Interim Report
as of 30 June 2019

Deutsche Pfandbriefbank Group

DEUTSCHE
PFANDBRIEFBANK

Overview

Deutsche Pfandbriefbank Group (pbb Group)		1.1.–30.6.2019	1.1.–30.6.2018
Operating performance according to IFRS			
Profit before tax	in € million	117	122
Net income	in € million	99	99
Key ratios		**1.1.–30.6.2019**	**1.1.–30.6.2018**
Earnings per share	in €	0.67	0.72
Cost-income ratio [1]	in %	42.4	41.1
Return on equity before tax [2]	in %	7.6	8.2
Return on equity after tax [2]	in %	6.3	6.7
New business volume Real Estate Finance [3]	in € billion	4.4	3.6
Balance sheet figures according to IFRS		**30.6.2019**	**31.12.2018**
Total assets	in € billion	60.1	57.8
Equity	in € billion	3.2	3.3
Financing volumes Real Estate Finance	in € billion	27.7	26.8
Key regulatory capital ratios		**30.6.2019**	**31.12.2018 [4]**
CET1 ratio	in %	19.4	18.5
Own funds ratio	in %	26.3	24.9
Leverage ratio	in %	5.0	5.3
Staff		**30.6.2019**	**31.12.2018**
Employees (on full-time equivalent basis)		746	750
Long-term issuer rating/outlook [5]		**30.6.2019**	**31.12.2018**
Standard & Poor's		A–/negative	A–/negative
Moody's Pfandbrief rating		**30.6.2019**	**31.12.2018**
Public Sector Pfandbriefe		Aa1	Aa1
Mortgage Pfandbriefe		Aa1	Aa1

[1] Cost-income ratio is the ratio of general and administrative expenses and net income from write-downs and write-ups on non-financial assets to operating income.
[2] Return on equity before tax respectively after tax is the ratio of annualised profit before tax (net income) less AT1-coupon and average equity excluding accumulated other comprehensive income (OCI) from cash flow hedge accounting, financial assets at fair value through OCI and additional equity instruments (AT1).
[3] Including prolongations with maturities of more than one year.
[4] After confirmation of the 2018 financial statements and appropriation of profits as well as fully phased-in.
[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 permormance measures see "investors/financial-reports" at www.pfandbriefbank.com.

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DEVELOPMENT IN EARNINGS

Deutsche Pfandbriefbank Group ("pbb Group")

pbb Group generated pre-tax profit of €117 million in the first half of 2019 (6m2019), almost on a par with the strong performance of €122 million for the same period of the previous year (6m2018). The positive growth in net interest income, pbb's most important source of income, made up for much of the negative fair value measurement and the slight increase in administrative expenses. Furthermore, there was no requirement for any net risk provisioning to be recorded in the first half of 2019. A detailed breakdown of the results is provided below:

pbb Group

in € million	1.1.–30.6.2019	1.1.–30.6.2018	Change
Operating income	238	231	7
Net interest income	229	220	9
Net fee and commission income	3	3	–
Net income from financial instruments at fair value through profit or loss (Net income from fair value measurement)[1]	–7	4	–11
Net income from derecognition of financial instruments not measured at fair value through profit or loss (Net income from realisations)[1]	16	15	1
Thereof: from financial assets at amortised cost	17	13	4
Net income from hedge accounting	–1	–2	1
Net other operating income[2]	–2	–9	7
Net income from allowances on financial assets (Net income from risk provisioning)[1)2)]	–	8	–8
General and administrative expenses	–93	–88	–5
Expenses from bank levies and similar dues	–22	–22	–
Net income from write-downs and write-ups on non-financial assets	–8	–7	–1
Net income from restructuring	2	–	2
Profit before tax	**117**	**122**	**–5**
Income taxes	–18	–23	5
Net income	**99**	**99**	**–**
attributable to: Equity holders	99	99	–

1) Solely the condensed and parenthesised line item descriptions are used subsequently.
2) See note "Consistency".

Net interest income rose to €229 million (6m2018: €220 million). This increase resulted in part from the higher average volume of commercial real estate loans totalling €27.4 billion (6m2018: €25.4 billion), together with lower average margins in new business, and lower funding expenses. These expenses decreased as it was possible to replace maturing liabilities at lower interest rates. As in the same period of the previous year, pbb Group profited from floors in client business, given the negative interest rate environment.

Net fee and commission income from non-accruable fees amounted to €3 million (6m2018: €3 million).

Net income from fair value measurement totalled €–7 million (6m2018: €4 million). Expenses of €9 million from the pull-to-par effect, largely attributable to derivatives, were offset in particular by increases in the value of non-derivative financial instruments of €2 million. During the same period of the previous year, pbb Group benefited from a valuation gain from a conditional additional purchase price adjustment in connection with Heta Asset Resolution AG debt securities.

Net income from realisations of €16 million (6m2018: €15 million) benefited from early termination fees of €14 million (6m2018: €8 million) and fee realisations on the disposal of financial instruments of €4 million (6m2018: €5 million). Redemptions of liabilities resulted in expenses of €1 million (6m2018: gains of €2 million). Sales of securities continued to burden net income from realisations with expenses of €1 million (6m2018: €0 million).

As in the same period of the previous year, net income from hedge accounting was largely stable at €–1 million (6m2018: €–2 million), as the hedges were largely effective as a result of close monitoring and management of interest rate risk.

Net other operating income of €–2 million (6m2018: €–9 million) comprised €2 million (6m2018: €2 million) in expenses from currency translation. The figure for the same period of the previous year also included €6 million in expenses for net new provisions recognised for legal expenses and risks.

Net income from risk provisioning was balanced (6m2018: €8 million). Net additions to stage 3 impairments of €4 million (6m2018: € 2 million) were offset by net reversals of stage 2 impairments of €3 million (6m2018: € 8 million) and income from the release of provisions for irrevocable loan commitments of €1 million (6m2018: €1 million).

General and administrative expenses of €93 million were slightly above the previous year's figure of €88 million. This was mainly due to non-personnel expenses, which rose, inter alia, due to the costs of implementing new regulatory requirements.

Expenses from bank levies and similar dues amounted to €22 million (6m2018: €22 million) and mainly comprised expenses relating to bank levies, including pledged collateral amounting to 15 per cent (€20 million; 6m2018: €20 million). Furthermore, this line item comprised expenses of €2 million (6m2018: €2 million) for the private Joint Fund for Securing Customer Deposits and the statutory deposit guarantee scheme.

Net income from write-downs and write-ups on non-financial assets totalling €–8 million (6m2018: €–7 million) included scheduled depreciation on tangible assets and amortisation of intangible assets; during the period under review, this item included depreciation and amortisation of rights of use under leases required to be capitalised in accordance with IFRS 16 for the first time. IFRS 16 was applied with a modified retrospective effect in the reporting period, based on the transitional provisions as defined in the standard. Figures for the same period of the previous year remain unchanged.

Net income from restructuring of €2 million (6m2018: €0 million) included income from the reversal of provisions related to human resources.

Income taxes of €−18 million (6m2018: €−23 million) comprised a current tax expense of €9 million (6m2018: €22 million) and deferred tax expenses of €9 million (6m2018: €1 million). The tax arrangements for large-volume, multi-year transactions have been changed by the tax authorities, resulting in changes in current and deferred tax items.

Operating Segments

Real Estate Finance (REF)

The REF business segment comprises financing for professional real estate investors including any associated client derivatives. The volume of new business (including extensions by more than one year) increased to €4.4 billion (6m2018: €3.6 billion).

Real Estate Finance		1.1.–30.6.2019	1.1.–30.6.2018	Change
Operating performance				
Operating income	in € million	207	188	19
Net interest income	in € million	192	183	9
Net fee and commission income	in € million	3	3	–
Net income from fair value measurement	in € million	−5	−4	−1
Net income from realisations	in € million	17	14	3
Net income from hedge accounting	in € million	–	−1	1
Net other operating income [1]	in € million	–	−7	7
Net income from risk provisioning [1]	in € million	−2	–	−2
General and administrative expenses	in € million	−76	−70	−6
Expenses from bank levies and similar dues	in € million	−13	−12	−1
Net income from write-downs and write-ups on non-financial assets	in € million	−7	−6	−1
Net income from restructuring	in € million	2	–	2
Profit before tax	in € million	111	100	11
Key ratio				
Cost-income ratio	in %	40.1	40.4	
Balance-sheet-related measures		**30.6.2019**	**31.12.2018**	
Financing volumes	in € billion	27.7	26.8	
Risk-weighted assets [2]	in € billion	7.7	8.3	
Equity [3]	in € billion	1.3	1.4	

[1] See note "Consistency".
[2] Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5.
[3] Excluding accumulated other comprehensive income (OCI) from cash flow hedge accounting, financial assets at fair value through OCI and additional equity instruments (AT1 capital).

The increase in net interest income was mainly due to the higher average volume of commercial real estate financing of €27.4 billion (6m2018: € 25.4 billion) and lower funding expenses. Net fee commission income generated from REF financing remained unchanged, at €3 million. Net income from fair value measurement was burdened in particular by the pull-to-par effect. Net income from realisations resulted from early termination fees and redemptions of liabilities of €13 million (6m2018: €9 million) and from fee realisation of €4 million (6m2018: €5 million). Net income from risk provisioning resulted from net additions to stage 3 impairments, partially offset by net reversals of stage 2 impairments and lower provisions for irrevocable loan commitments. General and administrative expenses rose in line with the Group's performance.

Public Investment Finance (PIF)

The PIF business segment comprises financing projects eligible for inclusion in Pfandbrief cover, extended primarily for the provision and improvement of public infrastructure. Clients within this segment include public-sector borrowers, companies operating under public or private law, special-purpose vehicles as well as public-private partnerships. In addition, PIF comprises only very few financings for public-sector bodies without public guarantee, as well as a minor number of securities with no specific designation.

Public Investment Finance		1.1.–30.6.2019	1.1.–30.6.2018	Change
Operating performance				
Operating income	in € million	15	14	1
Net interest income	in € million	17	16	1
Net fee and commission income	in € million	–	–	–
Net income from fair value measurement	in € million	–1	–1	–
Net income from realisations	in € million	–	–	–
Net income from hedge accounting	in € million	–	–	–
Net other operating income	in € million	–1	–1	–
Net income from risk provisioning	in € million	–	4	–4
General and administrative expenses	in € million	–11	–12	1
Expenses from bank levies and similar dues	in € million	–3	–3	–
Net income from write-downs and write-ups on non-financial assets	in € million	–1	–1	–
Net income from restructuring	in € million	–	–	–
Profit before tax	in € million	–	2	–2
Key ratio				
Cost-income ratio	in %	80.0	92.9	
Balance-sheet-related measures		**30.6.2019**	**31.12.2018**	
Financing volumes	in € billion	6.4	6.4	
Risk-weighted assets [1]	in € billion	1.5	1.4	
Equity [2]	in € billion	0.1	0.1	

[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 and AT1 capital.

Net interest income almost reached the level of the same period of the previous year, although the average financing volume declined to €6.4 billion (6m2018: €6.9 billion). Maturities of higher-yielding liabilities contributed to this effect, through lower interest expenses. General and administrative expenses in this segment decreased compared to the same period of the previous year, reflecting the restructuring conducted in this business segment.

Value Portfolio (VP)

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

Value Portfolio		1.1.–30.6.2019	1.1.–30.6.2018	Change
Operating performance				
Operating income	in € million	14	26	–12
Net interest income	in € million	18	18	–
Net fee and commission income	in € million	–	–	–
Net income from fair value measurement	in € million	–1	9	–10
Net income from realisations	in € million	–1	1	–2
Net income from hedge accounting	in € million	–1	–1	–
Net other operating income	in € million	–1	–1	–
Net income from risk provisioning	in € million	2	4	–2
General and administrative expenses	in € million	–6	–6	–
Expenses from bank levies and similar dues	in € million	–6	–7	1
Net income from write-downs and write-ups on non-financial assets	in € million	–	–	–
Net income from restructuring	in € million	–	–	–
Profit before tax	in € million	4	17	–13
Key ratio				
Cost-income ratio	in %	42.9	23.1	
Balance-sheet-related measures		**30.6.2019**	**31.12.2018**	
Financing volumes	in € billion	12.3	13.2	
Risk-weighted assets [1]	in € billion	3.7	4.0	
Equity [2]	in € billion	0.9	1.1	

[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 and AT1 capital.

Net interest income matched the level of the same period of the previous year. Net income from fair value measurement was lower than in the first half of 2018, as the same period of the previous year benefited from a measurement gain from the Heta conditional additional purchase price adjustment. Net income from risk provisioning decreased year-on-year, to €2 million (6m2018: €4 million); the previous year's figure benefited from the shortening of the residual maturity of stage 2 financial instruments close to maturity. General and administrative expenses remained on a par with the same period of the previous year.

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.–30.6.2019	1.1.–30.6.2018	Change
Operating performance				
Operating income	in € million	2	3	–1
Net interest income	in € million	2	3	–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 on non-financial assets	in € million	–	–	–
Net income from restructuring	in € million	–	–	–
Profit before tax	in € million	2	3	–1
Balance-sheet-related measures		**30.6.2019**	**31.12.2018**	
Risk-weighted assets [1]	in € billion	0.7	0.9	
Equity [2]	in € billion	0.5	0.3	

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

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

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

DEVELOPMENT IN ASSETS

Assets

in € million	30.6.2019	31.12.2018	Change
Cash reserve	2,810	1,388	1,422
Financial assets at fair value through profit or loss	1,523	1,659	–136
Positive fair values of stand-alone derivatives	851	749	102
Debt securities	127	258	–131
Loans and advances to customers	542	649	–107
Shares in investment funds qualified as debt instruments	3	3	–
Financial assets at fair value through other comprehensive income	1,806	1,984	–178
Debt securities	1,417	1,564	–147
Loans and advances to other banks	16	16	–
Loans and advances to customers	373	404	–31
Financial assets at amortised cost after credit loss allowances	51,189	50,341	848
Financial assets at amortised cost before credit loss allowances	51,275	50,453	822
Debt securities	7,812	8,039	–227
Loans and advances to other banks	2,461	2,231	230
Loans and advances to customers	41,002	40,183	819
Credit loss allowances on financial assets at amortised cost	–86	–112	26
Positive fair values of hedge accounting derivatives	2,572	2,207	365
Valuation adjustment from porfolio hedge accounting (assets)	20	2	18
Tangible assets	10	4	6
Intangible assets	37	37	–
Other assets	43	35	8
Current income tax assets	36	26	10
Deferred income tax assets	89	86	3
Total assets	**60,135**	**57,769**	**2,366**

Total assets increased by €2.4 billion during the first half of 2019, driven in particular by the increase in the nominal volume of commercial real estate financing to €27.7 billion (31 December 2018: €26.8 billion). Funding activities and repayments of other assets led to an increase of €1.4 billion in the cash reserve. A lower level of interest rates led to an increase in the market value of hedging derivatives.

DEVELOPMENT IN FINANCIAL POSITION

Liabilities and equity

in € million	30.6.2019	31.12.2018	Change
Financial liabilities at fair value through profit or loss	901	881	20
Negative fair values of stand-alone derivatives	901	881	20
Financial liabilities measured at amortised cost	52,825	50,714	2,111
Liabilities to other banks	4,606	3,867	739
Liabilities to customers	25,501	24,901	600
Bearer bonds	22,024	21,237	787
Subordinated liabilities	694	709	–15
Negative fair values of hedge accounting derivatives	2,758	2,538	220
Valuation adjustment from porfolio hedge accounting (liabilities)	93	23	70
Provisions	287	268	19
Other liabilities	46	40	6
Current income tax liabilities	53	48	5
Liabilities	**56,963**	**54,512**	**2,451**
Equity attributable to the shareholders of pbb	2,874	2,959	–85
Subscribed capital	380	380	–
Additional paid-in capital	1,637	1,637	–
Retained earnings [1]	886	939	–53
Accumulated other comprehensive income (OCI)	–29	3	–32
from pension commitments	–99	–73	–26
from cash flow hedge accounting	–8	–	–8
from financial assets at fair value through OCI	78	76	2
Additional equity instruments (AT1 capital)	298	298	–
Equity	**3,172**	**3,257**	**–85**
Total liabilities and equity	**60,135**	**57,769**	**2,366**

[1] Adjusted due to IAS 8.14. Details are disclosed in note "Consistency".

Liabilities

Funding activities resulted in an increase in financial liabilities at amortised cost. The increase in liabilities to banks mainly reflected short-term funding, in the form of repurchase agreements. Liabilities to customers rose due to higher micro-hedge adjustments (owing to lower interest rates), as well as an increase in term deposits held. The increase in bearer bonds issued during the first half of 2019 more than offset maturing bonds. In line with the effect on the assets side, the lower interest rate level led to an increase in the market values of hedging derivatives.

Equity

The equity development is disclosed in note "Equity". Return on equity before tax amounted to 7.6% (6m2018: 8.2%) and return on equity after tax to 6.3% (6m2018: 6.7%).

Funding

During the first half of 2019, new long-term funding amounting to €4.2 billion (6m2018: €3.2 billion) was offset by buy-backs and redemptions totalling €0.2 billion (6m2018: €0.2 billion). The total amount of funding comprises both Pfandbrief issues and unsecured liabilities, issued both in the form of benchmark bonds and private placements. At €2.4 billion (6m2018: €1.9 billion), Pfandbrief issues accounted for just over half of the total volume. Unsecured funding accounted for €1.8 billion (6m2018: €1.0 billion), with almost all of the volume being issued as senior preferred bonds (6m2018: €0.2 billion). In addition, €0.3 billion in additional equity instruments (AT1 capital) was issued in the same period of the previous year. Unhedged interest rate exposures are usually hedged by swapping fixed against floating interest rates. In order to minimise foreign exchange risk between assets and liabilities, Pfandbriefe were also issued in SEK (equivalent of €0.4 billion) and USD (equivalent of €0.5 billion).

Key Regulatory Capital Ratios

As at 30 June 2019 the CET1 ratio amounted to 19.4% (31 December 2018: 18.5%), the own funds ratio to 26.3% (31 December 2018: 24.9%) and the leverage ratio to 5.0% (31 December 2018: 5.3%). 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

Since 1 January 2018, a minimum Liquidity Coverage Ratio (LCR) of currently 100% has been mandatory in regulatory liquidity reporting. As at 30 June 2019, the Liquidity Coverage Ratio was 302% (31 December 2018: 212%).

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

Ratings

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

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

	30.6.2019		31.12.2018	
	Standard & Poor's	Moody's	Standard & Poor's	Moody's
Long-term issuer rating/outlook	A–/negative	–	A–/negative	–
Short-term issuer rating	A–2	–	A–2	–
Long-term "preferred" senior unsecured debt rating[2]	A–	–	A–	–
Long-term "non-preferred" senior unsecured debt rating[3]	BBB–	–	BBB–	–
Public Sector Pfandbriefe	–	Aa1	–	Aa1
Mortgage Pfandbriefe	–	Aa1	–	Aa1

[1] This 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 2019.

Risk and Opportunity Report

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

This report only includes a general description of the Company's risk management organisation, or a description of definitions, methods, management and measurement of particular types of risk, to the extent that there were changes during the period under review in comparison to the Risk and Opportunity Report provided in the 2018 Annual Report. For more details, please refer to the disclosures in the Risk and Opportunity Report in the 2018 Annual Report.

ORGANISATION AND PRINCIPLES OF RISK AND CAPITAL MANAGEMENT

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

Organisational changes relating to the Chief Risk Officer function took effect as at 1 January 2019. The tasks that were performed temporarily by the **Risk Management Projects** unit are now once again the responsibility of **CRM REF.** With Mr Schulte joining the Management Board, a new area of responsibility was also created, bundling responsibility for Treasury, Portfolio Analysis and **Property Analysis & Valuation** (the latter having been the responsibility of the CRO up until that point).

Risk Strategy and Policies

As part of the strategy development process carried out in the autumn of every calendar year for the following year, the risk strategy for 2019 was drawn up, adopted by the Management Board and approved by the Supervisory Board.

RISK TYPES

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

Credit Risk (Counterparty Risk)

Credit Portfolio

The credit portfolio of pbb Group is shown in the Risk and Opportunity Report based on Exposure at Default (EaD).

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

The Group's credit portfolio had an aggregated EaD of €59.3 billion as at 30 June 2019 (31 December 2018: €58.1 billion).

Overview of the Total Exposure of pbb Group: €59.3 billion EaD The credit portfolio is broken down into three segments:
> Real Estate Finance (REF),
> Public Investment Finance (PIF) and
> the non-strategic segment Value Portfolio (VP) which is earmarked for being wound down.

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

EaD in the C&A segment was fully attributable (100%; 31 December 2018: >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	30.6.2019	31.12.2018	Change in € billion	Change in %
Real Estate Finance	30.6	29.9	0.7	2.3
Public Investment Finance	7.6	7.6	–	–
Value Portfolio	15.9	16.3	−0.4	−2.5
Consolidation & Adjustments	5.1	4.3	0.8	18.6
Total	**59.3**	**58.1**	**1.2**	**2.1**

Risk Parameters Expected Loss (EL) for pbb Group totalled €80 million as at 30 June 2019 (31 December 2018: €86 million). The EL decline was predominantly due to repayments as well as LGD changes in the REF and VP segments.

Total exposure: expected loss according to operating segments

in € million	30.6.2019	31.12.2018	Change in € million	Change in %
Real Estate Finance	53	56	−3	−5.4
Public Investment Finance	1	2	−1	−50.0
Value Portfolio	25	28	−3	−10.7
Consolidation & Adjustments	–	–	–	–
Total	**80**	**86**	**−6**	**−7.0**

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

Regional Breakdown of the Portfolio The main focus of pbb Group's exposure at the reporting date remained unchanged, on Western Europe. At 41% (€24.5 billion; 31 December 2018: 39% or €22.7 billion), Germany accounted for the largest part of the aggregate portfolio. Exposure increases in Germany and in the US were mainly attributable to new business; decline in the United Kingdom was mainly due to repayments. EaD decrease in Spain and Portugal resulted primarily of reductions in the Value Portfolio. The EaD increase for Austria was due to changes in the general interest rate levels and the associated changes in hedge adjustments.

The largest items of the category "Other Europe" were the Netherlands with €0.8 billion, Belgium with €0.4 billion and Switzerland with €0.3 billion (31 December 2018: the Netherlands €0.8 billion, Belgium €0.4 billion, Switzerland €0.3 billion). The category "Other", which accounted for approximately 2% of the portfolio (€1.4 billion), largely included bonds issued by supranational organisations.

Total portfolio: EaD according to regions

in € billion	30.6.2019	31.12.2018	Change in € billion	Change in %
Germany	24.5	22.7	1.8	7.9
France	8.5	8.7	−0.2	−2.3
Austria	6.7	6.3	0.4	6.3
United Kingdom	4.3	4.8	−0.5	−10.4
Spain	2.6	2.8	−0.2	−7.1
United States	2.4	1.9	0.5	26.3
Other Europe [1]	2.3	2.4	−0.1	−4.2
Italy	2.1	2.1	–	–
Poland	1.6	1.6	–	–
Other [2]	1.4	1.5	−0.1	−6.7
Sweden	1.2	1.3	−0.1	−7.7
Portugal	0.7	0.9	−0.2	−22.2
Finland	0.6	0.5	0.1	20.0
Czech Republic	0.3	0.4	−0.1	−25.0
Hungary	0.2	0.2	–	–
Total	**59.3**	**58.1**	**1.2**	**2.1**

[1] As of 30 June 2019 the category "Other Europe" comprises the Netherlands, Belgium, Switzerland, Slowenia, Slovakia, Denmark, Luxembourg, Ireland, Romania, Norway and Latvia.
[2] As of 30 June 2019 the category "Other" comprises amongst others Supranationals, Japan and Canada.

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

Real Estate Finance: €30.6 billion EaD

The REF segment comprises real estate loans and corresponding client derivatives. EaD of the REF portfolio increased by a total of €0.7 billion, compared to 31 December 2018, to €30.6 billion. The strongest exposure increases occurred in Germany and in the US, reflecting new business. Reductions in the United Kingdom were mainly caused by repayments. Client derivatives in the REF segment accounted for an EaD of €0.2 billion as at 30 June 2019 (31 December 2018: €0.1 billion).

Real Estate Finance: EaD according to regions

			Change	
in € billion	**30.6.2019**	**31.12.2018**	in € billion	in %
Germany	14.9	14.2	0.7	4.9
United Kingdom	3.9	4.3	–0.4	–9.3
France	3.7	3.7	–	–
United States	2.4	1.9	0.5	26.3
Other Europe[1)]	1.5	1.5	–	–
Poland	1.3	1.3	–	–
Sweden	1.2	1.2	–	–
Austria	0.5	0.5	–	–
Finland	0.4	0.4	–	–
Spain	0.4	0.4	–	–
Czech Republic	0.3	0.4	–0.1	–25.0
Hungary	0.1	0.1	–	–
Italy	0.1	0.1	–	–
Total	**30.6**	**29.9**	**0.7**	**2.3**

[1)] As of 30 June 2019 the category "Other Europe" comprises the Netherlands, Switzerland, Belgium, Slovakia, Denmark, Luxembourg, Slowenia, Romania and Norway..

The increase in the categories Office buildings and Housing construction was due to new business.

Real Estate Finance: EaD according to property type

			Change	
in € billion	**30.6.2019**	**31.12.2018**	in € billion	in %
Office buildings	13.5	13.0	0.5	3.8
Retail	5.6	5.9	–0.3	–5.1
Housing construction	5.7	5.0	0.7	14.0
Logistics/storage	3.0	3.0	–	–
Hotel/leisure	1.4	1.5	–0.1	–6.7
Other	0.8	0.9	–0.1	–11.1
Mixed Use	0.6	0.6	–	–
Total	**30.6**	**29.9**	**0.7**	**2.3**

At 30 June 2019, investment financings continued to dominate the portfolio (84%; 31 December 2018: 82%); development financings accounted for 15% of EaD (31 December 2018: 16%). Investment financings are defined as real estate loans, the debt servicing ability of which largely depend upon current cash flows from the property.

Real Estate Finance: EaD according to loan type

			Change	
in € billion	**30.6.2019**	**31.12.2018**	in € billion	in %
Investment financing	25.7	24.6	1.1	4.5
Development financing	4.6	4.9	−0.3	−6.1
Customer derivatives	0.2	0.1	0.1	100.0
Other	0.1	0.3	−0.2	−66.7
Total	**30.6**	**29.9**	**0.7**	**2.3**

Public Investment Finance: €7.6 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 and a number of securities without a specific earmarking.

The EaD in the PIF segment remained almost unchanged compared to the end of the previous year.

Public Investment Finance: EaD according to regions

in € billion	30.6.2019	31.12.2018	Change in € billion	Change in %
France	3.9	3.9	–	–
Germany	1.6	1.7	–0.1	–5.9
Spain	1.0	1.0	–	–
Other Europe[1]	0.3	0.3	–	–
Austria	0.3	0.3	–	–
United Kingdom	0.2	0.2	–	–
Finland	0.1	0.1	–	–
Other[2]	0.1	0.1	–	–
Sweden[3]	–	–	–	–
Total	**7.6**	**7.6**	–	–

[1] As of 30 June 2019 the category "Other Europe" comprises Belgium, the Netherlands and Switzerland.
[2] As of 30 June 2019 the category "Other" comprises amongst others Canada and bonds issued by supranational organisations.
[3] Sweden (30 June 2019): €42 million.

"Public Sector Borrowers" summarises claims against sovereign states (27%), public-sector enterprises (19%), and regional governments and municipalities (54%). The definition also includes exposures guaranteed by these counterparties.

Public Investment Finance: EaD according to counterparty structure

in € billion	30.6.2019	31.12.2018	Change in € billion	Change in %
Public sector borrowers	7.4	7.5	–0.1	–1.3
Companies/special-purpose entities[1]	0.2	0.1	0.1	100.0
Financial institutions[2]	–	–	–	–
Total	**7.6**	**7.6**	–	–

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

Value Portfolio: €15.9 billion EaD

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

In line with the strategy, the further decrease in the exposure as of 30 June 2019 compared with 31 December 2018 was mainly due to reductions in Spain and Portugal. The slight EaD increase for Austria was due to changes in the general interest rate levels and the associated changes in hedge adjustments.

Value Portfolio: EaD according to regions

			Change	
in € billion	**30.6.2019**	**31.12.2018**	in € billion	in %
Austria	5.9	5.6	0.3	5.4
Germany	4.4	4.4	–	–
Italy	2.0	2.0	–	–
Spain	0.9	1.2	−0.3	−25.0
Other [1]	0.9	1.0	−0.1	−10.0
Portugal	0.7	0.9	−0.2	−22.2
France	0.7	0.7	–	–
Poland	0.2	0.2	–	–
Other Europe [2]	0.1	0.2	−0.1	−50.0
Hungary	0.1	0.1	–	–
Czech Republic [3]	–	–	–	–
Finland [3]	–	–	–	–
Total	**15.9**	**16.3**	**−0.4**	**−2.5**

[1] As of 30 June 2019 the category "Other" comprises supranational organisations and Japan.
[2] As of 30 June 2019 the category "Other Europe" comprises Slovenia.
[3] Czech Republic (30 June 2019): €10 million; Finland (30 June 2019): €9 million.

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

Value Portfolio: EaD according to counterparty structure

			Change	
in € billion	**30.6.2019**	**31.12.2018**	in € billion	in %
Public sector borrowers	14.8	14.8	–	–
Financial institutions [1]	1.2	1.5	−0.3	−20.0
Companies	–	–	–	–
Total	**15.9**	**16.3**	**−0.4**	**−2.5**

[1] Mainly Spanish covered bonds.

Structured Products

pbb Group's residual holding of a Mortgage-backed Security guaranteed by one regional government had a notional value of €0.4 billion as at 30 June 2019 (31 December 2018: €0.5 billion) and a current fair value of €0.4 billion (31 December 2018: €0.5 billion).

The valuation of these assets was based on available market prices.

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 2019

in € billion	Stage 1	Stage 2	Stage 3	FVPL	**Total**
Class 1	0.6	–	–	–	0.6
Class 2	14.3	–	–	0.4	14.7
Class 3	0.3	–	–	–	0.3
Class 4	–	–	–	–	–
Class 5	0.3	–	–	–	0.3
Class 6	–	–	–	–	–
Class 7	1.6	–	–	–	1.6
Class 8	2.0	–	–	–	2.0
Class 9	6.5	–	–	0.1	6.6
Class 10	4.8	–	–	–	4.8
Class 11	5.8	0.3	–	–	6.1
Class 12	5.7	0.1	–	0.1	5.9
Class 13	3.2	0.3	–	–	3.5
Class 14	1.8	0.1	–	–	1.9
Class 15	1.0	0.4	–	–	1.4
Class 16	1.3	0.1	–	–	1.4
Class 17	0.4	–	–	–	0.4
Class 18	0.6	0.1	–	–	0.7
Class 19	0.2	0.2	–	–	0.4
Class 20	–	–	–	–	–
Class 21	0.1	0.2	–	–	0.3
Class 22	0.1	–	–	–	0.1
Class 23–24	–	–	–	–	–
Class 25	–	0.1	–	–	0.1
Class 26	–	–	–	–	–
Class 27	–	0.2	–	–	0.2
Defaulted	–	–	0.2	–	0.2
Total	**50.9**	**2.0**	**0.2**	**0.7**	**53.8**

Breakdown of non-derivative financial assets (excluding cash funds) by internal rating class and impairment level as at 31 December 2018

in € billion	Stage 1	Stage 2	Stage 3	FVPL	**Total**
Class 1	0.7	–	–	–	0.7
Class 2	14.3	–	–	0.4	14.7
Class 3	0.3	–	–	–	0.3
Class 4	–	–	–	–	–
Class 5	0.3	–	–	–	0.3
Class 6	–	–	–	–	–
Class 7	1.6	–	–	–	1.6
Class 8	2.2	–	–	–	2.2
Class 9	6.4	–	–	0.1	6.5
Class 10	3.7	–	–	–	3.7
Class 11	5.8	0.7	–	–	6.5
Class 12	6.1	0.1	–	0.2	6.4
Class 13	2.7	0.5	–	–	3.2
Class 14	1.6	–	–	–	1.6
Class 15	1.4	0.1	–	–	1.5
Class 16	1.3	0.1	–	0.1	1.5
Class 17	0.4	–	–	–	0.4
Class 18	0.5	–	–	–	0.5
Class 19	0.2	0.2	–	–	0.4
Class 20	0.1	0.1	–	–	0.2
Class 21	0.1	0.2	–	–	0.3
Class 22	0.1	0.1	–	–	0.2
Class 23 – 24	–	–	–	–	–
Class 25	–	0.1	–	–	0.1
Class 26	–	–	–	–	–
Class 27	–	0.2	–	–	0.2
Defaulted	–	–	0.3	–	0.3
Total	**49.7**	**2.4**	**0.3**	**0.9**	**53.3**

Breakdown of irrevocable loan commitments and contingent liabilities by internal rating class and impairment level as at 30 June 2019

in € billion	Stage 1	Stage 2	Stage 3	**Total**
Class 1	–	–	–	–
Class 2	0.3	–	–	0.3
Class 3	0.1	–	–	0.1
Class 4–6	–	–	–	–
Class 7	0.1	–	–	0.1
Class 8	0.1	–	–	0.1
Class 9	0.3	–	–	0.3
Class 10	0.1	–	–	0.1
Class 11	0.4	–	–	0.4
Class 12	0.4	–	–	0.4
Class 13	0.3	–	–	0.3
Class 14	0.2	–	–	0.2
Class 15	0.4	–	–	0.4
Class 16	0.6	–	–	0.6
Class 17	0.5	–	–	0.5
Class 18	0.4	–	–	0.4
Class 19	0.3	–	–	0.3
Class 20–27	–	–	–	–
Defaulted	–	–	–	–
Total	**4.7**	**–**	**–**	**4.7**

Breakdown of irrevocable loan commitments and contingent liabilities by internal rating class and impairment level as at 31 December 2018

in € billion	Stage 1	Stage 2	Stage 3	**Total**
Class 1	–	–	–	–
Class 2	0.4	–	–	0.4
Class 3	0.2	–	–	0.2
Class 4–7	–	–	–	–
Class 8	0.2	–	–	0.2
Class 9	0.2	–	–	0.2
Class 10	0.2	–	–	0.2
Class 11	0.3	0.1	–	0.4
Class 12	0.5	–	–	0.5
Class 13	0.4	–	–	0.4
Class 14	0.2	–	–	0.2
Class 15	0.4	–	–	0.4
Class 16	0.9	–	–	0.9
Class 17	0.2	–	–	0.2
Class 18	0.2	–	–	0.2
Class 19	0.3	–	–	0.3
Class 20	0.1	–	–	0.1
Class 21–27	–	–	–	–
Defaulted	–	–	–	–
Total	**4.7**	**0.1**	**–**	**4.8**

Watchlist and Non-performing Loans

Development of Watchlist and non-performing loans of pbb Group

				30.6.2019				31.12.2018	Change	
EaD in € million	REF	PIF	VP	**Total**[1]	REF	PIF	VP	**Total**[1]	in € million	in %
Workout loans	16	–	–	16	16	–	–	16	–	–
Restructuring loans	189	–	–	189	332	–	–	332	–143	–43.1
Non-performing loans	**205**	–	–	**205**	**348**	**–**	**–**	**348**	**–143**	**–41.1**
Watchlist loans	**49**	**36**	**160**	**245**	**1**	**38**	**167**	**206**	**39**	**18.9**

[1] No exposure in C&A.

Watchlist and non-performing loans decreased by a net €104 million between 31 December 2018 and 30 June 2019.

The volume of watchlist loans was increased by €39 million net. As well as additions in the amount of €49 million, which were largely made up of two exposures, there were successful restructurings and exposure reductions in the amount of €10 million.

Non-performing loans decreased by €143 million net during the year under review. In the REF segment, two exposures amounting to a total of €131 million were successfully wound up. In addition, exposure reductions totalling €12 million were recorded.

Market Risk

Interest rate risk in the banking book
Following the introduction of EBA guidelines EBA/GL/2018/02 on controlling interest rate risk in the banking book (IRRBB) on 30 June 2019, pbb has comprehensively expanded its risk measurement, controlling and monitoring environment, in line with the requirements set out in the guidelines. In addition to interest rate risks at present value, pbb also incorporates period interest rate risks and measures, controls and monitors these on a regular basis.

Besides interest rate risks, the requirements set out in the EBA guidelines extend to credit spread risks in the banking book (CSRBB). In this connection, all securities held as assets and measured at amortised cost were added to the scope of instruments to be included in credit spread risk. On this basis, the market risk value-at-risk limit was increased accordingly, from €80 million to €100 million as at 30 June 2019.

Market Risk Measurement and Limits

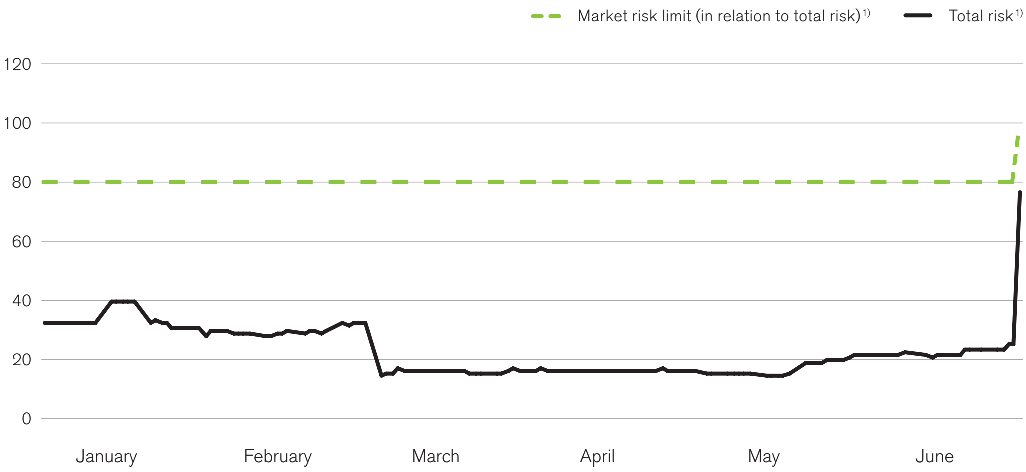
Market risk VaR as at 30 June 2019 amounted to €77 million, taking diversification effects between the individual market risk types into consideration (31 December 2018: €35 million). The increase in market risk VaR can be attributed primarily to the aforementioned increase in credit spread risks as at 30 June, brought about by the introduction of the EBA guidelines. By comparison, the consolidated IRRBB VaR of all risk categories comprised in interest rate risk in the banking book (i.e. gap risk, basis risks and volatility risks of exposures that are sensitive to interest rates) was €23 million as at 30 June 2019. As well as limiting the market risk VaR, specific limits have been monitored since 30 June 2019 for IRRBB VaR (limit: €35 million) and CSRBB VaR (limit: €100 million).

There were no breaches of market risk VaR limits at pbb Group level during the period under review.

The following chart shows the development of market risk VaR compared to the market risk VaR limit during the course of the year:

Market risk VaR (10 days, 99%) and market risk limit January to June 2019

in € million



[1)] The increase in market risk VaR as at the end of June was primarily due to a wider definition of credit spread risk, in connection with the introduction of EBA Guidelines EBA/GL/2018/02 (inclusion of all securities held as assets at amortised cost). The market risk limit was adjusted accordingly.

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

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

In addition to internal economic stress scenarios, the external regulatory stress scenarios relating to the supervisory outlier test are calculated and analysed. The Management Board of pbb and the executive bodies are informed about the results of stress test scenarios on a regular basis. In connection with managing interest rate risk in the banking book (including credit spread risks), the changes in present value of selected internal and external stress scenarios have also been monitored through specific limits or triggers since June 2019.

Back Testing The quality of the risk measurement methods in use is checked on an ongoing basis by comparing one-day VaR figures to the actual changes occurring in the portfolio's present value on a daily basis. pbb Group has adopted the Basel Capital Accord's "traffic light" system for the qualitative analysis of its risk model. For this purpose, the number of outliers detected in backtesting within a period of 250 trading days is counted, given a 99% confidence interval. One outlier was observed for the past 250 trading days as at 30 June 2019. The risk model employed by pbb Group therefore has "green" status, as defined in the "traffic light" system of the Basel Capital Accord.

Basis Risks Basis risks refer to tenor spread and cross-currency spread risks, which are quantified within the framework of the VaR model. Tenor spread risks (€8 million) and cross-currency spread risks (€2 million) were shown at the reporting date.

Period Interest Rate Risk Period interest rate risks are measured and monitored using the concept of delta-static net interest income (NII), simulating changes in net interest income for the period that would occur under pre-defined interest rate scenarios – also assuming an unchanged balance sheet. Calculations were carried out at the end of each quarter, for a simulation horizon covering the following four quarters. Negative deviations from the base-value NII were monitored under consideration of a trigger limit of €80 million, which was not breached during the period under review.

With the new EBA guidelines on IRRBB coming into effect as at the reporting date of 30 June 2019 (EBA/GL/2018/02), pbb is introducing a dynamic model for measuring and monitoring period interest rate risks. With this 'dynamic earnings' concept, planned new business, funding activities and interest rate exposure planning are incorporated in a forecast of future income statements and balance sheet developments. Negative deviations from the base value are then monitored, using triggers – differentiating effects on income and effects on accumulated other comprehensive income (recognised in equity).

Market Risk Management, Monitoring and Reduction

General Interest Rate Risk General interest rate risk or gap risk amounted to €27 million as at 30 June 2019, and was thus below the figure at the 2018 year-end (€36 million).

Volatility Risks Volatility risk amounted to €3 million as at 30 June 2019 (31 Dec 2018: €3 million).

Credit Spread Risk (CSRBB) The present value Credit spread risk reflects potential changes in the present value of exposures as a result of changes in the corresponding credit spread. The majority of credit spread risk is attributable to assets eligible for inclusion in Pfandbrief cover. The Bank has risk measurement systems in place to determine credit spread risks for all relevant exposures. Until 30 June 2019, the VaR limit applied to all credit spread risks for asset instruments at fair value through profit and loss (FVPL) or at fair value through other comprehensive income (FVOCI). Since 30 June 2019, these – as outlined above – have also been joined by the credit spread risks of those securities held as assets that are measured at amortised cost. Accordingly, the credit spread risk increased to €63 million as at 30 June 2019 (year-end 2018: €28 million).

Other Market Risks The present value of foreign currency risk amounted to €1 million as at 30 June 2019.

Liquidity and Funding Risk

Development of pbb Group's Risk Position
The cumulative (internal) liquidity position (liquid assets plus projected net cash flows) determined as part of the liquidity risk measurement process as at 30 June 2019 amounted to €5.2 billion for a twelve-month horizon in the base scenario – an €0.2 billion increase from the end of the previous year. As at 30 June 2019, the cumulative liquidity position for a six-month horizon amounted to €3.1 billion in the risk scenario (31 December 2018: €2.6 billion).

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

The levels determined for pbb Group during the first half of 2019 were clearly in excess of 100%. The Liquidity Coverage Ratio as at 30 June 2019 was 302%.

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

Operational Risk (including Legal 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. of Regulation 575/2013/EU (CRR), the own funds requirement for operational risks, which is calculated at the end of each year, was €70 million as at 31 December 2018 (31 December 2017: €72 million).

Operational Risk Profile of pbb Group
pbb Group suffered financial losses of €7 million from operational risks (including legal risks) during the first half of 2019 (6m 2018: €4 million). pbb assesses its operational risk profile (including legal risk) as stable.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

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

Pursuant to the document "Multi-year plan on SSM Guides on ICAAP and ILAAP", published by the European Central Bank in February 2017, and to the "ECB Guide to the internal capital adequacy assessment process (ICAAP)", published in November 2018, regulatory authorities expect banks to apply two supplementary ICAAP perspectives: a normative and an economic perspective. Whilst the normative perspective is aimed at the fulfilment of all capital-related legal requirements, supervisory demands and internal objectives, on an ongoing basis, the economic perspective covers all material risks which might threaten the institution's economic viability.

Both perspectives are designed to safeguard the financial institution's ability to survive: they are based on internal assessments of the capital required to safeguard the institution's continued existence. Both perspectives were implemented by pbb Group since 2018.

Within the normative perspective, capital-related regulatory and legal requirements comprise the CET1 ratio, tier 1 ratio, own funds ratio, Leverage Ratio, as well as rules concerning MREL (Minimum Requirements on Own Funds and Eligible Liabilities) and large loan exposure limits. Furthermore, pbb Group maintains the going-concern approach as an additional part of the normative perspective, since this is also geared towards protecting minimum regulatory capital ratios.

The economic perspective is an additional, parallel management approach on an equal footing that monitors capital on an ongoing basis, with reports submitted on a monthly basis. It aims to safeguard the economic viability of the institution, and is therefore geared towards maintaining the institution's net asset value. For this purpose, all material economic risks are viewed from a present value perspective, quantified as far as possible using models, and aggregated to economic capital. A confidence level of 99.9% is used in the economic perspective.

pbb Group has implemented a risk-bearing capacity analysis for both perspectives which, in addition to determining key regulatory indicators, also applies the concept of economic capital for risk quantification in both the going-concern approach and the economic perspective. Economic capital is defined as the capital required to cover the financial risks with a predefined probability (the confidence level) over a one-year horizon. It is calculated for all relevant types of risk, and aggregated to form total economic capital (after diversification effects). The capital available to cover total risk is calculated in both approaches, and compared to economic capital.

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 sub-risks on a granular level which were taken into account in the ICAAP during the period under review. Certain material types of risk, such as extension risk, settlement risk, realisation risk for defaulted loans, or pension risk, are integrated into the ICAAP in the form of buffers which are validated on a regular basis.

Funding risk is included in business and strategic risk.

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

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

Quantification of economic capital for individual risk types

A description of how the economic capital of the individual risk types is quantified can be found in the 2018 Annual Report.

Result of Risk-bearing Capacity Analysis

Normative Perspective

The normative perspective is geared towards ongoing fulfilment of all of the Bank's capital-related supervisory demands, as well as to the achievement of any internal objectives going beyond. As well as examining the supervisory capital ratios, this also monitors the aggregate risk, available financial resources and the risk-bearing capacity ratio as per the going-concern approach. For a detailed description of the regulatory indicators measured as at the reporting date (CET1 ratio, tier 1 ratio, own funds ratio, MREL and Leverage Ratio), please refer to the chapter "Key regulatory capital ratios". The readings for these indicators were non-critical at the reporting date. The future-oriented medium-term analysis of key capital ratios – as required by regulators – did not show any critical values, neither in the base scenario nor in the stress scenarios. The internal goal of the normative perspective is to provide evidence of the Bank's risk-bearing capacity in accordance with the going-concern approach, whereby the economic capital is calculated using a confidence level of 95%.

Going-concern

in € million	**30.6.2019**	**31.12.2018**	Change
Credit risk	170	189	– 19
Thereof Real Estate Finance	105	115	– 10
Thereof Public Investment Finance	4	4	–
Thereof Value Portfolio	61	69	– 8
Thereof Consolidation & Adjustments	1	1	–
Market risk	237	133	105
Operational risk	24	24	–
Business and strategic risk	–	–	–
Total before diversification effects	**432**	**346**	**86**
Total after diversification effects	**399**	**320**	**79**
Available financial resources (free capital)	1,570	1,419	151
Excess capital	1,172	1,099	72

The main factor responsible for the increase in aggregate risk in the first half of 2019 was market risk, which increased mainly as a result of the measurement methods being aligned with new EBA regulatory requirements. By contrast, credit risk declined in the period under review. While the reduction in credit risk in the REF segment can be attributed primarily to rating improvements and the positive development of risk parameters (LGD), in the case of the VP segment, this was due above all to the sale of a Portuguese bond. Operational risk is regularly determined once a year, and has remained unchanged. Since pbb still did not hold any properties during the period under review, there is no need to provide information on real estate risk. In total, these developments in the period under review led to an increase in aggregate risk after diversification effects.

Available financial resources (known as 'free capital') are compared to aggregate risk (after diversification effects). Available financial resources increased in the first half of the year. CET1 capital – which is tied up by regulatory requirements – declined due to lower risk-weighted assets, combined with relief for SREP capital ratios during the period under review. Free capital increased accordingly; this positive effect was boosted by profits accrued during the first half of 2019, which need to be taken into account.

This means that excess coverage increased compared with the 2018 year-end. Overall, the Bank's risk-bearing capacity at the reporting date was evidenced in the normative perspective.

Economic Perspective

The economic perspective is an additional, parallel management approach on an equal footing that monitors capital on an ongoing basis, with reports submitted on a monthly basis. It aims to safeguard the economic viability of the institution and is therefore geared towards maintaining the institution's net asset value. For this purpose, all material economic risks are viewed from a present value perspective, quantified as far as possible using models, and aggregated to economic capital. A confidence level of 99.9% is used in the economic perspective:

Economic Perspective

in € million	**30.6.2019**	**31.12.2018**	Change
Credit risk	1,225	1,245	−21
Thereof Real Estate Finance	512	567	−55
Thereof Public Investment Finance	147	130	17
Thereof Value Portfolio	544	526	17
Thereof Consolidation & Adjustments	21	22	–
Market risk	687	658	29
Operational risk	85	85	–
Business and strategic risk	–	–	–
Total before diversification effects	**1,997**	**1,988**	**9**
Total after diversification effects	**1,814**	**1,814**	–
Available financial resources before net hidden losses	2,814	2,909	−95
Net hidden losses	–	−8	8
Available financial resources	**2,814**	**2,901**	**−87**
Excess capital	1,000	1,087	−87

In the economic perspective, the aggregate risk after diversification effects remained unchanged in the period under review. The increase in market risk was offset by a decline in credit risk. As in the going-concern approach, the increase in market risk was driven by measurement adjustments, albeit at a somewhat lower level, due to diversification effects. The lower credit risk in the REF segment was attributable, above all, to rating improvements and the positive development of risk parameters (LGD); however, this effect was curbed by the higher risk in the VP and PIF segments. Besides rating downgrades and new business in the PIF segment, this higher risk was primarily due to changes in credit spreads and market values. Operational risk is regularly determined once a year, and has remained unchanged. Since pbb still did not hold any properties during the period under review, there is no need to provide information on real estate risk. In total, these developments in the period under review led to an decrease in aggregate risk after diversification effects.

At the same time, available financial resources decreased during the first half of 2019. This was mainly due to lower equity, which itself was largely attributable to dividends disbursed, and which was partially offset by accumulated profits and positive developments regarding hidden encumbrances. Excess coverage was lower than at the 2018 year-end. Overall, the Bank's risk-bearing capacity at the reporting date was evidenced 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 encumbrances and lower equity) are to be expected, notwithstanding any countermeasures taken.

Opportunities

In the course of the first half of 2019, pbb Group observed a stabilisation of the European bond markets. If confidence in European sovereign budgets were to be restored, narrowing credit spreads and systematic rating improvements for public-sector issuers might reduce risks, thus again strengthening available financial resources and hence, excess coverage in the ICAAP.

Key Regulatory Capital Ratios

The requirements for regulatory capital ratios were satisfied throughout the first half of 2019.

Own Funds

in € million	30.6.2019 Basel III	31.12.2018 Basel III [1) 2)]
CET1	2,651	2,698
Additional Tier 1	298	298
Tier 1	2,949	2,996
Tier 2	634	643
Own Funds	**3,583**	**3,639**

1) With the introduction of IFRS 9, the new rules governing the classification and measurement of financial assets and regarding the recognition of impairments have impacted regulatory capital. pbb has not applied the optional transitional provisions under IFRS 9.
2) After confirmation of the 2018 financial statements and the appropriation of profits as well as fully phased-in.

Risk-weighted assets (RWA)

in € million	30.6.2019 Basel III	31.12.2018 Basel III
Market risks	173	229
thereof interest rate risks	–	–
thereof foreign exchange risks	173	229
Operational risks	870	870
Credit risks	12,417	13,285
thereof CVA charge	253	262
Other RWA	189	203
RWA total	**13,649**	**14,587**

Capital ratios

in %	30.6.2019 Basel III	31.12.2018 Basel III [1] [2]
CET1 Ratio	19.4	18.5
Tier 1 Ratio	21.6	20.5
Own Funds Ratio	26.3	24.9

[1] With the introduction of IFRS 9, the new rules governing the classification and measurement of financial assets and regarding the recognition of impairments have impacted regulatory capital. pbb has not applied the optional transitional provisions under IFRS 9.
[3] After confirmation of the 2018 financial statements and the appropriation of profits as well as fully phased-in.

Leverage Ratio

in %	30.6.2019 Basel III	31.12.2018 Basel III [1]
Leverage Ratio	5.0	5.3

[1] After confirmation of the 2018 financial statements and the appropriation of profits as well as fully phased-in.

Minimum Requirements for Own Funds and Eligible Liabilities (MREL)

Under the recovery and resolution regime (BRRD), institutions are required to maintain, in addition to regulatory capital, liabilities that can be converted to equity in the amount of the so-called MREL ratio. However, there are clear limits to the ability to convert liabilities (the 'bail-in capacity'). In particular, there is the principle that no investor may be placed in a less advantageous position than is permitted under regular insolvency proceedings (the principle of 'no creditor worse off' – or NCWO). For example, this means that deposits covered by a national deposit guarantee scheme are not bail-inable and thus excluded from conversion. The exact level of this ratio is determined by regulators individually for each institution concerned. pbb Group is aiming to maintain an MREL ratio of at least 8% in relation to total liabilities and own funds (TLOF) in the future as well, and exceeded this requirement significantly as at 30 June 2019.

Report on Expected Developments

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

Regarding the key performance indicators for the financial year 2019, in its Annual Report 2018 pbb Group aimed the following:

> New business volume (including prolongations with maturities of more than one year) between €8.5 billion and €9.5 billion.
> Slight increase in the financing volume Real Estate Finance (31 December 2018: €26.8 billion).
> Profit before tax in a range between €170 million and €190 million.
> Cost-income ratio slightly above the 2018 figure (44.2%).
> Return on equity after tax between 3.5% and 4.5%.
> CET1 ratio significantly above the SREP ratio of 9.5% pbb Group has to comply with in addition to the country-specific (and thus portfolio-specific) varying counter-cyclical capital buffer.
> A crucial secondary condition when aiming to achieve pbb Group's earnings and profitability goals is ensuring the risk-bearing capacity: regarding the normative perspective, the Bank strives to adhere to the minimum capital ratios as required by regulators – even when taking an adverse economic scenario as a basis. Regarding the economic perspective, pbb Group is aiming to achieve levels of capitalisation available to cover risks that adequately exceed economic capital requirements. This goal should be achieved, provided no further significant widening of spreads occurs – for example, due to Brexit or other macroeconomic developments – which would then further increase hidden encumbrances.

Against the background of a sound performance during the first half of 2019, the Management Board of pbb announced, on 28 June 2019, that it expects pre-tax profit at the upper end of the range between €170 million and €190 million, or slightly above.

pbb Group affirmed its other forecasts.

These assessments are based on the assumption that additional risks – arising from factors beyond pbb's control, for example – do not materialise. Individual opportunities and risks which may have a positive or negative effect upon the Group's future development in assets, financial position and earnings are set out in detail on pages 100 to102 of the 2018 Annual Report.

Condensed Consolidated Interim Financial Statements

Income Statement

Income statement

in € million	Note	1.1. – 30.6.2019	1.1. – 30.6.2018
Net interest income [1]	5	229	220
Net fee and commission income	6	3	3
Net income from financial instruments at fair value through profit or loss (net income from fair value measurement) [2]	7	–7	4
Net income from derecognition of financial instruments not measured at fair value through profit or loss (net income from realisations) [2]	8	16	15
Thereof: from financial assets at amortised cost		17	13
Net income from hedge accounting	9	–1	–2
Net other operating income [3]	10	–2	–9
Net income from allowances for credit losses on financial assets (net income from risk provisioning) [2] [3]	11	–	8
General and administrative expenses	12	–93	–88
Expenses from bank levies and similar dues	13	–22	–22
Net income from write-downs and write-ups of non-financial assets	14	–8	–7
Net income from restructuring	15	2	–
Profit before tax		**117**	**122**
Income tax	16	–18	–23
Net income		**99**	**99**
attributable to: Shareholders		99	99

[1] Interest income of €899 million (6m2018: €921 million) in total includes interest income of €653 million (6m2018: €656 million) from financial instruments not measured at fair value through profit or loss (IAS 1.82a).
[2] Solely the condensed and parenthesised line item descriptions are used subsequently.
[3] See note "Consistency".

Earnings per share

in €	Note	1.1. – 30.6.2019	1.1. – 30.6.2018
Basic earnings per share	17	0.67	0.72
Diluted earnings per share	17	0.67	0.72

Statement of Comprehensive Income

Statement of comprehensive income

in € million	1.1.–30.6.2019	1.1.–30.6.2018
Net income	**99**	**99**
Accumulated other comprehensive income	–32	–25
Items that will not be reclassified to profit or loss, net of tax	–26	2
Gains/losses on pension commitments, before tax	–36	3
Income tax relating to items that will not be reclassified to profit or loss	10	–1
Items that may be reclassified to profit or loss, net of tax	–6	–27
Gains/losses on cash flow hedge accounting, before tax	–10	–19
unrealised gains/losses	–	–
gains/losses reclassified to profit or loss	–10	–19
Gains/losses on financial assets at fair value through other comprehensive income, before tax	3	–17
unrealised gains/losses	3	–17
gains/losses reclassified to profit or loss	–	–
Income tax relating to items that may be reclassified to profit or loss	1	9
Comprehensive income for the period	**67**	**74**
attributable to: Shareholders	67	74

Statement of Financial Position

Assets

in € million	Note	30.6.2019	31.12.2018	1.1.2018
Cash reserve		2,810	1,388	999
Financial assets at fair value through profit or loss	18	1,523	1,659	1,735
Positive fair values of stand-alone derivatives		851	749	870
Debt securities		127	258	333
Loans and advances to customers		542	649	529
Shares in investment funds qualified as debt instruments		3	3	3
Financial assets at fair value through other comprehensive income	19	1,806	1,984	2,182
Debt securities		1,417	1,564	1,735
Loans and advances to other banks		16	16	17
Loans and advances to customers		373	404	430
Financial assets at amortised cost after credit loss allowances	20	51,189	50,341	50,323
Financial assets at amortised cost before credit loss allowances		51,275	50,453	50,427
Debt securities		7,812	8,039	8,667
Loans and advances to other banks		2,461	2,231	2,400
Loans and advances to customers		41,002	40,183	39,360
Credit loss allowances on financial assets at amortised cost		–86	–112	–104
Positive fair values of hedge accounting derivatives	21	2,572	2,207	2,678
Valuation adjustment from portfolio hedge accounting (assets)		20	2	–1
Tangible assets		10	4	6
Intangible assets		37	37	36
Other assets		43	35	34
Current income tax assets		36	26	42
Deferred income tax assets		89	86	71
Total assets		**60,135**	**57,769**	**58,105**

Liabilities and Equity

in € million	Note	30.6.2019	31.12.2018	1.1.2018
Financial liabilities at fair value through profit or loss	22	901	881	1,040
Negative fair values of stand-alone derivatives		901	881	1,040
Financial liabilities measured at amortised cost	23	52,825	50,714	50,919
Liabilities to other banks		4,606	3,867	3,797
Liabilities to customers		25,501	24,901	26,244
Bearer bonds		22,024	21,237	19,876
Subordinated liabilities		694	709	1,002
Negative fair values of hedge accounting derivatives	24	2,758	2,538	2,805
Valuation adjustment from portfolio hedge accounting (liabilities)		93	23	–
Provisions	25	287	268	247
Other liabilities		46	40	70
Current income tax liabilities		53	48	57
Liabilities		**56,963**	**54,512**	**55,138**
Equity attributable to the shareholders of pbb	27	2,874	2,959	2,967
Subscribed capital		380	380	380
Additional paid-in capital		1,637	1,637	1,637
Retained earnings [1]		886	939	904
Accumulated other comprehensive income		–29	3	46
Thereof: allowances for credit losses on financial assets at fair value through other comprehensive income		–	1	1
Additional equity instruments (AT1 capital)		298	298	–
Equity		**3,172**	**3,257**	**2,967**
Total liabilities and equity		**60,135**	**57,769**	**58,105**

[1] Adjusted due to IAS 8.14. Details are disclosed in note “Consistency”.

Statement of Changes in Equity

Statement of changes in equity

in € million	Subscribed capital	Additional paid-in capital	Retained earnings [1]	Pension commitments	Cash flow hedge accounting	financial assets at fair value through OCI	Additional equity instruments (AT1 capital)	Equity
	Equity attributable to the shareholders							
				Accumulated other comprehensive income (OCI) from:				
Balance at 1.1.2018	**380**	**1,637**	**904**	**–75**	**22**	**99**	**–**	**2,967**
Capital increase	–	–	–	–	–	–	300	300
Transaction costs	–	–	–	–	–	–	–2	–2
Distribution	–	–	–144	–	–	–	–	–144
Comprehensive income for the period	–	–	99	2	–14	–13	–	74
Net income	–	–	99	–	–	–	–	99
OCI for the period, after taxes	–	–	–	2	–14	–13	–	–25
Balance at 30.6.2018	**380**	**1,637**	**859**	**–73**	**8**	**86**	**298**	**3,195**
Balance at 1.1.2019	**380**	**1,637**	**939**	**–73**	**–**	**76**	**298**	**3,257**
Distribution	–	–	–134	–	–	–	–	–134
Payment on AT1 capital	–	–	–18	–	–	–	–	–18
Comprehensive income for the period	–	–	99	–26	–8	2	–	67
Net income	–	–	99	–	–	–	–	99
OCI for the period, after taxes	–	–	–	–26	–8	2	–	–32
Balance at 30.6.2019	**380**	**1,637**	**886**	**–99**	**–8**	**78**	**298**	**3,172**

[1] Adjusted due to IAS 8.14. Details are disclosed in note "Consistency".

Statement of Cash Flows (condensed)

Statement of cash flows (condensed)

in € million	2019	2018
Cash and cash equivalents at 1.1.	**1,388**	**999**
+/– Cash flows from operating acitivities	914	230
+/– Cash flows from investing acitivities	667	450
+/– Cash flows from financing acitivities	–159	–128
+/– Currency translation and other non-cash measurement effects	–	–
Cash and cash equivalents at 30.6.	**2,810**	**1,551**

Notes (condensed)

1 Principles

Deutsche Pfandbriefbank AG (pbb) has prepared the condensed consolidated interim financial statements for the period ended 30 June 2019 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 30 July 2019 under the going-concern assumption.

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

First-time Application of IFRS 16
The new reporting standard IFRS 16 Leases has replaced IAS 17 as well as IFRIC 4, SIC-15 and SIC-27. According to the new regulations, lessees have to recognise the majority of leases going forward. However, the new standard provides options according to which exemptions apply to leasing contracts with lease terms of 12 months or less as well as underlying assets with insignificant values. pbb Group applies these options.

IFRS 16's approach to lessor accounting is substantially unchanged from IAS 17 rules. Moreover, the new standard comprises detailed regulations on sale-and-leaseback transactions as well as on the disclosure of lease modifications and reassessments without contractual modifications. In addition, disclosure requirements for lessees and lessors were extended compared to IAS 17.

pbb Group initially applied IFRS 16 for the financial year beginning on 1 January 2019. In line with the transition regulations provided under IFRS 16, pbb Group opted for the modified retrospective approach. Accordingly, the comparative figures presented for the financial year 2018 were not adjusted retrospectively. All contracts were recognised as if the commencement date was 1 January 2019, with identical values for lease liabilities and right-of-use assets. Therefore, the first-time application of IFRS 16 does not lead to any cumulative effects in retained earnings as at 1 January 2019.

With regard to its activities as lessor, pbb Group only expects an expansion of disclosures in the notes at the end of the financial year. pbb Group was not involved in any sale-and-leaseback transactions as a seller or buyer, and does not plan any such transactions going forward. The most significant impacts affected pbb Group in its role as lessee. The right-of-use assets as well as the corresponding lease liabilities – representing the obligation to make future lease payments – were recognised in the amount of the present values of lease payments, eventually increasing total assets by €9 million as at 1 January 2019. Land and buildings used by pbb Group under lease contracts are particularly relevant in this context. Regarding lease extension options, and early termination options, pbb Group took what is presently considered the most likely scenario into consideration. pbb Group measures lease liabilities at the corresponding lease payments, which were discounted with the applicable incremental borrowing rate. For subsequent measurement purposes, the total effects recognised through profit or loss – relative to the profit before and after tax – are considered less important. Compared to the previous disclosures in line with IAS 17, some line items of the consolidated income statement slightly changed; in particular, "general and administrative expenses" as well as "net income from write-downs and write-ups of non-financial assets" declined, while "net interest income" also declined slightly.

pbb Group discloses right-of-use assets in "tangible assets", while lease liabilities are disclosed under "other liabilities". Depreciation/amortisation of right-of-use assets is recognised in the note on "net income from write-downs and write-ups of non-financial assets".

First-time Application of IFRIC 23

Interpretation IFRIC 23: Uncertainty over Income Tax Treatments is set in particular to ensure the application of clear and uniform accounting policies in unclear tax situations with regard to the recognition and measurement of tax assets and liabilities. The first-time application did not result in any effects to be recognised. In future, pbb Group might be obliged to recognise IFRIC 23 effects regarding tax periods for which the final and conclusive decision is currently pending.

First-time Application of Amendments to IFRS 9

The "Amendments to IFRS 9: Prepayment Features with Negative Compensation" are set to allow measurement at amortised cost, or at fair value through other comprehensive income, of financial assets with prepayment options, where one party receives (or pays), upon termination, reasonable additional compensation (reasonable negative compensation). Given that pbb Group does not hold any financial instruments within the amendment's scope of application, the first-time application did not result in any effects to be recognised.

First-time Application of Amendments to IAS 28

The "Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures" clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture, but to which the equity method is not applied. Given that pbb Group already recognised such assets at fair value through profit or loss in line with IFRS 9, the first-time application did not result in any effects to be recognised.

First-time Application of Amendments to IAS 19

The "Amendments to IAS 19: Plan Amendment, Curtailment or Settlement" refer to the amendment, curtailment or settlement of defined benefit pension plans. Such amendments of pension plans are unusual within pbb Group. Therefore, this amendment did not result in any first-time application effects.

Annual Improvements to IFRS Standards 2015 – 2017 Cycle

From the perspective of the IASB, the "Annual Improvements to IFRS Standards 2015 – 2017 Cycle" contain relatively minor – but nevertheless necessary – amendments to IFRSs. At pbb Group, these amendments did not result in any material first-time application effects.

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 two matters described below the condensed interim consolidated financial statements as at 30 June 2019 were prepared using the same accounting policies applied for the consolidated financial statements as at 31 December 2018 respectively for the condensed consolidated financial stetements as at 30 June 2018.

Net Income from Provisions in Lending Business

In the period under review, net income from provisions in off balance sheet lending business were reclassified from "net other operating income" to the "net income from risk provisioning". The presentation of the previous year's results was adjusted accordingly.

Equity

In line with IAS 8.14, pbb Group made changes to the equity line items as from financial year 2019. The former line items "consolidated profit" and "retained earnings" were consolidated into "retained earnings". These disclosure amendments were due to the first-time AT1 capital payment made in April 2019, which meant that the amount disclosed as consolidated profit was not in line with the profit after tax disclosed in the income statement. Disclosing two different profit amounts would be misleading from pbb Group's perspective. The new disclosure approach is in line with the disclosure structure of other AT1 capital issuers. The prior-year figures were adjusted in accordance with IAS 8.22. Effective 31 December 2018, consolidated profit (€179 million) was added to the carrying amount of retained earnings (€760 million), resulting in a new carrying amount of retained earnings of €939 million. Effective 1 January 2018, consolidated profit stood at €182 million, and retained earnings (former disclosure structure) at €722 million, resulting in a new carrying amount of retained earnings of €904 million.

3 Consolidation

A list of all consolidated and non-consolidated companies of pbb can be found on page 215 of pbb Group's 2018 Annual Report. There have not been any changes in the group of consolidated companies in the first half of 2019.

4 Segment Reporting

Income/expenses

in € million		Real Estate Finance (REF)	Public Investment Finance (PIF)	Value Portfolio (VP)	Consolidation & Adjustments (C&A)	**pbb Group**
Operating income	1.1.–30.6.2019	207	15	14	2	**238**
	1.1.–30.6.2018	188	14	26	3	**231**
Net interest income	1.1.–30.6.2019	192	17	18	2	**229**
	1.1.–30.6.2018	183	16	18	3	**220**
Net fee and commission income	1.1.–30.6.2019	3	–	–	–	**3**
	1.1.–30.6.2018	3	–	–	–	**3**
Net income from fair value measurement	1.1.–30.6.2019	–5	–1	–1	–	**–7**
	1.1.–30.6.2018	–4	–1	9	–	**4**
Net income from realisations	1.1.–30.6.2019	17	–	–1	–	**16**
	1.1.–30.6.2018	14	–	1	–	**15**
Net income from hedge accounting	1.1.–30.6.2019	–	–	–1	–	**–1**
	1.1.–30.6.2018	–1	–	–1	–	**–2**
Net other operating income	1.1.–30.6.2019	–	–1	–1	–	**–2**
	1.1.–30.6.2018[1]	–7	–1	–1	–	**–9**
Net income from risk provisioning	1.1.–30.6.2019	–2	–	2	–	**–**
	1.1.–30.6.2018[1]	–	4	4	–	**8**
General and administrative expenses	1.1.–30.6.2019	–76	–11	–6	–	**–93**
	1.1.–30.6.2018	–70	–12	–6	–	**–88**
Expenses from bank levies and similar dues	1.1.–30.6.2019	–13	–3	–6	–	**–22**
	1.1.–30.6.2018	–12	–3	–7	–	**–22**
Net income from write-downs and write-ups of non-financial assets	1.1.–30.6.2019	–7	–1	–	–	**–8**
	1.1.–30.6.2018	–6	–1	–	–	**–7**
Net income from restructuring	1.1.–30.6.2019	2	–	–	–	**2**
	1.1.–30.6.2018	–	–	–	–	**–**
Profit before tax	**1.1.–30.6.2019**	**111**	**–**	**4**	**2**	**117**
	1.1.–30.6.2018	**100**	**2**	**17**	**3**	**122**

[1] See note "Consistency".

Cost-income ratio[1]

in %		REF	PIF	VP	**pbb Group**
Cost-income ratio	1.1.–30.6.2019	40.1	80.0	42.9	**42.4**
	1.1.–30.6.2018	40.4	92.9	23.1	**41.1**

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

Balance-sheet-related measures

in € billion		REF	PIF	VP	C&A	**pbb Group**
Financing volumes[1]	30.6.2019	27.7	6.4	12.3	–	**46.4**
	31.12.2018	26.8	6.4	13.2	–	**46.4**
Risk-weighted assets[2]	30.6.2019	7.7	1.5	3.7	0.7	**13.6**
	31.12.2018	8.3	1.4	4.0	0.9	**14.6**
Equity[3]	30.6.2019	1.3	0.1	0.9	0.5	**2.8**
	31.12.2018	1.4	0.1	1.1	0.3	**2.9**

[1] Notional amounts of the drawn parts of granted loans and parts of the securities portfolio.
[2] Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5.
[3] Excluding cash flow hedge reserve, reserves from financial assets at fair value through other comprehensive income and AT1 capital.

NOTES TO THE INCOME STATEMENT

5 Net Interest Income

Net interest income

in € million	1.1.–30.6.2019	1.1.–30.6.2018
Interest income	899	921
from financial assets at fair value through profit or loss	151	157
from financial assets at fair value through other comprehensive income	30	33
from financial assets at amortised cost	623	623
from hedge accounting derivatives (net) [1]	98	108
from other assets	3	2
negative interest income from non-derivative financial liabilities	–6	–2
Interest expenses	–670	–701
from financial liabilities held for trading	–183	–179
from financial liabilities measured at amortised cost	–487	–522
positive interest expenses from non-derivative financial assets	–	–
Total	**229**	**220**

[1] Includes positive interest expenses (net) from hedge accounting derivatives in the amount of €8 million (6m2018: €7 million).

6 Net Fee and Commission Income

Net fee and commission income

in € million	1.1.–30.6.2019	1.1.–30.6.2018
Fee and commission income	4	4
from financial assets at amortised cost and financial liabilties not at fair value through profit or loss	4	4
Fee and commission expenses	**–1**	**–1**
from financial assets at amortised cost and financial liabilties not at fair value through profit or loss	–1	–1
Total	**3**	**3**

7 Net Income from Fair Value Measurement

Net income from fair value measurement

in € million	1.1.–30.6.2019	1.1.–30.6.2018
Net income from stand-alone derivatives	–22	7
Interest derivatives	–22	7
Net income from other financial assets at fair value through profit or loss	15	–3
from debt instruments	15	–3
Debt securities	6	–7
Loans and advances	9	4
Total	**–7**	**4**

8 Net Income from Realisations

Net income from realisations

in € million	1.1.–30.6.2019	1.1.–30.6.2018
Income from derecognition of financial instruments	18	15
from assets measured at amortised cost	18	13
from liabilities measured at amortised cost	–	2
Expenses from derecognition of financial instruments	–2	–
from financial assets at fair value through other comprehensive income	–1	–
from financial liabilities measured at amortised cost	–1	–
Total	**16**	**15**

9 Net Income from Hedge Accounting

Net income from hedge accounting

in € million	1.1.–30.6.2019	1.1.–30.6.2018
Net income from micro fair value hedge accounting	–1	–2
from hedged items	–6	30
from hedging instruments	5	–32
Net income portfolio fair value hedge accounting	–	–
from hedged items	–55	–9
from hedging instruments	55	9
Total	**–1**	**–2**

10 Net Other Operating Income

Net other operating income

in € million	1.1.–30.6.2019	1.1.–30.6.2018[1]
Net income from foreign currency translation	–2	–2
Net income from provisions in non-lending business	–	–7
Total	**–2**	**–9**

[1] See note "Consistency".

11 Net Income from Risk Provisioning

Net income from risk provisioning

in € million	1.1.–30.6.2019	1.1.–30.6.2018[1]
From financial assets at amortised cost	–1	7
Stage 1	–	1
Stage 2	3	8
Stage 3	–4	–2
Net income from provisions in off balance sheet lending business	1	1
Total	**–**	**8**

[1] See note "Consistency".

12 General and Adminstrative Expenses

General and adminstrative expenses

in € million	1.1.–30.6.2019	1.1.–30.6.2018
Personnel expenses	–57	–56
Wages and salaries	–47	–47
Social security expenses	–6	–6
Pension expenses and related employee benefit expenses	–5	–4
Other personnell expenses/income	1	1
Non-personnel expenses	–36	–32
Office and operating expenses	–4	–5
Consulting expenses	–6	–5
IT expenses	–17	–16
Other non-personnel expenses	–9	–6
Total	**–93**	**–88**

13 Expenses from Bank Levies and Similar Dues

Expenses from bank levies and similar dues

in € million	1.1.–30.6.2019	1.1.–30.6.2018
Bank levies	–20	–20
Deposit protection fund	–2	–2
Compensation scheme of German banks	–	–
Total	**–22**	**–22**

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

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

in € million	1.1.–30.6.2019	1.1.–30.6.2018
Depreciation or amortisation	–8	–7
Tangible assets	–3	–1
Thereof: right-of-use of lease contracts	–1	–
Intangible assets	–5	–6
Total	**–8**	**–7**

15 Net Income from Restructuring

Net income from restructuring

in € million	1.1.–30.6.2019	1.1.–30.6.2018
Income from reversals of restructuring provisions	3	–
Expenses from additions to restructuring provisions	–1	–
Total	**2**	**–**

16 Income Tax

Income tax

in € million	1.1.–30.6.2019	1.1.–30.6.2018
Current taxes	–9	–22
Deferred taxes	–9	–1
Total	**–18**	**–23**

17 Earnings per Share

Earnings per share

		1.1.–30.6.2019	1.1.–30.6.2018
Net income attributable to the shareholders of pbb	in € million	99	99
Thereof attributable to the ordinary shareholders	in € million	90	97
Thereof attributable to the AT1 investors	in € million	9	2
Average number of ordinary shares issued	pieces	134,475,308	134,475,308
Adjusted average number of ordinary shares issued pieces	pieces	134,475,308	134,475,308
Basic earnings per share	in €	**0.67**	**0.72**
Diluted earnings per share	in €	**0.67**	**0.72**

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.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

18 Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss

in € million	**30.6.2019**	**31.12.2018**
Positive fair values of stand-alone derivatives	851	749
Interests in companies and funds qualified as debt instruments	3	3
Debt securities	127	258
Bonds and notes	127	258
Public-sector issuers	84	81
Other issuers	43	177
Loans and advances to customers	542	649
Public-sector loans and advances	330	327
Real estate loans and advances	212	322
Total	**1,523**	**1,659**

19 Financial Assets at Fair Value Through Other Comprehensive Income

Financial assets at fair value through other comprehensive income

in € million	**30.6.2019**	**31.12.2018**
Debt securities	1,417	1,564
Bonds and notes	1,417	1,564
Public-sector issuers	653	676
Other issuers	764	888
Loans and advances to other banks	16	16
Public-sector loans and advances	16	16
Loans and advances to customers	373	404
Public-sector loans and advances	373	404
Total	**1,806**	**1,984**

20 Financial Assets at Amortised Cost After Credit Loss Allowances

Financial assets at amortised cost before credit loss allowances

in € million	30.6.2019	31.12.2018
Debt securities	7,812	8,039
Bonds and notes	7,812	8,039
Public-sector issuers	5,641	5,550
Other issuers	2,171	2,489
Loans and advances to other banks	2,461	2,231
Public-sector loans and advances	550	544
Investments in money	100	–
Other loans and advances to other banks	1,811	1,687
Loans and advances to customers	41,002	40,183
Public-sector loans and advances	13,300	13,458
Real estate loans and advances	27,432	26,512
Other loans and advances to customers	55	1
Claims from finance lease arrangements	215	212
Total	**51,275**	**50,453**

Development in risk provisioning

in € million	1.1.2019	Net additions/ reversals	Use/others	30.6.2019
Credit losses allowances on financial assets	–113	–1	28	–86
at fair value through other comprehensive income	–1	1	–	–
Debt securities	–1	1	–	–
at amortised cost	–112	–2	28	–86
Debt securities	–5	–	–	–5
Loans and advances to customers	–107	–2	28	–81
Provisions in the lending business	–7	1	–	–6
Total	**–120**	**–**	**28**	**–92**

Credit loss allowances on financial assets at amortised cost

in € million	30.6.2019	31.12.2018
Stage 1	–14	–14
Debt securities	–1	–1
Loans and advances	–13	–13
Stage 2	–39	–42
Debt securities	–4	–4
Loans and advances	–35	–38
Stage 3	–33	–56
Loans and advances	–33	–56
Total	**–86**	**–112**

21 Positive Fair Values of Hedge Accounting Derivatives

Positive fair values of hedge accounting derivatives

in € million	30.6.2019	31.12.2018
Positive market values of hedge accounting derivatives	2,572	2,207
Total	**2,572**	**2,207**

22 Financial Liabilities at Fair Value Through Profit or Loss

Financial liabilities at fair value through profit or loss

in € million	30.6.2019	31.12.2018
Negative fair values of stand-alone derivatives	901	881
Total	**901**	**881**

23 Financial liabilities at Amortised Cost

Financial liabilities at amortised cost

in € million	30.6.2019	31.12.2018
Liabilities to other banks	4,606	3,867
Liabilities to central banks	1,883	1,886
Registered Mortgage Pfandbriefe	268	228
Registered Public Pfandbriefe	339	290
Other registered securities	53	23
Other liabilities to other banks	2,063	1,440
Liabilities to customers	25,501	24,901
Registered Mortgage Pfandbriefe	4,896	4,550
Registered Public Pfandbriefe	10,402	10,194
Other registered securities	2,515	2,427
Other liabilities to customers	7,688	7,730
Bearer bonds	22,024	21,237
Money market instruments	70	35
Mortgage Pfandbriefe	12,614	12,376
Public Pfandbriefe	4,743	4,680
Other bearer bonds	4,597	4,146
Subordinated liabilities	694	709
Securitised subordinated liabilities	634	649
Non-securitised subordinated liabilities	60	60
Total	**52,825**	**50,714**

24 Negative Fair Values of Hedge Accounting Derivatives

Negative fair values of hedge accounting derivatives

in € million	30.6.2019	31.12.2018
Negative market values of hedge derivatives	2,758	2,538
Total	**2,758**	**2,538**

25 Provisions

Provisions

in € million	30.6.2019	31.12.2018
Provisions for pensions and similar obligations	122	84
Restructuring provisions	5	11
Provisions for commitments and guarantees given	6	7
Other provisions	154	166
Total	**287**	**268**

Other provisions comprise those for legal and tax risks amounted of €91 million (31 December 2018: €88 million), and for legal expenses of €28 million (31 December 2018: €35 million).

pbb closed a reinsurance in the form of a qualifying insurance policy according to IAS 19 to hedge parts of the risk from the defined benefit pension obligations. A discount rate of 1.32% (31 December 2018: 2.02%) and a rate of increase in pension obligations of 1.75% (31 December 2018: 1.50%) were used for the measurement of the defined benefit pension obligations. The other actuarial assumption are unchanged compared to the consolidated financial statements 2018.

Legal Risks (Litigation Risks)
pbb is obliged, in all jurisdictions in which it conducts its business, to comply with a large number of statutory and supervisory requirements and regulations such as certain rules of conduct to compliance with competition rules, to avoid conflicts of interest, to combat money laundering, to prevent terrorist financing, to prevent criminal offences, to regulate foreign trade and to safeguard bank, business and data secrecy. 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. These also include criminal proceedings as well as the assertion of claims in an amount not specified by the party asserting the claim. 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 the 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 cases and comparable cases, drawing on its own expertise or opinions by external consultants, and in particular by legal advisors, depending on the significance and complexity of the respective case. 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 view 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. Further claims could possibly follow. At present, legal proceedings with a total amount in dispute of approximately €20 million are pending. Whilst pbb endeavours to solve legal disputes by way of out-of-court settlements, it exploits the legal remedies at its disposal when needed. Further legal proceedings may follow.

pbb Group recognised sufficient provisions for trial costs of first and second instance proceedings at the German fiscal court (Finanzgericht) regarding fiscal authority audit findings affecting one of pbb's predecessor institutions during the period from 2003 to 2008, and the corresponding tax assessment notes, which were issued in 2016.

Hypo Real Estate Bank International AG, a predecessor institution of pbb, issued Credit Linked Notes ("CLNs") in 2007, within the scope of the Estate UK-3 ("UK-3") synthetic securitisation transaction. The CLNs were issued in order to hedge the credit risk exposure of a real estate loan portfolio in the UK. The real estate loan portfolio subsequently suffered a loan default. pbb envisaged allocating a resulting loss of GBP 113.8 million to the credit linked notes. Deloitte GmbH Wirtschaftsprüfungsgesellschaft, the trustee of UK-3, expressed doubts with respect to the permissibility of the loss allocation. In June 2017, the trustee therefore appointed an independent expert to determine whether the conditions for a loss allocation were met. On 28 June 2019, the independent expert informed pbb Group on its findings. It found the allocation of the full amount of a credit loss of GBP 113.8 million permissible. The loss allocation leads to a corresponding reduction of the repayments under the credit linked notes. pbb will allocate the loss to the credit linked notes at the earliest possible date, which is 20 September 2019. The loss allocation will lead to a full write-down of the credit linked notes of classes A2, B, C, D and E and will reduce the nominal amount of class A1+ from GBP 400,000 by about 0.1%.

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

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

26 Maturities of Specific Financial Assets and Liabilities

Maturities of specific financial assets and liabilities (excluding derivatives)

						30.6.2019
in € million	repayble on demand/ not specified	up to 3 months	more than 3 months up to 1 year	more than 1 year up to 5 years	more than 5 years	**Total**
Cash reserve	2,810	–	–	–	–	2,810
Financial assets at fair value through profit or loss (excluding derivatives)	3	1	64	83	521	672
Debt securities	–	–	–	–	127	127
Loans and advances to customers	–	1	64	83	394	542
Shares in investment funds qualified as debt instruments	3	–	–	–	–	3
Financial assets at fair value through other comprehensive income	–	31	179	983	613	1,806
Debt securities	–	18	133	717	549	1,417
Loans and advances to other banks	–	–	16	–	–	16
Loans and advances to customers	–	13	30	266	64	373
Financial assets at amortised cost before credit loss allowances	1,890	1,534	4,309	21,719	21,823	51,275
Debt securities	–	97	263	2,476	4,976	7,812
Loans and advances to other banks	1,811	100	–	–	550	2,461
Loans and advances to customers	79	1,337	4,046	19,243	16,297	41,002
Total financial assets	**4,703**	**1,566**	**4,552**	**22,785**	**22,957**	**56,563**
Financial liabilities at cost	2,596	2,985	7,616	19,923	19,705	52,825
Liabilities to other banks	1,173	421	83	2,160	769	4,606
Thereof: Registred bonds	–	37	47	87	488	659
Liabilities to customers	1,409	1,021	2,574	5,911	14,586	25,501
Thereof: Registred bonds	–	555	456	3,042	13,760	17,813
Bearer bonds	14	1,536	4,959	11,787	3,728	22,024
Subordinated liabilities	–	7	–	65	622	694
Total financial liabilities	**2,596**	**2,985**	**7,616**	**19,923**	**19,705**	**52,825**

Maturities of specific financial assets and liabilities (excluding derivatives)

in € million	repayble on demand/ not specified	up to 3 months	more than 3 months up to 1 year	more than 1 year up to 5 years	more than 5 years	Total
						31.12.2018
Cash reserve	1,388	–	–	–	–	1,388
Financial assets at fair value through profit or loss (excluding derivatives)	3	142	64	221	480	910
Debt securities	–	138	–	–	120	258
Loans and advances to customers	–	4	64	221	360	649
Shares in investment funds qualified as debt instruments	3	–	–	–	–	3
Financial assets at fair value through other comprehensive income	–	40	129	1,090	725	1,984
Debt securities	–	30	100	776	658	1,564
Loans and advances to other banks	–	–	–	16	–	16
Loans and advances to customers	–	10	29	298	67	404
Financial assets at amortised cost before credit loss allowances	1,715	1,567	4,717	21,036	21,418	50,453
Debt securities	–	143	461	2,469	4,966	8,039
Loans and advances to other banks	1,687	–	–	–	544	2,231
Loans and advances to customers	28	1,424	4,256	18,567	15,908	40,183
Total financial assets	**3,106**	**1,749**	**4,910**	**22,347**	**22,623**	**54,735**
Financial liabilities at cost	2,193	2,552	7,174	19,485	19,310	50,714
Liabilities to other banks	899	34	88	2,175	671	3,867
Thereof: Registred bonds	–	30	57	109	345	541
Liabilities to customers	1,280	1,035	2,536	5,846	14,204	24,901
Thereof: Registred bonds	–	382	567	2,868	13,354	17,171
Bearer bonds	14	1,461	4,550	11,399	3,813	21,237
Subordinated liabilities	–	22	–	65	622	709
Total financial liabilities	**2,193**	**2,552**	**7,174**	**19,485**	**19,310**	**50,714**

27 Equity

Equity amounted to €3.2 billion (31 December 2018: €3.3 billion) at 30 June 2019. Accumulated other comprehensive income from pension commitments decreased by €26 million. This decrease was due to the decline in the discount rate from 2.02% to 1.32% and due to the increase of the pension obligations rate from 1.50% to 1.75%.

In June 2019, pbb distributed dividends of totalled €134 million (or €1.00 per dividend bearing share) to shareholders.

The additional equity instruments include Additional Tier 1 (AT1) capital in the total nominal amount of €300 million less transaction costs of €2 million. AT1 capital qualifies as equity because there is no obligation to repay, or to make debt servicing payments on an ongoing basis. The bond issued by pbb on 12 April 2018 carries an initial coupon of 5.75% p.a. and has no final maturity. There are certain conditions attached to the coupon payments. The AT1 capital coupon payment made in April 2019, in the amount of €18 million, led to a decline in retained earnings, and is disclosed separately in the statement of changes in equity.

NOTES TO THE FINANCIAL INSTRUMENTS

28 Fair Values of Financial Instruments

Fair values and fair value hierarchy of financial instruments

					30.6.2019
					Fair value
in € million	Carrying amount	Fair value	Level 1	Level 2	Level 3
Assets in the scope of IFRS 13	**59,920**	**61,659**	**9,596**	**21,150**	**30,913**
Measured at fair value in the statement of financial position	5,901	5,901	1,280	4,156	465
Financial assets at fair value through profit or loss	1,523	1,523	3	1,196	324
Positive fair values of stand-alone derivatives	851	851	–	851	–
Debt securities	127	127	–	127	–
Loans and advances	542	542	–	218	324
Shares in investment funds qualified as debt instruments	3	3	3	–	–
Financial assets at fair value through other comprehensive income	1,806	1,806	1,277	388	141
Debt securities	1,417	1,417	1,277	1	139
Loans and advances	389	389	–	387	2
Positive fair values of hedge accounting derivatives	2,572	2,572	–	2,572	–
Not measured at fair value in the statement of financial position	54,019	55,758	8,316	16,994	30,448
Cash reserve	2,810	2,810	2,810	–	–
Financial assets at amortised cost [1]	51,189	52,948	5,506	16,994	30,448
Debt securities	7,807	7,857	3,732	3,039	1,086
Loans and advances	43,382	45,091	1,774	13,955	29,362
Thereof: Claims from finance lease arrangements	215	225	–	225	–
Valuation adjustment from portfolio hedge accounting (assets)	20	–	–	–	–
Liabilities in the scope of IFRS 13	**56,577**	**57,747**	**20,829**	**29,290**	**7,628**
Measured at fair value in the statement of financial position	3,659	3,659	–	3,644	15
Financial liabilities at fair value through profit or loss	901	901	–	886	15
Negative fair values of stand-alone derivatives	901	901	–	886	15
Negative fair values of hedge accounting derivatives	2,758	2,758	–	2,758	–
Not measured at fair value in the statement of financial position	52,918	54,088	20,829	25,646	7,613
Financial liabilities measured at amortised cost	52,825	54,088	20,829	25,646	7,613
Liabilities to other banks	4,606	4,652	1,173	1,134	2,345
Liabilities to customers	25,501	26,343	240	21,251	4,852
Bearer bonds	22,024	22,361	18,882	3,261	218
Subordinated liabilities	694	732	534	–	198
Valuation adjustment from portfolio hedge accounting (liabilities)	93	–	–	–	–

[1] Less credit loss allowances.

Fair values and fair value hierarchy of financial instruments

					31.12.2018
			Fair value		
in € million	Carrying amount	Fair value	Level 1	Level 2	Level 3
Assets in the scope of IFRS 13	**57,581**	**58,868**	**8,181**	**20,071**	**30,616**
Measured at fair value in the statement of financial position	5,850	5,850	1,328	3,896	626
Financial assets at fair value through profit or loss	1,659	1,659	11	1,178	470
Positive fair values of stand-alone derivatives	749	749	–	749	–
Debt securities	258	258	8	214	36
Loans and advances	649	649	–	215	434
Shares in investment funds qualified as debt instruments	3	3	3	–	–
Financial assets at fair value through other comprehensive income	1,984	1,984	1,317	511	156
Debt securities	1,564	1,564	1,317	93	154
Loans and advances	420	420	–	418	2
Positive fair values of hedge accounting derivatives	2,207	2,207	–	2,207	–
Not measured at fair value in the statement of financial position	51,731	53,018	6,853	16,175	29,990
Cash reserve	1,388	1,388	1,388	–	–
Financial assets at amortised cost [1]	50,341	51,630	5,465	16,175	29,990
Debt securities	8,035	8,029	3,833	2,939	1,257
Loans and advances	42,306	43,601	1,632	13,236	28,733
Thereof: Claims from finance lease arrangements	212	220	–	220	–
Valuation adjustment from portfolio hedge accounting (assets)	2	–	–	–	–
Liabilities in the scope of IFRS 13	**54,156**	**54,976**	**19,772**	**4,970**	**30,234**
Measured at fair value in the statement of financial position	3,419	3,419	–	3,404	15
Financial liabilities at fair value through profit or loss	881	881	–	866	15
Negative fair values of stand-alone derivatives	881	881	–	866	15
Negative fair values of hedge accounting derivatives	2,538	2,538	–	2,538	–
Not measured at fair value in the statement of financial position	50,737	51,557	19,772	1,566	30,219
Financial liabilities measured at amortised cost	50,714	51,557	19,772	1,566	30,219
Liabilities to other banks	3,867	3,875	899	–	2,976
Liabilities to customers	24,901	25,577	222	1	25,354
Bearer bonds	21,237	21,385	18,134	1,529	1,722
Subordinated liabilities	709	720	517	36	167
Valuation adjustment from portfolio hedge accounting (liabilities)	23	–	–	–	–

[1] Less credit loss allowances.

pbb Group assigns every financial asset or liability that is regularly or exceptionally measured at fair value to one level of the fair value hierarchy. Reclassifications within the fair value hierarchy are made at the end of the reporting period, using the values as at the beginning of the respective period.

According to the general principles of IFRS 13 concerning fair value measurement techniques, an entity shall, in all cases, maximise the use of relevant observable inputs and minimise the use of unobservable inputs. All financial assets and liabilities measured at fair value are assigned to one level of the fair value hierarchy, depending on the respective inputs used.

Effective 30 June 2019, after carrying out regular reviews of the measurement techniques, pbb Group determined that the unobservable inputs used to measure financial liabilities with a fair value of €22.9 billion (1 January 2019: €21.9 billion) were no longer necessary, and thus not used anymore. This adjustment led to the reclassification of financial liabilities measured at amortised cost from level 3 to level 2 of the fair value hierarchy.

According to IAS 8.34, an estimate may need revision if changes occur in the circumstances upon which the estimate was based on, or as a result of new information received, or further knowledge acquired. In the first half of 2019, pbb Group made two estimate revisions regarding fair value determinations:

> Effective 30 June 2019, after carrying out a review of the fair value measurement of liabilities to customers in the deposit business, pbb Group no longer used the measurement curve for secured instruments, but for senior preferred instruments. This estimate revision led to a decline in the fair value of liabilities to customers in the amount of €24 million.
> Furthermore, at the beginning of the second quarter of 2019, pbb Group adjusted the estimate assumptions used for the fair value measurement of real estate receivables (adjusting contractual interest rate floors). This resulted in an increase in the fair values of loans and advances totalling €33 million.

Level 2 instruments disclosed at fair value at 30.6.2019

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

Level 3 instruments disclosed at fair value at 30.6.2019

Mesurement methods	Unobservable parameter	Range
Discounted cash flow methods	Historical index/index correlations	+/−25% for correlations
	Historical index/exchange rate correlations	+/−25%f or 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 shock scenarios for correlations and volatilities pursuant to the level 3 measurement methods table. These amounts were calculated independently from each other.

However, for a receivable with a EUR/GBP quanto structure, there were correlations between the unobservable input parameters used (EUR-GBP interest or interest/EUR-GBP FX correlations). This is also the case for the associated derivative that hedges the asset from an economic perspective. The sensitivity of the asset (+/−€36 million) and the associated derivative (+/−€37 million) are offset by each other.

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

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

Changes in level 3 instruments measured through profit or loss

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 1.1.2018	**304**	**225**	**17**
Income statement	−6	−53	−2
Additions (new business)	291	–	–
Disposals/repayments	−97	−16	–
Reclassifications in Level 3	36	–	–
Reclassifications out of Level 3	−58	–	–
Balance at 31.12.2018	**470**	**156**	**15**
Balance at 1.1.2019	**470**	**156**	**15**
Income statement	–	−14	–
Additions (new business)	181	–	–
Disposals/repayments	−327	−1	–
Reclassifications out of Level 3	–	–	–
Balance at 30.6.2019	**324**	**141**	**15**

On-balance sheet netting of derivatives which are settled through Eurex Clearing led to a reduction in total assets of €2.3 billion as at 30 June 2019 (31 December 2018: €1.7 billion).

OTHER NOTES

29 Contingent Liabilities and Other Commitments

Contingent liabilities and other commitments

in € million	30.6.2019	31.12.2018
Contingent liabilities	**76**	**76**
Guarantees and warranties	76	76
Other commitments	**4,660**	**4,731**
Irrevocable loan commitments	4,660	4,731
Commitments from bank levies	**25**	**20**
Collateral pledged	25	20
Total	**4,761**	**4,827**

As at balance sheet date the fair value of contingent liabilities amounted to €76 million (31 December 2018: €76 million) and the fair value of irrevocable loan commitments to €4,738 million (31 December 2018: €4,750 million).

30 Relationship with Related Parties

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

31 Report on Post-balance Sheet Date Events

There were no significant events after 30 June 2019.

Munich, 30 July 2019

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, 30 July 2019

Deutsche Pfandbriefbank AG
The Management Board

Andreas Arndt | Thomas Köntgen | Andreas Schenk | Marcus Schulte

Review Report

To Deutsche Pfandbriefbank AG, Munich

We have reviewed the condensed interim consolidated financial statements of the Deutsche Pfandbriefbank AG, Munich – comprising statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows (condensed) and notes (condensed) – together with the interim group management report of the Deutsche Pfandbriefbank AG, Munich, for the period from 1 January to 30 June, 2019 that are part of the semi annual according to § 115 WpHG ["Wertpapierhandelsgesetz": "German Securities Trading Act"]. The preparation of the condensed interim consolidated financial statements in accordance with International Accounting Standard IAS 34 "Interim Financial Reporting" as adopted by the EU, and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports, is the responsibility of the Company's management. Our responsibility is to issue a report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

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

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

Munich, 30 July 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft
[original German version signed by:]

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

Additional Information

Future-oriented Statements

This report contains future-oriented statements in the form of intentions, assumptions, expectations or forecasts. These statements are based on the plans, estimates and predictions currently available to the management of pbb. Future-oriented statements therefore only apply on the day on which they are made. pbb Group does not undertake any obligation to update such statements in light of new information or future events. By their nature, future-oriented statements contain risks and factors of uncertainty. A number of important factors can contribute to actual results de viating 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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CONCEPT, DESIGN AND REALISATION

HGB Hamburger Geschäftsberichte GmbH & Co. KG, Hamburg, Germany

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.

Deutsche Pfandbriefbank AG
Parkring 28
85748 Garching
Germany

T +49 (0)89 2880-0
F +49 (0)89 2880-10319
info@pfandbriefbank.com
www.pfandbriefbank.com