business along with our conservative profile keeps us on track, whilst risk provisioning was lower. First-quarter results have affirmed our expectation that our performance in 2021 will exceed the previous year, even though we cannot rule out additional risk provisions over the course of the year, on account of the COVID-19 pandemic."

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With a volume of €2.1 billion, **new business** in Commercial Real Estate Finance was higher than in the same quarter of the previous year (Q1 2020: €1.6 billion, in each case including extensions >1 year) despite continued strict risk selection. At around 170 basis points (bp), the average gross margin was almost at the same level as in the first quarter of 2020 (Q1 2020: >170 bp). Reflecting the high volume of new business, pbb's strategic loan portfolio grew by €0.4 billion to €33.2 billion (31 Dec 2020: €32.8 billion).

pbb is making good progress in its strategic initiatives focusing on **sustainability and digitalisation**. In the second half of 2020, the Bank laid the groundwork for issuing green bonds and successfully placed its first green bond in the first quarter of 2021. At the same time, pbb has started to build up a database that will allow it to grant green loans in the future.

At the end of the first quarter, pbb launched its client portal, improving the interface with its clients in Commercial Real Estate Finance. The portal enables pbb to increase the transparency within its credit process for clients and to simplify document management. The client portal is one element of a comprehensive programme implemented by pbb to digitalise the workflow in the client and credit processes.

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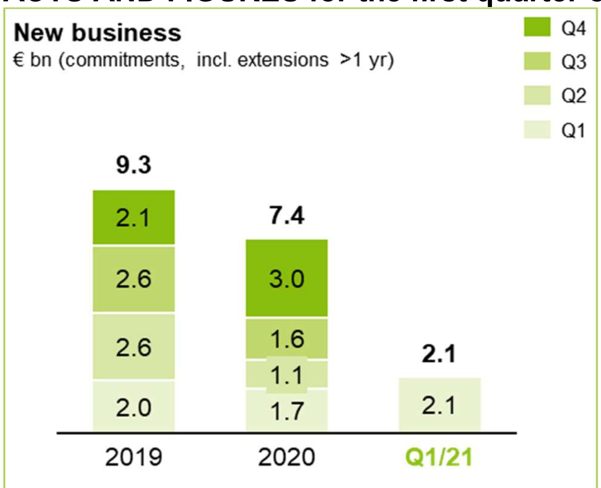
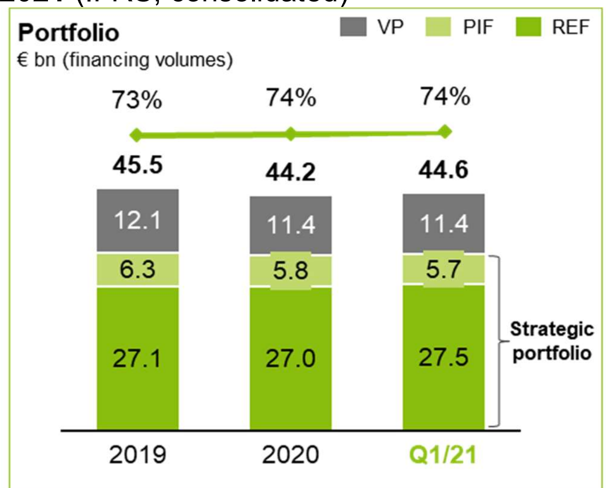
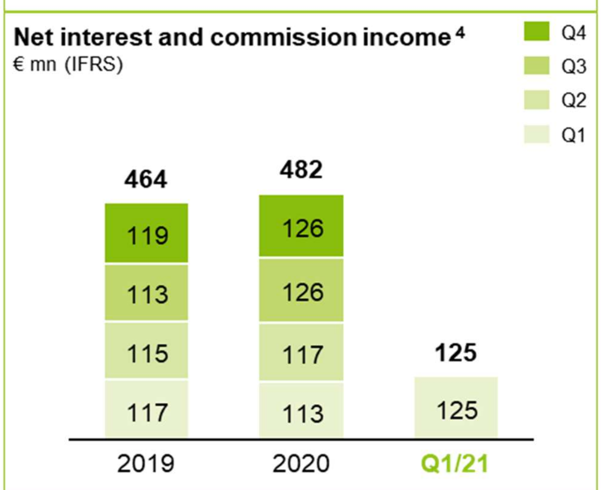
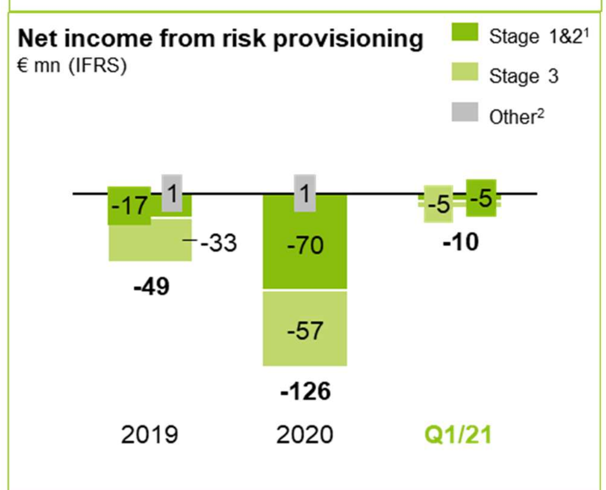
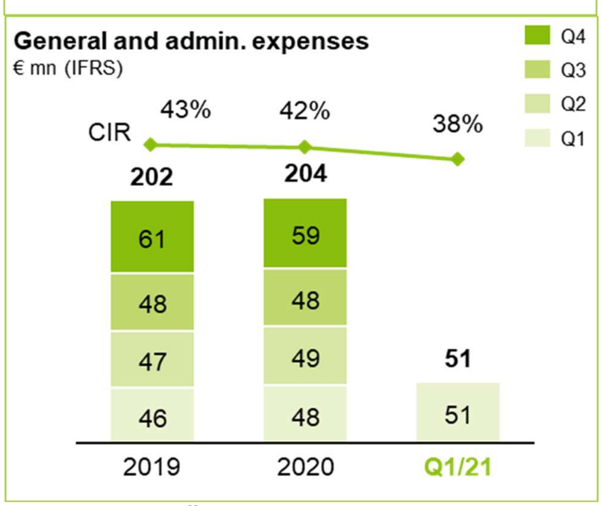
FACTS AND FIGURES for the first quarter of 2021 (IFRS, consolidated)

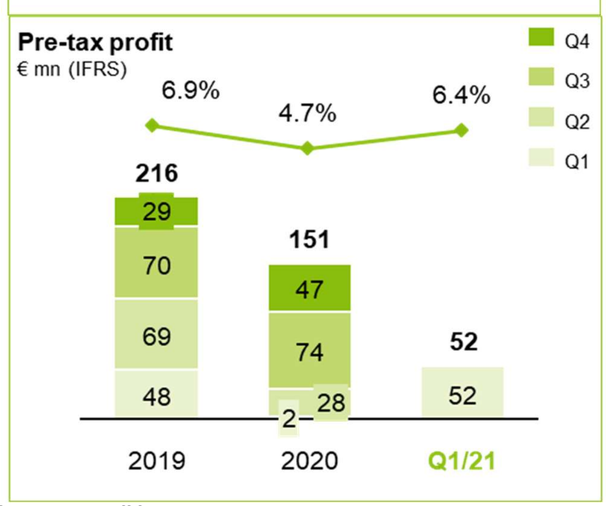












1 Incl. provisions in off balance sheet lending business 2 Recoveries from written-off financial assets
3 After AT1 coupon (2019: € 17 mn; 2020: € 17 mn; Q1/21: pro-rata € 4 mn) assuming full payment of the discretionary coupon
4 2020 figures retrospectively adjusted according to IAS 8.42 resulting from changed timing of realization of commitment interest

1. New business

pbb continued to pursue its conservative risk policy, achieving a volume of €2.1 billion in Commercial Real Estate Finance, compared to €1.6 billion in the same quarter of the previous year. The average gross margin remained stable quarter-on-quarter at around 170 bp, but fell slightly compared to around 180 bp for the full year 2020. In addition to a more conservative business focus, this slight decline is also due to the competitive situation in the market segment for risk-conservative financing, in which pbb is involved.

The majority of new business (57%) was generated in pbb's German home market. Financing in France accounted for 17% of new business, up from 9% in 2020 as a whole. In the first quarter 2021, business in the Central and Eastern European markets remained stable year-on-year, at 12%. Among the financed property types, logistics properties increased significantly to 30%, compared to 17% in the previous year. Office properties continued to make up the most prominent property type, although their share fell to 36% compared to 50% in 2020.

pbb continues to focus on real estate in prime locations, with stable cash flows, good tenants, and low re-letting risks. The Bank also lends to professional, crisis-experienced investors and ensures that loan agreements have low loan-to-value ratios and solid covenant structures.

2. Funding

In Q1 2021, pbb issued new long-term funding on the capital market in the amount of €1.4 billion (Q1 2020: €1.9 billion), which remained below the issuance activity of the same quarter of the previous year, reflecting the previous year's funding inventory. New issuance was split virtually equally between Pfandbriefe and unsecured issues. Regarding unsecured funding, pbb focused once again on senior preferred bonds. As for Pfandbriefe and unsecured bonds, in Q1 2021 pbb continued to use foreign currency placements, matching its lending business, including a US dollar Pfandbrief sized at US$750 million. In Q1 2021, pbb also very successfully placed its first green bond, in senior preferred format.

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3. Regulatory indicators

pbb's risk-weighted assets (RWAs), calibrated to meet expected future Basel IV requirements, increased to €18.3 billion at the end of the first quarter 2021 (31 Dec 2020: €17.7 billion), mainly as a result of new business. pbb's common equity tier 1 (CET1) capital declined slightly to €2.8 billion (31 Dec 2020: €2.9 billion) for technical reasons, as a result of an increase in expected loss shortfall 2021; at the end of the first quarter 2021, regulatory capital remained unchanged at €3.8 billion. Therefore, the relevant regulatory ratios decreased with the exception of the Leverage Ratio, which remained stable (ratios do not include the result of the first quarter 2021, but take into account the dividend proposal):

- The **CET1 ratio** decreased to 15.4% (31 Dec 2020: 16.1%) and the **tier 1 ratio** to 17.0% (31 Dec 2020: 17.8%)
- The **own funds ratio** decreased to 20.6% (31 Dec 2020: 21.4%).
- The **Leverage Ratio** stood unchanged at 6.0% (31 Dec 2020: 6.0%).

4. Consolidated income statement

Net interest income of €123 million exceeded the €111 million achieved in the first quarter of 2020. Interest rate benefits from participation in the TLTRO III programme accrued over the term had a positive effect on net interest income. pbb met the lending target required for recognition of the interest rate benefits on 31 March 2021. The average portfolio of disbursed (and hence, interest-bearing) REF financings increased to €27.3 billion in the first quarter of 2021 (average volume Q1 2020: €26.9 billion). As in the previous year, pbb Group benefitted from floors agreed upon with clients, given the negative interest rate environment.

Net fee and commission income from non-accruable fees of €2 million was unchanged year-on-year (Q1 2020: €2 million).

Net income from fair value measurement was slightly positive in the first quarter of 2021, at €2 million. This was due to a credit-induced increase in the fair values of financial instruments, whereas the previous year’s figure (Q1 2020: €-17 million) was negatively influenced by the changed situation as a result of the COVID-19 pandemic.

Early repayments of financings produced a consequent increase in prepayment fees, and therefore to a rise in **net income from realisations** to €21 million. In the prior-year period, income from realisations amounted to €14 million, reflecting higher earnings from the disposal of financial instruments.

As hedges were largely effective, **net income from hedge accounting** amounted to €-1 million (Q1 2020: €-1 million).

Currency translation effects resulted in a slightly negative **net other operating income** of €–1 million (Q1 2020: €1 million). This item also comprised net reversals of provisions recognised outside of the lending business. Looking at provisions, no individual transaction was of material significance.

Net income from risk provisioning amounted to €–10 million. For financial instruments without indications for impaired credit quality (stages 1 and 2), there was an addition to loss allowance of €5 million, which was due, among other things, to the high new business volume. For financial instruments with indications for impaired credit quality (stage 3), addition to risk provisions amounted to €5 million. These additions were required for financings of two shopping centres in the UK. In the first quarter of 2021, one financial instrument was reclassified to stage 3. Due to good collateralisation, no risk provisioning was required to be recognised for this instrument.

In line with current publications – among others, by the ECB – pbb Group expects the economy to recover in 2021 following the COVID-19-induced global economic slump in 2020. In 2022, economic recovery is expected to continue, which will bring about a reduction in the unemployment rate. The projected economic recovery – which is now closer compared to 31 December 2020 – would lead to a reversal of impairments for stage 1 and 2 financial assets (due to methodology), as forecasts of future economic developments have to be included in the measurement of loss allowance. However, the impact of the COVID-19 pandemic has not yet led to defaults or insolvencies on a large scale. One reason for this is the persistent level of liquidity in the market, brought about especially by government support measures in connection with the temporary suspension of the obligation to file for insolvency. Against the backdrop of the pandemic development, uncertainty in this regard is high and has even partially increased during the first quarter of 2021. The Management Board therefore decided to increase risk provisioning in order to counter the economic impact of developments that have become apparent in the past weeks, i.e. lockdown extensions, setbacks in vaccination programmes, rising incidence rates, the discovery of side effects of vaccines, etc. This management overlay fully compensated the reversals of stage 1 and stage 2 provisions in the amount of €18 million, which resulted from constant application of credit risk models.

In the first quarter of 2020, owing to the impact of the COVID-19 pandemic, net income from risk provisioning amounted to €–34 million, including €–30 million from stage 1 and stage 2 financial instruments and €–4 million from stage 3 financial instruments.

General and administrative expenses of €51 million were slightly above the previous year's figure of €48 million. Personnel expenses were slightly higher (€30 million, Q1 2020: €29 million), due – amongst other factors – to higher average staff numbers resulting from the successful filling of vacancies, accompanied by simultaneous lower staff fluctuation. Non-personnel expenses (€21 million; Q1 2020: €19 million) increased slightly due to project costs.

Expenses for bank levies and similar dues (€28 million; Q1 2020: €21 million) mainly comprised expenses for the bank levy, taking into account 15 per cent pledged collateral in line with the calculation scheme provided beforehand by the EU Single Resolution Board (SRB). The charge has to be recognised in the first quarter for the entire year, in accordance with IFRIC 21 stipulations. The year-on-year increase in expenses for the bank levy resulted, among other things, from a significant increase in the fund's target volume at EU level. Furthermore, this line item comprised expenses of €1 million (Q1 2020: €1 million) for the statutory deposit guarantee scheme and the private Joint Fund for Securing Customer Deposits.

Net income from write-downs and write-ups on non-financial assets totalling €–5 million included scheduled depreciation of tangible assets and amortisation of intangible assets, and was in line with the previous year's level (Q1 2020: €–5 million).

Income taxes (€–10 million; Q1 2020: €0 million) were attributable to current taxes (€–8 million; Q1 2020: €0 million) and to deferred taxes (€–2 million; Q1 2020: €0 million).

Profit after tax amounted to €42 million (Q1 2020: €2 million), of which €38 million (Q1 2020: €–2 million) was attributable to ordinary shareholders and €4 million (Q1 2020: €4 million) to AT1 investors on a pro rata basis.

Overview of the pbb Group

Consolidated Income Statement (in accordance with IFRS; € million)	**Q1/20**	**Q2/20**	**Q3/20**	**Q4/20**	**FY/20**	**Q1/21**
Net interest income	111	116[1]	125[1]	124[1]	476[1]	123
Net commission result	2	1	1	2	6	2
Net income from financial instruments at fair value	-17	1	4	4	-8	2
Net income from realisations	14	2	4	6	26	21
Net income from hedge accounting	-1	-1	6	-	4	-1
Net other operating income/expenses	1	3	-	18	22	-1
Operating income	**110**	**122**	**140**	**154**	**526**	**146**
Net income from risk provisioning	-34	-36	-14	-42	-126	-10
Administrative expenses	-48	-49	-48	-59	-204	-51
Expenses for bank levies and similar dues	-21	-4	-	-1	-26	-28
Net income from write-downs and write-ups on non-financial assets	-5	-5	-4	-5	-19	-5
Net income from restructuring	-	-	-	-	-	-
Profit before taxes	**2**	**28**	**74**	**47**	**151**	**52**
Income taxes	-	-8	-27	-2	-37	-10
Net income after taxes	**2**	**20**	**47**	**45**	**114**	**42**

Key ratios (%)	**Q1/20**	**Q2/20**	**Q3/20**	**Q4/20**	**FY/20**	**Q1/21**
Cost/income ratio	48.2	44.3	37.1	41.6	42.4	38.4
Return on equity before taxes	-0.3	3.3	9.6	5.8	4.6	6.4
Return on equity after taxes	-0.3	2.2	5.9	5.6	3.3	5.1

Statement of financial position data (IFRS, € billion)	**03/20**	**06/20**	**09/20**	**12/20**	**12/20**	**03/21**
Total assets	56.6	60.7	60.2	58.9	58.9	58.1
Equity	3.2	3.2	3.3	3.3	3.3	3.3
Financing volume	45.0	44.5	44.4	44.2	44.2	44.6

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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[1] 2020 figures retrospectively adjusted according to IAS 8.42 resulting from changed timing of realization of commitment interest