

Intermin Report

as of 30 June 2020

Deutsche Pfandbriefbank Group



Overview

Deutsche Pfandbriefbank Group (pbb Group)		1.1.–30.6.2020	1.1.–30.6.2019
Operating performance according to IFRS			
Profit before tax	in € million	31	117
Net income	in € million	23	99
Key ratios			
Earnings per share	in €	0.10	0.67
Cost-income ratio ¹⁾	in %	45.9	42.4
Return on equity before tax ²⁾	in %	1.6	7.6
Return on equity after tax ²⁾	in %	1.0	6.3
New business volume Real Estate Finance ³⁾	in € billion	2.7	4.4
Balance sheet figures according to IFRS			
Total assets	in € billion	60.7	56.8
Equity	in € billion	3.2	3.2
Financing volumes Real Estate Finance	in € billion	26.7	27.1
Key regulatory capital ratios⁴⁾			
CET1 ratio	in %	15.8	15.9
Own funds ratio	in %	21.1	21.1
Leverage ratio	in %	5.1	5.6
Staff			
Employees (on full-time equivalent basis)		763	752
Long-term issuer rating/outlook⁵⁾			
Standard & Poor's		A-/Negative	A-/Negative
Moody's Pfandbrief rating			
Public sector Pfandbriefe		Aa1	Aa1
Mortgage Pfandbriefe		Aa1	Aa1

¹⁾ Cost-income ratio is the ratio of general and administrative expenses and net income from write-downs and write-ups on non-financial assets to operating income.

²⁾ Return on equity before tax respectively after tax is the ratio of annualised profit before tax (net income) less AT1-coupon (assuming full operation of the discretionary AT1-coupon) and average equity excluding accumulated other comprehensive income (OCI) from cash flow hedge accounting, financial assets at fair value through OCI and additional equity instruments (AT1).

³⁾ Including prolongations with maturities of more than one year.

⁴⁾ Values as of 31 December 2019 after confirmation of the 2019 financial statements. The figures have been adjusted compared with the presentation in the Annual Report 2019, as the dividend proposal for the financial year 2019 of €0.90 per eligible share was withdrawn on 3 April 2020 and at the Annual General Meeting on 28 May 2020, a resolution was passed to retain the net profit achieved in 2019.

⁵⁾ The ratings of unsecured liabilities may diverge from the issuer ratings.

Information due to rounding

Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

Explanation of alternative performance measures

For further information regarding the definition, usefulness and calculation of alternative performance measures see "investors/financial-reports" at www.pfandbriefbank.com.

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Group Interim Management Report

Report on Economic Position

The novel coronavirus (SARS-CoV-2) led to a global spread of the COVID-19 disease in the first half of 2020. Comprehensive protective measures were put in place in many countries to contain the pandemic, including restrictions placed on the business activities of many companies. Economic output, measured in terms of gross domestic product, has slumped drastically worldwide, and unemployment has climbed.

The economic recession has also impacted on banks, with consequent higher impairments on financial instruments, among other things. Nonetheless, banks are facing the current economic challenges with what is likely to be better capitalisation and liquidity than in previous crises.

The market for commercial real estate finance has also changed, with investor demand and the demand for rented space having fundamentally deteriorated. The most severely affected are the hotel industry and non-food retail. In contrast, logistics properties tended to benefit from the strength of the e-commerce business.

The financial markets were confronted initially with marked spread widening and a virtual standstill of issuing activity. The numerous measures taken by the ECB, including purchase programmes or the new Targeted Longer-Term Refinancing Operations (TLTRO III) offered at significantly better terms, helped support the capital markets, with spreads recovering rapidly in the euro area.

Thanks to its good levels of capital and liquidity, and risk-conservative business model, pbb Group believes it is well positioned to meet the challenges of the current environment. Despite the crisis, pbb Group's operating stability and internal workflows were not significantly affected at any time. This is down to our prompt response to the changed environment. For example, we put forward-looking precautionary measures in place for employees, including mobile and flexible working practices.

To alleviate the effects of the COVID-19 pandemic, Germany and other countries agreed to impose statutory deferrals of certain loan instalments for customers in financial distress owing to the crisis. In Germany, the corresponding rules relate exclusively to loan agreements concluded with consumers and microenterprises, and are therefore of minor significance to pbb Group. The same applies for other countries' moratoria, if they are extended solely to consumer business, and for private moratoria initiated by the banking associations in which pbb did not participate in.

In its existing business, pbb instead actively sought economic solutions on an individual basis together with clients that were affected by restrictions imposed on their business activities. In alignment with the customers, the contractual cash flows were adjusted on a small number of financings in the first half of 2020. The adjustments to contractual cash flows generally involved deferring current principal amortization payments or contractual agreements for calculating financial indicators for a certain period of time. Where necessary, the financings were classified as forbearance in regulatory terms. The gross carrying amount of these exclusively performing financings amounted to 1% of the total financing volume.

These contract modifications had no material impact on the income statement. None of the modifications were so comprehensive that they constituted a de facto new financing according to the requirements of IFRS 9. This meant that current financings were not derecognised, nor were modified financings recognised. The number and scope of increased financings to clients – guaranteed by KfW or other development banks – was also very low.

pbb Group is closely monitoring and managing the credit risk. Financial instruments with a gross carrying amount of €7.0 billion were changed from stage 1 to stage 2 impairments in the first half of 2020. Whilst their credit risk had increased significantly, there are no indicators of a credit impairment within the meaning of IFRS 9. Compared with 31 December 2019, one financial instrument with a gross carrying amount of €53 million was moved from stage 2 to stage 3 impairments. Thanks to very good collateralisation, credit loss allowances did not need to be increased. Net income from risk provisioning totalled €-70.0 million during the first half of 2020, with €-59 million or 84% attributable to financial instruments at impairment stages 1 and 2.

The Management Board and the Supervisory Board are discussing current developments on a regular basis; moreover, a cross-divisional task force has been established for rectifying issues related to specific topics. Covering pbb's target markets in particular, this task force closely monitors and analyses prevailing market developments, along with the close monitoring of certain market segments particularly affected by the impact of the COVID-19 pandemic (such as hotels and retail). It also analyses and assesses government protection and stimulus programmes in terms of their relevance to our borrowers. Furthermore, pbb Group closely monitors ongoing developments – with a special focus on cash flows and collateral values – at a single-exposure level.

The volume of new business (including extensions beyond one year) amounted to €2.8 billion in the first half of 2020. In view of the sharp decline in the volume of market transactions in the second quarter of 2020 and the strictly conservative risk policy we continued to apply, this was a satisfactory result. As early repayments also declined sharply compared with prior periods, the volume of commercial real estate financings disbursed was largely stable at €26.7 billion, compared to €27.1 billion as at 31 December 2019.

Profit before tax for the first half of 2020 amounted to €31 million. Compared to the previous year's period (1 January to 30 June 2019 – "6m2019") (6m2019: €117 million) this decline was mainly attributable to the negative impact on net income from risk provisioning (€-70 million; 6m2019: €0 million) and on net income from fair value measurement (€-16 million; 6m2019: €-7 million), which resulted in particular from economic conditions brought about by the COVID-19 pandemic. Leaving this item out of the equation, pre-tax profit would come to €117 million. pbb Group achieved a good result with regard to the most important current income and expense items. Net interest income of €228 million was in line with the prior-year figure of €229 million. At €97 million, general and administrative expenses were only marginally higher than the previous year (6m2019: €93 million). The development of the income statement is described in detail in the section on development of earnings.

The Management Board considers pbb's current liquidity situation to be satisfactory. Due to the funding activities at the beginning of 2020, the Bank's general liquidity status and the liquidity support offered by the ECB, we do not expect any liquidity bottlenecks. Of the measures offered by the ECB, pbb Group took advantage of the attractive terms of the Targeted Longer-Term Refinancing Operations (TLTRO III), which is accounted for in accordance with IAS 20, and participated in the amount of €7.5 billion in June 2020.

At 15.8% as at 30 June 2020, the CET1 ratio (dimensioned to a level expected to be compliant with Basel IV) was in line with the level of 31 December 2019 (15.9%; this value takes into account the appropriation of profits already adopted by the Annual General Meeting). In the normative perspective, pbb significantly exceeded all regulatory minimum ratios for risk-bearing capacity as at 30 June 2020. From an economic perspective, the capital available to cover the risks also exceeded economic capital requirements as at 30 June 2020.

The forecasts for the future development of pbb Group are presented in the Report on Expected Developments.

DEVELOPMENT IN EARNINGS

Deutsche Pfandbriefbank Group (“pbb Group”)

Defined by operational stability on the one hand, and burdens on net income from risk provisioning (€-70 million) and on net income from fair value measurement (€-16 million) on the other, pre-tax profit of €31 million was clearly positive in the reporting period (1 January to 30 June 2020 – “6m2020”). Net interest income which was almost in line with the prior-year period and only marginally higher general and administrative expenses underscore the good result with regard to the most important current income and expense items. A detailed breakdown of the results is provided below:

pbb Group

Income and expenses

in € million	1.1.- 30.6.2020	1.1.- 30.6.2019
Operating income	233	238
Net interest income	228	229
Net fee and commission income	3	3
Net income from financial instruments at fair value through profit or loss (Net income from fair value measurement) ¹⁾	-16	-7
Net income from derecognition of financial instruments not measured at fair value through profit or loss (Net income from realisations) ¹⁾	16	16
Thereof: from financial assets at amortised cost	15	17
Net income from hedge accounting	-2	-1
Net other operating income	4	-2
Net income from allowances on financial assets (Net income from risk provisioning) ¹⁾	-70	-
General and administrative expenses	-97	-93
Expenses from bank levies and similar dues	-25	-22
Net income from write-downs and write-ups on non-financial assets	-10	-8
Net income from restructuring	-	2
Profit before tax	31	117
Income taxes	-8	-18
Net income	23	99
attributable to:		
Shareholders	23	99

¹⁾ Solely the condensed and parenthesised line item descriptions are used subsequently.

At €228 million, net interest income was in line with the previous year (6m2019: €229 million). The slightly lower portfolio of disbursed and therefore interest-bearing REF financings (average volume €26.9 billion; 6m2019: €27.4 billion), and the decline in the non-strategic Value Portfolio, in line with our strategy, impacted on net interest income on the one hand. On the other hand, net interest income was impacted especially by lower funding expenses due to maturing bearer bonds and participation in the Bundesbank's US dollar tenders at better terms, whereby more expensive refinancings could be replaced by foreign currency exposures. As in the same period of the previous year, pbb Group profited from floors in client business, given the negative interest rate environment. However, the contribution from the investment of own funds continued to fall due to the low interest rate environment.

Net commission income includes fees that were recognised directly through profit or loss. At €3 million, net commission income in the first half of 2020 reached the previous year's value (6m2019: €3 million).

Net income from fair value measurement (€-16 million; 6m2019: € -7 million) was negatively influenced by the changed situation as a result of the COVID-19 pandemic. Specifically, widening credit spreads for non-derivative financings, which must be reported at fair value through profit and loss, impacted with €-11 million, of which the greatest effect of €-7 million was attributable to risk exposures to German federal states. Their fair values declined significantly in the first few months of 2020 before recovering again, at least partially, towards the end of the reporting period. Furthermore, net income from fair value measurement was burdened by pull-to-par effects (whereby market value approaches zero towards maturity).

The changed economic situation led to a marked decline in market transactions in commercial real estate financing from March 2020 onwards. Early redemptions of financings driven by the current terms available also fell. The total decline in the volume of early repayments also led to a lower volume of prepayment penalties received. Due to higher earnings from other disposals of financial instruments, net income from realisations nonetheless reached €16 million, which matched the figure for the same period of the previous year (6m2019: €16 million).

The changes in the value of derivative transactions and hedged items in relation to the hedged interest rate risk offset each other almost entirely in the first half of the year. As in the prior-year period, net income from hedge accounting was almost balanced at €-2 million (6m 2019 €-1 million).

Within net other operating income (€4 million; 6m 2019: €-2 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. While consistently applying the accounting methods, pbb Group adjusted underlying parameters for the estimations, such as expected gross domestic product and the probability weighting of the scenarios to the current new economic situation. For example, in the most likely scenario, pbb Group assumes a 7.0% decline in German gross domestic product for 2020, whereas the 2019 financial statements still predicted a 1.1% growth rate. Real estate values were forecast on the basis of a medium-term development.

Overall, net income from risk provisioning amounted to €-70 million (6m2019: €0 million). At €59 million net (6m2019: net reversal of €4 million), the majority of the additions to impairments losses resulted from financings without indicators for a credit impairment within the meaning of IFRS 9, therefore from financial instruments of stage 1 and 2 impairments. This includes the effect from the changes of financings with a gross carrying amount of €7.0 billion from stage 1 to stage 2 impairments. pbb Group carried out this stage change although it is due to the economic recession induced by the current COVID-19 pandemic. However, there is no evidence of data suggesting that the issuers or borrowers of the financings in question are in significant financial difficulties. The addition to the impairment losses, the coverage as the ratio between impairment losses and gross carrying value on the stage 1 and 2 commercial real estate financings rose significantly to 40 basis points (31 December 2019: 18 basis points; 30 June 2019: 8 basis points). Furthermore, additions to impairment losses for financings with indicators for an credit impairment (stage 3 impairments) were necessary (€12 million net; 6m2019: net additions of €4 million). These increases were largely attributable to a loan for a shopping centre in the United Kingdom. There were also recoveries on loans and advances previously written off, which amounted to €1 million (6m2019: €0 million).

General and administrative expenses of €97 million were slightly above the same period of the previous year (€93 million). This was attributable to higher personnel expenses resulting from the increase in the average number of employees and to higher non-personnel expenses due to regulatory projects.

Expenses for bank levies and similar dues (€25 million; 6m2019: €22 million) mainly comprised expenses for the bank levy to be recorded already for the full-year 2020 in compliance with IFRIC 21, taking into account pledged collateral amounting to 15% (€23 million; 6m2019: €20 million). The year-on-year increase in expenses for the bank levy resulted in a significant increase in the fund's target volume at EU level. Furthermore, this line item comprised expenses of €2 million (6m2019: €2 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 (€-10 million; 6m2019: €-8 million) included scheduled depreciations of tangible assets and amortisation of intangible assets. The year-on-year increase reflected amortisation of the right of use (capitalised in mid-2019) for the building in Garching. Material impairments on non-financial instruments were not required.

There were no material additions to, or reversals of, restructuring provisions during the first half of 2020. In the same period of the previous year net income from restructuring resulted from the reversal of provisions in connection with Human Resources.

Income taxes were due exclusively to current taxes. This compares with the same period of the previous year, where income taxes were due in equal measures to current taxes and the deferred tax expense. Write-downs on deferred tax items were not necessary.

Net income amounted to €23 million (6m 2019: €99 million), of which €14 million (6m 2019: €90 million) was attributable to ordinary shareholders and €9 million (6m 2019: €9 million) to AT1 investors on a pro rata basis (based on the assumption that the discretionary AT1 coupon is serviced in full).

Operating Segments

pbb Group has adjusted the segmentation of income and expenses for the comparable prior-year period, and of equity as at 31 December 2019, in accordance with IFRS 8.29. Previously, the allocation of equity to the operating segments and Consolidation & Adjustments (C&A) followed a proportionate approach and was therefore consistent with the distribution of diversified capital within the scope of risk management (going-concern approach).

For the 2020 financial year, pbb will continue to allocate reported equity to segments in proportion to economic required capital (in line with the 'bottleneck principle'). Changes to the methodology resulted from the risk weights in strategic sub-portfolios that were adjusted at year-end 2019, as these are included in calculating the ICAAP economic perspective. This results in a higher capital allocation to the Real Estate Finance and Public Investment Finance business segments, and to a reduction in the Value Portfolio allocation.

Real Estate Finance (REF)

The REF business segment comprises financing for professional real estate investors. The volume of new business (including extensions by more than one year) on higher net margins amounted to €2.7 billion (6m2019: €4.4 billion); of this amount, €1.0 billion (€0.9 billion) was attributable to extensions.

Real Estate Finance		1.1.- 30.6.2020	1.1.- 30.6.2019
Operating performance			
Operating income	in € million	208	209
Net interest income	in € million	189	194
Net fee and commission income	in € million	3	3
Net income from fair value measurement	in € million	-3	-5
Net income from realisations	in € million	13	17
Net income from hedge accounting	in € million	-1	-
Net other operating income	in € million	7	-
Net income from risk provisioning	in € million	-72	-2
General and administrative expenses	in € million	-83	-76
Expenses from bank levies and similar dues	in € million	-15	-13
Net income from write-downs and write-ups of non-financial assets	in € million	-8	-7
Net income from restructuring	in € million	-	2
Profit before tax	in € million	30	113
Key ratios			
Cost-income ratio	in %	43.8	39.7
Balance-sheet-related measures		30.6.2020	31.12.2019
Financing volumes	in € billion	26.7	27.1
Risk-weighted assets ¹⁾	in € billion	15.5	15.8
Equity ²⁾	in € billion	1.7	1.7

¹⁾ Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5.

²⁾ Excluding accumulated other comprehensive income (OCI) from cash flow hedge accounting, financial assets at fair value through OCI and additional equity instruments (AT1 capital).

Owing to the somewhat lower average financing volume (€26.9 billion; 6m 2019: €27.4 billion), net interest income of €189 million was down slightly on the prior-year figure (6m 2019: €194 million). As the volume of early repayments driven by the current terms available has fallen sharply as a result of the changed economic framework, prepayment penalties and net income from realisations fell compared with the prior-year period. Net reversals of provisions for legal and tax-related items resulted in net other operating income of €7 million (6m 2019: €0 million). Net income from risk provisioning and general and administrative expenses performed in line with pbb Group's development.

Public Investment Finance (PIF)

The PIF business segment comprises financing extended primarily for the provision of public infrastructure.

Public Investment Finance		1.1.- 30.6.2020	1.1.- 30.6.2019
Operating performance			
Operating income	in € million	20	16
Net interest income	in € million	19	18
Net fee and commission income	in € million	-	-
Net income from fair value measurement	in € million	-1	-1
Net income from realisations	in € million	1	-
Net income from hedge accounting	in € million	-	-
Net other operating income	in € million	1	-1
Net income from risk provisioning	in € million	-	-
General and administrative expenses	in € million	-9	-11
Expenses from bank levies and similar dues	in € million	-3	-3
Net income from write-downs and write-ups of non-financial assets	in € million	-1	-1
Net income from restructuring	in € million	-	-
Profit before tax	in € million	7	1
Key ratios			
Cost-income ratio	in %	50.0	75.0
Balance-sheet-related measures		30.6.2020	31.12.2019
Financing volumes	in € billion	6.0	6.3
Risk-weighted assets ¹⁾	in € billion	0.8	0.8
Equity ²⁾	in € billion	0.2	0.2

¹⁾ Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5.

²⁾ Excluding accumulated other comprehensive income (OCI) from cash flow hedge accounting, financial assets at fair value through OCI and AT1 capital.

Although the average financing volume of €6.2 billion was slightly lower (6m2019: €6.4 billion), net interest income was marginally higher than the same period of the previous year (€19 million; 6m2019: €18 million) due to more favourable funding rates. General and administrative expenses declined in line with the portfolio development.

Value Portfolio (VP)

The VP operating segment includes all of pbb Group's non-strategic portfolios and activities, and is reduced in line with pbb's strategy.

Value Portfolio		1.1.- 30.6.2020	1.1.- 30.6.2019
Operating performance			
Operating income	in € million	3	11
Net interest income	in € million	18	15
Net fee and commission income	in € million	-	-
Net income from fair value measurement	in € million	-12	-1
Net income from realisations	in € million	2	-1
Net income from hedge accounting	in € million	-1	-1
Net other operating income	in € million	-4	-1
Net income from risk provisioning	in € million	2	2
General and administrative expenses	in € million	-5	-6
Expenses from bank levies and similar dues	in € million	-7	-6
Net income from write-downs and write-ups of non-financial assets	in € million	-1	-
Net income from restructuring	in € million	-	-
Profit before tax	in € million	-8	1
Key ratios			
Cost-income ratio	in %	>100.0	54.5
Balance-sheet-related measures		30.6.2020	31.12.2019
Financing volumes	in € billion	11.8	12.1
Risk-weighted assets ¹⁾	in € billion	0.5	0.5
Equity ²⁾	in € billion	0.6	0.6

¹⁾ Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5.

²⁾ Excluding accumulated other comprehensive income (OCI) from cash flow hedge accounting, financial assets at fair value through OCI and AT1 capital.

Thanks to more favourable funding terms, net interest income on a lower average financing volume (€11.9 billion; 6m2019: €12.6 billion) consistent with our strategy exceeded the prior year value. Net income from fair value measurement was significantly negative due to wider credit spreads on non-derivative financings, which are required to be accounted for at fair value through profit and loss, with the greatest effect attributable to risk exposures to German Federal states.

Consolidation & Adjustments (C&A)

C&A reconciles the segment results with the consolidated result. Besides consolidation adjustments, this includes certain income and expense items outside the operating segments' responsibility.

Consolidation & Adjustments		1.1.- 30.6.2020	1.1.- 30.6.2019
Operating performance			
Operating income	in € million	2	2
Net interest income	in € million	2	2
Net fee and commission income	in € million	-	-
Net income from fair value measurement	in € million	-	-
Net income from realisations	in € million	-	-
Net income from hedge accounting	in € million	-	-
Net other operating income	in € million	-	-
Net income from risk provisioning	in € million	-	-
General and administrative expenses	in € million	-	-
Expenses from bank levies and similar dues	in € million	-	-
Net income from write-downs and write-ups of non-financial assets	in € million	-	-
Net income from restructuring	in € million	-	-
Profit before tax	in € million	2	2
Balance-sheet-related measures		30.6.2020	31.12.2019
Risk-weighted assets ¹⁾	in € billion	0.6	0.6
Equity ²⁾	in € billion	0.4	0.4

¹⁾ Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5.

²⁾ Excluding accumulated other comprehensive income (OCI) from cash flow hedge accounting, financial assets at fair value through OCI and AT1 capital.

Net interest income was the only income item and arose from the investment of equity allocated to C&A.

DEVELOPMENT IN ASSETS

Assets

in € million	30.6.2020	31.12.2019
Cash reserve	4,464	1,141
Financial assets at fair value through profit or loss	1,505	1,306
Positive fair values of stand-alone derivatives	824	717
Debt securities	131	130
Loans and advances to customers	547	456
Shares in investment funds qualified as debt instruments	3	3
Financial assets at fair value through other comprehensive income	1,738	1,696
Debt securities	1,415	1,325
Loans and advances to other banks	-	15
Loans and advances to customers	323	356
Financial assets at amortised cost after credit loss allowances	50,850	50,224
Financial assets at amortised cost before credit loss allowances	51,038	50,351
Debt securities	7,699	7,679
Loans and advances to other banks	3,535	2,356
Loans and advances to customers	39,804	40,316
Credit loss allowances on financial assets at amortised cost	-188	-127
Positive fair values of hedge accounting derivatives	1,887	2,199
Valuation adjustment from portfolio hedge accounting (assets)	29	19
Tangible assets	41	45
Intangible assets	40	39
Other assets	46	41
Current income tax assets	22	22
Deferred income tax assets	91	90
Total assets	60,713	56,822

Total assets rose to €60.7 billion in the first half of the year (31 December 2019: €56.8 billion). Due to participation in TLTRO III in the amount of €7.5 billion in June 2020, the cash reserve rose to €4.5 billion. Contrary effects comprised the repayment of TLTRO II, maturing bearer bonds and lower repo transaction volumes. Financial assets at fair value through profit and loss increased slightly, reflecting transactions entered into with the intention of partial syndication, as well as derivatives. Financial assets at fair value through other comprehensive income were also up slightly, reflecting the purchase of securities for the liquidity portfolio. Financial assets measured at amortised cost rose, in particular due to reverse repo transactions entered into, which more than offset the lower nominal volume of commercial real estate loans (€26.7 billion; 31 December 2019: €27.1 billion), which had declined as a result of repayments.

DEVELOPMENT IN FINANCIAL POSITION**Liabilities and equity**

in € million	30.6.2020	31.12.2019
Financial liabilities at fair value through profit or loss	736	762
Negative fair values of stand-alone derivatives	736	762
Financial liabilities measured at amortised cost	54,191	49,741
Liabilities to other banks	10,236	4,195
Liabilities to customers	23,221	23,985
Bearer bonds	20,042	20,858
Subordinated liabilities	692	703
Negative fair values of hedge accounting derivatives	2,068	2,562
Valuation adjustment from portfolio hedge accounting (liabilities)	137	81
Provisions	248	263
Other liabilities	61	130
Current income tax liabilities	35	47
Liabilities	57,476	53,586
Equity attributable to the shareholders of pbb	2,939	2,938
Subscribed capital	380	380
Additional paid-in capital	1,637	1,637
Retained earnings	972	966
Accumulated other comprehensive income	-50	-45
from pension commitments	-94	-99
from cash flow hedge accounting	-14	-11
from financial assets at fair value through OCI	58	65
Additional equity instruments (AT1)	298	298
Equity	3,237	3,236
Total equity and liabilities	60,713	56,822

Liabilities

The increase in total assets is reflected on the liabilities side in higher financial liabilities at amortised cost. Within this item, liabilities to banks increased by a net amount of €6.0 billion, particularly as a result of the participation in TLTRO III and repayment of TLTRO II. Bearer bonds on the other hand declined due to maturities.

Equity

The equity development is disclosed in note "Equity". Return on equity before tax amounted to 1.6% (6m2019: 7.6%) and return on equity after tax to 1.0% (6m2019: 6.3%).

On 3 April 2020, the Management Board and Supervisory Board of pbb resolved to withdraw the dividend proposal for the 2019 financial year, published on 4 March 2020, of €0.90 per no-par value share entitled to dividends, and to propose instead to the Annual General Meeting the re-allocation of net retained profit (as reported in the financial statements 2019 in accordance with the German Commercial Code) to other retained earnings, in full. In line with this proposal, the Annual General Meeting resolved on 28 May 2020 to re-allocate net retained profit generated in 2019 accordingly. pbb thus complies with the ECB's recommendation to all banks included in the SSM to refrain from paying out dividends for the 2019 financial year, or to refrain from doing so prior to 1 October 2020. On 28 July 2020, the ECB made the decision to extend this recommendation until 1 January 2021. The amounts not currently earmarked for distribution have strengthened pbb's CET1 capital.

Funding

On 24 June 2020, the ECB provided a total of €1,308.4 billion for a maximum term of three years to banks within the euro area, within the scope of a targeted longer-term refinancing operation. Under this TLTRO III programme, pbb Group drew down a three-year, €7.5 billion tranche on 30 June 2020. At the same time, pbb Group repaid its liabilities of €1.9 billion from the ECB's TLTRO II programme early, effective 24 June 2020. The funding mix also changed, as fewer repo transactions are being executed. When a defined level of net lending is reached, the variable interest rate on the TLTRO III over the term corresponds to the average interest rate for the deposit facility. In addition, the Bank is granted a further interest rate premium of 50 basis points for the first year of the term in such cases. pbb Group assumes that these conditions will be met, hence interest-rate benefits are accrued over the term. The allocated TLTRO III tranche was reported under liabilities to banks as at 30 June 2020.

Furthermore, new long-term funding amounting to €3.8 billion (6m2019: €4.2 billion) was offset by buy-backs and redemptions totalling €0.4 billion (6m2019: €0.2 billion) in the first half of 2020. Roughly half of the total amount of funding, comprising both Pfandbrief issues and unsecured liabilities, was issued in the first quarter, before spreads widened considerably on the refinancing markets as a result of the COVID-19 pandemic. €2.7 billion (6m2019: €2.4 billion) was attributable to Pfandbrief issues, of which €1.4 billion was issued to pledge as collateral for participation in TLTRO III. At €1.1 billion (6m2019: €1.8 billion), unsecured funding accounted for almost one third of the volume, which was issued almost exclusively as senior preferred bonds. The transactions were mainly denominated in euro. Unhedged interest rate exposures are generally hedged by swapping fixed against floating interest rates. To minimise foreign currency risk between assets and liabilities, pbb Group avoids cross-currency swaps by issuing in foreign currencies (where permitted by market conditions). Bonds were placed in Swedish krona (equivalent of €0.2 billion).

Key Regulatory Capital Ratios

As at 30 June 2020 the CET1 ratio amounted to 15.8% (31 December 2019: 15.9%), the own funds ratio to 21.1% (31 December 2019: 21.1%) and the leverage ratio to 5.1% (31 December 2019: 5.6%). Please refer to the Risk and Opportunity Report ("Internal Capital Adequacy Assessment Process (ICAAP)" section) for further information on the key regulatory capital ratios.

Liquidity

As at 30 June 2020, the Liquidity Coverage Ratio was 375% (31 December 2019: 182%).

The maturity structure is disclosed in note "Maturities of specific financial assets and liabilities".

Ratings

The following table shows the senior unsecured ratings and ratings for Pfandbriefe, mandated by pbb as at the reporting date:

	30.6.2020		31.12.2019	
	Standard & Poor's	Moody's	Standard & Poor's	Moody's
Long-term issuer rating/outlook	A-/Negative	-	A-/Negative	-
Short-term issuer rating	A-2	-	A-2	-
Long-term "preferred" senior unsecured debt rating ¹⁾	A-	-	A-	-
Long-term "non-preferred" senior unsecured debt rating ²⁾	BBB-	-	BBB-	-
Public Sector Pfandbriefe	-	Aa1	-	Aa1
Mortgage Pfandbriefe	-	Aa1	-	Aa1

¹⁾ S&P: "Senior Unsecured Debt".

²⁾ S&P: "Senior Subordinated Debt".

Rating agencies may alter or withdraw their ratings at any time. Ratings of individual securities issued by pbb may deviate from the ratings indicated above, or an individual security may not be rated at all. For the evaluation and usage of ratings, please refer to the rating agencies' pertinent criteria and explanations and the relevant terms of use, which are to be considered. Ratings should not serve as a substitute for personal analysis. They do not constitute a recommendation to purchase, sell or hold securities issued by pbb.

MATERIAL RELATED PARTY TRANSACTIONS

No material transactions with related parties were entered into during the first half of 2020.

Risk and Opportunity Report

The Risk and Opportunity Report shows the identified risks and the opportunities for the individual risk types within the framework of the implemented risk management and risk controlling system. For more general risks and opportunities, please refer to the Report on Expected Developments.

This report only includes a general description of the Company's risk management organisation, or a description of definitions, methods, management and measurement of particular types of risk, to the extent that there were changes during the period under review in comparison to the Risk and Opportunity Report provided in the 2019 Annual Report. For more details, please refer to the disclosures in the Risk and Opportunity Report in the 2019 Annual Report.

ORGANISATION AND PRINCIPLES OF RISK AND CAPITAL MANAGEMENT

pbb Group has implemented a Group-wide risk management and risk control system, which provides for uniform risk identification, measurement and limitation in accordance with section 91 (2) of the German Public Limited Companies Act (Aktengesetz – "AktG") and section 25a of the German Banking Act (Kreditwesengesetz – "KWG"). Deutsche Pfandbriefbank AG applies an exemption according to section 2a (2) of the KWG. The exemption refers to the requirements concerning the risk control function pursuant to section 25a (1) sentence 3 nos. 1, 2, 3b and 3c of the KWG.

Risk Strategy and Policies

As part of the strategy development process carried out in the autumn of every calendar year for the following year, the risk strategy for 2020 was drawn up, adopted by the Management Board and approved by the Supervisory Board. Updates were made in the course of the first half of 2020, arising from model changes and associated limit adjustments. The updates were subject to the prescribed process, including approval by the Management Board and the Supervisory Board.

RISK TYPES

pbb Group distinguishes the following major risk types for its business activities:

- > Credit risk (counterparty risk)
- > Market risk
- > Liquidity and Funding risk
- > Operational risk
- > Business and Strategic risk
- > Property risk
- > Pension risk

Credit Risk (Counterparty Risk)

Credit Portfolio

The entire credit portfolio of the pbb Group is calculated by using the exposure at default (EaD).

For most products, EaD is equal to the IFRS carrying amount (including accrued interest). Committed, undrawn credit lines are additionally included in EaD with a product-specific credit conversion factor (CCF). The CCF indicates the portion of an undrawn credit line that is expected to be drawn upon (based on experience) within one year before a potential default. Derivatives and repo transactions are an exception since their EaD is not identical to their carrying amount but must be determined, in accordance with the Capital Requirements Regulation ("CRR") using a different methodology. For instance, the regulatory mark-to-market method is applied to derivatives, using the market value plus

any regulatory add-ons for potential future market value increases and taking any netting or collateralisation effects into account.

The Group's credit portfolio had an aggregated EaD of €58.1 billion as at 30 June 2020 (31 December 2019: €55.5 billion).

Overview of the Total Exposure of pbb Group: €58.1 billion EaD

The credit portfolio is broken down into three segments:

- > Real Estate Finance (REF),
- > Public Investment Finance (PIF) and
- > the non-strategic segment Value Portfolio (VP) which is earmarked for being wound down.

In addition "Consolidation & Adjustments (C&A)" shows besides the internal reconciliation and consolidation positions, the EaD for transactions which are not directly attributable to the operating segments. These are basically asset positions for asset and liability management.

EaD in the C&A segment was almost fully attributable (> 99%; 31 December 2019: 100%) to EL classes 1 to 8; according to the internal classification, these are considered investment grade.

Total portfolio: EaD according to operating segments

in € billion	30.6.2020	31.12.2019	Change	
			in € billion	in %
Real Estate Finance	29.2	29.8	-0.6	-2.0
Public Investment Finance	6.8	7.1	-0.3	-4.2
Value Portfolio	15.7	15.6	0.1	0.6
Consolidation & Adjustments	6.4	2.9	3.5	120.7
Total	58.1	55.5	2.6	4.7

Risk Parameters Expected Loss (EL) for pbb Group totalled €130 million as at 30 June 2020 (31 December 2019: €129 million). The slight increase in expected loss was due in particular to individual rating downgrades of some exposures in the Real Estate Finance business segment.

Total exposure: expected loss according to operating segments

in € million	30.6.2020	31.12.2019	Change	
			in € million	in %
Real Estate Finance	105	102	3	2.9
Public Investment Finance	1	1	-	-
Value Portfolio	24	26	-2	-7.7
Consolidation & Adjustments	-	-	-	-
Total	130	129	1	0.8

Future developments, such as changes in the economic environment or developments concerning individual risks, may result in changes to the EL figures set out above. Furthermore, actual losses incurred may differ materially from expected losses.

Regional Breakdown of the Portfolio The main focus of pbb Group's exposure at the reporting date remained unchanged, on Western Europe. At 43% (€24.9 billion; 31 December 2019: 40% or €22.3 billion), Germany continued to account for the largest part of the aggregate portfolio. The €2.6 billion year-on-year EaD increase in Germany (compared to the previous year-end) was attributable to higher money market exposure in C&A, offset by repayments in the REF and PIF segments. The slight EaD increase for Austria was due to changes in the general interest rate levels and the associated changes in hedge adjustments of one exposure in VP.

The largest items of the category "Other Europe" were the Netherlands with €1.0 billion and Belgium with €0.3 billion. (31 December 2019: the Netherlands €0.8 billion, Belgium €0.3 billion). The increase of the exposure in the category "Other Europe" was mainly attributable to new business in the REF segment. The category "Other", which accounted for approximately 2% of the portfolio (€1.4 billion), largely included bonds issued by supranational organisations.

Total portfolio: EaD according to regions

in € billion	30.6.2020	31.12.2019	Change	
			in € billion	in %
Germany	24.9	22.3	2.6	11.7
France	7.7	7.6	0.1	1.3
Austria	6.8	6.6	0.2	3.0
United Kingdom	3.6	3.7	-0.1	-2.7
USA	2.8	2.8	-	-
Spain	2.3	2.4	-0.1	-4.2
Other Europe ¹⁾	2.3	2.1	0.2	9.5
Italy	2.0	2.0	-	-
Poland	1.6	1.6	-	-
Other ²⁾	1.4	1.3	0.1	7.7
Sweden	0.9	0.9	-	-
Portugal	0.7	0.7	-	-
Finland	0.6	0.6	-	-
Czech Republic	0.4	0.4	-	-
Hungary	0.1	0.3	-0.2	-66.7
Total	58.1	55.5	2.6	4.7

¹⁾ As of 30 June 2020 the category "Other Europe" comprises the Netherlands, Belgium, Switzerland, Slovakia, Slovenia, Denmark, Luxembourg, Romania, Ireland, Norway and Latvia.

²⁾ As of 30 June 2020 the category "Other" comprises amongst others Supranationals, Japan and Canada.

Depending on the results of the internal rating process, maximum limits are defined for each segment in each individual country; these limits restrict pbb Group's business activities. All country limits are monitored daily.

Real Estate Finance: €29.2 billion EaD

The REF segment comprises real estate loans and corresponding client derivatives. The EaD of the REF portfolio, which in comparison with the funding volume shown in the chapter "Development in Earnings" also includes undrawn credit lines – multiplied by a product-specific conversion factor – decreased, compared to 31 December 2019, by €0.6 billion to €29.2 billion. On balance, exposure in REF was reduced in Germany and the United Kingdom, due to repayments and additional currency effects in the United Kingdom. The portfolio grew slightly due to new business originated in France, and in the category "Other Europe" – mainly in the Netherlands. Client derivatives in the REF segment accounted for an EaD of €0.2 billion as at 30 June 2020 and thus increased by €0.1 billion compared to 31 December 2019.

Real Estate Finance: EaD according to regions

in € billion	30.6.2020	31.12.2019	Change	
			in € billion	in %
Germany	14.1	14.8	-0.7	-4.7
United Kingdom	3.3	3.5	-0.2	-5.7
France	3.3	3.2	0.1	3.1
USA	2.8	2.8	-	-
Other Europe ¹⁾	1.7	1.4	0.3	21.4
Poland	1.3	1.3	-	-
Sweden	0.9	0.9	-	-
Austria	0.5	0.5	-	-
Finland	0.5	0.5	-	-
Czech Republic	0.4	0.4	-	-
Spain	0.3	0.3	-	-
Hungary	0.1	0.1	-	-
Italy	0.1	0.1	-	-
Total	29.2	29.8	-0.6	-2.0

¹⁾ As of 30 June 2020 the category "Other Europe" comprises the Netherlands, Switzerland, Belgium, Denmark, Luxembourg, Romania, Slovakia, Slovenia and Norway.

Looking at EaD by property type, declines were recorded in housing construction, retail and in the mixed use property type. This was a result of repayments exceeding the level of new business originated.

Real Estate Finance: EaD according to property type

in € billion	30.6.2020	31.12.2019	Change	
			in € billion	in %
Office buildings	13.6	13.6	-	-
Housing construction	5.3	5.8	-0.5	-8.6
Retail	4.7	4.9	-0.2	-4.1
Logistics/storage	2.9	2.9	-	-
Hotel/leisure	1.4	1.3	0.1	7.7
Other	0.8	0.8	-	-
Mixed Use	0.4	0.5	-0.1	-20.0
Total	29.2	29.8	-0.6	-2.0

At 30 June 2020, investment financings continued to dominate the portfolio (83%; 31 December 2019: 83%); development financings accounted for 16% of EaD (31 December 2019: 16%). Investment financings are defined as real estate loans, the debt servicing ability of which largely depend upon current cash flows from the property.

Real Estate Finance: EaD according to loan type

in € billion	30.6.2020	31.12.2019	Change	
			in € billion	in %
Investment financing	24.2	24.8	-0.6	-2.4
Development financing	4.7	4.7	-	-
Customer derivatives	0.2	0.1	0.1	100.0
Other	0.1	0.2	-0.1	-50.0
Total	29.2	29.8	-0.6	-2.0

Public Investment Finance: €6.8 billion EaD

The portfolio comprises the following financing:

- (I) Financing concluded directly with a public sector debtor, eligible according to the Pfandbrief Act, on the basis of a specific earmarking according to a defined product catalogue;
- (II) Financing of companies, which have a public sector or private legal structure, which are to a great extent collateralised with a public sector guarantee within the meaning of the Pfandbrief Act (transport and utility companies, municipal utilities, special-purpose associations, management companies, non-profits, associations); and
- (III) Financing of special-purpose vehicles, which are almost entirely collateralised with a public sector guarantee within the meaning of the Pfandbrief Act. This also includes export financings covered by insurance policies or guarantees issued by the Federal Government or by other export credit agencies permitted for inclusion in Pfandbrief cover.

In addition, the portfolio comprises only very few financings for public-sector institutions without public guarantee.

The EaD in the PIF segment decreased compared to the end of the previous year by €0.3 billion due to repayments respectively maturities.

Public Investment Finance: EaD according to regions

in € billion	30.6.2020	31.12.2019	Change	
			in € billion	in %
France	3.6	3.7	-0.1	-2.7
Germany	1.4	1.5	-0.1	-6.7
Spain	0.9	1.0	-0.1	-10.0
Austria	0.3	0.3	-	-
Other Europe ¹⁾	0.2	0.3	-0.1	-33.3
United Kingdom	0.2	0.2	-	-
Other ²⁾	0.1	0.1	-	-
Finland	0.1	0.1	-	-
Sweden	-	-	-	-
Total	6.8	7.1	-0.3	-4.2

¹⁾ As of 30 June 2020 the category "Other Europe" comprises Belgium, the Netherlands and Switzerland.

²⁾ As of 30 June 2020 the category "Other" comprises mainly Canada.

Public Sector Borrowers" summarises claims against sovereign states (28%), public-sector enterprises (19%), and regional governments and municipalities (53%). The definition also includes exposures guaranteed by these counterparties.

Public Investment Finance: EaD according to counterparty structure

in € billion	30.6.2020	31.12.2019	Change	
			in € billion	in %
Public sector borrowers	6.6	6.8	-0.2	-2.9
Companies/special-purpose entities ¹⁾	0.2	0.2	-	-
Financial institutions ²⁾	-	-	-	-
Total	6.8	7.1	-0.3	-4.2

¹⁾ Largely collateralised by guarantees and surety bonds.

²⁾ Financial institutions with a state background or state guarantee.

Value Portfolio: €15.7 billion EaD

The Value Portfolio comprises non-strategic portfolios of pbb Group.

There were no material changes in exposure in the Value Portfolio as at 30 June 2020 compared to 31 December 2019. The slight EaD increase for Austria was due to changes in general interest rate levels, and associated changes in one exposure's hedge adjustments. The decline in Hungary was attributable to maturing bonds.

Value Portfolio: EaD according to regions

in € billion	30.6.2020	31.12.2019	Change	
			in € billion	in %
Austria	6.1	5.9	0.2	3.4
Germany	4.2	4.2	-	-
Italy	1.9	1.9	-	-
Spain	0.9	0.9	-	-
Other ¹⁾	0.9	0.9	-	-
Portugal	0.7	0.7	-	-
France	0.7	0.7	-	-
Poland	0.2	0.2	-	-
Other Europe ²⁾	0.1	0.1	-	-
Hungary	-	0.1	-0.1	-100.0
Czech Republic	-	-	-	-
Finland ³⁾	-	-	-	-
Total	15.7	15.6	0.1	0.6

¹⁾ As of 30 June 2020 the category "Other" comprises supranational organisations and Japan.

²⁾ As of 30 June 2020 the category "Other Europe" comprises Slovenia.

³⁾ Finland (30 June 2020): €10 million.

EaD by counterparty structure is shown including regulatory permitted guarantees or other forms of credit support.

Value Portfolio: EaD according to counterparty structure

in € billion	30.6.2020	31.12.2019	Change	
			in € billion	in %
Public sector borrowers	14.5	14.5	-	-
Financial institutions ¹⁾	1.1	1.2	-0.1	-8.3
Companies	-	-	-	-
Total	15.7	15.6	0.1	0.6

¹⁾ Mainly Spanish covered bonds.

Structured Products

pbb Group's residual holding of a Mortgage-backed Security guaranteed by one regional government had a notional value of €0.4 billion as at 30 June 2020 (31 December 2019: €0.4 billion) and a current fair value of €0.4 billion (31 December 2019: €0.4 billion).

Breakdown of on-balance sheet and off-balance sheet business by rating class

The following tables provide a breakdown of gross carrying amounts of non-derivative financial assets (excluding cash funds), and of default risks in irrevocable loan commitments and contingent liabilities, by internal rating class and impairment level. The breakdown is in line with pbb Group's internal rating classes. The default definition follows Article 178 of the CRR.

**Breakdown of non-derivative financial assets (excluding cash funds)
by internal rating class and impairment level as at 30 June 2020**

in € million	Stage 1	Stage 2	Stage 3	FVPL	Total
Class 1	987	-	-	-	987
Class 2	13,802	-	-	318	14,120
Class 3	753	-	-	-	753
Class 4	-	-	-	-	-
Class 5	1,210	-	-	-	1,210
Class 6	-	-	-	-	-
Class 7	802	-	-	-	802
Class 8	1,638	-	-	-	1,638
Class 9	7,864	363	-	88	8,315
Class 10	3,319	881	-	88	4,288
Class 11	4,415	1,328	-	-	5,743
Class 12	3,347	1,378	-	128	4,853
Class 13	1,363	1,553	-	-	2,916
Class 14	763	1,099	-	41	1,903
Class 15	959	615	-	-	1,574
Class 16	934	513	-	-	1,447
Class 17	259	547	-	-	806
Class 18	488	322	-	-	810
Class 19	49	219	-	-	268
Class 20	58	103	-	-	161
Class 21	-	135	-	-	135
Class 22	-	-	-	-	-
Class 23 – 24	1	1	-	-	2
Class 25	-	38	-	-	38
Class 26	-	-	-	-	-
Class 27	-	109	-	-	109
Defaulted	-	-	482	17	499
Total	43,011	9,203	482	681	53,377

**Breakdown of non-derivative financial assets (excluding cash funds)
by internal rating class and impairment level as at 31 December 2019**

in € million	Stage 1	Stage 2	Stage 3	FVPL	Total
Class 1	672	-	-	-	672
Class 2	13,911	-	-	323	14,234
Class 3	580	-	-	-	580
Class 4	-	-	-	-	-
Class 5	1,086	-	-	-	1,086
Class 6	-	-	-	-	-
Class 7	922	-	-	-	922
Class 8	1,938	-	-	-	1,938
Class 9	6,531	-	-	88	6,619
Class 10	4,637	35	-	38	4,710
Class 11	5,526	215	-	13	5,754
Class 12	5,104	636	-	93	5,833
Class 13	2,737	503	-	-	3,240
Class 14	1,607	277	-	-	1,884
Class 15	914	347	-	-	1,261
Class 16	1,013	289	-	-	1,302
Class 17	410	194	-	3	607
Class 18	578	52	-	-	630
Class 19	102	160	-	-	262
Class 20	108	45	-	15	168
Class 21	-	184	-	-	184
Class 22	-	-	-	-	-
Class 23 – 24	-	1	-	-	1
Class 25	-	26	-	-	26
Class 26	-	-	-	-	-
Class 27	-	127	-	-	127
Defaulted	-	-	492	17	509
Total	48,375	3,092	492	589	52,547

**Breakdown of irrevocable loan commitments and contingent liabilities
by internal rating class and impairment level as at 30 June 2020**

in € million	Stage 1	Stage 2	Stage 3	Total
Class 1	-	-	-	-
Class 2	303	-	-	303
Class 3	-	-	-	-
Class 4 – 7	45	-	-	45
Class 8	80	-	-	80
Class 9	23	-	-	23
Class 10	30	9	-	39
Class 11	264	26	-	290
Class 12	389	15	-	404
Class 13	202	35	-	237
Class 14	637	42	-	679
Class 15	317	24	-	341
Class 16	374	41	-	415
Class 17	508	30	-	538
Class 18	334	19	-	353
Class 19	12	4	-	16
Class 20	2	-	-	2
Class 21 – 27	-	-	-	-
Defaulted	-	-	1	1
Total	3,518	245	1	3,764

Breakdown of irrevocable loan commitments and contingent liabilities by internal rating class and impairment level as at 31 December 2019

in € million	Stage 1	Stage 2	Stage 3	Total
Class 1	-	-	-	-
Class 2	371	-	-	371
Class 3	39	-	-	39
Class 4 – 7	69	-	-	69
Class 8	118	-	-	118
Class 9	53	-	-	53
Class 10	166	-	-	166
Class 11	281	-	-	281
Class 12	364	11	-	375
Class 13	253	53	-	306
Class 14	415	20	-	435
Class 15	414	2	-	416
Class 16	527	6	-	533
Class 17	715	2	-	717
Class 18	401	26	-	427
Class 19	43	4	-	47
Class 20	7	-	-	7
Class 21 – 27	5	4	-	9
Defaulted	-	-	-	-
Total	4,239	127	-	4,366

Watchlist and Non-performing Loans

Development of Watchlist and non-performing loans of pbb Group

EaD in € million	30.6.2020				31.12.2019				Change	
	REF	PIF	VP	Total ¹⁾	REF	PIF	VP	Total ¹⁾	in € million	in %
Workout loans	14	-	-	14	15	-	-	15	-1	-6.7
Restructuring loans	421	64	-	485	398	97	-	495	-10	-2.0
Non-performing loans	436	64	-	500	413	97	-	510	-10	-2.0
Watchlist loans	112	8	-	120	112	34	153	300	-180	-60.0

¹⁾ No exposure in C&A.

Watchlist and non-performing loans decreased by a net €190 million between 31 December 2019 and 30 June 2020.

Exposure to watchlist loans was virtually unchanged in the REF segment. On the other hand, exposure in the PIF and VP segments was reduced significantly by €180 million, mainly owing to rating upgrades.

Problem loans decreased by €10 million net during the reporting period. In the REF segment, the financing of a hotel in the UK totalling €53 million was transferred to recovery management for non-performing loans. This was offset by a total of €30 million in successful workouts or restructurings and exposure reductions, including currency effects for loans extended in pound sterling. In the PIF segment, repayments of €33 million were made on receivables from a borrower of originally €97 million. Furthermore, these loans and advances are fully covered by an export credit guarantee (extended by the Federal Republic of Germany).

Market Risk

Market Risk Measurement and Limits

Market risk VaR Market risk Value at Risk (VaR) as at 30 June 2020 amounted to €52 million (31 December 2019: €65 million), taking diversification effects between the individual market risk types

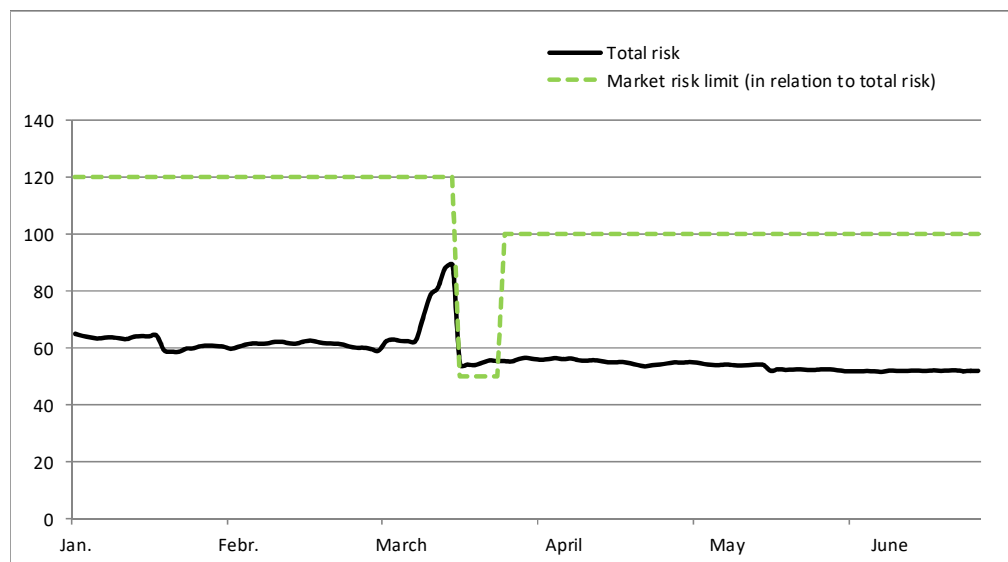
into consideration, on a VaR limit of €100 million. The decline was largely due to an adjustment carried out to the VaR model on 16 March 2020. The reduction of the holding period from ten days to one day to avoid autocorrelation effects deserves particular mention here (this leads to lower VaR indicators in absolute terms, as potential future market movements are simulated for a shorter period of time) and increased granularity of the credit spread risk factors in relation to country, sector, rating class and term. On the other hand, increased market volatility on the back of the COVID-19 pandemic has led to higher VaR indicators. The VaR limits were recalibrated accordingly in the course of adjusting the VaR model.

As at 30 June 2020 the consolidated IRRBB VaR of all risk categories comprised in interest rate risk in the banking book (gap risk, basis risks and volatility risks of exposures that are sensitive to interest rates) was €14 million. CSRBB VaR amounted to €50 million. Over and above the limitation of market risk VaR, limits for IRRBB VaR (current limit: €30 million) and CSRBB VaR (current limit: €90 million) are being monitored on a daily basis.

During the reporting period, market turbulence – particularly in March 2020 – led to significantly higher credit spread volatility, which resulted in a significant increase in market risk VaR. As a result, the market risk VaR limits were exceeded at pbb Group level between 16 and 23 March 2020, which was resolved by further recalibrating the VaR limits within the scope of the existing risk appetite determined in the risk strategy. The new VaR limits now reflect the higher level of market volatility. The following chart shows the development of market risk VaR compared to the market risk VaR limit during the course of the year:

Market risk VaR and market risk limit January to June 2020

in € million



The VaR assessment is complemented by additional tools, such as sensitivity analyses, stress tests and back-testing.

Back Testing The quality of the risk measurement methods in use is checked on an ongoing basis by comparing one-day VaR figures to the actual changes occurring in the portfolio's present value on a daily basis. pbb Group has adopted the Basel Capital Accord's "traffic light" system for the qualitative analysis of its risk model. For this purpose, the number of outliers detected in backtesting within a period of 250 trading days is counted. In the 250 trading days leading up to the end of June 2020, a total of three outliers were observed, all of which occurred in March 2020 when the impact of the

COVID-19 pandemic led to market turbulence. Due to the number of outliers, the risk model employed by pbb Group therefore has 'green' status, as defined in the 'traffic light' system of the Basel Capital Accord.

Basis Risks Basis risks refer to tenor spread and cross-currency spread risks, which are quantified within the framework of the VaR model. Tenor spread risks (€3 million; 31 December 2019: €6 million) and cross-currency spread risks (€2 million; 31 December 2019: €3 million) were shown at the reporting date.

Period Interest Rate Risk With the new EBA guidelines on IRRBB (EBA/GL/2018/02) having come into effect as at the reporting date of 30 June 2019, pbb introduced a dynamic model for measuring and monitoring period interest rate risks (dynamic earnings), thus simulating changes in future income statements and balance sheet developments, which would materialise if the balance sheet develops as planned, and under pre-defined interest rate scenarios. Measurement and monitoring of periodic interest rate risks was carried out at the end of each quarter, for a simulation horizon covering the following four quarters. Negative deviations from the base value were monitored, using a trigger of €60 million for effects on income, and a trigger of €100 million for effects on accumulated other comprehensive income (recognised directly in equity). Both triggers were not exceeded during the year under review.

Market Risk Management, Monitoring and Reduction

General Interest Rate Risk General interest rate risk or gap risk amounted to €14 million as at 30 June 2020 (31 December 2019: €40 million).

Volatility Risks Volatility risk amounted to €1 million as at 30 June 2020 (31 Dec 2019: €2 million).

Credit-Spread-Risk (CSRBB) The present value Credit spread risk reflects potential changes in the present value of exposures as a result of changes in the corresponding credit spread. The majority of credit spread risk is attributable to assets eligible for inclusion in Pfandbrief cover. The Bank has risk measurement systems in place to determine credit spread risks for all relevant exposures. The VaR limit applied to all credit spread risks for asset instruments at fair value through profit and loss (FVPL) or at fair value through other comprehensive income (FVOCI) as well as those securities held as assets that are measured at amortised cost. The credit spread risk amounted to €50 million as at 30 June 2020 (year-end 2019: €64 million).

Other Market Risks The present value of foreign currency risk amounted to €1 million as at 30 June 2020 and is therefore unchanged from 31 December 2019 (€1 million).

Liquidity and Funding Risk

Development of pbb Group's Risk Position

The cumulative liquidity position (liquid assets plus projected net cash flows) determined as part of the liquidity risk measurement process as at 30 June 2020 amounted to €6.4 billion for a twelve-month horizon in the base scenario. This figure was unchanged compared to 31 December 2019. As at 30 June 2020, the cumulative liquidity position for a six-month horizon amounted to €4.5 billion in the risk scenario (31 December 2019: €2.9 billion). The cumulative liquidity position in the stress scenario for a six-month horizon amounted to €2.8 billion as of 30 June 2020 (31 December 2019: €1.0 billion).

Regulatory Liquidity Coverage Requirements (LCR)

The Liquidity Coverage Ratio (LCR) is calculated using the ratio of the liquidity buffer (liquid assets) to net liquidity outflows during a stress period of 30 days. A minimum LCR of 100% is mandatory in regulatory liquidity reporting.

The levels determined for pbb Group during the first half of 2020 were at any time clearly in excess of 100%. The Liquidity Coverage Ratio as at 30 June 2020 was 375%.

Funding Markets

Please refer to the Report on the Economic position, section Development in Financial Position for details concerning developments on funding markets and changes in pbb's funding volumes during the period under review.

Operational Risk

Risk Measurement

Please refer to the chapter "Internal Capital Adequacy Assessment Process (ICAAP)" for further details on the quantification of operational risk as well as the calculation results of the economic capital for operational risk.

In line with the Standardised Approach according to article 317 et seq. of Regulation 575/2013/EU (CRR), the own funds requirement for operational risks, which is calculated at the end of each year, was €70 million as at 31 December 2019 (31 December 2018: €70 million).

Operational Risk Profile of pbb Group

pbb Group suffered financial losses of €1 million from operational risks during the first half of 2020 (6m 2019: €7 million). pbb assesses its operational risk profile as stable.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

In this chapter, no general statements have been made on the Internal Capital Adequacy Assessment Process (ICAAP), given that there were no changes in this respect during the period under review compared to the 2019 annual report.

In line with the current ICAAP methodology, the capital adequacy assessment is evaluated from a normative as well as from an economic perspective. Both perspectives are aimed at the sustainability of the business and capital planning, and on the long-term viability of the pbb Group. As the normative perspective's requirements have been fully implemented, which are geared towards securing the regulatory and supervisory requirements for capital and liquidity over several years, the going concern approach became obsolete and its results were last reported as at 31 December 2019. The risk-bearing capacity established in the pbb Group, which uses the concept of economic capital to quantify risk, is therefore only used for the economic perspective.

The risks identified in the risk inventory as higher-level risks having an impact on capital and income – i.e. market risk, credit risk, business and strategic risk, operational risk and real estate risk – are included in the ICAAP, using models or other methods to quantify the economic capital of these risk types. Within these types of risk, there are additional material sub-risks on a granular level that were taken into account in the ICAAP during the period under review, albeit no longer in the form of regularly validated buffers but as other risks. Extension risk, settlement risk, realisation risk for defaulted loans, pension risk and model risk are combined for this purpose. Funding risk is included in business and strategic risk.

The methods of calculating economic capital for the individual risk types, as well as risk indicators as at the reporting date, are described in greater detail in the following sub-sections, and in the chapter "Result of Risk-bearing Capacity Analysis".

Quantification of economic capital for individual risk types

A description of how the economic capital of the individual risk types is quantified can be found in the 2019 Annual Report. The changes applied in 2020 are described under the respective paragraphs.

Economic capital for Credit Risk

Counterparty credit risk reported comprises default and migration risk, transfer and conversion risk, as well as concentration risk. Certain elements of counterparty credit risk, such as the realisation risk for defaulted clients, settlement risk, and extension risk, are not reported directly as part of counterparty credit risk. Since 2020, these risks have no longer been taken into account as deductions from available financial resources, but instead represents (as other risks, which are regularly updated) a component of overall risk.

Economic capital for Market Risk (including Pension Risk)

Besides the risk types described in the "Market Risk" chapter, the ICAAP also encompasses pension risk, which is not disclosed directly under economic capital for market risk. Since 2020, pension risk has no longer been deducted from available financial resources in the form of a regularly validated buffer, but instead represents (as other risk) a component of the overall risk.

Result of Risk-bearing Capacity Analysis

Normative Perspektive

For a detailed description of the regulatory indicators measured as at the reporting date (CET1 ratio, tier 1 ratio, own funds ratio, MREL and Leverage Ratio), please refer to the chapter "Key regulatory capital ratios". The readings for these indicators were non-critical at the reporting date. The future-oriented medium-term analysis of key capital ratios – as required by regulators – did not show any critical values according to the limit system, neither in the base scenario nor in the stress scenarios.

Economic Perspective

in € million	30.6.2020	31.12.2019	Change
Credit risk	1,136	1,183	-47
Thereof Real Estate Finance	587	598	-11
Thereof Public Investment Finance	90	97	-7
Thereof Value Portfolio	451	478	-27
Thereof Consolidation & Adjustments	8	9	-1
Market risk	629	640	-11
Operational risk	97	97	-
Business and strategic risk	46	1	45
Other risks	103	-	103
Total before diversification effects	2,011	1,921	90
Total after diversification effects	1,844	1,747	97
Available financial resources before net hidden losses	2,969	2,886	83
Net hidden losses	-	-	-
Available financial resources	2,969	2,886	83
Excess capital	1,125	1,139	-14
Capital Adequacy Ratio in %	161	165	-4

In the economic perspective, aggregate risk after diversification effects increased slightly during the period under review. Although the economic capital from counterparty credit risk and market risk has fallen, this effect was overcompensated by several factors. Business risk, on the one hand, has increased in the first half of 2020, especially due to the reduction in the existing portfolio in the REF and PIF segments and to higher loss allowance. On the other hand, changes were made according to the risk strategy. A "buffer for other risks" had previously been deducted from capital. This has now been reduced and is shown as part of other risks and model risk on the risk side. This shift led to an increase in diversified economic capital and to relief on capital at the same time. The decline in economic capital for counterparty credit risk in REF and VP was driven mainly by changes in the rating,

LGD and spreads. Market risk remained stable overall in the period under review. A slight reduction, which resulted mainly from credit spread risks, was observed. Economic capital for operational risk is determined at least annually and remained unchanged during the first half of 2020.

This is offset by available financial resources, which have increased slightly due to the aforementioned reduction of the buffer for other risks in the reporting period. Compared to the year-end 2019, excess capital fell slightly, whilst the internal capital adequacy ratio (defined as the ratio of available financial resources to diversified economic capital), decreased somewhat. Overall, the Bank's risk-bearing capacity at the reporting date was demonstrated for the economic perspective as well.

Should credit spreads widen or credit ratings of European public debtors worsen, owing to economic or political developments, both a corresponding increase in credit risk and a reduction in available financial resources (given an increase in net hidden losses and lower equity) are to be expected, notwithstanding any countermeasures taken.

Opportunities

A quick economic recovery would lead to narrowing credit spreads and generally improve ratings. This would strengthen available financial resources further and hence, excess coverage in the ICAAP.

Stress testing

Stress tests play a major role, both from a supervisory perspective and for the Bank's internal management. All activities, developments and decisions relating to stress tests are brought together within the Risk Committee, as well as the Stress Test Committee, which reports directly to the Risk Committee.

As part of an integrated approach, the impact of macroeconomic stress scenarios on the material metrics of the normative and economic perspectives was calculated for a horizon of several years during the period under review. Stress scenarios were developed in the wake of the COVID-19 pandemic, and analyses carried out how these scenarios affect the Bank. Given the highly dynamic development, these scenarios are subject to very considerable uncertainty.

Furthermore, stress tests relating to economic capital and available financial resources are used to obtain a deeper understanding of the sensitivity of risk-bearing capacity to adverse changes in economic factors. In addition, inverse stress tests are conducted regularly. The results of these tests describe specific constellations of parameters under which the risk-bearing capacity would be at risk.

Key Regulatory Capital Ratios

The requirements for regulatory capital ratios were satisfied throughout the first half of 2020.

Own Funds¹⁾

in € million	30.6.2020	31.12.2019
CET1	2,747	2,811
Additional Tier 1	298	298
Tier 1	3,045	3,109
Tier 2	614	624
Own Funds	3,659	3,733

¹⁾ Values as of 31 December 2019 after confirmation of the 2019 financial statements. The figures have been adjusted compared with the presentation in the Annual Report 2019, as the dividend proposal for the financial year 2019 of €0.90 per eligible share was withdrawn on 3 April 2020 and at the Annual General Meeting on 28 May 2020, a resolution was passed to retain the net profit achieved in 2019.

Risk-weighted assets (RWA)

in € million	30.6.2020	31.12.2019
Market risks	118	148
Thereof interest rate risks	-	-
Thereof foreign exchange risks	118	148
Operational risks	870	870
Credit risks	16,136	16,494
Thereof CVA Charge	196	239
Other RWA	228	209
RWA total	17,352	17,721

Capital ratios¹⁾

in %	30.6.2020	31.12.2019
CET1 ratio	15.8	15.9
Tier 1 ratio	17.5	17.5
Own Funds ratio	21.1	21.1

¹⁾ Values as of 31 December 2019 after confirmation of the 2019 financial statements. The figures have been adjusted compared with the presentation in the Annual Report 2019, as the dividend proposal for the financial year 2019 of €0.90 per eligible share was withdrawn on 3 April 2020 and at the Annual General Meeting on 28 May 2020, a resolution was passed to retain the net profit achieved in 2019.

Leverage Ratio¹⁾

in %	30.6.2020	31.12.2019
Leverage ratio	5.1	5.6

¹⁾ Values as of 31 December 2019 after confirmation of the 2019 financial statements. The figures have been adjusted compared with the presentation in the Annual Report 2019, as the dividend proposal for the financial year 2019 of €0.90 per eligible share was withdrawn on 3 April 2020 and at the Annual General Meeting on 28 May 2020, a resolution was passed to retain the net profit achieved in 2019.

Minimum Requirements for Own Funds and Eligible Liabilities (MREL)

Under the recovery and resolution regime (pursuant to the Bank Recovery and Resolution Directive (BRRD) and Directive (EU) No. 879/2019 of the European Parliament and of the Council of 20 May 2019 amending Directive 2014/59/EU as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms and Directive 98/26/EC), institutions are required to maintain, in addition to regulatory capital, liabilities that can be converted to equity in the amount of the so-called MREL ratio. However, there are clear limits to the ability to convert liabilities (the 'bail-in capacity'). In particular, there is the principle that no investor may be placed in a less advantageous position than is permitted under regular insolvency proceedings (the principle of 'no creditor worse off' – or NCWO). For example, this means that deposits covered by a national deposit guarantee scheme are not bail-inable and thus excluded from conversion. The exact level of the MREL ratio is determined by regulators individually for each institution concerned. pbb Group is aiming to maintain an MREL ratio of at least 8% in relation to total liabilities and own funds (TLOF), and – as in the previous year – exceeded this requirement significantly in the period under review.

Report on Expected Developments

The forecasts for pbb Group's future development represent estimates that were made on the basis of the information currently available. If the assumptions on which the forecasts are based on do not materialise or if risks and opportunities do not occur to the extent calculated, the actual results may differ from the results currently expected.

Regarding the key performance indicators for the financial year 2020, in its Annual Report 2019 pbb Group aimed the following:

- > New business volume (including prolongations with maturities of more than one year) between €8.0 billion and €9.0 billion.
- > Slight increase in the financing volume Real Estate Finance (31 December 2019: €27.1 billion).
- > Profit before tax in a range between €180 million and €200 million.
- > Cost-income ratio slightly above the 2019 figure (43.5%).
- > Return on equity after tax between 4.0% and 5.0%.
- > CET1 ratio significantly above the SREP ratio of 9.5% pbb Group has to comply with in addition to the country-specific (and thus portfolio-specific) varying counter-cyclical capital buffer.
- > A crucial secondary condition when aiming to achieve pbb Group's earnings and profitability goals is ensuring the risk-bearing capacity: regarding the normative perspective, the Bank strives to adhere to the minimum capital ratios as required by regulators – even when taking an adverse economic scenario as a basis. Regarding the economic perspective, pbb Group is aiming to achieve levels of capitalisation available to cover risks that adequately exceed economic capital requirements.

On 4 May 2020, pbb's Management Board resolved to withdraw the forecast for the 2020 financial year, as published in the annual report for the 2019 financial year, against the background of the COVID-19 pandemic. This was announced via an ad-hoc disclosure. In particular, the development of loss allowance and net income from fair value measurement could not be reliably forecast, due to uncertainty concerning the macroeconomic environment and real estate market developments.

Despite these challenges for the Bank's workflows and the income statement's operational parameters, pbb Group generated good results in the first half of 2020. Within the income statement, pbb Group expects slightly higher net interest income in the second half of 2020 compared to the first half of the year, resulting from the Bank targeting a somewhat larger commercial real estate finance portfolio and lower funding expenses (amongst other things, due to the TLTRO III). General and administrative expenses for 2020 are expected to be marginally below the previous year's figure of €202 million. Furthermore, the Bank does not anticipate a further deterioration in the economic environment and the forecasts compared to 30 June 2020; nor are any material further model-based net additions to loss allowance (stages 1 and 2) expected. The development of net income from risk provisioning, including stage 3 financial instruments, on the other hand, is currently not reliably predictable due to the major macroeconomic and sector-specific uncertainty.

Thus, pbb Group maintains its forecast of stable operating results, albeit continuing to assume that pre-tax profit, and hence also the return on equity after tax, will fail to reach the previous year's levels. However, making reliable and precise predictions concerning these two financial performance indicators is currently still impossible as a result of the prevailing uncertainty, especially as regards net income from risk provisioning from stage 3 financial instruments. Due to the persistently challenging situation on the real estate markets, new business volume is also not reliably predictable.

Given that operating performance is expected to be stable during the second half of 2020, pbb Group anticipates to be able to maintain the forecasts presented in the 2019 Annual Report for the Real Estate Finance volume, the cost-income ratio, the CET1 ratio, and for safeguarding the risk-bearing capacity – despite the persistently high general economic risks.

OPPORTUNITIES UND RISKS

Compared to the opportunities and risks outlined in the 2019 Annual Report, the risk from pandemics, and in particular from COVID-19, has increased. This risk results, inter alia, from the uncertain further development of the COVID-19 pandemic. A rising number of COVID-19 infections in pbb Group's core markets, in combination with new or increased public containment measures, could further burden the economy and real estate markets. Irrespective of the further development of the pandemic, it is uncertain whether – and how fast – the economy can recover from the collapse in the first half of 2020. One unknown factor is the population's consumption, business, and holiday travel behaviour, which could affect retail and hotel properties, amongst other things. This uncertainty could potentially incur a fall in fair values of financial instruments, which in turn could further impact net income from fair value measurement. In addition, expected credit losses of financial instruments, included in net income from risk provisioning, could increase. However, values on the financial markets are in part significantly lower than before the COVID-19 outbreak, giving rise to new opportunities.

Condensed Consolidated Interim Financial Statements

Income Statement

Income statement

in € million	Note	1.1.- 30.6.2020	1.1.- 30.6.2019
Net interest income ¹⁾	5	228	229
Net fee and commission income	6	3	3
Net income from financial instruments at fair value through profit or loss (net income from fair value measurement) ²⁾	7	-16	-7
Net income from derecognition of financial instruments not measured at fair value through profit or loss (net income from realisations) ²⁾	8	16	16
Thereof: from financial assets at amortised cost		15	17
Net income from hedge accounting	9	-2	-1
Net other operating income	10	4	-2
Net income from allowances for credit losses on financial assets (net income from risk provisioning) ²⁾	11	-70	-
General and administrative expenses	12	-97	-93
Expenses from bank levies and similar dues	13	-25	-22
Net income from write-downs and write-ups of non-financial assets	14	-10	-8
Net income from restructuring	15	-	2
Profit before tax		31	117
Income tax	16	-8	-18
Net income		23	99
attributable to:			
Shareholders of pbb		23	99

¹⁾ Interest income of €779 million (6m2019: €899 million) in total includes interest income of €593 million (6m2018: €653 million) from financial instruments not measured at fair value through profit or loss (IAS 1.82a).

²⁾ Solely the condensed and parenthesised line item descriptions are used subsequently.

Earnings per share

in €	Note	1.1.- 30.6.2020	1.1.- 30.6.2019
Basic earnings per share	17	0.10	0.67
Diluted earnings per share	17	0.10	0.67

Statement of Comprehensive Income

Consolidated statement of comprehensive income

in € million	1.1.- 30.6.2020	1.1.- 30.6.2019
Net income/loss	23	99
Accumulated other comprehensive income	-5	-32
Items that will not be reclassified to profit or loss, net of tax	5	-26
Gains/losses on pension commitments, before tax	7	-36
Income tax relating to items that will not be reclassified to profit or loss	-2	10
Items that may be reclassified to profit or loss, net of tax	-10	-6
Gains/losses on cash flow hedge accounting, before tax	-3	-10
unrealised gains/losses	-	-
gains/losses reclassified to profit or loss	-3	-10
Gains/losses on financial assets at fair value through other comprehensive income, before tax	-10	3
unrealised gains/losses	-10	3
gains/losses reclassified to profit or loss	-	-
Income tax relating to items that may be reclassified to profit or loss	3	1
Comprehensive income for the period	18	67
attributable to:		
Shareholders of pbb	18	67

Statement of Financial Position

Assets

in € million	Note	30.6.2020	31.12.2019	1.1.2019
Cash reserve		4,464	1,141	1,388
Financial assets at fair value through profit or loss	18	1,505	1,306	1,659
Positive fair values of stand-alone derivatives		824	717	749
Debt securities		131	130	258
Loans and advances to customers		547	456	649
Shares in investment funds qualified as debt instruments		3	3	3
Financial assets at fair value through other comprehensive income	19	1,738	1,696	1,984
Debt securities		1,415	1,325	1,564
Loans and advances to other banks		-	15	16
Loans and advances to customers		323	356	404
Financial assets at amortised cost after credit loss allowances	20	50,850	50,224	50,341
Financial assets at amortised cost before credit loss allowances		51,038	50,351	50,453
Debt securities		7,699	7,679	8,039
Loans and advances to other banks		3,535	2,356	2,231
Loans and advances to customers		39,804	40,316	40,183
Credit loss allowances on financial assets at amortised cost		-188	-127	-112
Positive fair values of hedge accounting derivatives	21	1,887	2,199	2,207
Valuation adjustment from portfolio hedge accounting (assets)		29	19	2
Tangible assets ¹⁾	22	41	45	13
Intangible assets		40	39	37
Other assets		46	41	35
Current income tax assets		22	22	26
Deferred income tax assets		91	90	86
Total assets		60,713	56,822	57,778

¹⁾ Due to the first-time application of IFRS 16, "tangible assets" increased by €9 million as of 1 January 2019.

Liabilities and equity

in € million	Note	30.6.2020	31.12.2019	1.1.2019
Financial liabilities at fair value through profit or loss	23	736	762	881
Negative fair values of stand-alone derivatives		736	762	881
Financial liabilities measured at amortised cost	24	54,191	49,741	50,714
Liabilities to other banks		10,236	4,195	3,867
Liabilities to customers		23,221	23,985	24,901
Bearer bonds		20,042	20,858	21,237
Subordinated liabilities		692	703	709
Negative fair values of hedge accounting derivatives	25	2,068	2,562	2,538
Valuation adjustment from portfolio hedge accounting (liabilities)		137	81	23
Provisions	26	248	263	268
Other liabilities ¹⁾	27	61	130	49
Current income tax liabilities		35	47	48
Liabilities		57,476	53,586	54,521
Equity attributable to the shareholders of pbb	28	2,939	2,938	2,959
Subscribed capital		380	380	380
Additional paid-in capital		1,637	1,637	1,637
Retained earnings		972	966	939
Accumulated other comprehensive income		-50	-45	3
Thereof: allowances for credit losses on financial assets at fair value through other comprehensive income		-	-	1
Additional equity instruments (AT1)		298	298	298
Equity		3,237	3,236	3,257
Total equity and liabilities		60,713	56,822	57,778

¹⁾ Due to the first-time application of IFRS 16, "other liabilities" increased by €9 million as of 1 January 2019.

Statement of Changes in Equity

Statement of changes in equity

in € million	Equity attributable to the shareholders								
	Subscribed capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (OCI) from:				Additional equity instruments (AT1 capital)	Equity
				Pension commitments	Cash flow hedge accounting	financial assets at fair value through OCI			
Balance at 1.1.2019	380	1,637	939	-73	-	76	298	3,257	
Distribution	-	-	-134	-	-	-	-	-134	
Payment on AT1 capital	-	-	-18	-	-	-	-	-18	
Comprehensive income for the period	-	-	99	-26	-8	2	-	67	
Net income	-	-	99	-	-	-	-	99	
OCI for the period, after taxes	-	-	-	-26	-8	2	-	-32	
Balance at 30.6.2019	380	1,637	886	-99	-8	78	298	3,172	
Balance at 1.1.2020	380	1,637	966	-99	-11	65	298	3,236	
Payment on AT1 capital	-	-	-17	-	-	-	-	-17	
Comprehensive income for the period	-	-	23	5	-3	-7	-	18	
Net income after tax	-	-	23	-	-	-	-	23	
OCI for the period, after taxes	-	-	-	5	-3	-7	-	-5	
Balance at 30.6.2020	380	1,637	972	-94	-14	58	298	3,237	

Statement of Cash Flows (condensed)

Statement of cash flows (condensed)

in € million	2020	2019
Cash and cash equivalents at 1.1.	1,141	1,388
+/- Cash flows from operating activities	3,371	914
+/- Cash flows from investing activities	-28	667
+/- Cash flows from financing activities	-20	-159
Cash and cash equivalents at 30.6.	4,464	2,810

Notes (condensed)

GENERAL INFORMATION

1. Principles

Deutsche Pfandbriefbank AG (pbb) has prepared the condensed consolidated interim financial statements for the period ended 30 June 2020 in line with EC regulation No. 1606/2002 of the European Parliament and of the Council from 19 July 2002 in accordance with International Financial Reporting Standards (IFRS). The IFRS are standards and interpretations adopted by the International Accounting Standards Board (IASB). These are the International Financial Reporting Standards (IFRS), the International Accounting Standards (IAS) and the interpretations of the IFRS Interpretations Committee (formerly IFRIC) respectively the former Standing Interpretations Committee (SIC).

The condensed consolidated interim financial statements are based on IFRS as adopted in European law by the European Commission as part of its endorsement process. In particular, requirements of IAS 34 have been considered.

With the exception of certain regulations on fair value hedge accounting for a portfolio hedge of interest rate risks in IAS 39 Financial Instruments: Recognition and Measurement, all the IFRS published by the IASB and required to be applied were fully endorsed by the European Union (EU). According to the option pursuant to IFRS 9.7.2.21 Deutsche Pfandbriefbank Group (pbb Group) still applies the requirements of IAS 39 for hedge accounting instead of the requirements in chapter 6 of IFRS 9. Within the framework of fair value hedge accounting for a portfolio hedge of interest rate risks, pbb Group applies a part of the exemptions permitted under European law. Therefore, the present condensed consolidated interim financial statements comply with IFRS applicable in the EU, but not with IFRS as a whole as promulgated by the IASB.

In addition, the German Accounting Standards (Deutsche Rechnungslegungs Standards – DRS) published by the Accounting Standards Committee of Germany (Deutsche Rechnungslegungs Standards Committee – DRSC) have been taken into account provided that they are not inconsistent with the IFRS.

The Risk and Opportunity Report contains information which, under IFRS 7, is required to be disclosed.

The Management Board of pbb prepared these condensed consolidated interim financial statements on 28 July 2020 under the going-concern assumption and released for publication.

The following financial reporting standards were required to be applied for the first time in the reporting period:

Amendments to the Conceptual Framework in IFRS Standards

Identified regulatory gaps were closed and contents clarified and updated by the revision of the framework. For example, amendments occurred with respect to the definition criteria and the recognition of assets and liabilities, and the distinction of net income of the period and other comprehensive income. There will be no material effects from the amendments on pbb Group's financial statements.

Amendments to IFRS 3 Business Combinations

The principal reason for the amendments was the difficulties associated with determining whether a business or a group of assets was acquired. The distinction has an effect on subsequent issues, such as the accounting of goodwill. The first-time application had no effects upon pbb Group. In future, the amendments may be relevant depending on potential business combinations.

Amendments to IAS 1 and IAS 8: Definition of Material

The IASB clarified the definition of “material” and aligned different definitions used in the conceptual framework and standards themselves. The first-time application had no material effects upon pbb Group.

Amendments to IFRS 16 Leases

The amendments grant lessees an exemption from the assessment as to whether rent concessions granted due to the COVID-19 pandemic constitute a lease modification. The amendments to IFRS 16 are not relevant to pbb Group, as pbb Group has not made use of rent concessions. The EU has yet to endorse the amendments.

The IASB publication **Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7** for the assessment of retrospective as well as prospective hedge effectiveness for the reporting period ending on 31 December 2019, was applied on a voluntary basis.

2. Consistency

pbb Group applies its accounting policies on a consistent basis in accordance with the Conceptual Framework for Financial Reporting, as well as IAS 1 and IAS 8. Except for the matter described below the condensed interim consolidated financial statements as at 30 June 2020 were prepared using the same accounting policies applied for the consolidated financial statements as at 31 December 2019.

Segment Reporting

Management reporting forms the basis for segment reporting. As at 1 January 2020, pbb Group has taken into account the current regulatory challenges in relation to issues surrounding the determination of risk-weighted assets under Pillar 1 for the business segments, also with regard to the capital requirements in segment reporting. This resulted in a change in the amount of profit before tax, as well as in the amount of allocated equity of reportable segments. The changes impact on the allocation of equity (excluding accumulated other comprehensive income from cash flow hedge accounting and from financial assets measured at fair value through other comprehensive income, as well as excluding AT1 capital) to the Real Estate Finance (REF), Public Investment Finance (PIF) and Value Portfolio (VP) business segments and the Consolidation & Adjustments (C&A) reconciliation column. Previously, the allocation of equity to the operating segments and C&A followed a proportionate approach and was therefore consistent with the distribution of diversified capital within risk management (going-concern approach). For 2020, pbb will continue to allocate reported equity to segments in proportion to economic required capital (in line with the ‘bottleneck principle’), however incorporating adjusted input parameters from Pillar 1 for the ICAAP economic perspective.

pbb Group has adjusted the segmentation of income and expenses for the comparable prior-year period, and of equity as at 31 December 2019, in accordance with IFRS 8.29. The adjustment led to an increase of €2 million and €1 million in the net interest income of the Real Estate Finance (REF) and Public Investment Finance (PIF) segments respectively, whereby the net interest income of the Value Portfolio (VP) segment fell by €3 million. Equity (excluding accumulated other comprehensive income from cash flow hedge accounting and from financial assets measured at fair value through other comprehensive income, as well as excluding AT1 capital) changed as follows as at 31 December 2019 due to the re-segmentation: The allocated capital in REF rose by €0.2 billion and by €0.1 billion in PIF, while falling by €0.2 billion in VP and by €0.1 billion in C&A.

3. Consolidation

A list of all consolidated and non-consolidated companies of pbb can be found on page 189 of pbb Group's 2019 Annual Report. There have not been any changes in the group of consolidated companies in the first half of 2020.

4. Segment Reporting

Income/expenses

in € million		Real Estate Finance (REF)	Public Investment Finance (PIF)	Value Portfolio (VP)	Consolidation & Adjustments (C&A)	pbb Group
Operating income	1.1.-30.6.2020	208	20	3	2	233
	1.1.-30.6.2019	209	16	11	2	238
Net interest income	1.1.-30.6.2020	189	19	18	2	228
	1.1.-30.6.2019	194	18	15	2	229
Net fee and commission income	1.1.-30.6.2020	3	-	-	-	3
	1.1.-30.6.2019	3	-	-	-	3
Net income from fair value measurement	1.1.-30.6.2020	-3	-1	-12	-	-16
	1.1.-30.6.2019	-5	-1	-1	-	-7
Net income from realisations	1.1.-30.6.2020	13	1	2	-	16
	1.1.-30.6.2019	17	-	-1	-	16
Net income from hedge accounting	1.1.-30.6.2020	-1	-	-1	-	-2
	1.1.-30.6.2019	-	-	-1	-	-1
Net other operating income	1.1.-30.6.2020	7	1	-4	-	4
	1.1.-30.6.2019	-	-1	-1	-	-2
Net income from risk provisioning	1.1.-30.6.2020	-72	-	2	-	-70
	1.1.-30.6.2019	-2	-	2	-	-
General and administrative expenses	1.1.-30.6.2020	-83	-9	-5	-	-97
	1.1.-30.6.2019	-76	-11	-6	-	-93
Expenses from bank levies and similar dues	1.1.-30.6.2020	-15	-3	-7	-	-25
	1.1.-30.6.2019	-13	-3	-6	-	-22
Net income from write-downs and write-ups of non-financial assets	1.1.-30.6.2020	-8	-1	-1	-	-10
	1.1.-30.6.2019	-7	-1	-	-	-8
Net income from restructuring	1.1.-30.6.2020	-	-	-	-	-
	1.1.-30.6.2019	2	-	-	-	2
Profit before tax	1.1.-30.6.2020	30	7	-8	2	31
	1.1.-30.6.2019	113	1	1	2	117

The income and expenses of the previous year's period were adjusted in accordance with IFRS 8.29. Details are described in the note "consistency".

Cost-Income-Ratio¹⁾

in %		REF	PIF	VP	pbb Group
Cost-Income-Ratio	1.1.-30.6.2020	43.8	50.0	>100.0	45.9
	1.1.-30.6.2019	39.7	75.0	54.5	42.4

¹⁾ Cost-income ratio is the ratio of general and administrative expenses and net income from write-downs and write-ups on non-financial assets to operating income.

Balance-sheet-related measures

in € billion		REF	PIF	VP	C&A	pbb Group
Financing volumes ¹⁾	30.6.2020	26.7	6.0	11.8	-	44.5
	31.12.2019	27.1	6.3	12.1	-	45.5
Risik-weighted assets ²⁾	30.6.2020	15.5	0.8	0.5	0.6	17.4
	31.12.2019	15.8	0.8	0.5	0.6	17.7
Equity ³⁾	30.6.2020	1.7	0.2	0.6	0.4	2.9
	31.12.2019	1.7	0.2	0.6	0.4	2.9

¹⁾ Notional amounts of the drawn parts of granted loans and parts of the securities portfolio.

²⁾ Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5.

³⁾ Excluding cash flow hedge reserve, reserves from financial assets at fair value through other comprehensive income and AT1 capital. Values as of 31.12.2019 were adjusted due to IFRS 8.29 (see note "consistency").

NOTES TO THE INCOME STATEMENT

5. Net Interest Income

Net interest income

in € million	1.1.- 30.6.2020	1.1.- 30.6.2019
Net interest income	779	899
from financial assets at fair value through profit or loss	125	151
from financial assets at fair value through other comprehensive income	26	30
from financial assets at amortised cost	567	623
from hedge accounting derivatives (net) ¹⁾	65	98
from other assets	2	3
negative interest income from non-derivative financial assets	-6	-6
Interest expenses	-551	-670
from financial liabilities held for trading	-155	-183
from financial liabilities measured at amortised cost	-400	-487
positive interest expenses from non-derivative financial liabilities	4	-
Total	228	229

¹⁾Includes positive interest expenses (net) from hedge accounting derivatives in the amount of €11 million (6m2019: €8 million).

6. Net Fee and Commission Income

Net fee and commission income

in Mio. €	1.1.- 30.6.2020	1.1.- 30.6.2019
Fee and commission income	4	4
from financial assets at amortised cost and financial liabilities not at fair value through profit or loss	4	4
Fee and commission expenses	-1	-1
from financial assets at amortised cost and financial liabilities not at fair value through profit or loss	-1	-1
Total	3	3

7. Net Income from Fair Value Measurement

Net income from fair value measurement

in € million	1.1.- 30.6.2020	1.1.- 30.6.2019
Net income from stand-alone derivatives	-18	-22
Interest derivatives	-18	-22
Net income from other financial assets at fair value through profit or loss	2	15
from debt instruments	2	15
Debt securities	-	6
Loans and advances	2	9
Total	-16	-7

8. Net Income from Realisations

Net income from realisations

in € million	1.1.- 30.6.2020	1.1.- 30.6.2019
Income from derecognition of financial instruments	16	18
from financial assets measured at amortised cost	15	18
from financial liabilities measured at amortised cost	1	-
Expenses from derecognition of financial instruments	-	-2
from financial assets measured at fair value through other comprehensive income	-	-1
from liabilities measured at amortised cost	-	-1
Total	16	16

9. Net Income from Hedge Accounting

Net income from hedge accounting

in € million	1.1.- 30.6.2020	1.1.- 30.6.2019
Net income from micro fair value hedge accounting	-3	-1
from hedged items	160	-6
from hedging instruments	-163	5
Net income portfolio fair value hedge accounting	1	-
from hedged items	-56	-55
from hedging instruments	57	55
Total	-2	-1

10. Net Other Operating Income

Net other operating income

in € million	1.1.- 30.6.2020	1.1.- 30.6.2019
Net income from foreign currency translation	-	-2
Net income from provisions in non-lending business	4	-
Total	4	-2

11. Net Income from Risk Provisioning

Net income from risk provisioning

in € million	1.1.- 30.6.2020	1.1.- 30.6.2019
From financial assets	-66	-1
Stage 1	-27	-
Stage 2	-27	3
Stage 3	-12	-4
Income from recoveries from written-off financial assets	1	-
Net income from provisions in off balance sheet lending business	-5	1
Total	-70	-

12. General and Administrative Expenses

General and administrative expenses

in € million	1.1.- 30.6.2020	1.1.- 30.6.2019
Personnel expenses/income	-60	-57
Wages and salaries	-50	-47
Social security expenses	-7	-6
Pension expenses and related employee benefit expenses	-5	-5
Other personell expenses/income	2	1
Non-personnel expenses	-37	-36
Office and operating expenses	-3	-4
Consulting expenses	-9	-6
IT expenses	-18	-17
Other non-personnel expenses	-7	-9
Total	-97	-93

13. Expenses from Bank Levies and Similar Dues

Expenses from bank levies and similar dues

in € million	1.1.- 30.6.2020	1.1.- 30.6.2019
Bank levies	-23	-20
Deposit protection fund	-1	-2
Compensation scheme of German banks	-1	-
Total	-25	-22

14. Net Income from Write-downs and Write-ups of Non-financial Assets

Net income from write-downs and write-ups of non-financial assets

in € million	1.1.- 30.6.2020	1.1.- 30.6.2019
Depreciation	-10	-8
Tangible assets	-4	-3
Thereof: right-of-use of lease contracts	-3	-1
Intangible assets	-6	-5
Total	-10	-8

15. Net Income from Restructuring

There were no material additions to, or reversals of, restructuring provisions during the first half of 2020. In the same period of the previous year net income from restructuring resulted from the reversal of provisions in connection with Human Resources.

16. Income Tax

Income tax

in € million	1.1.- 30.6.2020	1.1.- 30.6.2019
Current taxes	-8	-9
Deferred taxes	-	-9
Total	-8	-18

17. Earnings per Share

Earning per share

		1.1.- 30.6.2020	1.1.- 30.6.2019
Net income attributable to shareholders of pbb	in € million	23	99
Thereof attributable to the ordinary shareholders	in € million	14	90
Thereof attributable to the AT1 investors	in € million	9	9
Average number of ordinary shares issued	pieces	134,475,308	134,475,308
Adjusted average number of ordinary shares issued pieces		134,475,308	134,475,308
Basic earnings per share		0.10	0.67
Diluted earnings per share		0.10	0.67

Earnings per share are calculated in accordance with IAS 33 by dividing net income attributable to the ordinary shareholders holders by weighted average number of ordinary shares. Net income is allocated under the assumption of interests for the AT1 capital, which are accrued pro rata temporis as well as assuming full operation of the discretionary AT1-coupon.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

18. Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss

in € million	30.6.2020	31.12.2020
Positive fair values of stand-alone derivatives	824	717
Shares in investment funds qualified as debt instruments	3	3
Debt securities	131	130
Bonds and notes	131	130
Public-sector issuers	88	88
Other issuers	43	42
Loans and advances to customers	547	456
Public-sector loans and advances	273	278
Real estate loans and advances	274	178
Total	1,505	1,306

19. Financial Assets at Fair Value Through Other Comprehensive Income

Financial Assets at Fair Value Through Other Comprehensive Income

in € million	30.6.2020	31.12.2019
Debt securities	1,415	1,325
Bonds and notes	1,415	1,325
Public-sector issuers	647	582
Other issuers	768	743
Loans and advances to other banks	-	15
Public-sector loans and advances	-	15
Loans and advances to customers	323	356
Public-sector loans and advances	323	356
Total	1,738	1,696

20. Financial Assets at Amortised Cost After Credit Loss Allowances

Financial assets at amortised cost before credit loss allowances

in € million	30.6.2020	31.12.2019
Debt securities	7,699	7,679
Bonds and notes	7,699	7,679
Public-sector issuers	5,648	5,672
Other issuers	2,051	2,007
Loans and advances to other banks	3,535	2,356
Public-sector loans and advances	557	548
Investments in money	1,596	-
Other loans and advances to other banks	1,382	1,808
Loans and advances to customers	39,804	40,316
Public-sector loans and advances	13,066	13,131
Real estate loans and advances	26,484	26,922
Other loans and advances to customers	48	55
Claims from finance lease agreements	206	208
Total	51,038	50,351

Development in risk provisioning

in € million	1.1.2020	Net additions/ reversals	Use/ other	30.6.2020
Allowances for credit losses on financial assets	-127	-66	5	-188
measured at amortised cost	-127	-66	5	-188
Debt securities	-3	1	-	-2
Loans and advances to customers	-124	-67	5	-186
Provisions in the lending business	-8	-5	-	-13
Total	-135	-71	5	-201

Credit loss allowances on financial assets at amortised cost

in € million	30.6.2020	31.12.2019
Stage 1	-44	-26
Debt securities	-2	-2
Loans and advances	-42	-24
Stage 2	-80	-46
Debt securities	-	-1
Loans and advances	-80	-45
Stage 3	-64	-55
Loans and advances	-64	-55
Total	-188	-127

21. Positive Fair Values of Hedge Accounting Derivatives

Positive fair values of hedge accounting derivatives

in € million	30.6.2020	31.12.2019
Positive market values of hedge accounting derivatives	1,887	2,199
Total	1,887	2,199

22. Tangible Assets

Tangible assets include right-of-use assets from leasing for land and buildings in the amount of €36 million (31 December 2019: €40 million).

23. Financial Liabilities at Fair Value Through Profit or Loss

Financial liabilities at fair value through profit or loss

in € million	30.6.2020	31.12.2019
Negative fair values of stand-alone derivatives	736	762
Total	736	762

24. Financial Liabilities at Amortised Cost

Financial liabilities at amortised cost

in € million	30.6.2020	31.12.2019
Liabilities to other banks	10,236	4,195
Liabilities to central banks	7,946	1,878
Registered Mortgage Pfandbriefe	293	306
Registered Public Pfandbriefe	369	322
Other registered securities	131	102
Other liabilities to other banks	1,497	1,587
Liabilities to customers	23,221	23,985
Registered Mortgage Pfandbriefe	4,645	4,647
Registered Public Pfandbriefe	9,653	9,926
Other registered securities	2,463	2,480
Other liabilities to customers	6,460	6,932
Bearer bonds	20,042	20,858
Money market instruments	120	70
Mortgage Pfandbriefe	11,322	12,359
Public Pfandbriefe	2,828	3,007
Other bearer bonds	5,772	5,422
Subordinated liabilities	692	703
Securitised subordinated liabilities	632	643
Non-securitised subordinated liabilities	60	60
Total	54,191	49,741

25. Negative Fair Values of Hedge Accounting Derivatives

Negative fair values of hedge accounting derivatives

in € million	30.6.2020	31.12.2019
Negative market values of hedge derivatives	2,068	2,562
Total	2,068	2,562

26. Provisions

Provisions

in € million	30.6.2020	31.12.2019
Provisions for pensions and other post employment defined benefit obligations	114	121
Restructuring provisions	2	1
Provisions for commitments and guarantees given	13	8
Other provisions	119	133
Total	248	263

pbb closed a reinsurance in the form of a qualifying insurance policy according to IAS 19 to hedge parts of the risk from the defined benefit pension obligations. A discount rate of 1.46% (31 December 2019: 1.30%) was used for the measurement of the defined benefit pension obligations. The other actuarial assumption are unchanged compared to the consolidated financial statements 2019.

Other provisions comprise those for legal and tax risks amounted of €69 million (31 December 2019: €66 million), and for legal expenses of €21 million (31 December 2019: €26 million).

Legal Risks (Litigation Risks)

Given the nature of business and international expansion of activities and the large number of relevant requirements and regulations, pbb is involved in litigation, arbitration and administrative proceedings in some countries. pbb recognises provisions for the uncertain obligations arising from these proceedings if the potential outflow of resources is sufficiently likely and the amount of the obligation can be estimated. The probability of outflow of resources, which often cannot be estimated with certainty, is highly dependent on the outcome of the proceedings. The assessment of this probability and the quantification of the obligation are largely based on estimates. The actual liability can vary considerably from this estimate. Accounting for the individual legal procedure, pbb analyses developments of the individual case as well as of comparable cases. Depending on the significance and complexity of the respective case, pbb is drawing on its own expertise or opinions by external consultants and in particular by legal advisors. The provisions recognised for the proceedings are not reported separately as pbb believes that the outcome of the proceedings would be seriously compromised by their disclosure.

The profit participation certificates issued by the predecessor institutions participated in significant losses due to the net losses for the period incurred in the years 2008 et. seq. respectively pbb's unappropriated retained losses since this time. The redemption amounts have reduced and interest payment has been suspended. Individual investors therefore initiated legal proceedings, contesting in particular various individual clauses relating to loss participation and replenishment following loss participation. The key questions in this connection are which balance sheet items must be taken into account to calculate loss participation and whether replenishment is required if pbb records a net income, unappropriated retained earnings or another income. Courts have decided against the legal opinion of pbb in view of the individual decisions regarding profit participation certificates. These proceedings resulted in a partial or comprehensive increase in redemption claims, or in the subsequent distribution of cancelled coupon payments or interest payment claims. There are no legal proceedings pending here.

Hypo Real Estate Bank International AG, a predecessor institution of pbb, issued Credit Linked Notes ("CLNs") in 2007, within the scope of the Estate UK-3 ("UK-3") synthetic securitisation transaction. The CLNs were issued in order to hedge the credit risk exposure of a real estate loan portfolio in the UK. The real estate loan portfolio subsequently suffered a loan default. pbb envisaged allocating a resulting loss of GBP 113.8 million to the credit linked notes. Deloitte GmbH Wirtschaftsprüfungsgesellschaft, the trustee of UK-3, expressed doubts with respect to the permissibility of the loss allocation. In June 2017, the trustee therefore appointed an independent expert to determine whether the conditions for a loss allocation were met. On 28 June 2019, the independent expert informed pbb Group on its findings. It found the allocation of the full amount of a credit loss of GBP 113.8 million permissible. According to the terms of the CLN, the determination of the expert is final and binding – except in the absence of manifest error. On 13 September 2019, the trustee confirmed that he had reviewed the expert's report and found no apparent inaccuracy. Accordingly, the trustee has informed pbb that in his opinion the intended loss allocation is permissible. The loss allocation was made on 20 September 2019 and results in a corresponding reduction of the repayment claim under the CLN. The CLN was repaid on 20 March 2020 (scheduled final maturity).

On 4 July 2017, the German Federal Court of Justice (Bundesgerichtshof, "BGH") determined the inadmissibility of processing fees for corporate loans agreed upon by way of a standard form. pbb still believes that the financing parameters used for complex financing structures in the lending business are generally subject to individual negotiations. pbb recognised sufficient provisions for all doubtful cases.

Moreover, no proceedings exist for which the Management Board believes the probability of an outflow of resources – or another impact on pbb Group's business activities – to be likely (or which are of material significance to pbb Group for other reasons) with an amount in dispute in excess of €5 million. However, pbb is subject to prudential proceedings, which bear the risk of a material outflow of resources, or another impact on pbb Group's business activities.

27. Other liabilities

Other liabilities include lease liabilities of €32 million (31 December 2019: €35 million).

28. Equity

At €3,237 million, equity remained almost unchanged (31 December 2019: €3,236 million). Actuarial losses from pension obligations were reduced by €5 million, as the discounting rate used to measure the obligations increased to 1.46% as at the reporting date (31 December 2019: 1.30%) in line with the development of market interest rates. Items that may be reclassified to profit or loss at a future point in time, such as gains and losses from cash flow hedge accounting and financial assets at fair value through other comprehensive income, declined by an aggregate €10 million since the previous year-end, due to effects induced by interest rate and credit developments. Net income after taxes of €23 million had a positive effect on retained earnings.

The additional equity instruments include Additional Tier 1 (AT1) capital in the total nominal amount of €300 million less transaction costs of €2 million. AT1 capital qualifies as equity because there is no obligation to repay, or to make debt servicing payments on an ongoing basis. The bond issued by pbb on 12 April 2018 carries an initial coupon of 5.75% p.a. and has no final maturity. . Generally the coupon payments are at pbb's discretion, unless certain conditions are met. The AT1 capital coupon payment made in April 2020, in the amount of €17 million, led to a decline in retained earnings.

29. Maturities of Specific Financial Assets and Liabilities

**Maturities of specific financial assets and liabilities
(excluding derivatives)**

in € million	30.6.2020					Total
	not specified/ repayable on demand	up to 3 months	more than 3 months up to 1 year	more than 1 year up to 5 years	more than 5 years	
Cash reserve	4,464	–	–	–	–	4,464
Financial assets at fair value through profit or loss	3	4	7	183	484	681
Debt securities	–	–	–	–	131	131
Loans and advances to customers	–	4	7	183	353	547
Shares in investment funds qualified as debt instruments	3	–	–	–	–	3
Financial assets at fair value through other comprehensive income	–	28	597	537	576	1,738
Debt securities	–	16	410	451	538	1,415
Loans and advances to other banks	–	–	–	–	–	–
Loans and advances to customers	–	12	187	86	38	323
Financial assets at amortised cost before credit loss allowances	1,436	3,738	5,236	19,141	21,487	51,038
Debt securities	–	128	358	2,245	4,968	7,699
Loans and advances to other banks	1,337	1,596	–	45	557	3,535
Loans and advances to customers	99	2,014	4,878	16,851	15,962	39,804
Total financial assets	5,903	3,770	5,840	19,861	22,547	57,921
Financial liabilities at cost	2,269	2,122	3,869	26,374	19,557	54,191
Liabilities to other banks	939	491	58	7,931	817	10,236
Thereof: Registered bonds	–	13	4	199	577	793
Liabilities to customers	1,293	1,116	1,939	5,346	13,527	23,221
Thereof: Registered bonds	–	569	310	3,016	12,866	16,761
Bearer bonds	37	507	1,828	13,042	4,628	20,042
Subordinated liabilities	–	8	44	55	585	692
Total financial liabilities	2,269	2,122	3,869	26,374	19,557	54,191

**Maturities of specific financial assets and liabilities
(excluding derivatives)**

in € million	31.12.2019					Total
	not specified/ repayable on demand	up to 3 months	more than 3 months up to 1 year	more than 1 year up to 5 years	more than 5 years	
Cash reserve	1,141	–	–	–	–	1,141
Financial assets at fair value through profit or loss	3	4	17	90	475	589
Debt securities	–	–	–	–	130	130
Loans and advances to customers	–	4	17	90	345	456
Shares in investment funds qualified as debt instruments	3	–	–	–	–	3
Financial assets at fair value through other comprehensive income	–	98	264	867	467	1,696
Debt securities	–	64	73	759	429	1,325
Loans and advances to other banks	–	–	15	–	–	15
Loans and advances to customers	–	34	176	108	38	356
Financial assets at amortised cost before credit loss allowances	1,862	1,775	5,037	20,331	21,346	50,351
Debt securities	–	248	160	2,439	4,832	7,679
Loans and advances to other banks	1,808	–	–	–	548	2,356
Loans and advances to customers	54	1,527	4,877	17,892	15,966	40,316
Total financial assets	3,006	1,877	5,318	21,288	22,288	53,777
Financial liabilities at cost	2,429	3,213	4,825	20,051	19,223	49,741
Liabilities to other banks	1,052	86	43	2,296	718	4,195
Thereof: Registered bonds	–	61	14	184	470	729
Liabilities to customers	1,363	1,226	1,904	5,709	13,783	23,985
Thereof: Registered bonds	–	516	627	2,937	12,971	17,051
Bearer bonds	14	1,883	2,862	11,962	4,137	20,858
Subordinated liabilities	–	18	16	84	585	703
Total financial liabilities	2,429	3,213	4,825	20,051	19,223	49,741

NOTES TO THE FINANCIAL INSTRUMENTS

30. Fair Values of Financial Instruments

Fair value hierarchy in € million	30.6.2020				
	Carrying amount	Fair Value	Level 1	Level 2	Level 3
Assets in the scope of IFRS 13	60,473	61,613	10,717	20,478	30,418
Measured at fair value in the statement of financial position	5,130	5,130	1,330	3,327	473
Financial assets at fair value through profit or loss	1,505	1,505	3	1,119	383
Positive fair values of stand-alone derivatives	824	824	-	824	-
Debt securities	131	131	-	131	-
Loans and advances	547	547	-	164	383
Shares in investment funds qualified as debt instruments	3	3	3	-	-
Financial assets at fair value through other comprehensive income	1,738	1,738	1,327	321	90
Debt securities	1,415	1,415	1,327	-	88
Loans and advances	323	323	-	321	2
Positive fair values of hedge accounting derivatives	1,887	1,887	-	1,887	-
Not measured at fair value in the statement of financial position	55,343	56,483	9,387	17,151	29,945
Cash reserve	4,464	4,464	4,464	-	-
Financial assets at amortised cost ¹⁾	50,850	52,019	4,923	17,151	29,945
Debt securities	7,697	7,699	3,566	2,111	2,022
Loans and advances	43,153	44,320	1,357	15,040	27,923
Thereof: Claims from finance lease arrangements	206	212	-	212	-
Valuation adjustment from portfolio hedge accounting	29	-	-	-	-
Liabilities in the scope of IFRS 13	57,132	57,766	18,146	26,619	13,001
Measured at fair value in the statement of financial position	2,804	2,804	-	2,788	16
Financial liabilities at fair value through profit or loss	736	736	-	720	16
Negative fair values of stand-alone derivatives	736	736	-	720	16
Negative fair values of hedge accounting derivatives	2,068	2,068	-	2,068	-
Not measured at fair value in the statement of financial position	54,328	54,962	18,146	23,831	12,985
Financial liabilities measured at amortised cost	54,191	54,962	18,146	23,831	12,985
Liabilities to other banks	10,236	10,235	939	1,351	7,945
Liabilities to customers	23,221	23,775	233	18,787	4,755
Bearer bonds	20,042	20,274	16,538	3,693	43
Subordinated liabilities	692	678	436	-	242
Valuation adjustment from portfolio hedge accounting	137	-	-	-	-

¹⁾ Less credit loss allowances.

Fair value hierarchy

31.12.2019

in € million	Carrying amount	Fair Value	Level 1	Level 2	Level 3
Assets in the scope of IFRS 13	56,585	58,009	7,871	20,206	29,932
Measured at fair value in the statement of financial position					
Financial assets at fair value through profit or loss	5,201	5,201	1,221	3,540	440
Positive fair values of stand-alone derivatives	1,306	1,306	3	971	332
Debt securities	717	717	-	717	-
Loans and advances	130	130	-	87	43
Shares in investment funds qualified as debt instruments	456	456	-	167	289
Financial assets at fair value through other comprehensive income	3	3	3	-	-
Debt securities	1,696	1,696	1,218	370	108
Loans and advances	1,325	1,325	1,218	1	106
Positive fair values of hedge accounting derivatives	371	371	-	369	2
Not measured at fair value in the statement of financial position	2,199	2,199	-	2,199	-
Not measured at fair value in the statement of financial position					
Cash reserve	51,384	52,808	6,650	16,666	29,492
Financial assets at amortised cost ¹⁾	1,141	1,141	1,141	-	-
Debt securities	50,224	51,667	5,509	16,666	29,492
Loans and advances	7,676	7,777	3,709	3,029	1,039
Thereof: Claims from finance lease arrangements	42,548	43,890	1,800	13,637	28,453
Valuation adjustment from portfolio hedge accounting	208	216	-	216	-
Valuation adjustment from portfolio hedge accounting	19	-	-	-	-
Liabilities in the scope of IFRS 13	53,146	54,253	19,603	27,574	7,076
Measured at fair value in the statement of financial position					
Financial liabilities at fair value through profit or loss	3,324	3,324	-	3,311	13
Negative fair values of stand-alone derivatives	762	762	-	749	13
Negative fair values of hedge accounting derivatives	762	762	-	749	13
Not measured at fair value in the statement of financial position	2,562	2,562	-	2,562	-
Not measured at fair value in the statement of financial position					
Financial liabilities measured at amortised cost	49,822	50,929	19,603	24,263	7,063
Liabilities to other banks	49,741	50,929	19,603	24,263	7,063
Liabilities to customers	4,195	4,240	1,052	1,233	1,955
Bearer bonds	23,985	24,785	238	19,805	4,742
Subordinated liabilities	20,858	21,157	17,828	3,225	104
Valuation adjustment from portfolio hedge accounting	703	747	485	-	262
Valuation adjustment from portfolio hedge accounting	81	-	-	-	-

¹⁾ Less credit loss allowances.

Level 2 instruments disclosed at fair value at 30.6.2020

Measurement methods	Observable parameter
Discounted cash flow methods	Euro zone inflation rates
	Reference interest rates
	Saisonalities of Euro zone inflation rates
	Spot market exchange rates
	Yield curves
Option pricing modells	Cap volatilities
	CMS Spread Options (strike price)
	CMS Spread Options (option price)
	Euro zone inflation rates
	Reference interest rates
	Saisonalities of Euro zone inflation rates
	Swaption volatilities
	Spot market exchange rates
	Exchange rate volatilities
	Yield curves

Level 3 instruments disclosed at fair value at 30.6.2020

Measurement methods	Unobservable parameter	Parameter range
Optionspreismodelle	Historical index/index correlations	+/- 25 % for correlations
	Historical index/exchange rate correlations	+/- 25 % for correlations
	PD/LGD model spread	+/- 2 rating classes for PD; +/- 0.1 for LGD
Proxy-Modell	Proxy modell	+/- triple standard deviation

The calculation of sensitivity is based on alternative assumptions for unobservable parameters for level 3 instruments, which are measured at fair value. These amounts were calculated independently from each other.

However, for a receivable with a EUR/GBP quanto structure, there were correlations between the unobservable input parameters used (EUR-GBP/interest respectively interest/EUR-GBP-FX-correlations). This is also the case for the associated derivative that hedges the asset from an economic perspective. The sensitivity of the asset (+/- €19 million) and the associated derivative (+/- €19 million) are offset by each other.

Alongside this, FVOCI securities are valued using a proxy approach. Changes in input parameters resulted in a difference of +/- €4 million. FVOCI receivables are also measured using a proxy approach. In the alternative scenario, there were slight changes (+/- less than €1 million).

Non-observable spreads in a PD (probability of default)/LGD (loss given default) model are used for the valuation of drawings intended for syndication. The changes in spreads result in a change in fair value of + €1 million and - €3 million, respectively.

Changes in level 3 instruments measured at fair value

in € million	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial liabilities at fair value through profit or loss
Balance at 1.1.2019	470	156	15
Profit or loss	-3	-47	-2
Additions (new business)	161	-	-
Disposals/repayments	-339	-1	-
Reclassifications in Level 3	43	-	-
Reclassifications out of Level 3	-	-	-
Balance at 31.12.2019	332	108	13
Balance at 1.1.2020	332	108	13
Profit or loss	-66	-18	3
Additions (new business)	179	-	-
Disposals/repayments	-19	-	-
Reclassifications in Level 3	-	-	-
Reclassifications out of Level 3	-43	-	-
Balance at 30.6.2020	383	90	16

On-balance sheet netting of derivatives which are settled through Eurex Clearing led to a reduction in total assets of €3.4 billion as at 30 June 2020 (31 December 2019: €2.4 billion).

IBOR Reform

Interbank offered rates (IBOR) are used as reference rates when determining the prices of numerous financial instruments. Given the weaknesses of interbank rates used to date, which have become evident over recent years, legislators and regulatory authorities worldwide have been working on establishing a system of transaction-based risk-free reference interest rates. Alternative reference rates should therefore be used instead of the IBOR rates. Since many of the changes involved are market-driven, there continues to be significant uncertainty surrounding the timing and the precise nature of the changes.

Replacing the previous IBOR reference rates by risk-free interest rates in line with the EU Benchmark Regulation (2016/1011 (EU) – “EU BMR”) entails numerous challenges. The forthcoming cessation of LIBOR interest rates from the end of 2021 onwards requires products that reference LIBOR to be adjusted, and induces adjustments to processes and systems. To meet these challenges, pbb Group launched a cross-divisional project for implementation of the IBOR reform back in 2018, and has already taken numerous steps in order to be prepared for the IBOR changeover. On 27 July 2020, EUREX clearing switched the valuation for derivatives traded via it to the new, risk-free reference rates.

The EURIBOR calculation methodology was revised in 2019: Thanks to the EU-BMR conformity of the revised EURIBOR reference rates, market participants (including pbb Group) will be able to use EURIBOR reference rates beyond 1 January 2020, for both existing and new contracts. pbb Group expects EURIBOR to remain available as a reference rate going forward.

The IASB has launched a two-phase project to address the potential impact of IBOR reform on financial reporting. Phase 1 of the project was concluded in September 2019, with the publication of an announcement. Communicated amendments to IFRS 9, IAS 39 and IFRS 7 grant a temporary exemption from applying specific hedge-accounting requirements on hedges directly affected by the IBOR reform. pbb Group plans to continue applying the IASB's phase 1 announcement until uncertainty concerning the timing and amount of underlying cash flows, as a result of the IBOR reform and the expected replacement of the various reference rates, has been removed. Phase 2 of the IASB project on IBOR reform focuses on issues arising from the actual replacement of a reference interest rate by another (or a changed) reference interest rate, including the accounting treatment of any contractual amendments. The IASB commenced phase 2 discussions in September 2019, and discussed it re-

cantly in its June 2020 meeting. Publication of an IASB announcement concerning phase 2 of the IBOR reform is expected for the third quarter of 2020.

OTHER NOTES

31. Contingent Liabilities and Other Commitments

Contingent liabilities and other commitments

in € million	30.6.2020	31.12.2019
Contingent liabilities	217	191
from guarantees and indemnities	217	191
Other financial commitments	3,547	4,175
Irrevocable loan commitments	3,547	4,175
Commitments from bank levies	30	25
Collateral pledged	30	25
Total	3,794	4,391

Irrevocable loan commitments declined due to drawings.

As at balance sheet date the fair value of contingent liabilities amounted to €217 million (31 December 2019: €191 million) and the fair value of irrevocable loan commitments to €3,599 million (31 December 2019: €4,253 million)

32. Relationship with Related Parties

No material transactions with related parties were entered into during the reporting period.

33. Report on Post-balance Sheet Date Events

There were no significant events after 30 June 2020.

Munich, 28. July 2020

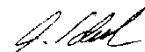
Deutsche Pfandbriefbank AG
The Management Board



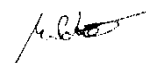
Andreas Arndt



Thomas Köntgen



Andreas Schenk



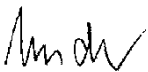
Marcus Schulte

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the consolidated interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group in accordance with German accepted accounting principles, and the Group interim management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group for the remaining months of the fiscal year.

Munich, 28 July 2020

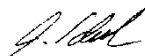
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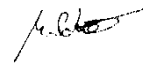
Andreas Arndt



Thomas Köntgen



Andreas Schenk



Marcus Schulte

Review Report

To Deutsche Pfandbriefbank AG, Munich

We have reviewed the condensed interim consolidated financial statements of the Deutsche Pfandbriefbank AG, Munich – comprising statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows (condensed) and notes (condensed) – together with the interim group management report of the Deutsche Pfandbriefbank AG, Munich, for the period from 1 January to 30 June, 2020 that are part of the semi annual report according to § 115 WpHG [„Wertpapierhandelsgesetz“: „German Securities Trading Act“]. The preparation of the condensed interim consolidated financial statements in accordance with International Accounting Standard IAS 34 "Interim Financial Reporting" as adopted by the EU, and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports, is the responsibility of the Company's management. Our responsibility is to issue a report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

We performed our review of the condensed interim consolidated financial statements and the interim group management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with IAS 34, "Interim Financial Reporting" as adopted by the EU, and that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditor's report.

Based on our review, no matters have come to our attention that cause us to presume that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with IAS 34, "Interim Financial Reporting" as adopted by the EU, or that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports.

Munich, 29 July 2020

KPMG AG
Wirtschaftsprüfungsgesellschaft
[original German version signed by:]

Winner	Dielehner
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Additional Information

Future-oriented Statements

This report contains future-oriented statements in the form of intentions, assumptions, expectations or forecasts. These statements are based on the plans, estimates and predictions currently available to the management of pbb. Future-oriented statements therefore only apply on the day on which they are made. pbb Group does not undertake any obligation to update such statements in light of new information or future events. By their nature, future-oriented statements contain risks and factors of uncertainty. A number of important factors can contribute to actual results deviating considerably from future-oriented statements. Such factors include the condition of the financial markets in Germany, Europe and the USA, the possible default of borrowers or counterparties of trading companies, the reliability of our principles, procedures and methods for risk management as well as other risks associated with our business activity.

Imprint

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The German version of this Interim Report is the authoritative version and only the German version of the Group Interim Management Report and the Consolidated Interim Financial Statements were reviewed by the auditors.