

**pbb generates nine-month profit before tax of €159 million and confirms its full-year guidance**

- Core business REF portfolio up by €1.9 billion to €29.5 billion at the end of the quarter – focus remains on risk-conservative business
- Nine-month net interest income and net fee and commission income of €362 million, slightly down year-on-year (primarily due to the end of TLTRO).
- Net income from realisations remains on half-year level of €10 million due to the lack of early repayments and is thus clearly below the previous year's level
- Net income from risk provisioning amounted to €-38 million (Q3: €-19 million), driven by stage 1 and 2 loss allowance; management overlay remained at €41 million
- pbb direkt's deposit-taking business grew by 14% to €3.6 billion and helped to offset increased costs of unsecured funding on the capital markets
- Changes to the TLTRO programme without material impact in the current financial year

**Munich, 14 November 2022** – Deutsche Pfandbriefbank AG (pbb) posted a solid result in the third quarter of the current financial year 2022 despite the more difficult economic and political conditions. At €52 million, the pre-tax result fell short of the figure achieved in the same quarter of the previous year (Q3 2021: €72 million; unaudited consolidated figures in accordance with IFRS). This was mostly down to the lack of early repayments, with net income from realisations of €0 million (Q3 2021: €17 million). All in all, pre-tax result for the first nine months of 2022 came to €159 million, compared to €186 million in the same period of the previous year.

pbb's CEO **Andreas Arndt** commented: "Our expectation of a possible stagflation scenario has been largely confirmed – inflation remains high, interest rates have markedly increased and a recession is expected. We have already anticipated this development in our loss allowance, by performing a conservative calibration of risk parameters and recognising additional loss allowance through a management overlay, which we maintain. Especially during times of crisis, a risk-conservative business model pays off. This is why we remain on track to stay within our guidance for the full year. This also remains the case in the light of the ECB's most recent decision to change interest rates for the TLTRO programme."

The aggregate of **net interest income and net fee and commission income** totalled €117 million in the third quarter and €362 million for the first nine months of 2022, and was therefore slightly below the respective periods of the previous year (Q3 2021: €124 million; 9m2021: €375 million). The increase in the core REF portfolio, the average volume of which amounted to €28.4 billion in the first nine months (9m2021: €27.1 billion) provided positive contributions to net interest income. However, this could not fully compensate for the decline in earnings from floors and the loss from the expiration of the special interest rate period under TLTRO in June 2022.



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The costs of unsecured funding on the capital markets increased markedly in the third quarter, whereas the costs for retail deposits decreased significantly compared to the reference interest rate. With pbb direct - its online-based deposit-banking business, pbb has a growing scalable platform – supplemented by collaboration with other organisations. At €3.6 billion at the end of the third quarter, the portfolio of retail deposits continued to rise significantly to €4.1 billion at the end of October – an increase of approximately €1 billion compared to the start of the year. Pfandbriefe, as pbb's main funding instrument, again proved to be stable, resulting in a moderate increase in funding costs overall.

New business (including extensions beyond one year) of €6.6 billion for the first nine months exceeded the respective figures for the two previous years. Looking at the fourth quarter of 2022, we observe a clearly positive margin development, aside from temporary fluctuations in the structure of new business.

**Net income from fair value measurement** benefited from higher interest rates and the widening of credit spreads as well as the valuation adjustments (XVA) for derivatives resulting therefrom. It further increased to €7 million in the third quarter and was significantly higher than in the same period of the previous year (Q3 2022: €1 million).

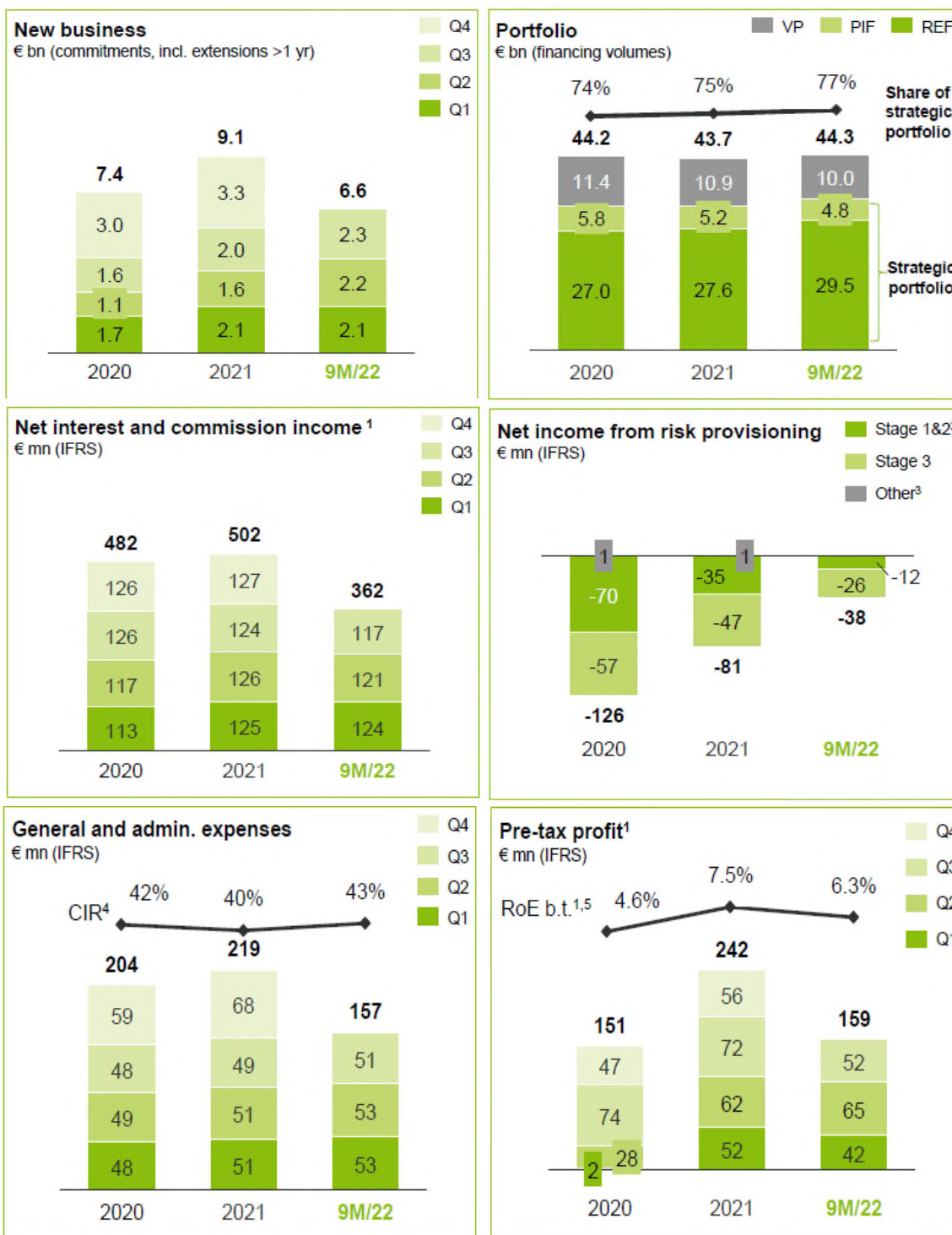
**Net income from realisations** continued the development already observed during the first half of the year. In light of rising interest rates and declining real estate transactions, early repayments of loans have clearly dropped further. In addition, the market interest rate for loans that were repaid early was usually higher than the interest rate level at the time of closing. As a result, there were essentially no early termination fees in the third quarter and the net income from realisations amounted to €0 million in total (Q2 2021: €5 million; Q3 2021: €17 million). Rising interest rates and high volatility also favoured **net income from hedge accounting**, which contributed €7 million to the overall result (Q3 2021: €1 million).

**Net income from risk provisioning** amounted to €-19 million in the third quarter, due to additions to loss allowance (stage 1 and 2) in light of increased interest rates and the further deterioration of the economic outlook. In contrast, stage 3 impairments remained largely stable and, at €-2 million, did not make a significant contribution to net income from risk provisioning. Given the persisting stagflation risks and high uncertainty, pbb maintains the additional management overlay of €41 million (Q2 2022: €42 million).

After the first nine months of 2022, total allowance and provisions in the lending business amounted to €398 million (compared to €380 million at the end of the first half of 2022), with stage 1 and 2 impairments now accounting for slightly more than half of the Bank's loss allowance.

Despite the general rise in costs, **general and administrative expenses** were maintained at a stable level and amounted to €51 million in the third quarter (Q2 2022: €53 million; Q3 2021: €49 million).

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



Note: Figures may not add up due to rounding

1) 2020 figures retrospectively adjusted according to IAS 8.42 2) Incl. provisions in off balance sheet lending business

3) Recoveries from written-off financial assets 4) CIR = (GAE + net income from write-downs and write-ups on non-financial assets) / operating income

## 1. New business

In the third quarter, pbb continued the positive trend of the last two quarters in terms of new business, despite the continued negative economic prospects due to persistent inflation, further aggressive monetary tightening and downward revisions to economic forecasts. At €2.3 billion, new business was slightly up quarter-on-quarter. As a result, new business volume in commercial real estate financing climbed to €6.6 billion in the first nine months of 2022 (9m2021: €5.7 billion, each including extensions by more than one year). The average gross margin recovered in the third quarter of 2022 compared to the previous quarter and was slightly below the previous year's level in the first nine months of 2022, at approx. 160 bps (2021: approx. 170 bps). Given the increased new business volume but lower early repayments, the real estate financing portfolio rose to €29.5 billion (2021: €27.6 billion).

Broken down by regions, most new business (45%) was originated once again in the German domestic market, followed by the United States with 19% and Central and Eastern Europe (CEE) with 8% and 7%. By property type, office properties accounted for 50%, while residential properties and logistics properties made up 21% 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 also lends to professional, crisis-experienced investors and ensures that loan agreements have low loan-to-value ratios and solid covenant structures.

In addition, pbb managed to expand the volume of green loans issued to €1.3 billion (6m2022: €1 billion).

## 2. Funding

In the period under review, pbb Group raised new long-term funding to the amount of €4.8 billion (9m2021: €3.4 billion). This was offset by repurchases and terminations totalling €0.2 billion (9m2021: €0.6 billion). The total amount of funding comprises both Pfandbrief issues and unsecured liabilities, issued both in the form of benchmark bonds and private placements.

At €2.8 billion (9m2021: €2.1 billion), Pfandbrief issues accounted for over half of the total volume. Unsecured funding accounted for €2.0 billion (9m2021: €1.3 billion), with almost all of the volume being issued as Senior Preferred bonds. The transactions were denominated in euros and, in order to minimise foreign currency risks between assets and liabilities, also in US dollars and Swedish krona. Foreign currency transactions were converted into euro at the exchange rate valid at the time of the issue. Unhedged interest rate exposures are usually hedged by swapping fixed against floating interest rates.

Overnight and term deposits from retail investors taken via pbb direct amounted to €3.3 billion as at 30 September 2022 (31 December 2021: €2.8 billion).

### 3. Regulatory indicators

pbb's risk-weighted assets (RWAs), calibrated to meet future Basel IV requirements, increased to €17.3 billion at the end of the third quarter of 2022 (6m2022: €16.5 billion).

- The **CET1 ratio** decreased to 16.3% (06/2022: 17.2%) and the **tier 1 ratio** to 18.1% (6m2022: 19.0%)
- The own funds ratio sank to 21.5% (6m2021: 22.5%).
- The leverage ratio decreased to 5.6% (6m2021: 5.7%).

### 4. Consolidated income statement

**Net interest income** of €358 million was slightly lower than the previous year's figure (9m2022: €369 million), primarily driven by significantly lower income from interest rate floors in the client business due to higher interest rate levels. Also, since the third quarter of 2022 net interest income no longer benefited from the 50 basis point premium for liabilities under the TLTRO III programme. Instead, it benefited from the fact that, under the TLTRO III programme, interest is calculated using the average deposit facility rate of the last three years, while for deposits, interest is calculated based on current interest rates. In the commercial real estate finance business, positive effects from a higher average portfolio (€28.4 billion) of disbursed (and hence interest-bearing) real estate financings (9m2021: average volume of €27.1 billion) were offset by negative effects from slightly lower gross margins.

**Net fee and commission income** from non-accruable fees recognised directly through profit or loss amounted to €4 million and was broadly in line with last year (9m2021: €6 million).

**Net income from fair value measurement** rose markedly, totalling €21 million (9m2021: €3 million). Amid the volatile market environment and significantly higher interest rates, it was especially valuation effects from credit risk and funding costs that provided positive contribution. Positive valuation effects also resulted from diverging interest rate developments between non-euro currencies and the euro area. Rising medium- and long-term interest rates had a partially offsetting effect on the present values of financial instruments required to be measured at fair value.

**Net income from realisations** totalled €10 million and was significantly down year-on-year (9m2021: €55 million), since clients tended to maintain their financings and early repayments therefore occurred much less often. This strengthened the long-term earnings base of net interest income, but led to lower early termination fees in net income from realisations. Not a single early repayment of an individual financial instrument generated income of more than €1 million in the reporting period, whereas in the previous year the largest two added up to €23 million.

As hedges were largely effective, **net income from hedge accounting** in line with IAS 39 amounted to €7 million (9m2021: €-2 million). Since full hedging is not always possible or economically viable, the increase in interest rates produced some gains.

**Net other operating income** was flat (9m2021: €-2 million), with income from the reversal of provisions outside the lending business and currency translation expenses offsetting each other.

**Net income from risk provisioning** amounted to €-38 million (9m2021: €-50 million). For financial instruments without indications for impaired credit quality (stage 1 and stage 2), there was an addition to loss allowance of €12 million (9m2021: addition of €19 million). This includes net income of €13 million (9m2021: addition of €48 million) from the reversal of the existing management overlay after the risk had ceased to exist and the recognition of a new management overlay, plus €7 million from a change in an accounting estimate. However, stage 1 and stage 2 loss allowance increased due to the bleaker economic outlook overall and worsened parameters for some financings. Loss allowance of €26 million (9m2021: €31 million) was recognised for financial instruments with indications for impaired credit quality (stage 3). These additions to stage 3 impairments mostly referred to financings of shopping centres and resulted, amongst other factors, from the assumption of lower proceeds from disposals in light of the changed interest rate levels and investor sentiment.

In order to take the risk of stagflation – which pbb Group views as a real threat – and the overall high uncertainty into account, pbb Group recognised a **management overlay** in the REF segment of €41 million, based on the constant application of its credit risk model, resulting in increased stage 1 and stage 2 impairments. The size of the management overlay was derived from the negative scenario (weighted at 40%) and assumes another significant interest rate hike.

At the same time, pbb Group completely reversed – effective 31 December 2021 – the management overlay in the amount of €54 million to consider delayed defaults and bankruptcies following government support measures to mitigate the economic consequences of the COVID-19 pandemic. This decision was based on the almost complete withdrawal of COVID-19-related social restrictions and hence the significantly lowered risk of credit defaults in connection with the pandemic.

**General and administrative expenses** of €157 million were slightly above the same period of the previous year (€151 million). Personnel expenses increased marginally to €93 million (9m2021: €90 million) as a result of the usual salary increases, whilst the average number of employees remained more or less the same. Costs for regulatory and strategic projects slightly raised non-personnel expenses from €61 million in the previous year to €64 million.



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**Expenses from bank levies and similar dues** (€32 million; 9m2021: €28 million) mainly comprised expenses for the bank levy of €31 million (9m2021: €27 million), taking into account pledged collateral amounting to 15%. The year-on-year increase in expenses for the SRB/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 (9m2021: €1 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 (9m 2021: €-14 million).

**Income taxes** (€-24 million; 9m 2021: €-28 million) were attributable to current taxes (€-23 million; 9m 2021: €-31 million) and to deferred taxes (€-1 million; 9m 2021: €3 million).



## Overview of pbb Group

Income statement (€ mn)	Q3/21	Q1/22	Q2/22	Q3/22	9M/22
Net interest income	123	122	120	116	358
Net fee and commission income	1	2	1	1	4
Net income from fair value measurement	1	9	5	7	21
Net income from realisations	17	5	5	-	10
Net income from hedge accounting	1	1	-2	8	7
Net other operating income	-1	10	-6	-4	-
<b>Operating Income</b>	<b>142</b>	<b>149</b>	<b>123</b>	<b>128</b>	<b>400</b>
Net income from risk provisioning	-17	-18	-1	-19	-38
General and administrative expenses	-49	-53	-53	-51	-157
Expenses from bank levies and similar dues	1	-31	-	-1	-32
Net income from write-downs and write-ups on non-financial assets	-5	-5	-4	-5	-14
Net income from restructuring	-	-	-	-	-
<b>Pre-tax profit</b>	<b>72</b>	<b>42</b>	<b>65</b>	<b>52</b>	<b>159</b>
Income taxes	-11	-6	-10	-8	-24
<b>Net income</b>	<b>61</b>	<b>36</b>	<b>55</b>	<b>44</b>	<b>135</b>

Key ratios (%)	Q3/21	Q1/22	Q2/22	Q3/22	9M/22
CIR <sup>1</sup>	38.0	38.9	46.3	43.8	42.8
RoE before tax	8.9	4.8	7.9	6.1	6.3
RoE after tax	7.5	4.1	6.7	5.1	5.3

Balance sheet (€ bn)	09/21	03/22	06/22	09/22
Total assets	58.8	56.3	55.1	55.9
Equity	3.4	3.4	3.3	3.4
Financing volume	43.4	43.8	43.3	44.3

**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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