

ANNUAL FINANCIAL STATEMENTS

DEUTSCHE PFANDBRIEFBANK AG

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Income Statement

Income statement

in € million

	2016		2015
1. Interest income from			
a) lending and money market business	3,381		3,698
b) fixed-income and government-inscribed debt	468	3,849	586
2. Interest expenses		-3,476	-3,490
		373	794
3. Current income from			
a) equity shares and other variable-yield securities		-	-
b) participating interests		-	-
c) investments in affiliated companies		-	135
		-	135
4. Income from profit pooling, profit transfer or partial profit transfer agreements		-	-
5. Commission income		10	37
6. Commission expenses		-2	-3
		8	34
7. Other operating income		55	35
8. Administrative expenses			
a) staff expenses			
aa) wages and salaries	-86		-90
ab) social security contributions and expenses for pensions and other employee benefits	-22	-108	-36
thereof: for pensions €7 million (2015: €21 million)			
b) other administrative expenses		-95	-89
		-203	-215
9. Amortisation/depreciation and write-downs of intangible and tangible assets		-4	-6
10. Other operating expenses		-50	-25
11. Write-downs of claims and certain securities as well as additions to provisions in the lending business		-	-
12. Income from write-ups of claims and certain securities as well as reversals of provisions in the lending business		53	70
		53	70
13. Write-downs and impairments to participating interests, investments in affiliated companies and securities treated as fixed assets		-	-
14. Income from write-ups to participating interests, investments in affiliated companies and securities treated as fixed assets		93	2
		93	2
15. Additions to the fund for general banking risks		-	-
16. Expenses from assumption of losses		-7	-1
17. Result from ordinary activities		318	823
18. Extraordinary income		2	4
19. Extraordinary expenses		-8	-6
20. Extraordinary result		-6	-2
21. Income taxes		-59	-40
22. Other tax unless reported under item no. 10		-1	-
		-60	-40
23. Net income/loss		252	781
24. Profit/loss carried forward from the previous year		-	-1,382
		252	-601
25. Withdrawals from additional paid-in capital		-	1,628
26. Withdrawals from participatory capital		-	-
27. Replenishment of silent partnership		-	-908
28. Allocation to retained earnings		-97	-
29. Replenishment of participatory capital		-14	-61
30. Unappropriate retained earnings/loss		141	58

Balance Sheet

Assets

in € million

	31.12.2016	31.12.2015
1. Cash reserve		
a) cash on hand	-	-
b) balances with central banks	1,136	1,265
thereof: with the Deutsche Bundesbank €1,136 million (2015: €1,265 million)		
	1,136	1,265
2. Loans and advances to other banks		
a) mortgage loans	-	-
b) public-sector loans	782	972
c) other loans and advances	2,643	2,347
thereof: repayable on demand €2,078 million (2015: €1,750 million)		
thereof: collateralised by securities €- million (2015: €- million)		
	3,425	3,319
3. Loans and advances to customers		
a) mortgage loans	24,065	23,993
b) public-sector loans	14,559	14,816
c) other loans and advances	51	189
thereof: collateralised by securities €- million (2015: €- million)		
	38,675	38,998
4. Bonds and other fixed-income securities		
a) money market instruments		
aa) of public-sector issuers	-	-
thereof: eligible as collateral for Deutsche Bundesbank €- million (2015: €- million)		
ab) of other issuers	-	-
thereof: eligible as collateral for Deutsche Bundesbank €- million (2015: €- million)		
	-	-
b) Bonds and notes		
ba) of public-sector issuers	5,838	6,673
thereof: eligible as collateral for Deutsche Bundesbank €4,631 million (2015: €5,120 million)		
bb) of other issuers	5,311	6,418
thereof: eligible as collateral for Deutsche Bundesbank €3,633 million (2015: €4,070 million)		
	11,149	13,091
c) own debt securities	1,781	2,149
Notional amount €1,883 million (2015: €2,113 million)		
	12,930	15,240
5. Equity shares and other variable-yield securities	2	2
6. Participating interests	-	-
thereof: in banks €- million (2015: €- million)		
thereof: in financial services institutions €- million (2015: €- million)		
7. Investments in affiliated companies	52	53
thereof: in banks €- million (2015: €- million)		
thereof: in financial services institutions €- million (2015: €- million)		
8. Assets held in trust	-	-
thereof: loans on a trust basis €- million (2015: €- million)		
Carryover	56,220	58,877

in € million

Carryover

	31.12.2016	31.12.2015
Carryover	56,220	58,877
9. Intangible assets		
a) internally generated commercial property rights and similar rights and assets	-	-
b) purchased concessions, commercial property rights and similar rights and assets as well as licences in such rights and assets	4	6
c) goodwill	-	-
d) down-payments	-	-
	4	6
10. Tangible assets	8	11
11. Sundry assets	137	175
12. Prepaid expenses		
a) from the issuance and loan business	106	108
b) other	313	398
	419	506
13. Overfunded plan assets	-	-
Total assets	56,788	59,575

Liabilities and equity

in € million

1. Liabilities to other banks		
a) registered Mortgage Pfandbriefe issued	289	292
b) registered Public Pfandbriefe issued	232	331
c) other liabilities	3,826	3,150
thereof: repayable on demand €973 million (2015: €1,254 million)		
	4,347	3,773
thereof: delivered to lender as collateral for received loans		
registered Mortgage Pfandbriefe €- million (2015: €- million)		
registered Public Pfandbriefe €- million (2015: €- million)		
2. Liabilities to customers		
a) registered Mortgage Pfandbriefe issued	4,615	5,208
b) registered Public Pfandbriefe issued	9,345	10,424
c) savings deposits		
ca) with agreed notice period of three months	-	-
cb) with agreed notice period of more than three months	-	-
	-	-
d) other liabilities	11,796	12,464
thereof: repayable on demand €1,623 million (2015: €1,287 million)		
	25,756	28,096
thereof: delivered to lender as collateral for received loans		
registered Mortgage Pfandbriefe €7 million (2015: €7 million)		
registered Public Pfandbriefe €13 million (2015: €20 million)		
3. Securitised liabilities		
a) bonds in issue		
aa) Mortgage Pfandbriefe	9,397	10,356
ab) Public Pfandbriefe	6,897	6,689
ac) other bonds	5,754	5,930
	22,048	22,975
b) other securitised liabilities	30	112
thereof: money market instruments €30 million (2015: €112 million)		
	22,078	23,087
Carryover	52,181	54,956

in € million

	31.12.2016	31.12.2015
Carryover	52,181	54,956
4. Liabilities held in trust	–	–
thereof: loans on a trust basis €– million (2015: €– million)		
5. Sundry liabilities	179	70
6. Deferred income		
a) from issuance and loan business	133	133
b) other	557	541
	690	674
7. Provisions		
a) provisions for pensions and similar obligations	19	47
b) provisions for taxes	57	97
c) other provisions	204	221
	280	365
8. Subordinated liabilities	875	1,107
9. Participatory capital	–	–
thereof: maturing in less than two years €– million (2015: €– million)		
10. Fund for general banking risks	47	47
11. Equity		
a) subscribed capital		
aa) share capital	380	380
ab) silent partnership		
Notional amount	–	1,000
Repayment	–	–1,000
	–	–
	380	380
b) additional paid-in capital	1,639	1,639
c) retained earnings		
ca) legal reserve	13	13
cb) reserve for shares in a controlling or major shareholding entity	–	–
cc) statutory reserves	–	–
cd) other retained earnings	363	266
	376	279
d) unappropriated retained earnings (+)/loss (–)	141	58
	2,536	2,356
Total liabilities and equity	56,788	59,575
1. Contingent liabilities		
a) contingent liabilities from settled rediscounted bills of exchange	–	–
b) liabilities from guarantees and indemnity agreements (regarding keepwell statements, see disclosures in the Notes)	171	184
c) liability arising from the provision of collateral for third-party liabilities	–	–
	171	184
2. Other commitments		
a) repurchase obligations from non-genuine sale and repurchase agreements	–	–
b) placement and underwriting obligations	–	–
c) irrevocable loan commitments	3,802	2,946
	3,802	2,946
Total of contingent liabilities and other commitments	3,973	3,130

Notes

ACCOUNTING POLICIES

1 Accounting Regulations

The Deutsche Pfandbriefbank AG (pbb), with its headquarters in Munich, is registered in the commercial register of the Amtsgericht (local court) Munich (HRB 41054).

The 2016 annual financial statements of pbb were prepared in accordance with the financial reporting principles set out in the German Commercial Code (Handelsgesetzbuch – “HGB”) and the additional provisions of the German Public Limited Companies Act (Aktengesetz – “AktG”), the German Banking Act (Kreditwesengesetz – “KWG”) and the German Pfandbrief Act (Pfandbriefgesetz – “PfandBG”), as applicable to specific legal forms and institutions. The structure and the content of balance sheet and income statement is mainly prescribed by the German Accounting Directive for Banks and Financial Services Providers (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – “RechKredV”). The German Accounting Standards (GAS) issued by the German Accounting Standards Committee (GASC) were also applied.

The annual financial statements comprise the income statement, the balance sheet and the notes to the financial statements. In addition, a management report was prepared pursuant to the provisions set out in section 289 HGB.

2 Accounting and Measurement Principles

The Management Board prepared these annual financial statements on 7 March 2017 under the going-concern assumption.

Cash reserve

Cash reserve is measured at notional amounts.

Loans and advances

Loans and advances are recognised at notional value, in accordance with section 340e para. 2 HGB. The difference between the notional value and the amount disbursed is reported as deferred income. It is amortised in proportion to the principal and pro rata temporis, and recognised in the income statement in net interest income.

Risk provisioning

All identifiable individual default risks in the lending business were covered by specific allowances and provisions. General allowances are recognised for potential default risks in the lending business. They are determined based on expected losses.

The options set out in section 340f para. 3 in conjunction with section 340c para. 2 HGB were exercised.

Securities

The securities of the liquidity reserve are recognised at the lower of cost or market to the extent that they are not part of a valuation unit pursuant to section 254 HGB or are subject to interest-rate-related value fluctuations within the framework of an overall analysis of the interest rate risk of the banking book. Nevertheless, specific and general allowances due to credit quality issues as well as write-downs to the lower fair value are also recognised.

Securities treated as fixed assets are recognised at (amortised) cost in accordance with section 253 HGB in conjunction with section 340e HGB. In case of an expected permanent impairment, securities treated as fixed assets are carried at the lower fair value. The review as to whether there is an expected permanent impairment is performed regularly. A permanent impairment is deemed to exist, subject to a rebuttable presumption, when there are doubts – due to credit quality issues – as to whether the expected future cash flows can be recovered. A general allowance is recorded for potential default risks in relation to securities held as fixed assets. They are determined based on expected losses.

If the reason for a write-down ceases to exist, a write-up up to amortised cost has to be recognised.

The fair values are generally determined using transaction or stock exchange prices as at the relevant reporting date. If such prices are not available, recognised measurement models are used where the model parameters are derived from comparable market transactions. Internal measurement models were used when there were no transaction or stock exchange prices available for transactions. Market parameters or market prices arising from involuntary liquidation or distressed sales are not used for measurement purposes.

Investments in affiliated companies and participating interests

Investments in affiliated companies and participating interests are recognised at cost, reduced, if appropriate, by write-downs to the lower fair value. Write-ups are recorded if the reasons for the write-down cease to exist.

Intangible assets

Purchased intangible assets are carried at cost, reduced by amortisation and, where necessary, write-downs. Amortisation is determined using the asset's useful life. The capitalisation option for internally generated intangible assets held as fixed assets is not exercised.

Tangible assets

Tangible assets are measured at cost, reduced by amortisation and, where necessary, write-downs. Depreciation is recorded on a straight-line basis and is subject to the depreciation rates that correspond to the estimated useful lives which are also used for tax purposes.

Low-value assets with a cost of not more than €150 are written off in full during the year of acquisition. A collective account pursuant to section 6 para. 2a of the German Income Tax Act (Einkommensteuergesetz – "EStG") was recorded for depreciable movable assets with a cost of more than €150 and up to €1,000. This collective account is depreciated on a straight-line basis over a period of five years.

Overfunded plan assets

Reinsurance claims assigned to employees represent assets which are protected from access by all other creditors, and which are exclusively intended to settle liabilities from retirement benefit obligations or comparable long-term obligations. Therefore, these claims are measured at fair value in accordance with section 253 para. 1 sentence 4 in conjunction with section 246 para. 2 sentence 2 HGB, and netted against provisions related to the respective benefit plan. The relevant surrender values are used as fair values. Accordingly, expenses and income from reinsurance and from the discounting of the associated pension provisions are netted. Any excess of plan assets over post-employment benefit liabilities is reported in a separate line item.

Derivatives

Derivative financial instruments are used primarily to hedge interest rate and currency risks within the context of the overall bank's risk management. The bank enters into customer derivatives that are used to protect against interest rate risks and, as a rule, are hedged by compensating transactions at the interbank market. Interest-rate-related derivative financial instruments are primarily accounted for as part of hedging relationships pursuant to section 254 HGB or within the framework of an overall analysis of the interest rate risk of the banking book (banking book management). Currency-related derivative financial instruments are recognised within the context of currency translation in accordance with section 340h HGB.

Interest income and expenses arising from derivative financial operations are reported on a gross basis.

Liabilities

Liabilities are shown on the balance sheet at the settlement amount. The difference between the settlement amount and the issue price of the liabilities is recorded as prepaid expenses in accordance with the option provided for under section 250 para. 3 HGB. It is amortised in proportion to the principal and pro rata temporis, and recognised in the income statement in net interest income. Zero-coupon bonds are recognised at their issue price plus pro rata interest based on the issue yield.

Provisions

Provisions are recognised for contingent liabilities and pending losses in the required settlement amount, as determined based upon prudent commercial judgement. If the original remaining term of a provision is more than one year, the provision is discounted using the interest rates for matching maturities, as published by Deutsche Bundesbank. To the extent that provisions are recognised for pending losses arising from the fair value measurement of executory contracts determined on the basis of market value calculations using present values, such provisions are not discounted in accordance with IDW RS HFA 4 no. 44, but instead recorded at their negative fair value. The discounting option is not exercised for provisions with an original remaining term of up to one year. The increase in the present value of the provisions due to passage of time is calculated on a monthly basis.

The measurement of the provisions for legal risks is mainly based on the amount in dispute and potential utilisations. These are determined by pbb on the basis of opinions prepared by external lawyers.

Gains or losses from discounting and unwinding of the discount in relation to provisions are recognised in net interest income.

The provisions for pensions and similar obligations are measured using the projected unit credit method. This method represents an appropriate procedure which is based on verifiable criteria.

Calculations were based on the following assumptions:

- > Discount rate: 4.01% p.a. (2015: 3.89% p.a.)
- > Rate of increase in future compensation¹: 2.50% p.a. (2015: 2.50% p.a.)
- > Rate of increase in pension obligations: 1.50% p.a. (2015: 1.75% p.a.)
- > Mortality tables: actuarial tables issued by K. Heubeck in 2005 ("Richttafeln 2005 G")

¹ pbb expects a rate of increase in future compensation of 0% for the active Management Board members in the financial years 2016 and 2015.

Provisions for pensions and similar obligations were discounted in the financial year 2016 for the first time pursuant to section 253 para. 2 HGB on a lump-sum basis, using the published average market interest rate for the past ten years which is determined based on an assumed remaining term of 15 years. The interest rate used in this context is 4.01%. In the previous year, discounting was based on the average market interest rate for the past seven years, using an interest rate of 3.89%. The difference between the recognition of provisions for pensions as at 31 December 2016, using an average market interest rate for the past ten years (4.01%), and the average market interest rate for the past seven years (3.24%), amounts to €22 million and is not available for dividend distribution.

Contingent liabilities and other obligations are disclosed as off-balance sheet items at nominal value less any recognised provisions.

Valuation units

Valuation units are accounted for in the annual financial statements of pbb in accordance with section 254 HGB. This relates to micro valuation units used to hedge interest rate risks. Only those hedging relationships are taken into account where a high effectiveness can be expected from the hedge. The effective portion of the fair value changes is not recognised for the hedged item and the hedging instrument (net hedge presentation method). The ineffective portion from the hedged risk of hedging relationships is reflected on a portfolio basis in the form of a provision for anticipated losses. Value changes from risks that are not hedged are recognised on the basis of the general accounting policies, without taking into account the existing valuation units. To the extent that the fair value of derivatives that are not part of a hedging relationship pursuant to section 254 HGB falls below the remaining carrying amount, a provision for anticipated losses is recognised in the amount of the difference, to the extent that this is not taken into account within the framework of an overall analysis of the interest rate risk of the banking book.

Loss-free valuation

In accordance with the statement of the IDW regarding the loss-free measurement of interest-bearing transactions included in the banking book (IDW RS BFA 3), pbb conducted a loss free measurement using the present value method as at the balance sheet date. The valuation object analysed is, in accordance with risk management, a portfolio of on-balance sheet and off-balance sheet interest rate transactions. The calculated present value margin of the existing transactions in the interest rate portfolio is compared with any associated administrative and risk costs that are included until the interest rate transactions mature and which are determined using present values. There was no surplus of liabilities in relation to the valuation object as at 31 December 2016 and 31 December 2015.

Foreign currency translation

Assets, liabilities and off-balance sheet transactions are translated using the average spot exchange rate as at the balance sheet date as part of specific coverage pursuant to section 340h in conjunction with section 256a HGB. The concept of specific coverage used by the bank for currency translation only includes foreign currency assets and liabilities which have identical amounts and currencies. The fulfilment of these two criteria is ensured through an internal funding model. For the sake of clarity and convenience, the resulting currency translation gains and losses, in deviation from section 340a para. 1 in conjunction with section 277 para. 5 sentence 2 HGB, were not reported as separate items of other operating income or other operating expenses in the income statement. The corresponding disclosures were made in the notes to the income statement items nos. 7 and 10, respectively. Open foreign currency positions resulting from hedged items are closed largely by means of spot transactions or suitable derivatives. Currency translation gains or losses from fractional amounts in a currency are generally accounted for on a portfolio basis. Income and expenses in foreign currencies are recorded using the exchange rates applicable at the respective transaction dates. Against this overall background, the special rules applicable to foreign currency translation under commercial law at financial institutions (IDW RS BFA 4) were fully complied with.

Deferred taxes

Deferred taxes are determined for temporary differences between the carrying amount of assets, liabilities, deferred income and prepaid expenses as determined under the commercial law (HGB) and under tax law. In connection with the recognition of deferred taxes pursuant to section 274 para. 1 HGB, pbb generally exercises the option to offset deferred tax assets against deferred tax liabilities. Any excess of deferred tax assets over deferred tax liabilities is not recognised.

At pbb, deferred tax assets mainly arise due to the fact that the option provided for under tax laws is only partially exercised in relation to the partial write-offs of short-term and long-term securities, the recognition of other provisions that are not tax-deductible, and a different measurement of pension provisions under tax laws. There were no deferred tax liabilities as at the balance sheet date. The existing tax loss carryforwards increase the deferred tax assets in an amount that is equivalent to their realisation. The measurement of deferred taxes is based on a combined income tax rate of 27.7% (2015: 27.7%) which comprises corporation tax, trade tax and solidarity surcharge.

Auditor's fees

The bank made use of the relief provided for under section 285 no. 17 HGB in relation to the disclosure of the total fees for the financial year charged by the auditor. The disclosure is included in the consolidated financial statements.

Notice

The annual financial statements are prepared in millions of euros (€ million) from the financial year 2016. The previous year's figures were adjusted accordingly. Rounding may result in slight differences when aggregating figures and calculating percentages.

NOTES TO THE INCOME STATEMENT

3 Net Interest Income (Income Statement Items Nos. 1 & 2)

In view of clarity and convenience, expenses from the unwinding of the discount of provisions were not reported separately in the income statement, in deviation of section 340a para. 1 in conjunction with section 277 para. 5 sentence 1 HGB. The expenses from the unwinding of the discount of provisions in the amount of €1 million (2015: €3 million) are reported under interest expenses.

The negative interest income of €15 million (2015: €8 million) and the positive interest expenses of €14 million (2015: €10 million) resulted mainly from swap transactions.

Net expenses of €-2 million (2015: €-7 million) resulted from income from reinsurance claims and expenses from pensions and similar obligations.

4 Net Commission Income (Income Statement Items Nos. 5 & 6)

Provision income mainly resulted from upfront fees of €8 million (2015: €8 million) and from fees of €1 million (2015: €27 million) for underwriting the credit risks of loans granted by a subsidiary.

The commission expenses include, amongst others, fees from securities and custodial business of €2 million (2015: €2 million).

5 Other Operating Income (Income Statement Item No. 7)

Other operating income includes following main single items:

Other operating income

in € million	2016	2015
Income from the release of provisions (excluding lending business)	10	14
Income from administration cost transfers	-	5
Income from foreign currency translation	7	5
Income from leases	-	3
Income from previous years (not related to the reporting period)	16	3

6 Administrative Expenses (Income Statement Item No. 8)

Administrative expenses consist of staff expenses of €108 million (2015: €126 million) and other administrative expenses of €95 million (2015: €89 million).

7 Other Operating Expenses (Income Statement Item No. 10)

Other operating expenses include mainly additions to other provisions in non-lending business of €24 million (2015: €3 million) and expenses for bank levy of €21 million (2015: €18 million).

8 Write-downs, Write-ups and Impairments to Participating Interests, Investments in Affiliated Companies and Securities Treated as Fixed Assets (Income Statement Items Nos. 13 & 14)

These income statement items comprise a net income of €93 million (2015: net expenses of €2 million) from write-ups, sales proceeds and expenses from write-downs of securities treated as fixed assets. Net income from participating interest and investments in affiliated companies amounted to less than €1 million (2015: €4 million).

9 Extraordinary Result (Income Statement Item No. 20)

The extraordinary result includes mainly additions to and releases of restructuring provisions, as it was the case in the previous reporting period.

10 Income Taxes (Income Statement Item No. 21)

Tax expenses for income taxes amounted to €59 million (2015: €40 million), thereof €35 million (2015: €13 million) were attributable to the current fiscal year and €24 million (2015: €27 million) were attributable to previous periods.

NOTES TO THE BALANCE SHEET

11 Mortgage Loans (Assets Side Items Nos. 2 & 3)/Pfandbriefe Outstanding (Liabilities Side Items Nos. 1, 2 & 3)

Cover statement

in € million

	2016	2015
A. Mortgage Pfandbriefe		
Cover assets		
Loans and advances to other banks		
a) Mortgage loans	-	-
Loans and advances to customers		
a) Mortgage loans	15,942	15,613
Tangible assets (land charges on the Bank's own property)	-	-
Sundry assets	-	-
	15,942	15,613
Further cover assets		
Other loans and advances to other banks	-	-
Bonds and other fixed-income securities	1,020	3,707
Claims from derivatives	-	-
Total cover assets	16,962	19,320
Total Mortgage Pfandbriefe requiring cover	14,163	15,692
thereof liabilities from derivatives	-	-
Over-collateralisation	2,799	3,628
B. Public Pfandbriefe		
Cover assets		
Loans and advances to other banks		
a) Mortgage loans	-	-
b) Public-sector loans	460	649
Loans and advances to customers		
a) Mortgage loans	25	31
b) Public-sector loans	14,407	14,582
Bonds and other fixed-income securities	4,149	6,124
	19,041	21,386
Further cover assets		
Other loans and advances to other banks	-	-
Claims from derivatives	-	-
Total cover assets	19,041	21,386
Total Public Pfandbriefe requiring cover	16,157	17,118
thereof liabilities from derivatives	-	-
Over-collateralisation	2,884	4,268

12 Maturities of Selected Balance Sheet Items, By Remaining Term

Maturities of selected balance sheet items

in € million

	2016	2015
Loans and advances to other banks (assets side item no. 2)	3,425	3,319
Repayable on demand	2,078	1,750
Loans and advances with duration	1,347	1,569
up to 3 months	582	590
more than 3 months to 1 year	44	189
more than 1 year to 5 years	163	232
more than 5 years	558	558
Loans and advances to customers (assets side item no. 3)	38,675	38,998
of undetermined duration	–	–
up to 3 months	2,244	2,625
more than 3 months to 1 year	2,840	2,700
more than 1 year to 5 years	17,799	17,698
more than 5 years	15,792	15,975
Bonds and other fixed-interest securities (assets side item no. 4)	12,930	15,240
thereof maturing in the subsequent year	2,876	2,576
Liabilities to other banks (liabilities side item no. 1)	4,347	3,773
Repayable on demand	973	1,255
with agreed duration or notice period	3,374	2,518
up to 3 months	2,189	824
more than 3 months to 1 year	113	536
more than 1 year to 5 years	249	370
more than 5 years	823	788
Liabilities to customers (liabilities side item no. 2)	25,756	28,096
Repayable on demand	1,623	1,287
with agreed duration or notice period	24,133	26,809
up to 3 months	1,840	1,843
more than 3 months to 1 year	2,360	3,333
more than 1 year to 5 years	7,304	8,404
more than 5 years	12,629	13,229
Securitised liabilities (liabilities side item no. 3)	22,078	23,087
a) bonds in issue	22,048	22,975
thereof maturing in the subsequent year	5,641	4,810
b) other securitised liabilities	30	112
up to 3 months	–	–
more than 3 months to 1 year	30	112
more than 1 year to 5 years	–	–
more than 5 years	–	–

13 Subordinated Assets (Assets Side Items Nos. 2, 3, 4 & 11)

There are no subordinated assets to be recognised in the balance sheet in the current and in the previous year.

14 Breakdown Of Marketable Securities and Other Financial Investments (Assets Side Items Nos. 4, 5, 6 & 7)

The marketable securities disclosed under corresponding balance sheet items are attributable to listed or unlisted criterion as follows:

Marketable securities and other financial investments

in € million	listed		unlisted	
	2016	2015	2016	2015
Bonds and other fixed-income securities	11,726	13,874	1,204	1,366
Equity shares and other variable-yield securities	-	-	2	2
Participating interests	-	-	-	-
Investments in affiliated companies	-	-	-	-

15 Bonds and Other Fixed-Income Securities (Assets Side Item No. 4)

Of the bonds and other fixed-income securities (assets side item No. 4), pbb holds third-party bonds with a carrying amount of €11,149 million (2015: €13,091 million). Of this amount, €9,275 million (2015: €10,919 million) are treated as fixed assets, and €1,874 million (2015: €2,172 million) are treated as current assets.

Overall, securities treated as fixed assets with a carrying amount of €6,079 million (2015: €7,378 million) are not measured with the lower fair value as at the balance sheet date of €5,640 million (2015: €6,953 million). The unrecognised write-downs to the lower fair value in the amount of €439 million (2015: €425 million) are attributable to the following issuer groups:

Omitted write-downs, by issuer

in € million	2016				2015
	Public issuers	Other banks	Other issuers	Total	Total
Carrying amount	2,825	2,076	1,178	6,079	7,378
Fair value	2,533	2,010	1,097	5,640	6,953
Omitted write-downs of fixed assets	292	66	81	439	425

pbb assumes, for all securities with unrecognised write-downs, that the fair value is below the carrying amount only temporarily. There are no payment defaults or doubts regarding the recoverability of these securities.

In the following year, an amount of €2,876 million (2015: €2,576 million) of the portfolio of bonds and other fixed-income securities will mature.

16 Participating Interests and Investments in Affiliated Companies (Assets Side Items Nos. 4 & 7)

Investments in affiliated companies (assets side item no. 7)

Name and registered office	Capital share sec. 16 para. 4 AktG	of which held indirectly	Equity in thousand	Net income in thousand	Currency
Hypo Real Estate Capital India Corp. Private Ltd. i.L., Mumbai/India	100.00%	–	–	–36	INR
Hypo Real Estate Capital Japan Corp.i.L., Tokyo/Japan ¹⁾	100.00%	–	7,049,554	1,563,297	JPY
Hypo Real Estate International LLC I, Wilmington/USA ¹⁾	100.00%	–	9,348	9,322	EUR
Hypo Real Estate International Trust I, Wilmington/USA ¹⁾	100.00%	–	–7,473	51,977	EUR
IMMO Immobilien Management Beteiligungsgesellschaft mbH, Munich/Germany	100.00%	–	25	1	EUR
IMMO Immobilien Management GmbH & Co. KG, Munich/Germany	100.00%	–	535	226	EUR
IMMO Invest Real Estate GmbH, München, Germany ²⁾	100.00%	–	8,448	–	EUR
with the following investment: RPPSE Espacio Oviedo S.L.U., Madrid/Spain ¹⁾	100.00%	100.00%	–7,348	–11,163	EUR
Ragnarök Vermögensverwaltung AG & Co. KG, Munich/Germany ³⁾	100.00%	6.00%	975	–310	EUR

¹⁾ Financial figures from the financial year 2015

²⁾ Profit transfer by shareholders on the basis of profit and loss transfer agreement

³⁾ General partner liability (Komplementärhaftung) of pbb

Participating interests (assets side item no. 6)

Name and registered office	Capital share sec. 16 para. 4 AktG	of which held indirectly	Equity in thousand	Net income in thousand	Currency
SANO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dresden KG, Dusseldorf/Germany ¹⁾	33.33%	–	–2,108	634	EUR
SOMA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Darmstadt KG, Dusseldorf/Germany ¹⁾	33.33%	–	–11,524	177	EUR
WISUS Beteiligungs GmbH & Co. Zweite Vermietungs-KG, Munich/Germany ¹⁾²⁾	33.00%	–	–1,210	392	EUR

¹⁾ Financial figures from the financial year 2015

²⁾ In accordance with section 264 b HGB the annual financial statement was not published

The company Gfi-Gesellschaft für Immobilienentwicklung und -verwaltung mbH i.L., Stuttgart, was ultimately liquidated on 14 December 2016. The company Hayabusa Godo Kaisha i.L., Tokyo, was ultimately liquidated on 28 June 2016. A write-down to the lower fair value of €291 thousand was recorded for Ragnarök Vermögensverwaltung AG & Co. KG, Munich. A write-up was recognised for IMMO Immobilien Management GmbH & Co. KG, Munich, in the amount of €226 thousand.

The bank was not a general partner with respect to any participating interests (assets side item no. 6) and any investments in affiliated companies (assets side item no. 7), with the exception of Ragnarök Vermögensverwaltung AG & Co. KG, Munich.

The shareholding for all other participating interests was less than 20%. There were no further equity investments in large corporations where the shareholding exceeded 5% of the voting rights.

Exchange rates as of 31 December 2016

	Currency	Rate
India	INR	71.5935
Japan	JPY	123.4000

17 Trust Business (Assets Side Item No. 8 & Liabilities Side Item No. 4)

Assets and liabilities held in trust amounted to less than €1 million as was the case in the previous period.

18 Intangible Assets (Assets Side Item No. 9)

Intangible assets include purchased software amounting to €4 million (2015: €6 million).

19 Tangible Assets (Assets Side Item No. 10)

Tangible assets include operating equipment of €8 million (2015: €11 million).

20 Development in Fixed Assets (Assets Side Items Nos. 4, 6, 7, 9 & 10)

Development in fixed assets

in € million	Intangible assets	Tangible assets	Securities treated as fixed assets	Participating interests	Shares in affiliated companies
Carrying amount as of 1.1.2015	7	8	14,697	-	214
Cost of purchase or production	107	23	-	-	-
Additions	2	5	-	-	-
Disposals	-51	-3	-	-	-
Transfers	-	-	-	-	-
Foreign currency translation effects	-	-	-	-	-
Write-ups	-	-	-	-	-
Depreciation/amortisation	-3	-3	-	-	-
Accumulated depreciation/amortisation	-52	-14	-	-	-
Change +/- ¹⁾	-	-	-3,778	-	-161
Carrying amount as of 31.12.2015	6	11	10,919	-	53

Carrying amount as of 1.1.2016	6	11	10,919	-	53
Cost of purchase or production	58	24	-	-	-
Additions	-	1	-	-	-
Disposals	-	-5	-	-	-
Transfers	-	-	-	-	-
Foreign currency translation effects	-	-	-	-	-
Write-ups	-	-	-	-	-
Depreciation/amortisation	-2	-2	-	-	-
Accumulated depreciation/amortisation	-54	-12	-	-	-
Change +/- ¹⁾	-	-	-1,644	-	-1
Carrying amount as of 31.12.2016	4	8	9,275	-	52

¹⁾ Exercised aggregation option according to section 34 para. 3 RechKredV

21 Sundry Assets (Assets Side Item No. 11)

The item mainly includes income tax assets in the amount of €47 million (2015: €21 million) and an adjustment item resulting from the measurement of hedged foreign currency transactions in the amount of €31 million (2015: €114 million). In addition, sundry assets include cash collateral of €11 million (2015: €8 million) pledged within the scope of the bank levy.

In accordance with section 246 para. 2 sentence 2 HGB, other assets include unpledged claims from reinsurance policies for pensions in the amount of €2 million (2015: €7 million). The fair values of pledged claims from retirement benefit obligations, if any, after setting off reinsured pension provisions and provisions for partial retirement schemes, are reported in the item "overfunded plan assets".

22 Overfunded Plan Assets (Assets Side Item No. 13)

As it was the case in the previous year, overfunded plan assets in accordance with section 246 para. 2 sentence 2 HGB were not recognised as of 31 December 2016.

23 Prepaid Expenses and Deferred Income (Assets Side Item No. 12 & Liabilities Side Item No. 6)

Prepaid expenses and deferred income

in € million

	2016	2015
Assets side item no. 12a)		
Prepaid expenses from the issuance and loan business	106	108
thereof:		
discount from debt securities and loans received	63	68
premium from loans and advances granted	43	40
Liabilities side item no. 6a)		
Deferred income from the issuance and loan business	133	133
thereof:		
discount from loans and advances granted	99	94
premium from debt securities and loans received	34	39

24 Sundry Liabilities (Liabilities Side Item No. 5)

The major part of sundry liabilities is an adjustment item resulting from the measurement of hedged foreign currency transactions in the amount of €143 million (2015: €35 million).

25 Provisions for Pensions and Similar Obligations (Liabilities Side Item No. 7a)

As at balance sheet date (31 December 2016), this item included, pursuant to section 246 para. 2 sentence 2 HGB, only provisions for pensions and similar obligations after offsetting against plan assets (pension provisions of €215 million (2015: €225 million)), of which an amount of €196 million was offset against plan assets (2015: €178 million).

The pension provisions and similar obligations to former Management Board members and their surviving dependants amounted to €62 million (2015: €64 million).

26 Other Provisions (Liabilities Side Item No. 7c)

The following major single items are included in other provisions:

- > Restructuring provisions of €14 million (2015: €12 million)
- > Provisions relating to valuation units €22 million (2015: €29 million)
- > Provisions for legal and litigation risks and corresponding default interest payments of €75 million (2015: €87 million)

27 Subordinated Liabilities (Liabilities Side Item No. 8)

This item refers to promissory note loans, bearer bonds and registered bonds. The interest rates for fixed-income issues are between 3.25% p.a. and 8.06% p.a. They mature between 2017 and 2037.

Interest expenses of €53 million (2015: €66 million) were incurred for subordinated liabilities. This balance sheet item includes interest in the amount of €31 million (2015: €38 million).

Two euro-denominated issues included in this item exceed 10% of the total amount of subordinated liabilities:

Year of issue	Notional in € million	Interest rate in %	Maturity
2007	350	5.879	2037
2015	90	5.099	2017

The terms and conditions for funds raised comply with the provisions of section 10 para. 5 KWG. Any early redemption is generally excluded until 14 June 2017, subject to the occurrence of so-called company redemption events.

28 Participatory Capital (Liabilities Side Item No. 9)

As of 31. Dezember 2016 and as of 31. Dezember 2015 pbb owed no participatory capital.

29 Fund for General Banking Risks (Liabilities Side Item No. 10)

As in the previous year, no amounts were transferred to or withdrawn from the fund for general banking risks pursuant to section 340g HGB; the fund continues to amount to €47 million.

30 Development in Equity (Liabilities Side Item No. 11)

Subscribed capital is the maximum liability of the shareholder for the liabilities of the corporation to its creditors. Additional paid-in capital includes contributions from a previous financial year as well as premiums from the issue of shares. Retained earnings were generally created only from net income of the current financial year or previous periods. This includes legal reserves to be created from net income and other reserves.

in € million	Subscribed capital			Additional paid-in capital	Retained earnings			Unappropriated retained earnings(+) / loss (-)	Total
	Share capital	Silent partnership	Total		Legal reserve	Other reserves	Total		
Equity as of 1.1.2015	380	92	472	3,267	13	266	279	-1,382	2,636
Net income/loss	-	-	-	-	-	-	-	781	781
Dividend distribution	-	-	-	-	-	-	-	-	-
Capital transfer	-	-	-	-1,628	-	-	-	1,628	-
Replenishment of silent partnership	-	908	908	-	-	-	-	-908	-
Repayment of silent partnership	-	-1,000	-1,000	-	-	-	-	-	-1,000
Changes in participatory capital	-	-	-	-	-	-	-	-61	-61
Allocation to retained earnings	-	-	-	-	-	-	-	-	-
Equity as of 31.12.2015	380	-	380	1,639	13	266	279	58	2,356

Equity as of 1.1.2016	380	-	380	1,639	13	266	279	58	2,356
Net income/loss	-	-	-	-	-	-	-	252	252
Dividend distribution	-	-	-	-	-	-	-	-58	-58
Capital transfer	-	-	-	-	-	-	-	-	-
Replenishment of silent partnership	-	-	-	-	-	-	-	-	-
Repayment of silent partnership	-	-	-	-	-	-	-	-	-
Changes in participatory capital	-	-	-	-	-	-	-	-14	-14
Allocation to retained earnings	-	-	-	-	-	97	97	-97	-
Equity as of 31.12.2016	380	-	380	1,639	13	363	376	141	2,536

31 Subscribed Capital (Liabilities Side Item No. 11a)

Subscribed capital amounted to €380 million (2015: €380 million) as of balance sheet date.

Share capital (liabilities side item no. 11aa) as of 31 December 2016 and during the entire financial year 2016 amounted to €380,376,059.67 which is divided into 134,475,308 ordinary bearer shares with no par value representing a theoretical interest in the share capital of approximately € 2.83 per share. As at 31 December 2016 and during the entire financial year 2016, pbb did not hold any treasury shares.

Please refer to the disclosures pursuant to section 289 para. 4 HGB included in the "Supplemental Information" section of the Management Report for information on authorised and contingent capital.

32 Additional Paid-in Capital (Liabilities Side Item No. 11b)

In the financial year 2016, there were no transfers to or withdrawals from additional paid-in capital. In the financial year 2015, a withdrawal from freely available additional paid-in capital pursuant to section 272 para. 2 no. 4 HGB was made in the amount of €1,628 million to compensate the losses carried forward, and to increase unappropriate retained earnings up to the amount envisaged for distribution (€58 million).

33 Retained Earnings (Liabilities Side Item No. 11c)

The legal reserve remained unchanged in the financial years 2016 and 2015. The amount of €97 million (2015: €0 million) was transferred to other reserves.

34 Foreign Currency Assets And Liabilities

Foreign currency assets amounted to €8,259 million (2015: 8,635 million), whereas foreign currency liabilities amounted to €8,247 million (2015: 8,643 million) as of balance sheet date.

35 Assets Transferred as Collateral

The following assets were transferred as collateral for own liabilities:

Assets transferred as collateral

in € million	Carrying amount	
	2016	2015
Pledging of securities arising from open market transactions with the ECB	–	–
Securities held under repurchase agreements	1,713	610
Loans and advances held under repurchase agreements	69	80
Pledging of loans and advances as collateral for loans and advances received	208	155
Pledging of securities as collateral for loans and advances received	–	16
Cash collateral deposited at other banks	2,064	1,730

All assets reported in the table were transferred for liabilities to other banks.

Additionally, cash collateral of €11 million (2015: €8 million) was pledged in connection with bank levies as of balance sheet date.

36 Loans and Advances and Liabilities to Affiliated and Participated Companies

Loans and advances and liabilities to affiliated and participated companies

in € million	to affiliated companies		to participated companies	
	2016	2015	2016	2015
Loans and advances to other banks (assets side item no. 2)	-	-	-	-
Loans and advances to customers (assets side item no. 3)	7	24	31	37
Bonds and other fixed-interest securities (assets side item no. 4)	-	-	-	-
Liabilities to other banks (liabilities side item no. 1)	-	-	-	-
Liabilities to customers (liabilities side item no. 2)	63	67	-	-
Securitised liabilities (liabilities side item no. 3)	-	-	-	-
Subordinated liabilities (liabilities side item no. 8)	361	361	-	-

OTHER NOTES

37 Supplemental Disclosures According to Section 28 PfandBG (Pfandbrief Act)

Mortgage Pfandbriefe outstanding and their cover

in € million	Notional		Present value		Risk-adjusted net present value ¹⁾	
	2016	2015	2016	2015	2016	2015
Total outstanding						
Mortgage Pfandbriefe	14,163	15,692	15,496	17,057	15,648	17,455
Cover Pool	16,962	19,320	18,353	21,008	17,890	20,816
Over-collateralisation	2,799	3,628	2,857	3,951	2,242	3,361
Over-collateralisation in % of Pfandbriefe outstanding	19.8%	23.1%	18.4%	23.2%	14.3%	19.3%
Over-collateralisation in consideration of vdp-credit-quality-differentiation model	2,799	3,585	2,857	3,903		
Over-collateralisation in % of Pfandbriefe outstanding	19.8%	22.8%	18.4%	22.9%		

¹⁾ For the calculation of risk cash value the dynamic rate method is applied according to section 5 para. 1 no. 1 PfandBarwertV

Maturity structure (remaining maturity) notional

in € million	Mortgage Pfandbriefe		Cover pool	
	2016	2015	2016	2015
up to 0.5 years	955	1,552	1,255	1,616
more than 0.5 years to 1 year	1,862	1,584	1,155	1,601
more than 1 year to 1.5 years	580	1,120	1,088	1,225
more than 1.5 years to 2 years	827	1,795	1,041	1,185
more than 2 years to 3 years	2,040	1,383	3,105	2,750
more than 3 years to 4 years	2,334	2,579	2,752	3,143
more than 4 years to 5 years	321	1,738	2,324	2,647
more than 5 years to 10 years	2,915	1,735	3,614	4,442
more than 10 years	2,329	2,206	628	711

**Further cover assets for Mortgage Pfandbriefe
as of 31 December 2016**

in € million	Equalisation claims	Money claims		Bonds	Total
		Total money claims	thereof: covered bonds		
Belgium	-	-	-	-	-
Germany	-	463	-	29	492
France	-	46	-	165	211
United Kingdom	-	52	-	-	52
Italy	-	-	-	80	80
Japan	-	-	-	48	48
Austria	-	-	-	64	64
Poland	-	-	-	-	-
Portugal	-	-	-	-	-
Slovenia	-	-	-	-	-
Spain	-	-	-	-	-
Czech Republic	-	-	-	-	-
Hungary	-	-	-	-	-
Luxembourg	-	73	-	-	73
Total of all countries	-	634	-	386	1,020

**Further cover assets for Mortgage Pfandbriefe
as of 31 December 2015**

in € million	Equalisation claims	Money claims		Bonds	Total
		Total money claims	thereof: covered bonds		
Belgium	-	-	-	153	153
Germany	-	227	-	28	255
France	-	-	-	140	140
United Kingdom	-	-	-	-	-
Italy	-	-	-	892	892
Japan	-	-	-	46	46
Austria	-	-	-	607	607
Poland	-	-	-	100	100
Portugal	-	-	-	145	145
Slovenia	-	-	-	-	-
Spain	-	-	-	465	465
Czech Republic	-	-	-	-	-
Hungary	-	-	-	246	246
Luxembourg	-	558	-	100	658
Total of all countries	-	785	-	2,922	3,707

**Volume of claims used to cover Mortgage Pfandbriefe, split by countries where the property is located, and by property type
31 December 2016**

in € million	Total of used claims	thereof: residential					Total residential
		Apartments	Single-and two-family houses	Multi-family houses	Buildings under construction	Building land	
Germany	7,545	281	16	2,196	195	-	2,688
Belgium	-	-	-	-	-	-	-
France	1,959	1	-	7	-	-	8
United Kingdom	2,741	-	-	-	-	-	-
Netherlands	381	84	-	-	-	-	84
Austria	294	-	-	11	-	-	11
Switzerland	171	-	-	-	-	-	-
USA	117	-	-	-	-	-	-
Denmark	22	-	-	-	-	-	-
Finland	127	-	-	-	-	-	-
Italy	-	-	-	-	-	-	-
Luxembourg	40	-	-	-	-	-	-
Norway	18	-	-	-	-	-	-
Poland	978	-	-	-	-	-	-
Sweden	864	-	-	102	-	-	102
Slovakia	-	-	-	-	-	-	-
Spain	143	-	-	-	-	-	-
Czech Republic	201	-	-	-	-	-	-
Hungary	289	-	-	-	-	-	-
Japan	-	-	-	-	-	-	-
Romania	52	-	-	-	-	-	-
Slovenia	-	-	-	-	-	-	-
Total of all countries	15,942	366	16	2,316	195	-	2,893

**Volume of claims used to cover Mortgage Pfandbriefe, split by countries where the property is located, and by property type
31 December 2016**

in € million	Thereof: commercial						Total commercial
	Office buildings	Retail buildings	Industrial buildings	other commercially used buildings	Buildings under construction	Building land	
Germany	1,909	1,544	115	926	251	112	4,857
Belgium	-	-	-	-	-	-	-
France	1,098	273	98	311	171	-	1,951
United Kingdom	826	1,324	42	406	143	-	2,741
Netherlands	158	21	-	118	-	-	297
Austria	161	112	-	-	10	-	283
Switzerland	17	154	-	-	-	-	171
USA	117	-	-	-	-	-	117
Denmark	22	-	-	-	-	-	22
Finland	36	3	88	-	-	-	127
Italy	-	-	-	-	-	-	-
Luxembourg	15	-	-	25	-	-	40
Norway	-	18	-	-	-	-	18
Poland	266	477	15	220	-	-	978
Sweden	168	441	153	-	-	-	762
Slovakia	-	-	-	-	-	-	-
Spain	20	113	-	10	-	-	143
Czech Republic	58	30	-	113	-	-	201
Hungary	108	181	-	-	-	-	289
Japan	-	-	-	-	-	-	-
Romania	-	52	-	-	-	-	52
Slovenia	-	-	-	-	-	-	-
Total of all countries	4,979	4,743	511	2,129	575	112	13,049

Volume of claims used to cover Mortgage Pfandbriefe, split by countries where the property is located, and by property type
31 December 2015

in € million	Total of used claims	thereof: residential					Total residential
		Apartments	Single-and two-family houses	Multi-family houses	Buildings under construction	Building land	
Germany	7,374	245	19	2,189	139	-	2,592
Belgium	-	-	-	-	-	-	-
France	1,795	-	-	11	-	-	11
United Kingdom	2,747	-	-	-	18	-	18
Netherlands	236	59	1	-	-	-	60
Austria	198	-	-	-	-	-	-
Switzerland	133	-	-	-	-	-	-
USA	-	-	-	-	-	-	-
Denmark	45	-	-	-	-	-	-
Finland	128	-	-	-	-	-	-
Italy	8	-	-	-	-	-	-
Luxembourg	45	-	-	-	-	-	-
Norway	-	-	-	-	-	-	-
Poland	887	-	-	-	-	-	-
Sweden	1,094	-	-	229	-	-	229
Slovakia	-	-	-	-	-	-	-
Spain	234	-	-	-	-	-	-
Czech Republic	370	-	-	-	-	-	-
Hungary	267	-	-	-	-	-	-
Japan	-	-	-	-	-	-	-
Romania	52	-	-	-	-	-	-
Slovenia	-	-	-	-	-	-	-
Total of all countries	15,613	304	20	2,429	157	-	2,910

**Volume of claims used to cover Mortgage Pfandbriefe, split by countries where the property is located, and by property type
31 December 2015**

Thereof: commercial

in € million	Office buildings	Retail buildings	Industrial buildings	other commercially used buildings	Buildings under construction	Building land	Total commercial
Germany	1,821	1,583	153	986	131	108	4,782
Belgium	-	-	-	-	-	-	-
France	1,104	239	117	148	176	-	1,784
United Kingdom	939	1,408	31	307	44	-	2,729
Netherlands	16	48	-	112	-	-	176
Austria	99	99	-	-	-	-	198
Switzerland	-	133	-	-	-	-	133
USA	-	-	-	-	-	-	-
Denmark	45	-	-	-	-	-	45
Finland	38	3	87	-	-	-	128
Italy	8	-	-	-	-	-	8
Luxembourg	26	-	-	19	-	-	45
Norway	-	-	-	-	-	-	-
Poland	164	429	-	294	-	-	887
Sweden	223	443	199	-	-	-	865
Slovakia	-	-	-	-	-	-	-
Spain	101	122	-	11	-	-	234
Czech Republic	168	50	-	152	-	-	370
Hungary	138	129	-	-	-	-	267
Japan	-	-	-	-	-	-	-
Romania	-	52	-	-	-	-	52
Slovenia	-	-	-	-	-	-	-
Total of all countries	4,890	4,738	587	2,029	351	108	12,703

Claims used to cover Mortgage Pfandbriefe

in € million	Total amount of payments in arrears for at least 90 days		Total amount of these claims in as much as the respective amount in arrears is at least 5% of the claim	
	2016	2015	2016	2015
Germany	2	2	3	3
France	1	-	3	-
Spain	12	4	39	5
Total of all countries	15	6	45	8

Mortgage loans used as cover for Mortgage Pfandbriefe according to their amount in tranches

in € million	2016	2015
up to €300 thousand	136	171
more than €300 thousand up to €1 million	314	406
more than €1 million up to €10 million	1,780	1,796
more than €10 million	13,712	13,240
Total	15,942	15,613

Key figures about outstanding Mortgage Pfandbriefe and cover pool used

in € million		2016	2015
Outstanding Mortgage Pfandbriefe		14,163	15,692
thereof fixed-rate Pfandbriefe		90.9%	86.1%
Cover pool		16,962	19,320
thereof total amount of claims which exceed the limits according to section 13 para.1 PfandBG		-	-
thereof total amount of the claims which exceed the limits according to section 19 para. 1 no. 2 PfandBG		-	-
thereof total amount of the claims which exceed the limits according to section 19 para. 1 no. 3 PfandBG		-	-
thereof fixed-rate cover assets		39.5%	36.4%
	CHF	231	222
	DKK	1,964	13
	GBP	64	1,788
Net present value for each foreign currency in € (net of assets and liabilities)	JPY	763	62
	NOK	19	2
	SEK	3	857
	USD	122	-
volume-weighted average time in years (seasoning)		3.6	4.1
weighted average loan-to-value ratio		55.6%	47.6%
weighted average loan-to-value ratio, based upon the market value -optional-		39.5%	-

Enforcement measures (assets side nos. 2 and 3)

	Number of cases		thereof: commercial		thereof: residential	
	2016	2015	2016	2015	2016	2015
Pending as of 31 December						
Forced sales	5	3	1	1	4	2
Administrative receivership	2	1	-	-	2	1
thereof included in pending forced sales	2	1	-	-	2	1
Forced sales in the current financial year	-	2	-	-	-	2

Properties purchased or acquired by auction (assets side items nos. 10 & 11): In the previous and the current financial year pbb did not have to carry out salvage acquisitions to avoid losses in mortgages.

Overdue Interests (assets side items nos. 2 & 3): In 2016 and 2015, total overdue interests to be paid by mortgage debtors (if not written off in previous periods) amounted to less than €1 million relating to commercial and to less than €1 million relating to residential purposes.

Public Pfandbriefe outstanding and their cover

in € million	Notional		Present value		Risk-adjusted net present value ¹⁾	
	2016	2015	2016	2015	2016	2015
Total Outstanding						
Public Pfandbriefe	16,157	17,118	19,962	21,037	18,442	22,627
Cover pool	19,042	21,387	22,933	24,812	21,176	25,618
Over-collateralisation	2,885	4,269	2,971	3,775	2,734	2,991
Over-collateralisation in % of Pfandbriefe outstanding	17.9%	24.9%	14.9%	17.9%	14.8%	13.2%
Over-collateralisation in consideration of vdp-credit-quality-differentiation model	2,853	4,235	2,937	3,742		
Over-collateralisation in % of Pfandbriefe outstanding	17.7%	24.7%	14.7%	17.8%		

¹⁾ For the calculation of risk cash value the dynamic rate method is applied according to section 5 para. 1 no. 1 PfandBarwertV

Maturity structure (remaining maturity) notional

in € million	Public Pfandbriefe		Cover pool	
	2016	2015	2016	2015
up to 0.5 years	1,537	926	1,182	1,689
more than 0.5 years to 1 year	371	495	1,194	1,039
more than 1 year to 1.5 years	1,192	1,574	999	1,569
more than 1.5 years to 2 years	203	470	887	981
more than 2 years to 3 years	2,115	1,482	1,457	1,702
more than 3 years to 4 years	1,167	1,872	2,222	1,429
more than 4 years to 5 years	549	915	807	2,053
more than 5 years to 10 years	3,068	3,385	3,171	3,107
more than 10 years	5,955	5,999	7,123	7,818

Volume of claims used to cover Public Pfandbriefe
31 December 2016

in € million	Cover assets		thereof owed by				thereof guaranteed by			
	Total	thereof granted for reasons of promoting exports	Central state	Regional authorities	Local authorities	Other	Central state	Regional authorities	Local authorities	Other
Germany	9,011	1,051	1,770	4,697	460	411	1,198	304	169	2
Belgium	207	-	-	-	-	-	50	157	-	-
Finland	162	-	10	-	40	112	-	-	-	-
France	2,550	-	223	791	404	978	-	21	133	-
Greece	-	-	-	-	-	-	-	-	-	-
Luxembourg	-	-	-	-	-	-	-	-	-	-
Italy	552	-	2	456	94	-	-	-	-	-
Japan	201	-	141	-	60	-	-	-	-	-
Lithuania	-	-	-	-	-	-	-	-	-	-
Netherlands	10	-	-	-	-	-	9	-	1	-
Austria	4,295	-	3,175	-	-	-	370	674	76	-
Portugal	362	-	-	44	-	125	-	193	-	-
Sweden	40	-	-	-	40	-	-	-	-	-
Slovakia	-	-	-	-	-	-	-	-	-	-
Spain	951	-	-	719	115	117	-	-	-	-
Poland	-	-	-	-	-	-	-	-	-	-
Switzerland	75	-	-	-	-	75	-	-	-	-
Slovenia	154	-	-	-	-	-	154	-	-	-
Czech Republic	-	-	-	-	-	-	-	-	-	-
Canada	-	-	-	-	-	-	-	-	-	-
Denmark	-	-	-	-	-	-	-	-	-	-
Hungary	117	-	117	-	-	-	-	-	-	-
United Kingdom	66	33	-	15	18	-	33	-	-	-
USA	13	-	-	-	-	13	-	-	-	-
International Organisations	275	-	-	-	-	275	-	-	-	-
Total of all countries	19,041	1,084	5,438	6,722	1,231	2,106	1,814	1,349	379	2

**Volume of claims used to cover Public Pfandbriefe
31 December 2015**

in € million	Cover assets					
	Total	thereof granted for reasons of promoting exports	Central state	Regional authorities	Local authorities	Other
Germany	10,785	1,137	3,512	5,978	672	623
Belgium	173	-	50	123	-	-
Finland	181	-	9	-	43	129
France	2,743	-	732	727	492	792
Greece	-	-	-	-	-	-
Luxembourg	-	-	-	-	-	-
Italy	443	-	389	18	36	-
Japan	209	-	149	-	60	-
Lithuania	-	-	-	-	-	-
Netherlands	100	-	100	-	-	-
Austria	4,123	-	3,543	465	-	115
Portugal	297	-	41	256	-	-
Sweden	40	-	-	-	40	-
Slovakia	35	-	35	-	-	-
Spain	924	-	-	544	250	130
Poland	145	-	145	-	-	-
Switzerland	125	-	-	-	-	125
Slovenia	183	-	183	-	-	-
Czech Republic	-	-	-	-	-	-
Canada	-	-	-	-	-	-
Denmark	46	-	-	-	-	46
Hungary	-	-	-	-	-	-
United Kingdom	74	36	36	17	21	-
USA	12	-	-	-	-	12
International Organisations	749	-	-	-	-	749
Total of all countries	21,387	1,173	8,924	8,128	1,614	2,721

On balance sheet date (and as in the previous year), no payments exist that are past due more than 90 days and no receivables exist with a past due amount of more than 5% of the total claim.

Claims used as cover for Public Pfandbriefe according to their amount in tranches

in € million	2016	2015
up to €10 million	347	317
more than €10 million up to €100 million	3,875	3,925
more than €100 million	14,820	17,145
Total	19,042	21,387

Key figures about outstanding Public Pfandbriefe and cover pool used

in € million	2016	2015
Outstanding Public Pfandbriefe	16,157	17,118
thereof fixed-rate Pfandbriefe	87.6%	84.7%
Cover pool	19,042	21,387
thereof total amount of the claims which exceed the limits according to section 20 para. 2 PfandBG	–	21,387
thereof fixed-rate cover assets section	72.1%	72.8%
	AUD	–102
	CAD	13
	CHF	–189
	GBP	91
	JPY	201
	USD	1,099
Net present value for each foreign currency in € (net of assets and liabilities)	475	

38 Contingent Liabilities (Off-Balance-Sheet Item No. 1b)

The liabilities from guarantees and indemnity agreements of €171 million (2015: €184 million) were granted in connection with banking business. Prior to granting, the potential guarantee or indemnity holders are subjected to a thorough credit assessment. Any subsequent credit deteriorations are closely monitored, and corresponding provisions are recorded, if appropriate. Potential risks from guarantee or indemnity agreements are reflected through the recognition of additional general allowances. In this connection, pbb does not have any indication that would suggest additional future defaults.

39 Other Commitments (Off-Balance-Sheet Item No. 2c)

The reported amount of irrevocable loan commitments of a total of €3,802 million (2015: €2,946 million) comprises commitments for mortgage loans of €3,253 million (2015: €2,513 million) and loan commitments to the public sector in the amount of €540 million (2015: €433 million). Prior to granting, potential borrowers are subjected to a thorough credit assessment. Any subsequent credit deteriorations are closely monitored, and corresponding provisions are recorded, if appropriate. Potential risks from irrevocable loan commitments are reflected through the recognition of additional general allowances. pbb does not have any indication that would suggest additional future defaults.

40 Off-Balance-Sheet Transactions and Other Financial Commitments

Non-terminable operate lease agreements for land and buildings as well as for operating and business equipment existed as of 31 December 2016 and as of 31 December 2015.

Future minimum lease payments by maturities

in € million	2016	2015 ¹⁾
up to 1 year	7	6
more than 1 year to 5 years	14	20
more than 5 years	2	4
Total	23	30

¹⁾ Corrections were made to the future minimum lease payments as at 31 December 2015, due to erroneous determinations. Prior to the correction, the value of payments within the maturity band of up to 1 year was €11 million, the value of payments within the maturity band of more than 1 year to 5 years was €39 million, and the value of payments within the maturity band of more than 5 years was €21 million. Hence, the disclosed total value of the future minimum lease payments as at 31 December 2015 declined by €41 million.

As of balance sheet date, commitments from bank levies existed in the form of pledged collateral in the amount of €11 million (2015: €8 million).

Other commitments that existed on the balance sheet date are within the usual business scope.

41 Legal Risks (Litigation Risks)

pbb is obliged, in all jurisdictions in which it conducts its business, to comply with a large number of statutory and supervisory requirements and regulations such as certain rules of conduct to compliance with competition rules, to avoid conflicts of interest, to combat money laundering, to prevent terrorist financing, to prevent criminal offences, to regulate foreign trade and to safeguard bank, business and data secrecy. Given the nature of business and international expansion of activities and the large number of relevant requirements and regulations, pbb is involved in litigation, arbitration and administrative proceedings in some countries. These also include criminal proceedings as well as the assertion of claims in an amount not specified by the party asserting the claim. pbb recognises provisions for the uncertain obligations arising from these proceedings if the potential outflow of resources is sufficiently likely and the amount of the obligation can be estimated. The probability of the outflow of resources, which often cannot be estimated with certainty, is highly dependent on the outcome of the proceedings. The assessment of this probability and the quantification of the obligation are largely based on estimates. The actual liability can vary considerably from this estimate. Accounting for the individual legal procedure, pbb analyses developments of the individual cases and comparable cases, drawing on its own expertise or opinions by external consultants, and in particular by legal advisors, depending on the significance and complexity of the respective case. The provisions recognised for the proceedings are not reported separately as pbb believes that the outcome of the proceedings would be seriously compromised by their disclosure.

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 up to €9.4 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 proceedings 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 years 2008 et. seq. respectively pbb's unappropriated retained losses since this time. The redemption amounts have reduced and interest payment has been suspended. Individual investors therefore initiated legal proceedings, contesting in particular various individual clauses relating to loss participation and replenishment following loss participation. The key questions in this connection are which balance sheet items must be taken into account to calculate loss participation and whether replenishment is required if pbb records a net income, unappropriated retained earnings or another income. Courts have decided against the legal view of pbb in view of the individual decisions regarding profit participation certificates. 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 €65.4 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.

Provisions in the amount of €5.0 million were recognised 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 recently issued.

Hypo Real Estate Bank International AG 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 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.

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 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.

42 Financial Derivatives

In the following, the outstanding derivative transactions are presented in accordance with the recommendations made by the Accounting Committee of the Association of German Banks, in conjunction with section 285 No. 19 HGB.

The financial derivatives are almost exclusively entered into to hedge interest rate and currency risks (only OTC products) within the context of our asset/liability management and as micro hedges. To that extent, the negative balance from the market values of the financial derivatives is generally offset with positive market values from corresponding hedged items. The counterparties of the derivatives are sovereigns, banks and financial institutions from OECD countries as well as customers. The customer derivatives are exclusively entered into in order to hedge risks in connection with a particular loan transaction.

Bilateral netting arrangements are concluded to reduce both economic risk and regulatory credit risk (customer default risk). In doing so, the positive and negative market values of derivative contracts included in one netting arrangement may be netted, and the future regulatory risk premiums for these products may be reduced. As a result of the netting process, the credit risk is reduced to one single net receivable from one individual counterparty.

These risk-reducing methods are used for both regulatory reporting and internal measurement and monitoring of credit exposures – only when these are enforceable upon the relevant business partner's insolvency in the respective jurisdiction. The enforceability is reviewed on the basis of legal opinions prepared for this purpose.

In addition, pbb enters into collateral agreements with its business partners to hedge the net receivable/liability resulting from the netting process (receive or provide collateral). This collateral management leads to credit risk mitigation by means of a timely (mostly daily) measurement and adjustment of the unsecured credit risk per counterparty.

As at 31 December 2016, the notional volume of the off-balance sheet transactions amounted to €85,039 million (2015: €90,414 million). Under the mark-to-market method, the counterparty default risk exposure (before netting) currently amounts to €6,316 million (2015: €7,612 million), which corresponds to 7.4% (2015: 8.4%) of the notional volume. The fair value of the derivatives was calculated on the basis of generally recognised actuarial models (discounted cash flow method, Black-Scholes model, Hull-White model, Bachelier model).

Financial derivatives

in € million	Notional amounts						Fair value		
	Remaining maturities			Total	Total	positive		negative	
	up to 1 year	1 to 5 years	more than 5 years	2016	2015	2016	2015	2016	2015
Interest-based transactions	25,805	28,051	25,246	79,102	84,138	4,567	6,472	4,850	6,363
OTC products									
FRA's	-	-	-	-	341	-	-	-	-
Interest rate swaps	24,655	21,429	23,485	69,569	76,846	4,561	6,463	4,803	6,354
Interest rate options – calls	575	3,250	117	3,942	3,488	4	9	-	-
Interest rate options – puts	575	3,372	1,644	5,591	3,463	2	-	47	9
Currency-based transactions	4,592	897	448	5,937	6,276	14	88	224	98
OTC products									
Forward exchange transactions	4,383	-	-	4,383	4,477	8	51	116	35
Cross-currency swaps	209	897	448	1,554	1,799	6	37	108	63
Total	30,397	28,948	25,694	85,039	90,414	4,581	6,560	5,074	6,461

The following value components for financial derivatives are disclosed in the balance sheet:

in € million	2016			2015
	Interest-based transactions	Currency-based transactions	Total	Total
Loans and advance to other banks (assets side item no. 2)	561	3	564	583
Loans and advance to customers (assets side item no. 3)	37	–	37	45
Sundry assets (assets side item no. 11)	–	–	–	–
Liabilities to other banks (liabilities side item no. 1)	563	4	567	595
Liabilities to customers (liabilities side item no. 2)	1	–	1	1
Sundry liabilities (liabilities side item no. 5)	–	–	–	–
Total	34	–1	33	32

in € million	2016			2015
	Interest-based transactions	Currency-based transactions	Total	Total
Sundry assets (assets side item no. 11)	–	31	31	77
Sundry liabilities (liabilities side item no. 5)	–	143	143	3
Total	–	–112	–112	74

in € million	2016			2015
	Interest-based transactions	Currency-based transactions	Total	Total
Prepaid expenses (assets side item no. 2)	300	4	304	336
Deferred income (liabilities side item no. 6)	525	31	556	487
Total	–225	–27	–252	–151

in € million	2016			2015
	Interest-based transactions	Currency-based transactions	Total	Total
Other provisions (liabilities side item no. 7)	22	–	22	29

43 Credit Derivatives

As was the case in the previous year, pbb did not act as guarantor or as guarantee for credit derivatives.

44 Valuation Units

pbk currently recognises only interest rate risks within the framework of valuation units. The carrying amounts of the hedged items included in the hedging relationships (fair value in case of derivatives) are shown in the following table:

Valuation units	Carrying amounts	
	2016	2015
in € million		
Assets		
Bonds and other fixed-income securities	7,564	7,253
Loans and advances to customers	7,921	10,078
Loans and advances to other banks	–	36
Liabilities		
Securitised liabilities	14,273	13,957
Liabilities to customers	11,888	17,092
Liabilities to other banks	3,970	679
Positive fair values (clean) of derivatives	4,304	4,422
Negative fair values (clean) of derivatives	4,590	4,329

The amount of the risk that is hedged in the valuations units (equivalent to the risk-induced portion of the fair value) is disclosed in the following table:

Hedged risks	2016		2015	
	effective portion	negative ineffective portion	effective portion	negative ineffective portion
in € million				
Assets				
Bonds and other fixed-income securities	1,748	–	1,856	–
Loans and advances to customers	2,454	–	2,178	–
Loans and advances to other banks	–	–	1	–
Liabilities				
Securitised liabilities	494	1	624	4
Liabilities to customers	3,191	14	3,471	19
Liabilities to other banks	370	1	85	–
Positive fair values of derivatives	4,142	–	4,222	–
Negative fair values of derivatives	4,289	–5	4,077	–5
Total	–	–11	–	–18

The negative, ineffective portion represents the effects resulting from hedging relationships with a negative ineffectiveness, for which a provision for pending losses from executory contracts has to be recorded. In the current financial year, reversals of provisions for pending losses amounted to €7 million (2015: reversal of €11 million). The provision for anticipated losses as at 31 December 2016 amounted to €22 million (2015: €29 million).

Due to the fact that pbb enters into hedged items and hedging transactions on identical or very similar terms and conditions, it can be expected that the risks of the transactions combined into valuation units are comparable, and will largely be characterised by offsetting developments. Hedging relationships are generally concluded for a period until maturity of the hedge. Earlier discontinuations of hedging relationships or hedges for a limited period are possible in individual cases.

The effectiveness of hedging relationships is assessed using sensitivity and regression analyses. To calculate the amount of the previous ineffectiveness, the risk-induced values of hedged item and hedging instrument are compared.

45 Board Members

Supervisory Board of pbb in financial year 2016

Name and place of residence Function in Supervisory Board	Principal occupation Functions in the Committees of the Supervisory Board	Supervisory Board memberships and other directorships
Dr Günther Bräunig Frankfurt/Main, Germany Chairman	Member of the Management Board of KfW Chairman of the Executive and Nomination Committee and of the Remuneration Committee, Member of the Audit Committee and of the Risk Management and Liquidity Strategy Committee	True Sale International GmbH, Frankfurt/Main, Germany – Chairman of the Shareholder's Advisory Board
Dagmar Kollmann Vienna, Austria Deputy Chairperson	Entrepreneur Chairperson of the Audit Committee and Member of the Executive and Nomination Committee, of the Risk Management and Liquidity Strategy Committee and of the Remuneration Committee	Deutsche Telekom AG, Bonn, Germany – Member of the Supervisory Board KfW IPEX-Bank GmbH, Frankfurt/Main, Germany – Member of the Supervisory Board Bank Gutmann AG, Vienna, Austria – Member of the Supervisory Board Unibail-Rodamco SE, Paris, France – Member of the Supervisory Board
Dr Thomas Duhnkrack Kronberg/Taunus, Germany Member	Entrepreneur Member of the Audit Committee (since 13.5.2016)	Hauck & Aufhäuser Privatbankiers KGaA, Frankfurt/Main, Germany – Member of the Supervisory Board Lloyd Fonds AG, Hamburg, Germany – Deputy Chairman of the Supervisory Board
Dr Christian Gebauer-Rochholz Hochheim, Germany Employee Representative	Bank employee	–
Georg Kordick Poing, Germany Employee Representative	Bank employee	–
Joachim Plesser Ratingen, Germany Member	Consultant Chairman of the Risk Management and Liquidity Strategy Committee, Member of the Executive and Nomination Committee, of the Audit Committee (until 13.5.2016) and of the Remuneration Committee	Commerz Real Investmentgesellschaft mbH, Wiesbaden, Germany – Member of the Supervisory Board DIC Beteiligungs AG, Frankfurt/Main, Germany – Member of the Supervisory Board GEG German Estate Group AG, Frankfurt/Main, Germany – Member of the Supervisory Board Pandion AG, Cologne, Germany – Chairman of the Supervisory Board
Oliver Puhl Frankfurt/Main, Germany Member (since 13.5.2016)	Entrepreneur Member of the Risk Management and Liquidity Strategy Committee (since 13.5.2016)	–
Heike TheiBing Munich, Germany Employee Representative	Bank employee Member of the Remuneration Committee	–
Dr Hedda von Wedel Andernach, Germany Member	Deputy Chairperson of Transparency International Deutschland e.V. (until 11.6.2016) Member of the Audit Committee and of the Risk Management and Liquidity Strategy Committee	–

Management Board of pbb in financial year 2016

Name and place of residence	Function in the Management Board	Supervisory Board memberships and other directorships
Andreas Arndt Munich, Germany	CEO/CFO (since 12.5.2016) Co-CEO/CFO (until 12.5.2016)	–
Thomas Köntgen Frankfurt/Main, Germany	Deputy CEO, Real Estate Finance/Treasury (since 12.5.2016) Co-CEO/Treasury (until 12.5.2016)	–
Andreas Schenk Dreieich, Germany	CRO	–
Dr Bernhard Scholz Regensburg, Germany	Credit Markets/Public Investment Finance (since 12.5.2016) Real Estate Finance/Public Investment Finance (until 12.5.2016)	–

46 Disclosures According to Section 340a Para. 4 HGB

In the financial years 2016 and 2015, neither the legal representatives nor other employees held offices in legally prescribed supervisory boards of large corporations within the meaning of section 267 para. 3 HGB.

47 Employees

Annual average	2016			2015
	Men	Women	Total	Total
Full-time employees	477	201	678	700
Part-time employees	12	105	117	118
Total	489	307	795	818

48 Disclosures According To Section 285 Nos. 9a to 9c HGB

Remuneration paid to Management Board members of pbb

in € thousand	2016	
	Remuneration	Total
Management Board members who were in office during the financial year 2016 ¹⁾	3,068	3,068
Management Board members who retired prior to the financial year 2016 ²⁾	–	–
Total	3,068	3,068

¹⁾ Remuneration paid to Management Board members who were in office during the financial year 2015 amounted to € 2,172 thousand

²⁾ As in 2016, retired Management Board members did not receive any remuneration in the financial year 2015

Provisions for pensions to Management Board members of pbb

in € thousand	2016 ¹⁾	
	Additions	Total
Management Board members who were in office during the financial year 2016 ¹⁾	1,176	2,326
Management Board members who retired prior to the financial year 2016 ²⁾	-3,151	52,739
Total	-1,975	55,065

¹⁾ Provisions for pensions to Management Board members who were in office during the financial year 2015 amounted to € 1,150 thousand

²⁾ Provisions for pensions to Management Board members who were retired prior the financial year 2015 amounted to € 55,890 thousand

Remuneration paid to Supervisory Board members of pbb

in € thousand	2016 ¹⁾	
	Total fixed remuneration	
Supervisory Board members who were in office during the financial year 2016 ¹⁾	668	
Supervisory Board members who retired prior to the financial year 2016 ²⁾	-	
Total	668	

¹⁾ Remuneration paid to Supervisory Board members who were in office during the financial year 2015 amounted to € 384 thousand

²⁾ As in 2016, retired Supervisory Board members did not receive any remuneration in the financial year 2015

Members of pbb's Supervisory Board did not receive any remuneration for services rendered in person during 2016. As at the balance sheet date, there were no receivables from current members of corporate bodies from loans or advances.

49 Contingencies Disclosures According to Section 285 No. 27 HGB

Liabilities from contingencies within the meaning of section 251 HGB are disclosed off-balance sheet, as well as in the notes "contingent liabilities (off-balance-sheet item no. 1b)" and "other commitments (off-balance-sheet item no. 2c)" as well as "off-balance sheet transactions and other financial commitments".

50 Disclosures According to Section 21 et seq. WpHG

In accordance with section 160 para. 1 No. 8 AktG, disclosures have to be made in relation to the existence of shareholdings of which pbb received notifications pursuant to section 21 para. 1, para. 1a of the German Securities Trading Act (Wertpapierhandelsgesetz – WpHG). In addition to the legal requirements, we also disclose the reportable options pursuant to section 25 WpHG as well as voting rights and options pursuant to section 25a WpHG, notified respectively in the financial year 2016, in the following table. All notifications of shareholdings were published by pbb in the financial year 2016 pursuant to section 26 para. 1 WpHG and are available, amongst others, on the company's website under <https://www.pfandbriefbank.com/en/investor-relations/mandatory-publications.html> in the section "Notifications on voting rights/ Notifications according to §§21 et seq. WpHG". Please note that the disclosures on shareholdings may have become outdated in the meantime.

Notifying party	Date of reaching, exceeding or falling below the threshold	Notification pursuant WpHG	Notified holding (voting rights and/or options) in %	Voting rights	Options	Total voting rights and options
Morgan Stanley	6.1.2016	Sec 25a WpHG	9.78	5,094,176	8,054,080	13,148,256
Morgan Stanley	7.1.2016	Sec 25a WpHG	10.13	5,564,881	8,051,774	13,616,655
Morgan Stanley	8.1.2016	Sec 25a WpHG	9.77	5,104,148	8,031,648	13,135,796
UBS Group AG	12.1.2016	Sec 25a WpHG	5.04	5,027,309	1,753,985	6,781,294
Morgan Stanley	12.1.2016	Sec 21, 25a WpHG	10.58	2,335,397	11,896,216	14,231,613
UBS Group AG	13.1.2016	Sec 25a WpHG	4.66	5,027,309	1,243,815	6,271,124
Morgan Stanley	13.1.2016	Sec 21, 25, 25a WpHG	9.99	8,253,241	5,193,182	13,446,423
ETHENEA Independent Investors S.A.	14.1.2016	Sec 21 WpHG	3.04	4,084,007	–	4,084,007
Morgan Stanley	14.1.2016	Sec 21, 25, 25a WpHG	10.24	5,534,727	8,237,248	13,771,975
ETHENEA Independent Investors S.A.	14.1.2016	Sec 21 WpHG	3.04	4,084,007	–	4,084,007
Allan & Gill Gray Foundation	21.1.2016	Sec 21 WpHG	3.04	4,089,325	–	4,089,325
UBS Group AG	26.1.2016	Sec 25a WpHG	5.06	5,021,307	1,785,987	6,807,294
UBS Group AG	27.1.2016	Sec 25a WpHG	4.67	5,021,307	1,253,836	6,275,143
UBS Group AG	28.1.2016	Sec 25a WpHG	5.05	5,056,307	1,740,739	6,797,046
UBS Group AG	29.1.2016	Sec 25a WpHG	4.38	5,021,307	870,939	5,892,246
UBS Group AG	8.2.2016	Sec 25a WpHG	5.73	5,075,999	2,626,250	7,702,249
UBS Group AG	9.2.2016	Sec 25a WpHG	4.89	5,121,887	1,454,890	6,576,777
MainFirst SICAV	11.2.2016	Sec 21 WpHG	4.99	6,707,056	–	6,707,056
Morgan Stanley	11.2.2016	Sec 21, 25 WpHG	10.31	10,442,379	3,423,552	13,865,931
Morgan Stanley	16.2.2016	Sec 25 WpHG	10.58	8,134,071	6,099,365	14,233,436
Morgan Stanley	18.2.2016	Sec 21, 25 WpHG	10.79	6,284,426	8,229,421	14,513,847
UBS Group AG	19.2.2016	Sec 25a WpHG	5.13	5,105,636	1,790,650	6,896,286
UBS Group AG	22.2.2016	Sec 25a WpHG	4.34	5,109,516	731,734	5,841,250
Morgan Stanley	26.2.2016	Sec 21, 25 WpHG	10.98	6,753,427	8,020,938	14,774,365
Morgan Stanley	29.2.2016	Sec 21 WpHG	11.06	6,669,684	8,207,264	14,876,948
Morgan Stanley	4.3.2016	Sec 21 WpHG	11.24	7,058,986	8,055,174	15,114,160
Morgan Stanley	9.3.2016	Sec 21 WpHG	10.23	4,975,036	8,785,324	13,760,360
Source Markets PLC	10.3.2016	Sec 21 WpHG	3.57	4,802,046	–	4,802,046
Assenagon S.A.	10.3.2016	Sec 21 WpHG	3.57	4,802,046	–	4,802,046
Source Markets PLC	11.3.2016	Sec 21 WpHG	0.48	641,917	–	641,917
Assenagon S.A.	11.3.2016	Sec 21 WpHG	0.48	641,917	–	641,917
Morgan Stanley	11.3.2016	Sec 21, 25 WpHG	10.54	9,559,487	4,607,869	14,167,356
Morgan Stanley	14.3.2016	Sec 21, 25 WpHG	10.96	6,674,353	8,067,448	14,741,801
Morgan Stanley	17.3.2016	Sec 25a WpHG	9.08	4,275,513	7,929,556	12,205,069
Morgan Stanley	31.3.2016	Sec 21, 25a WpHG	11.47	7,172,474	8,253,888	15,426,362
Morgan Stanley	4.4.2016	Sec 21 WpHG	11.13	6,649,761	8,318,069	14,967,830
ETHENEA Independent Investors S.A.	13.4.2016	Sec 21 WpHG	2.99	4,032,611	–	4,032,611
Morgan Stanley	19.4.2016	Sec 21 WpHG	11.67	7,123,966	8,571,357	15,695,323
Morgan Stanley	4.5.2016	Sec 21 WpHG	11.35	6,535,764	8,723,926	15,259,690
Morgan Stanley	5.5.2016	Sec 21, 25 WpHG	11.12	8,870,514	6,082,855	14,953,369
Morgan Stanley	9.5.2016	Sec 21, 25 WpHG	11.23	13,869,713	1,225,576	15,095,289
Morgan Stanley	11.5.2016	Sec 21 WpHG	10.20	12,928,358	793,291	13,721,649
Morgan Stanley	12.5.2016	Sec 25a WpHG	9.61	12,907,949	20,415	12,928,364
Artemis Investment Management LLP	12.5.2016	Sec 21 WpHG	3.22	4,324,464	–	4,324,464
Morgan Stanley	16.5.2016	Sec 21, 25 WpHG	9.56	1,836,157	11,020,808	12,856,965
Morgan Stanley	17.5.2016	Sec 21 WpHG	9.78	4,044,763	9,101,771	13,146,534
Morgan Stanley	18.5.2016	Sec 21 WpHG	9.35	3,463,922	9,103,094	12,567,016
UBS Group AG	19.5.2016	Sec 21 WpHG	4.55	6,055,885	63,820	6,119,705
Deutsche Asset Management Investment GmbH	6.6.2016	Sec 21 WpHG	4.95	6,658,089	–	6,658,089

Notifying party	Date of reaching, exceeding or falling below the threshold	Notification pursuant WpHG	Notified holding (voting rights and/or options) in %	Voting rights	Options	Total voting rights and options
Morgan Stanley	21.6.2016	Sec 21, 25 WpHG	7.94	6,130,311	4,550,664	10,680,975
Morgan Stanley	29.6.2016	Sec 21, 25 WpHG	8.35	3,042,873	8,183,502	11,226,375
The Capital Group Companies, Inc.	6.7.2016	Sec 21 WpHG	3.12	4,199,178	–	4,199,178
The Capital Group Companies, Inc.	6.7.2016	Sec 21 WpHG	3.12	4,199,178	–	4,199,178
Lee S. Ainslie III	12.7.2016	Sec 21 WpHG	2.97	3,997,942	–	3,997,942
UBS Group AG	12.7.2016	Sec 21, 25a WpHG	5.03	6,624,846	143,478	6,768,324
UBS Group AG	21.7.2016	Sec 21 WpHG	5.05	6,740,362	49,898	6,790,260
Lee S. Ainslie III	16.8.2016	Sec 21 WpHG	3.05	4,095,993	–	4,095,993
UBS Group AG	16.8.2016	Sec 21 WpHG	5.05	6,702,329	93,226	6,795,555
UBS Group AG	5.9.2016	Sec 21 WpHG	5.13	6,781,188	113,848	6,895,036
UBS Group AG	9.9.2016	Sec 21, 25a WpHG	5.00	6,614,596	108,661	6,723,257
Allan & Gill Gray Foundation	12.9.2016	Sec 21 WpHG	3.58	4,820,358	–	4,820,358
UBS Group AG	23.9.2016	Sec 21 WpHG	4.41	5,819,099	108,661	5,927,760
David Einhorn	7.10.2016	Sec 25a WpHG	5.15	3,890,000	3,030,000	6,920,000
UBS Group AG	16.11.2016	Sec 21 WpHG	3.01	3,740,688	308,621	4,049,309
Lee S. Ainslie III	22.11.2016	Sec 21 WpHG	2.79	3,747,913	–	3,747,913
Allan & Gill Gray Foundation	14.12.2016	Sec 21 WpHG	2.82	3,795,410	–	3,795,410

51 Consolidated Financial Statements According To Section 285 No. 14a HGB

pbb, as the ultimate parent company, prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements are published in the electronic German Federal Gazette (elektronischer Bundesanzeiger). The consolidated financial statements are also available on the company's website in the "Investor Relations" section under "Financial Reports" (<https://www.pfandbriefbank.com/en/investor-relations/financial-reports.html>).

52 Exceptional Scale Individual Income And Expenses According To Section 285 No. 31 HGB

The agreement with the Republic of Austria regarding the securities of Heta Asset Resolution AG ("Heta") resulted in a positive effect in the amount of €104 million in the reporting period.

53 Appropriation Of Net Income According To Section 285 No. 34 HGB

Based on unappropriate retained earnings in accordance with the HGB for the financial year 2016 in the amount of €141,199,073.40, the Management Board and the Supervisory Board will propose the payment of a dividend of €1.05 per share to the Annual General Meeting; this corresponds to a total dividend payout of €141,199,073.40 based on the total number of shares issued (134,475,308).

54 Major Post Balance Sheet Date Events According to Section 285 No. 33 HGB

On 13 January 2017, DBRS revised the status of subordinated debenture bonds of 27 European banks, including those of pbb, setting them to "Under Review with Negative Implications". The rating agency expects a rating downgrade by one notch, on the grounds that the probability of losses under BRRD has increased for all subordinated debt. The review is due to be concluded within the next 90 days.

No further significant events occurred after 31 December 2016.

55 Statement of Compliance with the German Corporate Governance Kodex

The statement of compliance with the German Corporate Governance Kodex of Management Board and Supervisory Board is published on the website (<https://www.pfandbriefbank.com/en/investor-relations/mandatory-publications.html>).

Munich, 7 March 2017

Deutsche Pfandbriefbank AG
The Management Board

Andreas Arndt

Thomas Köntgen

Andreas Schenk

Dr Bernhard Scholz

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, these annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of pbb, Munich and the management report includes a fair review of the development and performance of the business and the position of the Bank, together with a description of the material opportunities and risks associated with the expected development of the Bank.

Munich, 7 March 2017

Deutsche Pfandbriefbank AG
The Management Board

Andreas Arndt

Thomas Köntgen

Andreas Schenk

Dr Bernhard Scholz

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the Deutsche Pfandbriefbank AG, Munich, for the business year from 1 January 2016 to 31 December 2016. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB [„Handelsgesetzbuch“: „German Commercial Code“] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with [German] principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with [German] principles of proper accounting. The management report is consistent with the annual financial statements, complies with the German statutory requirements, and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Munich, 7 March 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft
[original German version signed by:]

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