Quarterly Information

as of 30 September 2021

Deutsche Pfandbriefbank Group

Contents

Business Performance

Key Figures

Deutsche Pfandbriefbank Group (pbb Group)		1.1.–30.9.2021	1.1.–30.9.2020
Operating performance according to IFRS			
Profit before tax[1]	in € million	186	104
Net income[1]	in € million	158	73
Key ratios		**1.1.–30.9.2021**	**1.1.–30.9.2020**
Earnings per share[1]	in €	1.09	0.45
Cost-income ratio[1)2]	in %	38.5	42.7
Return on equity before tax[1)3]	in %	7.7	4.3
Return on equity after tax[1)3]	in %	6.5	2.8
New business volume Real Estate Finance[4]	in € billion	5.7	4.3
Balance sheet figures according to IFRS		**30.9.2021**	**31.12.2020**
Total assets	in € billion	58.8	58.9
Equity	in € billion	3.4	3.3
Financing volumes Real Estate Finance	in € billion	27.0	27.0
Key regulatory capital ratios[5]		**30.9.2021**	**31.12.2020**
CET1 ratio	in %	14.9	16.1
Own funds ratio	in %	19.8	21.4
Leverage ratio	in %	5.7	6.0
Staff		**30.9.2021**	**31.12.2020**
Employees (on full-time equivalent basis)		782	782
Long-term issuer rating/outlook[6]		**30.9.2021**	**31.12.2020**
Standard & Poor's		BBB+/Negative	A-/Negative
Moody's Pfandbrief rating		**30.9.2021**	**31.12.2020**
Public sector Pfandbriefe		Aa1	Aa1
Mortgage Pfandbriefe		Aa1	Aa1

1) Adjusted in accordance with IAS 8.42.
2) Cost-income ratio is the ratio of general and administrative expenses and net income from write-downs and write-ups on non-financial assets to operating income.
3) Return on equity before tax respectively after tax is the ratio of annualised profit before tax (net income) attributable to pbb shareholders less AT1-coupon (assuming full operation of the discretionary AT1-coupon) and average equity (excluding accumulated other comprehensive income (OCI) from cash flow hedge accounting, financial assets at fair value through OCI,additional equity instruments (AT1) and non controlling interest).
4) Including prolongations with maturities of more than one year.
5) Values as of 30 September 2021 without consideration of net income during the year. Values of 31 December 2020 after confirmation of the 2020 financial statements, less dividend payment in May 2021.
6) The ratings of unsecured liabilities may diverge from the issuer ratings.

This notice is a quarterly report of the Deutsche Pfandbriefbank Group ("pbb Group") in accordance with section 53 of the Exchange Rules (Börsenordnung) of the Frankfurt Stock Exchange. Unless stated otherwise, the following comments are based on (unaudited) consolidated figures in accordance with International Financial Reporting Standards (IFRS), adopted by the EU. Furthermore, also unless stated otherwise, the comments relate to comparison with the same period of the previous year (1 January to 30 September 2020, also referred to as "9m2020" below) or, in the case of details concerning the statement of financial position, comparison with figures as at the previous year's reporting date (31 December 2020).

Development in Earnings

With a pre-tax result of €186 million, pbb Group has significantly exceeded the previous year's figure of €104 million in the period under review (1 January to 30 September 2021, hereinafter "9m2021"). In the same period of the previous year, effects of the COVID-19 pandemic had a greater negative impact – especially upon net income from risk provisioning and net income from fair value measurement – than in the current period. In addition, during the reporting period, pbb Group benefited from increased early termination fees and lower funding expenses, due especially to the ECB's "Targeted Longer Term Refinancing Operations" (TLTRO III) programme.

Income and expenses

in € million	1.1.–30.9.2021	1.1.–30.9.2020[1]
Operating income	429	372
Net interest income	369	352
Net fee and commission income	6	4
Net income from financial instruments at fair value through profit or loss (Net income from fair value measurement)[2]	3	-12
Net income from derecognition of financial instruments not measured at fair value through profit or loss (Net income from realisations)[2]	55	20
Thereof: from financial assets at amortised cost	56	19
Net income from hedge accounting	-2	4
Net other operating income	-2	4
Net income from allowances on financial assets (Net income from risk provisioning)[2]	-50	-84
General and administrative expenses	-151	-145
Expenses from bank levies and similar dues	-28	-25
Net income from write-downs and write-ups on non-financial assets	-14	-14
Profit before tax	**186**	**104**
Income taxes	-28	-31
Net income	**158**	**73**
attributable to:		
Shareholders	159	73
Non-controlling interests	-1	–

[1] Adjusted in accordance with IAS 8.42.
[2] Solely the condensed and parenthesised line item descriptions are used subsequently.

Net interest income of €369 million exceeded the €352 million achieved in the first nine months of 2020, with a material positive effect incurred as a result of interest rate benefits from participation in the TLTRO III programme accrued over the term. As a result, pbb's total volume of liabilities under the TLTRO III programme increased to a nominal €8.4 billion as at 30 September 2021. Should eligible net lending increase by 31 December 2021 in comparison to the benchmark, pbb has the option to receive an interest rate premium of 50 basis points between 24 June 2021 and 23 June 2022. In accordance with IAS 20, this interest rate benefit is accrued over the term. Excluding TLTRO III effects, net interest income would remain at the previous year's level, whereby pbb Group benefited from higher net income from interest rate floors in client business. Net interest income was burdened, however, by investing maturing own funds and financial assets in the liquidity portfolio at lower interest rates. The average portfolio of disbursed (and hence interest-bearing) REF financings was slightly higher than in the previous year (9m2021: €27.1 billion, 9m2020: €26.9 billion)

Net fee and commission income from non-accruable fees to be recognised directly through profit or loss amounted to €6 million (9m2020: €4 million).

Net income from fair value measurement was slightly positive, at €3 million. This was due to a credit-induced increase in the fair values of individual financial assets recognised at fair value through profit or loss. In contrast, the previous year's figure (9m2020: €-12 million) was negatively influenced by the changed economic situation due to the COVID-19 pandemic.

High market liquidity led to a recovery in transaction volumes in commercial real estate following the pandemic-related slump of the previous year. As a result, early repayments of commercial real estate financings increased. This led to higher early termination fees and therefore a rise in net income from realisations to €55 million, following €20 million in 9m2020; this meant that a few high-margin individual cases resulted in net income from realisations actually exceeding the levels achieved in the years before the COVID-19 pandemic.

As hedges were largely effective, net income from hedge accounting in line with IAS 39 amounted to €-2 million (9m2020: €4 million).

Currency translation effects resulted in a slightly negative net other operating income of €-2 million (9m2020: €4 million). This item also comprised minor net reversals of provisions recognised outside of the lending business. Looking at provisions, no individual transaction was of material significance.

Net income from risk provisioning amounted to €-50 million. For financial instruments without indications for impaired credit quality (stages 1 and 2), there was an addition to loss allowance of €19 million, which was mainly due to a deterioration in the parameters of individual financings and portfolio changes due to new business generated. For financial instruments with indications for impaired credit quality (stage 3), the addition to loss allowance amounted to €31 million. The additions related to a small number of financings, mainly for shopping centres in the UK.

In line with current publications – including those of the ECB and of other central banks – pbb Group expects the economy to recover in 2021 following the COVID-19-induced global economic slump in 2020. In 2022 economic recovery is expected to continue, which will bring about a reduction in the unemployment rate. The projected significant macroeconomic recovery and materially lower unemployment rate will lead to a reversal of impairments for stage 1 and 2 financial assets (in line with the methodology), since forecasts of future economic developments (such as the change in unemployment rate which pbb Group anticipates) have to be included in the measurement of loss allowance.

Whilst uncertainty as regards further developments due to the COVID-19 pandemic is currently not reflected to any great extent in loan defaults and bankruptcies, the Management Board continues to anticipate such occurrences with some time delay. One of the reasons for this is the persistent level of liquidity still in the market, due especially to government support measures. In addition, a high level of uncertainty about the pandemic – and therefore the macroeconomic development – prevailed during the reporting period, due to new waves of infection in several countries triggered by more infectious virus variants and insufficient local vaccination coverage. Delayed defaults and bankruptcies as well as deterioration in macroeconomic developments can have an adverse effect on pbb Group's loan portfolio. The Management Board therefore decided to increase loss allowance to counteract the economic impact of such developments. This "management overlay" is reflected in forecasting parameters, such as the change in unemployment rate, which take into account the delayed occurrence of defaults and bankruptcies since the low point of the recession. As a result of said "management overlay", stage 1 and stage 2 impairments have increased by €48 million.

In the prior-year period, owing to the impact of the COVID-19 pandemic, net income from risk provisioning amounted to €-84 million, including €-41 million from stage 1 and stage 2 financial instruments and €-43 million from stage 3 financial instruments. pbb Group did not recognise management overlay in the previous year.

General and administrative expenses of €151 million were slightly above the same period of the previous year (€145 million). Personnel expenses were slightly higher (€90 million, 9m2020: €89 million), due – amongst other factors – to higher average staff numbers, for example in the IT and digitalisation areas, also resulting from lower staff fluctuation. Other administrative expenses (€61 million; 9m2020: €56 million) increased mainly due to costs associated with strategic and digitalisation projects. One particularly important project was the successful launch of the Client Portal, digitalising the interface between pbb and its clients.

Expenses from bank levies and similar dues (€28 million; 9m2020: €25 million) mainly comprised expenses for the bank levy of €27 million (9m2020: €23 million), taking into account pledged collateral amounting to 15%. These levies have to be accounted for in full at the beginning of the year, in accordance with IFRIC 21. The year-on-year increase in expenses for the bank levy resulted, among other things, from a significant increase in the fund's target volume at EU level. Furthermore, this line item comprised expenses of €1 million (9m2020: €2 million) for the German deposit guarantee scheme.

Net income from write-downs and write-ups on non-financial assets totalling €-14 million included scheduled depreciation of tangible assets and amortisation of intangible assets, and was in line with the previous year's level (9m2020: €-14 million).

Income taxes (€-28 million; 9m2020: €-31 million) were attributable to current taxes (€-31 million; 9m2020: €-31 million) and to deferred taxes (€3 million; 9m2020: €0 million). Whilst the increase in profit before taxes from €104 million to €186 million incurred higher current taxes, taxes for previous years accounted for in 2020 (due to the ongoing tax audit) reduced current taxes. Deferred tax income of €3 million was mainly attributable to the increase in deferred income tax assets due to a changed accounting estimate in the first half of 2021.

Development in Assets and Financial Position

DEVELOPMENT IN ASSETS

Assets

in € million	30.9.2021	31.12.2020[1)]
Cash reserve	6,638	5,376
Financial assets at fair value through profit or loss	1,422	1,368
Positive fair values of stand-alone derivatives	568	737
Debt securities	134	134
Loans and advances to customers	717	494
Shares in investment funds qualified as debt instruments	3	3
Financial assets at fair value through other comprehensive income	1,288	1,529
Debt securities	970	1,384
Loans and advances to customers	318	145
Financial assets at amortised cost after credit loss allowances	48,129	48,669
Financial assets at amortised cost before credit loss allowances	48,433	48,913
Debt securities	6,985	7,481
Loans and advances to other banks	2,963	1,874
Loans and advances to customers	38,485	39,558
Credit loss allowances on financial assets at amortised cost	-304	-244
Positive fair values of hedge accounting derivatives	1,101	1,651
Valuation adjustment from portfolio hedge accounting (assets)	13	27
Tangible assets	34	38
Intangible assets	41	40
Other assets	52	47
Current income tax assets	10	19
Deferred income tax assets	105	95
Total assets	**58,833**	**58,859**

[1)] Adjusted in accordance with IAS 8.42.

Total assets remained largely constant during the reporting period. Due to participation in the eighth tranche of TLTRO III and the issuance of mortgage Pfandbriefe, the cash reserve increased. Financial assets measured at fair value through other comprehensive income declined on the back of maturing debt securities. Financial assets measured at amortised cost were marginally lower due to lower micro-hedge accounting adjustments, which resulted from increased interest rate levels, expiring public investment financings and lower cash collateral provided for the derivatives business. Due to higher repayments, the nominal volume of commercial real estate loans was unchanged at €27.0 billion – despite an encouraging new business volume of €5.7 billion. The increase in interest rate levels also led to a decrease in the market values of hedging derivatives and derivatives in financial assets measured at fair value through profit or loss.

DEVELOPMENT IN FINANCIAL POSITION

Liabilities and equity

in € million	30.9.2021	31.12.2020[1)]
Financial liabilities at fair value through profit or loss	574	596
Negative fair values of stand-alone derivatives	574	596
Financial liabilities measured at amortised cost	53,044	52,570
Liabilities to other banks	10,670	9,844
Liabilities to customers	20,623	22,583
Bearer bonds	21,101	19,457
Subordinated liabilities	650	686
Negative fair values of hedge accounting derivatives	1,427	1,920
Valuation adjustment from portfolio hedge accounting (liabilities)	81	137
Provisions	221	246
Other liabilities	54	62
Current income tax liabilities	35	34
Liabilities	**55,436**	**55,565**
Equity attributable to the shareholders of pbb	3,096	2,996
Subscribed capital	380	380
Additional paid-in capital	1,637	1,637
Retained earnings	1,175	1,067
Accumulated other comprehensive income	-96	-88
from pension commitments	-115	-137
from cash flow hedge accounting	-30	-22
from financial assets at fair value through OCI	49	71
Additional equity instruments (AT1)	298	298
Non-controlling interest in equity	3	-
Equity	**3,397**	**3,294**
Total equity and liabilities	**58,833**	**58,859**

1) Adjusted in accordance with IAS 8.42.

Liabilities

Total liabilities remained nearly unchanged at €55.4 billion. Financial liabilities measured at amortised cost increased mainly due to newly issued bearer bonds. Participation in TLTRO III was reflected in increased liabilities to banks. In line with developments on the assets side, the rise in interest rate levels led to a decline in the market values of hedging derivatives.

Equity

Profit after taxes of €158 million and lower actuarial losses of €22 million as a result of the increase in interest rate levels had a positive effect on changes in equity. In contrast, the dividend payment of €35 million (26 euro cents per dividend-bearing share) resolved at the Annual General Meeting on 12 May 2021, the AT1 coupon payment of €17 million and an aggregate €30 million decline in reserves from cash flow hedge accounting and from financial assets at fair value through other comprehensive income, all had a negative impact upon equity.

Caisse des Dépôts et Consignation's (CDC) stake in CAPVERIANT GmbH resulted in non-controlling interests of €4 million with a positive effect of €1 million to be recognised directly in retained earnings. As a result of current net loss, non-controlling interests were reduced to €3 million by 30 September 2021.

Funding

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

During the first nine months of 2021, pbb Group also raised new long-term funding in the amount of €3.4 billion (9m2020: €3.4 billion). Repurchases and terminations amounted to a total of €0.6 billion (9m2020: €0.6 billion). The total amount of funding comprises both Pfandbrief issues and unsecured liabilities, issued both in the form of benchmark bonds and private placements. Pfandbriefe accounted for €2.1 billion (9m2020: €1.8 billion), representing just under two-thirds of the total volume. Unsecured funding accounted for €1.3 billion (9m2020: €1.6 billion), with almost all of the volume being issued as Senior Preferred bonds. The transactions were denominated in euro and, in order to minimise foreign currency risks between assets and liabilities, also in US dollar, British pound and Swedish krona. Foreign currency transactions were converted into euro at the exchange rate valid at the time of the issue. Unhedged interest rate exposures are usually hedged by swapping fixed against floating interest rates.

Liquidity

As at 30 September 2021, the liquidity coverage ratio was 299% (31 December 2020: 279%).

Off-balance Sheet Commitments

Irrevocable loan commitments of €3.0 billion (31 December 2020: €3.3 billion) represent the majority of off-balance sheet obligations. Contingent liabilities on guarantees and indemnity agreements amounted to €0.2 billion as at 30 September 2021 (31 December 2020: €0.2 billion).

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.-30.9.2021	372	28	27	2	429
	1.1.-30.9.2020	317	31	21	3	372
Net interest income	1.1.-30.9.2021	311	28	28	2	369
	1.1.-30.9.2020 [1]	292	29	28	3	352
Net fee and commission income	1.1.-30.9.2021	6	-	-	-	6
	1.1.-30.9.2020	4	-	-	-	4
Net income from fair value measurement	1.1.-30.9.2021	2	-	1	-	3
	1.1.-30.9.2020	-5	-1	-6	-	-12
Net income from realisations	1.1.-30.9.2021	55	1	-1	-	55
	1.1.-30.9.2020	17	1	2	-	20
Net income from hedge accounting	1.1.-30.9.2021	-1	-	-1	-	-2
	1.1.-30.9.2020	2	1	1	-	4
Net other operating income	1.1.-30.9.2021	-1	-1	-	-	-2
	1.1.-30.9.2020	7	1	-4	-	4
Net income from risk provisioning	1.1.-30.9.2021	-49	-	-1	-	-50
	1.1.-30.9.2020	-85	-1	2	-	-84
General and administrative expenses	1.1.-30.9.2021	-131	-13	-7	-	-151
	1.1.-30.9.2020	-124	-14	-7	-	-145
Expenses from bank levies and similar dues	1.1.-30.9.2021	-17	-4	-7	-	-28
	1.1.-30.9.2020	-15	-3	-7	-	-25
Net income from write-downs and write-ups of non-financial assets	1.1.-30.9.2021	-12	-1	-1	-	-14
	1.1.-30.9.2020	-12	-1	-1	-	-14
Profit before tax	**1.1.-30.9.2021**	**163**	**10**	**11**	**2**	**186**
	1.1.-30.9.2020 [1]	**81**	**12**	**8**	**3**	**104**

[1] Adjusted in accordance with IAS 8.42.

Balance-sheet-related measures

in € billion		REF	PIF	VP	C&A	**pbb Group**
Financing volumes[1]	30.9.2021	27.0	5.4	11.0	-	**43.4**
	31.12.2020	27.0	5.8	11.4	-	**44.2**
Risik-weighted assets[2]	30.9.2021	16.4	0.7	0.3	0.7	**18.1**
	31.12.2020	16.0	0.8	0.4	0.5	**17.7**
Equity[3]	30.9.2021	2.0	0.2	0.5	0.4	**3.1**
	31.12.2020	1.9	0.2	0.5	0.4	**3.0**

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

Breakdown of Maturities by Remaining Term

Maturities of specific financial assets and liabilities (excluding derivatives)

in € million	not specified/ repayable on demand	up to 3 months	more than 3 months up to 1 year	more than 1 year up to 5 years	more than 5 years	Total
						30.9.2021
Cash reserve	6,638	–	–	–	–	6,638
Financial assets at fair value through profit or loss	3	15	6	436	394	854
Debt securities	–	–	–	89	45	134
Loans and advances to customers	–	15	6	347	349	717
Shares in investment funds qualified as debt instruments	3	–	–	–	–	3
Financial assets at fair value through other comprehensive income	–	35	19	672	562	1,288
Debt securities	–	32	9	403	526	970
Loans and advances to customers	–	3	10	269	36	318
Financial assets at amortised cost before credit loss allowances	1,088	3,211	5,410	18,300	20,424	48,433
Debt securities	–	113	889	1,697	4,286	6,985
Loans and advances to other banks	1,029	582	801	–	551	2,963
Loans and advances to customers	59	2,516	3,720	16,603	15,587	38,485
Total financial assets	**7,729**	**3,261**	**5,435**	**19,408**	**21,380**	**57,213**
Financial liabilities at cost	1,771	2,664	6,582	25,422	16,605	53,044
Liabilities to other banks	676	37	343	8,934	680	10,670
Thereof: Registred bonds	–	11	80	437	466	994
Liabilities to customers	1,057	1,192	2,621	4,753	11,000	20,623
Thereof: Registred bonds	–	607	507	2,731	10,541	14,386
Bearer bonds	38	1,425	3,597	11,701	4,340	21,101
Subordinated liabilities	–	10	21	34	585	650
Total financial liabilities	**1,771**	**2,664**	**6,582**	**25,422**	**16,605**	**53,044**

Maturities of specific financial assets and liabilities (excluding derivatives)

in € million	not specified/ repayable on demand	up to 3 months	more than 3 months up to 1 year	more than 1 year up to 5 years	more than 5 years	Total
						31.12.2020
Cash reserve	5,376	–	–	–	–	5,376
Financial assets at fair value through profit or loss	3	5	18	186	419	631
Debt securities	–	–	–	89	45	134
Loans and advances to customers	–	5	18	97	374	494
Shares in investment funds qualified as debt instruments	3	–	–	–	–	3
Financial assets at fair value through other comprehensive income	–	111	317	503	598	1,529
Debt securities	–	89	313	422	560	1,384
Loans and advances to customers	–	22	4	81	38	145
Financial assets at amortised cost before credit loss allowances	1,344	1,988	5,077	19,568	20,936	48,913
Debt securities	–	107	330	2,332	4,712	7,481
Loans and advances to other banks	1,318	–	–	–	556	1,874
Loans and advances to customers[1]	26	1,881	4,747	17,236	15,668	39,558
Total financial assets	**6,723**	**2,104**	**5,412**	**20,257**	**21,953**	**56,449**
Financial liabilities at cost	2,136	1,570	4,946	25,929	17,989	52,570
Liabilities to other banks	864	23	94	8,092	771	9,844
Thereof: Registred bonds	–	10	2	386	542	940
Liabilities to customers	1,235	775	2,608	5,464	12,501	22,583
Thereof: Registred bonds	–	271	765	2,838	11,934	15,808
Bearer bonds	37	728	2,243	12,318	4,131	19,457
Subordinated liabilities	–	44	1	55	586	686
Total financial liabilities	**2,136**	**1,570**	**4,946**	**25,929**	**17,989**	**52,570**

[1] Adjusted in accordance with IAS 8.42.

Report on Post-balance Sheet Date Events

Since the ECB lifted its restrictions on dividend distributions for the banks under its supervision as of 30 September 2021, pbb's Management Board and Supervisory Board decided to propose to shareholders – within the scope of the extraordinary Annual General Meeting on 10 December 2021 – the distribution of a further dividend for the 2020 financial year of €0.32 per no-par value share entitled to dividends, i.e. a total distribution volume of approximately €43 million. Together with the dividend distribution of €0.26 per no-par value share entitled to dividends resolved at the ordinary Annual General Meeting held on 12 May 2021, the total dividend per no-par value share entitled to dividends for the 2020 financial year would amount to €0.58.

No material events occurred after 30 September 2021.

Additional Information

Future-oriented Statements

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