News Release

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pbb retains profit and expects a significantly higher result for 2024 than in 2023

- Portfolio covered by first-ranked collateral and rising margins give confidence regarding future performance
- Solid CET1 ratio of 15,7% – liquidity reserves of more than €6 billion
- Loss allowance for the current financial year expected to be significantly lower than in 2023
- CEO Kay Wolf: "Our view of the current state of the markets, including all risks and opportunities, is a realistic one."

Garching, 7 March 2024 – Deutsche Pfandbriefbank AG (pbb), a leading European specialist bank for commercial real estate finance, expects its results for the current financial year to be significantly higher than in 2023. This outlook is primarily based on continued margin increases and on lower loss allowance, which is however expected to remain above average. In an effort to safeguard its financial strength in the interests of all stakeholders in this late stage of the real estate cycle, the Bank has decided not to distribute a dividend for the financial year 2023 but to retain its profit instead.

Kay Wolf, who has been CEO of pbb since 1 March 2024, said: "Our view of the current state of the markets, including all risks and opportunities, is a realistic one and we have every confidence that we will be able to navigate this admittedly difficult market phase. With its solid capital and liquidity resources, pbb is in a far better position than its recent performance on the capital markets might suggest. As a senior lender, the funding we provide is secured by first-ranked collateral – a fact we can't stress enough in the current market environment. At the same time, we are well aware of the need to win back trust. That's why we identify and mitigate risks with the necessary rigour and discipline and communicate with the necessary transparency."

Stable portfolio planned for 2024

pbb expects to generate new business of between €6 billion and €7 billion during the current financial year (2023: €7.2 billion; including extensions by more than one year in each case), which should result in a largely stable portfolio of €30 billion to €31 billion (2023: €31.1 billion). With new business margins rising further, the aggregate of interest and commission income is expected to be between €475 million and €500 million after amounting to €485 million last year. To reach its cost targets, pbb will continue to invest in efficiency enhancements, IT infrastructure and digital applications in 2024, and expects a cost/income ratio around 50% (2023: 45.8%). Cost-cutting measures are expected to show notable effects from 2025 onwards. The Bank targets a cost/income ratio of below 45% by 2026.

pbb generated a pre-tax profit of €90 million in 2023 (audited consolidated figures in accordance with IFRS, Supervisory Board approval pending). This means that the Bank remained profitable in a demanding market environment, even though real estate financings in the US and project financings in Germany triggered a significant increase in risk provisioning to €-212 million (2022: €-44 million). pbb's capitalisation nonetheless remained solid, with a

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CET1 ratio of 15.7% as at year-end (following confirmation of the financial statements), exceeding regulatory requirements by around 600 basis points. The Bank currently comfortably meets the conditions to pay the AT1-coupon in April.

“We regularly take a critical and realistic look at our portfolio, carefully reviewing the valuations of the properties we have financed. Our operational financial strength means that we are in a position to cover the investments in the Bank's future, as well as the higher risk provisioning, from our results”, said CFO Marcus Schulte. “The loan-to-value ratios of our financings remain low compared to our peers, and the loss allowance we have recognised already accounts for further price declines.”

In spite of a difficult market environment, pbb’s operative business delivered a very solid performance in the year under review. pbb continued to originate new business, focusing on long-term extensions and following a strict risk approach. The volume of new business amounted to €7.2 billion (2022: €9 billion; including extensions by more than one year in each case), leading the existing portfolio to grow by €1.8 billion to a total of €31.1 billion. Average gross margins on new business climbed to around 205 basis points (2022: around 170 basis points). The average loan-to-value ratio (LTV) was 53% for new business and was also 53% in the existing portfolio, owing to market developments (2023: 51%).

Net interest income of €482 million fell just short of the previous year’s figure of €489 million. In the core portfolio, a higher average financing volume of €30.1 billion (2022: €28.6 billion) and higher new business margins compensated for the failure of temporary effects and effects relating to market interest rates to materialise again.

Further price drops expected in the US

The interest rate environment, combined with weak rental markets, caused investment volumes to decline across all pbb’s markets in 2023, especially the office property markets. With the trend towards remote working still very much in evidence, many companies were reluctant to look for office space, resulting in higher vacancies. pbb’s focus lies on properties in good or very good locations that are either new buildings or modern ones meeting ESG standards. As this kind of property is in limited supply, peak rents remained stable or increased. However, the overall situation remains challenging and pbb expects prices in the US to decline further in the first six months of 2024, while price drops in Europe are likely to be more moderate, as in 2023. This means that active risk management will remain a key success factor in the current year, particularly in the US. To simplify: A further 20% decline in prices for US office real estate would trigger potential additional losses of approximately €100 million. This is covered by loss allowance of €121 million already recognised, including the management overlay.

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Funding requirements largely covered

pbb continued to diversify its funding base in 2023, actively using its broadened range of funding tools during the year under review – as well as in the current year. The bulk of secured funding requirements for 2024 has already been covered on the capital markets. pbb's long-term unsecured funding requirements are adequately covered and there are no plans for a senior unsecured issue this year. As at the end of February 2024, long-term unsecured funding included €6.9 billion in customer deposits (end of 2023: €6.6 billion), of which €6 billion were term deposits with an average term of more than three years.

Given the challenging environment in this late stage of the real estate cycle and factoring in the interest of all relevant stakeholders, pbb has decided to retain its profit for the financial year 2023 to further strengthen its capitalisation. Fundamentally, pbb wants its shares to remain an investment offering a solid capitalisation and reliable distributions.

As already announced, pbb plans to change its risk model approach: following implementation of the new Basel III regulations, the Bank will introduce the Foundation Internal Ratings-Based Approach (F-IRBA) as the model and risk standard applicable to the bulk of the portfolio. As part of this transition, it will already apply risk models calibrated to standardised model parameters in the course of this year. Whilst the Bank anticipates a temporary decline in its CET1 ratio, it currently expects the CET1 ratio to remain at or above its ambition level of 14%. Once the switch to the F-IRBA has been completed, the CET1 is likely to return to above 15%.

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Overview of the pbb Group

Consolidated Income Statement (IFRS, € mn)	**Q4/22**	**2022**	**Q1/23**	**Q2/23**	**Q3/23**	**Q4/23**	**2023**
Net interest income	131	489	106	110	132	134	482
Net fee and commission income	4	8	1	1	1	0	3
Net income from fair value measurement	-1	20	1	-1	2	-2	0
Net income from realisations	5	15	14	28	3	40	85
Net income from hedge accounting	-7	0	-2	-1	3	1	1
Net other operating income	-1	-1	-1	3	15	15	32
Operating Income	**131**	**531**	**119**	**140**	**156**	**188**	**603**
Net income from risk provisioning	-6	-44	-2	-19	-83	-108	-212
General and administrative expenses	-67	-224	-58	-65	-57	-69	-249
Expenses from bank levies and similar dues	0	-32	-22	-2	0	-1	-25
Net income from write-downs and write-ups on non-financial assets	-4	-18	-5	-5	-6	-11	-27
Pre-tax profit	**54**	**213**	**32**	**49**	**10**	**-1**	**90**
Income taxes	-2	-26	-5	-7	-2	15	1
Net income	**52**	**187**	**27**	**42**	**8**	**14**	**91**

Key Ratios (%)	**Q4/22**	**2022**	**Q1/23**	**Q2/23**	**Q3/23**	**Q4/23**	**2023**
CIR	54.2	45.6	52.9	50.0	40.4	42.6	45.8
RoE before tax	6.3	6.3	3.3	5.5	0.5	-0.9	2.1
RoE after tax	6.0	5.5	2.7	4.6	0.3	1.1	2.2
RoCET1 after tax	6.7	6.0	3.0	5.2	0.3	1.2	2.4

Balance Sheet (IFRS, € bn)	**12/22**	**03/23**	**06/23**	**09/23**	**12/23**
Total assets	53.0	53.7	49.8	48.2	50.9
Equity	3.4	3.5	3.3	3.4	3.4
Financing volume	43.7	43.5	43.3	43.4	43.5

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

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