

Andreas Arndt (CEO, Chief Financial Officer), Dr Günther Bräunig (Chairman of the Supervisory Board)
Deutsche Pfandbriefbank („pbb“)
Parkring 28
85748 Garching

London, 7 February 2023

Dear Mr Arndt, dear Mr Bräunig,

Our letter of 31 January 2023 was the result of various discussions with you. It had become clear to us that you either do not understand or do not want to understand pbb's fundamental problems. We have shown that pbb has not been able to earn its cost of capital of 10-11% on the Euro 3.1 billion of shareholders' equity with which it has been entrusted. You refuse to face reality and have no plan on how to create value. We have consequently and logically called for a fundamental strategic review to ensure a sustainable future for pbb as a listed bank.

Your answer is sobering: You explain that pbb wants to pay a stable dividend and that this has brought investors an average yield of 7.5% per year¹. Firstly, this number is not even correct. Your average dividend yield since the IPO was 6.5%. Secondly, your share price has fallen by 27%² since the IPO. Investors therefore "earned" not more than an unacceptable 2.1% p.a. before tax and inflation. Thirdly, relative to your book value, the average yield was only 3.4%³. And lastly, the outlook is even more disappointing: The current analyst consensus forecasts a dividend yield of a meagre 2.8%⁴ on your equity as you trade at a sad 64%⁵ discount to book value.

The simple rule of capitalism is: Investors entrust you with capital so that you can earn returns above your cost of capital. However, if you deploy capital at returns below your cost of capital, you will wilfully destroy value by growing your loan book and, as in your case, trade significantly below book value.

You have announced that on 9 March you will explain how you will grow profitably through your strategic initiatives on organic growth of the loan book, ESG, and Real Estate Investment Management. We demand that you also clearly explain how pbb will earn its cost of capital of 10-11%.

It is time for you to say goodbye to the comfortable warmth of state ownership, because the state no longer holds a significant stake in pbb. If you continue to ignore the most basic logic of business, you will simply go under and your institution will be sold or put into run-off. For months now, you have been discussing basic facts that every tradesman in the local chamber of commerce understands: Costs down, returns up – is the only way for the company to be sustained for generations to come.

Sincerely,



Klaus Umek
Managing Partner



Till Hufnagel
Partner

¹ <https://www.pfandbriefbank.com/en/media/press/detail/deutsche-pfandbriefbank-ag-pbb-comments-on-public-letter-by-petrus-advisers.html>.

² Factset per 31 January 2023. Refers to performance since closing price of IPO date.

³ Dividend / last reported book value per share prior to the corresponding AGM/EGM that included a vote on the dividend distribution.

⁴ Dividend (NTM) based on Factset consensus per 31 January 2023.

⁵ Factset per 31 January 2023.