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

Supplement pursuant to article 16 para. 1 of the German Securities Prospectus Act
dated 22 August 2016

to the base prospectus dated
11 April 2016
relating to

Deutsche Pfandbriefbank AG

Munich, Federal Republic of Germany

as Issuer

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

This supplement (the "Third Supplement") to the base prospectus dated 11 April 2016 is prepared in connection with the Euro 50,000,000,000 Debt Issuance Programme (the "Programme") of Deutsche Pfandbriefbank AG (the "Issuer") and is supplemental to, and should be read in conjunction with, the base prospectus dated 11 April 2016 as supplemented on 24 May 2016 (the "First Supplement") and on 4 July 2016 (the "Second Supplement") (the base prospectus dated 11 April 2016 together with the First Supplement and the Second Supplement, the "Original Base Prospectus") in respect of the Programme. Unless otherwise stated or the context otherwise requires, terms defined in the Original Base Prospectus shall have the same meaning when used in the Third Supplement. As used herein, the term "Base Prospectus" means the Original Base Prospectus as supplemented by the Third Supplement.

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

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

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

This Third Supplement has been prepared following the publication of the consolidated interim financial statements of the Issuer for the first six months of the financial year 2016 on 12 August 2016.

OVERALL AMENDMENTS

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

I. SUPPLEMENTAL INFORMATION RELATING TO THE TABLE OF CONTENTS

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

"APPENDIX III: DEUTSCHE PFANDBRIEFBANK CONSOLIDATED INTERIM FINANCIAL INFORMATION FIRST HALF 2016

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

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

"The following table sets forth selected financial information of Deutsche Pfandbriefbank extracted from the un-audited consolidated interim financial statements for the first half of the financial year 2016:

		First Half 2016	**First Half 2015**
Operating performance according to IFRS			
Profit or loss before tax	In Euro million	87	112
Net income/loss	in Euro million	66	88
Balance sheet figures		**30.06.2016**	**31.12.2015**
Total assets	in Euro billion	67.5	66.8
Equity	in Euro billion	2.7	2.7

The figures in this table are rounded.

There has been no material adverse change in the prospects of the Issuer since the date of its last published audited financial statements (31 December 2015).

Not applicable; there has been no significant change in the financial position of the Issuer and its consolidated subsidiaries since the end of the last financial period for which interim financial information has been published (30 June 2016)."

On page 7 of the Original Base Prospectus, the following information shall be added at the end of "Section B – Issuer" under "Element B.13 – Recent developments":

"The Issuer aims to realise its planned entry into the US real estate marked during the second half of the year 2016. The Issuer is looking to cooperate with existing clients investing on an international scale, as well with established banking partners. The focus of such activities in the US will be on syndicated loans, i.e. loans provided by the Issuer together with a group of lenders."

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

On page 20 of the Original Base Prospectus in "Abschnitt B – Emittent" under "Punkt B.12 – Ausgewählte wesentliche historische Finanzinformationen über den Emittenten, Erklärung zu Trendinformationen sowie wesentliche Veränderungen der Finanzlage oder Handelsposition des Emittenten", the two last paragraphs shall be deleted and replaced by the following information:

"Die folgende Tabelle enthält ausgewählte Finanzinformationen zur Deutschen Pfandbriefbank, welche dem ungeprüften Konzernzwischenabschluss für das erste Halbjahr des Finanzjahres 2016 entnommen wurden:

		Erstes Halbjahr 2016	**Erstes Halbjahr 2015**
Ergebniszahlen gemäß IFRS			
Ergebnis vor Steuern	in Mio. Euro	87	112
Ergebnis nach Steuern	in Mio. Euro	66	88
Bilanzzahlen		**30.06.2016**	**31.12.2015**
Bilanzsumme	in Mrd. Euro	67,5	66,8
Bilanzielles Eigenkapital	in Mrd. Euro	2,7	2,7

Die Zahlen in dieser Tabelle sind gerundet.

Seit dem Datum der Veröffentlichung des letzten geprüften Jahresabschlusses (31. Dezember 2015) hat es keine wesentlichen negativen Veränderungen in den Aussichten der Emittentin gegeben.

Entfällt; seit dem Ende des Stichtages, für den Zwischenfinanzinformationen veröffentlicht wurden (30. Juni 2016), hat es keine wesentlichen Veränderungen in der Finanzlage der Emittentin und ihrer konsolidierten Tochtergesellschaften gegeben."

On page 20 et seq. of the Original Base Prospectus, the following information shall be added at the end of "Abschnitt B – Emittent" under "Punkt B.13 – Aktuelle Entwicklungen":

„Im zweiten Halbjahr 2016 will die Emittentin den geplanten Wiedereinstieg in den US-Immobilienmarkt umsetzen. Hier will die Emittentin mit bestehenden, international investierenden Kunden und etablierten Bankpartnern zusammenarbeiten und dabei den Schwerpunkt auf syndizierte Kredite legen, d.h. solche die von der Emittentin zusammen mit einer Gruppe von Darlehensgebern ausgereicht werden."

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

1. SUPPLEMENTAL INFORMATION RELATING TO THE SECTION "2. INFORMATION ABOUT THE ISSUER"

On page 53 of the Original Base Prospectus, the following information shall be added at the end of the subsection "Recent Events":

"The Issuer aims to realise its planned entry into the US real estate marked during the second half of the year 2016. The Issuer is looking to cooperate with existing clients investing on an international scale, as well with established banking partners. The focus of such activities in the US will be on syndicated loans, i.e. loans provided by the Issuer together with a group of lenders."

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

On page 58 of the Original Base Prospectus, the following paragraph shall be added after the the subsection "Auditing of Historical Financial Information":

"**Interim and other Financial Information**

On 12 August 2016, the Issuer has published consolidated interim financial statements for the first half of the financial year 2016 including the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity (condensed), the statement of cash flows (condensed), the notes (condensed) and the review report (the "Deutsche Pfandbriefbank Consolidated Interim Financial Information First Half 2016"). The Deutsche Pfandbriefbank Consolidated Interim Financial Information First Half 2016 is included in Appendix III to the Base Prospectus (pages H-1 to H-29). The Deutsche Pfandbriefbank Consolidated Interim Financial Information First Half 2016 has been prepared on the basis of IFRS.

The Deutsche Pfandbriefbank Consolidated Interim Financial Information First Half 2016 is unaudited and has been subject to a review by the statutory auditors (*prüferische Durchsicht*) only. The statutory auditors of the Issuer have issued an unqualified review report (*Bescheinigung nach prüferischer Durchsicht*)."

On page 59 of the Original Base Prospectus, the information contained in the Subsection "Significant Change in Issuer's Financial Position" shall be deleted and replaced as follows:

"There has been no significant change in the financial position of the Issuer and its consolidated subsidiaries since the end of the last financial period for which interim financial information has been published (30 June 2016)."

V. SUPPLEMENTAL INFORMATION
RELATING TO THE APPENDICES

After page G-41 of the Original Base Prospectus the Deutsche Pfandbriefbank Consolidated Interim Financial Information First Half 2016 as laid out on the following pages H-1 to H-29 is newly inserted as H-pages into the Original Base Prospectus.

Appendix III

Deutsche Pfandbriefbank
Consolidated Interim Financial Statements First Half 2016

Consolidated Income Statement

Consolidated income statement

in € million	Notes	1.1.–30.6. 2016	1.1.–30.6. 2015
Operating income		181	202
Net interest income	5	195	229
Interest income		926	1,064
Interest expenses		–731	–835
Net fee and commission income	6	3	9
Fee and commission income		4	11
Fee and commission expenses		–1	–2
Net trading income	7	–7	7
Net income from financial investments	8	5	–37
Net income from hedging relationships	9	–	2
Net other operating income/expenses	10	–15	–8
Loan loss provisions	11	–	5
General and administrative expenses	12	–94	–98
Net miscellaneous income/expenses	13	–	3
Profit or loss before tax		**87**	**112**
Income taxes	14	–21	–24
Net income/loss		**66**	**88**
attributable to:			
Equity holders		66	88

Earnings per share

in €	Notes	1.1.–30.6. 2016	1.1.–30.6. 2015
Basic earnings per share	15	0.49	0.65
Diluted earnings per share	15	0.49	0.65

Consolidated Statement of Comprehensive Income

Consolidated statement of comprehensive income

in € million	1.1.–30.6. 2016	1.1.–30.6. 2015
Net income/loss	**66**	**88**
Other comprehensive income for the period, net of tax	−67	−28
Items that will not be reclassified subsequently to profit or loss	−24	7
Gains/losses on pension commitments, before taxes	−33	10
Income taxes relating to items that will not be reclassified to profit or loss	9	−3
Items that may be reclassified subsequently to profit or loss	−43	−35
Gains/losses on translating foreign currency, before taxes	1	1
unrealised gains/losses	1	1
gains/losses reclassified to profit or loss	–	–
Gains/losses on AfS assets, before taxes	−25	31
unrealised gains/losses	−26	31
gains/losses reclassified to profit or loss	1	–
Gains/losses on cash flow hedge accounting, before taxes	−35	−82
unrealised gains/losses	–	−28
gains/losses reclassified to profit or loss	−35	−54
Income taxes relating to items that may be reclassified subsequently to profit or loss	16	15
Total comprehensive income for the period	**−1**	**60**
attributable to: Equity holders	−1	60

Consolidated Statement of Financial Position

Assets

in € million	Notes	30.6.2016	31.12.2015	1.1.2015
Cash reserve		1,139	1,265	57
Trading assets	16	1,872	1,600	2,016
Loans and advances to other banks	17	3,700	2,742	6,800
Loans and advances to customers	18	41,723	41,204	38,964
Allowances for losses on loans and advances	19	–129	–127	–138
Valuation adjustment from portfolio hedge accounting		6	1	–
Financial investments	20	13,911	14,927	20,475
Property and equipment		9	10	8
Intangible assets		21	21	23
Other assets	21	5,087	5,013	6,659
Income tax assets		153	105	30
Current tax assets		53	21	29
Deferred tax assets		100	84	1
Total assets		**67,492**	**66,761**	74,894

Equity and liabilities

in € million	Notes	30.6.2016	31.12.2015	1.1.2015
Liabilities to other banks	22	2,553	2,514	3,187
Liabilities to customers	23	10,952	10,824	10,593
Securitised liabilities	24	43,095	42,648	47,827
Valuation adjustment from portfolio hedge accounting		2	1	–
Trading liabilities	25	1,587	1,643	1,960
Provisions	26	235	229	272
Other liabilities	27	5,414	4,918	6,182
Income tax liabilities		66	113	82
Current tax liabilities		66	113	82
Deferred tax liabilities		–	–	–
Subordinated capital	28	901	1,125	1,279
Liabilities		**64,805**	**64,015**	**71,382**
Equity attributable to equity holders		**2,687**	**2,746**	**3,512**
Subscribed capital		380	380	380
Silent partnership contribution		–	–	999
Additional paid-in capital		1,637	1,637	3,265
Retained earnings		655	483	–1,148
Profits/losses on pension commitments		–95	–71	–79
Foreign currency reserve		5	4	2
Revaluation reserve		39	83	89
AfS reserve		–22	–4	–100
Cash flow hedge reserve		61	87	189
Consolidated profit 1.1.–30.6./31.12		66	230	4
Equity		**2,687**	**2,746**	**3,512**
Total equity and liabilities		**67,492**	**66,761**	**74,894**

Consolidated Statement of Changes in Equity

Consolidated statement of changes in equity

	Equity attributable to equity holders									
							Revaluation reserve			
in € million	Subscribed capital	Silent partnership contribution	Additional paid-in capital	Retained earnings	Profits/ losses on pension commitments	Foreign currency reserve	AfS reserve	Cash flow hedge reserve	Consolidated profit/ loss	Equity
Equity at 1.1.2015	**380**	**999**	**3,265**	**–1,148**	**–79**	**2**	**–100**	**189**	**4**	**3,512**
Total comprehensive income for the period	–	–	–	–	7	1	23	–59	88	60
Net income/loss	–	–	–	–	–	–	–	–	88	88
Other comprehensive income for the period, net of tax	–	–	–	–	7	1	23	–59	–	–28
Transfer to retained earnings	–	–	–	4	–	–	–	–	–4	–
Equity at 30.6.2015	**380**	**999**	**3,265**	**–1,144**	**–72**	**3**	**–77**	**130**	**88**	**3,572**
Equity at 1.1.2016	**380**	**–**	**1,637**	**483**	**–71**	**4**	**–4**	**87**	**230**	**2,746**
Distribution	–	–	–	–	–	–	–	–	–58	–58
Total comprehensive income for the period	–	–	–	–	–24	1	–18	–26	66	–1
Net income/loss	–	–	–	–	–	–	–	–	66	66
Other comprehensive income for the period, net of tax	–	–	–	–	–24	1	–18	–26	–	–67
Transfer to retained earnings	–	–	–	172	–	–	–	–	–172	–
Equity at 30.6.2015	**380**	**–**	**1,637**	**655**	**–95**	**5**	**–22**	**61**	**66**	**2,687**

Consolidated Statement of Cash Flows (condensed)

Consolidated statement of cash flows (condensed)

in € million	2016	2015
Cash reserve at 1.1.	**1,265**	**57**
+/– Cash flow from operating activities	–1,131	–1,439
+/– Cash flow from investing activities	1,259	3,237
+/– Cash flow from financing activities	–253	–70
+/– Effects of exchange rate changes and non-cash measurement changes	–1	–
Cash reserve at 30.6.	**1,139**	**1,785**

Notes (condensed)

1 Principles

Deutsche Pfandbriefbank AG (pbb) has prepared the condensed consolidated interim financial statements for the period ended 30 June 2016 in line with EC regulation No. 1606/2002 of the European Parliament and of the Council from 19 July 2002 in accordance with International Financial Reporting Standards (IFRS). The IFRS are standards and interpretations adopted by the International Accounting Standards Board (IASB). These are the International Financial Reporting Standards (IFRS), the International Accounting Standards (IAS) and the interpretations of the IFRS Interpretations Committee (formerly IFRIC) respectively the former Standing Interpretations Committee (SIC); they are also based on the regulations of commercial law which are applicable in accordance with Section 315a (1) HGB (German Commercial Code).

The condensed consolidated interim financial statements are based on IFRS as adopted in European law by the European Commission as part of its endorsement process. In particular, requirements of IAS 34 have been considered. With the exception of certain regulations on fair value hedge accounting for a portfolio hedge of interest rate risks in IAS 39 Financial Instruments: Recognition and Measurement, all the IFRS published by the IASB and required to be applied were fully recognised by the European Union (EU). Within the framework of fair value hedge accounting for a portfolio hedge of interest rate risks, pbb Group applies a part of the exemptions permitted under European law. Therefore, these condensed consolidated interim financial statements comply with IFRS applicable in the EU, but not with IFRS as a whole as promulgated by the IASB.

In addition, the German Accounting Standards (Deutsche Rechnungslegungs Standards – DRS) published by the Accounting Standards Committee of Germany (Deutsche Rechnungslegungs Standards Committee – DRSC) have been taken into account provided they are not inconsistent with the IFRS.

The Management Board of pbb prepared these condensed consolidated interim financial statements on 3 August 2016 under the going-concern assumption.

Initially adopted standards and interpretations

The following amendments were applied for the first time in the first half of 2016:

- Amendments to IAS 1: Disclosure Initiative
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 16 and IAS 41: Agriculture: Bearer Plants
- Amendments to IAS 19 (revised 2011) Employee Benefits: Defined Benefit Plans: Employee Contributions
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
- Annual Improvements Project:
  - Annual Improvements to IFRSs 2010–2012 Cycle
  - Annual Improvements to IFRSs 2012–2014 Cycle

Amendments to IAS 1 The amendments to IAS 1 further highlight the concept of materiality, aiming at removing immaterial information from IFRS financial statements and enhancing the presentation of relevant information. For this purpose, the amendments clarify that the concept of materiality must be applied to all components of the IFRS financial statements, which is intended to avoid a move of irrelevant information from other parts of the financial statements to the Notes. In this context, it is also clarified that immaterial information does not have to be presented separately even if its presentation is explicitly required in another IFRS. This even applies to situations where certain minimum items are required. The amendments to IAS 1 also include the following guidance, clarifications and suggestions:

- Presentation of subtotals
- Structure of the Notes, for instance depending on the relevance of individual information for understanding development in assets, financial position and earnings
- Disclosures regarding accounting methods
- Presentation of results of companies measured according to the equity method in the statement of comprehensive income as an independent item

Initial adoption of the Amendments to IAS 1 did not materially impact these condensed consolidated interim financial statements.

Amendments to IAS 16 and IAS 38 The amendments to IAS 16 and IAS 38 clarify that depreciation of property and equipment and amortisation of intangible assets with a limited useful life on the basis of revenues of goods produced by such items is, in principle, not appropriate. The amendments are required to be applied to reporting periods beginning on or after 1 January 2016. As pbb Group undertakes the depreciation on property and equipment and amortisation of intangible assets on a straight-line basis using assumed useful lives, no impacts resulted from initial adoption.

Amendments to IAS 16 and IAS 41 The amendments govern the accounting for so-called bearer plants and are required to be applied for the first time to reporting periods beginning on or after 1 January 2016. As pbb Group has no assets within the meaning of IAS 41 in its portfolio, no impacts resulted from initial adoption.

Amendments to IAS 19 (revised 2011) The amendments to IAS 19 clarify the requirements regarding the attribution of employee contributions or contributions from third parties to periods of service when the contributions are linked to service. They also provide relief when contributions are independent of the number of years of service. Initial adoption did not have any material impacts.

Amendments to IAS 27 Interests in subsidiaries, joint ventures and associated companies can, in future, also be accounted for using the equity method in the IFRS separate financial statements. The amendments are required to be applied to reporting periods beginning on or after 1 January 2016. As the regulations relate exclusively to separate financial statements, no impacts resulted from initial adoption.

Amendments to IFRS 11 The amendments to IFRS 11 relate to a clarification that acquisitions of shares in joint ventures that represent a business within the meaning of IFRS 3 must also be accounted for in accordance with the principles of IFRS 3. The amendments are to be applied for the first time to reporting periods beginning on or after 1 January 2016. As the pbb Group is not holding any shares in joint ventures within the meaning of IFRS 11, initial adoption did not have any impacts.

Annual Improvements Project The standards affected by Annual Improvements to IFRSs 2010 – 2012 Cycle are IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38. Annual Improvements to IFRSs 2012–2014 Cycle introduce changes to the standards IFRS 5, IFRS 7, IAS 19 and IAS 34. Initial adoption did not have any material impacts.

IFRS 9 Financial Statements

The IASB concluded its project to replace IAS 39 Financial Instruments: Recognition and Measurement, with the publication of IFRS 9 in July 2014. This new standard significantly changes the recognition of financial instruments, and in particular their classification and measurement as well as the accounting of impairment losses and hedging relationships. IFRS 9 will be effective as from 1 January 2018, but has not yet been endorsed by the European Union. Please refer to pbb's consolidated financial statements 2015, pages 146 to 148, for further information on the revised recognition of financial instruments.

Since the statement of financial position of the pbb Group largely consists of financial instruments, the application of IFRS 9 will have significant effects on future consolidated and interim financial statements. The effects largely result from the revised classification and measurement of financial instruments, and the recognition of impairment losses. Regarding hedge accounting, pbb Group intends to maintain the regulations currently effective.

At pbb Group, the revised requirements for the classification and measurement of financial instruments mainly affect the accounting of non-derivative debt instruments. However, the new regulations governing the accounting of equity instruments hardly affect pbb, given the Group's small portfolio of equity instruments. No material changes will be introduced regarding the accounting of derivatives.

It is likely that some of the non-derivative debt instruments previously measured at amortised cost will in future have to be measured at fair value. For example, this includes debt instruments that do not meet the cash flow criterion due to their contractual stipulations, and therefore have to be measured at fair value through profit or loss. Another example refers to the liquidity portfolio, which is expected to be reported at fair value through other comprehensive income. In turn, some securities recognised as part of the available-for-sale portfolio in accordance with IAS 39 will be measured at amortised cost under IFRS 9. Effects from the classification and measurement of financial assets will depend, among other things, upon the portfolios' business model as at the date of first-time application of IFRS 9.

The considerable changes to the recognition of impairment losses are likely to result in higher allowances for losses on loans and advances. The reason for this is the requirement to recognise an allowance in the amount of the expected credit losses for the first twelve months – also for such instruments where the credit risk has not increased since initial recognition, and in the amount of the lifetime expected credit loss for financial assets where the credit risk has increased substantially. The allowances for losses on loans and advances recognised on this basis are expected to exceed the amount of specific and portfolio-based allowances reported in accordance with IAS 39 on the basis of loss events occurred.

In addition, under IAS 39 the development in earnings will become more volatile compared to the current regulations, due to the higher number of financial assets to be measured at fair value through profit or loss and the new regulations regarding loss allowances pursuant to IFRS 9. As a result of, among other things, the currently existing uncertainty and interpretation possibilities, a reliable quantification of the effects is not yet possible. For example, the preparation of a statement from the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer in Deutschland – "IDW") on the interpretation of IFRS 9 has not yet been completed.

In the context of the implementation project of the new classification and measurement rules, the portfolio of loans and advances and securities was (so far) classified based on the cash flow characteristics. In addition, the analysis of the portfolios was made on the basis of the current business model. The technical specifications to implement the requirements for pbb Group's major upstream systems have largely been completed and the implementation process commenced. As regards the implementation of the new impairment rules, the pbb Group is in the process of developing a system for determining the amount of the allowances for Levels 1 and 2. Regarding the recognition of Level 3 allowances, the current system will be upgraded.

Changes in Accounting Estimates

The calculation of tax expenses to be paid in the course of the year resulted in a change in accounting estimates in accordance with IAS 8.5 to be applied prospectively. Starting with the financial year 2016, the calculation of the actual and deferred tax rates is based on projections in lieu of actual figures. In the present condensed interim consolidated financial statements, the application of a projected annual tax rate resulted in an effective consolidated tax rate of 23.9%. This tax rate was derived by offsetting the statutory tax rate plus non-deductible expenses (34.7%) against the net additions to deferred income tax assets from loss carryforwards, to the extent that such items have been drawn upon within the limits of the statutory minimum taxation applicable for the period under review (10.8%). The change in the accounting estimate exclusively affects the condensed interim consolidated financial statements in accordance with IAS 34, while the annual consolidated financial statements remain unaffected.

Heta Asset Resolution AG („HETA“)

Creditors of Austrian workout institution Heta Asset Resolution AG ("Heta"), including pbb, as well as the Republic of Austria, entered into a Memorandum of Understanding ("MoU") on 18 May 2016, which provides for the largest part of certain Heta liabilities ("Heta debt securities") to be repaid. Based on this MoU, the parties confirmed their joint intention to achieve an amicable agreement regarding the restructuring of the Heta debt securities covered by a guarantee from the Austrian Federal State of Carinthia. It is intended that the Carinthia Equalisation Fund (Kärtner Ausgleichszahlungs-Fonds) will make a buyback offer to Heta creditors for the Heta debt securities they hold. Such offer shall comprise two options regarding senior Heta debt securities (those held by pbb): cash payment of 75% of the nominal value, or conversion into a zero coupon bond. The zero coupon bond with a term of about 13.5 years would be issued by the Carinthia Equalisation Fund, and be fully guaranteed by the Republic of Austria. The zero coupon bond would currently have a market value of approximately 90% of the nominal value of the Heta debt securities, and could be sold to the Austrian Federal Resolution Management Company (Abbaumanagementgesellschaft des Bundes – "ABBAG") for essentially the same value after a 60-calendar day holding period, and within a stabilisation period of 180 calendar days.

However, implementation of the MoU is subject to considerable uncertainty. For instance, the necessary legal basis needs to be established by the Austrian Parliament and the Carinthian State Parliament; furthermore, the European Commission has to provide its approval from a state aid perspective, whilst creditor acceptance of the offer has to reach the required legal threshold. Moreover, the MoU contains withdrawal options for the Republic of Austria under certain conditions, such as lack of support from a sufficient number of Heta creditors before publication of the offer, or the filing for Heta insolvency. Therefore, pbb refrains from the reversal of allowances recognised for financial investments, and loans and advances to Heta, up to the amount or rate stipulated in the MoU.

pbb Group holds Heta debt securities with a volume of €395 million in its non-strategic Value Portfolio. Should the offer be made, accepted and thus become effective, pbb Group would profit from a positive one-off effect of around €132 million before tax from today's perspective.

2 Consistency

The pbb Group applies accounting policies consistently in accordance with the IFRS framework concept as well as IAS 1 and IAS 8. In condensed consolidated interim financial statements as of 30 June 2016 the same accounting policies were applied than in the consolidated financial statements as of 31 December 2015.

3 Consolidation

Please refer to page 217 of pbb Group's Annual Report 2015 for a full list of all consolidated and non-consolidated investments. Hayabusa Godo Kaisha i.L., Tokyo, was deconsolidated during the first half of 2016. The remaining assets and liabilities were allocated to Hypo Real Estate Capital Japan Corp., Tokyo, as part of the liquidation proceedings at the end of June 2016. pbb's consolidated income statement and consolidated statement of financial position were not affected.

4 Segment Reporting

Income/expenses

in € million		REF	PIF	VP	C&A	pbb Group
Operating income	1.1.–30.6.2016	142	18	19	2	181
	1.1.–30.6.2015	206	22	–28	2	202
Net interest income	1.1.–30.6.2016	152	18	22	3	195
	1.1.–30.6.2015	158	22	47	2	229
Net fee and commission income	1.1.–30.6.2016	3	–	–	–	3
	1.1.–30.6.2015	9	–	–	–	9
Net trading income	1.1.–30.6.2016	–7	–	–	–	–7
	1.1.–30.6.2015	3	1	3	–	7
Net income from financial investments	1.1.–30.6.2016	3	1	1	–	5
	1.1.–30.6.2015	18	6	–61	–	–37
Net income from hedging relationships	1.1.–30.6.2016	–	–	–	–	–
	1.1.–30.6.2015	1	–	1	–	2
Net other operating income/expenses	1.1.–30.6.2016	–9	–1	–4	–1	–15
	1.1.–30.6.2015	17	–7	–18	–	–8
Loan loss provisions	1.1.–30.6.2016	–	–	–	–	–
	1.1.–30.6.2015	11	–	–6	–	5
General and administrative expenses	1.1.–30.6.2016	–73	–13	–8	–	–94
	1.1.–30.6.2015	–75	–13	–10	–	–98
Net miscellaneous income/expenses	1.1.–30.6.2016	–	–	–	–	–
	1.1.–30.6.2015	3	–	–	–	3
Profit or loss before tax	1.1.–30.6.2016	**69**	**5**	**11**	**2**	**87**
	1.1.–30.6.2015	**145**	**9**	**–44**	**2**	**112**

Cost/income ratio[1]

in %		REF	PIF	VP	pbb Group
Cost/income ratio	1.1.–30.6.2016	51.4	72.2	42.1	51.9
	1.1.–30.6.2015	36.4	59.1	>100.0	48.5

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

Balance-sheet-related measures, broken down by operating segments

in € billion		REF	PIF	VP	C&A	pbb Group
Financing volumes[1]	30.6.2016	24.0	7.3	17.4	–	48.7
	31.12.2015	24.0	7.3	18.7	–	50.0
Risk-weighted assets[2]	30.6.2016	6.3	1.4	4.3	1.0	13.0
	31.12.2015	6.5	1.4	4.4	1.1	13.4
Equity[3]	30.6.2016	0.5	0.3	1.5	0.3	2.6
	31.12.2015	0.6	0.2	1.5	0.4	2.7

[1] Notional amounts of the drawn parts of granted loans and parts of the securities portfolio.
[2] Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5.
[3] Excluding revaluation reserve.

NOTES TO THE CONSOLIDATED INCOME STATEMENT

5 Net Interest Income

Net interest income by categories of income/expenses

in € million	1.1.–30.6. 2016	1.1.–30.6. 2015
Interest income	**926**	**1,064**
Lending and money-market business	590	624
Fixed-income securities and government-inscribed debt	215	275
Current gains/losses from swap transactions (net interest income and expense)	119	165
Other	2	–
Interest expenses	**–731**	**–835**
Liabilities to other banks and customers	–152	–164
Securitised liabilities	–550	–636
Subordinated capital	–29	–35
Total	**195**	**229**

Negative interest income and positive interest expenses amounted to €7 million each (6M2015: €4 million). The predominant part was disclosed in current gains/losses from swap transactions (net interest income and expense).

6 Net Fee And Commission Income

Net fee and commission income

in € million	1.1.–30.6. 2016	1.1.–30.6. 2015
Securities and custodial services	–1	–1
Lending operations and other service	4	10
Total	**3**	**9**

7 Net Trading Income

Net trading income

in € million	1.1.–30.6. 2016	1.1.–30.6. 2015
From interest rate instruments and related derivatives	–8	6
From foreign currency instruments and related derivatives	1	1
Total	**–7**	**7**

8 Net Income from Financial Investments

Net income from financial investments by IAS 39 categories

in € million	1.1.–30.6. 2016	1.1.–30.6. 2015
Available for sale (AfS)	4	–68
Loans and receivables (LaR)	1	31
Total	**5**	**–37**

9 Net Income from Hedging Relationships

Net income from hedging relationships

in € million	1.1.–30.6. 2016	1.1.–30.6. 2015
Result from fair value hedge accounting	–	2
Result from hedged items	131	–57
Result from hedging instruments	–131	59
Result from portfolio hedge accounting	–	–
Result from hedged items	5	–
Result from hedging instruments	–5	–
Total	**–**	**2**

10 Net Other Operating Income/Expenses

Net other operating income/expenses

in € million	1.1.–30.6. 2016	1.1.–30.6. 2015
Other operating income	16	63
Other operating expenses	–31	–71
Total	**–15**	**–8**

11 Loan Loss Provisions

Loan loss provisions

in € million	1.1.–30.6. 2016	1.1.–30.6. 2015
Allowances for losses on loans and advances	–1	3
Additions	–4	–12
Reversals	3	15
Allowances for contingent liabilities and other commitments	1	1
Additions	–	–
Reversals	1	1
Recoveries from written-off loans and advances	–	1
Total	**–**	**5**

12 General and Administrative Expenses

General and administrative expenses

in € million	1.1.–30.6. 2016	1.1.–30.6. 2015
Personnel expenses	–51	–56
Wages and salaries	–39	–43
Social security costs	–8	–8
Pension expenses and related employee benefit costs	–4	–5
Non-personnel expenses	–43	–42
Other general and administrative expenses	–38	–37
Consulting expenses	–6	–5
IT expenses	–13	–14
Office and operating expenses	–4	–6
Other non-personnel expenses	–15	–12
Depreciation, amortisation and impairment	–5	–5
of software and other intangible assets	–4	–4
of property and equipment	–1	–1
Total	**–94**	**–98**

13 Net Miscellaneous Income/Expenses

Net miscellaneous income/expenses

in € million	1.1.–30.6. 2016	1.1.–30.6. 2015
Miscellaneous income	–	3
Thereof: Reversals of restructuring provisions	–	3
Miscellaneous expenses	–	–
Total	**–**	**3**

14 Income Taxes

Income taxes

in € million	1.1.–30.6. 2016	1.1.–30.6. 2015
Current taxes	–12	–12
Deferred taxes	–9	–12
Thereof: Deferred taxes on capitalised losses carried forward	–	–84
Total	**–21**	**–24**

15 Earnings Per Share

Earnings per share[1]

		1.1.–30.6. 2016	1.1.–30.6. 2015
Net income/loss attributable to the ordinary equity holders	in € million	66	88
Average number of ordinary shares issued	pieces	134,475,308	134,475,308
Adjusted average number of ordinary shares issued	pieces	134,475,308	134,475,308
Basic earnings per share	in €	**0.49**	**0.65**
Diluted earnings per share	in €	**0.49**	**0.65**

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

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

16 Trading Assets

Trading assets

in € million	30.6.2016	31.12.2015
Positive fair values of derivative financial instruments	1,872	1,600
Total	**1,872**	**1,600**

17 Loans and Advances to Other Banks

Loans and advances to other banks by type of business

in € million	30.6.2016	31.12.2015
Loans and advances	3,100	2,733
Public sector loans	925	972
Other loans and advances	2,175	1,761
Investments	600	9
Total	**3,700**	**2,742**

Loans and advances to other banks by maturities

in € million	30.6.2016	31.12.2015
Repayable on demand	2,173	1,758
With agreed maturities	1,527	984
up to 3 months	513	3
more than 3 months to 1 year	280	190
more than 1 year to 5 years	185	234
more than 5 years	549	557
Total	**3,700**	**2,742**

18 Loans and Advances to Customers

Loans and advances to customers by type of business

in € million	30.6.2016	31.12.2015
Loans and advances	41,480	40,848
Public sector loans	17,543	16,846
Real estate loans	23,917	23,985
Other loans and advances	20	17
Investments	–	125
Claims from finance lease agreements	243	231
Total	**41,723**	**41,204**

Loans and advances to customers by maturities

in € million	30.6.2016	31.12.2015
Repayable on demand	1,168	1,085
With agreed maturities	40,555	40,119
up to 3 months	1,403	1,447
more than 3 months to 1 year	3,222	2,696
more than 1 year to 5 years	17,538	18,030
more than 5 years	18,392	17,946
Total	**41,723**	**41,204**

19 Allowances for Losses on Loans and Advances

Development

in € million	Specific allowances	Portfolio-based allowances	Total
Balance at 1.1.2015	**–93**	**–45**	**–138**
Changes through profit or loss	–11	13	2
Additions	–25	–1	–26
Reversals	9	14	23
Unwinding	5	–	5
Changes not affecting profit or loss	9	–	9
Use of existing allowances	13	–	13
Effects of foreign currency translations and other changes	–4	–	–4
Balance at 31.12.2015	**–95**	**–32**	**–127**
Balance at 1.1.2016	**–95**	**–32**	**–127**
Changes through profit or loss	–	–	–
Additions	–3	–1	–4
Reversals	2	1	3
Unwinding	1	–	1
Changes not affecting profit or loss	–2	–	–2
Use of existing allowances	1	–	1
Effects of foreign currency translations and other changes	–3	–	–3
Balance at 30.6.2016	**–97**	**–32**	**–129**

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

20 Financial Investments

Breakdown

in € million	30.6.2016	31.12.2015
AfS financial investments	3,317	3,521
Debt securities and other fixed-income securities	3,314	3,518
Shares and other variable-yield securities	3	3
LaR financial investments	10,594	11,406
Debt securities and other fixed-income securities	10,594	11,406
Total	**13,911**	**14,927**

The carrying amounts of the LaR financial investments were reduced by portfolio-based allowances amounting to €7 million (31 December 2015: €8 million).

Financial investments by maturities

in € million	30.6.2016	31.12.2015
Unspecified terms	3	3
With agreed maturities	13,908	14,924
up to 3 months	688	929
more than 3 months to 1 year	1,649	1,458
more than 1 year to 5 years	3,348	3,960
more than 5 years	8,223	8,577
Total	**13,911**	**14,927**

21 Other Assets

Other assets

in € million	30.6.2016	31.12.2015
Positive fair values from derivative financial instruments	5,048	4,960
Hedging derivatives	5,048	4,960
Micro fair value hedge	5,045	4,959
Portfolio hedge	3	1
Salvage acquisitions	10	23
Other assets	22	23
Reimbursements under insurance policies	7	7
Total	**5,087**	**5,013**

22 Liabilities to Other Banks

Liabilities to other banks by maturities

in € million	30.6.2016	31.12.2015
Repayable on demand	1,446	1,255
With agreed maturities	1,107	1,259
up to 3 months	372	157
more than 3 months to 1 year	147	430
more than 1 year to 5 years	66	150
more than 5 years	522	522
Total	**2,553**	**2,514**

23 Liabilities to Customers

Liabilities to customers by maturities

in € million	30.6.2016	31.12.2015
Repayable on demand	1,501	1,271
With agreed maturities	9,451	9,553
up to 3 months	1,122	1,291
more than 3 months to 1 year	2,700	2,139
more than 1 year to 5 years	4,312	4,829
more than 5 years	1,317	1,294
Total	**10,952**	**10,824**

24 Securitised Liabilities

Securitised liabilities by type of business

in € million	30.6.2016	31.12.2015
Debt securities issued	21,646	21,520
Mortgage Pfandbriefe	10,109	10,382
Public sector Pfandbriefe	6,711	6,833
Other debt securities	4,791	4,193
Money market securities	35	112
Registered notes issued	21,449	21,128
Mortgage Pfandbriefe	5,959	5,896
Public sector Pfandbriefe	13,370	13,341
Other debt securities	2,120	1,891
Total	**43,095**	**42,648**

Securitised liabilities by maturities

in € million	30.6.2016	31.12.2015
With agreed maturities		
up to 3 months	1,947	2,050
more than 3 months to 1 year	4,528	4,411
more than 1 year to 5 years	16,308	18,335
more than 5 years	20,312	17,852
Total	**43,095**	**42,648**

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

25 Trading Liabilities

Trading liabilities

in € million	30.6.2016	31.12.2015
Negative fair values from derivative financial instruments	1,587	1,643
Total	**1,587**	**1,643**

26 Provisions

Breakdown

in € million	30.6.2016	31.12.2015
Provisions for pensions and similar obligations	135	102
Restructuring provisions	12	15
Provisions for contingent liabilities and other commitments	–	1
Other provisions	88	111
Thereof: Long-term liabilities to employees	1	1
Total	**235**	**229**

pbb closed a reinsurance in the form of a qualifying insurance policy according to IAS 19 to hedge parts of the risk from the defined benefit obligations. A discount rate of 1.50% (31 December 2015: 2.25%) was used for the measurement of the defined benefit pension obligations. The other actuarial assumption were unchanged compared to the consolidated financial statements 2015.

Other provisions include provisions for legal risks amounting to €61 million (31 December 2015: €87 million).

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

In appraisal proceedings relating to the merger of three predecessor mortgage banks to form pbb in 2001, the new appraisal ordered by the Munich Regional Court I has resulted in an additional payment averaging €1.00 per share. The potential subsequent payment claims amount 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 com-plaints against the court's decision. As the Munich Regional Court I did not rectify these complaints, complaint proceed-ings have been initiated at the Munich Higher Regional Court.

The profit participation certificates issued by the predecessor institutions participated in significant losses due to the net losses for the period incurred since 2008 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 pro-ceedings, 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. The disputed profit-participation certificates originally had a total nominal volume of €296.5 million, out of which €54.3 million are currently subject to pending litigation. 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.

Otherwise, no proceedings for which the Management Board believes the probability of an outflow of resources to be not unlikely, or which are of material significance to pbb Group for other reasons, exist with an amount in dispute in excess of more than €5 million.

27 Other Liabilities

Other liabilities

in € million	30.6.2016	31.12.2015
Negative fair values from derivative financial instruments	5,349	4,818
Hedging derivatives	5,349	4,818
Micro fair value hedge	5,343	4,818
Portfolio hedge	6	–
Other liabilities	65	100
Total	**5,414**	**4,918**

28 Subordinated Capital

Breakdown

in € million	30.6.2016	31.12.2015
Subordinated liabilities	550	764
Hybrid capital instruments	351	361
Total	**901**	**1,125**

Subordinated capital by maturities

in € million	30.6.2016	31.12.2015
With agreed maturities		
up to 3 months	18	223
more than 3 months to 1 year	386	15
more than 1 year to 5 years	247	710
more than 5 years	250	177
Total	**901**	**1,125**

NOTES TO THE FINANCIAL INSTRUMENTS

29 Fair Values of Financial Instruments

Fair values and fair value hierarchy

in € million	Carrying amount	Fair value	Level 1	Level 2	Level 3
					30.6.2016
Financial assets	**67,027**	**69,052**	**11,612**	**25,991**	**31,449**
at fair value through profit or loss	6,920	6,920	–	6,880	40
at fair value not affecting profit or loss	3,317	3,317	3,317	–	–
not measured at fair value in the balance sheet	56,790	58,815	8,295	19,111	31,409
Cash reserve	1,139	1,139	1,139	–	–
Trading assets (HfT)	1,872	1,872	–	1,872	–
Loans and advances to other banks	3,700	3,725	2,130	770	825
Category LaR	3,700	3,725	2,130	770	825
Loans and advances to customers[1]	41,351	43,251	–	15,069	28,182
Category LaR	41,351	43,251	–	15,069	28,182
Real Estate Finance	23,855	25,241	–	–	25,241
Public Investment Finance	6,114	6,434	–	5,081	1,353
Value Portfolio	9,772	9,873	–	8,257	1,616
Consolidation & Adjustments	1,642	1,735	–	1,731	4
Portfolio-based allowances	−32	−32	–	–	−32
Valuation adjustment from portfolio hedge accounting	6	–	–	–	–
Financial investments	13,911	14,017	8,343	3,272	2,402
Category AfS	3,317	3,317	3,317	–	–
Category LaR	10,594	10,700	5,026	3,272	2,402
Other assets	5,048	5,048	–	5,008	40
Hedging derivatives	5,048	5,048	–	5,008	40
Financial liabilities	**64,444**	**65,878**	**21,461**	**7,835**	**36,582**
at fair value through profit or loss	6,936	6,936	–	6,904	32
at fair value not affecting profit or loss	–	–	–	–	–
not measured at fair value in the balance sheet	57,508	58,942	21,461	931	36,550
Liabilities to other banks	2,553	2,698	1,446	254	998
Liabilities to customers	10,952	11,301	1,450	–	9,851
Securitised liabilities	43,095	44,035	18,565	677	24,793
Covered	36,184	37,017	14,456	554	22,007
Uncovered	6,911	7,018	4,109	123	2,786
Valuation adjustment from portfolio hedge accounting	2	–	–	–	–
Trading liabilities (HfT)	1,587	1,587	–	1,587	–
Other liabilities	5,354	5,354	–	5,317	37
Hedging derivatives	5,349	5,349	–	5,317	32
Other financial liabilities	5	5	–	–	5
Subordinated capital	901	903	–	–	903
Other items	**3,200**	**3,228**	**–**	**–**	**3,228**
Contingent liabilities	215	215	–	–	215
Irrevocable loan commitments	2,985	3,013	–	–	3,013

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

Fair values and fair value hierarchy

in € million	Carrying amount	Fair value	Level 1	Level 2	Level 3
					31.12.2015
Financial assets	**66,341**	**68,560**	**11,706**	**24,710**	**32,144**
at fair value through profit or loss	6,560	6,560	–	6,516	44
at fair value not affecting profit or loss	3,521	3,521	3,521	–	–
not measured at fair value in the balance sheet	56,260	58,479	8,185	18,194	32,100
Cash reserve	1,265	1,265	1,265	–	–
Trading assets (HfT)	1,600	1,600	–	1,600	–
Loans and advances to other banks	2,742	2,769	1,696	767	306
Category LaR	2,742	2,769	1,696	767	306
Loans and advances to customers[1]	40,846	42,941	–	13,862	29,079
Category LaR	40,846	42,941	–	13,862	29,079
Real Estate Finance	23,866	25,223	–	–	25,223
Public Investment Finance	5,974	6,290	–	4,658	1,632
Value Portfolio	9,209	9,524	–	7,648	1,876
Consolidation & Adjustments	1,829	1,936	–	1,556	380
Portfolio-based allowances	−32	−32	–	–	−32
Valuation adjustment from portfolio hedge accounting	1	–	–	–	–
Financial investments	14,927	15,025	8,745	3,565	2,715
Category AfS	3,521	3,521	3,521	–	–
Category LaR	11,406	11,504	5,224	3,565	2,715
Other assets	4,960	4,960	–	4,916	44
Fair value hedge derivatives	4,960	4,960	–	4,916	44
Financial liabilities	**63,601**	**64,932**	**19,842**	**7,769**	**37,321**
at fair value through profit or loss	6,461	6,461	–	6,445	16
at fair value not affecting profit or loss	–	–	–	–	–
not measured at fair value in the balance sheet	57,140	58,471	19,842	1,324	37,305
Liabilities to other banks	2,514	2,624	1,254	379	991
Liabilities to customers	10,824	11,101	1,075	–	10,026
Securitised liabilities	42,648	43,602	17,513	934	25,155
Covered	36,563	37,513	14,245	813	22,455
Uncovered	6,085	6,089	3,268	121	2,700
Trading liabilities (HfT)	1	–	–	–	–
Other liabilities	1,643	1,643	–	1,643	–
Fair value hedge derivatives	4,846	4,846	–	4,802	44
Cash flow hedge derivatives	4,818	4,818	–	4,802	16
Other financial liabilities	28	28	–	–	28
Subordinated capital	1,125	1,116	–	11	1,105
Other items	**3,130**	**3,156**	**–**	**–**	**3,156**
Contingent liabilities	184	184	–	–	184
Irrevocable loan commitments	2,946	2,972	–	–	2,972

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

As was the case in 2015, no financial instruments measured at fair value were reclassified from Level 1 to Level 2 and vice versa in the first half of 2016. Furthermore, no financial instruments measured at fair value were were reclassified from Level 2 to Level 3 and vice versa in the current reporting period. In 2015, financial liabilities in the amount of €6 million were reclassified from Level 2 to Level 3 since inputs were no longer fully observable on the market; financial assets measured at fair value in the amount of €27 million and financial liabilities in the amount of €1 million were reclassified from Level 3 to Level 2 since inputs were observable on the market again.

Level 2 instruments measured at fair value as of 30.6.2016

Measurement methods	Observable parameters
DCF methods	Euro zone inflation rates
	Reference interest rates
	Saisonalities of Euro zone inflation rates
	Spot market exchange rates
	Yield curves
Option pricing models	Cap volatilities
	CMS Spread Options (strike prices)
	CMS Spread Options (option prices)
	Euro zone inflation rates
	Reference interest rates
	Saisonalities of Euro zone inflation rates
	Swaption volatilities
	Volatilities of Euro zone inflation caps
	Spot market exchange rates
	Exchange rate volatilities
	Yield curves

Level 3 instruments measured at fair value as of 30.6.2016

Measurement methods	Non-observable parameters	Range (weighted average)
Option pricing models	Historical index/index correlations	68.88% (68.88%)
	Historical index/exchange rate correlations	16.15% to 28.11% (22.13%)
	Asset swap spread volatilities	0.60% (0.60%)

Changes in level 3 financial assets

	Financial assets	Financial liabilities	
in € million	Hedging derivatives	Trading liabilities	Hedging derivatives
Balance at 1.1.2015	**75**	**2**	**6**
Through profit or loss	–4	–1	4
Reclassification into Level 3	–	–	6
Reclassification out of Level 3	–27	–1	–
Balance at 31.12.2015	**44**	**–**	**16**
Balance at 1.1.2016	**44**	**–**	**16**
Through profit or loss	–4	–	16
Balance at 30.6.2016	**40**	**–**	**32**

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

Sensitivities As at 30 June 2016, financial assets measured at fair value were subject to positive and negative changes of less than €1 million each, and financial liabilities measured at fair value were subject to positive and negative changes of €2 million each. The calculation of the sensitivity for the three relevant derivatives, which are used in hedge accounting, is based on shock scenarios for cor-relations and volatilities pursuant to the level 3 measurement methods table. There are interactions between the input parameters used, except for spread volatilities. If the scenario effects are taken into account on an aggregate basis, the maximum change for assets is less than €1 million and for liabilities less than €3 million. As at 31 December 2015, the sensitivity analysis resulted in positive and negative changes in financial assets of €1 million each and in financial liabilities of less than €1 million each. These amounts were calculated independently from each other. Offsetting effects due to compen-sating derivatives and hedge relationships reduce both positive and negative changes. There were no methodological changes compared to the previous year.

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

in € million	30.6.2016	31.12.2015
Assets		
Loans and receivables (LaR)	55,651	54,995
Available for sale (AfS)	3,317	3,521
Held for trading (HfT)	1,872	1,600
Cash reserve	1,139	1,265
Claims from finance lease agreements	243	231
Positive fair values from hedging derivatives	5,048	4,960
Liabilities		
Held for trading (HfT)	1,587	1,643
Financial liabilities at amortised cost	57,508	57,140
Negative fair values from hedging derivatives	5,349	4,818

During the first half of 2016, some of the newly entered into derivatives contracts were settled through Eurex Clearing. Moreover, some of existing derivatives positions are being transferred to Eurex Clearing. On-balance sheet netting – to the extent permitted for such derivatives – led to a reduction in total assets of €889 million as at 30 June 2016.

pbb has examined the implications of the Federal Court of Justice (Bundesgerichtshof) judgement IX ZR 314/14 dated 9 June 2016 regarding the partial invalidity of master agreements for financial derivatives, to the extent they are in contradiction to section 104 of the German Insolvency Code (Insolvenzordnung), on existing contracts. Given the General Administrative Act issued by the Federal Financial Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht) pursuant to section 4a of the German Securities Trading Act (Wertpapierhandelsgesetz) to ensure legal certainty for netting agreements in the scope of German insolvency law dated 9 June 2016, said Federal Court of Justice judgement has currently no effect on pbb's net disclosure of OTC derivatives in the consolidated statement of financial position.

30 Past Due but Not Impaired Assets

In the following total portfolio of the partly or completely past due but not impaired loans and advances as of 30 June 2016 and as of 31 December 2015 is disclosed. However, no specific allowances were made for these assets respec-tively the underlying collaterals as pbb Group does not consider that there is any issue regarding their recoverability. Such timing issues in receipts of payments due occur regularly (up to three months) in the normal course of business and are therefore not considered to be an evidence for impairment.

As of 30 June 2016 and as of 31 December 2015 pbb Group had neither past due and not impaired nor impaired AfS financial investments in the portfolio.

Carrying amounts of past due but not impaired LaR assets

in € million	30.6.2016	31.12.2015
up to 3 months	4	10
more than 3 months to 6 months	3	2
more than 6 months to 1 year	3	–
more than 1 year	6	12
Total	**16**	**24**

Carrying amounts LaR assets

in € billion	30.6.2016	31.12.2015
Carrying amount of LaR assets that are neither impaired nor past due	55.3	54.5
Carrying amount of LaR assets that are past due but not impaired (total investment)	–	–
Carrying amount of individually assessed impaired LaR assets (net)	0.4	0.5
Balance of specific allowances	0.1	0.1
Total	**55.8**	**55.1**
Thereof: Loans and advances to other banks (including investments)	3.7	2.7
Loans and advances to customers (including investments)	41.5	41.0
Financial investments (gross)	10.6	11.4

31 Restructured Loans and Advances

As of 30 June 2016 and as of 31 December 2015, restructured loans and advances mainly related to standstill agreements and to the discontinuation of contractual arrangements.

Restructured loans and advances

in € million	30.6.2016	31.12.2015
Carrying amount of loans and advances that are neither impaired nor past due	68	223
Carrying amount of loans that are past due but not impaired (gross)	5	5
Carrying amount of impaired loans and advances (gross)	332	462
Total	**405**	**690**

OTHER NOTES

32 Contingent Liabilities and Other Commitments

Contingent liabilities and other commitments

in € million	30.6.2016	31.12.2015
Contingent liabilities	**215**	**184**
Guarantees and warranties	215	184
Performance guarantees and warranties	215	184
Other commitments	**2,985**	**2,946**
Irrevocable loan commitments	2,985	2,946
Guarantees	22	23
Mortgage and public sector loans	2,963	2,923
Commitments from bank levies	**11**	**8**
Collateral pledged	11	8
Total	**3,211**	**3,138**

33 Relationship with Related Parties

As at 30 June 2015, pbb was under an indirect significant influence of the Federal Republic of Germany, through HRE Holding, at that time pbb's sole shareholder. The shareholding of HRE Holding decreased to 20.0% as part of pbb's privatisation in July 2015. pbb has not been controlled by HRE Holding, Finanzmarktstabilisierungsfonds-FMS or the Federal Republic of Germany since 20 July 2015 (at the latest) due to a control termination agreement (Entherrschungsvertrag). Until 20 July 2015, pbb was classified as a related party of other companies that were subject to the control, joint control or significant influence of the Federal Republic of Germany.

No material transactions with related parties were entered into during the first half of 2016.

Munich, 3 August 2016

Deutsche Pfandbriefbank AG
The Management Board

Andreas Arndt   Thomas Köntgen   Andreas Schenk   Dr. Bernhard Scholz

Review Report

To Deutsche Pfandbriefbank AG, Munich

We have reviewed the condensed interim consolidated financial statements of the Deutsche Pfandbriefbank AG, Munich – comprising consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of change in equity, consolidated statement of cash flows (condensed) and notes (condensed) – together with the group interim management report of the Deutsche Pfandbriefbank, Munich, for the period from 1 January to 30 June 2016 that are part of the semi annual financial report according to § 37w WpHG [«Wertpapierhandelsgesetz»: «German Securities Trading Act»]. The preparation of the con-densed interim consolidated financial statements in accordance with those IFRS applicable to interim financial reporting as adopted by the EU, and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports, is the responsi-bility of the Company's management . Our responsibility is to issue a report on the condensed interim consolidated financial statements and on the interim group management report based on our review.
We performed our review of the condensed interim consolidated financial statements and the interim group management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, and that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditor's report.

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

Munich, 3 August 2016

KPMG AG
Wirtschaftsprüfungsgesellschaft
[original German version signed by:]

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

Signatories on behalf of Deutsche Pfandbriefbank AG

Eschborn, as of 22 August 2016

signed by Götz Michl	signed by Martina Horn
Managing Director	Director