Media Release

pbb performs well overall in 2020, despite burdens from the COVID-19 pandemic

- Profit before taxes reaches €154 million
- Net interest and commission income increases by around 5%, to €485 million
- Net additions to risk provisioning of €126 million – existing provisons more or less double to €261 million in 2020
- €7.3 billion of new business in the REF segment, with a significantly higher average gross margin of around 180 basis points – loan portfolio remains stable
- Dividend proposal of €0.26 per share at the upper limit of the ECB's recommendation – further dividend payment to be examined in Q4
- CEO Andreas Arndt: Improved results expected for 2021, thanks to stable to slightly higher net interest and commission income, plus lower risk costs

Munich, 4 March 2021 – As reported on 26 February, Deutsche Pfandbriefbank AG (pbb) further increased income from the lending business in 2020, increasing net interest and commission income by around 5%, to €485 million (2019: €464 million). This figure was offset by higher risk costs of €126 million net (2019: €49 million). pbb applied in particular significantly higher model-based (stage 1 and stage 2) provisions for conceivable credit risks due to the COVID-19 pandemic; in addition, provisions were increased for UK retail properties that had already been classified as stage 3 but which saw a further decline in property valuations. Administrative expenses remained unchanged from the previous year, at €204 million (2019: €202 million), thanks to strict cost management. All in all, pbb generated profit before taxes of €154 million. While this was down on the previous year's high level (2019: €216 million), overall it represents a good performance in a difficult market environment: at €280 million, this has been pbb's best result in the operative lending business before risk provisioning since the IPO.

After taxes of €37 million and taking into account the AT1 coupon of €17 million, €100 million or €0.74 per share was attributable to ordinary shareholders. On this basis, pbb will propose to shareholders at the Annual General Meeting on 12 May 2021 to distribute a **dividend** of €0.26 per no-par value share entitled to dividends. This amount corresponds to the maximum permitted under the recommendation put forward by the ECB on the dividend policy of the banks under its direct supervision. Should the ECB reach a more favourable assessment of the market after 30 September, allowing distributions to be increased, pbb will examine options for any further dividend payments at that point.

pbb took a particularly selective approach to **new business** in the financial year under review, due to the uncertainty arising from the COVID-19 pandemic. After a strong fourth quarter with €3.0 billion pbb originated a total of €7.3 billion in commercial real estate finance business in 2020 while applying even stricter risk parameters (2019: € 9.0 billion; in each case including extensions beyond one year). pbb significantly increased the average gross new business margin to around 180 basis points after approx. 155 basis points in 2019. Thanks to the strong new business and lower volume of prepayments, pbb kept its credit portfolio at a stable level in 2020.

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Besides focusing on the management of its credit portfolio and the selection of new business – both of which were particularly important during the pandemic – during 2020 pbb once again invested in consistent **expansion of its core business and its digital future**. In doing so, pbb focussed on sustainable real estate lending, with ‘green’ bonds; green loans will follow as a next step. At the same time, pbb prepared the launch of a client portal in the first quarter of 2021, started the digitalisation of its client and credit processes, and expanded its CAPVERIANT credit platform.

CEO **Andreas Arndt** commented: “The whole world was impacted by the COVID-19 pandemic in 2020: the real estate sector and pbb were no exception here. pbb responded to this challenging environment with a strong operative performance, recognising extensive provisions for conceivable credit risks related to COVID-19 and achieving a good result overall.” Arndt remains cautious for the current financial year: “We assume that we will not see the impact of the pandemic on macroeconomic developments and the trajectory of the real estate sector until the second half of the year. Despite all the uncertainty, we consider ourselves in a stable postion with regards to our operating business as well as our risk situation and we expect an improvement in profit before taxes for 2021 compared with 2020. We will maintain our planned investments.”

2021 guidance

For the current **financial year 2021**, pbb expects stable to slightly higher net interest income, lower risk costs and stable general administrative expenses. For this reason, it guides a higher profit before taxes. It expects to originate new business of between €7.0 billion and €8.0 billion in Commercial Real Estate Finance, on slightly lower gross new business margins. The financing volume of the real estate financing portfolio is expected to rise slightly.

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FACTS AND FIGURES – financial year 2020 (consolidated figures in accordance with IFRS)

1. New business and portfolio

Investor demand for real estate assets and the demand for rented space has fundamentally deteriorated in the course of the COVID-19 pandemic. The hotel and retail (except food retailing) sub-markets were particularly hard hit – sectors which account for less than 5% or 15% of pbb's portfolio, respectively. In this environment, pbb tightened the risk parameters further and took an even more selective approach to new business.

In compliance with these strict standards, new business totalled €7.4 billion (2019: €9.3 billion, including extensions beyond one year in Commercial Real Estate Finance), which pbb conducted almost exclusively in **Commercial Real Estate Finance** (Public Investment Finance €0.1 billion; 2019: €0.3 billion). It was therefore only slightly lower than the initial guidance for new business volume in Commercial Real Estate Finance of €8 billion to €9 billion issued prior to the pandemic. The fourth quarter was particularly strong, with new business of €3.0 billion in the REF segment. Gross new business margins performed very well, increasing on a full year basis to around 180 basis points from around 155 basis points in 2019.

Germany remained pbb's most important individual market for Commercial Real Estate Finance with an almost unchanged share of 46%, followed by the USA and the CEE markets with 12% each. Office buildings continued to account for the majority of financed properties, with a share of 50%. pbb has not extended new loans for shopping centres and hotels since the second quarter; new business here only concerned extensions of performing exposures.

At €32.8 billion, the **financing volume in the strategic portfolio** at the end of the year was largely stable (31 December 2019: €33.4 billion). Lower prepayments and higher long-term extensions offset the decline in new commitments, due to the pandemic.

2. Funding

During 2020, pbb issued new long-term funding of €3.6 billion (2019: €6.7 billion). Most of the funding activities were conducted in the first quarter, before the pandemic led to widening funding spreads. New issuance was split equally between Pfandbriefe and unsecured issues. This compares with the previous year, when unsecured funding accounted for a slightly higher share. Regarding unsecured funding, pbb focused on senior preferred bonds. pbb also used foreign-currency placements in both instruments, matching its lending business. In September of 2020, pbb was the first bank in continental Europe to issue a Mortgage Pfandbrief based on the new SONIA interest rate benchmark; the issue was several times oversubscribed.

In the second quarter, pbb participated in the ECB's TLTRO III programme with a volume of €7.5 billion, of which €1.9 billion was used to repay drawings under the TLTRO II programme. As with the TLTRO II programme, pbb is thus using the ECB's targeted longer-term refinancing operations – which are designed to facilitate access for businesses and private households to bank loans in the current environment of economic distortions and elevated uncertainty – to make a contribution to the real estate sector.

pbb has already successfully placed two benchmark bonds in 2021, one being a USD-denominated Mortgage Pfandbrief and the other a senior preferred green bond.

3. Regulatory indicators

At €17.7 billion at the end of 2020, pbb's risk-weighted assets (RWA), which are calibrated to meet future Basel IV requirements, were unchanged from year-end 2019. pbb's common equity tier 1 (CET1) capital increased slightly at the end of the year, to €2.9 billion, and own funds to €3.8 billion. This was attributable in particular to the reduction of the expected loss shortfall through increased risk provisioning. Regulatory ratios improved accordingly:

- The **CET1 ratio** rose to 16.1% (31 December 2019: 15.2% or 15.9% taking the 2019 annual results into account) and the **tier 1 ratio** to 17.8% (31 December 2019: 16.9% or 17.5% taking the 2019 annual results into account).
- The **own funds ratio** increased to 21.4% (31 December 2019: 20.4% or 21.1% taking the 2019 annual results into account).
- The **leverage ratio** rose to 6.0% (31 December 2019: 5.4% or 5.6% taking the 2019 annual results into account).

4. Consolidated income statement

Net interest income of €479 million was slightly higher than in the previous year (2019: €458 million), benefiting from lower funding expenses due to maturing bearer bonds. Participation in the ECB's TLTRO III programme from 24 June 2020 also had a positive effect; related interest-rate benefits are accrued over the term. As in the previous year, pbb Group profited from floors agreed upon with clients, given the negative interest rate environment. However, the slightly lower portfolio of outstanding (and hence, interest-bearing) financings in REF (average of €26.9 billion; 2019: €27.4 billion) burdened net interest income, as did the decline in the non-strategic Value Portfolio, in line with the Bank's strategy. Contributions from the (re-)investment of released or additional equity was also lower due to the low interest rate environment.

Net fee and commission income includes fees that were recognised directly in income. At €6 million, net fee and commission income in the period under review reached the previous year's value (2019: €6 million).

Net income from fair value measurement (€-8 million; 2019: €-7 million) was burdened chiefly by pull-to-par effects (whereby market value approaches zero towards maturity). Credit spreads affecting non-derivative financings which must be reported at fair value through profit or loss, which had widened during the first months of 2020, narrowed again after the end of the second quarter. Overall, these instruments did not lead to any material effects for the year as a whole.

The changed economic situation led to a marked decline in market transactions in Commercial Real Estate Finance from March 2020 onwards, as well as to a change in the competitive dynamics. This led to early repayments of financings driven by the current terms available, among other things. The overall decline in the volume of early repayment also led to a lower volume of prepayment fees received, resulting in **net income from realisations** of €26 million, which was lower year-on-year (2019: €48 million).

Net income from hedge accounting (€4 million; 2019: €-2 million) included income from a compensation payment received in connection with the conversion of reference interest rates to the euro short-term rate (€STR). Since changes in the value of derivatives and hedged items almost completely compensated each other in relation to hedged interest rate risk, there were hardly any other factors impacting upon profit or loss.

Within **net other operating income/expenses** (€22 million; 2019: €3 million), reversals of provisions for legal and tax-related matters exceeded additions.

Loss allowance for financial instruments is based on probability-weighted estimates of expected loan losses. Whilst consistently applying the accounting methods, pbb Group adjusted the estimations' underlying parameters, such as expected gross domestic product and unemployment rate, and the probability weighting of the scenarios to the current new economic situation. In this respect, pbb Group refrained from smoothing out measurement parameters using long-term observations. For instance, in the most likely scenario, pbb

Group assumes a 3.0% increase in German gross domestic product for 2021, and an unemployment rate of 4.7%.

Net income from risk provisioning totalled €-126 million (2019: €-49 million). At €70 million net (2019: €17 million), the majority of the additions to impairments losses resulted from financings without indicators for a deterioration of credit quality (as defined in IFRS 9) – in other words, financial instruments with stage 1 or stage 2 impairments. Migration criteria for reclassifications from stage 1 to stage 2 were unchanged from pre-COVID-19 times. The additional risk provisioning primarily reflects the deteriorated macroeconomic situation – which can be observed, inter alia, in the development and forecast of gross domestic product and the unemployment rate due to the COVID-19 pandemic. Loss allowance also includes the net effect from reclassification of financings with a gross carrying amount of €7.8 billion from stage 1 to stage 2 impairments. pbb Group carried out this reclassification, although the change was primarily due to the economic recession triggered by the current COVID-19 pandemic. However, there is no evidence of data to suggest that the issuers or borrowers of the vast majority of financings in question are in significant financial difficulty.

In addition, pbb Group did not carry out any management overlays that would have been compatible with the recommendations of the IASB and the European supervisory authorities ESMA, EBA and ECB in the spring of 2020, and that would have led to a reduction in existing loss allowance. Additions to provisions caused the ratio of impairment losses to the gross carrying value on stage 1 and 2 commercial real estate financings to rise significantly, to 40 basis points (31 December 2019: 18 basis points). Across all three impairment stages, coverage for Commercial Real Estate Finance rose from 38 basis points as at 31 December 2019 to 85 basis points as at 31 December 2020.

Furthermore, net additions to provisions for financings with indicators of impaired credit quality rating (stage 3) were necessary, in the amount of €57 million (2019: €33 million). This increase in provisions was attributable almost exclusively to loans for shopping centres in the UK already subject to stage 3 impairments, reflecting structural changes in the retail industry, among other things.

General and administrative expenses of €204 million were marginally above the previous year's figure of €202 million, as a result of slightly higher personnel expenses, due – amongst other factors – to higher average staff numbers resulting from the successful filling of vacancies, accompanied by simultaneous lower fluctuation. Non-personnel expenses were lower, thanks to consistent cost discipline: as a result, and also reflecting social restrictions imposed in connection with COVID-19, travel expenses as well as marketing expenses for trade fairs declined, for example – offset by substantial investment-related expenses for regulatory and strategic projects.

Expenses for bank levies and similar dues of €26 million (2019: €24 million) mainly comprised expenses for the bank levy, taking into account 15 per cent pledged collateral (€23 million; 2019: €20 million). The year-on-year increase in expenses for the bank levy resulted from a significant increase in the Fund's target volume at EU level. The item also includes expenses of €3 million (2019: €4 million) for the private Joint Fund for Securing Customer Deposits and the statutory deposit guarantee scheme.

Net income from write-downs and write-ups on non-financial assets of €19 million (2019: €-18 million) included scheduled depreciation of tangible assets and amortisation of intangible assets. The year-on-year increase reflected scheduled amortisation of the right of use (capitalised in mid-2019, in accordance with IFRS 16) for the building in Garching. Material impairments on non-financial instruments were not required.

The 2019 number for **net income from restructuring** of €3 million was boosted by income from the reversal of provisions in human resources.

Income taxes (€-37 million; 2019: €-37 million) were attributable to current taxes (€-34 million; 2019: €-22 million) and to deferred taxes (€-3 million; 2019: €-15 million). The changes were mainly due to the different tax treatment of provisions under IFRS.

Profit after taxes amounted to €117 million (2019: €179 million), of which €100 million (2019: €162 million) was attributable to ordinary shareholders and €17 million (2019: €17 million) to AT1 investors on a pro rata basis (based on the assumption that the discretionary AT1 coupon is serviced in full).

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Overview of the pbb Group

Consolidated Income Statement (IFRS; € million)	Q4 2019	2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	FY 2020
Net interest income	117	458	111	117	126	125	479
Net fee and commission income	2	6	2	1	1	2	6
Net income from financial instruments at fair value	-5	-7	-17	1	4	4	-8
Net income from realisations	17	48	14	2	4	6	26
Net income from hedge accounting	1	-2	-1	-1	6	-	4
Net other operating income/expenses	3	3	1	3	-	18	22
Operating income	135	506	110	123	141	155	529
Net income from risk provisioning	-39	-49	-34	-36	-14	-42	-126
General and administrative expenses	-61	-202	-48	-49	-48	-59	-204
Expenses for bank levies and similar dues	-1	-24	-21	-4	-	-1	-26
Net income from write-downs and write-ups on non-financial assets	-5	-18	-5	-5	-4	-5	-19
Net income from restructuring	-	3	-	-	-	-	-
Profit before taxes	29	216	2	29	75	48	154
Income taxes	-5	-37	-	-8	-27	-2	-37
Net income after taxes	24	179	2	21	48	46	117

Key ratios (%)	Q4 2019	2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	FY 2020
Cost/income ratio	48.9	43.5	48.2	43.9	36.9	41.3	42.2
Return on equity before taxes	3.4	6.9	-0.3	3.4	9.7	5.9	4.7
Return on equity after taxes	2.7	5.7	-0.3	2.3	6.0	5.6	3.4

Statement of financial position data (IFRS, € billion)	12/2019	12/2019	03/2020	06/2020	09/2020	12/2020	12/2020
Total assets	56.8	56.8	56.6	60.7	60.2	58.9	58.9
Equity	3.2	3.2	3.2	3.2	3.3	3.3	3.3
Financing volume	45.5	45.5	45.0	44.5	44.4	44.2	44.2

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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