DEUTSCHE PFANDBRIEFBANK

Quarterly Information as of 30 September 2022

Deutsche Pfandbriefbank Group

Contents

Business Performance

Key Figures

Deutsche Pfandbriefbank Group (pbb Group)		1.1.–30.9.2022	1.1.–30.9.2021
Operating performance according to IFRS			
Profit before tax	in € million	159	186
Net income	in € million	135	158
Key ratios		**1.1.–30.9.2022**	**1.1.–30.9.2021**
Earnings per share	in €	0.91	1.09
Cost-income ratio[1)]	in %	42.8	38.5
Return on equity before tax[2)]	in %	6.3	7.7
Return on equity after tax[2)]	in %	5.3	6.5
New business volume Real Estate Finance[3)]	in € billion	6.6	5.7
Balance sheet figures according to IFRS		**30.9.2022**	**31.12.2021**
Total assets	in € billion	55.9	58.4
Equity	in € billion	3.4	3.4
Financing volumes Real Estate Finance	in € billion	29.5	27.6
Key regulatory capital ratios[4)]		**30.9.2022**	**31.12.2021**
CET1 ratio	in %	16.3	17.1
Own funds ratio	in %	21.5	22.4
Leverage ratio	in %	5.6	6.0
Staff		**30.9.2022**	**31.12.2021**
Employees (on full-time equivalent basis)		776	784
Long-term issuer rating/outlook[5)]		**30.9.2022**	**31.12.2021**
Standard & Poor's		BBB+/Stable	BBB+/Negative
Moody's Pfandbrief rating		**30.9.2022**	**31.12.2021**
Public sector Pfandbriefe		Aa1	Aa1
Mortgage Pfandbriefe		Aa1	Aa1

[1)] Cost-income ratio is the ratio of general and administrative expenses and net income from write-downs and write-ups on non-financial assets to operating income.
[2)] Return on equity before tax respectively after tax is the ratio of annualised profit before tax (net income) attributable to pbb shareholders less AT1-coupon (assuming full operation of the discretionary AT1-coupon) and average equity (excluding accumulated other comprehensive income (OCI) from cash flow hedge accounting, financial assets at fair value through OCI, additional equity instruments (AT1) and non controlling interest).
[3)] Including prolongations with maturities of more than one year.
[4)] Values as of 30 September 2022 without consideration of net income during the year. Values of 31 December 2021 after confirmation of the 2021 financial statements, less AT1-coupon and dividend payment.
[5)] 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 2021, also referred to as "9m2021" 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 2021).

Development in Earnings

Economic risks have continued to rise in 2022, mainly driven by the war between Russia and Ukraine and the resulting reciprocal sanctions and embargoes between EU member states and other Western countries on the one hand and Russia and Belarus on the other. This has fuelled inflation – amid significantly higher energy prices and other factors – and strongly driven up interest rates. As a consequence, this has clouded the entire global economy and a harsh, persistent recession may follow.

Even under these challenging macroeconomic circumstances, pbb continues to serve its clients' needs, leveraging its business model. In the commercial real estate finance business, financing partners who remain reliable over the long run are currently in high demand. This is reflected in a higher volume of commercial property financings, driven by a year-on-year increase in the new business volume and fewer early repayments in the reporting period (1 January to 30 September 2022, referred to as "9m2022" below). Together with pbb's unchanged conservative risk policy, both factors also impacted the Bank's financial performance. At €159 million, pbb Group posted encouraging profit before tax in the first nine months of 2022, which was below the result for the same period in 2021 (€186 million). However, this decline was particularly due to lower termination fees resulting from early client repayments – upon which pbb Group has only a limited influence.

A detailed breakdown of the results is provided below:

Income and expenses

in € million	**1.1.–30.9.2022**	**1.1.–30.9.2021**	Change
Operating income	400	429	-29
Net interest income	358	369	-11
Net fee and commission income	4	6	-2
Net income from financial instruments at fair value through profit or loss (Net income from fair value measurement)[1]	21	3	18
Net income from derecognition of financial instruments not measured at fair value through profit or loss (Net income from realisations)[1]	10	55	-45
Net income from hedge accounting	7	-2	9
Net other operating income	-	-2	2
Net income from allowances on financial assets (Net income from risk provisioning)[1]	-38	-50	12
General and administrative expenses	-157	-151	-6
Expenses from bank levies and similar dues	-32	-28	-4
Net income from write-downs and write-ups on non-financial assets	-14	-14	-
Profit before tax	**159**	**186**	**-27**
Income taxes	-24	-28	4
Net income	**135**	**158**	**-23**
attributable to:			
Shareholders	136	159	-23
Non-controlling interests	-1	-1	-

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

Net interest income of €358 million was slightly lower than the previous year's figure (9m2021: €369 million), primarily driven by significantly lower income from interest rate floors in the client business due to higher interest rate levels. Also, since the third quarter of 2022 net interest income no longer benefited from the 50 basis point premium for liabilities under the TLTRO III programme. Instead, it benefited from the fact that under the TLTRO III programme interest is calculated using the average deposit facility rate of the last three years, while for deposits, interest is calculated based on current interest rates. In the commercial real estate finance business, positive effects from a higher average portfolio (€28.4 billion) of disbursed (and hence interest-bearing) real estate financings (9m2021: average volume of €27.1 billion) were offset by negative effects from slightly lower gross margins.

Net fee and commission income from non-accruable fees recognised directly through profit or loss amounted to €4 million and was broadly in line with last year (9m2021: €6 million).

Net income from fair value measurement rose markedly, totalling €21 million (9m2021: €3 million). Amid the volatile market environment and significantly higher interest rates, it was especially valuation effects from credit risk and funding costs that provided positive contribution. Positive valuation effects also resulted from diverging interest rate developments between non-euro currencies and the euro area. Rising medium- and long-term interest rates had a partially offsetting effect on the present values of financial instruments required to be measured at fair value.

Net income from realisations totalled €10 million and was significantly down year-on-year (9m2021: €55 million), since clients tended to maintain their financings and early repayments therefore occurred much less often. This strengthened the long-term earnings base of net interest income, but led to lower early termination fees in net income from realisations. Not a single early repayment of an individual financial instrument generated income of more than €1 million in the reporting period, whereas in the previous year the largest two added up to €23 million.

Net income from hedge accounting in line with IAS 39 amounted to €7 million (9m2021: €-2 million); hedges were largely effective. Since full hedging is not always possible or economically reasonable, the increase in interest rates produced some gains.

Net other operating income was flat (9m2021: €-2 million), with income from the reversal of provisions outside the lending business and currency translation expenses offsetting each other.

Net income from risk provisioning amounted to €-38 million (9m2021: €-50 million). For financial instruments without indications for impaired credit quality (stage 1 and stage 2), there was an addition to loss allowance of €12 million (9m2021: addition of €19 million). This includes net income of €13 million (9m2021: addition of €48 million) from the reversal of the existing management overlay after the risk had ceased to exist and the recognition of a new management overlay, plus €7 million from a change in an accounting estimate. However, stage 1 and stage 2 loss allowance increased due to the bleaker economic outlook overall and a deterioration in parameters for certain financings. Loss allowance of €26 million (9m2021: €31 million) was recognised for financial instruments with indications for impaired credit quality (stage 3). These additions to stage 3 impairments mostly referred to financings of shopping centres and resulted, amongst other factors, from the assumption of lower proceeds from disposals in light of the changed interest rate levels and investor sentiment.

pbb Group has not experienced any significant direct effects from the war between Russia and Ukraine, since the Group has no direct exposure to borrowers domiciled in Russia, Belarus or Ukraine, nor has it financed any properties in these countries. Moreover, pbb has not extended any financings to persons included on the European Union’s sanctions lists as at the reporting date. pbb Group has two Russia-related public investment financings with a gross carrying amount totalling €29 million in its portfolio, which are broadly guaranteed by the Federal Republic of Germany. The uncovered part amounted to just under €3 million, of which more than €2 million was impaired at stage 3 level in the first quarter of 2022.

However, the war and associated reciprocal sanctions have produced macroeconomic consequences such as lower economic growth, a significant rise in inflation, higher interest rates, and supply chain issues: all of these could have indirect effects on pbb Group's financings. Due to the war, any assessment of future economic developments is currently characterised by particularly high uncertainty.

The model-based stage 1 and 2 loss allowance, as a rule, is based on this assumption, and pbb Group takes forecasts of the future economic environment into account. To determine stage 1 and stage 2 impairments, three scenarios have been applied and weighted according to their probability: a baseline (55%), a positive (5%), and a negative scenario (40%). The models include current expectations by the ECB and other central banks concerning future unemployment rates, interest rate levels, GDP and real estate market values.

The negative scenario assumes a recession and that central banks will lower their interest rates to support the economy. But despite the tense economic situation, interest rates might also be raised to combat inflation. Rising interest levels amid a tense economic situation – a situation known as stagflation – may have a negative impact upon the market value of pbb Group’s real estate collateral, and hence potential realisation proceeds.

In order to take into account the risk of stagflation – which pbb Group views as a real threat – and the overall high uncertainty into account, pbb Group recognised a management overlay in the REF segment of €41 million, based on the constant application of its credit risk model, resulting in increased stage 1 and stage 2 impairments. The size of the management overlay was derived from the negative scenario (weighted at 40%) and assumes another significant interest rate hike.

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

General and administrative expenses of €157 million were slightly above the same period of the previous year (€151 million). Personnel expenses increased marginally to €93 million (9m2021: €90 million) as a result of the usual salary increases, whilst the average number of employees remained more or less the same. Costs for regulatory and strategic projects slightly raised non-personnel expenses from €61 million in the previous year to €64 million.

Expenses from bank levies and similar dues (€32 million; 9m2021: €28 million) mainly comprised expenses for the bank levy of €31 million (9m2021: €27 million), taking into account pledged collateral amounting to 15%. The year-on-year increase in expenses for the SRB/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 (9m2021: €1 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 (9m2021: €-14 million).

Income taxes (€-24 million; 9m2021: €-28 million) were attributable to current taxes (€-23 million; 9m2021: €-31 million) and to deferred taxes (€-1 million; 9m2021: €3 million).

Development in Assets and Financial Position

DEVELOPMENT IN ASSETS

Assets

in € million	**30.9.2022**	**31.12.2021**
Cash reserve	3,085	6,607
Financial assets at fair value through profit or loss	978	1,180
Positive fair values of stand-alone derivatives	528	540
Debt securities	118	132
Loans and advances to customers	329	505
Shares in investment funds qualified as debt instruments	3	3
Financial assets at fair value through other comprehensive income	1,703	1,258
Debt securities	1,419	943
Loans and advances to customers	284	315
Financial assets at amortised cost after credit loss allowances	49,641	48,087
Financial assets at amortised cost before credit loss allowances	50,001	48,429
Debt securities	5,488	6,893
Loans and advances to other banks	6,145	2,646
Loans and advances to customers	38,222	38,710
Claims from financial lease agreements	146	180
Credit loss allowances on financial assets at amortised cost	-360	-342
Positive fair values of hedge accounting derivatives	279	1,009
Valuation adjustment from portfolio hedge accounting (assets)	-85	5
Tangible assets	28	32
Intangible assets	43	42
Other assets	55	50
Current income tax assets	17	3
Deferred income tax assets	127	129
Total assets	**55,871**	**58,402**

Total assets slightly declined compared to the previous year-end. The cash reserve decreased due to repurchase agreements and disbursed new business. While financial assets measured at fair value through profit or loss decreased due to syndications, financial assets at fair value through other comprehensive income increased due to the purchase of (government) bonds. Financial assets measured at amortised cost were slightly higher, with an increase in the notional volume of commercial real estate financings and a larger number of repurchase agreements more than offsetting a decline in bonds and notes and public-sector loans extended to clients. The planned reduction in volumes of the other segments had an adverse effect, as did effects from fair value hedge accounting (adjustments of the carrying amount of the underlying transaction by the gain/loss attributable to the hedged risk), which led to a decline after interest rates had increased. Higher interest rates also led to a lower fair value of hedging derivatives.

DEVELOPMENT IN FINANCIAL POSITION

Liabilities and equity

in € million	30.9.2022	31.12.2021
Financial liabilities at fair value through profit or loss	754	559
Negative fair values of stand-alone derivatives	754	559
Financial liabilities measured at amortised cost	50,409	52,656
Liabilities to other banks	10,940	10,633
Liabilities to customers	17,429	20,100
Bearer bonds	21,412	21,268
Subordinated liabilities	628	655
Negative fair values of hedge accounting derivatives	1,192	1,372
Valuation adjustment from portfolio hedge accounting (liabilities)	-109	70
Provisions	154	231
Other liabilities	48	55
Current income tax liabilities	27	34
Liabilities	**52,475**	**54,977**
Equity attributable to the shareholders of pbb	3,096	3,124
Subscribed capital	380	380
Additional paid-in capital	1,637	1,637
Retained earnings	1,162	1,202
Accumulated other comprehensive income	-83	-95
from pension commitments	-35	-111
from cash flow hedge accounting	-27	-28
from financial assets at fair value through OCI	-21	44
Additional equity instruments (AT1)	298	298
Non-controlling interest in equity	2	3
Equity	**3,396**	**3,425**
Total equity and liabilities	**55,871**	**58,402**

Liabilities

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

Equity

Net income of €135 million and lower actuarial losses from pension obligations (down by €76 million) – mainly driven by the increase in interest rate levels – had a positive effect on changes in equity. The discount rate applied for the measurement of pension liabilities increased markedly, in line with the development of market interest rates (30 September 2022: 4.09%; 31 December 2021: 1.31%). In contrast, the dividend payment of €159 million (€1.18 per share entitled to dividends) resolved at the Annual General Meeting on 19 May 2022 and the AT1 coupon of €17 million had a negative impact upon equity, as did the €65 million decline in reserves from financial assets measured at fair value through other comprehensive income.

Funding

In the period under review, pbb Group raised new long-term funding in the amount of €4.8 billion (9m2021: €3.4 billion). This was offset by repurchases and terminations totalling €0.2 billion (9m2021: €0.6 billion). The total amount of funding comprises both Pfandbrief issues and unsecured liabilities, issued both in the form of benchmark bonds and private placements. At €2.8 billion (9m2021: €2.1 billion), Pfandbrief issues accounted for over half of the total volume. Unsecured funding accounted for €2.0 billion (9m2021: €1.3 billion), with almost all of the volume being issued as Senior Preferred bonds. The transactions were denominated in euros and, in order to minimise foreign currency risks between assets and liabilities, also in US dollars and Swedish krona. Foreign currency transactions were converted into euro at the exchange rate valid at the time of the issue. Unhedged interest rate exposures are usually hedged by swapping fixed against floating interest rates.

Overnight and term deposits from retail investors taken via “pbb direct” amounted to €3.3 billion as at 30 September 2022 (31 December 2021: €2.8 billion).

Liquidity

As at 30 September 2022, the liquidity coverage ratio was 288% (31 December 2021: 227%).

Off-balance Sheet Commitments

Irrevocable loan commitments of €3.2 billion (31 December 2021: €3.1 billion) represent the majority of off-balance sheet obligations. Contingent liabilities on guarantees and indemnity agreements amounted to €0.1 billion as at 30 September 2022 (31 December 2021: €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.-30.9.2022	344	26	29	1	400
	1.1.-30.9.2021	372	28	27	2	429
Net interest income	1.1.-30.9.2022	308	24	25	1	358
	1.1.-30.9.2021	311	28	28	2	369
Net fee and commission income	1.1.-30.9.2022	5	-	-1	-	4
	1.1.-30.9.2021	6	-	-	-	6
Net income from fair value measurement	1.1.-30.9.2022	14	2	5	-	21
	1.1.-30.9.2021	2	-	1	-	3
Net income from realisations	1.1.-30.9.2022	11	-	-1	-	10
	1.1.-30.9.2021	55	1	-1	-	55
Net income from hedge accounting	1.1.-30.9.2022	4	1	2	-	7
	1.1.-30.9.2021	-1	-	-1	-	-2
Net other operating income	1.1.-30.9.2022	2	-1	-1	-	-
	1.1.-30.9.2021	-1	-1	-	-	-2
Net income from risk provisioning	1.1.-30.9.2022	-63	-1	26	-	-38
	1.1.-30.9.2021	-49	-	-1	-	-50
General and administrative expenses	1.1.-30.9.2022	-138	-12	-7	-	-157
	1.1.-30.9.2021	-131	-13	-7	-	-151
Expenses from bank levies and similar dues	1.1.-30.9.2022	-20	-4	-8	-	-32
	1.1.-30.9.2021	-17	-4	-7	-	-28
Net income from write-downs and write-ups of non-financial assets	1.1.-30.9.2022	-12	-1	-1	-	-14
	1.1.-30.9.2021	-12	-1	-1	-	-14
Profit before tax	**1.1.-30.9.2022**	**111**	**8**	**39**	**1**	**159**
	1.1.-30.9.2021	**163**	**10**	**11**	**2**	**186**

Balance-sheet-related measures

in € billion		REF	PIF	VP	C&A	**pbb Group**
Financing volumes[1]	30.9.2022	29.5	4.8	10.0	-	**44.3**
	31.12.2021	27.6	5.2	10.9	-	**43.7**
Risik-weighted assets[2]	30.9.2022	15.9	0.6	0.2	0.6	**17.3**
	31.12.2021	15.1	0.7	0.3	0.7	**16.8**
Equity[3]	30.9.2022	2.3	0.1	0.3	0.4	**3.1**
	31.12.2021	2.1	0.2	0.4	0.4	**3.1**

[1] Notional amounts of the drawn parts of granted loans and parts of the securities portfolio.
[2] Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5.
[3] Excluding accumulated other comprehensive income (OCI) from cash flow hedge accounting, financial assets at fair value through OCI, AT1 capital and non controlling interest. Numbers as of 31 December 2021 were adjusted due to IFRS 8.29.

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
						30.9.2022
Cash reserve	3,085	-	-	-	-	3,085
Financial assets at fair value through profit or loss	3	4	5	120	318	450
Debt securities	-	-	-	81	37	118
Loans and advances to customers	-	4	5	39	281	329
Shares in investment funds qualified as debt instruments	3	-	-	-	-	3
Financial assets at fair value through other comprehensive income	-	16	364	982	341	1,703
Debt securities	-	14	255	839	311	1,419
Loans and advances to customers	-	2	109	143	30	284
Financial assets at amortised cost before credit loss allowances	1,176	3,685	8,951	19,765	16,424	50,001
Debt securities	-	107	846	1,214	3,321	5,488
Loans and advances to other banks	1,135	645	3,797	274	294	6,145
Loans and advances to customers	41	2,929	4,298	18,220	12,734	38,222
Claims from financial lease agreements	-	4	10	57	75	146
Total financial assets	**4,264**	**3,705**	**9,320**	**20,867**	**17,083**	**55,239**
Financial liabilities at cost	1,772	2,300	14,005	20,245	12,087	50,409
Liabilities to other banks	407	504	7,724	1,719	586	10,940
Thereof: Registred bonds	-	12	52	542	446	1,052
Liabilities to customers	1,328	1,179	2,175	4,415	8,332	17,429
Thereof: Registred bonds	-	338	314	2,260	7,993	10,905
Bearer bonds	37	606	4,075	13,537	3,157	21,412
Subordinated liabilities	-	11	31	574	12	628
Total financial liabilities	**1,772**	**2,300**	**14,005**	**20,245**	**12,087**	**50,409**

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
						31.12.2021
Cash reserve	6,607	-	-	-	-	6,607
Financial assets at fair value through profit or loss	3	5	6	288	338	640
Debt securities	-	-	-	88	44	132
Loans and advances to customers	-	5	6	200	294	505
Shares in investment funds qualified as debt instruments	3	-	-	-	-	3
Financial assets at fair value through other comprehensive income	-	22	16	665	555	1,258
Debt securities	-	16	10	397	520	943
Loans and advances to customers	-	6	6	268	35	315
Financial assets at amortised cost before credit loss allowances	1,121	2,986	5,756	18,633	19,933	48,429
Debt securities	-	182	813	1,696	4,202	6,893
Loans and advances to other banks	1,061	1,034	-	249	302	2,646
Loans and advances to customers	60	1,766	4,934	16,632	15,318	38,710
Claims from financial lease agreements	-	4	9	56	111	180
Total financial assets	**7,731**	**3,013**	**5,778**	**19,586**	**20,826**	**56,934**
Financial liabilities at cost	1,785	3,278	5,089	26,187	16,317	52,656
Liabilities to other banks	649	23	345	8,962	654	10,633
Thereof: Registred bonds	-	12	79	490	439	1,020
Liabilities to customers	1,097	1,024	2,711	4,529	10,739	20,100
Thereof: Registred bonds	-	383	502	2,621	10,337	13,843
Bearer bonds	39	2,194	2,033	12,597	4,405	21,268
Subordinated liabilities	-	37	-	99	519	655
Total financial liabilities	**1,785**	**3,278**	**5,089**	**26,187**	**16,317**	**52,656**

Report on Post-balance Sheet Date Events

On 27 October 2022, the ECB's Governing Council decided to adjust interest rates for the third series of targeted longer-term refinancing operations (TLTRO III) with effect from 23 November 2022, which will impact pbb Group's financial performance.

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 geopolitical risks, 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.

Imprint

Deutsche Pfandbriefbank AG (publisher)
Parkring 28
85748 Garching
Germany

T +49 (0)89 2880 – 0
info@pfandbriefbank.com
www.pfandbriefbank.com