News Release

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pbb increases 9-month pre-tax profit to €186 million – full-year result expected at the upper end of guidance, or slightly above

- Net interest and commission income increases to €375 million
- Risk provisioning remains at a low level, with additions of €50 million for 9m2020
- New business volume grows significantly, to €5.7 billion – gross margins stable year-to-date
- CEO Andreas Arndt: "We expect a solid full-year result at the upper end of guidance, or slightly above – optimistic for 2022"
- 10 December 2021: Extraordinary General Meeting to resolve on additional dividend payment for the 2020 financial year of €0.32 per share

Munich, 12 November 2021 – Deutsche Pfandbriefbank AG (pbb) continues its success story in 2021 and reports (in part, significantly) higher key figures, taking up the good results generated prior to the COVID-19 pandemic. As such, following a solid development, the Bank materially grew its pre-tax profit, to €186 million, in the first nine months of 2021 (9m2020: €104 million; Q3 2020: €74 million, Q3 2021: €72 million; IFRS, Group, unaudited). Higher net interest and commission income as well as higher prepayment fees drove the solid result, as the burden on risk provisioning and net income from fair value measurement fell, not least due to an improved situation concerning the pandemic and the economy. Based on the positive performance generated in the first nine months of the year, pbb now anticipates a pre-tax result for 2021 at the upper end of or slightly above guidance, which was increased to a range of €180 million - €220 million at the end of July.

CEO **Andreas Arndt** said: "We are very satisfied with how pbb performed, exceeding the expectations we had at the beginning of the year and reaching the solid levels seen prior to the COVID-19 pandemic. We expect to achieve a good result for the 2021 financial year, which might even slightly exceed the guidance we raised in July. We are also confident that 2022 will turn out to be a good year. Our shareholders will decide on the distribution of a further dividend of €0.32 per share for the 2020 financial year in December, which would result in a total dividend of €0.58 per share for 2020, equalling a distribution ratio of 75%."

Net interest and commission income for the first nine months of the financial year rose to €375 million, following €356 million in the previous year (Q3 2021: €124 million, Q3 2020: €126 million). Lower funding costs (reflecting the TLTRO III programme), a marginal increase in the average loan portfolio, and income from interest rate floors in the lending business were once again the main contributors. Net income from realisations surged from €20 million to €55 million thanks to prepayment fees. pbb made net additions of €17 million to risk provisions in the third quarter, i.e. €50 million in the first nine months, compared to additions of €84 million in the first nine months of 2020 (which had been burdened by the pandemic) and €14 million in the third quarter of 2020. Additions to risk provisions comprise a management overlay for non-impaired exposures in the amount of €48 million, which among other things accounts for the economic consequences of the COVID-19 pandemic expected

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to occur with a time delay. Net income from fair value measurement improved, from €-12 million in the previous year period to €3 million in the first nine months of 2021.

Thanks to pbb's strict cost management, general and administrative expenses remained largely stable in the third quarter and first nine months, at €49 million and €151 million respectively (Q3 2020: €48 million, 9m2020: €145 million). Higher non-personnel expenses, incurred especially for various digitalisation initiatives and other strategic projects, were the main cost drivers.

New business also continued its positive development, generating higher volumes at stable gross margins. New Commercial Real Estate Finance business totalled €5.7 billion in the first nine months of the year, up from €4.3 billion in the same period of the previous year (each including extensions by more than one year). The real estate finance portfolio increased slightly compared to the first nine months of the previous year, to €27.0 billion (Q2 2021: €26.8 billion).

An **Extraordinary General Meeting** will take place on 10 December 2021. The Management Board and Supervisory Board will propose to shareholders the payment of another dividend for the 2020 financial year of €0.32 per share entitled to dividends, following the dividend of €0.26 per share resolved at the Annual General Meeting in May 2021 which has already been distributed. In line with pbb's long-term dividend strategy – and despite the unusual COVID-19-related environment – the Bank would once again achieve a distribution ratio of 75% for the 2020 financial year (based on consolidated profit in accordance with IFRS after taxes and the AT1 coupon) and a dividend yield of 6.6% based on the 2020 year-end closing price. As in the past, future distributions will continue to be subject to economic viability, as well as regulatory provisions and requirements, and align with the cautious distribution policy required by the ECB.

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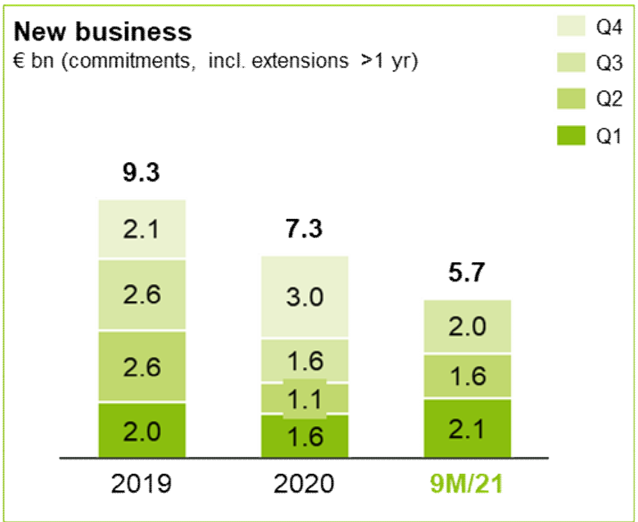
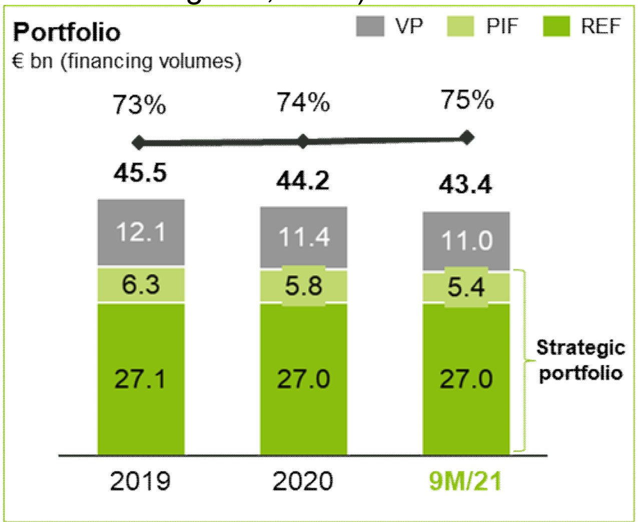
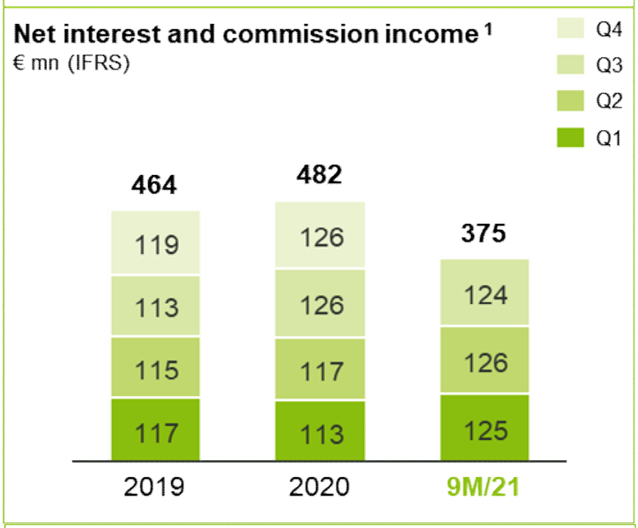
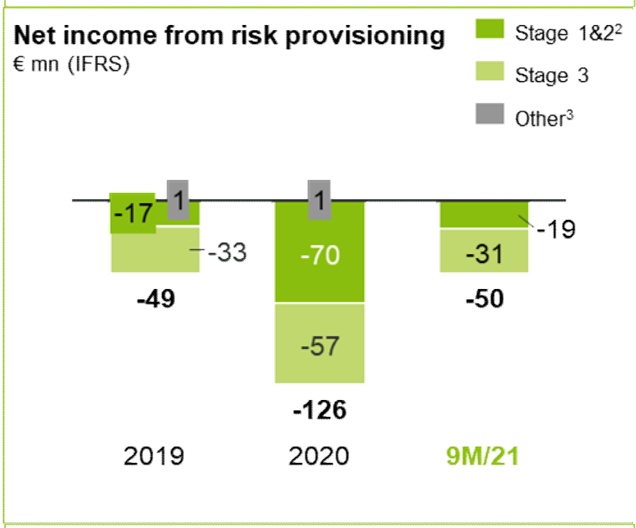
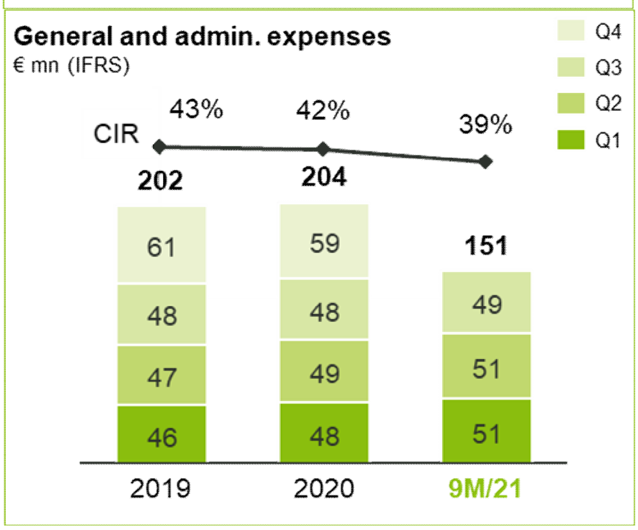
FACTS AND FIGURES – Q3 2021/9m 2021 (consolidated figures, IFRS)

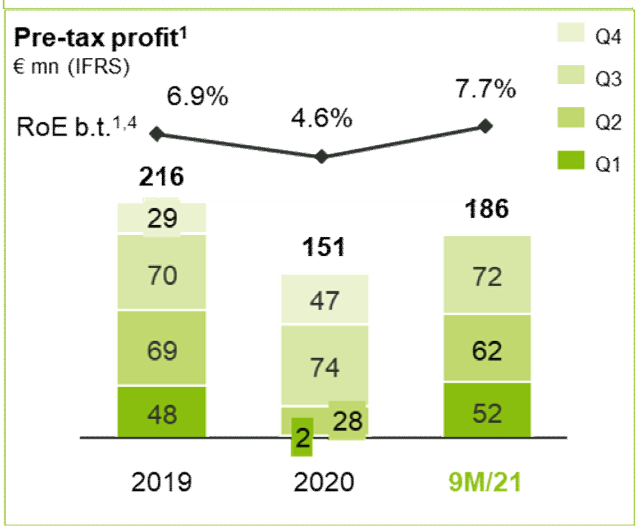












1 2020 figures retrospectively adjusted according to IAS 8.42 // **2** Including provisions in off-balance sheet lending business // **3** Recoveries from written-off financial assets
4 After AT1 coupon (2019: € -17 mn; 2020: € -17 mn; 9M/21: pro-rata € -13 mn) assuming full payment of the discretionary coupon

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1. New business

In the first nine months of the 2021 financial year, pbb generated new Commercial Real Estate Finance business of €5.7 billion, compared to €4.3 billion in the same period of the previous year (figures including extensions by more than one year). At around 170 basis points, the average gross margin has also remained stable during the course of the year, albeit slightly below the level of the previous year (2020: approx. 180 bps).

In line with its strategy, pbb originated most new business (50%) in the German domestic market, followed by the United States with 15% and France with 11%. Thus, whilst adhering to its cautious approach, pbb was once again able to exploit more opportunities in the US during the third quarter of 2021. With regard to different property types, the proportion of office properties increased again, to 50%, followed by logistics properties with 18% and residential real estate with 15%. The share of logistics properties declined, after individual large-volume transactions had led to a higher share in the first quarter of 2021.

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

2. Funding

During the first nine months of the current year, pbb issued long-term funding instruments of €3.4 billion, reaching the level of the previous year. The total amount of funding comprises both Pfandbrief issues and unsecured liabilities, issued both in the form of benchmark bonds and private placements. Pfandbriefe accounted for €2.1 billion (9m2020: €1.8 billion), representing about two-thirds of the total volume. Unsecured funding accounted for €1.3 billion (9m2020: €1.6 billion), with almost all of the volume being issued as Senior Preferred bonds. The transactions were denominated in euro and, in order to minimise foreign currency risks between assets and liabilities, also in US dollar, British pound and Swedish krona.

The Bank's total volume of liabilities under the TLTRO III programme increased by €0.9 billion, to a nominal €8.4 billion as at 24 June 2021. In this context, in June 2021, pbb issued Pfandbriefe totalling €0.7 billion to be pledged as collateral with the ECB.

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3. Regulatory indicators

pbb's risk-weighted assets (RWAs), calibrated to meet expected future Basel IV requirements, increased only slightly to €18.1 billion at the end of the third quarter of 2021 (June 2021: €18.0 billion). However, own funds also fell slightly, to €3.6 billion (June 2021: €3.7 billion) as a result of a corresponding decline in subordinated tier 2 capital. Hence, the capital ratios posted a small downward trend; the ratios do not comprise the annual results 2020 less dividends paid and the results generated in the first nine months of the current year:

- The **CET1 ratio** stood at 14.9% (June 2021: 15.4%) and the **tier 1 ratio** at 16.9% (June 2021: 17.1%).
- The **own funds ratio** decreased to 19.8% (June 2021: 20.5%).
- The **Leverage Ratio** fell to 5.7% (June 2021: 5.9%).

4. Consolidated income statement

Net interest income of €369 million exceeded the €352 million achieved in the first nine months of 2020, with a positive effect incurred as a result of interest rate benefits from participation in the TLTRO III programme accrued over the term. As a result, pbb's total volume of liabilities under the TLTRO III programme increased to a nominal €8.4 billion as at 30 September 2021. Should eligible net lending increase by 31 December 2021 in comparison to the benchmark, pbb has the option to receive an interest rate premium of 50 basis points between 24 June 2021 and 23 June 2022. In accordance with IAS 20, this interest rate benefit is accrued over the term. Excluding TLTRO III effects, net interest income had remained at the previous year's level. pbb benefited from higher net income from interest rate floors in client business. Net interest income was burdened, however, by investing maturing own funds and financial assets in the liquidity portfolio at lower interest rates. The average portfolio of disbursed (and hence interest-bearing) REF financings was slightly higher than in the previous year (9m2021: €27.1 billion, 9m2020: €26.9 billion).

Net fee and commission income from non-accruable fees to be recognised directly through profit or loss amounted to €6 million (9m2020: €4 million).

Net income from fair value measurement was slightly positive, at €3 million. This was due to a credit-induced increase in the fair values of individual financial assets recognised at fair value through profit or loss. In contrast, the previous year's figure (9m2020: €-12 million) was negatively influenced by the changed economic situation due to the COVID-19 pandemic.

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High market liquidity led to a recovery in transaction volumes in commercial real estate following the pandemic-related slump of the previous year. As a result, early repayments of commercial real estate financings increased. This led to higher prepayment fees and therefore a rise in **net income from realisations** to €55 million, following €20 million in 9m2020; a few high-margin individual cases therefore resulted in net income from realisations actually exceeding the levels achieved in the years before the COVID-19 pandemic.

As hedges were largely effective, **net income from hedge accounting** in line with IAS 39 amounted to €-2 million (9m2020: €4 million).

Currency translation effects resulted in slightly negative **net other operating income** of €-2 million (9m2020: €4 million). This item also comprised minor 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 €-50 million. For financial instruments without indications for impaired credit quality (stages 1 and 2), there was an addition to risk provisions of €19 million, which was mainly due to a deterioration in the parameters of individual financings and portfolio changes due to new business generated. For financial instruments with indications for impaired credit quality (stage 3), the addition to risk provisions amounted to €31 million. The additions related to a small number of financings, mainly for shopping centres in the UK.

In line with current publications – including those of the ECB and of other central banks – pbb 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 significant macroeconomic recovery and materially lower unemployment rate will lead to a reversal of impairments for stage 1 and 2 financial assets (in line with the methodology), since forecasts of future economic developments (such as the change in unemployment rate which pbb Group anticipates) have to be included in the measurement of risk provisions.

Whilst uncertainty as regards further developments due to the COVID-19 pandemic is not yet reflected to any great extent in loan defaults and bankruptcies, the Management Board continues to anticipate such occurrences with some time delay. One of the reasons for this is the persistent level of liquidity still in the market, due especially to government support measures. In addition, a high level of uncertainty about the pandemic – and therefore the macroeconomic development – prevailed during the reporting period, due to new waves of infection in several countries triggered by more infectious virus variants and insufficient local vaccination coverage. Delayed defaults and bankruptcies as well as deterioration in macroeconomic developments can have an adverse effect on pbb Group's loan portfolio. The Management Board therefore decided to increase loss allowance to counteract the economic impact of such developments. This "management overlay" is reflected in forecasting parameters, such as the change in unemployment rate, which take into account the delayed occurrence of defaults and bankruptcies since the low point of the recession. As a result of said management overlay, stage 1 and stage 2 impairments have increased by €48 million.

In the prior-year period, owing to the impact of the COVID-19 pandemic, net income from risk provisioning amounted to €-84 million, comprising €-41 million from stage 1 and stage 2 financial instruments and €-43 million from stage 3 financial instruments. pbb did not recognise a management overlay in the previous year.

General and administrative expenses of €151 million were slightly above the same period of the previous year (€145 million). Personnel expenses were slightly higher (€90 million, 9m2020: €89 million), due – amongst other factors – to higher average staff numbers, for example in the IT and digitalisation areas. Lower staff fluctuation also had an effect here. Non-personnel expenses (€61 million; 9m2020: €56 million) increased mainly due to costs associated with strategic and digitalisation projects. One particularly important project was the successful launch of the Client Portal, digitalising the interface between pbb and its clients.

Expenses from bank levies and similar dues (€28 million; 9m2020: €25 million) mainly comprised expenses for the bank levy of €27 million (9m2020: €23 million), taking into account pledged collateral amounting to 15%. These levies have to be accounted for in full at the beginning of the year, in accordance with IFRIC 21. 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 (9m2020: €2 million) for the German deposit guarantee scheme.

Net income from write-downs and write-ups on non-financial assets totalling €-14 million included scheduled depreciation of tangible assets and amortisation of intangible assets, and was in line with the previous year's level (9m2020: €-14 million).

Income taxes (€-28 million; 9m2020: €-31 million) were attributable to current taxes (€-31 million; 9m2020: €-31 million) and to deferred taxes (€3 million; 9m2020: €0 million). Whilst the increase in profit before taxes from €104 million to €186 million incurred higher current taxes, taxes for previous years accounted for in 2020 (due to the ongoing tax audit) reduced current taxes. Deferred tax income of €3 million was mainly attributable to the increase in deferred income tax assets due to a changed accounting estimate in the first half of 2021.

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Overview of pbb Group

Consolidated Income Statement (in accordance with IFRS; € million)	**Q3/20**	**9M/20**	**Q1/21**	**Q2/21**	**Q3/21**	**9M/21**
Net interest income	125	352	123	123	123	369
Net fee and commission income	1	4	2	3	1	6
Net income from fair value measurement	4	-12	2	0	1	3
Net income from realisations	4	20	21	17	17	55
Net income from hedge accounting	6	4	-1	-2	1	-2
Net other operating income	-	4	-1	-	-1	-2
Operating income	**140**	**372**	**146**	**141**	**142**	**429**
Net income from risk provisioning	-14	-84	-10	-23	-17	-50
General and administrative expenses	-48	-145	-51	-51	-49	-151
Expenses from bank levies and similar dues	-	-25	-28	-1	1	-28
Net income from write-downs and write-ups on non-financial assets	-4	-14	-5	-4	-5	-14
Net income from restructuring	-	-	-	-	-	-
Profit before tax	**74**	**104**	**52**	**62**	**72**	**186**
Income taxes	-23	-31	-10	-7	-11	-28
Net income	**51**	**73**	**42**	**55**	**61**	**158**

Key ratios (%)						
Cost/income ratio	37.1	42.7	38.4	39.0	38.0	38.5
Return on equity before taxes	9.7	4.3	6.4	7.8	8.9	7.7
Return on equity after taxes	6.5	2.8	5.1	6.9	7.5	6.5

Statement of financial position data (IFRS, € billion)	**09/20**	**03/21**	**06/21**	**09/21**
Total assets	60.2	58.1	59.0	58.8
Equity	3.3	3.3	3.3	3.4
Financing volumes	44.4	44.6	43.4	43.4

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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