Media Release

pbb achieves solid results in the first half of 2022, despite increasingly difficult market environment

- Aggregate of net interest income and net fee and commission income stable at € 121 million also in the second quarter of 2022
- As in the first quarter of 2022, net income from realisations of € 5 million was marked by a heavy decline in prepayments – with a positive effect upon the interest-bearing portfolio
- Net income from risk provisioning of minus € 1 million in the second quarter and minus € 19 million in the first half of 2022 (H1 2021: minus € 33 million); conservative scenario weighting maintained, alongside risk- and situation-specific management overlay
- New business volume increased to € 4.3 billion in the first half of 2022 (H1 2021: € 3.8 billion; each including extensions of more than one year); margins improved, recovering to previous year's levels
- REF portfolio – pbb's core business – up by € 0.8 billion in the first six months, reaching € 28.4 billion
- CEO Andreas Arndt: "The result and our risk-conservative business model have once again proven very robust. We are well prepared for an increasingly difficult market situation, and confirm our guidance."

Munich, 9 August 2022 – Deutsche Pfandbriefbank AG (pbb) posted a stable result in the second quarter of the current financial year 2022. At € 65 million, the pre-tax result slightly exceeded the same quarter of the previous year (Q2 2021: € 62 million; consolidated figures in accordance with IFRS). In the first six months of 2022, the pre-tax result amounted to € 107 million, after € 114 million in the first half of 2021 when early termination fees were still significantly higher.

pbb's CEO **Andreas Arndt** commented: "The result and our risk-conservative business model have once again proven very robust. We are prepared for an increasingly difficult market environment, and can rely on our high lending standards, our high provisioning levels with an additional management overlay, and our stable capitalisation which we have already calibrated to meet future Basel IV requirements. We therefore reiterate our guidance. Realistically speaking, given declining market dynamics, we anticipate new business to be at the lower end of the forecast range communicated at the beginning of the year. Should the current crisis worsen significantly, we will reassess the situation."

The aggregate of **net interest income and net fee and commission income** totalled € 121 million in the second quarter and € 245 million for the first six months of 2022, and was in line with the respective prior-year periods (Q2 2021: € 126 million; H1 2021: € 251 million). The average portfolio of disbursed (and hence interest-bearing) REF financings increased to € 28.0 billion in the first half of 2022 (average volume in H1 2021: € 27.1 billion). Furthermore, pbb benefited from a higher volume of liabilities under the TLTRO III programme compared to the first half of 2021 (+€ 0.9 billion on average). These positive effects were offset, in particular, by lower earnings from floors agreed upon with clients, which contributed less than before due to the increase in interest rates.

Deutsche Pfandbriefbank AG
Communications

Net income from realisations – once again, mainly driven by early termination fees – also felt the effects from higher interest rate levels. In the context of high macroeconomic uncertainty and markedly higher funding costs, real estate investors were more hesitant with regard to the early repayment of loans. After extraordinarily high non-recurring income in the first half of 2021, net income from realisations was significantly lower in the first half of 2022 than in the previous year, finishing the period at € 10 million (H1 2021: € 38 million).

Net income from fair value measurement in the second quarter of 2022 was overall positive (+€ 5 million) and climbed to € 14 million for the first six months of the year (Q2 2021: € 0 million, H1 2021: € 2 million). Fluctuations were mainly due to technical valuation effects, which have an effect upon net income from fair value measurement even if an overall neutral position is taken.

Despite the deteriorating economic situation and volatile forecasts, pbb's **net income from risk provisioning** amounted to a decidedly moderate minus € 1 million in the second quarter of 2022, driven by stage 1 and 2 loss allowance (releases of € 15 million through profit or loss) as well as stage 3 impairments (€ 16 million recognised). Net income from stage 1 and 2 expected credit losses was overall positive for the second quarter of 2022, given that risk parameters such as real estate prices and unemployment rates showed a more favourable development than anticipated, plus a technical effect. The management overlay remained largely stable, at € 42 million (Q1 2022: € 44 million). Stage 3 impairments mostly related to increases in existing loss allowance for shopping centres in the UK.

All in all, net income from risk provisioning stood at minus € 19 million in the first half of 2022, which compares to minus € 33 million in the same period of the previous year. At the end of the first half of 2022, total loss allowance and provisions in the lending business amounted to € 380 million (compared to € 376 million at the end of the first quarter of 2022 and € 358 million at the end of 2021), with stage 1 and 2 impairments still accounting for about half of the Bank's loss allowance.

Loss allowance has already been calibrated to match future challenges, with a 40% weight assigned to a recession scenario, a management overlay equivalent to 20% of stage 1 and 2 loss allowance, and a provisioning ratio in excess of 125 bp, based on the core REF portfolio.

Thanks to pbb's strict cost management, **general and administrative expenses** remained largely constant during the second quarter and first half of 2022, at € 53 million and € 106 million respectively (Q2 2021: € 51 million, H1 2021: € 102 million).

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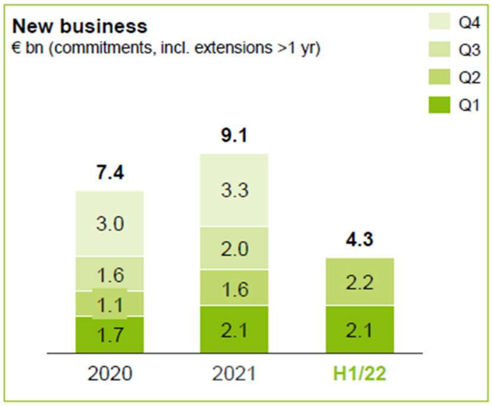
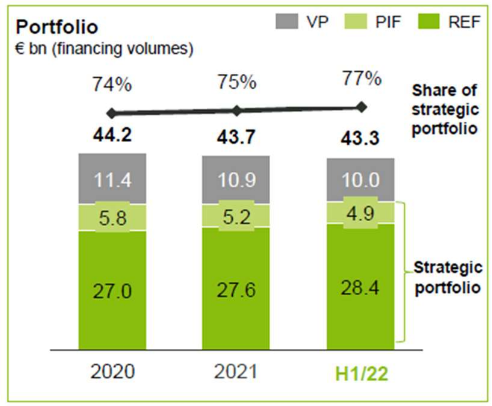
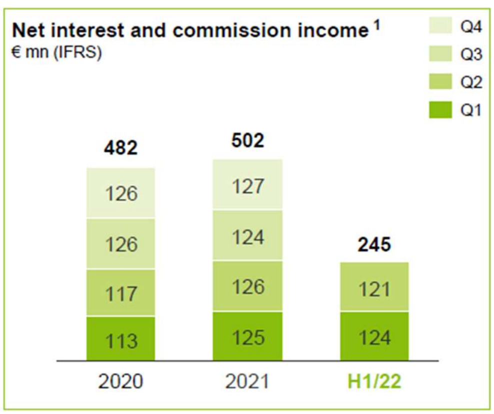
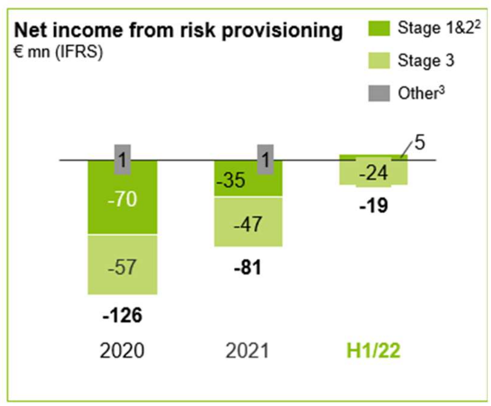
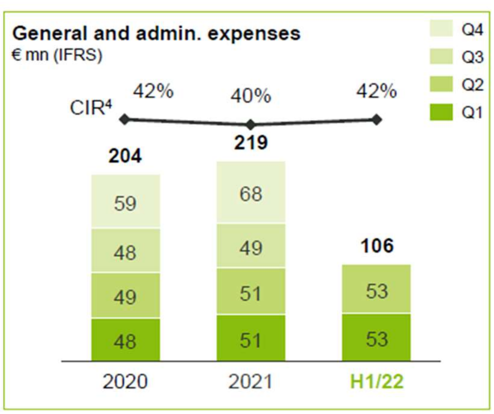
FACTS AND FIGURES for the second quarter of 2022
(consolidated figures in accordance with IFRS)

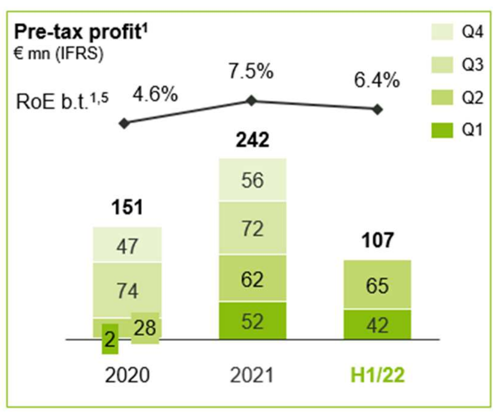












1 2020 figures retrospectively adjusted according to IAS 8.42
2 Includes provisions in off-balance sheet lending
3 Recoveries from written-off financial assets
4 CIR = (GAE + net income from write-downs and write-ups on non-financial assets) / operating income
5 After AT1 coupon (2020: minus € 17 mn; 2021: minus € 17 mn; H1/22: minus € 9 mn)

1. New business

Looking at new business, the positive momentum of the first quarter of 2022 prevailed despite a difficult market environment and clearly decreasing transaction volumes. At € 2.2 billion, new business was slightly up quarter-on-quarter. In the first six months of 2022, new business volume in commercial real estate financing climbed to € 4.3 billion (H1 2021: € 3.8 billion, each including extensions of more than one year). The average gross margin recovered in the second quarter of 2022 compared to the previous quarter, while reaching the prior-year's level in the first half of 2022, at approx. 170 bps (H1 2021: approx. 170 bps).

Given the increased new business volume but lower early repayments, the real estate financing portfolio increased to € 28.4 billion (H1 2021: € 27.6 billion).

Broken down by regions, most new business (46%) was originated once again in the German domestic market, followed by the United States with 25% and Central and Eastern Europe (CEE) with 10%. By property type, office properties accounted for 51%, while logistics properties and residential properties made up 20% and 19% of the new business volume, respectively.

pbb continues to focus on real estate in prime locations, with stable cash flows, good 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 half of 2022, pbb raised new long-term funding to the amount of € 3.2 billion (H1 2021: € 2.3 billion). This was offset by buy-backs and calls totalling € 0.2 billion (H1 2021: € 0.5 billion). Pfandbrief issues accounted for € 2.0 billion (H1 2021: € 1.3 billion), representing just under two-thirds of the total volume. Unsecured funding accounted for € 1.2 billion (H1 2021: € 1.0 billion), with almost all of the volume being issued as senior preferred bonds, including a green benchmark bond to the amount of € 750 million. With an outstanding green bond volume of around € 2.0 billion, pbb is one of the most active issuers of green bonds in this segment.

In the context of war, inflation and a monetary policy turnaround, Pfandbriefe have once again proven to be a crisis-proof funding instrument. Risk premiums for unsecured bank bonds, on the other hand, have increased significantly – and whether these issues can be placed depends on the volatile news situation.

3. Regulatory indicators

pbb's risk-weighted assets (RWAs), calibrated to meet future Basel IV requirements, decreased slightly to € 16.5 billion at the end of the second quarter of 2022 (Dec 2021: € 16.8 billion). New business, scheduled repayments and currency effects led to a small net increase, which, however, was more than offset by interest rate changes, reclassifications and syndications.

The different ratios in detail:

- The **CET1 ratio** was stable at 17.1% (Dec 2021: 17.1%), as was the **tier 1 ratio** at 18.9% (Dec 2021: 18.9%)
- The **own funds ratio** remained unchanged compared to 31 December 2021, at 22.4%.
- The **Leverage Ratio** declined to 5.7% (Dec 2021: 6.0%), mainly driven by regulatory changes concerning the inclusion of credit balances with central banks.

4. Consolidated income statement

Net interest income of € 242 million was in line with the first half of 2021 (€ 246 million). The average portfolio of disbursed (and hence interest-bearing) REF financings increased to € 28.0 billion in the first half of 2022 (average volume in H1 2021: € 27.1 billion). pbb Group further benefited from a higher nominal volume of liabilities under the TLTRO III programme of € 8.4 billion compared to the first half of 2021 (+€ 0.9 billion year-on-year), for which pbb received an interest rate premium of 50 basis points 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 by slightly lower gross margins in the lending business. In addition, earnings from floors in the client business were markedly lower as a result of higher short-term interest rate levels.

Net fee and commission income from non-accruable fees of € 3 million was down year-on-year (H1 2021: € 5 million).

Net income from fair value measurement totalled € 14 million (H1 2021: € 2 million). In a volatile market environment, valuation effects induced by credit risks in particular led to an increase in the market value of derivatives. In addition, cross-currency basis effects between non-euro currencies and the euro area led to positive valuation effects.

Net income from realisations demonstrated the effects of increased interest rate levels. Clients maintained their financings and markedly reduced early repayments. This strengthened the long-term earnings base of net interest income, but led to lower early termination fees in net income from realisations. In the first half of 2022, not a single early repayment of an individual financial instrument generated income of more than € 1 million, whereas during the same period of the previous year, the largest such instance amounted to € 13 million. Total net income from realisations was down to € 10 million, from € 38 million in the first half of 2021.

As hedges were mostly effective, **net income from hedge accounting** in line with IAS 39 was largely balanced at minus € 1 million (H1 2021: minus € 3 million).

Net other operating income/expenses amounted to € 4 million (H1 2021: minus € 1 million), resulting from reversals of provisions outside the lending business that exceeded currency translation expenses.

Net income from risk provisioning in the first half of 2022 amounted to minus € 19 million (H1 2021: minus € 33 million). For financial instruments without indications for impaired credit quality (stage 1 and stage 2), there was a reversal of loss allowance of € 5 million (H1 2021: addition of € 20 million). Total loss allowance of € 24 million (H1 2021: € 13 million) was recognised for financial instruments with indications for impaired credit quality (stage 3).

For the modelling of stage 1 and stage 2 loss allowance, three scenarios have been applied and weighted according to their probability: a baseline (55%), a positive (5%), and a negative scenario (40%). The models include current expectations by the ECB and other central banks concerning future unemployment rates, interest rate levels, GDP and real estate market values.
Beyond the model results, pbb has recognised a management overlay in the REF segment, increasing stage 1 and 2 loss allowance. The management overlay remained stable, at € 42 million (Q1 2022: € 44 million). While it still considered potential long-term effects of the COVID-19 pandemic in the first quarter of 2022, the management overlay now covers a possible stagflation scenario, i.e. a recession combined with another significant interest rate increase.

Aside from the adjustment of the management overlay, the moderate reversal of stage 1 and stage 2 loss allowance was mainly driven by technical estimate changes which compensated for increases in the stage 1 and stage 2 loss allowance due to the bleaker economic outlook overall and worsened parameters for some financings.

The additions to stage 3 impairments mostly referred to financings of shopping centres in the UK and resulted, amongst other factors, from the assumption of lower proceeds from disposals in light of the changed interest rate levels and investor sentiment.

pbb was not directly affected by the war between Russia and Ukraine since the Bank has no direct exposure to borrowers domiciled in Russia, Belarus or Ukraine, nor has it financed any properties in these countries. However, the war has caused macroeconomic consequences such as lower economic growth, a significant rise in inflation, higher interest rates, and supply chain issues: all of these could have indirect effects on pbb's financings.

General and administrative expenses of € 106 million were slightly above the same period of the previous year (€ 102 million). Personnel expenses remained virtually unchanged, despite the usual salary increases, at € 62 million (H1 2021: € 61 million), even though the average number of employees remained more or less the same compared to the first half of 2021. Non-personnel expenses rose slightly to € 44 million (up from € 41 million) compared to the first six months of the previous year, driven by the costs of regulatory and strategic projects.

Expenses for bank levies and similar dues (€ 31 million; H1 2021: € 29 million) mainly comprised expenses for the bank levy, taking into account pledged collateral amounting to 15% (€ 31 million; H1 2021: € 27 million). The year-on-year increase in expenses for the SRB/bank levy resulted from an increase in the EU Single Resolution Fund’s target volume. In the first six months of 2021, this line item further comprised expenses of € 2 million for the German deposit guarantee scheme.

Net income from write-downs and write-ups on non-financial assets totalling minus € 9 million included scheduled depreciation of tangible assets and amortisation of intangible assets, and was in line with the previous year's level (H1 2021: minus € 9 million).

Income taxes (minus € 16 million; H1 2021: minus € 17 million) were attributable to current taxes (minus € 15 million; H1 2021: minus € 21 million) and to deferred taxes (minus € 1 million; H1 2021: € 4 million).

Overview of the pbb Group

Consolidated Income Statement (in accordance with IFRS; € million)	**Q2 2021**	**Q3 2021**	**Q4 2021**	**2021**	**Q1 2022**	**Q2 2022**	**H1 2022**
Net interest income	123	123	125	494	122	120	242
Net fee and commission income	3	1	2	8	2	1	3
Net income from fair value measurement	-	1	7	10	9	5	14
Net income from realisations	17	17	26	81	5	5	10
Net income from hedge accounting	-2	1	2	-	1	-2	-1
Net other operating income	-	-1	-	-2	10	-6	4
Operating income	141	142	162	591	149	123	272
Net income from risk provisioning	-23	-17	-31	-81	-18	-1	-19
General and administrative expenses	-51	-49	-68	-219	-53	-53	-106
Expenses from bank levies and similar dues	-1	1	-1	-29	-31	-	-31
Net income from write-downs and write-ups on non-financial assets	-4	-5	-6	-20	-5	-4	-9
Net income from restructuring	-	-	-	-	-	-	-
Profit before taxes	62	72	56	242	42	65	107
Income taxes	-7	-11	14	-14	-6	-10	-16
Net income after taxes	55	61	70	228	36	55	91

Key ratios (%)	Q2 2021	Q3 2021	Q4 2021	2021	Q1 2022	Q2 2022	H1 2022
Cost/income ratio	39.0	38.0	45.7	40.4	38.9	46.3	42.3
Return on equity before taxes	7.8	8.9	6.7	7.5	4.8	7.9	6.4
Return on equity after taxes	6.9	7.5	8.5	7.0	4.1	6.7	5.4

Statement of financial position data (IFRS, € billion)	Jun 2021	Sep 2021	Dec 2021	Mar 2022	Jun 2022
Total assets	59.0	58.8	58.4	56.3	55.1
Equity	3.3	3.4	3.4	3.4	3.3
Financing volumes	43.4	43.4	43.7	43.8	43.3

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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