Media Release

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pbb holds course in difficult market environment

- Progress reported for strategic initiatives
- Profit before taxes at €32 million in the first quarter of 2023, in line with full-year guidance
- Rising gross margin in the existing portfolio
- Stable net income from risk provisioning
- Retail customer deposits rise to €5.4 billion

Garching, 15 May 2023 – Deutsche Pfandbriefbank AG (pbb), a leading European specialist bank for commercial real estate finance, stayed on course in the current financial year's first quarter for a profit before taxes of €170 to €200 million as per its full-year guidance (consolidated figures in accordance with IFRS). pbb also reports good progress in the implementation of its strategy for a return on equity before taxes of at least 10% by 2026. Against the backdrop of a challenging market environment and including the bank levy for the full year, the Bank's profit before taxes in the first quarter of the current financial year was €32 million, following €42 million in the same period last year.

"These past weeks have proven once again that our conservative approach to risk is correct", said CEO Andreas Arndt. "Our capital buffer is very adequate for what is currently a difficult market situation. Even though commercial real estate markets are in a challenging position, our loss allowance remains stable. We expect markets to calm down by the end of the year, and are looking forward to seizing growth opportunities at the right time."

pbb will concentrate on diversifying its business model in the years to come, establishing a broader foundation for future revenue growth and increased profitability, as announced in March 2023. Regardless of market headwinds, the Bank continues to aim for a profit before taxes of more than €300 million in 2026. In pursuit of this goal, pbb plans to – firstly – profitably grow its commercial real estate finance business. Secondly, adding to its core competence, the Bank plans to expand its off-balance sheet commission-based activities. Thirdly, pbb aims to establish a broader and cheaper base for refinancings by further growing retail customer deposits. These initiatives are expected to make an additional profit contribution of more than €100 million in total by 2026. Whilst carrying out these initiatives the costs should, despite investments, remain at the same level as 2022 so that a cost/income ratio of under 45% is reached. To achieve this, a cost reduction program is in preparation, with a focus on IT expenses and process efficiencies as well as insourcing and nearshoring and a reduction in consultant expenses

To enable the implementation of its strategic agenda and a stronger focus on its core business in commercial real estate finance (Real Estate Finance, REF), pbb in March decided to merge the Public Investment Finance (PIF) segment and the Value Portfolio (VP) and transfer these two business areas into a new segment called "Non-Core". This restructuring will also see the intermediation franchise of Capveriant, a jointly held subsidiary of pbb and Caisse des Dépôts (CDC) that specialises in brokering municipal loans, be shortly transferred or discontinued, for which concrete talks are taking place. Merging the PIF and VP segments into a Non-Core segment enabled the sale of securities, yielding a positive profit contribution of €8 million.

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Implementation of pbb’s strategic initiatives is bearing fruit. The interest-bearing REF portfolio has seen a margin increase, and the foundation for an increase in commission income has been laid in the form of cooperation agreements with Universal Investment and Amundi. Universal Investment will be pbb’s service capital management company (Kapitalverwaltungsgesellschaft), while the cooperation with Amundi focuses on fund distribution. Preparation for a debut open-ended real estate special investment fund are underway. Dr Pamela Hoerr joined the Bank on 17 April 2023 as Senior General Manager and designated member of the Management Board to support the development of the new segment.

pbb has now assessed 69% of its REF portfolio for ESG compliance. 25.5% of the REF portfolio evaluated was "green-loan"-eligible assets according to the criteria of pbb's framework as of March 31, 2023. By 2026, the share is to be at least 30%.

On the funding side, deposits made by pbb’s own customers rose from €4.4 billion to €4.9 billion in the first quarter. Taking additional retail customer deposits stemming from cooperations into account, the total volume was €5.4 billion, up by €1 billion in just three months. The vast majority of these deposits is available to pbb with a certain degree of stability.

In addition to increasing retail customer deposits by almost €1 billion in the first quarter of 2023, pbb also successfully placed an unsecured bond on the market with a term to maturity of four years and a volume of €500 million.

Early repayments decline sharply

Net interest income was €106 million in the first quarter of the current financial year. It benefited from an increase in average financing volume for commercial real estate to €29.4 billion (31 March 2022: €27.8 billion). The first quarter is a traditionally weaker period for the Bank as regards new business. New business volume was €1.0 billion (31 March 2022: €2.1 billion, both figures including extensions by more than one year), reflecting a significant decrease in market transaction volume and a conscious decision for a more restrictive lending policy, amongst others. A sharp decline in early repayments, however, made a positive contribution to portfolio performance.

pbb considers itself to be in an ideal position to invest in upswing and portfolio expansion as soon as real estate markets stabilise and a new upward trend becomes evident in the cycle. It is currently expected that a certain solidification and stabilisation should begin towards the end of the year. The current market environment warrants a very reserved approach such as the one pbb is following with regards to new business in the UK, and in particular in the US, an important pillar in the Bank’s diversification strategy. As soon as the markets have adjusted, however, pbb sees attractive new business opportunities materialising.

Net income from risk provisioning (stage 1 and stage 2) reflected the continuously high degree of uncertainty concerning macro and sector-specific economic development in the first quarter. Macroeconomic forecasts that we took into account when calculating expected credit losses became more pessimistic due to the increased impact of higher interest rates on the real estate valuations in our model and the increased probability of default for some financings, which led to an increase in stage 1 and stage 2 loss allowance.

At the same time, the €69 million management overlay recognised – or increased – in the fourth quarter of 2022 was reduced to €42 million. This reversal was enabled by two drivers: first, the fact that market expectations regarding additional interest rate increases became more moderated and stabilised and second, the fact that the risks associated with interest rate increases and reflected in the management overlay had been accounted for in valuation models in the meantime. Against this background, €27 million of the management overlay had become obsolete. There was a €7 million addition to stage 3 loss allowance for the financing of an office property in the US, which accounted for the vast majority of stage 3 impairments in the first quarter. All in all, net income from risk provisioning was stable at €-2 million.

pbb’s strategic growth initiatives make 2023 a year of investment. As a result, general and administrative expenses rose to €58 million (Q1 2022: €53 million). Investments were particularly visible in non-personnel expenses (€24 million; Q1 2022: €22 million). A higher headcount and regular salary adjustments pushed personnel expenses above the previous year’s level (€34 million; Q1 2022: €31 million).

pbb reported a CET1 ratio of 16.6 %, which provides the Bank with the necessary flexibility to absorb the impact of market fluctuations, invest in profitable growth initiatives, and diversify the business model, whilst maintaining an attractive level of dividend distributions. In terms of capitalisation going forward, the Bank already communicated its ambition of a CET1 ratio of at least 14%. pbb has already calibrated its risk-weighted assets (RWA) to a level in line with the anticipated Basel IV requirements.

Overview of the pbb Group

Income statement (€ mn)	**Q1/22**	**Q2/22**	**Q3/22**	**Q4/22**	**2022**	**Q1/23**
Net interest income	122	120	116	131	489	106
Net fee and commission income	2	1	1	4	8	1
Net income from fair value measurement	9	5	7	-1	20	1
Net income from realisations	5	5	-	5	15	14
Net income from hedge accounting	1	-2	8	-7	-	-2
Net other operating income	10	-6	-4	-1	-1	-1
Operating Income	**149**	**123**	**128**	**131**	**531**	**119**
Net income from risk provisioning	-18	-1	-19	-6	-44	-2
General and administrative expenses	-53	-53	-51	-67	-224	-58
Expenses from bank levies and similar dues	-31	-	-1	-	-32	-22
Net income from write-downs and write-ups on non-financial assets	-5	-4	-5	-4	-18	-5
Pre-tax profit	**42**	**65**	**52**	**54**	**213**	**32**
Income taxes	-6	-10	-8	-2	-26	-5
Net income	**36**	**55**	**44**	**52**	**187**	**27**

Key ratios (%)	**Q1/22**	**Q2/22**	**Q3/22**	**Q4/22**	**2022**	**Q1/23**
CIR	38.9	46.3	43.8	54.2	45.6	52.9
RoE before tax	4.8	7.9	6.1	6.3	6.3	3.3
RoE after tax	4.1	6.7	5.1	6.0	5.5	2.7
RoCET1 after tax	4.5	7.3	5.6	6.7	6.0	3.0

Balance sheet (€ bn)	**03/22**	**06/22**	**09/22**	**12/22**	**03/23**
Total assets	56.3	55.1	55.9	53.0	53.7
Equity	3.4	3.3	3.4	3.4	3.5
Financing volume	43.8	43.3	44.3	43.7	43.5

Please note: The following applies to the entire press release: Annual results audited, interim results Q1 2022/23 and Q3 2022 unaudited, interim results Q2 2022 unaudited, but reviewed.

Media Contact
Grit Beecken, +49 89 2880-28787, grit.beecken@pfandbriefbank.com