News Release

DEUTSCHE PFANDBRIEFBANK

pbb reports nine-month profit of €91 million

- Real estate market weakness persisting for longer than expected
- Significant increase in risk provisioning for the third quarter
- Progress made in cost cutting
- Gross margins in new business continue to rise
- Pre-tax profit anticipated for 2023 between €90 million and €110 million (consolidated figures in accordance with IFRS)

Deutsche Pfandbriefbank AG (pbb), a leading European specialist bank for commercial real estate finance, generated a pre-tax profit of €91 million in the first nine months of the current business year (unaudited consolidated figures in accordance with IFRS), down from €159 million in the same period last year. Looking at the third quarter alone, pbb's pre-tax profit was €10 million in 2023 after €52 million in the third quarter of 2022. A rise in risk provisioning explains much of the decrease.

"pbb remains profitable, both in the current market environment and during 2023 to date. The Bank has maintained its tried-and-tested conservative approach to risk since the great financial crisis of 2008. We are sticking with this. Since we only expect real estate markets to bottom out at some point during the first half of 2024 – with any subsequent recovery likely to start during the second half – we have significantly increased risk provisioning, adjusting our guidance to pre-tax profit in a range between €90 million and €110 million", said Andreas Arndt, CEO of pbb. "We continue to benefit from a solid equity base, whilst consistently implementing our strategic agenda for 2026."

pbb plans to increasingly diversify its business model in the years to come, establishing a broader foundation for future income and profitability growth. The Bank aims to increase return on equity before taxes to more than 10% by year-end 2026. Besides organic growth in its core business and an even stricter selection of pricing in relation to risk in new business, the key pillars of pbb's strategy are a significant expansion of capital-light commission-based business through Investment Management, and a further diversification of the funding base by increasing retail deposits. Along with all these initiatives, pbb is also focusing on the overarching topics of Green Finance and the digital transformation, together with an extensive cost-cutting programme.

pbb is fully on track to meet its targets for the end of 2026, within the framework of its strategic realignment:

- Third-quarter net interest income was up 20% on the previous quarter and is expected to continue rising.
- Portfolio growth in Commercial Real Estate Finance of €1.2 billion over the past nine months (+4%) was accompanied by rising margins (up 30 basis points compared to 2022).
- At the same time, retail overnight and term deposits continue to grow strongly (up €1.5 billion since the beginning of the year, up €3 billion since mid-2022). Customers are focusing on term deposits in particular.
- The cost-cutting programme is expected to already show results in 2024. Requisite negotiations with the works council have been concluded. To improve non-personnel costs, the Bank is in the process of entering into new service contracts, at significantly improved terms. Cost reduction for 2024 to 2026 amounts to around €45 million compared to the expected level for the full year 2023, bringing pbb back below the cost level of 2022 or a CIR of below 45%.

In the face of persistent weakness on the commercial real estate market, pbb has

Deutsche Pfandbriefbank AG
Communications

significantly increased its risk provisions. Net income from risk provisioning for the first nine months of 2023 amounted to minus €104 million (9m 2022: €-38 million), predominantly related to office financings in the US. The management overlay of € 28 million still in place at the end of the third quarter was cancelled, due to the fact that uncertainty factors anticipated in the management overlay have materialised during the period under review, and were accounted for in determining risk provisioning. The new guidance for the current year takes into account potential additional risk provisioning which may be required in the fourth quarter, including the possible allocation of a new management overlay.

Besides the challenging overall economic environment and geopolitical tensions, the real estate market is also burdened by structural changes, as preferences in terms of location and building equipment change in the face of working from home and stricter ESG requirements. This has led to swift and sharp valuation discounts even in prime locations, especially in the US. pbb's expectation is that 80% of price corrections there have already taken place, and that potential new business opportunities (at very attractive margins) will emerge.

In light of the prolonged crisis, pbb has assumed an even more selective stance in originating new business. At €4.2 billion, the volume of new business for the first nine months (including extensions of more than one year) was lower year-on-year, reflecting more cautious underwriting. Nonetheless, pbb's new business volume forecast of €6.5 billion to €8.0 billion for the full year, which was updated at the half-year point, remains valid.

Taking into account the challenging situation on the real estate markets, pbb assumes that unlike in previous years a special dividend will not be distributed. However, the overall dividend proposal remains subject to the conditions of pbb's dividend policy and will be decided upon and communicated together with our full year results 2023.

For some time now, the bank has aligned its capital reporting to Basel IV. In specifying Basel IV orientation, pbb intends to move to the so-called Foundation Internal Ratings-Based Approach (F-IRBA) in the future – i.e. after Basel IV has come into effect – and has informed the European Central Bank accordingly. In the meantime pbb will use standardized model parameters, which may lead to a temporary reduction of the CET1 ratio. With the change to the F-IRBA, the CET1 ratio is expected to return to around 15%.

pbb Deutsche Pfandbriefbank (www.pfandbriefbank.com) is a leading European specialist in commercial real estate finance. As one of the largest issuers on the market, pbb is known for its expertise in the German Pfandbrief. The Bank also takes overnight and term deposits from retail investors.

Contact to the media:
Grit Beecken, +49 89 2880-28787, grit.beecken@pfandbriefbank.com

DEUTSCHE PFANDBRIEFBANK

Overview of the pbb Group

Consolidated Income Statement (IFRS, € mn)	**Q3/22**	**Q4/22**	**2022**	**Q1/23**	**Q2/23**	**Q3/23**	**9M/23**
Net interest income	116	131	489	106	110	132	348
Net fee and commission income	1	4	8	1	1	1	3
Net income from fair value measurement	7	-1	20	1	-1	2	2
Net income from realisations	0	5	15	14	28	3	45
Net income from hedge accounting	8	-7	0	-2	-1	3	0
Net other operating income	-4	-1	-1	-1	3	15	17
Operating Income	**128**	**131**	**531**	**119**	**140**	**156**	**415**
Net income from risk provisioning	-19	-6	-44	-2	-19	-83	-104
General and administrative expenses	-51	-67	-224	-58	-65	-57	-180
Expenses from bank levies and similar dues	-1	0	-32	-22	-2	0	-24
Net income from write-downs and write-ups on non-financial assets	-5	-4	-18	-5	-5	-6	-16
Pre-tax profit	**52**	**54**	**213**	**32**	**49**	**10**	**91**
Income taxes	-8	-2	-26	-5	-7	-2	-14
Net income	**44**	**52**	**187**	**27**	**42**	**8**	**77**

Key Ratios (%)	**Q3/22**	**Q4/22**	**2022**	**Q1/23**	**Q2/23**	**Q3/23**	**9M/23**
CIR	43.8	54.2	45.6	52.9	50.0	40.4	47.2
RoE before tax	6.1	6.3	6.3	3.3	5.5	0.5	3.1
RoE after tax	5.1	6.0	5.5	2.7	4.6	0.3	2.5
RoCET1 after tax	5.6	6.7	6.0	3.0	5.2	0.3	2.9

Balance Sheet (IFRS, € bn)	**09/22**	**12/22**	**03/23**	**06/23**	**09/23**
Total assets	55.9	53.0	53.7	49.8	48.2
Equity	3.4	3.4	3.5	3.3	3.4
Financing volume	44.3	43.7	43.5	43.3	43.4

Please note: The following applies to the entire press release: Annual results audited, interim results
Q3 2022/23 and Q1 2023 unaudited, interim results Q2 2023 unaudited, but reviewed.