

Alternative
Performance Measures
As of 31 December 2020

Deutsche Pfandbriefbank



Content

Deutsche Pfandbriefbank Group	3
Definitions and Usefulness	3
Reconciliation Statements	5
Deutsche Pfandbriefbank AG	7
Definitions and Usefulness	7
Reconciliation Statements	8

Deutsche Pfandbriefbank Group

The consolidated financial statements as at 31 December 2020 are based on the International Financial Reporting Standards (IFRSs) as adopted in European law by the European Commission as part of its endorsement process. Please refer to the Notes to the consolidated financial statements for further information on the accounting and measurement principles.

Definitions and Usefulness

RETURN ON EQUITY

Definition

$$\text{Return on equity}_{\text{before tax}} = \frac{\text{profit before tax less accrued AT1-coupon}}{\text{average equity excluding accumulated other comprehensive income (OCI) from cash flow hedge accounting, financial assets at fair value through OCI and additional equity instruments (AT1 capital)}}$$

$$\text{Return on equity}_{\text{after tax}} = \frac{\text{net income less accrued AT1-coupon}}{\text{average equity excluding accumulated OCI from cash flow hedge accounting, financial assets at fair value through OCI and AT1 capital}}$$

Average equity excluding accumulated OCI from cash flow hedge accounting, financial assets at fair value through OCI and AT1 capital is the arithmetic mean based on the amount at the beginning of the year and the amounts as disclosed at the quarterly reporting dates of the current financial year. Equity excluding accumulated OCI from cash flow hedge accounting, financial assets at fair value through OCI and AT1 capital comprises the following items: subscribed capital, additional paid-in capital, retained earnings and OCI from pension commitments.

Usefulness

pbb Group uses return on equity before (after) tax as most important key performance indicator (KPI) to measure profitability. Return on equity after tax is another KPI used in the internal management-system. However, the informative value of the respective KPI is limited by the fact that they represent rates (quota). Therefore, they do not provide information (and cannot be used to draw conclusions) on the absolute amount of profit before tax (or net income) or average equity excluding accumulated OCI from cash flow hedge accounting, financial assets at fair value through OCI and AT1 capital. Moreover, non-recurring effects may have an influence on return on equity before and after tax without any long-term repercussions on pbb Group's profitability.

COST-INCOME RATIO

Definition

$$\text{Cost-income ratio} = \frac{\text{general and administrative expenses and net income from write-downs and write-ups on non-financial assets}}{\text{operating income}}$$

Operating income comprises the sum of net interest income, net fee and commission income, net income from fair value measurement, net income from realisations, net income from hedge accounting and net other operating income.

Usefulness

Cost-income ratio is used within pbb Group as most important key indicator to monitor cost discipline and efficiency, and is defined as KPI in the internal management system. However, the informative value of the cost-income ratio is limited by the fact that it represents a rate (quota). Therefore, it does not provide information (and cannot be used to draw conclusions) on the absolute amount of general and administrative expenses, net income from write-downs and write-ups on non-financial assets or operating income. Non-recurring effects may have an influence on the cost-income ratio through income and expenses without any long-term repercussions on pbb Group's efficiency.

FINANCING VOLUMES

Definition

Financing volume is the notional amount of the drawn parts of granted loans and the securities portfolio (customer business). The financing volume includes "Financial assets at fair value through profit or loss", "Financial assets at fair value through other comprehensive income" and "Financial assets at amortised cost after credit loss allowances".

The average financing volume is the arithmetic mean based on the value at the beginning of the year and the values at the quarterly reporting dates of the current financial year.

Usefulness

The financing volumes of the strategic segments Real Estate Finance is defined as financial KPIs in the internal management system. The financing volume is a significant factor influencing the future earning power of pbb Group, since it represents the interest-bearing part of active customer business.

New business volume, as well as repayments, are the main drivers for the financing volume. However, new business volume provides only a limited basis from which to draw conclusions regarding financing volume amounts, since pbb Group's influence on repayments is limited. In addition, financing volumes are subject to foreign exchange rate movements beyond pbb Group's sphere of influence.

Reconciliation Statements

RETURN ON EQUITY BEFORE TAX AND AFTER TAX

Return on equity reconciliation 1 January to 31 December 2020

in € million (if not otherwise stated)	1.1.2020	31.3.2020	30.6.2020	30.9.2020	31.12.2020
Less accumulated OCI from cash flow hedge accounting, financial assets at fair value through OCI and AT1 capital	3,236	3,244	3,237	3,273	3,316
Less accumulated OCI from cash flow hedge accounting, financial assets at fair value through OCI and AT1 capital	-352	-343	-342	-340	-335
Equity excluding accumulated OCI from cash flow hedge accounting, financial assets at fair value through OCI and AT1-Kapital	2,884	2,901	2,895	2,933	2,981
Calculation					2020
Annualised profit or loss before tax less accrued AT1-coupon					137
Annualised net income/loss less accrued AT1-coupon					100
Average equity excluding accumulated OCI from cash flow hedge accounting, financial assets at fair value through OCI and AT1 capital					2,919
Return on equity before tax (in %)					4.7
Return on equity after tax (in %)					3.4

Return on equity reconciliation 1 January to 31 December 2019

in € million (if not otherwise stated)	1.1.2019	31.3.2019	30.6.2019	30.9.2019	31.12.2019
Less accumulated OCI from cash flow hedge accounting, financial assets at fair value through OCI and AT1 capital	3,257	3,273	3,172	3,213	3,236
Less accumulated OCI from cash flow hedge accounting, financial assets at fair value through OCI and AT1 capital	-374	-369	-368	-365	-352
Equity excluding accumulated OCI from cash flow hedge accounting, financial assets at fair value through OCI and AT1-Kapital	2,883	2,904	2,804	2,848	2,884
Calculation					2019
Annualised profit or loss before tax less accrued AT1-coupon					199
Annualised net income/loss less accrued AT1-coupon					162
Average equity excluding accumulated OCI from cash flow hedge accounting, financial assets at fair value through OCI and AT1 capital					2,865
Return on equity before tax (in %)					6.9
Return on equity after tax (in %)					5.7

COST-INCOME-RATIO

Cost-income ratio calculation

in € million	2020	2019
General and administrative expenses and net income from write-downs and write-ups of non-financial assets	223	220
Operating income	529	506
Cost-income ratio (in %)	42.2	43.5

AVERAGE FINANCING VOLUMES

Average financing volumes reconciliation 2020

in € billion	1.1.2020	31.3.2020	30.6.2020	30.9.2020	31.12.2020	Annual average 2020
Financing volumes						
Real Estate Finance (REF)	27.1	26.8	26.7	26.8	27.0	26.9
Financing volumes Public Investment Finance (PIF)	6.2	6.3	6.0	5.9	5.8	6.0
Financing volumes REF and PIF	33.3	33.1	32.7	32.7	32.8	32.9
Financing volumes Value Portfolio (VP)	12.1	11.9	11.8	11.7	11.4	11.8
Financing volumes total	45.4	45.0	44.5	44.4	44.2	44.7

Average financing volumes reconciliation 2019

in € billion	1.1.2019	31.3.2019	30.6.2019	30.9.2019	31.12.2019	Annual average 2019
Financing volumes						
Real Estate Finance (REF)	26.8	27.8	27.7	27.7	27.1	27.4
Financing volumes Public Investment Finance (PIF)	6.4	6.4	6.4	6.3	6.3	6.4
Financing volumes REF and PIF	33.2	34.2	34.1	34.0	33.4	33.8
Financing volumes Value Portfolio (VP)	13.2	12.9	12.3	12.3	12.1	12.6
Financing volumes total	46.4	47.1	46.4	46.3	45.5	46.4

Deutsche Pfandbriefbank AG

The financial statements as at 31 December 2020 were prepared in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – “HGB”). Please refer to the notes to the financial statements for further information on the accounting and measurement principles.

Definitions and Usefulness

DEVELOPMENT IN EARNINGS

Definition

By way of derogation from the structure provided for income statements in form 1 of the German Ordinance on the Accounting of Credit Institutions and Financial Services Institutions (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – “RechKredV”), Deutsche Pfandbriefbank AG (pbb) discloses aggregated income and expense items in the Development in Earnings section of the combined management report.

Usefulness

With the aggregation of income and expense items in the income statement, pbb intends to convey background information to the readers of the combined management report in a more transparent and comprehensible way, compared to the standardised approach provided in form 1 of the RechKredV. In addition, the disclosure of income statement is based on the consolidated financial statements prepared in accordance with IFRS. Although the disclosure of development in earnings according to HGB (pbb) and IFRS (pbb Group) may look very similar for many items, any comparisons or conclusions between the single-entity financial statements and the consolidated financial statements should be made with utmost care, and may not be appropriate since they are based on entirely different accounting standards. For instance, line items disclosed in the development in earnings section of both the single-entity as well as the consolidated financial statements may differ substantially.

Reconciliation Statements

RECONCILIATION FROM INCOME STATEMENT (RECHKREDV) TO DEVELOPMENT IN EARNINGS IN THE MANAGEMENT REPORT

Reconciliation from income statement (RechKredV) to development in earnings in the Combined Management Report

in € million	2020	2019
Net interest income	523	473
Interest income from	2,244	2,543
a) lending and money market business	1,968	2,225
b) fixed-income and government-inscribed debt	276	318
Interest expenses	-1,721	-2,070
Net fee and commission income	6	6
Commission income	8	8
Commission expenses	-2	-2
Net other operating income	-4	-2
Other operating income	35	28
Other operating expenses	-39	-30
Net operating income	525	477
General and administrative expenses	-220	-227
Personell expenses	-117	-120
a) wages and salaries	-99	-97
b) social security contributions and expenses for pensions and other employee benefits	-18	-23
Non-personell expenses	-103	-107
a) other administrative expenses	-99	-102
b) amortisation/depreciation and write-downs of intangible and tangible assets	-4	-5
Operating results (before loan loss provisions)	305	250
Risk provisioning	-153	-51
Write-downs of claims and certain securities as well as additions to provisions in the lending business	-153	-51
Income from write-ups of claims and certain securities as well as reversals of provisions in the lending business	-	-
Net income from financial investments	-4	-2
Write-downs and impairments to participating interests, investments in associated companies and securities treated as fixed assets	-	-
Income from write-ups of participating interests, investments in associated companies and securities treated as fixed assets	1	3
Income from profit pooling, profit transfer or partial profit transfer agreements	-	-
Expenses from assumption of losses	-5	-5
Additions to the fund for general banking risks	-	-
Operating results	148	197
Extraordinary result	-	3
Extraordinary income	-	4
Extraordinary expenses	-	-1
Profit or loss before tax	148	200
Taxes	-36	-23
Income taxes	-35	-22
Other tax unless reported under "other operating expenses"	-1	-1
Net income	112	177

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