

Interim Report

as of 30 June 2022

Deutsche Pfandbriefbank Group



Overview

Deutsche Pfandbriefbank Group (pbb Group)		1.1.–30.6.2022	1.1.–30.6.2021
Operating performance according to IFRS			
Profit before tax	in € million	107	114
Net income	in € million	91	97
Key ratios			
Earnings per share	in €	0.62	0.66
Cost-income ratio ¹⁾	in %	42.3	38.7
Return on equity before tax ²⁾	in %	6.4	7.1
Return on equity after tax ²⁾	in %	5.4	6.0
New business volume Real Estate Finance ³⁾	in € billion	4.3	3.8
Balance sheet figures according to IFRS		30.6.2022	31.12.2021
Total assets	in € billion	55.1	58.4
Equity	in € billion	3.3	3.4
Financing volumes Real Estate Finance	in € billion	28.4	27.6
Key regulatory capital ratios⁴⁾		30.6.2022	31.12.2021
CET1 ratio	in %	17.1	17.1
Own funds ratio	in %	22.4	22.4
Leverage ratio	in %	5.7	6.0
Staff		30.6.2022	31.12.2021
Employees (on full-time equivalent basis)		777	784
Long-term issuer rating/outlook⁵⁾		30.6.2022	31.12.2021
Standard & Poor's		BBB+/Stable	BBB+/Negative
Moody's Pfandbrief rating		30.6.2022	31.12.2021
Public sector Pfandbriefe		Aa1	Aa1
Mortgage Pfandbriefe		Aa1	Aa1

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

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

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

⁴⁾ Values as of 30 June 2022 without consideration of net income during the year. Values of 31 December 2021 after confirmation of the 2021 financial statements, less AT1-coupon and less dividend.

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

Information due to rounding

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

Explanation of alternative performance measures

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

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Group Interim Management Report

Report on Economic Position

DEVELOPMENT IN EARNINGS

Deutsche Pfandbriefbank Group (“pbb Group”)

Following the relaxation of measures to contain the COVID-19 pandemic, the overall economy and the banking sector are facing new challenges. The war between Russia and Ukraine, along with reciprocal sanctions and the embargoes imposed by EU states and other Western countries on the one hand, and Russia and Belarus on the other, have brought about supply bottlenecks, a bleaker outlook on economic growth, as well as rising inflation and interest rate levels.

pbb Group's business model has nevertheless proven very robust in this environment. Net interest income – pbb's most important income item – in the reporting period (1 January to 30 June 2022 – “6m2022”) was almost in line with the same period of the previous year (1 January to 30 June 2021 – “6m2021”). General and administrative expenses only slightly exceeded the previous year's figure, and the amount of incurred credit losses remained low. In total, profit before tax amounted to €107 million and was therefore slightly lower than the previous year's figure of €114 million. However, this was particularly due to lower termination fees resulting from early client repayments – upon which pbb Group has only a limited influence. In turn, the lower early repayment volume, in combination with the higher volume of new commercial real estate finance business, resulted in an increased financing volume for the Real Estate Finance (REF) segment compared to 31 December 2021 and 30 June 2021.

A detailed breakdown of the results is provided below:

pbb Group
Income and expenses

in € million	1.1.– 30.6.2022	1.1.– 30.6.2021
Operating income	272	287
Net interest income	242	246
Net fee and commission income	3	5
Net income from financial instruments at fair value through profit or loss (Net income from fair value measurement) ¹⁾	14	2
Net income from derecognition of financial instruments not measured at fair value through profit or loss (Net income from realisations) ¹⁾	10	38
Net income from hedge accounting	-1	-3
Net other operating income	4	-1
Net income from allowances on financial assets (Net income from risk provisioning) ¹⁾	-19	-33
General and administrative expenses	-106	-102
Expenses from bank levies and similar dues	-31	-29
Net income from write-downs and write-ups on non-financial assets	-9	-9
Profit before tax	107	114
Income taxes	-16	-17
Net income	91	97
attributable to:		
Shareholders	92	98
Non-controlling interests	-1	-1

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

Net interest income of €242 million was in line with the first half of 2021 (€246 million). The increased average portfolio of disbursed (and hence interest-bearing) REF financings of €28.0 billion had a positive effect in the first half of 2022 (average volume in 6m2021: €27.1 billion). pbb Group further benefited from a higher nominal volume of liabilities under the TLTRO III programme of €8.4 billion notional compared to the first half of 2021 (+€0.9 billion year-on-year), for which pbb will receive an interest rate premium of 50 basis points for the period from 24 June 2021 to 23 June 2022. In accordance with IAS 20, this interest rate benefit is accrued over the term. These positive effects were offset in particular by slightly lower REF gross margins. As in the previous year, net interest income was boosted by earnings from floors agreed upon with clients, albeit to a much lower extent given higher short-term interest rates.

Net fee and commission income from non-accrual fees of €3 million was down year-on-year (6m2021: €5 million).

Net income from fair value measurement totalled €14 million (6m2021: €2 million). In a volatile market environment, valuation effects induced by credit risks and funding costs in particular led to an increase in the market value of derivatives. In addition, diverging interest rate developments between non-euro currencies and the euro area led to positive valuation effects. Rising medium- and long-term interest rates had a partially offsetting effect on the present values of financial instruments required to be measured at fair value.

Net income from realisations demonstrated the effects of increased interest rate levels. Clients maintained their financings and markedly reduced early repayments. This strengthened the long-term earnings base of net interest income, but led to lower early termination fees in net income from realisations. In the first half of 2022, not a single early repayment of an individual financial instrument generated income of more than €1 million, whereas during the same period of the previous year, the largest such instance amounted to €13 million. Total net income from realisations was down to €10 million, from €38 million in the first half of 2021.

As hedges were highly effective, net income from hedge accounting in line with IAS 39 was largely balanced at €-1 million (6m2021: €-3 million).

Net other operating income/expenses amounted to €4 million (6m2021: €-1 million), resulting from reversals of provisions outside the lending business that exceeded currency translation expenses.

Net income from risk provisioning amounted to €-19 million (6m2021: €-33 million). For financial instruments without indications for impaired credit quality (stage 1 and stage 2), there was a reversal of loss allowance of €5 million (6m2021: addition of €20 million). This includes a net gain of €12 million (6m2021: addition of €38 million) from the reversal of the existing management overlay after the risk had ceased to exist and the recognition of a new management overlay, along with a net gain of €7 million from a change in the accounting estimate. However, stage 1 and stage 2 loss allowance increased due to the bleaker economic outlook overall and worsened parameters for some financings. Loss allowance of €24 million (6m2021: €13 million) was recognised for financial instruments with indications for impaired credit quality (stage 3). These additions to stage 3 impairments mostly referred to financings of shopping centres in the UK and resulted, amongst other factors, from the assumption of lower proceeds from disposals in light of the changed interest rate levels and investor sentiment.

The war between Russia and Ukraine has no immediate effects on pbb Group, since the Group has no direct exposure to borrowers domiciled in Russia, Belarus or Ukraine, nor has it financed any properties in these countries. Moreover, pbb has not extended any financings to persons included on the European Union's sanctions list as at the reporting date. pbb Group has three Russia-related public investment financings with a gross carrying amount totalling €59 million in its portfolio, of which two financings are fully guaranteed and one financing is broadly guaranteed by the Federal Republic of Germany. The uncovered part amounted to just under €3 million, of which more than €2 million was impaired at stage 3 level in the first quarter of 2022.

However, the war between Russia and Ukraine and the associated reciprocal sanctions have macroeconomic consequences such as lower economic growth, a significant rise in inflation, higher interest rates, and supply chain issues: all of these could have indirect effects on pbb Group's financings. In order to determine expected credit losses, pbb Group has taken forecasts of the future economic environment into account. With regard to stage 1 and stage 2 impairments, three scenarios have been applied and weighted according to their probability: a baseline (55%), a positive (5%), and a negative scenario (40%). The models include current expectations by the ECB and other central banks concerning future unemployment rates, interest rate levels, GDP and real estate market values. The negative scenario (weighted 40%) includes important components of the ECB's scenario that forecasts an end to Russian gas flows (or a gas embargo).

Due to the war, any assessment of the future development is currently characterised by particularly high uncertainty. The negative scenario, for example, assumes a recession and that central banks will lower their interest rates to support the economy. The model-based stage 1 and 2 risk provisioning, as a rule, is based on this assumption.

But despite the tense economic situation, interest rates might also be raised to combat inflation. Rising interest levels amid a tense economic situation – a situation known as stagflation – may have a negative impact upon the market value of pbb Group's real estate collateral, and hence potential realisation proceeds.

In order to take the risk of stagflation, which pbb Group views as a real threat, and the overall high uncertainty into account, pbb Group recognised a management overlay in the REF segment of €42 million, based on the constant application of its credit risk model, resulting in increased stage 1 and stage 2 impairments. The size of the management overlay was derived from the negative scenario (weighted at 40%) and assuming another significant interest rate hike.

At the same time, pbb Group completely reversed – effective 31 December 2021 – the management overlay in the amount of €54 million to consider delayed defaults and bankruptcies following government support measures to mitigate the economic consequences of the COVID-19 pandemic. This decision was based on the almost complete withdrawal of COVID-19-related social restrictions and hence the significantly lowered risk of credit defaults in connection with the pandemic.

General and administrative expenses of €106 million were slightly higher than in the same period of the previous year (€102 million). Personnel expenses remained virtually unchanged at €62 million (6m2021: €61 million), despite the usual salary increases, even though the average number of employees remained more or less the same compared to the first half of 2021. Non-personnel expenses rose slightly to €44 million (up from €41 million) compared to the first six months of the previous year, driven by the costs of regulatory and strategic projects.

Expenses for bank levies and similar dues (€31 million; 6m2021: €29 million) mainly comprised expenses for the bank levy, taking into account pledged collateral amounting to 15% (€31 million; 6m2021: €27 million). The year-on-year increase in expenses for the SRB/bank levy resulted from an increase in the EU's target volume. In the first six months of 2021, this line item further comprised expenses of €2 million for the German deposit guarantee scheme.

Net income from write-downs and write-ups on non-financial assets totalling €-9 million included scheduled depreciation of tangible assets and amortisation of intangible assets, and was in line with the previous year's level (6m2021: €-9 million).

Income taxes (€-16 million; 6m2021: €-17 million) were attributable to current taxes (€-15 million; 6m2021: €-21 million) and to deferred taxes (€-1 million; 6m2021: €4 million).

Operating Segments

Real Estate Finance (REF)

The REF business segment comprises financing of commercial real estate for professional real estate investors. The volume of new business (including extensions by more than one year) amounted to €4.3 billion (6m2021: €3.8 billion); of this amount €1.1 billion (6m2021: €1.1 billion) was attributable to extensions.

Real Estate Finance		1.1.– 30.6.2022	1.1.– 30.6.2021
Operating performance			
Operating income	in € million	234	250
Net interest income	in € million	207	208
Net fee and commission income	in € million	3	5
Net income from fair value measurement	in € million	10	1
Net income from realisations	in € million	10	38
Net income from hedge accounting	in € million	-	-2
Net other operating income	in € million	4	-
Net income from risk provisioning	in € million	-22	-34
General and administrative expenses	in € million	-93	-88
Expenses from bank levies and similar dues	in € million	-20	-18
Net income from write-downs and write-ups of non-financial assets	in € million	-8	-8
Profit before tax	in € million	91	102
Key ratios			
Cost-income ratio	in %	43.2	38.4
Balance-sheet-related measures		30.6.2022	31.12.2021
Financing volumes	in € billion	28.4	27.6
Risk-weighted assets ¹⁾	in € billion	15.1	15.1
Equity ²⁾	in € billion	2.3	2.1

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

²⁾ Excluding accumulated other comprehensive income (OCI) from cash flow hedge accounting, financial assets at fair value through OCI, AT1 capital and non controlling interest. Values as of 31 December 2021 were adjusted due to IFRS 8.29 (see note "Consistency").

Net interest income benefited from a higher average financing volume of €28.0 billion (6m2021: €27.1 billion) and a higher average volume of liabilities under the TLTRO III programme. In contrast, earnings from floors were down due to higher short-term interest rates. Net income from fair value measurement was higher than in the same period of the previous year, due to valuation effects upon derivatives induced by credit risks and funding costs. Net income from realisations on the other hand declined since clients tended to maintain their financings and early repayments therefore occurred less often. Net income from risk provisioning reflected €22 million in additions for financings with indications for impaired credit quality (stage 3), whereas net additions for financings without indications for impaired credit quality (stages 1 and 2) were balanced. Administrative expenses were in line with pbb Group's development.

Public Investment Finance (PIF).

The PIF business segment comprises financing extended primarily for the provision of public infrastructure. In view of increasingly apparent public-sector reticence regarding (privately financed) infrastructure investments throughout Europe, pbb Group does not anticipate any business growth here.

Public Investment Finance		1.1.– 30.6.2022	1.1.– 30.6.2021
Operating performance			
Operating income	in € million	17	18
Net interest income	in € million	16	18
Net fee and commission income	in € million	-	-
Net income from fair value measurement	in € million	1	-
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	-1	-
General and administrative expenses	in € million	-8	-9
Expenses from bank levies and similar dues	in € million	-3	-4
Net income from write-downs and write-ups of non-financial assets	in € million	-1	-1
Profit before tax	in € million	4	4
Key ratios			
Cost-income ratio	in %	52.9	55.6
Balance-sheet-related measures		30.6.2022	31.12.2021
Financing volumes	in € billion	4.9	5.2
Risk-weighted assets ¹⁾	in € billion	0.6	0.7
Equity ²⁾	in € billion	0.1	0.2

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

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

Net interest income declined in line with the lower average financing volume (€5.0 billion; 6m2021: €5.7 billion). Net income from risk provisioning included an addition of €2 million for stage 3 impairments, which was offset by a reversal of stage 1 and 2 impairments in the amount of €1 million. General and administrative expenses, which mainly resulted from allocated overhead costs, declined slightly in step with the portfolio volume.

Value Portfolio (VP)

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

Value Portfolio		1.1.– 30.6.2022	1.1.– 30.6.2021
Operating performance			
Operating income	in € million	20	18
Net interest income	in € million	18	19
Net fee and commission income	in € million	-	-
Net income from fair value measurement	in € million	3	1
Net income from realisations	in € million	-	-
Net income from hedge accounting	in € million	-1	-1
Net other operating income	in € million	-	-1
Net income from risk provisioning	in € million	4	1
General and administrative expenses	in € million	-5	-5
Expenses from bank levies and similar dues	in € million	-8	-7
Net income from write-downs and write-ups of non-financial assets	in € million	-	-
Profit before tax	in € million	11	7
Key ratios			
Cost-income ratio	in %	25.0	27.8
Balance-sheet-related measures		30.6.2022	31.12.2021
Financing volumes	in € billion	10.0	10.9
Risk-weighted assets ¹⁾	in € billion	0.2	0.3
Equity ²⁾	in € billion	0.4	0.4

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

²⁾ Excluding accumulated other comprehensive income (OCI) from cash flow hedge accounting, financial assets at fair value through OCI, AT1 capital and non controlling interest. Values as of 31 December 2021 were adjusted due to IFRS 8.29 (see note "Consistency").

In line with the strategic development of the average financing volume (€10.6 billion; 6m2021: €11.3 billion), net interest income was slightly below the previous year's level. Net income from fair value measurement was higher than in the same period of the previous year, due to higher fair values induced by credit risks and funding costs. The reversal of €4 million in net income from risk provisioning (6m2021: €1 million) was attributable to stage 1 and 2 financial instruments.

Consolidation & Adjustments (C&A)

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

Consolidation & Adjustments		1.1.– 30.6.2022	1.1.– 30.6.2021
Operating performance			
Operating income	in € million	1	1
Net interest income	in € million	1	1
Net fee and commission income	in € million	-	-
Net income from fair value measurement	in € million	-	-
Net income from realisations	in € million	-	-
Net income from hedge accounting	in € million	-	-
Net other operating income	in € million	-	-
Net income from risk provisioning	in € million	-	-
General and administrative expenses	in € million	-	-
Expenses from bank levies and similar dues	in € million	-	-
Net income from write-downs and write-ups of non-financial assets	in € million	-	-
Profit before tax	in € million	1	1
Balance-sheet-related measures			
Risk-weighted assets ¹⁾	in € billion	0.6	0.7
Equity ²⁾	in € billion	0.3	0.4

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

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

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

DEVELOPMENT IN ASSETS

Assets

in € million	30.6.2022	31.12.2021
Cash reserve	5,502	6,607
Financial assets at fair value through profit or loss	997	1,180
Positive fair values of stand-alone derivatives	523	540
Debt securities	122	132
Loans and advances to customers	349	505
Shares in investment funds qualified as debt instruments	3	3
Financial assets at fair value through other comprehensive income	1,243	1,258
Debt securities	939	943
Loans and advances to customers	304	315
Financial assets at amortised cost after credit loss allowances	46,756	48,087
Financial assets at amortised cost before credit loss allowances	47,109	48,429
Debt securities	5,651	6,893
Loans and advances to other banks	3,527	2,646
Loans and advances to customers	37,775	38,710
Claims from finance lease agreements	156	180
Credit loss allowances on financial assets at amortised cost	-353	-342
Positive fair values of hedge accounting derivatives	399	1,009
Valuation adjustment from portfolio hedge accounting (assets)	-68	5
Tangible assets	30	32
Intangible assets	41	42
Other assets	56	50
Current income tax assets	13	3
Deferred income tax assets	127	129
Total assets	55,096	58,402

Total assets slightly declined in the first half of 2022. The cash reserve decreased mainly due to disbursed new business. Syndications led to a decrease of financial assets measured at fair value through profit or loss, whereas financial assets measured at fair value through other comprehensive income showed no significant changes. While the nominal volume of commercial real estate financings increased, financial assets measured at amortised cost declined. On the one hand, the volumes of other segments were down, as planned; on the other hand, this was due to effects from fair value hedge accounting (adjustments of the carrying amount of the underlying transaction by the gain/loss attributable to the hedged risk) after interest rates had increased. Higher interest rates also led to a lower fair value of hedging derivatives.

DEVELOPMENT IN FINANCIAL POSITION

Liabilities and equity

in € million	30.6.2022	31.12.2021
Financial liabilities at fair value through profit or loss	676	559
Negative fair values of stand-alone derivatives	676	559
Financial liabilities measured at amortised cost	49,732	52,656
Liabilities to other banks	10,317	10,633
Liabilities to customers	17,768	20,100
Bearer bonds	21,024	21,268
Subordinated liabilities	623	655
Negative fair values of hedge accounting derivatives	1,150	1,372
Valuation adjustment from portfolio hedge accounting (liabilities)	-55	70
Provisions	168	231
Other liabilities	50	55
Current income tax liabilities	26	34
Liabilities	51,747	54,977
Equity attributable to the shareholders of pbb	3,049	3,124
Subscribed capital	380	380
Additional paid-in capital	1,637	1,637
Retained earnings	1,118	1,202
Accumulated other comprehensive income	-86	-95
from pension commitments	-61	-111
from cash flow hedge accounting	-28	-28
from financial assets at fair value through OCI	3	44
Additional equity instruments (AT1)	298	298
Non-controlling interest	2	3
Equity	3,349	3,425
Total equity and liabilities	55,096	58,402

Liabilities

Total liabilities as at 30 June 2022 were slightly below the previous year-end. In particular, financial liabilities measured at amortised cost – which represent the major liabilities item – were down slightly. Within financial liabilities measured at amortised cost, financial liabilities to customers decreased due to maturities and lower fair value hedge accounting adjustments (adjustments of the carrying amount of the underlying transaction by the gain/loss attributable to the hedged risk) as a result of higher interest rates. As with the assets side, the increase in interest rate levels led to a lower fair value of hedging derivatives.

Equity

Net income of €91 million and lower actuarial losses from pension obligations (down by €50 million) – mainly driven by the increase in interest rate levels – had a positive effect on changes in equity. In contrast, the dividend payment of €159 million (€1.18 per dividend-bearing share) resolved at the Annual General Meeting on 19 May 2022, the AT1 coupon of €17 million and a €41 million decline in reserves from financial assets at fair value through other comprehensive income, all had a negative impact upon equity.

Return on equity before tax amounted to 6.4% (6m2021:7.1%) and return on equity after tax to 5.4% (6m2021: 6.0%).

Funding

During the first half of 2022, pbb Group raised new long-term funding in the amount of €3.2 billion (6m2021: €2.3 billion). This was offset by repurchases and terminations totalling €0.2 billion (6m2021: €0.5 billion). The total amount of funding comprises both Pfandbrief issues and unsecured liabilities, issued both in the form of benchmark bonds and private placements. Pfandbrief issues accounted for €2.0 billion (6m2021: €1.3 billion), representing just under two-thirds of the total volume. Unsecured funding accounted for €1.2 billion (6m2021: €1.0 billion), with almost all of the volume being issued as Senior Preferred bonds. The transactions were denominated in euros and, in order to minimise foreign currency risks between assets and liabilities, also in US dollars and Swedish krona. Foreign currency transactions were converted into euro at the exchange rate valid at the time of the issue. Unhedged interest rate exposures are usually hedged by swapping fixed against floating interest rates.

Key Regulatory Capital Ratios

As at 30 June 2022 the CET1 ratio amounted to 17.1% (31 December 2021: 17.1%), the own funds ratio to 22.4% (31 December 2021: 22.4%) and the leverage ratio to 5.7% (31 December 2021: 6.0%). Please refer to the Risk and Opportunity Report ("Internal Capital Adequacy Assessment Process (ICAAP)" section) for further information on the key regulatory capital ratios.

Liquidity

As at 30 June 2022, the Liquidity Coverage Ratio was 273% (31 December 2021: 227%).

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

Ratings

In the first half of 2022, the ratings mandated by pbb were subject to the following changes:

With its rating action of 18 March 2022, Standard & Poor's removed the uncertainty surrounding the future application of additional loss absorbing capacity (ALAC): the additional notches assigned to the issuer rating and the rating of senior preferred liabilities were reduced by one notch each, while the standalone credit profile (SACP) improved by one notch following the peer group analysis (comparable ratings analysis). As a result, the long-term issuer rating was confirmed at "BBB+", whilst the rating of senior non-preferred liabilities were upgraded by one notch, to reach "BBB-". The ratings of other subordinated liabilities also improved by one notch each. The rating outlook was upgraded from "Negative" to "Stable".

Senior Unsecured Ratings and Ratings of Pfandbriefe der Deutsche Pfandbriefbank AG (pbb) ¹⁾	30.6.2022		31.12.2021	
	Standard & Poor's	Moody's	Standard & Poor's	Moody's
Long-term issuer rating/outlook	BBB+/Stable	-	BBB+/Negative	-
Short-term issuer rating	A-2	-	A-2	-
Long-term senior "preferred" unsecured debt rating ²⁾	BBB+	-	BBB+	-
Long-term senior "non-preferred" unsecured debt rating ³⁾	BBB-	-	BB+	-
Mortgage Pfandbriefe	-	Aa1	-	Aa1
Public Sector Pfandbriefe	-	Aa1	-	Aa1

¹⁾ The overview does not include all ratings/outlooks.

²⁾ S&P: "Senior Unsecured Debt".

³⁾ S&P: "Senior Subordinated Debt".

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

MATERIAL RELATED PARTY TRANSACTIONS

No material transactions with related parties were entered into during the first half of 2022.

Risk and Opportunity Report

The Risk and Opportunity Report shows the identified risks and the opportunities for the individual risk types within the framework of the implemented risk management and risk controlling system.

This report only comprises risks and opportunities including a general description of the Company's risk management organisation, or a description of definitions, methods, management and measurement of particular types of risk, to the extent that there were changes during the period under review in comparison to the Risk and Opportunity Report provided in the 2021 Annual Report. For more details, please refer to the disclosures in the Risk and Opportunity Report in the 2021 Annual Report.

ORGANISATION AND PRINCIPLES OF RISK AND CAPITAL MANAGEMENT

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

Risk Strategy and Policies

As part of the strategy development process carried out in the autumn of the past calendar year, the risk strategy for 2022 was drawn up, adopted by the Management Board and approved by the Supervisory Board. Against the backdrop of current geopolitical developments and their potential effects, the decision was taken at the end of April 2022, in consultation with the relevant bodies, to adjust the criteria for development financings in the risk strategy.

RISK TYPES

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

- > Credit risk (counterparty risk)
- > Market risk
- > Liquidity and Funding risk
- > Operational risk
- > Business and Strategic risk
- > Property risk
- > Pension risk
- > Central counterparty risk
- > Environmental, social and governance risk

Credit Risk (Counterparty Risk)

Hedging and Minimising Risk by Collateral

In the REF segment, financing arrangements are normally backed by property charges. 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. For existing exposures, this monitoring is carried out on a regular basis, at least annually.

Besides real property liens, collateral provided for financings in the REF segment also includes assignments of rental payments as well as insurance benefits; this is supported by borrowers' extensive information and reporting obligations. 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 under certain circumstances cash security, bank guarantees 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 pbb'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) at an early stage.

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

The Group's credit portfolio had an aggregated EaD of €53.8 billion as at 30 June 2022 (31 December 2021: €57.5 billion).

Overview of the Total Exposure of pbb Group: €53.8 billion EaD

The credit portfolio is broken down into three segments:

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

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

EaD in Consolidation & Adjustments was fully attributable (100%; 31 December 2021: > 99%) to EL classes 1 to 8; according to the internal classification, these are considered investment grade.

Total portfolio: EaD according to operating segments

in € billion	30.6.2022	31.12.2021	Change	
			in € billion	in %
Real Estate Finance	30.2	29.7	0.5	1.7
Public Investment Finance	5.1	5.7	-0.6	-10.5
Value Portfolio	11.3	13.8	-2.5	-18.1
Consolidation & Adjustments	7.2	8.3	-1.1	-13.3
Total	53.8	57.5	-3.7	-6.4

Risk Parameters Expected Loss (EL) for pbb Group totalled €160 million as at 30 June 2022 (31 December 2021: €161 million). The decline in expected loss was largely attributable to repayments and rating upgrades in the VP.

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

Total exposure: expected loss according to operating segments

in € million	30.6.2022	31.12.2021	Change	
			in € million	in %
Real Estate Finance	142	139	3	2.2
Public Investment Finance	2	2	-	-
Value Portfolio	16	20	-4	-20.0
Consolidation & Adjustments	-	-	-	-
Total	160	161	-1	-0.6

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

Regional Breakdown of the Portfolio The main focus of the exposure at the reporting date remained unchanged: upon Western Europe. At 44% (€23.6 billion; 31 December 2021: 45%/€25.6 billion), Germany once again accounted for the largest part of the aggregate exposure. The lower EaD in Germany (compared to the previous year-end) was mainly attributable to reduced exposure to central banks in C&A. The lower exposure in Austria was largely due to changes in the general interest rate levels and associated changes in hedge adjustments in the VP. The largest portfolio growth was recorded in the US, thanks to new business and additional currency effects in the REF segment. The decline in Spain was largely related to repayments of maturing securities in the VP.

The largest items of the category "Other Europe" were the Netherlands with €1.2 billion and Belgium with €0.3 billion (31 December 2021: the Netherlands €1.3 billion, Belgium €0.3 billion).

Total portfolio: EaD according to regions

in € billion	30.6.2022	31.12.2021	Change	
			in € billion	in %
Germany	23.6	25.6	-2.0	-7.8
France	7.5	7.8	-0.3	-3.8
Austria	5.0	6.1	-1.1	-18.0
USA	4.9	3.8	1.1	28.9
United Kingdom	2.6	2.8	-0.2	-7.1
Other Europe ¹⁾	2.4	2.5	-0.1	-4.0
Spain	1.6	2.2	-0.6	-27.3
Italy	1.6	1.7	-0.1	-5.9
Poland	1.6	1.5	0.1	6.7
Other ²⁾	1.1	1.1	-	-
Sweden	0.8	0.9	-0.1	-11.1
Czech Republic	0.4	0.4	-	-
Portugal	0.3	0.6	-0.3	-50.0
Finland	0.3	0.3	-	-
Hungary	0.2	0.2	-	-
Total	53.8	57.5	-3.7	-6.4

¹⁾ As of 30 June 2022 the category "Other Europe" comprises the Netherlands, Belgium, Slovakia, Romania, Switzerland, Slovenia, Luxembourg, Ireland, Norway, Latvia and Denmark.

²⁾ As of 30 June 2022 the category "Other" comprises amongst others Supranationals, Japan and Canada.

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

Real Estate Finance: €30.2 billion EaD

The REF segment comprises real estate loans and corresponding client derivatives. The EaD of the REF portfolio, which in comparison with the funding volume shown in the chapter “Development in Earnings” also includes undrawn credit lines – multiplied by a product-specific conversion factor – increased, compared to 31 December 2021, by €0.5 billion to €30.2 billion. The largest portfolio growth was recorded in the US, thanks to new business and additional currency effects amounting to €0.4 billion. On balance, exposures were reduced in Germany, France, the UK, in the category “Other Europe” and in Sweden due to repayments exceeding new business. The United Kingdom saw a reduction, which was enhanced by currency effects of €0.1 billion.

Real Estate Finance: EaD according to regions

in € billion	30.6.2022	31.12.2021	Change	
			in € billion	in %
Germany	13.5	13.9	-0.4	-2.9
USA	4.8	3.7	1.1	29.7
France	3.7	3.8	-0.1	-2.6
United Kingdom	2.4	2.6	-0.2	-7.7
Other Europe ¹⁾	1.8	1.9	-0.1	-5.3
Poland	1.5	1.4	0.1	7.1
Sweden	0.8	0.9	-0.1	-11.1
Czech Republic	0.4	0.4	-	-
Spain	0.4	0.4	-	-
Finland	0.3	0.3	-	-
Austria	0.3	0.3	-	-
Hungary	0.2	0.2	-	-
Italy	0.1	0.1	-	-
Total	30.2	29.7	0.5	1.7

¹⁾ As of 30 June 2022 the category “Other Europe” comprises the Netherlands, Romania, Belgium, Switzerland, Slovakia, Luxembourg, Slovenia and Norway.

Looking at EaD by property type, the greatest increase was observed for office properties and housing construction due to new business and currency effects, whilst declines due to repayments were recorded in the “Other” category and for mixed-use properties in particular.

Real Estate Finance: EaD according to property type

in € billion	30.6.2022	31.12.2021	Change	
			in € billion	in %
Office buildings	16.2	15.6	0.6	3.8
Housing construction	5.1	4.9	0.2	4.1
Retail	3.3	3.3	-	-
Logistics/Storage	3.6	3.5	0.1	2.9
Hotel/Leisure	1.1	1.2	-0.1	-8.3
Other	0.5	0.7	-0.2	-28.6
Mixed Use	0.3	0.5	-0.2	-40.0
Total	30.2	29.7	0.5	1.7

At 30 June 2022, investment financings continued to dominate the portfolio (88%; 31 December 2021: 88%); development financings accounted for 12% of EaD (31 December 2021: 11%). Investment financings are defined as real estate loans, the debt servicing ability of which largely depend upon current cash flows from the property.

Real Estate Finance: EaD according to loan type

in € billion	30.6.2022	31.12.2021	Change	
			in € billion	in %
Investment financing	26.6	26.1	0.5	1.9
Development financing	3.5	3.4	0.1	2.9
Customer derivatives	-	0.1	-0.1	-100.0
Other	0.1	0.1	-	-
Total	30.2	29.7	0.5	1.7

Public Investment Finance: €5.1 billion EaD

The portfolio comprises the following financing:

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

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

EaD in the PIF segment declined by €0.6 billion compared to the previous year's end due to repayments and maturities.

Public Investment Finance: EaD according to regions

in € billion	30.6.2022	31.12.2021	Change	
			in € billion	in %
France	2.9	3.1	-0.2	-6.5
Germany	0.9	1.1	-0.2	-18.2
Spain	0.7	0.7	-	-
Austria	0.2	0.3	-0.1	-33.3
Other Europe ¹⁾	0.2	0.2	-	-
United Kingdom	0.2	0.2	-	-
Other ²⁾	0.1	0.1	-	-
Finland ³⁾	-	0.1	-0.1	-100.0
Sweden	-	-	-	-
Total	5.1	5.7	-0.6	-10.5

¹⁾ As of 30 June 2022 the category "Other Europe" comprises Belgium, the Netherlands and Switzerland.

²⁾ As of 30 June 2022 the category "Other" comprises mainly Canada.

³⁾ Finland (30 June 2022): €45 million.

Public "Sector Borrowers" summarises claims against sovereign states (25%), public-sector enterprises (19%), and regional governments and municipalities (56%). The definition also includes exposures guaranteed by these counterparties.

Public Investment Finance: EaD according to counterparty structure

in € billion	30.6.2022	31.12.2021	Change	
			in € billion	in %
Public sector borrowers	5.0	5.5	-0.5	-9.1
Companies/Special-purpose entities ¹⁾	0.2	0.2	-	-
Financial institutions ²⁾	-	-	-	-
Total	5.1	5.7	-0.6	-10.5

¹⁾ Largely collateralised by guarantees and surety bonds.

²⁾ Financial institutions with a state background or state guarantee as of 30 June 2022: €2 million.

Value Portfolio: €11.3 billion EaD

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

The continued reduction (by €2.5 billion) of exposures in the first half-year of 2022, in line with strategy, was mainly a result of repayments of maturing securities. The EaD decrease for Austria was mainly due to changes in general interest rate levels and associated changes in hedge adjustments.

Value Portfolio: EaD according to regions

in € billion	30.6.2022	31.12.2021	Change	
			in € billion	in %
Austria	4.5	5.6	-1.1	-19.6
Germany	3.1	3.6	-0.5	-13.9
Italy	1.5	1.6	-0.1	-6.3
Other ¹⁾	0.8	0.8	-	-
France	0.7	0.7	-	-
Spain	0.3	0.9	-0.6	-66.7
Portugal	0.3	0.6	-0.3	-50.0
Poland	-	0.1	-0.1	-100.0
Other Europe ²⁾	-	-	-	-
Hungary	-	-	-	-
Czech Republic	-	-	-	-
Finland ³⁾	-	-	-	-
Total	11.3	13.8	-2.5	-18.1

¹⁾ As of 30 June 2022 the category "Other" comprises supranational organisations and Japan.

²⁾ As of 30 June 2022 the category "Other Europe" comprises Slovenia with €14 million.

³⁾ Finland (30 June 2022): €10 million.

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

Value Portfolio: EaD according to counterparty structure

in € billion	30.6.2022	31.12.2021	Change	
			in € billion	in %
Public sector borrowers	10.9	12.7	-1.8	-14.2
Financial institutions ¹⁾	0.3	1.1	-0.8	-72.7
Companies	-	-	-	-
Total	11.3	13.8	-2.5	-18.1

¹⁾ Mainly Spanish covered bonds.

Structured Products

pbb Group's residual holding of a Mortgage-backed Security guaranteed by one regional government had a notional value of €0.3 billion as at 30 June 2022 (31 December 2021: €0.3 billion) and a current fair value of €0.3 billion (31 December 2021: €0.3 billion).

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

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

Breakdown of non-derivative financial assets (excluding cash funds) by internal rating class and impairment level as at 30 June 2022

in € million	Stage 1	Stage 2	Stage 3	FVPL	Total
Class 1	2,373	-	-	39	2,412
Class 2	10,887	-	-	144	11,031
Class 3	224	-	-	-	224
Class 4	-	-	-	-	-
Class 5	925	-	-	-	925
Class 6	-	-	-	-	-
Class 7	1,174	-	-	-	1,174
Class 8	1,405	-	-	-	1,405
Class 9	5,177	17	-	84	5,278
Class 10	2,788	46	-	48	2,882
Class 11	5,192	342	-	-	5,533
Class 12	3,423	1,756	-	66	5,246
Class 13	1,723	606	-	-	2,329
Class 14	1,368	549	-	49	1,966
Class 15	712	944	-	-	1,655
Class 16	964	805	-	-	1,769
Class 17	476	873	-	44	1,393
Class 18	734	513	-	-	1,246
Class 19	235	601	-	-	836
Class 20	166	246	-	-	412
Class 21	143	31	-	-	174
Class 22	72	76	-	-	148
Class 23	-	-	-	-	-
Class 24	-	-	-	-	-
Class 25	-	178	-	-	178
Class 26	-	-	-	-	-
Class 27	-	16	-	-	16
Defaulted	-	-	591	-	591
Total	40,160	7,597	591	474	48,822

**Breakdown of non-derivative financial assets (excluding cash funds)
by internal rating class and impairment level as at 31 December 2021**

in € million	Stage 1	Stage 2	Stage 3	FVPL	Total
Class 1	1,947	-	-	44	1,991
Class 2	11,852	-	-	161	12,013
Class 3	835	-	-	-	835
Class 4	-	-	-	-	-
Class 5	1,168	-	-	-	1,168
Class 6	-	-	-	-	-
Class 7	1,211	-	-	-	1,211
Class 8	1,398	180	-	-	1,579
Class 9	5,409	151	-	89	5,649
Class 10	2,515	616	-	40	3,170
Class 11	3,940	814	-	-	4,754
Class 12	3,424	1,510	-	75	5,009
Class 13	1,969	1,454	-	-	3,423
Class 14	901	475	-	25	1,400
Class 15	806	1,106	-	74	1,986
Class 16	629	675	-	-	1,304
Class 17	306	812	-	50	1,167
Class 18	597	707	-	5	1,309
Class 19	437	227	-	28	692
Class 20	142	287	-	50	478
Class 21	144	134	-	-	278
Class 22	-	42	-	-	42
Class 23	-	-	-	-	1
Class 24	-	-	-	-	-
Class 25	-	106	-	-	106
Class 26	-	-	-	-	-
Class 27	-	136	-	-	136
Defaulted	-	-	579	-	579
Total	39,627	9,432	579	640	50,278

**Breakdown of irrevocable loan commitments and contingent liabilities
by internal rating class and impairment level as at 30 June 2022**

in € million	Stage 1	Stage 2	Stage 3	Total
Class 1	-	-	-	-
Class 2	125	-	-	125
Class 3	-	-	-	-
Class 4	-	-	-	-
Class 5	-	-	-	-
Class 6	-	-	-	-
Class 7	-	-	-	-
Class 8	21	-	-	21
Class 9	31	-	-	31
Class 10	101	-	-	101
Class 11	158	-	-	158
Class 12	366	50	-	416
Class 13	314	7	-	320
Class 14	140	22	-	161
Class 15	154	95	-	249
Class 16	137	157	-	294
Class 17	16	115	-	131
Class 18	516	136	-	651
Class 19	52	232	-	284
Class 20	53	32	-	85
Class 21	-	-	-	-
Class 22	3	12	-	14
Class 23	-	-	-	-
Class 24	-	-	-	-
Class 25	-	57	-	57
Class 26	-	-	-	-
Class 27	-	-	-	-
Defaulted	-	-	-	-
Total	2,186	914	-	3,101

Breakdown of irrevocable loan commitments and contingent liabilities by internal rating class and impairment level as at 31 December 2021

in € million	Stage 1	Stage 2	Stage 3	Total
Class 1	-	-	-	-
Class 2	172	-	-	172
Class 3	-	-	-	-
Class 4	-	-	-	-
Class 5	-	-	-	-
Class 6	-	-	-	-
Class 7	-	-	-	-
Class 8	39	-	-	39
Class 9	8	23	-	31
Class 10	87	29	-	116
Class 11	120	15	-	135
Class 12	417	119	-	535
Class 13	200	83	-	283
Class 14	59	46	-	105
Class 15	143	16	-	159
Class 16	478	70	-	548
Class 17	131	119	-	250
Class 18	357	233	-	590
Class 19	102	32	-	134
Class 20	51	77	-	127
Class 21	-	-	-	-
Class 22	-	11	-	11
Class 23	-	-	-	-
Class 24	-	-	-	-
Class 25	-	66	-	66
Class 26	-	-	-	-
Class 27	-	-	-	-
Defaulted	-	-	-	-
Total	2,362	939	-	3,301

Watchlist and Non-performing Loans

Development of Watchlist and non-performing loans of pbb Group

EaD in € million	30.6.2022				31.12.2021				Change	
	REF	PIF	VP	Total ¹⁾	REF	PIF	VP	Total ¹⁾	in € million	in %
Workout loans	14	-	-	14	14	-	-	14	-	-
Restructuring loans	522	55	-	577	533	32	-	565	12	2.1
Non-performing loans	536	55	-	591	547	32	-	579	12	2.1
Watchlist loans	385	-	-	385	576	-	-	576	-191	-33.2

¹⁾ No exposure in C&A.

Watchlist and non-performing loans decreased by a net €179 million between 31 December 2021 and 30 June 2022.

In the REF segment, the exposure to watchlist loans declined by a total of €191 million. An exposure of €39 million was transferred to intensified handling, whilst two borrowers with a total volume of €203 million were returned to normal handling. Total repayments of €26 million further reduced the net exposure.

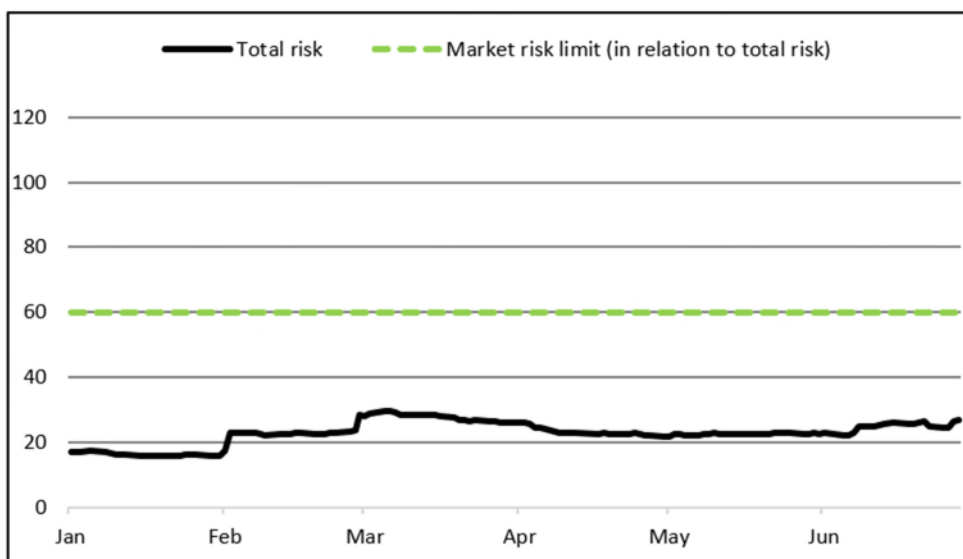
Problem loans increased by €12 million net during the reporting period. The total volume in the REF segment was down by €11 million due to repayments, with counteracting currency effects for loans denominated in pound sterling and US dollars, as well as capitalisation of interest for one exposure, almost offsetting each other. In public-sector financings (PIF segment), total additions to loss allowance of €55 million were made in relation to the war between Russia and Ukraine, of which, as at the reporting date, around €53 million were covered by export credit guarantees extended by the Federal Republic of Germany. Residual claims in the amount of €32 million referring to other loans of one borrower, which were also covered by export credit guarantees, were settled in full.

Market Risk

Market Risk Measurement and Limits

Market risk VaR Market risk VaR as at end of June 2022 amounted to €27 million (end of 2021: €17 million), taking diversification effects between the individual market risk types into consideration. The rise in the market risk VaR was mainly due to increased credit spread and interest rate risks, which were caused above all by higher credit spread market volatility. The total market risk VaR limit was €60 million throughout 2022 (end of December 2021: €100 million)

Market risk VaR
and market risk limit January to June 2022
in € million



Back Testing pbb Group has adopted the Basel Capital Accord's "traffic light" system for the qualitative analysis of its VaR risk model. Four outliers were observed during the 250 trading days until the end of June 2022, which mainly occurred due to relatively strong changes in interest rates in connection with the ECB's monetary policy decisions or announcements in October 2021, and in February and June 2022. The risk model employed by pbb Group therefore has "green" status, as defined in the "traffic light" system of the Basel Capital Accord.

Interest Rate Risk and Credit Spread Risk in the banking book

Interest Rate Risk at Present Value (IRRBB) As at 30 June 2022, the consolidated IRRBB VaR of all interest rate risk categories in the banking book (general interest rate risk, Tenor basis spread risk, cross-currency basis spread risk, option/ volatility risk) was €16 million (end of December 2021: €12 million) with a limit of €25 million. Limits for IRRBB VaR and its sub-risk categories are monitored on a daily basis.

Gap Risk General interest rate risk (gap risk) amounted to €15 million as of 30 June 2022 (31 December 2021: €12 million).

Basis Risks Basis risks refer to the risk categories tenor basis spread and cross-currency basis spread. Tenor basis spread risks amounting to €2 million (31 December 2021: €1 million) and cross-currency basis spread risks amounting to €1 million (31 December 2021: €1 million) were shown at the reporting date.

Option/Volatility Risks Option/Volatility risks amounted to €1 million as at 30 June 2022 (31 December 2021: €1 million).

Credit-Spread-Risk (CSRBB) The CSRBB VaR as at the reporting date amounted to €17 million (31 December 2021: €11 million), with a limit of €50 million as at 30 June 2022. The CSRBB VaR is subject to daily limit monitoring as well.

Periodic Interest Rate Risk pbb uses a dynamic model for measuring and monitoring periodic interest rate risks (dynamic earnings), 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.

Foreign Currency Risks The present value of foreign currency risk amounted to €0.3 million as at end of June 2022 (year-end 2021: €0.3 million).

Liquidity and Funding Risk**Development of pbb Group's Risk Position**

The cumulative liquidity position (liquid assets plus projected net cash flows) determined as part of the liquidity risk measurement process as at 30 June 2022 amounted to €3.7 billion for a twelve-month horizon in the base scenario – a €0.9 billion decrease compared to the previous year (based on the same projection horizon). As at 30 June 2022, the cumulative liquidity position for a six-month horizon amounted to €2.0 billion in the risk scenario (31 December 2021: €1.8 billion). The cumulative liquidity position in the stress scenario for a six-month horizon amounted to €1.0 billion as of 30 June 2022 (31 December 2021: €0.6 billion).

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

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

The levels determined for pbb Group during the first half of 2022 were at any time clearly in excess of 100%. The Liquidity Coverage Ratio as at 30 June 2022 was 273%.

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

The figures determined for pbb Group during the first half of 2022 were clearly above the ratio required under the regulatory regime.

Funding Markets

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

Forecast Liquidity Requirement

Aside from the expected liquidity requirement for new business, the size of the future liquidity requirement depends on various external factors:

- > the further development of global financial/funding markets and the COVID-19 pandemic, and economic policy responses to the war in Ukraine – together with their potential impact on the real economy;
- > potential impact of ESG factors on credit spreads and funding opportunities;
- > 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

Operational Risk

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. CRR, the own funds requirement for operational risks, which is calculated at the end of each year, was €74 million as at 31 December 2021 (31 December 2020: €70 million).

Operational Risk Profile of pbb Group

pbb Group suffered a financial loss of €0.2 million from operational risks during the first half of 2022 (6m2021: €0.1 million). Overall the operational risk profile is assessed as stable.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

In line with the current ICAAP methodology, the capital adequacy assessment is evaluated from a normative as well as from an economic perspective. Both perspectives are aimed at the sustainability of the business and capital planning, and on the long-term viability of the pbb Group.

The risks identified in the risk inventory as higher-level risks having an impact on capital and income – i.e. market risk, credit risk, business and strategic risk, operational risk and real estate risk – are included in the ICAAP, using models or other methods to quantify the economic capital of these risk types. Within these types of risk, there are additional material sub-risks on a granular level that were taken into account as other material risks in the ICAAP during the period under review, with extension risk, realisation risk and market risk under TLTRO III combined in a single category. The risk of unexpected losses from defaulted clients (which was previously recognised under other material risks) and model risk are both reported separately. Funding risk is included in business and strategic risk.

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

Quantification of economic capital for individual risk types

For internal assessment of the Internal Capital Adequacy Assessment Process in line with the economic perspective, economic capital for quantifiable risks is determined using models or scenario analyses, and aggregated into overall bank risk using a mathematical/statistical approach, taking specific correlations between market and counterparty credit risks into account. Thereby risks are calculated for a one-year period, using a confidence level of 99.9%. A description of how the economic capital of the individual risk types is quantified can be found in the 2021 Annual Report.

Result of Risk-bearing Capacity Analysis

Normative Perspektive

For a detailed description of the regulatory indicators measured as at the reporting date (CET1 ratio, tier 1 ratio, own funds ratio, MREL and Leverage Ratio), please refer to the chapter "Key regulatory capital ratios". The readings for these indicators were non-critical at the reporting date. The relevant regulatory limits were observed for all indicators as at the reporting date. Furthermore, capitalisation in the forward-looking medium-term analysis of key capital ratios – as required by regulators – was within the set limit system, in the baseline scenario and in the stress scenarios.

Economic Perspective

in € million	30.6.2022	31.12.2021	Change
Credit risk	1,001	1,108	-107
Thereof Real Estate Finance	552	511	41
Thereof Public Investment Finance	68	100	-32
Thereof Value Portfolio	370	484	-114
Thereof Consolidation & Adjustments	11	14	-3
Market risk	487	665	-178
Operational risk	94	97	-3
Business and strategic risk	58	-	58
Property risk	-	-	-
Unexpected losses from defaulted clients	18	-	18
Model risk	4	19	-15
Other material risks	25	47	-22
Total before diversification effects	1,687	1,937	-250
Total after diversification effects	1,591	1,812	-221
Available financial resources before net hidden losses	3,098	3,150	-52
Net hidden losses	-35	-	-35
Available financial resources	3,063	3,150	-87
Excess capital	1,472	1,338	134
Capital Adequacy Ratio in %	193	174	19

In the economic perspective, aggregate risk after diversification effects declined in the period under review, especially in the market and counterparty credit risks. Lower economic capital for market risk was driven mainly by lower interest rate and credit spread risks. Economic capital for counterparty credit risk declined in the VP in particular due to changed spreads, but also in PIF due to portfolio effects. Changes in other material risks were largely driven by the separate disclosure of unexpected losses from defaulted clients, which had previously been a component of other material risks. Economic capital for operational risk is determined at least once every year. It was slightly lower in the reporting period, due to moderate losses from operational risks last year and a subsequent update of the data underlying our model. pbb Group continued to hold no properties during the period under review. The lower model risk was mainly due to credit spread and interest rate changes. Business and strategic risk amounted to €58 million, driven by higher-than-expected prepayments and slightly lower gross margins in the lending business. In addition, earnings from floors in the client business decreased considerably as a result of higher interest rate levels.

This is offset by available financial resources, which decreased during the period under review, primarily due to the dividend payment in May 2022. Compared to the year-end 2021, excess capital rose slightly, whilst the internal capital adequacy ratio (defined as the ratio of available financial resources to diversified economic capital), increased. Overall, the Bank's risk-bearing capacity at the reporting date was demonstrated for the economic perspective as well.

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

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 the crisis in Ukraine, and analyses carried out as to how these scenarios affect the Bank. Given the highly dynamic development, these scenarios are subject to considerable uncertainty.

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

Key Regulatory Capital Ratios

The requirements for regulatory capital ratios (Basel III) were satisfied at any time throughout the first half of 2022.

Own Funds

in € million	30.6.2022	31.12.2021 ¹⁾
CET1	2,824	2,875
Additional Tier 1	298	298
Tier 1	3,121	3,173
Tier 2	565	593
Own Funds	3,686	3,766

¹⁾ Values as of 31 December 2021 after confirmation of the 2021 financial statements and appropriation of profits.

Risk-weighted assets (RWA)

in € million	30.6.2022	31.12.2021
Credit risk (without Counterparty credit risk)	15,162	15,385
Counterparty credit risk	335	426
Thereof CVA Charge	191	206
Market risk	62	59
Thereof interest rate risks	-	-
Thereof foreign exchange risks	62	59
Operational risk	922	922
RWA total	16,481	16,792

Capital ratios

in %	30.6.2022	31.12.2021 ¹⁾
CET1 ratio	17.1	17.1
Tier 1 ratio	18.9	18.9
Own Funds ratio	22.4	22.4

¹⁾ Values as of 31 December 2021 after confirmation of the 2021 financial statements and appropriation of profits.

Leverage Ratio

in %	30.6.2022	31.12.2021 ¹⁾
Leverage ratio	5.7	6.0

¹⁾ Values as of 31 December 2021 after confirmation of the 2021 financial statements and appropriation of profits.

Minimum Requirements for Own Funds and Eligible Liabilities (MREL)

Under the recovery and resolution regime (pursuant to the Bank Recovery and Resolution Directive (BRRD), which was revised within the framework of the EU Banking Package in 2019 and implemented into national law through the German Act on Restructuring and Resolution (Sanierungs- und Abwicklungsgesetz – "SAG")), institutions are required to maintain, 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 the MREL ratio is determined by regulators individually for each institution concerned. pbb Group is aiming to maintain an MREL ratio of at least 8% in relation to total liabilities and own funds (TLOF) and in line with the regulatory target set by the resolution authority. As in the previous year pbb Group exceeded this requirement significantly in the period under review.

Report on Expected Developments

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

pbb Group affirms the forecast regarding the performance indicators for the 2022 financial year, as presented in the Annual Report 2021 on page 82, provided there are no further (or even worsening) market distortions. In view of the ongoing critical market development, pbb Group sees the volume of new business in Real Estate Finance (including prolongations longer than one year) at the lower end of the forecast range of € 9.5 billion and € 10.5 billion. Should the crisis situation worsen significantly, pbb Group will reassess the situation.

The individual opportunities and risks which could have a positive or negative influence on pbb Group's financial position and financial performance are presented in the Annual Report 2021 on pages 82 to 86. Compared to these statements, the economic and interest rate risks have increased.

In recent months, the economic outlook for Europe has deteriorated significantly. Energy prices have once again increased markedly and now burden the economy in several ways. Many goods are becoming scarcer and more expensive, as companies are facing higher production and transport costs, therefore reducing their production whilst increasing their prices. In the wake of the war between Russia and Ukraine, EU states and other western countries as well as Russia and Belarus have imposed reciprocal sanctions and embargoes. While economic growth is being weakened not least by these sanctions and embargoes, inflation in Germany and across Europe is rising significantly. Inflation is being further fuelled by high price increases due to the imminent halt to gas deliveries by Russia. This stagflationary development poses problems for monetary policy makers. Interest rate hikes could possibly contain inflation, but they also dampen economic growth. At present, inflation is first and foremost being driven by the development of energy prices, the shortage of raw materials, and the sanctions and embargoes imposed due to the Ukraine war.

Weaker economic growth or even a recession in connection with high inflation and interest rate hikes could lead to defaults of financings extended by pbb Group. Such a scenario could come to pass if tenants are no longer able to pay the rent, and, as a result, the borrowers become unable to afford interest expenses. However, pbb Group's generally lower loan-to-value ratios in the portfolio could be an advantage in this case. In addition, higher construction costs could weigh on the financings of real estate under construction (development financings) – although these financings at pbb usually include security buffers and cost overrun guaranties. Aside from the financial performance, new business could also be impaired by lower transaction volumes on the market, since higher interest expenses could reduce the attractiveness of real estate acquisitions for investors. In contrast, the volume of early repayments could decline further and renewal quotas for existing financings could rise, which would have a positive impact on the financing volume and thus on interest income.

Condensed Consolidated Interim Financial Statements

Income Statement

Income statement

in € million	Note	1.1.– 30.6.2022	1.1.– 30.6.2021
Net interest income	5	242	246
thereof: interest income from financial instruments not measured at fair value through profit or loss (IAS 1.82a)	584	-	579
Net fee and commission income	6	3	5
Net income from financial instruments at fair value through profit or loss (net income from fair value measurement) ¹⁾	7	14	2
Net income from derecognition of financial instruments not measured at fair value through profit or loss (net income from realisations) ¹⁾	8	10	38
Thereof: from financial assets at amortised cost	12	-	39
Net income from hedge accounting	9	-1	-3
Net other operating income	10	4	-1
Net income from allowances for credit losses on financial assets (net income from risk provisioning) ¹⁾	11	-19	-33
General and administrative expenses	12	-106	-102
Expenses from bank levies and similar dues	13	-31	-29
Net income from write-downs and write-ups of non-financial assets	14	-9	-9
Profit before tax		107	114
Income tax	15	-16	-17
Net income		91	97
attributable to:			
Shareholders	92	92	98
Non-controlling interests	-1	-1	-1

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

Earnings per share

in €	Note	1.1.– 30.6.2022	1.1.– 30.6.2021
Basic earnings per share	16	0.62	0.66
Diluted earnings per share	16	0.62	0.66

Statement of Comprehensive Income

Consolidated statement of comprehensive income

in € million	1.1.– 30.6.2022	1.1.– 30.6.2021
Net income/loss	91	97
Accumulated other comprehensive income	9	-3
Items that will not be reclassified to profit or loss, net of tax	50	20
Gains/losses on pension commitments, before tax	56	21
Income tax relating to items that will not be reclassified to profit or loss	-6	-1
Items that may be reclassified to profit or loss, net of tax	-41	-23
Gains/losses on cash flow hedge accounting, before tax	-	-6
unrealised gains/losses	-	-
gains/losses reclassified to profit or loss	-	-6
Gains/losses on financial assets at fair value through other comprehensive income, before tax	-46	-18
unrealised gains/losses	-46	-18
gains/losses reclassified to profit or loss	-	-
Income tax relating to items that may be reclassified to profit or loss	5	1
Comprehensive income for the period	100	94
attributable to:		
Shareholders	101	95
Non-controlling interests	-1	-1

Statement of Financial Position

Assets

in € million	Note	30.6.2022	31.12.2021	1.1.2021
Cash reserve		5,502	6,607	5,376
Financial assets at fair value through profit or loss	17	997	1,180	1,368
Positive fair values of stand-alone derivatives		523	540	737
Debt securities		122	132	134
Loans and advances to customers		349	505	494
Shares in investment funds qualified as debt instruments		3	3	3
Financial assets at fair value through other comprehensive income	18	1,243	1,258	1,529
Debt securities		939	943	1,384
Loans and advances to customers		304	315	145
Financial assets at amortised cost after credit loss allowances	19	46,756	48,087	48,669
Financial assets at amortised cost before credit loss allowances		47,109	48,429	48,913
Debt securities		5,651	6,893	7,481
Loans and advances to other banks		3,527	2,646	1,874
Loans and advances to customers		37,775	38,710	39,358
Claims from finance lease agreements		156	180	200
Credit loss allowances on financial assets at amortised cost		-353	-342	-244
Positive fair values of hedge accounting derivatives	20	399	1,009	1,651
Valuation adjustment from portfolio hedge accounting (assets)		-68	5	27
Tangible assets	21	30	32	38
Intangible assets		41	42	40
Other assets		56	50	47
Current income tax assets		13	3	19
Deferred income tax assets		127	129	95
Total assets		55,096	58,402	58,859

Liabilities and equity

in € million	Note	30.6.2022	31.12.2021	1.1.2021
Financial liabilities at fair value through profit or loss	22	676	559	596
Negative fair values of stand-alone derivatives		676	559	596
Financial liabilities measured at amortised cost	23	49,732	52,656	52,570
Liabilities to other banks		10,317	10,633	9,844
Liabilities to customers		17,768	20,100	22,583
Bearer bonds		21,024	21,268	19,457
Subordinated liabilities		623	655	686
Negative fair values of hedge accounting derivatives	24	1,150	1,372	1,920
Valuation adjustment from portfolio hedge accounting (liabilities)		-55	70	137
Provisions	25	168	231	246
Other liabilities	26	50	55	62
Current income tax liabilities		26	34	34
Liabilities		51,747	54,977	55,565
Equity attributable to the shareholders of pbb	27	3,049	3,124	2,996
Subscribed capital		380	380	380
Additional paid-in capital		1,637	1,637	1,637
Retained earnings		1,118	1,202	1,067
Accumulated other comprehensive income		-86	-95	-88
Additional equity instruments (AT1)		298	298	298
Non-controlling interest		2	3	-
Equity		3,349	3,425	3,294
Total equity and liabilities		55,096	58,402	58,859

Statement of Changes in Equity

Statement of changes in equity

in € million	Equity attributable to the shareholders								
	Accumulated other comprehensive income (OCI) from:								
	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)	Non-controlling interest	Equity
Balance at 1.1.2021	380	1,637	1,067	-137	-22	71	298	-	3,294
Capital increase	-	-	1	-	-	-	-	4	5
Distribution	-	-	-35	-	-	-	-	-	-35
Payment on AT1 capital	-	-	-17	-	-	-	-	-	-17
Comprehensive income for the period	-	-	97	20	-6	-17	-	-	94
Net income	-	-	97	-	-	-	-	-	97
OCI for the period, after taxes	-	-	-	20	-6	-17	-	-	-3
Balance at 30.6.2021	380	1,637	1,113	-117	-28	54	298	4	3,341
Balance at 1.1.2022	380	1,637	1,202	-111	-28	44	298	3	3,425
Distribution	-	-	-159	-	-	-	-	-	-159
Payment on AT1 capital	-	-	-17	-	-	-	-	-	-17
Comprehensive income for the period	-	-	92	50	-	-41	-	-1	100
Net income after tax	-	-	92	-	-	-	-	-1	91
OCI for the period, after taxes	-	-	-	50	-	-41	-	-	9
Balance at 30.6.2022	380	1,637	1,118	-61	-28	3	298	2	3,349

Statement of Cash Flows (condensed)

Statement of cash flows (condensed)

in € million	2022	2021
Cash and cash equivalents at 1.1.	6,607	5,376
+/- Cash flows from operating activities	-1,702	1,195
+/- Cash flows from investing activities	796	626
+/- Cash flows from financing activities	-199	-79
Cash and cash equivalents at 30.6.	5,502	7,118

Notes (condensed)

GENERAL INFORMATION

1. Principles

Deutsche Pfandbriefbank AG (pbb) has prepared the condensed consolidated interim financial statements for the period ended 30 June 2022 in line with EC regulation No. 1606/2002 of the European Parliament and of the Council from 19 July 2002 in accordance with International Financial Reporting Standards (IFRS). The IFRS are standards and interpretations adopted by the International Accounting Standards Board (IASB). These are the International Financial Reporting Standards (IFRS), the International Accounting Standards (IAS) and the interpretations of the IFRS Interpretations Committee (formerly IFRIC) respectively the former Standing Interpretations Committee (SIC).

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

With the exception of certain regulations on fair value hedge accounting for a portfolio hedge of interest rate risks in IAS 39 Financial Instruments: Recognition and Measurement, all the IFRS published by the IASB and required to be applied were fully endorsed by the European Union (EU). According to the option pursuant to IFRS 9.7.2.21 Deutsche Pfandbriefbank Group (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 condensed consolidated interim financial statements comply with IFRS applicable in the EU, but not with IFRS as a whole as promulgated by the IASB.

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

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

The Management Board of pbb prepared these condensed consolidated interim financial statements on 28 July 2022 under the going-concern assumption and released for publication.

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

Amendments to IFRS 3, IAS 16, IAS 37 and Annual Improvements 2018-2020

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 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. None of these amendments have material effects for pbb Group.

2. Consistency

pbb Group applies its accounting policies on a consistent basis in accordance with the Conceptual Framework for Financial Reporting, as well as IAS 1 and IAS 8. Except for the matter outlined below, the same accounting policies were applied as in the consolidated financial statements as at 31 December 2021:

The segment reporting was further developed for the 2022 financial year. Within the scope of the annual review of capital allocation to the business segments, it was affirmed that pbb continues to consider the use of economic capital as a bottleneck factor. Thus, the distribution of economic risks by business segments continues to serve as a basis for allocation. When deriving the equity capital allocation key on the basis of an expected loss shortfall approach, risks from credit spreads are no longer taken into account. Assumption of credit spread risks – which are especially present in the Value Portfolio (VP) – is not part of pbb's business model and leads to a higher burden on the VP if considered. In contrast, other business segments are favoured, especially Real Estate Finance (REF). The previous year's figures were adjusted in accordance with IFRS 8.29. As at 31 December 2021, VP equity decreased from €0.5 billion to €0.4 billion, and REF equity increased from €2.0 billion to €2.1 billion. The Income Statement showed no segment shift in the same period of 2021.

3. Consolidation

A list of all consolidated and non-consolidated companies of pbb can be found on page 174 of pbb Group's 2021 Annual Report. There have not been any changes in the group of consolidated companies in the reporting period.

4. Segment Reporting

Income/expenses

in € million		Real Estate Finance (REF)	Public Invest- ment Finance (PIF)	Value Portfo- lio (VP)	Consoli- da- tion & Ad- justments (C&A)	pbb Group
Operating income	1.1.-30.6.2022	234	17	20	1	272
	1.1.-30.6.2021	250	18	18	1	287
Net interest income	1.1.-30.6.2022	207	16	18	1	242
	1.1.-30.6.2021	208	18	19	1	246
Net fee and commission income	1.1.-30.6.2022	3	-	-	-	3
	1.1.-30.6.2021	5	-	-	-	5
Net income from fair value measurement	1.1.-30.6.2022	10	1	3	-	14
	1.1.-30.6.2021	1	-	1	-	2
Net income from realisations	1.1.-30.6.2022	10	-	-	-	10
	1.1.-30.6.2021	38	-	-	-	38
Net income from hedge accounting	1.1.-30.6.2022	-	-	-1	-	-1
	1.1.-30.6.2021	-2	-	-1	-	-3
Net other operating income	1.1.-30.6.2022	4	-	-	-	4
	1.1.-30.6.2021	-	-	-1	-	-1
Net income from risk provisioning	1.1.-30.6.2022	-22	-1	4	-	-19
	1.1.-30.6.2021	-34	-	1	-	-33
General and administrative expenses	1.1.-30.6.2022	-93	-8	-5	-	-106
	1.1.-30.6.2021	-88	-9	-5	-	-102
Expenses from bank levies and similar dues	1.1.-30.6.2022	-20	-3	-8	-	-31
	1.1.-30.6.2021	-18	-4	-7	-	-29
Net income from write-downs and write-ups of non-financial assets	1.1.-30.6.2022	-8	-1	-	-	-9
	1.1.-30.6.2021	-8	-1	-	-	-9
Profit before tax	1.1.-30.6.2022	91	4	11	1	107
	1.1.-30.6.2021	102	4	7	1	114

Cost-Income-Ratio¹⁾

in %		REF	PIF	VP	pbb Group
Cost-Income-Ratio	1.1.-30.6.2022	43.2	52.9	25.0	42.3
	1.1.-30.6.2021	38.4	55.6	27.8	38.7

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

Balance-sheet-related measures

in € billion		REF	PIF	VP	C&A	pbb Group
Financing volumes ¹⁾	30.6.2022	28.4	4.9	10.0	-	43.3
	31.12.2021	27.6	5.2	10.9	-	43.7
Risik-weighted assets ²⁾	30.6.2022	15.1	0.6	0.2	0.6	16.5
	31.12.2021	15.1	0.7	0.3	0.7	16.8
Equity ³⁾	30.6.2022	2.3	0.1	0.4	0.3	3.1
	31.12.2021	2.1	0.2	0.4	0.4	3.1

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

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

³⁾ Excluding cash flow hedge reserve, reserves from financial assets at fair value through other comprehensive income, AT1 capital and non controlling interest. Values as of 31 December 2021 were adjusted due to IFRS 8.29 (see note "Consistency").

NOTES TO THE INCOME STATEMENT

5. Net Interest Income

Net interest income

in € million	1.1.– 30.6.2022	1.1.– 30.6.2021
Interest income	757	745
from financial assets at fair value through profit or loss	134	106
from financial assets at fair value through other comprehensive income	14	17
from financial assets at amortised cost	525	521
from hedge accounting derivatives (net) ²⁾	37	58
from other assets	2	2
negative interest from non-derivative financial liabilities	45	41
Interest expenses	-515	-499
from financial liabilities held for trading	-161	-122
from financial liabilities measured at amortised cost	-333	-359
negative interest from non-derivative financial assets	-21	-18
Total	242	246

The net interest income contains positive interest (net) from derivatives in the amount of €7 million (6M2021: €10 million).

6. Net Fee and Commission Income

Net fee and commission income

in € million	1.1.– 30.6.2022	1.1.– 30.6.2021
Fee and commission income	4	6
from financial assets at amortised cost and financial liabilities not at fair value through profit or loss	4	6
Fee and commission expenses	-1	-1
from financial assets at amortised cost and financial liabilities not at fair value through profit or loss	-1	-1
Total	3	5

7. Net Income from Fair Value Measurement

Net income from fair value measurement

in € million	1.1.– 30.6.2022	1.1.– 30.6.2021
Net income from stand-alone derivatives	59	11
Interest derivatives	58	11
Foreign currency derivatives	1	-
Net income from other financial assets at fair value through profit or loss	-45	-9
from debt instruments	-45	-9
Debt securities	-10	-2
Loans and advances	-35	-7
Total	14	2

8. Net Income from Realisations

Net income from realisations

in € million	1.1.– 30.6.2022	1.1.– 30.6.2021
Income from derecognition of financial instruments	13	40
from financial assets measured at amortised cost	12	39
from financial liabilities measured at amortised cost	1	1
Expenses from derecognition of financial instruments	-3	-2
from liabilities measured at amortised cost	-3	-2
Total	10	38

9. Net Income from Hedge Accounting

Net income from hedge accounting

in € million	1.1.– 30.6.2022	1.1.– 30.6.2021
Net income from micro fair value hedge accounting	-	-2
from hedged items	327	-25
from hedging instruments	-327	23
Net income portfolio fair value hedge accounting	-1	-1
from hedged items	42	25
from hedging instruments	-43	-26
Total	-1	-3

10. Net Other Operating Income

Net other operating income

in € million	1.1.– 30.6.2022	1.1.– 30.6.2021
Net income from foreign currency translation	-5	-2
Net income from provisions in non-lending business	7	1
Miscellaneous other operating income	2	-
Total	4	-1

11. Net Income from Risk Provisioning

Net income from risk provisioning

in € million	1.1.– 30.6.2022	1.1.– 30.6.2021
From financial assets	-8	-32
Stage 1	8	-9
Stage 2	8	-10
Stage 3	-24	-13
Net income from provisions in off balance sheet lending business	-11	-1
Total	-19	-33

As at 30 June 2022, 31 December 2021, and 30 June 2021, pbb Group recognised one management overlay each to reflect uncertainty and existing risks as at the reporting date that had not been appropriately considered in the application of the established measurement model pursuant to IFRS 9. The management overlay as at 30 June 2022 amounted to €42 million (31 December 2021: €54 million; 30 June 2021: €38 million). The foundation for the management overlays is described in detail in the Report on the Economic Position. In the first half of 2022, the reversal of the existing management overlay and the recognition of a new manage-

ment overlay resulted in income of €12 million (6m2021: expenses of €38 million from the recognition of a management overlay).

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 allowance on financial instruments is based on accounting estimates. In the first half of 2022, pbb Group made one change in accounting estimates as regards the measurement of loss allowance for non-credit-impaired financial instruments (Stages 1 and 2).

Regulatory risk parameters, including the probability of default (PD) and loss given default (LGD), are used as a basis for determining the amount of credit losses of stage 1 and stage 2 financial instruments; these are transformed into a point-in-time estimate, i.e. an exact estimate of the current situation. The expected five-year swap rate per currency is taken into account as a transformation parameter. Based on portfolio-specific analyses, the five-year swap rate determined as at the average maturity dates of a portfolio is now used for calculations to specific dates. Previously, the five-year swap rate was calculated based on a monthly average and without considering specific maturities.

The change in accounting estimates benefited the Group's net income from risk provisioning in the amount of €7 million and was almost completely attributable to impairments on financial assets. The amount attributable to as yet undisbursed amounts, i.e. off-balance sheet transactions, was less than €0.5 million.

12. General and Administrative Expenses

General and administrative expenses

in € million	1.1.– 30.6.2022	1.1.– 30.6.2021
Personnel expenses/income	-62	-61
Wages and salaries	-52	-51
Social security expenses	-7	-7
Pension expenses and related employee benefit expenses	-5	-5
Other personell expenses/income	2	2
Non-personnel expenses	-44	-41
Office and operating expenses	-2	-2
Consulting expenses	-8	-11
IT expenses	-26	-21
Other non-personnel expenses	-8	-7
Total	-106	-102

13. Expenses from Bank Levies and Similar Dues

Expenses from bank levies and similar dues

in € million	1.1.– 30.6.2022	1.1.– 30.6.2021
Bank levies	-31	-27
Compensation scheme of German banks	-	-2
Total	-31	-29

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

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

in € million	1.1.– 30.6.2022	1.1.– 30.6.2021
Depreciation	-9	-9
Tangible assets	-3	-3
Thereof: right-of-use of lease contracts	-3	-3
Intangible assets	-6	-6
Total	-9	-9

15. Income Tax

Income tax

in € million	1.1.– 30.6.2022	1.1.– 30.6.2021
Current taxes	-15	-21
Deferred taxes	-1	4
Total	-16	-17

16. Earnings per Share

Earning per share

		1.1.– 30.6.2022	1.1.– 30.6.2021
Net income attributable to shareholders of pbb	in € million	92	98
Thereof attributable to the ordinary shareholders	in € million	83	89
Thereof attributable to the AT1 investors	in € million	9	9
Average number of ordinary shares issued	pieces	134,475,308	134,475,308
Adjusted average number of ordinary shares issued pieces		134,475,308	134,475,308
Basic earnings per share		0.62	0.66
Diluted earnings per share		0.62	0.66

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

NOTES TO THE STATEMENT OF FINANCIAL POSITION

17. Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss

in € million	30.6.2022	31.12.2021
Positive fair values of stand-alone derivatives	523	540
Shares in investment funds qualified as debt instruments	3	3
Debt securities	122	132
Bonds and notes	122	132
Public-sector issuers	83	88
Other issuers	39	44
Loans and advances to customers	349	505
Public-sector loans and advances	142	159
Real estate loans and advances	207	346
Total	997	1,180

18. Financial Assets at Fair Value Through Other Comprehensive Income

Financial Assets at Fair Value Through Other Comprehensive Income

in € million	30.6.2022	31.12.2021
Debt securities	939	943
Bonds and notes	939	943
Public-sector issuers	327	360
Other issuers	612	583
Loans and advances to customers	304	315
Public-sector loans and advances	105	115
Investments in money	199	200
Total	1,243	1,258

19. Financial Assets at Amortised Cost After Credit Loss Allowances

Financial assets at amortised cost before credit loss allowances

in € million	30.6.2022	31.12.2021
Debt securities	5,651	6,893
Bonds and notes	5,651	6,893
Public-sector issuers	4,607	5,052
Other issuers	1,044	1,841
Loans and advances to other banks	3,527	2,646
Public-sector loans and advances	543	551
Investments in money	1,963	1,034
Other loans and advances to other banks	1,021	1,061
Loans and advances to customers	37,775	38,710
Public-sector loans and advances	9,720	11,466
Real estate loans and advances	28,024	27,183
Other loans and advances to customers	31	61
Claims from finance lease agreements	156	180
Total	47,109	48,429

Development in risk provisioning

in € million	1.1.2022	Net additions/ reversals	Use	Other	30.6.2022
Allowances for credit losses on financial assets	-342	-8	-	-3	-353
measured at amortised cost	-342	-8	-	-3	-353
Debt securities	-3	2	-	-	-1
Loans and advances to customers	-339	-10	-	-3	-352
Provisions in the lending business	-16	-11	-	-	-27
Total	-358	-19	-	-3	-380

Credit loss allowances on financial assets at amortised cost

in € million	30.6.2022	31.12.2021
Stage 1	-49	-28
Debt securities	-1	-3
Loans and advances	-48	-25
Stage 2	-108	-142
Loans and advances	-108	-142
Stage 3	-196	-172
Loans and advances	-196	-172
Total	-353	-342

20. Positive Fair Values of Hedge Accounting Derivatives**Positive fair values of hedge accounting derivatives**

in € million	30.6.2022	31.12.2021
Positive market values of hedge accounting derivatives	399	1,009
Total	399	1,009

21. Tangible Assets

Tangible assets include right-of-use assets from leasing for land and buildings in the amount of €27 million (31 December 2021: €29 million).

22. Financial Liabilities at Fair Value Through Profit or Loss**Financial liabilities at fair value through profit or loss**

in € million	30.6.2022	31.12.2021
Negative fair values of stand-alone derivatives	676	559
Total	676	559

23. Financial liabilities at Amortised Cost

Financial liabilities at amortised cost

in € million	30.6.2022	31.12.2021
Liabilities to other banks	10,317	10,633
Liabilities to central banks	8,238	8,279
Registered Mortgage Pfandbriefe	398	349
Registered Public Pfandbriefe	566	502
Other registered securities	186	169
Other liabilities to other banks	929	1,334
Liabilities to customers	17,768	20,100
Registered Mortgage Pfandbriefe	3,139	3,682
Registered Public Pfandbriefe	6,501	7,939
Other registered securities	1,973	2,221
Other liabilities to customers	6,155	6,258
Bearer bonds	21,024	21,268
Mortgage Pfandbriefe	11,626	12,291
Public Pfandbriefe	2,100	2,212
Other bearer bonds	7,298	6,765
Subordinated liabilities	623	655
Securitised subordinated liabilities	587	608
Non-securitised subordinated liabilities	36	47
Total	49,732	52,656

24. Negative Fair Values of Hedge Accounting Derivatives

Negative fair values of hedge accounting derivatives

in € million	30.6.2022	31.12.2021
Negative market values of micro hedge accounting	1,148	1,372
Negative market values of portfolio hedge accounting	2	-
Total	1,150	1,372

25. Provisions

Provisions

in € million	30.6.2022	31.12.2021
Provisions for pensions and other post employment defined benefit obligations	51	109
Restructuring provisions	1	1
Provisions for commitments and guarantees given	27	16
Other provisions	89	105
Total	168	231

pbb closed a reinsurance in the form of a qualifying insurance policy according to IAS 19 to hedge parts of the risk from the defined benefit pension obligations. A discount rate of 3.36% (31 December 2021: 1.31%) was used for the measurement of the defined benefit pension obligations. In terms of pension trend, pbb Group now assumes an increase of 2.25% (31 December 2021: 1.5%) in line with higher inflation expectations. The other actuarial assumption are unchanged as of 30 June 2022 compared to the consolidated financial statements 2021.

Other provisions comprise those for legal and tax risks amounted of €31 million (31 December 2021: €38 million), and for legal expenses of €20 million (31 December 2021: €18 million).

Legal Risks (Litigation Risks)

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

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

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

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 provision requirement in excess of €5 million. However, pbb is subject to prudential proceedings, which bear the risk of a material outflow of resources, or another impact on pbb Group's business activities.

26. Other liabilities

Other liabilities include lease liabilities of €24 million (31 December 2021: €25 million).

27. Equity

Equity as at 30 June 2022 decreased by €76 million compared to 31 December 2021. Profit after taxes of €91 million and lower actuarial losses (down by €50 million) had a positive effect on changes in equity. The discount rate applied for the measurement of pension liabilities was increased in line with the development of market interest rates (30 June 2022: 3.36%; 31 December 2021: 1.31%), thus incurring lower pension provisions. The pension trend was increased in line with higher long-term inflation expectations (30 June 2022: 2.25%; 31 December 2021: 1.50%), leading to higher pension provisions. Accumulated other comprehensive income from financial assets measured at fair value through other comprehensive income declined by €41 million since the previous year-end, due to effects induced by interest rate and credit developments.

Pursuant to a resolution passed by the Annual General Meeting on 19 May 2022, pbb paid a dividend of €1.18 per share entitled to dividends (in total this amounts to €159 million).

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

28. Maturities of Specific Financial Assets and Liabilities

Maturities of specific financial assets and liabilities (excluding derivatives)

in € million	30.6.2022					Total
	not specified/ repayable on demand	up to 3 months	more than 3 months up to 1 year	more than 1 year up to 5 years	more than 5 years	
Cash reserve	5,502	-	-	-	-	5,502
Financial assets at fair value through profit or loss	3	2	4	151	314	474
Debt securities	-	-	-	83	39	122
Loans and advances to customers	-	2	4	68	275	349
Shares in investment funds qualified as debt instruments	3	-	-	-	-	3
Financial assets at fair value through other comprehensive income	-	19	220	682	322	1,243
Debt securities	-	10	108	531	290	939
Loans and advances to customers	-	9	112	151	32	304
Financial assets at amortised cost before credit loss allowances	1,049	2,068	7,461	19,117	17,414	47,109
Debt securities	-	88	862	1,125	3,576	5,651
Loans and advances to other banks	1,021	249	1,714	249	294	3,527
Loans and advances to customers	28	1,728	4,875	17,687	13,457	37,775
	-	3	10	56	87	156
Total financial assets	6,554	2,089	7,685	19,950	18,050	54,328
Financial liabilities at cost	1,525	2,352	12,982	19,139	13,734	49,732
Liabilities to other banks	352	172	7,447	1,709	637	10,317
Thereof: Registered bonds	-	67	30	562	492	1,151
Liabilities to customers	1,135	1,247	1,974	4,415	8,997	17,768
Thereof: Registered bonds	-	281	289	2,426	8,617	11,613
Bearer bonds	38	928	3,540	12,430	4,088	21,024
Subordinated liabilities	-	5	21	585	12	623
Total financial liabilities	1,525	2,352	12,982	19,139	13,734	49,732

Maturities of specific financial assets and liabilities (excluding derivatives)

in € million	31.12.2021					Total
	not specified/ repayable on demand	up to 3 months	more than 3 months up to 1 year	more than 1 year up to 5 years	more than 5 years	
Cash reserve	6,607	-	-	-	-	6,607
Financial assets at fair value through profit or loss	3	5	6	288	338	640
Debt securities	-	-	-	88	44	132
Loans and advances to customers	-	5	6	200	294	505
Shares in investment funds qualified as debt instruments	3	-	-	-	-	3
Financial assets at fair value through other comprehensive income	-	22	16	665	555	1,258
Debt securities	-	16	10	397	520	943
Loans and advances to customers	-	6	6	268	35	315
Financial assets at amortised cost before credit loss allowances	1,121	2,986	5,756	18,633	19,933	48,429
Debt securities	-	182	813	1,696	4,202	6,893
Loans and advances to other banks	1,061	1,034	-	249	302	2,646
Loans and advances to customers	60	1,766	4,934	16,632	15,318	38,710
	-	4	9	56	111	180
Total financial assets	7,731	3,013	5,778	19,586	20,826	56,934
Financial liabilities at cost	1,785	3,278	5,089	26,187	16,317	52,656
Liabilities to other banks	649	23	345	8,962	654	10,633
Thereof: Registered bonds	-	12	79	490	439	1,020
Liabilities to customers	1,097	1,024	2,711	4,529	10,739	20,100
Thereof: Registered bonds	-	383	502	2,621	10,337	13,843
Bearer bonds	39	2,194	2,033	12,597	4,405	21,268
Subordinated liabilities	-	37	-	99	519	655
Total financial liabilities	1,785	3,278	5,089	26,187	16,317	52,656

NOTES TO THE FINANCIAL INSTRUMENTS

29. Fair Values of Financial Instruments

Fair value hierarchy in € million	30.6.2022				
	Carrying amount	Fair Value	Level 1	Level 2	Level 3
Assets in the scope of IFRS 13	54,829	54,400	10,233	15,758	28,409
Measured at fair value in the statement of financial position	2,639	2,639	922	1,488	229
Financial assets at fair value through profit or loss	997	997	3	787	207
Positive fair values of stand-alone derivatives	523	523	-	523	-
Debt securities	122	122	-	122	-
Loans and advances to customers	349	349	-	142	207
Shares in investment funds qualified as debt instruments	3	3	3	-	-
Financial assets at fair value through other comprehensive income	1,243	1,243	919	302	22
Debt securities	939	939	919	-	20
Loans and advances to customers	304	304	-	302	2
Positive fair values of hedge accounting derivatives	399	399	-	399	-
Not measured at fair value in the statement of financial position	52,190	51,761	9,311	14,270	28,180
Cash reserve	5,502	5,502	5,502	-	-
Financial assets at amortised cost ¹⁾	46,756	46,259	3,809	14,270	28,180
Debt securities	5,650	5,622	2,779	2,267	576
Loans and advances to banks	3,527	3,541	1,002	2,520	19
Loans and advances to customers	37,423	36,932	28	9,319	27,585
Claims from finance lease agreements	156	164	-	164	-
Valuation adjustment from portfolio hedge accounting	-68	-	-	-	-
Liabilities in the scope of IFRS 13	51,503	50,710	17,124	17,370	16,216
Measured at fair value in the statement of financial position	1,826	1,826	-	1,826	-
Financial liabilities at fair value through profit or loss	676	676	-	676	-
Negative fair values of stand-alone derivatives	676	676	-	676	-
Negative fair values of hedge accounting derivatives	1,150	1,150	-	1,150	-
Not measured at fair value in the statement of financial position	49,677	48,884	17,124	15,544	16,216
Financial liabilities measured at amortised cost	49,732	48,884	17,124	15,544	16,216
Liabilities to other banks	10,317	10,208	352	1,370	8,486
Liabilities to customers	17,768	17,623	3	10,380	7,240
Bearer bonds	21,024	20,459	16,346	3,733	380
Subordinated liabilities	623	594	423	61	110
Valuation adjustment from portfolio hedge accounting	-55	-	-	-	-

¹⁾ Less credit loss allowances.

Fair value hierarchy

31.12.2021

in € million	Carrying amount	Fair Value	Level 1	Level 2	Level 3
Assets in the scope of IFRS 13	58,146	59,208	11,724	18,308	29,176
Measured at fair value in the statement of financial position	3,447	3,447	919	2,154	374
Financial assets at fair value through profit or loss	1,180	1,180	3	831	346
Positive fair values of stand-alone derivatives	540	540	-	540	-
Debt securities	132	132	-	132	-
Loans and advances to customers	505	505	-	159	346
Shares in investment funds qualified as debt instruments	3	3	3	-	-
Financial assets at fair value through other comprehensive income	1,258	1,258	916	314	28
Debt securities	943	943	916	-	27
Loans and advances to customers	315	315	-	314	1
Positive fair values of hedge accounting derivatives	1,009	1,009	-	1,009	-
Not measured at fair value in the statement of financial position	54,699	55,761	10,805	16,154	28,802
Cash reserve	6,607	6,607	6,607	-	-
Financial assets at amortised cost ¹⁾	48,087	49,154	4,198	16,154	28,802
Debt securities	6,890	6,989	3,143	3,065	781
Loans and advances to banks	2,646	2,664	994	1,603	67
Loans and advances to customers	38,371	39,313	61	11,298	27,954
Claims from finance lease agreements	180	188	-	188	-
Valuation adjustment from portfolio hedge accounting	5	-	-	-	-
Liabilities in the scope of IFRS 13	54,657	55,468	18,291	20,010	17,167
Measured at fair value in the statement of financial position	1,931	1,931	-	1,931	-
Financial liabilities at fair value through profit or loss	559	559	-	559	-
Negative fair values of stand-alone derivatives	559	559	-	559	-
Negative fair values of hedge accounting derivatives	1,372	1,372	-	1,372	-
Not measured at fair value in the statement of financial position	52,726	53,537	18,291	18,079	17,167
Financial liabilities measured at amortised cost	52,656	53,537	18,291	18,079	17,167
Liabilities to other banks	10,633	10,673	649	1,321	8,703
Liabilities to customers	20,100	20,708	15	12,683	8,010
Bearer bonds	21,268	21,474	17,154	4,010	310
Subordinated liabilities	655	682	473	65	144
Valuation adjustment from portfolio hedge accounting	70	-	-	-	-

¹⁾ Less credit loss allowances.

Level 2 instruments disclosed at fair value at 30.6.2022

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

Level 3 instruments disclosed at fair value at 30.6.2022

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

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

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

Alongside this, FVOCI securities are valued using a proxy approach. In the alternative scenario, there were slight changes (+/- <€1 million).

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 1.1.2021	327	58	12
Profit or loss	-43	-14	-
Additions (new business)	222	-	-
Disposals/repayments	-160	-16	-12
Balance at 31.12. 2021	346	28	-
Balance at 1.1.2022	346	28	-
Profit or loss	-81	-5	-
Additions (new business)	96	-	-
Disposals/repayments	-154	-1	-
Balance at 30.6.2022	207	22	-

On-balance sheet netting of derivatives which are settled through Eurex Clearing led to a reduction in total assets of €1.8 billion as at 30 June 2022 (31 December 2021: €2.7 billion).

OTHER NOTES**30. Contingent Liabilities and Other Commitments****Contingent liabilities and other commitments**

in € million

	30.6.2022	31.12.2021
Contingent liabilities	129	185
from guarantees and indemnities	129	185
Other financial commitments	2,971	3,116
Irrevocable loan commitments	2,971	3,116
Commitments from bank levies	41	36
Collateral pledged	41	36
Total	3,141	3,337

As at balance sheet date the fair value of contingent liabilities amounted to €129 million (31 December 2021: €185 million) and the fair value of irrevocable loan commitments to €2,909 million (31 December 2021: €3,119 million)

31. Relationship with Related Parties

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

32. Report on Post-balance Sheet Date Events

No significant events occurred after 30 June 2022.

Munich, 28. July 2022

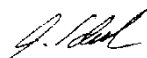
Deutsche Pfandbriefbank AG
The Management Board



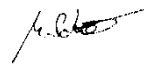
Andreas Arndt



Thomas Köntgen



Andreas Schenk



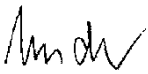
Marcus Schulte

Responsibility Statement

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

Munich, 28 July 2022

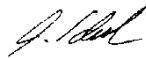
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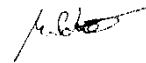
Andreas Arndt



Thomas Köntgen



Andreas Schenk



Marcus Schulte

Review Report

To Deutsche Pfandbriefbank AG, Munich/Germany

We have reviewed the condensed interim consolidated financial statements, which comprise the balance sheet as at 30 June 2022, the statement of profit and loss and the statement of comprehensive income, the condensed statement of cash flows, the statement of changes in equity as well as selected explanatory notes to the financial statements, and the interim group management report for the period from 1 January to 30 June 2022 of Deutsche Pfandbriefbank AG, Munich/Germany, that are part of the semi-annual financial information under Section 115 German Securities Trading Act (WpHG). The preparation of the condensed interim consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) applicable to interim financial reporting as adopted by the EU and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports is the responsibility of the executive directors of the Company. Our responsibility is to issue a review report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

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

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

Munich/Germany, 29 July 2022

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

[original German version signed by:]

Prof. Dr Carl-Friedrich Leuschner
Wirtschaftsprüfer
[German Public Auditor]

Martin Kopatschek
Wirtschaftsprüfer
[German Public Auditor]

Additional Information

Future-oriented Statements

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

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