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The German version of this speech is authoritative.

1. INTRODUCTION

Ladies and Gentlemen, good morning.

A warm welcome to you all today, as we hold our annual press conference. Exactly one year ago, this event saw us all coming together in one place, shortly after followed by the first lockdown: twelve months under the heel of the COVID-19 pandemic, with profound implications for the global economy and therefore also for the global real estate industry and for pbb.

Today, in the first quarter of 2021, we are seeing the first glimmers of light at the end of the tunnel. Vaccinations are ongoing, and a return to positive growth rates is generally expected. Nevertheless, we **remain cautious**. Whilst GDP growth may turn positive again, the **significant impact on the real estate industry** will only become truly visible within the course of the year. Many companies are suffering under the lockdown, structural influences such as the increase in remote working, more video conferences instead of travel, the experience that online shopping does work – all of this will have a sustainable impact on space demand as well as real estate prices, risks, and yields in the years to come.

Our **consistently risk-conservative business approach** served us well last year; and we will continue to adhere to it this year. It will therefore be important for us to stay disciplined in our careful selection of clients and properties, and to focus on the ‘prime’ business.

In challenging times, we still stick to the course of consistently expanding our core commercial real estate lending business and **invest in pbb’s digital future**:

- This quarter, we are rolling out a fully functional client portal for commercial real estate financing – the pbb client portal.
- We have also begun to digitalise the entire client and credit process, thus building the foundation for significant efficiency gains – for our clients and for the Bank.
- With CAPVERIANT, we have created an already well-established, open and digital loan platform.

ESG – and thus **financing sustainable real estate** – is the next major macroeconomic and social challenge. We will support the foreseeable structural changes with our investments. An initial and very visible step was our first “green” bond issue four weeks ago.

2020 should be evidence enough that pbb is able to work a risk-conservative approach, generate solid results, and invest at the same time. **Managing the loan portfolio and being selective in the origination of new business** were two important factors in the past financial year. We tightened the already intensive monitoring of our portfolio, and established even stricter risk parameters in our new business. The portfolio has continued to confirm its high quality, and we have been able to realise good volumes and increased gross margins.

Despite the many uncertainties, pbb has generated a solid operating performance, recognised extensive provisions for conceivable credit risks, and posted a **generally good set of results**. Specifically, this means (CHART #2):

- We further increased income from the lending business in 2020, as well as raising **net interest and commission income** by around 5%, to €485 million (2019: €464 million).
- At €204 million, **general and administrative expenses** remained stable year-on-year (2019: €202 million) and are also seen to be relatively stable from a longer-term perspective.
- **Risk provisioning** increased against the background of the pandemic; however, of the total of €126 million – compared to €49 million in 2019 – the larger part was down to model-based impairments for conceivable pandemic-related impacts.
- All in all, we generated **profit before taxes** of €154 million; this figure falls short of the high level of €216 million realised in the previous year. However, in light of the challenging market environment, we are not only performing solidly overall, we have also generated the highest result since our IPO in the operative lending business before risk provisioning.
- Thanks to the good result and our solid capitalisation, we are comfortably able to distribute the maximum **dividend** possible as per the current ECB recommendation to our shareholders: 26 euro cents per share. If the ECB allows for a higher distribution after September 2021, we will consider an additional dividend payment for the financial year 2020 in the fourth quarter, depending on the prevailing market environment.

We **continue** to see the pbb share as a **dividend stock**. Resumption of dividend payments in 2020 can be seen as an indication that we are adhering to our strategy of a distribution ratio of 50% plus a special dividend of 25%, whenever possible.

Due to the prevailing macroeconomic risks, we will once again refrain from providing the usual guidance range. However, we do believe that we can generate **stable operating profit** in 2021, which is supported by our guidance for profit before taxes above the previous year's level – despite risk provisioning and our continued investment programme.

In short: we remain cautious, and we remain forward-looking.

2. Business development

Ladies and gentlemen, let us turn to our business development. I will keep it short, since you know the main drivers from our quarterly reporting. For further details on our income statement, please also refer to our analysts' presentation. Our annual report will be published on 23 March 2021.

I should point out here that, as usual, all figures are consolidated results for pbb Group and that the financial statements were prepared in accordance with IFRS. Whilst the financial statements have already been audited, the figures must be formally considered 'preliminary' until the financial statements have been approved by the Supervisory Board.

2.1 Income from the lending business

As I had previously mentioned, **net interest and commission income** rose to €485 million during the year under review, following €464 million in 2019 (CHART #3). This positive development has been ongoing since 2017, and we expect stable to slightly rising net interest income in 2021. I will discuss this in more detail in the outlook. The net fee and commission income figure, however, remained stable at €6 million.

- The increase in net interest income was largely attributable to lower funding expenses. Floors in the client business, that we were able to almost completely realise and which prevent negative lending rates, had a further positive effect. Furthermore, our participation in the ECB's TLTRO III programme yielded positive results.
- As in previous years, the positive effects significantly exceeded the still-negative impact from the Value Portfolio run-down, in line with our strategy, and from interest rate-related continuously falling income from equity investments.

Prepayment fees also declined; as a result, net income from realisations fell from €48 million to €26 million. This development is a direct consequence of the current market environment. On the one hand, fewer real estate transactions were executed, which usually involve a change of financier. On the other hand, early repayments related to terms and conditions have become much less frequent – in challenging times, people tend to stay with their principal bank. Whilst a decline in the volume of early repayments leads to a lower volume of prepayment fees, it also results in a more constant portfolio and more stable future interest income.

2.2 Net income from risk provisioning

Net income from risk provisioning shows the strongest year-on-year deviation in the income statement. We have significantly increased risk provisioning due to the pandemic, recognising €126 million in 2020, compared to €49 million in 2019 (CHART #4), an increase of two and a half times.

- The greater part of this (€70 million) was down to **model-based provisions**, that is, stage 1 and 2 provisions.

Such provisions are recognised under IFRS 9 for performing exposures. pbb's internal models are calibrated based on macroeconomic parameters, such as gross domestic product and the unemployment rate, alongside real estate industry-related parameters, such as the forecast for real estate price development by type of property and market. We continuously monitor these parameters, and have adjusted them to match our current insights at year-end. Therefore, we are convinced that we have recognised sufficient provisions for conceivable pandemic-related impacts.

- In addition, provisions in the amount of €57 million were recognised for **UK retail properties** that had already been provisioned as stage 3 but which saw a further decline in property valuations. There was no need for new stage 3 impairments.

Provisions now amount to €261 million, equalling a provisioning ratio of 85 basis points when considering our strategic portfolio. Therefore, our fully collateralised core portfolio is above the level of 71 basis points which JP Morgan recently determined as being the average for secured and unsecured portfolios in a market study of 29 European banks.

2.3 General and administrative expenses

At €204 million, **general and administrative expenses** remained stable year-on-year (2019: €202 million; CHART '5). We have only allowed expenses to rise very moderately over the years, even though, for example, expenses for regulatory requirements are continuously rising. Furthermore, investments in our strategic initiatives have been offset by efficiency gains. Therefore, our cost/income ratio of 42% in the year under review is below the previous year's figure of 43% and significantly lower than the market average.

2.4 Profit and dividend proposal

All in all, pbb generated **profit before taxes** of €154 million, and thus a lower result than in the previous year (€216 million). However, from our perspective we have performed well overall in a difficult market environment. The fact that we generated the highest result since our IPO in the operative lending business before risk provisioning (€280 million) underlines our solid performance.

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**. The relatively high tax rate is a result of markedly higher risk provisioning which can be deducted from the IFRS result, but is non-deductible for tax purposes.

In light of the good results and our solid capitalisation, we will propose a **dividend** of €0.26 per share entitled to dividend payments to our shareholders at the Annual General Meeting on 12 May 2021, corresponding to a distribution ratio of 35%. This proposal follows the ECB's current recommendation, according to

which the Bank's CET1 ratio should not fall by more than 20 basis points as a result of the dividend distribution. This recommendation remains valid until 30 September 2021. Should the ECB reach a more favourable assessment of the market thereafter, allowing distributions to be increased, we will consider the possibility of further dividend payments.

I would like to reiterate once again that our general **dividend strategy** of a distribution ratio of 50% plus 25% has not changed. Nevertheless, I understand the ECB's recommendation in the current situation, and I think it is right: it is also in the interest of shareholders that their bank navigates this capital crisis competently, supported by a solid capitalisation.

2.5 Key regulatory capital ratios

Following up on that last point and as the last item on the business development list, I would like to discuss the regulatory capital ratios (CHART #6).

At €17.7 billion at the end of 2020, pbb's risk-weighted **assets** (RWAs) were unchanged from year-end 2019. The following factors are responsible for the comparatively stable performance:

- Firstly, we have been applying significantly more conservative risk parameters since 2019, which, as you will recall, led to a marked increase in risk weights and RWAs. This calibration of major risk parameters, i.e. PD and LGD, lowers volatility sensitivity on a relative level and thus strengthens the Commercial Real Estate Finance portfolio.

Secondly, the standardised approach for our Public Investment Finance portfolio, also implemented at year-end 2019, added to the more solid development.

- Otherwise, pandemic-related RWA increases were mostly offset by portfolio run-downs and corresponding RWA reductions in Public Investment Finance and the Value Portfolio.

Solid risk weights, calibrated at Basel IV level, and the aforementioned planned portfolio run-downs document pbb's stress resilience here, too.

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 mainly attributable to the reduction of the capital deduction item of "expected loss shortfalls". By significantly expanding provisions, this item has moved into positive territory, thereby improving the regulatory capital ratios:

- The **CET1 ratio** increased to 16.1% (31 December 2019: 15.2%); the **Tier 1 ratio** to 17.8% (31 December 2019: 16.9%).
- The **own funds ratio** climbed to 21.4% (31 December 2019: 20.4%).
- The **leverage ratio** rose to 6.0% (31 December 2019: 5.4%).

3. Operative business

Ladies and gentlemen,

the significantly weakened macroeconomic environment incurred by the COVID-19 pandemic has had a marked impact on **real estate markets** in 2020.

Transaction volumes have declined visibly, by 30% on a European average, and real estate values have been under pressure, albeit on average not as strongly as initially feared. Certain sub-markets and segments, such as office and residential properties in prime locations, have moved sideways or even showed slight price increases. However, the retail and hotel property types have been, and are still being, hit especially hard; and increasingly office properties are coming under scrutiny, particularly in B locations. What happens next will largely depend on how fast and how sustainably the pandemic can be overcome, and on the economic situations of companies following expiry of state aid programmes.

In our overall assessment for 2021, we assume that the actual macroeconomic test is yet to come; we expect it in the third or fourth quarter of the year. That is the time when a significant impact on the rental situation and real estate prices will probably manifest itself, caused by the sequence of bankruptcies, higher unemployment, furlough measures, vacancies, and less state support in combination with the structural impact of increased remote working, less travel, and more online shopping.

In this particularly challenging market environment, credit portfolio management and being selective about the origination of new business have been – and remain – especially important.

3.1 Portfolio management

pbb allocated additional resources right at the beginning of the pandemic, including a dedicated **task force for those real estate types especially impacted and overarching topics**. Our goal is to bundle expertise and develop solutions for very different issues, which we can then apply to our clients' individual requirements.

At the same time, we have further intensified our **loan portfolio monitoring**. As a modification of the standard process, since March 2020 we have been reviewing our entire loan portfolio monthly and on a deal by deal basis. Significant changes to property occupation or property price are directly considered in the valuation and thus also influence the risk parameters and RWA calibration and, where necessary provisions.

Despite the extreme COVID-19-related impacts, the current **pandemic effect on individual exposures** in our portfolio has been limited so far. For less than 75 transactions, accounting for approximately 10% of our strategic portfolio, we are in especially close contact with clients due to current COVID-19-related issues. Most requests concern specific arrangements on covenants, for example the suspension of certain contractual obligations, or repayment deferrals. The deferral of interest instalments hardly plays a role. New, COVID-19-related loan defaults within the meaning of the Capital Requirements Regulation affect only two transactions. In one of these, the mezzanine investor has already repaid pbb without losses, and in both transactions, we did not have to recognise stage 3 impairments thanks to our conservative financing position.

On the one hand this gives a rough indication as to the **conservatism of the valuations and loan-to-value ratios** and on the other hand, the structure of con-

tractual conditions and resulting options. However, in light of the situation as presented above, new individual cases with new write-downs required, especially in the second half of the year, cannot be excluded. Nevertheless, we assume that the combination of the following two factors serves well to prepare us for the challenges we are facing: the risk-conservative lending policy we have pursued in the past years, and the significant extension of risk provisioning. Of course we have also included risk provisioning in our planning for 2021, albeit on a lower level than in 2020, since we assume that portfolio based stage 1 and 2 provisions will not be required at the same level.

3.2 New business

We have obviously **tightened the risk parameters** in new business. New financing transactions for hotels and shopping centres have been suspended; when arranging development financings – currently occurring only sporadically – we ask for higher pre-letting; and we do not finance assets where the business plan is based on rent increases.

In the current environment, pbb is well positioned with its **risk-conservative approach** to which we are now adhering all the more closely. We focus on real estate in prime locations, with stable cash flows, good tenants, and low re-letting risks. Furthermore, we rely on professional investors with experience of crises, and we make sure that loan agreements have low loan-to-value ratios and solid covenant structures. It is part of our business to say “no” to transactions that do not meet our requirements – and that was also true before the COVID-19 pandemic.

Despite the more selective approach, our **new business volume** in Commercial Real Estate Finance of €7.3 billion for 2020 achieved a **respectable** level (including extensions beyond one year, CHART '7). Whilst remaining significantly below pre-crisis levels of €10 billion to €11 billion, this volume is only slightly below the initial new business guidance of €8 billion to €9 billion we had made before the COVID-19 pandemic. The fourth quarter was particularly strong, with new business of €3.0 billion in the REF segment.

Gross new business margins also performed very well, increasing on a full-year basis from around 155 basis points to around 180 basis points.

The **composition of new business** offered no real surprises:

- **Germany** remained pbb's most important individual market for Commercial Real Estate Finance with an almost unchanged share of 46%, followed by the US and the CEE markets with 12% each.
- **Office buildings** continued to account for the majority of financed properties, with a share of 50%.

New business in the first quarter of 2021 has begun in line with expectations.

3.3 Funding

During 2020, pbb issued new long-term funding in the amount of **€3.6 billion** on the capital markets (2019: €6.7 billion, CHART #8).

The fact that the **refinancing activities centred upon the first quarter** once again proved beneficial. The funding we had built up during the previous year did generate costs, because we maintained liquidity. At the same time, spreads widened very significantly – by more than 100 basis points – within a very short period of time as per the end of the first quarter of 2020. Not until the third quarter did they return to their previous level. This excellent approach allowed us to be independent from market tensions to a large extent – and we have done the same at the end of 2020 and in early 2021.

pbb's issues comprised an equal measure of **Pfandbriefe and unsecured issues**, after a narrow majority of unsecured issues in the previous year. The focus of our unsecured issues was on senior preferred bonds. As in the past, we also issued in foreign currencies, matching the profile of our lending business. Further to this, in September of 2020, we were 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 of 2020, we also participated in the ECB's **TLTRO III programme** with a volume of €7.5 billion. In this context, we issued a further €1.4 billion in Pfandbriefe for collateralisation purposes.

pbb has successfully placed two benchmark bonds in the current year 2021, one being a **USD-denominated Public Sector Pfandbrief** and the other a senior preferred **green bond**. Both bonds were well oversubscribed. High demand for the green bonds resulted in a narrow spread of 55bp above mid-swaps.

4. Corporate development

As I stated at the beginning, we continued to refine the orientation of pbb's business model in 2020, focusing on sustainability and further digitalisation.

In this context, we laid the groundwork for pbb's issue of **green bonds** and successfully placed the first of such bonds in the first quarter of 2021, as I just mentioned. At the same time, we started building a database that will allow us to grant **green loans** in the future. This way, we hope to meet the requirements of a broad range of stakeholders in terms of sustainable finance.

Our **digitalisation activities** centre upon three strategic areas (CHART #9): (1) improving client interfaces – our pbb client portal, (2) enhancing the efficiency of our internal processes – our digital client and credit process, as well as (3) opening up new sources of income – for example through our CAPVERIANT lending platform:

- (1) Building our **client portal** was an important line of work in 2020, as this will allow us to improve the interface to our clients. In particular, we are in the process of simplifying document management and increasing transparency in the lending process for our clients. In this, we are also taking a first step towards digitalising our workflow: whilst building the client portal, we are already streamlining our internal processes.

The portal was launched at the end of 2020; the market debut is scheduled for the first quarter of 2021.

- (2) As a logical next step, we are turning to the **digitalisation of our client and credit processes**.

We are in a good position to further digitalise our credit process. But we want more: numerous tasks are routine tasks and, for the most part, are done manually. This offers potential for many digital solutions, from automatic data extraction to the use of artificial intelligence in the support of analyses and decision-making. We work with Fintechs and Proptechs, where it makes sense; property valuations, for example, offer interesting opportunities in this context. We aim for a modular system with a consistent workflow that is efficient and improves transparency, not least for our clients.

In pursuit of this goal, we have launched a comprehensive programme, which will be implemented over a period of around 2 years.

- (3) We have also made progress with our **CAPVERIANT** platform for municipal financing. To start with, the platform's functionality has been expanded and improved further, and we have registered a significant increase in users and tender volumes. Right now, around 400 municipalities and institutional investors are connected to CAPVERIANT; the accumulated tender volume surpasses the €3 billion mark.

Furthermore, we looked into various possible **collaborations** during 2020 that will allow us to enlarge the CAPVERIANT platform.

- We have had very constructive discussions with France's government-owned Caisse des Dépôts (CDC). On 18 December we signed an agreement for CDC to acquire a 28.57% stake in CAPVERIANT, subject to customary conditions being fulfilled. The transaction will be closed during 2021.
- We expect the collaboration to yield substantial benefits for CAPVERIANT. Via its Banque des Territoires segment, CDC is well-connected with public-sector clients in France. This should help push the market penetration of CAPVERIANT in France, and support further growth.
- pbb will remain CAPVERIANT's majority shareholder, and CAPVERIANT is of strategic importance to us. At the same time, we want to promote and strongly expand CAPVERIANT's actual business purpose.

All three components – that is to say the client portal, the digital credit process and the CAPVERIANT platform – are building blocks for a potential platform for Commercial Real Estate Finance.

5. TARGETS 2021

As usual, I would like to close by giving an outlook on the current year. (CHART #8). In light of high uncertainty, the view ahead is not easy. Even more so, because – as I mentioned at the beginning of my speech – it seems unlikely that the longer-term impact the pandemic is going to have on the macro economy will become visible before the second half of the year. Against this background, risk provisioning remains the biggest variable. Overall, however, we expect a good development, with stable to slightly increasing income for the operating lending business.

- (1) In the financial year 2021, we plan to generate between €7.0 billion and €8.0 billion of **new business** in Commercial Real Estate Finance, slightly above the level of 2020. Adhering to our risk standards, this volume appears to be realistic.

Our ongoing focus on ‘prime’ business, however, should put pressure on **gross new business margins**, leading to a slight decrease here.

The average **financing volume** of the real estate financing portfolio is expected to rise slightly.

- (2) We further expect stable to slightly rising **net interest income**, driven by lower refinancing expenses.

Risk costs are projected to be below the level registered in 2020. The general coverage we have already put in place should absorb part of specific impairments for individual cases that cannot be ruled out.

We aim to keep **general and administrative expenses** at a stable level.

The bottom line should see **profit before taxes** above the level registered in 2020.

6. CONCLUSION

Ladies and gentlemen,

Let me summarise what I have said:

- The whole world was impacted by the COVID-19 pandemic in 2020: the real estate sector – and pbb – were no exceptions here. In light of this challenging environment, pbb generated a solid operating performance, recognised extensive provisions for potential future credit risks, and posted **a very decent set of results**.
- Therefore, we wish to pay a **dividend to our shareholders**. Of course, we will adhere to the ECB's recommendation; we can, in good conscience, exploit the corresponding limits with a dividend proposal of €0.26 per share entitled to dividend payments. If the ECB allows for a higher distribution after 30 September 2021, we will consider an additional distribution for the financial year 2020 in the fourth quarter, depending on the prevailing market environment.
- We have achieved an **even better positioning for pbb during the course of 2020 and have continued to invest**. On the topic of digitalisation: we have prepared a client portal, which is set to be launched this month. As a next step, we will concentrate on digitalising our client and credit processes – an exercise we have already started.

We are issuing green bonds and investing in the development of 'green' concepts for our clients. Green loans are a good example.

- We remain cautious – but also cautiously optimistic, expecting **stable to slightly increasing income for pbb's operating business** in 2021, and a better result than the previous year.

Thank you very much for your attention. I now look forward to your questions.