Annual Report

2020

Deutsche Pfandbriefbank Group

DEUTSCHE PFANDBRIEFBANK

OVERVIEW

Deutsche Pfandbriefbank Group (pbb Group)		2020	2019
Operating performance according to IFRS			
Profit before tax	in € million	154	216
Net income	in € million	117	179
Key ratios			
Cost-income ratio	in %	42.2	43.5
Return on equity before tax	in %	4.7	6.9
Return on equity after tax	in %	3.4	5.7
Earnings per share[1]	in €	0.74	1.2
New business volume Real Estate Finance[2]	in € billion	7.3	9
Balance sheet figures according to IFRS		**31.12.2020**	**31.12.2019**
Total assets	in € billion	58.9	56.8
Equity	in € billion	3.3	3.2
Financing volumes Real Estate Finance	in € billion	27.0	27.1
Key regulatory capital ratios[3]		**31.12.2020**	**31.12.2018**
CET1 ratio	in %	16.1	15.9
Own funds ratio	in %	21.4	21.1
Leverage ratio	in %	6.0	5.6
Staff		**31.12.2020**	**31.12.2019**
Employees (on full-time equivalent basis)		782	752
Long-term issuer rating/outlook[4][5]		**31.12.2020**	**31.12.2019**
Standard & Poor's		A-/Negative	A-/Negative
Moody's Pfandbrief rating[5]		**31.12.2020**	**31.12.2019**
Public Sector Pfandbriefe		Aa1	Aa1
Mortgage Pfandbriefe		Aa1	Aa1

[1] For calculation see note "Earnings per share".
[2] Including prolongations with maturities of more than one year.
[3] Values as of 31 December 2020 after confirmation of the 2020 financial statements, less the proposed dividend (subject to approval by the Annual General Meeting). Values as of 31 December 2019 after confirmation of the 2019 financial statements. The figures have been adjusted compared with the presentation in the Annual Report 2019, as the dividend proposal for the financial year 2019 of €0.90 per eligible share was withdrawn on 3 April 2020 and at the Annual General Meeting on 28 May 2020, a resolution was passed to retain the net profit achieved in 2019.
[4] Please refer to the "Report on economic position" for a detailed description of the ratings.
[5] The ratings of unsecured liabilities may diverge from the issuer ratings.

Information due to rounding

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

Explanation of alternative performance measures

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

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Letter from the Management Board

**Dear shareholders, dear business partners,
Ladies and Gentlemen,**

The whole world was impacted by the COVID-19 pandemic in 2020: the real estate sector – and pbb – were no exceptions here. In this challenging environment, pbb not only generated a solid operating performance: it increased net interest income and net fee and commission once again, kept its cost base largely stable, provisioned for potential future credit risks and posted a very decent set of results overall. At the same time, we have continued to invest, especially in digitalisation and in pbb's sustainable orientation.

The massive decline in the macroeconomic development, which has been incurred as a result of the COVID-19 pandemic, is having a significant effect on the real estate markets; this effect is likely to be even more noticeable in the second half of 2021. Transaction volumes fell significantly for the most part and real estate values came under pressure, but remained quite stable in certain sub-markets and segments. The retail and hotel property types were hit especially hard; now also office properties are under scruntiny. What happens next will largely depend on how fast and how sustainably the pandemic can be overcome, and on the economic situations of companies following expiry of state aid programmes.

In this particularly challenging market environment, credit portfolio management and being selective about the acquisition of new business has been especially important. pbb had already built up additional resources in portfolio management at an early stage, including a dedicated task force for those real estate types especially impacted as well as overarching topics. In new business, we have further tightened the risk parameters. Despite taking a more selective approach, we achieved a respectable new business volume of €7.3 billion and realised significantly higher gross margins at the same time.

The implications of the COVID-19 pandemic are also reflected in pbb's results. We applied significantly higher model-based impairments in particular, thus recognising provisions for potential future effects of the COVID-19 pandemic. We were unable to compensate for these charges, even despite the increase achieved in net interest income and net fee and commission income as pbb's most important earnings items. Nonetheless, with pre-tax profit of €154 million, pbb reported a good annual result.

Of this amount, €100 million (or €0.74 per share) was attributable to ordinary shareholders. On this basis, we will propose to shareholders at the Annual General Meeting on 12 May 2021 to distribute a dividend of €0.26 per no-par value share entitled to dividends. This represents the maximum amount possible as per the current ECB recommendation. The ECB had announced it will reach a decision on the resumption of dividend payments in the fourth quarter. Depending on the outcome, pbb will then consider what additional dividend measures to take.

Despite the particular challenges we were up against in our day-to-day business in 2020, we continued to consistently develop pbb's business operations, with a focus on incorporating further sustainability aspects in our core business, and ongoing digitalisation. In this context, we laid the groundwork for pbb's issue of green bonds during 2020 and successfully placed the first of such bonds in the first quarter of 2021. At the same time, we started building a database that will allow us to grant green loans in the future.

Our digitalisation activities centre on improving client interfaces, enhancing the efficiency of our internal processes and opening up new sources of income. A key issue in 2020 was the establishment of a client portal, with which we want to simplify document management, increase transparency in the credit process for our clients, and digitalise the workflow. The portal was rolled out at the end of 2020; the market debut is scheduled for the first quarter of 2021. As a logical next step, we have embarked upon digitalising our credit processes.

pbb once again performed well in a year defined by extraordinary circumstances. Our success is based on a collaborative partnership with our clients on an equal footing, and with a pbb team that delivers the best possible performance – especially under the difficult conditions we experienced in 2020. We would like to thank all our clients for the trust they have shown in pbb, and all our colleagues for their great commitment.

Yours sincerely

Andreas Arndt	Thomas Köntgen	Andreas Schenk	Marcus Schulte
CEO and Chief Financial Officer	Deputy CEO Real Estate Finance and Public Investment Finance	Member of the Management Board, Chief Risk Officer	Member of the Management, Board, Treasurer

Report of the Supervisory Board

Dear shareholders,

The 2020 financial year was dominated by the worldwide and unprecedented COVID-19 pandemic and its global impact on the entire real economy, as well as on the financial sector. On the one hand, this has led to a marked increase in uncertainty on the real estate markets among investors, tenants and banks alike. The challenge lay in identifying appropriate responses to the crisis, especially as the market environment continued to be characterised by intense competition, low interest rates, mounting regulatory requirements and increasing digitalisation. On the other hand, pbb also had to switch its internal workflows over to a largely virtual method of collaboration within a very short space of time. Despite these major challenges, pbb continued to report virtually unchanged stable business development once again in the 2020 financial year, and also upheld its leading market position in commercial real estate finance. While continuing to adhere to its high risk standards, pbb achieved a respectable volume of new business with good gross margins and also reported positive business results.

pbb achieved this by systematically exploiting its business and earnings potential. In addition, the Bank continued to focus on cost discipline, an approach that had already proved successful, in 2020 and pushed ahead with its digitalisation initiatives. At the beginning of 2021, for example, it announced a cooperation with French Caisse des Dépôts, which will acquire a share of around 28.5% in CAPVERIANT GmbH, subject to the approval of the European antitrust authorities. Topics such as digitalisation, platform economy and the centralisation of infrastructure tasks will remain important from a strategic perspective in the future. These measures allow pbb to continuously develop in line with the changes in the markets, so as to continue to maintain scope for action and flexibility. Incidentally, the Supervisory Board has also taken these changes into account, assigning responsibility for digitalisation issues to the Audit Committee. In addition, a Digital Advisory Board composed of external experts was established to assist the committee, which is now known as the Audit and Digitalisation Committee, in this task.

In the interests of ensuring pbb's personnel stability and sustainable development, the Supervisory Board reappointed Thomas Köntgen and Andreas Schenk in the reporting year and in the first quarter of 2021 also Marcus Schulte as members of the Management Board for a period of five years. This allowed the Bank to secure their long-standing expertise, which has made a key contribution to pbb's successful development in recent years.

Furthermore, the Supervisory Board and, first and foremost, the Executive and Nomination Committee, took an in-depth look at its own long-term succession planning in 2020 – also in preparation for the elections to be held at the Annual General Meeting in May 2021. In addition to the election proposal for a successor for Mr Plesser, who is no longer seeking reappointment, options and candidates for medium-term succession and additional members for the Supervisory Board have also already been discussed in detail. Accordingly, an election proposal for Dr. Dönges, who also is no longer seeking reappointment, has been resolved. In addition to the mandatory regulatory requirements, all considerations are based on the profile of skills and expertise for the Supervisory Board, as well as on pbb's Guideline on Fostering Diversity.

As always, supporting ongoing business development, continuously developing the business strategy and monitoring the corresponding risks were key focuses for the supervisory and advisory activities of the Supervisory Board. The Supervisory Board also devoted particular attention in 2020 to issues concerning supervisory regulation and IT.

CORPORATE GOVERNANCE

The Supervisory Board continuously monitored the Management Board during the financial year 2020, as in the past, and provided it with regular advice on the management of the Company.

It assured itself in all cases that the management measures taken by the Management Board were lawful, appropriate, due and proper. The Management Board fulfilled its duties to provide information, and informed the Supervisory Board in a regular, timely and comprehensive manner, both in writing and orally, about matters and measures relevant to the Company. This also included information on any deviations between target and actual figures or developments. The members of the Supervisory Board had sufficient opportunity, at all times, to critically assess the reports and proposed resolutions submitted by the Management Board, and to make their own suggestions during Supervisory Board committee meetings and in the plenary sessions. The Management Board also reported to the Chairman of the Supervisory Board, as well as to the respective committee chairmen, on all material developments between meetings.

In particular, the Supervisory Board held in-depth discussions on, and reviewed the plausibility of, all business transactions material to the Company, on the basis of written and oral reports provided by the Management Board.

The Supervisory Board examined the requisite independence of the external auditors of the financial statements, KPMG AG Wirtschaftsprüfungsgesellschaft ("KPMG"), instructed KPMG with the audit following the resolution of the Annual General Meeting, and agreed on the auditors' fee.

In principle, conflicts of interest can arise for Supervisory Board members between their Supervisory Board work for the Company on the one hand, and their other activities on the other, for example due to their advisory role or directorship at a client, supplier, lender or other third party. The Supervisory Board's Rules of Procedure provide regulations for dealing with and mitigating such (imminent) conflicts of interest faced by pbb's Supervisory Board members or their related parties, in particular with regard to relationships with clients and/or relationships with other credit institutions. The measures include, for example, the disclosure of imminent conflicts of interest, the waiver of voting rights or non-participation in relevant discussions during meetings of the Supervisory Board/the committee concerned.

On 26 February 2021, the Supervisory Board concerned itself with the Declaration of Compliance with the German Corporate Governance Code for the financial year 2020 (https://www.pfandbriefbank.com/en/investors/mandatory-publications.html). Please also refer to the Group's Remuneration Report, which is printed in this Annual Report. With respect to the requirements of the German Corporate Governance Code, in conjunction with section 111 (5) of the German Stock Corporation Act (Aktiengesetz – "AktG") concerning the target and current quotas of the under-represented gender on the Supervisory Board and the Management Board, please refer to the table outlining the composition of the Supervisory Board and its committees, and to the comments in the Corporate Governance Statement and in the Non-Financial Report.

MEETINGS OF THE SUPERVISORY BOARD

The members of the Supervisory Board in the financial year under review were:

Dr Günther Bräunig (Chairman), Dagmar Kollmann (Deputy Chairman), Dr Jutta Dönges, Dr Thomas Duhnkrack, Dr Christian Gebauer-Rochholz, Georg Kordick, Joachim Plesser, Oliver Puhl and Heike Theißing.

pbb's Supervisory Board held nine meetings in 2020 (including four extraordinary meetings), plus a two-day strategy meeting.

All ordinary meetings addressed the current business situation of pbb Group, which was discussed in detail with the Management Board in each case. The Management Board informed the Supervisory Board, regularly and in a timely manner, about pbb's financial situation and performance. During the ordinary meetings, the Supervisory Board also received reports on: the risk position, risk management, new business, the liquidity situation and strategy, funding and share price developments, current regulatory issues and audits, as well as on significant events of material importance to the assessment of the Company's position, development and management. Furthermore, the Management Board informed the Supervisory Board about IT topics as well as about supervisory topics and audits continuously and comprehensively in the year under review. In particular, the Supervisory Board addressed matters relating to the internal risk models (IRBA models) and the current project status for their revision several times and in detail. Another focal point was the reporting on the current COVID-19 situation.

At an extraordinary meeting held on 3 February 2020, the Supervisory Board discussed the project status for the revision of the IRBA models. Within this context, as in the remainder of the year, the Supervisory Board used an extensive review conducted by an auditing firm to support its monitoring function, and discussed the reports prepared in detail. The Supervisory Board also discussed the dividend proposal to the Annual General Meeting for the 2019 financial year and the dividend policy for the period from 2020 to 2022.

The ordinary meeting on 27 February 2020 dealt in particular with the target achievement at institutional level as well as with the variable remuneration for the members of the Management Board for the financial year 2019, and with the redetermination of their variable remuneration retained for 2016 to 2018 (including the penalty/malus review and backtesting). Further focal points were pbb's recovery plan, in line with regulatory requirements, the Variable Remuneration Plan for 2020, updating the risk strategy and the report on the examination of efficiency, which concluded the evaluation of the Supervisory Board and the Management Board for the year 2019. The Supervisory Board also resolved the annual Declaration of Compliance, the Report of the Supervisory Board, and the Corporate Governance Statement pursuant to sections 289f and 315d of the HGB. In addition, the Supervisory Board addressed the preparations for the Annual General Meeting, the capital markets report (including the dividend policy for 2020 and beyond), and the definition of further training topics as part of the regular training measures for the Supervisory Board for 2020.

In the accounts review meeting held on 18 March 2020, the consolidated financial statements for 2019 were approved and the annual financial statements for 2019 adopted. The Supervisory Board also concerned itself with the Non-Financial Report pursuant to sections 289b et seq. and 315b et seq. of the HGB. Moreover, the Annual General Meeting for 2020 was prepared and respective resolutions regarding the agenda, including the submitted proposed resolutions – in particular with regard to the appropriation of profit, capital measures and appointment of the external auditors – were adopted. In addition to the renewed discussion of the Variable Remuneration Plan for 2020, the meeting also focused on the reappointment of Andreas Schenk, additions to the Management Board targets for the 2020 financial year, the target achievement level of the Management Board members in the 2019 financial year and updates to the Supervisory Board's profile of skills and expertise.

In an extraordinary meeting held on 3 April 2020, the Supervisory Board once again discussed the dividend for the 2019 financial year and withdrew the original dividend proposal to be submitted to the Annual General Meeting. In doing so, it complied with a recommendation published by the ECB only shortly beforehand to all banks included in the SSM to refrain from paying out dividends for the 2019 financial year, or to refrain from doing so prior to 1 October 2020.

The meeting on 8 May 2020 was dominated by pbb Group's first-quarter report for 2020. The Supervisory Board also discussed the remuneration reports for 2019, the regulatory changes regarding the Second Shareholder Rights Directive (ARUG II) and the amended Capital Requirements Directive (CRD V), preparations for the Annual General Meeting and the Green Bond strategy. Furthermore, the Supervisory Board discussed the further development of CAPVERIANT and decided to establish a Digital Advisory Board.

At the extraordinary meeting held after the Annual General Meeting on 28 May 2020, the Supervisory Board reviewed the Annual General Meeting and also passed resolutions reappointing Thomas Köntgen and updating the risk strategy.

During its meeting on 7 August 2020, the Supervisory Board discussed pbb Group's interim report as at 30 June 2020, and the review of the six-month financial statements and of the Management Report by the external auditors. Among other things, it also discussed adjustments to the remuneration system for Management Board members in light of the requirements under ARUG II.

At the extraordinary meeting held on 23 October 2020, the Supervisory Board discussed and, passed a resolution on, the election proposal to the Annual General Meeting for Mr Plesser's successor on the Supervisory Board

On the basis of the debates held in the course of its annual strategy meeting on 22/23 October 2020, on 6 November 2020 the Supervisory Board initially discussed pbb Group's results for the third quarter of 2020 and then adopted the corporate planning and the business strategy presented by the Management Board, each for the financial years 2021 to 2023, as well as the IT and risk strategy for 2021. The Supervisory Board also prepared the examination of efficiency for the Management Board and Supervisory Board pursuant to section 25d (11) of the KWG, and determined the parameters for the risk-adjusted performance measurement at the institutional level, as well as Management Board targets for the financial year 2021. Furthermore, approval was given for the identification of risk takers and for the appropriateness of the remuneration system. The Supervisory Board also continued to address the remuneration system for Management Board members in accordance with ARUG II, adopted corresponding amendments and addressed the report submitted by the Executive and Nomination Committee to the Supervisory Board on corporate governance, including the procedure for related party transactions and resulting adjustments to the Rules of Procedure.

In line with recommendation D.7 of the German Corporate Governance Code, the Supervisory Board also meets, or addresses certain items on its meeting agendas, without the involvement of the Management Board. In 2020, it did so at the meetings on 18 March and 28 May 2020, among others.

SUPERVISORY BOARD COMMITTEES

The following Supervisory Board committees convened in the year under review (1 January to 31 December 2020): the Executive and Nomination Committee, the Audit Committee (as of 6 November 2020: Audit and Digitalisation Committee), the Risk Management and Liquidity Strategy Committee, and the Remuneration Committee.

The Executive and Nomination Committee held seven meetings (including two extraordinary meetings); it consisted of Dr Günther Bräunig (Chairman), Dagmar Kollmann and Joachim Plesser. The committee concerned itself with strategic and current regulatory issues, as well as with matters concerning the Management Board, for which it prepared corresponding proposals for the plenary meeting. These primarily involved the achievement of the Management Board members' targets, as well as the determination of their variable remuneration for the financial year 2019 (including penalty review). The committee also prepared the 2020 examination of efficiency for the Management Board as well as the Supervisory Board (including its committees); it informed the Supervisory Board about corporate governance issues and concerned itself with the Corporate Governance Statement in accordance with sections 289f and 315d of the HGB, including the Declaration of Compliance with the German Corporate Governance Code. In addition, the Executive and Nomination Committee addressed the reappointment of Andreas Schenk and Thomas Köntgen, and repeatedly discussed (long-term) succession planning in the Supervisory Board, which also involved discussing specific personnel matters. It also discussed the definition of further training topics for the Supervisory Board in 2020, the internal procedure for related party transactions and amendments to the Rules of Procedure for the Supervisory Board, the Audit Committee and the Management Board. Other focal points of the meetings included updating the Supervisory Board's profile of skills and expertise and the establishment of a Digital Advisory Board. At an extraordinary meeting, the Executive and Nomination Committee also discussed the project status for the revision of the IRBA models, as well as the Supervisory Board's decision on the dividend proposal.

The Audit Committee held seven meetings, two of which were extraordinary; the committee consisted of Dagmar Kollmann (Chairman), Dr Günther Bräunig, Dr Jutta Dönges and Dr Thomas Duhnkrack. With the amendment of the Rules of Procedure at the Supervisory Board meeting held on 6 November 2020, the committee was renamed the Audit and Digitalisation Committee. During its meetings, the committee reviewed and discussed the Annual Financial Statements and Consolidated Financial Statements for 2019, the interim reports (or statements) of 2020, and the reports by Internal Audit and external auditors KPMG on internal and external audit findings. In addition, the Audit Committee discussed the effects of current regulatory issues with the Management Board, and was informed of the development of ongoing audits. The Audit Committee also concerned itself with the mandate for the external auditors and their audit plan for the 2020 financial year. Furthermore, the Audit Committee satisfied itself concerning the independence of the external auditors, and recommended to the Supervisory Board to propose to the Annual General Meeting to elect KPMG as external auditors for the 2020 financial year. It also addressed the dividend proposal for the 2020 financial year, as well as the dividend policy for the period from 2020 to 2022, several times. In addition to current regulatory topics and supervisory audits, it also dealt with the project status for the revision of the IRBA models, also drawing on extensive external expertise within this context. Furthermore, regular reports were received on the internal control system and the monitoring of key controls implemented, current litigation, Compliance issues, data protection and IT security, special accounting issues, the results of external audits, as well as the audit plan established by Internal Audit and its implementation. Against the backdrop of COVID-19, the Audit Committee repeatedly discussed the impact of the crisis on the Bank's balance sheet and income statement. In addition, the status of the Bank's digitalisation measures and initiatives were discussed at two meetings together with the newly established Digital Advisory Board.

The Risk Management and Liquidity Strategy Committee convened for five ordinary meetings. It also discussed credit exposures requiring Supervisory Board approval, usually at monthly video conferences. The committee consisted of Joachim Plesser (Chairman), Dr Jutta Dönges, Dagmar Kollmann and Oliver Puhl. It supported the Supervisory Board's supervision of risk management and liquidity management; it reviewed the Management Board's risk reporting and was involved in the credit approval process to the extent laid down in the Rules of Procedure. The committee also regularly discussed new business developments as well as the liquidity and funding status and syndication business. During 2020, the committee also concerned itself with reports on sub-portfolios (including development financings), specific allowances, the reporting of own funds in accordance with the German Solvency Regulation, country limits, and asset/liability management. Furthermore, the Risk Management and Liquidity Strategy Committee concerned itself with the recovery plan, in line with regulatory requirements, and – in great detail and multiple times – with the IRBA models and the project status for their revision as well as future Basel IV requirements and their impact on the Bank's risk-weighted assets, developments on the real estate markets to be expected in the medium term, and with updating the risk strategy and the Risk Management and Liquidity Strategy Committee's assignment of authority and Rules of Procedure. It also looked at selected special topics such as the current COVID-19 implications, value-at-risk calculations, IRRBB and liquidity stress scenarios, the ECB's TLTRO, the analysis of loan-to-value ratios in the REF business and developments in the UK retail sector. In addition, the committee addressed individual credit exposures on numerous occasions, usually in the form of monthly conference calls. These related to new business, regular re-submissions and approvals for change applications, required to be submitted under the committee's Rules of Procedure.

The Remuneration Committee held five meetings; it consisted of Dr Günther Bräunig (Chairman), Dagmar Kollmann, Joachim Plesser and Heike Theißing. The committee concerned itself with the Remuneration Reports, the variable remuneration for the financial year 2019, the target agreements for and achievements of the Management Board members as well as the Variable Remuneration Plan 2020 for the Management Board. Furthermore, for the Supervisory Board the committee prepared the approval of the determination of risk-taker functions, and the determination of parameters for the risk-adjusted performance measurement at an institutional level. Other key focuses of the meetings were on the Bank's remuneration system, including the assessment of its appropriateness, as well as on regulatory changes and the extension of the Deputy Remuneration Officer's mandate. The committee also looked repeatedly at the remuneration system for Management Board members under ARUG II.

Supervisory Board of pbb

Name place of residence initial appointment	Principal activity	Supervisory Board function and meeting attendence	Executive and Nomination Committee	Audit Committee	Risk Management and Liquidity Strategy Committee	Remuneration Committee
			Committee function and meeting attendence			
Dr. Günther Bräunig Frankfurt/Main, Germany 14.8.2009	CEO of KfW	Chairman 9 of 9	Chairman 7 of 7	Member 7 of 7		Chairman 5 of 5
Dagmar Kollmann Vienna, Austria 14.8.2009	Entrepreneur	Deputy Chairman 9 of 9	Member 7 of 7	Chairman 7 of 7	Member 5 of 5	Member 5 of 5
Dr. Jutta Dönges Frankfurt/Main, Germany 21.6.2018	Member of the Executive Board Bundesrepublik Deutschland – Finanzagentur GmbH	Member 9 of 9		Member 7 of 7	Member 5 of 5	
Dr. Thomas Duhnkrack Kronberg/Taunus, Germany 21.7.2015	Entrepreneur	Member 9 of 9		Member 7 of 7		
Dr. Christian Gebauer-Rochholz Hochheim, Germany (Employee representative) 20.11.2012	Bank employee	Member 9 of 9				
Georg Kordick Poing, Germany (Employee representative) 22.2.1990	Bank employee	Member 9 of 9				
Joachim Plesser Ratingen, Germany 26.4.2014	Consultant	Member 9 of 9	Member 7 of 7		Chairman 5 of 5	Member 5 of 5
Oliver Puhl Frankfurt/Main, Germany 13.5.2016	Entrepreneur	Member 9 of 9			Member 5 of 5	
Heike Theißing Munich, Germany (Employee representative) 7.7.2011	Bank employee	Member 9 of 9				Member 5 of 5

TRAINING AND CONTINUOUS PROFESSIONAL DEVELOPMENT

The members of the Supervisory Board assumed responsibility for undertaking any training or professional development measures necessary to fulfil their duties. The Company supported them to the extent required in this regard. Regular training is also provided ahead of the regular Supervisory Board meetings in the form of presentations by external speakers. The topics handled in 2020 included digitalisation, data protection and cybersecurity, and – within the scope of the Supervisory Board's annual strategy meeting – the future of the office real estate markets after COVID-19. This regular training programme for the entire Supervisory Board will be continued.

ANNUAL FINANCIAL STATEMENTS

KPMG, the auditors of the Annual and Consolidated Financial Statements elected by the Annual General Meeting, audited the Annual and Consolidated Financial Statements of pbb as at 31 December 2020, including the consolidated management reports, and issued them with unqualified audit opinions. The Non-Financial Statement, which pbb is required to submit as part of the Management Report pursuant to sections 289b et seq. and 315b et seq. of the HGB, was published in a separate Non-Financial Report that is also included in the present Annual Report. In the context of its audit obligation as per section 171 (1) of the AktG, the Supervisory Board made use of the possibility of a content-related external audit of the Non-Financial Statement according to section 111 (2) sentence 4 of the AktG. The Non-Financial Report did not, however, form part of the audit carried out by the external auditors, but was subject to a limited assurance review by Deloitte GmbH Wirtschaftsprüfungsgesellschaft in accordance with ISAE 3000.

KPMG has submitted a declaration of its independence to the Supervisory Board. The financial statements documents and audit reports were submitted to all Supervisory Board members in good time. The Audit and Digitalisation Committee addressed the financial statements documents in its meeting on 11 March 2021. The Annual Financial Statements and Consolidated Financial Statements, the Combined Management Report as well as audit reports were discussed in detail with the Management Board and representatives of the external auditors. Following its own review, the Supervisory Board did not raise any objections to the audit results submitted by the external auditors. In the accounts review meeting held on 12 March 2021, the Supervisory Board approved the Consolidated Financial Statements prepared by the Management Board, and the Annual Financial Statements were adopted. During the same meeting, the Supervisory Board also discussed the Management Board's proposal for the appropriation of profits with the Management Board. Following its examination, the Supervisory Board has endorsed the proposal for the appropriation of profit submitted by the Management Board.

The Supervisory Board would like to thank the Management Board and all of pbb's employees for their exceptional personal commitment and successful work in the 2020 financial year, especially in these particularly challenging times dominated by the pandemic.

For the Supervisory Board

Dr Günther Bräunig
Chairman

Combined Management Report

Fundamental Information about the Group

The management report of Deutsche Pfandbriefbank AG (pbb) and the Group management report are combined, in accordance with the German Accounting Standard (GAS) 20. Thus, besides Deutsche Pfandbriefbank Group (pbb Group), the report also includes information referring solely to the parent entity pbb (with explanations on the basis of the German Commercial Code (HGB)). The annual report of pbb in accordance with HGB and the consolidated management report are published simultaneously in the German Federal Gazette (Bundesanzeiger).

GROUP STRUCTURE

The pbb Group consists primarily of the parent entity pbb. Information provided in this consolidated management report relates – if not explicitly stated otherwise – to both pbb Group as a whole and pbb as an individual company.

In addition to the Bank's headquarters in Munich/Garching, pbb Group has offices at four locations across Germany (Eschborn, Düsseldorf, Hamburg and Berlin). Outside Germany, it maintains a presence at five locations: London, Madrid, Paris, Stockholm, and New York City. The Bank operates most of its international financing activities from these locations.

BUSINESS MODEL AND STRATEGY

The strategic business segments of pbb Group are Real Estate Finance (REF) and, complementing this, Public Investment Finance (PIF); the focus is on business eligible for inclusion in Pfandbrief cover. The geographic focus is on Europe and the USA. Its significant core markets are Germany, France, the United Kingdom, the Nordic countries and selected Central and Eastern European countries, as well as Spain, the Benelux countries and the US.

In its core business of commercial real estate finance, pbb focuses on primary client business and syndications. Besides traditional financing solutions tailored to clients' needs, pbb offers its clients derivatives for hedging risks associated with lending. pbb does not maintain a trading book for securities or derivatives portfolios held to realise short-term gains.

In the lending business, pbb either acts as a sole lender or, particularly for large-volume transactions, cooperates with financing partners. In this regard, pbb has a wide network of banks and other partners, including insurance companies and private equity firms. In this so-called syndicate business, when acting as arranger, the pbb Group takes over the complete coordination between the syndicate members and the borrower or, in the role of an Agent, deals with tasks in connection with the management of syndicated loans.

In addition, pbb acts as an underwriter, initially being the sole provider of financing and then selling parts of such loans to interested partners within the scope of syndications.

pbb Group intends to further advance its digital transformation: the chosen approach comprises three main thrusts, focusing on further development of client interfaces (through a new digital client portal), enhancing process efficiency in the core business (using end-to-end digital credit processes), as well as on new products and business models.

Regarding new products and business models based on digitalisation initiatives, pbb's subsidiary CAPVERIANT GmbH (CAPVERIANT) operates a digital platform that brings together public-sector borrowers and institutional investors. With respect to the loans intermediated by CAPVERIANT, pbb does not operate as a lender. Only in the case of 'bank-in-the-middle'-products, where an investor cannot act as the primary lender for regulatory reasons, pbb may assume the short-term role of a lender ('fronting bank'). Immediately after the loan has been originated, this role is passed on to the investor. The platform was launched in Germany in 2018 and then rolled out to the French market in 2019. In 2020, pbb and France's government-owned Caisse des Dépôts (CDC) via its Banque des Territoires segment signed an agreement for CDC to acquire a stake of around 28.5% in pbb's subsidiary CAPVERIANT, with economic effect as of 1 January 2021. The closing of the transaction still requires customary conditions to be fulfilled – approval by the European Competition Authority in particular. The goal of this collaboration is to advance CAPVERIANT's growth and market penetration in Germany and France but also in other European countries.

COMPETITIVE POSITION

In its core markets, pbb has a local presence and expertise across the entire process chain, with real estate experts, property law specialists and financing experts, up to the management of loan exposures. pbb also actively deploys this local expertise to support clients with international transactions, with key decisions always being taken by the responsible units at Group level.

Strategic portfolios

In real estate finance, pbb's range of services is targeted primarily at professional real estate investors (both national and international) such as real estate companies, institutional investors, real estate funds and – particularly in Germany – also SMEs and clients with a regional focus on Germany. pbb targets more complex transactions with medium-sized to larger financing volumes. Financed objects mainly involve office buildings, properties for residential use, retail and logistics properties as well as (business) hotels. Other property types are financed as portfolio additions. The regional focus is on the core markets eligible for inclusion in Pfandbrief cover in Europe and in certain US metropolitan areas. Here, pbb offers both local and cross-border financing expertise. A majority of the loans granted are investment financings, i.e. loans for the acquisition or follow-up financing of existing properties generating cash flows. Development financings (including residential real estate developers in Germany) are of complementary significance.

Amid the Covid-19 pandemic, pbb's approach to lending decisions – which strongly considers individual circumstances and closely involves the Management Board – has proven its validity. pbb has maintained the essential parameters for new business in target markets, and regarding target clients and types of use; however, it has made some adjustments during the course of the year, adopting a more cautious stance on retail properties and hotels, office buildings in peripheral locations, as well as on the UK in general.

In Public Investment Finance, pbb finances projects for the provision and improvement of public infrastructure. Clients in this segment include regional or provincial governments, municipalities, urban development companies, publicly-owned hospitals, and investment or real estate holding companies. Public/private partnerships and other structured transactions are being pursued in addition. The regional focus in primary new business is on France. This segment is complemented by bond purchases, including (in particular) for the purposes of managing the cover assets pool and the Group's liquidity. In view of increasingly apparent public-sector reticence regarding (privately financed) infrastructure investments, pbb has decided to refrain from its previous assumption of further growth.

Run-down portfolio

In addition to the portfolios of its two strategic business segments, pbb Group has a non-strategic portfolio, the Value Portfolio (VP). The Value Portfolio consists almost entirely of existing financings to the public sector which are not linked to specific projects (budget financing). The Group does not originate any new business in this area. The portfolio is primarily refinanced at matched maturities. It generates interest income, and matures in accordance with the underlying fixed terms.

The Value Portfolio consists of two sub-portfolios. The significantly smaller sub-portfolio in terms of volume is held within the context of a business model whose objective is both to collect contractual cash flows and to sell financial assets. This sub-portfolio allows opportunistic sales of holdings. The objective of the business model of the second sub-portfolio is to hold financial assets in order to collect contractual cash flows.

Funding

Loans are largely funded using matching maturities, and primarily via the Pfandbrief market, supplemented with unsecured funding. Issues are regularly placed on the international capital markets in benchmark format, and via private placements. pbb structures private placements as bearer or registered securities in accordance with investors' requirements, or in the form of fixed-rate deposits – meaning that term and interest structure can be negotiated on an individual basis. In line with the lending business, issues are predominantly conducted in euros; pbb prefers to refinance any non-euro lending (especially in the US, the UK and Sweden) directly in the respective currency. This 'natural', matched-currency funding avoids costs for foreign exchange swaps, reducing the need for excess Pfandbrief cover to be funded on an unsecured basis.

pbb issues Mortgage Pfandbriefe and Public Sector Pfandbriefe, and is one of the largest issuers of Pfandbriefe (measured by outstanding volume). The Pfandbrief market is highly liquid, with a broad investor base (source: Association of German Pfandbrief Banks).

The main vehicles used for unsecured funding are promissory notes, bearer bonds, and fixed-rate deposits as well as senior preferred and conventional senior non-preferred issues.

The main investors in debt instruments are banks, investment funds and insurance companies, but also central banks and sovereign wealth funds. In this segment, pbb Group's particular strategic focus is on further developing its funding franchise, with the objective of further diversifying and expanding its investor base.

In addition, the Bank is active in the retail deposit-taking business with private investors in Germany. Via its online platform (www.pbbdirekt.com) as well as through third-party providers, pbb offers overnight and fixed-term deposits denominated in euros and US dollars.

Regarding measures provided by the European Central Bank (ECB), in 2020 pbb Group participated in the ECB's targeted longer term refinancing operations (TLTRO III) due to the attractive conditions offered.

STRATEGIC FOCUS

pbb Group's business strategy focuses on sustainable business success. Crucial success factors are the assessment and appropriate pricing of credit risk in the lending business on the one hand, and the access to funding markets at adequate terms on the other. Managing the existing portfolio – so as to identify changing risks at an early stage and mitigate them by taking appropriate measures – is another important factor.

The business strategy 2021 focuses on cautiously increasing operating profitability while maintaining a determinedly conservative risk profile and targeted management and measures to cope with the COVID-19 pandemic. pbb Group pursues various initiatives (including those concerning digitalisation) aimed at expanding its value chain, product range and client base. Moreover, pbb Group constantly reviews the options available to increase its process and cost efficiency, not least as part of its digitalisation initiatives.

INTERNAL MANAGEMENT SYSTEM

pbb Group's internal management system is pursuing a sustainable enhancement in value of the Group considering aspects of risks and regulatory requirements. The key objective is to achieve a balanced risk/return ratio. Risks should be compatible with external and internal risk-bearing capacity guidelines generating an adequate return on capital.

Monitoring and stearing are based on a consistent and integrated key performance indicator system (KPI system), which assists executives in the management of the Group. The KPI system comprises the dimensions of profitability, growth in the real estate finance portfolio, risk limitation and capital. Regular plan-actual comparisons and related analyses disclose the reasons for any deviations in the key performance indicators. Current market developments, such as the change on interest rate levels, are also displayed. In addition to strategic planning for the Bank as a whole, regular medium-term projections of profitability indicator and (stress) scenario forecasts ensure the management has a comprehensive overview of the Group's future business development

The internal management system has remained unchanged compared to the previous year. The following financial key performance indicators have been defined:

> One key profitability indicator is the return on equity after tax. It is calculated by dividing IFRS net income/loss by the average IFRS equity available in the financial year excluding taccumulated (expiring) other comprehensive income (OCI) from cash flow hedge accounting, financial assets at fair value through OCI and additional equity instruments (AT1 capital). Profit before tax is a further financial key performance indicator. The aim is to increase it both by generating higher revenues and through strict cost discipline. Cost discipline and efficiency are monitored using the cost-income ratio, i.e. the ratio of general and administrative expenses to operating income.

> The notional amount of the funding in the Real Estate Finance (REF) segment is a significant factor influencing the future earning power and has therefore been redefined as an additional financial key performance indicator. The financing volume can be controlled, above all, by the volume of new business (including prolongations with maturities of more than one year), which also represent a financial key performance indicator. A present value approach is used for managing and calculating new business.

> pbb Group's capital adequacy process (ICAAP) is based on two approaches concerning risk-bearing capacity: the normative and the economic perspective. Whilst the normative perspective is aimed at the fulfilment of all capital-related legal requirements, supervisory demands and internal objectives, on an ongoing basis, the economic perspective covers all material risks which might threaten the institution's economic viability. Both perspectives are designed to supplement each other, safeguarding pbb Group's ability to survive. The prerequisites for evidencing risk-bearing capacity in the normative perspective are the ongoing compliance with minimum regulatory requirements over a medium-term horizon, plus evidence of adequate internal capital to cover material risks exceeding such minimum requirements. In the economic

perspective, risk-bearing capacity is evidenced by sufficient internal capital being available to cover potential present-value losses. Details concerning the methodology used for analysing risk-bearing capacity, and the results obtained, are provided in the Risk and Opportunity Report.
- The CET1 ratio, a key management parameter, is determined on a regular basis; it is calculated by dividing Common Equity Tier 1 (CET1) by risk-weighted assets (RWAs). The Advanced Internal Rating Based Approach (Advanced IRBA) is used to determine regulatory capital requirements for the far predominantly portion of the real estate portfolio and the credit risk standardised approach (CRSTA) for the remaining portfolio.

Non-financial key performance indicators are not explicitly managed. pbb Group is intensively involved in sustainability issues (environmental, social and good corporate governance) and aims to define one or more non-financial key performance indicators in 2021 or 2022.

NON-FINANCIAL STATEMENT

The chapter "Non-financial Statement" has not been part of the audit carried out by the external auditors.

Companies must assume responsibility for their actions in the environment in which they operate. The key principle of pbb Group's corporate responsibility philosophy is that of sustainability. This means long-term, responsible actions that take the consequences for all the company's stakeholders and for the environment into account.

pbb Group is convinced that sustainable and responsible business practices are an essential requirement for securing the future of the Company and increasing its value.

pbb Group goes into those topics and aspects of sustainability which it has identified as being important for the Company in more detail in the Combined Separate Non-Financial Report (see chapter "Non-Financial Report") which is not part of the Combined Management Report. This has been put together in accordance with the requirements of the CSR Directive Implementation Act and, in addition, will be published via the German Federal Gazette (Bundesanzeiger). The Non-Financial Report has not been audited by the auditors. However, it has been subject to an audit of limited assurance by the external auditing company Deloitte GmbH Wirtschaftsprüfungsgesellschaft according to ISAE 3000.

Report on Economic Position

MACROECONOMIC ENVIRONMENT

The global economy contracted significantly in 2020. This was down to the COVID-19 pandemic and associated global efforts to contain the virus. As a consequence of the pandemic, the International Monetary Fund (IMF) is anticipating a 3.5% decline in global economic growth for 2020, i.e. a stronger slump than seen during the financial crisis of 2008-2009 (source: IMF).

According to current estimates, economic output in industrialised nations fell by 4.9% in 2020, after recording a growth rate of 1.6% in 2019 (source: IMF). At the level of individual countries, economic performance varied depending on the development of the pandemic, the respective monetary and fiscal policy, local containment measures, and importance of the tourism and services sector for the economies. While, according to the IMF, the US and Japan turned in a comparatively pleasing performance, with the help of loose monetary and fiscal measures, growth in some euro countries and the United Kingdom was disappointing.

Amongst the industrialised nations, the US is a good example for uneven development of the pandemic and associated containment measures. Whilst economic output in the US fell by a comparatively mild 2.4% (source: Fed), gross domestic product in the euro area and the United Kingdom plummeted by 7.3% and 11.0%, respectively (sources: ECB, Bank of England).

In most countries, the manufacturing sector turned out to be a pillar of strength, standing tall against a stronger slump, whilst the services sector, and in particular the tourism sector, strongly underperformed as a result of containment measures (source: IMF).

In the euro area, Germany is expected to see its economic output for 2020 decline by 5.5%, following an increase of 0.6% in 2019 (sources: Deutsche Bundesbank, Federal Statistical Office), equalling the strongest decline since the financial crisis. This was largely due to lower economic output in the services sector, whilst production in the manufacturing sector rebounded quickly after the first lockdown in spring.

France's GDP, on the other hand, toppled by an estimated 9.0%, following growth of 1.5% in 2019 (sources: Banque de France, IMF). The particularly strict and protracted containment measures, in conjunction with an economic structure which reacted particularly strongly to the COVID-19 shock (France is home to a large tourism sector and an important aviation industry), burdened economic growth.

Spain's economy is expected to contract by 11.1%, having expanded by 2.0% the year before (sources: Banco de España, IMF). The main driver here is the large Spanish tourism sector. Italy's economy is expected to shrink by 9.0% as a result of the early outbreak of the pandemic. However, the country reported only limited growth of 0.3% in 2019, too (sources: Banca d'Italia, IMF).

The British economy also took a significant hit from the pandemic. In addition, private demand and investment suffered amidst the uncertainty surrounding the outcome of negotiations on a trade agreement with the EU. Overall, economic output in the UK is expected to have declined by 11.0% (source: Bank of England).

pbb's core markets in Northern and Eastern Europe as well as North America were not impacted quite as much as the euro area; nevertheless, gross domestic product saw a material downturn. In Sweden, the decline was only 3.4%, in Poland 3.6% (source: European Commission). US economic output is expected to have fallen by 2.4%, supported by a highly accommodative monetary and fiscal policy (source: Fed).

Despite the strong economic slump, unemployment rates barely increased, which is attributable to an increased number of short-time work programmes implemented in many countries. In November 2020, the unemployment rate in the euro area was 8.3% and thus only around one percentage point above the low of 7.2% seen in February 2020 (source: Eurostat). In Germany, the number of employees subject to social security contributions amounted to 33.9 million in November 2020, equalling a year-on-year decline of only 0.2%, whilst the unemployment rate in this period increased from 3.2% to 4.5% (sources: Federal Employment Agency, Eurostat). In France, unemployment rose from 8.2% in November 2019 to 8.8% a year later, whilst in Spain the rate climbed to 16.1% from 13.8% during the same period (source: Eurostat). The unemployment rate also increased in Northern Europe, for example in Sweden, from 7.5% to 8.3% in the period mentioned above (source: Eurostat). In the United Kingdom, unemployment rose from 3.7% in November 2019 to 4.9% in September 2020 (source: Eurostat). On the other side of the Atlantic, the United States reported a slightly stronger increase, from 3.6% in November 2019 to 6.7% in November 2020 (source: Bureau of Labor Statistics).

The extraordinary support provided by fiscal and monetary measures was able to prevent economies from collapsing even more strongly. In this context, the €750 billion EU recovery fund, the EU's €100 billion SURE programme aimed at supporting local short-time work schemes, and the ECB's pandemic emergency purchase programme (PEPP) are particularly noteworthy. The latter was increased twice – to €1.35 trillion in June and to €1.85 trillion in December 2020 – and prolonged until March 2022 (sources: IMF, ECB). The US government responded with a US$2.3 trillion stimulus package, replenished with a second package of approx. US$0.9 trillion in December (sources: IMF, Bloomberg). The Federal Reserve (Fed) implemented an emergency rate cut of 50 basis points on 3 March 2020 and another cut of 100 basis points on 15 March 2020, to 0.25%. The US central bank has since repeatedly reiterated its commitment to using the entire range of instruments at its disposal to support the US economy (source: Fed). The Bank of England (BoE) lowered its benchmark rate by 65 basis points to 0.1% in the year under review, and relaunched the Term Funding Scheme to create incentives for bank loans. The asset purchase programme was increased during the year, by £300 billion to £745 billion (source: BoE).

Due to the pandemic and similar monetary policy reactions around the world, capital market rates in the US and the UK, as well as in the euro area performed similarly. Following a high in March 2020 as a result of the uncertainties surrounding the outbreak of the pandemic, yields followed a continuous downward trend throughout the year, reaching and undercutting their pre-crisis levels by year-end. Following the first shock, particularly the yield on Italian 10-year government bonds fell throughout the year; this was mainly due to the ECB's extremely loose monetary policy (source: Bloomberg).

On the currency markets, UK sterling lost 5.4% against the euro over the course of the year. The US dollar also declined 8.9% against the European single currency; this development was down, among other things, to the increased political uncertainty and a more severe course of the pandemic in the US and the UK (source: Bloomberg).

SECTOR-SPECIFIC ENVIRONMENT

Overall Situation in the Banking Sector

Credit risks have increased since the beginning of the pandemic, whilst banks' average income situation has deteriorated due to the economic downturn (source: ECB). State guarantees and moratoria in many countries, however, seem to prolong the time that weak economic development needs to translate into credit losses and non-performing loans. Furthermore, banks in the euro area reported a significant decrease in return on equity during the year: from over 5% in the third quarter of 2019 to just above 2% in the third quarter of 2020 (source: ECB). This change was mainly due to increased risk provisioning and the banks' limited opportunities to generate income (source: ECB).

However, many banks are still concerned about the operating environment. According to the ECB, the hitherto resilient banks of the euro area are now facing a combination of rising concerns about their asset quality, continuous structural problems, and lasting pressure on profitability (source: ECB).

Real Estate Finance

Demand for the real estate asset class was strongly influenced by the COVID-19 pandemic in the year under review. Whilst investment volumes in the first quarter of 2020 remained on more or less the same level as in previous years in Europe and the US, the spread of the coronavirus and the associated restrictions resulted in a strong contraction in transaction activity from the second quarter onwards. Despite signs of improvement at year-end 2020, investment volumes in the year under review fell significantly below the levels seen in previous years. In Europe, transaction volumes were around 27% lower than in the previous year. And in the US, turnover generated with commercial real estate fell by approximately 32% year-on-year (source: RealCapitalAnalytics, Property Market Analysis).

However, the various real estate types recorded some material differences: since the outbreak of the pandemic, demand has strongly focused on first-class office properties with long-term, secure rental contracts. Investors furthermore are centering their attention on logistics real estate, residential real estate, and retail real estate with a local supply function, whilst demand for real estate types impacted negatively by the pandemic, such as shopping centres and hotels, basically came to a halt. As a result, returns for the respective types of property were adjusted (source: JLL, RealCapitalAnalytics).

Parallel to declining investment volumes, new business concluded by financing banks and non-banks was down overall in the year under review. Margins and credit terms showed some general signs of improvement compared to the previous year, and even improved significantly in selected segments and product types (source: IREBS).

Public Investment Finance

As the European Commission states in its Autumn 2020 Economic Forecast, the public investment-to-GDP ratio in the euro area should have increased from 2.8% in 2019 to 3.1% in 2020. This is attributable, among other things, to the increased use of EU resources from the structural and cohesion funds, for example within the scope of the Corona Response Investment Initiative and the Investment Plan for Europe. Therefore, public-sector investments have nearly reached the levels seen before the financial crisis, when the ratio in the period of between 2000 and 2007 was at an average of 3.2%. In addition, the suspension of EU fiscal rules in the year under review has slightly enlarged the room for manoeuvre for fiscal stimulus measures at a national level. Nevertheless, at local body and regional levels, budgetary constraints are still very much an issue.

The ratio of public-sector investments in the focus market of France also rose, from 3.7% of gross domestic product in 2019 to an estimated 3.9% in 2020, thus definitely approaching the average of the pre-financial crisis period (source: Autumn 2020 Economic Forecast of the European Commission).

Value Portfolio

The non-strategic Value Portfolio (VP) segment almost exclusively comprises public budget financing exposures. In March 2020, the credit spreads of countries on the European periphery widened significantly against the background of the COVID-19 pandemic, only to recover during the course of 2020, albeit remaining at an elevated level (source: Bloomberg).

Funding Markets

Development on the funding markets in 2020 was largely determined by the COVID-19 pandemic. Following a strong start into the year, primary market activities came to a virtual standstill with the increasing proliferation of COVID-19; pbb Group noted material spread widening in nearly all asset classes, finding a peak in spring 2020. Thanks to comprehensive measures taken by the ECB, such as purchase and refinancing programmes (TLTRO III), which had a stabilising effect on secondary market spreads, the coronavirus-related widening of spreads reversed during the course of the year. Most European banks made use of the attractive ECB funding. Therefore, issuance volumes on the primary market contracted strongly in 2020. Due to the persistent low interest rate environment, the trend towards longer maturities continued. All in all, benchmark Pfandbrief issues amounted to just under €19 billion in 2020, about one-third less than in the previous year. Moreover, a significant share of Pfandbrief issues was retained by issuers and used as collateral for the ECB's longer-term refinancing operations (TLTRO III) (sources: ECB, Bloomberg).

IMPACT OF THE COVID-19 PANDEMIC

The SARS-CoV-2 coronavirus led to a global spread of the COVID-19 disease during the year under review. As a result of the pandemic and the precautionary measures related to it, economic output worldwide, measured in terms of gross domestic product, has slumped drastically and unemployment has climbed.

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

To alleviate the effects of the COVID-19 pandemic, Germany and other countries agreed to impose varying forms of payment holidays, including statutory deferrals of certain loan instalments for clients in financial distress owing to the crisis. In Germany, the corresponding rules relate exclusively to loan agreements concluded with consumers and microenterprises, and are therefore of no significance to pbb Group. The same applies for other countries' moratoria, if they are extended solely to consumer business, and for private moratoria initiated by the banking associations in which pbb is not involved.

In its existing business, pbb has instead actively sought economically viable solutions on an individual basis together with clients. In agreement with the clients, the contractual cash flows were adjusted on a small number of financings during the 2020 financial year. In most cases, contractual agreements for calculating financial ratios were suspended, or relief was provided, for a certain period of time; alternatively, current principal repayments were deferred when adjusting contractual cash flows.

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

pbb closely monitors and manages loan default risk. As a result, financial instruments were already reclassified from stage 1 to stage 2 impairments in the first half of 2020. Overall, this targeted a gross carrying amount of net €7.8 billion in the 2020 financial year, of which a gross carrying amount of €5.9 billion remained as at 31 December 2020 following repayments. Migration criteria for reclassifications from stage 1 to stage 2 were unchanged from pre-COVID-19 times. Whilst the default risk for financial instruments reclassified from stage 1 to stage 2 has increased considerably compared with initial recognition, there are no indicators of an impaired credit quality within the meaning of IFRS 9. In addition, two financial instruments with a gross carrying amount of €86 million were reclassified from stage 2 to stage 3 in 2020. One of the two transactions was repaid in the fourth quarter of 2020, incurring no losses for pbb Group. The other transaction's good collateralisation made risk provisioning unnecessary. All in all, and taking repayments into account, the gross carrying amount of stage 3 financial instruments even went down in the financial year under review. Net income from risk provisioning totalled €-126 million; with €-70 million, the larger part was attributable to financial instruments at impairment stages 1 and 2.

The Management Board and the Supervisory Board discussed current developments on a regular basis; moreover, a cross-divisional task force was established for clarifying issues related to the COVID-19 pandemic and for strengthening processing capacity. Covering pbb's target markets, this task force particularly monitors and analyses prevailing market developments, along with conducting surveillance of certain market segments particularly affected by the impact of the COVID-19 pandemic. It also analyses and assesses government protection and stimulus programmes in terms of their relevance to our borrowers. Furthermore, pbb Group closely monitors ongoing developments – with a special focus on cash flows and collateral – at a single-exposure level.

The volume of new business in the Real Estate Finance segment (including extensions beyond one year) amounted to €7.3 billion. In view of the sharp decline in the volume of market transactions from the second quarter of 2020 onwards, this was a satisfactory result. In addition, pbb Group has applied stricter risk parameters since the beginning of the pandemic, for example regarding collateral, or own funds and cash requirements for investors in new business. pbb Group adhered to its cautious stance as regards new business in individual sub-markets such as hotel and retail properties, office properties outside top locations, or in the United Kingdom. As early repayments also declined sharply compared to the previous year, the volume of commercial real estate financings disbursed was largely stable at €27.0 billion as at 31 December 2020, compared to €27.1 billion as at 31 December 2019.

Pre-tax profit amounted to €154 million. This year-on-year decline (2019: €216 million) is mainly attributable to the negative impact on net income from risk provisioning (€-126 million; 2019: €-49 million), which resulted in particular from economic conditions induced by the COVID-19 pandemic. pbb Group achieved a good result with regard to the most important current income and expense items. Net interest income of €479 million was higher than in the previous year (2019: €458 million), General and administrative expenses of €204 million were only marginally above the previous year's figure of €202 million. A detailed development is described in "Development of earnings".

Profit before tax showed a clearly positive trend during the course of 2020. The first half-year was defined by additions to impairment losses on financial assets without indications for impaired credit quality (stages 1 and 2), so that pre-tax profit amounted to €31 million. In contrast, pre-tax profit of €123 million in the second half of 2020 returned to pre-COVID-19 pandemic levels (half-yearly average for 2019: €108 million).

Looking at the funding activities at the beginning of 2020 and the Bank's general liquidity status, we do not expect any liquidity bottlenecks. Of the measures offered by the ECB, pbb took advantage of the attractive terms of the Targeted Longer-Term Refinancing Operations (TLTRO III) and participated in the amount of €7.5 billion in June 2020.

As at 31 December 2020, the Bank's CET1 ratio stood at 16.1% and was thus slightly above the figure as at 31 December 2019 (15.9%; this value already takes into account the appropriation of profits for 2019 adopted by the Annual General Meeting on 28 May 2020). In the normative perspective, pbb significantly exceeded all regulatory minimum ratios for risk-bearing capacity as at 31 December 2020. In the economic perspective, the capital available to cover the risks also exceeded economic capital requirements as at 31 December 2020.

COURSE OF BUSINESS

In the financial year 2020, pbb Group generated a pre-tax profit of €154 million. As such, pbb Group was able to generate a clearly positive result – despite the COVID-19 pandemic and associated macro-economic impact. However, since risk provisioning was significantly increased due to the recession (2020: €-126 million vs 2019: €-49 million), profit before taxes missed the forecast range of €180 million to €200 million published at the beginning of the year and later retracted. Net interest income, on the other hand, performed better than planned, benefiting from participation in the ECB's TLTRO III programme as of 24 June 2020.

pbb's cost/income ratio amounted to 42.2% and was thus better than forecast at the beginning of 2020 (and marginally better than the value of 43.5% generated in 2019). This positive development was attributable to two factors: firstly, net interest income performed positively, and secondly, general and administrative expenses were slightly lower than expected thanks to the Bank's strict cost discipline. At 3.4%, return on equity after taxes, on the other hand, missed the expected range of 4.0% to 5.0%.

New business volume in Real Estate Finance (including extensions beyond one year) of €7.3 billion did not reach the range forecasted at the beginning of the year (€8.0 billion to €9.0 billion). This was mainly due to the significantly reduced market transaction volume as of the second quarter of 2020 and the risk policy adjustment due to the COVID-19 pandemic. Since early repayments also declined sharply compared with prior years, the commercial real estate financing volume was largely stable at €27.0 billion, compared to €27.1 billion as at 31 December 2019; it was therefore not possible to generate a modest increase, as initially forecast.

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

In the Interim Report as of 30 June 2020, pbb specified this assessment, stating that pbb Group continued to anticipate a stable operating result, but also maintained the assumption that pre-tax profit – and thus also return on equity after taxes – would fall below the previous year's levels. Due to the higher net income from risk provisioning, this forecast came true.

Forecasts concerning pbb's risk-bearing capacity at the beginning of 2020 materialised during the course of the year. From a normative perspective, all regulatory minimum ratios were exceeded as at 31 December 2020; available financial resources (after deducting the minimum levels required for regulatory purposes) also covered all further material risks as at the reporting date. From an economic perspective, the capital available to cover the risks also exceeded economic capital requirements as at 31 December 2020.

As at 31 December 2020, the CET1 ratio amounted to 16.1% and, as expected, was significantly above the required SREP ratio. As at 12 March 2020, the ECB adjusted SREP requirements for banks under its supervision: excluding the country-specific (and thus portfolio-specific) variable countercyclical capital buffer, the SREP ratio for pbb was reduced to approximately 8.4%.

DEVELOPMENT IN EARNINGS

Deutsche Pfandbriefbank Group (pbb Group)

pbb Group		**2020**	**2019**
Operating performance			
Operating income	in € million	529	506
Net interest income	in € million	479	458
Net fee and commission income	in € million	6	6
Net income from financial instruments at fair value through profit or loss (Net income from fair value measurement) [1]	in € million	-8	-7
Net income from realisations	in € million	26	48
thereof: from financial assets at amortised cost	in € million	24	49
Net income from hedge accounting	in € million	4	-2
Net other operating income	in € million	22	3
Net income from allowances on financial assets (Net income from risk provisioning) [1]	in € million	-126	-49
General and administrative expenses	in € million	-204	-202
Expenses from bank levies and similar dues	in € million	-26	-24
Net income from write-downs and write-ups of non-financial assets	in € million	-19	-18
Net income from restructuring	in € million	-	3
Profit before tax	**in € million**	**154**	**216**
Income tax	in € million	-37	-37
Net income	**in € million**	**117**	**179**
Key ratios			
Earnings per share (basic and diluted) [2]	in €	0.74	1.20
Cost-income ratio	in %	42.2	43.5
Return on equity before tex	in %	4.7	6.9
Return on equity after tax	in %	3.4	5.7

[1] Solely the condensed and parenthesised line item descriptions are used subsequently.
[2] For calculation see note "Earnings per share"

Net interest income of €479 million was slightly higher than in the previous year (2019: €458 million), benefiting from lower funding expenses due to maturing bearer bonds. Participation in the ECB's TLTRO III programme from 24 June 2020 also had a positive effect; related interest-rate benefits are accrued over the term according to IAS 20. As in the previous year, pbb Group profited from floors agreed upon with clients, given the negative interest rate environment. However, the slightly lower portfolio of disbursed (and hence, interest-bearing) financings in REF (average volume of €26.9 billion; 2019: €27.4 billion) burdened net interest income, as did the decline in the non-strategic Value Portfolio, in line with pbb's strategy. Contributions from the (re-)investment of released or additional equity was also lower due to the low interest rate environment.

Net commission income includes fees that were recognised directly through profit or loss. At €6 million, net fee and commission income in the period under review reached the previous year's value (2019: €6 million).

Net income from fair value measurement (€-8 million; 2019: €-7 million) was burdened chiefly by pull-to-par effects (whereby market value approaches zero towards maturity). Credit spreads affecting non-derivative financings which must be reported at fair value through profit or loss, which had widened during the first months of 2020, narrowed again after the end of the second quarter. Overall, these instruments did not lead to any material effects for the year as a whole.

The changed economic situation led to a marked decline in market transactions in Real Estate Finance from March 2020 onwards, as well as to a change in the competitive dynamics. This led to early repayments of financings driven by the current terms available, among other things. The overall decline in the volume of early repayments also led to a lower volume of prepayment penalties received, resulting in net income from realisations of €26 million, which was lower year-on-year (2019: €48 million).

Net income from hedge accounting (€4 million; 2019: €-2 million) included income from a compensation payment received in connection with the conversion of reference interest rates to the euro short-term rate (€STR). Since changes in the value of derivatives and hedged items compensated each other almost completely in relation to hedged interest rate risk, there were hardly any other factors impacting upon profit or loss.

Within net other operating income (€22 million; 2019: €3 million), reversals of provisions for legal and tax-related matters exceeded additions.

Loss allowance for financial instruments is based on probability-weighted estimates of expected loan losses. Whilst consistently applying the accounting methods, pbb Group adjusted the underlying parameters for the estimations, such as expected gross domestic product and unemployment rate, and the probability weighting of the scenarios to the current new economic situation. In this respect, pbb Group refrained from smoothing out measurement parameters using long-term observations. For instance, in the most likely scenario, pbb Group assumes a 3.0% increase in German gross domestic product for 2021, and an unemployment rate of 4.7%.

Net income from risk provisioning totalled €-126 million (2019: €-49 million). At €70 million net (2019: €17 million), the majority of the additions to impairments losses resulted from financings without indicators for a deterioration of credit quality (as defined in IFRS 9) – in other words, financial instruments with stage 1 or stage 2 impairments. Migration criteria for reclassifications from stage 1 to stage 2 were unchanged from pre-COVID-19 times. The additional risk provisioning primarily reflects the deteriorated macroeconomic situation – which can be observed, inter alia, in the development and forecast of gross domestic product and the unemployment rate due to the COVID-19 pandemic. Loss allowance also includes the net effect from stage change of financings with a gross carrying amount of €7.8 billion from stage 1 to stage 2 impairments. pbb Group carried out this stage change, although the change was primarily due to the economic recession triggered by the current COVID-19 pandemic. However, there is no evidence of data to suggest that the issuers or borrowers of the vast majority of financings in question are in significant financial difficulty.

In addition, pbb Group did not carry out any management overlays that would have been compatible with the recommendations of the IASB and the European supervisory authorities ESMA, EBA and ECB in the spring of 2020, and that would have led to a reduction in existing loss allowance. Additions to impairment losses caused the ratio of impairment losses to the gross carrying value on stage 1 and 2 commercial real estate financings to rise significantly, to 40 basis points (31 December 2019: 18 basis points). Across all three impairment stages, coverage for Commercial Real Estate Finance rose from 38 basis points as at 31 December 2019 to 85 basis points as at 31 December 2020.

Furthermore, net additions to impairment losses for financings with indicators of impaired credit quality rating (stage 3) were necessary, in the amount of €57 million (2019: €33 million). This increase in impairment losses was attributable almost exclusively to loans for shopping centres in the UK already subject to stage 3 impairments, reflecting structural changes in the retail industry, among other things.

General and administrative expenses of €204 million were marginally above the previous year's figure of €202 million, as a result of slightly higher personnel expenses, due – amongst other factors – to higher average staff numbers resulting from the successful filling of vacancies, accompanied by simultaneous lower staff fluctuation. Non-personnel expenses were lower, thanks to consistent cost discipline: as a result, and also reflecting social restrictions imposed in connection with COVID-19, travel expenses as well as marketing expenses for trade fairs declined, for example – offset by substantial investment-related expenses for regulatory and strategic projects.

Expenses for bank levies and similar dues of €26 million (2019: €24 million) mainly comprised expenses for the bank levy, taking into account 15 per cent pledged collateral (€23 million; 2019: €20 million). The year-on-year increase in expenses for the bank levy resulted in a significant increase in the Resolution Fund's target volume at EU level. The item also includes expenses of €3 million (2019: €4 million) for the private Joint Fund for Securing Customer Deposits and the statutory deposit guarantee scheme.

Net income from write-downs and write-ups of non-financial assets of €-19 million (2019: €-18 million) included scheduled depreciations of tangible assets and amortisation of intangible assets. The year-on-year increase reflected amortisation of the right of use (capitalised in mid-2019, in accordance with IFRS 16) for the building in Garching. Material impairments on non-financial instruments were not required.

The previous year's net income from restructuring of €3 million was boosted by income from the reversal of provisions in human resources.

Income taxes (€-37 million; 2019: €-37 million) were attributable to current taxes (€-34 million; 2019: €-22 million) and to deferred taxes (€-3 million; 2019: €-15 million). The changes were mainly due to the different tax treatment of loss allowance under IFRS.

Profit after taxes amounted to €117 million (2019: €179 million), of which €100 million (2019: €162 million) was attributable to ordinary shareholders and €17 million (2019: €17 million) to AT1 investors on a pro rata basis (based on the assumption that the discretionary AT1 coupon is serviced in full).

Operating Segments

Segment reporting is based on management reporting results. More information on this can be found in the note on "Notes to Segment Reporting by Operating Segment.

Real Estate Finance (REF)

The REF business segment comprises financing for professional real estate investors. The volume of new business (including extensions by more than one year) totalled €7.3 billion (2019: €9.0 billion). As forecast at the start of 2020, the REF segment made the largest contribution by far to the overall result.

Real Estate Finance		2020	2019
Operating performance			
Operating income	in € million	445	436
Net interest income	in € million	399	388
Net fee and commission income	in € million	6	7
Net income from fair value measurement	in € million	-6	-8
Net income from realisations	in € million	24	48
Net income from hedge accounting	in € million	3	-1
Net other operating income	in € million	19	2
Net income from risk provisioning	in € million	-129	-57
General and administrative expenses	in € million	-175	-164
Expenses from bank levies and similar dues	in € million	-16	-14
Net income from write-downs and write-ups of non-financial assets	in € million	-16	-15
Net income from restructuring	in € million	-	3
Profit before tax	**in € million**	**109**	**189**
Key ratios			
Cost-income ratio	in %	42.9	41.1
Balance-sheet-related measures		**31.12.2020**	**31.12.2019**
Financing volumes	in € billion	27.0	27.1
Risk-weighted assets[1]	in € billion	16.0	15.8
Equity[2]	in € billion	1.9	1.7

[1] Including weighted credit risk positions and capital charges for market risk positions and operational risk, using a scaling factor of 12.5.
[2] Excluding accumulated other comprehensive income (OCI) from cash flow hedge accounting, financial assets at fair value through OCI and additional equity instruments (AT1 capital).

Net interest income increased to €399 million (2019: €388 million): lower refinancing costs contributed to this, whereas the average aggregate volume of interest-bearing loans of €26.9 billion was slightly lower year-on-year (2019: €27.4 billion). In addition, allocated interest rate benefits from the participation in the ECB's TLTRO III programme had a positive effect on net interest income as well. As in the previous year, net interest income profited from floors in client business, given the negative interest rate environment. As the volume of early repayments has fallen sharply as a result of the changed economic framework, prepayment penalties and net income from realisations fell year-on-year. Net reversals of provisions for legal and tax-related items resulted in net other operating income of €19 million (2019: €2 million). Net income from risk provisioning of €-129 million was considerably higher than the previous year's figure (2019: €-57 million), with the majority of additions resulting from financial instruments without indications for a deterioration of credit quality. The higher expected credit losses for these financial instruments at impairment stages 1 and 2 primarily reflected the economic conditions induced by the COVID-19 pandemic. The additions to impairment losses for stage 3 financial instruments were attributable almost exclusively to loans for shopping centres in the UK, reflecting structural changes in the retail sector, among other things. General and administrative expenses changed in line with the altered portfolio composition of pbb Group. The share of the REF portfolio increased in relation to the financing volume of the other segments.

Public Investment Finance (PIF)
The PIF business segment comprises financings extended primarily for the provision of public infrastructure. The volume of new business amounted to €0.1 billion (2019: €0.3 billion). Profit before tax was €16 million (2019: €6 million) and was therefore in line with expectations.

Public Investment Finance		**2020**	**2019**
Operating performance			
Operating income	in € million	41	36
Net interest income	in € million	38	37
Net fee and commission income	in € million	-	-
Net income from fair value measurement	in € million	-1	-2
Net income from realisations	in € million	1	1
Net income from hedge accounting	in € million	-	-
Net other operating income	in € million	3	-
Net income from risk provisioning	in € million	-1	-
General and administrative expenses	in € million	-19	-25
Expenses from bank levies and similar dues	in € million	-3	-3
Net income from write-downs and write-ups of non-financial assets	in € million	-2	-2
Net income from restructuring	in € million	-	-
Profit before tax	**in € million**	**16**	**6**
Key ratios			
Cost-income ratio	in %	51.2	75.0
Balance-sheet-related measures		**31.12.2020**	**31.12.2019**
Financing volumes	in € billion	5.8	6.3
Risk-weighted assets[1)]	in € billion	0.8	0.8
Equity[2)]	in € billion	0.2	0.2

[1)] Including weighted credit risk positions and capital charges for market risk positions and operational risk, using a scaling factor of 12.5.
[2)] Excluding accumulated other comprehensive income (OCI) from cash flow hedge accounting, financial assets at fair value through OCI and additional equity instruments (AT1 capital).

Although the average financing volume of €6.0 billion was slightly lower (2019: €6.4 billion), net interest income was marginally higher than the same period of the previous year (€38 million; 2019: €37 million) due to more favourable funding rates. This was also due to a refinancing advantage from the participation in the ECB's TLTRO III programme, which was allocated proportionately to the business segments. Net other operating income of €3 million (2019: €0 million) contained allocated net reversals of provisions. General and administrative expenses declined in line with the portfolio development. The other items in the income statement remained virtually unchanged compared with the previous year.

Value Portfolio (VP)

The Value Portfolio (VP) operating segment includes pbb Group's non-strategic portfolios and activities, and is being reduced in line with pbb's strategy. Because of the good net interest income and positive net income from risk provisioning, profit before tax of €25 million (2019: €17 million) made a greater contribution to consolidated profit than had been assumed originally.

Value Portfolio		**2020**	**2019**
Operating performance			
Operating income	in € million	39	30
Net interest income	in € million	38	29
Net fee and commission income	in € million	-	-1
Net income from fair value measurement	in € million	-1	3
Net income from realisations	in € million	1	-1
Net income from hedge accounting	in € million	1	-1
Net other operating income	in € million	-	1
Net income from risk provisioning	in € million	4	8
General and administrative expenses	in € million	-10	-13
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	-1
Net income from restructuring	in € million	-	-
Profit before tax	**in € million**	**25**	**17**
Key ratios			
Cost-income ratio	in %	28.2	46.7
Balance-sheet-related measures		**31.12.2020**	**31.12.2019**
Financing volumes	in € billion	11.4	12.1
Risk-weighted assets[1]	in € billion	0.4	0.5
Equity[2]	in € billion	0.5	0.6

[1] Including weighted credit risk positions and capital charges for market risk positions and operational risk, using a scaling factor of 12.5.
[2] Excluding accumulated other comprehensive income (OCI) from cash flow hedge accounting, financial assets at fair value through OCI and additional equity instruments (AT1 capital).

Thanks to more favourable funding terms, net interest income was higher year-on-year with a lower average financing volume consistent with our strategy (€11.8 billion; 2019: €12.6 billion). The lower remaining terms to maturity in the portfolio, which is being reduced in line with strategy, led to a reversal of allowances, which was recognised in income. General and administrative expenses declined in line with the lower financing volume.

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		**2020**	**2019**
Operating performance			
Operating income	in € million	4	4
Net interest income	in € million	4	4
Net fee and commission income	in € million	-	-
Net income from fair value measurement	in € million	-	-
Net income from realisations	in € million	-	-
Net income from hedge accounting	in € million	-	-
Net other operating income	in € million	-	-
Net income from risk provisioning	in € million	-	-
General and administrative expenses	in € million	-	-
Expenses from bank levies and similar dues	in € million	-	-
Net income from write-downs and write-ups of non-financial assets	in € million	-	-
Net income from restructuring	in € million	-	-
Profit before tax	**in € million**	**4**	**4**
Balance-sheet-related measures		**31.12.2020**	**31.12.2019**
Risk-weighted assets[1]	in € billion	0.5	0.6
Equity[2]	in € billion	0.4	0.4

[1] Including weighted credit risk positions and capital charges for market risk positions and operational risk, using a scaling factor of 12.5.
[2] Excluding accumulated other comprehensive income (OCI) from cash flow hedge accounting, financial assets at fair value through OCI and additional equity instruments (AT1 capital).

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	31.12.2020	31.12.2019
Cash reserve	5,376	1,141
Financial assets at fair value through profit or loss	1,368	1,306
Positive fair values of stand-alone derivatives	737	717
Debt securities	134	130
Loans and advances to customers	494	456
Other financial assets at fair value through profit or loss	3	3
Financial assets at fair value through other comprehensive income	1,529	1,696
Debt securities	1,384	1,325
Loans and advances to other banks	-	15
Loans and advances to customers	145	356
Financial assets at amortised cost after credit loss allowances	48,691	50,224
Financial assets at amortised cost before credit loss allowances	48,935	50,351
Debt securities	7,481	7,679
Loans and advances to other banks	1,874	2,356
Loans and advances to customers	39,580	40,316
Credit loss allowances on financial assets at amortised cost	-244	-127
Positive fair values of hedge accounting derivatives	1,651	2,199
Valuation adjustment from porfolio hedge accounting (assets)	27	19
Tangible assets	38	45
Intangible assets	40	39
Other assets	47	41
Current income tax assets	19	22
Deferred income tax assets	95	90
Total assets	**58,881**	**56,822**

General Development in Assets

Total assets rose to €58.9 billion in 2020 (31 December 2019: €56.8 billion). Due to participation in the TLTRO III, in the amount of €7.5 billion in June 2020, the cash reserve rose to €5.4 billion. This was offset by the repayment of the TLTRO II participation, in the amount of €1.9 billion. In the portfolio of financial assets carried at fair value through profit or loss, loans and advances to customers rose due to an increase in loans earmarked for syndication. Financial assets measured at fair value through other comprehensive income declined on the back of maturing loans and advances to customers. The decrease in financial assets measured at amortised cost resulted from maturities (debt securities), lower collateral provided, due to an increase in derivatives cleared via Eurex Clearing AG (loans and advances to other banks) and maturities of loans to municipalities (loans and advances to customers). The growing share of derivatives cleared via Eurex Clearing AG and the resulting netting of cash collateral received led to a decrease in the reported nominal volume of derivatives and in the fair values of hedging derivatives.

Investments

Additions to intangible assets amounted to €13 million during the year under review (2019: €14 million). Services rendered by third parties were used for internally developed software. These investments covered all segments of pbb Group.

DEVELOPMENT IN FINANCIAL POSITION

Liabilities and equity

in € million	31.12.2020	31.12.2019
Financial liabilities at fair value through profit or loss	596	762
Negative fair values of stand-alone derivatives	596	762
Financial liabilities measured at amortised cost	52,570	49,741
Liabilities to other banks	9,844	4,195
Liabilities to customers	22,583	23,985
Bearer bonds	19,457	20,858
Subordinated liabilities	686	703
Negative fair values of hedge accounting derivatives	1,920	2,562
Valuation adjustment from porfolio hedge accounting (liabilities)	137	81
Provisions	246	263
Other liabilities	62	130
Current income tax liabilities	34	47
Liabilities	**55,565**	**53,586**
Equity attributable to the shareholders of pbb	3,018	2,938
Subscribed capital	380	380
Additional paid-in capital	1,637	1,637
Retained earnings	1,066	966
Accumulated other comprehensive income	-65	-45
from pension commitments	-102	-99
from cash flow hedge accounting	-16	-11
from financial assets at fair value trough other comprehensive income	53	65
Additional equity instruments (AT1)	298	298
Equity	**3,316**	**3,236**
Total equity and liabilities	**58,881**	**56,822**

Liabilities

The increase in total assets is reflected on the liabilities side in higher financial liabilities at amortised cost. Within this item, liabilities to banks increased by a net amount of €5.6 billion, particularly as a result of participation in the TLTRO III and repayment of participation in the TLTRO II. In contrast, liabilities to customers were down by €1.4 billion, which was especially due to maturities of registered Mortgage Pfandbriefe and registered Public Pfandbriefe. As on the assets side, the growing share of derivatives cleared via Eurex Clearing AG and the resulting netting of cash collateral received led to a decline in hedging derivatives.

Equity

The changes in equity are presented in the “Equity” note.

The Management Board and Supervisory Board will propose to the Annual General Meeting on 12 May 2021 to distribute a dividend of €0.26 per share entitled to dividends. This dividend proposal follows the ECB’s recommendation as regards a prudent distribution policy. The threshold, in the view of the ECB, is either 15% of the accumulated IFRS consolidated profit (after taxes and AT1 coupon) for the financial years 2019 and 2020, or a reduction of the CET1 ratio of not higher than 20 basis points, whichever is lower. The latter applies to pbb. pbb’s dividend proposal of €0.26 per share entitled to dividends is at the upper end of the ECB recommendation, which currently applies until 30 September 2021. If the ECB allows for a higher distribution after that date, pbb will consider an additional dividend payment for the financial year 2020 in the fourth quarter of 2021, depending on the prevailing market environment.

Key Regulatory Capital Ratios

At the balance sheet date, the CET1 ratio amounted to 16.1% (31 December 2019: 15.9%), the own funds ratio to 21.4% (31 December 2019: 21.1%) and the leverage ratio to 6.0% (31 December 2019: 5.6%). Please refer to the Risk and Opportunity Report ("Internal Capital Adequacy Assessment Process (ICAAP)" section) for further information and calculation methodology on the key regulatory capital ratios.

Liquidity

Principles and Objectives of Liquidity and Financial Management

The primary objective of pbb Group's liquidity and financial management is to secure and manage the liquidity of pbb and its subsidiaries in such a way that their financing and funding capabilities are assured at all times. Central liquidity management is carried out by raising and investing liquidity on the money and capital markets and on the interbank money market as well as central banks.

Liquidity management within pbb Group is performed centrally by pbb's Treasury division. The sales units are refinanced internally on a one-to-one basis when they enter into new business. This means that risks are bundled and centrally managed.

Asset/liability management for pbb Group is performed by the Group Asset and Liability Committee (ALCO). The maturity structure can be found in the note on "Remaining terms of certain financial assets and liabilities."

Liquidity Ratio

As at 31 December 2020 the liquidity coverage ratio (LCR) was 279% (31 December 2019: 182%).

Funding

On 24 June 2020, the ECB provided a total of €1,308.4 billion for a maximum term of three years to banks within the euro area, within the scope of a targeted longer-term refinancing operation. Under this TLTRO III programme, pbb Group drew down a three-year, €7.5 billion tranche. At the same time, pbb Group repaid its liabilities of €1.9 billion from the ECB's TLTRO II programme early, effective 24 June 2020. The funding mix also changed, as fewer repo transactions are being executed. When a defined level of net lending is reached, the variable interest rate on the TLTRO III over the term corresponds to the average interest rate for the deposit facility. In addition, the Bank is granted a further interest rate premium of 50 basis points for the first year of the term in such cases. pbb Group assumes that these conditions will be met, hence interest-rate benefits are accrued over the respective term. The allocated TLTRO III tranche was reported under liabilities to banks as at 31 December 2020.

During the financial year 2020, pbb Group raised new long-term funding in the amount of €5.0 billion (2019: €6.7 billion). Repurchases and terminations totalled €0.7 billion (2019: €0.6 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 €3.2 billion (2019: €3.1 billion), Pfandbriefe accounted for just under two-thirds of the total volume, of which €1.4 billion was issued to pledge as collateral for participation in the TLTRO III. Unsecured funding accounted for €1.8 billion (2019: €3.6 billion), with almost all of the volume being issued as Senior Preferred bonds. Most transactions were denominated in euro, and were placed as fixed-rate bonds. Unhedged interest rate exposures are usually hedged by swapping fixed against floating interest rates. To minimise foreign currency risk between assets and liabilities, bonds were also issued in GBP and SEK (equivalent of €0.7 billion).

Ratings

The following table shows the senior unsecured ratings and ratings for Pfandbriefe, mandated by pbb, as at 31 December 2020:

Senior unsecured ratings and ratings for Pfandbriefe of Deutsche Pfandbriefbank AG (pbb)[1]

	31.12.2020		31.12.2019	
	Standard & Poor's	Moody's	Standard & Poor's	Moody's
Long-term issuer rating/outlook	A-/Negative	-	A-/Negative	-
Short-term issuer rating	A-2	-	A-2	-
Long-term "preferred" senior unsecured debt rating[2]	A-	-	A-	-
Long-term "non-preferred" senior unsecured debt rating[3]	BBB-	-	BBB-	-
Mortgage Pfandbriefe	-	Aa1	-	Aa1
Public Sector Pfandbriefe	-	Aa1	-	Aa1

[1] This overview does not include all ratings/outlooks.
[2] "Senior unsecured debt".
[3] "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 not be rated at all. For the evaluation and usage of ratings, please refer to the rating agencies' pertinent criteria and explanations. The relevant terms of use 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.

In the 2020 financial year, the ratings mandated by pbb were subject to the following changes:

On 23 April 2020, Standard & Poor's confirmed the ratings assigned to pbb and the negative rating outlook. In addition to factors such as the maintenance of capitalisation, asset quality and risk-adjusted earnings, deteriorating trends in the German banking market (industry risk), and the economic environment in which banks are operating in Germany (economic risk), the agency's negative rating outlook is now also based on the rating risks resulting from the COVID-19 pandemic.

On 15 September 2020, Standard & Poor's placed the issuer rating and the long-term "preferred" senior unsecured debt rating on "CreditWatch Negative" due to uncertainty regarding the regulatory resolution strategy for pbb and the related methodical ALAC (Additional Loss Absorbing Capacity) uplift in pbb's ratings.

On 15 December 2020, Standard & Poor's terminated the "CreditWatch Negative" and confirmed the ratings, maintaining a negative outlook. Reasons for this confirmation included a slightly lower risk of a regulatory insolvency strategy to be applied to pbb, and the related potential removal of the ALAC uplift. The negative outlook has since then additionally included the related rating risks.

Ongoing changes to the regulatory and economic environment, as well as other distortions (for example those related to the United Kingdom's exit from the European Union or the COVID-19 pandemic) may lead to rating pressure going forward.

Off-balance sheet commitments

Irrevocable loan commitments of €3.3 billion as at the balance sheet date (31 December 2019: €4.2 billion) represent the majority of off-balance sheet commitments. Contingent liabilities on guarantees and warranties amounted to €0.2 billion as at 31 December 2020 (31 December 2019: €0.2 billion).

MATERIAL RELATED PARTY TRANSACTIONS

No material transactions with related parties were entered into during the financial years 2020 and 2019. Please refer to the note on “Relationships with Related Parties” for more details.

SUMMARY

Despite the global spread of COVID-19 and the associated material deterioration of net income from risk provisioning, pbb Group was able to generate profit before taxes of €154 million in 2020, underlining its operative strength.

In spite of the tightened risk parameters for new business, the financing volume of the strategic Real Estate Finance segment amounted to €27.0 billion as at the reporting date, therefore almost matching the previous year’s figure (31 December 2019: €27.1 billion).

Risk and Opportunity Report

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

ORGANISATION AND PRINCIPLES OF RISK AND CAPITAL MANAGEMENT

pbb Group had 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 (AktG) and section 25a of the German Banking Act (Kreditwesengesetz – "KWG"). pbb, at a single-entity level, 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.

Organisation and Committees

The Management Board of pbb is responsible for the risk management system, and decides on the strategies and material issues of risk management and risk organisation at pbb Group.

The principles, methods and processes of pbb Group's risk management system are specified centrally by pbb's Risk Management and Controlling, and are applied throughout pbb Group, subject to any special requirements at single-entity level. The risk management system comprises the plausible and systematic identification, analysis, valuation, management, documentation, monitoring and communication of all major risks.

The following are major components of the risk management system in the responsibility of the Management Board:
> Defining, updating and communicating business and risk strategies as the basis of business activities and risk acceptance within pbb Group
> Defining and improving organisation structures within pbb Group and in particular for risk management, which ensures that all major risks of pbb Group are managed and monitored
> Adopting credit competences as a decision-making framework along the credit processes within pbb Group
> Taking decisions regarding (portfolio) management measures outside the delegated competences

The Management Board notifies the Supervisory Board with regard to significant changes in the business and risk strategies as well as the risk profile of pbb Group. The Risk Management and Liquidity Strategy Committee (RLA) of the Supervisory Board is mainly responsible for controlling the overall risk situation and for monitoring, establishing and improving an efficient risk management system, and is also responsible for the liquidity management and assurance of pbb Group and resolves upon necessary credit approvals for credit decisions. The Management Board notifies this committee of all increases to specific allowances and the creation of new specific allowances in excess of €5 million and also notifies this committee at regular intervals of major exposures with higher levels of risk.

The committees detailed in the following have been set up at pbb Group level with the involvement of the respective decision-makers.

The **Risk Committee (RC)**, consists of the CRO (Chairman), the CEO/CFO (Deputy Chairperson), the Chief Credit Officer (CCO), the Head of Risk Management & Control (RMC) and one Credit Risk Management (CRM) department head. In general, the committee meets on a monthly basis and discusses the risk development, adopts guidelines/policies, methods for risk measurement, the related parameters as well as methods of monitoring for all risk types. The RC is responsible for the development of standard guidelines of risk management and risk controlling across the Group and also monitors the development of the risk-bearing capacity, economic capital, available financial resources as well as the credit portfolio and the compliance with limits. The Risk Committee discusses the portfolio developments of pbb Group. Additional sub-committees have been established beside the Risk Committee, as outlined below.

The **Credit Committee** is chaired by the CRO or the CCO (with delegation opportunities to a Senior Credit Executive). As a general rule, the committee meets at least once a week and takes credit decisions on new business, prolongations and material changes that fall within the scope of its authority. It also votes on all credit decisions which are in the responsibility of the Management Board or which have to be approved by the Risk Management and Liquidity Strategy Committee. It is in the responsibility of the relevant decision-makers to ensure that the credit decisions are consistent with the prevailing business and risk strategy.

The **Watchlist Committee** is chaired by the CCO (who may delegate this task to a nominated representative with voting rights in the Credit Committee ('B' vote)) and meets every month. All exposures identified by the early warning system are discussed and, if appropriate, individual measures are decided there; these measures have to be subsequently implemented by the relevant departments. Where necessary, the committee takes decisions regarding the need to transfer exposures to CRM REF Workout, which then takes the necessary steps for restructuring or workout on the basis of an individual exposure strategy. It is the duty of responsible authorised persons to take all necessary credit decisions in accordance with the lending authority regulations, or to initiate a decision by the Credit Committee.

If there are indicators for an impairment of an exposure's credit rating (impairment stage 3) in accordance with IFRS 9, the result – after determining the extent of any such impairment – is presented to the **Risk Provisioning Committee (RPC)**. It is chaired by the CRO. The RPC takes decisions within the scope of a pre-defined assignment of approval powers and in accordance with IFRS and the German Commercial Code (HGB). It is responsible for decisions, recommendations and the management of all risk provisioning matters.

The **New Product Process Committee (NPPC)** comprises representatives from the most important units reponsible for infrastructure and controls. The representatives are determined by the RC. The NPPC convenes on an event-driven basis; it is responsible to ensure that, before business commences with new products or in new markets, the resulting risks as well as the related impact on processes, controls and infrastructure are systematically analysed and duly addressed. Only after approval of new product process committee business with new products or in new markets can be started.

The **Stress Test Committee** is responsible for the methodology, performance and monitoring of the internal stress tests. It is chaired by the CRO. The Committee also contributes to the preparation of scenarios for the Recovery Plan which every bank is required by law to prepare.

Besides the Risk Committee, there are the **Asset and Liability Committee (ALCO)** as well as the **Legal and Regulatory Risk Committee (LRRC)**. The tasks of the ALCO are: managing liquidity as well as pbb Group's balance sheet structure, defining long-term financing strategies, managing capital, regulatory capital ratios, as well as market risk exposure. The LRRC advises on legal and regulatory requirements, and may assign responsibility for implementation to business divisions, following consultation. The **Outsourcing Committee** deals with the implementation of regulatory and statutory requirements as well as preparation of, and compliance with, internal guidelines. Moreover, it handles the overall management and monitoring of outsourced activities.

Organisation of Risk Management
31 December 2020

<table>
<tr><td colspan="8">Risk Management and Liquidity Strategy Committee (RLA) of the Supervisory Board</td></tr>
<tr><td colspan="8">Management Board</td></tr>
<tr><td colspan="5">Risk Committee (RC)</td><td rowspan="2">Asset and Liability Committee (ALCO)</td><td rowspan="2">Legal and Regulatory Risk Committee[1] (LRRC)</td><td rowspan="2">Outsourcing Committee (OC)</td></tr>
<tr><td>Credit Committee</td><td>Watchlist Committee</td><td>Risk Provisioning Committee</td><td>New Product Pro-cess Committee</td><td>Stress Test Committee</td></tr>
</table>

[1] Reporting via Compliance.

Chief Risk Officer (CRO) In addition to the above-mentioned committees, the following organisation units of the CRO, form an integral part of the risk management system of pbb Group:

Organisation of Chief Risk Officer (CRO)
31 December 2020

<table>
<tr><td colspan="4">Chief Risk Officer (CRO)</td></tr>
<tr><td>Risk Management & Control (RMC)</td><td>Credit Risk Management (CRM)</td><td>Operations</td><td>Compliance</td></tr>
</table>

The organisation of the CRO function comprises the following monitoring and back-office units at pbb Group level:

> The unit **Risk Management & Control**, which is amongst others responsible for monitoring market, credit, operational and liquidity risks as well as the risk-bearing capacity of pbb Group and which is also responsible for Group-wide uniform risk measuring methods and risk reports.

> The unit of the **Chief Credit Officer** of pbb Group, which is responsible for the analysis of new business and portfolio management. In addition, CRM REF also comprises the Workout unit, which is responsible for the recovery and workout of all critical exposures, and the central unit Credit Processes, which is responsible in particular for the organisation of the Credit Committee, the improvement of data quality within CRM and implementation of regulatory requirements in the credit processes.

> The unit **Operations**, which is responsible for the global servicing and administration of the loan portfolio (including technical implementation of loan agreements), settlement of capital markets transactions, administration and processing of the Group's securities and derivatives portfolios, as well for handling domestic and international payments.

> The unit **Compliance**, has amongst others established checking and reporting processes with regard to money laundering, sanctions, embargos and other criminal acts, as well as for other Compliance topics. In addition, the Compliance function is responsible for counteracting any risks arising from non-compliance with legal rules and requirements. Compliance is responsible for the central coordination of key controls within the framework of the Internal Control System. Compliance is also represented in various committees.

In addition to the CRO function, the independent Property Analysis & Valuation (PAV) department and Group Internal Audit units complement the pbb Group's risk management system. PAV is responsible for the analysis and uniform valuation of properties serving as collateral, using market valuation and loan-to-value methods, as well as for the monitoring of financed developments. The area of responsibility of Group Internal Audit comprises risk-oriented regular as well as event-driven audits of processes, controls and systems. This also includes the revision of the risk management system.

Risk Strategy and -Policies

Together with pbb's business strategy, the risk strategy forms the foundation for pbb Group's planning. The risk strategy has been defined on the basis of the Group-wide risk appetite; it reflects pbb Group's strategic direction as a specialist for real estate finance and public investment finance with a focus on Pfandbrief funding. Moreover, the risk strategy defines the guidelines which form the basis of the risk culture for pbb Group. Subject to any special requirements at single-entity level, the risk strategy is applicable for pbb Group's operating segments and legal entities. It is reviewed and updated at least annually.

As part of the annual strategy development process, the risk strategy for 2020 was drawn up, adopted by the Management Board and approved by the Supervisory Board. Further updates of the risk strategy were made in the course of the first half of 2020, arising from model changes and associated limit adjustments.

The risk strategy is enshrined in the operative business via risk policies for the individual operating segments, as well as frameworks, guidelines or instructions for all major risk types set out in the valid risk inventory. The individual policies are reviewed and updated regularly if necessary. They contain information on risk measurement, risk monitoring and risk management. The limit-setting process – as well as the escalation process if a limit is exceeded – are also described in the policies.

Risk Reporting

Risk reporting reflects the structure of the operating segments. The Management Board of pbb receives regular risk reports which include an extensive overview as well as detailed information concerning the risk situation for each risk type as well as other management-relevant information. The supervisory bodies are also notified of risk-relevant issues at regular intervals. In addition, special reports are prepared on an ad hoc basis or at the request of the Management Board or Supervisory Board; such special reports consider specific and acute risk issues, for instance in relation to critical markets, products or counterparties.

Risk Quantification and Risk Management

For the purposes of systematically identifying and analysing potential risks arising from the business model or pbb Group's external environment, the Group carries out a comprehensive risk inventory at least once a year. The objective of this risk inventory is to establish a full risk profile which identifies any and all risks, provides an assessment as to whether these risks are material for the capitalisation and liquidity status of pbb Group, and scans them for the existence of potential risk concentrations. Where possible, risks are quantified using applicable risk models or other methods.

Risks which cannot be quantified (or only in part) are monitored and managed using dedicated capital buffers or separate management tools, as well as by way of regular, detailed reports and clearly-defined requirements such as the Compliance and Corporate Governance guidelines.

pbb Group's approach to managing risk, capital and liquidity is based on the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP), each of which is seen in a normative and an economic perspective. The normative perspective is geared towards ongoing fulfilment of all of the Bank's capital- and liquidity-related legal requirements and supervisory demands. The economic perspective covers all material risks which might threaten pbb Group's economic viability, with a focus on the present-value analysis of risks.

Besides the measurement, limitation and monitoring of risks, all risk management approaches also comprise regular reporting as well as escalation processes; they are supplemented by scenario analyses and stress testing. Within the framework of these strategic management approaches, pbb Group defines its risk appetite, which sets out the scope within which pbb Group is prepared to assume risks. pbb Group uses this information to derive input for operative management, through limit systems, committee decisions, and other management decisions.

Limit and early warning systems have been implemented, in line with the risk appetite, for each type of risk as well as across risk types, at the level of capital management circuits. The strategy underlying the respective type of risk, together with the associated risk definition, risk calculation methods, and risk reporting systems are described in detail in the following chapters.

Effects of the COVID-19 pandemic on risk and portfolio management

At an early stage of the COVID-19 pandemic, the Management Board of Deutsche Pfandbriefbank AG (pbb) took numerous measures in order to be able to immediately identify, assess and adequately respond to developments and potential risks in connection with the pandemic. The analysis of the implications of the COVID-19 pandemic on pbb Group's business model and its capital adequacy was part of the regular process of revising the business and risk strategy. In order to address the impact of the pandemic on the risk profile, the Bank especially expanded capacities and sharpened the professional focus. For example, the Management Board of pbb has established a Task Force with various workstreams across departments and divisions, which deals more intensively with certain asset classes such as hotel, retail or office, the handling of government support measures for borrowers and the regulatory aspects in the context of COVID-19, as well as preparing sector and market analyses. By means of portfolio screening measures and taking meaningful and pre-defined filters into account, subsets of the existing portfolios were identified and then examined for increased susceptibility to the effects of the pandemic, with greater involvement of divisional and departmental management levels. Subsequently, pbb Group intensified its monitoring activities and reporting for certain portfolio clusters. The monitoring was particularly focused on cash flow and collateral developments. With respect to the latter, whenever there were indications of a material value loss, corresponding extraordinary valuations were carried out. In terms of reporting, the Bank increasingly focused on the requested deferrals of repayments or the desired adjustments to other contractual obligations in the loan agreements, as well as on portfolio clusters and asset classes that had an increased susceptibility to the negative effects of the COVID-19 pandemic. In addition, certain process flows – especially in the Credit Risk Management – were adjusted to the conditions brought about by the COVID-19 pandemic, and new work instructions were introduced after they had been discussed and approved in the Risk Committee. Credit standards were tightened substantially in new business.

The Management Board and the Supervisory Board frequently discussed current developments, and the regular weekly Management Board meeting for loans ("Full Management Board") was significantly expanded with view to content and meeting time. Moreover, the Supervisory Board was involved at an earlier stage in the discussion and decision-making process for certain new business applications.

As part of an integrated approach, the impact of macroeconomic stress scenarios on the material metrics of the normative and economic perspectives was calculated within the ICAAP 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 as to how these scenarios affect the Bank. Given the highly dynamic development, these scenarios are subject to a considerable uncertainty.

RISK TYPES

pbb Group distinguishes the following major risk types for its business activities:
> Credit risk (counterparty risk)
> Market risk
> Liquidity and Funding risk
> Operational risk
> Business and strategic risk
> Property risk
> Pension risk

Credit Risk (Counterparty Risk)

Definitions

The credit risk in general is defined as the risk due to an unexpected default or decline in the market value of a receivable (loan or bond) or a derivative (alternatively of an entire portfolio of claims/derivatives). The reason for this can be either a deterioration in a country's or counterparty's creditworthiness or by a deterioration in collateralization.

The credit risk comprises the default risk, migration risk, realization risk of defaulted positions, transfer and conversion risk, tenant risk, settlement risk, extension risk as well as concentration risk which are defined as follow in pbb Group's risk strategy:
> Default risk denotes the risk of a default occurring on receivables. This includes defaults of loans or other credit products (lending risk), or bonds and other securities (issuer risk), as well as the risk of default on receivables under derivatives contracts (counterparty risk/replacement risk) or money market transactions (repayment risk). The possible default of sovereign or regional governments is included as a special case (sovereign default risk).
> Migration risk is the risk of a loss in value of a receivable caused by rating migration. This includes both the risk of rating migrations of traditional borrowers as well as rating migration of bonds and other securities and receivables from derivatives and money market transactions. The impact of a rating migration concerning sovereign or regional governments as a special case is included, too.
> Realisation risk related to defaulted clients is the risk that the risk provisioning recognised changes over the analysis period, or the risk of actual amounts realised differing from the risk provisioning.
> Transfer risk is the risk that a government or central bank restricts the use of the currency to their own country. This includes the conversion risk, which is the risk that a government or central bank declares its own currency as non-convertible. Together with the sovereign risk, the transfer and the conversion risk form the country risk.
> Tenant risk describes the risk that losses in rental income for properties will negatively influence the respective borrowers' debt service capacity. In addition, it includes the secondary concentration risk (tenant cluster risk), which arises when one and the same tenant is involved in multiple properties funded by the bank.
> Fulfilment risk is defined as the risk that the Bank makes a payment or delivers an asset which has been sold to a counterparty but does not receive a payment or the purchased asset.
> Extension risk is the risk of an unexpected extension of the holding period of a credit risk related asset.
> Concentration risk is defined as the risk of cluster formation in relation to a risk factor or counterparty, or a strongly correlated group of risk factors or counterparties.

Credit Risk Strategy and Principles
pbb Group has broken down the overall credit portfolio into the segments Real Estate Finance (REF), Public Investment Finance (PIF), Value Portfolio (VP) and "Consolidation & Adjustments" (C&A). The strategic business is attributable to commercial Real Estate Finance (REF) and Public Investment Finance (PIF). The risk strategy of pbb Group also reflects this structure.

Please refer to the information in the section "Fundamental Information about the Group" for a description of the business focus with regard to strategic portfolios, and for statements outlining the strategy adopted for the run-down portfolio.

Credit Risk Reports
The credit risk reports of pbb Group provide information about the following main components:

> The pbb Group Risk Report contains the development in volumes as well as relevant credit risk management indicators such as the development of the expected loss as well as the unexpected loss via value at risk (VaR). The report shows the credit risk at the level of pbb Group in the context of the overall bank risk and the risk-bearing capacity, it reports limit utilisations and violations of existing limits, and also identifies risk concentrations. Key indicators, such as the development of the exposure at default (EaD), the expected loss (EL), the credit value at risk (Credit VaR) as well as problem loans are integrated in this report and are discussed by the Management Board; the report is also submitted to the RLA of the Supervisory Board to be noted and dealt with by the RLA regularly in its meetings.
> For decisions to be made regarding new business, or regarding material changes to the credit quality of existing financings (such as a maturity extension), key financial indicators, content and analysis are presented to, and discussed by the Credit Committee.
> In the active business, further regular reports support operational management with regard to the management and timely recognition of risks at the sub-portfolio level.
> Unusual developments which might result in a major deterioration in the risk position of an individual exposure are ad-hoc reported to a wider group up to the CRO by way of so-called "Credit Issue Notes".

Credit Risk Quantification via Economic Capital and Risk-weighted Assets according to Capital Requirements Regulation (CRR)
Credit Portfolio Model For calculating the economic capital for credit risk pbb Group uses a credit portfolio model. For details concerning this model and economic credit risk quantification, please refer to the sections "Internal Capital Adequacy Assessment Process (ICAAP)".

Stress Testing The stress tests for economic capital in credit risk are described in greater detail in the section "Internal Capital Adequacy Assessment Process (ICAAP)".

In addition to the stress tests for economic capital, there are also RWA reverse stress tests. These are designed to examine the extent to which a certain risk parameter (e.g. rating, loss given default (LGD), currency) may change before a minimum ratio (Common Equity Tier 1 (CET1) ratio, Tier 1 ratio or own funds ratio) is no longer met. The minimum ratios are based on the bank-specific SREP ratios. Tolerance change levels have been defined for all tested risk parameters; these levels must not be violated if the test of pbb Group is to be successfully completed.

Credit Risk Quantification according to CRR The Basel III Framework Agreement of the Basel Committee was implemented in the European context by means of the Capital Requirements Regulation ("CRR"). pbb Group applies the so-called Advanced Internal Rating-Based Approach (Advanced IRBA) and the Standardised Approach (STA).

Credit Risk Management and Monitoring

Credit Risk Management At the portfolio level, the intended portfolio structure is defined in the risk strategy by means of structure components. The limits are also based on the available financial resources, and include for pbb Group for example:

> Limiting of country risks
> Definition of strategic risk parameters (e.g. regions, financing duration)

The following reports and measures are key elements for monitoring compliance with the defined limits and the intended risk and return parameters at the portfolio level and also at the level of individual transactions:

> Analysis of portfolio developments in the Risk Committee
> Determining the credit-VaR at the portfolio level by way of a credit portfolio model and partly limiting at the segment level; analysis of concentration risks and various stress tests
> Central Group-wide monitoring of risk concentrations by way of special, regular and ad hoc evaluations, such as regional or product-specific evaluations
> Continuous analysis of the portfolio and the relevant markets by the local Credit Risk Management units
> Regular evaluation of the collateral
> Special reports for exposures which are potentially at risk (e. g. "credit issue notes")
> Calculation of a risk-adjusted margin using the economic return after tax

Depending upon the counterparty group, Expected Loss class or exposure size at GCC (Group of Connected Clients) level, the lending authority regulations determine the approval powers for new as well as existing exposures. Approval powers are assigned to individual employees in line with their individual experience and qualification.

Credit Risk Management and Monitoring At the level of individual transactions, the credit process guidelines define the necessary steps of assessing risk for new business as well as for substantial changes as prolongations or increase of credit limit and the procedures for transferring exposures to the watchlist or workout.

Core processes of credit risk management and monitoring as well as the relevant areas of the CRO function which are involved are described in the following:

The CRM entities carry out the initial risk analysis for new business and annual risk analysis for existing business. Probability of default (PD) and loss given default (LGD) rating tools, which are developed in the unit RMC and annually validated and calibrated, are used for valuation purposes and for preparing the credit decision in new and prolongation business. Property Analysis & Valuation (PAV) provides support for analysing and valuing collateralised properties.

The Legal department, where appropriate together with external lawyers/lawyers' offices, is responsible for the contract and collateral organisation.

Defined early warning indicators are constantly monitored by CRM. If essential problems are identified, an exceptional test is performed on the credit default risk (including a review of the value of collateral) and appropriate alternative actions are identified. This includes irregularities in connection to the COVID-19 pandemic. Such cases are also included in a monthly, at least quarterly monitoring cycle and presented in the Watchlist Committee.

If there are indicators for a deterioration of credit quality, the level of the stage 3 impairment is calculated in accordance with IFRS or, in the case of specific allowances, in accordance with the HGB. In the Risk Provisioning Committee, the results are discussed and, where necessary, decisions are taken with regard to creating or reversing stage 3 impairments/specific allowances.

Where an individual decision is taken as to whether a critical exposure – in the form of a stage 3 impairment (IFRS) or a specific allowance (HGB) – is to be restructured or liquidated, scenario analyses outlining the potential development of the borrower, of collateral and/or the relevant market, are taken into account. Decisions to this effect are made within the scope of the Bank's valid assignment of authority.

Critical exposures (watchlist) as well as restructuring and workout cases (non-performing loans) are reported on an aggregate basis monthly in the Group Risk Report and in the Risk Committee and also, upon request, in special analyses to the Management Board and Supervisory Board.

Hedging and Minimising Risk by Collateral
In the REF segment, financing arrangements are normally backed by property charges. On the occasion of the regular credit reports for existing financing arrangements or as part of the decision-making process in the case of new financing, the LTVs (loan-to-value) as well as the property (amongst others micro and macro location, rental situation, condition of property) and market circumstances are discussed and are also taken into consideration as part of the assessment process for individual loans.

In addition to the property charge, the financing security in the REF segment also generally com- prises amongst others rent assignation as well as the assignation of insurance claims, accompanied by extensive notification and consultation obligations of the borrowers. Apart from the property charges, only a few more selected securities are considered to be of value in the credit assessment process or in the calculation of LGD, and in particular this is applicable for cash security, furthermore under certain circumstances bank guarantees, other credit protections as well as guarantees of public-sector institutions. Corresponding risk buffers are considered in relation to foreign currency collateral, that means in a currency differing from the loan currency, in order to take account of potential exchange rate risks.

Properties in the REF business are valued using strict quality criteria. Property collateral values are determined when the loan is initially granted, and reviewed on an annual basis. With PAV, pbb maintains an independent real estate analysis unit which reports to the Management Board member responsible for Treasury: All staff members in the PAV department who are involved in real estate analysis are certified in accordance with ISO 17024 (HypZert standard), and have usually gained additional qualifications (such as RICS membership). This department is always involved in the initial valuation (when a new loan is granted) or regular revaluations, as well as in the valuation reviews which are carried out at least once a year. Depending on the type and location of the property involved, market developments and other risk indicators, valuation reviews may also be carried out, in some cases, by credit department staff (CRM), based on defined parameters and processes.

For development financings, regular monitoring comprises the monitoring of planning progress, budget, procurements, construction schedule, sales/letting progress and construction stage. As a rule, for complex developments, monitoring is carried out by external project monitors on the Bank's behalf, on a monthly to quarterly basis, coordinated and supervised by PAV. For less complex developments, construction progress is monitored at least every three months, by experienced and specialised internal property analysts. CRM monitors costs, thus facilitating a current overview of actual costs, as well as a cost projection for the project, which is reconciled against the results of internal monitoring (as well as external monitoring, if applicable). This allows for recognition of any divergence from project planning (and hence, project risks during construction) as early as possible.

In the PIF segment, guarantees are often accepted as collateral (including contractual guarantees from public-sector authorities, export credit guarantees). Moreover, Public Investment Finance exposures often involve a specific legal framework, such as the maintenance obligation (the so called Anstaltslast) of public-sector entities in Germany, or other (direct and indirect) cover mechanisms which allow for recourse to a public-sector institution in the case of borrowers organised under public law. For some exposures in PIF, guarantees and indemnities or the legal framework are supplemented by additional loan collateral, as well as borrowers' disclosure or consultation duties. However, such additional loan collateral is generally not considered as valuable in assessing the exposure, or for the purposes of calculating LGD.

In Treasury, mainly cash contributions and securities are made available or accepted as collateral when trading with other banks. The collateralisation is based on standard agreements, which can be amended in individual cases if required or which can be subjected to individual review by the legal department.

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

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

The Group's credit portfolio had an aggregated EaD of € 58.0 billion as of 31 December 2020 (31 December 2019: € 55.5 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) as well as
> the non-strategic segment Value Portfolio (VP) which is earmarked for being wound down.

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

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

Total portfolio: EaD according to operating segments

			Change	
in € billion	**31.12.2020**	**31.12.2019**	in € billion	in %
Real Estate Finance	29.3	29.8	-0.5	-1.7
Public Investment Finance	6.5	7.1	-0.6	-8.5
Value Portfolio	15.2	15.6	-0.4	-2.6
Consolidation & Adjustments	7.0	2.9	4.1	141.4
Total	**58.0**	**55.5**	**2.5**	**4.5**

As of 31 December 2020, the total exposure (EaD) of the pbb Group increased by € 2.5 billion to € 58.0 billion, compared to year-end 2019. Explanations concerning changes in individual segments are provided with the detailed presentation of the respective segment. On the whole, the percentages of exposure at default (EaD) in the strategic REF segment (51%; 31 December 2019: 54%), in PIF (11%; 31 December 2019: 13%) and in the non-strategic VP segment (26%; 31 December 2019: 28%) were down compared to year-end 2019. The percentage share of the EaD in C&A was up compared to year-end 2019 due to an increase in the exposure to central banks (12%; 31 December 2019: 5%).

Risk Parameters The expected loss (EL) for a time period of one year is calculated for the entire exposure, with the exception of non-performing loans for which a stage 3 impairment has already been recognised. The EL is calculated from the annual probability of default (PD), the loss given default (LGD) and the exposure at default (EaD) using the parameters defined under Basel III.

EL for pbb Group amounted to €133 million as at 31 December 2020 (31 December 2019: €129 million). The rise in expected loss was largely attributable to the rating downgrades in the REF portfolio – in particular in the UK and the US. This was offset to some extent by contrary effects such as repayments.

During the year under review, pbb has been preparing for the introduction of the new definition of default in accordance with the EBA Guideline 2016/07. Following the necessary supervisory approval, the new definition will be applied at the Bank.

Total exposure: expected loss according to operating segments

			Change	
in € million	**31.12.2020**	**31.12.2019**	in € million	in %
Real Estate Finance	110	102	8	7.8
Public Investment Finance	2	1	1	100.0
Value Portfolio	20	26	-6	-23.1
Consolidation & Adjustments	-	-	-	-
Total	**133**	**129**	**4**	**3.1**

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

Economic Credit Risk Capital pbb Group calculates economic capital for credit risk using a credit portfolio model. For details concerning credit risk quantification, please refer to the section "Internal Capital Adequacy Assesment Process (ICAAP)".

Regional Breakdown of the Portfolio At the reporting date, the main focus of the exposure of the pbb Group was unchanged on Western Europe. Germany continued to account for most of the overall exposure, with 43% (€25.0 billion). The year-on-year EaD rise in Germany (by €2.7 billion) 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 slight EaD increase for Austria was essentially due to changes in the general interest rate levels and the associated changes in hedge adjustments.

The decline in the United Kingdom resulted from exposure reductions in the REF segment.

The largest items of the category "Other Europe" were the Netherlands with €1.1 billion and Belgium with €0.3 billion (31 December 2019: the Netherlands €0.8 billion, Belgium €0.3 billion). The category "Other", which accounted for €1.3 billion (or around 2% of the portfolio), largely comprises bonds issued by supranational organisations.

Total portfolio: EaD according to regions

in € billion	31.12.2020	31.12.2019	Change in € billion	Change in %
Germany	25.0	22.3	2.7	12.1
France	7.5	7.6	-0.1	-1.3
Austria	6.8	6.6	0.2	3.0
United Kingdom	3.3	3.7	-0.4	-10.8
USA	2.9	2.8	0.1	3.6
Other Europe[1]	2.5	2.1	0.4	19.0
Spain	2.3	2.4	-0.1	-4.2
Italy	2.0	2.0	-	-
Poland	1.6	1.6	-	-
Other[2]	1.3	1.3	-	-
Sweden	0.9	0.9	-	-
Portugal	0.7	0.7	-	-
Finland	0.6	0.6	-	-
Czech Republic	0.4	0.4	-	-
Hungary	0.2	0.3	-0.1	-33.3
Total	**58.0**	**55.5**	**2.5**	**4.5**

[1] As of 31 December 2020 the category "Other Europe" comprises the Netherlands, Belgium, Switzerland, Slovenia, Slovakia, Denmark, Luxembourg, Ireland, Romania, Norway and Latvia.
[2] As of 31 December 2020 the category "Other" comprises amongst others Supranationals, Japan and Canada.

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

Real Estate Finance: €29.3 billion EaD

The REF segment comprises real estate loans and related customer 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 slightly year-on-year by €0.5 billion to €29.3 billion. On balance, exposure in REF was reduced in Germany and the United Kingdom, due to repayments and additional currency effects in the United Kingdom. The portfolio grew slightly due to new business originated in France, in the USA and in the category "Other Europe" – mainly in the Netherlands. As at 31 December 2020, client derivatives included in the portfolio amounted to €0.1 billion EaD and thus held steady on the previous year-end.

Real Estate Finance: EaD according to regions

in € billion	31.12.2020	31.12.2019	Change in € billion	Change in %
Germany	14.0	14.8	-0.8	-5.4
France	3.3	3.2	0.1	3.1
United Kingdom	3.1	3.5	-0.4	-11.4
USA	2.9	2.8	0.1	3.6
Other Europe[1]	1.8	1.4	0.4	28.6
Poland	1.3	1.3	-	-
Sweden	0.9	0.9	-	-
Finland	0.5	0.5	-	-
Austria	0.4	0.5	-0.1	-20.0
Czech Republic	0.4	0.4	-	-
Spain	0.3	0.3	-	-
Hungary	0.2	0.1	0.1	100.0
Italy	0.1	0.1	-	-
Total	**29.3**	**29.8**	**-0.5**	**-1.7**

[1] As of 31 December 2020 the category "Other Europe" comprises the Netherlands, Switzerland, Belgium, Denmark, Luxembourg, Slovakia, Slovenia, Norway and Romania.

Looking at EaD by property type, declines were recorded in Housing construction, Retail and in the "Other" property type. This was a result of repayments exceeding the level of new business originated. The increase in the categories Office buildings and Logistics/Storage was due to new business.

Real Estate Finance: EaD according to property type

in € billion	31.12.2020	31.12.2019	Change in € billion	Change in %
Office buildings	13.9	13.6	0.3	2.2
Housing construction	5.2	5.8	-0.6	-10.3
Retail	4.3	4.9	-0.6	-12.2
Logistics/Storage	3.4	2.9	0.5	17.2
Hotel/Leisure	1.4	1.3	0.1	7.7
Other	0.6	0.8	-0.2	-25.0
Mixed use	0.5	0.5	-	-
Total	**29.3**	**29.8**	**-0.5**	**-1.7**

At 31 December 2020, investment financings continued to dominate the portfolio (85%; 31 December 2019: 83%); development financings accounted for 14% of EaD (31 December 2019: 16%). Investment financings are defined as real estate loans, the debt servicing ability of which largely depends upon current cash flows from the property.

Real Estate Finance: EaD according to loan type

in € billion	31.12.2020	31.12.2019	Change in € billion	Change in %
Investment financing	24.9	24.8	0.1	0.4
Development financing	4.1	4.7	-0.6	-12.8
Customer derivatives	0.1	0.1	-	-
Other	0.1	0.2	-0.1	-50.0
Total	**29.3**	**29.8**	**-0.5**	**-1.7**

Public Investment Finance: €6.5 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 and funding, which are to a great extent collateralised with a public sector guarantee within the meaning of the German 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 German Pfandbrief Act. This also includes export financings covered by insurance policies or guarantees issued by the Federal Government or by other export credit agencies permitted for inclusion in Pfandbrief cover.

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

The EaD in the PIF segment decreased compared to the end of the previous year by €0.6 billion due to repayments respectively maturities, which more than compensated for new business.

Public Investment Finance: EaD according to regions

			Change	
in € billion	**31.12.2020**	**31.12.2019**	in € billion	in %
France	3.4	3.7	-0.3	-8.1
Germany	1.3	1.5	-0.2	-13.3
Spain	0.9	1.0	-0.1	-10.0
Austria	0.3	0.3	-	-
Other Europe[1]	0.2	0.3	-0.1	-33.3
United Kingdom	0.2	0.2	-	-
Other[2]	0.1	0.1	-	-
Finland	0.1	0.1	-	-
Sweden	-	-	-	-
Total	**6.5**	**7.1**	**-0.6**	**-8.5**

[1] As of 31 December 2020 the category "Other Europe" comprises Belgium, the Netherlands and Switzerland.
[2] As of 31 December 2020 the category "Other" comprises mainly Canada.

"Public Sector Borrowers" summarises claims against sovereign states (27%), public-sector enterprises (20%), and regional governments and municipalities (53%). The definition also includes exposures guaranteed by these counterparties.

Public Investment Finance: EaD according to counterparty structure

			Change	
in € billion	**31.12.2020**	**31.12.2019**	in € billion	in %
Public sector borrowers	6.3	6.8	-0.5	-7.4
Companies/special-purpose entities[1]	0.2	0.2	-	-
Financial institutions[2]	-	-	-	-
Total	**6.5**	**7.1**	**-0.6**	**-8.5**

[1] Largely collateralised by guarantees and surety bonds.
[2] Financial institutions with a state background or state guarantee.

Value Portfolio: €15.2 billion EaD
The Value Portfolio comprises non-strategic portfolios of the pbb Group.

In line with the strategy, the further decrease in the exposure as of 31 December 2020 compared with 31 December 2019 was mainly due to repayments in exposures to Germany, Italy, Hungary and to the "Other Europe" category. In the category Other exposure to Supranationals decreased slightly. The EaD increase for Austria was essentially due to changes in the general interest rate levels and the associated hedge adjustments. Germany and Austria continued to account for the lion's share of the portfolio.

Value Portfolio: EaD according to regions

in € billion	31.12.2020	31.12.2019	Change in € billion	Change in %
Austria	6.1	5.9	0.2	3.4
Germany	3.9	4.2	-0.3	-7.1
Italy	1.8	1.9	-0.1	-5.3
Spain	0.9	0.9	-	-
Other[1]	0.8	0.9	-0.1	-11.1
Portugal	0.7	0.7	-	-
France	0.7	0.7	-	-
Poland	0.2	0.2	-	-
Other Europe[2]	-	0.1	-0.1	-100.0
Hungary	-	0.1	-0.1	-100.0
Czech Republic	-	-	-	-
Finland[3]	-	-	-	-
Total	**15.2**	**15.6**	**-0.4**	**-2.6**

[1] As of 31 December 2020 the category "Other" comprises Supranationals and Japan.
[2] As of 31 December 2020 the category "Other Europe" comprises Slovenia with €42 million.
[3] Finland (31 December 2020): €9 million.

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

Value Portfolio: EaD according to counterparty structure

in € billion	31.12.2020	31.12.2019	Change in € billion	Change in %
Public sector borrowers	14.0	14.5	-0.5	-3.4
Financial institutions[1]	1.1	1.2	-0.1	-8.3
Companies	-	-	-	-
Total	**15.2**	**15.6**	**-0.4**	**-2.6**

[1] Mainly Spanish covered bonds.

Structured Products
pbb Group's residual holdings of Collateralised Debt Obligations guaranteed by one regional government had a notional value of €0.4 billion as at 31 December 2020 (31 December 2019: €0.4 billion) and a current fair value of €0.3 billion (31 December 2018: €0.4 billion).

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

Breakdown of non-derivative financial assets (excluding cash funds) by internal rating class and impairment level (as at 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	4,702
Class 13	1,360	1,697	-	87	3,144
Class 14	1,086	987	-	-	2,073
Class 15	338	1,003	-	-	1,342
Class 16	523	896	-	-	1,419
Class 17	510	513	-	-	1,022
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 non-derivative financial assets (excluding cash funds) by internal rating class and impairment level (as at 31 December 2019)

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

Breakdown of irrevocable loan commitments and contingent liabilities by internal rating class and impairment level (as at 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	-	219
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**

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

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

Watchlist and Non-performing Loans

Early Warning System The early warning system of the pbb Group has defined criteria respectively threshold values (triggers) for including loans in the watchlist and for being classified as restructuring or workout loans (e.g. past due payments, failure to meet financial ratios – e. g. loan-to-value [LTV], interest service coverage [ISC]). The system – in part on an IT-supported, automated basis – constantly monitors whether a trigger has been set off. In case of a corresponding indication, the credit exposure is analysed and presented to the Watchlist Committee. Taking into consideration the overall circumstances, the Watchlist Committee then decides whether a prompt transfer of the exposure to watchlist or restructuring and workout loans is appropriate. In this context, the financial instruments are reviewed for credit impairment.

Indicators for Watchlist and non-performing loans (restructuring and workout loans) include amongst others:

> Watchlist Loans: Payments past due by more than 60 days or another defined early warning signal is triggered (for instance insolvency of a main tenant in the REF segment).
> Restructuring Loans: A default has occurred (for example, due to payments past due by more than 90 days, or the borrower's insolvency), or another contractual or regulatory trigger is applicable. The focus with restructuring is on active implementation of a restructuring concept – with the objective of either returning the exposure to regular coverage, or realising collateral on the market, without enforcement measures. Credit quality is consistently tested for deterioration, and stage 3 impairments (in accordance with IFRS) or specific allowances (in accordance with the HGB) are recognized if necessary.
> Workout Loans: There are no indications that the loan can be restructured. Enforcement measures have been/will be introduced. Stage 3 impairments (in accordance with IFRS) or specific allowances (in accordance with the HGB) were recognised if necessary.

CRM REF Workout is responsible for carrying out an impairment test in line with the relevant accounting regulations (HGB and IFRS).

Development of Watchlist and non-performing loans of pbb Group

EaD in € million	31.12.2020 REF	PIF	VP	Total [1]	31.12.2019 REF	PIF	VP	Total [1]	Change in € million	in %
Workout loans	14	-	-	14	15	-	-	15	-1	-6.7
Restructuring loans	403	53	-	456	398	97	-	495	-39	-7.9
Non-performing loans	**417**	**53**	**-**	**470**	**413**	**97**	**-**	**510**	**-40**	**-7.8**
Watchlist loans	**323**	**7**	**-**	**330**	**112**	**34**	**153**	**300**	**30**	**10.0**

[1] No exposure in C&A.

Watchlist and non-performing loans declined by a total of €10 million during the period from 31 December 2019 to 31 December 2020.

The volume of watchlist loans was increased by €30 million net in 2020, which was due to the following developments: in the REF segment, nine exposures totalling €278 million were newly transferred to watchlist loans. These were offset by repayments/restructurings and minor currency effects in the amount of €68 million. In case of public-sector financings (PIF and VP segments), two exposures with a lending volume totalling €180 million were returned to normal handling.

Problem loans decreased by €40 million net during the reporting period. In the REF segment, two financings totalling €84 million were newly transferred to recovery management for non-performing loans, of which one exposure in the amount of €53 million has already been fully repaid. This was offset by €26 million from successful workouts, partial repayments and exchange rate-related declines in loans extended in pound sterling. In the PIF segment, repayments of loans and advances covered by an export credit guarantee extended by the Federal Republic of Germany, including currency effects for financings extended in US dollars, led to a decline of €45 million.

Credit loss allowances and Provisions

Details on credit loss allowances and provisions – including their recognition and development – can be obtained from the notes.

Opportunities

The parameters for the risk dimensions for the credit risk are defined using statistical methods on the basis of numerous historical observations. The risk measures also depend on assumptions relating to future developments of macro-economic factors as well as developments on the credit markets. These economic conditions may turn out to be more positive than anticipated; in which case, potential losses from counterparty credit risk may theoretically be lower than quantified by the risk measures. Such potentially positive developments then represent opportunities for the pbb Group which can be utilised for reducing risk.

In specific terms, there are opportunities if fewer loans in future are affected by a default in performance than is assumed as part of the risk quantification process. In future, opportunities may also result from a lower than assumed number of migrations to weaker rating classes.

There are also opportunities if the loss ratios of non-performing loans in future are lower than was assumed as part of the risk quantification process. Lower loss ratios may be triggered by various positive developments. Firstly, it is possible that the process of disposing of collateral might generate higher proceeds than was originally assumed in the risk quantification process. Secondly, it is possible that a higher percentage of non-performing loans subsequently become performing loans again without any losses than had been the case in the past.

Besides positive developments in default rates or loss ratios, opportunities may arise in connection with counterparty credit risk – theoretically, and regardless of other corporate objectives – in the event of declining portfolio exposure. For instance, this may occur if borrowers redeem or repay their loans faster than anticipated, given contractual agreements or historical data. Exposure values in the derivatives portfolio may decline where the market values of positions associated with replacement risk decrease, due to changes in certain market parameters such as interest rates or exchange rates.

Market Risk

Definition

Market risk is defined as the risk of a market value loss, or a negative change in net interest income for the period, due to volatility of the market prices of financial instruments. Transactions entered into by pbb Group are mainly exposed to the following types of market risk:

> General interest rate risk (risk from changes in market interest rates)
> Credit spread risk (risk from changes in credit spreads)
> Volatility risk (risk from changes in implied volatility)
> Foreign currency risk (risk from changes in foreign exchange rates)
> Basis risk (risk from changes in tenor basis spreads or cross-currency basis spreads)
> Concentration risk (risk of additional losses due to a non-diversified portfolio mix)

Market Risk Strategy

pbb Group adheres to the following fundamental principles in relation to market risks in terms of the present value perspective and of the periodic perspective:

> Transactions may be conducted exclusively in financial instruments which have successfully passed the new product process, and for which market values are either observable or determinable via a model.
> All positions entered into are subject to daily monitoring, in terms of sensitivity, value-at-risk (VaR) and performance, which is independent from trading units.
> Interest rate risk in the banking book is identified, measured, managed and monitored using both a present value approach as well as in terms of net income for the period. In this context, the present value approach is the primary approach for interest rate risk management, supplemented by the monitoring of interest rate risk of quarterly net interest income.
> Besides interest rate risks in the banking book, credit spread risks in the banking book (CSRBB) are included in the regular risk measurement, controlling and monitoring as well.

Market Risk Management Organisation

Positions are monitored by way of a present value approach by the RMC department, which is separated from trading in the structural organisation, right through to the Management Board. The Finance department monitors the interest rate risk for the period.

Market Risk Reports

RMC prepares detailed market risk reports for senior management and operational management purposes, on a daily basis. The daily market risk report, which is primarily addressed to the Management Board, includes:

> market risk value-at-risk (VaR) and VaR limit utilisations across all relevant levels of the portfolio structure;
> sensitivities of market risk factors at various levels of detail and monitoring of sensitivity trigger limits;
> a presentation of economic performance measurement and breakdown by risk factors.

pbb provides quarterly reports on changes in effects on income, and effects on accumulated other comprehensive income (recognised directly in equity), given pre-defined interest rate scenarios and assuming a dynamically changing balance sheet, to monitor interest rate risk for the period.

Market Risk Measurement and Limits

Market risk Value-at-Risk RMC determines VaR attributable to market risk, at an overall as well as partial portfolio level, on a daily basis, using a simulated model based on historical data. The VaR determination includes all positions exposed to market risks. The essential parameters of the market risk VaR model can be summarised as follows:

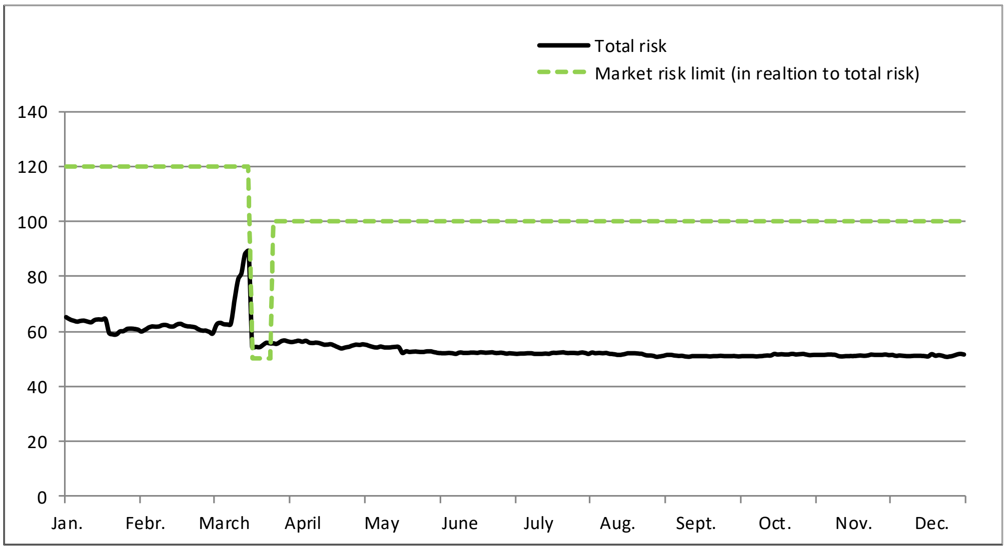
- The simulation model is based on a one-year market data history which is included in the simulation on an equally weighted basis.
- Individual types of market risk are aggregated to form a total VaR, which forms the basis of limit monitoring.
- For the purposes of daily operational risk management, Market risk VaR is determined using a holding period of one day and a 99% confidence interval.

As at 31 December 2020, market risk VaR amounted to €51 million, taking diversification effects between the individual market risk types into consideration (31 December 2019: €65 million). The decline was largely due to an adjustment carried out to the VaR model on 16 March 2020. The reduction of the holding period from ten days to one day to avoid autocorrelation effects deserves particular mention here and increased granularity of the credit spread risk factors in relation to country, sector, rating class and term. On the other hand, increased market volatility on the back of the COVID-19 pandemic has led to higher VaR indicators. The VaR limits were recalibrated accordingly in the course of adjusting the VaR model. Accordingly, the total market risk VaR limit was reduced from €120 million (as at year-end 2019) to €100 million (as at year-end 2020).

The consolidated IRRBB VaR of all interest rate risk categories in the banking book (i.e. gap risk, basis risks and volatility risks of exposures that are sensitive to interest rates) amounted to €17 million and CSRBB VaR amounted to €48 million (both as at year-end 2020). As well as limiting market risk VaR, specific limits have been monitored daily for IRRBB VaR (limit as at the 2020 year-end: €30 million) and CSRBB VaR (limit as at the 2020 year-end: €90 million).

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

Market risk VaR and market risk limit January to December 2020
in € million



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

Sensitivity Analyses Overnight yield curves are used for the purposes of measurement relevant to sensitivity analyses. Sensitivity analyses quantify the impact of changes in individual market parameters upon the value of positions. For instance, the credit spread sensitivity provides an indication of the change in economic present value which results from a, isolated one basis point increase in the credit spreads which are relevant for measurement purposes.

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

Stress Testing Whilst VaR measures market risk in "normal" market conditions and does not provide a measure for potential maximum losses, internal economic stress scenarios are used to map market risk in difficult or even extreme economic framework conditions. pbb Group employs hypothetical and historical stress scenarios for key risk drivers on a monthly and quarterly basis, to determine the impact of strong to extreme changes in market data as well as assumptions regarding client behaviour on the economic present value.

In addition to internal economic stress scenarios, the external regulatory stress scenarios relating to the supervisory outlier test are calculated and analysed. The Management Board of pbb and the executive bodies are informed about the results of stress scenarios on a regular basis. In connection with managing interest rate risk in the banking book (including credit spread risks), the changes in present value of selected internal and external stress scenarios have also been monitored through specific limits or triggers.

Back Testing The quality of the risk measurement methods in use is checked on an ongoing basis by comparing one-day VaR figures to the actual changes occurring in the portfolio's present value on a daily basis. pbb Group has adopted the Basel Capital Accord's "traffic light" system for the qualitative analysis of its risk model. For this purpose, the number of outliers detected in backtesting within a period of 250 trading days are counted. As at end of 2020, based on a data history of 250 trading days, a total of three outliers were observed, all of which occurred before the aforementioned adjustment of the VaR model. The risk model employed by pbb Group therefore has "green" status, as defined in the "traffic light" system of the Basel Capital Accord.

Periodic interest rate risks 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 year under review.

Economic Capital for Market Risk The chapter "Internal Capital Adequacy Assessment Process (ICAAP)" provides details concerning the calculation as well as the quantification of economic capital for market risk.

Mapping and Recognition of Economic Hedges as On-balance-sheet Hedges

The concept of hedge accounting refers to specific accounting rules applicable to hedge relation- ships in accordance with IFRS, entered into for the purpose of neutralising the change in value of the hedged underlying transaction against the change in value of the hedging instrument to a large extent. The criteria set out in IFRS must be satisfied for a hedge to be recognised accordingly. To a certain extent, these criteria – such as the requirements relating to hedge effectiveness – are inconsistent with the methods applied to bank management. As a result, there may be differences between economic hedges and hedge relationships recognised on the balance sheet.

Market Risk Management, Monitoring and Reduction

pbb Group uses a three-pillar approach for managing and monitoring market risk:

- management of positions maintained by the Treasury
- risk measurement and monitoring compliance with limits (independent from trading units) and
- escalation processes across all decision-making bodies, right through to the Management Board

For all positions, market risk is monitored (independent from trading units) through a combination of VaR-limits and sensitivity triggers. Financial derivatives are mainly used for hedging purposes.

General Interest Rate Risk General interest rate risk (gap risk) amounted to €17 million as at year-end 2020 and was thus below the figure seen at year-end 2019 (€40 million). The decline is primarily attributable to the above-mentioned reduction of the holding period from ten days to one day.

Volatility Risk Volatility risk amounted to €1 million as at end of December 2020 (end of 2019: €2 million).

Credit Spread Risk (CSRBB) The present value Credit spread risk reflects potential changes in the present value of exposures as a result of changes in the corresponding credit spread. The majority of credit spread risk is attributable to assets eligible as cover for Pfandbriefe. The Bank has risk measurement systems in place for calculating credit spread risk for all relevant exposures. The VaR limit applies to all credit spread risks for asset instruments at fair value through profit and loss (FVPL) or at fair value through other comprehensive income (FVOCI). In addition, the credit spread risks of those securities held as assets are measured at amortised cost. The credit spread risk amounted to €48 million as at the end of December 2020 (year-end 2019: €64 million). The reduction in credit spread VaR was primarily caused by the above-mentioned adjustment of the VaR model in March 2020.

Foreign Currency Risks The present value of foreign currency risk amounted to €1 million as at end of 2020 (year-end 2019: €1 million).

Opportunities
As detailed above, the sensitivities result in value at risk: a possible future (economic) loss in the event of an unfavourable market development. The very same sensitivities may also result in economic gains, in the event of a positive market development. For instance, high credit spread sensitivities represent a risk as described above. In the event of a narrowing of the relevant credit spreads, these credit spread sensitivities will yield economic profits, constituting an opportunity.

Open interest rate risk exposures (from an economic perspective) may indeed be neutral or even income-enhancing for periodic interest rate risk; this is the case for medium- to long-term fixed-rate loans, for example.

IBOR reform
The implementation of the IBOR reform at pbb is discriped in the notes.

Liquidity and Funding Risk

Definition
Liquidity risk is defined as the risk of not being able to meet the amount and/or due dates of existing or future payment obligations, in full or on time.

Internal Liquidity Adequacy Assessment Process
In accordance with the Supervisory Review and Evaluation Process (SREP), pbb has conducted an Internal Liquidity Adequacy Assessment Process (ILAAP), which was examined and approved by the Management Board. The ILAAP should ascertain that all material liquidity and funding risks can be identified, measured and monitored, and that measures to prevent a liquidity shortage are taken in good time if required.

Liquidity Risk Strategy
The Management Board determines both the risk strategy as well as the risk appetite of pbb Group. The liquidity risk strategy is a key component of pbb Group's risk strategy. It is broken down into various modules (comprising various liquidity scenarios, given certain market conditions and stress parameters). This ensures that the Group's short- and medium-term funding is monitored and managed by means of a limit system. The limits are defined as part of the annual business planning process, approved by the Management Board.

Organisation of Liquidity Risk Management
RMC identifies, measures, reports and monitors liquidity risk. The Treasury department, which is independent from RMC, is responsible for managing liquidity risk. The processes and methods employed are reviewed on a regular basis by the Risk Committee and the Asset Liability Committee. Liquidity Risk cannot be calculated and reported at a business segment level.

Liquidity Risk Report
Liquidity management reports are prepared daily and submitted to the entire Management Board, as well as to the Joint Supervisory Teams (JSTs) of ECB and to the national competent authorities. The reports contain up-to-date information on the day's liquidity situation as well as forecasts made using contractual cash flows and in recognition of future events that could potentially influence liquidity developments.

Liquidity Risk Measurement and Limits
To manage liquidity risks, pbb has established a system for measuring and limiting short-term and medium-term variances within cash flows. This incorporates both contractual as well as optional cash flows. The data is subject to regular back-testing.

The liquidity position resulting from the liquidity reserve as well as contractual and optional cash flows is measured in different scenarios, with three liquidity positions being projected on a daily basis. The projections assume:
- unchanged market and funding conditions (base scenario),
- a risk scenario (modified [historic] stress scenario) and
- liquidity stress ([historic] stress scenario).

For instance, the risk and the [historic] stress scenario simulate possible client behaviour in "stress situations". Historic time series are used to calculate 95% and 99% quantiles.

Liquidity risk triggers (early warning indicators) have been defined for a 24-month horizon in the base scenario. Limits in the risk and the [historic] stress scenario are applicabel for a six- respectively three-month horizon.

The limit system consists of:
- limits relating to the liquidity stress profile (risk scenario and [historic] stress scenario); and
- triggers for the base scenario as well as the six-month bucket of [historic] stress-scenario.

In addition to reporting, pbb Group uses stress tests, conducted at regular intervals, for investigating the impact of additional stress events on the liquidity position.

Scenario analyses are performed to simulate the potential impact of crises attributable to macro- economic, monetary policy or political crises on the liquidity situation.

The scenarios are reported to the Management Board, as well as to external bodies such as the Joint Supervisory Team (JST) of ECB and national competent authorities.

Liquidity Risk Monitoring and Management
Monitoring of liquidity risks is ascertained through daily reporting of the liquidity situation and a defined escalation process. A liquidity emergency plan has also been adopted in this context; this plan forms the functional and organisational framework for the handling of any liquidity shortages. The liquidity emergency plan is part of the pbb Recovery Plan and updated at least annually.

Liquidity risk management is based on various interconnected components (daily and monthly liquidity reports), which are based on a "liquidity risk tolerance" defined by the Management Board. This ensures that pbb Group has adequate liquidity reserves at its disposal.

Hedging and Reduction of Liquidity Risk
A risk tolerance system is in place, to limit liquidity risk. Risk tolerance is integrated in the liquidity management process by means of triggers (limit system), in order to safeguard a "survival period" for pbb Group in stressed conditions.

The limits applicable for risk tolerance are determined in line with stress scenarios, and adjusted at regular intervals.

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 31 December 2020 amounted to €5.7 billion for a 12-month horizon in the base scenario – a €0.7 billion decrease compared to the previous year (based on the same projection horizon). As at 31 December 2020, the cumulative liquidity position for a six-month horizon amounted to €2.8 billion in the risk scenario (31 December 2019: €2.9 billion). The cumulative liquidity position in the stress scenario for a six-month horizon amounted to €1.4 billion as of 31 December 2020 (31 December 2019: €1.0 billion).

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

The levels determined for pbb Group during 2020 were at any time clearly in excess of 100%. The Liquidity Coverage Ratio as at 31 December 2020 was 279%.

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

Forecast Liquidity Requirement
In addition to the forecast liquidity requirement for new business activities, the extent of future liquidity requirements also depends on numerous external factors:
> further developments in the context of the European financial crisis, negotiations on Brexit, COVID-19 pandemic and possible effects on the real economy;
> future developments of haircuts applied to securities for repo funding on the market, and with central banks;
> possible additional collateral requirements as a result of changing market parameters (such as interest rates and foreign exchange rates);
> developments in requirements for hedges;
> changed requirements from rating agencies regarding the necessary over-collateralisation in the cover pools;
> refinancing requirements of real estate investors

Funding Risk
The chapter "Internal Capital Adequacy Assessment Process (ICAAP)" provides details concerning funding risk as part of business and strategic risk.

Market Liquidity Risk
For financial instruments, quantitative details for a better assessment of market liquidity risk can be obtained from the presentation of the three levels of the fair value hierarchy in the notes. Generally, there is no intention to sell holdings measured at amortised cost for liquidity management purposes, as liquidity for these holdings can mainly be generated by way of including them in the cover pool, using the funding opportunities provided by the central bank, or using them in repo transactions. Market liquidity risk is included in the internal risk management process as part of market risk.

Opportunities
pbb Group's cumulative liquidity position of € 5.7 billion in the base scenario over a 12-month horizon, which is detailed in the section "Development of pbb Group's Risk Position", as at 31 December 2020 provides the Group with scope for a flexible response, particularly with regard to possible new business.

If the external factors specified in the section "Forecast Liquidity Requirement" were to develop favourably for pbb Group, this would result in a lower future liquidity requirement.

Operational Risk

Definition
According to CRR pbb defines the operational risk as follows: "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk". pbb recognises the following risks within the operational risk category: legal risk, behavioural risk, reputational risk, outsourcing risk, model risk as well as risks associated with information and communication technologies (ICT systems risk).

Strategy for Operational Risk
The top priority of pbb Group's operational risk management is to prevent operational risk events and to meet the defined risk appetite. Key cornerstones of this strategy are the early recognition, systematic recording and assessment of operational risk, taking measures for risk mitigation as well as an early management reporting. The operational risk management strategy is adopted by the Management Board on an annual basis as part of the overall risk strategy. The risk strategy describes the risk management framework as well as pbb Group's measures regarding operational risk.

Organisation of Operational Risk Management
pbb Group has implemented a consistent Group-wide framework based on the principle of three lines of defence to manage operational risk. In this context, the risk owners – meaning heads of divisions – are responsible for managing operational risk, and for implementing risk-mitigating measures within the various business units (first line of defence). Specifically, Legal is responsible for managing legal risks, whilst the IT division is responsible for managing ICT systems risk.

Compliance and RMC form the second line of defence, together with further functions of pbb Group, such as Outsourcing Risk Management in Finance, the Information Security Office in the Corporate Office, Business Continuity Management and IT Risk Management in IT. Within RMC, the Operational Risk unit is responsible for uniform procedures and methods for identifying, assessing, quantifying, monitoring and reporting on operational risk. Internal Audit constitutes the third line of defence.

Risk Reports, Monitoring and Management of Operational Risk
Risk management is applied to all business processes in an overall approach. In particular, operational risk is analysed and considered explicitly as part of major decision-making processes (such as new product processes and outsourcing agreements).

Essential components of operational risk management are as follows: recording and analysing internal and external loss data, operational risk self-assessments (ORSA) and scenario-based analyses.

A structured and central reporting system is used to inform the Management Board and the division heads, the Risk Committee and other supervisory bodies concerning risk events on a regular, timely and comprehensive basis. Reports are prepared both ad-hoc (where material risk events are escalated) as well as on a monthly basis (Group Risk Report), on a quarterly (Key Risk Indicator Report) or annual (Annual OpRisk Report) basis, and are part of risk reporting to the entire Management Board, and the division heads. Operational risk reporting encompasses material loss events and near-losses, analyses of causes, top risk issues, development of risk indicators and of capital requirements, as well as the results from ORSA and scenario analyses.

Management of the ICT systems risk is fully integrated into operational risk management, and thus into the Bank's risk and compliance structure. Risk management for ICT systems risk generally applies at process level. The annual protection requirement analysis, the quarterly reporting of relevant information and metrics such as the key performance indicators (KPIs) as well as the IT security management, are all essential elements.

Management of legal risk, as performed by the Legal department, is aimed primarily at the prevention of losses which could be incurred if business activities of pbb Group are not documented with legal certainty. Structuring business activities in a manner that ensures legal certainty also serves to protect the integrity and reputation of pbb Group. In order to achieve this goal, the Legal department provides the entire pbb Group with a consultancy service.

The Legal department assists business divisions by monitoring developments in the relevant legislation and case law, and reviews the effects of such developments on new and existing business. The results are discussed with the responsible divisions and/or in the Legal and Regulatory Risk Committee. The Legal Policy describes the roles and responsibilities of the Legal department within pbb Group and serves as a guideline for employees in the Legal department.

Furthermore, the Legal department gives an assessment towards the respective business divisions whether provisions for pending legal cases have to be recognised. Provisions for legal risks are recognised in accordance with IAS 37 and section 249 of the HGB if (a) an obligation of pbb Group is more probable than not, (b) the outflow of resources to meet this obligation is probable and (c) an estimate can be made concerning the amount of the obligation. According to IAS 37.15, it is not clear whether there is a present obligation in rare cases. In such cases, pbb takes into account all available evidence, including the opinion of experts, to assess whether provisions have to be recognised at the reporting date.

Moreover, the OpRisk loss database captures losses and provisions from legal risks which need to be seen in conjunction with operational risk events. Overall, legal risks are taken into consideration in the existing operational risk management framework, and are an integral part of, inter alia, the Key Risk Indicator Report, the Operational Risk Self-Assessment (ORSA), the analysis and reporting of risk events, as well as for determining economic capital.

Risk Measurement

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

In line with the Standardised Approach according to article 317 et seq. of CRR, the own funds requirement for operational risk, which is calculated at the end of each year, was € 70 million as at 31 December 2020 (31 December 2019: € 70 million).

Operational Risks Profile of pbb Group
pbb Group suffered a financial loss of €1 million from operational risks during 2020 (2019: €8 million). pbb assesses its operational risk profile as stable.

Opportunities
pbb Group aims to reduce potential operational risk to the extent possible, through continuous development of its operational risk framework and the ongoing optimisation of processes.

Business and strategic risk

Within pbb Group, business and strategic risk is defined as the risk of negative deviations of income and expenses from the planned figures – as a result of strategic decisions, false assumptions or unexpected changes in the external framework conditions, to the extent that such deviations are not covered by other risk types, such as market risk, credit risk or operational risk. Please refer to the chapter "Internal Capital Adequacy Assessment Process (ICAAP)" for further details on the quantification as well as the calculation results of the economic capital of business and strategic risk.

Property Risk

Property risk is defined as potential negative changes in the value of the Company's own property portfolio, due to a deterioration of the general real estate situation or a negative change of the specific characteristics of the individual property – caused by the property being vacant, changed usage options, building damages, investment requirements, changes to the legal framework or economic environment as well as other factors.

As at 31 December 2020 as well as at 31 December 2019, pbb did not hold any own properties.

Pension risk

Pension risk is defined as the risk of incurring additional expenses due to insufficient capitalisation of pension obligations from defined benefit plans. It is considered within the scope of ICAAP. For details, please refer to the "Quantification of Economic Capital for Individual Risk Types" section.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

Pursuant to section 91 (2) of the German Public Limited Companies Act (Aktiengesetz – "AktG") and section 25a (1) of the German Banking Act (Kreditwesengesetz – "KWG"), pbb Group is obliged to establish appropriate and effective internal procedures in order to ensure the Bank's risk-bearing capacity at all times. The Internal Capital Adequacy Assessment Process (ICAAP) is subject to regulatory review (within the framework of the Supervisory Review and Evaluation Process (SREP)); it complements the regulatory procedures under Pillar 1 of the Basel III framework, as laid down in the Capital Requirements Regulation (CRR) and the Fourth Capital Requirements Directive (CRD IV).

Pursuant to the „ECB Guide to the internal capital adequacy assessment process (ICAAP)", published in November 2018, regulatory authorities expect banks to apply two supplementary ICAAP perspectives, one being normative and the other being economic. In line with 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 normative perspective is geared towards securing the regulatory and supervisory requirements for capital and liquidity over several years. Particular focus is placed on forward-looking compliance with supervisory capital ratio requirements under expected and adverse conditions. The normative perspective also takes into account both the cross-institutional capital ratios required pursuant to the CRR and the bank-specific minimum ratios for own funds according to the ECB's SREP decision. Capital-related regulatory and legal requirements comprise the CET1 ratio, tier 1 ratio, own funds ratio, Leverage Ratio, as well as rules concerning MREL (Minimum Requirements on Own Funds and Eligible Liabilities) and large loan exposure limits. As the normative perspective's requirements have been fully implemented, the going-concern approach became obsolete and its results were last reported as at 31 December 2019. The risk-bearing capacity established in the pbb Group, which uses the concept of economic capital to quantify risk, is therefore only used for the economic perspective.

The economic perspective is an additional, parallel management approach on an equal footing that monitors capital on an ongoing basis, with reports submitted on a monthly basis. It aims to safeguard the economic viability of the institution, and is therefore geared towards maintaining the institution's net asset value. For this purpose, all material economic risks are viewed from a present value perspective, quantified as far as possible using models, and aggregated to economic capital. Economic capital is defined as the capital required to cover the financial risks, taking into account a confidence level of 99.9% over a one-year horizon. It is calculated for all relevant types of risk, and aggregated to form total economic capital (after diversification effects). The capital available to cover total risk is calculated and compared to economic capital.

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 property 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.

Over and above the risk-bearing capacity analysis, the ICAAP comprises additional management tools, including a system of limits and early-warning thresholds, as well as a comprehensive monthly monitoring and reporting process. Moreover, key indicators selected within the scope of base and stress scenarios are projected over a period of up to three years, with limits and early-warning thresholds also assigned to these figures. Limit compliance, in combination with an effective escalation process, supports the continuous safeguarding of an appropriate capitalisation.

The results of the ICAAP and of the stress tests are regularly presented to the Management Board and the Risk Committee. The content of the risk-bearing capacity analysis are discussed there – if necessary, management measures are defined.

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%.

The methods of calculating economic capital for the individual material risk types for 2020 are explained below.

Economic capital for Credit Risk
For calculating the credit risk at the portfolio level, a credit portfolio model which is based on the approach of a so-called asset value model is used. The fundamental concept used involves the repeated simulation of correlated rating migrations for borrowers, whereby the associated portfolio revaluation is used to derive a statistical distribution of losses – which is in turn used to derive economic capital in terms of unexpected losses. Economic capital quantifies the maximum unexpected loss, given a predefined confidence level, which may be incurred due to rating migrations (including defaults) in the lending business within a single year. Besides the loss distribution of the credit portfolio, as a significant result of this process, credit risk capital can be assigned to individual borrower units in line with the risks involved, using the so-called expected shortfall principle. This ensures a risk-adequate allocation to borrowers, and thus constitutes a major cornerstone in the risk-oriented management of the credit portfolio. During the observation period, correlations between borrowers, borrower groups and regions were reviewed during the course of the regular validation process.

Credit risk reported comprises default and migration risk, transfer and conversion risk, as well as concentration risk. Certain elements of credit risk, such as the realisation risk for defaulted clients, settlement risk, extension risk and model risk are not reported directly as part of credit risk. Since 1 January 2020, these risks have no longer been taken into account as deductions from available financial resources, but instead represents (as other risks, which are regularly updated) a component of overall risk.

Economic capital for Market Risk (including Pension Risk)
The purpose of calculating economic capital for market risk is to identify potential financial losses resulting from price changes affecting all positions. In this process, the potential non-systematic losses are derived from an analysis of historical time series of specific influencing factors (risk factors), including interest rates, exchange rates and credit spreads, over the preceding ten years. The historical observation period for risk factors underlying market risk calculations still comprises ten years, to ensure that adverse economic phases for the Bank are adequately taken into account, and captured by the model. Ultimately, using a simulation procedure and applying sensitivities of financial instruments to risk factors, the annual loss distribution of portfolio market value is determined, which allows to determine economic capital at the set confidence level.

Besides the risk types described in the "Market Risk" chapter, the ICAAP also encompasses pension risk, which is not disclosed directly under economic capital for market risk. Since 1 January 2020, pension risk has no longer been deducted from available financial resources in the form of a regularly validated buffer, but instead represents (as other risk) a component of the overall risk.

Economic capital for Operational Risk

Within the framework of the ICAAP, operational risk is quantified using the so-called loss distribution approach (LDA), whereby distributions for damage amounts and frequency are determined individually, using internal loss data from the loss database. External and scenario-based data is also included in the modelling approach. The full loss distribution is generated using a Monte Carlo simulation technique; diversification effects between the various sub-types of risk and modelling categories are not being considered. Furthermore, it is ensured that the economic capital figure calculated does not fall short of a specific floor. This floor is in line with the adjusted regulatory capital determined in accordance with the standardised approach pursuant to the CRR. Sub-types of operational risk which can only be partially quantified, or which cannot be quantified at all, such as for instance model risk, are covered by way of a capital buffer.

Economic capital for business and strategic risk

The quantification of business and strategic risk in the ICAAP is based on a mixed approach, consisting of a Monte Carlo simulation of net interest income and a scenario analysis for other items in the income statement. When deriving available financial resources, pbb Group does not consider any planned profits. This way, a buffer at least equivalent to the amount of positive projected results is reserved for business and strategic risk, since this type of risk is defined as the risk of potential negative deviations from planned income and expenses. In case higher than planned gains are calculated within the scope of quantifying business and strategic risk, the value of business and strategic risk exceeding the planned annual profit of pbb Group is reported as a risk amount.

Liquidity Risk in the ICAAP

Capital backing of liquidity risk in the narrower sense is not possible. Liquidity risk in the broader sense – i.e. the risk of higher funding costs for unexpected potential funding requirements, is mapped in economic capital for business and strategic risk.

Result of Risk-bearing Capacity Analysis

Normative perspective

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 requirements for regulatory capital ratios were satisfied at any time throughout the reporting period. The future-oriented medium-term analysis of key capital ratios – as required by regulators – did not show any critical values according to the limit system, neither in the base scenario nor in the stress scenarios.

Economic perspective

in € million	**31.12.2020**	**31.12.2019**	Change
Credit risk	1,149	1,183	-34
Thereof Real Estate Finance	667	598	69
Thereof Public Investment Finance	68	97	-29
Thereof Value Portfolio	405	478	-73
Thereof Consolidation & Adjustments	9	9	-
Market risk	652	640	12
Operational risk	98	97	1
Business and strategic risk	-	1	-1
Other risks	135	-	135
Total before diversification effects	**2,034**	**1,921**	**113**
Total after diversification effects	**1,850**	**1,747**	**103**
Available financial resources before net hidden losses	3,065	2,886	179
Net hidden losses	-	-	-
Available financial resources	**3,065**	**2,886**	**179**
Excess capital	1,215	1,139	76
Capital Adequacy ratio in %	166	165	1

In the economic perspective, aggregate risk after diversification effects increased slightly during the period under review. This rise was mainly driven by other material risks. Corresponding changes were made to the risk strategy at the start of the year under review. A "buffer for other risks" had previously been deducted from capital. This has been reduced and is now shown on the risk side, constituting other risks, including model risks. This shift led to an increase in diversified economic capital and to relief on capital at the same time. Market risk remained stable overall in the period under review. A slight increase, which resulted mainly from interest rate risks, was observed. Economic capital for business and strategic risk only changed slightly; the same applies for economic capital for operational risk, which is determined at least annually. The slight decline in economic capital for credit risk was primarily driven by rating and LGD changes, and was partly offset by an increase concerning REF due to rating downgrades and new business.

This is offset by available financial resources, which have increased mostly due to the aforementioned reduction of the buffer for other risks in the reporting period, but also as a result of the increase in equity in accordance with IFRS due to accumulated profits. Compared to year-end 2019, excess capital increased, whilst the internal capital adequacy ratio (defined as the ratio of available financial resources to diversified economic capital) was virtually unchanged. 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 tightening credit spreads and generally improved 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 and the subordinated Stress Test 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 a 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.

SREP

The objective of the Supervisory Review and Evaluation Process ("SREP") is a comprehensive analysis of institutions supervised by the ECB – comprising an assessment of the business model, risk and corporate governance, risk situation, as well as capitalisation and liquidity status.

Based on the results of the analysis as well as using benchmark comparison, the ECB may impose minimum capitalisation or liquidity requirements, over and above existing regulatory requirements. As a material result of the SREP, pbb Group was required to maintain a minimum CET1 ratio of 9.5% (excluding the countercyclical capital buffer, which varies according to country, and hence, for specific portfolios – as at 31 December 2019, it stood at 0.34%) for 2020. This capital requirement is based on the final Basel III requirements (excluding transitional rules) and comprises a Pillar 1 minimum capital requirement (4.5%), a Pillar 2 capital requirement (P2R: 2.5%) and the capital conservation buffer (CCB: 2.5%). Furthermore, pbb Group had to fulfil a total capital requirement of 13.0% in 2020 (excluding the countercyclical capital buffer, which varies according to country, and hence, for specific portfolios). It is based on the final Basel III requirements (excluding transitional rules) and comprises a Pillar 1 minimum requirement (8.0%), a Pillar 2 capital requirement (2.5%) and the capital conservation buffer (2.5%). As of 12 March 2020, the ECB adjusted SREP requirements for banks under its supervision: they are now required to hold approximately 1.4% (56.25%) of the pillar 2 capital requirement of 2.5% in the form of CET1 capital, and 1.9% (75%) as Tier 1 capital. As a result, pbb's SREP requirement was reduced to approximately 8.4% CET1 (excluding the countercyclical capital buffer, which varies according to country, and hence, for specific portfolios); the total capital requirement has remained unchanged, at 13%. Both requirements, the Group complied with at all times during the year under review.

The CET1 minimum capital requirement that applies with effect from 2020 also represents the threshold for mandatory calculation of a so-called maximum distributable amount (MDA). This generally limits distributions to the CET1 capital, new performance-based remuneration, and interest payments on additional Tier 1 capital (AT1 capital).

Key Regulatory Capital Ratios

Together with the Capital Requirements Directive (CRD), the CRR forms the basis for determining regulatory capital requirements. Besides the minimum capital ratios, these regulations also govern requirements for the eligibility of capital instruments as well as the mandatory determination of regulatory capital, in line with the accounting standards used. For this reason, pbb has determined its regulatory capital ratios based on IFRS.

With the approval of the ECB, pbb Group uses the waiver rule pursuant to Article 7 (3) of the CRR; the Group is therefore exempt from determining own funds requirements at a single-entity level.

pbb Group applies the Advanced Internal Rating Based Approach (Advanced IRBA) and the Standardised Approach (STA) to determine regulatory capital requirements.

The requirements for regulatory capital ratios were satisfied at any time throughout the reporting period.

Own Funds

in € million	31.12.2020[1]	31.12.2019[2]
CET1	2,854	2,811
Additional Tier 1	298	298
Tier 1	3,152	3,109
Tier 2	646	624
Own Funds	**3,798**	**3,733**

[1] After confirmation of the 2020 financial statements, less the allocation to retained earnings (subject to approval by the Annual General Meeting).
[2] After confirmation of the 2019 financial statements and appropriation of profits. The figures have been adjusted compared with the presentation in the Annual Report 2019, as the dividend proposal for the financial year 2019 of €0.90 per eligible share was withdrawn on 3 April 2020 and at the Annual General Meeting on 28 May 2020, a resolution was passed to retain the net profit achieved in 2019.

Risk-weighted assets (RWA)

in € million	31.12.2020	31.12.2019
Market risks	98	148
Thereof interest rate risks	-	-
Thereof foreign exchange risks	98	148
Operational risks	881	870
Credit risks	16,528	16,494
Thereof CVA Charge	181	239
Other RWA	237	209
RWA total	**17,744**	**17,721**

The increase in other RWA in the year under review contains a deferred tax effect which is not attributable to temporary differences.

Capital ratios

in %	31.12.2020[1]	31.12.2019[2]
CET1 ratio	16.1	15.9
Tier 1 ratio	17.8	17.5
Own Funds ratio	21.4	21.1

[1] After confirmation of the 2020 financial statements, less the allocation to retained earnings (subject to approval by the Annual General Meeting).
[2] After confirmation of the 2019 financial statements and appropriation of profits. The figures have been adjusted compared with the presentation in the Annual Report 2019, as the dividend proposal for the financial year 2019 of €0.90 per eligible share was withdrawn on 3 April 2020 and at the Annual General Meeting on 28 May 2020, a resolution was passed to retain the net profit achieved in 2019.

Leverage ratio

in %	31.12.2020[1]	31.12.2019[2]
Leverage ratio	6.0	5.6

[1] After confirmation of the 2020 financial statements, less the allocation to retained earnings (subject to approval by the Annual General Meeting).
[2] After confirmation of the 2019 financial statements and appropriation of profits. The figures have been adjusted compared with the presentation in the Annual Report 2019, as the dividend proposal for the financial year 2019 of €0.90 per eligible share was withdrawn on 3 April 2020 and at the Annual General Meeting on 28 May 2020, a resolution was passed to retain the net profit achieved in 2019.

MREL (Minimum Requirements for Own Funds and Eligible Liabilities)
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, in addition to regulatory capital, 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 this 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 year under review.

Recovery and Resolution Planning

Recovery and Resolution Planning
A uniform bank resolution regime is a key component of European Banking Union. With the BRRD, which has harmonised recovery and resolution tools, and with the Regulation setting up the Single Resolution Mechanism ("SRM"), the legal basis therefore was established. In Germany, the BRRD was implemented through the German Act on Restructuring and Resolution (SAG).

Recovery Planning
Pursuant to section 12 (1) of the SAG, every institution [subject to the Act] must prepare a recovery plan and submit it to the supervisory authorities. pbb Group's Recovery Plan is based on the Bank's accounting and financial reporting in accordance with IFRS; it takes numerous directives and regulations into account, including the BRRD, together with related directives and technical standards published by the European Banking Authority (EBA), the SRM, as well as the SAG. The objective of the Recovery Plan is to set out the measures that the institution may use in order to secure or restore its financial stability in the event of its assets, financial position and earnings materially deteriorating, in a theoretical crisis event, where such deterioration may threaten the institution's continued existence. A possible impact upon the financial sector as a whole is also considered in this context.

The monitoring of recovery indicators, as well as recovery governance, are enshrined within pbb Group's organisational as well as operating structures; they form part of the Bank's overall management.

The Recovery Plan is updated at least once a year, or on an event-driven basis, taking applicable regulatory requirements into account.

Resolution Planning
For institutions directly supervised by the ECB, the Single Resolution Board (SRB), based in Brussels, is responsible for resolution planning and has resolution powers. In this regard, the SRB cooperates with the national resolution authority (in Germany Bundesanstalt für Finanzdienstleistungsaufsicht/ resolution authority). pbb supports resolution authorities in their duty of preparing a resolution plan in accordance with the BRRD and the SAG.

INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT SYSTEM RELEVANT FOR THE CON-SOLIDATED FINANCIAL REPORTING PROCESS

Concept

The risk management system relevant for the consolidated financial reporting process comprise the principles, processes and measures used to ensure the effectiveness and efficiency of financial reporting, as well as to ensure compliance with statutory provisions. Risks that may prevent this overall objective from being achieved are identified and assessed; any risks identified are limited and their effect on the financial statements and their appropriate presentation are reviewed. The internal control system (ICS) is an integral part of the risk management system. The implementation of controls is intended to ensure, with sufficient certainty and despite the risks identified, that the financial statements are prepared in compliance with the regulations. However, absolute certainty regarding the achievement of the objectives cannot be given completely.

The ICS is fully integrated into the pbb Group's organizational structure and workflows. This also includes comprehensive reporting to the Management Board and Supervisory Board.

pbb's Management Board prepares Consolidated Financial Statements and a Combined Management Report. In connection with the requirement to establish a Group-wide ICS, the whole Management Board of pbb is also responsible for the form – i.e. the concept, implementation, maintenance and monitoring – of an appropriate and effective ICS. All strategies are decided on by the whole Management Board on the basis of recommendations made by the CEO/CFO.

The Supervisory Board is tasked with advising and monitoring the Management Board. It also has audit and reporting-related obligations. pbb's Supervisory Board established an Audit Committee to support its activities in this area. In accordance with section 100 (5) of the Aktiengesetz (AktG – German Stock Corporation Act), at least one member of the Supervisory Board must have expertise in accounting or auditing. The relevant professional experience of each individual Audit Committee member ensures the sector competence of the audit committee as required by the so-called EU Audit Reform

Group Internal Audit supports the Management Board and the Supervisory Board in its control function by performing independent audits.

At 31 December 2020, the CEO/CFO was responsible for Communications, Corporate Office/Corporate Development, Digitalisation, Finance, Group Internal Audit, Human Resources and Legal. The Finance division comprises the departments Accounting, Financial Reporting, Procurement Services & Corporate Controlling, Regulatory Reporting and Tax as well as the team Data Governance. The Finance division prepares the Consolidated Financial Statements in accordance with IFRS as applicable in the EU and provides the capital market information relevant to accounting. pbb Group companies and branches prepare their financial statements in accordance with the relevant local legal requirements. These financial statements are standardised around uniform Group accounting policies in accordance with IFRS for the purposes of Group financial reporting. Each entity included in the Consolidated Financial Statements reports its statement of financial position, income statement, and notes to a central department in Group Accounting via the consolidation software. In Group Accounting the data are validated, analysed and consolidated. For the preparation of the unconsolidated annual financial statements, the accounting policies in accordance with the German Commercial Code (Handelsgesetzbuch, HGB) applied for the financial statements of the corporate headquarters and the branch offices, and are harmonised on the basis of a HGB accounting manual.

The GFC issues recommendations to the Management Board. These include, among other things, establishing and monitoring the accounting and reporting policies as well as workflows for all units and segments. The GFC is composed of the members of the Management Board and the managers of the Finance, Risk Management & Control and Treasury divisions.

With respect to workflows, the ICS is based on the objective of largely standardised the processes and software. Core activities and processes are governed by policies, according to which the four eye principle must be applied in all material transactions. Data and IT systems are protected against unauthorised access. In addition, certain relevant information is only made available to those employees who need it for their work. Where necessary, results are agreed at Group level.

Implementation

In order to strengthen and further expand the ICS, pbb Group has, among other things, implemented the Control Attestation Process (CAP). As part of this process, all divisions define key controls for managing their significant risks. The key controls are reviewed and confirmed in a regular confirmation process by the divisions. In addition, the controls are reviewed in a downstream process by the Compliance and Group Internal Audit divisions.

There is a clear separation of functions within the Finance division. The GFC and other committees, as well as divisional meetings serve as overarching links between the different tasks. In addition, executing, accounting and administrative activities such as payment transfers and payment entries are clearly separated or subject to the four eye principle. Furthermore, the units included in the Consolidated Financial Statements report their data to a central Group department, ensuring the subsequent processing in a uniform manner.

Systems-based and non-systems-based risk management measures and internal controls are used within the workflows. At the systems level, standard software is used as far as possible to post, reconcile, check and report data so as to avoid errors. The same applies to consolidation, which is performed using standard market software. The consolidation software supports the reconciliation of intragroup transactions at a technical level in a clearly defined process, ensuring that these transactions are eliminated correctly and in full. Data from the entities included in the Consolidated Financial Statements are reported using a uniform, standardised chart of accounts. Automated plausibility checks are performed on the data reported by subsidiaries for consolidation purposes, for example. The largest part of assets and liabilities is held by the parent company pbb. The balances carried forward are checked by the system. Extensive validation routines are also anchored in the software that is also widely used on the market to prepare the annual report and the unconsolidated financial statements. To prevent data loss, the data in the consolidation software are backed up on a daily basis and the backup is stored on tape. As a general rule, pbb Group's software is protected against unauthorised access by a clearly defined administration concept and authorisation rules.

Alongside the systems-based measures, pbb Group has implemented manual and non-systemsbased processes. For example, the correctness and completeness of the data reported are checked using a standardised process involving variance analyses over time, among other things. In addition, the consolidated statement of financial position and the consolidated income statement are determined on a monthly basis. Projections and forecasts are also drawn up. As part of another control mechanism, the exposures involving financial instruments – and hence the vast majority of the statement of financial position – are broken down to individual transaction level based on sub-ledgers, and are reconciled with the consolidated figures. In the income statement, for example, net interest income and net fee and commission income are tracked within the context of the earnings transparency analysis, and the result from fair value measurement is tracked within the context of monthly analyses on the basis of the individual transactions in the sub-ledgers. Another reconciliation refers to the general and administrative expenses where the consolidated figure is reconciled to the individual accounts in the sub-ledger. In addition, a plausibility check using a control file is conducted regarding capital consolidation, in addition to the automated, standard system-based consolidation on individual entry level.

Mandatory accounting requirements are defined and communicated, amongst others, by the use of IFRS respectively HGB accounting manuals. These requirements, which include the analysis and interpretation of new and existing IFRS standards and interpretations, enable a group wide consistent accounting and measurement. Generally accepted valuation methodologies are employed. The procedures in place and the underlying parameters are monitored on a regular basis and adjusted if necessary.

In order to improve the quality of controls, various divisions are integrated in certain processes and are required to reconcile. For example, the interdepartmental new product process and the review of existing products (with a right of veto by the divisions Finance and Risk Management & Control) are designed to ensure that products are recognised in the financial reporting in a uniform and systematic manner. In addition, the processes of the market valuations undertaken by Risk Management & Control are coordinated in the GFC. Annual and interim report preparation is another example of interdepartmental coordination. All of the areas involved must sign off on these reports before they are officially prepared by the Management Board (subcertification process), creating an additional level of control for the products to be disclosed. All of the divisions affected agree in advance on the content of material sections of the annual and interim reports in editorial meetings.

pbb Group takes measures to combat fraud and intentional violations that negatively impact the Group. Fraud includes theft, embezzlement, or breach of fiduciary duty, as well as intentional accounting errors in connection with the consolidated financial reporting process.

Maintenance

In order to ensure that risks are identified, evaluated and limited as correctly and comprehensively as possible, pbb Group continually reviews and improves its ICS. This also involves adjustments to the ICS to reflect new circumstances, such as changes in the structure and business model of pbb Group or new satutory requirements.

The risk of fraud and intentional violations is regularly analysed in order to take defensive measures. Factors taken into account include suspicious events and changes in pbb Group's situation and that of individual employees.

Any changes to processes and IT systems required as a result of legislative amendments are implemented as separate interdepartmental projects with a clear allocation of functions. At the same time, the IKS is also adapted to the changes in the amended regulations.

Monitoring

The Group Internal Audit division is in particular responsible for checking that processes and procedures are carried out in a due and proper manner and identifying inefficiencies, irregularities or manipulation. The Group Internal Audit division also reviews the effectiveness and appropriateness of the IKS in an independent and risk-oriented manner in line with the rules set out in the Minimum Requirements for Risk Management (MaRisk), and identifies any weaknesses in risk identification, assessment and mitigation. This also includes reviewing the IT systems and the processes and controls of the Finance functions. Concrete action plans with specific deadlines are drawn up and their implementation monitored to remedy the identified shortcomings. Group Internal Audit as an independent division is not integrated into the workflow, nor is it responsible for the results of the audited process. In order to be able to carry out its duties, Group Internal Audit has a full and unrestricted right to information on activities, processes and the IT systems.

As the body responsible for supervising and advising the Management Board, the Supervisory Board may inspect and examine the Company's books and assets in accordance with section 111 (2) of the AktG. In addition, the Management Board reports regularly to the Supervisory Board. Group Internal Audit reports to the whole Management Board and the Audit Committee of the Supervisory Board at appropriate intervals, however, at least quarterly. In accordance of section 25 d (8) of the German Banking Act (Kreditwesengesetz) the Chairman of the Audit Committee can directly obtain information from the heads of Group Internal Audit and Risk Management & Control. The Supervisory Board discusses the IKS. The Supervisory Board appoints the auditors of the Consolidated Financial Statements, the Unconsolidated Financial Statements and the Combined Management Report. The Supervisory Board approves the Consolidated Financial Statements and the Combined Management Report prepared by the Management Board and audited by the independent auditors.

The auditors of the financial statements attend the Supervisory Board meetings relating to the financial statements and all of the meetings of pbb Group's Audit Committee to report on the material findings of their audit including material weaknesses in the IKS. Where relevant, the auditors immediately eport findings and issues that emerge during the audit and that are material for Supervisory Board to carry out their duties. The Supervisory Board discusses the focus of the audit with the auditors in advance.

Remuneration Report

The Remuneration Report follows the recommendations of the German Corporate Governance Code (the "Code" or "GCGC") in its latest version and includes the information required pursuant to the German Com-mercial Code (Handelsgesetzbuch – "HGB") and in accordance with the International Financial Reporting Standards (IFRS). In line with applicable transition rules, the new statutory provisions governing the content and disclosure requirements of remuneration reports pursuant to the German Act Implementing the Second Shareholder Rights Directive ("ARUG II") dated 19 December 2019, as laid out in section 162 of the AktG, are to be initially applied with regard to the remuneration report for the 2021 financial year.

The first section of the Remuneration Report describes the structure, specifications and amount of remunera-tion for members of the Management Board and Supervisory Board. The second section of the Remuneration Report provides information on the remuneration system and the remuneration structure for employees of the pbb Group. However, this remuneration report does not comprise any quantitative remuneration information on employees, to be disclosed in compliance with Article 450 of the CRR in conjunction with section 16 of the German Regulation on Remuneration in Financial Institutions (Institutsvergütungsverordnung – "In-stVergV"). This information is scheduled to be disclosed after completion of the 2020 remuneration review (variable remuneration not yet established) during the second quarter of 2021, as part of pbb's Remunera-tion Report (according to the InstVergV), which will be made available on the Company's website, under www.pfandbriefbank.com. The third section of the Remuneration Report comprises information on the gov-ernance structure regarding remuneration.

REMUNERATION SYSTEM AND REMUNERATION STRATEGY OF THE PBB GROUP

The remuneration system and the remuneration strategy of pbb Group are integral components of the business and risk strategy of pbb Group. The remuneration strategy sets out the framework for the performance and remuneration of Management Board members and employees of the pbb Group. The remuneration strategy was developed as part of the business and risk strategy, involving all of the relevant business divisions and the Remuneration Officer. All employees of pbb Group have access to the remuneration strategy – updated in 2020 – via the intranet. The remuneration strategy is subject to regular revision, and may be subject to extraordinary revision particularly in case of amendments to the business and risk strategy.

The system aims to guarantee a performance-oriented and appropriate remuneration - one that is geared to achieving the targets enshrined in the business and risk strategy. pbb's business management is targeted towards a sustainable enhancement of profitability, whilst maintaining the Group's strict risk policy. Performance measurement at institutional level is one of the key elements in achieving these objectives. Referring to performance measurement at institutional level, particular attention is given to (key) performance indicators – as defined within the business and risk strategy as well as business planning – which particularly reflect the defined business and risk strategy, fulfil all regulatory requirements regarding risk, capital and liquidity, and are transparent as well as comprehensible. The performance at institutional level, derived from the performance indicators, defines the total amount of variable remuneration available for disbursement. Hence, variable remuneration of Management Board members and all other employees is directly linked to – and driven by – the business and risk strategy. Moreover, this guarantees compatibility of the remuneration system with the Group's capital and liquidity planning, as stipulated in the applicable regulatory requirements. Performance measurement comprises two other performance levels: divisional performance and individual performance. Targets for these subsequent performance levels will be derived from the business and risk strategy.

The remuneration strategy is an integral part of the personnel strategy. pbb's business model requires highly qualified employees with expert knowledge. The key objective of pbb Group's strategy therefore is to attract, retain and develop – for the long term – highly qualified employees with expert knowledge, strong quality awareness, customer focus, leadership skills, the willingness to be deployed flexibly, and an advanced degree of entrepreneurial thinking. Capable and dedicated employees are key to increasing income by generating profitable new business in line with the strict risk policy. Besides the Group's differentiated personnel planning, its restructuring strategy and the diversified internal and external qualification programme, implementation of the Group's personnel strategy is based on variable remuneration, featuring incentives for individual performance, and promoting cooperation between business divisions, departments and teams. With the variable remuneration components, employees have the chance to participate in the success of pbb Group.

Implementation of regulatory requirements regarding remuneration systems of banks is another key element in the remuneration strategy. The aim of pbb's remuneration system is to reflect the basic principle of appropriateness regarding the amount and structure of individual remuneration components. Another goal is to avoid incentives for taking disproportionately high risks. Going forward, total remuneration amounts, and individual remuneration elements will be subject to regular revision in order to establish an appropriate relationship of remuneration to function and performance, as well as to pbb Group's overall performance.

MANAGEMENT BOARD

Principles

In principle, remuneration for members of pbb's Management Board is designed to ensure a performance-oriented payment, taking the Company's size and international business activities into account. Besides a peer review, based on remuneration for Management Boards and senior management roles in similar companies in Germany and abroad, and a comparison to remuneration of all other employees of pbb Group, the Company's financial situation and performance is also taken into account. Within this context, the appropriateness of the remuneration system, the remuneration structure and the remuneration levels are reviewed every year. In terms of the horizontal remuneration review, pbb takes the following peer group into account (effective November 2020, unchanged from the previous year):

- Deutsche Hypothekenbank (Actien-Gesellschaft)
- Berlin Hyp AG
- Münchener Hypothekenbank eG
- Aareal Bank AG
- DZ HYP AG
- Landesbank Hessen-Thüringen Girozentrale
- Landesbank Baden-Württemberg
- UniCredit Bank AG
- Commerzbank AG
- DZ Bank AG

Remuneration Components

The service contracts entered into with the members of the Management Board comprise the following remuneration components:

- non-performance related (monetary) remuneration plus non-cash remuneration;
- performance-related variable remuneration;
- pension commitment.

Non-performance-related Remuneration

Fixed remuneration levels are reviewed, and adjusted if appropriate, at regular intervals, using an external market survey. No automatic adjustment will take place. In 2020, fixed remuneration amounted to €500,000 gross per annum for each Management Board member.

In addition, pbb grants fringe benefits (non-cash benefits) to the members of the Management Board which are within the customary scope. These non-cash benefits include the provision of a company car (including driver), whereby the Company covers all costs incurred in this respect. Where a member of the Management Board is required to maintain a second household, the Company pays the cost for the second apartment at the place of work, for a maximum of two years. Moreover, the Company has taken out a group accident insurance policy for the members of the Management Board. The Management Board members pay taxes due on these benefits in kind.

Performance-related Variable Remuneration

pbb's variable remuneration is in line with the regulatory requirements as set out in the CRD, the German Banking Act (Kreditwesengesetz – "KWG") and the requirements of the German Stock Corporation Act (Aktiengesetz – "AktG"), and generally in line with the requirements set out in the German Corporate Governance Code ("GCGC"). Regarding potential deviations from the GCGC, please refer to the declaration of compliance in accordance with section 161 of the AktG. In 2020, pbb carried out a review regarding potential adjustments of the remuneration system as a consequence of the Second Shareholder Rights Directive ("ARUG II") dated 19 December 2019. The Supervisory Board of pbb will propose to the Annual General Meeting in May 2021 a remuneration system for resolution, which fulfils all statutory provisions resulting from section 120a of the AktG.

Variable remuneration is paid in cash. Half of the amount of variable remuneration depends on the performance of the pbb share (share-based remuneration system). As in previous years, pbb Group did not grant any share options to Management Board members in 2020.

The variable remuneration component is determined on the basis of an individual calculatory reference value. This is a reference value which reflects the amount of variable remuneration attributed to a performance level of 100% on all relevant performance levels. The calculatory reference value for 2020 has been set at €315,000 for the Chairman of the Management Board, and at €240,000 for all other Management Board members.

The variable remuneration granted to each Management Board member is capped at 150% of his/her individual calculatory reference value.

According to section 25a (5) sentence 2 of the KWG, the variable remuneration may not exceed 100% of fixed remuneration. According to section 25a (5) sentence 5 of the KWG, pbb's Annual General Meeting may increase this threshold to 200% of fixed remuneration. However, no such resolution has been taken by pbb's Annual General Meeting to date.

The service contracts entered into with the members of the Management Board comprise a total threshold value. According to these contractual stipulations, the total remuneration for the Chairman of the Management Board for the calendar year 2020 is capped at €1,022,500, and at €910,000 for all other Management Board members, including basic remuneration, variable remuneration and fringe benefits. The maximum remuneration is set to be adjusted in 2021 to meet the requirements of the German Act Implementing the Second Shareholder Rights Directive ("ARUG II").

Examination of Requirements according to section 7 of the InstVergV

Granting of variable remuneration to Management Board members is subject to the prior determination of a total amount of variable remuneration by the Supervisory Board (taking into account the requirements of section 7 of the InstVergV). This amount is determined at the end of each financial year, within the framework of a formal and transparent process. The Supervisory Board approved the variable remuneration to be granted for 2020 as part of its review in 2021. For the examination of requirements according to section 7 of the InstVergV, pbb uses relevant recovery threshold values as indicators in line with the reporting on recovery and resolution plans (SRM-VO/SAG). Provided all requirements were fulfilled, and the Group disclosed (positive) consolidated profit in its IFRS financial statements, a total amount available for disbursement as variable remuneration is then determined. In the event of a net loss it is unlikely that the full amount would be earmarked for variable remuneration.

Performance Measurement
The amount of variable remuneration for 2020 is determined on three levels: the institution's performance, the performance of the organisational unit (the Management Board member's respective division) and the Management Board member's individual performance.

As the first step of performance measurement, the calculatory reference values (as adjusted through the determination of the total amount of variable remuneration) are distributed among the three performance measurement levels. 60% is allocated to the institution's performance, while 40% is allocated to the performance of the organisational unit and the individual performance taken together. On this basis, the performance achieved at the institutional, divisional, and individual levels is evaluated, and a specific share of the calculatory reference value is calculated and allocated to the respective member of the Management Board (envisaged personal reward value – "EPR value").

The Supervisory Board reviewed and approved the 2020 target agreements with Management Board members in November 2019. As part of the corresponding performance determination, the Supervisory Board also reviewed and approved the institutional targets, the divisional targets and the individual targets, and established the level of target achievement in February 2021. As in the previous year, the institution's performance for 2020 was calculated as follows: the level of target achievement for the (adjusted) IFRS consolidated profit before tax, plus the level of target achievement for the risk-reward profile, determined as the ratio between net margin x average portfolio volume and risk-weighted assets. At an institutional level, target achievement may be subject to additional modifiers. The list of modifiers includes, for instance: shortterm changes of regulatory requirements considered material to pbb Group, shortterm macroeconomic events, one-off effects or foreign trade limitations due to the acquisition or disposal of material business units, particularly in the case of external M&A activities. As in the previous years, the modifiers were not applied in 2020.

The target achievement at institutional level relevant to the variable remuneration in 2020 depends on the institution's performance in the financial years 2018, 2017 and 2020 – with each year being assigned a weighting of one-third. Against this background, the variable remuneration has a multiple-year assessment basis as well, and relates to the longterm success of the pbb Group, in addition to the multiple-year retention period for variable remuneration and the share-based sustainability component.

The divisional and individual targets were derived from the corporate targets and the business plans made for the respective financial year. In 2020, the target agreements with the Management Board members comprised targets on new business volume, risk management levels and funding, and – once again – targets regarding strategic projects in particular, such as digitalisation or the expansion and diversification of the investor base. In addition, every member agreed to two targets from the environmental, social and governance (ESG) field: one target for the promotion and implementation of more flexible working conditions and the promotion of women, as well as one target for ecological sustainability.

Disbursement Structure
As a significant institution, as defined by section 17 of the InstVergV, pbb must in particular observe the requirements of section 20 of the InstVergV regarding variable remuneration of risk takers. Management Board members are risk takers. The disbursement structure of the variable remuneration for Management Board members is therefore generally subject to the following conditions:

The EPR value is broken down into a disbursement portion and a deferral portion, whereby the purpose of the latter includes establishing a multi-year assessment basis and thus – just like the multi-year measurement of Company success – gears the variable remuneration of the Management Board members upon the Company's long-term performance.

The disbursement for Management Board members amounts to 40% of their personal EPR value, with the deferral portion amounting to 60%. 50% of the disbursement portion is paid out in cash when the condi-tions for disbursement have been met. The remaining 50% is disbursed after a retention period of one year, after the amount was adjusted in line with the performance of the pbb share ("virtual shares"; no physical share option programme). The applicable amount is translated into the corresponding number of virtual shares. The calculation of the number of virtual shares is based on the average

Xetra closing price of the pbb share in February of the year subsequent to the financial year for which the variable remuneration is granted (subscription price). The resulting number of virtual shares is automatically converted into a cash amount after a holding period of one year, and paid out with the variable remuneration of the disbursement year. The conversion is based on the average Xetra closing price of the pbb share in February of the disbursement year (disbursement price). The EPR value portions linked to the sustainability component are granted on the basis of the performance of the pbb share during the retention period.

The deferral period for the deferral portion due to Management Board members is five years. In the five years following establishment of the EPR value, the Supervisory Board takes a resolution, every year, regarding the granting of one fifth of the deferral portion. The beneficiary may not claim the relevant remuneration component until the end of each deferral period. As soon as the Management Board members have the right to claim a deferred remuneration component, half of the respective deferral portion is paid out in cash. Another retention period of one year applies to the other half of the respective deferral portion, during which it is subject to the sustainable performance of the pbb share according to the sustainability component described earlier.

When granting deferral portions, the Supervisory Board takes into account – as part of a retrospective review of the variable remuneration (ex-post risk adjustment) – any subsequent negative deviations affecting the performance of the institution, the organisational unit, or the individual Management Board member (back-testing), as well as unethical behaviour or behaviour in breach of duties, negative performance contributions within the meaning of section 18 (5) of the InstVergV (penalty verification), and the relevant financial conditions for disbursement (pursuant to section 7 of the InstVergV).

Therefore, half of the variable remuneration of Management Board members is linked to the performance of the pbb share price as part of the sustainability component.

In addition, special clawback options apply for variable remuneration already disbursed. According to the contractual stipulations, clawbacks apply in particular if a Management Board member was significantly involved in, or was responsible for, any behaviour which led to considerable losses or material regulatory sanctions for the Bank. The same applies if a Management Board member breached external or internal provisions related to suitability and conduct to a serious degree. In its specific implementation of the InstVergV criteria for clawback purposes, pbb Group considers and applies all regulatory requirements, taking the distinctive features of pbb Group's business model and risk profile into account, and reflecting the over-all sustainability aspects of the Company's performance – as well as the synchronisation of Company performance and bonus payments. Clawbacks may be applied up to seven years after the disbursement amount of variable remuneration was paid out.

Conclusion of Service Contracts

Andreas Arndt was re-appointed as member of the Management Board for a further five years, with effect from 15 December 2020 until 14 December 2025. A corresponding service agreement was concluded.

Thomas Köntgen was re-appointed as member of the Management Board for a further five years, with effect from 12 May 2021 until 11 May 2026. A corresponding service agreement was concluded.

Disclosure of Management Board remuneration in accordance with the German Corporate Governance Code

With the publication of the revised GCGC dated 16 December 2019, the sample tables (currently) attached to the GCGC were removed without substitution. However, pbb resolved to still use the sample tables in order to ensure disclosure continuity. Therefore, this report provides the following disclosures, as before: for each current Management Board member in the 2020 financial year, (i) the benefits abstractly granted (including target or expected values), as well as (ii) the actual cash flow received (i.e. the actual amounts disbursed). Both benefits and allocations must be broken down by fixed remuneration, non-cash benefits, variable remuneration and pension expenses (service cost as defined under IAS 19). For reasons of clarity, these details have been compiled into a single table for each member of the Management Board in office during 2020.

Andreas Arndt

CEO/CFO

	Benefits granted				Allocation	
in € thousand	**2020**	Minimum	Maximum	**2019**	**2020**	**2019**
Fixed remuneration	500	500	500	500	500	500
Fringe benefits[1]	18	18	18	11	18	11
Total	**518**	**518**	**518**	**511**	**518**	**511**
One-year variable remuneration for 2020	68	-	95	-	-	-
Multi-year variable remuneration for 2020						
Disbursement portion subject to holding period 2020 (second quarter 2022) [2]	68	-	95	-	-	-
Deferral 2020 (second quarter 2022)[2]	41	-	57	-	-	-
Deferral 2020 (second quarter 2023)[2]	41	-	57	-	-	-
Deferral 2020 (second quarter 2024)[2]	41	-	57	-	-	-
Deferral 2020 (second quarter 2025)[2]	41	-	57	-	-	-
Deferral 2020 (second quarter 2026)[2]	41	-	57	-	-	-
One-year variable remuneration for 2019	-	-	-	57	57	-
Multi-year variable remuneration for 2019						
Disbursement portion subject to holding period 2019 (second quarter 2021)	-	-	-	57	-	-
Deferral 2019 (second quarter 2021)	-	-	-	34	-	-
Deferral 2019 (second quarter 2022)	-	-	-	34	-	-
Deferral 2019 (second quarter 2023)	-	-	-	34	-	-
Deferral 2019 (second quarter 2024)	-	-	-	34	-	-
Deferral 2019 (second quarter 2025)	-	-	-	34	-	-
One-year variable remuneration for 2018	-	-	-	-	-	60
Multi-year variable remuneration for 2018						-
Disbursement portion subject to holding period 2018 (second quarter 2020)	-	-	-	-	88	-
Deferral 2018 (second quarter 2020)	-	-	-	-	18	-
Multi-year variable remuneration for 2017	-	-	-	-	-	-
Disbursement portion subject to holding period 2017 (second quarter 2019)	-	-	-	-	-	36
Deferral 2017 (second quarter 2019)	-	-	-	-	16	15
Deferral 2017 (second quarter 2020)	-	-	-	-	15	-
Multi-year variable remuneration for 2016	-	-	-	-	-	-
Deferral 2016 (second quarter 2018)	-	-	-	-	-	15
Deferral 2016 (second quarter 2019)	-	-	-	-	23	15
Deferral 2016 (second quarter 2020)	-	-	-	-	15	-
Total	**859**	**518**	**993**	**795**	**750**	**652**
Services [3, 4]	768	768	768	640	768	640
Total remuneration	1,627	1,286	1,761	1,435	1,518	1,292

[1] Including taxable non-cash benefits within the customary scope.
[2] The disclosed maximum amounts may be exceeded at allocation, given pbb's share price performance.
[3] Service expenses according to the German Commercial Code (HGB) amounted to €507 thousand in 2020 (2019: €646 thousand).
[4] The increase in service costs with an unchanged pension commitment results from the change in the actuarial assumptions of the discount rate and the rate of increase in pension obligations.

Thomas Köntgen

Deputy CEO,
Real Estate Finance and Public Investment Finance

	Benefits granted				Allocation	
in € thousand	**2020**	Minimum	Maximum	**2019**	**2020**	**2019**
Fixed remuneration	500	500	500	500	500	500
Fringe benefits[1]	17	17	17	18	17	18
Total	**517**	**517**	**517**	**518**	**517**	**518**
One-year variable remuneration for 2020	51	-	72	-	-	-
Multi-year variable remuneration for 2020	-					
Disbursement portion subject to holding period 2020 (second quarter 2022) [2]	51	-	72	-	-	-
Deferral 2020 (second quarter 2022)[2]	31	-	43	-	-	-
Deferral 2020 (second quarter 2023)[2]	31	-	43	-	-	-
Deferral 2020 (second quarter 2024)[2]	31	-	43	-	-	-
Deferral 2020 (second quarter 2025)[2]	31	-	43	-	-	-
Deferral 2020 (second quarter 2026)[2]	31	-	43	-	-	-
One-year variable remuneration for 2019	-	-	-	49	49	-
Multi-year variable remuneration for 2019						
Disbursement portion subject to holding period 2019 (second quarter 2021)	-	-	-	49	-	-
Deferral 2019 (second quarter 2021)	-	-	-	29	-	-
Deferral 2019 (second quarter 2022)	-	-	-	29	-	-
Deferral 2019 (second quarter 2023)	-	-	-	29	-	-
Deferral 2019 (second quarter 2024)	-	-	-	29	-	-
Deferral 2019 (second quarter 2025)	-	-	-	29	-	-
One-year variable remuneration for 2018	-	-	-	-	-	50
Multi-year variable remuneration for 2018	-	-	-	-	-	-
Disbursement portion subject to holding period 2018 (second quarter 2020)	-	-	-	-	73	-
Deferral 2018 (second quarter 2020)	-	-	-	-	15	-
Multi-year variable remuneration for 2017	-	-	-	-	-	-
Disbursement portion subject to holding period 2017 (second quarter 2019)	-	-	-	-	-	36
Deferral 2017 (second quarter 2019)	-	-	-	-	16	15
Deferral 2017 (second quarter 2020)	-	-	-	-	15	-
Multi-year variable remuneration for 2016	-	-	-	-	-	-
Deferral 2016 (second quarter 2018)	-	-	-	-	-	15
Deferral 2016 (second quarter 2019)	-	-	-	-	23	15
Deferral 2016 (second quarter 2020)	-	-	-	-	15	-
Total	**774**	**517**	**876**	**761**	**723**	**649**
Services [3], [4]	728	728	728	572	728	572
Total remuneration	1,502	1,245	1,604	1,333	1,451	1,221

[1] Including taxable non-cash benefits within the customary scope.
[2] The disclosed maximum amounts may be exceeded at allocation, given pbb's share price performance.
[3] Service expenses according to the German Commercial Code (HGB) amounted to €403 thousand in 2020 (2019: €524 thousand).
[4] The increase in service costs with an unchanged pension commitment results from the change in the actuarial assumptions of the discount rate and the rate of increase in pension obligations.

Andreas Schenk

CRO

in € thousand	Benefits granted 2020	Minimum	Maximum	2019	Allocation 2020	2019
Fixed remuneration	500	500	500	500	500	500
Fringe benefits [1]	6	6	6	10	6	10
Total	**506**	**506**	**506**	**510**	**506**	**510**
One-year variable remuneration for 2020	52	-	72	-	-	-
Multi-year variable remuneration for 2020						
Disbursement portion subject to holding period 2020 (second quarter 2022) [2]	52	-	72	-	-	-
Deferral 2020 (second quarter 2022) [2]	31	-	43	-	-	-
Deferral 2020 (second quarter 2023) [2]	31	-	43	-	-	-
Deferral 2020 (second quarter 2024) [2]	31	-	43	-	-	-
Deferral 2020 (second quarter 2025) [2]	31	-	43	-	-	-
Deferral 2020 (second quarter 2026) [2]	31	-	43	-	-	-
One-year variable remuneration for 2019	-	-	-	48	48	-
Multi-year variable remuneration for 2019						
Disbursement portion subject to holding period 2019 (second quarter 2021)	-	-	-	48	-	-
Deferral 2019 (second quarter 2021)	-	-	-	29	-	-
Deferral 2019 (second quarter 2022)	-	-	-	29	-	-
Deferral 2019 (second quarter 2023)	-	-	-	29	-	-
Deferral 2019 (second quarter 2024)	-	-	-	29	-	-
Deferral 2019 (second quarter 2025)	-	-	-	29	-	-
One-year variable remuneration for 2018	-	-	-	-	-	50
Multi-year variable remuneration for 2018	-	-	-	-	-	-
Disbursement portion subject to holding period 2018 (second quarter 2020)	-	-	-	-	73	-
Deferral 2018 (second quarter 2020)	-	-	-	-	15	-
Multi-year variable remuneration for 2017	-	-	-	-	-	-
Disbursement portion subject to holding period 2017 (second quarter 2019)	-	-	-	-	-	36
Deferral 2017 (second quarter 2019)	-	-	-	-	16	15
Deferral 2017 (second quarter 2020)	-	-	-	-	15	-
Multi-year variable remuneration for 2016	-	-	-	-	-	-
Deferral 2016 (second quarter 2018)	-	-	-	-	-	15
Deferral 2016 (second quarter 2019)	-	-	-	-	23	15
Deferral 2016 (second quarter 2020)	-	-	-	-	15	-
Total	**765**	**506**	**865**	**751**	**711**	**641**
Services [3, 4]	677	677	677	510	677	510
Total remuneration	1,442	1,183	1,542	1,261	1,388	1,151

[1] Including taxable non-cash benefits within the customary scope.
[2] The disclosed maximum amounts may be exceeded at allocation, given pbb's share price performance.
[3] Service expenses according to the German Commercial Code (HGB) amounted to €349 thousand in 2020 (2019: €435 thousand).
[4] The increase in service costs with an unchanged pension commitment results from the change in the actuarial assumptions of the discount rate and the rate of increase in pension obligations.

Marcus Schulte[1)]

Treasurer

in € thousand	Benefits granted 2020	Minimum	Maximum	2019	Allocation 2020	2019
Fixed remuneration	500	500	500	500	500	500
Fringe benefits[2)]	22	22	22	22	22	22
Total	**522**	**522**	**522**	**522**	**522**	**522**
One-year variable remuneration for 2020	52	-	72	-	-	-
Multi-year variable remuneration for 2020						
Disbursement portion subject to holding period 2020 (second quarter 2022)[3)]	52	-	72	-	-	-
Deferral 2020 (second quarter 2022)[3)]	31	-	43	-	-	-
Deferral 2020 (second quarter 2023)[3)]	31	-	43	-	-	-
Deferral 2020 (second quarter 2024)[3)]	31	-	43	-	-	-
Deferral 2020 (second quarter 2025)[3)]	31	-	43	-	-	-
Deferral 2020 (second quarter 2026)[3)]	31	-	43	-	-	-
One-year variable remuneration for 2019	-	-	-	48	48	-
Multi-year variable remuneration for 2019	-	-	-		-	-
Disbursement portion subject to holding period 2019 (second quarter 2021)	-	-	-	48	-	-
Deferral 2019 (second quarter 2021)	-	-	-	29	-	-
Deferral 2019 (second quarter 2022)	-	-	-	29	-	-
Deferral 2019 (second quarter 2023)	-	-	-	29	-	-
Deferral 2019 (second quarter 2024)	-	-	-	29	-	-
Deferral 2019 (second quarter 2025)	-	-	-	29	-	-
Total	**781**	**522**	**881**	**763**	**570**	**522**
Services [4)]	250	250	250	250	250	250
Total remuneration	1,031	772	1,131	1,013	820	772

1) Mr. Schulte joined pbb on January 1, 2017 and was appointed to the Management Board of pbb with effect of January 1, 2019. Only granted benefits and allocations effective his appointment as a member of the Management Board are reported.
2) Including taxable non-cash benefits within the customary scope.
3) The disclosed maximum amounts may be exceeded at allocation, given pbb's share price performance.
4) Service expenses according to the German Commercial Code (HGB) amounted to €250 thousand in 2020.

Pension Commitments

Commitments to pension benefits for old age, for occupational and general disability, were made to members of the Management Board who were in office in 2020.

As a member of pbb's Management Board, Andreas Arndt receives a pension in the amount of 5.2% of his basic annual remuneration for each completed year of service, subject to a cap of 60%. The pension entitlements are considered to be immediately vested. They may be drawn upon once the age of 62 has been reached. However, they shall be suspended as long as (and to the extent that) the service contract continues beyond the age of 62.

As member of pbb's Management Board, Thomas Köntgen receives a pension in the amount of 5.2% of his basic annual remuneration for each completed year of service, subject to a cap of 55%. The pension entitlements are considered to be immediately vested. They may be drawn upon once the age of 62 has been reached. However, they shall be suspended as long as (and to the extent that) the service contract continues beyond the age of 62.

As member of pbb's Management Board, Andreas Schenk receives a pension in the amount of 5.2% of his basic annual remuneration for each completed year of service, subject to a cap of 50%. The pension entitlements are considered to be immediately vested. They may be drawn upon once the age of 63 has been reached. However, they shall be suspended as long as (and to the extent that) the service contract continues beyond the age of 63.

Section 16 of the German Company Pensions Act (Betriebsrentengesetz) applies to the examination of whether pension benefits need to be adjusted after retirement.

pbb makes defined-contribution pension commitments to Marcus Schulte in the amount of €250,000 p.a. The pension entitlements may be drawn upon once the age of 63 has been reached. However, they shall be suspended as long as (and to the extent that) the service contract continues beyond the age of 63. Starting from the date of the first pension payment, the amount is adjusted by 1% p.a.

In case of the death of a Management Board member, his or her spouse receives 60% of the pension entitlement. In addition, pensions to half-orphans or orphans are paid until the respective children reach the age of 18. Where a child is still in education beyond the age of 18, orphans' benefits will continue to be paid until conclusion of vocational training – however, not after the child has reached the age of 25. The total amounts received by half-orphans must not exceed 30% of the pension entitlement of the deceased parent as long as the surviving spouse receives survivor benefits. Full orphans will jointly receive up to 60% of the pension of the deceased parent. Surviving spouses and children from a marriage that the member of the Management Board enters into after retirement are not entitled.

Pension commitments to Management Board members of pbb[1] in office during the financial year 2020 according to IFRS [2]

				2020				2019
in € thousand	Present value of pension claims vested during the business year[3]	Interest expenses	Past services costs	Pension obligation as at 31.12.2020	Present value of pension claims vested during the business year	Interest expenses	Past services costs	Pension obligation as at 31.12.2019
Andreas Arndt	768	50	-	4,319	640	53	-	3,850
Thomas Köntgen	728	50	-	4,750	572	50	-	3,820
Andreas Schenk	677	44	-	4,287	510	42	-	3,370
Marcus Schulte [4]	-	-	-	-	-	-	-	-
Total	**2,173**	**144**	**-**	**13,356**	**1,722**	**145**	**-**	**11,040**

[1] For details concerning pension commitments to former members of the Management Board and their surviving dependants, please refer to the Notes.
[2] Statements without salary conversion.
[3] The increase in service costs with an unchanged pension commitment results from the change in the actuarial assumptions of the discount rate and the rate of increase in pension obligations.
[4] Marcus Schulte has a defined-contribution pension commitment (no defined-benefit pension commitment). Therefore, no pension obligations are to be recognised.

Pension commitments to Management Board members of pbb[1] in office during the financial year 2020 according to HGB [2]

		2020		2019
in € thousand	Provisions for pensions as at 31.12.2020	Additions to provisions for pensions	Provisions for pensions as at 31.12.2019	Additions to provisions for pensions
Andreas Arndt	3,871	812	3,059	938
Thomas Köntgen	3,497	784	2,713	877
Andreas Schenk	2,948	724	2,224	774
Marcus Schulte [3]	-	-	-	-
Total	**10,316**	**2,320**	**7,996**	**2,589**

[1] For details concerning pension commitments to former members of the Management Board and their surviving dependants, please refer to the Notes.
[2] Statements without salary conversion.
[3] Marcus Schulte has a defined-contribution pension commitment (no defined-benefit pension commitment). Therefore, no pension obligations are to be recognised.

The fair value of the defined contribution pension commitments for Marcus Schulte amounted to €810 thousand as of 31 December 2020, taking the contributions from the years 2017-2019 into account.

Other Provisions

The service contracts entered into with the members of the Management Board do not include any clauses giving rise to severance payments. In the event of that Management Board activities are terminated prematurely without good cause, a cap of two years' remuneration applies to any severance payment agreed for Management Board members in such cases. The two years' remuneration represents twice the sum of the basic annual remuneration for the previous calendar year and the share of the calculatory variable remuneration attributable to the previous calendar year relating exclusively to the institution's performance. In this context, pbb is entitled to determine a higher or lower amount for the share of the calculatory variable remuneration attributable to a given calendar year, if there is sufficient evidence that the Company's performance during the current calendar year will be higher or lower than its performance in the preceding calender year. Furthermore, the severance pay is limited to the extent that it must not exceed the remuneration due for the remaining term of the employment relationship.

To the best of our knowledge, no member of the Management Board received payments from or benefits committed upon by third parties, by reference to the office held as member of the Management Board of pbb during the year under review.

The service contracts entered into with the members of the Management Board do not contain any clauses for severance pay upon a change of control. No compensation agreements, as defined in section 315a (1) no. 9 of the HGB, which provide for compensation in the event of a takeover bid, have been entered into with Management Board members or employees.

SUPERVISORY BOARD

In accordance with section 11 (1) of the Memorandum and Articles of Association, the members of the Supervisory Board receive a basic annual remuneration of €35,000, the Chairman receives a basic annual remuneration of €80,000 and the Deputy Chairman receives a basic annual remuneration of €50,000. Additionally, the annual remuneration for membership in a Supervisory Board committee amounts to €10,000 p.a. for an ordinary Supervisory Board committee member, and by twice this amount for chairmanship of a Supervisory Board committee. The annual remuneration for membership in a Supervisory Board committee with highly time-consuming tasks, i.e. the Audit Committee and the Risk Management and Liquidity Strategy Committee, amounts to €15,000 for ordinary members, and to €30,000 for each of the committee chairs. Remuneration entitlements accrue on a pro rata basis for the period of the appointment in each case.

In addition, members of the Supervisory Board receive a €500 attendance fee for each meeting of the Supervisory Board (or Supervisory Board committee) they attend. This does not apply to conference calls or video conferences.

The members of the Supervisory Board receive their remuneration and attendance fees plus statutory value-added tax. For 2020 and until further notice, these remunerations may be subject to a reclaim. This is due to the fact that the fiscal authorities have not yet clarified how to deal with a recent ruling by the European Court of Justice (ECJ) and the German Federal Fiscal Court (Bundesfinanzhof), according to which the activities of Supervisory Board members are not subject to value-added tax under certain conditions. Furthermore, members of the Supervisory Board are reimbursed for their reasonable expenses.

pbb may take out a Directors & Officers (D&O) liability insurance policy in favour of members of the Supervisory Board, with a maximum annual aggregate cover of €200 million, which covers statutory third-party liability claims that may arise from Supervisory Board work (including work on Supervisory Board committees), as well as any statutory third-party liability claims arising from Supervisory Board members' work on corporate bodies and committees of the Company's subordinated associates.

pbb has entered into a liability insurance policy with an aggregate cover of €175 million, which covers all Supervisory Board members, all Management Board members, as well as certain specific other employees of pbb Group. The Company is convinced that, given its risk profile, the aggregate cover is adequate. pbb shall bear the costs of this insurance.

Remuneration for members of pbb's Supervisory Board in 2020[1)]

						2020	2019
in €	Basic remuneration and remuneration for committee work	Attendance fees	Subtotal	Value-added tax (16%) [4)]	Value-added tax (19%) [4)]	**Total**	**Total**
Dr. Günther Bräunig	135,000.00	12,000.00	147,000.00	22,240.00	1,520.00	170,760.00	174,335.00
Dr. Jutta Dönges	65,000.00	9,000.00	74,000.00	10,880.00	1,140.00	86,020.00	87,465.00
Dr. Thomas Duhnkrack	50,000.00	6,500.00	56,500.00	8,320.00	855.00	65,675.00	64,260.00
Dr. Christian Gebauer-Rochholz [2)]	35,000.00	3,500.00	38,500.00	5,760.00	475.00	44,735.00	45,220.00
Dagmar Kollmann [3)]	115,000.00	14,500.00	129,500.00	-	-	129,500.00	128,500.00
Georg Kordick [2)]	35,000.00	3,500.00	38,500.00	5,760.00	475.00	44,735.00	45,220.00
Joachim Plesser	85,000.00	11,500.00	96,500.00	14,240.00	1,425.00	112,165.00	113,050.00
Oliver Puhl	50,000.00	6,000.00	56,000.00	8,320.00	760.00	65,080.00	65,450.00
Heike Theißing [2)]	45,000.00	6,000.00	51,000.00	7,520.00	760.00	59,280.00	59,500.00
Total	**615,000.00**	**72,500.00**	**687,500.00**	**83,040.00**	**7,410.00**	**777,950.00**	**783,000.00**

1) The table does not specify the cost of the D&O liability insurance policy taken out in favour of Supervisory Board members. pbb has entered into a group insurance policy which, in addition to the Supervisory Board members, also covers the members of the Management Board as well as staff members of pbb and its associates. The total cost of this D&O liability insurance policy amounts to approximately €1.34 million p. a., plus insurance tax. The table does not specify the remuneration of the employee representatives provided under their individual employment contracts.

2) Employee representative.

3) No value-added tax applies, due to the member's domicile abroad. pbb pays tax on behalf of the Supervisory Board member.

4) Due to the reduction of Value-added tax rates (VAT) as of 1 July 2020 VAT is shown separately as 16% and 19% VAT.

EMPLOYEE REMUNERATION

Remuneration Components

In the financial year 2020, total remuneration of senior staff and employees comprised the following elements:

> Non-performance-related (monetary) remuneration, including social insurance and fringe benefits
> Performance-related variable remuneration

Non-performance-related Remuneration

All employees receive an annual fixed salary, which is reviewed – and adjusted if necessary – as part of an annual standard process. pbb Group uses functional and country-specific market comparisons for the determination of fixed salaries. The appropriateness and competitiveness of fixed salaries, and compliance with regulatory requirements, is subject to review by independent external remuneration and legal advisors.

Taking various tax and social security aspects into account, pbb Group offers its employees social insurance and fringe benefits. pbb Group established a series of company pension schemes in order to provide retirement benefits to employees.

Performance-related Variable Remuneration

The key elements of the variable remuneration system are harmonised for Management Board members and employees. This applies to the following elements:
- examination of requirements for determining the total amount of variable remuneration;
- risk-adjusted performance measurement parameters at the level of the institution;
- maximum level of target achievement (150%);
- disbursement structure for risk takers; and
- determination of the variable remuneration component on the basis of an individual calculatory reference value.

Performance Measurement

Employee performance is also measured on three levels: institutional, organisational unit (division) and individual performance. Allocation of variable remuneration is based on the achievement of qualitative and quantitative targets at both divisional and individual level – to the extent possible, reference shall be made to pbb Group's business and risk strategy; target achievement shall be determined for every division and every employee.

The qualitative and quantitative divisional targets are established on an annual basis and derived from the corporate targets and the business plans made for the respective financial year. The establishment of targets commences with the setting of overall corporate strategic priorities by the Management Board, in order to facilitate the management of divisional targets. In particular, qualitative divisional targets are established on this basis. In a second step, quantifiable targets are defined which have to be related to key performance indicators, such as new business volume, new business margins, cost budgets, Furthermore, the targets have to be closely connected with corporate planning for the current – or future – financial year(s). If possible, qualitative targets are to be based on quantifiable indicators as well, and the target level of 100% has to be defined. The link to the corporate business and risk strategy shall be reviewed and documented for every divisional target. This will ensure that the divisional targets were derived from – and synchronised with – the strategic targets according to pbb Group's business and risk planning. The Management Board of pbb adopts the divisional targets, which have to be provided to all employees of the respective division at the beginning of the year.

At the individual level, every employee is provided with an annual target agreement comprising quantitative and qualitative targets for the current financial year. Targets at the individual level shall also be derived from the indicators established at institutional and divisional level. In particular the quantitative and qualitative work targets of employees have to be in line with the business and risk strategy, and shall be designed to support the targets derived from this strategy. The measurement of every target is based on indicators, allowing transparent performance assessments at the end of every financial year. This forms the basis for the allocation of variable remuneration components to individual employees.

Employee performance measurement is based on a pool system which links the three levels of performance measurement. For this purpose, pbb compiles the calculatory reference values of all employees into a bonus pool, the total amount of which is based on institutional performance. The bonus pool is subsequently allocated to the different divisions: 50% is allocated based on divisional performance, and 50% based on institutional performance. Divisional bonus pools are allocated to the employees of the respective division on the basis of their individual performance. The share in the relevant divisional pool is allocated to each respective employee in the form of an calculatory EPR value. In principle, the calculatory EPR value allocated may range between a minimum of 0% and a maximum of 150% of the relevant personal calculatory reference value.

Disbursement Structure

Regarding the disbursement structure, pbb distinguishes between employees who have a material influence on pbb Group's overall risk profile (so-called risk takers), and other employees (so-called non-risk takers). If an employee becomes a risk taker in the course of a year for a period of at least three months, the risk-taker regulations apply to his/her variable remuneration earned during the entire financial year.

For non-risk takers, the EPR value corresponds to the variable remuneration, which is usually granted in cash at the end of the first half of the year subsequent to the financial year for which the variable remuneration is granted.

The requirements to the disbursement of variable remuneration, pursuant to section 20 of the InstVergV, were implemented on a uniform basis for Management Board members and employees. This applies in particular to:
- the deferral portion (60% for Management Board members and second-level managers; 40% for all other risk takers);
- the deferral period (five years for Management Board members and second-level managers; three years for all other risk takers) and the rule governing the (pro rata) vesting of deferrals;
- the requirements for backtesting and malus tests as well as clawbacks; and
- the sustainability component.

Regarding risk takers who are employees, the Company implemented a threshold specific to the institution for annual variable remuneration, applicable as from 2019, from which the deferral for risk takers is increased from 40% to 60% (employees with a particularly high level of variable remuneration, in accordance with section 20 (3) of the InstVergV). For employees in sales functions, the threshold was set at €150,000. The threshold for non-sales employees was set at €100,000, given their usually low variable remuneration. The threshold for pbb's employees in New York is higher than the threshold at other locations due to the overall higher local remuneration level in New York.

However, the separation of variable remuneration into a disbursement and a deferral portion does not apply if the EPR value established for an employee and a specific financial year is below the threshold value established for regulatory purposes. At present, this threshold value amounts to €50,000 per person and year.

For 2020, pbb identified risk takers according to section 18 of the InstVergV, in line with the criteria laid out in Delegated Regulation (EU) 604/2014. These criteria refer in particular to:
- function of senior manager or other form of executive position;
- lending authorities;
- voting rights in important committees; and
- remuneration of the employee.

In total, besides the four members of the Management Board, a further 102 employees (2019: four Management Board members and 103 employees) were identified as risk takers in 2020. The Management Board informed the Supervisory Board concerning the identified risk takers, while details of the internal risk analysis were documented.

Additional Provisions of the Adjusted Remuneration System

Remuneration of Employees in Monitoring Units (section 9 of the InstVergV)
Regarding the remuneration of employees working in monitoring units within the meaning of section 1 (11) of the InstVergV, emphasis is placed upon fixed remuneration. The variable remuneration component of such employees is limited to less than one third of their total remuneration. In order to avoid conflicts of interest, the amount of variable remuneration components for employees working in monitoring units is never based on the same remuneration parameters applicable in the organisational unit to be monitored.

Hedging ban (section 8 of the InstVergV)
The risk adjustment of variable remuneration must not be restricted or neutralised by way of hedging or other countermeasures, such as third-party contracts obliging the third party to make direct or indirect compensation payments to the employee in the event of a reduction of variable remuneration (insurance); this applies mutatis mutandis to derivatives designed to hedge price losses of pbb financial instruments.

pbb Group has taken appropriate measures to prevent hedging or other countermeasures of members of the Management Board and employees in this context. Moreover, the banning of hedging and other countermeasures is contractually regulated in collective wage agreements (applies to employees in Germany) and in individual employment agreements (applies to employees as well as to second-level senior staff, and to employees abroad). Compliance with these agreements is subject to reviews (spot checks).

Review of, and Adjustments to, the Remuneration Systems (section 12 of the InstVergV)
In the case of any change to the business and risk strategy, the remuneration strategy and the structure of the remuneration systems will be reviewed and adjusted if necessary. In addition, pbb carries out reviews (and adjustments, if necessary) of its remuneration system and the respective parameters to ensure appropriateness at least once a year, with a particular view to their compatibility with Group strategies.

GOVERNANCE OF REMUNERATION SYSTEMS

pbb established a two-tier organisational and management structure in line with the AktG: it comprises the Supervisory Board as an independent supervisory body, and the Management Board, responsible for the management of the Bank. The Supervisory Board monitors, determines, and is responsible for the remuneration of the Management Board members, while the Management Board monitors, determines, and is responsible for the remuneration systems pertaining to senior staff and other employees of the pbb Group; in addition, the Management Board ratifies the amount and allocation of the remuneration granted. In accordance with section 111 (4) of the AktG, the Supervisory Board has introduced a requirement that the remuneration system for employees requires Supervisory Board approval.

In line with the regulatory requirements as set by the KWG and the IVV, pbb's remuneration governance comprises the Remuneration Committee established by the Supervisory Board, and the Remuneration Officer appointed by the Management Board.

The Remuneration Committee supports the Supervisory Board in ensuring that the remuneration systems for the members of the Management Board have an appropriate structure, and prepares Supervisory Board resolutions on the remuneration of Management Board members. This includes in particular the preparation of Supervisory Board resolutions regarding the determination of the total amount available for variable remuneration as well as the determination of appropriate remuneration parameters, performance contributions, performance and retention periods, the conditions for partial or full reduction, or clawback, of variable remuneration. In addition, the Remuneration Committee supports the Supervisory Board with a regular – at least annual – review considering the appropriateness of the regulations of the remuneration system established by the Supervisory Board.

Furthermore, the Remuneration Committee monitors the appropriate structure of the remuneration systems for employees, and in particular for the heads of Risk Controlling and Compliance, and for risk takers. In this context, the Remuneration Committee assesses the effects of the remuneration systems on the Group's risk, capital, and liquidity management.

In addition, the Remuneration Committee supports the Supervisory Board in monitoring the proper inclusion of internal control instances and any other relevant areas in the structuring of remuneration systems. As part of its duties, the Remuneration Committee assesses the impact of remuneration systems on the Bank's risk, capital and liquidity situation; it also ensures that remuneration systems are in line with (i) the Bank's business strategy (which is geared towards the Bank's sustainable development) and the risk strategies derived from such strategy, as well as (ii) the remuneration strategies at institutional and Group level.

The Remuneration Committee consists of the Supervisory Board's Chairman and Deputy Chairperson, as well as one shareholder and one employee representative. The Remuneration Committee convened five times during 2020.

pbb appointed a Remuneration Officer and a deputy in order to ensure appropriate, sustained and effective monitoring of employee remuneration. The Remuneration Officer is responsible for the constant monitoring of the appropriateness of pbb's remuneration systems for employees. Therefore, the Remuneration Officer is involved with the ongoing processes regarding remuneration systems, both in terms of the conceptual and further redevelopment of such systems, as well as with regard to their current implementation. An institution-al reporting channel was established for the Remuneration Officer to report directly – i.e. excluding involvement of the Management Board – to the chair of the Remuneration Committee. At least once per year, the Remuneration Officer produces a remuneration report containing an assessment of the appropriateness of the remuneration systems for employees (section 24 of the InstVergV).

Report on Expected Developments

MACROECONOMIC FORECAST

Future economic development remains uncertain and depends heavily on factors including how the pandemic evolves. Macroeconomic conditions are expected to improve in Europe in 2021 compared with the previous year's situation brought about by the COVID-19 crisis. First-quarter figures are likely to remain weak (sources: ECB, IMF). Sharp increases in the number of new COVID-19 infections since the autumn have forced governments in many countries to extend and tighten measures to contain the pandemic (source: ECB), hampering economic activity. However, the approval of several vaccines against COVID-19 and the launch of the vaccination campaign at the end of 2020 should enable pandemic-related restrictions to be lifted gradually over the course of this year (source: ECB). How quickly things return to normal will depend on how soon countries will succeed in vaccinating a large proportion of the adult population. The EU Commission has called on member states to aim for a vaccination rate of at least 70% by the summer (source: European Commission (EU COM)).

The main risks identified include production bottlenecks, unexpected side effects and reduced vaccine effectiveness due to mutations of the virus (source: IMF). Another possibility is that a substantial part of the population will not get immunised due to vaccine scepticism (source: IMF). All of this could lead to pandemic-related constraints remaining in place for longer than expected.

A successful vaccination campaign, combined with substantial support from fiscal and monetary policy, should allow the economy to recover during the course of 2021 (source: ECB). Funds available through the EU budget (under the "Next Generation EU" programme) are expected to lead to a strong increase in public investment in the European Union and contribute to growth this year and in the years to come (source: EU COM). At the same time, EU fiscal rules, which could stand in the way of an expansionary fiscal policy in the member states, remain suspended for the time being (source: EU COM).

For the duration of the crisis, the European Central Bank (ECB) will use the means at its disposal to ensure favourable financing conditions for all consumers, firms and sovereigns (source: ECB). Gross domestic product is not expected to return to pre-pandemic levels until mid-2022 (source: ECB).

Inflation is expected to rise slightly in the euro area in the current year. The ECB's forecasts see inflation rising from 0.2% in the previous year to 1.0% in 2021 (source: ECB). This prediction is supported by base effects in the oil price, which fell sharply in 2020, and the temporary reduction in the German VAT rate, which ended at the end of 2020. However, the European Central Bank's projection for 2023 is for inflation to rise to only 1.4%, still well short of its current target of close to, but below 2% (source: ECB). The ECB is currently reviewing its monetary policy strategy and is expected to present the results of its review, the first since 2003, in the second half of 2021 (source: ECB). In the past, the ECB has emphasised its commitment to symmetry in its inflation target (source: ECB). Therefore, regardless of the outcome of the monetary policy strategy review, the muted inflation outlook suggests that the ECB will stick to its very expansionary policy in the longer term.

In light of this, gross domestic product (GDP) in the euro area is expected to grow by 3.9% in 2021 (source: ECB). The EU as a whole is expected to grow at a comparable rate of 4.1% (source: EU COM), while GDP for Germany and France is forecast to rebound by 3.0% and 5.0%, respectively (sources: Deutsche Bundesbank, Banque de France). However, the pace of recovery in the individual member states is likely to vary, not least because of the differing levels of importance attached to the tourism and services sectors, which were hit hard by the pandemic (source: EU COM).

Britain, now no longer part of the EU, faces a challenging year: not only has the country been hit comparatively hard by the pandemic, it is also suffering from the after-effects of Brexit in the form of newly imposed trade barriers (source: IMF). Despite this, GDP is expected to bounce back by 7.3% on the back of the comparatively strong slump in 2020 (source: Bank of England).

Sweden's decline in GDP in the previous year was comparatively small, so its growth rebound in 2021 is expected to be moderate. The European Commission expects an increase of 3.3%, after a drop of almost the same amount (3.4%) in 2020. In Eastern Europe, GDP in Hungary is expected to grow by 4.0%, Poland by 3.3% and the Czech Republic by 3.1% (source: EU COM).

For the US, growth of 4.2% is anticipated for 2021, supported by very loose monetary and fiscal policy (source: US Federal Reserve – Fed). The unemployment rate should therefore start to recover and come down to 5.0% by the end of 2021, while inflation is set to rise to 1.80% from 1.40% the previous year (source: Fed). The Fed wants to stick to its policy until the economy reaches the goal of maximum employment, and inflation has moderately exceeded the 2% target for some time. Therefore, monetary policy is not expected to be tightened in 2021 (source: Fed). US Congress is currently debating another fiscal stimulus package, worth up to US$1.9 trillion, giving additional impetus to the US economy (source: Bloomberg).

Also, beyond the EU and the US, growth in developed countries will benefit from the gradual removal of pandemic-related restrictions and from the extraordinary support provided by fiscal and monetary policy (source: EU COM). However, economic recovery in emerging economies is likely to be delayed further, due to both the initial shortage of vaccines and more limited economic stimulus (source: EU COM).

Risks in relation to this very uncertain growth outlook are not only those posed by the further course of the pandemic and the vaccination campaign, but also the possible long-term economic consequences of COVID-19 (source: IMF). Short-time working or 'furlough' schemes have prevented higher unemployment. Corporate bankruptcies declined considerably despite the deep economic slump the previous year, thanks to government support measures, such as loan guarantees and deferred insolvency filing obligations. If all these schemes and programmes are phased out in 2021, there could be a significant increase in bankruptcies and in the number of unemployed (sources: IMF, ECB). The ECB expects the unemployment rate within the euro area to climb from 8.0% in 2020 to 9.3% this year (source: ECB). Unemployment is also expected to continue to rise in Germany and France, from 4.2% to 4.7% and from 8.5% to 10.7%, respectively (sources: Deutsche Bundesbank, Banque de France). The unemployment rate is expected to rise from 6.3% to 6.8% in the United Kingdom this year (source: Bank of England). These developments could in turn burden the banking sector and jeopardise financial stability.

SECTOR-SPECIFIC FORECASTS

Overall Situation in the Banking Sector

So far, extensive fiscal support measures and the temporary suspension of the obligation to file for insolvency, as well as regulatory requirements, have prevented a sharp rise in defaults on loans in Germany (source: Deutsche Bundesbank). However, as aid programmes come to an end, the negative consequences are likely to become more pronounced in light of the severe economic downturn caused by the pandemic (source: Deutsche Bundesbank). The European Central Bank is therefore urging for more caution across banks when accounting for credit risk, and is calling for sufficient provision to be set aside in balance sheets (source: ECB).

This environment will also make it more difficult for banks to compensate for the pressure on margins in their lending and deposits business (source: Deutsche Bundesbank). If insolvencies unfold according to the patterns of past recessions, the Deutsche Bundesbank feels that the banking system will be able to cope with this (source: Deutsche Bundesbank), especially since the economy is expected to pick up considerably at the same time (source: IMF).

Real Estate Finance

Even amid the crisis-induced investor reticence in 2020, markets in Europe and especially Germany remained very attractive, albeit with lower turnover, as they continued to be seen as less risky. The persistently low interest rate environment is another factor supporting this. However, there will be greater differentiation between the various asset classes in the future. Provided the COVID 19 pandemic is successfully contained during 2021, investment volumes are expected to recover by the end of the year. However, they are expected to remain below the levels of 2019, and are not expected to return to pre-COVID levels until 2022. (source: CBRE)

While the implementation of regulatory requirements regarding capital and credit risks will continue to influence the availability of financing from banks and alternative providers of credit, sufficient financing is likely to remain available on the whole for sought-after asset classes such as office, residential and logistics real estate. (source: IREBS)

Public Investment Finance

Financing conditions for public investment should remain favourable in 2021 as a result of the European Central Bank's policy. In its Autumn 2020 Economic Forecast, the European Commission saw the public investment-to-GDP ratio for 2021 rise again slightly compared to 2020, to 3.2% in the euro area. Public investments have been supported by the EU reconstruction fund "Next Generation EU", with a total budget of €750 billion, which will help member states meet their huge investment needs.

Value Portfolio

pbb Group expects developments in 2021 to remain difficult to assess, although the ECB's objective of stable money and financial markets means that it is reasonable to assume that these will continue to be effectively supported by ECB measures (source: ECB).

As in the previous year, Italy will be monitored particularly closely due to its current instability.

Funding Markets

COVID-19 is likely to remain the dominant issue for the capital markets in 2021. Despite all the uncertainties involved, the start of the vaccine programme raises hopes for a gradual return to normality. In addition, the latest ECB decisions, such as the expansion of the emergency purchase programme and the extension of TLTRO III, should have a positive effect on the funding markets and should stabilise spreads. A high level of maturities, together with significantly more favourable ECB funding, suggests further negative net issuance volumes in 2021. Despite this, it is impossible to rule out an increase in volatility in the second half of the year and that spreads will widen, at least temporarily (sources: ECB, Bloomberg).

The markets should also receive support on the macroeconomic side. The election of Joe Biden as President of the USA and the agreement on a trade deal between the UK and the EU should ensure that geopolitical tensions and uncertainties ease.

COMPANY FORECASTS

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

Future Developments in Assets, Financial Position and Earnings

Due to the ongoing COVID-19 pandemic, the forecast for the key performance indicators in 2021 (as defined in the chapter "Internal Management System") is subject to a high degree of uncertainty. In particular, it is impossible to reliably predict the further development of risk provisioning in view of the major macroeconomic and industry-specific uncertainty factors. This is due, among other things, to the unforeseeable duration of the lockdown and its subsequent extension, vaccination progress and new virus strains.

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. In 2021, the REF segment should again contribute the lion's share of pre-tax profit.

pbb Group is targeting a volume of between €7.0 billion and €8.0 billion for new business in Real Estate Finance (including extensions beyond one year) and aims to achieve a slight increase in financing volume in this segment (31 December 2020: €27.0 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.

Opportunities and Risks

Evolution of the COVID-19 pandemic

The COVID-19 pandemic and resulting containment measures have led to a significant macroeconomic recession in pbb Group's relevant core markets in 2020. The extent to which the pandemic continues to evolve will depend, for example, on the effectiveness, availability and use of vaccines and medicines, as well as on the development and containment of mutations of the virus. The success of these measures will influence the extent to which social intervention will be necessary. Examples of such measures include lockdowns with contact restrictions and shutting down the operations of certain sectors of the economy, such as the retail and hotel sectors. The risk of higher impairments on financial assets such as retail and hotel financings, for example, is the result of negative effects on the economy due to the pandemic. However, if the pandemic were to subside more quickly than anticipated, risk provisioning will not be necessary to the extent that has been set aside. In addition to this, unexpected developments resulting from the pandemic and its containment measures could have an effect on the fair value of financial instruments in the future. Also, client behaviour with respect to new business or early repayments may depend on how the pandemic evolves (sources: ifo Institute, German Institute for Economic Research, Wirtschaftsdienst (journal for economic policy)).

Politics
Depending on their outcome, economic and geopolitical tensions could lead to distortions in the markets relevant to pbb Group, burdening its dvelopment in assets, financial position and earnings. At the same time, better than expected future developments could positively impact assets, the Bank's financial position, and earnings. Changes in country ratings, for example, could have an effect on provisioning requirements.

Economy
Irrespective of the effects of the COVID-19 pandemic, positive economic development in the euro area, and especially in Germany, is expected to have a favourable impact on development in earnings, as, for example, pbb Group will only have to make moderate provisions when assuming credit risks, and fair values of financial assets could also increase. A slowing economy or indeed a recession could increase the required level of provisions, and lead to lower fair values of financial assets as well as a drop in new business volume, thus also burdening the development in earnings.

National Debt
To combat the COVID-19 pandemic and its economic burdens, many sovereign governments, Federal states and municipalities have taken on significant debt. As a consequence, the ratings of public sector budgets may be downgraded and possibly even become insolvent, which would lead to impairments and payment defaults for pbb Group. (sources: euroactiv, ifo Institute)

Climate Change
Climate change, an increasingly defining issue of our time, can impact the economy in many different ways. For example, it can have a direct impact on real estate in areas prone to flooding. These changes could impact pbb Group's development in assets, financial position and earnings (source: Federal Environmental Agency (Umweltbundesamt – UBA)).

Real Estate Markets
Real estate prices increased considerably in the years leading up to the COVID-19 pandemic. As a result of the COVID-19 pandemic, sub-markets such as hotels or part of the retail sector have been burdened. In other sub-markets, such as offices, changes may result from the trend towards working from home, for example. These effects could intensify over time. In addition, market interventions may have an impact. Overall, these developments could lead to restrictions on new business and the need for value adjustments on existing financing. Other sub-markets, such as logistics, have fared better as a result of the pandemic, potentially benefiting from new business opportunities. (source: Johns Lang Lasalle)

Interest Rates
Should market interest rates in the euro area rise again, investing liquidity reserves and own funds could improve the development in earnings; at the same time, funding costs would increase and earnings from floors agreed upon with clients would decrease. An opposite effect could occur if the low interest rate policy were to persist for the longer term. Moreover, in a low interest rate environment, early loan repayments are to be expected. Whilst this could positively impact the short-term development in earnings – for instance due to early termination fees – in the long term it could burden the development as a result of the lower financing volume.

Competition
Due in part to the persistently low interest rate policy, pbb expects competition in commercial real estate financing to remain intense in 2021. The resulting pressure on margins may in turn weigh on pbb's development in earnings. Conversely, a slowdown in the intensity of competition – for example due to consolidations in the banking industry – would benefit the Bank's development in earnings.

Digitalisation
In view of increasing cost competition in the banking sector – enhanced by so-called FinTech and PropTech companies – and in order to explore new sources of income, pbb Group is increasingly focusing on digital business processes and models. In future, digitalisation may incur risks as well as opportunities for the development in assets, financial position and earnings, depending especially on the success of digital business models and further IT developments.

Regulatory Environment
pbb Group is required to adhere to a wide variety of legal and regulatory requirements and provisions. The further development of provisions may impact the development in assets, financial position and earnings, as well as capital requirements, funding and pbb Group's business activities – positively and negatively. Furthermore, implementing requirements usually incurs costs.

Within the scope of the SREP, a CET1 minimum ratio and an own funds minimum ratio were set for pbb Group. It cannot be ruled out that the ECB defines even higher capital requirements, or even higher capital ratios in future. This could impact pbb Group's development in assets, financial position and earnings.

IT Security
pbb Group attaches great importance to the security of its information systems. The aim is to keep IT systems running smoothly and to prevent unauthorised access to system and data resources. Employees of pbb Group may only access data they require for the tasks assigned to them. Should the risk of loss of confidentiality, integrity and authenticity of data materialise, for example through (cyber) attacks, it can lead to manipulations and/or an uncontrolled outflow of data, a loss of reputation and thus a negative impact on development in earnings.

Human Resources
pbb has further increased its appeal as an employer in recent years. The Bank is in a good position to recruit and retain very well-qualified employees and executives who can play a significant role in achieving the Group's ambitious targets. A range of training and personnel development possibilities, as well as systematic health management, round off the offer. Nevertheless, risks from employee losses and the associated loss of knowledge cannot be fully excluded. In order to continue to successfully win new employees, pbb Group is increasingly focusing on the recruitment and development of young talent and has developed an employer brand for itself, making greater use of modern recruitment channels.

Legal and tax matters
It is possible that legal proceedings yield different results than expected by pbb Group. Thus, an outflow of resources can deviate positively or negatively from the recognised provisions. Risks can also arise from new legal action. Depending on the type of deviation and legal action, this may result in opportunities or risks for the development in earnings. This risk also covers external tax audits by fiscal authorities, which may result in additional taxable income and thus in an increase in tax expenses attributable to previous periods.

Brexit
Since the United Kingdom's Brexit vote, pbb Group has been focusing intensely on this topic. Specifically, pbb Group is continuously analysing the consequences and risks arising as a result of Brexit for pbb Group and its business model and strategy. This involves evaluating the economic development in the UK and its corresponding impact on the real estate markets. A key component of the analysis is whether, and, if so, which new regulatory requirements will have to be met by pbb's branch office in London with the UK supervisory authorities (PRA and FCA), in order to be able to continue operating in the United Kingdom. Following the UK withdrawal from the EU on 31 January 2020 and after the transition period ended on 31 December 2020, the temporary permissions regime (TPR) came into effect, which allows entities such as pbb, which have previously operated on a passporting basis, to continue to do business in the UK for a maximum of three years (subject to HM Treasury's power to extend the duration of the TPR by 12 months at a time) (source: Bank of England). pbb notified the UK

authorities of its participation in the TPR at an early stage. Going forward, pbb will seek authorisation from the FCA to operate in the UK and expects to be invited to submit an application during the TPR period.

Given its current organisational and operational structure, pbb Group sees no immediate need for action with regard to its business model and adjustment of the business structure.

From an economic perspective, Brexit and the COVID-19 crisis have culminated in a period of exceptional uncertainty in the United Kingdom, with a corresponding impact on investment activity and macroeconomic development (source: Bank of England). These factors could partly lead to lower (rental) demand for real estate, to lower market values and thus to a potential deterioration of default probabilities in the existing portfolio. pbb Group therefore continues the reinforced monitoring of its portfolio in the UK.

Though uncertainties remain post-Brexit, pbb Group continues to believe that the British real estate market will remain attractive in the medium term, although it will need to apply a more selective approach to its lending exposures.

pbb believes it is prepared for future eventualities as regards the inclusion of British assets in the cover pool after the transition period. As of 31 December 2020, the preferential right of insolvency for Pfandbrief creditors with respect to UK cover pool assets ceased to exist. This can have a foreseeable negative effect on Pfandbrief cover. In order to prevent this, pbb plans the specific implementation of an agreement for the United Kingdom developed under the leadership of the vdp to secure priority claim on UK-based assets under insolvency law during the first quarter of 2021. The documentation is subject to English Law. Separate documentation will be prepared for both Scottish and Northern Ireland Law, which will also protect cover pool assets held within those jurisdictions.

SUMMARY

pbb Group is well positioned for continued profitability, in an environment that features not only declining margins due to intensified competition, but also growing regulatory requirements. However, due to the enormous macroeconomic and sector-specific uncertainties, mainly caused by the difficulties in predicting the evolution of the COVID-19 pandemic, forecasting risk provisioning is particularly difficult at present. Giving due consideration to the opportunities and risks, pbb Group expects an overall increase in profit before tax for 2021 (2020: €154 million).

Commentary on pbb's Annual Financial Statements under HGB

COURSE OF BUSINESS

In the financial year 2020, pbb achieved profit before taxes of €148 million, as reported in its single-entity financial statements in accordance with the German Commercial Code (Handelsgesetzbuch, HGB), thus falling short of the figure achieved in the previous year (2019: €200 million). Net interest income rose considerably and general and administrative expenses declined year on year, however, this was more than offset by increased risk provisioning as a result of higher specific – and, above all, general – valuation allowances.

New business volume, as well as pbb's financing volumes, are in line with the information provided in pbb Group's Report on the Economic Position.

DEVELOPMENT IN EARNINGS

in € million	2020	2019
Net interest income	523	473
Net fee and commission income	6	6
Net other operating income	-4	-2
Net operating income	**525**	**477**
General and administrative expenses	-221	-227
Personell expenses	-118	-120
Non-personell expenses	-103	-107
Operating results (before loan loss provisions)	**304**	**250**
Risk provisioning	-153	-51
Net income from financial investments	-3	-2
Additions to the fund for general banking risks	-	-
Operating results	**148**	**197**
Extraordinary result	-	3
Profit before tax	**148**	**200**
Taxes	-36	-23
Net income	**112**	**177**

Net Operating Income

Net interest income increased from €473 million in the previous year to €523 million in 2020, benefiting from lower funding expenses due to maturing bearer bonds. Participation in the ECB's TLTRO III from 24 June 2020 also had a positive effect. The termination and novation of derivatives resulted in income of €22 million (2019: expenses in the amount of €4 million).

In contrast, early repayment fees and reversals of fees not yet received declined due to the early de-recognition of financial instruments. Moreover, net interest income was negatively affected by a lower average volume of strategic real estate financings (€26.9 billion; 2019: €27.4 billion) and the decrease in the Value Portfolio, which was in line with the strategy.

As in the previous year, net interest income was negatively affected by negative interest rates with respect to the investment of free liquidity and own funds, but benefited from income arising on floors in client business. In addition, net interest income includes the expense for the AT1 capital in the amount of €17 million (2019: €17 million).

Net fee and commission income from non-accruable fees amounted to €6 million (2019: €6 million).

Net other operating income/expenses (€-4 million; 2019: -2 Mio. €) was primarily burdened by the bank levy (€-23 million; 2019: €-20 million). This expense is primarily offset by income from the reversal of provisions of tax and legal matters.

General and Administrative Expenses
Due to rigorous cost discipline, general and administrative expenses decreased to €221 million year-on-year (2019: €227 million). In particular, non-personnel expenses were also down year on year, due to, amongst other things, lower travel expenses in the year under review as well as due to lower expenses in connection with the deposit guarantee scheme. Personnel expenses also declined due to lower pension expenses.

Risk Provisioning
Risk provisioning, being the balance of allowances and provisions for possible loan losses and the result from securities and promissory note loans of the liquidity reserve, was increased by net additions of €153 million (2019: net additions of €51 million). In terms of the lending business, a net amount of €71 million referred to general valuation allowances recognised to account for potential default risks in the lending business. The additional risk provisioning primarily reflects deterioration in the macroeconomic situation, which can be observed, amongst others, in the development and forecast of gross domestic product and the unemployment rate due to the COVID-19 pandemic. In this context, the lifetime expected credit losses for receivables that have been subject to a significant increase in the credit risk since the loan was originated were taken into account, although the change predominantly resulted from the current economic recession triggered by COVID-19. However, no individual default risks are identified for the vast majority of the financings concerned.

The additions to specific valuation allowances mainly referred to financings of shopping centres in the United Kingdom, which reflect primarily the structural changes in the retail sector.

Net Income from Financial Investments
Net income from financial investments amounted to €-3 million (2019: €-2 million). Write-ups of investment securities were €1 million lower than in the previous year and were also more than offset by loss absorptions for subsidiaries.

Additions to the Fund for General Banking Risks
As in the previous year, no amounts were transferred to or withdrawn from the fund for general banking risks pursuant to section 340g of the HGB.

Extraordinary Result
The extraordinary result was balanced (2019: income in the amount of €3 million). In previous year the extraordinary result benefited from reversal of provisions related to human resources. These reversals were possible primarily due to the fact that employees from the restructured areas changed to other positions in the Group.

Profit Before Tax
In 2020, pbb's profit before taxes amounted to €148 million (2019: €200 million).

Taxes
The tax expense amounted to €36 million (2018: €23 million) and almost exclusively resulted from expenses for taxes on income.

Net Income
Net income for 2020 amounted to €112 million (2019: €177 million).

DEVELOPMENT IN ASSETS

in € million	31.12.2020	31.12.2019
Cash reserve	5,376	1,141
Loans and advances to other banks	2,822	3,005
Loans and advances to customers	37,315	38,642
Bonds and other fixed-income securities	7,673	8,732
Equity shares and other variable-yield securities	2	2
Investments in affiliated companies	14	14
Intangible assets	18	14
Tangible assets	4	5
Sundry assets	162	107
Prepaid expenses	309	329
Total assets	**53,695**	**51,991**

General Development in Assets

As at the reporting date, pbb's total assets stood at €53.7 billion, which is an increase of €1.7 billion compared to 31 December 2019. The reason for the increase was the participation in the ECB's TLTRO III, which resulted in a higher cash reserve. This was partly offset by, amongst other things, repayment of the TLTRO II.

The nominal volume of real estate financings, which are reported as loans and advances to customers, remained stable at €27.0 billion (31 December 2019: €27.1 billion). In contrast, the portfolio volume of public investment financing margins declined. In line with the Bank's strategy, the volume of debt and other fixed-income securities also decreased due to maturities.

DEVELOPMENT IN FINANCIAL POSITION

in € million	31.12.2020	31.12.2019
Liabilities to other banks	10,227	4,631
Liabilities to customers	19,670	21,121
Securitised liabilities	19,150	21,609
Sundry liabilities	25	79
Deferred income	523	511
Provisions	250	287
Subordinated liabilities	687	705
Additional Tier 1 capital instruments	312	312
Fund for general banking risks	47	47
Total liabilities	**50,891**	**49,302**
Equity	2,804	2,689
Total liabilities and equity	**53,695**	**51,991**

Liabilities

Liabilities amounted to €50.9 billion (31 December 2019: €49.3 billion). On the one hand, this was due to higher liabilities to banks due to the participation in the ECB's TLTRO III. On the other hand, liabilities to customers and securitised liabilities were down because of a lower volume of Mortgage Pfandbriefe and Public Sector Pfandbriefe, due to maturities, amongst others. Provisions fell as a result of utilisations and reversals, following elimination of the corresponding obligation.

Additional regulatory capital instruments include Additional Tier 1 (AT1) capital in the total nominal amount of €300 million and a carrying amount of €312 million, including interest accrued. The bond issued by pbb on 12 April 2018 carries an initial coupon of 5.75% p.a. and has no final maturity. There are certain conditions attached to the coupon payments.

Equity

Equity
in € million

	31.12.2020	31.12.2019
Share capital	380	380
Additional paid-in capital	1,639	1,639
Retained earnings	670	549
Unappropriated retained earnings	115	121
Equity	**2,804**	**2,689**

For both of the financial years 2020 and 2019, pbb's share capital amounted to € 380,376,059.67, consisting of 134,475,308 registered ordinary bearer shares in the form of no-par value shares with a notional interest in the share capital of € 2.83 per share. The additional paid-in capital remained unchanged. The retained earnings increased in comparison with the previous year.

Key Regulatory Capital Ratios

According to Art. 7 (3) of the Capital Requirements Regulation ("CRR"), pbb was exempted from the requirements laid out in parts 2 to 5 and 8 of the CRR; for instance, this includes own funds and capital requirements, stipulations on large exposures and exposures to transferred credit risk, as well as disclosure requirements.

Disclosures Pursuant to Section 315a (1) HGB

pbb Group's Supplemental Information according to section 315a (1) of the German Commercial Code (HGB) is equal to pbb's Supplemental Information according to section 289a (1) HGB.

COMPOSITION OF SUBSCIBED CAPITAL (SECTION 315A (1) NO. 1 HGB)

The composition of pbb's subscribed capital is disclosed in the Note "Equity". Each bearer share with no par value entitles the shareholder to one vote at the Annual General Meeting. pbb currently does not hold any nonvoting treasury shares. No shareholder and no shareholder group is entitled to special rights, that confer power to control vis-á-vis pbb.

RESTRICTIONS AFFECTING THE VOTING RIGHTS OR THE TRANSFER OF SHARES (SECTION 315A (1) NO. 2 HGB)

With respect to the exercise and transfer of voting rights of shares only the statutory provisions apply. The voting rights are not limited by size. All shareholders who register for participation in the Annual General Meeting in time and who have demonstrated their right to participate in the Annual General Meeting and to exercise their voting rights may exercise the voting rights subject to a possible loss of rights in accordance with section 44 of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG) or section 59 of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz; WpÜG) attached to all the shares held and registered by them. Where pbb holds treasury shares, section 71b of the German Stock Corporation Act (Aktiengesetz, AktG) prohibits the exercise of rights vested in such shares.

HRE Holding has committed itself to avoid exercise of control over pbb by entering into a control avoidance agreement with pbb. HRE Holding undertakes to exercise voting rights vested to it at the point in time at which the control avoidance agreement enters into effect, and/or at any subsequent point in time at which HRE Holding holds pbb shares, to a maximum of 49% of the present voting capital at the adoption of resolutions regarding the appointment or removal of Supervisory Board members as well as resolutions taken as part of management decisions according to sections 83, 111 (4) sentences 3 to 5, 119 (2) or 179a of the AktG, not to make any proposals for resolution to pbb's Annual General Meeting, in particular for the appointment of Supervisory Board members, and not to vote for candidates for pbb's Supervisory Board which are not independent from HRE Holding, Finanzmarktstabilisierungsfonds-FMS (FMS), FMSA and the Federal Republic of Germany, with the exception of two Supervisory Board members proposed by FMSA to pbb in line with the new framework agreement.

pbb is not aware of any other restrictions affecting voting rights or the transfer of shares.

SHAREHOLDINGS EXCEEDING 10% OF VOTING RIGHTS (SECTION 315A (1) NO. 3 HGB)

According to the knowledge of pbb no shareholder held at least 10% interest in the pbb as of 31 December 2020.

The notifications of voting rights pursuant to sections 33 et seq. of the German Securities Trading Act (Wertpapierhandelsgesetz, WpHG), published by pbb, are available online, inter alia, under "https://www.pfandbriefbank.com/en/investors/mandatory-publications/notifications-according-to-33-et-seq-wphg.html".

SHARES WITH SPECIAL RIGHTS CONFERRING POWERS OF CONTROL (SECTION 315A (1) NO. 4 HGB)

Shares carrying special rights, which would permit the holder to exercise control, do not exist.

TYPE OF CONTROL OF VOTING RIGHTS REGARDING SHARES HELD BY EMPLOYEES WITH THEIR RIGHTS OF CONTROL NOT BEING DIRECTLY EXERCISED (SECTION 315A (1) NO. 5 HGB)

Employees holding pbb shares exercise their rights, like all other shareholders, according to statutory provisions and the Articles of Association.

STATUTORY PROVISIONS, AND PROVISIONS IN THE ARTICLES OF ASSOCIATION REGARDING THE APPOINTMENT AND REMOVAL OF MEMBERS OF THE MANAGEMENT BOARD, AND REGARDING AMENDMENTS TO THE ARTICLES OF ASSOCIATION (SECTION 315A (1) NO. 6 HGB)

In accordance with section 84 of the AktG and section 6 of the Articles of Association, the members of the Management Board are appointed by the Supervisory Board. The number of members of the Management Board is determined by the Supervisory Board. Pursuant to the Articles of Association, the Management Board consists of at least two members. Members of the Management Board are appointed for no more than five years per term. The term of office may be renewed or extended for a maximum of five years in each case. In case of urgency, the Local Court of Munich (Amtsgericht) shall appoint a missing member of the Management Board upon application of a party involved (section 85 of the AktG). The Supervisory Board may revoke an appointment to the Management Board, and also an appointment to the position of Chairman of the Management Board, should there be good cause for doing so.

Evidence that the Management Board members are trustworthy, have the required professional qualifications, and are sufficiently available, must be provided to BaFin, ECB and the German Bundesbank. According to section 45c of the German Banking Act (Kreditwesengesetz, KWG), BaFin may appoint a special representative, and entrust him or her with the performance of activities of individual Management Board members. BaFin may prohibit members of the Management Board from carrying out their activities, or limit the performance of these activities.

Any amendment of the Articles of Association requires a resolution of the Annual General Meeting (section 179 (1) sentence 1 of the AktG), for which generally a simple majority of the votes cast is required according to section 17 of the Articles of Association, provided, however, that no higher majority is required by law or other sections of the Articles of Association. In cases where a majority of the share capital represented during the passing of the relevant resolution is required – under no formal restrictions – due to regulatory requirements, the simple majority of the share capital represented during the passing of the relevant resolution shall be sufficient. According to section 9 (3) of the Articles of Association, the Supervisory Board shall be authorised to amend the Articles of Association, provided that such amendments are restricted to the wording.

AUTHORISATION OF THE MANAGEMENT BOARD TO ISSUE OR REPURCHASE SHARES (SECTION 315A (1) NO. 7 HGB)

Authorised Capital 2020/I
In the period until 27 May 2025 the Management Board is authorised to increase, on one or more occasions, pbb's share capital by up to a maximum total amount of €114,112,817.90 by issuance of new ordinary bearer shares with no par value for contribution in cash, subject to the approval of the Supervisory Board (authorised capital 2020/I). The shareholders' subscription rights may be excluded under certain conditions. The authorised capital 2020/I has not been used yet.

Authorised Capital 2020/II
In the period until 27 May 2025 the Management Board is authorised to increase, on one or more occasions, pbb's share capital by up to a maximum total amount of €38,037,605.96 by issuance of new ordinary bearer shares with no par value for contribution in cash or in kind, subject to the approval of

the Supervisory Board (authorised capital 2020/II). The shareholders' subscription rights may be excluded under certain conditions. The authorised capital 2020/II has not been used yet.

Furthermore, the Management Board shall be authorised, with the consent of the Supervisory Board, to determine further details concerning the rights attached to shares as well as the conditions of share issuances in the context of the capital measures specified in section 4 of the Articles of Association (authorised capitals 2020/I and 2020/II).

Conditional Capital
Currently there is no conditional capital any more, since the resolved authorisation (as well as the authorisation to issue convertible bonds and warrant bonds) from the Annual General Meeting on 10 June 2015 has expired and has not been renewed.

Profit Participation Rights and Hybrid Bonds
The Management Board is authorised to issue bearer or registered profit participation rights and other hybrid financial instruments with or without a limited term on one or more occasions until 27 May 2025. The total nominal amount of the financial instruments to be issued under this authorisation may not exceed €2,000,000,000.00 in total.

Treasury Shares
pbb is authorised to buy, for purposes other than securities trading, its own shares in a total volume of up to 10% of the share capital as of 28 May 2020 or – if such amount is lower – of the share capital at the time this authorisation is exercised. Together with other own shares which are in the Company's possession or attributable to the Company pursuant to sections 71d and 71e of the AktG, the own shares purchased on the basis of this authorisation may not at any time exceed 10% of the Company's share capital. This authorisation to acquire own shares may be exercised directly by pbb, Group entities (section 18 (1) of the AktG) subordinated to pbb, or third parties acting on behalf of pbb or on behalf of Group entities subordinated to pbb. This authorisation may be exercised fully or partially, and – in case of a partial exercise – more than once. This authorisation applies until 27 May 2025. The own shares may, at the discretion of the Management Board, be bought through a stock exchange or by means of a public purchase offer or by means of a public invitation to all shareholders to submit tenders described in more detail in the resolution of the Annual General Meeting of 28 May 2020.

The Management Board is authorised, with the consent of the Supervisory Board, to use any shares purchased on the basis of the authorisation described above for a disposal on the stock exchange or for an offer to all shareholders or to dispose against cash payment provided that the price may not be substantially lower than the stock price of the shares of the Company of the same kind by applying section 186 (3) sentence 4 of the AktG analogously, or to dispose against contribution in kind or to redeem the shares. The shareholders' subscription rights may be excluded as described in more detail in the resolution of the Annual General Meeting of 28 May 2020.

As at 31 December 2020, pbb held no treasury shares.

Material Company Agreements which are Subject to Change of Control Clauses Triggered in the Event of a Takeover Offer (Section 315a (1) No. 8 HGB)

pbb did not enter into material agreements which are subject to change of control clauses triggered in the event of a takeover offer.

Compensation Agreements Entered into with Members of the Management Board or Employees in the Event of a Takeover Offer (Section 315a (1) No. 9 HGB)

There are no compensation agreements within the meaning of Section 315 (4) No. 9 HGB that have been concluded with members of the Management Board or employees in the event of a takeover offer.

Corporate Governance Statement

The chapter "Corporate Governance Report and Corporate Governance Statement" has not been part of the audit carried out by the external auditors.

DECLARATION OF COMPLIANCE WITH THE GERMAN CORPORATE GOVERNANCE CODE, PURSUANT TO SECTION 161 OF THE GERMAN PUBLIC LIMITED COMPANIES ACT (AKTIENGESETZ – "AKTG").

Since 16 July 2015, Deutsche Pfandbriefbank AG ("pbb") shares have been listed on the Frankfurt Stock Exchange. Since that date, pbb has been subject to disclosure requirements pursuant to section 161 of the AktG. All declarations of compliance are available on the company's website: www.pfandbriefbank.com/en/investors/mandatory-publications.html The most recent Declaration of Compliance issued by the Management Board and the Supervisory Board was dated 27 February 2020.

Pursuant to section 161 (1) sentence 1 of the AktG, the Management Board and the Supervisory Board of pbb shall declare, on an annual basis, that the Company has complied with, and continues to comply with, the recommendations of the Government Commission "German Corporate Governance Code", or which recommendations have not been (or are not being) complied with, stating reasons for any non-compliance (the concept of "comply or explain").

Accordingly, the Management Board and the Supervisory Board of pbb declare that pbb complied with the recommendations of the Government Commission "German Corporate Governance Code" (as validly amended on 16 December 2019), and continues to do so with the following exceptions:

Recommendation C.10	The Chairman of the Supervisory Board and Chairman of the Remuneration Committee, Dr Günther Bräunig, was elected as a member of pbb's Supervisory Board following the proposal of the Federal Republic of Germany in 2009, which at that time indirectly held almost 100% of pbb shares. Therefore, as a precaution, Dr Günther Bräunig is not considered independent from the Company, although the Federal Republic of Germany already reduced its indirect shareholding in pbb (held through the Financial Market Stabilisation Fund - FMS) to only 3.5% in 2018.
Recommendations G.1 and G.2	The service contracts entered into with each member of the Management Board comprise a total threshold value of annual remuneration. The total threshold value of annual remuneration comprises the basic annual remuneration, the variable remuneration and fringe benefits up until 31 December 2020. The rationale for section G.1 of the GCGC states that company pension schemes are also to be included in the total threshold value of annual remuneration. As a result, it is intended to adjust the individual threshold values with effect from 1 January 2021 and to include from this point in time onwards the service costs associated with the company pension schemes for defined benefit pension commitments and the annual pension contribution for defined contribution commitments.
Recommendation G.10	Referring to section G.10 of the GCGC, which stipulates that granted long-term variable remuneration components shall be accessible to Management Board members only after a period of four years, pbb hereby deviates from this rule. Portions of the deferred variable remuneration might be accessible before that period. However, the following consideration should be taken into account in this context:

The intention of the rules laid out in the GCGC, i.e. granting variable remuneration over a multiple-year period on a sustainable basis, is considered by applying compulsory performance measurement and disbursement regulations pursuant to the German Regulation on Remuneration in Financial Institutions (Institutsvergütungsverordnung – "InstVergV"), which ultimately go far beyond the GCGC recommendations in terms of granting remuneration on a long-term basis.

Firstly, target achievement at institutional level, which is the dedicating factor for the variable remuneration of Management Board members, depends on the company performance over three consecutive financial years.

Secondly, pbb's disbursement structure provides for the variable remuneration to be divided into a disbursement portion and a deferral portion. The disbursement amount amounts to 40% of the variable remuneration, with the deferral portion amounting to 60%.

50% of the disbursement amount is paid out in cash when the conditions for disbursement have been met. The remaining 50% is disbursed after a retention period of one year, after the amount was adjusted in line with the performance of the pbb share (sustainability component).

The deferral period for the deferral portion is five years. In the five years following establishment of the variable remuneration, the Supervisory Board takes a resolution, every year, regarding the granting of one fifth of the deferral portion as part of an ex-post variable remuneration review (ex-post risk adjustment). The beneficiary may not claim the relevant remuneration component until the end of each deferral period. As soon as the beneficiaries have the right to claim a deferred remuneration component, half of the respective deferral portion is paid out in cash. The remaining half is retained for another year, and is adjusted again in line with the performance of the pbb share (sustainability component).

Effective 1 January 2018, the conditions to apply clawback options for variable remuneration already paid out was contractually agreed upon with all Management Board members.

Furthermore, the recommendation in section G.10 of the GCGC stipulates that the long-term variable remuneration amounts of Management Board members shall be largely invested in company shares by the respective Management Board member, or shall be granted as share-based remuneration. Given that these stipulations no longer exclusively refer to long-term variable remuneration amounts, pbb hereby deviates from the recommendation because only half of the variable remuneration is share-based, which is less than the larger part.

Munich, 26 February 2021

The Management Board The Supervisory Board

CORPORATE-GOVERNANCE-REPORT

pbb is a leading European specialist bank for commercial real estate finance; with an outstanding issuing volume of more than €28 billion, it ranks amongst the largest issuers of Pfandbriefe. pbb has been listed in the Prime Standard segment of the Regulated Market at the Frankfurt Stock Exchange since 16 July 2015. Its shares are included in the SDAX®. pbb holds a General Meeting of shareholders at least once a year, giving all shareholders the opportunity to participate in the development and shape of the Company. As a significant institution, pbb is subject to the direct supervision of the European Central Bank and the Single Resolution Board.

The Bank has summarised the essential rules applicable to pbb Group in a framework on internal governance which is available not only to the Management Board and Supervisory Board, but also to all employees. Among other things, it comprises the composition and workflows of the Supervisory and Management Boards and their committees, the internal control guidelines, the Code of Conduct, and the handling of conflicts of interest.

Recommendations of the German Corporate Governance Code
pbb's current as well as previous Declarations of Compliance with the German Corporate Governance Code (the "Code"), pursuant to section 161 of the AktG, are permanently available on the Company's website: https://www.pfandbriefbank.com/en/investors/mandatory-publications.html.

Description of Management Board and Supervisory Board work processes
The Management Board informs the Supervisory Board, as well as the Supervisory Board committees, regularly and in a timely manner, about pbb Group's financial situation and performance. During meetings, the Supervisory Board receives reports on the risk position, risk management, new business, the liquidity strategy, as well as on significant events which are of material importance to the assessment of the Company's position, development and management.

The CEO maintains continuous contact with the Chairman of the Supervisory Board (or the Chairmen of the respective committees) with regard to important developments. Regular topics of discussion during Supervisory Board meetings additionally include developments in the lending business and the overall credit policy, all lending exposures which must be reported to the Supervisory Board, risk developments, risk management, business policy, as well as market trends and developments regarding the lending business and funding.

Management Board
The Management Board manages pbb's business in its own responsibility, and in accordance with the law, the Articles of Association, and the Internal Rules of Procedure for the Management Board (Geschäftsordnung). Moreover, the members of the Management Board observe the internal Code of Conduct, which applies for all members of staff and is publicly available on the Company's website.

During the year under review, the members of pbb's Management Board were responsible for the following portfolios:

> Andreas Arndt, CEO and CFO
> Thomas Köntgen, Deputy CEO, Real Estate Finance and Public Investment Finance
> Andreas Schenk, CRO
> Marcus Schulte, Treasurer

Members of the Management Board are bound to act in the interests of pbb; they must not pursue personal interests in their decision-making. During their term of office for pbb, they are bound to observe an extensive no-competition clause and are prohibited from exploiting opportunities available to the Company for their own benefit. Management Board members shall disclose conflicts of interest to the Chair of the Supervisory Board and to the Chair of the Management Board without undue delay, and shall inform the other members of the Management Board. No such conflicts of interest occurred during the year under review.

pbb does not grant any loans to Management Board members.

As far as pbb is aware, the members of the Management Board and their closely related parties did not hold any shares in the Company (or any financial instruments based thereon) during the year under review, to an extent that would have been reportable.

Supervisory Board

The Supervisory Board continuously monitors the Management Board, providing it with regular advice on the management of the Company. In accordance with the Memorandum and Articles of Association, the Supervisory Board consists of nine members, six of which are elected by shareholders and three by employees, in accordance with the German Act to Simplify the Election of Employee Representatives to the Supervisory Board (One-Third Employee Participation Act – Drittelbeteiligungsgesetz).

The current terms of office of the shareholder representatives and the employee representatives on the Supervisory Board will end upon the close of the Annual General Meeting in 2021, which resolves on the formal approval for the 2020 financial year. The regular elections of employee representatives to the Supervisory Board are scheduled to take place shortly before the Annual General Meeting in 2021.

The Supervisory Board elected Dr Günther Bräunig as its Chairman, and Dagmar Kollmann as his deputy.

During the financial year 2020, the Company's Supervisory Board comprised:

Name Place of residence Function in Supervisory Board Initial appointment	**Principal occupation** Functions in the Committees of the Supervisory Board	**Supervisory Board memberships and other directorships in 2020**
Dr. Günther Bräunig Frankfurt/Main, Germany Chairman 14.8.2009	**CEO of KfW** Chairman of the Executive and Nomination Committee and of the Remuneration Committee, Member of the Audit and Digitalisation Committee	**Deutsche Post AG, Bonn, Germany** – Member of the Supervisory Board **Deutsche Telekom AG, Bonn, Germany** – Member of the Supervisory Board
Dagmar Kollmann Vienna, Austria Deputy Chairman 14.8.2009	**Entrepreneur** Chairman of the Audit and Digitalisation Committee, Member of the Executive and Nomination Committee and of the Remuneration Committee and of the Risk Management and Liquidity Strategy Committee	**Deutsche Telekom AG, Bonn, Germany** – Member of the Supervisory Board **KfW IPEX-Bank GmbH, Frankfurt/Main, Germany** – Member of the Supervisory Board **Unibail-Rodamco SE, Paris, France** – Member of the Supervisory Board **Coca-Cola European Partners plc, London, UK** – Member of the Supervisory Board
Dr. Jutta Dönges Frankfurt/ Main, Germany Member 21.6.2018	**Executive Board Member of Bundesrepublik Deutschland – Finanzagentur GmbH** Member of the Audit and Digitalisation Committee and of the Risk Management and Liquidity Strategy Committee	**FMS Wertmanagement AöR, Munich, Germany** – Deputy Chairman of the Supervisory Board **Commerzbank AG, Frankfurt/Main, Germany** – Member of the Supervisory Board (from 13.5.2020) **Eurex Clearing AG, Frankfurt/Main, Germany** – Member of the Supervisory Board (until 8.4.2020)
Dr. Thomas Duhnkrack Kronberg/Taunus, Germany Member 21.7.2015	**Entrepreneur** Member of the Audit and Digitalisation Committee	**Hauck & Aufhäuser Privatbankiers AG, Frankfurt/Main, Germany** – Member of the Supervisory Board
Dr. Christian Gebauer-Rochholz Hochheim, Germany Employee Representative 21.11.2012	**Bank employee**	-
Georg Kordick Poing, Germany Employee Representative 22.2.1990	**Bank employee**	-
Joachim Plesser Ratingen, Germany Member 26.8.2014	**Consultant** Chairman of the Risk Management and Liquidity Strategy Committee, Member of the Executive and Nomination Committee and of the Remuneration Committee	**Commerz Real Investmentgesellschaft mbH, Wiesbaden, Germany** – Member of the Supervisory Board (until 29.2.2020) **DIC Beteiligungs AG, Frankfurt/Main, Germany** – Member of the Supervisory Board **Pandion AG, Cologne, Germany** – Chairman of the Supervisory Board
Oliver Puhl Frankfurt/Main, Germany Member 13.5.2016	**Entrepreneur** Member of the Risk Management and Liquidity Strategy Committee	-
Heike Theißing Munich, Germany Employee Representative 7.7.2011	**Bank employee** Member of the Remuneration Committee	-

In accordance with recommendation C1 of the Code, as part of its Rules of Procedure, the Supervisory Board has defined specific goals for its composition and resolved upon a profile of skills and expertise for the entire Board, which are available on the Company's website. In addition to these documents, the Supervisory Board has introduced a catalogue of criteria for new Supervisory Board members, which takes into account company-specific and professional requirements. Furthermore, the Supervisory Board adopted a guideline on the hiring process and suitability check for Management and Supervisory Board members as well as for key personnel (Suitability Policy). This Policy summarises and further specifies the relevant rules, for example regarding the ongoing evaluation of individual and collective suitability. A guideline on fostering diversity in the Management Board and Supervisory Board supplements the Suitability Policy.

As a general rule, more than half of the shareholder representatives on the Supervisory Board shall be independent, in the Supervisory Board's opinion, from the Company, its Management Board and any controlling shareholders. The Supervisory Board should also not include more than two former members of the Management Board. Former Management Board members should not chair the Supervisory Board, or one of its committees. With the exception of Dr Jutta Dönges and Oliver Puhl, all shareholder representatives on the Supervisory Board were appointed at a point in time when pbb was wholly owned by Hypo Real Estate Holding GmbH, and thus indirectly by the German Financial Markets Stabilisation Agency (FMSA) and the Federal Republic of Germany. However, in the Supervisory Board's opinion, and also taking into account the criteria set out in recommendation C.7 of the Code, all of its members are presently considered independent, with the exception of Dr Günther Bräunig. Given the fact that in 2018 the Federal Republic of Germany already reduced its indirect shareholding in pbb (brokered through the Financial Market Stabilisation Fund – "FMS") to just 3.5%, and that, in its opinion, no other circumstances apply which may compromise independence, the Supervisory Board considers Dr Jutta Dönges as an independent Supervisory Board member as well. No former member of the Management Board currently sits on the Supervisory Board.

The Supervisory Board has established four committees in order to perform its supervisory duties in an efficient manner: the Executive and Nomination Committee, the Audit and Digitalisation Committee, the Risk Management and Liquidity Strategy Committee, and the Remuneration Committee.

The committees consist of the following members:

The members of the **Executive and Nomination Committee** are:
Dr Günther Bräunig (Chairman), Dagmar Kollmann and Joachim Plesser

The members of the **Audit and Digitalisation Committee** are:
Dagmar Kollmann (Chairman), Dr Günther Bräunig, Dr Jutta Dönges and Dr Thomas Duhnkrack

The members of the **Risk Management and Liquidity Strategy Committee** are:
Joachim Plesser (Chairman), Dr Jutta Dönges, Dagmar Kollmann and Oliver Puhl

The members of the **Remuneration Committee** are:
Dr Günther Bräunig (Chairman), Dagmar Kollmann, Joachim Plesser and Heike Theißing

The Executive and Nomination Committee concerns itself with strategic and current issues affecting the Group, as well as with matters concerning the Management Board, for which it prepares corresponding proposals for the plenary meeting. It also advises the Supervisory Board, both regularly and when required, regarding issues of Management Board personnel and succession planning, the individual specifications of Management Board contracts, and submits corresponding recommendations to the Supervisory Board. To ensure long-term succession planning for the Management Board, the Executive and Nomination Committee regularly concerns itself, in cooperation with the members of the Management Board, with the further development of the respective skills profiles, and carries out potential analysis of new candidates when required. These activities are based on the internal Suitability Policy described before, and on pbb's Guideline on Fostering Diversity. In addition, the Committee prepares the annual evaluation of the effectiveness of the work of the Management Board as well as the Supervisory Board and its committees. This includes the ongoing evaluation of individual and collective suitability, which forms the basis from which to identify any need for action. Moreover, it deals with the implementation of the under-represented gender quota for pbb's Supervisory Board and Management Board, and makes proposals for the succession of Supervisory Board members to be elected by shareholder representatives.

The Audit and Digitalisation Committee is concerned with all accounting and digitalisation issues, as well as with the audit of pbb and pbb Group. It is responsible for the preparation, and monitors the audit, of the financial statements and consolidated financial statements, the interim reports, as well as the reports submitted by Internal Audit and the external auditors regarding internal and external audit findings. Moreover, the Audit and Digitalisation Committee discusses the impact of current regulatory issues with the Management Board; it concerns itself with the mandate for the external auditors and their audit plan, independence and fees. Furthermore, the Audit Committee submits proposals for the appointment of external auditors to the Supervisory Board, and prepares the Supervisory Board's proposals for the election of external auditors to the Annual General Meeting. The Audit and Digitalisation Committee is also responsible for monitoring the effectiveness of the Internal Control System and of key controls implemented; it receives regular reports on current litigation, Compliance issues, data protection and IT security, notable accounting issues, as well as the audit plan established by Internal Audit and its implementation. In addition, the Audit and Digitalisation Committee also addresses issues relating to digitalisation and advises the Management Board and the Supervisory Board in this regard. It is supported in these activities by the Digital Advisory Board comprising external experts that was set up for the first time in 2020, with which it meets at least twice a year to discuss current developments relating to digitalisation.

The Risk Management and Liquidity Strategy Committee supports the Supervisory Board's supervision of risk management and liquidity management; it concerns itself with the risk strategy, reviews the Management Board's risk reporting, and is involved in the credit approval process to the extent laid down in the Rules of Procedure. The committee also regularly discusses new business developments as well as the liquidity and funding status; it looks at all types of risks associated with the banking business, such as credit, market, liquidity and operational risks, taking the Group's risk-bearing capacity into account. The Committee also concerns itself with the syndication business, foreclosures and development financings, with write-downs of financial assets affected by impaired creditworthiness, the reporting of own funds in accordance with the German Solvency Regulation, country limits, and asset/liability management. In addition, it deals with individual loans requiring approval under the Internal Rules of Procedure for the Management Board, with new business, regular re-submissions and approvals for change applications.

The Remuneration Committee monitors whether remuneration systems for the Management Board and for the Bank's employees are appropriate, and prepares the corresponding Supervisory Board resolutions. Furthermore, it deals with the remuneration report, the agreement of targets for Management Board members, and for examining and identifying staff that have risk-taking functions.

In the year under review, the Supervisory Board assured itself in all cases that the management measures taken by the Management Board were lawful, appropriate, due and proper. The Management Board fulfilled both its duties to provide information and its reporting obligations, and informed the Supervisory Board (and/or its committees) in a regular, timely and comprehensive manner, both in writing and orally, about matters and measures relevant to the Company. This also included information on any deviations between target and actual figures or developments. The members of the Supervisory Board had sufficient opportunity, at all times, to critically assess the reports and proposed resolutions submitted by the Management Board, and to make their own suggestions during Supervisory Board committee meetings and in the plenary sessions.

In particular, the Supervisory Board held in-depth discussions on, and reviewed the plausibility of, all business transactions material to the Company on the basis of written and oral reports provided by the Management Board.

The members of the Supervisory Board generally take responsibility for undertaking any training or professional development measures necessary to fulfil their duties. The Company supports them to the extent required in this regard. Since 2018, regular training for Supervisory Board and Management Board members is also provided ahead of the ordinary Supervisory Board meetings through presentations by external speakers. In the 2020 financial year, this annual training programme included a total of three further training sessions on various topical issues (digitalisation, data protection and cybersecurity, developments on the real estate market).

Due to offices they hold with other parties, particularly credit institutions and real estate investors, some of the Supervisory Board members may conceivably have conflicts of interest which require disclosure to the Supervisory Board, particularly regarding conflicts of interest which may arise due to advice given to, or an office held with clients, suppliers, lenders or other parties. To the extent that Supervisory Board members or their related parties maintain relationships with clients and/or relationships with other credit institutions, the Supervisory Board's Rules of Procedure provide regulations to avoid or mitigate conflicts of interest, such as the disclosure of imminent conflicts of interest, the waiver of voting rights or non-participation in relevant discussions during meetings of the Supervisory Board/the committee concerned.

pbb does not grant any loans to Supervisory Board members.

As far as pbb is aware, the members of the Supervisory Board and their closely related parties did not hold any shares in the Company (or any financial instruments based thereon) during the year under review, to an extent that would have been reportable.

During the financial year under review, the Supervisory Board examined the efficiency of its work in line with the requirements of section 25d (11) of the KWG, drawing on external support for this purpose. This included, amongst other things, the use of questionnaires for the ongoing evaluation of individual and collective suitability of Supervisory Board members. At the Supervisory Board meeting held on 26 February 2021, the results of the Supervisory Board and Management Board evaluations for 2020 were discussed, and recommendations for action were derived. The requirements for the composition of the Supervisory Board regarding competence, age and diversity, as laid out in the profile of skills and expertise, are considered fulfilled overall.

In line with the recommendations of the Code, the Chairman of the Supervisory Board does not chair the Audit and Digitalisation Committee: this position is held by Ms Dagmar Kollmann. Ms Kollmann fulfils the requirements as set in the Supervisory Board's Rules of Procedure according to which the chair of the Audit and Digitalisation Committee must fulfil the requirements established in section 25d (9) sentence 2 of the KWG and recommendation D. 4 of the Code, and shall in particular have expertise in accounting and auditing as well as specific knowledge and experience in applying accounting principles and internal control procedures.

When making proposals in accordance with the Suitability Policy to the Annual General Meeting for the election of new shareholder representatives, the Supervisory Board ensures that the proposed candidates fulfil the professional and personal requirements applicable to the respective position, and coincide with the specific goals for the composition of the Supervisory Board derived from the profile of skills and expertise for the entire Board, taking into account the knowledge of the respective candidate. Furthermore, the Supervisory Board makes sure that the respective candidates are able to provide the time required for the position.

For further details on the work of the Supervisory Board, please refer to the Report of the Supervisory Board, which forms part of this Annual Report.

Other Disclosures Regarding Corporate Governance Standards

Transparency

Information provided by pbb on its website includes all key details regarding the financial statements and consolidated financial statements, the half-yearly report, quarterly reports or statements, the financial calendar and mandatory disclosures such as voting rights and ad-hoc disclosures. Within the framework of Investor Relations activities (such as press and analysts' conferences, as well as roadshows) and via Corporate Communications, the Group provides additional, regular information on the latest corporate developments. The Corporate Governance Statement (including the Declaration of Compliance with the German Corporate Governance Code) is permanently available on pbb's website.

Risk Management

Risk management and risk control are key tasks within the scope of pbb's overall bank management. Through the business and risk strategy, the Management Board sets the framework for pbb's risk appetite and risk-bearing capacity in its business activities. Monthly risk reports to the Management Board provide an extensive analysis of the Bank's overall risk situation: adjustments are made where necessary. The Supervisory Board is informed about the risk situation on a regular basis, at least once a quarter.

Compliance

Compliance means ensuring adherence to legal and other requirements by building an organisation that proactively meets these needs and implementing other measures. At the core of the norms pbb must adhere to the German Banking Act, the German Money Laundering Act, the German Securities Trading Act, the EU Market Abuse Regulation and the regulations and guidelines based on these documents. Numerous internal guidelines and instructions, such as the comprehensive compliance guidelines, as well as guidelines on preventing money laundering (Prevention of Money Laundering and Terrorist Financing) and combating other criminal actions, are binding for all employees. In order to raise awareness among, and provide further training to pbb Group employees, they are required to undergo regular compliance training, e.g. on preventing money laundering and other criminal actions.

Transparent, fair, responsible and honest conduct – with the required degree of expertise, professionalism and integrity in dealings with each other and in relation to clients and business partners, competitors and the public – are deeply rooted in pbb and provide the foundation for pbb's business success. This also requires that the relevant legal, supervisory and internal obligations as well as other relevant laws and regulations are implemented and adhered to. Within pbb, the Group's Code of Conduct set outs the ethical and legal framework. The Code of Conduct serves as the basis for voluntary self-regulation and includes the mandatory requirements that pbb places upon all its employees. In addition, pbb Group published Human Rights Guidelines for the first time in 2020. These supplement the Code of Conduct and define the requirements that the Group expects both itself and its stakeholders to meet when it comes to respecting and safeguarding human rights.

Sustainability

Companies must assume responsibility for their actions in the environment in which they operate. The key principle of pbb Group's corporate responsibility philosophy is that of sustainability. This means long-term, responsible actions that take the consequences for all the company's stakeholders and for the environment into account. pbb Group is convinced that sustainable and responsible business practices are essential when it comes to securing the company's future and increasing its value. The CSR Committee is a vital instrument for embedding sustainability topics in pbb Group. The Management Board appoints the CSR Committee members. The Committee is comprised of the division heads of Communications, Compliance, Corporate Office/Corporate Development, Human Resources, Information Technology and the CSR Officer appointed by the CSR Committee. In 2020, the decision was made to expand the CSR Committee to include members of the Risk Management & Control, Property

Analysis & Valuation and Real Estate Finance departments. These changes will be implemented in 2021. The new composition is designed to take account of the sustainability requirements in pbb's core business, but also in the management of ESG risks. For further details on pbb's sustainability strategy, please refer to the Non-Financial Report which is included in this Annual Report.

Remuneration Report

As part of pbb's Annual Report, the Remuneration Report outlines the structure of remuneration systems for the Supervisory Board, the Management Board, and employees. This includes a description of Supervisory Board remuneration, in accordance with the Memorandum and Articles of Association; remuneration for the Management Board is broken down into monetary remuneration, ancillary benefits, and pension benefits, and is shown individually for each Management Board member. For details on share option programmes or other share-based incentive systems of the Company, please refer to pbb's Remuneration Report. The quantitative remuneration information to be disclosed in compliance with Article 450 of the Capital Requirements Directive ("CRR") in conjunction with section 16 of the German Regulation on Remuneration in Financial Institutions (Institutsvergütungsverordnung – "InstVergV") is constantly available at the company's website, under www.pfandbriefbank.com.

Related Party Transactions

Please refer to the notes of the consolidated financial statements for further information regarding related party transactions. In addition, the Bank has established a procedure for identifying related party transactions pursuant to sections 111a et seq. of the AktG, which must be approved by the Supervisory Board and disclosed if necessary.

Accounting policies

pbb prepares its annual financial statements in accordance with the provisions of the German Commercial Code (Handelsgesetzbuch – "HGB"); its consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted in the European Union. The Management Board prepares the annual and consolidated financial statements. The external auditors submit their report on the audit of the annual financial statements and consolidated financial statements to the Supervisory Board. The Annual General Meeting appointed KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG) as the external auditors of the annual and consolidated financial statements for the 2020 financial year. Having ascertained the independence of the external auditors, the Supervisory Board appointed the external auditors and defined the focal points of the audit. Details regarding the fees paid to the external auditors are provided in the notes to the consolidated financial statements.

KPMG, auditors of the annual and consolidated financial statements elected by the Annual General Meeting, audited the Annual Financial Statements and Consolidated Financial Statements as well as the Combined Management Report of pbb as at 31 December 2020, and issued them with an unqualified audit opinion. KPMG has submitted a declaration of its independence to the Supervisory Board. The Non-Financial Statement, which pbb is required to submit as part of the Management Report pursuant to sections 315b et seq. and 289b et seq. of the HGB, was published in a separate Non-Financial Report included in the present Annual Report. The Non-Financial Statement did not form part of the audit carried out by the external auditors. In the context of its audit obligation as per section 171 (1) of the AktG, however, the Supervisory Board made use of the possibility of a content-related external audit of the Non-Financial Statement according to section 111 (2) sentence 4 of the AktG, carried out by Deloitte GmbH Wirtschaftsprüfungsgesellschaft in the course of a separate appointment.

All Supervisory Board members received the financial statements documents and audit reports in good time. The Audit and Digitalisation Committee addressed the financial statements documents in its meeting on 11 March 2021. The Annual Financial Statements and Consolidated Financial Statements, the Combined Management Report as well as audit reports were discussed in detail with the Management Board and representatives of the external auditors. Following its own review, the Supervisory Board did not raise any objections to the audit results submitted by the external auditors. In the accounts review meeting held on 12 March 2021, it approved the Consolidated Financial Statements prepared by the Management Board, and the Annual Financial Statements were adopted. Details regarding the examinations carried out by the Supervisory Board, and the results of such examinations, are provided in the Report of the Supervisory Board.

Diversity, and disclosures pursuant to section 289f (2) nos. 4 to 6 of the HGB

In its Code of Conduct (which is also published on pbb's website), pbb has committed itself to respect all people, independent of age, sex, race, social background, skills, sexual orientation or religion. The Group welcomes and fosters diversity amongst its staff and management bodies – this includes safeguarding the principle of equal opportunity, whilst rejecting discrimination of any kind. Since 2010, pbb has been a signatory to the Diversity Charter. The Diversity Charter binds its signatories to creating a working environment free of prejudice and exclusion, and to establish an open corporate culture based upon mutual respect and diversity. Diversity with regard to age, sex, educational and professional background as well as national identities is an important requisite for pbb Group's competitiveness and sustainable business success.

The Management Board and Supervisory Board also consider the principle of diversity in the context of their long-term succession planning and in decisions on appointments to the Supervisory Board and the Management Board. pbb especially considers different, complementary profiles, professional and life experiences – also in the international area – as well as an appropriate gender representation in the executive bodies, as factors of diversity in the makeup of the Management Board and Supervisory Board. In its Internal Rules of Procedure, and based on catalogues of criteria concerning personal aptitude and professional skills for new members of the Management Board and Supervisory Board, the Supervisory Board has adopted standards for its composition and the qualification of its members. These standards are supplemented by the skills profile for the Supervisory Board – adopted in 2017 – and by the guidelines on the suitability check for Management and Supervisory Board members as well as on fostering diversity in the Management Board and Supervisory Board – adopted in 2018.

In principle, every candidate must be reliable and sufficiently qualified; he or she must ensure sufficient availability to exercise his or her office. Besides holding the necessary professional skills with regard to management and sector experience, candidates shall be trustworthy and of high integrity. Likewise, the selection of candidates shall take their requisite independence into account. Where several candidates are being considered, the goal of achieving maximum diversity shall also be considered. Moreover, the composition of executive bodies is supposed to reflect pbb Group's international activities as well as the structure of the workforce.

Specific requirements exist with regard to the age and gender of Supervisory Board and Management Board members. For instance, the members of the Management Board should generally not be older than 60 years. With the exception of Andreas Arndt, who has exceeded the age limit of 60 years during the term of his current appointment, all current Management Board members satisfy this requirement. The Supervisory Board consciously accepted this in order to safeguard stability in the composition of the Management Board after pbb's privatisation was completed in 2015, as well as to secure Mr Arndt's long-standing experience for pbb.

As a rule, the members of the Supervisory Board should not be older than 70 years, and the term of office of a Supervisory Board member should generally end upon the close of the ordinary Annual General Meeting following their reaching the age of 70. As a rule, members of the Supervisory Board should not serve for more than three full terms of office (as defined by section 102 (1) of the AktG). In principle, pbb currently complies with these rules, except for one case where the term of office will end later than upon the close of the ordinary Annual General Meeting following the member reaching the age of 70 (Joachim Plesser, whose term of office will end upon the close of the 2021 Annual General Meeting, which will resolve on formal approval for the 2020 financial year).

A key aspect of the diversity concept pursued by pbb is the issue of gender balance: in principle, when appointing executive staff, pbb endeavours to ensure that the under-represented gender is appropriately represented. The Supervisory Board accordingly set the following target levels, most recently in November 2017, which are applicable until 30 June 2022:
> Target female quota for Supervisory Board members: 30%
> Target female quota for Management Board members: 20%

As at 31 December 2020, the quota of women within the Supervisory Board remained unchanged compared to the previous year's reporting date (33.3%). Given that no changes were made to the composition of the Management Board, the female quota remained at 0%. The Supervisory Board remains committed to ensuring that the respective under-represented gender is appropriately represented when filling vacancies on, or expanding, the Management Board, in a targeted manner – given candidates who have the requisite skills and qualifications. Given that the appointments of Thomas Köntgen, Andreas Schenk and Marcus Schulte have been extended with a view to ensuring the necessary personnel stability and continued sustainable development of pbb, no change in the existing situation is expected in the near future.

The Management Board has set target female quotas for the first and second management levels below the Management Board, most recently in October 2017; the Management Board aims to achieve these targets by 30 June 2022:
> Target female quota for the first management level below the Management Board: 15%
> Target female quota for the second management level below the Management Board: 15%

At the first management level below the Management Board, the target quota was achieved once again in 2020 with a 15% share of female employees. As in the two previous years, the proportion of women at the second management level below the Management Board also increased again in the reporting period. As at 31 December 2020, the proportion of women at the second management level is now 13.6%. pbb maintains its intention to raise the number of women in executive positions, and to ensure women are appropriately represented when filling vacancies, in a targeted manner – given candidates who have the requisite skills and qualifications. A higher awareness for this topic, across all levels of hierarchy, together with a corresponding management and corporate culture, also contribute to this objective. Moreover, pbb offers employees attractive working conditions – especially flexible working hours and teleworking opportunities, which help to balance family and working life. Please refer to the Non-Financial Statement for further details.

Consolidated Financial Statements

Income Statement

Income statement

in € million	Note	2020	2019
Net interest income[1]	34	479	458
Net fee and commission income	35	6	6
Net income from financial instruments at fair value through profit or loss (net income from fair value measurement)[2]	36	-8	-7
Net income from derecognition of financial instruments not measured at fair value through profit or loss (net income from realisations)[2]	37	26	48
thereof: from financial assets at amortised cost		24	49
Net income from hedge accounting	38	4	-2
Net other operating income	39	22	3
Net income from allowances for credit losses on financial assets (net income from risk provisioning)[2]	40	-126	-49
General and administrative expenses	41	-204	-202
Expenses from bank levies and similar dues	42	-26	-24
Net income from write-downs and write-ups of non-financial assets	43	-19	-18
Net income from restructuring	44	-	3
Profit before tax		**154**	**216**
Income tax	45	-37	-37
Net income		**117**	**179**
attributable to: Shareholders of pbb		117	179

[1] Interest income of €1,491 million (2019: €1,766 million) in total includes interest income of €1,156 million (2019: €1,282 million) from financial instruments not measured at fair value through profit or loss (IAS 1.82a).
[2] Solely the condensed and parenthesised line item descriptions are used subsequently.

Earnings per share

in €	Note	2020	2019
Basic earnings per share	47	0.74	1.20
Diluted earnings per share	47	0.74	1.20

Statement of Comprehensive Income

Statement of comprehensive income

in € million	2020	2019
Net income	**117**	**179**
Accumulated other comprehensive income	-20	-48
Items that will not be reclassified to profit or loss, net of tax	-3	-26
Gains/losses on pension commitments, before tax	-5	-36
Income tax relating to items that will not be reclassified to profit or loss	2	10
Items that may be reclassified to profit or loss, net of tax	-17	-22
Gains/losses on cash flow hedge accounting, before tax	-6	-16
gains/losses reclassified to profit or loss	-6	-16
Gains/losses on financial assets at fair value through other comprehensive income, before tax	-17	-15
unrealised gains/losses	-17	-15
Income tax relating to items that may be reclassified to profit or loss	6	9
Comprehensive income for the period	**97**	**131**
attributable to: Shareholders	97	131

Statement of Financial Position

Assets

in € million	Note	**31.12.2020**	**31.12.2019**	**1.1.2019**
Cash reserve	9, 48	5,376	1,141	1,388
Financial assets at fair value through profit or loss	10, 49	1,368	1,306	1,659
Positive fair values of stand-alone derivatives		737	717	749
Debt securities		134	130	258
Loans and advances to customers		494	456	649
Shares in investment funds qualified as debt instruments		3	3	3
Financial assets at fair value through other comprehensive income	11, 50	1,529	1,696	1,984
Debt securities		1,384	1,325	1,564
Loans and advances to other banks		-	15	16
Loans and advances to customers		145	356	404
Financial assets at amortised cost after credit loss allowances	12, 51	48,691	50,224	50,341
Financial assets at amortised cost before credit loss allowances		48,935	50,351	50,453
Debt securities		7,481	7,679	8,039
Loans and advances to other banks		1,874	2,356	2,231
Loans and advances to customers		39,580	40,316	40,183
Credit loss allowances on financial assets at amortised cost		-244	-127	-112
Positive fair values of hedge accounting derivatives	13, 52	1,651	2,199	2,207
Valuation adjustment from porfolio hedge accounting (assets)	14, 53	27	19	2
Tangible assets	15, 54	38	45	4
Intangible assets	16, 55	40	39	37
Other assets	17	47	41	35
Current income tax assets	27	19	22	26
Deferred income tax assets	27	95	90	86
Total assets		**58,881**	**56,822**	**57,769**

Liabilities and equity

in € million	Note	**31.12.2020**	**31.12.2019**	**1.1.2019**
Financial liabilities at fair value through profit or loss	18, 57	596	762	881
Negative fair values of stand-alone derivatives		596	762	881
Financial liabilities measured at amortised cost	19, 58	52,570	49,741	50,714
Liabilities to other banks		9,844	4,195	3,867
Liabilities to customers		22,583	23,985	24,901
Bearer bonds		19,457	20,858	21,237
Subordinated liabilities		686	703	709
Negative fair values of hedge accounting derivatives	20, 59	1,920	2,562	2,538
Valuation adjustment from porfolio hedge accounting (liabilities)	21, 60	137	81	23
Provisions	22, 61	246	263	268
Other liabilities	23	62	130	40
Current income tax liabilities	27	34	47	48
Liabilities		**55,565**	**53,586**	**54,512**
Equity attributable to the shareholders of pbb	24, 64	3,018	2,938	2,959
Subscribed capital		380	380	380
Additional paid-in capital		1,637	1,637	1,637
Retained earnings		1,066	966	939
Accumulated other comprehensive income		-65	-45	3
thereof: allowances for credit losses on financial assets at fair value through other comprehensive income		-	-	1
Additional equity instruments (AT1)		298	298	298
Equity		**3,316**	**3,236**	**3,257**
Total equity and liabilities		**58,881**	**56,822**	**57,769**

Statement of Changes in Equity

Statement of changes in equity

in € million	Subscribed capital	Additional paid-in capital	Retained earnings	Pension commitments	Cash flow hedge accounting	Financial assets at fair value through OCI	Additional equity instruments (AT1 capital)	**Equity**
	Equity attributable to the shareholders							
				Accumulated other comprehensive income (OCI) from:				
Balance at 1.1.2019	**380**	**1,637**	**939**	**-73**	**-**	**76**	**298**	**3,257**
Distribution	-	-	-134	-	-	-	-	-134
Payment on AT1 capital	-	-	-18	-	-	-	-	-18
Comprehensive income for the period	-	-	179	-26	-11	-11	-	131
Net income	-	-	179	-	-	-	-	179
OCI for the period, after taxes	-	-	-	-26	-11	-11	-	-48
Balance at 31.12.2019	**380**	**1,637**	**966**	**-99**	**-11**	**65**	**298**	**3,236**
Balance at 1.1.2020	**380**	**1,637**	**966**	**-99**	**-11**	**65**	**298**	**3,236**
Payment on AT1 capital	-	-	-17	-	-	-	-	-17
Comprehensive income for the period	-	-	117	-3	-5	-12	-	97
Net income	-	-	117	-	-	-	-	117
OCI for the period, after taxes	-	-	-	-3	-5	-12	-	-20
Balance at 31.12.2020	**380**	**1,637**	**1,066**	**-102**	**-16**	**53**	**298**	**3,316**

Statement of Cash Flows

Statement of cash flows [1)]

in € million	2020	2019
Net income/loss	**117**	**179**
Write-downs and depreciation on tangible and intangible assets	19	18
Write-downs, provisions for losses on, and write-ups of, financial assets at amortised cost	119	52
Impairment/Revaluation on Financial Instruments measured at Fair Value OCI	-	-1
Result from the disposal of financial securities at amortised cost	-1	1
Result from the disposal of financial securities at fair value through other comprehensive income	-	1
Change in other non-cash positions	-226	255
Other adjustments	-442	-422
Subtotal	**-414**	**83**
Change in assets and liabilities from operating activities after correction of non-cash components		
Increase in assets/decrease in liabilities (-)		
Decrease in assets/increase in liabilities (+)		
Financial instruments at fair value through profit or loss and positive/negative fair values of hedge accounting derivatives	-72	-111
Financial assets at fair value through other comprehensive income	210	33
Financial instruments at amortised cost (without payments in/of subordinated capital)	4,293	-1,185
Other assets from operating activities	-4	-6
Other liabilities from operating activities	-155	-71
Interest income received	1,740	1,992
Interest expense paid	-1,365	-1,597
Taxes on income paid/refund	-46	-19
Cash flow from operating activities	**4,187**	**-881**
Proceeds from the sale of securities	443	868
Payments for the acquisition of securities	-344	-50
Payments for the acquisition of tangible and intangible assets	-13	-19
Cash flow from investing activities	**86**	**799**
Disbursement of dividends	-	-134
Payments in/of subordinated liabilities	-16	-5
Payments from Leasing Liabilities	-5	-8
Payment on AT1 capital	-17	-18
Cash flow from financing activities	**-38**	**-165**
Cash and cash equivalents at the end of the previous period	1,141	1,388
+/- Cash flow from operating activities	4,187	-881
+/- Cash flow from investing activities	86	799
+/- Cash flow from financing activities	-38	-165
Cash and cash equivalents at the end of the period	**5,376**	**1,141**

[1)] Explanations in Note “Notes to the Items in the Consolidated Statement of Cash Flows”.

Notes

1 General Information

Deutsche Pfandbriefbank AG (pbb), with its registered office in Munich, Germany, is a public limited company and a leading provider of commercial real estate finance and public investment finance. The Company is registered in the commercial register of the Munich local court (Amtsgericht München) under registration number HRB 41054; it is the parent company of Deutsche Pfandbriefbank Group (pbb Group). The address of the principal place of business is Parkring 28, 85748 Garching, Germany.

The financial statements are stated in euros, the presentation currency of pbb Group, and principally rounded to millions of Euro (€ million). Information is presented in accordance with the principle of-materiality. Minor differences may occur regarding the figures and totals stated due to rounding. Items under € 500,000.00 are presented as zero respectively zero balances are denoted by a dash.

The Management Board of pbb prepared and authorised for these Consolidated Financial Statements for issue on 2 March 2021.

ACCOUNTING POLICIES

2 Principles

pbb has prepared the present Consolidated Financial Statements for the period ending 31 December 2020 in line with EC ordinance No. 1606/2002 of the European Parliament and Council of 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); they are also based on the regulations of commercial law which are applicable in accordance with Section 315e (1) HGB (German Commercial Code).

The Consolidated Financial Statements are based on IFRS as adopted in European law by the European Commission as part of its endorsement process. 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 ppb 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 consolidated 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 they are not inconsistent with the IFRS.

Initially Adopted IFRS, Interpretations and Amendments in 2020
pbb Group implemented all standards and interpretations which had to be applied mandatorily and which had been endorsed into European law. However, pbb Group has occassionally waived to disclose issues that are not relevant or not material to assure understandibility and information content in the present annual report.

pbb Group initially applied the following new and amended IFRS and published IFRIC in the financial year 2020:
> Amendments to References to the Conceptual Framework in IFRS Standards
> Amendments to IFRS 3 Business Combinations
> Amendments to IAS 1 and IAS 8: Definition of Material

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

Amendments to IFRS 3 Business Combinations The principal reason for the amendments was the difficulties associated with determining whether a business or a group of assets was acquired. The distinction has an effect on subsequent issues, such as the accounting of goodwill. The first-time application had no effects upon pbb Group. In future, the amendments may be relevant depending on potential business combinations.

Amendmants to IAS 1 and IAS 8: Definition of Material The IASB clarified the definition of "material" and aligned different definitions used in the conceptual framework and standards themselves. The first-time application had no material effects upon pbb Group.

Interest Rate Benchmark Reform (Phase 1) – Amendments to IFRS 9, IAS 39 and IFRS 7
The IASB publication Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7 for the assessment of retrospective as well as prospective hedge effectiveness for the reporting period ending on 31 December 2019, was applied on a voluntary basis.

Standards, interpretations and amendments endorsed by the EU but not yet effective
pbb Group does not intend to conduct early adoption of standards, interpretations and amendments that have been endorsed by the EU but are required to be applied only in subsequent financial years. The following standard was endorsed by the EU as at the reporting date, but its application was not yet required:

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 EU endorsement is required to be applied for financial years beginning on or after 1 June 2020. The amendments to IFRS 16 are not relevant to pbb Group, as pbb Group has not made use of rent concessions.

IFRS, Interpretations and Amendments issued but not yet endorsed by the EU
The following standards, interpretations or amendments have not yet been endorsed by the European Union at the balance sheet date:

Name	Publication	Initial application	Expected effects
IFRS 17 Insurance Contracts; including Amendments to IFRS 17	18.3.2017/ 25.6.2020	1.1.2023	IFRS 17 governs the principles applicable to the recognition, measurement, presentation and disclosures of insurance contracts. pbb Group currently does not expect any material effects, since it does not operate as an insurance provider.
Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilties as Current or Non-current – Deferral of Effective Date	23.1.2020/ 15.7.2020	1.1.2023	The amendments to IAS 1 refer to the clarification that, as part of the classification of liabilities as current or non-current, the reporting entity's rights existing as at the reporting date have to be taken into account. The expectation of management as to whether such rights will be actually exercised should not be considered. If an extension right is subject to one or more conditions (e.g. covenants) which are, however, tested/reviewed only at a later date (after the reporting date), the decisive criterion is whether the conditions were met at the reporting date. Moreover, the IASB clarifies that terms and conditions of a loan agreement that – at the option of the creditor – may result in settlement of the liability in the entity's own equity instruments have to be taken into account in the classification, unless there is an equity instrument within the meaning of IAS 32 that has to be accounted for separately. pbb Group does not expect any material changes for the classification and presentation of liabilities in the statement of financial position, as they are already classified in line with their maturities.
Amendments to IFRS 3 Business Combinations, IAS 16 Property, Plant and Equipment und IAS 37 Provisions, Contingent Liabilities and Contingent Assets, Annual Improvements 2018-2020	14.5.2020	1.1.2022	The amendments comprise narrow-scope adjustments to three standards and the IASB's Annual Improvements project. IAS 16 refers to the recognition of proceeds received during the production/construction of an item of property, plant and equipment. The amendments to IAS 37 define the costs that have to be considered in the assessment of whether a contract is onerous. The amendments to IFRS 3 refer to a reference included in IFRS 3 to the Conceptual Framework that does not involve a change in the context of the rules governing the accounting for business combinations. The Annual Improvements project comprises clarifications as regards the wording, minor changes, overviews and conflicts between rules in standards. Overall, these amendments are not expected to have material effects for pbb Group.

Amendment to IFRS 4 (Extension of the Temporary Exemption from Applying IFRS 9)	25.6.2020	15.12.2020	The amendments delay the prescribed expiry of the temporary exemptions from the application of IFRS 9 in IFRS 4 to financial years beginning on or after 1 January 2023. This practical expedient is not relevant for pbb Group as a financial institution. pbb Group has been applying IFRS 9 since 1 January 2018.
Interest Rate Benchmark Reform (Phase 2) - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	27.8.2020	1.1.2021	The objective of this amendment 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, as a result of the application of the amendments, the Group may continue to recognise or designate the existing hedges of interest rate risk – even in case of a replacement of existing reference interest rates. pbb Group is currently analysing the effects of the amendments on the affected contracts, but does not expect any material impact.

Statement of compliance for the German Corporate Governance Code
Company's Management Board and the Supervisory Board published a statement of compliance for the German Corporate Governance Code according to section 161 AktG in this annual report as well as on pbb's website (http://www.pfandbriefbank.com/en/investors/mandatory-publications.html).

Combined Management Report
The combined management report meets the requirements of section 315 (1) and (2) HGB and DRS 20. It comprises fundamental information about the Group, a report on the economic position, a risk and opportunity report, a report on expected developments, commentary on pbb's unconsolidated Annual Financial Statements under HGB and supplemental information. The risk and opportunity report contains information which, under IFRS 7, is required to be disclosed.

3 Consistency

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

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

pbb Group has adjusted the segmentation of income and expenses for the comparable prior-year period, and of equity as at 31 December 2019, in accordance with IFRS 8.29. In 2019, the adjustment led to an increase of €3 million and €2 million in the net interest income of the Real Estate Finance (REF) and Public Investment Finance (PIF) segments, respectively, whereby the net interest income of the Value Portfolio (VP) and the Consolidation & Adjustments (C&A) segments fell by €4 million and €1 million, respectively. Equity (excluding accumulated other comprehensive income from cash flow hedge accounting and from financial assets measured at fair value through other comprehensive income, as well as excluding AT1 capital) changed as follows as at 31 December 2019 due to the re-segmentation: The allocated capital in REF rose by €0.2 billion and by €0.1 billion in PIF, while falling by €0.2 billion in VP and by €0.1 billion in C&A.

4 Consolidation

	Fully consolidated subsidiaries		Associated entities and other investments		
Number of subsidiaries/ entities[1]	Total	Thereof: special purpose entities	Associated entities	Other investments	**Total**
1.1.2019	**4**	**-**	**2**	**1**	**7**
Additions	-	-	-	-	**-**
Disposals	-	-	-1	-	**-1**
Mergers/accruals	-	-	-	-	**-**
31.12.2019	**4**	**-**	**1**	**1**	**6**
1.1.2020	**4**	**-**	**1**	**1**	**6**
Additions	-	-	-	-	**-**
Disposals	-	-	-	-	**-**
31.12.2020	**4**	**-**	**1**	**1**	**6**

[1] pbb, subsidiaries, associated companies and other investments.

A subsidiary is an entity that is controlled by another entity. Control is deemed to exist if pbb has decision-making powers to manage relevant activities, has a right to significant returns from the subsidiary, and can use its decision-making powers to influence the amount of significant variable returns.

Structured entities are entities in which voting rights or similar rights are not the dominant factors in determining control, such as if the voting rights relate merely to administrative duties and the relevant activities are governed by contractual agreements. As for subsidiaries, structured entities must be consolidated if the structured entity is controlled.

There have not been any changes in the group of consolidated companies of pbb Group in 2020.

Uniform Consolidated Accounting
The unconsolidated financial statements of the consolidated companies are incorporated in the consolidated financial statements of pbb using uniform accounting and measurement principles. Assets, liabilities, income, expenses and cash flows of the parent company and all of its subsidiaries are shown as if it is one single entity. Business relations within the group of consolidated companies are offset against each other for consolidation purposes.

Business relationships within the scope of consolidation are offset and interim results from intra-group transactions are eliminated.

5 Disclosures of Interests in Subsidiaries

These Consolidated Financial Statements include a list of shareholdings in the Note "Holdings of pbb" containing subsidiaries and other shareholdings. The financial year for all fully-consolidated companies is the calendar year. pbb Group does not have any subsidiaries which are not consolidated as of 31 December 2020 and 31 December 2019.

Significant Restrictions with respect to the Usability of Assets within the Group
Statutory, contractual or regulatory restrictions and protective rights of non-controlling interests may limit the Group in its ability to obtain access to the assets and to easily transfer them to respectively from another company or other companies and settle the Group's liabilities. As of the balance sheet date the Group had no significant interests over which it could not exert control in the sense of IFRS. 100% of the voting rights are retained in all the companies controlled by pbb. Consequently, there are no significant restrictions due to third-party protective rights.

6 Disclosures of Interests in Associates

There have not been significant participations in associated companies or joint arrangements retrospectively joint ventures as of 31 December 2020 and 31 December 2019. The particaptions which are immaterial from a pbb Group perspective are not included at equity in the group financial statements, but are accounted for at fair value through profit or loss (FVPL) according to IFRS 9.

7 Financial Instruments

According to IAS 32, a financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Recognition and Derecognition
pbb Group recognises a financial asset or a financial liability in its statement of financial position if a Group company becomes party to the contractual provisions of the financial instrument.

The purchases or sales of financial instruments are recognised on the trading date. Premiums and discounts are recognised in accordance with the accrual concept in the position net interest income. In accordance with the primary derecognition concept of IFRS 9, a financial asset has to be derecognised if all risks and rewards have substantially been transferred. If the main risks and rewards of ownership of the transferred financial asset are neither transferred nor retained, and if control over the transferred asset is retained, the Company has to recognise the asset to the extent of its continuing involvement. There are no transactions within pbb Group which result in partial derecognition due to a continuing involvement.

In case of repos and synthetic securitisations the assets transferred do not qualify for derecognition because derecognition criteria of IFRS 9 are not met.

Collateral with the same counterparty and same conditions (e.g. ISDA master agreement) must be netted. Accordingly, only the net amount is disclosed.

Classification and Measurement of Financial Instruments
A financial asset or a financial liability shall be measured at its fair value at initial recognition plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The amortised costs are the amount at which the financial asset or financial liability is measured at initial recognition minus the principal payments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

Financial instruments at fair value are measured on the basis of stock market prices or other market prices, if existent (Level 1). If a price is not available from an active market, observable market prices from comparable financial instruments are used (Level 2). If prices from comparable financial instruments are not available, valuation models are used that are based on observable market parameters. If these parameters are not observable at the markets, the measurement of the financial assets is based on models with non-market-observable parameters (Level 3). The measurement models used are market standard models. A description of these models and the products is given in the Note "Fair Values of Financial Instruments".

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. If pbb Group determines that the fair value at initial recognition differs from the transaction price the financial instrument will be measured at fair value at initial recognition if that fair value is evidenced by a quoted price in an active market for an identical asset or liability (Level 1) or based on a valuation technique that uses only data from observable markets (Level 2). pbb Group records the difference as a gain or loss in these cases. In all other cases the difference between the fair value and the transaction price (so called day one profit) is deferred. In the financial years 2020 and 2019 there were no material day one profits.

For the purposes of subsequent measurement, financial assets must be divided into the following three categories:
- at fair value through profit or loss (FVPL)
- at fair value through other comprehensive income (FVOCI)
- at amortised cost (AC)

The categorisation of financial assets depends on the entity's business model for managing financial assets (business model criterion) and the contractual cash flow characteristics of the financial asset (contractual cash flow criterion) at initial recognition.

A financial asset shall be measured at amortised cost (AC) if both of the following conditions are met:
> the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and.
> the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

A financial asset shall be measured at fair value through other comprehensive income (FVOCI) if both of the following conditions are met:
> the financial asset is held within a business model whose objective is achieved by both collecting cash flows and selling financial assets; and
> the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

A financial asset shall be measured at fair value through profit or loss (FVPL) unless it is measured at amortised cost or at fair value through other comprehensive income. However, an entity can make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income. pbb Group holds equity instruments of an insignificant amount. These are measured at fair value through profit or loss.

In the first step the financial assets are categorised based on business model criterion. An entity's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. Accordingly, this condition is not an instrument-by-instrument approach to classification and should be determined on a higher level of aggregation. For this purpose, the entity must consider all relevant evidence that is available at the date of assessment. Such relevant evidence includes, but is not limited to:
> how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
> the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed;
> how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or the contractual cash flows collected);
> the expected frequency, value and timing of sales in prior periods, the reasons for those sales and expectations about future sales activities.

Principally, pbb Group aggregates its financial assets for the determination of the business model criterion on the level of segments. However, deals to be syndicated form special portfolios in the segments Real Estate Finance (REF) and Public Investment (PIF). In addition, the Value Portfolio (VP) is divided in a portfolio with the intention to hold and in a portfolio with the intention to hold and sell. Furthermore, Consolidation & Adjustments contain the liquidity portfolio for which an intention to hold and sell exists in addition to portfolios with the intention to hold.

In line with IFRS 9B4.1.3A the business model may be hold to collect contractual cash flows even if the entity sells financial assets in specific situations. Such exceptions can be driven by an increased credit risk of the financial asset which amongst others pbb Group measures by the loan to value of the financing or a change to non-investment grade. Further exceptions are sales of financial assets with a short remaining maturity if the realized proceeds approximate the remaining cash flows. In addition, sales may be consistent with the business model hold to collect contractual cash flows if those sales are more than infrequent (even if significant in value) or insignificant in value either individually or aggregated (even if frequent). Amongst others, pbb Group sets the volume of sold assets in relation to the total volume of the portfolio to which the assets belong for the determination of significance.

pbb Group has to reclassify financial assets if it changes the business model for managing those financial assets. Such changes which are expected to be very infrequent are determined by the senior management as a result of externally or internally significant changes and externally demonstrable changes. Examples may be in the context of business combinations or shut downs of operations. There have not been reclassifications of financial assets in the years 2020 and 2019.

In the second step of the categorisation an entity has to classify a financial asset on the basis of the contractual cash flow characteristics (contractual cash flow criterion). For this, an entity shall assess whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding. The principal is the fair value of the financial asset at initial recognition. Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks (for example, liquidity risk) and costs, as well as a profit margin. When assessing the contractual cash flows pbb Group also considers derivatives embedded in a host contract. For example, if leverage increases the volatility of the contractual cash flows the contractual cash flow criterion will not be fulfilled. Furthermore, for financings of structured entities without the right ofrecourse on specific assets of the borrower or payments from these assets has to be assessed whether pbb Group has primarily a loan risk or an investment risk. If there is primarily an investment risk but not primarily a loan risk the contractual cash flow criterion will not be fulfilled. pbb Group assesses this distinction on the basis of the loan to value at the date of the initial recognition of the financial asset.

An entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the resulting gains and losses on different bases (so called fair value option). pbb Group does not use the fair value option for financial assets.

Non derivative financial liabilities have to be measured at amortised cost, unless they are hold for trading purposes or are designated at fair value through profit or loss. As of 31 December 2020 and 31 December 2019 pbb Group has not issued compound financial instruments with multiple embedded derivatives.

The amount of change in the fair value of financial liabilities designated at fair value through profit or loss (fair value option) that is attributable to changes in credit risk of that liability shall be presented in other comprehensive income and the remaining amount of change in profit or loss. pbb Group does not have non-derivative financial liabilities measured at fair value through profit or loss and does not use the fair value option for financial liabilities. Derivatives have to be measured at fair value through profit or loss unless they are used as hedging instruments in the scope of cash flow hedge accounting.

According to IFRS 9 the non-derivative financial instruments of pbb Group are aggregated, classified and measured as follows:

> Segment Real Estate Finance (REF): Non-derivative financial instruments are principally measured at amortised cost (business model: financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows). The exceptions are:
  > Financial assets or parts of financial assets, for which there is an intention to syndicate (business model: financial asset is neither held within a business model whose objective is to hold financial assets in order to collect contractual cash flows nor within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets). These have to be accounted for at fair value through profit or loss.
  > Financial assets which do not fulfill the contractual cash flow criterion and therefore have to be measured at fair value through profit or loss.

> Segment Public Investment Finance (PIF): Non-derivative financial instruments are principally measured at amortised cost (business model: financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows). Exceptions are: Financial assets or parts of financial assets, for which there is an intention to syndicate (business model: financial asset is neither held within a business model whose objective is to hold financial assets in order to collect contractual cash flows nor within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets). These have to be accounted for at fair value through profit or loss.

> Segment Value Portfolio (VP): Non-derivative financial instruments are principally measured at amortised cost (business model: financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows). Exceptions are:
  > Financial assets or parts of financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. These are measured at fair value through other comprehensive income.
  > Financial assets which do not fulfill the contractual cash flow criterion and therefore have to be measured at fair value through profit or loss.

> Portfolios in Consolidation and Adjustments (C&A): Non-derivative financial instruments are principally measured at amortised cost (business model: financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows). Exceptions are:
  > Financial assets held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. These financial assets of the liquidity portfolio are measured at fair value through other comprehensive income.

The European Market Infrastructure Regulation (EMIR) imposes a clearing obligation for standardised Over-The-Counter (OTC) derivatives. pbb uses Eurex Clearing as central clearing agent for derivatives. For Eurex cleared transactions, pbb applies on-balance sheet netting. On-balance sheet netting is applied for each currency, and comprises the carrying amounts of the derivatives as well as the margins calculated (and collected or credited) by Eurex Clearing. The net book values are disclosed under "positive fair values of hedge accounting derivatives" or "negative fair values of hedge accounting derivatives".

In alignment with the customer the contractual cash flows of a financial instrument in the existing business may be renegotiated or otherwise modified. Such changes made to existing terms of a contractual relationship during the contract term are called modifications. Modifications may be market-driven commercial renegotiations or can be performed to avoid larger credit defaults. It is necessary to check whether the modification is significant or insignificant.

Significant modifications are substantial to the extent that they, in essence, constitute a new financial instrument. The modification can be significant due to qualitative (for example change of counterparty or of currency) or due to quantitative reasons. In case of significant modifications the old financial instrument has to be derecognized and a modified new financial asset has to be recognized as a new asset. In the years 2020 and 2019 no modification was significant that it had to be derecognized and a modified new financial asset had to be recognized as a new asset.

In case of insignificant modifications the agreed amendments to the contractual cash flows have to be discounted and the difference between the present value of the modified contractual payments determined in this way and the carrying amount (present value of the contractual payments before modification) are recognized through profit or loss. In the years 2020 and 2019 the effects in the profit and loss statement from insignificant modifications were not material.

Loans at risk of default are restructured by pbb Group if the borrower's financial position has deteriorated but a positive going-concern forecast for the loan exposure can still be expected. This is carried out by changing the underlying terms and conditions or side agreements by means of a unilateral or mutual declaration of intent. Restructuring agreements should maximise opportunities for pbb Group to realise its outstanding loans or at least minimise the risk of default of the loan exposure. These generally include inter alia standstill agreements, maturity extensions, changed interest payment/repayment terms, interest/repayment reductions or the suspension of contractual agreements (e.g. financial covenants) so that the borrower is again able to meet their payment obligations. The credit risk associated with restructured loans is managed by the Group's Credit Risk Management units. The methods used to measure and manage risk are presented in the section of the Risk and Opportunity Report entitled "Credit Risk". Further information is provided in the Note "Restructured Loans and Advances".

Impairment

The regulations regarding impairments in accordance with IFRS 9 are relevant for assets measured either at "amortised cost" or at "fair value through other comprehensive income" as well as for off-balance sheet obligations, such as loan commitments and financial guarantees. The rules do not have to be applied for equity instruments. An impairment is implied for financial assets measured at fair value through profit or loss at subsequent measurement. For derivatives measured at fair value through profit or loss the maximum risk of default is reflected in the nominal value, whereas for non-derivative financial instruments measured at fair value through profit or loss it is reflected in the book value. IFRS 9 contains a model according to which provisions for credit losses may be created upon initial recognition of the financial asset (or on the date when the Group becomes a contracting party of the loan commitment or financial guarantee) on the basis of credit losses expected at that time. According to IFRS 9 this is an unbiased and probability-weighted amount that is determined by evaluation of a range of possible outcomes and scenarios. IFRS 9 clarifies that this is a probability weighted average and not the most probable amount.

Upon initial recognition, the impairments in lending business are based on expected credit losses within the following twelve months (so-called stage 1). The 12-months expected credit loss is part of the lifetime expected credit losses and corresponds to the expected credit losses from defaults that may occur for the financial instrument within twelve months after balance sheet date. In case of a significant increase in the financial asset's credit risk within the context of subsequent measurement (stage 2) or in case of a credit impairment (stage 3), the impairment has to reflect the lifetime expected credit losses. pbb Group does not apply the simplified approach for loans from lease agreements but also differentiates these into the impairment stage 1 and 2.

The same definition of default is used for IFRS 9 as for regulatory purposes. For this a default is defined if

- it is unlikely that the borrower can fully fulfil its payment obligations, or
- the borrower has material past dues of more than 90 days.

pbb Group determines the expected credit losses on an individual basis.

pbb Group developed check criteria for the allocation to the three impairment stages of IFRS 9 which is very closely linked to the methods and instruments for credit and risk monitoring. In addition, the practice of credit risk management leads to an intensification of supervision with increasing impairment stage. Each financial asset which does not have to be measured at fair value through profit or loss has to be allocated to stage 1 at initial recognition if it is not credit-impaired. A financial asset moves to stage 2 if the credit risk has increased significantly but is not credit-impaired. This is the case if

- as rebuttable presumption there is a past due of more than 30 days; or
- the financial asset is non-investment grade and the multi-year probability of default at balance sheet date exceeds the multi-year probability of default at initial recognition of the financial asset by a factor of at least 2.5.
- any forbearance measures were implemented for a performing financial instrument.

The criterion of 30 days past due can be rebutted for example in the case of so called technical past dues. This can be the case if the borrower transfers the amount owed to a wrong account and corrects this at short notice. Also the forbearance criterion may be rebutted in justified individual cases.

Counterparties of loans and securities which credit has deteriorated compared with the date of initial recognition but which still have an investment grade rating and which do not have a payment past due of more than 30 days are assessed as very low-risk in the allocation to the impairment stages.

pbb Group made the change from Stage 1 to Stage 2 also when the change resulted from the current COVID-19-driven economic recession. If the credit risk of a financial assets with a significantly increased credit risk has not significantly increased any further at balance sheet date compared to the date of initial recognition the financial asset will move back to stage 1.

A financial asset will have to be moved to stage 3 if it is credit-impaired. A deal will be credit-impaired if one or more events that have detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- pbb Group, for economic reasons or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower concessions that pbb Group would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties;
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

For purchased or originated credit-impaired financial assets (POCI) only the cumulative changes in lifetime expected credit losses since initial recognition have to be recognised as a loss allowance at balance sheet date. For such financial assets expected credit losses shall be discounted using the credit-adjusted effective interest rate determined at initial recognition. The credit-adjusted effective interest rate has to be applied to the amortised cost from initial recognition. The recognition of interest income will have to be determined this way for the entire maturity also if the borrower recovers. The interest income is attributed to the POCI-asset, received repayments have to be recognised as repayments. pbb Group did not purchase or originate credit-impaired financial assets as of 31 December 2020 and as of 31 December 2019.

pbb Group principally uses a model-based approach for determining the amount of expected credit losses. Regulatory risk parameters (probability of default/PD, loss given default/LGD) and contract information, for example the contractually agreed cash flows, are used as a basis for determining the amount of credit losses of the stage 1 and stage 2 financial instruments. The exposure size results from the comparison of the contractually agreed cash flows and the expected cash flows. The risk parameters listed above are linked to the exposure size to determine the expected losses. In addition expectations about prepayments (so called prepayment rates), expected prolongations of loans (so called prolongation rates) and expected drawings of undrawn parts of a commitment (so called credit conversion factor/CCF) are considered in the expected cash flows. The risk parameter PD is determined for each borrower with the aid of customer specific rating methods. Several customer specific risk factor for example the debt ratio, return indicators and similar quantitative indicators are input factors of the rating methods. The risk parameter LGD is determined with the aid of specific LGD models in which especially expected recovery ratios from the disposal of collaterals or other parts of the asset, the transaction specific ratio of current collaterals and the book value of the loan as well as the expected time till receipt of payments are material input factors. These PD rating methods and LGD models are also methods which pbb Group uses as an approach for risk assessment and risk controlling.

The regulatory risk parameters are transformed adequately so that the requirements of IFRS 9 are fulfilled. These include the deduction of conservative adjustments which are used for regulatory purposes, the consideration of macro-economic factors for the purpose of the so called point in time transformation and the transition from the regulatory discount rate to the effective interest rate required by IFRS 9. Particularly the transformations ensure that the risk parameters are unbiased. Historic data about rating migration together with forecasts of macro-economic developments (for example the unemployment rate, the economic growth per country and – for real estate financings – the development of collateral market values differentiated by object types and regions) are used for the determination of multi-year probabilities of default. For this information according to the type of customer are used. pbb Group forecasts relevant indicators for example the unemployment rate, market value developments or the economic growth on the basis of internal analyses and externally available data. Possible non-linearity effects are considered in the determination of the expected credit loss. The interest income is calculated by applying the effective interest rate on the financial asset, therefore on the gross book value (book value before risk provision).

In determining point-in-time default probabilities, macroeconomic projections issued, for example, by the ECB or economic research institutions in relation to the unemployment rate and the gross domestic product are used. Only the forecast for the year 2021 is used for transactions included in Stage 1 allowances. The forecasts until the year 2024 are used for transactions of Stage 2 allowances. As from 2025, a model for convergence to the long-term average will be applied. In this respect, pbb Group refrained from smoothing out measurement parameters using long-term observations. In addition, pbb Group did not carry out any management overlays that would have been compatible with the recommendations of the IASB and the European supervisory authorities ESMA, EBA and ECB in March 2020, and that would have led to a reduction in existing loss allowance.

The expected credit losses of impairment stage 3 are determined on the basis of individual cash flows with several probability-weighted scenarios. The amount of risk provision equals the difference between the carrying amount of the asset and the present value of the expected future cash flows. The latter is calculated on the basis of the initial effective interest rate. The expected future cash flows take into account the marketability of collaterals for example charges on the land/mortgages. The interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset.

A financial asset has to be written-off by using the existing booked impairment if a recovery is not feasible based on adequate judgement. This is generally the case if in the process of a realization of the collateral a residual claim remains and if it is foreseeable that no further amounts are expected from the borrower (for example due to insolvency/lack of funds). pbb groups attempts to collect the remaining claim completely or at least partly by enforcement activities for written-off loans in justified exceptions.

Hedge Accounting

As long as regulations on accounting for macro hedges have not yet been adopted, the IASB provides the possibility by an option to apply the former rules pursuant to IAS 39. For hedge accounting pbb Group exercised the accounting option and retains the current regulation of IAS 39. The accounting of hedge relationships is shown in the section “Notes to Derivative Transactions and Hedged Items”.

Disclosure/Notes

IFRS 7 (Financial Instruments: Disclosures and IFRS 13 (Fair Value Measurement) required disclosures according to classes of financial instruments. pbb Group mainly defined the measurement categories according to IFRS 9– sub divided in the products loans and advances and debt securities as well as liabilities to other banks, liabilities to customers, bearer bonds and subordinated liabilities – irrevocable loan commitments, financial guarantees, hedging derivatives and cash reserve as well as claims from finance lease agreements.

Specific disclosures required by IFRS 7 are shown in the risk and opportunity report for example about credit risk, market risk and liquidity risk.

8 Leases

According to IFRS 16, a lease is a contract that conveys the right to use an asset for a period of time in exchange for consideration.

pbb Group as a Lessor
Upon initial recognition of a lease, lessees recognise a lease liability as well as a right-of-use asset. The lease liability is discounted using the present value of future lease payments; simultaneously, lessees recognise a right-of-use asset in the amount of the discounted lease liability. Discounting is based on the interest rate underlying the lease or, if this rate is not readily available, on the incremental borrowing rate of pbb Group. Usually, right-of-use assets are depreciated on a straight-line basis over the projected term of the lease. All payment obligations of the lessee resulting from leases are subsequently measured at amortised cost using the effective interest method. The lease liability is remeasured when the future lease payments are modified due to a change in the index rate, or when pbb Group changes its assessment as regards the exercise of extension or termination options. In case of such a remeasurement of the lease liability, the carrying amount of the right-of-use asset is also adjusted accordingly.

pbb Group discloses right-of-use assets in 'tangible assets', while lease liabilities are disclosed under 'other liabilities'. Depreciation of right-of-use assets is recognised in the note on 'net gains and losses from write-downs and write-ups of non-financial assets'. Interest expenses resulting from lease liabilities are disclosed in 'net interest income'.

pbb Group as a Lessee
As a lessor, pbb Group has entered into finance leases only. Regarding finance leases, substantially all risks and rewards incidental to ownership of the leased asset are transferred to the lessee. The lessor recognises receivables in the amount of the net investment value. Lease payments received are divided into an interest portion, which is recognised through profit or loss, and a principal portion.

pbb Group discloses loans and advances from finance leases under 'loans and advances to customers', which are disclosed within financial assets at amortised cost. Interest income from finance leases is disclosed in 'net interest income'.

9 Cash Reserve

Cash reserve contains balances with central banks which are measured at cost.

10 Financial Assets at Fair Value through Profit or Loss

The financial assets at fair value through profit or loss consist of positive fair values of stand-alone derivatives and the following non-derivative financial assets:
- Loans and advances, debt securities, shares in investment funds and in entities which are not measured at-equity due to their immateriality which do not fulfil the contractual cash flow criterion.
- Parts of financial assets, for which there is an intention to syndicate.

Financial assets of this balance sheet position are measured at fair value. Changes of the fair value within a period affect profit or loss in the line item net income from fair value measurement of the income statement. The payments and amortisation of interests from this position are shown in net interest income.

11 Financial Assets at Fair Value through Other Comprehensive Income

The position financial assets at fair value through other comprehensive income consists of loans and advances as well as securities of the measurement category at fair value through other comprehensive income. These are non-derivative financial assets which fulfil the contractual cash flow criterion of IFRS 9 and which are held within a business model whose objective is achieved by both collecting cash flows and selling financial assets. Parts of the debt securities and loans and advances of the Value Portfolio and Consolidation & Adjustment fulfil these criteria at pbb Group.

Financial assets of this balance sheet position are measured at fair value. Changes of the fair value within a period are shown in accumulated other comprehensive income of equity without affecting profit or loss. The payments and amortisation of interests from these positions are shown in net interest income. Impairments of all three stages according to IFRS 9 are shown in net income from risk provisioning of the income statement and in accumulated other comprehensive income in the statement of financial position. Gains or losses from derecognition of financial assets measured at fair value through other comprehensive income are shown in net income from realisations.

12 Financial Assets at Amortised Cost after Credit Loss Allowances

The position financial assets at amortised cost after credit loss allowances contains loans and advances as well as securities of the measurement category at amortised cost. These are non-derivative financial assets which fulfil the contractual cash flow criterion of IFRS 9 and which are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. Debt securities and loans and advances of the segments Real Estate Finance, Public Investment Finance and parts of the Value Portfolio and of Consolidation & Adjustments fulfil these criteria at pbb Group.

Financial assets of this balance sheet position are measured at amortised cost. Interest income and expenses from this position is shown in net interest income. Impairments of all three stages according to IFRS 9 are shown in net income from risk provisioning of income statement. The assets are shown before and after impairments in the income of financial position. Gains or losses from derecognition of financial assets measured at fair value through other comprehensive income are shown in net income from realisations.

13 Positive Fair Values of Hedge Accounting Derivatives

The position positive fair values of hedge accounting derivatives contains the fair value of derivatives which are subject to hedge accounting and which are positive. As pbb Group does not designate derivatives in cash flow hedge accounting anymore the position only includes derivatives of the micro fair value hedge accounting and of the portfolio hedge of interest rate risks. These derivatives are measured at fair value. Changes of the fair value within a period affect profit or loss and are disclosed in the position net income from hedge accounting in the income statement. The interest payments and amortisations of these positions are shown in net interest income.

14 Valuation Adjustment from Portfolio Hedge Accounting (Assets)

The position valuation adjustment form portfolio hedge accounting (assets) contains the fair values subject to the hedged risks in the hedged cash flows of the portfolios of hedged items on the asset side. In the context of portfolio hedge accounting interest rate risks from loans and advances as well as from liabilities are hedged on a portfolio basis.

15 Tangible Assets

Tangible assets are generally measured at cost of purchase or cost of production. The carrying amounts (except land) are depreciated on a straight-line basis in accordance with the expected useful lives of the assets. In addition, tangible assets are tested at least annually for impairment. If the value of tangible assets has impaired, an impairment loss is recognised in profit or loss. If the reasons for the impairment no longer exist, an amount not exceeding amortised cost or cost of production is reversed through profit or loss. For fixtures in rental buildings calculations are based on the term of the contract, taking into account any extensions options if this term is shorter than the normal useful economic life.

The normal useful economic life amounts to:
> Fixture in rental buildings: 5-15 years
> IT equipment (broad sense): 3-5 years
> Other operating equipment: 3-25 years

Subsequent cost of purchase or costs of conversion are capitalised if an additional economic benefit is generated for the Company. Maintenance expenses of tangible assets are recognised in profit or loss of the financial year in which they arose.

Right-of-use assets from leasing are disclosed in “tangible assets”. The accounting of the right-of-assets is described in the note “leases”.

16 Intangible Assets

Purchased and internally generated software are the main items recognised as intangible assets. Goodwill, brand names and customer relations are not capitalised.

Software is an intangible asset with a finite useful life. Purchased software is measured at the amortised purchase cost. pbb Group capitalises internally generated software if it is probable that future economic benefits is generated for the Group and the expenses can be measured reliably. Expenses eligible for the capitalisation of internally generated software include external, directly attributable costs of materials and services as well as personnel expenses for employees directly associated with the creation of software used by the Company. Software is amortised on a straight-line basis over expected useful lives of three to eight years. In addition, intangible assets with a finite useful life are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired or its useful life has reduced.

17 Other Assets

Other assets mainly comprise the collaterals pledged for the banking levy. The collaterals are accounted for at amortised cost.

18 Financial Liabilities at Fair Value through Profit or Loss

The financial liabilities at fair value through profit or loss contain the negative fair values of stand-alone derivatives. Financial liabilities of this balance sheet position are measured at fair value. Changes of the fair value within a period affect profit or loss in the line item net income from fair value measurement of the income statement. The payments and amortisation of interests from this position are shown in net interest income.

19 Financial Liabilities at Amortised Cost

The position financial liabilities at amortised cost consists of all non-derivative financial liabilities. Financial liabilities of this balance sheet position are measured at amortised cost. Interest income and expenses from this position is shown in net interest income. Gains or losses from derecognition of financial liabilities measured at amortised cost are shown in net income from realisations. Such derecognitions may result from prepayments of borrowers.

Amongst others the position financial liabilities at amortised cost contains subordinated liabilities. In the event of insolvency or liquidation subordinated liabilities may only be repaid after all non-subordinated creditors have been satisfied. For some instruments of subordinated liabilities the holders participate in any net loss or unappropriate retained earnings. In addition, the interest entitlement can be ceased or reduced under specific conditions. For other instruments the interest payment ceases only in case of a net loss respectively unappropriate retained earnings which can be recovered depending on the structuring.

Pursuant to IAS 32 the subordinated capital instruments issued by companies of pbb Group were classified as financial liabilities or equity instruments in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

20 Negative Fair Values of Hedge Accounting Derivatives

The position negative fair values of hedge accounting derivatives contains the fair value of derivatives which are subject to hedge accounting and which are negative. As pbb Group does not designate derivatives in cash flow hedge accounting anymore the position only includes derivatives of the micro fair value hedge accounting and of the portfolio hedge of interest rate risks. These derivatives are measured at fair value. Changes of the fair value within a period affect profit or loss and are disclosed in the position net income from hedge accounting in the income statement. The interest payments and amortisations of these positions are shown in net interest income.

21 Valuation Adjustment from Portfolio Hedge Accounting (Liabilities)

The position valuation adjustment form portfolio hedge accounting (liabilities) contains the fair values subject to the hedged risks in the hedged cash flows of the portfolios of hedged items of the liability side. In the context of portfolio hedge accounting interest rate risks from loans and advances as well as from liabilities are hedged on a portfolio basis.

22 Provisions

A provision is a liability of uncertain timing or amount. A provision shall be recognised when an entity has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. According to IAS 37.15 in rare cases it is not clear whether there is a present obligation. In these cases a past event is deemed to give rise to a present obligation if, taking into account of all available evidence, it is more likely than not that a present obligation exists at the end of the reporting period. In rare cases, for example in a law suit, it may be disputed whether certain events have occurred or whether those events result in a present obligation. In such a case, pbb determines whether a present obligation exists at the end of the reporting period by taking into account all available evidence, including, for example, the opinion of experts.

Under IAS 37.36 et seq., the best estimate is used for measuring provisions for contingent liabilities and contingent losses attributable to pending transactions. Long-term provisions are generally discounted with an interest rate that reflects the current assessments of the time value of money and the risks specific to the liability.

Provisions for commitments and guarantees given are booked on the basis of impairment rules of IFRS 9 and disclosed under provisions.

Provisions for defined benefit plans are calculated on the basis of actuarial reports in accordance with IAS 19. They are measured using the projected unit credit method. The amount of the provision equals the so-called net defined benefit liability which is the difference between the present value of the defined benefit obligation and the fair value of plan assets. pbb has concluded plan assets in the form of a qualifying insurance policy to hedge parts of the risk from the defined benefit obligations. The reinsurance is pledged to the plan beneficiaries.

The determination of the net defined benefit liability is based on demographic and financial actuarial assumptions. A demographic assumption for example is the mortality for which pbb uses guidance tables. For financial actuarial assumptions the discount rate has the greatest effect on the amount of defined benefit liability. The interest rate used for the measurement is determined by reference to market yields at the end of the reporting period on high-quality, fixed-interest corporate bonds.

Net interest on the defined benefit liability is determined by multiplying the defined benefit liability with the discount rate. The determination is done at the beginning of the financial year taking into account any changes in the net defined benefit liability as a result of contribution and benefit payments during the period. Net interest on defined benefit liability are shown together with all other effects on income statement from the defined benefit obligations and the plan assets in the position pension expenses and related employee benefit costs in general and administrative expenses.

Remeasurements of the net defined benefit liability result from actuarial gains and losses and the return on plan assets excluding amounts included in net interest on the net defined benefit liability. Remeasurements of the net defined benefit liability are shown in equity in the position profit/losses from pension obligations. Changes of remeasurements of the net defined benefit liability within a period are shown as a component of the statement of comprehensive income. Actuarial gains and losses result from increases or decreases in the present value of the defined benefit obligation due to changes of actuarial assumptions and experience adjustments. Changes of the discount rate usually have the biggest effect on the actuarial gains and losses.

Along with other German financial institutions, pbb Group is a member of the pension fund BVV Versorgungskasse des Bankgewerbes e. V. ("BVV"). Both pbb Group as an employer and the eligible employees make regular contributions to the BVV pension schemes. BVV insurance tariffs are calculated and designed to provide fixed pension payments, plus profit participations. Every BVV member entity has a subsidiary responsibility for the pension claims of its eligible employees. pbb Group classifies the BVV pension scheme as a defined benefit plan, but discloses it as a defined contribution plan for accounting purposes because the information available is not sufficient to recognise it as a defined benefit plan. pbb Group considers the risk of becoming liable to pension obligations due to its subsidiary responsibility as very remote, and does not recognise any provisions in this respect.

23 Other Liabilities

Accruals are one position in other liabilities. This also includes short-term liabilities to employees, for instance flexitime credits and vacation entitlements. The accrued liabilities are recognised at the amount likely to be utilised. If the obligations listed at this note cannot be quantified precisely on the balance sheet date and if the criteria specified in IAS 37 for recognising provisions are satisfied, these items have to be disclosed as provisions. Leasing liabilities are a further position in Other Liabilities whose accounting is described in the note "leases".

24 Equity

The equity includes the equity attributable to the shareholders and the additional equity instruments (AT1 capital). The equity attributable to the shareholders consists of the subscribed capital, additional paid-in capital, retained earnings, consolidated profit and accumulated other comprehensive income. The accumulated other comprehensive income contains the reserves for remeasurements of defined benefit commitments (gains/losses from pension obligations), for cash flow hedge accounting and for financial assets at fair value through other comprehensive income (FVOCI).

The AT1 capital is classified as equity since there is neither an obligation to repay the capital nor is there an obligation for ongoing debt service. The transaction costs directly attributable to the issue of the AT 1 capital and paid coupons are deducted directly from equity.

25 Share-based Payment

pbb Group has awarded share-based remuneration with cash settlement to board members and specific staff members since the financial year 2016. According to the conditions of the remuneration system the variable compensation is economically affected by the price development of the pbb share in the scope of the sustainability component. The payment structure is split into a payment part and a so called deferral part which is supposed to establish a multi-year basis of assessment and to orientate the variable component of these persons to the long term success of the company. The period of deferment for the deferral part amounts to three respectively five years depending on the agreements. The concept of the share based remuneration system is described in detail in the remuneration report. The extent of the share-based payments is disclosed in the note "related parties disclosures".

26 Currency Translation

Currency translation is carried out in accordance with the regulations of IAS 21. On the balance sheet date, monetary items in a foreign currency are translated into the functional currency. The reporting currency is Euro. Non-monetary items which were stated in a foreign currency using historical cost of purchase are measured using the exchange rate applicable at date of purchase.

Income and expenses attributable to currency translation are generally recognised in profit or loss in net other operating income/expenses.

All entities of the Group have Euro as the functional currency. Therefore, the group of consolidated companies does not include any companies from hyperinflationary countries.

27 Income Taxes

Income taxes are accounted for and measured pursuant to IAS 12 and according to IFRIC 23. Apart from the exceptions defined in the standard, deferred taxes are calculated for all temporary differences between the IFRS values and the tax values as well as for the differences resulting from uniform Group measurement principles and differences from the consolidation (balance sheet method). Deferred tax assets arising from non-utilised losses carried forward, interest assets carried forward and tax credits are recognised if required in accordance with IAS 12.34 et seq.

Deferred taxes are calculated using the national tax rates which are expected at the time the differences are settled, as the concept of deferred taxes is based on the presentation of future tax assets or tax liabilities (liability method). Changes in tax rates have been taken into account.

If it is unlikely that the amounts disclosed in pbb's tax declarations will be realised (uncertain tax positions), tax liabilities are recognised. The liability amount is derived as being the best possible estimate of the expected tax payment (expected amount or most likely amount of tax uncertainty). Tax claims from uncertain tax positions are recognised if they will likely be realised. If pbb identifies any tax loss carryforwards or unused tax credits, pbb recognises appropriate tax liabilities or tax claims; additionally, pbb recognises deferred tax assets in the amount of the unused tax loss carryforwards or tax credits for these uncertain tax positions.

28 Non-current Assets Held for Sale

In accordance with IFRS 5, a non-current asset or disposal group must be classified as held for sale if the related carrying amount is primarily realised by a disposal transaction and not by continued use. To reclassify an asset as held for sale, certain conditions must be met on a cumulative basis. Above all, there must be a specific intention to sell, the asset must be immediately available and the disposal must be highly probable. As at 31 December 2020 and at 31 December 2019 pbb Group did not own any assets held for sale.

29 Judgements and estimations

When preparing the financial statements, pbb Group makes future-related judgements as well as estimations, which may carry a considerable risk of a major change to the disclosed assets and liabilities becoming necessary during the next financial year. The assumptions and parameters underlying the estimates to be made are based on the exercise of appropriate judgement.

Going-Concern
The Consolidated Financial Statements of pbb are based on the judgement of going-concern. The conditions of going-concern are described in the report on expected developments.

Classification of Financial Instruments
For measurement purposes the financial assets have to be classified into the three measurement categories at fair value through profit or loss, at fair value through other comprehensive income and at amortised cost. The classification depends amongst others on the contractual cash flow criterion. The assessment of this criterion is based on judgements which are described in the note “Financial Instruments”. For example, this relates to the judgement of the contractual regulation for the financial assets.

Allowances

pbb shall recognise a loss allowance for expected credit losses on a financial asset that is measured at amortised cost or at fair value through other comprehensive income, a lease receivable or specific loan commitments and financial guarantee contracts. For this reasonable and supportable information, including forward-looking information, have to be taken into account.

Expected credit losses are a probability-weighted estimate of credit losses, i.e. the present value of expected cash shortfalls, over the life of the financial instrument. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that entity is expected to receive. Upon initial recognition, the impairments in lending business are based on expected credit losses for twelve months (so-called stage 1). The 12-month expected credit loss is that part of the lifetime expected credit losses, which is equal to the expected credit losses from defaults that may occur for the financial instrument within twelve months after balance sheet date. In case of a significant increase in the financial asset's credit risk within the context of subsequent measurement (stage 2) or in case of a credit impairment (stage 3), the impairment has to reflect the expected default events over the life of the transaction (lifetime expected credit loss).

The methods and judgements, including forward-looking information, for the determination of a change of an impairment stage and estimation of the amount of impairment are reviewed at least annually.

In accordance with IAS 8.34, an accounting estimate 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. The determination of loss allowances on financial instruments is based on accounting estimates. In 2020, pbb Group made two changes in accounting estimates as regards the measurement of loss allowances for non-credit-impaired financial instruments (Stages 1 and 2).

The basis used for the determination of the loss allowances of Stages 1 and 2 comprises, amongst other things, the regulatory risk parameters PD and LGD. The factors used for determining the risk parameters include experience data with respect to historical losses, as well as average default and loss rates. The database for this was expanded in 2020. The regulatory risk parameters PD and LGD are transformed in a suitable manner to meet the requirements set out in IFRS 9. In this context, the regulatory longer-term assessment over various economic cycles (through-the-cycle) that refers to a particular point in time is transferred into a reporting date-based or exact estimate of the current situation (point-in-time) as required under IFRS 9. In the context of determining point-in-time default probabilities, forecasts as regards the gross domestic product (GDP) have previously been used. Now, the expected change in the unemployment rate, in particular, is used for large parts of the REF business in connection with PD transformation. This change reflects the experience from the analysis of factors affecting losses. The changes in accounting estimates from the expanded database and the transformation in relation to the unemployment rate led to a charge recognised in net income from risk provisioning in the amount of €89 million. Of that amount, €76 million referred to allowances for financial assets, while €13 million was attributable to as yet undisbursed amounts, i.e. off-balance sheet transactions.

pbb Group used a base scenario with a weighting of 85% (31 December 2019: 70%), a positive scenario with a weighting in the consolidated financial statements of 5% (31 December 2019: 12.5%), and a negative scenario with a weighting of 10% (31 December 2019: 17.5%) as the basis for calculating the loss allowances of Stages 1 and 2. The adjustment of the weighting resulted in a reduction of net income from risk provisioning as at 31 December 2020 in the amount of €1 million, attributable to financial assets.

Fair Values of Original and Derivative Financial Instruments

The fair value of financial instruments that are not listed on active markets is measured using valuation models. In such cases, a check is performed regularly to assess whether the valuation models provide a comparable benchmark for current market prices. The valuation models can only take into account quantifiable factors (e.g. cash flows and discount rates) that also require estimates. Changes in estimations of these factors might have an impact on the fair values of the financial instruments.

Hedge Accounting

Relations between hedged items and hedging instruments can be presented in hedge accounting. A relationship only qualifies for hedge accounting when certain conditions specified under IAS 39.88 are satisfied. Amongst others the hedge has to be very efficient with regard to achieving compensation for the risks resulting from changes in the fair value or the cash flow in relation to the hedged risk.

The determination of the effectiveness of the risk hedge depends on risk measuring methods, the parameters which are used and estimations relating to the probability of occurrence. These methods and parameters are continuously developed in line with the risk management objectives and strategies.

Intangible Assets, Tangible Assets including Right-of-Use assets from Leases

pbb Group's accounting for intangible assets and tangible assets including right-of-use assets from leases are subject to estimation uncertainties, particularly in the determination of the useful life of assets respecitively the expected contractual period of the lease and the associated amount of depreciation/amortisation recognised per period.

In accordance with IAS 8.34, an accounting estimate 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 2020, pbb Group changed the estimate of the useful life for some software products that are closely related in terms of technology and function, based on experience. As a consequence, pbb Group now amortises software over a period of three to eight years, instead of three to five years, as previously used. This change in accounting estimate had no impact on pbb Group's assets, financial position and earnings.

Provisions

Estimates are used in the measurement of provisions at pbb Group. Estimation uncertainties arise in particular during assessment of the amount of the future cash outflows, the time horizon and the discount rate.

Income Taxes

pbb Group is subject to a wide range of national tax regulations with regard to the calculation of income taxes. In order to measure the tax expenses, it is necessary to make estimates that are calculated with the existing knowledge as of the balance sheet date and closely related to the tax return prepared in the following financial year. In some countries, the current tax charges attributable to the current financial year can only be definitely finalised after the corresponding tax audit has been completed. The variances with regard to the estimated tax burden may have a positive or negative influence on the tax burden in future financial years.

With regard to the capitalisation of losses carried forward and other tax credits, the extent as well as the actual availability of such tax benefits are subject to estimation. Major losses carried forward are subject to national German tax law, and their availability depends inter alia on the restrictions set out in Sections 10 d EStG, 8 c KStG as well as Section 10 a GewStG restrictions. Deferred tax assets arising from losses carried forward are therefore recognised to the extent as it is likely that future taxable income will be available to offset the non-utilised tax losses carried forward.

Consolidation

Companies and structured entities must be consolidated if pbb has direct or indirect control over them. Control is deemed to exist if pbb has decision-making powers to manage relevant activities, has a right to significant returns from the subsidiary and can use its decision-making powers to influence the amount of the significant variable returns. The level of control is assessed on the basis of contractual and economic relationships to the company or the structured entity. The assessment whether pbb exerts control or substantial influence over the company may result in judgement leeway.

30 Notes to segment reporting by operating segment

Segment reporting for the 2020 financial year was prepared in accordance with IFRS 8 Operating Segments. In line with the Management Approach under IFRS 8, segment reporting discloses segment-specific, management-relevant financial information that is also regularly used by Management Board (Chief Operating Decision Maker) when deciding on the allocation of resources, and for assessing the earnings power of segments. Based on the organisational structure of pbb Group, which is aligned to the various products and services offered, three business segments have been determined in line with internal management reporting.

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

pbb Group has adjusted the segmentation of income and expenses for the comparable prior-year period, and of equity as at 31 December 2019, in accordance with IFRS 8.29. In 2019, the adjustment led to an increase of €3 million and €2 million in the net interest income of the Real Estate Finance (REF) and Public Investment Finance (PIF) segments, respectively, whereby the net interest income of the Value Portfolio (VP) and the Consolidation & Adjustments (C&A) segments fell by €4 million and €1 million, respectively. Equity (excluding accumulated other comprehensive income from cash flow hedge accounting and from financial assets measured at fair value through other comprehensive income, as well as excluding AT1 capital) changed as follows as at 31 December 2019 due to the re-segmentation: The allocated capital in REF rose by €0.2 billion and by €0.1 billion in PIF, while falling by €0.2 billion in VP and by €0.1 billion in C&A.

Within segment reporting, income is determined by deducting matched-maturity funding rates prevailing at the time of concluding a transaction from the interest rate charged to the client. The input parameters required for this purpose are set at the time of originating a new business transaction, within the scope of accounting for individual transactions. In addition, income from investing the Bank’s own funds is included at segment level. The allocation of liquidity costs to the operating segments is based on the transfer price mechanism for the individual transaction.

Further income or expenses that cannot be allocated directly to a specific lending transaction (in particular, the results from disposal of assets held for liquidity management, from market-induced effects on net income from fair value measurement, hedging relationships, and the bank levy) are allocated to the business segments, usually on a pro-rata basis, in line with financing volumes.

The allocation of general and administrative expenses to the operating segments differentiates between expenses which can be directly attributed and those which are not directly attributable. Expenses (of the sales units, for example) which are directly attributable can be clearly assigned to the segments via the cost centre. Expenses (of the central units, for example) which are not directly attributable are assigned to the segments' cost centres via well-defined allocation models. Net income from restructuring is allocated to the segments using the same ratio as the administrative expenses.

Segment risk-weighted assets (RWA) are determined in accordance with the allocation of individual transactions (credit risk, for example) and with the allocated risk types (operational risks, for example). Risk types which are not directly attributable are assigned to the segments in accordance with -defined allocation models.

Real Estate Finance (REF)
The REF operating segment comprises financing for professional real estate investors. These include professional national and international real estate companies, institutional investors, property funds as well as, above all in Germany, customers with a regional focus. Financed properties mainly involve office buildings, properties for residential use, retail and logistics properties as well as (business) hotels.

Public Investment Finance (PIF)
The PIF business segment comprises financing eligible for covered bonds aimed at the provision and improvement of public infrastructure. Customers in this segment include, amongst others, regions, provinces, municipalities, urban development companies, public hospitals, investment or real estate companies. Moreover, the Group is active in long-term publicly guaranteed export financings hedged by public export-credit insurers. Bond purchases, above all for cover assets pool and liquidity management, are also part of this segment.

Value Portfolio (VP)
The Value Portfolio (VP) operating segment comprises non-strategic portfolios and activities of pbb Group. The VP consists almost entirely of existing financings to the public sector which are not linked to specific projects (budget financing).

Consolidation & Adjustments (C&A) reconciles the aggregated segment results with the consolidated result. The column also includes income from the investment of allocated equity.

31 Income statement by operating segment

Income/expenses

in € million		REF	PIF	VP	C&A	pbb Group
Operating income	2020	445	41	39	4	**529**
	2019	436	36	30	4	**506**
Net interest income	2020	399	38	38	4	**479**
	2019	388	37	29	4	**458**
Net fee and commission income	2020	6	-	-	-	**6**
	2019	7	-	-1	-	**6**
Net income from fair value measurement	2020	-6	-1	-1	-	**-8**
	2019	-8	-2	3	-	**-7**
Net income from realisations	2020	24	1	1	-	**26**
	2019	48	1	-1	-	**48**
Net income from hedge accounting	2020	3	-	1	-	**4**
	2019	-1	-	-1	-	**-2**
Net other operating income	2020	19	3	-	-	**22**
	2019	2	-	1	-	**3**
Net income from risk provisioning	2020	-129	-1	4	-	**-126**
	2019	-57	-	8	-	**-49**
General and administrative expenses	2020	-175	-19	-10	-	**-204**
	2019	-164	-25	-13	-	**-202**
Expenses from bank levies and similar dues	2020	-16	-3	-7	-	**-26**
	2019	-14	-3	-7	-	**-24**
Net income from write-downs and write-ups of non-financial assets	2020	-16	-2	-1	-	**-19**
	2019	-15	-2	-1	-	**-18**
Net income from restructuring	2020	-	-	-	-	**-**
	2019	3	-	-	-	**3**
Profit before tax	**2020**	**109**	**16**	**25**	**4**	**154**
	2019	**189**	**6**	**17**	**4**	**216**

Cost-income ratio[1]

in %		REF	PIF	VP	pbb Group
Cost-income ratio	2020	42.9	51.2	28.2	**42.2**
	2019	41.1	75.0	46.7	**43.5**

[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.

32 Balance-sheet-related measures by operating segment

The Management Board controls balance-sheet-related measures by operating segments based on financing volumes, on risk-weighted assets and on equity.

Balance-sheet-related measures

in € billion		REF	PIF	VP	C&A	pbb Group
Financing volumes[1]	31.12.2020	27.0	5.8	11.4	-	**44.2**
	31.12.2019	27.1	6.3	12.1	-	**45.5**
Risik-weighted assets[2]	31.12.2020	16.0	0.8	0.4	0.5	**17.7**
	31.12.2019	15.8	0.8	0.5	0.6	**17.7**
Equity[3]	31.12.2020	1.9	0.2	0.5	0.4	**3.0**
	31.12.2019	1.7	0.2	0.6	0.4	**2.9**

[1] Notional amounts of the drawn parts of granted loans and parts of the securities portfolio..
[2] Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5.
[3] Excluding accumulated other comprehensive income (OCI) from cash flow hedge accounting, financial assets at fair value through OCI and AT1 capital.

33 Breakdown of operating income

Operating income by products

Operating income by products

in € million		Real estate financing	Public investment financing	Other Products	**pbb Group**
Operating income	2020	445	41	43	**529**
	2019	436	36	34	**506**

Operating income by regions

pbb Group differentiates between the regions Germany, Rest of Europe and America. Allocation of values to regions is based on the location of the registered offices of the Group companies or their branches.

Operating income by regions

in € million		Germany	Rest of Europe	Amerika	**pbb Group**
Operating income	2020	491	34	4	**529**
	2019	450	52	4	**506**

Operating income by customers

There were no significant customers within the meaning of IFRS 8.34 in the financial years 2020 and 2019.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

34 Net interest income

Net interest income

in € million	**2020**	**2019**
Interest income	1,491	1,766
from financial assets at fair value through profit or loss	229	302
from financial assets at fair value through other comprehensive income	49	59
from financial assets at amortised cost	1,107	1,223
from hedge accounting derivatives (net) [1]	126	188
from other assets	4	5
negative interest from non-derivative financial liabilities	-24	-11
Interest expenses	-1,012	-1,308
from financial liabilities at fair value through profit or loss	-279	-365
from financial liabilities measured at amortised cost	-777	-944
from other liabilities	-1	-
positive interest from non-derivative financial assets	45	1
Total	**479**	**458**

[1] Includes positive interest expenses (net) from hedge accounting derivatives in the amount of €22 million (2019: €22 million).

35 Net fee and commission income

Net fee and commission income

in € million	2020	2019
Fee and commission income	8	8
from financial assets at amortised cost and financial liabilties not at fair value through profit or loss	8	8
Other lending business	8	8
Fee and commission expenses	-2	-2
from financial assets at amortised cost and financial liabilties not at fair value through profit or loss	-2	-2
Securities and custodial services	-1	-1
Other lending business	-1	-1
Total	**6**	**6**

Fee and commission income is recognised at a point in time when the performance obligation is satisfied, i.e. the service is provided, by pbb Group. Fee and commission income is generated solely in the REF segment.

36 Net income from fair value measurement

Net income from fair value measurement

in € million	2020	2019
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	3	11
From debt instruments	3	11
Debt securities	3	8
Loans and advances	-	3
Total	**-8**	**-7**

37 Net income from realisations

Net income from realisations

in € million	2020	2019
Income from derecognition of financial instruments	30	50
from financial assets at amortised cost	28	50
from disposal	-	1
from early repayment	28	49
from financial liabilities measured at amortised cost	2	-
from early repayment	2	-
Expenses from derecognition of financial instruments	-4	-2
from financial assets at fair value through other comprehensive income	-	-1
from disposal	-	-1
from financial assets at amortised cost	-3	-
from early repayment	-3	-
from financial liabilities measured at amortised cost	-1	-1
from early repayment	-1	-1
Total	**26**	**48**

38 Net income from hedge accounting

Net income from hedge accounting

in € million	2020	2019
Net income from micro fair value hedge accounting	4	-2
from hedged items	179	125
from hedging instruments	-175	-127
Net income from portfolio hedge accounting	-	-
from hedged items	-67	-55
from hedging instruments	67	55
Total	**4**	**-2**

39 Net other operating income

Net other operating income

in € million	2020	2019
Net income from foreign currency translation	1	-2
Net income from provisions in non-lending business	21	-
Miscellaneous other operating income	-	5
Total	**22**	**3**

40 Net income from risk provisioning

Net income from risk provisioning

in € million	2020	2019
From financial assets	-118	-49
Stage 1	-29	-15
Stage 2	-32	-1
Stage 3	-57	-33
Income from recoveries from written-off financial assets	1	1
Net income from provisions in off balance sheet lending business	-9	-1
Total	**-126**	**-49**

Net income from risk provisioning from financial assets resulted completely from financial assets “at amortised cost” apart. In the previous year risk provision contained one release in the amount of €1 million from financial assets “at fair value through other comprehensive income” in stage 2.

41 General and administrative expenses

General and administrative expenses

in € million	2020	2019
Personnel expenses	-122	-117
Wages and salaries	-97	-95
Social security expenses	-13	-13
Pension expenses and related employee benefit expenses	-11	-10
Other personnell expenses/income	-1	1
Non-personnel expenses	-82	-85
Office and operating expenses	-5	-8
Consulting expenses	-20	-20
IT expenses	-43	-43
Other non-personnel expenses	-14	-14
Total	**-204**	**-202**

42 Expenses from Bank Levies and Similar Dues

Expenses from bank levies and similar dues[1)]

in € million	2020	2019
Bank levies	-23	-20
Deposit protection fund	-2	-3
Compensation scheme of German banks	-1	-1
Total	**-26**	**-24**

[1)] Includes administrative expenses invoiced for the dues/levies.

43 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	2020	2019
Depreciation or amortisation	-19	-18
Tangible assets	-7	-6
Thereof: Right-Of-Use of lease assets	-6	-3
Intangible assets	-12	-12
Total	**-19**	**-18**

44 Net Income from Restructuring

Net income from restructuring

in € million	2020	2019
Income from reversals of restructuring provisions	-	4
Expenses from additions to restructuring provisions	-	-1
Total	**-**	**3**

45 Icome Tax

Breakdown

in € million	2020	2019
Current taxes	-34	-22
Deferred taxes	-3	-15
Thereof: Deferred taxes on losses carried forward	-26	9
Total	**-37**	**-37**

Current taxes include a tax income for prior years of €6 million (2019: €17 million). The tax income for prior years resulted mainly from releases of provisions for tax audits of foreign branches due to statutes of limitations (2019: tax expense in the amount of €7 million incurred as a result of tax audits as well as a tax income of €24 million due to the tax treatment of a non-interest liability).

For domestic companies, the deferred taxes are calculated using the future uniform rate of corporation tax of 15.0% plus the corresponding 5.5% solidarity surcharge and the trade tax depending on the locally applicable assessment rate (the current basic rate is 3.5%). For pbb, the tax rate for the calculation of deferred taxes is 27.67% (2019: 27.67%).

The following overview shows the development of the deferred taxes recognised in the financial statements:

Development of deferred taxes

in € million	2020	2019
Deferred taxes recognised in the statement of financial position	95	90
Difference to prior year	5	4
Thereof: Recognised in profit or loss	-3	-15
OCI from pension commitments	2	10
OCI from financial assets at fair value through OCI	4	4
OCI from Cash flow hedge accounting	2	5

The deferred taxes recognised outside profit or loss regarding accumulated other comprehensive income increased by €8 million (2019: €19 million).

Reconciliation

in € million (unless otherwise indicated)	2020	2019
Profit or loss before tax	154	216
Applicable (legal) tax rate in %	27.67	27.67
Expected (computed) tax expense	-43	-60
Tax effects		
arising from tax-free income	-	-1
arising from deductible and non-deductible items	-3	-46
arising from valuation adjustments and non-application of deferred taxes	3	52
arising from prior years	6	18
Reported income taxes	**-37**	**-37**
Group tax ratio in %	**24.03**	**17.13**

Following the precise determination on euro basis, the corporate tax rate is at 24,25% (2019: 17.15%)

The tax rate applicable for the reporting year, including solidarity surcharge, is 27.67% (2019: 27.67%) and is comprised of the 15.0% German corporate tax rate currently valid, the payable solidarity surcharge of 5.5% as well as the average trade tax rate of 11.84% (2019: 11.84%).

Foreign tax rates ranged between 19.0% and 28.0%.

The effects attributable to deductible and non-deductible items relate primarily to non-deductible expenses, which do not have to be taken into account as deferred taxes as a result of permanent differences, but which have reduced or increased the basis of taxation.

The effects arising from valuation adjustments and non-application of deferred taxes comprise effects from write up of deferred tax assets of balance differences, the use of tax losses carried forward previously not accounted for and from opposing effects from non-application of deferred tax assets of balance differences.

The effects from previous years include current taxes for previous years, which have incurred because of the reversal of provisions for tax audits of one branch due to statutes of limitations.

The Group tax ratio is the quotient of the stated income taxes (current and deferred taxes) and profit before tax.

The deferred tax liabilities or deferred tax assets relate to the following items:

Deferred tax liabilities/assets

in € million	2020	2019
Financial assets at amortised cost after credit loss allowances	58	46
Positive fair values of hedge accounting derivatives	31	40
Financial liabilities at fair value through profit or loss	198	168
Other assets/liabilities	48	29
Deferred tax liabilities before offsetting	**335**	**283**
Offsetting	-335	-283
Deferred tax liabilities after offsetting	**-**	**-**
Financial assets at fair value through profit or loss	148	126
Positive/negative fair values of hedge accounting derivatives	149	117
Provisions	64	66
Other assets/liabilities	69	38
Losses carried forward	-	26
Deferred tax assets before offsetting	**430**	**373**
Offsetting	-335	-283
Deferred tax assets after offsetting	**95**	**90**

The assessment of the recoverability of deferred tax assets on deductible temporary differences and on loss carryforwards is based on tax planning derived from the general corporate planning. On the reporting date, there are unused tax losses tax carried forward €2,978 million (2019: €3,275 million) at corporate tax level and €3,056 million (2019: €3,364 million) at trade tax level, for which no deferred tax assets have been recognised (2019: deferred tax assets had been recognised on a portion of €94 million at corporate tax level and €94 million). Loss carryforwards may be applied for an unlimited period, unless in the event of a change of shareholders which is detrimental for tax purposes. In addition, no deferred tax assets were recognised on deductible temporary differences that can be carried forward indefinitely in the amount of €62 million (2019: €0 million). Deferred tax income from the origination and reversal of temporary differences arose in the amount of €24 million (2019: deferred tax income of €24 million).

Tax rate changes did not result in major deferred tax expenses or income in the current year nor in the previous year.

The use of tax losses previously not recognised resulted in a reduction in the current income tax expense in the amount of €20 million (2019: no reduction in the current income tax expense). From the use and write-off of loss carryforwards previously recognised, deferred tax expense arose in the amount of €26 million (2019: deferred tax income of €9 million).

In 2020 there were no differences associated with investments in subsidiaries (2019: no differences as well).

46 Net Gains/Net Losses

The income statement contains the following net gains/net losses recognised in profit or loss by measurement categories:

Net Gains/Net Losses by measurement categories

in € million	2020	2019
Financial assets		
at fair value through profit ot loss	-8	-7
from stand-alone derivatives	-11	-18
from debt instruments	3	11
at fair value through other comprehensive income	-	-
at amortised cost	-93	-
Financial liabilities		
at amortised cost	1	-1

The net gains and losses include additions to and reversals of credit loss allowances, derecognition gains and losses as well as the fair value measurement results from financial instruments recognised in profit or loss.

47 Earnings Per Share

Earnings per share

		2020	2019
Net income attributable to shareholders of pbb	in € million	117	179
Thereof attributable to the ordinary shareholders	in € million	100	162
Thereof attributable to the AT1 investors	in € million	17	17
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 €	**0.74**	**1.20**
Diluted earnings per share	in €	**0.74**	**1.20**

Earnings per share are calculated in accordance with IAS 33 by dividing net income/loss attributable to the ordinary shareholders holders by weighted average number of ordinary shares. Net income/loss is allocated under the assumption of after-tax 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 CONSOLIDATED STATEMENT OF FINANCIAL POSITION (ASSETS)

48 Cash reserve

Cash reserve

in € million	31.12.2020	31.12.2019
Balances with central banks	5,376	1,141
Total	**5,376**	**1,141**

Cash on hand as of 31 December 2020 amounts to €0 million as was the case in previous year.

49 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss

in € million	31.12.2020	31.12.2020
Positive fair values of stand-alone derivatives	737	717
Interests in companies and funds qualified as debt instruments	3	3
Debt securities	134	130
Bonds and notes	134	130
Public-sector issuers	89	88
Other issuers	45	42
Loans and advances to customers	494	456
Public-sector loans and advances	275	278
Real estate loans and advances	219	178
Total	**1,368**	**1,306**

50 Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income

in € million	31.12.2020	31.12.2019
Debt securities	1,384	1,325
Bonds and notes	1,384	1,325
Public-sector issuers	614	582
Other issuers	770	743
Loans and advances to other banks	-	15
Public-sector loans and advances	-	15
Loans and advances to customers	145	356
Public-sector loans and advances	145	356
Total	**1,529**	**1,696**

51 Financial assets at amortised cost after credit loss allowances (including claims from finance lease agreements)

Financial assets at amortised cost before credit loss allowances

in € million	31.12.2020	31.12.2019
Debt securities	7,481	7,679
Bonds and notes	7,481	7,679
Public-sector issuers	5,492	5,672
Other issuers	1,989	2,007
Loans and advances to other banks	1,874	2,356
Public-sector loans and advances	556	548
Other loans and advances to other banks	1,318	1,808
Loans and advances to customers	39,580	40,316
Public-sector loans and advances	12,591	13,131
Real estate loans and advances	26,762	26,922
Other loans and advances to customers	27	55
Claims from finance lease agreements	200	208
Total	**48,935**	**50,351**

Development in risk provisioning

in € million	**1.1.2020**	Transfer Stage 1	Transfer Stage 2	Transfer Stage 3	New Business and additions	Repayments and derecognitions	Amounts used	Changes of credit risk (net)	Other changes	**31.12.2020**
Allowances for credit losses on financial assets	-127	-	-	-	-23	8	2	-103	-1	-244
measured at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-	-	-	-	-
measured at amortised cost	-127	-	-	-	-23	8	2	-103	-1	-244
Debt securities	-3	-	-	-	-	-	-	1	-	-2
Stage 1	-2	-	-	-	-	-	-	-	-	-2
Stage 2	-1	-	-	-	-	-	-	1	-	-
Loans and advances to customers	-124	-	-	-	-23	8	2	-104	-1	-242
Stage 1	-24	-1	15	-	-23	5	-	-12	1	-39
Stage 2	-45	1	-15	1	-	3	-	-35	-	-90
Stage 3	-55	-	-	-1	-	-	2	-57	-2	-113
Provisions in the off-balance-sheet lending business (contingent liabilies and other commitments)	-8	-	-	-	-4	3	-	-8	-	-17
Stage 1	-7	-	1	-	-4	2	-	-4	-	-12
Stage 2	-1	-	-1	-	-	1	-	-4	-	-5
Total	**-135**	**-**	**-**	**-**	**-27**	**11**	**2**	**-111**	**-1**	**-261**

Development in risk provisioning

in € million	**1.1.2019**	Transfer Stage 1	Transfer Stage 2	Transfer Stage 3	New Business and additions	Repayments and derecognitions	Amounts used	Changes of credit risk (net)	Other changes	**31.12.2019**
Allowances for credit losses on financial assets	-113	-	-	-	-9	4	36	-43	-2	-127
measured at fair value through other comprehensive income	-1	-	-	-	-	1	-	-	-	-
Debt securities	-1	-	-	-	-	1	-	-	-	-
Stage 2	-1	-	-	-	-	1	-	-	-	-
measured at amortised cost	-112	-	-	-	-9	3	36	-43	-2	-127
Debt securities	-5	-	-	-	-	-	-	2	-	-3
Stage 1	-1	-1	-	-	-	-	-	-	-	-2
Stage 2	-4	1	-	-	-	-	-	2	-	-1
Loans and advances to customers	-107	-	-	-	-9	3	36	-45	-2	-124
Stage 1	-13	-	3	-	-9	3	-	-8	-	-24
Stage 2	-38	-	-3	-	-	-	-	-4	-	-45
Stage 3	-56	-	-	-	-	-	36	-33	-2	-55
Provisions in the off-balance-sheet lending business (contingent liabilies and other commitments)	-7	-	-	-	-7	2	-	4	-	-8
Stage 1	-6	-	-	-	-7	2	-	4	-	-7
Stage 2	-1	-	-	-	-	-	-	-	-	-1
Total	**-120**	**-**	**-**	**-**	**-16**	**6**	**36**	**-39**	**-2**	**-135**

If all stage 1 financial assets were in stage 2, the balance of credit loss allowances as at 31 December 2020 would increase by €44 million (31 December 2019: €63 million). For off-balance sheet transactions, the increase would be €12 million (31 December 2019: €13 million).

If all stage 2 financial assets were in stage 1, the balance of credit loss allowances would decrease by €36 million (31 December 2019: €26 million). For off-balance sheet transactions, the decrease would be €2 million (31 December 2019: €1 million).

pbb Group used a base scenario with a weighting of 85% (31 December 2019: 70%), a positive scenario with a weighting of 5% (31 December 2019: 12.5%), and a negative scenario with a weighting of 10% (31 December 2019: 17.5%) as the basis for the calculation of the loss allowances of Stages 1 and 2. If the positive scenario was given a weighting of 100%, the loss allowances would be reduced by €25 million. If the negative scenario was given a weighting of 100%, the loss allowances would be increased by €44 million.

When determining loss allowances, information about past events, current conditions and forecasts of future economic developments are incorporated in accordance with IFRS 9.5.5.17. Material parameters for economic development are the expectations as regards the gross domestic product and the unemployment rate. pbb Group has used the following values.

Forecast of gross domestic product in percent

	Scenario									
		Positive			Basis			Negative		
Country/year	2020	2021	2022	2023	2021	2022	2023	2021	2022	2023
Germany	-5.5	5.6	4.3	1.7	3.0	4.5	1.8	-0.2	3.2	2.4
France	-9.0	7.0	5.0	2.0	5.0	5.0	2.0	-1.0	4.0	4.0
Spain	-11.1	8.6	4.8	1.9	6.8	4.2	1.7	4.2	3.9	1.5
Italy	-9.0	3.5	3.8	2.3	3.5	3.8	2.3	1.9	2.8	3.9
United Kingdom	-11.0	7.3	6.3	1.9	7.3	6.3	1.9	-0.2	2.0	2.7
USA	-2.4	5.2	3.0	2.3	4.2	3.2	2.4	-0.4	1.7	3.1

Forecasts of unemployment rate in percent

	Scenario									
		Positive			Basis			Negative		
Country/year	2020	2021	2022	2023	2021	2022	2023	2021	2022	2023
Germany	4.2	4.4	3.5	3.2	4.7	3.8	3.5	5.5	4.9	4.4
France	8.5	10.2	8.7	8.3	10.7	9.5	8.9	11.7	11.9	11.3
Eurozone	8.0	8.8	7.5	6.9	9.3	8.2	7.5	10.3	9.9	9.4
United Kingdom	6.3	6.8	5.0	4.3	6.8	5.0	4.3	10.2	9.7	7.1
USA	6.7	5.0	4.2	3.7	5.0	4.2	3.7	7.0	6.1	5.4

Development in gross carrying amounts

in € million	**1.1.2020**	Transfer Stage 1	Transfer Stage 2	Transfer Stage 3	New Business and additions	Repayments and derecogni-tions	Direct write-offs	Other	**31.12.2020**
Gross carrying amounts of financial assets	51,959	-	-	-	6,868	-8,780	-2	347	50,392
measured at fair value through other comprehensive income	1,608	-	-	-	181	-322	-	-10	1,457
Debt securities	1,269	-	-	-	181	-112	-	-5	1,333
Stage 1	1,267	-	-	-	181	-110	-	-5	1,333
Stage 2	2	-	-	-	-	-2	-	-	-
Loans and advances to other banks	15	-	-	-	-	-14	-	-1	-
Stage 1	15	-	-	-	-	-14	-	-1	-
Loans and advances to customers	324	-	-	-	-	-196	-	-4	124
Stage 1	324	-	-	-	-	-196	-	-4	124
measured at amortised cost	50,351	-	-	-	6,687	-8,458	-2	357	48,935
Debt securities	7,679	-	-	-	145	-330	-	-13	7,481
Stage 1	7,679	-	-	-	145	-330	-	-13	7,481
Stage 2	-	-	-	-	-	-	-	-	-
Loans and advances to other banks	2,356	-	-	-	338	-828	-	8	1,874
Stage 1	2,356	-	-	-	338	-828	-	8	1,874
Loans and advances to customers	40,316	-	-	-	6,204	-7,300	-2	362	39,580
Stage 1	36,730	304	-8,129	-	6,204	-4,729	-	14	30,394
Stage 2	3,094	-304	8,129	-85	-	-2,441	-	338	8,731
Stage 3	492	-	-	85	-	-130	-2	10	455
Off-balance-sheet business [1]	4,310	-	-	-	1,330	-2,282	-	82	3,440
Stage 1	4,182	105	-739	-	1,330	-1,886	-	1	2,993
Stage 2	128	-105	739	-	-	-396	-	81	447
Stage 3	-	-	-	-	-	-	-	-	-
Total	**56,269**	**-**	**-**	**-**	**8,198**	**-11,062**	**-2**	**429**	**53,832**

[1] Notional amount of contingent liabilities and other commitments.

Development in gross carrying amounts

in € million	**1.1.2019**	Transfer Stage 1	Transfer Stage 2	Transfer Stage 3	New Business and additions	Repayments and derecogni-tions	Direct write-offs	Other	**31.12.2019**
Gross carrying amounts of financial assets	52,334	-	-	-	9,562	-10,878	-12	953	51,959
measured at fair value through other comprehensive income	1,881	-	-	-	-	-260	-	-13	1,608
Debt securities	1,507	-	-	-	-	-228	-	-10	1,269
Stage 1	1,231	145	-	-	-	-103	-	-6	1,267
Stage 2	276	-145	-	-	-	-125	-	-4	2
Loans and advances to other banks	15	-	-	-	-	-	-	-	15
Stage 1	15	-	-	-	-	-	-	-	15
Loans and advances to customers	359	-	-	-	-	-32	-	-3	324
Stage 1	359	-	-	-	-	-32	-	-3	324
measured at amortised cost	50,453	-	-	-	9,562	-10,618	-12	966	50,351
Debt securities	8,039	-	-	-	50	-504	-	94	7,679
Stage 1	7,496	543	-	-	50	-504	-	94	7,679
Stage 2	543	-543	-	-	-	-	-	-	-
Loans and advances to other banks	2,231	-	-	-	364	-177	-	-62	2,356
Stage 1	2,231	-	-	-	364	-177	-	-62	2,356
Loans and advances to customers	40,183	-	-	-	9,148	-9,937	-12	934	40,316
Stage 1	38,289	328	-2,621	-262	9,148	-9,491	-	1,339	36,730
Stage 2	1,578	-328	2,621	-114	-	-238	-	-425	3,094
Stage 3	316	-	-	376	-	-208	-12	20	492
Off-balance-sheet business [1]	4,691	-	-	-	3,240	-3,669	-	48	4,310
Stage 1	4,638	10	-124	-	3,240	-3,628	-	46	4,182
Stage 2	53	-10	124	-	-	-41	-	2	128
Stage 3	-	-	-	-	-	-	-	-	-
Total	**57,025**	**-**	**-**	**-**	**12,802**	**-14,547**	**-12**	**1,001**	**56,269**

[1] Notional amount of contingent liabilities and other commitments.

In contrast to the amount to be reported in the statement of financial position, the gross carrying amount of financial assets measured at fair value through other comprehensive income does not include the accumulated changes in fair value of €72 million (31 December 2019: €88 million).

pbb Group's maximum exposure to credit risk is reflected in the net carrying amounts reported in the statement of financial position. The collaterals mainly consist of land charges. Loans and advances to customers of stage 3 were collateralised in an amount of €342 million as at the reporting date (31 December 2019: €436 million).

At pbb Group, contractual amounts outstanding of €1 million (31 December 2019: € 0 million) existed for financial assets that were written off in 2020 and that continue to be subject to enforcement measures.

Due to collateral provided, pbb Group did not recognise stage 3 credit loss allowances as at 31 December 2020 for credit-impaired financial instruments with a carrying amount of €87 million (31 December 2019: €101 million). The collateral is largely in the form of state guarantees.

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

pbb Group did not hold any salvage acquisitions or other seized collateral as at 31 December 2020 and 31 December 2019.

52 Positive fair values of hedge accounting derivatives

Positive fair values of hedge accounting derivatives

in € million	31.12.2020	31.12.2019
Positive market values of hedge accounting derivatives	1,651	2,199
Total	**1,651**	**2,199**

53 Valuation adjustment from portfolio hedge accounting (assets)

The line item valuation adjustments from portfolio hedge accounting includes the positive fair values in relation to the hedged risks in the portfolios of hedged items. They amounted to €27 million as at 31 December 2020 (31 December 2019: €19 million).

54 Tangible assets

Development of tangible assets

in € million	Operating equipment (2020)	Right of Use assets (IFRS 16) (2020)	Total (2020)	Total (2019)
Acquisition/production costs				
Balance at 1.1.	**15**	**43**	**58**	**31**
Additions	-	-	-	39
Disposals	-	-	-	-12
Balance at 31.12.	**15**	**43**	**58**	**58**
Depreciation and write-ups				
Balance at 1.1.	**-10**	**-3**	**-13**	**-18**
Amortisation	-1	-6	-7	-6
Disposals	-	-	-	11
Balance at 31.12.	**-11**	**-9**	**-20**	**-13**
Carrying amounts				
Balance at 31.12.	**4**	**34**	**38**	**45**

55 Intangible assets

Development of intangible assets

in € million	Software acquired (2020)	Internally developed Software (2020)	Other intangible assets (2020)	Total (2020)	Total (2019)
Acquisition/production costs					
Balance at 1.1.	**27**	**82**	**6**	**115**	**101**
Additions	2	4	7	13	14
Reclassifications	9	-5	-4	-	-
Disposals	-	-	-	-	-
Balance at 31.12.	**38**	**81**	**9**	**128**	**115**
Amortisation and write-ups					
Balance at 1.1.	**-18**	**-58**	**-**	**-76**	**-64**
Amortisation	-2	-10	-	-12	-12
Impairment	-	-	-	-	-
Disposals	-	-	-	-	-
Balance at 31.12.	**-20**	**-68**	**-**	**-88**	**-76**
Carrying amounts					
Balance at 31.12.	**18**	**13**	**9**	**40**	**39**

Research and development expenditure recognised as an expense amounted to €11 million (2019: €11 million).

56 Repurchase agreements

As a pledgor of genuine repurchase agreements, pbb Group has pledged assets with a book value of €6.5 billion (31 December 2019: €2.1 billion). The material part of the securities is still recognised as assets. The considerations which have been received amount to €7.5 billion (31 December 2019: €1.9 billion) and are recognised solely as liabilities measured at amortised cost. Assets in repurachse agreements are the only transferable assets the acquirer can sell or repledge in the absence of default.

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (EQUITY AND LIABILITIES)

57 Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss

in € million	31.12.2020	31.12.2019
Negative fair values of stand-alone derivatives	596	762
Total	**596**	**762**

58 Financial liabilities at amortised cost

Financial liabilities at amortised cost

in € million	31.12.2020	31.12.2019
Liabilities to other banks	9,844	4,195
Liabilities to central banks	7,460	1,878
Registered Mortgage Pfandbriefe	291	306
Registered Public Pfandbriefe	518	322
Other registered securities	131	102
Other liabilities to other banks	1,444	1,587
Liabilities to customers	22,583	23,985
Registered Mortgage Pfandbriefe	4,316	4,647
Registered Public Pfandbriefe	9,112	9,926
Other registered securities	2,380	2,480
Other liabilities to customers	6,775	6,932
Bearer bonds	19,457	20,858
Money market instruments	120	70
Mortgage Pfandbriefe	10,716	12,359
Public Pfandbriefe	2,315	3,007
Other bearer bonds	6,306	5,422
Subordinated liabilities	686	703
Securitised subordinated liabilities	626	643
Non-securitised subordinated liabilities	60	60
Total	**52,570**	**49,741**

In June 2020, pbb participated in the ECB's Targeted Longer Term Refinancing Operations (TLTRO) in a volume of €7.5 billion. Pursuant to the terms and conditions of the TLTRO III, an interest rate that is reduced by 50 basis points applies during the special interest rate period (24 June 2020 to 23 June 2021), regardless of the development of eligible net lending. Moreover, pbb has the option to receive a further interest rate premium of 50 basis points, depending on the increase in eligible net lending during the special reference period (1 March 2020 to 31 March 2021) in comparison with the benchmark. pbb Group recognises this interest rate premium in accordance with IAS 20 as it constitutes a compensation for refinancing costs granted by the ECB in its capacity as a public-sector institution. The interest rate premium is only granted if certain requirements are met. pbb would have exceeded the lending target as of the reporting date, and expects that it will also meet the lending target as at the end of the reporting period on 31 March 2021. Therefore, pbb Group recognises the interest rate premium pro rata temporis over the term of the TLRO III in general, and over the term of the special interest rate period in particular, in accordance with the rules set out in IAS 20. Each of the interest rate reductions are granted by the ECB in form of a (pro-rata) waiver of the principal debt. In 2020, pbb Group recorded interest and interest premium from the TLTRO III in the amount of €20 million each in net interest income. As at the reporting date, the carrying amount of the TLTRO III liabilities reported under liabilities to central banks amounted to €7,460 million.

59 Negative fair values of hedge accounting derivatives

Negative fair values of hedge accounting derivatives

in € million	31.12.2020	31.12.2019
Negative market values of hedge derivatives	1,920	2,562
Total	**1,920**	**2,562**

60 Valuation adjustment from portfolio hedge accounting (liabilities)

The item "Valuation adjustment from portfolio hedge accounting (liabilities)" comprises negative fair values as regards the hedged risks in the hedged portfolios of hedged items. They totalled €137 million as at 31 December 2020 (31 December 2019: € 81 million).

61 Provisions

Provisions

in € million	31.12.2020	31.12.2019
Provisions for pensions and other post employment defined benefit obligations	127	121
Restructuring provisions	1	1
Provisions for commitments and guarantees given	17	8
Other provisions	101	133
Total	**246**	**263**

There are defined contribution and defined benefit plans for the employees of pbb Group. In the defined contribution plans pbb makes payments for commitments by industry-wide organisations. In almost all non-German entities, a defined percentage of fixed salary is paid into externally managed pension funds for employees as part of defined contribution pension schemes. Expenses in respect of defined contribution plans amounted €4 million (2019: €3 million). The expense is expected to remain stable in 2021. Expenses in respect of defined contribution plans for persons with a key function in the Group amounted to less than €1 million (2019: €1 million). The employer's contribution to the statutory pension insurance amounted to €5 million (2019: €5 million).

There are defined benefit pension commitments for many employees in Germany. There are no defined benefit pension commitments in the non-German entities. For the defined benefit plans the employees receive a direct commitment from their respective company. The receipt of retirement pensions or disability pensions starts after a vesting period is fulfilled, at the earliest after reaching a minimum age in the case of part of full incapacity for work, at the latest when goind into retirment, usually after completion of the 65th year of life. In case of active employees, there are predominatnly modern modular pension plans. For the other eligible persons there are also final salarybased defined benefit plans. The annual pension module depends, among other things, on the gross annual salary paid and the member's length of service. The surviving dependant's pension usually amounts to 60% of the pension of the spouse respectively the entitlement on that. The pension plan is administered by pbb itelf with the aid of an external service provider for the administration.

Pension provisions are recognised for obligations arising from direct commitments. The defined benefit plans have been principally closed for new entrants since 1 April 2004. There have been no plan amendments, curtailments and settlements in the years 2020 and 2019.

The risk of insolvency is covered within the framework of legal requirements by Pensionssicherungsverein a. G. in relation to the total amount of pension obligations.

The following actuarial assumptions were used to measure the defined benefit pension obligations:

Actuarial assumptions

in %	31.12.2020/ 1.1.2021	31.12.2019/ 1.1.2020
Discount rate	1.00	1.30
Rate of increase in pension obligations	1.50	1.75
Rate of increase in future compensation and vested rights[1]	2.50	2.50

[1] Against the background of the adjustments of annual base salaries made in 2015 to a uniform amount of € 500,000 and the introduction of a variable remuneration component, pbb Group expects a rate of increase in future compensation and vested rights of 0%, also in view of the appropriateness of Management Board compensation for the active Management Board members in the financial years 2020 and 2019.

The rate of increase in career for members of the Management Board amounts 0.0% (31 December 2019: 0.0%), for directors and non-pay-scale staff 1.5% (31 December 2019: 1.5%) and for payscale staff 0.5% (31 December 2019: 0.5%). The guidance tables 2018G from Klaus Heubeck were used as the biometric basis.

The defined benefit pension commitments of pbb do not contain any unusual or entity-specific risks. pbb is faced by the common demographic risks, for example from longevity or invalidity of the entitled employees, and common financial risks like for example a change of the discount rate. pbb took out reinsurance to protect itself against parts of these risks. The reinsurance is a qualifying insurance policy in accordance with IAS 19 and thus is a plan asset. The fair value of plan assets is a component of the net liability from defined benefit plans which is deducted from the present value of the defined benefit obligation. The reinsurance does not consist of any unusual or plan-specific risks.

Principally, the pension payments of the reinsured pension obligations are funded by the income from the plan assets. If the income does not cover the pension payments pbb has to pay the pensions out of its own funds. For the non-reinsured pension obligations the payments are also made out of own funds.

Statement of financial position items (net defined benefit liability)

in € million	2020	2019
Present value of defined benefit obligation	306	303
Fair value of plan assets	-179	-182
Total	**127**	**121**

Development of net defined benefit liability

in € million	2020	2019
Balance at 1.1.	**121**	**84**
Pension expenses	5	5
Remeasurements	5	36
Reclassifications in reimbursements	1	-
Direct payments to beneficiaries	-5	-4
Balance at 31.12.	**127**	**121**

Development of defined benefit obligation

in € million	2020	2019
Balance at 1.1.	**303**	**272**
Current service costs	4	3
Interest expenses	4	5
Remeasurements	7	35
Actuarial gains/losses from demographic assumptions	-	-
Actuarial gains/losses from financial assumptions	6	37
Actuarial gains/losses from experience assumptions	1	-2
Payments to beneficiaries	-12	-12
Balance at 31.12.	**306**	**303**

Plan assets consist exclusively of reinsurance pledged to plan beneficiaries. The plan assets accordingly do not contain any own financial instruments or any own used tangible assets. No further material contributions to the plan assets are aimed in 2021. pbb does not use special asset-liability matching strategies to manage the pledged reinsurance.

Development of fair value of plan assets

in € million	2020	2019
Balance at 1.1.	**182**	**188**
Interest income	3	3
Remeasurements	2	-1
Payments to beneficiaries	-7	-8
Reclassifications in/from reimbursements	-1	-
Balance at 31.12.	**179**	**182**

Development of pension expenses

in € million	2020	2019
Service costs	4	3
Current service costs	4	3
Net interest expenses	1	2
Interest expenses on defined benefit obligation	4	5
Interest income on plan assets	-3	-3
Total	**5**	**5**

Compared to 2020 a largely constant pension expense is expected for 2021. Pension expenses are part of general and administrative expenses.

Remeasurements of the net defined benefit liability result from actuarial gains and losses and the return on plan assets excluding amounts included in net interest on the net defined benefit liability.

Remeasurement recognised in other comprehensive income (equity)

in € million	2020	2019
Actuarial gains/losses from demographic assumptions	-	-
Actuarial gains/losses from financial assumptions	-6	-37
Actuarial gains/losses from experience assumptions	-1	2
Remeasurements from plan assets	2	-1
Total	**-5**	**-36**

Development of reimbursement

in € million	2020	2019
Balance at 1.1.	**2**	**2**
Additions	1	-
Balance at 31.12.	**3**	**2**

The reimbursements result from unpledged reinsurance policies.

The quantitative sensitivity analysis – which uses the same measurement methods as the obligation recognised in the statement of financial position – for the material actuarial assumptions is as follows:

Actuarial assumptions

in € million	Change of sensitivity level (+ increase/– decrease)		Gross obligation 31.12.2020	Gross obligation 31.12.2019
Basic value of the calculation of sensitivity			306	303
Discount rate	in percentage points	+ 0.5	284	281
	in percentage points	– 0.5	331	328
Rate of increase in pension obligations	in percentage points	+ 0.5	324	321
	in percentage points	– 0.5	289	287
Rate of increase in future compensation and vested rights	in percentage points	+ 0.5	306	304
	in percentage points	– 0.5	306	303

The assumption of mortality only has an immaterial effect because the risk of longevity is mainly covered by plan assets.

The weighted average duration of the defined benefit obligations amounted to 15 years at 31 December 2020 (31 December 2019: 15 years).

Development of provisions (without provisions for pension and similar obligations)

in € million	Restructuring provisions	Provisions for contingent liabilities and other commitments	Other provisions
Balance at 1.1.2019	**11**	**7**	**166**
Additions	1	5	31
Reversals	-4	-4	-15
Amounts used	-7	-	-49
Balance at 31.12.2019	**1**	**8**	**133**
Balance at 1.1.2020	**1**	**8**	**133**
Additions	-	24	43
Reversals	-	-15	-49
Amounts used	-	-	-26
Balance at 31.12.2020	**1**	**17**	**101**

The restructuring provisions are expected to have been fully used by 2022.

The provisions for contingent liabilities and other commitments mainly comprise provisions for guarantee risks, letters of credit, irrevocable loan commitments and litigation risks in the lending business.

Other provisions comprise those for legal and tax risks of €44 million (31 December 2019: € 66 million), and for legal expenses of €19 million (31 December 2019: € 26 million).

Legal Risks (Litigation Risks)

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

The profit participation certificates issued by the predecessor institutions participated in significant losses due to the net losses for the period incurred in the years 2008 et. seq. respectively pbb's unappropriated retained losses since this time. The redemption amounts have reduced and interest payment has been suspended. Individual investors therefore initiated legal proceedings, contesting in particular various individual clauses relating to loss participation and replenishment following loss participation. The key questions in this connection are which balance sheet items must be taken into account to calculate loss participation and whether replenishment is required if pbb records a net income, unappropriated retained earnings or another income. Courts have decided against the legal opinion of pbb in view of the individual decisions regarding profit participation certificates. These proceedings resulted in a partial or comprehensive increase in redemption claims, or in the subsequent distribution of cancelled coupon payments or interest payment claims. There are no legal proceedings pending here, after the last reported legal proceeding with an amount in dispute of approximately €20 million plus interest was settled.

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 Wirtschafts-prüfungsgesellschaft, the trustee of UK-3, expressed doubts with respect to the permissibility of the loss allocation. In June 2017, the trustee therefore appointed an independent expert to determine whether the conditions for a loss allocation were met. On 28 June 2019, the independent expert informed pbb Group on its findings. It found the allocation of the full amount of a credit loss of GBP 113.8 million permissible. According to the terms of the CLN, the determination of the expert is final and binding – except in the absence of manifest error. On 13 September 2019, the trustee confirmed that he had reviewed the expert's report and found no apparent inaccuracy. Accordingly, the trustee has informed pbb that in his opinion the intended loss allocation is permissible. The loss allocation was made on 20 September 2019 and results in a corresponding reduction of the repayment claim under the CLN. On 20 March 2020 the CLN have been repaid (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.

62 Other liabilities

Other liabilites include lease liabilites of €30 million. (1 January 2019: of €35 million).

63 Maturities of specific financial assets and liabilities

Maturities of specific financial assets and liabilities (without derivatives)

in € million	repayable on demand/ unspecified	up to 3 months	more than 3 months up to 1 year	more than 1 year up to 5 years	more than 5 years	31.12.2020 Total
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 other banks	-	-	-	-	-	-
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	19,590	20,936	48,935
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	26	1,881	4,747	17,258	15,668	39,580
Total financial assets	**6,723**	**2,104**	**5,412**	**20,279**	**21,953**	**56,471**
Financial liabilities at amortised 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: registered securities	-	10	2	386	542	940
Liabilities to customers	1,235	775	2,608	5,464	12,501	22,583
Thereof:registered securities	-	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**

Maturities of specific financial assets and liabilities (without derivatives)

in € million	repayable on demand/ unspecified	up to 3 months	more than 3 months up to 1 year	more than 1 year up to 5 years	more than 5 years	31.12.2019 Total
Cash reserve	1,141	-	-	-	-	1,141
Financial assets at fair value through profit or loss	3	4	17	90	475	589
Debt securities	-	-	-	-	130	130
Loans and advances to other banks	-	-	-	-	-	-
Loans and advances to customers	-	4	17	90	345	456
Shares in investment funds qualified as debt instruments	3	-	-	-	-	3
Financial assets at fair value through other comprehensive income	-	98	264	867	467	1,696
Debt securities	-	64	73	759	429	1,325
Loans and advances to other banks	-	-	15	-	-	15
Loans and advances to customers	-	34	176	108	38	356
Financial assets at amortised cost before credit loss allowances	1,862	1,775	5,037	20,331	21,346	50,351
Debt securities	-	248	160	2,439	4,832	7,679
Loans and advances to other banks	1,808	-	-	-	548	2,356
Loans and advances to customers	54	1,527	4,877	17,892	15,966	40,316
Total of financial assets	**3,006**	**1,877**	**5,318**	**21,288**	**22,288**	**53,777**
Financial liabilities at amortised cost	2,429	3,213	4,825	20,051	19,223	49,741
Liabilities to other banks	1,052	86	43	2,296	718	4,195
Thereof: registered securities	-	61	14	184	470	729
Liabilities to customers	1,363	1,226	1,904	5,709	13,783	23,985
Thereof: registered securities	-	516	627	2,937	12,971	17,051
Bearer bonds	14	1,883	2,862	11,962	4,137	20,858
Subordinated liabilities	-	18	16	84	585	703
Total of financial liabilities	**2,429**	**3,213**	**4,825**	**20,051**	**19,223**	**49,741**

64 Equity

Subscribed capital equals the maximum liability of the shareholder for the liabilities of the corporation to its creditors. The subscribed capital as of 31 December 2020 and during the entire financial year 2020 amounted to €380,376,059.67 which is divided into 134,475,308 ordinary bearer shares with no par value representing a theoretical interest in the share capital of approximately €2.83 per share. In the fiscal years 2020 and 2019, pbb did not hold any treasury shares.

Please refer to the disclosures pursuant to section 315a (1) HGB included in the "Supplemental Information" section of the Combined Management Report for information on authorised and contingent capital.

Additional paid-in capital includes contributions from a previous financial year as well as premiums from the issue of shares; except for an amount of €25,383,131.91 (31 December 2019: €25,383,131.91) the additional paid-in capital is freely available pursuant to section 272 (2) no. 4 HGB. Retained earnings were generally created only from net income of the current financial year or previous periods including the current consoliated profit.

Accumulated other comprehensive income from pension commitments decreased by €3 million. This decrease was due to the lower discount rate applied to measure defined benefit pension obligations, from 1.30% as at year-end 2020 to 1.00%. Items that may be reclassified to profit or loss consisting of gains/losses on cash flow hedge accounting and from financial instruments at fair value through other comprehensive income burdened accumulated other comprehensive income by €12 million in total compared to 31 December 2019.

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% and has no final maturity. There are certain conditions attached to the coupon payments. The coupon on the AT1-capital of €18 million payed in April 2019 reduced retained earnings and is disclosed separately in the statement of changes in equity.

The Management Board and Supervisory Board will propose to the Annual General Meeting on 12 May 2021 to distribute a dividend of €0.26 per share entitled to dividends. This dividend proposal follows the ECB's recommendation as regards a prudent distribution policy. The threshold, in the view of the ECB, is either 15% of the accumulated IFRS consolidated profit (after taxes and AT1 coupon) for the financial years 2019 and 2020, or a reduction of the CET1 ratio of not higher than 20 basis points, whichever is lower. The latter applies to pbb. pbb's dividend proposal of €0.26 per share entitled to dividends is at the upper end of the ECB recommendation, which currently applies until 30 September 2021. If the ECB allows for a higher distribution after that date, pbb will consider an additional dividend payment for the financial year 2020 in the fourth quarter of 2021, depending on the prevailing market environment.

65 Trust business

As at 31 December 2020 and 31 December 2019, there were no trust assets or liabilities reported in the statement of financial position.

NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

66 Disclosures to the items in the consolidated statement of cash flows

The consolidated statement of cash flows shows the cash flows of the financial year broken down by operating activities, investing activities and financing activities. Cash and cash equivalents correspond to the balance sheet item cash reserve, and include cash in hand and credit balances at central banks.

Operating activities are defined broadly, and correspond to operating result. Cash flow from operating activities includes payments (inflows and outflows) attributable financial assets at fair value through profit or loss/positive fair values of hedging derivatives, financial assets at fair value through other comprehensive income, financial assets at amortised cost and other assets. Inflows and outflows attributable to financial liabilities measured at fair value through profit or loss/negative fair values from hedging derivatives, liabilities measured at amortised cost (without inflows/outflows from subordinated liabilities) and other liabilities are also included under operating activities. The interest and dividend payments resulting from operating activities are shown under cash flow from operating activities. This also relates to cash flows frum subordinated liabilities. In addition, payments for the interest portion of lease liabilities as well as short-term lease contracts with a maturity of less than 12 months are part of the cash flow from operating activities.

Cash flow from investing activities comprises payments for investment and security holdings as well as for tangible and intangible assets. In the financial years 2020 and 2019, no subsidiaries were disposed.

Cash flow from financing activities comprises inflows from capital increases, payments into reserves and silent participations, inflows and outflows for subordinated capital as well as payments for the amortisation part of lease liabilities.

Liabilities development from financing activities

in € million	2020	2019
Subordinated liabilities		
Balance at 1.1.	**703**	**709**
changes from financing cash flows	-16	-5
Other changes	-1	-1
Balance at 31.12.	**686**	**703**

NOTES TO DERIVATIVE TRANSACTIONS AND HEDGED ITEMS IN HEDGE ACCOUNTING

Risks are the possibilities to deviate from the planned future targets resulting from unpredictability of the future and disruptions. Interest rate risks and foreign exchange risks are primarily relevant for pbb Group. These arise from open positions for example in the case of mismatches of maturities or the variability respectively fixing of interest rates. Interest rate risks are accounted in hedge accounting. Other risks of the hedged items like for example credit risk or foreign exchange risk are not accounted in hedge accounting but are controlled bank wide.

Generally pbb Group hedges interest rate risks. However, in individual cases this may not be possible or sensible. The hedge ratio is determined in relation to the expectation for example of the interest rate development or the costs of hedging. If the risk is not hedged completely for example because the interest rate of the underlying asset does not match completely with the interest rate of the hedging instrument hedge ineffectiveness may arise. A further source of ineffectiveness may be different credit risks of the counterparties of the hedged item and hedging instrument.

Hedging relationships between financial instruments are classified as a fair value hedge, a cash flow hedge or hedge of a net investment in a foreign operation in accordance with IAS 39. Hedging instruments used to hedge interest rate risks are mainly interest rate derivatives, for example interest rate swaps and interest rate options.

Specific disclosures required by IFRS 7 are shown in the risk and opportunity report, amongst others about credit risk, market risk and liquidity risk.

Fair Value Hedge Accounting Under IAS 39, with a fair value hedge, a recognised asset, a recognised liability, offbalance-sheet fixed obligation or a precisely designated part of such an asset, liability or obligation, is hedged against the risk of a change in fair value which is attributable to a specific risk and possibly has an effect on profit or loss for the period.

If the hedge of the fair value in the course of the reporting period meets the criteria of IAS 39.88, the hedge is accounted as follows:

> The profit or loss arising when the hedging instrument is remeasured at fair value (for a derivative hedging instrument) or the currency component of its carrying amount measured in accor-dance with IAS 21 (for non-derivative hedging instruments) is recognised in profit or loss for the period and

> The carrying amount of a hedged item is adjusted affecting profit or loss by the profit or loss arising from the hedged item and attributable to the hedged risks. This is applicable if the hedged item is otherwise measured at cost. The profit or loss attributable to the hedged risk is recognised in profit or loss for the period if the hedged item is an a financial asset measured at fair value through other comprehensive income. The amortisation of the hedge adjustment is started on the date of the revoking of the hedge relationship.

pbb Group uses fair value hedge accounting for accounting micro-hedge and macro-hedge relationships.

Interest rate risks are hedged under micro fair value hedge accounting. Any ineffectiveness within the permissible range pursuant to IAS 39 is reported under net income from hedging relationships. Positive and negative market values of hedging instruments are reported at fair value in positive fair value of hedge accounting derivatives or negative fair values of hedge accounting derivatives, respectively. The adjustment of the hedged item's carrying amount by the profit or loss attributable to the hedged risk directly affects the hedged item. The retrospective effectiveness test is conducted using the regression analysis. The dollar-offset method is used to quantify prospective ineffectiveness. If the hedge relationship is terminated for reasons other than the derecognition of the hedged item, the difference between the carrying amount of the hedged item at that point and the value at which it would have been carried, had the hedge never existed (the unamortised fair value adjustment), is amortised through profit or loss over the remaining term of the original hedge and recognised in net interest income. If the hedged item is derecognised, e. g. due to disposal or repayment, the unamortised fair value adjustment is recognised immediately in profit or loss.

In the context of portfolio hedge accounting within the meaning of IAS 39, interest rate risks from loans and advances as well as from liabilities are hedged on a portfolio basis. The portfolio hedge accounting is aimed to account the effects from the macro interest steering for hedged positions. The fair values as regards the hedged risks in the hedged cash flows of the portfolios of hedged items are reported either on the assets or on the liabilities side as valuation adjustments from portfolio hedge accounting. The changes in the fair value of hedged risks from the portfolios of hedged items are recognised in net income from hedging relationships. The market values of hedging instruments are recognised in statement of financial position at fair value in positive fair values of hedge accounting derivatives or negative fair values of hedge accounting derivatives, respectively. The changes in value are shown in net income from hedging relationships, thus largely compensating the effect on profit or loss from the valuation of the cash flows from the portfolios of hedged items. The cash flows from the portfolios of hedged items are determined monthly within the framework of a dynamic hedge designation and discontinuation process. The resulting valuation adjustments are amortised over the remaining term of the time band and recognised in net interest income. In case of a derecognition of cash flows of hedged items from the portfolio of hedged items, the associated valuation adjustment is reversed on a pro-rata basis and recognised in net interest income.

Cashflow Hedge Accounting According to IAS 39, a cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with the recognised asset or liability (for instance some or all future interest payments on variable-interest debt) or a highly probable forecast transaction that could affect profit or loss.

Under cash flow hedge accounting, hedging instruments are measured at fair value. The measurement result has to be broken down into an effective and an ineffective portion of the hedge relationship. As at 31 December 2020, and 31 December 2019, pbb Group did not designate any derivatives to cash flow hedges. The cash flow hedge reserve remaining from designations will be reversed in line with the hedged cash flows from underlying transactions. pbb applies a prospective effectiveness test every quarter. In case ineffectiveness is discovered, the cash flow hedge reserve is reversed through profit or loss.

67 Derivative transactions

In order to minimize (reduce) both the economic and the regulatory credit risk, bilateral netting agreements have been concluded. By means of such netting agreements, the positive and negative fair values of the derivatives contracts included under the master agreement can be offset against one another, and the future regulatory risk add-ons for these products can be reduced. Through this netting process, the credit risk is limited to a single net claim on the party to the contract.

For both regulatory reports and the internal measurement and monitoring of the credit commitments, such risk-reducing techniques are utilised only if they are considered to be enforceable under the respective legal system in the event that the business associate becomes insolvent. Legal advice is taken in order to check enforceability.

Similar to the master agreements, pbb Group concludes collateral agreements with its business associates to collateralise the net claim or liability remaining after netting (obtained or pledged collateral). Usually, this colalteral management reduces credit risk by means of prompt measurement and adjustment of the exposure to the customers.

Volume of derivatives as of 31 December 2020				Nominal amount	Fair value/carrying amount		
	Remaining maturities						
in € million	up to 1 year	more than 1 to 5 years	more than 5 years	**Total**	positive	negative	Fair value change for effectiveness calculation
Stand-alone derivatives [1]	**6,813**	**10,369**	**1,944**	**19,126**	**737**	**596**	
Interest rate derivatives	2,385	9,742	1,935	14,062	676	571	
OTC derivatives	2,385	9,742	1,935	14,062	676	571	
Interest rate swaps	776	4,774	1,769	7,319	675	569	
Interest rate options	1,609	4,968	166	6,743	1	2	
Currency derivatives	3,733	-	-	3,733	37	16	
OTC derivatives	3,733	-	-	3,733	37	16	
Forward currency transactions	3,733	-	-	3,733	37	16	
Other derivatives	695	627	9	1,331	24	9	
Cross currency basis swaps	695	627	9	1,331	24	9	
Derivatives in fair value hedge accounting [2][3]	**4,861**	**16,848**	**22,752**	**44,461**	**1,651**	**1,920**	**-175**
Interest rate derivatives	4,861	16,848	22,412	44,121	1,650	1,892	-169
OTC derivatives	4,861	16,848	22,412	44,121	1,650	1,892	-169
Interest rate swaps	4,657	15,772	21,251	41,680	1,650	1,833	-143
Interest rate options	204	1,076	1,161	2,441	-	59	-26
Other derivatives	-	-	340	340	1	28	-6
Cross currency basis swaps	-	-	340	340	1	28	-6

[1] In statement of financial position disclosed under “Financial assets at fair value through profit or loss” respectively “Financial liabilities at fair value through profit or loss”.
[2] In statement of financial position disclosed under “Positive fair values of hedge accounting derivatives” respectively “Negative fair values of hedge accounting derivatives”.
[3] Including Eurex AG balance after derivatives netting and cash collaterals independent from their use.

Volume of derivatives as of 31 December 2019			Nominal amount		Fair value/carrying amount		
	Remaining maturities						Fair value change for effectiveness calculation
in € million	up to 1 year	more than 1 to 5 years	more than 5 years	**Total**	positive	negative	
Stand-alone derivatives1)	**7,240**	**9,397**	**3,406**	**20,043**	**717**	**762**	
Interest rate derivatives	3,622	8,743	3,393	15,758	688	726	
OTC derivatives	3,622	8,743	3,393	15,758	688	726	
Interest rate swaps	823	4,546	3,331	8,700	686	724	
Interest rate options	2,799	4,197	62	7,058	2	2	
Currency derivatives	3,383	-	-	3,383	20	28	
OTC derivatives	3,383	-	-	3,383	20	28	
Forward currency transactions	3,383	-	-	3,383	20	28	
Other derivatives	235	654	13	902	9	8	
Cross currency basis swaps	235	654	13	902	9	8	
Derivatives in fair value hedge accounting2)3)	**8,325**	**18,675**	**25,663**	**52,663**	**2,199**	**2,562**	**-127**
Interest rate derivatives	8,325	18,675	25,372	52,372	2,197	2,517	-124
OTC derivatives	8,325	18,675	25,372	52,372	2,197	2,517	-124
Interest rate swaps	8,312	17,468	24,131	49,911	2,197	2,479	-107
Interest rate options	13	1,207	1,241	2,461	-	38	−17
Other derivatives	-	-	291	291	2	45	-3
Cross currency basis swaps	-	-	291	291	2	45	-3

[1] In statement of financial position disclosed under “Financial assets at fair value through profit or loss” respectively “Financial liabilities at fair value through profit or loss”.
[2] In statement of financial position disclosed under “Positive fair values of hedge accounting derivatives” respectively “Negative fair values of hedge accounting derivatives”.
[3] Including Eurex AG balance after derivatives netting and cash collaterals independent from their use.

The fair value change for the effectiveness test of derivatives in portfolio hedge accounting that were netted against Eurex AG amounted to €67 million in 2020 and resulted from interest rate derivatives/interest rate swaps (2019: €55 million from interest rate derivatives/interest rate swaps).

Counterparties	**31.12.2020**		**31.12.2019**	
	Fair value		Fair value	
in € million	positiv	negativ	positiv	negativ
Central governments and central banks of OECD member states	258	24	262	26
OECD banks	1,957	2,396	2,509	3,191
OECD financial institutions	62	94	50	103
Other companies and private individuals	111	2	95	4
Total	**2,388**	**2,516**	**2,916**	**3,324**

The reserve for cash flow hedge accounting, where derivatives were no longer designated in the financial years 2020 and 2019, amounted to €-16 million (31 December 2019: €-11 million) after deferred taxes. In 2020, €-6 million (2019: €-16 million) before taxes was reclassified from the cash flow hedge reserve to net interest income.

68 Hedged items under Hedge Accounting

Hedged items under Hedge Accounting 31 December 2020

in € million	Micro fair value hedge				Potfolio hedge	
		thereof:				
	Carrying amount	hedge adjustment included in carrying amount	hedge adjustment remaining after discontinuation of hedging relationship	Value change for the effectiveness test in the period	Valuation adjustment	Change for effectiveness calculation in reporting period
Financial assets at fair value through other comprehensive income	603	57	41	2	-	-
Interest related hedge accounting	603	57	41	2	-	-
Financial assets at amortised cost	17,100	2,498	1,301	483	27	14
Interest related hedge accounting	16,793	2,470	1,301	477	27	14
Currency related hedge accounting	307	28	-	6	-	-
Financial liabilities measured at amortised cost	23,248	2,456	869	-306	137	-81
Interest related hedge accounting	23,248	2,456	869	-306	137	-81

Hedged items under Hedge Accounting 31 December 2019

in € million	Micro fair value hedge				Potfolio hedge	
		thereof:				
	Carrying amount	hedge adjustment included in carrying amount	hedge adjustment remaining after discontinuation of hedging relationship	Value change for the effectiveness test in the period	Valuation adjustment	Change for effectiveness calculation in reporting period
Financial assets at fair value through other comprehensive income	699	55	54	8	-	-
Interest related hedge accounting	699	55	54	8	-	-
Financial assets at amortised cost	17,915	2,052	1,448	706	19	20
Interest related hedge accounting	17,601	2,028	1,448	703	19	20
Currency related hedge accounting	314	24	-	3	-	-
Financial liabilities measured at amortised cost	27,338	2,223	956	-589	81	-75
Interest related hedge accounting	27,338	2,223	956	-589	81	-75

The item “Valuation adjustment from portfolio hedge accounting (assets)” comprises fair values as regards the hedged risks in the hedged cash flows from the portfolios of hedged items (assets). The item “Valuation adjustment from portfolio hedge accounting (liabilities)” comprises fair values as regards the hedged risks in the hedged cash flows from the portfolios of hedged items (liabilities).

Ineffectiveness of the hedge [1]

in € million	**2020**	**2019**
Result from micro fair value hedge accounting (interest rate risk)	4	-2
Result from portfolio hedge accounting (interest rate risk)	-	-
Total	**4**	**-2**

[1] Reported in net income from hedge accounting.

IBOR-Reform

Interbank offered rates (IBOR) are used as reference rates when determining the prices of numerous financial instruments and calculating the related cash flows. Given the weaknesses of interbank rates used to date, which became evident for the first time as part of the LIBOR scandal, legislators and regulatory authorities worldwide have been working on establishing a system of transaction-based risk-free reference interest rates. In the EU, the EU Benchmark Regulation (EU BMR), which has been in force since 1 January 2018, provides the legal foundation for this matter. Specifically, IBOR rates are to be replaced by alternative reference rates – especially by risk-free overnight interest rates based on actual transactions, determined as an average rate for overnight interbank deposits (borrowings) or for deposits from large customers. After years of uncertainty in terms of the type of changes, it now appears that alternative reference interest rates – based on the risk-free overnight interest rates SONIA and

SOFR – are being established in the GBP and USD currency areas. The market seeks to calculate the interest rate for a particular interest rate period as a weighted product of the overnight interest rates over the interest rate period (compound average in arrears).

The replacement of existing IBOR reference rates from the end of 2021 onwards – as prescribed by the EU BMR – presents numerous challenges for pbb Group, affecting products as well as processes and systems. To meet these challenges, pbb Group launched a cross-divisional project for implementation of the IBOR reform already back in 2018, and has taken numerous steps since then in order to be prepared for the IBOR changeover. The project team regularly reports to pbb Group's Management Board. Topics addressed by the project include finding fallback rules for discontinued reference rates, the changeover of LIBOR-based business, as well as several operational issues. For instance, all new contracts pbb Group has entered into since 2019 which relate to a reference interest rate affected by the IBOR reform include a fallback provision that facilitates a swift changeover to a substitute reference rate preferred by regulators or established in the market. In some cases, fallback provisions for derivatives and financial liabilities were already agreed upon under framework or individual agreements. Moreover, pbb Group is monitoring the development of alternative reference rates discussed by supervisory authorities and market participants very closely indeed, in order to be able to assess the resulting impact upon pbb Group at an early stage. In July 2020, EUREX Clearing switched to using €STR (as a substitute to EONIA) as the risk-free interest rate in the valuation and calculation models for over-the-counter and centrally cleared derivatives. In this context, already in the first half of 2020 ppb implemented a changeover to the new risk-free interest rates for all products with respect to the fair value discount curves used for discounting, measurement and its risk models.

In anticipation of a potential termination of the GBP-LIBOR publication, the Bank of England introduced deadlines for the changeover to alternative interest rates that market participants have to adhere to. In compliance with these deadlines, pbb Group will discontinue new business in GBP on LIBOR basis from the second quarter of 2021 onwards, instead offering an alternative interest rate based on a weighted SONIA product. In this context, the recommendations issued by the Bank of England as well as the conventions currently emerging on the market will be taken into account. In the financial year 2021, a changeover to the alternative interest rate will be implemented as regards the existing GBP financings, also in accordance with the recommendations of the Bank of England. The transition from USD LIBOR (which is unlikely to be discontinued before the end of the first half of 2023) to alternative interest rates will be executed mainly on the same basis which is used for GBP. However, the deadlines imposed by the US supervisory authorities are less strict. pbb Group will implement the changeover in the USD currency area using the same project as that deployed for the changeover in the GBP currency area.

The situation is different for the EUR currency area. The EURIBOR calculation methodology was revised in 2019: The European Money Markets Institute (EMMI) has determined and disseminated EURIBOR reference rates since July 2019. Thanks to the EU-BMR conformity of the revised EURIBOR reference rates, market participants (including pbb Group) will be able to use EURIBOR reference rates beyond 1 January 2020, for both existing and new contracts. pbb Group expects that the EURIBOR interest rate will remain as a reference interest rate for at least the next few years. Given that the EURIBOR revision was purely methodological in nature, this change has not resulted in any material effects for pbb Group, neither for the valuation of financial instruments or hedge accounting, nor from a legal perspective. However, pbb Group is following developments in supervision and the market very closely - for example, the consultation process of the ECB's working group, the Belgian Financial Services and Markets Authority (FSMA), the European Securities and Markets Authority (ESMA), and the European Commission as regards alternative interest rates on the basis of a weighted €STR product.

The IASB has launched a two-phase project to address the potential impact of IBOR reform on financial reporting. Phase 1 of the project was concluded in September 2019, with the publication of an announcement. Communicated amendments to IFRS 9, IAS 39 and IFRS 7 grant a temporary exemption from applying specific hedge-accounting requirements on hedges directly affected by the IBOR reform. pbb Group has already applied the IASB publication "Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7" for the assessment of retrospective as well as prospective hedge effectiveness for the reporting period ending on 31 December 2019 on a voluntary basis. pbb Group plans to continue applying the IASB's phase 1 announcement until uncertainty concerning the timing and amount of underlying cash flows, as a result of the IBOR reform and the expected replacement of the various reference rates, has been removed.

Phase 2 of the IASB's IBOR reform project was completed on 27 August 2020, upon the publication of "Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16". In particular, the amendments provide practical expedients in relation to changes that are required by the IBOR reform. Moreover, recognised hedging relationships (hedge accounting) may generally be continued despite a replacement of the reference interest rate. pbb Group expects that, as a result of the application of the amendments, the Group may continue to recognise or designate the existing recognised hedging relationships in relation to the interest rate risk – even in case of a replacement of existing reference interest rates. The IASB announcement is required to be applied for reporting periods beginning on or after 1 January 2021. Phase 2 of the IASB's project was endorsed by the EU on 14 January 2021.

As of reporting day, pbb Group has designated derivatives in hedging relationships in relation to interest rate risks (micro- and macro fair value hedge) with following reference rates:

Financial instruments, referenced on IBOR- and RFR interest rates as of 31 December 2020

		Loans and advances		Deposits		Debt securities (assets)		Debt securities issued (liabilities)		Derivatives			
										OTC		Centrally Cleared	
		number of contracts	carrying amount in mn €	number of accounts	carrying amount in mn €	number	carrying amount in mn €	number	carrying amount in mn €	number of contracts	notional in mn €	number of contracts	notional in mn €
IBORs	EONIA	2	-	16	1,045	-	-	-	-	-	-	-	-
	EURIBOR	360	10,322	11	21	21	1,569	27	1,528	821	24,343	495	24,109
	LIBOR	124	5,180	15	187	-	-	1	4	178	5,642	63	3,856
RFRs	€STR	-	-	-	-	-	-	-	-	-	-	-	-
	SONIA	-	-	-	-	-	-	1	565	1	37	5	208
	SOFR	-	-	-	-	-	-	-	-	-	-	2	113

Notional volume of hedged items as of 31 December 2020

	Maturities			
in € million	up to 1 year	more than 1 year up to 5 years	more than 5 years	**Total**
EURIBOR (currency EUR)	1,310	10,072	17,449	28,831
LIBOR (currency GBP)	66	56	742	864
LIBOR (currency USD)	278	356	295	929
LIBOR (currency CHF)	499	923	262	1,684
LIBOR (currency JPY)	154	330	130	614
STIBOR (currency SEK)	187	1,253	-	1,440
CIBOR (currency DKK)	-	51	-	51

Notional volume of hedged items as of 31 December 2019

	Maturities			
in € million	up to 1 year	more than 1 year up to 5 years	more than 5 years	**Total**
EURIBOR (currency EUR)	3,405	11,261	18,502	33,168
LIBOR (currency GBP)	470	642	304	1,416
LIBOR (currency USD)	625	1,452	344	2,421
LIBOR (currency CHF)	-	485	149	634
LIBOR (currency JPY)	4	-	-	4
STIBOR (currency SEK)	503	1,198	-	1,701
CIBOR (currency DKK)	-	98	-	98

The above tables also includes EURIBOR derivatives for the sake of completeness. pbb Group assumes that, due to their EU-BMR compliance, the EURIBOR interest rates will remain as reference rates until further notice. The above hedging instruments approximately reflect the interest rate risk of pbb Group managed by means of hedges.

As of the balance sheet date, pbb Group did not hold any swap transactions based on EONIA interest rates as a hedging instrument as part of a hedge in accordance with IAS 39.

OTHER NOTES TO THE FINANCIAL INTRUMENTS

69 Undiscounted cash flows of financial liabilities

Contractually agreed undiscounted cash flows of the financial liabilities according to IFRS 7.39

in € billion	**31.12.2020**	**31.12.2019**
Up to 3 months	3	4
From derivative financial instruments	-	-
From non-derivative financial instruments	3	4
More than 3 months to 1 year	5	5
From derivative financial instruments	-	-
From non-derivative financial instruments	5	5
More than 1year to 5 years	29	23
From derivative financial instruments	1	1
From non-derivative financial instruments	28	22
More than 5 years	19	23
From derivative financial instruments	1	2
From non-derivative financial instruments	18	21
Total	**56**	**55**

The undiscounted cash flows are presented in accordance with the contractually maturity, meaning that options or termination rights are not taken into account. This presentation does not reflect the economic management which is based on expected cash flows. The liquidity risk strategy and management of pbb Group is described in the Risk and Opportunity Report.

70 Assets assigned or pledged as collateral

Assets (without cash collaterals) have been pledged as collateral for the following liabilities and received collaterals:

Liabilities

in € million	31.12.2020	31.12.2019
Financial liabilities measured at amortised cost	7,760	2,212
Total	**7,760**	**2,212**

The following assets were pledged as collateral for the aforementioned liabilities:

Assets pledged

in € million	31.12.2020	31.12.2019
Financial assets at fair value through other comprehensive income	1,296	325
Financial assets at amortised cost	5,468	2,093
Total	**6,764**	**2,418**

The assets pledged mainly resulted from repurchase agreements. The transactions were carried out at the normal standard terms for repurchase transactions and concluded on an arm's-length basis.

In addition, cash collateral was provided in a total amount of €31 million (31 December 2019: €25 million) for the irrevocable payment obligations to the German Federal Agency for Financial Market Stabilisation (Finanzmarktstabilisierungsanstalt) resulting from the bank levy, and to the deposit guarantee scheme of German banks.

71 Collaterals permitted to resell or repledge

As of 31 December 2020 and as of 31 December 2019 there were no collaterals that may be resold or repledged in the absence of default.

72 Transfer of financial assets

When pbb Group transfers financial assets that do not qualify for derecognition (see also Note "Financial Instruments"), they continue to be reported in the statement of financial position.

Transfer of financial assets as of 31 December 2020

	Transferred financial assets that are not derecognised in their entirety			
	Transferred assets		Corresponding liabilities	
in € million	**Carrying amounts**	thereof: Repo transactions	**Carrying amounts**	thereof: Repo transactions
Financial assets at fair value through other comprehensive income	1,296	1,296	1,228	1,228
Debt securities	1,245	1,245	1,179	1,179
Loans and advances to other banks	51	51	49	49
Financial assets at amortised cost	5,468	5,167	5,196	4,896
Debt securities	5,167	5,167	4,896	4,896
Loans and advances to customers	301	-	300	-
Total	**6,764**	**6,463**	**6,424**	**6,124**

Transfer of financial assets as of 31 December 2019	Transferred financial assets that are not derecognised in their entirety			
	Transferred assets		Corresponding liabilities	
in € million	**Carrying amounts**	thereof: Repo transactions	**Carrying amounts**	thereof: Repo transactions
Financial assets at fair value through other comprehensive income	325	325	257	257
Debt securities	325	325	257	257
Financial assets at amortised cost	2,093	1,782	1,955	1,645
Debt securities	1,782	1,782	1,645	1,645
Loans and advances to customers	311	-	310	-
Total	**2,418**	**2,107**	**2,212**	**1,902**

At balance sheet date the fair value of financial assets at amortised cost amounted to €5,628 million (31 December 2019: €2,090 million). The fair value of the corresponding liabilities amounted to €5,229 million (31 December 2019: €1,977 million). The net position from the fair values of assets and liabilities amounted to €399 million (31 December 2019: €113 million). pbb Group does not derecognise these financial assets, since not substantially all risks (in particular credit risk) and rewards of ownership are transferred.

In addition, securities with a carrying amount of €116 million (31 December 2019: €66 million) were transferred to Eurex as a collateral for clearing fund contribution and initial margin for derivative transactions.

pbb Group generally has no countinuing involvement in transferred and derecognised financial assets.

73 Fair values of financial instruments

The fair value of financial instruments, in the opinion of pbb Group, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (exit price). The fair values were determined as of the balance sheet date based on the market information available and on valuation methods described here.

All financial assets and liabilities that are measured at fair value are grouped into the three fair value hierarchies by pbb Group. Reclassifications within the fair value hierarchy are made at the end of the reporting period. The three-level hierarchy is based on the degree to which the input for the fair value measurement is observable:
> Level 1 – quoted priced (unadjusted) in active markets for identical financial assets or financial liabilities (market prices)
> Level 2 – inputs that are observable either directly or indirectly, other than quoted prices included within Level 1
> Level 3 – valuation techniques that include inputs that are not based on observable market data (unobservable inputs)

Fair values and fair value hierarchy of financial instruments

in € million	Carrying amount	Fair value	Level 1	Level 2	Level 3
	31.12.2020				
			Fair value		
Assets in the scope of IFRS 13	**58,642**	**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	54,094	55,706	10,344	15,243	30,119
Cash reserve	5,376	5,376	5,376	-	-
Financial assets at amortised cost [1]	48,691	50,330	4,968	15,243	30,119
Debt securities	7,479	7,609	3,650	2,011	1,948
Loans and advances	41,212	42,721	1,318	13,232	28,171
thereof: Claims from finance lease arrangements	200	209	-	209	-
Valuation adjustment from porfolio hedge accounting (assets)	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 (liabilities)	137	-	-	-	-

[1] Less credit loss allowances.

Fair values and fair value hierarchy of financial instruments

					31.12.2019
					Fair Value
in € million	Carrying amount	Fair value	Level 1	Level 2	Level 3
Assets in the scope of IFRS 13	**56,585**	**58,009**	**7,871**	**20,206**	**29,932**
Measured at fair value in the statement of financial position	5,201	5,201	1,221	3,540	440
Financial assets at fair value through profit or loss	1,306	1,306	3	971	332
Positive fair values of stand-alone derivatives	717	717	-	717	-
Debt securities	130	130	-	87	43
Loans and advances	456	456	-	167	289
Shares in investment funds qualified as debt instruments	3	3	3	-	-
Financial assets at fair value through other comprehensive income	1,696	1,696	1,218	370	108
Debt securities	1,325	1,325	1,218	1	106
Loans and advances	371	371	-	369	2
Positive fair values of hedge accounting derivatives	2,199	2,199	-	2,199	–
Not measured at fair value in the statement of financial position	51,384	52,808	6,650	16,666	29,492
Cash reserve	1,141	1,141	1,141	-	-
Financial assets at amortised cost [1]	50,224	51,667	5,509	16,666	29,492
Debt securities	7,676	7,777	3,709	3,029	1,039
Loans and advances	42,548	43,890	1,800	13,637	28,453
thereof: Claims from finance lease arrangements	208	216	-	216	-
Valuation adjustment from porfolio hedge accounting (assets)	19	-	-	-	-
Liabilities in the scope of IFRS 13	**53,146**	**54,253**	**19,603**	**27,574**	**7,076**
Measured at fair value in the statement of financial position	3,324	3,324	-	3,311	13
Financial liabilities at fair value through profit or loss	762	762	-	749	13
Negative fair values of stand-alone derivatives	762	762	-	749	13
Negative fair values of hedge accounting derivatives	2,562	2,562	-	2,562	-
Not measured at fair value in the statement of financial position	49,822	50,929	19,603	24,263	7,063
Financial liabilities measured at amortised cost	49,741	50,929	19,603	24,263	7,063
Liabilities to other banks	4,195	4,240	1,052	1,233	1,955
Liabilities to customers	23,985	24,785	238	19,805	4,742
Bearer bonds	20,858	21,157	17,828	3,225	104
Subordinated liabilities	703	747	485	-	262
Valuation adjustment from porfolio hedge accounting (liabilities)	81	-	-	-	-

[1] Less credit loss allowances.

According to the general principles of IFRS 13 concerning fair value measurement techniques, an entity shall, in all cases, maximise the use of relevant observable inputs and minimise the use of unobservable inputs. All financial assets and liabilities measured at fair value are assigned to one level of the fair value hierarchy, depending on the respective inputs used.

Disclosures to the measurement methods and input parameters

Measurement Process Both the Finance and the Risk Management & Control divisions play a role in the measurement process. The Finance division supplies accounting data. This includes:

> identification data, such as business identification numbers or International Securities Identification Numbers (ISINs)
> static data such as notional amounts, name and country of the counterparty and (remaining) terms
> accounting data such as carrying amounts, accruals and the effects of hedge accounting

Risk Management & Control calculates additional data used to measure fair value such as interest rates, credit spreads and market prices, as well as internal ratings and LGDs for certain financial instruments.

Risk Management & Control uses the determined input parameters to calculate (and provide to Finance) the fair value or measurement price of financial instruments based on accepted and validated measurement methods. Finance consolidates the data received from Risk Management & Control with the data held for accounting and reporting purposes, and verifies completeness.

Level 2 instruments measured at fair value as of 31 December 2020

Measurement methods	Observable parameter
DCF methods	Euro zone inflation rates
(discounted cash flow)	Reference interest rates
	Saisonalities of Euro zone inflation rates
	Spot market exchange rates
	Yield curves
Option pricing models	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 rates volatilities
	Yield curves

Level 3 instruments measured at fair value as of 31 December 2020

Measurement methods	Non-observable parameters	Observable parameter
DCF methods	Historical index/index correlations	+/-25% of the correlations
	Historical index/ exchange rate correlations	+/-25% of the correlations
	PD/LGD model spread	+/-2 rating levels for PD; +/-0,1 for LGD
Proxy model	Proxy models	+/- triple standard deviation

Financial instruments not measured at fair falue as of 31 December 2020

Measurement methods	Observable parameter (level 2)	Non-observable parameter (level 3)
DCF-Methoden	(Own) credit spreads and Liqui-AddOns, if necessary	Internal rating classes
	Reference interest rates	Recovery rates
	Risk-free interest rate	Estimated remaining maturities
	Observable future cash flows	Estimated future cash flows
	Benchmark interest rates	(Own) credit spreads (secondary market grid)
Bachelier cap-floor model (for floored plain vanilla floater)	Additional cap volatilities including smile	Additional cap volatilities including smile
Bachelier cap-floor model (for fixed coupons options)	Additional swaption volatilities including smile	Additional cap volatilities including smile
Prices on non-active markets	Prices of proxy trades	-

Sensitivities

The calculation of sensitivity is based on shock scenarios for correlations and volatilities pursuant to the level 3 measurement methods table. 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 or interest/EUR-GBP FX correlations). This is also the case for the associated derivative that hedges the asset from an economic perspective. The fair value of the asset (+/- €4 million) and the associated derivative (+/- €4 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 and €–1 million, respectively. FVOCI receivables and FVPL securities 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 €+2 million and €-4 million, respectively.

Changes in level 3 instruments measured at fair value

in € million	Financial assets at fair value through profit or loss	Financial assets at fair value through other comprehensive income	Financial liabilities at fair value through profit or loss
Balance at 1.1.2019	**470**	**156**	**15**
Profit or loss	-3	-47	-2
Additions (new business)	161	-	-
Disposals/repayments	-339	-1	-
Reclassifications in Level 3	43	-	-
Balance at 31.12.2019	**332**	**108**	**13**
Balance at 1.1.2020	**332**	**108**	**13**
Profit or loss	-5	-45	-1
Additions (new business)	127	-	-
Disposals/repayments	-84	-5	-
Reclassifications in Level 3	-	-	-
Reclassifications out of Level 3	-43	-	-
Balance at 31.12.2020	**327**	**58**	**12**

74 Restructured loans and advances

As of 31 December 2020 and as of 31 December 2019, restructuring agreements mainly related to standstill agreements and to the discontinuation of contractual arrangements.

Restructured loans and advances 31 December 2020	Gross amounts of exposure with forbearance measures			Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions	
in € million	Performing exposures with forbearance measures	Non-performing exposures with forbearance measures	**Total**	Performing exposures with forbearance measures	Non-performing exposures with forbearance measures
Financial assets at fair value through profit or loss	-	24	24	-	-9
Financial assets at fair value through other comprehensive income	-	-	-	-	-
Financial assets at amortised cost	1,207	334	1,541	-13	-88
Loan commitments	17	-	17	-	-

Restructured loans and advances 31 December 2019	Gross amounts of exposure with forbearance measures			Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions	
in € million	Performing exposures with forbearance measures	Non-performing exposures with forbearance measures	**Total**	Performing exposures with forbearance measures	Non-performing exposures with forbearance measures
Financial assets at fair value through profit or loss	-	26	26	-	-9
Financial assets at fair value through other comprehensive income	-	-	-	-	-
Financial assets at amortised cost	-	297	297	-	-31
Loan commitments	-	-	-	-	-

In the financial year 2020, receivables in a gross carrying amount of €1,298 million as at 31 December 2020 (2019: €289 million) were restructured; thereof, receivables in a gross carrying amount of €1,207 million (2019: €0 million) were included in the Stage 2 loss allowance and of €91 million in the Stage 3 loss allowance (2019: €289 million).

75 Netting of financial instruments

The following tables show the gross carrying amounts of recognised financial assets respectively liabilities, the gross carrying amounts of the items offset in the statement of financial position and the net amounts of the financial assets and liabilities recognised in the statement of financial position. They also show the rights of set-off that did not lead to an offsetting in the statement of financial position, the collateral received for financial assets, the collateral pledged for financial liabilities and the net amounts of financial assets and liabilities remaining following the application of the netting agreements and deduction of the collateral.

Gross carrying amounts of the items offset in the statement of financial position

On-balance sheet netting of derivatives which are settled through Eurex Clearing led to a reduction in total assets of €3.3 billion as at 31 December 2020 (31 December 2019: €2.4 billion).

Netting agreements

pbb Group routinely enters into standardised bilateral netting agreements in the derivatives business to minimise the legal risk as well as the economic and regulatory counterparty default risk. The national respectively international agreements used are the German, the French and the Spanish Master Agreement for Financial Futures and the ISDA Master Agreement issued by the International Swaps and Derivatives Association. The derivatives cannot be offset in the statement of financial position since their conditions are not identical (e. g. different terms or currency underlyings).

Collateral

In addition, pbb Group also enters into collateral agreements to hedge the net receivables and net liabilities arising following offsetting according to the netting agreements (collateral received or pledged). The collateral used is primarily cash collateral; however, securities are sometimes also used by way of title transfer. The collateral agreements likewise cannot be offset against the derivatives.

Netting of financial instruments as of 31 December 2020

in € billion	Gross carrying amounts of recognised financial assets/liabilities	Gross carrying amounts of the items offset in the statement of financial position	Net amounts presented in the statement of financial position	Rights of set-off that did not lead to an offsetting in the statement of financial position	Received respectively pledged collateral	Remaining net amount
Financial assets	**5.7**	**3.3**	**2.4**	**1.2**	**1.0**	**0.2**
Positive fair values of derivatives	5.7	3.3	2.4	1.2	1.0	0.2
Financial liabilities	**5.8**	**3.3**	**2.5**	**1.2**	**1.3**	**-**
Negative fair values of derivatives	5.8	3.3	2.5	1.2	1.3	-

Netting of financial instruments as of 31 December 2019

in € billion	Gross carrying amounts of recognised financial assets/liabilities	Gross carrying amounts of the items offset in the statement of financial position	Net amounts presented in the statement of financial position	Rights of set-off that did not lead to an offsetting in the statement of financial position	Received respectively pledged collateral	Remaining net amount
Financial assets	**5.3**	**2.4**	**2.9**	**1.5**	**1.2**	**0.2**
Positive fair values of derivatives	5.3	2.4	2.9	1.5	1.2	0.2
Financial liabilities	**5.7**	**2.4**	**3.3**	**1.5**	**1.8**	**-**
Negative fair values of derivatives	5.7	2.4	3.3	1.5	1.8	-

OTHER NOTES

76 Contingent liabilities and other commitments

Contingent liabilities and other commitments

in € million	31.12.2020	31.12.2019
Contingent liabilities	**196**	**191**
Guarantees and warranties	196	191
Other commitments	**3,259**	**4,175**
Irrevocable loan commitments	3,259	4,175
Commitments from bank levies	**31**	**25**
Collateral pledged[1]	31	25
Total	**3,486**	**4,391**

[1] Cash collateral was provided for the irrevocable payment obligations to the German Federal Agency for Financial Market Stabilisation (Finanzmarktstabilisierungsanstalt – “FMSA”) resulting from the bank levy, and to the deposit guarantee scheme of German banks. Pbb Group is also obliged to make additional payments for the bank levy if requested.

For pbb Group irrevocable loan commitments form the largest part of other commitments. Irrevocable loan commitments comprise all commitments of a creditor which can grant a loan and advance at a later date and which can cause a credit risk. These are mainly credit commitments which are not fully drawn.

As at balance sheet date the fair value of contingent liabilities amounted to €196 million (31 December 2019: €191 million) and the fair value of irrevocable loan commitments to €3,316 million (31 December 2019: €4,253 million).

Contingent liabilities and other commitments represent the maximum default risk within the meaning of IFRS 7. pbb Group has a claim for reimbursement of expenses in case a contingent liability is utilised. There were no material contingent liabilities as at 31 December 2020 and 31 December 2019.

77 Leases

Operate lease as a lessee

As a lessee, pbb Group currently exclusively recognises right-of-use assets referring to land and buildings used by pbb Group in line with IFRS 16. pbb Group entered all of its rental contracts on an arm's length basis. Some of these contracts contain renewal options potentially extending the lease term for several periods, price adjustment provisions in the form of stepped rents or index clauses, as well as early termination provisions. Regarding lease extension options, and early termination options, pbb Group took what is presently considered the most likely scenario into consideration. pbb Group measured lease liabilities at the corresponding lease payments, which were discounted with the incremental borrowing rate applicable to the respective liability. pbb Group has not made use of rent concessions that would have been granted as a result of the COVID-19 pandemic.

IFRS 16 provides options to exclude leases with a lease term of 12 months or less, as well as low-value assets (defined with a threshold value of €5,000 at pbb Group) from the scope of application. pbb Group has applied these options: expenses for this kind of leases were recognised through profit or loss on a straight-line basis over the contractual term of the underlying asset. Such expenses were disclosed as other operating expenses, or administrative expenses if the payments referred to rental expenses for business premises.

pbb Group discloses right-of-use assets in 'tangible assets' (see 'tangible assets' note), while lease liabilities are disclosed under 'other liabilities' (see 'other liabilities' note). Depreciation of right-of-use assets is recognised in the note on 'net income from write-downs and write-ups of non-financial assets' (see respective note). Immaterial interest expenses resulting from lease liabilities are disclosed in 'net interest income'.

For further information on the depreciation, additions or other adjustments made to right-of-use assets, please refer to the statement of changes in tangible assets as disclosed in the "tangible assets" note.

Contractual maturities of undiscounted cash flows from lease liabilities

in € million	31.12.2020	31.12.2019
up to 1 year	5	5
more than 1 year to 5 years	17	19
more than 5 years	9	12
Total	**31**	**36**

Lease in the income statement

in € million	2020	2019
Depreciation	6	3
Interest expense	-	-
Short term leases, less than 12 month	1	1
Total	**7**	**4**

Lease in the statement of cash flows

in € million	2020	2019
Payments for short term leases, less than 12 month (Cash flow from operating activities)	1	1
Interest portion of lease liabilities payments (Cash flow from operating activities)	-	-
Repaymens portion of lease liabilities payments (Cash flow from financing activities)	5	3
Total	**6**	**4**

Finance lease as a lessor

The finance lease receivables due from the lessee are broken down in the following tables by gross and net investment value and by the corresponding maturities.

in € million	31.12.2020	31.12.2019
Gross investment	**222**	**234**
Unearned finance income	-22	-26
Net investment/present value of minimum lease payments	**200**	**208**

Allocation by maturities

in € million	31.12.2020	31.12.2019
Gross investment	**222**	**234**
up to 1 year	16	15
more than 1 year to 2 years [1]	16	16
more than 2 years to 3 years [1]	16	16
more than 3 years to 4 years [1]	16	16
more than 4 years to 5 years [1]	16	16
more than 5 years	142	155
Present value of minimum lease payments	**200**	**208**
up to 1 year	13	12
more than 1 year to 2 years [1]	13	12
more than 2 years to 3 years [1]	13	13
more than 3 years to 4 years [1]	14	13
more than 4 years to 5 years [1]	14	14
more than 5 years	133	144

[1] Previous year the four values of those maturity bands were shown total at maturity band "1 year to 5 years".

pbb Group's finance leases refer to the financing structure for an office building.

In the financial year under review and the previous financial year, pbb Group did not enter into any sale-and-leaseback transactions or third-party sublease agreements.

78 Key regulatory capital ratios

The Management Board manages the Group's capitalisation, based on regulatory capital ratios in accordance with the CRR and additional regulations announced by the ECB (Supervisory Review and Evaluation Process – "SREP").

Please refer to Risk and Opportunity Report for capitalisation management as well as for key regulatory capital ratios.

79 Group auditor's fee

Group auditor's fee

in € thousand	2020	2019
Audit	2,414	1,937
Other assurance services	110	228
Tax advisory services	-	-
Other non-audit services	989	2,135
Total	**3,513**	**4,300**

The auditors' fee for KPMG AG WPG Wirtschaftsprüfungsgesellschaft comprised – for the most part – the audit of the consolidated financial statements and the unconsolidated financial statements of pbb as well as the audit of financial statements prepared by different subsidiaries, including the extension of the audit assignment in line with the applicable legal requirements. In addition, audit reviews of interim financial statements were performed.

Other assurance services comprised the preparation of comfort letters in connection with bond issues, and other assurance services required by supervisory authorities.

Other non-audit services mainly comprised quality assurance services in connection with the credit risk models which are unrelated to the introduction or implementation of internal control and risk management procedures.

KPMG AG Wirtschaftsprüfungsgesellschaft has been appointed as external auditor for the Annual and Consolidated Financial Statements of Deutsche Pfandbriefbank AG since the merger of Hypo Real Estate Bank AG and DEPFA Deutsche Pfandbriefbank AG to form Deutsche Pfandbriefbank AG in 2009. KPMG had already worked in the same function for predecessor institutions of Hypo Real Estate Bank AG. The financial statements were signed by German Public Auditors (Wirtschafts-prüfer) Mr Wiechens and, since the financial year 2012, Ms Schmidt. In the financial year 2015, the financial statements were signed by the German Public Auditors (Wirtschaftsprüfer) Messrs Mock and Haider. In the financial years 2016 to 2018, the financial statements were signed by the German Public Auditors (Wirtschaftsprüfer) Mr Winner and Mr Dielehner. The latter had already signed pbb's financial statements in 2009. For the financial year 2020, Messrs Winner and Dielehner are again intended to be the signing German Public Auditors (Wirtschaftsprüfer).

In accordance with the EU Audit Regulation (2014/56/EU) of the European Parliament and its national transposition, the German Auditors' Oversight Reform Act (Abschlussprüferaufsichtsreformgesetz – "APAReG"), pbb group will replace the auditor from the financial year 2021 onwards.

80 Related parties disclosures

According to IAS 24 (Related-Party Disclosures), a party is related to an entity if, directly or indirectly through one or more intermediaries, the party controls or is controlled by the reporting entity, has an interest in the entity that gives it significant influence over the entity or has joint control over the entity as well as associates and joint ventures. In addition, retirement benefit schemes for postemployment benefits for employees are also included under related parties.

Related Entities

According to pbb's knowledge, the share of the Federal Republic of Germany (indirectly via Finanzmarktstabilisierungsfonds – FMS) in pbb stood at 3.5% as at 31 December 2020 (31 December 2019: 3,5%). As a result, pbb Group no longer considers HRE Holding and all companies under the control, joint management or significant influence of the Federal Republic of Germany (as indirect shareholder of Finanzmarktstabilisierungsfonds – FMS and HRE Holding) to be related parties within the meaning of IAS 24.

At the reporting date, pbb Group had receivables to associates not accounted for using the equity method in the amount of €15 million (31 December 2019: €18 million); as in the previous year, there were no liabilities.

On 31 December 2020 liabilities to defined contribution plans amounted to €1 million (31 December 2019: less than €1 million).

Related Persons

pbb Group defines related persons as being the members of the Management Board and the Supervisory Board, plus pbb's second-level managers and members of senior management of pbb's subsidiaries, as well as close members of their families and affiliated enterprises.

Total remuneration of former members of the Management Board and their surviving dependants amounted to €4,653 thousand for 2020 (2019: €4,758 thousand). Remuneration for Supervisory Board members in office during the year under review totalled €778 thousand (2019: €783 thousand) during the year under review. This comprised exclusively fixed remuneration (including remuneration for memberships in Supervisory Board committees).

Vested remuneration claims of persons holding key positions within the Group (senior management)[1)]

	2020						2019
in € thousand	Short-term benefits	Post-employment benefits	Other long-term benefits	Termination benefits	Share-based payments	Total	Total
Total	**9,536**	**2,988**	**625**	**-**	**1,487**	**14,636**	**14,669**

[1)] Reporting follows the "vesting principle", disclosing those remuneration components which were vested during the relevant 2020 reporting period.

Pension obligations to persons holding key positions within pbb Group (senior management)

in € thousand	31.12.2020	31.12.2019
Total[1)]	**85,972**	**85,980**

[1)] Including €57,945 thousand (2019: €59,212 thousand) for pensioners and their surviving dependants.

Disclosure by pbb pursuant to section 314 no. 6 of the HGB, by groups of individuals

Remuneration paid to Management Board members of pbb

		2020[1)]
in € thousand	Remuneration	**Total**
Management Board members who were in office during the financial year 2020	3,179	3,179
Management Board members who retired prior to the financial year 2020	-	-
Total	**3,179**	**3,179**

[1)] Remuneration paid to Management Board members who were in office during the financial year 2019 amounted to €3,070 thousand. Management Board members who retired prior the financial year 2019 did not receive any remuneration in 2019.

As of the balance sheet date, there were no receivables to related persons from loans or advances or other commitments.

Provisions for pensions

	2020[1)]	
in € thousand	Additions/ reversals	Total
Management Board members who were in office during the financial year 2020	2,316	13,356
Management Board members who retired prior to the financial year 2020	-1,267	57,945
Total	**1,049**	**71,301**

[1)] Provisions for pensions for Management Board members who were in office during the financial year 2019 amounted to €11,040 thousand. Provisions for pensions to Management Board members who were retired prior the financial year 2019 amounted to €59,212 thousand as of 31 December 2019.

Remuneration paid to Supervisory Board members of pbb

	2020[2)]
in € thousand	Total fixed remuneration
Supervisory Board members who were in office during the financial year 2020	778
Supervisory Board members who retired prior to the financial year 2020	-
Total	**778**

[1)] Remunerations based on employment contracts that employee representatives of the Supervisory Board receive additionally to their function in the Supervisory Board are not shown.
[2)] Remuneration paid to Supervisory Board members who were in office during the financial year 2019 amounted to €783 thousand in the year 2019. Supervisory Board members who retired prior the financial year 2019 did not receive any remuneration in 2019.

The remuneration of the Management Board and the Supervisory Board members for their respective Board activities (including the corresponding tables) is disclosed in the Remuneration Report on an individual basis. Except for employee representatives to the Supervisory Board, who are remunerated by pbb under their individual employment contracts, the members of pbb's Supervisory Board did not receive any remuneration for personal services during 2020.

Statement according to article 19 MMV

According to pbb's knowledge, the members of the Management Board and the Supervisory Board as well as persons closely related to these members did not hold any shares of the Company in a reportable extent as at 31 December 2020 and as at 31 December 2019. In the years 2020 and 2019, according to pbb's knowledge, no pbb shares or derivatives relating to such shares in a reportable extend were acquired or sold by members of the Management Board and the Supervisory Board or by persons closely related to such members.

Amount of cash-settled share-based payment transactions

The total amount of outstanding virtual shares in relation to the share-based payment arrangements developed as follows:

Amount of cash-settled share-based payment transactions

Quantity (number)	2020	2019
Balance (outstanding) at 1.1.	238,109	139,700
granted during the reporting period	98,560	153,060
expired during the reporting period	-	-
exercised during the reporting period	72,824	54,651
Balance (outstanding) at 31.12.	263,845	238,109
of which: exercisable	-	-

The fair value of the virtual shares granted during the reporting period amounted to €1 million (2019: €2 million) as at the balance sheet date. The intrinsic value of the virtual shares exercisable at the reporting date amounted to €0 million (2019: €0 million), since there were no exercisable virtual shares at that date. The obligation from share-based payment transactions as at 31 December 2020 amounted to €4 million (2019: €3 million). It is reported in the statement of financial position under provisions.

The virtual shares exercised during the reporting period were converted at a weighted average price of the pbb share of €14.81 (2019: €10.11).

The total amount expensed for share-based payment transactions during the financial year 2020 was €2 million (2019: €2 million). A detailed breakdown of the share in total expenses attributable to the members of the Management Board is included in the Remuneration Report.

An amount of €0 million (2019: €0 million) was expensed for former members of the Management Board.

81 Employees

Average number of employees

	2020	2019
Employees (excluding apprentices)	808	791
Thereof: senior staff in Germany	18	19
Total	**808**	**791**

82 Members of the Supervisory Board and of the Management Board

Supervisory Board of pbb in financial year 2020

Name Place of residence Function in Supervisory Board Initial appointment	**Principal occupation** Functions in the Committees of the Supervisory Board	**Supervisory Board memberships and other directorships in 2020**
Dr. Günther Bräunig Frankfurt/Main, Germany Chairman 14.8.2009	**CEO of KfW** Chairman of the Executive and Nomination Committee and of the Remuneration Committee, Member of the Audit and Digitalisation Committee	**Deutsche Post AG, Bonn, Germany** – Member of the Supervisory Board **Deutsche Telekom AG, Bonn, Germany** – Member of the Supervisory Board
Dagmar Kollmann Vienna, Austria Deputy Chairman 14.8.2009	**Entrepreneur** Chairman of the Audit and Digitalisation Committee, Member of the Executive and Nomination Committee and of the Remuneration Committee and of the Risk Management and Liquidity Strategy Committee	**Deutsche Telekom AG, Bonn, Germany** – Member of the Supervisory Board **KfW IPEX-Bank GmbH, Frankfurt/Main, Germany** – Member of the Supervisory Board **Unibail-Rodamco SE, Paris, France** – Member of the Supervisory Board **Coca-Cola European Partners plc, London, UK** – Member of the Supervisory Board
Dr. Jutta Dönges Frankfurt/ Main, Germany Member 21.6.2018	**Executive Board Member of Bundesrepublik Deutschland – Finanzagentur GmbH** Member of the Audit and Digitalisation Committee and of the Risk Management and Liquidity Strategy Committee	**FMS Wertmanagement AöR, Munich, Germany** – Deputy Chairman of the Supervisory Board **Commerzbank AG, Frankfurt/Main, Germany** – Member of the Supervisory Board (from 13.5.2020) **Eurex Clearing AG, Frankfurt/Main, Germany** – Member of the Supervisory Board (until 8.4.2020)
Dr. Thomas Duhnkrack Kronberg/Taunus, Germany Member 21.7.2015	**Entrepreneur** Member of the Audit and Digitalisation Committee	**Hauck & Aufhäuser Privatbankiers AG, Frankfurt/Main, Germany** – Member of the Supervisory Board
Dr. Christian Gebauer-Rochholz Hochheim, Germany Employee Representative 21.11.2012	**Bank employee**	-
Georg Kordick Poing, Germany Employee Representative 22.2.1990	**Bank employee**	-
Joachim Plesser Ratingen, Germany Member 26.8.2014	**Consultant** Chairman of the Risk Management and Liquidity Strategy Committee, Member of the Executive and Nomination Committee and of the Remuneration Committee	**Commerz Real Investmentgesellschaft mbH, Wiesbaden, German**y – Member of the Supervisory Board (until 29.2.2020) **DIC Beteiligungs AG, Frankfurt/Main, Germany** – Member of the Supervisory Board **Pandion AG, Cologne, Germany** – Chairman of the Supervisory Board
Oliver Puhl Frankfurt/Main, Germany Member 13.5.2016	**Entrepreneur** Member of the Risk Management and Liquidity Strategy Committee	-
Heike Theißing Munich, Germany Employee Representative 7.7.2011	**Bank employee** Member of the Remuneration Committee	-

Management Board of pbb in financial year 2020

Name and place of residence	**Function in the Management Board**	**Supervisory Board memberships**
Andreas Arndt Munich	CEO/CFO	–
Thomas Köntgen Frankfurt/Main	Deputy CEO Real Estate Finance Public Investment Finance	–
Andreas Schenk Dreieich	CRO	–
Marcus Schulte Grünwald	Treasury	–

83 Holdings of pbb

Holdings of pbb as of 31 December 31.12.2020

Additional statement according to HGB Name Place of business and country	Purpose of business	Interest in % Total (Sec 16 (4) Aktiengesetz)	Interest in % Of which held indirectly	Differing voting rights in %	Currency	Equity in thousands	Net income/ loss in thousands
Consolidated companies							
CAPVERIANT GmbH[1] Munich, Germany	Marketplace of municipal finance	100.00	-	-	EUR	7,138	-
Immo Immobilien Management Beteiligungsgesellschaft mbH i.L. Munich, Germany	Real estate company	100.00	-	-	EUR	10	5
IMMO Invest Real Estate GmbH[1] Munich, Germany	Salvage acquisition	100.00	-	-	EUR	947	-
Associated companies not measured at equity due to minor significance							
SOMA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Darmstadt KG [2] Dusseldorf, Germany	Model of bank holding	33.33	-	25.00%	EUR	-2,466	2,176

[1] Profit transfer by shareholders on the basis of profit and loss transfer agreement.
[2] Financial figures from the financial year 2019.

84 Country-by-Country Reporting

The requirements of Article 89 of EU Directive 2013/36/EU (Capital Requirements Directive CRD IV) concerning to so-called Country-by-Country Reporting were endorsed in German law by Section 26a KWG (German Banking Act). In financial years 2020 and 2019 no entity respectively no branch of pbb received public subsidies. On 31 December 2020, the ratio of net profit and total balance sheet of pbb Group was 0.2% (31 December 2019: 0.3%). The further figures required by Section 26a KWG are disclosed in the following table:

Country-by-Country Reporting (Additional statement according to Section 26a KWG) as of 31 December 2020

Type of business Name and place of business	Country	Number of employees[1]	Turnover[2] [3] (in € million)	Income/loss before tax[3] (in € million)	Income taxes[3] (in € million)
Deposit taking credit institution					
Deutsche Pfandbriefbank AG, Munich	Germany	654	488	143	-33
Branch of a deposit taking credit institution		-	-	-	-
Deutsche Pfandbriefbank AG, London branch	United Kingdom	44	13	2	-1
Deutsche Pfandbriefbank AG, Madrid branch	Spain	10	1	-	-
Deutsche Pfandbriefbank AG, Paris branch	France	36	16	8	-
Deutsche Pfandbriefbank AG, Stockholm branch	Sweden	9	3	-	-
Representative office of a deposit taking credit institution					
Deutsche Pfandbriefbank AG, representative office New York	USA	9	4	1	-3
Provider of ancillary services					
CAPVERIANT GmbH, Munich	Germany	17	3	-	-
CAPVERIANT GmbH, Paris branch	France	3	1	-	-
Immo Immobilien Management Beteiligungsgesellschaft mbH i.L., Munich	Germany	-	-	-	-
IMMO Invest Real Estate GmbH, Munich	Germany	-	-	-	-

[1] Full-time equivalents not including apprentices, interns/working students and short-term employees with fixed terms < 1 year.
[2] Operating income as turnover equivalent.
[3] Figures before consolidation.

85 Report on Post-balance Sheet Date Events

There were no significant events after 31 December 2020.

Munich, 2 March 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, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Combined 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.

Munich, 2 March 2021

Deutsche Pfandbriefbank AG

The Management Board

Andreas Arndt	Thomas Köntgen	Andreas Schenk	Marcus Schulte

Independent Auditor's Report

To Deutsche Pfandbriefbank AG, Munich

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE COMBINED MANAGEMENT REPORT

Opinions

We have audited the consolidated financial statements of Deutsche Pfandbriefbank AG, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January to 31 December 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the management report of Deutsche Pfandbriefbank AG and the Group (combined management report) for the financial year from 1 January to 31 December 2020. In accordance with German legal requirements, we have not audited the content of those components of the combined management report specified in the "Other Information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,
> the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2020, and of its financial performance for the financial year from 1 January to 31 December 2020, and
> the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the combined management report does not cover the content of those components of the combined management report specified in the "Other Information" section of the auditor's report.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2)(f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Determination of stage 3 credit loss allowances in the Real Estate Finance segment
For the accounting policies and assumptions applied, please refer to the disclosures in the notes, section 7 "Financial Instruments" sub-section "Impairment" and section 29 "Judgements and estimations" sub-section "Allowances".

The Financial Statement Risk
One of the main requirements of the financial reporting standard IFRS 9 Financial Instruments is that the measurement of provisions for expected credit losses is generally based on probability-weighted scenarios and consequently this also applies to debt instruments with credit impairment (stage 3 impairment). In this context, the influence of macroeconomic factors on credit risk must also be taken into account. Deutsche Pfandbriefbank Group's lending operations almost exclusively consist of large-scale commercial real estate financing for which the Deutsche Pfandbriefbank Group determines risk provisions on a case-by-case basis.

As at 31 December 2020, Deutsche Pfandbriefbank Group's loan loss provisions on loans and advances to customers amounted to EUR 242 million (31 December 2019: EUR 124 million). Of this amount, EUR 113 million (31 December 2019: EUR 55 million) is attributable to stage 3 loan loss provisioning for the Real Estate Finance segment. This increase in stage 3 loan loss provisioning in the amount of EUR 58 million is largely due to changes in credit risk in the amount of EUR 57 million.

Determining the number and nature of scenarios, deriving the cash flows expected in each scenario and estimating the probabilities of occurrence require considerable judgement.

Therefore it was of particular importance for our audit that the number of scenarios considered was consistent with the complexity of the conditions determining the individual credit risks including the dependence on macroeconomic factors. We also considered it important that the selection of specific scenarios, estimates of probability for each scenario and estimates of cash flows expected in each scenario were verifiably, justifiably and consistently performed and documented.

Our Audit Approach

Based on our risk assessment and evaluation of the risks of material misstatement, we used both control-based and substantive audit procedures for our audit opinion. We therefore performed the following audit procedures, among others:

In a first step, we gained a better understanding of the performance of the credit portfolio, the associated credit risks and the internal control system with regard to identifying, controlling, monitoring and evaluating credit risks for the credit portfolio.

Our audit included system and compliance testing of the internal control system with particular focus on assessing the internal financial reporting approach with regard to measuring loans with a deterioration in credit quality and with regard to the number, derivation and evaluation of scenarios.

For the IT systems and individual data processing systems used, we first verified the effectiveness of rules and procedures relating to numerous IT applications and supporting the effectiveness of application controls, with the involvement of our IT experts.

Based on these findings, we also assessed, within the scope of our selection of credit exposures defined in accordance with risk and materiality criteria, whether the number and nature of the scenarios selected as well as the probabilities allocated to these scenarios were appropriate. In doing so, we took into account the complexity of financing in each case and the factors likely determining further exposure to risk and considered whether the assumptions underlying the scenarios were consistent with the forecasts of general macroeconomic conditions used at Deutsche Pfandbriefbank Group. We also validated that effects of the COVID-19 pandemic had been incorporated into the determination of loan loss provisioning.

We then assessed the cash flows derived for the scenarios including the payment dates assumed. Our assessment included an evaluation of collateral depending on the exposure strategy pursued by the Deutsche Pfandbriefbank Group.

For the purposes of assessing the recoverability of the underlying collateral, we used appraisals from independent experts for our opinion as well as publicly available data to assess whether the assumptions used for the expert opinions were properly derived. We also confirmed the competence, professional skills and impartiality of the experts, particularly on the basis of interviews, inspection of their assignment, and publicly available information on the experts engaged.

Lastly, we verified that the value of expected credit losses was accurately calculated.

Our Observations

Based on our audit of a selection of credit exposures that were allocated to stage 3 risk provisioning in the Real Estate Finance segment, we found that the judgements in selecting specific scenarios, estimates of probability for each scenario and estimates of cash flows expected in each scenario were verifiably, justifiably and consistently performed and documented.

Other Information

Management and/or the Supervisory Board are/is responsible for the other information. The other information comprises the following components of the combined management report, whose content was not audited:

- the corporate governance statement included in section "Corporate Governance Statement" of the combined management report, and
- information extraneous to management reports and marked as unaudited.

The other information also includes:

- the separate combined non-financial report, which is published with the combined management report, and
- the remaining parts of the annual report.

The other information does not include the consolidated financial statements, the combined management report information audited for content and our auditor's report thereon.

Our opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the combined management report information audited for content or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

> Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
> Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
> Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
> Perform audit procedures on the prospective information presented by management in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on the Assurance in accordance with Section 317 (3b) HGB on the Electronic Reproduction of the Consolidated Financial Statements and the Combined Management Report Prepared for Publication Purposes

We have performed assurance work in accordance with Section 317 (3b) HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the combined management report (hereinafter the "ESEF documents") contained in the file „Konzernabschluss 2020.zip" (SHA256-Hashwert: 72e9b9faae9a2906fe4e3a9b82f40ee7803edcdfdcb051ce2c72275b2ce0de06) and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the consolidated financial statements and the combined management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the combined management report contained in the above-mentioned electronic file and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned file beyond this reasonable assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying combined management report for the financial year from 1 January to 31 December 2020, contained in the "Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report" above.

We conducted our assurance work on the reproduction of the consolidated financial statements and the combined management report contained in the above-mentioned electronic file in accordance with Section 317 (3b) HGB and the Exposure Draft of the IDW Assurance Standard: Assurance in accordance with Section 317 (3b) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410) and the International Standard on Assurance Engagements 3000 (Revised). Accordingly, our responsibilities are further described below. Our audit firm has applied the IDW Standard on Quality Management 1: Requirements for Quality Management in Audit Firms (IDW QS 1).

The Company's management is responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the combined management report in accordance with Section 328 (1) sentence 4 item 1 HGB and for the tagging of the consolidated financial statements in accordance with Section 328 (1) sentence 4 item 2 HGB.

In addition, the Company's management is responsible for the internal controls they consider necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB for the electronic reporting format.

The Company's management is also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited consolidated financial statements and audited combined management report as well as other documents to be published to the operator of the German Federal Gazette [Bundesanzeiger].

The Supervisory Board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB. We exercise professional judgement and maintain professional scepticism throughout the assurance work. We also:

> Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
> Obtain an understanding of internal control relevant to the assurance of the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
> Evaluate the technical validity of the ESEF documents, i.e. whether the electronic file containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815 on the technical specification for this electronic file.
> Evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited consolidated financial statements and the audited combined management report.
> Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor at the Annual General Meeting on 28 May 2020. We were engaged by the Chairperson of the Audit Committee of the Supervisory Board on 11 November 2020. We have been the group auditor of Deutsche Pfandbriefbank AG and its legal predecessors without interruption for more than 20 years.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Andreas Dielehner.

Munich, 3 March 2021

KPMG AG
Wirtschaftsprüfungsgesellschaft

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

Additional Information

Non-financial Report

Pursuant to sections 315b-c in connection with section 289b-e of the German Commercial Code (HGB), Deutsche Pfandbriefbank AG (pbb) has published this separate, combined non-financial report, prepared in line with the German Sustainability Code (DNK) and in accordance with the requirements of the German CSR Directive Implementation Act (CSR-Richtlinie-Umsetzungsgesetz).

SUSTAINABILITY STRATEGY

pbb is a leading specialist bank for commercial real estate finance and public investment finance in Europe and the US. As a financing partner for the real estate industry and the public sector, the Bank holds an important real economic and macroeconomic function. At the same time, pbb ranks amongst the largest issuers of Pfandbriefe (German covered bonds), and is thus also a key issuer of covered bonds in Europe. This way, pbb bundles funds for granting loans, and transforms illiquid loans with concentrated risks into investment opportunities with a diversified risk structure and a high degree of fungibility. For details on the Group structure, business model and business strategy, please refer to the section on Fundamental Information about the Group in pbb Group's Combined Management Report 2020.

When carrying out its business activities, pbb Group is responsible for its environment:

- Employees
- Clients and banking partners
- Equity and debt investors
- Service providers and suppliers
- Society and the environment.

Sustainability is our guiding principle. pbb Group defines sustainability as the self-conception, that its own actions provide an essential contribution to securing a long-term future and to consider the consequences for all stakeholders and the environment. pbb Group is convinced that law-abiding and honest conduct, responsible corporate governance, and adherence to high ethical principles are essential prerequisites for sustainability. pbb Group's aims to combine ongoing economic success with sustainability aspects in the best way possible, thereby creating long-term value for all stakeholders, establishing benefits to society, and protecting natural resources. Given ongoing changes of markets and stakeholder requirements, pbb Group deems a regular and open dialogue to be essential for identifying the needs of all stakeholder groups at an early stage, and being able to include these needs in decision-making processes.

For pbb Group, the active support of the development process towards sustainability is of special concern. That is why pbb Group's sustainability strategy is designed to continuously strengthen and extend sustainability awareness by implementing appropriate measures, as well as embedding sustainability aspects as an integral element within the company. pbb Group makes an express commitment to the Paris Agreement, aiming to contribute to reaching the climate goals.

The sustainability strategy focuses on aspects which, on the one hand, have a material impact on pbb Group's business activities and business success, and which pbb Group, on the other hand, can itself significantly influence. Such material aspects are determined via a materiality analysis. In 2020, the materiality analysis performed in the previous year was reviewed as to its validity, and adjusted.

MATERIALITY ANALYSIS

In 2019, pbb Group carried out a materiality analysis to identify those aspects of sustainability that are material for pbb Group and its stakeholders; this materiality analysis remained valid in 2020. In addition to the general topics of environment, employee and social matters, as well as corporate governance, particular emphasis in last year's materiality analysis was placed on the identification of industry-specific and pbb Group-specific aspects. The assessments of topics and aspects with regard to their business relevance and their impact on the Bank's business activities, as well as their position in the value chain, remain in full force and effect.

Stakeholder

The aspects identified as relevant for pbb Group were assessed with regard to their materiality. pbb Group's CSR Officers assessed the business relevance and impact of business activities according to the German CSR Directive Implementation Act (CSR-Richtlinie-Umsetzungsgesetz).

Relevance for stakeholder groups was elicited by inviting the material stakeholder groups to participate in an online service and share their views on non-financial topics and aspects.

The results of the materiality analysis were presented to and discussed within the CSR Committee.

The following topics and aspects were identified as material:

Topics	Aspects
Industry-specific aspects	Client orientation Sustainable financing solutions Risk management
Corporate governance	Compliance Human rights
Social matters	Considering social implications of business partner choices
Employee matters	Remuneration and employee benefits Working environment Training and continuing professional development

Regarding the influence on pbb Group's business activities, the ability of pbb Group to influence the aspects, as well as regarding the stakeholder relevance, the materiality analysis yielded the following results:

Industry-specific aspects, corporate governance aspects and employee matters have the largest impact on pbb Group's business activities, whilst the impact of environmental aspects is comparatively small due to the business model. The most important industry-specific aspects are client orientation and sustainable financing solutions, as well as sustainable risk management. These aspects significantly impact the business activities of pbb Group. At the same time, it is precisely these topics or aspects that can be influenced relatively effectively by pbb Group. The same applies to corporate governance aspects, compliance and human rights. With regard to employee matters, the following aspects bear the highest relevance: the working environment, training and continuing professional development, occupational safety and health promotion. Even though these aspects also have a significant impact on the Bank's business activities, pbb Group only recognises relatively limited possibilities of influence. Stakeholders considered the aspects of compliance and client orientation to be especially relevant, whilst the relevance of all other topics was only classified as medium.

Our materiality analysis revealed that it is material to our stakeholders that we consider social implications of business partner choices; it is not material, however, from a business model point of view. However, with regard to pbb's business model, this aspect is not to be classified as relevant.

Environmental matters within the meaning of pbb Group's resources consumption or CO2 emission were not deemed material. Nevertheless, due to their general importance pbb Group voluntarily reports on these topics, since the Bank has set itself the objective of permanently reducing its ecological footprint. Whilst the environmental matters of real estate properties financed by pbb Group are deemed material, they fall under the reporting of industry-specific aspects.

Within the scope of employee matters, pbb Group also reports on the aspects of diversity and occupational safety on a voluntary basis. This is because these aspects are particularly important for our society, employees and environment stakeholder groups. Against the background of the COVID-19 pandemic, the occupational safety aspect has been especially relevant in 2020.

In addition, within the framework of the materiality analysis, the essential aspects along the value chain were categorised, and the potential influence of pbb Group along this chain was assessed. pbb Group provides a large part of the entire value chain within commercial real estate finance and public investment finance itself, primarily procuring the funds for the lending business by issuing Pfandbriefe and unsecured bonds, as well as with its retail deposit-taking business with private clients. In the lending business, pbb Group initiates business transactions, provides loan coverage along the entire loan lifecycle up until loan repayment, or, if applicable, the realisation of collateral. Therefore, pbb Group sees the largest potential influence here.

Potential influence on up- and downstream activities of the value chain, on the other hand, are limited to only a few aspects. Upstream activities consist of services rendered by suppliers and service providers. Due to pbb Group's business model, these activities are, however, of only minor significance. The human rights aspect is material for pbb Group; nevertheless, the Bank sees few possibilities for influence. The key downstream activities include especially the use and further utilisation of real estate objects and infrastructure projects financed by pbb Group. In this case, pbb Group recognises a high level of potential influence by implementing sustainable financing solutions.

SUSTAINABLE DEVELOPMENT GOALS (SDGS)

In 2018, the CSR Committee, which is pbb's prevailing body for advancing its sustainability strategy, decided to optimise pbb Group's sustainability strategy by taking into account the Sustainable Development Goals (SDGs). They serve to generally preserve sustainable development at an economic, social and environmental level – with the goal to support sustainable growth, and thus to actively shape a successful future by creating a solid basis.

Strategy

In a first step, the SDGs were prioritised and split into three groups: SDGs where pbb Group is able to make a strong positive contribution, SDGs where pbb Group is able to make a direct or indirect positive contribution and SDGs where pbb Group is able to avoid negative implications.

Against this background, four SDGs were identified to be relevant for the increase of the Group's contribution to sustainability: gender equality; industry, innovation and infrastructure; decent work and economic growth; sustainable cities and communities. These four SDGs are covered in more detail below:

Laying a solid foundation

To be able to deliver solid economic results in the long term, laying a strong foundation is paramount. Sustainable success needs thorough groundwork. That is why action is required to strengthen – and deepen – core areas of expertise. As regards the SDGs, pbb Group can make a strong positive contribution looking at gender equality, as well as industry, innovation and infrastructure.

5 Gender equality
In its Code of Conduct (published online at www.pfandbriefbank.com/en/unternehmen/corporate-responsibility.html), pbb Group has committed itself to respect all people, irrespective of age, sex, race, social background, skills, sexual orientation or religion, which is intrinsically linked with the principle of equal opportunity and thus with that of gender equality. This is being supported by an increased awareness across all levels, the establishment of a corresponding management and corporate culture, and the internal obligation to specifically address the under-represented gender for the given situation when filling vacant positions, whilst taking suitability and qualifications into account – a direct line to target 5 of goal 5:

Goal target 5.5: Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.

9 Industry, innovation and infrastructure
pbb Group makes quite a strong positive contribution to target 1 of goal 9 by providing funding for commercial real estate and public investment projects. Commercial Real Estate Finance is certainly about creating housing and office space, but it is also about fulfilling local everyday shopping needs. In Public Investment Finance, the focus is on public housing, utilities and waste management, healthcare and nursing care properties, as well as childcare and educational facilities.

The CAPVERIANT platform for municipal financing, a pbb subsidiary, supports the government in raising funding for modernising government infrastructure with a transparent and secure portal that brings credit supply and demand together. A cooperation between CAPVERIANT and KfW has been running since November 2019 to search for subsidies via the platform, which represents a major step forward in the expansion of the service offering for municipalities.

Goal target 9.1: Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all.

Fostering sustainable growth

As pbb Group is committed to long-term and substantial success, it emphasizes healthy and sustainable growth. A core element to this is making sure people are working under humane conditions.

8 Decent work and economic growth
pbb's business model requires highly qualified employees with expert knowledge. The objective therefore is to attract, retain and develop – for the long run – highly qualified employees with deep

knowledge, a significant degree of customer focus, leading competence at both divisional and project level, the willingness to be deployed flexibly, and a high degree of entrepreneurial thinking. As postulated in target 5 of goal 8, pbb Group respects all people, independent of age, sex, race, social background, skills, sexual orientation or religion. No form of unfair treatment or discrimination will be tolerated. Violations which become known are sanctioned. Labour laws must be safeguarded, and good working conditions must be ensured.

It is important that all employees be bound by the Code of Conduct, the document that makes it clear to all members of staff what pbb Group deems non-negotiable. The Human Rights Guidelines adopted in 2020 supplement the Code of Conduct and define the requirements that the Group expects both itself and its stakeholders to meet when it comes to respecting and safeguarding human rights. Furthermore, pbb has an internal office that employees may turn to when they feel that discrimination pursuant to the German General Act on Equal Treatment (Allgemeines Gleichbehandlungsgesetz – "AGG") has occurred.

The value chain is another place in which to make sure that people work in a safe and secure environment. This applies not only to service providers and suppliers of pbb Group, but also to the lending business itself. pbb Group provides for that – not only with the Know Your Customer (KYC) process for clients and business partners, but also in its core business, where internal or external experts give appraisals.

Markets, technologies, and – as a consequence – society are experiencing ever faster and greater changes. To live up to these changes, it is important to adapt if one wants to ensure sustainable growth. In line with target 2 of goal 8, pbb Group has committed itself to identify changes and trends, and react accordingly. One example is the digital transformation of the Group, something that affects primarily client interfaces, internal processes as well as new products and services.

Goal target 8.2: Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors.

Goal target 8.5: By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.

Goal target 8.8: Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.

Shaping a successful future

Shaping and securing the future and the prosperity for the next generations is quite a challenge; there are also ecological aspects to it, such as the preservation of natural resources. Making cities and communities sustainable, as undertaken in SDG 11, is of particular importance in this respect.

11 Sustainable cities and communities
As one of the leading European specialist banks for real estate finance and public investment finance, pbb Group is materially engaged in creating sustainable cities and communities. Sustainability in this context means developing urban living spaces with a functional infrastructure, improving the standard of living. It also means looking at how the buildings themselves are constructed. pbb Group is active in various working groups that focus on developing sustainability standards that will help safeguard natural resources and permanently minimise ecological footprints, making a direct positive contribution to target 3 of goal 11.

Goal target 11.3: By 2030, enhance inclusive and sustainable urbanisation and capacity for participatory, integrated and sustainable human settlement planning and management in all countries.

CSR Committee and Corporate Governance Officer

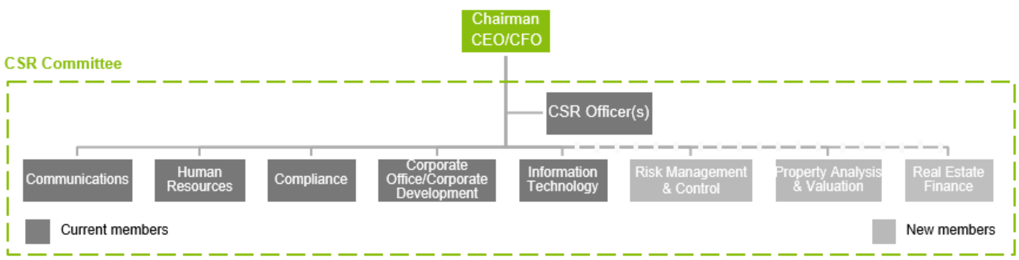
Established in 2017, the CSR Committee is a vital instrument for embedding sustainability topics in pbb Group. Internal rules of procedure determine the purpose and scope of action of the Committee.

The Management Board appoints the CSR Committee members. The Committee is comprised of the division heads of Communications, Compliance, Corporate Office/Corporate Development, Human Resources, Information Technology and the CSR Officer appointed by the CSR Committee. In 2020, the decision was made to expand the CSR Committee to include members of the Risk Management & Control, Property Analysis & Valuation and Real Estate Finance departments. The new composition is designed to take account of the sustainability requirements in pbb's core business, but also in the management of ESG risks.

Membership is linked to the respective function, ensuring that the different divisions are always represented within the Committee. The division head of Communications is the chairman of the CSR Committee.

The chief responsibility of the CSR Committee is to develop a sustainability strategy, and to monitor its implementation. In addition, it determines sustainability targets and the measures necessary to achieve them. Within the scope of an ordinary meeting, held at least once a year, the CSR Officer(s) provide(s) information about current legal developments and market requirements, as well as about the status of implementation and the level of completion of measures and targets determined. Based on this, the CSR Committee may approve new measures and targets where appropriate. The CSR Committee generally follows the principle of materiality when assessing and prioritising measures and targets.

Minutes shall be prepared for any and all meetings. The Management Board shall be informed about the date and time of meetings in a timely manner, and may attend them if desired. Furthermore, the Management Board may obtain further reports and recommendations by the CSR Committee at any time.



Andreas Arndt (CEO/CFO), Member of the Management Board responsible for Corporate Governance, is the Bank's Corporate Governance Officer.

Incentive system

The remuneration system is another vital instrument for deeply embedding sustainability topics in pbb Group. As per its structure, the remuneration system explicitly considers the sustainable development of pbb Group. The focus lies on the economic success of the company (for further details, please refer to the Remuneration Report in the Combined Management Report 2020).

RISKS AND OPPORTUNITIES

Should pbb Group fail to appropriately take the sustainability aspects categorised as material into consideration, or even ignore them, especially financial and social risks would arise. Ecological risks play merely a minor role.

Financial risks result mainly from the following topics: employee matters, corporate governance, and industry-specific aspects. At the same time, this is the area with the greatest opportunities for pbb Group. The qualifications and satisfaction of our employees are the main foundation for the quality of their work, and thus for the Company's potential. In the case of corporate governance, pbb Group focuses mainly on potential financial damage resulting from Compliance effects, whereas in the case of industry-specific aspects, financial damage may occur due to all material aspects. Client orientation is a fundamental success factor for pbb Group in order to secure the financing portfolio; sustainable financing solutions reduce the credit default probability and increase the value of the collateral; risk management is a central monitoring and management system. It is however particularly the industry-specific aspects which allow pbb Group to positively stand out from its competitors in a direct comparison.

Potential financial risks along the value chain arise especially in connection with the own business activities; however, they also occur downstream with regard to sustainable financing solutions – by the construction and use of financed real estate objects and infrastructure projects.

pbb Group recognises social risks, mainly in relation to corporate governance and industry-specific aspects. Focus is especially laid on reputational risks, as reputational damage can have significant adverse effects on pbb Group's sustainable business success. Along the value chain, potential social risks are mainly related to own business activities; on the other hand, pbb Group classifies risks from upstream activities provided by suppliers and service providers as low.

pbb recognises ecological risks, particularly in relation to industry-specific aspects, and especially within the scope of sustainable financing solutions. Risks arising from non-sustainable construction and use of financed real estate objects and infrastructure projects are in focus, i.e. the potential ecological risks are primarily downstream of the own business activities along the value chain.

pbb Group's sustainability strategy is designed to minimise sustainability risks to the greatest extent possible, whilst making use of the opportunities arising.

In the following, we will illustrate the material sustainability topics and aspects.

INDUSTRY-SPECIFIC ASPECTS

Client orientation

pbb Group's clients are fundamental to its business. Therefore, clients' needs are at the core of pbb Group's business activities, and we continuously strive to reach the best possible balance between client demands and our own interests.

Client orientation is a key success factor for pbb Group in order to generate a business portfolio – through new commitments and loan extensions – that matches the Group's risk and return profile. For pbb, client orientation goes beyond processes and structures – it is the top priority in the everyday business of every employee, and a way of life. In this context, the following aspects are crucial: client dialogue, client proximity, and a relationship based upon trust between pbb Group and its clients.

pbb Group maintains a regular and intensive exchange of views with its clients in order to identify their needs, be it in one-on-one talks in the context of long-standing business relationships, or at events. For instance, pbb regularly attends the real estate trade fairs MIPIM in Cannes and Expo Real in Munich. Moreover, pbb organises regular events for clients in commercial real estate finance and public investment finance. Due to the COVID-19 pandemic, direct client contact was not possible in the same way as in previous years. Only very few personal meetings took place, and mainly at the beginning of the year. Whilst major real estate trade fairs and numerous client events were cancelled, some conferences were carried out in a digital format. In addition, individual client events were held for professional real estate clients and experts, as well as for Public Investment Finance clients.

Given the currently still high infection rate, it can be assumed that the situation will be similar in 2021.

Every market has its own local idiosyncrasies. Detailed knowledge about individual market conditions and developments allows pbb to better understand client needs, and to hold an in-depth dialogue with its clients. In order to stay up to date, pbb Group maintains a comprehensive network of sales offices in Germany, other important locations throughout Europe as well as a representative office in New York. Overall, pbb Group maintains ten local sales offices.

Besides a strong local presence, pbb also features expert teams for selected real estate financing aspects; in particular, property development, logistics, retail, and residential topics, hotels – as well as real estate for social purposes, real estate asset management, micro-apartments, and parking spaces. The purpose of this – and other teams – is to integrate existing know-how within the Bank, to build up more in-depth knowledge in a targeted manner, and to provide expert opinions when needed. The teams consist of experts from different areas of specialisation, and are staffed internationally. Among their regular members are employees from Real Estate Finance, Credit Risk Management, Property Analysis & Valuation, and from the Legal department. The competent decision-making bodies may resolve that the respective expert teams become involved in certain new business processes as consultants, or to provide expert opinions on certain aspects. The Developments and Hotels expert teams get involved at an early stage, immediately after the New Deal Committee (NDC) approves the respective deal.

Based on its profound market and product knowledge, pbb Group enters into a highly specialised dialogue with its clients, aiming at individual and tailor-made financial solutions. Given the early involvement – and structural embedding – of Risk Management (for further details, please refer to the Risk and Opportunity Report in pbb Group's Combined Management Report 2020) and the Property Analysis & Valuation department for real estate valuation purposes, pbb intends to identify, and mitigate, potential risks at an early stage.

In 2020, we maintained an intensive client dialogue. Within the scope of interviews, we asked our clients to share their experiences, wishes and ideas for our products and services, thus contributing to enhancing and improving them.

Client confidence plays another crucial role in pbb's business activities. As a prerequisite, pbb Group implements the necessary security standards in order to ascertain confidentiality of information about clients, and of all transaction data (cf. the chapter "Data protection"). Since its establishment, pbb Group has used a Code of Conduct, which comprises the non-negotiable requirements that pbb expects from all its employees when dealing with clients, or other stakeholders. The Code of Conduct provides more than just guidance – it is a binding part of each employee's employment contract, and forms the basis for all other framework regulations within pbb Group.

The Code of Conduct is implicitly applied to all clients, prospective clients or other business partners (e.g. suppliers). Should an employee become aware of any indications that a client, prospective client or other business partner (e.g. a supplier) may be involved in illegal activities, or activities that could damage our reputation, he must inform the competent member of the Management Board as well as Compliance. The competent member of the Management Board will initiate a review of every single case – in cooperation with Compliance, and other divisions, if required (such as Internal Audit, Legal, or the Credit department).

In addition to a purchase guideline designed to streamline all purchase processes within pbb Group, the so-called Compliance Caution Framework (CCF Scout) is important. CCF Scout is used as an IT-based search engine to check business partners, counterparties, purchasers or suppliers for entries or any sort of conspicuous features immediately, and at an early stage, before new business is generated or an existing business relationship is extended. CCF Scout entries have been collected by a respected external service provider, which draws upon worldwide sanctions lists collated from publicly available sources, such as the EU, OFAC, or the German Bundesbank. Furthermore, CCF Scout comprises relevant information from press releases and media content.

pbb Group has also written a Code of Conduct for suppliers, by which business partners commit to comply not only with present legislation, but also to act in an economically, socially, and ecologically responsible manner. Implementation is scheduled for 2021.

Regarding client confidence, fair treatment is another crucial factor. pbb Group is committed to openness, professionalism and excellence when providing services to clients. This also includes a high performance standard as well as appropriate and effective complaints management that ensures the efficient, targeted and rapid processing of complaints. Complaints received not only offer the chance to amend mistakes, and to restore client satisfaction – they also provide important clues to organisational weaknesses.

Therefore, pbb Group takes every complaint seriously, handles them carefully, and documents them irrespective of background or appropriateness. For this purpose, pbb Group established a dedicated process in order to ensure that complaints are dealt with effectively – this process has been laid out in an internal guideline, which is binding for all employees. For information on how to submit a complaint, regarding the timeline of the complaints procedure, and which alternative dispute settlement procedures exist, customers and other interested parties can access the various websites of pbb Group (e.g. pbb, pbb direkt). The competent pbb Group office collects all complaints, reviews them on a regular basis, and provides reports to the Management Board and the Supervisory Board, amongst others. In 2020, the number of complaints was significantly above the levels seen in previous years. This development was down to a marketing campaign at pbb direkt targeted at acquiring new customers which led to misunderstandings with existing customers. As a result, processes for campaigns to attract fresh funds were improved. Adjusted for the aforementioned, the number of complaints regarding other topics continued to lie in the low double-digit range.

Sustainable financing solutions

As a specialist bank, pbb Group finances commercial real estate projects as well as infrastructure projects of the public sector. pbb Group sets high standards when granting loans – also in terms of sustainability. As a general rule, pbb Group's actions are always within the boundaries set by legal, and – in particular – the applicable supervisory requirements.

Furthermore, pbb Group has laid out additional ethical and moral standards in its Code of Conduct, which emphasises sustainable behaviour. pbb Group does not support business practices that could harm our reputation or give rise to the suspicion that the client is acting unlawfully, or is violating our ethical and moral standards. Illegal activities or activities that could otherwise damage the Group's reputation include:

> Money laundering
> Financing terrorism
> Drug trafficking
> Illegal weapons trade
> Violation of human rights
> Human trafficking
> Smuggling of goods
> Bribery of government officials or other officials
> Granting and/or accepting undue benefits
> Tax offences
> Illegal or unauthorised use of property, including land ownership
> Market abuse, such as market manipulation or insider trading
> All forms of organised crime
> Environmental pollution, including excessive emissions, illegal waste disposal as well as any type of falsification of documents associated therewith
> Illegal use of labour, including forced labour and child labour

The above list is not exhaustive, yet representative of pbb Group's commitment to distance itself from any illegal practices or any other activities that may damage its reputation. Our ethical principles and guidelines are above income respectively return from individual transactions.

Besides economic aspects such as long-term income streams, ecological considerations such as the type of heating or building structure all play important roles for the financing of commercial building projects and existing properties.

If pbb were to ignore its sustainability principles, the Group would considerably increase potential risk regarding interest and principal payments, and the repayment of granted loans. In addition, this would represent significant financial risk for clients and real estate investors, given that their equity investments would be drawn upon before the loans granted by pbb in any form of insolvency proceedings. Therefore, the interests of pbb Group are in line with general sustainability interests.

By integrating a clearly defined and carefully designed due diligence process into the credit approval procedures, involving the Management Board, pbb Group also integrates the principle of economic sustainability.

Ensuring long-term income streams is mainly based on the assessment of relevant aspects, such as economic, demographic and sociographic factors as well as real estate (e.g. property location, sales ratios, occupancy and vacancy rates, tenant structure, rental income, general administrative and maintenance costs) and financing considerations (e.g. financing volume and structure, loan-to-value ratios, financing conditions). The assessment of the building structure sustainability is generally based on the structural quality, taking ecological aspects into account, such as the composition and quality of the used materials and the quality of the construction work. Furthermore, eco certifications are taken into account, such as Green Building Programme certificates, or energy labels. If pbb were to ignore contaminations of properties, or if it tolerated ecologically irresponsible construction work, the sustainability of the respective property (or the corresponding mortgage securities) would be jeopardised.

In order to ensure financing sustainability, close cooperation between Sales, Risk Management, as well as Property Analysis & Valuation, is required at an early stage of the credit process within pbb Group – which has been laid out in the corresponding process structure and internal guidelines. pbb Group maintains a dedicated department comprising 38 real estate surveyors, and cooperates with external real estate experts. In the case of sites where contamination is suspected, pbb carries out additional research and usually obtains specialised expert opinions. In order to ensure the sustainability of properties yet to be financed, our surveyors provide an assessment of the real estate regarding its economic and structural risks. The assessment result – including any conspicuous or unusual features – are summarised in a property report, which is used, among other factors, to take the credit decision. Furthermore, in the corresponding valuation opinion, the stability of the property value as a financing object is explicitly considered through the lending value concept. More specifically, sustainability aspects such as the energy efficiency of a building, or any contaminations, are considered very carefully in the valuation of properties. In addition, the basis and time intervals for credit decision reviews have been clearly laid down. The same applies to the inspection of properties – our guidelines provide unambiguous instructions as to when (and by whom) these inspections shall be conducted. pbb applies particularly rigorous monitoring and supervisory processes for new buildings as part of so-called development financings, and for construction measures within existing properties (e.g. modernisation or renovation activities) as part of so-called investment financings. Our monitoring processes also comprise working conditions as well as human rights. Given the close cooperation of all pbb divisions, in particular the involvement of Property Analysis & Valuation at an early stage, pbb Group efficiently selects its new business exposure, which is essential for the long-term success of the Group and its clients. Furthermore, this approach allows us to avoid negative repercussions for the environment and society as a whole.

In 2020, pbb Group further expanded its coverage of sustainability criteria, aiming to use the fresh data in identifying "green real estate" in its new business. Based on this, pbb Group has developed a Green Bond Framework which follows the ICMA Green Bond Principles and considers real estate with comparably low energy consumption or very good building certification. The properties identified as per these criteria serve as a reference portfolio for the issuance of green bonds by pbb Group. A Green Bond Committee selects the properties and decides which loans to add to the reference portfolio; the resolution must be unanimous. In accordance with pbb Group's Green Bond Framework, green bonds can be issued as Pfandbriefe and senior unsecured (preferred and non-preferred) bonds. By issuing green bonds, pbb Group enables investors to make targeted investments in sustainable capital market products.

In addition, pbb Group is developing a concept for "green" financings (the so-called Green Loan Framework). The sustainability criteria used for a green loan shall follow the ICMA Green Loan Principles and be in line with the EU taxonomy.

In Public Investment Finance, pbb Group contributes to society by financing investments for the provision and improvement of public infrastructure.

Many of the public investment financing projects have a direct and sustainably positive social as well as environmental impact. For instance, pbb Group finances investments in social and health properties, public administration buildings, or renewable energy. Whilst the relevant credit process is largely in line with Commercial Real Estate Finance, pbb Group's lending business in Public Investment Finance is not only based on tangible assets and income generated from such assets, but additionally on the credit quality of public-sector entities such as cities or regions. Transactions are also geared towards sustainability: a detailed due diligence process is employed to ensure the long-term value of loan receivables – and hence, debt servicing ability as well as the ability to repay the loan. Social and environmental aspects are incorporated into the assessment.

pbb Group has committed itself to making an active contribution to further develop and promote sustainability standards, including beyond the Bank. For this reason, the Group is active in numerous working groups: in the real estate (financing) business, pbb Group takes part in working groups of the Association of German Pfandbrief Banks (vdp), as well as in the initiative launched by the European Mortgage Federation (EMF) and the European Covered Bond Council (ECBC) to determine energy efficiency of buildings in Europe. Through its participation in working groups as well as in various association bodies, the Group succeeded in further advancing sustainability standards.

Thanks to the active involvement of pbb Group, the vdp valuation committee determined energy-efficiency criteria (as part of a property and market rating) which can be included as additional criteria into vdp's transaction database. pbb Group is currently working on having these criteria included in an enhanced version of the German LORA software, a standard product used for financial assessments. The aim is to include the energy efficiency criteria established by the vdp valuation committee.

Risk management

Besides client focus, risk management constitutes another core success factor for pbb to secure its sustainable business performance. Within the framework of risk management, pbb Group identifies, analyses and monitors all potential risks.

In the year under review, pbb Group explicitly embedded ESG risks in its business and risk strategy. Risks are defined in the Group's risk inventory, and assessed annually. All components, i.e. environmental risk, social risk, and governance risk, are considered. Whilst ESG risks are deemed material overall, they are already covered by the other types of risk: business and strategic risk, operational risk, market or counterparty credit risk.

pbb Group aims to consider sustainability aspects within all its business activities, and to minimise the risk of negative consequences due to ESG risks.

Managing the environmental risk focuses on two main aspects: climate-related/environmental risks directly linked to pbb, and aspects linked to the financed real estate properties, whereby physical and transitory risks are considered.

Managing the social and governance risk is mainly based on the Code of Conduct which determines the binding ethical and legal framework governing conduct within pbb Group together with its dealings concerning clients, business partners, competitors, and the general public. A Human Rights Guideline stipulates the additional indispensable principles for respecting and adhering to human rights. In addition, pbb Group has created a Code of Conduct for suppliers. These relevant principles are reflected in our organisational, management, and control structures, as well as in our guidelines, instructions, and processes.

A system has been established to monitor the various ESG risk aspects, including risk indicators, as well as amber and red threshold values. As such, an eye is kept on employees' use of resources (e.g. electricity, paper, company cars) and on business travel (e.g. train and air travel) to monitor the environmental risk, whilst indicators on diversity, operational safety, and personnel development have been established to monitor the social risk; and governance risk is monitored by compliance-relevant cases. Adherence to the self-imposed internal targets can be monitored by the amber and red threshold values determined for the risk indicators.

Both the risk indicators and the internal targets for the various aspects of ESG risk are continuously developed, enhanced and specified.

Risk indicator reporting is performed within the scope of the Key Risk Indicator (KRI) report for non-financial risks to the Management Board and division heads on a quarterly basis. In addition, existing sustainability benchmarks in the form of external sustainability ratings are likewise an integral part of regular internal reporting to the Bank's management.

Given its key importance for pbb Group, the risk management function is anchored as an integral component of the Group, both in terms of organisation and concerning processes. Please also refer to the Risk and Opportunity Report in pbb Group's Combined Management Report 2020 for more detailed information on risks and opportunities identified for the various types of risk, within the scope of the risk management and risk control system implemented.

CORPORATE GOVERNANCE

Code of conduct and ethical principles

Transparent, fair, responsible and honest conduct – with the required degree of expertise, professionalism and integrity in dealings with one another, clients and business partners, competitors and the public – are deeply rooted in pbb Group, and require that the relevant legal, supervisory and internal obligations as well as other relevant laws and regulations are implemented and adhered to.

pbb Group's Code of Conduct sets out the ethical and legal framework as well as the non-negotiable standards the Group expects its employees to live by. The Code of Conduct provides more than just guidance – it is a binding part of each employee's employment contract, forming the basis for all other framework regulations within pbb Group. Amongst other things, the Code of Conduct offers very clear guidance on questions regarding relationships with clients, suppliers, shareholders, investors and competitors – as well as how to respond to conflicts of interest, bribery, the granting of advantages, or how to prevent money laundering and market abuse.

pbb Group commits not to support business practices that could harm our reputation or give rise to any suspicion that the Group assists clients or suppliers in violating its ethical standards or in breaking the law. The applicable law, as well as all the regulatory provisions in force in the various jurisdictions where pbb Group does business, form the basis for the entire corporate decision-making process and our day-to-day operations. They are complemented by internal regulations and detailed instructions. As a listed company, pbb adheres to the German Corporate Governance Code under application of the 'comply or explain' principle. This Code describes the legal requirements posed for managing and supervising German listed companies. It reflects current national and international developments, alongside standards of good and responsible corporate management. The Code of Conduct is supplemented by pbb Group's separate Human Rights Guidelines, published for the first time in 2020.

Compliance

Compliance means ensuring adherence to statutory and regulatory provisions as well as other legal requirements. This holds especially true for legal requirements concerning the performance of securities services. Compliance with these requirements serves the goal of client/investor protection and, as a consequence, the protection of pbb's reputation. The main standards pbb must comply with are the EU Market Abuse Regulation, the German Banking Act (Kreditwesengesetz – "KWG"), the German Securities Trading Act, and the regulations and guidelines based on these documents.

Compliance risks include sanctions, financial losses and reputational risks that may arise from violations of the above-mentioned rules. The Group takes any fraudulent act very seriously, both for commercial reasons and because of its legal obligation to prevent such acts. pbb and its Group entities have devoted themselves to very high standards of honesty, openness and responsibility, applied both within the organisation and during all external business activities. We need to be able to rely on each other, and our clients must be able to trust us. As our employees play a central role in this context, we have established tools that allow our internal staff – as well as external third parties – to blow the whistle on statutory violations and undesirable conduct. Compliance regularly reports on these tools to the Management Board and Supervisory Board.

pbb employees are bound by numerous internal protocols and instructions such as the Code of Conduct, but also guidelines on combating other criminal acts, on information security, on preventing money laundering and the financing of terrorism, on economic sanctions, as well as on competition law.

In pursuit of the goals of education and raising awareness amongst staff, all of pbb's employees are obliged to take part in a compliance training when they join the Bank and on a regular basis thereafter. These trainings cover a variety of topics, including the prevention of money laundering and the financing of terrorism, competition law, combating other criminal acts as well as general compliance issues. Successful participation in these trainings is only certified following a test. pbb Group not only offers regular trainings, but also individual continuing professional development (CPD) programmes, such as trainings, seminars, and workshops on demand, to ensure that employees receive training that caters to their needs and aligns with pbb's business model.

Banks are bound by a plethora of legal, regulatory and administrative provisions that have been installed to provide clients and business partners with a high degree of security. pbb Group, in turn, has installed various processes to ensure compliance with these provisions, such as a centralised, internal control process for key risks and their controls. This so-called Control Attestation Process includes a quarterly report of all business divisions to Compliance.

pbb's business divisions and departments have identified key risks for this process, based on the process map and the annual operational risk assessment. These key risks have been assigned so-called key controls, which are subject to a continuous monitoring and confirmation process. The status quo of the respective business divisions' key controls is included in a regularly reporting to the Management Board and the Supervisory Board.

To efficiently design an appropriate, continuous legal monitoring, pbb uses a workflow system that allows for comprehensive and early identification of new versions of (or amendments to) relevant regulatory requirements and provisions. Based on an embedded information service, the system provides comprehensive information on amendments and new versions of relevant regulations (so-called "norms"). In addition, it provides assistance for the definition of appropriate measures as regards compliance with relevant rules and regulations, their implementation, and corresponding monitoring of implementation. All business divisions have access to this system and are obliged to identify the norms that are relevant to them, and assess them from a risk perspective. For material norms, a comprehensive control mechanism applies, with the business areas reporting to Compliance on how and to which extent this is done. Compliance advises the business areas and monitors handling, together with an expert committee (LRRC); it also reports directly to the Management Board and the Supervisory Board.

Pursuant to article 18 of the Market Abuse Regulation, issuers or any person acting by order of or for the account of such issuer must maintain lists of persons who are active on their behalf, and who are authorised to access inside information. pbb Group shall inform these persons on the legal duties associated with access to inside information, and on the legal consequences of violations of rules.

The harmonised procurement policy stipulates that all relevant orders must be processed through the IT-based procurement and contracts management system, which also serves as the contracts database (incl. deadline management). Our procurement policy also defines the multi-layer approval process, which includes the sourcing unit and is based on a pre-defined assignment of approval powers. Suppliers are regularly rated, allowing us to rank and compare them, to monitor their performance, and talk openly about weak spots.

In addition, relevant compliance processes are continuously reviewed, allowing for a continuous adjustment to pbb Group's risk situation and permanent optimisation of the monitoring and control measures. The Management Board and the Supervisory Board's Audit Committee receive detailed reports on all Compliance-relevant topics on a quarterly basis.

Preventing money laundering and terrorism financing

pbb Group has committed to very high standards in the prevention of money laundering and the financing of terrorism, to ensure that constant reforms are always accounted for. The Group has implemented comprehensive rules and processes, and requires all employees to follow them. Examples of the Group's commitment include thorough Know Your Customer (KYC) processes, a continuous cross-checking of international lists regarding, inter alia, sanctions, suspicion of money laundering or terrorist financing, as well as risk analysis and ongoing reporting. The actions of pbb Group in this regard are essentially based on the German Money Laundering Act (Geldwäschegesetz – "GWG"), compliance with which is monitored and controlled by internal controls in the sales-related units, Compliance and Internal Audit along the "Three Lines of Defence". Since January 2020, there has been a new Client Lifecycle Management Team in the Frist Line of Defence, which supports the sales-related units with the KYC process, including compliance with legal requirements and internal regulations. Measures to prevent money laundering and financing of terrorism are subject to continuous updating and are subject of annual audits, by Internal Audit and the annual external audit. They are also covered during the audit of the financial statements.

Fraud prevention, anti-corruption and bribery

As already described, pbb Group takes the prevention of any and all fraudulent actions very seriously. As such, pbb has taken various arrangements to protect itself against damage incurred by potential fraudulent and/or other criminal acts, such as corruption and bribery. Binding rules applying to all employees are defined especially in the Guidelines on Combating Further Criminal Actions and in the Code of Conduct; one of their goals is to ensure proper and professional conduct amongst employees.

Among other things, said rules comprise clear provisions to avoid conflicts of interest, provisions for accepting and granting benefits and gifts in general, and interactions with government representatives and public agencies. In particular, cash payments, gifts and other benefits or perquisites to officials that could in any way be interpreted as undue influence, bribery or corruption, are prohibited.

At the end of the day, specific indications are important, as they can help detect statutory violations. pbb Group's whistleblowing system allows for anonymous reporting in the event of a specific suspicion regarding fraudulent or other illegal activities (whistleblowing). All evidence is handled with utmost confidentiality. As in the previous year, no evidence was brought forward in the year under review.

Data protection

Handling confidential data with great care is a top priority. We adhere, inter alia, to the EU General Data Protection Regulation, to the German Data Protection Act (Bundesdatenschutzgesetz – "BDSG"), to national/international legal and regulatory provisions, to contractually agreed confidentiality clauses (including concerning the so-called "banking secrecy") as well as to internal regulations on data protection. To ensure that these data protection requirements are met, pbb has implemented controls and sanctions. An in-house data protection officer, in his or her management function, also exercises control tasks. Further, the issue of data protection is covered in every employment contract.

Our staff receive ongoing training regarding data protection issues. Any breach of the data protection rules and regulations may have disciplinary consequences.

Competition and antitrust legislation

In its Code of Conduct and in internal guidelines on the topic of competition and antitrust law, pbb Group has set high standards regarding compliance with respective requirements and rules, especially as regards discussions with competitors. Furthermore, our staff attend trainings on competition and antitrust legislation once a year.

As a further measure to raise awareness and ensure compliance with the requirements, Compliance has implemented a confirmation process, within which the heads of all business divisions are requested to confirm acknowledgement of – and adherence to – the competition and antitrust stipulations for their division on a regular basis.

Respect for human rights

pbb Group published Human Rights Guidelines for the first time in 2020. These supplement the Code of Conduct and define the requirements that the Group expects both itself and its stakeholders to meet when it comes to respecting and safeguarding human rights.

In these guidelines, pbb Group accepts its unconditional responsibility as a global company to respect, adhere to and strengthen human rights, and to prevent human rights abuses during the course of its own business activities, but also along its entire supply and value chain as well as amongst its stakeholders. To this end, pbb Group observes international human rights standards and guidelines, including the International Bill of Human Rights of the United Nations and the European Convention on Human Rights.

Above and beyond legal requirements, such as those set by the German General Act on Equal Treatment and the German Act to Promote Transparency of Pay Structures, pbb Group has incorporated the stipulation to respect and honour human rights as a central theme in its Code of Conduct, the document which defines the vital ethical and legal framework governing conduct within pbb Group together with its dealings concerning clients, business partners, competitors and the general public. pbb Group expressly distances itself from any violation of human rights, whether committed by a member of staff or other stakeholder groups. Transparency, honesty, fairness, as well as dignity and respect are among the most central maxims. pbb Group respects all people, independent of age, disability, sex, sexual identity, ethnicity, social background, skills, sexual orientation, beliefs, or religion, and is committed to fostering diversity amongst its staff as far as possible. A culturally diverse workforce is an important success factor, which is why the Group is devoted to preventing or removing discrimination against its employees. The Code of Conduct, as a means of prevention, binds all employees to conduct themselves in line with the principles and values defined therein.

To highlight the importance of equal treatment, pbb Group signed the German Diversity Charter. To ensure equal working conditions and opportunities for all employees alike, pbb Group also engages in regular exchanges with its employee representatives on a variety of relevant topics, ranging from equal pay to striking a balance between work and family commitments, and the prevention of discrimination and mobbing. pbb Group has made the necessary arrangements to safeguard everyone's right to work in a secure and healthy environment in line with the applicable occupational safety and health legislation (cf. "Working environment").

pbb Group has established a system that allows our internal staff – as well as external third parties – to blow the whistle on statutory violations and undesirable conduct. Furthermore, a Complaints Office to report potential discrimination pursuant to the German General Act on Equal Treatment has been set up for pbb employees.

As set forth in its Code of Conduct, pbb Group expects its clients, suppliers and business partners to respect and adhere to human rights. Responsible and transparent corporate governance is the foundation.

The duties of pbb Group employees regarding human rights also stretch to human rights abuses at the hands of other stakeholders: should a staff member become aware of any indications that a prospective client, supplier or other business partner may be involved in illegal activities or activities that could damage our reputation, or which violates human rights, they must inform the Member of the Management Board responsible for the relevant area, as well as the Compliance Officer, in accordance with our binding Code of Conduct. The relevant Member of the Management Board and the Compliance Officer will review every case individually. These questions are also pre-empted during the Know Your Customer process that clients and business partners are subject to, as well as during country analyses used to identify target markets.

In 2020, pbb Group prepared another statement of compliance with the UK Modern Slavery Act, in which suppliers and service providers were identified and the processes that have been set up to ensure conformity with this Act, whose applicability is (currently) limited to the United Kingdom, were laid out. The Management Board and the Audit Committee are informed about compliance-relevant topics on a quarterly basis. This also applies to human rights abuses that have been reported or have occurred. However, in the case of serious breaches, the Management Board and the Audit Committee will be informed as soon as possible.

For further information on the topic of human rights, please refer to the already mentioned, publicly available Human Rights Guidelines of pbb Group; the chapters on individual sustainability topics also provide some information.

No human rights abuses were known at pbb Group during the 2020 financial year.

EMPLOYEE MATTERS

pbb Group as an employer

An increased need for specialisation and demographic change, as well as an environment marked by regulatory requirements, brings distinct challenges to pbb Group in its HR work. pbb Group's HR work is based on a far-sighted HR strategy, which translates the Group's business and risk strategy (as well as its business model) into the HR world.

pbb's business model requires highly qualified employees with expert knowledge. The key objective of pbb Group's HR strategy therefore is to attract, retain and develop – for the long run – highly qualified employees with vast knowledge, a high degree of quality awareness, customer focus, leading competence at both divisional and project level, the willingness to be deployed flexibly, and a high degree of entrepreneurial thinking.

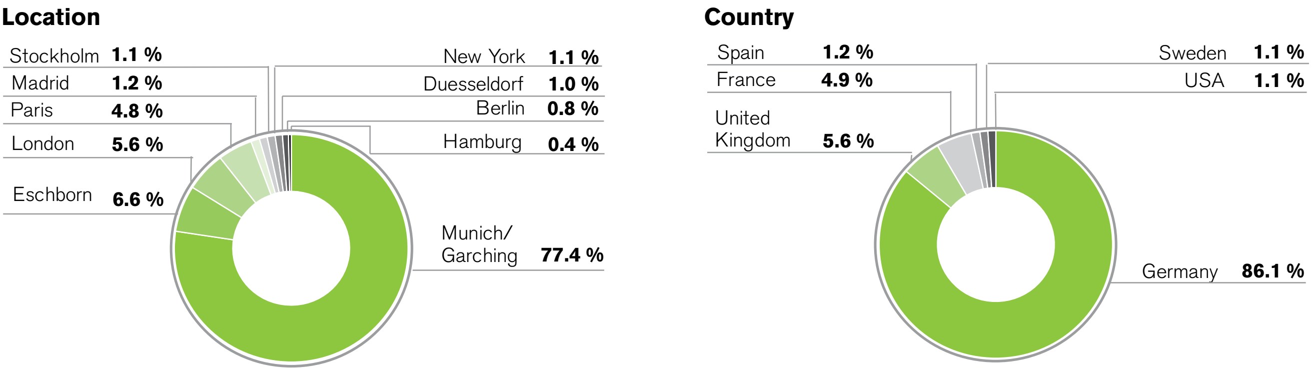
Implementation of the HR strategy is based on differentiated, strategic personnel planning, where medium- and long-term changes in the workforce and staffing needs are meticulously and systematically assessed and managed from a far-sighted point of view, as part of pbb Group's multi-year planning. We take great care in structuring our organisation and workflows efficiently, and with a focus on our clients. Our lean processes are continuously optimised, also for the purpose of cost-effectiveness.

One key element of our HR work is the recruitment strategy; another is the successful, diversified internal and external qualification programme, and yet another is the variable remuneration structure, which features incentives for individual performance and promotes cooperation between business divisions, departments and teams.

This shows that our HR strategy directly helps to ensure that pbb Group will remain competitive in the future, since it naturally competes with other banks, and continuously vies for the best talent in the market. pbb Group's working conditions, qualification opportunities and development prospects create opportunities for discovering individual solutions in a dynamic working environment, together with pbb's customers, thinking and acting in a customer-oriented entrepreneurial way.

In 2020, prevention management for employee health and safety was the focus of HR activities at pbb Group. This will continue in 2021 (please also refer to "The COVID-19 pandemic – implications and measures"). The Bank will furthermore place special attention on promoting trainees, talent, and women – as well as diversity. Last but not least, the employer branding drawn up in 2020 is set to be implemented in 2021.

Regional distribution of employees (pbb Group)
As of 31 December 2020



As in the previous year, pbb Group's workforce remained stable during 2020. pbb Group employed a total of 823 people at the end of 2020[1] (2019: 797 people). In 2029, the adjusted[2] fluctuation for pbb Group was 6.35% (2019: 10.39%). The ratio of voluntary redundancies was 4.61% (2019: 4.18%).

1) Headcount pursuant to the HGB (excluding Members of the Management Board, interns and student employees). pbb AG employs 802 (Ø 789) people, CAPVERIANT GmbH 21(Ø 18) people. Figures provided below relating to employees refer to the Group.
2) Adjusted fluctuation comprises any fluctuation initiated by the employer or employee, as well as discharges due to fixed-term employment contracts running out. Adjusted fluctuation was calculated based on an average headcount of employees of 808 (pursuant to the HGB). With various functions being centralised, and the corresponding staff reductions, fluctuation during the year under review was slightly lower than 2019.

The COVID-19 pandemic – implications and measures

The novel coronavirus (SARS-CoV-2) led to a global spread of the COVID-19 disease in 2020. The resulting crisis also took its toll on pbb Group and its employees: mobility restrictions, a hygiene concept including compulsory face masks and distancing measures, increased working from home, and the respective national health protection regulations are only some of the challenges pbb Group was confronted with in 2020.

When dealing with COVID-19-related impacts, the first and foremost thought is always on protecting the health of all pbb Group employees and their relatives. Therefore, pbb Group centred its attention on prevention measures to keep our employees safe and healthy, whilst safeguarding the Bank's operational stability and capacity to act.

During the year under review, pbb Group implemented numerous measures in cooperation with the Works Council bodies, aimed at protecting our employees' health and safety. The target was to create a working environment aligned with the most current guidelines issued by health authorities and experts, as well as with official rules and recommendations, whilst promoting productivity and team spirit within the Group. Material success criteria for the measures included efficient decision-making when assessing the dynamically evolving pandemic situation and handling individual cases on the one hand, and transparently informing employees about the current situation on the other, for example via pbb's intranet, but also in regular virtual townhall meetings or division calls. The measures, some of which were specifically implemented only at a regional level, were coordinated and developed by a crisis management team headed by Marcus Schulte; the Management Board determined material key points and priorities. The branches and divisions implemented the measures on their own account.

These measures comprised technical and organisational measures, such as clearly defined rules on physical distancing and the use of masks covering mouth and nose when entering communal areas; providing offices and break rooms with partitions and other technical measures; a ventilation concept and regular air quality measurements added to the already existing technical ventilation system; regular cleaning of surfaces; and raising awareness amongst staff members to reduce social contacts, as well as informing them about preventive health and hygiene measures.

Furthermore, pbb has significantly expanded the possibility of working from home at all locations, guided by the necessity of making it easier to meet private and operational needs related to the COVID-19 pandemic, and to be able to reconcile them better. Therefore, the aim was to implement as much home working as was possible and reasonable during most of the year under review, but also to ensure as much presence at the Bank as necessary. In light of the IT infrastructure investments made in past years, we were able to continue our operations without disruptions. Operational stability and productivity were continuously ensured at a high level.

Personal meetings were reduced and replaced by telephone conferences and video calls. All non-essential business travel was cancelled. Furthermore, in-house CPD measures were reorganised, and took place virtually. All people returning from regions defined as so-called risk areas by the Robert Koch Institute following private or business-related travels were asked not to enter the offices, but to discuss how to further proceed with their superiors from home.

These measures were supplemented by granting compensation for necessary IT equipment for remote working or for other COVID-19-related special expenses. Qualification measures for managers were offered at short notice, addressing specific management issues resulting from the comprehensive remote working situation during the pandemic.

Remuneration and employee benefits

The remuneration system and the remuneration strategy of pbb Group are integral components of the business and risk strategy of pbb Group. With its remuneration strategy, pbb Group aims to guarantee a fair, performance-oriented remuneration in line with the market – one that is geared to achieving the targets enshrined in the business and risk strategy. The Bank also strives to grant industry-standard employee benefits, while also taking local idiosyncrasies into account. The remuneration strategy is an integral part of the HR strategy. In particular, the variable remuneration system includes appropriate incentives for individual performance, but also promotes and improves cooperation between business divisions, departments and teams. With the variable remuneration components, employees have the chance to participate directly in the success of pbb Group.

Another key element in the remuneration strategy of pbb Group and its remuneration system is the fulfilment of regulatory requirements that deal with the remuneration systems of banks. On the one hand, this means that the implementation of the statutory principle of appropriateness of individual remuneration components regarding total amounts and structures is accounted for, with the ultimate objective being the avoidance of disproportionately high risks. Total remuneration amounts, and individual remuneration components of employees and Members of the Management Board, are subject to regular revision in order to establish an appropriate relation regarding function and performance as well as pbb Group's overall performance. In 2020, the system, structures and amounts of remuneration were once again reviewed for appropriateness. On the other hand, the remuneration system of pbb Group implements all other regulatory requirements regarding remuneration, in particular those regarding the variable remuneration component. Of particular importance for pbb Group are the regulatory requirements regarding remuneration systems pursuant to the CRD, the German Banking Act (Kreditwesengesetz – "KWG"), the German Ordinance on Remuneration in Financial Institutions (Institutsvergütungsverordnung – "IVV"; especially requirements on the variable remuneration of risk takers and senior managers), as well as – for the Management Board – those resulting from the German Stock Corporation Act (Aktiengesetz – "AktG") and the German Corporate Governance Code (Deutscher Corporate Governance Kodex – "DCGK"). The remuneration system of pbb Group is explained in detail in the Remuneration Report of pbb Group's Annual Report.

Fair remuneration

The remuneration of members of staff whose conditions of employment are governed by collective wage agreements, so-called tariff employees, is ruled by the collective agreement for private and public-sector banks.

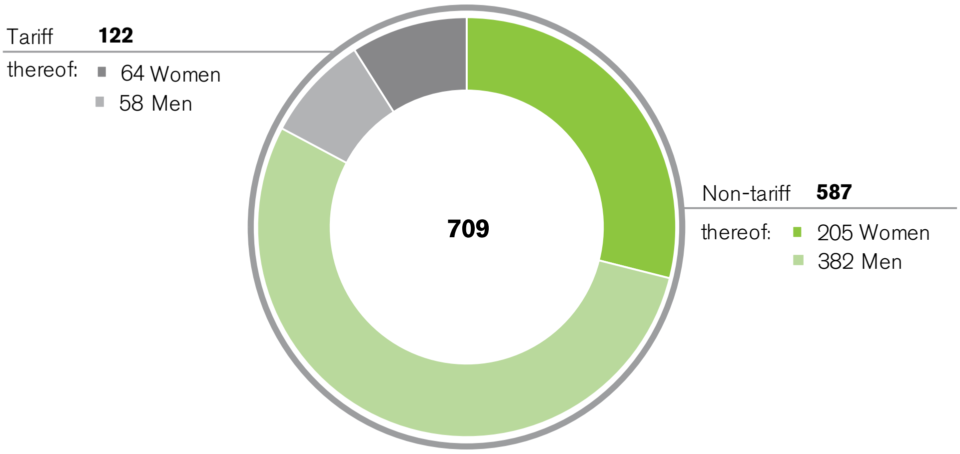
pbb is a member of the employers' association for the private banking sector (AGV Banken). Tariff employees are assigned to a grade along the scale agreed in collective agreement, based on the work they do. With this approach, an industry-standard minimum remuneration independent from questions of race, ethnicity, sex, religion or personal beliefs, handicaps, age or sexual orientation is warranted, and we ensure that a person's remuneration reflects their qualifications, duties, function as well as their professional experience. To provide for adequacy and fairness in the remuneration of non-tariff employees, remuneration is regularly – usually biennially – reviewed as to whether it is in line with prevailing market terms, using external benchmarks and a functional classification system. The benchmarking is based on a standard classification scheme for job or function levelling (the Towers Watson Career Map), with three so-called career paths ("M" = Management; "P" = Professional, and "T/U" = Services/Administration), and to different career levels within these career paths. This classification lays the groundwork for the verification of remuneration in terms of market levels (the so-called 'market matching'). Further dynamic to the salaries of non-tariff members of staff is determined by the individual employee's qualifications, duties, function, performance as well as professional experience, disregarding questions of race, ethnicity, sex, religion or personal beliefs, handicaps, age and sexual orientation. With this approach, it is warranted that non-tariff employees also receive an adequate and fair remuneration.

Variable remuneration, which applies throughout pbb and all other Group entities in as uniform and viable a manner as possible, is determined using a formalised and transparent process, harmonised across the Group. Allocation of variable remuneration is based on the achievement of qualitative and quantitative targets at both divisional and individual levels – to the extent possible, reference shall be made to pbb Group's business and risk strategy; target achievement shall be determined for every division and every employee at pbb Group. The qualitative and quantitative divisional targets are established on an annual basis and derived from the corporate targets and the business plans made for the respective financial year. A reference value representing 100% target achievement is defined in advance for each target, to facilitate measuring the level of target achievement and hence, determining variable remuneration.

The entire Management Board of pbb adopts the divisional targets, which are communicated to all employees of the respective divisions at the beginning of the year. At the individual level, every employee is provided with an annual target agreement comprising quantitative and qualitative targets for the current financial year. The measurement of every target is based on indicators, allowing transparent performance assessments at the end of every financial year. pbb Group conducts annual employee reviews within the scope of an annual process; holding these discussions is part of managers' responsibility. The structured employee review takes place between each employee and his or her manager, for the purpose of assessing the employee's performance during the year under review, and for agreeing upon targets for the following financial year. Accordingly, the employee review is a key instrument for establishing a common understanding of performance standards, as well as on concrete targets and expected results. For this purpose, the discussion focuses on priority issues for the respective financial year, which need to be aligned with (or are derived from) the business and risk strategy. Employee review and performance appraisal are key management tools which ascertain that staff activities and priorities are aligned with target achievement and the Company's performance, and ensure fair remuneration. Human Resources supports and monitors the regular conduct of employee reviews. A guideline for managers and employees containing important information on target agreements and employee review discussions is available on pbb's intranet.

Company pensions are an important pillar of the additional benefits pbb Group has to offer. For its employees in Germany, pbb Group has established defined-contribution and defined-benefit plans. In the defined-contribution plans, pbb makes payments for commitments by industry-wide organisations such as BVV, the German pension provider for the financial industry; BVV has been the important company pension option for employees joining since 1 April 2004. In all of the Group's non-German entities to which no legal or tariff provisions apply, a company pension scheme – in a locally common form – is in place.

Proportion of tariff employees/non-tariff employees (pbb Group)
As of 31 December 2020



Employee benefits
pbb Group provides members of its staff with a comprehensive employee benefits package, including – depending on the employee's location – capital- building payment schemes, sickness benefit and grants to the statutory sick pay, anniversary pay, lunch allowance, special leave in case of special events and a group accident insurance policy. Depending upon the position an employee holds within the Bank, and/or of the necessity of a car for company travel, pbb Group grants company cars that may be used for private journeys at all German locations.

In Garching and Eschborn, voluntary preventive healthcare measures such as free influenza vaccinations, health checks and computer glasses are available (cf. "Fair working conditions"). pbb also has a workplace integration management system in place, which all employees affected may make use of.

During 2020, pbb Group employees in Germany were once again able to lease high-quality communication devices of the newest generation such as PCs, notebooks, tablets or smartphones, through pbb Group at attractive terms and for their private use. The monthly lease instalments are directly offset against gross salary, allowing pbb employees to benefit from tax benefits for private use of communication technology available in Germany, in line with their own marginal tax rate.

Working environment

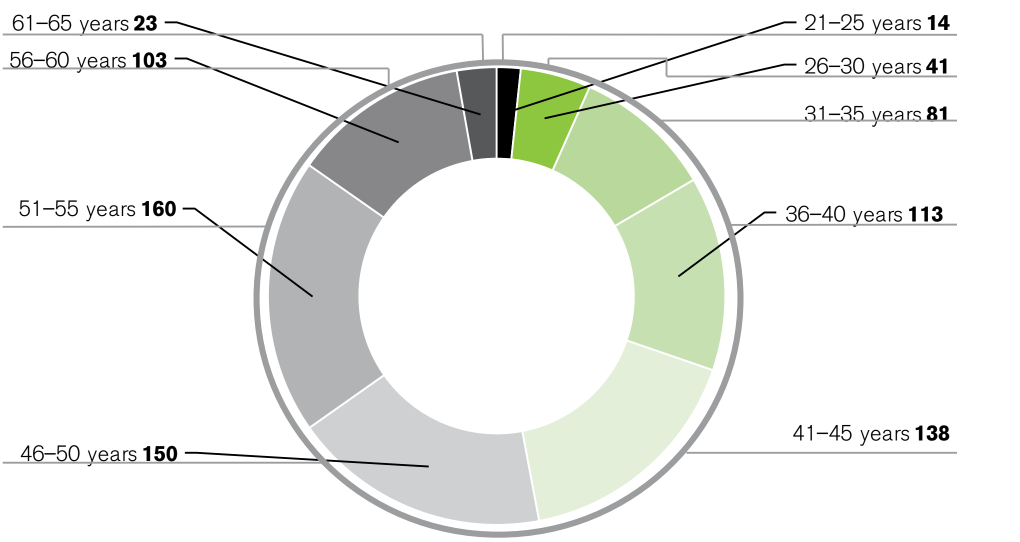
At all of its locations, pbb Group provides its workforce with a modern, secure and healthy environment to work in. Therefore, the main focus in the year under review was on handling the pandemic-related impact (please also refer to "The COVID-19 pandemic – implications and measures").

pbb Group employs 823 women and men from 39 different countries with different skills and different backgrounds. This workforce forms the basis for sustainable corporate success. Promoting diversity and the personal growth of our employees, with fair working conditions, is at the heart of the Group's HR work. pbb Group respects human dignity, human rights and an employee's right to privacy. All staff members are treated with fairness, dignity and respect. pbb Group has zero tolerance with regard to unfair or discriminatory behaviour towards its staff. It is committed to the principles of equal treatment in the selection and further development of staff, without discriminating against any employee (or potential employee) due to race, ethnicity, sex, religion or personal beliefs, handicaps, age or sexual orientation.

Employees are assessed on their performance alone. pbb Group honours the legal and contractual rights of its employees. These values are essential to the instruction related to compliance, which employees must adhere to as per operating agreements and/or their employment contract, as well as to pbb's Code of Conduct. They form the foundation for our managers' and employees' work. The work and conduct of managers and employees alike – and therefore that of our Bank – is based on mutual respect, openness, honesty and a joint understanding of trusting collaboration. pbb Group focuses in particular on the issue of gender balance. This focus is supported by increased awareness for the topic across all levels and the establishment of a corresponding management and corporate culture, as well as the internal obligation to specifically address the under-represented gender for the given situation when filling vacant positions, while taking in account ability and qualifications. Further information on this topic can be found in our Corporate Governance Report, published as part of the Annual Report 2020.

pbb has an internal office that employees may turn to when they feel that discrimination pursuant to the German General Act on Equal Treatment has occurred. On the intranet, pbb informs its workforce concerning protective measures against discrimination with a dedicated pamphlet.

Age structure of employees (pbb Group)
As of 31 December 2020



Fair working conditions
Since 2010, pbb has been a signatory to the "Charta der Vielfalt" (Diversity Charter), thus demonstrating its fundamental commitment to the economic benefits of diversity, tolerance and fairness among a company's employees as well as among its clients and business partners. The Charta der Vielfalt binds its signatories to creating a working environment that is free of prejudice and exclusion, and to establishing an open corporate culture based upon mutual respect and the involvement of stakeholders. This vision is something we actively live. We take heed of an even-keeled structure of our workforce in the demographic sense, and employ people from a vast variety of education and sector backgrounds.

Every employee must be able to address workplace problems without fearing repercussions. pbb Group fosters an open corporate culture that provides for the inclusion of employees in the decision-making process, while at the same time maintaining discretion. It further ensures that procedures exist within the Group in order to resolve any workplace problems confidentially and as quickly as possible, including a Complaints Office for complaints under the German General Act on Equal Treatment, a dedicated contact at Human Resources and a whistleblowing system.

Efficient and committed employees are central to the success of every company, which is why pbb Group invests in the health of its employees. The Health and Safety Committee (Arbeitsschutzausschuss – "ASA") that was implemented in Germany and that includes the company doctor, the occupational safety specialist, as well as representatives of the Works Council and the safety officers (Human Resources and Corporate Services representatives), meets on a regular basis to consult on the status of occupational safety and health protection at pbb Group's German offices, and to decide upon measures to improve occupational safety and health, and the prevention of accidents. Company doctors hold consultation hours for employees at the Garching and Eschborn locations. Furthermore, pbb Group voluntarily offers its employees various health measures, for which it assumes the costs. In 2020, we conducted 25 preventive checkups on working with display screen equipment, one workplace health promotion (taking the form of a free health evaluation), two extensive consultations on individual topics, three consultations on hygiene measures and measures to reduce SARS-CoV-2 infection risk, and 147 vaccination advice sessions/vaccinations. Our offer to visit a company doctor was taken up by a total of 186 employees.

pbb's managers received training on occupational safety issues from the occupational safety and health specialist in 2020, in compliance with the German Act on the Implementation of Measures of Occupational Safety and Health (Arbeitsschutzgesetz – "ArbSchG"). The Bank also offers first aid courses and further training for first-aiders every year, which also deal with the handling of automated external defibrillators. Similarly, fire prevention training is given annually, with refresher courses held every two years.

During 2020, there was again strong demand among employees in Germany for the Bank's subsidies for preventive healthcare. However, pbb Group's sponsorship of health-promoting measures is not limited to Germany. At both its German and international locations, the Group supports membership in sports clubs or gyms, eyesight tests, training for first-aiders and fire prevention officers, health checkups and workplace evaluations.

Work-life balance
Helping employees reconcile their responsibilities at home and at work by providing support for childminding has increased in importance – both in the goal of promoting women and in the Bank's endeavour to recruit new employees and become a more attractive employer.

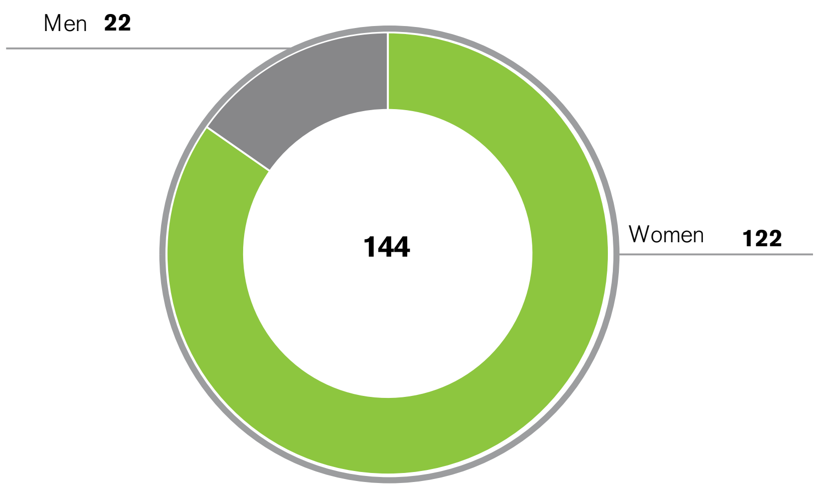
By providing the corresponding work organisational conditions, such as flexible working models or the possibility of working at home, pbb Group offers attractive arrangements that make it easier to balance work and family for all employees. Parental leave is granted in line with statutory provisions; when employees return from parental leave, their working hours are organised with a high degree of flexibility. Furthermore, pbb is subject to the collective wage agreement for the German private banking sector and public-sector banks; in certain conditions, this provides for extended parental leave. In addition, in case of childcare problems pbb offers flexible opportunities to work from home, or permits bringing children to the office. Employees who care for a family member can rely not only on the legal provisions, but may also take unpaid leave or temporarily reduce their working hours.

In the year 2020, pbb Group continued to back employees in balancing working and family life by providing practical support for everyday situations. For example, the Bank successfully implemented framework regulations for permanently extending (time-wise and workplace-related) flexible working at pbb in 2020. All employees were given the possibility of working outside the IT-based time-recording system. Working hours were made significantly more flexible, and accommodating provisions on mobile working successfully implemented.

In 2019, pbb also introduced a "family service" for all employees based in Germany, which provides agency and selective advisory services. This offering has been taken up by employees in particular for childminding, homecare and care for the elderly. In 2020, we enhanced this offering, to include virtual childcare following the pandemic-related closure of numerous childcare facilities. Similar to the situation in France and the UK, childminding costs for children that have not yet reached school age can now be subsidised in Germany as well. The maximum subsidy in Germany amounts to €100 per month and child. In 2020, a total of 105 employees made use of this childcare allowance in Germany.

The flexible working opportunities and the support given to family and working life balance is also demonstrated by the 17.5% share of staff in part-time employment (part-time rate of women: 38.6% and of men: 4.3%).

Part-time distribution (pbb Group)
As of 31 December 2020



Involvement and co-determination

In Germany, pbb has two local Works Councils (in Garching and Eschborn) as well as a representation body for severely handicapped employees. In addition to these bodies, there is a Central Works Council, which has formed an economic committee. No Group works council exists. An employee representation body was active in our French offices in 2020, but no other such bodies exist at the remaining international offices. The working relationship between pbb Group and employee representation bodies is based on trust and regular exchanges, and pbb Group respects their rights.

Employees are kept in the loop through regular information provided by both their representatives and pbb Group via the intranet or e-mail, as well as in personal meetings. All members of staff have the opportunity and the right to organise in trade unions, as well as the right to assembly.

In Germany, regular works meetings ensure that employees are comprehensively informed, and the time employees spend at these meetings is working time.

Training and continuing professional development

The business model pbb Group pursues, and the ever more challenging and complex environment that it is active in, calls for highly qualified employees with expert knowledge. This makes training and continuing professional development (CPD) an important ingredient of the Group's HR strategy, and a core element in achieving the Bank's goals.

In terms of personnel development, pbb Group follows a holistic approach that looks at each individual member of staff, provides them with guidance and, where necessary, support in their professional and personal qualifications and development. This requires that the qualification measures of the individual employee be identified and planned, to meet the needs the employee has in terms of knowledge and competence. Together with the principle of "leading, challenging, encouraging" and the employee review, individual qualification is a cornerstone of pbb Group's personnel development. The annual employee review forms the basis for establishing qualification needs. If qualification measures are earmarked during the review, manager and employee mainly – but not exclusively – select and plan the contents of these measures in the context of the target agreement. Measures may be on-the-job, near-the-job, as well as off-the-job, and may be offered in-house or externally. Where qualification needs arise in the course of the year, further seminars or trainings above and beyond what was agreed during the review may be requested.

pbb Group offers a variety of in-house training and qualification measures, particularly in the realm of technical qualification, management and social skills to make line managers better leaders and to foster understanding for working in teams.

The seminar offering comprises topics specific to pbb, but also methodological and social skills. In the course of the latter, trainings aim at team-building measures, a better understanding of intercultural diversity as well as at general presentation, moderation, negotiation, time management or language skills. Our internal training catalogue is completed by dedicated measures for women, which also help improve the reconciliation of family and working life at pbb Group.

For managers, pbb Group offers a series of seminars on leadership. In our well-established Leadership Academy, we lay the groundwork that is later built upon in our Leadership Excellence trainings that encourage experienced managers to reflect on and improve their management and social skills in an ever more challenging and complex working environment. Above and beyond these offerings, the Bank also enables executives with significant management responsibility to participate in individual coaching sessions.

For young talents that have just completed their university studies, a trainee programme that offers both technical and interdisciplinary qualification makes for a successful start with pbb Group. A mentoring programme rounds off the range of development and support measures.

The offering of qualification measures in 2020 was strongly impacted by the COVID-19 pandemic and related restrictions. To ensure consistent qualification and training programmes for our employees, large parts of the internal CPD measures were changed to virtual seminars. To this end, existing seminar concepts were revised, and adjusted to the challenges and requirements brought about by virtual teaching and learning. Thus, pbb Group was still able to offer and conduct internal seminars throughout the year. In addition, the Bank developed and implemented new CPD measures in line with requirements; thus, special attention was given, amongst other things, to the particularly important competences of mobile working and employee leadership in times of remote working as a result of the COVID-19 pandemic. Last but not least, we developed and offered a range of keynote speeches on various topics regarding remote management for (and to) managers.

The continued systematic development on the one hand, and a personnel development that is aligned with the individual requirements of divisions and employees on the other, will continue to challenge pbb Group, while also serving as a gold standard for successful HR work. Against this background, pbb Group strives to continuously evolve its qualification programme – and to continue to do so, going forward. With new initiatives adding to the broad range of existing measures, we will therefore continue to provide important impetus in 2021 and beyond, to support our staff in their professional and personal growth in a modern and goal-driven way. New measures aimed at agile project management as well as further trainings on the topic of remote working are on the agenda for 2021.

In addition to the internal on-the-job and near-the-job measures – organised centrally as well as decentralised – pbb employees can resort to a wide range of external training measures. As a rule, the employee and his or her manager decide on the – in this case mostly professional – training measures within the scope of the employee review. The selected measures depend on the employee's needs. pbb Group paves the way for suitable employees to complete, inter alia, the international Real Estate Manager training (EBS), tailored to the needs of pbb Group.

Expenses for internal and external staff qualification measures totalled €0.9 million (2019: €1.1 million) during 2020. This was equivalent to 3.3 training days on average for each employee (based on an average headcount pursuant to the HGB of 808), or 5.9 days on average for the 446 staff members who took part in the qualification measures.

Knowledge management

In order to make transition into their job at pbb Group easier for new employees, the Bank is directing a lot of attention to onboarding efforts. Introduction plans and sponsorships – in which an employee with relevant experience is at the disposal of new employees for any questions they might have – are systematically included and individually created by the business divisions for new employees. pbb Group organises a "Welcome Day" several times a year, providing information on the organisation, the business model and pbb's primary process, as well as on interesting facts from other divisions. The event aims to improve the integration of new employees and to help them become familiar with the business and key (as well as cross-divisional) processes at pbb as fast as possible. Furthermore, new employees receive a welcome brochure with information on pbb's locations; it is also available on the intranet. A series of internal qualification courses complements and deepens employees' knowledge, with pbb's business divisions providing insights into their areas of responsibility and key workflows.

Within the scope of an approximately 18-month trainee programme called "Programme for Young Professionals", young professionals are employed in various areas, thus receiving comprehensive training. pbb plans to expand this trainee programme in 2021.

Securing new talent and employer attractiveness

pbb Group is facing increasing competition for experts with other employers. To meet the Bank's need for experts in the different departments, pbb Group has implemented various initiatives to attract young talent and strengthen their capabilities. In this context, pbb Group continues to place emphasis upon intensive cooperation with key universities. In the event that pbb Group has to cover short-term needs, it uses external resources as well as various recruitment strategies for hiring new employees. Active searches via networks, especially social media, are our main focus. Passive searches are mainly performed via job portals, but also via social media. In addition, we engage agencies if required. Our attractive working conditions are one of the key success factors in attracting experts.

We further expanded our social media recruiting during 2020, professionalising the Group's social media presence and qualifying our staff in the use of social media recruitment and active recruitment strategies. Another centrepiece of our recruitment strategy 2020 was university marketing. With in-person recruitment fairs being cancelled due to the pandemic, pbb attended five virtual events, but plans to attend the events in person again in 2021. In addition, we have case studies scheduled, in order to more intensively familiarise interested students at partner universities with pbb Group as a potential employer. During the year under review, pbb employees delivered guest lectures on different subjects at universities.

Furthermore, pbb Group provides student employees with the opportunity for extra-curricular activities in many areas, and – should said students possess the relevant skills – also in combination with a bachelor's or master's thesis with practical orientation. In 2018, pbb joined the Fair Company Initiative, the largest employer initiative for fair internships, and obtained the Fair Company label.

In 2020, a project on drawing up an employer brand for pbb Group was finalised. Following an extensive vendor selection process, the Management Board, managers and various employee groups participated in workshops to identify the (cultural) characteristics that define pbb Group as an employer. These findings will serve as the foundation upon which pbb's new employer brand will be implemented in 2021.

The fact that 99% of the positions in the Group are permanent, and a very high share of vacancies are filled internally, underlines pbb Group's position as an attractive employer and boosts staff loyalty. The low adjusted fluctuation rate1 of 6.35% in 2020 demonstrates this.

[1)] Adjusted fluctuation was calculated based on an average headcount of 808 employees (pursuant to the HGB). With various functions being centralised, and the corresponding staff reductions, fluctuation during the year under review was slightly lower than in 2019.

ENVIRONMENT

pbb Group aims to make an active contribution to achieving the climate goals of the Paris Agreement and thus to consistently and permanently reduce its ecological footprint and avoid environmental impacts – by aligning its lending business with sustainability criteria, funding itself via "green" financial products, and by handling natural resources responsibly. The first two aspects have already been addressed within the scope of sustainable financing solutions. As regards the third aspect, pbb Group's resources consumption is deemed non-material. Nevertheless, we shall subsequently discuss it.

In the Code of Conduct, pbb Group has committed itself to conducting its business in a sustainable and environmentally friendly way, and to identifying environmental risks that may arise in its business activities. Material reference points for this are especially the buildings used by pbb Group, the organisation of workflows, and the mobility of the Group's employees. The Member of the Management Board responsible for Information Technology is briefed about the development of different topics, such as energy and paper consumption, but also vehicle fleet and travel volume, on a quarterly basis.

Resource Management

Business Campus Garching, where pbb's headquarters have been rented, was designed to ensure the responsible use of scarce resources and built in accordance with cutting-edge energy-efficiency standards.

An energy centre was established early on in the development of the Business Campus, as was a building management system spanning the campus, to allow for the connection of renewable energy sources and thus optimise energy consumption.

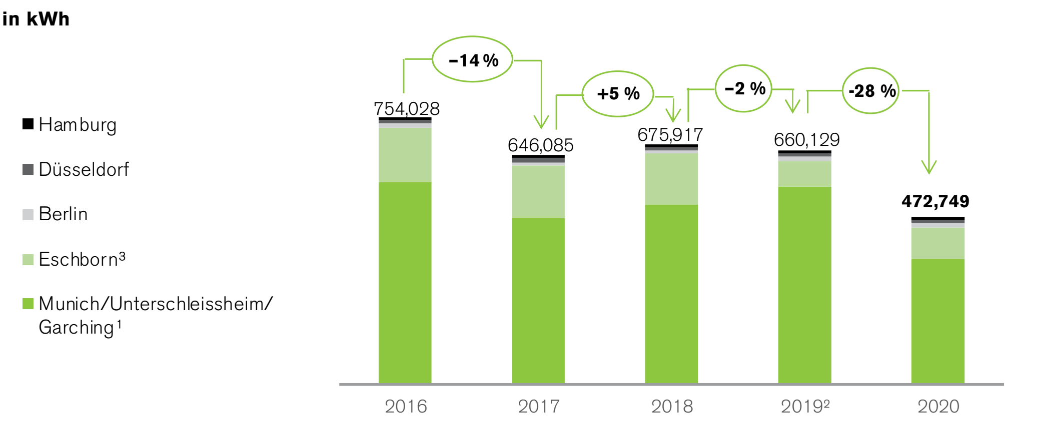
Rain water collected via roads and building roofs on the campus is collected in tanks, cleaned by way of sedimentation, and channelled into the central lake, thus making added fresh water unnecessary here. A seepage area serves to catch the overflow which then seeps into the groundwater; the entire outdoor area is irrigated with the campus' groundwater well. Visitor parking is not sealed.

The Business Campus operates four photovoltaic systems, generating around 0.7 MW of electricity per year, with a large proportion thereof being fed into the Business Campus power grid. 100% of the remaining electricity consumed at the Business Campus is generated in hydro-electric and wind power plants.

Since as early as 2011, 100% of power demand at pbb's headquarters has been met using renewable energy sources. As all other German locations have also been using power from renewable energy sources since 2015, power supply in our domestic market is carbon-neutral.

Our Annual General Meeting 2020, together with the Annual Press Briefing and the Analyst Conference, were also carried out in a carbon-neutral way; this is also planned for 2021.

Power consumption



[1] Unterschleissheim (January 2019 – August 2019), Garching (July 2019 – December 2019).
[2] Estimated electricity consumption 2019 in Berlin, Düsseldorf and Hamburg, December 2019 in Eschborn.
[3] Electricity consumption in Eschborn 2020 has been partially calculated.

Electricity is permanently saved by using energy-efficient office equipment, such as printers with the Energy Star logo, and by a strict, needs-oriented management of electronic devices. During the winter months, a geothermal hot water system operated by municipal utility EWG Garching keeps the Business Campus warm; in the summer, an absorption chiller cools the hot water down to keep the office spaces cool.

Working processes are generally designed to be as paper-saving as possible. Hence, multiple electronic devices are used in order to replace paper-based processes; for example regarding electronic employee services (recording of working time, payrolls, income tax and social insurance receipts, travel expense accounting, etc.), an electronic invoice and contract management, digital credit files and datarooms. pbb Group expects a further reduction following the introduction of the digital client portal in 2021, an electronic interface between pbb Group and its clients, via which information and documents can be exchanged.

The paper we use is certified as eco-friendly. Furthermore pbb Group has refrained from printing annual reports, starting with the Annual Report 2019; prior to that, annual reports had been printed climate-neutrally since 2015. We further support recycling by re-using the cartons received as transport packaging.

Mobility

pbb Group's Travel Policy serves as a uniform Group-wide standard for all employees' business travel. Besides simplifying effective management and control of travel expenses within pbb Group, it also aims to provide an active contribution to environmental protection. Before commencing travel, employees are asked to consider whether the trip is generally necessary or can be replaced by video conferences.

The employees, as well as their direct superiors, are responsible for the fulfilment of this Travel Policy, which they will confirm through their electronic signature when recording and approving travel expense reports in an online tool. Deviations from the Travel Policy are generally to be avoided. Exemptions from this regulation can only be made with the explicit consent of the superior, for the sake of time and cost efficiency.

Due to the COVID-19 pandemic, flight and travel activity in 2020 was significantly below the levels of previous years, with greenhouse gas emissions resulting from flight and train travel, as well as from hotel stays, amounting to 153 tonnes of carbon dioxide within the entire Group in 2020. By supporting a climate project, we achieved travel-related climate neutrality.

Company cars have to meet well-defined carbon dioxide emission standards in accordance with the Company Car Policy so as to limit their impact on the environment. pbb Group has committed itself to checking the guideline values of the malus system determined in the Company Car Policy, and to align them with revised measurement methods. The New European Driving Cycle (NEDC) applies to vehicles leased before February 2020, the Worldwide Harmonised Light Vehicles Test Procedure (WLTP) to vehicles leased thereafter. Compared with the previous year, the number of company cars increased slightly, from 91 vehicles in 2019 to 93 in 2020. Based on the NEDC, the average CO2 emission amounted to 131g/km (10 vehicles), whilst the WLTP average was 148g/km (83 vehicles; 2019: 169g/km). Thus, both figures were below the previous year's level. Overall, company cars incurred 387 tonnes of CO2. However, the amount of emissions refers to contractually agreed upon mileage, not to the actual mileage. These emissions are also made climate-neutral by purchasing an emission certificate.

pbb's headquarters – as well as the other locations – are well connected to the local public transportation network. A high-frequency and reliable metro connection makes the use of public transport attractive for our employees in Garching.

Individual charging options help promote the use of e-mobility. In addition, the new location provides car-sharing and carpooling offers.

At the new headquarters, employees can charge their e-bikes in the bike storage, In 2020, the charging station for electric cars in the P3 parking garage was significantly expanded by the landlord, to meet anticipated future demand.

Ecological Footprint

To reach the 2-degrees target determined in the Paris Agreement, pbb Group aims to consistently and permanently reduce its ecological footprint and as such has extended the compilation of relevant emission data in a first step. Although the main target is to avoid and reduce emissions, some divisions incur unavoidable emissions, which have been partially offset by purchasing emission certificates in a second step.

The ecological footprint[1] is composed as follows:

Scope		**in t CO2**	
Scope 1	Company cars[2]	387	Climate-neutral via emission certificates
Scope 2	Indirect emissions from purchased electricity	0	Renewable energy sources
Scope 3	Office consumer goods[3]	8	
	Business travel	153	Climate-neutral via emission certificates
	Events (Annual Press Briefing, Analyst Conference, virtual AGM	2	Climate-neutral via emission certificates
		550	

1) Only German locations.
2) Calculation based on the contractually agreed upon annual mileage.
3) Only paper; calculation in accordance with https://www.papiernetz.de/informationen/nachhaltigkeitsrechner/.

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 board of pbb. Future-oriented statements therefore only apply on the day on which they are made. We do 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 Annual Report is the authoritative version and only the German version of the Combined Management Report and the Consolidated Financial Statements were audited by the auditors.