Media Release

DEUTSCHE PFANDBRIEFBANK

pbb generates pre-tax result of €213 million and specifies strategic growth targets

2022 financial year

- Financing volume increases by 6.2% to €29.3 billion (previous year: €27.6 billion)
- New business volume stable at €9 billion
- Net interest income of €489 million on previous year's level (2021: €494 million)
- Risk provisioning almost halved to €44 million (2021: €81 million)
- Pre-tax result of €213 million in the upper half of the forecast range
- Dividend proposal of 95 cents per share corresponds to a yield of approximately 10%

Strategic outlook until 2026

- 2023 earmarked as a year of investment and strict cost discipline
- Return on equity (RoE) before taxes of at least 10% expected for 2026
- Priority on green transformation and digitalisation
- Organic growth and margin improvement planned in core business
- Aiming to diversify revenues with the new Real Estate Investment Management division and "pbb Debt" product
- Capital-light commission-based business to account for up to 10% of revenues by year-end 2026
- Optimisation of funding base via deposits and green bonds targeted

Garching, 9 March 2023 – Deutsche Pfandbriefbank AG (pbb), a leading European specialist bank for commercial real estate finance, will concentrate on diversifying its business model in the years to come, thus establishing a broader foundation for future revenue growth and increased profitability. The Bank aims to increase return on equity before taxes to more than 10% by year-end 2026 and is systematically refining the strategy presented in March 2022, which focuses on organic growth in the core business, a significant expansion of capital-light commission-based business, and diversification of the funding base. Green finance and digitalisation remain core elements of the strategic thrust across all growth areas. The Bank intends to maintain its conservative risk profile and adhere to its traditionally strict cost discipline.

pbb generated a pre-tax result of €213 million (audited consolidated figures in accordance with IFRS, Supervisory Board approval pending) in the 2022 financial year, reaching the upper end of the forecast range. Return on equity before taxes amounted to 6.3% (5.5% after taxes). In light of the solid results, the Management Board and Supervisory Board will propose a dividend of 95 cents per no-par value share entitled to dividends to the Annual General Meeting, equalling a consistently high distribution ratio of around 75% (based on consolidated net income attributable to shareholders in accordance with IFRS after taxes and the AT1 coupon). At a share price of € 9.42 (XETRA closing price on 8 March 2023) the dividend yield amounts to approximately 10 %.

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“pbb has proven once again that its business model is strong and robust, standing tall even in a highly challenging year for the world economy. We are aiming once again to pay our shareholders a highly attractive dividend. Supported by our solid operating performance and comfortable capitalisation, we will be able to reinforce investments into strategic development during 2023, whilst maintaining our conservative risk profile and strict cost discipline, continuing to prudently manage the risk/reward ratio, and remaining a reliable dividend stock for long-term investors,” said CEO Andreas Arndt.

Ambitious growth plans for 2026

pbb’s Management Board has refined its strategic initiatives presented in March 2022, adding specific targets. As such, the Bank aims to increase its return on equity before taxes to at least 10% by year-end 2026 and thus to generate a pre-tax result of more than €300 million.

pbb plans to build on its expertise and strong capital base in the Real Estate Finance core business – with the aim of increasing financing volumes by a further approximate €3.5 billion to €33 billion by the end of 2026. As soon as the market shows signs of improvement, the Bank intends to revert to exploiting opportunities in real estate market segments it has been avoiding in the recent past due to risk considerations.

pbb intends to be a driving force within the transformation of the commercial real estate sector towards climate neutrality. Sustainable finance will be an important contributing factor for the future strategic thrust of all growth initiatives, and pbb’s target is for more than 30% of financed existing properties to be eligible for green loans in line with the pbb Green Loan Framework by 2026. The Bank intends to also launch its green consulting business and advise clients on holistic solutions within the green transformation, cooperating with the real estate developer Groß & Partner. The Bank aims to advise clients and offer solutions for the transformation, including support during implementation via a joint venture.

pbb is pursuing two approaches to broaden its business model and expand capital-light commission-based business: firstly, by establishing the new Real Estate Investment Management division. In this context, Dr Pamela Hoerr will join the Bank on 17 April 2023 as announced, initially as Senior General Manager. Following the customary familiarisation phase and subject to regulatory approval, Dr Hoerr is expected to assume responsibility for the division as a Management Board Member in 2024.

pbb is preparing the groundwork for the division, searching for the right assets, and setting up the sales department. The pilot product is set to comprise mainly German office properties and mixed-use properties and is expected to be launched as soon as tensions on the real estate markets ease. pbb will cooperate with fund services platform Universal Investment, which will be responsible for launch and management of the planned open-ended real estate special fund. Further cooperations are under discussion.

Secondly, the Bank is set to launch its new “pbb Debt” product with which pbb wants to place risks with institutional investors such as banks, insurance companies or pension funds from the second half of 2023 onwards and offers the potential to sustainably increase returns in the loan portfolio.

The Real Estate Investment Management division, “pbb Debt”, and green consulting are together expected to account for up to 10% of revenues by year-end 2026.

pbb also aims to strengthen its profitability by broadening its funding base. Early strategic decisions made in the deposit-taking business are increasingly bearing fruit. Deposit volumes rose by approximately 38% to €4.4 billion in 2022, the year of the interest rate turnaround – a positive momentum the Bank intends to exploit. A deposit volume of up to €8 billion is envisaged by the end of 2026.

Sustainability is becoming an increasingly dominant factor within the Bank’s funding activities, and with an outstanding green bond volume of €3.3 billion (year-end 2022: €2.9 billion), pbb is a leading German issuer of green unsecured bonds, aiming to strengthen this position to offer even more market participants the opportunity to invest in capital markets products classified as sustainable as per the pbb Green Bond Framework.

Capital expenditure is expected to rise significantly in the current year, due to various growth initiatives. Whilst the Bank expects this to result in a cost/income ratio 2023 of more than 50%, strict cost discipline is set to drive the ratio down to less than 45% by year-end 2026.

Financing volumes increased in 2022

Despite the challenging market environment, financing volumes in Commercial Real Estate Finance rose by €1.7 billion to €29.3 billion in the year under review (31 December 2021: €27.6 billion). New Commercial Real Estate Finance business (including extensions beyond one year) amounted to €9.0 billion and was thus slightly below the forecast range of €9.5 billion to €10.5 billion. Combined with lower early repayments, financing volumes in fact increased.

Net interest income of €489 million was broadly in line with the previous year’s figure of €494 million. The absence of earnings from floors, the material reduction of early termination fees, and generally higher funding costs compared to the previous year were largely offset by improved market-driven net income from fair value measurement of €20 million (2021: €10 million) and less loss allowance required. Risk provisioning almost halved to €44 million (2021: €81 million); it was comprised of stage 1 and 2 loss allowance of €5 million and stage 3 impairments of €39 million. Stage 3 impairments mostly related to increases of existing loss allowance for shopping centres in the UK. Loss allowance and provisions in the lending business now amount to approximately €400 million (2021: €358 million), including a management overlay of €69 million (2021: €54 million). Despite general cost inflation and increased business expansion expenses, general and administrative expenses remained largely stable, at €224 million (2021: €219 million).

pbb reported a CET1 ratio of 16.7% which provides the Bank with the necessary flexibility to absorb the impact of market fluctuations, invest in profitable growth initiatives, and diversify the business model, whilst maintaining an attractive level of dividend distributions. pbb has already calibrated its risk-weighted assets (RWA) to a level in line with the anticipated Basel IV requirements. In terms of capitalisation, the Bank already communicated its ambition of a CET1 ratio of at least 14%.

In line with its current dividend policy, pbb aims to distribute 50% of consolidated net income after taxes attributable to ordinary shareholders of €171 million (after deducting the AT1 coupon) as a regular dividend and 25% as a special dividend. The Management Board and Supervisory Board therefore intend to propose a dividend of €0.95 per share entitled to dividends to the Annual General Meeting held on 25 May 2023.

pbb aims to maintain its dividend policy in the period from 2023 to 2025 by adhering to the existing parameters of an ordinary dividend of 50% and a special dividend of 25%. Distributions are made subject to economic viability, macroeconomic and sector-specific risks, including ESG risks, along with existing and anticipated regulatory requirements and future, economically viable growth and investment plans. A sustainable CET1 ratio of at least 14.0% is seen as an adequate benchmark for special distributions, especially in the context of the current geopolitical, macroeconomic and sector-specific uncertainty. pbb continues to strive for a long-term stable payout ratio, which it will review on a regular basis.

Outlook for 2023: solid pre-tax result of €170-200 million projected

In pbb´s view, the real estate market should remain a safe-haven asset class and a good bet to hedge against inflation. However, the recent strong interest rate increases are likely to have a dampening effect on financing demand in the commercial real estate market during the first three quarters of 2023, which is why the Bank does not expect the market to show a sustainable recovery before the end of the year. The market situation is expected to improve in the years beyond 2023.

pbb thus expects new business of €9 billion to €10 billion in 2023 and a stable pre-tax result of between €170 million and €200 million, i.e. on the level seen in the past years, due to the investment programme and despite further adverse effects. 2023 is therefore earmarked as a year of investment for the Bank, setting the course for the growth years 2024 to 2026.

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Overview of the pbb Group

Consolidated Income Statement (IFRS; € million)	**Q4/21**	**2021**	**Q1/22**	**Q2/22**	**Q3/22**	**Q4/22**	**2022**
Net interest income	125	494	122	120	116	131	489
Net fee and commission income	2	8	2	1	1	4	8
Net income from financial instruments at fair value	7	10	9	5	7	-1	20
Net income from realisations	26	81	5	5	-	5	15
Net income from hedge accounting	2	-	1	-2	8	-7	-
Net other operating income/expenses	-	-2	10	-6	-4	-1	-1
Operating income	**162**	**591**	**149**	**123**	**128**	**131**	**531**
Net income from risk provisioning	-31	-81	-18	-1	-19	-6	-44
General and administrative expenses	-68	-219	-53	-53	-51	-67	-224
Expenses from bank levies and similar dues	-1	-29	-31	-	-1	-	-32
Net income from write-downs and write-ups on non-financial assets	-6	-20	-5	-4	-5	-4	-18
Profit before taxes	**56**	**242**	**42**	**65**	**52**	**54**	**213**
Income taxes	14	-14	-6	-10	-8	-2	-26
Net income after taxes	**70**	**228**	**36**	**55**	**44**	**52**	**187**

Key ratios (%)	**Q4/21**	**2021**	**Q1/22**	**Q2/22**	**Q3/22**	**Q4/22**	**2022**
Cost/income ratio	45,7	40.4	38.9	46.3	43.8	54.2	45.6
Return on equity before taxes	6.7	7.5	4.8	7.9	6.1	6.3	6.3
Return on equity after taxes	8.5	7.0	4.1	6.7	5.1	6.0	5.5

Statement of financial position data (IFRS, € billion)	**12/21**	**03/22**	**06/22**	**09/22**	**12/22**
Total assets	58.4	56.3	55.1	55.9	53.0
Equity	3.4	3.4	3.3	3.4	3.4
Financing volume	43.7	43.8	43.3	44.3	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.

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