Press Release

DEUTSCHE PFANDBRIEFBANK

pbb affirms earnings guidance for 2023 and launches cost-cutting programme

- Real estate market environment remains challenging
- Pre-tax profit of €81 million for the first half of the year underscores full-year forecast for 2023
- Portfolio grew to €30.2 billion; new business guidance adjusted to between €6.5 billion and €8 billion
- New business margins remain above the previous year's levels; net interest income expected to rise significantly in the second half of 2023
- Comprehensive cost-cutting in both personnel and non-personnel expenses planned until 2026

Munich, 10 August 2023 – Deutsche Pfandbriefbank AG (pbb) generated **pre-tax profit** of €81 million in the first half of 2023 (consolidated figures in accordance with IFRS, reviewed by external auditors). pbb affirmed its full-year guidance for 2023 of a range between €170 million and €200 million. The Bank was thus able to hold its ground well (6m2022: €107 million), despite persistent tensions on real estate markets and the associated uncertainty. Compared to the same period of the previous year, profit before taxes was burdened by lower net interest income due to the non-recurrence of both income from the TLTRO III programme and income from floors, as a result of higher interest rate levels. Moreover, expenses incurred within the framework of the Bank's strategic initiatives had a stronger impact on general and administrative expenses, as expected (6m2023: €123 million; 6m2022: €106 million).

The strategic repositioning in pbb's public sector business (involving the merging of the Public Investment Finance segment with the already non-strategic Value Portfolo, to form the Non-Core segment) provides for a target portfolio size below €10 billion portfolio to be reached by 2026 (6m2023: €13.1 billion). In this context, supported by a marked increase in market interest rates, sales of financial assets and redemptions of financial liabilities raised **net income from realisations** to €42 million (6m2022: €10 million).

"We are well on track to achieve our earnings forecast for the full year 2023. In the current market environment, this is not a foregone conclusion. When we set out our strategic initiatives in detail, we also indicated that we would pay attention to costs as well. Hence, we will significantly lower our planned costs over the next three years", said Andreas Arndt, pbb’s CEO.

The goal of the **cost-cutting programme** is to lower the **cost/income ratio** (CIR) to below 45% by 2026, and thus to the level seen in 2022. The Bank plans to realise approximately 60% of target savings from non-personnel expenses, with the remaining approximately 40% of savings to be achieved in personnel expenses. This will translate into job cuts amounting to some 15% (gross) of the workforce over the next three years, to be achieved in an as socially conscientious a manner as possible, and respecting the age structure of employees. The aim is to finance costs of strategic investments (or even more than offset them), contributing to a lower CIR.

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pbb is pursuing **implementation** of communicated **strategic initiatives** through focused measures: most recently, as part of broadening its funding sources, the Bank was able to announce a cooperation between online savings platform Raisin and pbb direkt, pbb's retail deposit-taking business.

The Bank has also been making progress regarding diversification of income and the green transformation of its business. For the new Real Estate Investment Management division, pbb is in the process of defining strategy for initial products: besides an equity fund, there are plans for a debt product. Further details will be provided at the EXPO REAL trade fair in the autumn. In the area of green consultancy services, pbb joined forces with developers Groß & Partner to establish Eco Estate GmbH, which will provide comprehensive advice on the sustainable transformation of real estate.

At the same time, it has become evident that the crisis on real estate markets is turning out to be more severe and persistent than assumed at the start of the year. Even though markets continue to anticipate a certain bottoming-out of prices towards the end of the year, any tentative market recovery is unlikely to be seen before the first quarter of 2024. Given even gloomier forecasts for real estate markets, pbb adheres to the conservative measurement of its loss allowance but does not exclude any further increases. For any noticeable recovery, financing costs will need to sustainably stabilise, with inflation continuing to decline, the impact of working from home becoming visible, and the conflict between e-commerce and retail business subsiding.

Real estate transaction volumes in Europe and the US during the first half of 2023 clearly fell short of the levels seen during the same period of the previous year. Prices fell across all property types as investment demand slowed. Accordingly, the **volume of pbb's new business** declined to €2.5 billion for the first six months (including extensions by more than one year), falling clearly short of the previous year's figure of €4.3 billion. Against this background, pbb has adjusted its full-year guidance and now anticipates new business volume of between €6.5 billion and €8.0 billion. A positive trend was visible in the gross margin on new business, which stood at around 200 bp for the first half of 2023 (6m2022: approximately 170 bp).

Despite the lower new business volume, the interest-bearing REF portfolio rose by €0.9 billion in the first half of 2023, to €30.2 billion, whilst gross interest margins on the existing REF portfolio improved.

Net interest income of €216 million (6m2022: €242 million) was largely affected by the non-recurrence of income from the TLTRO III programme and from floors, which no longer yielded income due to the sharp increase in interest rates. At the same time, however, the average volume of commercial real estate finance showed a marked increase from €28.0 billion to €29.6 billion. As a consequence of the decrease in new business, **net fee and commission income** from non-accruable fees declined to €2 million (6m2022: €3 million).

The Bank expects net interest income to increase by around 10% in the second half of the year, backed by the stable existing portfolio and increasing margins on new business.

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Net income from risk provisioning amounted to €-21 million (6m2022: €-19 million). Net income from stage 1 and stage 2 risk provisioning (€-5 million) reflected the high degree of uncertainty concerning macro and sector-specific economic development, as well as higher interest rates. Real estate markets further deteriorated in the first half of 2023, which was reflected in current real estate valuations as well as in forecasts regarding future developments. An increase in the probability of default for individual financings, together with an update of valuation parameters, required an increase in stage 1 and stage 2 loss allowance. On the other hand, pbb Group partially reversed the management overlay recognised in the fourth quarter of 2022, releasing a total of €41 million in the first half of 2023, of which €14 million in the second quarter. Some of the uncertainty factors anticipated in the management overlay have materialised during the period under review and were accounted for in determining stage 1 and stage 2 loss allowance.

Whilst the development of Non Performing Loans (“**NPLs”)** reflects the strained market environment, requirements to recognise loss allowance remain moderate. The year-on-year NPL increase was mainly due to nine office property financings newly classified as non-performing, of which only three require loss allowance in a limited amount (€18 million). Six of the non-performing loans do not require any loss allowance. The NPL portfolio thus comprises 31 financings with an aggregate amount of €1.1 billion.

In its **capital market funding** activities, pbb Group reduced the volume of new long-term funding to €1.4 billion in the first half of 2023 (6m2022: €3.2 billion). In particular, this reflected the Bank's comfortable liquidity base in conjunction with lower new business volume, as well as a stronger focus on deposits taken via pbb direkt, which currently provide a most cost-efficient alternative. At €0.8 billion (6m2022: €2.0 billion), Pfandbrief issues accounted for just over half of the total volume. Unsecured funding accounted for €0.6 billion (6m2022: €1.2 billion), with almost all of the volume being issued as Senior Preferred bonds. As part of its holistic ESG strategy, pbb also successfully issued an unsecured benchmark Green Bond with a volume of €0.5 billion.

Overnight and term deposits from retail investors once again rose markedly, to €5.6 billion as at 30 June 2023 (31 December 2022: €4.4 billion). Hence, the share of deposits in the overall funding volume is continuing to rise – a key pillar in pbb's strategic agenda for 2026.

pbb also made progress in achieving its goal of raising the share of green financings in the overall REF portfolio (based on the Bank's Green Loan Framework) to more than 30% by the end of 2026, from around 20% at present. pbb has screened 72% of its portfolio to date, identifying a green share of around 28%.

Overview of the pbb Group

Consolidated Income Statement (IFRS, € mn)	**Q2/22**	**Q3/22**	**Q4/22**	**2022**	**Q1/23**	**Q2/23**	**H1/23**
Net interest income	120	116	131	489	106	110	216
Net fee and commission income	1	1	4	8	1	1	2
Net income from fair value measurement	5	7	-1	20	1	-1	0
Net income from realisations	5	0	5	15	14	28	42
Net income from hedge accounting	-2	8	-7	0	-2	-1	-3
Net other operating income	-6	-4	-1	-1	-1	3	2
Operating Income	**123**	**272**	**131**	**531**	**119**	**140**	**259**
Net income from risk provisioning	-1	-19	-6	-44	-2	-19	-21
General and administrative expenses	-53	-106	-67	-224	-58	-65	-123
Expenses from bank levies and similar dues	0	-31	0	-32	-22	-2	-24
Net income from write-downs and write-ups on non-financial assets	-4	-9	-4	-18	-5	-5	-10
Pre-tax profit	**65**	**107**	**54**	**213**	**32**	**49**	**81**
Income taxes	-10	-16	-2	-26	-5	-7	-12
Net income	**55**	**91**	**52**	**187**	**27**	**42**	**69**

Key Ratios (%)	**Q2/22**	**Q3/22**	**Q4/22**	**2022**	**Q1/23**	**Q2/23**	**H1/23**
CIR	46.3	43.8	54.2	45.6	52.9	50.0	51.4
RoE before tax	7.9	6.1	6.3	6.3	3.3	5.5	4.4
RoE after tax	6.7	5.1	6.0	5.5	2.7	4.6	3.6
RoCET1 after tax	7.3	5.6	6.7	6.0	3.0	5.2	4.1

Balance Sheet (IFRS, € bn)	**06/22**	**09/22**	**12/22**	**03/23**	**06/23**
Total assets	55.1	55.9	53.0	53.7	49.8
Equity	3.3	3.4	3.4	3.5	3.3
Financing volume	43.3	44.3	43.7	43.5	43.3

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

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