Pursuant to article 16 para. 3 of the German Securities Prospectus Act investors who have already agreed to purchase or subscribe for Notes issued under the Programme (as defined herein) before this Second Supplement (as defined herein) has been published shall have the right, exercisable within two working days after the publication of this Second Supplement, to withdraw their purchase or subscription orders, provided that the new factor arose before the final closing of the offer to the public and the delivery of the securities. A withdrawal, if any, is to be addressed to Deutsche Pfandbriefbank AG, Freisinger Straße 5, 85716 Unterschleißheim, Germany provided that the relevant agreement to purchase or subscribe has been entered into with Deutsche Pfandbriefbank AG or to the relevant bank or savings bank or any other distributor with whom the relevant agreement to purchase or subscribe has been entered into. No grounds must be stated for the withdrawal, which must be made in text form. The timely dispatch of the withdrawal is sufficient to comply with the deadline.

Supplement pursuant to article 16 para. 1 of the German Securities Prospectus Act
dated 24 August 2017

to the base prospectus dated
19 April 2017
relating to

Deutsche Pfandbriefbank AG

Munich, Federal Republic of Germany

as Issuer

Euro 50,000,000,000 Debt Issuance Programme (the "Programme")

This supplement (the "Second Supplement") to the base prospectus dated 19 April 2017 is prepared in connection with the Euro 50,000,000,000 Debt Issuance Programme (the "Programme") of Deutsche Pfandbriefbank AG (the "Issuer") and is supplemental to, and should be read in conjunction with, the base prospectus dated 19 April 2017 as supplemented by the supplement dated 28 June 2017 (the "First Supplement") (the First Supplement together with the base prospectus dated 19 April 2017, the "Original Base Prospectus") in respect of the Programme. Unless otherwise stated or the context otherwise requires, terms defined in the Original Base Prospectus shall have the same meaning when used in the Second Supplement. As used herein, the term "Base Prospectus" means the Original Base Prospectus as supplemented by the Second Supplement.

The Issuer accepts responsibility for the information contained in or incorporated by reference into this Base Prospectus. The Issuer hereby declares that all information contained in this Base Prospectus is true and accurate to the knowledge of the Issuer and that no material circumstances have been omitted.

The Second Supplement has been approved by the *Bundesanstalt für Finanzdienstleistungsaufsicht* of the Federal Republic of Germany in its capacity as competent authority (the "Competent Authority") under the German Securities Prospectus Act (*Wertpapierprospektgesetz*) which implements Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003, as amended, into German law. Please note that the approval of the Base Prospectus by the Competent Authority is based on the scrutiny of the completeness of the Base Prospectus including the consistency and the comprehensibility only. Application will be made to the Competent Authority to provide the *Commission de Surveillance du Secteur Financier* (the "CSSF") of the Grand Duchy of Luxembourg, the *Autoriteit Financiële Markten* of the Netherlands, the *Financial Conduct Authority* of the United Kingdom, the *Irish Financial Services Regulatory Authority* of Ireland, the *Finanzmarktaufsicht* of Austria, the *Kredittilsynet / Oslo Børs* of Norway, the *Commissione Nazionale per le Società e la Borsa* of Italy and the *Comisión Nacional del Mercado de Valores* of the Kingdom of Spain with a certificate of approval attesting that the Second Supplement has been drawn up in accordance with the German Securities Prospectus Act and with a copy of the Second Supplement.

This Second Supplement has been filed with the Competent Authority and has been published together with the Original Base Prospectus on the website of the Issuer www.pfandbriefbank.com (see https://www.pfandbriefbank.com/debt-instruments/emissionsprogramme/dip-programm.html). Upon request (to be addressed to Deutsche Pfandbriefbank AG, Freisinger Straße 5, 85716 Unterschleißheim, Germany), the Issuer will provide, free of charge, a copy of the Second Supplement and of the Original Base Prospectus.

This Second Supplement has been prepared following the publication of the consolidated interim financial statements of the Issuer for the first six months of the financial year 2017 on 14 August 2017 and also serves to update certain information in connection herewith.

OVERALL AMENDMENTS

If reference is made in the Original Base Prospectus to "Base Prospectus", then the respective reference includes all changes made by the First Supplement and this Second Supplement.

I. SUPPLEMENTAL INFORMATION RELATING TO THE TABLE OF CONTENTS

On page 4 of the Original Base Prospectus, the following information shall be added at the end of the "Table of Contents":

II. SUPPLEMENTAL INFORMATION RELATING TO THE SECTION "I. SUMMARY"

On page 7 of the Original Base Prospectus in "Section B – Issuer" under "Element B.12 – Selected historical key financial information regarding the Issuer, statement regarding trend information and significant changes in the financial or trading position of the Issuer", the last two paragraphs shall be deleted and replaced by the following information:

"The following table sets forth selected financial information of Deutsche Pfandbriefbank extracted from the unaudited consolidated interim financial statements for the first half of the financial year 2017:

		First Half 2017	First Half 2016
Operating performance according to IFRS			
Pre-tax profit/loss	in Euro million	103	87
Net income/loss	in Euro million	85	66
Balance sheet figures		**30.06.2017**	**31.12.2016**
Total assets	in Euro billion	60.7	62.6
Equity	in Euro billion	2.7	2.8
Key regulatory ratios		**30.06.2017**	**31.12.2016**
CET1 ratio	in per cent.	19.6	19.5
Own funds ratio	in per cent.	24.9	23.7
Leverage ratio	in per cent.	4.3	4.6

The figures in this table are rounded.

The Issuer is affected by a risk-conservative new business approach, an intensely competitive environment, and demanding credit markets. This negatively affects the strategic financing volume of the Issuer, which will other than previously expected not show a significant increase compared to the value disclosed as at 31 December 2016 (Euro 31.5 billion). The Issuer now forecasts moderate portfolio growth, against the background of repayments running above planned levels and paid-out loan commitments below planned levels, during the first half of 2017.

The final evaluation of the judgement of the German Federal Court of Justice (*Bundesgerichtshof*), dated 4 July 2017, on the inadmissibility of processing fees for corporate loans agreed upon by way of a standard form is not yet possible for the Issuer. The Issuer's development in earnings may suffer from the resulting customer repayment claims.

The Issuer assumes that even before potential future burdens resulting from risk weighted assets ("**RWA**") resulting from "Basel IV", individual risk premiums may result in RWA increases in connection with the statutory revision of the internal rating based approach models ("**IRBA**") and the target review of bank's internal models process (TRIM). The Issuer expects the results of the revision of the IRBA already in the second half of 2017.

Save as for developments referred to above, there has been no material adverse change in the prospects of the Issuer since the date of its last published audited financial statements (31 December 2016).

Not applicable; there has been no significant change in the financial position of the Issuer and its consolidated subsidiaries since the end of the last financial period for which interim financial information has been published (30 June 2017)."

III. SUPPLEMENTAL INFORMATION
RELATING TO THE SECTION "II. DEUTSCHE ÜBERSETZUNG DER ZUSAMMENFASSUNG"

On page 21 of the Original Base Prospectus in "Abschnitt B – Emittent" under "Punkt B.12 – Ausgewählte wesentliche historische Finanzinformationen über den Emittenten, Erklärung zu Trendinformationen sowie wesentliche Veränderungen der Finanzlage oder Handelsposition des Emittenten", the two last paragraphs shall be deleted and replaced by the following information:

"Die folgende Tabelle enthält ausgewählte Finanzinformationen zur Deutschen Pfandbriefbank, welche dem ungeprüften Konzernzwischenabschluss für das erste Halbjahr des Finanzjahres 2017 entnommen wurden:

		Erstes Halbjahr 2017	**Erstes Halbjahr 2016**
Ergebniszahlen gemäß IFRS			
Ergebnis vor Steuern	in Mio. Euro	103	87
Ergebnis nach Steuern	in Mio. Euro	85	66
Bilanzzahlen		**30.06.2017**	**31.12.2016**
Bilanzsumme	in Mrd. Euro	60,7	62,6
Bilanzielles Eigenkapital	in Mrd. Euro	2,7	2,8
Bankenaufsichtsrechtliche Kennzahlen		**30.06.2017**	**31.12.2016**
Harte Kernkapitalquote	in %	19,6	19,5
Eigenmittelquote	in %	24,9	23,7
Verschuldungsquote	in %	4,3	4,6

Die Zahlen in dieser Tabelle sind gerundet.

Die Emittentin ist einem risikokonservativen Neugeschäftsansatz, einem intensiven Wettbewerbsumfeld und anspruchsvollen Kreditmärkten ausgesetzt. Dies hat negative Auswirkungen auf das strategische Finanzierungsvolumen der Emittentin, das sich anders als ursprünglich erwartet gegenüber dem Wert vom 31. Dezember 2016 (Euro 31,5 Milliarden) nicht deutlich erhöhen wird. Die Emittentin strebt vor dem Hintergrund von in der ersten Jahreshälfte 2017 über der Planung liegenden Rückzahlungen und eines unter der Planung liegenden ausbezahltem Kreditzusagevolumens nun ein moderates Portfoliowachstum an.

Eine abschließenden Bewertung der Urteile des Bundesgerichtshofs vom 4. Juli 2017 zur Unzulässigkeit von formularmäßig vereinbarten Bearbeitungsentgelten bei Unternehmensdarlehen ist für die Emittentin zur Zeit nicht möglich. Mögliche Rückzahlungsansprüche von Kunden können negative Auswirkungen auf die Ertragslage haben.

Die Emittentin geht davon aus, dass bereits vor möglichen künftigen Belastungen der risikogewichteten Aktiva („**RWA**") infolge von Basel IV es durch die Überprüfung der auf internen Ratings basierenden Ansätze („**IRBA**") sowie des TRIM-Prozesses (*target review of bank's internal models*) durch die Aufsicht zu einer Erhöhung der RWA durch individuelle Risikoaufschläge kommt. Die Emittentin erwartet das Ergebnis der Überprüfung der IRBA bereits in der zweiten Hälfte 2017.

Mit Ausnahme der vorgenannten Entwicklungen hat es seit dem Datum der Veröffentlichung des letzten geprüften Jahresabschlusses (31. Dezember 2016) keine wesentlichen negativen Veränderungen in den Aussichten der Emittentin gegeben.

Entfällt; seit dem Ende des Stichtages, für den Zwischenfinanzinformationen veröffentlicht wurden (30. Juni 2017), hat es keine wesentlichen Veränderungen in der Finanzlage der Emittentin und ihrer konsolidierten Tochtergesellschaften gegeben."

IV. SUPPLEMENTAL INFORMATION
RELATING TO THE SECTION "RISK FACTORS"

On page 54 et seq. of the Original Base Prospectus, the information contained in the risk factor entitled "A Holder of Floating Rate Notes is exposed to the risk that changes to the reference rates as a result of the regulation and reform of benchmarks could have a material adverse effect on the market value of and yield on any Notes linked to such a reference rate." shall be replaced by the following information:

"If, on any day on which a valuation or determination in respect of a reference rate is to be made, the relevant reference rate is not available, then the Calculation Agent will determine the floating rate using a methodology as further specified in the provision on the determination of the relevant screen page in the Terms and Conditions for Floating Rate Notes, Fixed to Floating Rate Notes or Range Accrual Notes. There is a risk that the determination of the floating rate using any of these methodologies may result in a lower interest rate payable to the holders of the Notes than the use of other methodologies. Notwithstanding these alternative arrangements, the discontinuance of the relevant reference rate may adversely affect the market value of the Notes. The Euro Interbank Offered Rate (EURIBOR), the London Interbank Offered Rate (LIBOR) or the Stockholm Interbank Offered Rate (STIBOR) or another reference rate as specified in the relevant Final Terms, which are deemed benchmarks, are subject of recent national, international and other regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, or disappear entirely, or have other consequences which cannot be predicted. Key international proposals for reform of "benchmarks" include IOSCO's Principles for Financial Market Benchmarks (July 2013) (the "**IOSCO Benchmark Principles**") and the EU Regulation 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (the "**Benchmark Regulation**"), which will apply as from 1 January 2018 (with the exception of certain provisions). While the IOSCO Benchmark Principles are intended to provide a general framework of overarching principles applicable to benchmarks (such as principles in relation to quality, transparency and methodologies), the Benchmark Regulation seeks to introduce a general requirement of regulatory authorisation for benchmark administration and in particular a ban of use of "benchmarks" of unauthorised administrators. As a result of these reforms, market participants may be discouraged from continuing to administer or participate certain "benchmarks", or initiate amendments to the respective rules and methodologies. In July 2017 the U.K Financial Conduct Authority (FCA) regulating the LIBOR® announced that it does not intend to continue to encourage, or use its power to compel, panel banks to provide rate submissions for the calculation of the LIBOR benchmark beyond the end of 2021 and that, as a result, there can be no guarantee that LIBOR will be determined after 2021 on the same basis as at present, if at all. At this time, it is not possible to predict the effect of any such changes, any establishment of alternative reference rates or any other reforms to LIBOR that may be implemented in the United Kingdom or elsewhere. Any such consequence or further consequential changes to LIBOR, the EURIBOR or the STIBOR as a result of the regulation and reform of benchmarks, could have a material adverse effect on the market value of and yield on any Notes linked to such a reference rate."

V. SUPPLEMENTAL INFORMATION RELATING TO THE SECTION "IV. DEUTSCHE PFANDBRIEFBANK AG"

1. SUPPLEMENTAL INFORMATION RELATING TO THE SECTION "5. TREND INFORMATION"

On page 60 of the Original Base Prospectus, the information in the section "Trend Information" shall be deleted and replaced as follows:

"The Issuer is affected by a risk-conservative new business approach, an intensely competitive environment, and demanding credit markets. This negatively affects the strategic financing volume of the Issuer, which will other than previously expected not show a significant increase compared to the value disclosed as at 31 December 2016 (Euro 31.5 billion). The Issuer now forecasts moderate portfolio growth, against the background of repayments running above planned levels and paid-out loan commitments below planned levels, during the first half of 2017.

The final evaluation of the judgement of the German Federal Court of Justice (*Bundesgerichtshof*), dated 4 July 2017, on the inadmissibility of processing fees for corporate loans agreed upon by way of a standard form is not yet possible for the Issuer. The Issuer's development in earnings may suffer from the resulting customer repayment claims.

The Issuer assumes that even before potential future burdens resulting from risk weighted assets ("**RWA**") resulting from "Basel IV", individual risk premiums may result in RWA increases in connection with the statutory revision of the internal rating based approach models ("**IRBA**") and the target review of bank's internal models process (TRIM). The Issuer expects the results of the revision of the IRBA already in the second half of 2017.

Save as for developments referred to above, there has been no material adverse change in the prospects of the Issuer since the date of its last published audited financial statements (31 December 2016)."

2. SUPPLEMENTAL INFORMATION RELATING TO THE SECTION "8. HISTORICAL FINANCIAL INFORMATION"

On page 63 of the Original Base Prospectus, the following paragraph shall be added after the subsection "Auditing of Historical Financial Information":

"**Interim and other Financial Information**

On 14 August 2017, the Issuer has published consolidated interim financial statements for the first half of the financial year 2017 including the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows (condensed), the notes (condensed) and the review report (the "Deutsche Pfandbriefbank Consolidated Interim Financial Information First Half 2017"). The Deutsche Pfandbriefbank Consolidated Interim Financial Information First Half 2017 is included in Appendix III to the Base Prospectus (pages I-1 to I-32). The Deutsche Pfandbriefbank Consolidated Interim Financial Information First Half 2017 has been prepared on the basis of IFRS applicable in the EU, but not with IFRS as a whole promulgated by the International Accounting Standards Board ("**IASB**").

The Deutsche Pfandbriefbank Consolidated Interim Financial Information First Half 2017 is unaudited and has been subject to a review by the statutory auditors (*prüferische Durchsicht*) only. The statutory auditors of the Issuer have issued an unqualified review report (*Bescheinigung über die prüferische Durchsicht*)."

On page 64 of the Original Base Prospectus, the information contained in the Subsection "Legal and Arbitration Proceedings" shall be deleted and replaced as follows:

"Legal disputes in which the Issuer or its subsidiaries have been involved during the last twelve months involve the following:

In award proceedings relating to the merger of three predecessor mortgage banks to form the Issuer in 2001, the new appraisal ordered by the court has resulted in an additional payment averaging Euro 1.00 per share. The potential repayment claims amount to approximately Euro 5 million and additionally interest as from 2001 onwards. The District Court (*Landgericht*) Munich, however, rejected claims on such additional payment. Certain claimants filed an appeal against this ruling which is pending at the Higher Regional Court (*Oberlandesgericht*) Munich.

The profit participation certificates issued by the predecessor institutions participated in significant losses due to the net losses respectively the Issuer's unappropriated retained losses since 2008. 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 the Issuer records a net income, unappropriated retained earnings or any other income. Courts have decided against the legal view of the Issuer especially in view of the individual decisions regarding profit participation certificates. Some of the court decisions are legally binding; some have been subject to appeals lodged by the Issuer. Claims in an amount of approximately Euro 39 million along with interest payments are as at the date of this Prospectus subject to pending litigation. These proceedings may result in a partial or comprehensive increase in redemption claims, in the subsequent distribution of cancelled coupon payments and interest payment claims. Furthermore, profit-participation certificate holders with a two-digit million nominal value have extra-judicially asserted their rights of partial or full replenishment, subsequent distribution of cancelled coupon payments as well as interest payments, further claims could possibly follow. Whilst the Issuer endeavours to solve legal disputes by way of out-of-court settlements, it exploits the legal remedies at its disposal when needed.

In February 2014, the Issuer applied to the Federal Central Tax Office (*Bundeszentralamt für Steuern*) for the initiation of a mutual agreement procedure in accordance with the regulations set out in EU Arbitration Convention for the years 2006 to 2012. The subject matter of this mutual agreement procedure is the attribution of tax income to the branch office in Paris, France. This application was made as an agreement regarding the allocation of taxable profit could not be reached between the German and French fiscal authorities in the context of negotiations regarding an "Advanced Pricing Agreement" and in the meanwhile a tax audit (*Betriebsprüfung*) for the Paris branch occurred and, therefore, a double taxation of income may be possible. Depending on the outcome of the mutual agreement procedure, this could result in a tax expense or tax income of the Issuer and its subsidiaries.

The Issuer held senior liabilities with a nominal value of Euro 395 million in total of HETA Asset Resolution AG ("**HETA**"). Following the Austrian Financial Market Authority ("**FMA**") moratorium decision on HETA's debt securities, the Issuer had filed a lawsuit before the regional court (*Landgericht*) Frankfurt am Main against HETA for the redemption of the full nominal amount, omitted coupon payments, interest and compensation for damages. In October 2016 the Issuer has accepted a buy-back offer in relation to its senior bonds of HETA from the Carinthian Compensation Payment Fund (*Kärntner Ausgleichszahlungs-Fonds*), in conjunction with the purchase of a guaranteed zero-coupon bond. The Issuer sold the zero-coupon bond at the beginning of the fourth quarter of 2016 at 89.86 per cent. resulting in the recognition of an extraordinary gain of Euro 132 million for the Issuer in the third quarter of 2016. As a consequence, the Issuer has withdrawn the lawsuit before the regional court (*Landgericht*) of Frankfurt am Main and the withdrawal was formally accepted by HETA on 2 November 2016.

On 13 December 2016, the Issuer disseminated an ad hoc announcement with respect to the initiation of an expert procedure concerning a credit default hedge under a synthetic securitization transaction. In the event of the loss allocation being fully or partially unjustified, the Issuer would have to bear the losses to the respective extent, i.e. fully or partially (for details see section "2. Information about the Issuer", subsection "Recent Events" above). Besides, there are regulatory proceedings with a risk of a material loss.

In connection with the transfer of assets and liabilities from the Issuer to FMS Wertmanagement in 2010, the Issuer and FMS Wertmanagement are in dispute as to whether FMS Wertmanagement has to compensate the Issuer for certain tax benefits that arose on the level of former subsidiaries of the Issuer. Furthermore, the Issuer and FMS Wertmanagement are in dispute as to whether FMS Wertmanagement has to pay certain expenses of the Issuer pertaining to such transferred assets. In total, the Issuer is claiming a low two-digit million EUR amount plus interest, whereas FMS Wertmanagement denies its obligation to do so, and also calls for a (partial) set-off with alleged counterclaims. The Issuer and FMS Wertmanagement are currently conducting arbitration proceedings in this regard.

On 4 July 2017, the German Federal Court of Justice (*Bundesgerichtshof*) determined the inadmissibility of processing fees for corporate loans agreed upon by way of a standard form. The final evaluation of the judgement can only be delivered once the reasons for the judgement have been published, and then analysed by the Issuer. At present, the Issuer still believes that the financing parameters used for complex financing structures in the lending business are generally subject to individual negotiations. The Issuer recognised sufficient provisions for all doubtful cases at the level of the group."

On page 64 of the Original Base Prospectus, the information contained in the Subsection "Significant Change in Issuer's Financial Position" shall be deleted and replaced as follows:

“There has been no significant change in the financial position of the Issuer and its consolidated subsidiaries since the end of the last financial period for which interim financial information has been published (30 June 2017).”

VI. SUPPLEMENTAL INFORMATION
RELATING TO THE SECTION "XIV. GENERAL DESCRIPTION OF THE PROGRAMME"

SUPPLEMENTAL INFORMATION RELATING TO THE SECTION "10. IMPORTANT NOTICE ABOUT THIS BASE PROSPECTUS"

On page 386 of the Original Base Prospectus the following subsection shall be inserted:

"**Alternative Performance Measures"**
To supplement the Issuer's consolidated financial statements presented in accordance with the International Financial Reporting Standards (IFRS), the Issuer uses certain ratios and measures included in this Base Prospectus that might be considered to be "alternative performance measures" (each an "**APM**") as described in the ESMA Guidelines on Alternative Performance Measures (the "**ESMA Guidelines**") published by the European Securities and Markets Authority on 5 October 2015. The ESMA Guidelines provide that an APM is understood as "a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework." The ESMA Guidelines also note that they do not apply to APMs: "disclosed in accordance with applicable legislation, other than the applicable financial reporting framework, that sets out specific requirements governing the determination of such measures."

The APMs included in this Base Prospectus are not alternatives to measures prepared in accordance with the IFRS Accounting and Reporting Regulations and might be different from similarly titled measures reported by other companies. The Issuer's management believes that this information, when considered in conjunction with measures reported under the IFRS Accounting and Reporting Regulations, is useful to investors because it provides a basis for measuring the organic operating performance in the periods presented and enhances investors' overall understanding of the Issuer's financial performance. In addition, these measures are used in internal management of the Issuer, along with financial measures reported under the IFRS Accounting and Reporting Regulations, in measuring the Issuer's performance and comparing it to the performance of its competitors. In addition, because the Issuer has historically reported certain APMs to investors, the Issuer's management believes that the inclusion of APMs in this Base Prospectus provides consistency in the Issuer's financial reporting and thus improves investors' ability to assess the Issuer's trends and performance over multiple periods. APMs should not be considered in isolation from, or as a substitute for, financial information presented in compliance with the IFRS Accounting and Reporting Regulations.

For the Issuer, a measure that might be considered to be an APM in this Base Prospectus (and that is not defined or specified by the IFRS Accounting and Reporting Regulations, IFRS or any other legislation applicable to the Issuer) include (without limitation) the following (such terms being used in this Base Prospectus as defined below):

Return on equity: The return on equity before tax is the ratio of profit or loss before tax (annualised during the course of the year) and average equity excluding revaluation reserve. The return on equity after tax is the ratio of net income/loss (annualised during the course of the year) and average equity excluding revaluation reserve. Average equity excluding revaluation reserve is the arithmetic mean based on the equity value according to IFRS excluding revaluation reserve at the beginning of the year and the equity values[1] according to IFRS excluding revaluation reserve[2] as disclosed at the quarterly reporting dates of the current financial year. Equity excluding revaluation reserve comprises the following items: subscribed capital, additional paid-in capital, retained earnings, profit/loss on pension commitments, foreign currency reserve, and consolidated profit. The Issuer uses the return on equity before (after) tax as most important key performance indicator to measure profitability. Return on equity after tax is defined as financial key performance indicator in the internal management system.

However, the informative value of the return on equity is limited by the fact that it represents a rate (quota). Therefore, it does not provide information (and cannot be used to draw conclusions) on the absolute amount of profit or loss before tax or average equity excluding revaluation reserve. Moreover, non-recurring effects may have an influence on the return on equity before and after tax without any long-term repercussions on the profitability of the Issuer.

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[1] The equity value as at 1 January 2017 equals the corresponding equity value as at 31 December 2016 which is set out in the audited Deutsche Pfandbriefbank Consolidated Financial Information 2016. The equity value as at 31 March 2017 is set out in the unaudited quarterly information of the Issuer as of 31 March 2017 and the equity value as at 30 June 2017 is set out in the unaudited Deutsche Pfandbriefbank Consolidated Interim Financial Information First Half 2017.

[2] The value of the revaluation reserve as at 1 January 2017 equals the corresponding value of the revaluation reserve as at 31 December 2016 which is set out in the audited Deutsche Pfandbriefbank Consolidated Financial Information 2016. The value of the revaluation reserve as at 31 March 2017 is set out in the unaudited quarterly information of the Issuer as of 31 March 2017 and the value of the revaluation reserve as at 30 June 2017 is set out in the unaudited Deutsche Pfandbriefbank Consolidated Interim Financial Information First Half 2017.

For the first half of 2017, the return on equity before tax amounts to 7.4 per cent.[3] (compared to 11.1 per cent. for the financial year 2016) and the return on equity after tax amounts to 6.1 per cent.[4] (compared to 7.3 per cent. for the financial year 2016)."

[3]Annualised profit or loss before tax amounts to Euro 206 million (Euro 103 million for the first half of 2017) divided by the average equity excluding revaluation reserve (Euro 2,788 million for the first half of 2017). The average equity excluding revaluation reserve is calculated by dividing the sum of the respective equity values excluding revaluation reserve as at 1 January 2017 which equals the corresponding equity value as at 31 December 2016 (Euro 2,799 million minus Euro 8 million being Euro 2,791 million), as at 31 March 2017 (Euro 2,810 million plus Euro 20 million being Euro 2,830 million) and as at 30 June 2017 (Euro 2,740 million plus Euro 3 million being Euro 2,743 million) being Euro 8,364 million in total by the relevant number of reporting dates, i.e. three.

[4] Annualised net income/loss amounts to Euro 170 million (Euro 85 million for the first half of 2017) divided by the average equity excluding revaluation reserve (Euro 2,788 million for the first half of 2017). For the calculation of the average equity excluding revaluation reserve see preceding footnote.

VII. SUPPLEMENTAL INFORMATION
RELATING TO THE APPENDICES

After page H-43 of the Original Base Prospectus the Deutsche Pfandbriefbank Consolidated Interim Financial Information First Half 2017 as laid out on the following pages I-1 to I-32 is newly inserted as I-pages into the Original Base Prospectus.

Appendix III

Deutsche Pfandbriefbank
Consolidated Interim Financial Statements First Half 2017

RESULT OF RISK-BEARING CAPACITY ANALYSIS

Going-Concern

The going-concern approach explicitly focuses on protecting regulatory minimum capitalisation, and hence, on the continuation of pbb Group's business activities during periods of difficult economic downturns. In order to prove the risk-bearing capacity the first step is to calculate the economic capital, using a confidence level of 95%. This includes the risk types which pbb Group defines as being material, namely credit risk, market risk, operational risk, funding risk (as part of the business risk), and property risk.

Going-concern: Economic capital

in € million	30.6.2017	31.12.2016	Change
Credit risk	178	188	−10
Market risk	157	177	−20
Operational risk	21	21	–
Business risk	–	–	–
Property risk	–	1	−1
Total before diversification effects	**357**	**387**	**−31**
Total after diversification effects	**329**	**357**	**−28**
Available financial resources (free capital)	1,195	955	240
Excess capital (+)/capital shortfall (–)	866	598	268

Diversified risk declined, compared to 31 December 2016, mainly due to lower market and credit risk. Within market risk, the reduction of economic capital was due to lower credit spread risk, whereas credit risk was reduced mainly due to maturity effects in the Value Portfolio. Lower property risk was largely due to the sale of a property in Hungary and one in Germany.

Diversified risk is opposed by available financial resources in the form of so-called free capital, largely comprising available CET1 capital, plus accrued profits, less the CET1 capital necessary for covering the regulatory minimum ratios according to SREP and additional adjustment items. In accordance with the principle of prudence, an additional charge in relation to risk-weighted assets is taken into account, in order to determine the CET1 capital necessary for covering the regulatory minimum ratios. Calculation of free capital has been modified with effect from the beginning of 2017. At the year-end 2016, free capital was calculated both as at the reporting date as well as 12 months forward, with the lower of the two used as free capital. (At the reporting date of 31 December 2016, this was the 12-month projection.) At the beginning of 2017, this minimum-value analysis was replaced; since then, free capital has been calculated as at the reporting date, backed up by an extensive early warning system, which closely monitors planned changes or trends in regulatory capitalisation and risk-weighted assets, over a 12-month forward period. The results of this forward-looking monitoring are incorporated into the overall risk-bearing capacity status, thus enabling the early identification of potentially adverse developments, and the timely adoption of measures.

The changeover from projections to actual figures as at the reporting date was the main reason for the €240 million increase in free capital. To enhance comparability, pro-forma figures were calculated for the 31 December 2016 reporting date, based on actual figures from that date: this indicated free capital of €1,220 million. Accordingly, free capital (based on the pro-forma calculation) decreased by €25 million during the first half of 2017 – mainly reflecting consideration of the Bank's specific SREP ratios which have been applicable since 2017. On the reporting date, this had the effect of increasing CET1 coverage requirements for regulatory purposes; as a result, there was less CET1 capital available for covering economic risk. Offsetting effects from accumulated profits only partially neutralised the pro-forma decrease.

The reduction in economic capital (after diversification effects) and the simultaneous increase in available financial resources together led to higher excess coverage. The forward-looking monitoring of free capital also did not indicate any critical developments; accordingly, the Bank's risk-bearing capacity was evidenced under this approach, at the reporting date.

The distribution of the economic capital according to segments was as follows:

Going-concern: Economic capital according to segments

in € million	**30.6.2017**	**31.12.2016**	Change
Real Estate Finance	95	96	–1
Public Investment Finance	14	14	–1
Value Portfolio	156	177	–21
Consolidation & Adjustments	74	79	–5
Total[1]	**329**	**357**	**–28**

[1] Due to diversification effects the total of economic capital of pbb Group does not equal the sum of economic capital of the individual segments.

The largest change on a segment level during the first half of 2017 took place in the Value Portfolio, where maturity effects were evident both in market and credit risk. In Real Estate Finance, scheduled and early repayments were almost fully compensated by new business, leading to a slight net reduction. Economic capital in Consolidation & Adjustments declined, mainly due to lower market risk.

Gone-Concern

Supplementing the going-concern approach, pbb Group uses a gone-concern approach (liquidation perspective) as an additional, parallel management approach. The objective of the gone-concern approach is to guarantee protection of senior lenders in a hypothetical liquidation scenario, with a very high probability. pbb Group has selected a confidence level of 99.91% that is harmonised with the generally conservative parametrisation of the models. However, this liquidation scenario does not assume an opportunistic winding up of portfolios as postulated by the German Pfandbrief Act, and instead assumes an immediate sale of assets recognised at fair value and of securities in the investment book. In line with this assumption, over and above the material risks from the going-concern approach (as mentioned above), credit spread risks arising from securities in the banking book are additionally taken into account when calculating economic capital for market risk, whilst net hidden losses attributable to these securities is deducted when determining available financial resources. Furthermore, rating migration risks are included (as part of credit risk) for all positions of the credit portfolio.

Gone-concern: Economic capital

in € million	30.6.2017	31.12.2016	Change
Credit risk	1,083	1,140	−56
Market risk	907	916	−9
Operational risk	85	85	–
Business risk	2	15	−13
Property risk	1	2	−1
Total before diversification effects	**2,078**	**2,158**	**−80**
Total after diversification effects	**1,869**	**1,951**	**−82**
Available financial resources before net hidden losses	3,184	3,267	−83
Net hidden losses	–	–	–
Available financial resources	**3,184**	**3,267**	**−83**
Excess capital (+)/capital shortfall (–)	1,315	1,316	−1

As in the going-concern approach, the decline in credit risk was mainly due to maturities in the Value Portfolio, which could not be compensated by new business in other (strategic) segments. Market risk was slightly lower, also due to declining credit spread risk.

Business risk – which largely represents funding risk – declined compared to 31 December 2016, mainly due to long-term unsecured funding as well as the timely inclusion of new loans in the cover assets pool for Mortgage Pfandbriefe.

As in the going-concern approach, lower property risk was largely due to the sale of a property in Hungary and one in Germany.

Given the changes outlined above, overall economic capital after diversification effects also declined.

In contrast, available financial resources declined by €83 million, mainly due to lower equity, which was largely attributable to dividends disbursed, and which was partially offset by accumulated profits. Furthermore, subordinated bonds included in available financial resources declined due to maturities and one termination. This reduction was largely offset through capital measures during the first half of 2017, including a tier 2 bond issued in syndicated benchmark format.

Hence, excess coverage remained virtually unchanged during the first half of 2017, compared to the 2016 year-end, thus providing unrestricted evidence of the risk-bearing capacity in the gone-concern approach as at the reporting date as well.

Should the European sovereign debt crisis escalate again, with credit spreads widening and credit ratings of numerous European debtors worsening as a consequence, both a corresponding increase in counterparty credit risk as well as a reduction in available financial resources (given an increase in net hidden encumbrances and lower equity) is to be expected, notwithstanding any countermeasures taken.

The distribution of the economic capital according to segments was as follows:

Gone-concern: Economic capital according to segments

in € million	30.6.2017	31.12.2016	Change
Real Estate Finance	422	437	–15
Public Investment Finance	193	198	–6
Value Portfolio	1,026	1,087	–61
Consolidation & Adjustments	261	264	–3
Total[1]	**1,869**	**1,951**	**–82**

[1] Due to diversification effects the total of economic capital of pbb Group does not equal the sum of economic capital of the individual segments.

The reduction in the Value Portfolio exposure during the first half of the year, caused by maturity effects, led to a corresponding reduction in economic capital during the reporting period. In Real Estate Finance, reductions in economic capital due to scheduled and early repayments were almost fully offset by new business, leading to only a slight reduction in economic capital overall. In Consolidation & Adjustments, the favourable development of funding risk led to slightly lower economic capital.

SREP

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

Based on the results of the analysis as well as using benchmark comparison, the ECB may impose minimum capitalisation or liquidity requirements, over and above existing regulatory requirements. As a key result of SREP, pbb Group has been required to maintain a minimum CET1 ratio of 9.0% for 2017 (excluding the countercyclical capital buffer, which varies according to country, and hence, for specific portfolios– as at 30 June 2017, it stood approximately at 0.11%). This capital requirement is based on the Basel III transitional rules and comprises a Pillar 1 minimum capital requirement (4.5%), a Pillar 2 capital requirement (P2R: 3.25%) and the capital conservation buffer (CCB:1.25% phased-in for 2017). The minimum, fully phased-in CET1 ratio (valid from 2019 onwards, following expiration of transitional provisions) will be 10.25%, assuming a constant Pillar 2 capital requirement and excluding the countercyclical capital buffer. The CET1 minimum capital requirement that applies for 2017 also represents the threshold for mandatory calculation of a so-called maximum distributable amount (MDA). This generally limits distributions to the CET1 capital, new performance-based remuneration, and interest payments on additional Tier 1 capital. Furthermore, pbb Group has to fulfil an Overall Capital Requirement (OCR) of12.50% which was newly introduced compared to 2016 (excluding the countercyclical capital buffer, which varies according to country, and hence, for specific portfolios). It is based on the Basel III transitional rules and comprises a Pillar 1 minimum own funds requirement (8%), a Pillar 2 capital requirement (3.25%) and the capital conservation buffer (1.25% phased-in for 2017). The minimum fully phased-in own funds ratio (valid from 2019 onwards, following expiration of transitional provisions) will be 13.75%, assuming a constant Pillar 2 capital requirement and excluding the countercyclical capital buffer.

Key Regulatory Capital Ratios

The requirements for regulatory capital ratios were satisfied throughout the first half of 2017.

Own Funds

in € million	30.6.2017	30.6.2017 Basel III fully phased-in[1]	31.12.2016 Basel III[2]	31.12.2016 Basel III fully phased-in[1][2]
CET1	2,528	2,510	2,553	2,492
Additional Tier 1	–	–	186	–
Tier 1	2,528	2,510	2,739	2,492
Tier 2	697	702	366	216
Own Funds	**3,225**	**3,212**	**3,105**	**2,708**

[1] After expiry of all Basel III transitional regulations.
[2] After confirmation of the 2016 financial statements and appropriation of profits.

Risk-weighted assets (RWA)

in € million	30.6.2017	30.6.2017 Basel III fully phased-in[1]	31.12.2016 Basel III	31.12.2016 Basel III fully phased-in[1]
Market risks	393	393	346	346
thereof interest rate risks	–	–	–	–
thereof foreign exchange risks	393	393	346	346
Operational risks	866	866	866	866
Credit risks	11,547	11,547	11,760	11,760
thereof CVA charge	324	324	312	312
Other RWA	121	121	141	141
RWA total	**12,927**	**12,927**	**13,113**	**13,113**

[1] After expiry of all Basel III transitional regulations.

Capital ratios

in %	30.6.2017	30.6.2017 Basel III fully phased-in[1]	31.12.2016 Basel III[2]	31.12.2016 Basel III fully phased-in[1][2]
CET1 Ratio	19.6	19.4	19.5	19.0
Tier 1 Ratio	19.6	19.4	20.9	19.0
Own Funds Ratio	24.9	24.8	23.7	20.7

[1] After expiry of all Basel III transitional regulations.
[2] After confirmation of the 2016 financial statements and appropriation of profits.

Consolidated Income Statement

Consolidated income statement

in € million	Note	1.1.–30.6. 2017	1.1.–30.6. 2016
Operating income		203	181
Net interest income	5	206	195
Interest income		840	926
Interest expenses		–634	–731
Net fee and commission income	6	5	3
Fee and commission income		6	4
Fee and commission expenses		–1	–1
Net trading income	7	–	–7
Net income from financial investments	8	1	5
Net income from hedging relationships	9	1	–
Net other operating income/expenses	10	–10	–15
Loan loss provisions	11	–	–
General and administrative expenses	12	–102	–94
Net miscellaneous income/expenses	13	2	–
Profit or loss before tax		**103**	**87**
Income taxes	14	–18	–21
Net income/loss		**85**	**66**
attributable to:			
Equity holders		85	66

Earnings per share

in €	Note	1.1.–30.6. 2017	1.1.–30.6. 2016
Basic earnings per share	15	0.63	0.49
Diluted earnings per share	15	0.63	0.49

Consolidated Statement of Comprehensive Income

Consolidated statement of comprehensive income

in € million	1.1.–30.6. 2017	1.1.–30.6. 2016
Net income/loss	**85**	**66**
Other comprehensive income for the period, net of tax	–3	–67
Items that will not be reclassified subsequently to profit or loss	8	–24
Gains/losses on pension commitments, before taxes	11	–33
Income taxes relating to items that will not be reclassified to profit or loss	–3	9
Items that may be reclassified subsequently to profit or loss	–11	–43
Gains/losses on translating foreign currency, before taxes	–	1
unrealised gains/losses	–	1
gains/losses reclassified to profit or loss	–	–
Gains/losses on AfS assets, before taxes	2	–25
unrealised gains/losses	–1	–26
gains/losses reclassified to profit or loss	3	1
Gains/losses on cash flow hedge accounting, before taxes	–17	–35
unrealised gains/losses	1	–
gains/losses reclassified to profit or loss	–18	–35
Income taxes relating to items that may be reclassified subsequently to profit or loss	4	16
Total comprehensive income for the period	**82**	**–1**
attributable to:		
Equity holders	82	–1

Consolidated Statement of Financial Position

Assets

in € million	Note	30.6.2017	31.12.2016	1.1.2016
Cash reserve		1,902	1,136	1,265
Trading assets	16	1,069	1,089	1,600
Loans and advances to other banks	17	2,615	2,841	2,742
Loans and advances to customers	18	40,419	41,146	41,226
Allowances for losses on loans and advances	19	–120	–130	–149
Valuation adjustment from portfolio hedge accounting		–1	2	1
Financial investments	20	11,686	12,845	14,927
Property and equipment		7	8	10
Intangible assets		26	24	21
Other assets	21	2,951	3,550	5,013
Income tax assets		104	118	105
Current tax assets		29	47	21
Deferred tax assets		75	71	84
Total assets		**60,658**	**62,629**	**66,761**

Equity and liabilities

in € million	Note	30.6.2017	31.12.2016	1.1.2016
Liabilities to other banks	22	3,625	3,179	2,514
Liabilities to customers	23	8,952	9,949	10,824
Securitised liabilities	24	39,778	40,381	42,648
Valuation adjustment from portfolio hedge accounting		–2	1	1
Trading liabilities	25	1,059	1,355	1,643
Provisions	26	239	242	229
Other liabilities	27	3,224	3,778	4,918
Income tax liabilities		57	59	113
Current tax liabilities		57	59	113
Deferred tax liabilities		–	–	–
Subordinated capital	28	986	886	1,125
Liabilities		**57,918**	**59,830**	**64,015**
Equity attributable to equity holders		**2,740**	**2,799**	**2,746**
Subscribed capital		380	380	380
Additional paid-in capital		1,637	1,637	1,637
Retained earnings		712	656	483
Profits/losses on pension commitments		–74	–82	–71
Foreign currency reserve		3	3	4
Revaluation reserve		–3	8	83
AfS reserve		–35	–36	–4
Cash flow hedge reserve		32	44	87
Consolidated profit		85	197	230
Equity		**2,740**	**2,799**	**2,746**
Total equity and liabilities		**60,658**	**62,629**	**66,761**

Consolidated Statement of Changes in Equity

Consolidated statement of changes in equity

	Equity attributable to equity holders								
						Revaluation reserve			
in € million	Subscribed capital	Additional paid-in capital	Retained earnings	Profits/losses on pension commit-ments	Foreign currency reserve	AfS reserve	Cash flow hedge reserve	Consoli-dated profit	**Equity**
Equity at 1.1.2016	**380**	**1,637**	**483**	**−71**	**4**	**−4**	**87**	**230**	**2,746**
Disbursement	–	–	–	–	–	–	–	−58	−58
Total comprehensive income for the period	–	–	–	−24	1	−18	−26	66	−1
Net income/loss	–	–	–	–	–	–	–	66	66
Other comprehensive income for the period, net of tax	–	–	–	−24	1	−18	−26	–	−67
Transfer to retained earnings	–	–	172	–	–	–	–	−172	–
Equity at 30.6.2016	**380**	**1,637**	**655**	**−95**	**5**	**−22**	**61**	**66**	**2,687**
Equity at 1.1.2017	**380**	**1,637**	**656**	**−82**	**3**	**−36**	**44**	**197**	**2,799**
Disbursement	–	–	–	–	–	–	–	−141	−141
Total comprehensive income for the period	–	–	–	8	–	1	−12	85	82
Net income/loss	–	–	–	–	–	–	–	85	85
Other comprehensive income for the period, net of tax	–	–	–	8	–	1	−12	–	−3
Transfer to retained earnings	–	–	56	–	–	–	–	−56	–
Equity at 30.6.2017	**380**	**1,637**	**712**	**−74**	**3**	**−35**	**32**	**85**	**2,740**

Consolidated Statement of Cash Flows (condensed)

Consolidated statement of cash flows (condensed)

in € million	**2017**	**2016**
Cash reserve at 1.1.	**1,136**	**1,265**
+/− Cash flow from operating activities	−25	−1,131
+/− Cash flow from investing activities	806	1,259
+/− Cash flow from financing activities	−15	−253
+/− Effects of exchange rate changes and non-cash measurement changes	–	−1
Cash reserve at 30.6.	**1,902**	**1,139**

Notes (condensed)

1 Principles

Deutsche Pfandbriefbank AG (pbb) has prepared the condensed consolidated interim financial statements for the period ended 30 June 2017 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 recognised by the European Union (EU). 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. Moreover, Amendments to IAS 7: Disclosure Initiative and IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses, as well as parts of Annual Improvements to IFRS Standards 2014–2016 Cycle (which, according to the IASB's publications, must be applied to financial years commencing on or after 1 January 2017), had not yet been adopted into European law on the reporting date. Hence, no new or amended standards or interpretations were applied for the first time during the reporting period. 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 they are not inconsistent with the IFRS.

The Management Board of pbb prepared these condensed consolidated interim financial statements on 1 August 2017 under the going-concern assumption.

IFRS 9 Financial Statements

In July 2014, the IASB published IFRS 9, the new IFRS for financial instruments accounting. This standard will supersede the current regulations of IAS 39. Financial instruments mainly comprise loans and advances, securities, financial liabilities and derivatives, which collectively represent more than 95% of pbb Group's total assets. In its final version, the standard contains fundamental revisions regarding classification and measurement, impairment methodology and hedge accounting – however, without any specific regulations on so-called macro hedges.

Please refer to the 2016 Annual Report for general descriptions regarding the new standard.

In 2011, pbb Group started a project for the implementation of IFRS 9. This project was suspended in 2012 since the finalisation of the IFRS 9 regulations was delayed, leading to legal uncertainty. After the finalisation of the standard, pbb Group's implementation project was resumed in 2014. The IFRS 9 project is divided into sub-projects concerning classification and measurement, determination of allowances of stage 1 and 2 as well as determination of allowances of stage 3. The IFRS 9 project is closely tied to the implementation of other requirements, such as new regulatory reporting requirements.

In order to implement the new classification and measurement rules, the portfolio of loans and advances and securities was classified based on contractual cash flow criterion. Moreover, contractual cash flow criterion tests have been integrated into the new business and new product processes. In addition, the analysis of the portfolios was made on the basis of the current business model. pbb Group's portfolios were allocated to the measurement categories as part of the analysis. The technical implementation for the sub-ledgers comprising the majority of loans and advances and securitries was completed and put into operation. The fair value accounting was provided in a new sub-ledger in the first half of 2017. As regards the implementation of the new allowance rules, pbb Group has developed a system for determining the amount of impairment for stages 1 and 2. Adjustments to the general ledger have been largely completed. In addition, pbb plans to reflect the information provided in the notes in the data repository during the second half of 2017. pbb Group has made the necessary preparations to apply IFRS 9 for the first time as at 1 January 2018; in addition, pbb Group plans to produce a technical sample report during the third quarter of 2017.

Since pbb Group's statement of financial position largely consists of financial instruments, first-time application of IFRS 9 will have significant effects on the consolidated financial statements. Given the new classification and measurement regulations for the disclosure of financial assets, some of the assets currently measured at amortised cost will presumably be measured at their fair value, going forward. For instance, financial assets which do not pass the contractual cash flow criterions test due to contractual stipulations have to be disclosed at fair value through profit or loss. Another example is the liquidity portfolio, at least a part of which has to be measured at fair value through other comprehensive income. In turn, some securities recognised as part of the available-for-sale portfolio in accordance with IAS 39 will be measured at amortised cost, pursuant to IFRS 9. Moreover, pbb will have to make considerable adjustments to the accounting of impairment losses according to the new regulations, eventually resulting in elevated loss allowances. The reason for this is the requirement to recognise loss allowances in the amount of the credit losses expected within twelve months following the reporting date, including instruments for which credit risk has not increased since initial recognition - and also in the amount of the lifetime expected credit losses for financial assets for which credit risk has significantly increased. Regarding hedge accounting, pbb Group will presumably use the option provided under IFRS 9 according to which the former rules pursuant to IAS 39 still apply.

pbb plans the first-time application of IFRS 9 as from 1 January 2018 with retrospective effect. First-time application effects are recognised directly in equity. Both the new regulations on the classification and measurement of financial instruments as well as the amendments regarding the determination and accounting of impairment losses will incur first-time application effects at pbb Group. The amount of such first-time application effects depends on several factors, which are beyond, or partly beyond, pbb Group's sphere of influence. For instance, the changeover effects largely depend on the fair values to be disclosed as at 1 January 2018 for the financial assets measured at fair value. The fair value of financial assets vary with current interest rates and the borrowers' credit rating, for example. Regarding impairment losses, borrowers' default probabilities as at the date of first-time application as well as future expectations are among the crucial factors in the determination of first-time application effects. The first-time application effects from the classification and measurement of financial assets will depend, among other things, on the portfolios' business models as at the date of IFRS 9 first-time application. Furthermore, IFRS 9 is a principle-based standard, which provides for interpretations where appropriate, depending on the specific circumstances.

While pbb Group has drafted working hypotheses for key definitions and interpretations, they are subject to further amendments and/or developments based on the latest views provided by banking and auditor experts before the date of first-time application.

Against this background, and at the time these consolidated interim financial statements were prepared, pbb is not able to provide a reliable quantification of the expected first-time application effects to be incurred as at 1 January 2018. Nevertheless, pbb Group simulated the first-time application effects in 2017 based on the following factors: parameters then applicable to the measurement of financial instruments, impairment losses, portfolio composition pursuant to the contractual cash flow criterion and the business model criterion as well as the existing working hypotheses for the interpretation of IFRS 9. The classification and measurement of financial assets carried out as part of the simulation resulted in positive effects in the upper double-digit euro million range. These positive effects were almost completely compensated by impairment losses in the upper double-digit euro million range. Overall, pbb Group does not expect any material impacts on equity.

Regarding subsequent reporting periods, the application of IFRS 9 regulations will result in more volatile results of operations compared to the current regulations under IAS 39, due to the higher number of financial instruments to be measured at fair value through profit or loss and the new regulations regarding loss allowances pursuant to IFRS 9. This volatility may result in multi-million euro fluctuations, and may thus be considered substantial regarding pbb Group's recent net income levels.

2 Consistency

pbb Group applies accounting policies consistently in accordance with the IFRS framework concept as well as IAS 1 and IAS 8. In condensed consolidated interim financial statements as of 30 June 2017 the same accounting policies were applied than in the consolidated financial statements as of 31 December 2016.

3 Consolidation

Please refer to page 200 of pbb Group's Annual Report 2016 for a full list of all consolidated and non-consolidated investments. Hypo Real Estate Capital Japan Corp. i. L., Tokyo, was deconsolidated in the first half of 2017 following liquidation. pbb's consolidated income statement and consolidated statement of financial position were not affected.

4 Segment Reporting

Income/expenses

in € million		REF	PIF	VP	C&A	**pbb Group**
Operating income	1.1.–30.6.2017	159	14	28	2	203
	1.1.–30.6.2016	142	18	19	2	181
Net interest income	1.1.–30.6.2017	167	18	19	2	206
	1.1.–30.6.2016	152	18	22	3	195
Net fee and commission income	1.1.–30.6.2017	5	–	–	–	5
	1.1.–30.6.2016	3	–	–	–	3
Net trading income	1.1.–30.6.2017	2	−1	−1	–	–
	1.1.–30.6.2016	−7	–	–	–	−7
Net income from financial investments	1.1.–30.6.2017	–	1	–	–	1
	1.1.–30.6.2016	3	1	1	–	5
Net income from hedging relationships	1.1.–30.6.2017	1	–	–	–	1
	1.1.–30.6.2016	–	–	–	–	–
Net other operating income/expenses	1.1.–30.6.2017	−16	−4	10	–	−10
	1.1.–30.6.2016	−9	−1	−4	−1	−15
Loan loss provisions	1.1.–30.6.2017	−1	–	1	–	–
	1.1.–30.6.2016	–	–	–	–	–
General and administrative expenses	1.1.–30.6.2017	−81	−14	−7	–	−102
	1.1.–30.6.2016	−73	−13	−8	–	−94
Net miscellaneous income/expenses	1.1.–30.6.2017	2	–	–	–	2
	1.1.–30.6.2016	–	–	–	–	–
Profit or loss before tax	**1.1.–30.6.2017**	**79**	**–**	**22**	**2**	**103**
	1.1.–30.6.2016	**69**	**5**	**11**	**2**	**87**

Cost-income ratio[1]

in %		REF	PIF	VP	**pbb Group**
Cost-income ratio	1.1.–30.6.2017	50.9	100.0	25.0	50.2
	1.1.–30.6.2016	51.4	72.2	42.1	51.9

[1] The cost-income ratio is the ratio of general and administrative expenses and operating income.

Balance-sheet-related measures

in € billion		REF	PIF	VP	C&A	**pbb Group**
Financing volumes[1]	30.6.2017	24.4	7.6	14.6	–	46.6
	31.12.2016	24.1	7.4	15.8	–	47.3
Risk-weighted assets[2]	30.6.2017	6.5	1.4	3.7	1.3	12.9
	31.12.2016	6.4	1.4	4.1	1.2	13.1
Equity[3]	30.6.2017	0.6	0.3	1.5	0.3	2.7
	31.12.2016	0.6	0.3	1.5	0.4	2.8

[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 revaluation reserve.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

5 Net Interest Income

Net interest income by categories of income/expenses

in € million	1.1.–30.6. 2017	1.1.–30.6. 2016
Interest income	**840**	**926**
Lending and money-market business	557	590
Fixed-income securities and government-inscribed debt	192	215
Current gains/losses from swap transactions (net interest income and expense)	89	119
Other	2	2
Interest expenses	**–634**	**–731**
Liabilities to other banks and customers	–118	–152
Securitised liabilities	–488	–550
Subordinated capital	–28	–29
Total	**206**	**195**

Interest income for financial assets measured at amortised cost amounted to €702 million (6m2016: €751 million). Interest income for AfS assets amounted to €47 million (6m2016: €54 million). Hence, total net interest income for assets not measured at fair value through profit or loss amounted to €749 million (6m2016: €805 million). Interest expenses incurred in the first half of 2017 and in the first half of 2016 financial years were entirely attributable to liabilities not measured at fair value through profit or loss.

Negative interest income amounted to €8 million (6m2016: €7 million) and positive interest expenses to €9 million (6m2016: €7 million); the predominant part was respectively disclosed in current gains/losses from swap transactions (net interest income and expense).

6 Net Fee And Commission Income

Net fee and commission income

in € million	1.1.–30.6. 2017	1.1.–30.6. 2016
Securities and custodial services	–1	–1
Lending operations and other service	6	4
Total	**5**	**3**

7 Net Trading Income

Net trading income

in € million	1.1.–30.6. 2017	1.1.–30.6. 2016
From interest rate instruments and related derivatives	2	–8
From foreign currency instruments and related derivatives	–2	1
Total	**–**	**–7**

8 Net Income from Financial Investments

Net income from financial investments by IAS 39 categories

in € million	1.1.–30.6. 2017	1.1.–30.6. 2016
Available for sale (AfS)	1	4
Loans and receivables (LaR)	–	1
Total	**1**	**5**

9 Net Income from Hedging Relationships

Net income from hedging relationships

in € million	1.1.–30.6. 2017	1.1.–30.6. 2016
Result from fair value hedge accounting	1	–
Result from hedged items	41	131
Result from hedging instruments	–40	–131
Result from portfolio hedge accounting	–	–
Result from hedged items	–	5
Result from hedging instruments	–	–5
Total	**1**	**–**

10 Net Other Operating Income/Expenses

Net other operating income/expenses

in € million	1.1.–30.6. 2017	1.1.–30.6. 2016
Other operating income	40	16
Other operating expenses	–50	–31
Total	**–10**	**–15**

11 Loan Loss Provisions

Loan loss provisions

in € million	1.1.–30.6. 2017	1.1.–30.6. 2016
Allowances for losses on loans and advances	–	–1
Allowances for contingent liabilities and other commitments	–	1
Total	**–**	**–**

12 General and Administrative Expenses

General and administrative expenses

in € million	1.1.–30.6. 2017	1.1.–30.6. 2016
Personnel expenses	–56	–51
Wages and salaries	–43	–39
Social security costs	–8	–8
Pension expenses and related employee benefit costs	–5	–4
Non-personnel expenses	–46	–43
Other general and administrative expenses	–41	–38
Consulting expenses	–7	–6
IT expenses	–14	–13
Office and operating expenses	–5	–4
Other non-personnel expenses	–15	–15
Depreciation, amortisation and impairment	–5	–5
of software and other intangible assets	–4	–4
of property and equipment	–1	–1
Total	**–102**	**–94**

13 Net Miscellaneous Income/Expenses

Net miscellaneous income/expenses

in € million	1.1.–30.6. 2017	1.1.–30.6. 2016
Miscellaneous income	2	–
Thereof: Reversals of restructuring provisions	2	–
Miscellaneous expenses	–	–
Total	**2**	**–**

14 Income Taxes

Income taxes

in € million	1.1.–30.6. 2017	1.1.–30.6. 2016
Current taxes	–22	–12
Deferred taxes	4	–9
Thereof: Deferred taxes on capitalised losses carried forward	–	–
Total	**–18**	**–21**

15 Earnings Per Share

Earnings per share [1]

		1.1.–30.6. 2017	1.1.–30.6. 2016
Net income/loss	in € million	85	66
Average number of ordinary shares issued	pieces	134,475,308	134,475,308
Adjusted average number of ordinary shares issued	pieces	134,475,308	134,475,308
Basic earnings per share	in €	**0.63**	**0.49**
Diluted earnings per share	in €	**0.63**	**0.49**

[1] Earnings per share are calculated in accordance with IAS 33 by dividing net income/loss attributable to the ordinary equity holders by the weighted average number of ordinary shares.

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

16 Trading Assets

Trading assets

in € million	30.6.2017	31.12.2016
Positive fair values of derivative financial instruments	1,069	1,089
Total	**1,069**	**1,089**

17 Loans and Advances to Other Banks

Loans and advances to other banks by type of business

in € million	30.6.2017	31.12.2016
Loans and advances	2,615	2,841
Public sector loans	733	780
Other loans and advances	1,882	2,061
Total	**2,615**	**2,841**

Loans and advances to other banks by maturities

in € million	30.6.2017	31.12.2016
Repayable on demand	1,829	2,059
With agreed maturities	786	782
up to 3 months	72	18
more than 3 months to 1 year	103	45
more than 1 year to 5 years	62	164
more than 5 years	549	555
Total	**2,615**	**2,841**

18 Loans and Advances to Customers

Loans and advances to customers by type of business

in € million	30.6.2017	31.12.2016
Loans and advances	40,194	40,913
Public sector loans	15,805	16,813
Real estate loans	24,380	24,081
Other loans and advances	9	19
Claims from finance lease agreements	225	233
Total	**40,419**	**41,146**

Loans and advances to customers by maturities

in € million	30.6.2017	31.12.2016
Repayable on demand	1,141	1,023
With agreed maturities	39,278	40,123
up to 3 months	972	1,167
more than 3 months to 1 year	2,767	2,860
more than 1 year to 5 years	17,919	18,067
more than 5 years	17,620	18,029
Total	**40,419**	**41,146**

19 Allowances for Losses on Loans and Advances

Development

in € million	Specific allowances	Portfolio-based allowances	Total
Balance at 1.1.2016	**–117**	**–32**	**–149**
Changes through profit or loss	8	–12	–4
Changes not affecting profit or loss	23	–	23
Use of existing allowances	16	–	16
Effects of foreign currency translations and other changes	7	–	7
Balance at 31.12.2016	**–86**	**–44**	**–130**
Balance at 1.1.2017	**–86**	**–44**	**–130**
Changes through profit or loss	–3	4	1
Changes not affecting profit or loss	9	–	9
Use of existing allowances	9	–	9
Effects of foreign currency translations and other changes	–	–	–
Balance at 30.6.2017	**–80**	**–40**	**–120**

Regarding the changes in specific allowances recognised through profit or loss, an amount of €1 million (2016: €2 million) was due to the increase in the present value of an adjusted receivable (so-called unwinding), which occurs over a period of time.

The allowances for losses on loans and advances were exclusively created for financial assets in the measurement category Loans and Receivables.

20 Financial Investments

Breakdown

in € million	30.6.2017	31.12.2016
AfS financial investments	2,824	3,311
Debt securities and other fixed-income securities	2,821	3,308
Shares and other non-fixed-income securities	3	3
LaR financial investments	8,862	9,534
Debt securities and other fixed-income securities	8,862	9,534
Total	**11,686**	**12,845**

The carrying amounts of the LaR financial investments were reduced by portfolio-based allowances amounting to €10 million (31 December 2016: €10 million).

Financial investments by maturities

in € million	30.6.2017	31.12.2016
Unspecified terms	3	3
With agreed maturities	11,683	12,842
up to 3 months	365	765
more than 3 months to 1 year	1,033	1,690
more than 1 year to 5 years	3,007	2,542
more than 5 years	7,278	7,845
Total	**11,686**	**12,845**

21 Other Assets

Other assets

in € million	30.6.2017	31.12.2016
Positive fair values from hedging derivatives	2,915	3,492
Micro fair value hedge	2,915	3,492
Portfolio hedge	–	–
Salvage acquisitions	–	9
Other assets	34	47
Reimbursements under insurance policies	2	2
Total	**2,951**	**3,550**

22 Liabilities to Other Banks

Liabilities to other banks by maturities

in € million	30.6.2017	31.12.2016
Repayable on demand	1,088	924
With agreed maturities	2,537	2,255
up to 3 months	22	1,583
more than 3 months to 1 year	28	56
more than 1 year to 5 years	1,948	73
more than 5 years	539	543
Total	**3,625**	**3,179**

23 Liabilities to Customers

Liabilities to customers by maturities

in € million	30.6.2017	31.12.2016
Repayable on demand	1,522	1,560
With agreed maturities	7,430	8,389
up to 3 months	623	1,381
more than 3 months to 1 year	1,572	1,654
more than 1 year to 5 years	3,977	4,083
more than 5 years	1,258	1,271
Total	**8,952**	**9,949**

24 Securitised Liabilities

Securitised liabilities by type of business

in € million	30.6.2017	31.12.2016
Debt securities issued	20,547	20,752
Mortgage Pfandbriefe	10,067	9,551
Public sector Pfandbriefe	5,809	6,962
Other debt securities	4,641	4,209
Money market securities	30	30
Registered notes issued	19,231	19,629
Mortgage Pfandbriefe	5,418	5,346
Public sector Pfandbriefe	11,572	12,208
Other debt securities	2,241	2,075
Total	**39,778**	**40,381**

Securitised liabilities by maturities

in € million	30.6.2017	31.12.2016
With agreed maturities		
up to 3 months	2,986	3,259
more than 3 months to 1 year	2,686	3,129
more than 1 year to 5 years	16,445	14,829
more than 5 years	17,661	19,164
Total	**39,778**	**40,381**

Disclosures according to IAS 34.16A (e) are presented in the Report of Economic Position.

25 Trading Liabilities

Trading liabilities

in € million	30.6.2017	31.12.2016
Negative fair values from derivative financial instruments	1,059	1,355
Total	**1,059**	**1,355**

26 Provisions

Breakdown

in € million	30.6.2017	31.12.2016
Provisions for pensions and similar obligations	85	95
Restructuring provisions	7	14
Provisions for contingent liabilities and other commitments	–	–
Other provisions	147	133
Thereof: Provisions for legal risks	78	75
Long-term liabilities to employees	1	1
Total	**239**	**242**

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 obligations. A discount rate of 2.00% (31 December 2016: 1.75%) was used for the measurement of the defined benefit pension obligations. The other actuarial assumption are unchanged compared to the consolidated financial statements 2016.

Legal risiks (litigation risks)
pbb Group 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 Group 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 Group 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 Group 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 Group believes that the outcome of the proceedings would be seriously compromised by their disclosure.

In appraisal proceedings relating to the merger of three predecessor mortgage banks to form pbb in 2001, the new appraisal ordered by the Munich Regional Court I has resulted in an additional payment averaging €1.00 per share. The potential subsequent payment claims amount to approximately €5 million plus interest since 2001. However, the Munich Regional Court I has rejected requests of claimants to increase compensation payments. Individual applicants have lodged complaints against the court's decision. As the Munich Regional Court I did not rectify these complaints, complaint proceed-ings have been initiated at the Munich Higher Regional Court since mid-2015.

The profit participation certificates issued by the predecessor institutions participated in significant losses due to the net losses for the period incurred in the yeras 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. Some of the court decisions are legally binding; some have been subject to appeals lodged by pbb. At present, legal proceedings with a total amount in dispute of approximately €39 million are pending. These proceedings may result 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. Whilst the Bank endeavours to solve legal disputes by way of out-of-court settlements, it exploits the legal remedies at its disposal when needed.

pbb Group recognised sufficient provisions for legal 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 February 2007, within the scope of the Estate UK-3 ("UK-3") synthetic securitisation transaction. The CLNs were issued in order to hedge a portfolio of loans in the UK. The portfolio comprised 13 loans, financing 110 commercial property assets. The CLNs have an aggregate volume of GBP113.68 million, structured in six classes with sequential loss allocation. The biggest individual loan in the portfolio (amounting to approximately GBP176 million) subsequently defaulted, and the underlying collateral was realised in January 2016. The proceeds from realisation were clearly lower than the original collateral value, leading to a default loss of approximately GBP113 million. On 30 November 2016, pbb requested the auditor Deloitte (the Trustee of the UK-3 transaction) to allocate the losses to UK-3 investors. On 13 December 2016, Deloitte has notified pbb that doubts remain as to whether the loss allocation intended by pbb is admissible, and that they will appoint an Expert to decide on that matter. In the second quarter of 2017, the expert was appointed.

In pbb's opinion, the prerequisites for the intended allocation of losses have been met. In the event of the loss allocation being fully or partially inadmissible, pbb would have to bear the losses to the corresponding extent.

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. The final evaluation of the judgement can only be delivered once the reasons for the judgement have been published, and then analysed by pbb. At present, 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 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.

27 Other Liabilities

Other liabilities

in € million	30.6.2017	31.12.2016
Negative fair values from hedging derivatives	3,172	3,719
Micro fair value hedge	3,169	3,715
Portfolio hedge	3	4
Other liabilities	52	59
Total	**3,224**	**3,778**

28 Subordinated Capital

Breakdown

in € million	30.6.2017	31.12.2016
Subordinated liabilities	986	525
Hybrid capital instruments	–	361
Total	**986**	**886**

Subordinated capital by maturities

in € million	30.6.2017	31.12.2016
With agreed maturities		
up to 3 months	8	54
more than 3 months to 1 year	194	361
more than 1 year to 5 years	71	246
more than 5 years	713	225
Total	**986**	**886**

NOTES TO THE FINANCIAL INSTRUMENTS

29 Fair Values of Financial Instruments

Fair values and fair value hierarchy

in € million	Carrying amount	Fair value	Level 1	Level 2	Level 3
					30.6.2017
Financial assets	**60,260**	**62,363**	**10,915**	**22,649**	**28,799**
at fair value through profit or loss	3,984	3,984	–	3,952	32
at fair value not affecting profit or loss	2,824	2,824	2,824	–	–
not measured at fair value in the statement of financial position	53,452	55,555	8,091	18,697	28,767
Cash reserve	1,902	1,902	1,902	–	–
Trading assets (HfT)	1,069	1,069	–	1,069	–
Loans and advances to other banks	2,615	2,637	1,827	756	54
Category LaR	2,615	2,637	1,827	756	54
Loans and advances to customers [1]	40,074	42,044	–	14,888	27,156
Category LaR	40,074	42,044	–	14,888	27,156
Real Estate Finance	24,291	25,626	–	–	25,626
Public Investment Finance	6,297	6,582	–	5,299	1,283
Value Portfolio	8,327	8,613	–	8,366	247
Consolidation & Adjustments	1,159	1,223	–	1,223	–
Valuation adjustment from portfolio hedge accounting	−1	–	–	–	–
Financial investments	11,686	11,796	7,186	3,053	1,557
Category AfS	2,824	2,824	2,824	–	–
Category LaR	8,862	8,972	4,362	3,053	1,557
Other assets	2,915	2,915	–	2,883	32
Hedging derivatives	2,915	2,915	–	2,883	32
Financial liabilities	**57,582**	**58,972**	**18,866**	**4,397**	**35,709**
at fair value through profit or loss	4,231	4,231	–	4,220	11
not measured at fair value in the statement of financial position	53,351	54,741	18,866	177	35,698
Liabilities to other banks	3,625	3,681	1,087	–	2,594
Liabilities to customers	8,952	9,203	253	–	8,950
Securitised liabilities	39,778	40,838	17,169	11	23,658
covered	32,907	33,800	13,600	11	20,189
uncovered	6,871	7,038	3,569	–	3,469
Valuation adjustment from portfolio hedge accounting	−2	–	–	–	–
Trading liabilities (HfT)	1,059	1,059	–	1,059	–
Other liabilities	3,184	3,184	–	3,161	23
Hedging derivatives	3,172	3,172	–	3,161	11
Other financial liabilities	12	12	–	–	12
Subordinated capital	986	1,007	357	166	484
Other items	**3,956**	**3,987**	**–**	**–**	**3,987**
Contingent liabilities	128	128	–	–	128
Irrevocable loan commitments	3,828	3,859	–	–	3,859

[1] Reduced by allowances for losses on loans and advances and claims from finance lease agrrements. Since 30 June 2017, portfolio-based allowances are not disclosed separately anymore, but they were allocated to the individual segments.

Fair values and fair value hierarchy

	31.12.2016				
in € million	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets	**62,188**	**64,429**	**10,137**	**24,678**	**29,614**
at fair value through profit or loss	4,581	4,581	–	4,541	40
at fair value not affecting profit or loss	3,311	3,311	3,311	–	–
not measured at fair value in the statement of financial position	54,296	56,537	6,826	20,137	29,574
Cash reserve	1,136	1,136	1,136	–	–
Trading assets (HfT)	1,089	1,089	–	1,089	–
Loans and advances to other banks	2,841	2,872	2,018	812	42
Category LaR	2,841	2,872	2,018	812	42
Loans and advances to customers [1]	40,783	42,906	–	15,837	27,069
Category LaR	40,783	42,906	–	15,837	27,069
Real Estate Finance	23,969	25,377	–	–	25,377
Public Investment Finance	6,226	6,542	–	5,155	1,387
Value Portfolio	9,046	9,365	–	9,016	349
Consolidation & Adjustments	1,586	1,666	–	1,666	–
Portfolio-based allowances	–44	–44	–	–	–44
Valuation adjustment from portfolio hedge accounting	2	–	–	–	–
Financial investments	12,845	12,934	6,983	3,488	2,463
Category AfS	3,311	3,311	3,311	–	–
Category LaR	9,534	9,623	3,672	3,488	2,463
Other assets	3,492	3,492	–	3,452	40
Hedging derivatives	3,492	3,492	–	3,452	40
Financial liabilities	**59,491**	**61,018**	**21,437**	**5,463**	**34,118**
at fair value through profit or loss	5,074	5,074	–	5,053	21
not measured at fair value in the statement of financial position	54,417	55,944	21,437	410	34,097
Liabilities to other banks	3,179	3,300	2,430	–	870
Liabilities to customers	9,949	10,235	1,371	–	8,864
Securitised liabilities	40,381	41,480	17,636	410	23,434
covered	34,097	35,014	14,375	277	20,362
uncovered	6,284	6,466	3,261	133	3,072
Valuation adjustment from portfolio hedge accounting	1	–	–	–	–
Trading liabilities (HfT)	1,355	1,355	–	1,355	–
Other liabilities	3,740	3,740	–	3,698	42
Hedging derivatives	3,719	3,719	–	3,698	21
Other financial liabilities	21	21	–	–	21
Subordinated capital	886	908	–	–	908
Other items	**3,973**	**4,005**	**–**	**–**	**4,005**
Contingent liabilities	171	171	–	–	171
Irrevocable loan commitments	3,802	3,834	–	–	3,834

[1] Reduced by allowances for losses on loans and advances and claims from finance lease agrrements.

As was the case in 2016, no financial instruments measured at fair value were reclassified from Level 1 to Level 2 and vice versa in the period from 1 January to 30 June 2017. Furthermore, no financial instruments measured at fair value were were reclassified from Level 2 to Level 3 and vice versa in the current reporting period and in 2016. In the first half of 2017 financial liabilities in the amount of €6 million (2016: €0 million) were reclassified from Level 3 to Level 2 since inputs were observable on the market again.

Level 2 instruments measured at fair value as of 30.6.2017

Measurement methods	Observable parameters
DCF methods	Euro zone inflation rates
	Reference interest rates
	Saisonalities of Euro zone inflation rates
	Spot market exchange rates
	Yield curves
Option pricing models	Cap volatilities
	CMS Spread Options (strike prices)
	CMS Spread Options (option prices)
	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 measured at fair value as of 30.6.2017

Measurement methods	Non-observable parameters	Range (weighted average)
Option pricing models	Historical index/index correlations	77.18% (77.18%)
	Historical index/exchange rate correlations	–23.63% to –67.54% (–45.59%)

Changes in level 3 instruments measured at fair value through profit or loss

	Financial assets	Financial liabilities
in € million	Hedging derivatives	Hedging derivatives
Balance at 1.1.2016	**44**	**16**
Profit or loss	–4	5
Balance at 31.12.2016	**40**	**21**
Balance at 1.1.2017	**40**	**21**
Profit or loss	–8	–4
Reclassification out of Level 3	–	–6
Balance at 30.6.2017	**32**	**11**

The earnings contributions made by trading liabilities are presented under net trading income, whereas the effects of hedging derivatives through profit or loss are presented under net income from hedging relationships.

Sensitivities

As at 30 June 2017, financial assets and liabilities measured at fair value were subject to positive and negative changes of less than €1 million each. The calculation of the sensitivity for the three relevant derivatives, which are used in hedge accounting, is based on shock scenarios for correlations and volatilities pursuant to the level 3 measurement methods table. There are interactions between the input parameters used, except for spread volatilities. If the scenario effects are taken into account on an aggregate basis, the maximum change for assets and liabilities is less than €1 million each. As at 31 December 2016, the sensitivity analysis resulted in positive and negative changes in financial assets and liabilities of less than €1 million each. If the scenario effects are taken into account on an aggregate basis, the maximum change for assets was less than €1 million and for liabilities of €1 million as of 31 December 2016. These amounts were calculated independently from each other. Offsetting effects due to compensating derivatives and hedge relationships reduce both positive and negative changes. There were no methodological changes compared to the previous year.

Asset and liabilities according to measurement categories and classes according to IAS 39

in € million	30.6.2017	31.12.2016
Assets		
Loans and receivables (LaR)	51,550	53,160
Available for sale (AfS)	2,824	3,311
Held for trading (HfT)	1,069	1,089
Cash reserve	1,902	1,136
Claims from finance lease agreements	225	233
Positive fair values from hedging derivatives	2,915	3,492
Liabilities		
Held for trading (HfT)	1,059	1,355
Financial liabilities at amortised cost	53,351	54,417
Negative fair values from hedging derivatives	3,172	3,719

On-balance sheet netting of derivatives which are settled through Eurex Clearing led to a reduction in total assets of €1.6 billion as at 30 June 2017 (31 December 2016: €1.8 billion).

30 Past Due but Not Impaired Assets

In the following total portfolio of the partly or completely past due but not impaired loans and advances as of 30 June 2017 and as of 31 December 2016 is disclosed. However, no specific allowances were made for these assets respectively the underlying collaterals as pbb Group does not consider that there is any issue regarding their recoverability. Such timing issues in receipts of payments due occur regularly (up to three months) in the normal course of business and are not considered to be an evidence for impairment.

As of 30 June 2017 and as of 31 December 2016 pbb Group had neither past due and not impaired nor impaired AfS financial investments in the portfolio.

Carrying amounts of past due but not impaired LaR assets

in € million	30.6.2017	31.12.2016
up to 3 months	1	1
more than 3 months to 6 months	–	–
more than 6 months to 1 year	–	1
more than 1 year	2	5
Total	**3**	**7**

Carrying amounts LaR assets

in € billion	30.6.2017	31.12.2016
Carrying amount of LaR assets that are neither impaired nor past due	51.4	52.7
Carrying amount of LaR assets that are past due but not impaired (total investment)	–	–
Carrying amount of individually assessed impaired LaR assets (net)	0.2	0.3
Balance of specific allowances	0.1	0.1
Balance of portfolio-based allowances	–	0.1
Total	**51.7**	**53.2**
Thereof: Loans and advances to other banks (including investments)	2.6	2.8
Loans and advances to customers (including investments)	40.2	40.9
Financial investments (gross)	8.9	9.5

31 Restructured Loans and Advances

As of 30 June 2017 and as of 31 December 2016, restructured loans and advances mainly related to standstill agreements and to the discontinuation of contractual arrangements.

Restructured loans and advances

in € million	30.6.2017	31.12.2016
Carrying amount of loans and advances that are neither impaired nor past due	30	27
Carrying amount of loans that are past due but not impaired (gross)	–	4
Carrying amount of impaired loans and advances (gross)	243	310
Total	**273**	**341**

OTHER NOTES

32 Contingent Liabilities and Other Commitments

Contingent liabilities and other commitments

in € million	30.6.2017	31.12.2016
Contingent liabilities	**128**	**171**
Guarantees and warranties	128	171
Other commitments	**3,828**	**3,802**
Irrevocable loan commitments	3,828	3,802
Commitments from bank levies	**15**	**11**
Collateral pledged	15	11
Total	**3,971**	**3,984**

33 Relationship with Related Parties

Hypo Real Estate Holding GmbH's (HRE Holding's) share in pbb stood at 20.0% as at 30 June 2017 (31 December 2016: 20.0%). pbb Group considers HRE Holding, as well as all other entities that were subject to the control, joint control or significant influence of the Federal Republic of Germany, as related parties within the meaning of IAS 24.

No material transactions with related parties were entered into during the first half of 2017.

34 Report on Post-balance Sheet Date Events

There were no significant events after 30 June 2017.

Munich, 1 August 2017

Deutsche Pfandbriefbank AG
The Management Board

Andreas Arndt | Thomas Köntgen | Andreas Schenk

Review Report

To Deutsche Pfandbriefbank AG, Munich

We have reviewed the condensed interim consolidated financial statements of the Deutsche Pfandbriefbank AG, Munich – comprising consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated 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, 2017 that are part of the semi annual according to § 37w 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, 2 August 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft
[original German version signed by:]

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

Signatories on behalf of Deutsche Pfandbriefbank AG

Eschborn, as of 24 August 2017

signed by Björn-Jakob Treutler Managing Director	signed by Martina Horn Director