Intermin Report

as of 30 June 2021

Deutsche Pfandbriefbank Group

Overview

Deutsche Pfandbriefbank Group (pbb Group)		1.1.–30.6.2021	1.1.–30.6.2020
Operating performance according to IFRS			
Profit before tax[1]	in € million	114	30
Net income[1]	in € million	97	22
Key ratios			
Earnings per share[1]	in €	0.66	0.10
Cost-income ratio[1)2]	in %	38.7	46.1
Return on equity before tax[3]	in %	7.1	1.5
Return on equity after tax[3]	in %	6.0	0.9
New business volume Real Estate Finance[4]	in € billion	3.8	2.7
Balance sheet figures according to IFRS		**30.6.2021**	**31.12.2020**
Total assets	in € billion	59.0	58.9
Equity	in € billion	3.3	3.3
Financing volumes Real Estate Finance	in € billion	26.8	27.0
Key regulatory capital ratios[5]		**30.6.2021**	**31.12.2020**
CET1 ratio	in %	15.4	16.1
Own funds ratio	in %	20.5	21.4
Leverage ratio	in %	5.9	6.0
Staff		**30.6.2021**	**31.12.2020**
Employees (on full-time equivalent basis)		779	782
Long-term issuer rating/outlook[6]		**30.6.2021**	**31.12.2020**
Standard & Poor's		BBB+/Negative	A-/Negative
Moody's Pfandbrief rating		**30.6.2021**	**31.12.2020**
Public sector Pfandbriefe		Aa1	Aa1
Mortgage Pfandbriefe		Aa1	Aa1

1) Adjusted in accordance with IAS 8.42. Details are disclosed in note "Consistency".
2) 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.
3) Return on equity before tax respectively after tax is the ratio of annualised profit before tax (net income) attributable to pbb shareholders 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,additional equity instruments (AT1) and non controlling interest).
4) Including prolongations with maturities of more than one year.
5) Values as of 30 June 2021 without consideration of net income during the year. Values of 31 December 2020 after confirmation of the 2020 financial statements, less dividend payment in May 2021.
6) 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 thedefinition, usefulness and calculation ofalternative permormance measures see "investors/financial-reports" at www.pfandbriefbank.com.

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Group Interim Management Report

Report on Economic Position

The COVID-19 pandemic continued to have a material impact upon social and economic life in many countries during the first half of 2021. Non-pharmaceutical interventions, such as lockdowns, were particularly effective at reducing disease transmission in many countries. However, due to virus variants and a declining willingness to vaccinate among the population, some countries are once again suffering setbacks and a high degree of uncertainty remains about future developments. The picture also remains mixed in terms of economicdevelopment: some sectors are already experiencing a clear upswing, while there is still a sense of caution in others. Service sector performance, for example, suffered from subdued consumer spending.

Despite these partly unfavourable conditions, pbb Group generated €114 million in profit before tax during the period under review (1 January to 30 June 2021 – referred to as “6m2021" below), thus significantly exceeding the figure for the same period of the previous year (1 January to 30 June 2020 – referred to as “6m2020" below) of €30 million. In the same period of the previous year, effects of the incipient COVID-19 pandemic had a greater negative impact upon risk provisioning and the net income from fair value measurement than in the current period. In addition, during the reporting period, pbb Group benefited from increased early repayment fees and lower funding expenses, especially due to the ECB's "Targeted Longer Term Refinancing Operations" (TLTRO III) programme.

DEVELOPMENT IN EARNINGS

Deutsche Pfandbriefbank Group ("pbb Group")

A detailed breakdown of the results is provided below:

pbb Group
Income and expenses

in € million	**1.1.– 30.6.2021**	**1.1.– 30.6.2020[1)]**
Operating income	287	232
Net interest income	246	227
Net fee and commission income	5	3
Net income from financial instruments at fair value through profit or loss (Net income from fair value measurement)[2)]	2	-16
Net income from derecognition of financial instruments not measured at fair value through profit or loss (Net income from realisations)[2)]	38	16
Thereof: from financial assets at amortised cost	39	15
Net income from hedge accounting	-3	-2
Net other operating income	-1	4
Net income from allowances on financial assets (Net income from risk provisioning)[2)]	-33	-70
General and administrative expenses	-102	-97
Expenses from bank levies and similar dues	-29	-25
Net income from write-downs and write-ups on non-financial assets	-9	-10
Profit before tax	**114**	**30**
Income taxes	-17	-8
Net income	**97**	**22**
attributable to:		
Shareholders	98	22
Non-controlling interests	-1	-

[1)] Adjusted in accordance with IAS 8.42. Details are disclosed in note "Consistency".
[2)] Solely the condensed and parenthesised line item descriptions are used subsequently.

Net interest income of €246 million exceeded the €227 million achieved in the first half of 2020. Interest rate benefits from participation in the TLTRO III programme accrued over the term had a material positive effect on net interest income. pbb met the lending target required for recognition of the interest rate benefits on 31 March 2021. Excluding effects of TLTRO III, net interest income would remain at the previous year's level. Net interest income benefited from the portfolio of disbursed (and hence interest-bearing) REF financings, which despite an increase in early repayments was slightly higher on average for the first half of 2021 compared to the same period of the previous year (6m2021: €27.1 billion; 6m2020: €26.9 billion). In addition, pbb Group profited from higher net income from interest rate floors in client business. However, net interest income was burdened by maturing investments of own funds and financial assets in the liquidity portfolio, which – due to the current market environment – had to be replaced at lower interest rates.

Net fee and commission income from non-accruable fees amounted to €5 million (6m2020: €3 million).

Net income from fair value measurement was slightly positive, at €2 million. This was due to a credit-induced increase in the fair values of derivatives and financial instruments for individual securities of public-sector issuers recognised at fair value through profit or loss. In contrast, the previous year's figure (6m2020: €-16 million) was negatively influenced by the changed economic situation as a result of the COVID-19 pandemic.

Higher early repayments of financings produced a consequent increase in early termination fees received, and therefore a rise in net income from realisations to €38 million (6m2020: €16 million). High liquidity in the market led to a recovery in transaction volumes in commercial real estate following the pandemic-related slump of the previous year. As a result, early repayments of commercial real estate financings increased. This meant that a few high-margin individual cases resulted in income from realisations actually exceeding the levels achieved in the years before the COVID-19 pandemic.

As hedges were largely effective, net income from hedge accounting in line with IAS 39 amounted to €-3 million (6m2020: €-2 million).

Currency translation effects resulted in a slightly negative net other operating income of €-1 million (6m2020: €4 million). This item also comprised net reversals of provisions recognised outside of the lending business. Looking at provisions, no individual transaction was of material significance.

Net income from risk provisioning amounted to €-33 million. For financial instruments without indications for impaired credit quality (stages 1 and 2), there was an addition to loss allowance of €20 million, which was mainly due to a deterioration in the parameters of individual financings. For financial instruments with indications for impaired credit quality (stage 3), the addition to loss allowance amounted to €13 million. The additions related to a small number of financings, mainly related to shopping centres in the UK. In the first half of 2021, three financial instruments were reclassified to stage 3. However, due to good collateralisation, the need to make loan loss provisions for these financings, which were reclassified to stage 3, was low.

In line with current publications – including those of the ECB – pbb Group expects the economy to recover in 2021 following the COVID-19-induced global economic slump in 2020. In 2022 economic recovery is expected to continue, which will bring about a reduction in the unemployment rate. The projected economic recovery – which is now closer compared to 31 December 2020 – would lead to a reversal of impairments for stage 1 and 2 financial assets (due to methodology), as forecasts of future economic developments have to be included in the measurement of loss allowance. However, the impact of the COVID-19 pandemic has not yet led to loan defaults or insolvencies on a large scale. One of the reasons for this is the persistent level of liquidity in the market, due especially to government support measures. In addition, during the first half of 2021, uncertainty about the ongoing pandemic and resulting economic development remained high, especially in the commercial real estate financing sector. This was due, in part, to an increase in infection rates in many countries as a result of more transmissible viral mutations and a decrease in vaccination willingness. The Management Board therefore decided to increase loss allowance to counteract the economic impact of developments, whilst maintaining current provisioning levels. This management overlay fully compensated the reversals of stage 1 and stage 2 impairments in the amount of €38 million, which resulted from constant application of credit risk models.

In the prior-year period, owing to the impact of the COVID-19 pandemic, net income from risk provisioning amounted to €-70 million, including €-59 million from stage 1 and stage 2 financial instruments and €-12 million from stage 3 financial instruments. There were also recoveries on loans and advances previously written off, of €1 million.

General and administrative expenses of €102 million were slightly above the same period of the previous year (€97 million). Personnel expenses were slightly higher (€61 million, 6m2020: €60 million), due – amongst other factors – to higher average staff numbers resulting from the successful filling of vacancies, accompanied by lower staff fluctuation. Accrued liabilities for holiday entitlements also burdened personnel expenses. Other administrative expenses (€41 million; 6m2020: €37 million) increased mainly due to costs associated with strategic and digitalisation projects. One particularly important project was the successful launch of the client portal during the first half of 2021, digitalising the interface between the client and pbb.

Expenses from bank levies and similar dues (€29 million; 6m2020: €25 million) mainly comprised expenses for the bank levy, taking into account pledged collateral amounting to 15% (€27 million; 6m2020: €23 million). These levies have to be accounted for in full at the beginning of the year, in accordance with IFRIC 21. The increase in expenses for the bank levy compared to the first half of 2020 resulted, among other things, from a significant increase in the fund's target volume at EU level. Furthermore, this line item comprised expenses of €2 million (6m2020: €2 million) for the German deposit guarantee scheme. Increases in the statutory deposit guarantee scheme were offset by a suspension of contributions to the private Joint Fund for Securing Customer Deposits.

Net income from write-downs and write-ups on non-financial assets totalling €-9 million included scheduled depreciation of tangible assets and amortisation of intangible assets, and was in line with the previous year's level (6m2020: €-10 million).

Income taxes (€-17 million; 6m2020: €-8 million) were attributable to current taxes (€-21 million; 6m2020: €-8 million) and to deferred taxes (€4 million; 6m2020: €0 million). The rise in current tax expenses compared to the same period of the previous year is due in part to the increase in profit before tax from €30 million to €114 million. Taxes for previous years accounted for in 2020 were lower due to the ongoing tax audit. Deferred tax income of €4 million is almost exclusively attributable to the increase in deferred income tax assets due to the changed accounting estimate (see note "Income taxes").

Operating Segments

Real Estate Finance (REF)

The REF business segment comprises financing of commercial real estate for professional real estate investors. The volume of new business (including extensions by more than one year) amounted to €3.8 billion (6m2020: €2.7 billion); of this amount, €1.1 billion (6m2020: €1.0 billion) was attributable to extensions.

Real Estate Finance		1.1.–30.6.2021	1.1.–30.6.2020[1]
Operating performance			
Operating income	in € million	250	207
Net interest income	in € million	208	188
Net fee and commission income	in € million	5	3
Net income from fair value measurement	in € million	1	-3
Net income from realisations	in € million	38	13
Net income from hedge accounting	in € million	-2	-1
Net other operating income	in € million	-	7
Net income from risk provisioning	in € million	-34	-72
General and administrative expenses	in € million	-88	-83
Expenses from bank levies and similar dues	in € million	-18	-15
Net income from write-downs and write-ups of non-financial assets	in € million	-8	-8
Profit before tax	**in € million**	**102**	**29**
Key ratios			
Cost-income ratio	in %	38.4	44.0
Balance-sheet-related measures		**30.6.2021**	**31.12.2020**
Financing volumes	in € billion	26.8	27.0
Risk-weighted assets[2]	in € billion	16.2	16.0
Equity[3]	in € billion	1.9	1.9

[1] Adjusted in accordance with IAS 8.42. Details are disclosed in note “Consistency”.
[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 accumulated other comprehensive income (OCI) from cash flow hedge accounting, financial assets at fair value through OCI and AT1 capital.

Interest rate benefits from participation in the TLTRO III programme had a positive effect on net interest income, while the average financing volume increased slightly to €27.1 billion (6m2020: €26.9 billion) and net income from floors in client business was also higher. Higher early repayments due to strong market liquidity and the consequent increase in early termination fees led to a significant rise in net income from realisations. Net income from risk provisioning resulted from additions for financings with indications for a deterioration of credit rating (stage 3) of €13 million, as well as from net additions for financings without indicators for a deterioration of credit quality (stages 1 and 2) – largely due to worsening parameters. Administrative expenses were in line with pbb Group’s development.

Public Investment Finance (PIF)

The PIF business segment mainly comprises financing extended primarily for the provision of public infrastructure. In view of increasingly apparent public-sector reticence regarding (privately financed) infrastructure investments, pbb decided to withdraw its previous assumption of further growth in this sector.

Public Investment Finance		1.1.–30.6.2021	1.1.–30.6.2020
Operating performance			
Operating income	in € million	18	20
Net interest income	in € million	18	19
Net fee and commission income	in € million	-	-
Net income from fair value measurement	in € million	-	-1
Net income from realisations	in € million	-	1
Net income from hedge accounting	in € million	-	-
Net other operating income	in € million	-	1
Net income from risk provisioning	in € million	-	-
General and administrative expenses	in € million	-9	-9
Expenses from bank levies and similar dues	in € million	-4	-3
Net income from write-downs and write-ups of non-financial assets	in € million	-1	-1
Profit before tax	**in € million**	**4**	**7**
Key ratios			
Cost-income ratio	in %	55.6	50.0
Balance-sheet-related measures		**30.6.2021**	**31.12.2020**
Financing volumes	in € billion	5.5	5.8
Risk-weighted assets[1]	in € billion	0.7	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.

Net interest income declined in line with the lower average financing volume (€5.7 billion; 6m2020: €6.2 billion). The portfolio did not contain any transactions with indications for impaired credit rating that needed loss allowances to be recognised. Similarly, there was no significant need for adjustment for transactions at impairment stages 1 and 2 during the first half of 2021. Administrative expenses, which mainly resulted from allocated overhead costs, remained constant at €9 million compared to the same period of the previous year.

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.–30.6.2021	1.1.–30.6.2020
Operating performance			
Operating income	in € million	18	3
Net interest income	in € million	19	18
Net fee and commission income	in € million	-	-
Net income from fair value measurement	in € million	1	-12
Net income from realisations	in € million	-	2
Net income from hedge accounting	in € million	-1	-1
Net other operating income	in € million	-1	-4
Net income from risk provisioning	in € million	1	2
General and administrative expenses	in € million	-5	-5
Expenses from bank levies and similar dues	in € million	-7	-7
Net income from write-downs and write-ups of non-financial assets	in € million	-	-1
Profit before tax	**in € million**	**7**	**-8**
Key ratios			
Cost-income ratio	in %	27.8	>100,0
Balance-sheet-related measures		**30.6.2021**	**31.12.2020**
Financing volumes	in € billion	11.1	11.4
Risk-weighted assets[1]	in € billion	0.4	0.4
Equity[2]	in € billion	0.5	0.5

[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 declined in line with the Group's strategy to €11.3 billion (6m2020: €11.9 billion), net interest income was slightly higher than in the same period of the previous year due to lower funding costs. Fair value measurement was slightly positive due to credit-induced increases in fair values of financial instruments and other items for individual securities of public-sector issuers reported at fair value through profit or loss, while the previous year's period was negatively impacted by the widening of credit spreads for non-derivative financing. The reversal of €1 million (6m2020: €2 million) in loss allowance resulted from a shortening of the remaining term of the financial assets in the portfolio, none of which show any indication of deterioration in credit quality.

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.–30.6.2021	1.1.–30.6.2020
Operating performance			
Operating income	in € million	1	2
Net interest income	in € million	1	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	-	-
Profit before tax	**in € million**	**1**	**2**
Balance-sheet-related measures		**30.6.2021**	**31.12.2020**
Risk-weighted assets[1]	in € billion	0.7	0.5
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	30.6.2021	31.12.2020[1)]
Cash reserve	7,118	5,376
Financial assets at fair value through profit or loss	1,273	1,368
Positive fair values of stand-alone derivatives	618	737
Debt securities	133	134
Loans and advances to customers	519	494
Shares in investment funds qualified as debt instruments	3	3
Financial assets at fair value through other comprehensive income	1,317	1,529
Debt securities	994	1,384
Loans and advances to other banks	-	-
Loans and advances to customers	323	145
Financial assets at amortised cost after credit loss allowances	47,834	48,669
Financial assets at amortised cost before credit loss allowances	48,119	48,913
Debt securities	7,070	7,481
Loans and advances to other banks	2,414	1,874
Loans and advances to customers	38,635	39,558
Credit loss allowances on financial assets at amortised cost	-285	-244
Positive fair values of hedge accounting derivatives	1,151	1,651
Valuation adjustment from portfolio hedge accounting (assets)	17	27
Tangible assets	35	38
Intangible assets	40	40
Other assets	50	47
Current income tax assets	13	19
Deferred income tax assets	103	95
Total assets	**58,951**	**58,859**

[1)] Adjusted in accordance with IAS 8.42. Details are disclosed in note “Consistency”.

Total assets remained largely constant during the first half of 2021. Due to participation in the eighth tranche of TLTRO III and the issuance of mortgage Pfandbriefe, the cash reserve increased. Financial assets measured at fair value through other comprehensive income declined, which was due to maturing debt securities. Looking at financial assets measured at amortised cost, the nominal volume of commercial real estate loans declined slightly despite encouraging new business volume of €3.8 billion (30 June 2021: €26.8 billion; 31 December 2020: €27.0 billion), due to higher repayments. Other reasons for this decline were lower micro-hedge accounting adjustments, which resulted from increased interest rate levels, expiring public investment financings and lower cash collateral provided for derivatives business. The increase in interest rate levels also led to a decrease in the fair values of hedging derivatives and derivatives in financial assets measured at fair value through profit or loss.

DEVELOPMENT IN FINANCIAL POSITION

Liabilities and equity

in € million	30.6.2021	31.12.2020[1)]
Financial liabilities at fair value through profit or loss	578	596
Negative fair values of stand-alone derivatives	578	596
Financial liabilities measured at amortised cost	53,133	52,570
Liabilities to other banks	10,570	9,844
Liabilities to customers	21,135	22,583
Bearer bonds	20,782	19,457
Subordinated liabilities	646	686
Negative fair values of hedge accounting derivatives	1,504	1,920
Valuation adjustment from portfolio hedge accounting (liabilities)	88	137
Provisions	216	246
Other liabilities	56	62
Current income tax liabilities	35	34
Liabilities	**55,610**	**55,565**
Equity attributable to the shareholders of pbb	3,039	2,996
Subscribed capital	380	380
Additional paid-in capital	1,637	1,637
Retained earnings	1,113	1,067
Accumulated other comprehensive income	-91	-88
from pension commitments	-117	-137
from cash flow hedge accounting	-28	-22
from financial assets at fair value through OCI	54	71
Additional equity instruments (AT1)	298	298
Non-controlling interest	4	-
Equity	**3,341**	**3,294**
Total equity and liabilities	**58,951**	**58,859**

[1)] Adjusted in accordance with IAS 8.42. Details are disclosed in note “Consistency”.

Liabilities

Total liabilities remained unchanged at €55.6 billion. Financial liabilities measured at amortised cost increased mainly due to newly issued bearer bonds. Participation in TLTRO III was reflected in increased deposits from other banks. In line with developments on the assets side, the rise in interest levels led to a decline in the market values of hedging derivatives.

Equity

Net income of €97 million and lower actuarial losses of €20 million as a result of the increase in interest rate levels had a positive effect on changes in equity. In contrast, the dividend payment of €35 million (26 euro cents per dividend-bearing share) resolved at the Annual General Meeting on 12 May 2021, the AT1 coupon payment of €17 million and the lower reserves (€23 million in total) from cash flow hedge accounting and from financial assets at fair value through other comprehensive income, all had a negative impact on equity.

Caisse des Depots et Consignation’s (CDC) stake in CAPVERIANT GmbH resulted in non-controlling interests of €4 million with a positive effect of €1 million to be recognised directly in retained earnings.

Return on equity before tax amounted to 7.1% (6m2020:1.5%) and return on equity after tax to 6.0% (6m2020: 0.9%).

Funding

On 24 June 2021, pbb participated in the eighth tranche of the ECB's TLTRO III refinancing programme, raising €0.9 billion. As a result, pbb's total volume of liabilities under the TLTRO III programme increased to a nominal €8.4 billion as at 30 June 2021. In this context, in June 2021, pbb issued Pfandbriefe totalling €0.7 billion to be pledged as collateral with the ECB. Subject to reaching a defined level of net lending by 31 December 2021, the variable interest rate to be applied to the TLTRO III will be equal to the average interest rate on the deposit facility prevailing over the duration of the TLTRO III. In this case, pbb will also be granted a further interest premium of 50 basis points on the nominal volume for the interest period 24 June 2021 to 23 June 2022. pbb assumes that these conditions will be met and therefore accrues the interest rate benefit over the duration. The allocated TLTRO III tranches were reported under liabilities to banks as at 30 June 2021.

During the first half of 2021, pbb Group also raised new long-term funding in the amount of €2.3 billion (6m2020: €2.4 billion). This was offset by repurchases and terminations totalling €0.5 billion (6m2020: €0.4 billion). The total amount of funding comprises both Pfandbrief issues and unsecured liabilities, issued both in the form of benchmark bonds and private placements. At €1.3 billion (6m2020: €1.3 billion), Pfandbrief issues accounted for just over half of the total volume. Unsecured funding accounted for €1.0 billion (6m2020: €1.1 billion), with almost all of the volume being issued as Senior Preferred bonds. The transactions were denominated in euro and, in order to minimise foreign currency risks between assets and liabilities, also in US dollar, British pound and Swedish krona. Foreign currency transactions were converted into EUR at the exchange rate valid at the time of the issue. Unhedged interest rate exposures are usually hedged by swapping fixed against floating interest rates.

Key Regulatory Capital Ratios

As at 30 June 2021 the CET1 ratio amounted to 15.4% (31 December 2020: 16.1%), the own funds ratio to 20.5% (31 December 2020: 21.4%) and the leverage ratio to 5.9% (31 December 2020: 6.0%). 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 2021, the Liquidity Coverage Ratio was 338% (31 December 2020: 279%).

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[1)], mandated by pbb as at the reporting date:

	30.6.2021		31.12.2020	
	Standard & Poor's	Moody's	Standard & Poor's	Moody's
Long-term issuer rating/outlook	BBB+/Negative	-	A-/Negative	-
Short-term issuer rating	A-2	-	A-2	-
Long-term "preferred" senior unsecured debt rating[2)]	BBB+/Negative	-	A-	-
Long-term "non-preferred" senior unse-cured debt rating[3)]	BB+	-	BBB-	-
Mortgage Pfandbriefe	-	Aa1	-	Aa1
Public Sector Pfandbriefe	-	Aa1	-	Aa1

[1)] The overview does not include all ratings/outlooks.
[2)] S&P: "Senior Unsecured Debt".
[3)] 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.

As a result from S&P's review of numerous banking systems on 24 June 2021, the agency downgraded Germany's Industry Risk Score, an element of S&P's BICRA (Banking Industry Country Risk Assessment) framework which feeds into the so-called Anchor rating within the agencies' rating methodology for banks. This resulted in rating changes within the German banking sector, also affecting the ratings assigned to pbb.

The long-term ratings assigned to pbb or its debt instruments were each downgraded by one notch, including hybrid instruments. While the short-term issuer rating remained unchanged at "A-2", the short-term "Resolution Counterparty Rating" was adjusted to "A-2" from "A-1".

The rating outlook remains negative due to uncertainties around the further application of ALAC (Additional Loss Absorbing Capacity).

MATERIAL RELATED PARTY TRANSACTIONS

No material transactions with related parties were entered into during the first half of 2021.

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.

This report only comprises risks and opportunities including 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 2020 Annual Report. For more details, please refer to the disclosures in the Risk and Opportunity Report in the 2020 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 (Aktiengesetz – "AktG") and section 25a of the German Banking Act (Kreditwesengesetz – "KWG"). pbb 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 2021 was drawn up, adopted by the Management Board and approved by 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
- Central counterparty risk
- Environmental, social and governance risk

The latter two risk types were newly included during the period under review.

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. This applies, for example, to derivatives in accordance with the SA-CRR method, which has replaced the mark-to-market method under CRR II since June 2021.

The Group's credit portfolio had an aggregated EaD of €58.0 billion as at 30 June 2021 (31 December 2020: €58.0 billion).

Overview of the Total Exposure of pbb Group: €58.0 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 Consolidation & Adjustments was almost fully attributable (> 99%; 31 December 2020: > 99%) to EL classes 1 to 8; according to the internal classification, these are considered investment grade.

Total portfolio: EaD according to operating segments

			Change	
in € billion	30.6.2021	31.12.2020	in € billion	in %
Real Estate Finance	29.0	29.3	-0.3	-1.0
Public Investment Finance	6.1	6.5	-0.4	-6.2
Value Portfolio	14.2	15.2	-1.0	-6.6
Consolidation & Adjustments	8.7	7.0	1.7	24.3
Total	58.0	58.0	-	-

Risk Parameters Expected Loss (EL) for pbb Group totalled €153 million as at 30 June 2021 (31 December 2020: €133 million). The rise in expected loss was largely attributable to individual rating downgrades of some exposures in the REF portfolio.

Since 1 April 2021, pbb has applied the new default definition according to EBA Guideline 2016/07.

Total exposure: expected loss according to operating segments

			Change	
in € million	30.6.2021	31.12.2020	in € million	in %
Real Estate Finance	132	110	22	20.0
Public Investment Finance	2	2	-	-
Value Portfolio	18	20	-2	-10.0
Consolidation & Adjustments	-	-	-	-
Total	153	133	20	15.0

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 from expected losses.

Regional Breakdown of the Portfolio The main focus of exposure at the reporting date remained unchanged, on Western Europe. At 45% (€26.1 billion; 31 December 2020: 43% or €25.0 billion), Germany continued to account for the largest part of the aggregate portfolio. The €1.1 billion year-on-year EaD increase in Germany (compared to the previous year-end) was mainly attributable to a higher exposure to a central bank in C&A, offset by repayments in the REF, PIF and VP segments. The second-largest portfolio growth was recorded in France on the basis of new business in the REF segment. The EaD decrease for Austria was mainly 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 €1.2 billion and Belgium with €0.3 billion (31 December 2020: the Netherlands €1.1 billion, Belgium €0.3 billion). The reduction of the exposure in the "Other" category was largely attributable to repayments of bonds issued by supranational organisations in C&A, which accounted for the largest portion in this category.

Total portfolio: EaD according to regions

in € billion	30.6.2021	31.12.2020	Change in € billion	Change in %
Germany	26.1	25.0	1.1	4.4
France	7.9	7.5	0.4	5.3
Austria	6.3	6.8	-0.5	-7.4
United Kingdom	3.3	3.3	-	-
USA	3.1	2.9	0.2	6.9
Other Europe[1]	2.5	2.5	-	-
Spain	2.2	2.3	-0.1	-4.3
Italy	1.8	2.0	-0.2	-10.0
Poland	1.5	1.6	-0.1	-6.3
Other[2]	1.1	1.3	-0.2	-15.4
Sweden	0.8	0.9	-0.1	-11.1
Portugal	0.6	0.7	-0.1	-14.3
Czech Republic	0.4	0.4	-	-
Finland	0.4	0.6	-0.2	-33.3
Hungary	0.2	0.2	-	-
Total	58.0	58.0	-	-

[1] As of 30 June 2021 the category “Other Europe” comprises the Netherlands, Belgium, Switzerland, Slovakia, Romania,Slovenia, Luxembourg, Ireland, Latvia, Denmark and Norway.
[2] As of 30 June 2021 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 the business activities. All country limits are monitored daily.

Real Estate Finance: €29.0 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 2020, by €0.3 billion to €29.0 billion. On balance, exposures were reduced in Germany, the UK, Sweden and Finland due to repayments, which were partially offset in the UK through currency effects. The greatest portfolio growth arising from new business was recorded in France.

Real Estate Finance: EaD according to regions

in € billion	30.6.2021	31.12.2020	Change in € billion	Change in %
Germany	13.5	14.0	-0.5	-3.6
France	3.7	3.3	0.4	12.1
United Kingdom	3.0	3.1	-0.1	-3.2
USA	3.0	2.9	0.1	3.4
Other Europe[1)]	1.9	1.8	0.1	5.6
Poland	1.3	1.3	-	-
Sweden	0.8	0.9	-0.1	-11.1
Czech Republic	0.4	0.4	-	-
Austria	0.4	0.4	-	-
Spain	0.4	0.3	0.1	33.3
Finland	0.3	0.5	-0.2	-40.0
Hungary	0.2	0.2	-	-
Italy	0.1	0.1	-	-
Total	29.0	29.3	-0.3	-1.0

1) As of 30 June 2021 the category “Other Europe” comprises the Netherlands, Switzerland, Romania, Belgium, Luxembourg, Slovakia, Slovenia and Norway.

There were also changes in the EaD by property type: whilst declines were recorded in the housing construction, retail, hotel/leisure and mixed use categories, EaD rose in the office property type, due to new business and currency effects. The increase in the Other category was mainly due to higher exposure to derivatives.

Real Estate Finance: EaD according to property type

in € billion	30.6.2021	31.12.2020	Change in € billion	Change in %
Office buildings	14.2	13.9	0.3	2.2
Housing construction	5.0	5.2	-0.2	-3.8
Retail	3.9	4.3	-0.4	-9.3
Logistics/storage	3.4	3.4	-	-
Hotel/leisure	1.3	1.4	-0.1	-7.1
Other	0.8	0.6	0.2	33.3
Mixed Use	0.2	0.5	-0.3	-60.0
Total	29.0	29.3	-0.3	-1.0

At 30 June 2021, investment financings continued to dominate the portfolio (86%; 31 December 2020: 85%); development financings accounted for 13% of EaD (31 December 2020: 14%). Investment financings are defined as real estate loans, the debt servicing ability of which largely depend upon current cash flows from the property. As at 30 June 2021, client derivatives included in the portfolio amounted to €0.2 billion EaD and thus increased by €0.1 on the previous year-end.

Real Estate Finance: EaD according to loan type

in € billion	30.6.2021	31.12.2020	Change in € billion	Change in %
Investment financing	25.0	24.9	0.1	0.4
Development financing	3.7	4.1	-0.4	-9.8
Customer derivatives	0.2	0.1	0.1	100.0
Other	0.1	0.1	-	-
Total	29.0	29.3	-0.3	-1.0

Public Investment Finance: €6.1 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.

EaD in the PIF segment declined by €0.4 billion compared to the previous year's end, due to repayments and maturities that were not offset by new business volumes.

Public Investment Finance: EaD according to regions

			Change	
in € billion	30.6.2021	31.12.2020	in € billion	in %
France	3.3	3.4	-0.1	-2.9
Germany	1.2	1.3	-0.1	-7.7
Spain	0.8	0.9	-0.1	-11.1
Austria	0.3	0.3	-	-
Other Europe[1]	0.2	0.2	-	-
United Kingdom	0.2	0.2	-	-
Other[2]	0.1	0.1	-	-
Finland	0.1	0.1	-	-
Total	6.1	6.5	-0.4	-6.2

[1] As of 30 June 2021 the category "Other Europe" comprises Belgium, the Netherlands and Switzerland.
[2] As of 30 June 2021 the category "Other" comprises mainly Canada.

"Public Sector Borrowers" summarises claims against sovereign states (27%), public-sector enterprises (21%), and regional governments and municipalities (52%). The definition also includes exposures guaranteed by these counterparties.

Public Investment Finance: EaD according to counterparty structure

			Change	
in € billion	30.6.2021	31.12.2020	in € billion	in %
Public sector borrowers	5.9	6.3	-0.4	-6.3
Companies/special-purpose entities[1]	0.2	0.2	-	-
Financial institutions[2]	-	-	-	-
Total	6.1	6.5	-0.4	-6.2

[1] Largely collateralised by guarantees and surety bonds.
[2] Financial institutions with a state background or state guarantee as of 30 June 2021: €2 million.

Value Portfolio: €14.2 billion EaD

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

The continued reduction (by €1.0 billion) of exposures in the first half-year of 2021, in line with strategy, was mainly a result of repayments of maturing securities. The EaD increase for Austria was mainly due to changes in general interest rate levels and the associated changes in one exposure's hedge adjustments.

Value Portfolio: EaD according to regions

			Change	
in € billion	30.6.2021	31.12.2020	in € billion	in %
Austria	5.7	6.1	-0.4	-6.6
Germany	3.7	3.9	-0.2	-5.1
Italy	1.7	1.8	-0.1	-5.6
Spain	0.9	0.9	-	-
Other[1]	0.8	0.8	-	-
Portugal	0.6	0.7	-0.1	-14.3
France	0.7	0.7	-	-
Poland	0.1	0.2	-0.1	-50.0
Other Europe[2]	-	-	-	-
Finland[3]	-	-	-	-
Total	14.2	15.2	-1.0	-6.6

[1] As of 30 June 2021 the category "Other" comprises supranational organisations and Japan.
[2] As of 30 June 2021 the category "Other Europe" comprises Slovenia with €30 million.
[3] Finland (30 June 2021): €9 million.

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

Value Portfolio: EaD according to counterparty structure

			Change	
in € billion	30.6.2021	31.12.2020	in € billion	in %
Public sector borrowers	13.1	14.0	-0.9	-6.4
Financial institutions[1]	1.1	1.1	-	-
Companies[2]	-	-	-	-
Total	14.2	15.2	-1.0	-6.6

[1] Mainly Spanish covered bonds.
[2] Companies as of 30 June 2021 €23 million.

Structured Products

pbb Group's residual holding of a Mortgage-backed Security guaranteed by one regional government had a notional value of €0.3 billion as at 30 June 2020 (31 December 2020: €0.4 billion) and a current fair value of €0.3 billion (31 December 2020: €0.3 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 reserve) by internal rating class and impairment level as at 30 June 2021

in € million	Stage 1	Stage 2	Stage 3	FVPL	Total
Class 1	1,496	-	-	-	1,496
Class 2	12,564	26	-	315	12,904
Class 3	847	-	-	-	847
Class 4	-	-	-	-	-
Class 5	1,202	-	-	-	1,202
Class 6	-	-	-	-	-
Class 7	263	-	-	-	263
Class 8	1,754	-	-	-	1,754
Class 9	5,099	-	-	90	5,189
Class 10	4,056	6	-	-	4,062
Class 11	5,371	531	-	40	5,941
Class 12	3,420	859	-	76	4,354
Class 13	2,133	1,509	-	70	3,712
Class 14	674	632	-	-	1,306
Class 15	332	1,197	-	-	1,529
Class 16	222	775	-	-	997
Class 17	925	614	-	50	1,589
Class 18	579	419	-	14	1,013
Class 19	137	346	-	-	483
Class 20	229	129	-	-	357
Class 21	44	210	-	-	254
Class 22	-	-	-	-	-
Class 23	-	-	-	-	1
Class 24	-	-	-	-	-
Class 25	-	93	-	-	93
Class 26	-	-	-	-	-
Class 27	-	141	-	-	141
Defaulted	-	-	545	-	545
Total	41,346	7,487	545	655	50,033

Breakdown of non-derivative financial assets (excluding cash reserve) by internal rating class and impairment level as at 31 December 2020

in € million	Stage 1	Stage 2	Stage 3	FVPL	Total
Class 1	882	-	-	-	882
Class 2	13,888	26	-	322	14,236
Class 3	199	-	-	-	199
Class 4	-	-	-	-	-
Class 5	1,395	-	-	-	1,395
Class 6	-	-	-	-	-
Class 7	206	-	-	-	206
Class 8	1,687	15	-	-	1,702
Class 9	5,703	125	-	90	5,918
Class 10	3,671	390	-	-	4,061
Class 11	5,821	634	-	40	6,495
Class 12	3,285	1,339	-	77	4,701
Class 13	1,360	1,697	-	87	3,144
Class 14	1,086	987	-	-	2,073
Class 15	338	1,003	-	-	1,341
Class 16	523	896	-	-	1,419
Class 17	510	513	-	-	1,023
Class 18	438	396	-	-	834
Class 19	82	356	-	-	438
Class 20	135	70	-	-	205
Class 21	-	70	-	-	70
Class 22	-	1	-	-	1
Class 23	-	1	-	-	1
Class 24	-	42	-	-	42
Class 25	-	36	-	-	36
Class 26	-	-	-	-	-
Class 27	-	129	-	-	129
Defaulted	-	-	455	15	470
Total	41,210	8,726	455	632	51,023

Breakdown of irrevocable loan commitments and contingent liabilities by internal rating class and impairment level as at 30 June 2021

in € million	Stage 1	Stage 2	Stage 3	Total
Class 1	-	-	-	-
Class 2	132	-	-	132
Class 3 – 7	-	-	-	-
Class 8	61	-	-	61
Class 9	93	-	-	93
Class 10	102	3	-	105
Class 11	329	42	-	371
Class 12	321	9	-	330
Class 13	357	25	-	382
Class 14	81	4	-	86
Class 15	275	37	-	312
Class 16	238	28	-	266
Class 17	407	20	-	427
Class 18	289	14	-	302
Class 19	58	125	-	182
Class 20	24	-	-	24
Class 21	-	1	-	1
Class 22 – 24	-	-	-	-
Class 25	-	81	-	81
Class 26 – 27	-	-	-	-
Defaulted	-	-	-	-
Total	2,767	388	-	3,155

Breakdown of irrevocable loan commitments and contingent liabilities by internal rating class and impairment level as at 31 December 2020

in € million	Stage 1	Stage 2	Stage 3	Total
Class 1	-	-	-	-
Class 2	171	-	-	171
Class 3 – 6	-	-	-	-
Class 7	30	-	-	30
Class 8	73	-	-	73
Class 9	110	-	-	110
Class 10	50	26	-	75
Class 11	314	41	-	355
Class 12	366	15	-	381
Class 13	204	14	-	218
Class 14	495	12	-	507
Class 15	164	55	-	219
Class 16	388	92	-	480
Class 17	319	23	-	342
Class 18	286	31	-	318
Class 19	35	135	-	170
Class 20	-	4	-	4
Class 21 – 27	-	-	-	-
Defaulted	-	-	-	-
Total	3,008	447	-	3,455

Watchlist and Non-performing Loans

Development of Watchlist and non-performing loans of pbb Group

	30.6.2021				31.12.2020				Change	
EaD in € million	REF	PIF	VP	Total[1]	REF	PIF	VP	Total[1]	in € million	in %
Workout loans	14	-	-	14	14	-	-	14	-	-
Restructuring loans	484	48	-	532	403	53	-	456	76	16.7
Non-performing loans	498	48	-	546	417	53	-	470	76	16.2
Watchlist loans	460	-	-	460	323	7	-	330	130	39.4

[1] No exposure in C&A.

Watchlist and non-performing loans increased by a net €206 million between 31 December 2020 and 30 June 2021.

Compared with the volume as at 31 December 2020, the volume of watchlist loans as at 30 June 2021 increased by €130 million on a net basis. In the REF segment, five exposures totalling €283 million were transferred to intensified handling. Exchange rate effects and regulatory changes in the EaD measurement of derivatives increased the balance by a further €4 million. This was offset by repayments and successful restructurings totalling €150 million. In addition to a €102 million exposure, which was repaid in full, further partial repayments of €8 million were made. A financing of €39 million was transferred to recovery management. In case of public-sector financings (PIF and VP segments), one borrower with a lending volume totalling €7 million was returned to normal handling.

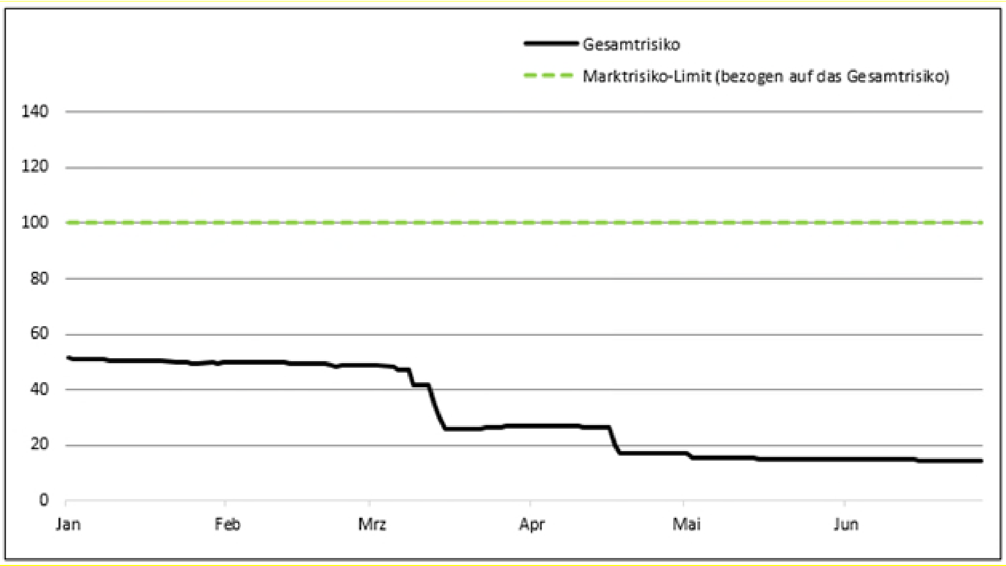
Problem loans decreased by €76 million net during the first half of 2021. In the REF segment, three exposures totalling €85 million were transferred to recovery management. Furthermore, the exchange rate effects on loans extended in pound sterling increased the balance by €17 million, taking offsetting partial repayments into consideration. This was offset by full repayments of three exposures totalling €16 million, as well as partial repayments of €5 million. In the PIF segment, repayments of loans and advances covered by an export credit guarantee extended by the Federal Republic of Germany and currency effects for financings extended in US dollars, led to a decline of €5 million.

Market Risk

Market Risk Measurement and Limits

Market risk VaR Market risk Value at Risk (VaR) as at 30 June 2021 amounted to €15 million (31 December 2020: €51 million), taking diversification effects between the individual market risk types into consideration, on an unchanged VaR limit of €100 million. The decline in the market risk VaR was mainly due to lower credit spread risks, which were caused above all by falling credit spread market volatility since the market turbulence caused by the COVID-19 pandemic in the spring of 2020.

Market risk VaR
and market risk limit January to June 2021
in € million



Back Testing pbb Group has adopted the Basel Capital Accord's "traffic light" system for the qualitative analysis of its risk model. In the 250 trading days leading up to the end of June 2021 no outliers were observed. The risk model employed by pbb Group therefore has "green" status, as defined in the "traffic light" system of the Basel Capital Accord.

Interest Rate Risk and Credit Spread Risk in the banking book

Interest Rate Risk at Present Value (IRRBB) As at 30 June 2021, the consolidated IRRBB VaR of all interest rate risk categories in the banking book (gap risk, basis risks and volatility risks of exposures that are sensitive to interest rates) was €9 million (31 December 2020: €17 million). Limits for IRRBB VaR and its sub-risk categories are monitored on a daily basis. The current limit of interest rate risks at present value is €30 million.

Gap Risk General interest rate risk (gap risk) amounted to €11 million as of 30 June 2021 (31 December 2020: €17 million).

Basis Risks Basis risks refer to the risk categories tenor spread and cross-currency spread risks. Tenor spread risks amounting to €1.2 million (31 December 2020: €3.1 million) and cross-currency spread risks amounting to €0.6 million (31 December 2020: €1.7 million) were shown at the reporting date.

Volatility Risks Volatility risk amounted to €0.8 million as at 30 June 2021 (31 December 2020: €0.6 million).

Period Interest Rate Risk pbb uses a dynamic model for measuring and monitoring period interest rate risks, thus simulating changes in future income statements and balance sheet developments, which will 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 period under review.

Credit-Spread-Risk (CSRBB) The credit spread risk VaR as at 30 June 2021 amounted to €12 million (31 December 2020: €48 million). As described above, the decline in the credit spread risk VaR was largely caused by falling credit spread market volatility since spring 2020. The current CSRBB VaR limit is €90 million.

Other Market Risks Foreign currency risk accounts for the greatest share of other market risks at present value, with a VaR of €0.4 million as at 30 June 2021 (31 December 2020: €0.8 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 2021 amounted to €5.3 billion for a twelve-month horizon in the base scenario. This figure decreased by 0.4 billion compared to 31 December 2020. As at 30 June 2021, the cumulative liquidity position for a six-month horizon amounted to €1.9 billion in the risk scenario (31 December 2020: €2.8 billion). The cumulative liquidity position in the stress scenario for a six-month horizon amounted to €0.5 billion as of 30 June 2021 (31 December 2020: €1.4 billion).

Regulatory Liquidity Coverage Requirements (Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR))

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 2021 were at any time clearly in excess of 100%. The Liquidity Coverage Ratio as at 30 June 2021 was 338%.

An NSFR ratio of 100% must be maintained as of 30 June 2021. The NSFR shows the ratio of available stable funding (ASF) and required stable funding (RSF) and is designed to secure the medium and long-term structural liquidity.

As at 30 June 2021, the NSFR was above the ratio required under the regulatory regime.

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 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 30 June 2021 (31 December 2020: €70 million).

Operational Risk Profile of pbb Group

pbb Group suffered financial losses of €0.1 million from operational risks during the first half of 2021 (6m2020: €0.8 million). pbb assesses its operational risk profile as stable.

Central Counterparty (CCP) Risk

Central counterparty (CCP) risk defines the risk of losses caused by liability claims of the CCP against pbb, for example, in the event of the default of a clearing member of the CCP. The risk is taken into account in the economic perspective, using a buffer in the available financial resources, and in the normative perspective when calculating risk-weighted assets.

Environmental, Social and Governance (ESG) Risk

Environmental, social and governance (ESG) risk is generally defined as the risk of negative effects incurred by climate change, and as a result of the violation (or insufficient consideration) of environmental, social and corporate governance aspects, when conducting the bank's business.

ESG risk comprises the following components:

- Environmental risk, defined as the risk of losses and negative effects incurred by insufficient environmental protection and climate change, as well as by actions to avoid or adjust to climate change, and by improving environmental protection. A distinction is drawn between physical and transitory risk. Climate change is generally understood as being the change to the global climate caused by humans. Consequences of climate change include global warming (higher annual average temperature) as well as increased climate variability and extreme weather.
- Social risk is defined as the risk of negative implications arising due to insufficient consideration of social aspects (diversity, occupational safety, health protection, etc.) and insufficient social commitment.
- Governance risk is defined as the risk of negative effects as a result of insufficiently taking sustainability aspects in corporate governance into account, and as a result of inadequate management and control processes (compliance).

ESG risk is classified overall as being material. ESG risks are taken into consideration as part of the existing risk types, such as operational risk, business and strategic risk, as well as counterparty credit risk and market risk.

ESG risks generally also offer potential opportunities for pbb. In order to reach the reduction in greenhouse gases targeted by politicians, considerable investment will be needed across all sectors. The additional financing volume and support for financing projects with a lower carbon footprint or improved ESG profile offers additional earnings potential, all other factors unchanged.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

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.

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

For internal assessment of the Internal Capital Adequacy Assessment Process in line with the economic perspective, economic capital for quantifiable risks is determined using models or scenario analyses, and aggregated into overall bank risk using a mathematical/statistical approach, taking specific correlations between market and counterparty credit risks into account. Thereby risks are calculated for a one-year period, using a confidence level of 99.9%. A description of how the economic capital of the individual risk types is quantified can be found in the 2020 Annual Report.

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 relevant regulatory limits were observed for all indicators as at the reporting date. Furthermore, capitalisation in the forward-looking medium-term analysis of key capital ratios – as required by regulators – was within the set limit system, in the baseline scenario and in the stress scenarios.

Economic Perspective

in € million	30.6.2021	31.12.2020	Change
Credit risk	1,106	1,149	-43
Thereof Real Estate Finance	462	667	-205
Thereof Public Investment Finance	116	68	48
Thereof Value Portfolio	513	405	108
Thereof Consolidation & Adjustments	16	9	7
Market risk	575	652	-77
Operational risk	97	98	-1
Business and strategic risk	-	-	-
Property risk	-	-	-
Model risk	20	73	-53
Other risks	61	62	-1
Total before diversification effects	1,858	2,034	-176
Total after diversification effects	1,694	1,850	-156
Available financial resources before net hidden losses	3,125	3,065	60
Net hidden losses	-	-	-
Available financial resources	3,125	3,065	60
Excess capital	1,431	1,215	216
Capital Adequacy Ratio in %	184	166	18

In the economic perspective, aggregate risk after diversification effects declined in the period under review, especially in the market, model and counterparty credit risks. Lower economic capital for market risk was driven mainly by lower interest rate and credit spread risks. All in all, economic capital for counterparty credit risk declined slightly in the first half of 2021. The further development of the factor model as well as regular parameter adjustments and credit spread changes led to an increase in VP, PIF and C&A, which was more than compensated for by the decline in REF. The aforementioned changes were also key factors for a reduction in economic capital from model risks in the first half of 2021. Economic capital for operational risk is determined at least annually and has seen a minor decline, resulting from the update of data used in the model. pbb still continues to hold no properties during the period under review. Business and strategic risk is reported at nil, as the calculated value of the business and strategic risk is covered by the initial buffer, which is at least equal to the planned profits, and is reviewed regularly.

This is offset by available financial resources, which increased during the period under review, despite the dividend payment in May 2021. Compared to the year-end 2020, excess capital rose, whilst the internal capital adequacy ratio (defined as the ratio of available financial resources to diversified economic capital), increased. 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 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 (Basel III) were satisfied throughout the first half of 2021.

Own Funds

in € million	30.6.2021	31.12.2020[1]
CET1	2,777	2,854
Additional Tier 1	298	298
Tier 1	3,074	3,152
Tier 2	618	646
Own Funds	3,693	3,798

[1] Values as of 31 December 2020, after confirmation of the 2020 financial statements, less the dividend distribution in May 2021 and excluding the allocation to retained earnings.

Risk-weighted assets (RWA)

in € million	30.6.2021	31.12.2020
Market risks	75	98
Thereof interest rate risks	-	-
Thereof foreign exchange risks	75	98
Operational risks	881	881
Credit risks	16,835	16,528
Thereof CVA Charge	243	181
Other RWA	201	237
RWA total	17,992	17,744

Capital ratios

in %	30.6.2021	31.12.2020[1]
CET1 ratio	15.4	16.1
Tier 1 ratio	17.1	17.8
Own Funds ratio	20.5	21.4

[1] Values as of 31 December 2020, after confirmation of the 2020 financial statements, less the dividend distribution in May 2021 and excluding the allocation to retained earnings..

Leverage Ratio

in %	30.6.2021	31.12.2020[1)]
Leverage ratio	5.9	6.0

1) Values as of 31 December 2020, after confirmation of the 2020 financial statements, less the dividend distribution in May 2021 and excluding the allocation to retained earnings..

Minimum Requirements for Own Funds and Eligible Liabilities (MREL)

Under the recovery and resolution regime (pursuant to the Bank Recovery and Resolution Directive (BRRD), which was revised within the framework of the EU Banking Package in 2019 and implemented into national law through the German Act on Restructuring and Resolution (Sanierungs- und Abwicklungsgesetz – "SAG")), institutions are required to maintain equity and liabilities that can be converted to equity in accordance with the 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

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

For the 2021 financial year, pbb had made the following forecasts (see Annual Report 2020):

pbb Group expects net operating income to decline slightly in 2021 (2020: €529 million) and general and administrative expenses to remain stable (2020: €204 million). This is likely to result in a slight increase in the cost-income ratio (2020: 42.2%). Profit before tax (2020: €154 million) and hence also the return on equity after tax (2020: 3.4%) are expected to be above the previous year's levels. This forecast is based on the assumption that net income from risk provisioning will be lower than the figure for 2020.

For new business in Real Estate Finance (including extensions beyond one year), pbb Group had anticipated a volume of between €7 billion and €8 billion and was targeting a slight increase for the financing volume in this segment (31 December 2020: €27 billion).

The CET1 ratio is scheduled to be significantly higher than the required SREP ratio.

Another crucial condition for pbb Group to achieve its earnings and profitability targets is to ensure that its risk-bearing capacity is adequate at all times: regarding the normative perspective, the Bank strives to ensure that minimum capital ratios required by the supervisory authorities are complied with, even in an adverse economic scenario. From an economic perspective, pbb Group is aiming to achieve levels of capital available to cover risks that adequately and consistently exceed economic capital requirements.

In light of the good business development on the first half of 2021, pbb now expects pre-tax profit of between €180 million and €220 million for the full year 2021, in spite of persistent uncertainty regarding potential loss allowance requirements in the second half of 2021. Consequently, the return on equity after tax should significantly the previous year's level of 3.4%.

pbb affirms the targets for the remaining financial key performance indicators, with new business volume expected to be at the upper end of the range stated.

The individual opportunities and risks which could have a positive or negative influence on pbb Group's assets, financial position and earnings, are presented in the Annual Report 2020 on pages 92 to 95.

Condensed Consolidated Interim Financial Statements

Income Statement

Income statement

in € million	Note	1.1.–30.6.2021	1.1.–30.6.2020[1]
Net interest income[2]	5	246	227
Net fee and commission income	6	5	3
Net income from financial instruments at fair value through profit or loss (net income from fair value measurement)[3]	7	2	-16
Net income from derecognition of financial instruments not measured at failr value through profit or loss (net income from realisations)[3]	8	38	16
Thereof: from financial assets at amortised cost		39	15
Net income from hedge accounting	9	-3	-2
Net other operating income	10	-1	4
Net income from allowances for credit losses on financial assets (net income from risk provisioning)[3]	11	-33	-70
General and administrative expenses	12	-102	-97
Expenses from bank levies and similar dues	13	-29	-25
Net income from write-downs and write-ups of non-financial assets	14	-9	-10
Profit before tax		**114**	**30**
Income tax	15	-17	-8
Net income		**97**	**22**
attributable to:			
Shareholders		98	22
Non-controlling interests		-1	-

[1] Adjusted in accordance with IAS 8.42. Details are disclosed in note “Consistency.
[2] Interest income of €745 million (6m2020: €788 million) in total includes interest income of €538 million (6m2020: €592 million) from financial instruments not measured at fair value through profit or loss (IAS 1.82a).
[3] Solely the condensed and parenthesised line item descriptions are used subsequently.

Earnings per share

in €	Note	1.1. - 30.6.2021	1.1. - 30.6.2020
Basic earnings per share	16	0.66	0.10
Diluted earnings per share	16	0.66	0.10

Statement of Comprehensive Income

Consolidated statement of comprehensive income

in € million	1.1.-30.6.2021	1.1.-30.6.2020[1)]
Net income/loss	**97**	**22**
Accumulated other comprehensive income	-3	-5
Items that will not be reclassified to profit or loss, net of tax	20	5
Gains/losses on pension commitments, before tax	21	7
Income tax relating to items that will not be reclassified to profit or loss	-1	-2
Items that may be reclassified to profit or loss, net of tax	-23	-10
Gains/losses on cash flow hedge accounting, before tax	-6	-3
unrealised gains/losses	-	-
gains/losses reclassified to profit or loss	-6	-3
Gains/losses on financial assets at fair value through other comprehensive income, before tax	-18	-10
unrealised gains/losses	-18	-10
gains/losses reclassified to profit or loss	-	-
Income tax relating to items that may be reclassified to profit or loss	1	3
Comprehensive income for the period	**94**	**17**
attributable to:		
Shareholders	95	17
Non-controlling interests	-1	-

[1)] Adjusted in accordance with IAS 8.42. Details are disclosed in note “Consistency”.

Statement of Financial Position

Assets

in € million	Note	30.6.2021	31.12.2020[1)]	1.1.2020[1)]
Cash reserve		7,118	5,376	1,141
Financial assets at fair value through profit or loss	17	1,273	1,368	1,306
Positive fair values of stand-alone derivatives		618	737	717
Debt securities		133	134	130
Loans and advances to customers		519	494	456
Shares in investment funds qualified as debt instruments		3	3	3
Financial assets at fair value through other comprehensive income	18	1,317	1,529	1,696
Debt securities		994	1,384	1,325
Loans and advances to other banks		-	-	15
Loans and advances to customers		323	145	356
Financial assets at amortised cost after credit loss allowances	19	47,834	48,669	50,205
Financial assets at amortised cost before credit loss allowances		48,119	48,913	50,332
Debt securities		7,070	7,481	7,679
Loans and advances to other banks		2,414	1,874	2,356
Loans and advances to customers		38,635	39,558	40,297
Credit loss allowances on financial assets at amortised cost		-285	-244	-127
Positive fair values of hedge accounting derivatives	20	1,151	1,651	2,199
Valuation adjustment from porfolio hedge accounting (assets)		17	27	19
Tangible assets	21	35	38	45
Intangible assets		40	40	39
Other assets		50	47	41
Current income tax assets		13	19	22
Deferred income tax assets		103	95	90
Total assets		**58,951**	**58,859**	**56,803**

[1)] Adjusted in accordance with IAS 8.42. Details are disclosed in note “Consistency”.

Liabilities and equity

in € million	Note	30.6.2021	31.12.2020[1)]	1.1.2020[1)]
Financial liabilities at fair value through profit or loss	22	578	596	762
Negative fair values of stand-alone derivatives		578	596	762
Financial liabilities measured at amortised cost	23	53,133	52,570	49,741
Liabilities to other banks		10,570	9,844	4,195
Liabilities to customers		21,135	22,583	23,985
Bearer bonds		20,782	19,457	20,858
Subordinated liabilities		646	686	703
Negative fair values of hedge accounting derivatives	24	1,504	1,920	2,562
Valuation adjustment from porfolio hedge accounting (liabilities)		88	137	81
Provisions	25	216	246	263
Other liabilities	26	56	62	130
Current income tax liabilities		35	34	47
Liabilities		**55,610**	**55,565**	**53,586**
Equity attributable to the shareholders of pbb	27	3,039	2,996	2,919
Subscribed capital		380	380	380
Additional paid-in capital		1,637	1,637	1,637
Retained earnings		1,113	1,067	963
Accumulated other comprehensive income		-91	-88	-61
Additional equity instruments (AT1)		298	298	298
Non-controlling interest		4	-	-
Equity		**3,341**	**3,294**	**3,217**
Total equity and liabilities		**58,951**	**58,859**	**56,803**

[1)] Adjusted in accordance with IAS 8.42. Details are disclosed in note “Consistency”.

Statement of Changes in Equity

Statement of changes in equity

	Equity attributable to the shareholders								
				Accumulated other comprehensive income (OCI) from:					
in € million	Subscribed capital	Additional paid-in capital	Retained earnings	Pension commit-ments	Cash flow hedge accounting	financial assets at fair value through OCI	Additional equity instruments (AT1 capital)	Non-controlling interest	Equity
Balance at 31.12.2019	**380**	**1,637**	**966**	**-99**	**-11**	**65**	**298**	**-**	**3,236**
Adjustments due to IAS 8.42[1)]	-	-	-3	-35	-4	23	-	-	-19
Balance at 1.1.2020	**380**	**1,637**	**963**	**-134**	**-15**	**88**	**298**	**-**	**3,217**
Payment on AT1 capital	-	-	-17	-	-	-	-	-	-17
Comprehensive income for the period	-	-	22	5	-3	-7	-	-	17
Net income	-	-	22	-	-	-	-	-	22
OCI for the period, after taxes	-	-	-	5	-3	-7	-	-	-5
Balance at 30.6.2020	**380**	**1,637**	**968**	**-129**	**-18**	**81**	**298**	**-**	**3,217**
									-
Balance at 1.1.2021	**380**	**1,637**	**1,067**	**-137**	**-22**	**71**	**298**	**-**	**3,294**
Capital increase/ sale of shares	-	-	1	-	-	-	-	4	5
Distribution	-	-	-35	-	-	-	-	-	-35
Payment on AT1 capital	-	-	-17	-	-	-	-	-	-17
Comprehensive income for the period	-	-	97	20	-6	-17	-	-	94
Net income after tax	-	-	97	-	-	-	-	-	97
OCI for the period, after taxes	-	-	-	20	-6	-17	-	-	-3
Balance at 30.6.2021	**380**	**1,637**	**1,113**	**-117**	**-28**	**54**	**298**	**4**	**3,341**

[1)] Details are disclosed in note "Consistency".

Statement of Cash Flows (condensed)

Statement of cash flows (condensed)

in € million	2021	2020
Cash and cash equivalents at 1.1.	**5,376**	**1,141**
+/- Cash flows from operating acitivities	1,195	3,371
+/- Cash flows from investing acitivities	626	-28
+/- Cash flows from financing acitivities	-79	-20
Cash and cash equivalents at 30.6.	**7,118**	**4,464**

Notes (condensed)

GNERAL INFORMATION

1. Principles

Deutsche Pfandbriefbank AG (pbb) has prepared the condensed consolidated interim financial statements for the period ended 30 June 2021 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 27 July 2021 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 IFRS 16: Leases COVID-19 Related Rent Concessions
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.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform (Phase 2)
The objective of these amendments is to mitigate the effects on financial reporting resulting from the replacement of an existing reference interest rate by an alternative interest rate as at the replacement date. In particular, the amendments provide practical expedients in relation to changes that are required by the IBOR reform. In addition, recognised hedging relationships

(hedge accounting) may be continued subject to an adjusted documentation despite a replacement of the reference interest rate. pbb Group expects that the Group may continue to recognise or designate the existing hedges of interest rate risk – even when replacing existing reference interest rates. pbb Group does not expect any material consequences from the amendments on the contracts concerned in case of a replacement of an existing reference interest rate.

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. The condensed interim consolidated financial statements as at 30 June 2021 were prepared using the same accounting policies applied for the consolidated financial statements as at 31 December 2020, except for the two matters below.

> As a rule, pbb Group receives commitment fees for credit commitments that have not been disbursed at all, or have not been disbursed in full. To the extent that it is probable that a committed credit facility will be drawn upon, the commitment fees have to be deferred until the drawing date and have to be recognised on the drawing date as an integral part of income as defined by IFRS 9, based on constant effective interest rates over the expected credit term. Commitment fees have to be reported under net commission income if drawings from the credit are not expected. Previously, pbb Group had recorded the commitment fees in net interest income over the term of the commitment, rather than amortising them over the expected credit term. This accounting treatment, which affects the REF segment, was corrected in accordance with IAS 8.42.

> Accounting for current and deferred taxes is consistent with the accounting for the transaction itself that triggers the tax effect, in accordance with IAS 12.57. If the carrying amount of a deferred tax amount changes due to a remeasurement (for example, due to tax rate changes or value adjustments), the change in the carrying amount has to be reported either through profit or loss or in other comprehensive income, in line with the existing recognition method. In general, the calculated temporary differences are reviewed as to whether they will reverse within a particular period and whether sufficient taxable profit will be available against which the temporary differences can be utilised. Deferred taxes are only recognised when the recognition criteria are met. Otherwise, the initially recognised deferred taxes will be eliminated again. In previous periods, pbb Group generally recorded the elimination of deferred income tax assets through profit or loss. pbb Group corrected this procedure in the first half of 2021 in accordance with IAS 8.42.

The following retrospective adjustments have been made in the balance sheet as of 1 January 2020 and as of 21 December 2020:

1.1.2020 in € million	Loans and advances to customers; financial assets at cost	Retained earnings	Accumulated other comprehensive income; Pensio commitments	Accumulated other comprehensive income; Cashflow Hedge Accounting	Accumulated other comprehensive income; financial assets at fair value through OCI
Before adjustment	40,316	966	-99	-11	65
Adjustment commitment fees	-19	-19	-	-	-
Adjustment deferred taxes	-	16	-35	-4	23
After adjustment	40,297	963	-134	-15	88

31.12.2020 in € million	Loans and advances to customers; financial assets at cost	Retained earnings	Accumulated other comprehensive income; Pensio commitments	Accumulated other comprehensive income; Cashflow Hedge Accounting	Accumulated other comprehensive income; financial assets at fair value through OCI
Before adjustment	39,580	1,066	-102	-16	53
Adjustment commitment fees	-22	-22	-	-	-
Adjustment deferred taxes	-	23	-35	-6	18
After adjustment	39,558	1,067	-137	-22	71

The following retrospective adjustments in the income statement have been made:

1.1. –30.6.2020 in € million	Net interest income	Profit before Tax	Income taxes	Net income
Before adjustment	228	31	-8	23
Adjustment commitment fees	-1	-1	-	-1
After adjustment	227	30	-8	22

The correction of deferred taxes affected the income statement only in the second half of 2020 (income of €7 million).

The statement of comprehensive income, the statement of changes in equity and the relevant disclosures in the Notes were adjusted accordingly.

3. Consolidation

A list of all consolidated and non-consolidated companies of pbb can be found on page 189 of pbb Group's 2020 Annual Report. There have not been any changes in the group of consolidated companies in the first half of 2021.

In the second quarter of 2021, the French government-owned financial institution Caisse des Depots et Consignations (CDC) acquired shares in pbb's previously wholly-owned subsidiary CAPVERIANT GmbH following the conclusion of an upfront arrangement. In addition, CDC increased the equity of CAPVERIANT GmbH by subscribing to a capital increase. As a result of the equity interest acquired by CDC in CAPVERIANT GmbH of approximately 28.57%, the shareholding of pbb in the subsidiary was reduced to approximately 71.43%.

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.-30.6.2021	250	18	18	1	287
	1.1.-30.6.2020	207	20	3	2	232
Net interest income	1.1.-30.6.2021	208	18	19	1	246
	1.1.-30.6.2020 [1)]	188	19	18	2	227
Net fee and commission income	1.1.-30.6.2021	5	-	-	-	5
	1.1.-30.6.2020	3	-	-	-	3
Net income from fair value measurement	1.1.-30.6.2021	1	-	1	-	2
	1.1.-30.6.2020	-3	-1	-12	-	-16
Net income from realisations	1.1.-30.6.2021	38	-	-	-	38
	1.1.-30.6.2020	13	1	2	-	16
Net income from hedge accounting	1.1.-30.6.2021	-2	-	-1	-	-3
	1.1.-30.6.2020	-1	-	-1	-	-2
Net other operating income	1.1.-30.6.2021	-	-	-1	-	-1
	1.1.-30.6.2020	7	1	-4	-	4
Net income from risk provisioning	1.1.-30.6.2021	-34	-	1	-	-33
	1.1.-30.6.2020	-72	-	2	-	-70
General and administrative expenses	1.1.-30.6.2021	-88	-9	-5	-	-102
	1.1.-30.6.2020	-83	-9	-5	-	-97
Expenses from bank levies and similar dues	1.1.-30.6.2021	-18	-4	-7	-	-29
	1.1.-30.6.2020	-15	-3	-7	-	-25
Net income from write-downs and write-ups of non-financial assets	1.1.-30.6.2021	-8	-1	-	-	-9
	1.1.-30.6.2020	-8	-1	-1	-	-10
Profit before tax	**1.1.-30.6.2021**	**102**	**4**	**7**	**1**	**114**
	1.1.-30.6.2020 [1)]	**29**	**7**	**-8**	**2**	**30**

[1)] Adjusted in accordance with IAS 8.42. Details are disclosed in note “Consistency”.

Cost-income ratio[1)]

in %		REF	PIF	VP	**pbb Group**
Cost-income ratio	1.1.-30.6.2021	38.4	55.6	27.8	**38.7**
	1.1.-30.6.2020	44.0	50.0	>100.0	**46.1**

[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.
Values adjusted in accordance with IAS 8.42. Details are disclosed in note “Consistency”.

Balance-sheet-related measures

in € billion		REF	PIF	VP	C&A	pbb Group
Financing volumes[1]	30.6.2021	26.8	5.5	11.1	-	**43.4**
	31.12.2020	27.0	5.8	11.4	-	**44.2**
Risik-weighted assets[2]	30.6.2021	16.2	0.7	0.4	0.7	**18.0**
	31.12.2020	16.0	0.8	0.4	0.5	**17.7**
Equity[3]	30.6.2021	1.9	0.2	0.5	0.4	**3.0**
	31.12.2020	1.9	0.2	0.5	0.4	**3.0**

[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, AT1 capital and non controlling interest.

NOTES TO THE INCOME STATEMENT

5. Net Interest Income

Net interest income

in € million	1.1. – 30.6.2021	1.1. – 30.6.2020[1]
Interest income	745	788
from financial assets at fair value through profit or loss	106	125
from financial assets at fair value through other comprehensive income	17	26
from financial assets at amortised cost	521	566
from hedge accounting derivatives (net) [2]	58	65
from other assets	2	2
negative inerest from non-derivative financial liabilities	41	4
Interest expenses	-499	-561
from financial liabilities held for trading	-122	-155
from financial liabilities measured at amortised cost	-359	-400
negative interest from non-derivative financial assets	-18	-6
Total	**246**	**227**

[1] Adjusted in accordance with IAS 8.42. Details are disclosed in note "Consistency".
[2] Includes positive interest expenses (net) from hedge accounting derivatives in the amount of €10 million (6m2020: €11 million).

Due to the greater significance of negative interest, for example from participation in TLTRO III and in the deposit-taking business under certain conditions, pbb Group shows negative interest from non-derivative financial assets as interest expenses and negative interest from non-derivative financial liabilities as interest income.

6. Net Fee and Commission Income

Net fee and commission income

in € million	1.1. – 30.6.2021	1.1. – 30.6.2020
Fee and commission income	6	4
from financial assets at amortised cost and financial liabilties not at fair value through profit or loss	6	4
Fee and commission expenses	-1	-1
from financial assets at amortised cost and financial liabilties not at fair value through profit or loss	-1	-1
Total	**5**	**3**

7. Net Income from Fair Value Measurement

Net income from fair value measurement

in € million	1.1. – 30.6.2021	1.1. – 30.6.2020
Net income from stand-alone derivatives	11	-18
Interest derivatives	11	-18
Net income from other financial assets at fair value through profit or loss	-9	2
from debt instruments	-9	2
Debt securities	-2	-
Loans and advances	-7	2
Total	**2**	**-16**

8. Net Income from Realisations

Net income from realisations

in € million	1.1. – 30.6.2021	1.1. – 30.6.2020
Income from derecognition of financial instruments	40	16
from financial assets measured at amortised cost	39	15
from financial liabilities measured at amortised cost	1	1
Expenses from derecognition of financial instruments	-2	-
from liabilities measured at amortised cost	-2	-
Total	**38**	**16**

9. Net Income from Hedge Accounting

Net income from hedge accounting

in € million	1.1. – 30.6.2021	1.1. – 30.6.2020
Net income from micro fair value hedge accounting	-2	-3
from hedged items	-25	160
from hedging instruments	23	-163
Net income portfolio fair value hedge accounting	-1	1
from hedged items	25	-56
from hedging instruments	-26	57
Total	**-3**	**-2**

10. Net Other Operating Income

Net other operating income

in € million	1.1. – 30.6.2021	1.1. – 30.6.2020
Net income from foreign currency translation	-2	-
Net income from provisions in non-lending business	1	4
Total	**-1**	**4**

11. Net Income from Risk Provisioning

Net income from risk provisioning

in € million	1.1. – 30.6.2021	1.1. – 30.6.2020
From financial assets	-32	-66
Stage 1	-9	-27
Stage 2	-10	-27
Stage 3	-13	-12
Income from recoveries from written-off financial assets	-	1
Net income from provisions in off balance sheet lending business	-1	-5
Total	**-33**	**-70**

Net income from risk provisioning includes a Management Overlay (expense in the amount of €38 million), which is described in the Report on Economic Position.

12. General and Adminstrative Expenses

General and administrative expenses

in € million	1.1. – 30.6.2021	1.1. – 30.6.2020
Personnel expenses	-61	-60
Wages and salaries	-51	-50
Social security expenses	-7	-7
Pension expenses and related employee benefit expenses	-5	-5
Other personnell expenses/income	2	2
Non-personnel expenses	-41	-37
Office and operating expenses	-2	-3
Consulting expenses	-11	-9
IT expenses	-21	-18
Other non-personnel expenses	-7	-7
Total	**-102**	**-97**

13. Expenses from Bank Levies and Similar Dues

Expenses from bank levies and similar dues

in € million	1.1. – 30.6.2021	1.1. – 30.6.2020
Bank levies	-27	-23
Deposit protection fund	-	-1
Compensation scheme of German banks	-2	-1
Total	**-29**	**-25**

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. – 30.6.2021	1.1. – 30.6.2020
Depreciation	-9	-10
Tangible assets	-3	-4
Thereof: right-of-use of lease contracts	-3	-3
Intangible assets	-6	-6
Total	**-9**	**-10**

15. Income Tax

Income tax

in € million	1.1. – 30.6.2021	1.1. – 30.6.2020
Current taxes	-21	-8
Deferred taxes	4	-
Total	**-17**	**-8**

Deferred tax assets have to be recorded to the extent that it is probable that future taxable profit will be available against which the unused tax losses may be utilised. Deferred tax assets on tax loss carryforwards are measured on the basis of accounting estimates. In accordance with IAS 8.34, such accounting estimates may need revision if changes occur in the circumstances on which the estimate was based, or as a result of new information or more experience. In the second quarter of 2021, pbb Group made an accounting estimate in connection with the measurement of deferred income tax assets by adjusting the assumed useful life of the tax asset in line with the corporate planning period. As a result of the changed accounting estimate, income taxes decreased by €4 million in the first half of 2021.

16. Earnings per Share

Earning per share

		1.1. – 30.6.2021	1.1. – 30.6.2020
Net income attributable to shareholders of pbb	in € million	98	22
Thereof attributable to the ordinary shareholders	in € million	89	13
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	pieces	134,475,308	134,475,308
Basic earnings per share	in €	**0.66**	**0.10**
Diluted earnings per share	in €	**0.66**	**0.10**

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

17. Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss

in € million	30.6.2021	31.12.2021
Positive fair values of stand-alone derivatives	618	737
Shares in investment funds qualified as debt instruments	3	3
Debt securities	133	134
Bonds and notes	133	134
Public-sector issuers	89	89
Other issuers	44	45
Loans and advances to customers	519	494
Public-sector loans and advances	269	275
Real estate loans and advances	250	219
Total	**1,273**	**1,368**

18. Financial Assets at Fair Value Through Other Comprehensive Income

Financial Assets at Fair Value Through Other Comprehensive Income

in € million	30.6.2021	31.12.2020
Debt securities	994	1,384
Bonds and notes	994	1,384
Public-sector issuers	406	614
Other issuers	588	770
Loans and advances to customers	323	145
Public-sector loans and advances	123	145
Investments in money	200	-
Total	**1,317**	**1,529**

19. Financial Assets at Amortised Cost After Credit Loss Allowances

Financial assets at amortised cost before credit loss allowances

in € million	30.6.2021	31.12.2020[1)]
Debt securities	7,070	7,481
Bonds and notes	7,070	7,481
Public-sector issuers	5,162	5,492
Other issuers	1,908	1,989
Loans and advances to other banks	2,414	1,874
Public-sector loans and advances	552	556
Investments in money	800	-
Other loans and advances to other banks	1,062	1,318
Loans and advances to customers	38,635	39,558
Public-sector loans and advances	11,855	12,591
Real estate loans and advances	26,534	26,740
Other loans and advances to customers	57	27
Claims from finance lease agreements	189	200
Total	**48,119**	**48,913**

[1)] Adjusted in accordance with IAS 8.42. Details are disclosed in note "Consistency".

Development in risk provisioning

in € million	1.1.2021	Net additions/ reversals	Use	Other	30.6.2021
Allowances for credit losses on financial assets	-244	-32	-	-9	-285
measured at amortised cost	-244	-32	-	-9	-285
Debt securities	-2	-	-	-	-2
Loans and advances to customers	-242	-32	-	-9	-283
Provisions in the lending business	-17	-1	-	-	-18
Total	**-261**	**-33**	**-**	**-9**	**-303**

Credit loss allowances on financial assets at amortised cost

in € million	30.6.2021	31.12.2020
Stage 1	-54	-41
Debt securities	-2	-2
Loans and advances	-52	-39
Stage 2	-98	-90
Loans and advances	-98	-90
Stage 3	-133	-113
Loans and advances	-133	-113
Total	**-285**	**-244**

20. Positive Fair Values of Hedge Accounting Derivatives

Positive fair values of hedge accounting derivatives

in € million	30.6.2021	31.12.2020
Positive market values of hedge accounting derivatives	1,151	1,651
Total	**1,151**	**1,651**

21. Tangible Assets

Tangible assets include right-of-use assets from leasing for land and buildings in the amount of €31 million (31 December 2020: €34 million).

22. Financial Liabilities at Fair Value Through Profit or Loss

Financial liabilities at fair value through profit or loss

in € million	30.6.2021	31.12.2020
Negative fair values of stand-alone derivatives	578	596
Total	**578**	**596**

23. Financial liabilities at Amortised Cost

Financial liabilities at amortised cost

in € million	30.6.2021	31.12.2020
Liabilities to other banks	10,570	9,844
Liabilities to central banks	8,322	7,460
Registered Mortgage Pfandbriefe	277	291
Registered Public Pfandbriefe	537	518
Other registered securities	130	131
Other liabilities to other banks	1,304	1,444
Liabilities to customers	21,135	22,583
Registered Mortgage Pfandbriefe	3,966	4,316
Registered Public Pfandbriefe	8,566	9,112
Other registered securities	2,309	2,380
Other liabilities to customers	6,294	6,775
Bearer bonds	20,782	19,457
Money market instruments	-	120
Mortgage Pfandbriefe	12,055	10,716
Public Pfandbriefe	2,261	2,315
Other bearer bonds	6,466	6,306
Subordinated liabilities	646	686
Securitised subordinated liabilities	598	626
Non-securitised subordinated liabilities	48	60
Total	**53,133**	**52,570**

24. Negative Fair Values of Hedge Accounting Derivatives

Negative fair values of hedge accounting derivatives

in € million	30.6.2021	31.12.2020
Negative market values of hedge derivatives	1,504	1,920
Total	**1,504**	**1,920**

25. Provisions

Provisions

in € million	30.6.2021	31.12.2020
Provisions for pensions and other post employment defined benefit obligations	111	127
Restructuring provisions	1	1
Provisions for commitments and guarantees given	18	17
Other provisions	86	101
Total	**216**	**246**

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 1.39% (31 December 2020: 1.00%) was used for the measurement of the defined benefit pension obligations. The other actuarial assumption are unchanged as of 30 June 2021 compared to the consolidated financial statements 2020.

Other provisions comprise those for legal and tax risks amounted of €39 million (31 December 2020: €44 million), and for legal expenses of €19 million (31 December 2020: €19 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, who acted as trustee for investors regarding 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.

26. Other liabilities

Other liabilites include lease liabilites of €28 million (31 December 2020: €30 million).

27. Equity

Equity as at 30 June 2021 increased by €47 million compared to 31 December 2020, mostly reflecting current profit after taxes in the first half of 2021. Furthermore, actuarial losses from pension obligations were reduced by €20 million, as the discount rate used to measure the obligations increased to 1.39% as at 30 June 2021 (31 December 2020: 1.00%) 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 financial assets at fair value through other comprehensive income, declined by €17 million since the previous year-end, due to effects induced by interest rate and credit developments. Moreover, the reserve from cash flow hedges declined by a further €6 million, thus increasing the negative balance.

Pursuant to a resolution passed by the Annual General Meeting on 12 May 2021, pbb paid a dividend of €0.26 per share entitled to dividends (€35 million) to its shareholders; this corresponds to a payout ratio of 34%, based on consolidated profit in accordance with IFRS after taxes and the AT1 coupon. This payout is in line with the ECB's current recommendation, according to which the Bank's CET1 ratio should not fall by more than 20 basis points as a result of the dividend distribution. This recommendation remains in force for the time being, until 30 September 2021. Should the ECB subsequently reach a more favourable assessment of the market, allowing distributions to be increased, pbb will review the possibility of a further dividend distribution.

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. (€17 million) and has no final maturity. Generally the coupon payments are at pbb's discretion, unless certain conditions are met.

Caisse des Depots et Consignation's (CDC) stake in CAPVERIANT GmbH resulted in non-controlling interests of €4 million with a positive effect of €1 million to be recognised directly in retained earnings.

28. Maturities of Specific Financial Assets and Liabilities

Maturities of specific financial assets and liabilities (excluding derivatives)

in € million	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	Total
						30.6.2021
Cash reserve	7,118	-	-	-	-	7,118
Financial assets at fair value through profit or loss	3	3	6	243	400	655
Debt securities	-	-	-	89	44	133
Loans and advances to customers	-	3	6	154	356	519
Shares in investment funds qualified as debt instruments	3	-	-	-	-	3
Financial assets at fair value through other comprehensive income	-	17	32	685	583	1,317
Debt securities	-	11	28	409	546	994
Loans and advances to other banks	-	-	-	-	-	-
Loans and advances to customers	-	6	4	276	37	323
Financial assets at amortised cost before credit loss allowances	1,117	1,927	6,321	18,031	20,723	48,119
Debt securities	-	124	924	1,585	4,437	7,070
Loans and advances to other banks	1,062	-	800	-	552	2,414
Loans and advances to customers	55	1,803	4,597	16,446	15,734	38,635
Total financial assets	**8,238**	**1,947**	**6,359**	**18,959**	**21,706**	**57,209**
Financial liabilities at cost	2,074	2,041	6,592	25,569	16,857	53,133
Liabilities to other banks	707	70	109	9,023	661	10,570
Thereof: Registred bonds	-	13	29	465	436	943
Liabilities to customers	1,329	1,066	2,436	4,893	11,411	21,135
Thereof: Registred bonds	-	445	810	2,695	10,891	14,841
Bearer bonds	38	899	4,026	11,619	4,200	20,782
Subordinated liabilities	-	6	21	34	585	646
Total financial liabilities	**2,074**	**2,041**	**6,592**	**25,569**	**16,857**	**53,133**

Maturities of specific financial assets and liabilities (excluding derivatives)

in € million	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	Total
						31.12.2020
Cash reserve	5,376	-	-	-	-	5,376
Financial assets at fair value through profit or loss	3	5	18	186	419	631
Debt securities	-	-	-	89	45	134
Loans and advances to customers	-	5	18	97	374	494
Shares in investment funds qualified as debt instruments	3	-	-	-	-	3
Financial assets at fair value through other comprehensive income	-	111	317	503	598	1,529
Debt securities	-	89	313	422	560	1,384
Loans and advances to other banks	-	-	-	-	-	-
Loans and advances to customers	-	22	4	81	38	145
Financial assets at amortised cost before credit loss allowances	1,344	1,988	5,077	19,568	20,936	48,913
Debt securities	-	107	330	2,332	4,712	7,481
Loans and advances to other banks	1,318	-	-	-	556	1,874
Loans and advances to customers[1)]	26	1,881	4,747	17,236	15,668	39,558
Total financial assets	**6,723**	**2,104**	**5,412**	**20,257**	**21,953**	**56,449**
Financial liabilities at cost	2,136	1,570	4,946	25,929	17,989	52,570
Liabilities to other banks	864	23	94	8,092	771	9,844
Thereof: Registred bonds	-	10	2	386	542	940
Liabilities to customers	1,235	775	2,608	5,464	12,501	22,583
Thereof: Registred bonds	-	271	765	2,838	11,934	15,808
Bearer bonds	37	728	2,243	12,318	4,131	19,457
Subordinated liabilities	-	44	1	55	586	686
Total financial liabilities	**2,136**	**1,570**	**4,946**	**25,929**	**17,989**	**52,570**

[1)] Adjusted in accordance with IAS 8.42. Details are disclosed in note “Consistency”.

NOTES TO THE FINANCIAL INSTRUMENTS

29. Fair Values of Financial Instruments

Fair value hierarchy

in € million	Carrying amount	Fair Value	Level 1	Level 2	Level 3
					30.6.2021
Assets in the scope of IFRS 13	**58,710**	**59,988**	**12,549**	**17,561**	**29,878**
Measured at fair value in the statement of financial position	3,741	3,741	946	2,383	412
Financial assets at fair value through profit or loss	1,273	1,273	3	911	359
Positive fair values of stand-alone derivatives	618	618	-	618	-
Debt securities	133	133	-	133	-
Loans and advances	519	519	-	160	359
Shares in investment funds qualified as debt instruments	3	3	3	-	-
Financial assets at fair value through other comprehensive income	1,317	1,317	943	321	53
Debt securities	994	994	943	-	51
Loans and advances	323	323	-	321	2
Positive fair values of hedge accounting derivatives	1,151	1,151	-	1,151	-
Not measured at fair value in the statement of financial position	54,969	56,247	11,603	15,178	29,466
Cash reserve	7,118	7,118	7,118	-	-
Financial assets at amortised cost[1)]	47,834	49,129	4,485	15,178	29,466
Debt securities	7,069	7,177	3,393	1,986	1,798
Loans and advances	40,765	41,952	1,092	13,192	27,668
Thereof: Claims from finance lease arrangements	189	196	-	196	-
Valuation adjustment from porfolio hedge accounting	17	-	-	-	-
Liabilities in the scope of IFRS 13	**55,303**	**56,338**	**17,629**	**24,987**	**13,722**
Measured at fair value in the statement of financial position	2,082	2,082	-	2,069	13
Financial liabilities at fair value through profit or loss	578	578	-	565	13
Negative fair values of stand-alone derivatives	578	578	-	565	13
Negative fair values of hedge accounting derivatives	1,504	1,504	-	1,504	-
Not measured at fair value in the statement of financial position	53,221	54,256	17,629	22,918	13,709
Financial liabilities measured at amortised cost	53,133	54,256	17,629	22,918	13,709
Liabilities to other banks	10,570	10,608	707	1,521	8,380
Liabilities to customers	21,135	21,881	19	16,723	5,139
Bearer bonds	20,782	21,083	16,596	4,443	44
Subordinated liabilities	646	684	307	231	146
Valuation adjustment from porfolio hedge accounting	88	-	-	-	-

[1)] Less credit loss allowances.

Fair value hierarchy 31.12.2020

in € million	Carrying amount	Fair Value	Level 1	Level 2	Level 3
Assets in the scope of IFRS 13	**58,620**	**60,254**	**11,675**	**18,075**	**30,504**
Measured at fair value in the statement of financial position	4,548	4,548	1,331	2,832	385
Financial assets at fair value through profit or loss	1,368	1,368	3	1,038	327
Positive fair values of stand-alone derivatives	737	737	-	737	-
Debt securities	134	134	-	134	-
Loans and advances	494	494	-	167	327
Shares in investment funds qualified as debt instruments	3	3	3	-	-
Financial assets at fair value through other comprehensive income	1,529	1,529	1,328	143	58
Debt securities	1,384	1,384	1,328	-	56
Loans and advances	145	145	-	143	2
Positive fair values of hedge accounting derivatives	1,651	1,651	-	1,651	-
Not measured at fair value in the statement of financial position	54,072	55,706	10,344	15,243	30,119
Cash reserve	5,376	5,376	5,376	-	-
Financial assets at amortised cost[1)]	48,669	50,330	4,968	15,243	30,119
Debt securities	7,479	7,609	3,650	2,011	1,948
Loans and advances [2)]	41,190	42,721	1,318	13,232	28,171
Thereof: Claims from finance lease arrangements	200	209	-	209	-
Valuation adjustment from porfolio hedge accounting	27	-	-	-	-
Liabilities in the scope of IFRS 13	**55,223**	**56,405**	**16,941**	**26,426**	**13,038**
Measured at fair value in the statement of financial position	2,516	2,516	-	2,504	12
Financial liabilities at fair value through profit or loss	596	596	-	584	12
Negative fair values of stand-alone derivatives	596	596	-	584	12
Negative fair values of hedge accounting derivatives	1,920	1,920	-	1,920	-
Not measured at fair value in the statement of financial position	52,707	53,889	16,941	23,922	13,026
Financial liabilities measured at amortised cost	52,570	53,889	16,941	23,922	13,026
Liabilities to other banks	9,844	9,920	863	1,512	7,545
Liabilities to customers	22,583	23,423	231	17,926	5,266
Bearer bonds	19,457	19,844	15,382	4,420	42
Subordinated liabilities	686	702	465	64	173
Valuation adjustment from porfolio hedge accounting	137	-	-	-	-

[1)] Less credit loss allowances.
[2)] Adjusted in accordance with IAS 8.42. Details are disclosed in note “Consistency”.

Level 2 instruments disclosed at fair value at 30.6.2021

Mesurement 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 30.6.2021

Mesurement 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 aternative 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 (+/- €6 million) and the associated derivative (+/- €6 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 +/- €1 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 2020	**332**	**108**	**13**
Profit or loss	-5	-45	-1
Additions (new business)	127	-	-
Disposals/repayments	-84	-5	-
Reclassifications out of Level 3	-43	-	-
Balance at 31.12. 2020	**327**	**58**	**12**
Balance at 1.1.2021	**327**	**58**	**12**
Profit or loss	2	-5	1
Additions (new business)	45	-	-
Disposals/repayments	-15	-	-
Balance at 30.6.2021	**359**	**53**	**13**

On-balance sheet netting of derivatives which are settled through Eurex Clearing led to a reduction in total assets of €2.9 billion as at 30 June 2021 (31 December 2020: €3.3 billion).

OTHER NOTES

30. Contingent Liabilities and Other Commitments

Contingent liabilities and other commitments

in € million	30.6.2021	31.12.2020
Contingent liabilities	**249**	**196**
from guarantees and indemnities	249	196
Other financial commitments	**2,906**	**3,259**
Irrevocable loan commitments	2,906	3,259
Commitments from bank levies	**35**	**31**
Collateral pledged	35	31
Total	**3,190**	**3,486**

As at balance sheet date the fair value of contingent liabilities amounted to €249 million (31 December 2020: €196 million) and the fair value of irrevocable loan commitments to €2,928 million (31 December 2020: €3,316 million)

31. Relationship with Related Parties

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

32. Report on Post-balance Sheet Date Events

pbb participated in the ECB's stress test in 2021, covering the period from 2021 to 2023. The final results of this stress test will be published by the ECB on 30 July 2021. The internally calculated capital erosion for the most negative scenario, using the stressed parameters as prescribed by the ECB, is in the second-best category predefined by the ECB (300–599 basis points). Compared with the most recent supervisory stress test conducted in 2018, banks were required to implement significantly more stringent assumptions in the current stress test.

Besiedes, no other significant events occurred after 30 June 2021.

Munich, 27. July 2021

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, 27 July 2021

Deutsche Pfandbriefbank AG
The Management Board

Andreas Arndt | Thomas Köntgen | Andreas Schenk | Marcus Schulte

Review Report

To Deutsche Pfandbriefbank AG, Munich/Germany

We have reviewed the condensed interim consolidated financial statements, which comprise the statement of financial position as at 30 June 2021, the income statement and the statement of comprehensive income, the condensed statement of cash flows, the statement of changes in equity as well as selected explanatory notes to the financial statements, and the interim group management report for the period from 1 January to 30 June 2021 of Deutsche Pfandbriefbank AG, Munich/Germany, that are part of the semi-annual financial information under Section 115 German Securities Trading Act (WpHG). The preparation of the condensed interim consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) applicable to 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 executive directors of the Company. Our responsibility is to express a report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

We conducted our review of the condensed interim consolidated financial statements and of the interim group management report in compliance with German Generally Accepted Standards for Reviews of Financial Statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the review to obtain a certain level of assurance to preclude through critical evaluation that the condensed interim consolidated financial statements have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU or that the interim group management report has not been prepared, in all 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 personnel and persons responsible for accounting and to analytical procedures applied to financial data and thus provides less assurance than an audit. Since, in accordance with our engagement, we have not performed an audit, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim consolidated financial statements of Deutsche Pfandbriefbank AG, Munich/Germany, have not been prepared, in all material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU or that the interim group management report has not been prepared, in all material respects, in accordance with the requirements of the WpHG applicable to interim group management reports.

Munich/Germany, 28 July 2021

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

[original German version signed by:]

Prof. Dr Carl-Friedrich Leuschner	Martin Kopatschek
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.

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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.