Media Release

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pbb off to a good start in 2022 – with pre-tax profit of €42 million in the first quarter

- Net interest and commission income stable at €124 million
- Net income from realisations amounts to €5 million due to lower prepayment fees – interest-bearing real estate financings rise to €28 billion
- Risk provisioning increases to €18 million, predominantly model related due to changed economic forecasts in the wake of the war in Ukraine
- New business volume once again reaches a solid level of €2.1 billion
- CEO Andreas Arndt: “The first quarter confirms our expectation for the full year. The impact of the war in Ukraine is hard to predict.”

Munich, 11 May 2022 – Deutsche Pfandbriefbank AG (pbb) got off to a good start in the new financial year, generating pre-tax profit of €42 million in the first quarter (Q1 2021: €52 million; IFRS, consolidated, unaudited). The Bank generated a stable net interest and commission income of €124 million (Q1 2021: €125 million) and increased its operating income to €149 million (Q1 2021: €146 million). Higher earnings from net income from fair value measurement of €9 million (Q1 2021: €2 million) and higher other operating income of €10 million (Q1 2021: €-1 million) more than offset lower net income from realisations of €5 million (Q1 2021: €21 million); the latter item was impacted by lower prepayment fees. While pbb’s operating income posted an increase, risk provisioning increased to €18 million (Q1 2021: €10 million); the increase in particular resulted from the effect on the risk models from lower macroeconomic growth assumptions as a result of the war in Ukraine. In addition, the bank levy and similar dues increased to €31 million (Q1 2021: €28 million) because the EU Single Resolution Fund’s target volume increased once again. General and administrative expenses also picked up, amongst other things due to IT and strategic project costs (€53 million, Q1 2021: €51 million).

Based on the performance generated in the first quarter, pbb believes that it will be able to achieve its goal of a full-year pre-tax profit of between €200 million and €220 million, provided that the war in Ukraine does not lead to sustained or worsening market distortions.

pbb’s CEO **Andreas Arndt** commented: “We maintain our risk-conservative approach which has us well-prepared for a challenging market situation once again. Sound capitalisation and risk provisioning as well as net interest income stabilized over the long term due to lower prepayment provide a solid basis. The first quarter confirms our expectations for the full year 2022 – even though the impact of the war in Ukraine is hard to predict.”

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pbb once again achieved a solid **new business volume** of €2.1 billion (Q1 2021: €2.1 billion, both figures including extensions by more than one year). Gross margins in new business were around 150 bps (2021: ~170 bps) due to individual transactions with below average LTVs and margins, some of which were high in volume. However, pbb expects a higher average gross margin in the second quarter. Thanks to the solid new business volume, the loan book in Commercial Real Estate Finance increased to €28.0 billion as at the end of the first quarter (Dec 2021: €27.6 billion).

pbb remains strongly committed to **ESG** – as demonstrated by the increasing volume of green loans (more than €800 million at the end of March), which the Bank has been providing since the fourth quarter of 2021. pbb was also active on the green bond market, with a €750 million issue, and a €200 million tap in April 2022. With three green benchmark bonds placed since the beginning of 2021 and €2 billion in outstanding volume, pbb is among the most active issuers in this segment.

pbb is currently seeing no direct **impact from the Ukraine war** on its business. Since Ukraine and Russia are not among pbb's target markets, the Bank has no direct exposure to these countries; the implications for the loan book and operating business are, from today's perspective, thus low and manageable. Likewise, indirect risks are also limited. Funding spreads for pbb have only moderately widened. So far, the crisis is also having a limited impact on real estate investment markets; transaction volumes and prices are proving particularly resilient for prime and core properties as favoured by pbb. The war in Ukraine, is, however affecting construction activity, with the successful completion of new buildings becoming an increasing concern and the pressure on construction costs rising in the light of higher prices for building materials and supply chain issues. pbb's applies a prudent approach Bank has implemented a more cautious calibration of its risk requirements. Should economic growth continue to slow down, this would entail further risks.

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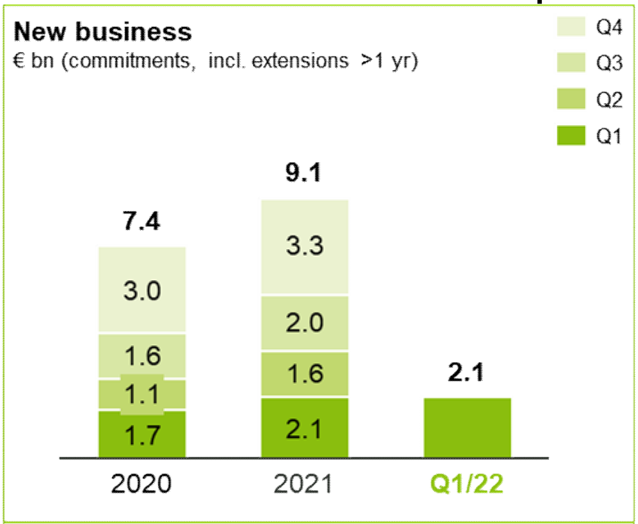
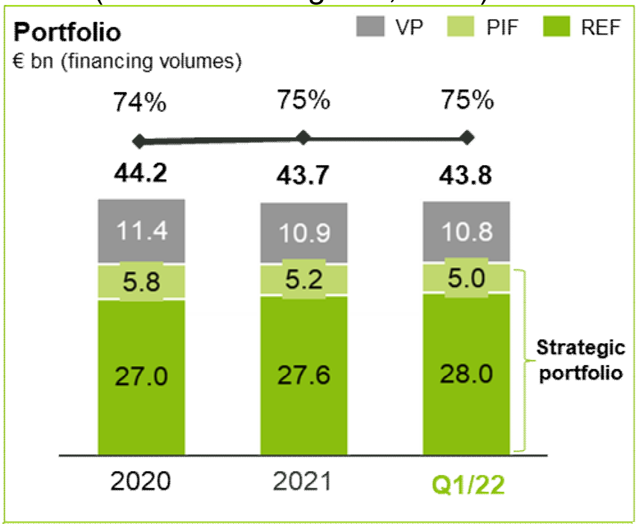
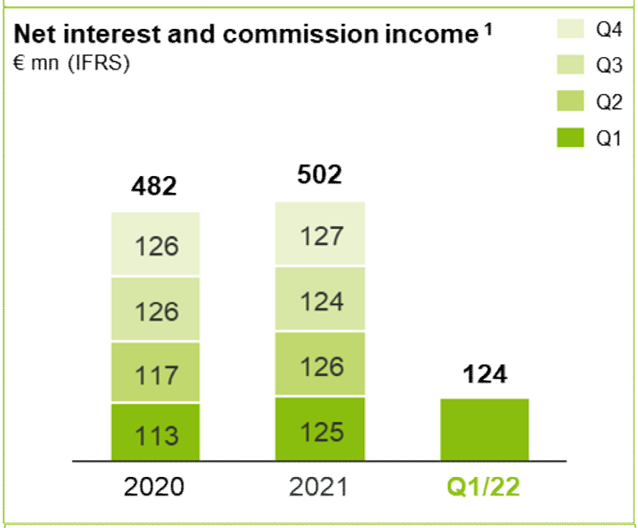
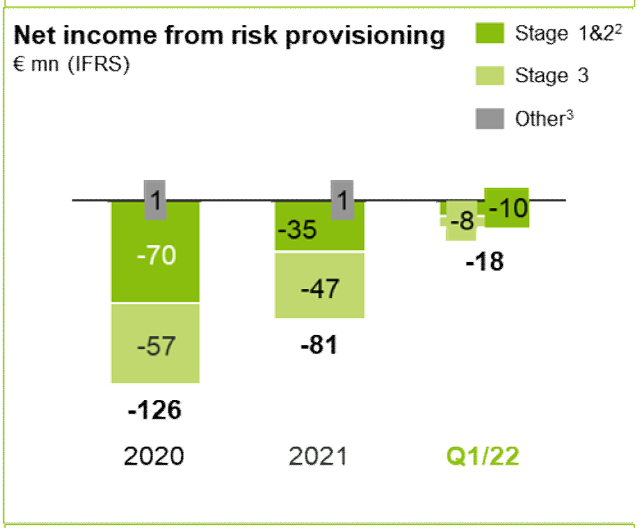
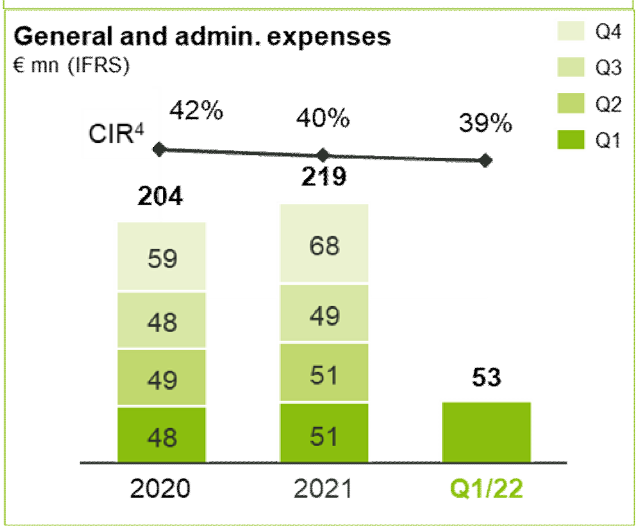
FACTS AND FIGURES for the first quarter of 2022 (consolidated figures, IFRS)

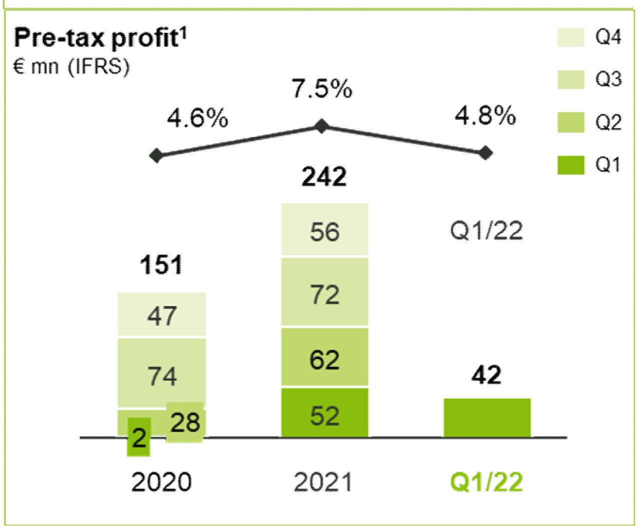












1 2020 figures retrospectively adjusted in accordance with IAS 8.42 2 Including provisions in off-balance sheet lending business
3 Recoveries from written-off financial assets 4 After AT1 coupon (2020: € -17 million; 2021: € -17 million; Q1/22: € -4 million)
4 CIR = (GAE + net income from write-downs and write-ups on non-financial assets) / operating income

1. New business

In the first quarter of 2022, pbb generated new business exactly in line with the same quarter of the previous year (€2.1 billion, both figures including extensions by more than one year). Gross margins in new business contracted to around 150 bps (2021: ~170 bps) due to individual transactions, some of which were high-volume and low-margin. Based on its new business pipeline, pbb expects margins to increase in the second quarter.

The majority of new business (58%) was once again generated in pbb's home market of Germany. The US business soared, reaching a share of 27% in the first quarter of 2022 (2021: 15%); the Bank plans to expedite its activities there as per its business planning. Office property retained its status as the most important real estate type for pbb, with its share increasing to 67%, following 59% in the full year 2021. Residential real estate also continued to rise, reaching 24% (2021: 13%). pbb did not make new commitments for retail real estate in the first quarter of 2022.

2. Funding

During the first quarter of 2022, pbb issued new long-term funding on the capital market of €1.8 billion (Q1 2021: €1.4 billion), distributed equally amongst Pfandbrief issues and unsecured bonds. Regarding unsecured funding, pbb continued to focus on senior preferred bonds.

Spreads narrowed year-on-year, to 14 bps for Mortgage Pfandbriefe and to 46 bps for uncovered bonds, both thus lying below the values for the entire year 2021 (Pfandbriefe in Q1 2021: 19 bps, in 2021: 13 bps; uncovered bonds in Q1 2021: 61 bps, in 2021: 57 bps). Accordingly, this led to lower funding costs.

3. Regulatory indicators

pbb's risk-weighted assets (RWAs), calibrated to meet future Basel IV requirements, fell slightly to €16.7 billion (Dec 2021: €16.8 billion). Common Equity Tier 1 capital decreased due to mandatory regulatory deduction items, primarily expected loss shortfalls, albeit at a level of rounding differences; quarterly results have not been included. As a result of this decrease, the CET1 ratio, tier 1 ratio and the own funds ratio decreased slightly, whilst the Leverage Ratio remained unchanged. The following ratios apply for the first quarter:

- The **CET 1 ratio** fell slightly to 16.9% (Dec 2021: 17.1%) and the **tier 1 ratio** to 18.7% (Dec 2021: 18.9%).
- The **own funds ratio** amounted to 22.1% (Dec 2021: 22.4%).
- The **Leverage Ratio** remained unchanged at 6.0% (Dec 2021: 6.0%).

4. Consolidated income statement

Net interest income of €122 million was in line with the prior-year figure of €123 million. The increased average portfolio of disbursed (and hence interest-bearing) REF financings of €27.8 billion had a positive effect in the first quarter of 2022 (average volume in Q1 2021: €27.3 billion). pbb further benefited from a higher nominal volume of liabilities under the TLTRO III programme of €8.4 billion compared to the first quarter of 2021 (+€0.9 billion year-on-year), for which pbb will receive an interest rate premium of 50 bps for the period from 24 June 2021 to 23 June 2022. In accordance with IAS 20, this interest rate benefit is accrued over the term. These positive effects were offset in particular by slightly lower gross margins in the lending business. As in the previous year, net interest income was boosted by earnings from floors agreed upon with clients, albeit to a slightly lower extent given higher interest rates.

Net fee and commission income from non-accruable fees of €2 million was unchanged year-on-year (Q1 2021: €2 million).

Net income from fair value measurement of €9 million was impacted by strong market movements due to the war in Ukraine, which has brought about higher interest rate levels in all relevant currencies for medium- and longer-term maturities. Net income from fair value measurement also rose due to a credit-induced increase in the fair values of derivatives and non-derivative financial instruments recognised at fair value through profit or loss.

Net income from realisations was significantly lower than in the previous year (€5 million versus €21 million) – mainly because of earnings from early repayments initiated by clients. Whilst net income from realisations in the first quarter of 2021 had benefited primarily from prepayment fees of €13 million incurred by an individual loan, there was no early repayment of an individual financial instrument that produced income of more than €1 million during the period under review.

As hedges were largely effective, **net income from hedge accounting** amounted to €1 million (Q1 2021: €-1 million).

Net other operating income increased to €10 million (Q1 2021: €-1 million); this development was especially due to the reversal of provisions outside the lending business. The reversals reflected the best estimate that future obligations, especially related to legal risks, are now less probable.

Net income from risk provisioning amounted to €-18 million (Q1 2021: €-10 million). For financial instruments without indications for impaired credit quality (stage 1 and stage 2), there was a net addition to risk provisions of €10 million (Q1 2021: €5 million). For financial instruments with indications for impaired credit quality (stage 3), net addition to risk provisions amounted to €8 million (Q1 2021: €5 million). The addition comprises an impairment of €2 million for the non-guaranteed part of one Russia-related public investment ECA financing. The other changes to stage 3 risk provisions mainly resulted from the lower present value of the collateral of variable-rate loans, due to higher interest rate levels.

Stage 1 and 2 impairment measurements include forecasts for future economic developments. In line with current publications by, for example, the European Central Bank (ECB), pbb is now anticipating significantly lower economic growth for 2022 and 2023 than it did at the beginning of 2022. This is mainly a result of the macroeconomic consequences of the war between Russia and Ukraine, such as supply chain shortages and higher inflation, leading to an increase in stage 1 and stage 2 impairments of €15 million due to the structure of the model. This increase takes into account effects from the comparison of forecasts relevant for the measurement of impairments, especially the change in unemployment rates for 2022 and 2023. An additional €5 million were attributable to migrations from stage 1 to stage 2.

Management overlay – recognised in 2021 with the aim of considering delayed defaults and bankruptcies following government support measures – was generally maintained in the first quarter of 2022. However, the management overlay of €54 million as at 31 December 2021 was reduced to €44 million as at 31 March 2022, since the COVID-19-related infection waves in winter 2021/2022 triggered a less extensive, yet still palpable, economic impact than previous waves had done.

General and administrative expenses of €53 million were slightly above the same period of the previous year (€51 million). Personnel expenses of €31 million (Q1 2021: €30 million) increased slightly, amongst other things due to accrued liabilities for holiday entitlements which had to be recognised, whilst other administrative expenses rose as a result of project costs (€22 million; Q1 2021: €21 million).

Expenses for bank levies and similar dues (€31 million; Q1 2021: €28 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 SRB/bank levies was down to an increase in the fund’s target volume at EU level. This line item further comprised expenses of €1 million (Q1 2021: €1 million) for the German deposit guarantee scheme.

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 2021: €-5 million).

Income taxes of €-6 million (Q1 2021: €-10 million) were entirely due to current taxes (Q1 2021: €-8 million), whilst in the previous year €-2 million had been attributable to deferred taxes.

Net income after taxes amounted to €36 million (Q1 2021: €42 million), €32 million (Q1 2021: €38 million) of which was attributable to ordinary shareholders and €4 million (Q1 2021: €4 million) to AT1 investors on a pro rata basis.

Overview of the pbb Group

Income statement (€ mn)	**Q1/21**	**Q2/21**	**Q3/21**	**Q4/21**	**2021**	**Q1/22**
Net interest income	123	123	123	125	494	122
Net fee and commission income	2	3	1	2	8	2
Net income from fair value measurement	2	-	1	7	10	9
Net income from realisations	21	17	17	26	81	5
Net income from hedge accounting	-1	-2	1	2	-	1
Net other operating income	-1	-	-1	-	-2	10
Operating Income	**146**	**141**	**142**	**162**	**591**	**149**
Net income from risk provisioning	-10	-23	-17	-31	-81	-18
General and administrative expenses	-51	-51	-49	-68	-219	-53
Expenses from bank levies and similar dues	-28	-1	1	-1	-29	-31
Net income from write-downs and write-ups on non-financial assets	-5	-4	-5	-6	-20	-5
Net income from restructuring	-	-	-	-	-	-
Pre-tax profit	**52**	**62**	**72**	**56**	**242**	**42**
Income taxes	-10	-7	-11	14	-14	-6
Net income	**42**	**55**	**61**	**70**	**228**	**36**

Key ratios (%)	**Q1/21**	**Q2/21**	**Q3/21**	**Q4/21**	**2021**	**Q1/22**
CIR[1]	38.4	39.0	38.0	45.7	40.4	38.9
RoE before tax	6.4	7.8	8.9	6.7	7.5	4.8
RoE after tax	5.1	6.9	7.5	8.5	7.0	4.1

Balance sheet (€ bn)	**03/21**	**06/21**	**09/21**	**12/21**	**03/22**
Total assets	58.1	59.0	58.8	58.4	56.3
Equity	3.3	3.3	3.4	3.4	3.4
Financing volume	44.6	43.4	43.4	43.7	43.8

Please note: The following applies to the entire press release: Annual results audited, interim results Q1 2021/22 and Q3 2021 unaudited, interim results Q2 2021 unaudited, but reviewed.

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