News Release

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pbb increases pre-tax profit by approximately €90 million to €242 million – focus on expansion of core business despite increasing uncertainty

- The solid result was driven by higher net interest income and high prepayment fees
- Lower risk provisions and recovery in net income from fair value measurement
- New business increased by more than 20%, to €9 billion, exceeding guidance of between €7 bn - €8 bn – gross margin down slightly on previous year
- pbb plans to pay out a dividend of €1.18 per share
- War in Ukraine and sanctions against Russia currently without immediate impact on pbb
- Organic growth in the core business thanks to product innovation, more green loans and expansion of the US business remains in focus - uncertainty concerning general economic development
- pbb targets PBT of between €200 million and €220 million, despite higher investment-related expenses before taxes – plans to boost its earnings base
- Arndt: 2021 was an extremely successful year for pbb – pbb well positioned to invest in earnings base despite difficult times

Munich, 9 March 2022 – Deutsche Pfandbriefbank AG (pbb) concluded the 2021 financial year with a pre-tax profit of €242 million, thereby exceeding by 60% the previous year's results, which were burdened by the COVID-19 pandemic, (IFRS, Group, audited, Supervisory Board approval pending). Besides a further increase in net interest and commission income, to €502 million (2020: €482 million), the good result was also driven especially by high prepayment fees, which caused net income from realisations to rise to €81 million (2020: €26 million). Lower burdens on net income from risk provisioning (€-81 million; 2020: €-126 million) and a recovery in net income from fair value measurement (€10 million; 2020: €-8 million) also contributed. Due to higher expenses for expanding the business, pbb is aiming for profit before taxes of between €200 million and €220 million for 2022, and therefore in line with the level seen in the last few years since the IPO. pbb wants to grow its core business organically in the years ahead.

CEO **Andreas Arndt** commented: "With profit before taxes of €242 million, 2021 was an extremely successful year for pbb. We want our shareholders to benefit from this success, with a dividend of €1.18 per share." He noted that pbb clearly exceeded the recent years' earnings levels of around €200 million in 2021, not least thanks to favourable developments, despite having further bolstered risk provisioning in the form of management overlays. "We will employ a series of measures to sustainably strengthen our earnings base in the coming years. In this respect, we will still regard at least 2022 as a year of investment for pbb," said Mr Arndt. He added that the pre-tax profit of between €200 million and €220 million targeted for 2022 also reflects a challenging interest rate environment but does not include reversals of the management overlay in risk provisions. Mr Arndt said that whilst he does not anticipate any direct impact of the geopolitical situation on pbb, he envisages uncertainty as to the general economic development as a result.

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Commenting on the current geopolitical situation, Arndt said: "We currently see no immediate impact on pbb. Therefore, we are sticking to our plans for 2022 and the following years despite the uncertainty regarding the general economic development. If the war continues or the situation worsens, new conditions will probably apply."

After taxes of €14 million and taking into account the coupon of €17 million for pbb's Additional Tier 1 (AT1) capital, €212 million or €1.58 per share is attributable to ordinary shareholders. In line with its dividend policy, pbb intends to distribute 50% as **dividends** and 25% as special dividends to its shareholders; in other words, a total of €159 million or €1.18 per no-par value share entitled to dividends. The Management Board and the Supervisory Board will submit a corresponding proposal to the Annual General Meeting on 19 May 2022. As it has done in previous years, pbb continues to take into account macroeconomic and sector-specific risks, as well as the regulatory requirements and the communicated target capitalisation levels communicated, including cautious buffers, when setting the ordinary and special dividends. It also takes future investments into consideration.

At €9.0 billion, **new business** in commercial real estate finance in 2021 exceeded the previous year by more than 20% (2020: €7.3 billion, each including extensions >1 year) and was also significantly higher than the target of €7 billion to €8 billion. As expected, average margins on new business of around 170 basis points (bp) were down slightly on the previous year but remained stable during the year. The commercial real estate finance portfolio grew slightly from year-end 2020, to €27.6 billion (2020: €27.0 billion). Among other things, prepayments contributed to the lower rate of increase relative to the volume of new business.

Outlook

pbb expects **pre-tax profit** for 2022 in a range of between €200 million and €220 million, thus aiming for a result in line with the levels seen in recent years, despite incurring expenses for expanding the business and receiving less support from favourable effects, including TLTRO, prepayment fees and floors on lending rates. The Bank expects a higher level of earnings in the coming years, thanks to the implementation of growth initiatives.

The guidance takes into account previous assumptions regarding the development of the overall economy and interest rates, and reflects pbb's positioning and the expansion of its business. However, the war in Ukraine and sanctions against Russia lead to uncertainty regarding the general economic development, the extent of which is currently hard to estimate. In the event of a prolonged or worsening crisis, new conditions would apply that cannot be reliably estimated at present.

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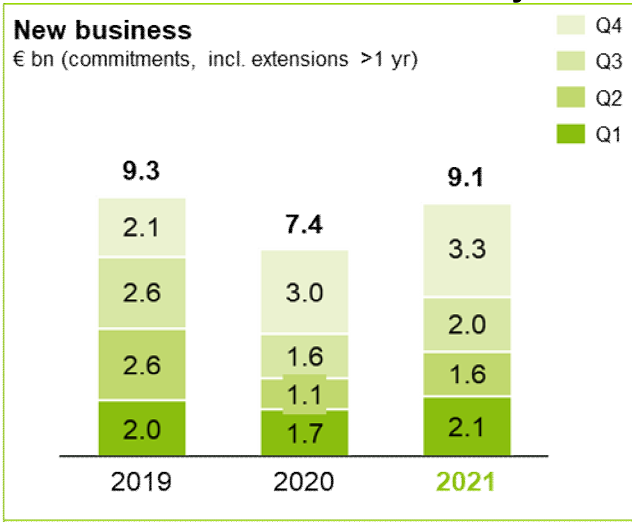
pbb expects the **volume of new commercial real estate finance business** in 2022 to rise to between €9.5 billion and €10.5 billion (including extensions >1 year), due to growth in its established markets and to growing demand for green financings. Product innovations and the expansion of the business in the US promise additional **organic growth in the core business.** pbb therefore expects a moderate increase in financing volumes.

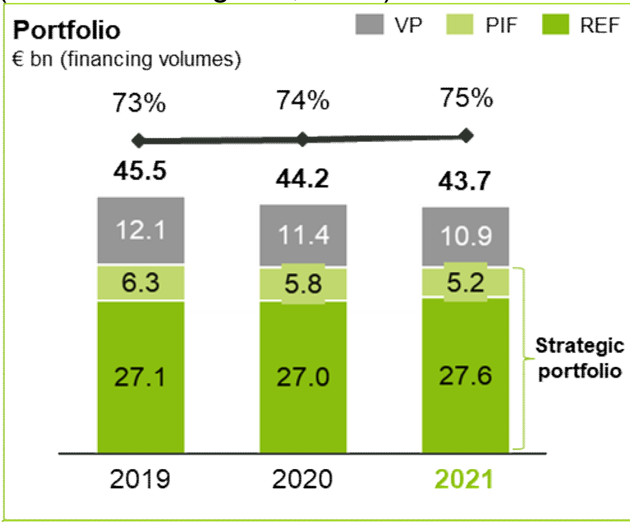
With regard to the **new products**, pbb is looking to a targeted expansion of its offering to include non-senior lending in addition to its senior lending business. This includes loan-on-loan lending, where loans are not extended directly to real estate investors but to loan-on-loan borrowers as third parties. These financings open up a new market segment for pbb and offer an attractive risk-return profile. pbb also wants to offer mezzanine finance in a clearly defined framework in the US business, i.e. with a defined budget and a focus on low LTVs.

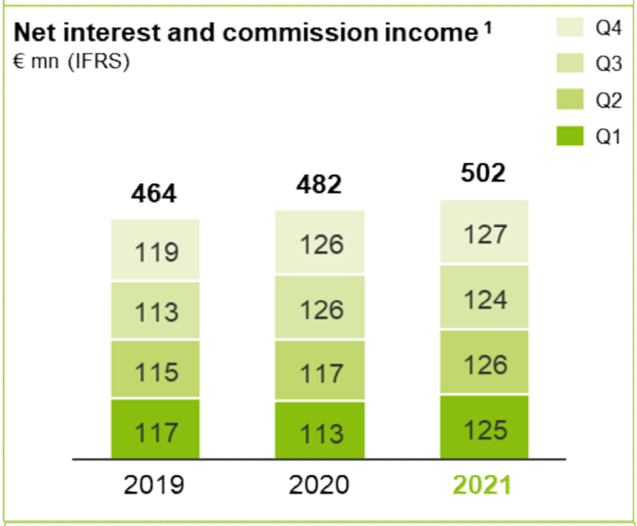
pbb extends **green loans** for standard investment loans and development loans for green real estate. Given the sustainability of green real estate projects, which are likely to feature higher value stability and therefore proportionally lower risks, the Bank will also extend loans with slightly higher loan-to-value ratios. Moreover, pbb plans to finance its clients' investments in the sustainability of real estate held in pbb's credit portfolio. All in all, pbb is aiming for green assets to account for a share of around 30% of the entire commercial real estate finance portfolio by 2024/25.

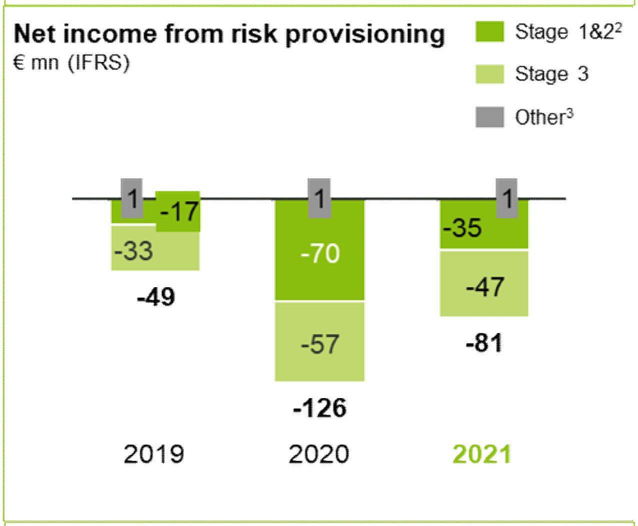
pbb believes it can increase the volume of **US business**, because of the absolute size of the market and better market penetration.

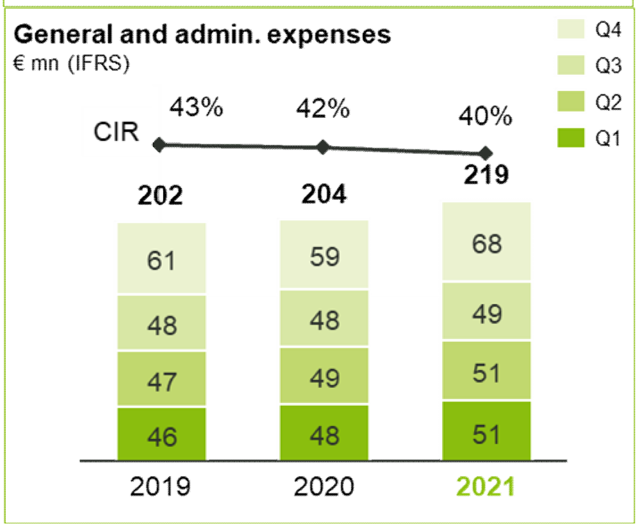
FACTS AND FIGURES – financial year 2021 (consolidated figures, IFRS)

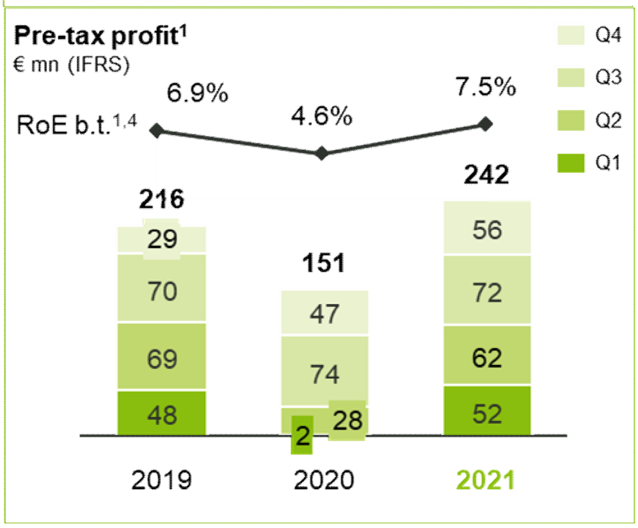












1 2020 figures retrospectively adjusted according to IAS 8.42
2 Including provisions in off-balance sheet lending business **3** Recoveries from written-off financial assets
4 After AT1 coupon (2019: € -17 mn; 2020: € -17 mn; 2021: € -17 mn), assuming full payment of the discretionary coupon

1. New business

In 2021, pbb originated **new commercial real estate finance business of €9.0 billion**, compared to €7.3 billion in 2020 (each including extensions >1 year). At approximately 170 basis points, the average gross margin also remained stable during 2021, albeit slightly below the level of the previous year (2020: approx. 180 bp).

Most of pbb's new business was originated in its **German home market** with 49%, followed by the US with 15% and France with 13%. The US market once again was pbb's second most important individual market, as it was already in 2019. With regard to property types, the proportion of **office properties** increased again, to 59%, followed by logistics properties with 16% and residential real estate with 13%.

The **real estate finance portfolio** has increased slightly to €27.6 billion, compared with €27 billion in 2020. Prepayments partially offset new business in portfolio expansion.

pbb continues to focus on **core properties** with stable cash flows, renowned tenants, and low re-letting risks. The Bank also lends to professional, crisis-experienced sponsors and ensures that loan agreements have low loan-to-value ratios and solid covenant structures.

2. Funding

During the financial year under review, pbb issued long-term funding instruments amounting to €5.1 billion, thus clearly exceeding the previous year's volume (2020: €3.6 billion). Funding comprised both Pfandbrief issues and unsecured liabilities, issued both in benchmark format and private placements. At €3.2 billion (2020: €1.9 billion), Pfandbrief issues accounted for around 60% of the volume. Unsecured funding accounted for €1.9 billion (2020: €1.8 billion), with almost all of the volume being issued as senior preferred bonds.

Funding spreads fell for unsecured issues in particular, to an average spread of 57 bp (2020: 77 bp), whilst spreads for Mortgage Pfandbriefe declined to 13 bp (2020: 16 bp).

Transactions were denominated in euro and, in order to minimise foreign currency risks between assets and liabilities, also in US dollar, British pound and Swedish krona. In 2021, pbb also issued its first green bonds, achieving an outstanding volume of €1 billion with two senior preferred benchmark bonds, thanks to strong market demand.

The Bank's total volume of liabilities under the TLTRO III programme increased by €0.9 billion on 24 June 2021, to a nominal amount of €8.4 billion. In this context, pbb issued additional Pfandbriefe totalling €0.7 billion to be pledged as collateral with the ECB.

3. Regulatory indicators

pbb's risk-weighted assets (RWAs), calibrated to meet expected future Basel IV requirements, declined markedly by the end of the year, to €16.8 billion (Sep 2021: €18.1 billion, Dec 2020: €17.7 billion). This was due to methodical changes and maturities that were only partially offset by the increase in the real estate financing portfolio.

Own funds rose slightly to €3.8 billion (Sep 2021: €3.6 billion, Dec 2020: €3.8 billion), taking the retained share of annual results for 2020 and 2021 into consideration. Capital ratios thus improved significantly:

- The **Common Equity Tier 1 (CET 1) ratio** was 17.1% (Dec 2021: 14.9%) and the **Tier 1 (T1) ratio** 18.9% (Sep 2021: 16.6%).

- The **Own Funds Ratio** rose to 22.4% (Sep 2021: 19.8%).

- The **Leverage Ratio** rose to 6.0% (Sep 2021: 5.7%).

4. Income statement

Net interest income of €494 million was higher than the previous year's figure of €476 million, with a material positive effect incurred due to interest rate benefits from participation in the TLTRO III programme during the special interest rate period, accrued over the term. As at the reporting date, pbb's total volume of liabilities under the TLTRO III programme was a nominal amount of €8.4 billion. As eligible net lending increased by 31 December 2021 in comparison to the benchmark, pbb will receive an interest rate premium of 50 basis points between 24 June 2021 and 23 June 2022. In accordance with IAS 20, this interest rate benefit is accrued over the term. Excluding TLTRO III effects, net interest income would have remained at the previous year's level. pbb continued to benefit from higher income from interest rate floors in client business. The higher average portfolio of disbursed (and hence interest-bearing) REF exposures also favoured net interest income (2021: €27.2 billion; 2020: €26.9 billion). Net interest income was burdened, however, by investing maturing own funds and financial assets in the liquidity portfolio at lower interest rates.

Net fee and commission income from non-accruable fees recognised directly through profit or loss amounted to €8 million (2020: €6 million).

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Net income from fair value measurement was positive, at €10 million (2020: €-8 million). The rise was due to an interest rate and credit-induced increase in the fair values of financial assets recognised at fair value through profit or loss, among other things. The previous year's figure was also burdened to a greater extent by pull-to-par effects.

The high market liquidity led to a recovery in transaction volumes in commercial real estate in some property types following the pandemic-related slump of the previous year. As a result, prepayments of commercial real estate financings also increased, resulting in higher prepayment fees and therefore higher **net income from realisations** of €81 million (2020: €26 million). Roughly half of the income was attributable to three repayments of financings for residential and office real estate in good locations in Germany and Austria.

As hedges were largely effective, **net income from hedge accounting** in accordance with IAS 39 was balanced (2020: €4 million). The previous year's results included income from a compensation payment received as a consequence of the conversion of reference interest rates to the euro short-term rate (€STR).

In particular, currency translation effects resulted in slightly negative **net other operating income** of €-2 million (2020: €22 million). This item also comprised minor net reversals of provisions recognised outside the lending business, which were significantly lower than the previous year. Looking at provisions, no individual transaction was of material significance.

Net income from risk provisioning amounted to €-81 million (2020: €-126 million). For financial instruments without indications for impaired credit quality (stage 1 and stage 2), there was an addition to risk provisions of €35 million (2020: €70 million). The positive macroeconomic expectations led to a reversal of the model-based impairments and a reclassification of financial assets from stage 2 to stage 1 impairments. However, since the underlying assumptions and modelling did not fully account for asituation that is subject to particularly high uncertainty, the Management Board recognised a management overlay of €-54 million. Furthermore, changes in accounting estimates impacted on stage 1 and stage 2 risk provisioning. For financial instruments with indications for impaired credit quality (stage 3), addition to loss allowance amounted to €47 million (2020: €57 million). Additions related to a small number of financings, mainly for shopping centres in the UK. Income from recoveries on loans and advances previously written off amounted to €1 million (2020: €1 million).

In the previous year, as a result of the impact of the COVID-19 pandemic, net income from risk provisioning amounted to €-126 million, comprising €-70 million from stage 1 and stage 2 financial instruments, €-57 million from stage 3 financial instruments and €1 million in income from recoveries loans and advances previously written off. pbb did not recognise a management overlay in the previous year.

General and administrative expenses of €219 million were slightly above the previous year's figure of €204 million. Personnel expenses of €132 million (2020: €122 million) were burdened by €11 million in provisions related to restructuring measures. Other administrative expenses (€87 million; 2020: €82 million) increased mainly due to costs associated with strategic projects and digitalisation projects. One particularly important project was the successful launch of the Client Portal, digitalising the interface between pbb and its clients.

Expenses from bank levies and similar dues (€29 million; 2020: €26 million) mainly comprised expenses for the bank levy of €27 million (2020: €23 million), taking into account pledged collateral amounting to 15%. The year-on-year increase in expenses for the bank levy resulted, among other things, from a significant increase in the fund's target volume at EU level. Furthermore, this item comprised expenses of €2 million (2020: €1 million) for the German deposit guarantee scheme.

Net income from write-downs and write-ups on non-financial assets totalling €-20 million included scheduled depreciation of tangible assets and amortisation of intangible assets, and was in line with the previous year's level (2020: €-19 million).

Income taxes (€-14 million; 2020: €-30 million) were attributable to current taxes (€-38 million; 2020: €-34 million) and to deferred taxes (€4 million; 2020: €4 million). The increase in profit before taxes from €151 million to €242 million led to a rise in the current tax expense for the 2021 financial year to €46 million (2020: €40 million). It was offset by income from taxes for previous years in the amount of €8 million (2020: €6 million). These resulted on the one hand from tax rebates arising from a retrospective change to the legal position of the tax authorities, and from the reversal of provisions for tax audit risks of subsidiaries on the other hand. Deferred tax income of €24 million was mainly a result of greater recoverability of deferred tax assets arising from the positive development of pbb that is expected in the forecast period.

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Overview of the pbb Group

Consolidated Income Statement (IFRS; € million)	**Q4 2020**	**2020**	**Q1 2021**	**Q2 2021**	**Q3 2021**	**Q4 2021**	**2021**
Net interest income	124[1]	476[1]	123	123	123	125	494
Net fee and commission income	2	6	2	3	1	2	8
Net income from financial instruments at fair value	4	-8	2	0	1	7	10
Net income from realisations	6	26	21	17	17	26	81
Net income from hedge accounting	-	4	-1	-2	1	2	-
Net other operating income/expenses	18	22	-1	-	-1	-	-2
Operating income	**154**	**526**	**146**	**141**	**142**	**162**	**591**
Net income from risk provisioning	-42	-126	-10	-23	-17	-31	-81
General and administrative expenses	-59	-204	-51	-51	-49	-68	-219
Expenses from bank levies and similar dues	-1	-26	-28	-1	1	-1	-29
Net income from write-downs and write-ups on non-financial assets	-5	-19	-5	-4	-5	-6	-20
Net income from restructuring	-	-	-	-	-	-	-
Profit before taxes	**47**	**151**	**52**	**62**	**72**	**56**	**242**
Income taxes	1[1]	-30[1]	-10	-7	-11	14	-14
Net income after taxes	**48**	**121**	**42**	**55**	**61**	**70**	**228**

Key ratios (%)	**Q4 2020**	**2020**	**Q1 2021**	**Q2 2021**	**Q3 2021**	**Q4 2021**	**2021**
Cost/income ratio	41.6[1]	42.4[1]	38.4	39.0	38.0	45.7	40.4
Return on equity before taxes	5.9[1]	4.6[1]	6.4	7.8	8.9	6.7	7.5
Return on equity after taxes	6.0[1]	3.6[1]	5.1	6.9	7.5	8.5	7.0

Statement of financial position data (IFRS, € billion)	**Dec 2020**	**Mar 2021**	**Jun 2021**	**Sep 2021**	**Dec 2021**
Total assets	58.9	58.1	59.0	58.8	58.4
Equity	3.3	3.3	3.3	3.4	3.4
Financing volume	44.2	44.6	43.4	43.4	43.7

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.

[1] Figures for 2020 restated in accordance with IAS 8.42