Interim Report
as of 30 September 2015

Deutsche Pfandbriefbank Group

PUBLIC SECTOR FINANCE
REAL ESTATE FINANCE

DEUTSCHE
PFANDBRIEFBANK

Overview

Deutsche Pfandbriefbank Group (pbb Group)		1.1.–30.9. 2015	1.1.–30.9. 2014
Operating performance according to IFRS			
Profit or loss before tax	in € million	165	127
Net income/loss	in € million	141	108
Key ratios			
Earnings per share	in €	1.05	0.80
Cost-income ratio	in %	50.0	59.7
Return on equity before tax	in %	6.8	4.9
Return on equity after tax	in %	5.8	4.2
New business volume[1]	in € billion	8.9	7.0
Balance sheet figures		**30.9.2015**	**31.12.2014[2]**
Total assets	in € billion	67.1	74.9[3]
Financial position equity (excluding revaluation reserve)	in € billion	2.6	3.4
Financial position equity	in € billion	2.6	3.5
Key regulatory capital ratios		**30.9.2015**	**31.12.2014[2]**
CET1 ratio	in %	17.0	21.7
CET1 ratio fully phased-in	in %	16.1	13.5
Own funds ratio	in %	21.4	26.1
Own funds ratio fully phased-in	in %	17.9	22.1
Leverage ratio[4]	in %	4.1	5.3
Leverage ratio fully phased-in[4]	in %	3.6	4.6
Staff		**30.9.2015**	**31.12.2014**
Employees[5]		787	808

[1] Including prolongations with maturities of more than one year
[2] Including silent partnership contribution of € 1.0 billion which was repaid on 6 July 2015
[3] Adjusted in accordance with IAS 8.14 et.seq. Details are disclosed in Note «Consistency».
[4] Leverage ratio is defined as the ratio of Tier 1 and the relevant exposure in accordance with CRR.
[5] On full-time equivalent basis

Senior unsecured ratings and ratings for Pfandbriefe of Deutsche Pfandbriefbank AG (pbb)[1]	30.9.2015			31.12.2014		
	Standard & Poor's	DBRS	Moody's	Standard & Poor's	Moody's	Fitch Ratings
Long-term rating	BBB	BBB	–	BBB	Baa2	A–
Outlook	Negative	Stable	–	Negative	Negative	Negative
Short-term rating	A–2	R–2 (high)	–	A–2	P–2	F1
Public sector Pfandbriefe	AA–[2]	–	Aa1	AA+[2]	Aa1	–
Mortgage Pfandbriefe	AA+[3]	–	Aa2	AA+[2]	Aa2	–

[1] Ratings from mandated rating agencies
[2] Negative outlook
[3] Stable outlook

Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

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In July 2015, Hypo Real Estate Holding AG (HRE Holding) placed 107,580,245 pbb shares held on its own books (including an over-allotment («Greenshoe») of 6,589,289 shares), as part of a flotation in its capacity as owner of Deutsche Pfandbriefbank AG (pbb). The shares were placed at a price of € 10.75 per share, with the offer being several times oversubscribed, at the offer price. Almost all of the shares were allotted to institutional investors. Following the flotation (and after exercise of the over-allotment option), HRE Holding will continue to hold 20% of pbb's share capital. pbb shares (trading symbol «PBB»/ISIN DE0008019001) have been traded in the Prime Standard segment of the Regulated Market at the Frankfurt Stock Exchange since 16 July 2015. With effective date 21 September 2015 the pbb shares. With effect from 21 September 2015 pbb was admitted to the MDAX.

Development in Earnings

Deutsche Pfandbriefbank Group (pbb Group)

During the period under review (1 January to 30 September 2015), pbb Group realised profit before tax of €165 million – a 29.9% increase over the €127 million achieved in the previous year's period (1 January to 30 September 2014 – hereinafter: «9m 2014»). pbb Group thus continued the successful performance of previous periods. pbb Group achieved the following results, compared to the previous year period:

pbb Group		1.1.–30.9. 2015	1.1.–30.9. 2014	Change
Operating performance				
Operating income	in € million	300	315	−15
Net interest income	in € million	324	303	21
Net fee and commission income	in € million	12	–	12
Net trading income	in € million	7	−21	28
Net income from financial investments	in € million	−32	23	−55
Net income from hedging relationships	in € million	9	−5	14
Net other operating income/expenses	in € million	−20	15	−35
Loan loss provisions	in € million	8	−1	9
General and administrative expenses	in € million	−150	−188	38
Net miscellaneous income/expenses	in € million	7	1	6
Profit or loss before tax	in € million	165	127	38
Income taxes	in € million	−24	−19	−5
Net income/loss	in € million	141	108	33
Key ratios				
Earnings per share (basic and dilluted)	in €	1.05	0.80	
Cost-income ratio[1]	in %	50.0	59.7	
Return on equity before tax[2]	in %	6.8	4.9	
Return on equity after tax[3]	in %	5.8	4.2	

[1] Cost-income ratio is the ratio of general and administrative expenses and operating income.
[2] Return on equity before tax is the ratio of annualised profit or loss before tax and average equity excluding revaluation reserve.
[3] Return on equity after tax is the ratio of annualised net income/loss and average equity excluding revaluation reserve.

Operating Income Net interest income rose to € 324 million (9m 2014: € 303 million). Despite pbb's successful new business, aggregate financing volumes in the REF and PIF portfolios declined slightly during the third quarter of 2015, to € 30.5 billion (30 June 2015: € 30.8 billion), due to high level of early repayments. At € 30.1 billion, however, the average volume of pbb's strategic portfolios during the period under review exceeded the figure for previous year's reporting period (9m 2014: € 27.3 billion), driven by new business volume of € 8.9 billion (9m 2014: € 7.0 billion). Margins in the Bank's lending business were lower compared to 2014, due to intensified competition, but stabilised during 2015. On the funding side, banks have been facing higher costs due to new regulations introduced through the implementation of the EU Bank Recovery and Resolution Directive (BRRD). Positive effects were incurred due to income from the sale of borrowers' note loans (€ 25 million; 9m 2014: € 0 million) and from early termination fees (€ 12 million; 9m 2014: € 24 million).

Net fee and commission income (€ 12 million; 9m 2014: € 0 million) comprised non-accruable fees from lending and other services, with € 5 million in commission income generated in connection with a French financing arrangement in the REF portfolio which has now been repaid in full.

Net trading income (€ 7 million; 9m 2014: € –21 million) strongly benefited from positive measurement effects of derivatives, based on interest rate and exchange rate fluctuations (€ 17 million; 9m 2014: € 4 million). Additional income was generated by the subsequent measurement of derivatives, taking into account the bilateral credit value adjustment (CVA) of € 10 million (9m 2014: expenses of € 8 million). A change in estimates used to determine CVA for client derivatives caused expenses of € 6 million. In addition, the so-called «pull-to-par» effect – according to which the present value of derivatives approaches zero towards maturity – led to charges of € 14 million (9m 2014: € 17 million).

Net income from financial investments (€ –32 million; 9m 2014: € 23 million) was burdened by € 73 million in the first quarter of 2015, due to additional valuation adjustments on securities issued by Heta Asset Resolution AG (Heta). As at 30 September 2015, cumulative expenses incurred through valuation adjustments on Heta securities recognised in net income from financial investments and loan loss provisions amounted to 50 % of the nominal volume of Heta securities (€ 395 million). The sale of a security with a nominal value of GBP 200 million generated income of € 55 million. Further disposals of securities from the AfS and LaR categories led to net expenses of € 14 million. The securities sold were largely part of the non-strategic Value Portfolio (VP). The disposal of these securities allowed pbb Group to further reduce the non-strategic portfolio, with the associated capital relief creating growth potential for the profitable strategic portfolios.

Net income from hedging relationships of € 9 million (9m 2014: € –5 million) comprised income from ineffective portions of micro fair value hedge relationships, within the 80 % to 125 % range permitted under IAS 39 (€ 8 million; 9m 2014: expenses of € 6 million); as well as income from ineffective portions of cash flow hedge accounting, recognised in income (€ 1 million; 9m 2014: € 1 million). € 5 million of income from ineffective portions of micro fair value hedge relationships was attributable to a change in estimates used to measure options during the third quarter of 2015.

Net other operating income/expenses (€ –20 million; 9m 2014: € 15 million) was burdened by the bank levy in the amount of € 25 million. Against the background of the new EU Bank Recovery and Resolution Directive (BRRD) and in the context of IFRIC 21 interpretations, the expected bank levy annual contribution for 2015 was already recognised in full. Pre-tax income from the disposal of a acquired property in Japan, in connection with a former lending exposure, resulted in positive effects of € 39 million. Currency translation effects generated additional income of € 8 million (9m 2014: € 6 million). Rental income of € 8 million (9m 2014: € 8 million) was generated from real estate taken over; the cost allocation with HRE Holding yielded income of € 4 million (9m 2014: € 5 million) until the mid-year point.

Loan Loss Provisions The net reversal of loan loss provisions (€ 8 million; 9m 2014: net addition of €1 million) comprises net additions to specific allowances (€ 7 million; 9m 2014: € 14 million), net reversal of portfolio-based allowances (€ 13 million; 9m 2014: € 8 million), recovery payments on previously written-off loans and advances of €1 million (9m 2014: € 5 million) as well as income from the reversal of provisions for contingent liabilities and other commitments (€1 million; 9m 2014: € 0 million).

Specific allowances related only to a few exposures in the Real Estate Finance (REF) segment (net addition of €1 million) and a borrowers' note loan to Heta in the VP segment, shown under loans and advances to customers (addition of € 6 million). As in same period of the previous year, no specific allowances were recognised on Public Investment Finance exposures. Portfolio-based allowances are only recognised for loans and advances for which no indication of an individual impairment has been determined. Net reversals of were due, inter alia, to rating improvements of borrowers.

General and Administrative Expenses pbb Group significantly reduced general and administrative expenses, to € 150 million (9m 2014: € 188 million). The Group's strict cost discipline contributed to this reduction. Moreover, pbb Group was able to terminate activities not part of its core business – for example, services rendered to other companies such as DEPFA, except for some remaining minor service work. This allows pbb to concentrate on its core business segments. The decrease in non-personnel expenses more than compensated for the increase in personnel expenses during the period under review: personnel expenses (€ 84 million; 9m 2014: € 81 million) grew slightly, with a virtually unchanged average number of employees (834; 9m 2014: 836). The increase was due, amongst other factors, to higher net expenses for retirement benefit plans, due to the low interest rate environment. The drop in non-personnel expenses – from € 107 million to € 66 million – was mainly attributable to lower IT and consultancy expenses. Lower IT expenses resulted in particular from the termination of the majority of IT services rendered to DEPFA and a newly concluded framework agreement with an external service provider. Lower expenses for IT services also translated into decreasing income disclosed in net other operating income/expenses. Expenses for consultancy services declined due to a lower number of projects.

Net Miscellaneous Income/Expenses Net miscellaneous income/expenses of € 7 million (9m 2014: €1 million) was related to other tax income and a net reversal of restructuring provisions.

Income Taxes Expenses for current taxes of € 20 million (9m 2014: € 27 million) and expenses for deferred taxes of € 4 million (9m 2014: income of € 8 million) resulted in a total tax expense of € 24 million (9m 2014: € 19 million). € 1 million (9m 2014: € 24 million) of expenses for current taxes was attributable to Germany, with the remaining € 19 million (9m 2014: € 3 million) incurred abroad. Expenses for current taxes in the amount of € 9 million were attributable to the subsidiary Hayabusa Godo Kaisha, Tokyo, and were incurred, in particular, due to the disposal of a property in Japan.

Operating Segments

Within segment reporting, income is determined by deducting matched-maturity funding rates prevailing at the time of concluding a transaction from the interest rate charged to the client. The input parameters required for this purpose are set at the time of originating a new business transaction, within the scope of accounting for individual transactions. In addition, income from investing the Bank's own funds and imputed costs for holding liquidity after drawdown are included at segment level.

Further income or expenses that cannot be allocated directly to a specific lending transaction (in particular, the results from disposal of assets held for liquidity management, early termination fees, from market-induced effects on net trading income, hedging relationships, and the bank levy) are allocated to the business segments, usually on a pro-rata basis, in line with financing volumes.

Real Estate Finance (REF)

The REF operating segment comprises all commercial real estate financing arrangements of pbb Group. New business volume of €7.9 billion, including extensions with terms of more than one year, underlined pbb's strong position on the market and exceeded the figure for previous year's reporting period (9m 2014: €6.1 billion) considerably despite continuing competition.

Real Estate Finance		1.1.–30.9. 2015	1.1.–30.9. 2014[1]	Change
Operating performance				
Operating income	in € million	275	220	55
Net interest income	in € million	226	226	–
Net fee and commission income	in € million	12	–	12
Net trading income	in € million	7	−9	16
Net income from financial investments	in € million	18	11	7
Net income from hedging relationships	in € million	4	−2	6
Net other operating income/expenses	in € million	8	−6	14
Loan loss provisions	in € million	14	−2	16
General and administrative expenses	in € million	−116	−118	2
Net miscellaneous income/expenses	in € million	6	2	4
Profit or loss before tax	in € million	179	102	77
Key ratio				
Cost-income ratio	in %	42.2	53.6	
Balance-sheet-related measures		**30.9.2015**	**31.12.2014[1]**	
Financing volumes[2]	in € billion	23.4	21.8	
Risk-weighted assets[3]	in € billion	6.9	7.2	
Equity[4]	in € billion	0.6	0.7	

[1] Adjusted in accordance with IFRS 8.29
[2] Notional amounts of the drawn parts of loans granted , plus parts of the securities portfolio
[3] 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
[4] Excluding revaluation reserve

Operating Income Net interest income of € 226 million was unchanged year-on-year. Whilst the average financing volume rose from € 21.2 billion in the same period of the previous year, to € 23.1 billion in the period under review, the third quarter of 2015 saw a material volume of high-margin transactions being repaid and partial loan extensions, at reduced margins. Given relatively stable new business margins, average margins on the overall portfolio thus decreased, meaning that positive effects from the new business were largely offset by effects from repayments. Early termination fees of € 6 million (9m 2014: € 10 million) had a positive effect. Net fee and commission income of € 12 million (9m 2014: € 0 million) comprised non-accruable fees, including € 5 million in commission income generated in connection with a French financing arrangement which has now been repaid in full. Net income from financial investments improved to €18 million (9m 2014: €11 million), due to income from security disposals. Net trading income (€ 7 million; 9m 2014: € – 9 million) benefited from positive measurement effects of derivatives, based on interest rate and exchange rate fluctuations, and from the subsequent measurement of derivatives, taking into account the bilateral CVA. Expenses were incurred from a change in estimates used to determine CVA for client derivatives, and due to the «pull-to-par» effect. Net other operating income stood at € 8 million (9m 2014: € – 6 million); the increase compared to the previous year's period was due to income from the disposal of a property in Japan. Negative effects resulted mainly from the allocated bank levy.

Loan Loss Provisions Net reversals of € 14 million were recognised in loan loss provisions (9m 2014: additions of € 2 million). Net additions in the amount of € 1 million (9m 2014: € 14 million) were recognised in specific allowances, resulting from a small number of individual exposures. Net reversals totalling € 13 million (9m 2014: reversals of € 7 million) were recognised within portfolio-based allowances. During the first nine months of 2015, pbb recognised recovery payments on previously written-off loans and advances of € 1 million (9m 2014: € 5 million) and income from the reversal of provisions for contingent liabilities and other commitments of € 1 million (9m 2014: € 0 million).

General and Administrative Expenses General and administrative expenses stood at € 116 million, thus slightly below the previous period's level (9m 2014: €118 million) due to lower non-personnel expenses.

Public Investment Finance (PIF)

The PIF business segment comprises financings of public infrastructure projects which are eligible for inclusion in Pfandbrief cover. Despite continuing competition in the area of public investment financings, pbb increased its new business volume slightly to €1.0 billion (9m 2014: €0.9 billion).

Public Investment Finance		**1.1.–30.9. 2015**	**1.1.–30.9. 2014[1]**	Change
Operating performance				
Operating income	in € million	27	24	3
Net interest income	in € million	28	28	–
Net fee and commission income	in € million	–	–	–
Net trading income	in € million	–	–3	3
Net income from financial investments	in € million	6	3	3
Net income from hedging relationships	in € million	1	–2	3
Net other operating income/expenses	in € million	–8	–2	–6
Loan loss provisions	in € million	–	–	–
General and administrative expenses	in € million	–20	–23	3
Net miscellaneous income/expenses	in € million	1	–	1
Profit or loss before tax	in € million	8	1	7
Key ratio				
Cost-income ratio	in %	74.1	95.8	
Balance-sheet-related measures		**30.9.2015**	**31.12.2014[1]**	
Financing volumes[2]	in € billion	7.1	6.6	
Risk-weighted assets[3]	in € billion	1.2	1.3	
Equity[4]	in € billion	0.2	0.5	

[1] Adjusted in accordance with IFRS 8.29
[2] Notional amounts of the drawn parts of loans granted , plus parts of the securities portfolio
[3] 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
[4] Excluding revaluation reserve

Operating Income At €28 million, net interest income was in line with the previous year's period. Whilst the average financing volume rose to €7.0 billion (9m 2014: €6.1 billion), higher funding costs had an offsetting effect. Income from early termination fees amounted to €2 million (9m 2014: €3 million). Net income from financial investments in the amount of €6 million (9m 2014: €3 million) was attributable to income from security disposals. Net other operating income/expenses in the amount of €–8 million (9m 2014: €–2 million) was burdened, inter alia, by the bank levy.

Loan Loss Provisions In the current reporting period and in the previous year's period, no additions or reversals were required.

General and Administrative Expenses General and administrative expenses stood at €20 million, thus below the previous period's level (9m 2014: €23 million) due to lower non-personnel expenses.

Value Portfolio (VP)

The VP operating segment includes all of pbb Group's non-strategic portfolios and activities. New business is not generated in this segment.

Value Portfolio		1.1.–30.9. 2015	1.1.–30.9. 2014[1]	Change
Operating performance				
Operating income	in € million	–6	67	–73
Net interest income	in € million	66	44	22
Net fee and commission income	in € million	–	–	–
Net trading income	in € million	–	–9	9
Net income from financial investments	in € million	–56	9	–65
Net income from hedging relationships	in € million	4	–1	5
Net other operating income/expenses	in € million	–20	24	–44
Loan loss provisions	in € million	–6	1	–7
General and administrative expenses	in € million	–14	–47	33
Net miscellaneous income/expenses	in € million	–	–1	1
Profit or loss before tax	in € million	–26	20	–46
Key ratio				
Cost-income ratio	in %	>100.0	70.1	
Balance-sheet-related measures		**30.9.2015**	**31.12.2014[1]**	
Financing volumes[2]	in € billion	19.7	22.7	
Risk-weighted assets[3]	in € billion	4.7	5.5	
Equity[4]	in € billion	1.3	1.8	

[1] Adjusted in accordance with IFRS 8.29
[2] Notional amounts of the drawn parts of loans granted , plus parts of the securities portfolio
[3] 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
[4] Excluding revaluation reserve

Operating Income Whilst net interest income is generally declining, due to the diminishing financing volumes in this segment, during the period under review, € 25 million in proceeds from the disposal of borrowers' note loans led to an increase to € 66 million (9m 2014: € 44 million). The decline in net income from financial investments, to €–56 million (9m 2014: € 9 million) was due to the value adjustment of the Heta exposure in the first quarter of 2015, which was offset by net income from security disposals. Net other operating income/expenses amounted to €–20 million (9m 2014: € 24 million), with the bank levy as major driver. Moreover, net other operating income/expenses declined year-on-year, due to the termination of the majority of IT services rendered to DEPFA at year-end 2014.

Loan Loss Provisions Net additions to loan loss provisions (€ 6 million; 9m 2014: net reversal of € 1 million) resulted from specific allowances recognised on Heta bonded loans.

General and Administrative Expenses General and administrative expenses stood at € 14 million, thus significantly below the previous period's level (9m 2014: € 47 million). The main reason for the decline was the termination of the majority of IT services rendered to DEPFA.

Consolidation & Adjustments

Consolidation & Adjustments reconciles the aggregated segment results with the consolidated result. Besides consolidation adjustments, this includes certain income and expense items outside the operating segments' areas of responsibility.

Consolidation & Adjustments		1.1.–30.9. 2015	1.1.–30.9. 2014[1]	Change
Operating performance				
Operating income	in € million	4	4	–
Net interest income	in € million	4	5	–1
Net fee and commission income	in € million	–	–	–
Net trading income	in € million	–	–	–
Net income from financial investments	in € million	–	–	–
Net income from hedging relationships	in € million	–	–	–
Net other operating income/expenses	in € million	–	–1	1
Loan loss provisions	in € million	–	–	–
General and administrative expenses	in € million	–	–	–
Net miscellaneous income/expenses	in € million	–	–	–
Profit or loss before tax	in € million	4	4	–
Balance-sheet-related measures		**30.9.2015**	**31.12.2014[1]**	
Risk-weighted assets[2]	in € billion	1.0	1.5	
Equity[3]	in € billion	0.5	0.4	

[1] Adjusted in accordance with IFRS 8.29
[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

Profit before tax was € 4 million (9m 2014: € 4 million). Net interest income arose from the investment of equity allocated to Consolidation & Adjustments.

Development in Assets

Assets in € million	**30.9.2015**	**31.12.2014**[1]	Change
Cash reserve	299	57	242
Trading assets	1,914	2,016	–102
Loans and advances to other banks	2,787	6,800	–4,013
Loans and advances to customers	40,347	38,964	1,383
Allowances for losses on loans and advances	–127	–138	11
Financial investments	16,564	20,475	–3,911
Property and equipment	11	8	3
Intangible assets	21	23	–2
Other assets	5,284	6,659	–1,375
Income tax assets	19	30	–11
Current tax assets	18	29	–11
Deferred tax assets	1	1	–
Total assets	**67,119**	**74,894**	–7,775

[1] Adjusted in accordance with IAS 8.14 et. seq. Details are disclosed in the Note «Consistency».

During the period under review, pbb Group increased its strategic portfolio to a nominal volume of € 30.5 billion (31 December 2014: € 28.4 billion). This development was due to the increases in both the REF portfolio (+ € 1.6 billion) and the PIF portfolio (+ € 0.5 billion). The volume of non-strategic portfolios declined to € 19.7 billion (31 December 2014: € 22.7 billion) given active portfolio reductions and maturing funds. Individual balance sheet item developments were as follows:

Loans and advances to other banks decreased from € 6.8 billion at year-end 2014 to € 2.8 billion, due – amongst other factors – to lower deposits held with Eurex as well as reduced cash collateral provided. Loans and advances to customers rose due to the fact that new business disbursed exceeded repayments. This was partly offset by market-induced fair value fluctuations in Hedge Accounting. Financial investments decline to € 16.6 billion (31 December 2014: € 20.5 billion), mainly due to maturities (nominal value: €–2.2 billion) and active portfolio disposals (nominal value: €–1.4 billion). Trading assets and other assets declined against the background of market interest rate fluctuations.

Development in Financial Position

Equity and liabilities in € million	**30.9.2015**	**31.12.2014**[1]	Change
Liabilities to other banks	3,198	3,187	11
Liabilities to customers	10,664	10,593	71
Securitised liabilities	42,337	47,827	–5,490
Trading liabilities	1,696	1,960	–264
Provisions	276	272	4
Other liabilities	5,092	6,182	–1,090
Income tax liabilities	92	88	4
Current tax liabilities	86	82	4
Deferred tax liabilities	6	6	–
Subordinated capital	1,126	1,279	–153
Financial position liabilities	**64,481**	**71,388**	–6,907
Financial position equity	**2,638**	**3,506**	–868
Total equity and liabilities	**67,119**	**74,894**	–7,775

[1] Adjusted in accordance with IAS 8.14 et.seq. Details are disclosed in the Note «Consistency».

Liabilities

Total Group liabilities amounted to € 64.5 billion (31 December 2014: € 71.4 billion). Securitised liabilities fell to € 42.3 billion (31 December 2014: € 47.8 billion), due in particular to maturing Pfandbrief issues and smaller fair value adjustments in Hedge Accounting. Trading liabilities and other liabilities declined due to market-induced fair value fluctuations.

Funding

New long-term funding was raised in the amount of € 2.9 billion during the period from 1 January to 30 September 2015 (9m 2014: € 5.5 billion). Slightly more than half of long-term funding was issued in senior unsecured form; Pfandbriefe contributed just under € 1.3 billion. Early repayments on the assets side and adequate liquidity allowed for a reduction in covered funding. €1.2 billion (9m 2014: € 2.5 billion) was attributable to new benchmark issues, as well as to increases of existing issues. The remaining funding volume was raised via private placements. At the end of July, pbb successfully placed a € 500 million Mortgage Pfandbrief – its first benchmark issue following privatisation. Most issues were placed as fixed-rate bonds. Unhedged interest rate exposures are usually hedged by swapping fixed against floating interest rates. In addition to capital markets funding, pbb Group has extended its unsecured funding base through overnight and term deposits from retail investors. As at 30 September 2015, the volume of deposits taken via «pbb direkt» totalled € 2.3 billion (31 December 2014: € 1.5 billion).

Maturities

The following table compares the remaining terms of the assets and liabilities:

Maturity structure of financial position in € million	30.9.2015 Assets	30.9.2015 Equity and liabilities	31.12.2014[1] Assets	31.12.2014[1] Equity and liabilities
Total	**67,119**	**67,119**	**74,894**	**74,894**
Up to 3 months	6,038	5,188	8,320	6,953
More than 3 months to 1 year	4,334	7,359	5,548	6,760
More than 1 year to 5 years	22,583	24,786	23,013	26,637
More than 5 years	27,042	19,992	29,415	22,536
Other assets[2]/equity and liabilities[3]	7,122	9,794	8,598	12,008

[1] Adjusted in accordance with IAS 8.14 et. seq. Details are disclosed in the Note «Consistency».
[2] Trading assets, allowances for losses on loans and advances, property and equipment, intangible assets, other assets, income tax assets
[3] Trading liabilities, provisions, other liabilities, income tax liabilities, equity

Liquidity Ratio

The liquidity ratio is calculated at the level of the individual institution at pbb in accordance with the Liquiditätsverordnung (LiqV – German Liquidity Regulation), and amounted to 2.7 at the balance sheet date (31 December 2014: 4.4). This was significantly higher than the statutory minimum of 1.0.

Equity

The equity attributable to equity shareholders changed as follows:

Financial position equity in accordance with IFRS in € million	30.9.2015	31.12.2014	Change
Equity attributable to equity holders	**2,638**	**3,506**	–868
Subscribed capital	380	380	–
Silent partnership contribution	–	999	–999
Additional paid-in capital	2,357	3,265	–908
Retained earnings	–243	–1,154	911
Profits/losses from pension commitments	–72	–79	7
Foreign currency reserve	3	2	1
Revaluation reserve	72	89	–17
AfS reserve	–27	–100	73
Cash flow hedge reserve	99	189	–90
Consolidated profit/loss 1.1.–30.9./31.12.	141	4	137
Total financial position equity	**2,638**	**3,506**	–868

Financial position equity amounted to € 2.6 billion as at 30 September 2015 (31 December 2014: € 3.5 billion). The decline was due, in particular, to the full repayment of the silent partnership contribution provided by the German Financial Markets Stabilisation Fund (FMS), at the nominal value of € 1.0 billion, on 6 July 2015. This declined retained earnings by € 1 million.

pbb's subscribed capital amounted unchanged to €380,376,059.67 at 30 Septembember 2015, and is composed of 134,475,308 registered ordinary bearer shares in the form of no-parvalue shares with a notional interest in the subscribed capital of approximately €2.83 per share.

In conjunction with repayment of the silent partnership contribution (which requires different accounting under IFRS and the German Commercial Code), €908 million was reclassified from the additional paid-in capital to retained earnings due to a reconciliation of reported amounts.

The item profits/losses from pension commitments increased equity by €7 million as the discount rate used to measure the defined benefit pension obligations, in accordance with the market interest rate of 2.00% as of 31 December 2014, increased to 2.25% as of 30 September 2015.

The increase in the AfS reserve is a result of the spread improvements in southern European bonds, which are assigned to the IFRS valuation category AfS. The cash flow hedge reserve decreased mainly due to the shrinking of the underlyings.

Key Regulatory Capital Ratios

CET1 ratio amounted to 17.0% as of 30 September 2015 (31 December 2014: 21.7%), own funds ratio amounted to 21.4% (31 December 2014: 26.1%). Fully phased-in, therefore after expiry of all Basel III transitional regulations, CET1 ratio amounted to 16.1% (31 December 2014: 13.5%) and Own Funds Ratio to 17.9% (31 December 2014: 22.1%). Please refer to the Risk and Opportunity Report for further information regarding the key regulatory capital ratios.

Ratings

The following table shows the mandated senior unsecured ratings and ratings for pbb's Pfandbriefe:

Senior unsecured ratings and ratings for Pfandbriefe of pbb[1]			30.9.2015			31.12.2014
	Standard & Poor's	DBRS	Moody's	Standard & Poor's	Moody's	Fitch Ratings
Long-term rating	BBB	BBB	–	BBB	Baa2	A–
Outlook	Negative	Stable	–	Negative	Negative	Negative
Short-term rating	A–2	R–2 (high)	–	A–2	P–2	F1
Public sector Pfandbriefe	AA–[2]	–	Aa1	AA+[2]	Aa1	–
Mortgage Pfandbriefe	AA+[3]	–	Aa2	AA+[2]	Aa2	–

[1] Ratings from mandated rating agencies
[2] Negative outlook
[3] Stable outlook

The rating agencies may alter or withdraw their ratings at any time. For the evaluation and usage of ratings, please refer to the rating agencies' pertinent criteria and explanations and the relevant terms of use which are to be considered. Ratings should not serve as a substitute for personal analysis. They do not constitute a recommendation to purchase, sell or hold securities issued by pbb.

The development of ratings continued to be heavily influenced by external factors, such as legislative changes and, in this context, changes to rating methodologies. Particularly against the background of the implementation of the European Bank Recovery and Resolution Directive (BRRD) for banks, rating agencies have adjusted their assumptions or have announced adjustments with regards to support components incorporated in senior unsecured ratings. This led to rating changes. In addition, rating agencies increasingly factored in possible rating effects resulting from the privatisation of the Bank, which had been imposed by the European Commission by the end of 2015, and the accompanying loss of control by the German government into their assessment. Following the Bank's privatisation in July 2015, the senior unsecured ratings were positioned by also reflecting the indirect minority shareholding of the Federal Republic of Germany which is laid out for a duration of two years from the date of the flotation.

In the reporting period, the Bank has decided to consolidate its rating relationships. In this context, the Bank has terminated the mandates for the assignment of unsecured ratings with Fitch Ratings and Moody's. At the same time, the Bank mandated the rating agency DBRS with the assignment of bank ratings.

In the first nine months of 2015, the following major rating events occurred with regards to the rating agencies that had been mandated as of the reporting date:

Standard & Poor's

> In February 2015, Standard & Poor's revised the outlook of the senior unsecured rating to «Developing» from «Negative» in view of uncertainties in the context of the planned privatisation.
> On 9 June 2015, Standard & Poor's affirmed the senior unsecured ratings assigned to pbb in the context of the implementation of the changed assessment of the probability of sovereign support of banks against the backdrop of the BRRD and the application of new rating criteria with regards to «Additional Loss Absorbing Capacity» (ALAC). The outlook remained «Developing» at that time.
> On 17 July 2015, against the backdrop of the flotation, Standard & Poor's affirmed the bank ratings assigned to pbb and changed the outlook to «Negative» from «Developing». The main reasons for the negative outlook were uncertainties as to the accumulation of a subordinated risk buffer in favour of senior unsecured debt according to the requirements of Standard & Poor's and risks related to the economic environment in Germany.

DBRS

- On 25 June 2015, DBRS affirmed the long-term senior unsecured rating assigned to the Bank at «A (low)» and the short-term rating at «R–1 (low)» and retained the «Review Negative», which had been assigned at the end of May 2015 in the context of the review of sovereign support components factored into European bank ratings. The rating excluding this support uplift («Intrinsic Assessment») stood at «BBB».
- On 29 September 2015, DBRS concluded the «Review Negative», removing the two notches of systemic support uplift included in the senior unsecured ratings by then. As a result the long-term rating fell to «BBB» and the short-term rating to «R–2 (high)». The ratings carry a stable trend.

The following material rating actions occurred with regards to the Pfandbrief ratings during the first nine months of 2015:

- In the context of the first-time application of the new rating methodologies, Standard & Poor's affirmed the rating of the Mortgage Pfandbrief at «AA+» and raised the outlook to «Stable» from «Negative» on 9 July 2015. At the same time, the rating of the Public Sector Pfandbriefe was lowered to «AA–» with «Developing» outlook after pbb declared that it would reduce the currently high and thus economically not reasonable overcollateralisation. The outlook reflects the outlook on the senior unsecured rating assigned at that time.
- On 5 August 2015, Standard & Poor's changed the outlook for the ratings of the Public Sector Pfandbriefe to «Negative» in line with the outlook of the senior unsecured rating that was revised on 17 July 2015.

The following material rating actions occurred with regards to the rating agencies where pbb has ended the mandates:

- Moody's withdrew the bank ratings assigned to pbb on 29 June 2015. Prior to that Moody's downgraded the senior unsecured ratings assigned to pbb by two notches to «Ba1» with a stable outlook on 19 June 2015 in the wake of the application of the new bank rating methodology and due to the removal of any governmental support elements. The «Baseline Credit Assessment», which excludes the governmental support elements, was at the same time upgraded by two notches to «ba3». The newly introduced Loss-Given-Failure (LGF) Analysis also resulted in a positive effect of two rating notches. The downgrade followed the rating review of bank ratings assigned to pbb, which was initiated in March 2015 in the context of the implementation of the new rating methodology and of the BRRD.
- Fitch withdrew the ratings assigned to pbb on 19 May 2015. Immediately prior to the withdrawal and in connection with the global review of sovereign support measures, Fitch downgraded the long-term senior unsecured rating assigned to pbb to «BBB» from «A–» and placed it on «Rating Watch Negative». The short-term rating was downgraded to «F2» from «F1» and placed on «Rating Watch Negative».

The effects of possible rating changes on the development in assets, financial position and earnings of pbb are disclosed in more detail in the report on expected developments.

Material Related Party Transactions

In the period under review, pbb and HRE Holding reached an agreement that all opportunities and risks arising from a property rented in a contractual relationship are transferred from pbb to HRE Holding. In return, pbb committed to pay compensation amounting to € 24 million. Correspondingly, the restructuring provision previously created was used.

Expenses incurred in the context of pbb's privatisation (carried out by HRE Holding) are borne by the seller (again, HRE Holding).

Cost allocation with HRE Holding resulted in income for pbb Group of € 4 million (9m 2014: € 5 million), generated until the mid-year 2015.

The majority of IT services rendered to DEPFA were discontinued by year-end 2014. With these services, pbb Group generated net income of less than € 1 million in the first half of 2015 (9m 2014: € 25 million).

The silent partnership contribution provided by the German Financial Markets Stabilisation Fund (FMS) was repaid on 6 July 2015, at the nominal value of € 1.0 billion.

All further transactions carried out with related parties overall were immaterial for pbb Group.

Report on Post-balance Sheet Date Events

There were no significant events after 30 September 2015.

Risk and Opportunity Report

The Risk and Opportunity Report shows the risks and opportunities associated with each risk type, as identified within the implemented risk management and risk controlling system. For more general or bank-wide risks and opportunities, please refer to the Report on Expected Developments.

Unlike the Risk and Opportunity Report provided in the 2014 Annual Report, this report only includes a general description of the Company's risk management organisation, or a description of the definition, methods, management and measurement of particular types of risk, to the extent that there were changes during the period under review. For more details, please refer to the disclosures in the Risk and Opportunity Report in the 2014 Annual Report.

Organisation and Principles of Risk and Capital Management

After the privatisation of Deutsche Pfandbriefbank AG, pbb Group had implemented a Group-wide risk management and risk control system, which provides for uniform risk identification, measurement and limitation in accordance with section 25a of the German Banking Act (Kreditwesengesetz – «KWG»).

Going forward, pbb Group will be required to develop a Recovery Plan which complies with IFRS accounting standards as well as with the applicable legal requirements such as the KWG, the Restructuring and Resolution Act (Sanierungs- und Abwicklungsgesetz – «SAG»), and Regulatory Technical Standards published by the European Banking Authority (EBA). According to EBA's Regulatory Technical Standards, financial institutions are required to make upfront projections as to how they intend to restore their financial strength and economic sustainability under seriously stressful conditions. pbb Group is developing both idiosyncratic as well as market-wide scenarios, which may occur rapidly or slowly or in various combinations, and which may potentially jeopardise the continued existence of the Group. Defined indicators and thresholds will be used to detect the outbreak of a crisis in good time, allowing the Company to take measures designed to restore the Company's stability at an early stage. Applicability of potential measures is subject to arithmetical projections based on different scenarios. Recovery planning and its governance are embedded in pbb's existing organisational and governance structure.

Organisation and Committees

The Management Board of pbb is responsible for the risk management system, and decides on the strategies and material issues of risk management and risk organisation at pbb Group. The risk management system comprises the plausible and systematic identification, analysis, valuation, management, documentation, monitoring and communication of all major risks.

Property Analysis & Valuation, which is responsible for the analysis and uniform valuation of properties serving as collateral, using market valuation and loan-to-value methods, was placed under control of the CRO during the period under review.

Risk Strategy and Policies

The risk strategy of pbb Group is based on the business strategy, risk inventory and the results of a Group-wide financial planning process. It is applicable for the operating segments and legal entities of pbb Group, and reflects the strategic focus of pbb Group as a specialist for real estate finance and public investment finance in Germany and selected countries in Europe, with a focus on Pfandbrief funding. The strategy is reviewed at least annually, and updated if applicable.

After the regular annual revision of the risk strategy in February 2015, it was most recently updated in June 2015 as part of preparations for pbb's privatisation. It was then adopted by the Management Board on 26 June 2015 and has been effective since 15 July 2015, given that from this date the waiver regulations according to article 7 of the Capital Requirements Regulation (CRR; formerly section 2a of the German Banking Act [Kreditwesengesetz - KWG]) were no longer applicable. The risk strategy was presented to the Risk Management and Liquidity Strategy Committee of pbb's Supervisory Board for acknowledgement, and approved by the Supervisory Board plenum.

The operationalisation of the risk strategy is implemented through risk policies for the individual operating segments and all major risk types (credit risk, market risk, liquidity risk, business risk, property risk and operational risk); these risk policies describe risk measurement, risk monitoring, risk management, the limitation process as well as the escalation process if a limit is exceeded. The policies are regularly reviewed and updated where necessary.

Credit Risk (Counterparty Risk)

Credit Risk Quantification via Economic Capital and Risk-weighted Assets according to Capital Requirements Regulation (CRR)

Credit Portfolio Model

For details concerning economic credit risk quantification, please refer to the section «Result of Risk-bearing Capacity Analysis».

Credit Risk Quantification according to CRR

The Basel III Framework Agreement of the Basel Committee was implemented on a European level by means of the EU Capital Requirements Regulation (CRR). To determine regulatory capital, pbb Group uses the so-called Advanced Internal Rating-Based Approach (Advanced IRBA).

Credit Portfolio[a)]

The entire credit portfolio of pbb Group is calculated by using the Exposure at Default (EaD).

For most products, EaD is equal to the IFRS carrying amount (including accrued interest). Committed, undrawn credit lines are additionally included in EaD with a product-specific credit conversion factor (CCF). The CCF indicates the portion of an undrawn credit line that is expected to be drawn upon (based on experience) within one year before a potential default. Derivatives and repo transactions are an exception since their EaD is not identical to their carrying amount but must be determined, in accordance with the Capital Requirements Regulation (CRR) using a different methodology. For instance, the mark-to-market method is applied to derivatives, using the market value plus any regulatory add-ons for potential future market value increases and taking any netting or collateralisation effects into account.

The Group's credit portfolio had an aggregate EaD of €61.7 billion as at 30 September 2015 (EaD as at 31 December 2014: €65.5 billion). This figure includes assets not regarded upon as core exposure of pbb Group, with an EaD of €0.2 billion (EaD as at 31 December 2014: €0.3 billion), which were selected for transfer to FMS Wertmanagement but where the legal (physical) transfer has not yet been possible. The credit risk of these assets was transferred in 2010, by means of guarantees provided by FMS Wertmanagement. As a result, pbb Group's ultimate exposure from these positions is a counterparty credit risk exposure vis-à-vis FMS Wertmanagement – and hence, indirectly against the Federal Republic of Germany.

To adequately reflect pbb Group's actual economic risk exposure, the following overviews of portfolio development and structure do not include these positions. The EaD for pbb Group's aggregate exposure totalled €61.5 billion as at 30 September 2015 (31 December 2014: €65.2 billion). Included is a €0.8 billion reduction, due to the review of credit conversion factors in the Real Estate Finance segment.

[a)] The values and tables below may be subject to rounding differences with regard to the overall portfolio or individual segments.

Overview of the Total Exposure of pbb Group: € 61.5 billion EaD

The credit portfolio is broken down into the segments of
- > Real Estate Finance (REF),
- > Public Investment Finance (PIF) and
- > the non-strategic segment Value Portfolio (VP) which has been earmarked for winding down.

Besides internal reconciliation and consolidation items, «Consolidation & Adjustments» shows the EaD for transactions which are not directly attributable to the operating segments. These are basically asset items for the purpose of asset/liability management.

As at 30 September 2015, 57% (31 December 2014: 54%) of EaD in «Consolidation & Adjustments» was attributed to rating classes AAA to AA–, and 24% (31 December 2014: 24%) in rating classes A+ to A–. 19% (31 December 2014: 22%) of EaD was in rating classes BBB+ to BBB–. The portion of EaD in rating classes BB+ and below was 0.4% as at 30 September 2015 (31 December 2014: 0.04%).[a]

Total portfolio: EaD according to business segments			
in € billion	**30.9.2015**	**31.12.2014**[1]	Change
Real Estate Finance	25.3	24.3	1.0
Public Investment Finance	8.1	7.8	0.3
Value Portfolio	22.7	26.2	–3.5
Consolidation & Adjustments	5.3	6.9	–1.6
Total	**61.5**	**65.2**	–3.7

[1] The figures reflect EaD as at 31 December 2014, following the reclassification of Italian bonds in the amount of € 1.5 billion from the Public Investment Finance segment to the Value Portfolio segment.

Risk Parameters **Expected Loss** The Expected Loss (EL) for a period of one year is determined for the entire exposure, except for non-performing loans for which a specific allowance has already been recognised. EL is calculated using the regulatory parameters of one-year Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EaD).

Expected Loss for the pbb Group amounted to € 76 million as at 30 September 2015 (31 December 2014: € 146 million). The decline in Expected Loss was primarily due to the recovery of three larger financings in the Real Estate Finance segment.

Total exposure: expected loss according to business segments			
in € million	**30.9.2015**	**31.12.2014**[1]	Change
Real Estate Finance	53	121	–68
Public Investment Finance	1	2	–1
Value Portfolio	21	23	–2
Consolidation & Adjustments	1	1	–
Total	**76**	**146**	–70

[1] The figures reflect EL at 31 December 2014, following the reclassification of Italian bonds from the Public Investment Finance segment to the Value Portfolio segment.

[a] Internal rating classes were mapped to external rating classes for the purpose of determining the breakdown of EaD by rating class.

As a general rule, future changes in economic data (for example) may lead to changes to the above-mentioned EL figures. This is one reason why realised losses may diverge from Expected Loss.

Regional Breakdown of the Portfolio The main focus of pbb Group's exposure at the reporting date was unchanged, being Western Europe. The decrease in the German exposure was largely due to the maturity and repayment of bonds and borrowers' note loans of Value Portfolio and Consolidation & Adjustments. The €0.8 billion decline in exposure to Italy was mainly the result of a sale of Italian bonds. Exposure to Poland declined by €0.5 billion during the first half of 2015, mainly due to the maturity of bonds held. In Spain the decrease in the amount of €0.5 billion was largely attributable to maturing bonds and borrowers' note loans.

In Sweden new Real Estate Finance business primarily led to an exposure increase of €0.4 billion. The increase in the Czech Republic and the United Kingdom was also due to the higher exposure in Real Estate Finance. Exposure expansion in France was due to new business originated in the Public Investment Finance segment.

The category «Other», which accounted for €2.4 billion (or around 4% of the portfolio), largely comprises bonds issued by supranational organisations. The largest items of the category «Other Europe» were Switzerland, Belgium and the Netherlands with €0.4 billion each (31 December 2014: Switzerland €0.4 billion, Belgium €0.5 billion and the Netherlands €0.3 billion).

Total portfolio: EaD according to regions			
in € billion	**30.9.2015**	**31.12.2014**	Change
Germany	25.2	27.3	−2.1
Austria	7.0	7.2	−0.2
France	6.4	6.1	0.3
Great Britain	5.1	4.9	0.2
Spain	4.7	5.2	−0.5
Italy	2.5	3.3	−0.8
Other[1]	2.4	2.6	−0.2
Other Europe[2]	1.8	2.1	−0.3
Poland[3]	1.7	2.2	−0.5
Sweden	1.6	1.2	0.4
Portugal	1.4	1.4	–
Czech Republic	0.7	0.4	0.3
Hungary[3]	0.6	0.8	−0.2
Finland	0.4	0.5	−0.1
Total	**61.5**	**65.2**	−3.7

[1] Comprises Supranational Organisations, Japan and the United States.
[2] Comprises Switzerland, Belgium, the Netherlands, Slovenia and Denmark.
In the Annual Report 2014 the Czech Republic and Finland were also included in «Other Europe»;
these countries have been reported separately from 30 June 2015 onwards.
[3] In the Annual Report 2014 Poland and Hungary were included in «Emerging Markets»;
these countries have been reported separately from 30 June 2015 onwards. Romania, which was also included in «Emerging Markets», was added to the category «Other Europe».

Depending on the results of the internal rating process, maximum limits in certain rating ranges are defined for each individual country or group of countries; these limits restrict pbb Group's business activities. All country ratings and country limits are reviewed at least once a year.

Issuer Risk Bonds, borrowers' note loans and structured loans in the portfolio are broken down by region for the purpose of classifying EaD according to issuer risk. EaD is attributed on the basis of the issuer's country of domicile. The €4.6 billion decline was attributable to maturing bonds and borrowers' note loans, as well as sales as a result of Value Portfolio optimisation.

As at 30 September 2015, the largest items of the category «Other Europe» are Belgium (€0.4 billion; 31 December 2014: €0.5 billion), Slovenia (€0.2 billion; 31 December 2014: €0.3 billion), and Switzerland (€0.1 billion; 31 December 2014: €0.1 billion). The category «Other» almost exclusively comprises bonds issued by supranational organisations.

Looking at the segment breakdown of issuer risk as at 30 September 2015, the Value Portfolio segment accounted for 67% of EaD (31 December 2014: 68%), with the Public Investment Finance segment accounting for 22% (31 December 2014: 19%) and Consolidation & Adjustments for 11% (31 December 2014: 13%).

Total portfolio: issuer risk according to regions

in € billion	30.9.2015	31.12.2014	Change
Germany	12.2	13.5	−1.3
Austria	6.7	7.0	−0.3
Spain	4.3	4.8	−0.5
France	2.9	2.9	–
Italy	2.5	3.3	−0.8
Other[1]	2.1	2.3	−0.2
Portugal	1.4	1.4	–
Other Europe[2]	1.0	1.1	−0.1
Poland[3]	0.3	0.8	−0.5
Hungary[3]	0.3	0.4	−0.1
Finland	0.2	0.2	–
Czech Republic	0.1	0.1	–
Great Britain	0.1	0.6	−0.5
Sweden	< 0.1	< 0.1	–
Total	**33.9**	**38.5**	−4.6

[1] Comprises Supranational Organisations and Japan.
[2] Comprises among others Belgium, Slovenia, Switzerland, the Netherlands and Denmark. In the Annual Report 2014 the Czech Republic and Finland were also included in «Other Europe»; these countries have been reported separately from 30 June 2015 onwards.
[3] In the Annual Report 2014 Poland and Hungary were included in «Emerging Markets»; these countries have been reported separately from 30 June 2015 onwards.

Real Estate Finance: € 25.3 billion EaD

Portfolio Development and Structure The EaD in the Real Estate Finance segment was up by € 1.0 billion, to € 25.3 billion, as at 30 September 2015 in comparison to 31 December 2014. Moreover, the EaD figure as at 30 September 2015 includes a € 0.8 billion reduction, due to a review of credit conversion factors that was not taken into account in the figures as at 31 December 2014. Without this credit conversion factor effect, EaD would have increased by € 1.8 billion during the period from 31 December 2014 to 30 September 2015. Customer derivatives in the portfolio accounted for an EaD of € 0.4 billion as at 30 September 2015 (31 December 2014: € 0.5 billion).

The exposure increase in the Real Estate Finance segment was mainly due to new business in United Kingdom, Sweden and Czechia. Additionally the EaD per se increased because of new business in Germany, which however was overcompensated by the EaD reducing effect from the review of credit conversion factors.

Real Estate Finance: EaD according to regions

in € billion	**30.9.2015**[1]	**31.12.2014**[2]	Change
Germany	12.1	12.5	– 0.4
United Kingdom	4.9	4.2	0.7
France	2.7	2.7	–
Sweden	1.5	1.2	0.3
Poland[3]	1.4	1.4	–
Other Europe[4]	0.8	0.8	–
Czech Republic	0.6	0.3	0.3
Hungary[3]	0.4	0.4	–
Spain	0.3	0.4	– 0.1
Austria	0.3	0.2	0.1
Finland	0.2	0.3	– 0.1
Other	< 0.1	< 0.1	–
Portugal	< 0.1	< 0.1	–
Italy	< 0.1	< 0.1	–
Total	**25.3**	**24.3**	1.0

[1] Breakdown including customer derivatives of approximately € 0.4 billion
[2] Breakdown including customer derivatives of approximately € 0.5 billion
[3] In the Annual Report 2014 Poland and Hungary were included in «Emerging Markets»; these countries have been reported separately from 30 June 2015 onwards.
[4] Comprises among others Switzerland, the Netherlands and Luxembourg. In the Annual Report 2014 the Czech Republic and Finland were also included in «Other Europe»; these countries have been reported separately from 30 June 2015 onwards.

The relative breakdown of the portfolio by property type as at 30 September 2015 changed only slightly compared to year-end 2014.

Real Estate Finance: EaD according to property type

in € billion	30.9.2015	31.12.2014	Change
Office buildings	7.8	7.2	0.6
Retail	7.5	6.7	0.8
Housing construction	4.4	4.7	−0.3
Logistics/storage	2.5	2.3	0.2
Mixed use	1.1	1.6	−0.5
Hotel/leisure	1.0	0.7	0.3
Other	0.9	1.2	−0.3
Total	**25.3**	**24.3**	1.0

At 30 September 2015, investment financings continued to dominate the portfolio (91%; 31 December 2014: 89%); development financings accounted for 6% of EaD (31 December 2014: 8%). Investment financings are defined as real estate loans, the debt servicing ability of which largely depend upon current cash flows from the property.

Real Estate Finance: EaD according to loan type

in € billion	30.9.2015	31.12.2014	Change
Investment financing	23.0	21.6	1.4
Development financing	1.6	2.0	−0.4
Customer derivatives	0.4	0.5	−0.1
Other	0.2	0.1	0.1
Total	**25.3**	**24.3**	1.0

Risk Parameters Using the regulatory parameters, Expected Loss for the Real Estate Finance portfolio totaled € 53 million as at 30 September 2015 (31 December 2014: € 121 million). The decline in Expected Loss was primarily due to the recovery of three larger financings in the Real Estate Finance segment.

Public Investment Finance: €8.1 billion EaD

Portfolio Development and Structure The portfolio comprises the following financings:

(I) financings concluded directly with a public-sector debtor, which are eligible for inclusion in cover pursuant to the German Pfandbrief Act, on the basis of a specific designation of purpose according to a defined product catalogue;

(II) financings for enterprises, which have a public-sector or private legal ownership structure, which are to a great extent collateralised with a public-sector guarantee within the meaning of the German Pfandbrief Act (transport and utility companies, municipal utilities, special-purpose associations, management companies, non-profit entities, associations); and

(III) financings of special-purpose vehicles and corporates, which are collateralised nearly completely with a public-sector guarantee within the meaning of the German Pfandbrief Act.

Italian bonds with EaD in the amount of €1.5 billion were transferred from the Public Investment Finance segment to the Value Portfolio segment at the beginning of 2015. The comparative figures as at 31 December 2014, as shown in the table, show pro forma the EaD after this segment reclassification.

EaD in the Public Investment Finance segment increased compared to the end of the previous year, as a result of new business originated in Germany and France. This was partly offset by a decrease in Spain, which was due to maturing bonds and borrowers' note loans, leading to a net increase in the Public Investment Finance segment of €0.3 billion.

Public Investment Finance: EaD according to regions in € billion	30.9.2015	31.12.2014	Change
Germany	2.8	2.5	0.3
France	2.6	2.2	0.4
Spain	1.8	2.1	−0.3
Other Europe[1]	0.3	0.3	–
Austria	0.3	0.3	–
Finland	0.2	0.2	–
Other[2]	0.1	0.1	–
United Kingdom	0.1	0.1	–
Sweden	<0.1	<0.1	–
Total	**8.1**	**7.8**	0.3

[1] Almost 100% Belgium;
in the Annual Report 2014 Austria, Sweden and Finland were also included in «Other Europe»;
these countries have been reported separately from 30 June 2015 onwards.
[2] Category «Other» almost exclusively comprises bonds issued by supranational organisations.

«Public Sector Borrowers» summarises claims against sovereign states (10%), public-sector enterprises (32%), and regional governments and municipalities (58%).

Public Investment Finance: EaD according to counterparty structure in € billion	30.9.2015	31.12.2014	Change
Public sector borrowers	6.1	6.0	0.1
Corporates/special-purpose vehicles[1]	2.0	1.7	0.3
Financial institutions[2]/insurance companies	<0.1	<0.1	–
Total	**8.1**	**7.8**	0.3

[1] Almost entirely collateralised by guarantees and indemnities
[2] Financial institutions with government backing or a sovereign guarantee

The EaD share in the PIF segment in rating classes AAA to AA– increased from 51% to 55% due, amongst other factors, to new business originated in these rating classes.

Public Investment Finance: EaD according to internal ratings[1)] in € billion	**30.9.2015**	**31.12.2014**	Change
AAA to AA–	4.5	3.9	0.6
A+ to A–	2.8	2.9	– 0.1
BBB+ to BBB–	0.7	0.7	–
BB+ and worse	0.2	0.3	– 0.1
Total	**8.1**	**7.8**	0.3

[1)] Internal rating classes were mapped to external rating classes for the purpose of determining the breakdown of EaD by rating class.

Risk Parameters Expected Loss for the Public Investment Finance segment portfolio was virtually unchanged, at € 1 million (31 December 2014: € 2 million[a)]).

[a)] The figures reflect EL at 31 December 2014, following the reclassification of Italian bonds from the Public Investment Finance segment to the Value Portfolio segment.

Value Portfolio: € 22.7 billion EaD

Portfolio Development and Structure The Value Portfolio comprises non-strategic portfolios of pbb Group.

At the beginning of 2015 Italian bonds with an EaD in the amount of € 1.5 billion were transferred from the Public Investment Finance segment to the Value Portfolio segment. The comparative figures as at 31 December 2014, as shown in the table, show the EaD after this segment reclassification.

In conformity with the strategy, the further decrease in the exposure as at 30 September 2015 compared with 31 December 2014 was mainly due to reductions in Italy and Germany, with Germany remaining the focus in the portfolio. Exposure to Poland declined by € 0.5 billion during the first half of 2015, mainly due to the maturity of bonds held.

Value Portfolio: EaD according to regions in € billion	30.9.2015	31.12.2014	Change
Germany	7.4	8.8	−1.4
Austria	6.4	6.7	−0.3
Italy	2.4	3.3	−0.9
Spain	1.8	1.9	–
Other[1]	1.4	1.5	–
Portugal	1.4	1.4	–
France	0.8	0.9	−0.1
Other Europe[2]	0.5	0.6	−0.1
Poland	0.3	0.8	−0.5
Hungary	0.3	0.4	−0.1
Czech Republic	0.1	0.1	–
Finland	< 0.1	< 0.1	–
Total	**22.7**	**26.2**	−3.5

[1] Comprises among others supranational organisations and Japan.
[2] Comprises among others Slovenia, Belgium and Switzerland.

Value Portfolio: EaD according to counterparty structure in € billion	30.9.2015	31.12.2014	Change
Public sector borrowers	16.7	20.6	−3.9
Financial institutions/insurance companies	4.3	4.8	−0.5
Corporates	1.7	0.8	0.9
Total	**22.7**	**26.2**	−3.5

Given the results of internal reviews, or developments occurring at counterparties, two exposures were reclassified, translating into an increase in the »Corporates« category of € 0.9 billion and a corresponding decrease in the »Public Sector Borrowers« category.

Risk Parameters Using the regulatory parameters, Expected Loss for the Value Portfolio totalled €21 million as at 30 September 2015 (31 December 2014: €23 million[a]). The lower Expected Loss was due to a decline in LGD for a regional government, as well as sales of Italian bonds as a result of Value Portfolio optimisation.

Structured Products

pbb Group's residual holdings of fully state-guaranteed Collateralised Debt Obligations had a notional value of €0.7 billion as at 30 September 2015 (31 December 2014: €0.7 billion) and a current fair value of €0.6 billion (31 December 2014: €0.7 billion).

The valuation of these assets was essentially based on available market prices.

pbb Group's residual holdings of non-state-guaranteed structured securities – specifically, credit-linked investments in the form of Collateralised Debt Obligations (CDOs in the narrower sense of the term) – had completely been sold at the beginning of the third quarter in the nominal amount of €85 million.

Watchlist and Non-performing Loans

Development of Watchlist and Non-performing Loans of pbb Group

Watchlist and non-performing loans of pbb Group				30.9.2015				31.12.2014	
EaD in € million	REF	PIF	VP	Total	REF	PIF	VP	Total	Change
Workout loans	9	–	–	9	9	–	–	9	–
Restructuring loans	539	–	241	780	818	–	316	1,134	−354
Non-performing loans[1]	**548**	**–**	**241**	**789**	**827**	**–**	**316**	**1,143**	−354
Watchlist loans	**144**	**–**	**244**	388	**116**	**–**	**244**	**360**	28
Total	**692**	**–**	**485**	**1,177**	**943**	**–**	**560**	**1,503**	−326

[1] In addition €1 million EaD as of 31 December 2014 in «Consolidations & Adjustments»

Watchlist and non-performing loans declined by a total of €326 million during the period from 31 December 2014 to 30 September 2015.

Watchlist loans increased by €140 million (gross)[b] and by €28 million (net) during 2015. The €140 million rise was exclusively attributable to the REF segment and included new additions of €68 million as well as one exposure in the amount of €72 million, which was reclassified from the non-performing to the Watchlist category in the period under review. Two exposures from the REF segment with an aggregate amount of €89 million were repaid. One exposure with an amount of €23 million was returned to regular credit administration.

[a] The figures reflect EL at 31 December 2014, following the reclassification of Italian bonds from the Public Investment Finance segment to the Value Portfolio segment.
[b] Excluding opposite effects

Non-performing loans decreased by €369 million (gross)[a] or €354 million (net). Successful restructurings (including one exposure reclassified from the non-performing to the watchlist category) and repayments (almost exclusively from the REF segment) totalled €262 million. The reduction in the Value Portfolio reflects an additional valuation adjustment on the Heta exposure; this led to an EaD decline of €73 million. In addition, one property with a financing volume of €30 million had to be consolidated, both according to IFRS and banking regulatory requirements. Additional net reductions in balances of existing exposures amounted to €4 million. Exposures with an aggregate volume of €3 million were newly classified as non-performing, whilst exchange rate fluctuations raised the balance by €12 million.

Coverage for Non-performing Loans[b]

The coverage ratio is defined as the ratio between the provisions recognised for non-performing exposures (including the residual volume of structured products, as part of the Value Portfolio) and the EaD – or, with regard to structured products and securities, the nominal amount.

As at 30 September 2015, pbb Group's non-performing loans were covered at 36% (31 December 2014: 30%). The improvement was mainly due to the fact that the volume of non-performing loans declined more strongly relative to existing provisions.

Non-performing loans in the REF segment were covered at 28% (31 December 2014: 24%). As in the previous year, as at 30 September 2015 the PIF segment had no non-performing loans. The coverage ratio in the Value Portfolio stood at 45% (31 December 2014: 37%). The increase compared to year-end 2014 was related to additional valuation adjustments, recognised during the first half of 2015, on the non-strategic exposure to Heta Asset Resolution AG (Heta).

Including collateral furnished, the coverage ratio in the REF segment was approximately 100%.

[a] Excluding opposite effects
[b] The coverage ratio was reported on the basis of the regulatory scope of consolidation. The figures as at 31 December 2014 include a financing which according to regulatory consolidation was eliminated as at 30 June 2015.

Market Risk

Market Risk Measurement and Limits

Market Risk Value at Risk

In the third quarter of 2015, pbb Group introduced a new method for the calculation of Value-at-Risk (VaR); this approach is based on a seven-year market data history, which is fed into a historic VaR simulation model. On 21 September 2015, the new VaR model was introduced for market risk reporting; VaR values increased under the new model given the longer market data history used.

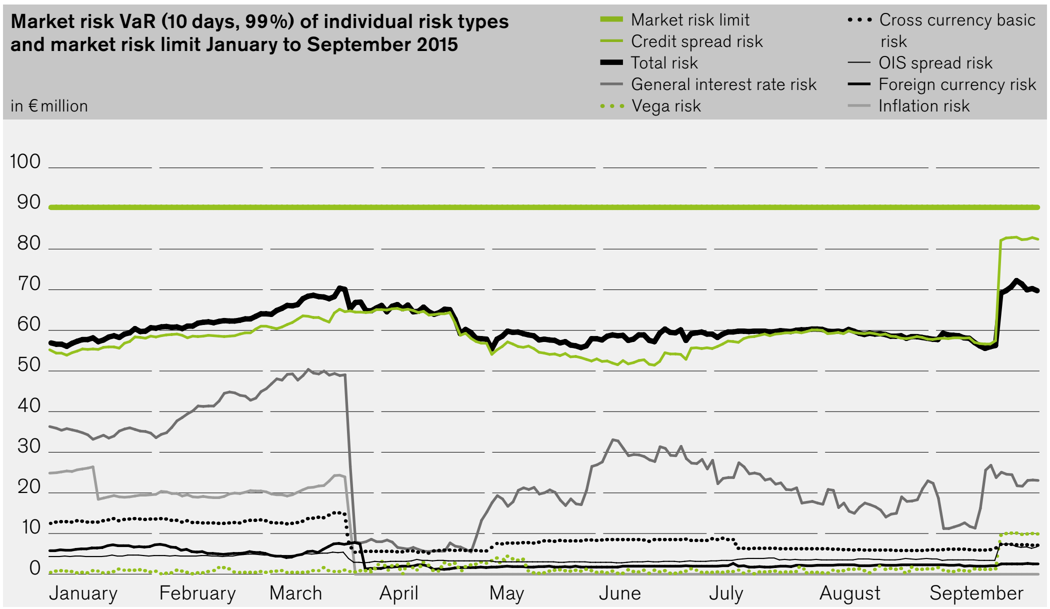
Simultaneously, the valuation of Vega risks (non-linear interest rate risks) were adjusted to the current interest rate environment (with low or even negative interest rates).

Market risk VaR as at 30 September 2015 amounted to €69 million, taking diversification effects between the individual market risk types into consideration (31 December 2014: €57 million). The comparison with previous year's figures is only possible to a limited extent given the recent model change. Increases are due mainly to the model changes as described before. There were no breaches of market risk VaR limits at pbb Group level during the period under review.

The following chart shows the development of market risk VaR, as well as VaR developments for the main types of risk, compared to the market risk VaR limit during the course of the year:

Market risk VaR (10 days, 99%) of individual risk types and market risk limit January to September 2015

in €million



The VaR assessment is complemented by additional tools, such as sensitivity analyses, stress tests and back-testing.

Stress Testing

Whilst VaR measures market risk in «normal» market conditions and does not provide a measure for potential maximum losses, stress scenarios are used to show market risk in extreme conditions. pbb Group employs hypothetical stress scenarios for key risk drivers, on a monthly basis, to determine the impact of extreme changes in yield curves, foreign exchange rates, credit spreads, inflation rates and volatility on the economic present value of pbb Group's overall portfolio. Historical stress scenarios are simulated additionally. For example, the 200 basis point parallel upwards shift in the yield curve – as required by regulatory authorities – would have resulted in market value losses of €109 million as at 30 September 2015 (31 December 2014: € 509 million) on the aggregate exposure of pbb Group. Conversely, a 200 basis point parallel downwards shift in the yield curve would have resulted in market value profits of €18 million as at 30 September 2015 (31 December 2014: € 245 million). The asymmetry between potential profits and losses is due, in particular, to the fact that the 200 basis point shift is floored at an interest rate of zero per cent. A significant widening of relevant credit spreads (by between 30 and 1,500 basis points, depending on the rating of the respective positions) would have led to market value losses of € 298 million as at 30 September 2015 (31 December 2014: € 455 million). The Management Board and the relevant executive bodies are informed about the results of stress test scenarios on a regular basis.

Back Testing

The quality of the risk measurement methods in use is checked on an ongoing basis by comparing one-day VaR figures to the actual changes occurring in the portfolio's present value on a daily basis.

pbb Group has adopted the Basel Capital Accord's ‹traffic light› system for the qualitative analysis of its risk model.

For this purpose, the number of outliers detected in backtesting within a period of 250 trading days are counted. Overall, two outliers were observed within the new VaR model as at 30 September 2015, based on a data history of 250 trading days. Both outliers were attributable to extraordinarily strong fluctuations of credit spreads. The number of outliers declined considerably as a result of the new VaR simulation model, which was introduced in the third quarter 2015 and uses a clearly longer market data history.

General Interest Rate Risk

General interest rate risk declined to € 23 million as at 30 September 2015 compared to € 36 million as at 31 December 2014. Aside from the capital investment portfolio, general interest rate risk was at a low level throughout the period under review.

Vega Risks

The Vega VaR used for the measurement of volatility risk (non-linear interest rate risks) increased to € 9 million as at 30 September 2015 (31 December 2014: € 49,000). The increase was mainly due to the recognition of interest rate floors linked to variable-rate PIF financings: these floors are used to prevent interest coupon payments to the respective borrowers in the event of negative interest rates.

Credit Spread Risk

The credit spread risk reflects potential changes in the present value of exposures as a result of changes in the corresponding credit spread. The majority of credit spread risk is attributable to assets eligible as cover for Pfandbriefe. Risk measurement systems are place for calculating credit spread risk for all relevant exposures. Only credit spread risks of holdings classified as available for sale (AfS) or designated at fair value through profit and loss (dFVTPL) are subject to market risk VaR limitation. Positions classified as Loans and Receivables (LaR), however, are not subject thus.

The credit spread VaR for the AfS and dFVTPL portfolios increased to €82 million as at 30 September 2015 compared to €56 million as at 31 December 2014 due to the new VaR model with a longer market data history.

Other Market Risks

The present value of foreign currency risk was €2 million as at 30 September 2015 (31 December 2014: €5 million), whereas there was no more inflation risk exposure at the record date, due to the sale of a position from the capital investment portfolio. Furthermore, at the reporting date overnight-index-risks (€6 million), tenor-spread-risks (€0.3 million) and cross-currency-spread-risks (€7 million) were quantified and recognised within the framework of the VaR model. All basis risks are included in aggregate VaR and are therefore subject to market risk limitation. The bank is not exposed to share price or commodity risks. Financial derivatives are mainly used for hedging purposes.

Opportunities

As detailed above, the sensitivities result in value at risk: a possible future (economic) loss in the event of an unfavourable market development. The very same sensitivities may also result in economic gains, in the event of a positive market development. For instance, as described above, high negative credit spread sensitivities represent a risk. In the event of a narrowing of the relevant credit spreads, however, these credit spread sensitivities will yield economic profits, constituting an opportunity. Within the framework of the stress scenarios required by supervisory authorities, for example, a 200 basis point parallel downwards shift of the interest rate curve (subject to a floor of 0%) provides the opportunity for a market value gain of €18 million.

Liquidity Risk

Development of pbb Group's Risk Position

The cumulative liquidity position (liquid assets plus projected net cash flows) determined as part of the liquidity risk measurement process as at 30 September 2015 amounted to € 3.9 billion for a twelve-month horizon in the base scenario – an € 0.4 billion decrease from the end of the previous year (based on the same projection horizon). As at 30 September 2015, the cumulative liquidity position for a six-month horizon amounted to € 2.1 billion in the risk scenario (31 December 2014: € 1.8 billion).

pbb's liquidity ratio in accordance with the German Liquidity Ordinance was 2.72 as at 30 September 2015, thus exceeding the statutory minimum of 1.0.

Funding Markets

In 2015, capital markets were characterised by various central bank initiatives. While the Bank of England (BOE) and the US Federal Reserve (Fed) did not expand their balance sheets any further, the Bank of Japan (BOJ) as well as the European Central Bank (ECB) intervened intensively on the capital markets, purchasing government bonds and covered bonds. The yield of ten-year German government bonds reached a record low in April 2015, at around 5 basis points, recovering during the second quarter to reach between 60 and 70 basis points in the third quarter. However, Euribor and EONIA fixings declined further. At the end of September 2015, the three-month Euribor (– 4.1 basis points) and the EONIA fixing (– 14.6 basis points) hit their historical lows. This was a result of ECB's balance sheet expansion and the increasing excess liquidity, which grew from just under € 150 billion to over € 500 billion during the course of the year.

pbb Group can take advantage of both secured and unsecured issues for funding purposes. Pfandbrief issues are the Bank's main funding instrument: thanks to their high quality and acceptance on the international capital markets, Pfandbriefe are comparatively less affected by market fluctuations than many other funding sources. Early repayments on the assets side and comfortable liquidity allowed for a reduction in capital market activities for secured funding. Shortly after the flotation in mid-July 2015, pbb was able to successfully place a benchmark Mortgage Pfandbrief on the market.

A large portion of funding activities was carried out via private placements, which represent an important funding source for the bank, besides benchmark issues. The small size of private placements contributes to the granularity of pbb's funding.

During the first three quarters of 2015, pbb Group raised long-term funding of approximately € 2.9 billion, of which € 1.2 billion was placed in the form of benchmark transactions. More than half of the long-term funding was issued unsecured. Most issues were placed as fixed-rate bonds. Unhedged interest rate exposures are usually hedged by swapping fixed against floating interest rates.

In addition to capital markets funding, pbb Group has extended its unsecured funding base through overnight and term deposits from retail investors. At end of the third quarter, the related funding volume totalled € 2.3 billion (31 December 2014: € 1.5 billion).

Forecast Liquidity Requirement

In addition to the forecast liquidity requirement for new business activities, the extent of future liquidity requirements also depends on numerous external factors:

> further developments in the context of the European sovereign and financial crisis, and possible effects on the real economy;
> future developments of haircuts applied to securities for repo funding on the market, and with central banks;
> possible additional collateral requirements as a result of changing market parameters (such as interest rates and foreign exchange rates);
> developments in requirements for hedges;
> changed requirements from rating agencies regarding the necessary over-collateralisation in the cover pools;
> Refinancing requirements of real estate investors.

Market Liquidity Risk

For financial instruments measured at fair value, quantitative details for a better assessment of market liquidity risk can be obtained from the presentation of the three levels of the fair value hierarchy in the notes. Generally, there is no intention to sell LaR holdings for liquidity management purposes, as liquidity for these holdings can mainly be generated by way of including them in the cover pool, using the funding opportunities provided by the central bank, or using them in repo transactions. Market liquidity risk is included in the internal risk management process as part of market risk.

Operational Risk (including Legal Risks)

Risk Measurement

The economic capital for operational risk in the going-concern perspective amounted to € 38 million as at 30 September 2015 (31 December 2014: € 39 million).

In line with the regulatory standard approach, the regulatory capital backing for operational risk, which is calculated at the end of each year, was € 81 million as at 30 September 2015 (31 December 2014: € 81 million).

Operational Risk Profile of pbb Group

pbb suffered financial losses of € 2.8 million from operational risk during the first three quarters of 2015 (31 December 2014: € 10.9 million). In terms of operational losses, 53% was accounted for by the Real Estate Finance segment, 26% by the Public Investment Finance segment and 21% by the Value Portfolio segment.

The regulatory event type «Execution, Delivery & Process Management» was the category with both the highest number of events (66%) and virtually all related financial effects (94%) during the first three quarters of 2015. This result was also reflected in the operational risk self-assessment process, which is a bottom-up risk assessment performed by all of the bank's divisions.

Result of Risk-bearing Capacity Analysis

Going-Concern

Going-concern: Economic capital in € million	30.9.2015	31.12.2014	Change
Credit risk	216	219	−3
Market risk	157	256	−99
Operational risk	38	39	−1
Business risk	1	3	−2
Property risk	4	10	−6
Total before diversification effects	**415**	**527**	−112
Total after diversification effects	**391**	**488**	−97
Available financial resources (free capital)	1,587	1,464	123
Excess capital (+)/capital shortfall (–)	1,196	976	220

In the going-concern approach, the reduction of aggregate economic capital after diversification effects was dominated by market risk which declined due to the sale of a state-guaranteed UK security, as well as sales of securities issued by Italian public-sector entities. To a lesser extent, the reduction was also due to methodological enhancements of the market risk model. The decline in credit risk was attributable to improved parameters with higher realisation ratios for real estate transactions. Besides the sale of a property in Japan during the first half of 2015, there were partial write-offs for some foreclosed properties during the third quarter; as a result, the real estate risk also declined slightly.

The model used to quantify operational risk was developed further, and rolled out into production during the third quarter of 2015. The impact on economic capital was relatively minor in the going-concern approach.

Due to the decline in economic capital (including diversification effects) and the simultaneous increase in available financial resources, excess coverage increased further during the first three quarters, thus demonstrating the bank's risk-bearing capacity as at the reporting date.

A breakdown of economic capital according to segments as at reporting date is provided below:

Going-concern: Economic capital according to segments in € million	30.9.2015	31.12.2014[1]	Change
Real Estate Finance	127	135	−8
Public Investment Finance	14	12	2
Value Portfolio	210	257	−47
Consolidation & Adjustments	47	95	−48
Total	**391**	**488**	−97

[1] In order to enhance comparability, economic capital figures as at 31 December 2014 are pro-forma figures, based on two assumptions: the transfer of the Italian portfolio from the PIF segment to the Value Portfolio segment (carried out on 1 January 2015) was already taken into account at the 2014 year-end and figures calculated as at the 2014 year-end are based on the same allocation mechanism as those for the 30 September 2015.

The most important developments on a segment level during the first three quarters of 2015 took place in the Value Portfolio, and in Consolidation & Adjustments. The decline of economic capital for these two segments was mainly attributable to the sale of securities in the first half of 2015. In the Value Portfolio the decline was mainly attributable to the sale of securities issued by Italian public-sector borrowers, whilst the sale of a state-guaranteed UK security led to lower economic capital in Consolidation & Adjustments.

Gone-Concern

Gone-concern: Economic capital in € million	30.9.2015	31.12.2014	Change
Credit risk	1,242	1,437	–195
Market risk	1,109	1,356	–247
Operational risk	83	84	–1
Business risk	70	65	5
Property risk	7	23	–16
Total before diversification effects	**2,512**	**2,965**	–453
Total after diversification effects	**2,298**	**2,647**	–349
Available financial resources before hidden losses	3,207	4,147	–940
Hidden losses	–	–	–
Available financial resources	**3,207**	**4,147**	–940
Excess capital (+)/capital shortfall (–)	908	1,500	–592

In the gone-concern approach the development of the risk part during the first three quarters of 2015 was dominated by a reduction in credit risk and market risk in the first half of 2015.

The decrease in credit risk was largely due to sales of securities issued by Italian public-sector borrowers; this had a positive effect upon portfolio quality, thanks to a reduction in risk concentrations. In addition the decline in credit risk was attributable to improved parameters with higher realisation ratios for real estate transactions.

Market risk exposure declined, largely due to the same developments as in the going-concern approach. Both the sale of Italian government bonds from the Value Portfolio and the sale of a state-guaranteed UK security (and the related reversal of inflation, interest rate, and foreign exchange risks) had a significant impact upon risk reduction.

Property risk declined, due to the sale of a Japanese property in April 2015 as well as to the partial write-off of the salvage portfolio in the third quarter of 2015.

As in the going-concern approach enhancements during the third quarter of 2015 regarding the model used to quantify operational risk had a relatively minor impact on economic capital in the gone-concern approach.

As a result aggregate diversified economic capital decreased significantly.

The repayment of the silent participation in the third quarter of 2015 led to a significant decline in available financial resources, compared with the figure as at 31 December 2014. Overall, the decrease in available financial resources exceeded the decline in economic capital; accordingly, excess coverage fell during the first three quarters of 2015. Nonetheless, the bank's risk-bearing capacity as at the reporting date was also evidenced in the gone-concern approach, with residual excess capital of €0.9 billion.

In the event of any renewed escalation of the European sovereign debt crisis, which would once again lead to widening credit spreads of numerous European borrowers, it is fair to expect increasing credit spread risks as well as net hidden losses, regardless of any countermeasures.

A breakdown of economic capital across segments in the gone-concern approach as at reporting date is provided below:

Gone-concern: Economic capital according to segments

in € million	30.9.2015	31.12.2014[1]	Change
Real Estate Finance	511	650	–139
Public Investment Finance	190	237	–47
Value Portfolio	1,281	1,557	–276
Consolidation & Adjustments	356	334	22
Total	**2,298**	**2,647**	–349

[1] In order to enhance comparability, economic capital figures as at 31 December 2014 are pro-forma figures, based on two assumptions: the transfer of the Italian portfolio from the PIF segment to the Value Portfolio segment (carried out on 1 January 2015) was already taken into account at the 2014 year-end and figures calculated as at the 2014 year-end are based on the same allocation mechanism as those for the 30 September 2015.

On a segment level, economic capital increased in Consolidation & Adjustments whereas all other segments show a lower risk. The market risk model was refined during the second quarter of 2015, with overall a more conservative calculation of interest risks; in addition, the model can now incorporate negative interest rates. Moreover, the precision of asset revaluations was refined within the market risk model. In pbb Group's gone-concern approach, the change in market risk more than offset the positive effect of a securities sale in Consolidation & Adjustments, thus leading to an increase in economic capital.

The decline in the Value Portfolio and Public Investment Finance segments was largely attributable to the sale of public-sector securities, whilst the decline in the Real Estate Finance segment was largely driven by improved parameters concerning realisation ratios, as well as by lower conversion factors applied to certain undrawn facilities.

Opportunities

pbb Group observed relief on European bond markets at the end of 2014 and 2015, as a result of the ECB's crisis management. If trust in European public finances was fully restored, systematic rating upgrades for public-sector issuers might lead to lower risks, thus further increasing excess capital in the ICAAP.

SREP

On 19 December 2014, the EBA published its final guideline on the Supervisory Review and Evaluation Process («SREP»), following a consultation process lasting several months. This guideline (EBA/GL/2014/13) is directed at national competent authorities of the EU member states; it is set for implementation by institutions in 2015, to be applied from 2016 onwards. In the guideline, the EBA has taken a holistic SREP approach that comprises the assessment of selected key indicators, the business model, governance, as well as capital and liquidity risks and leads to an overall credit quality rating (SREP score) of an institution. SREP is therefore the bridge between the former Pillar II (in accordance with Articles 76–87, 97 of CRD IV) and the EU Bank Recovery and Resolution Directive (2014/59/EU – «BRRD»), which focuses on winding up and reorganisation.

pbb Group has initiated a project that aims to fully implement SREP.

As part of the ECB's implementation of the EBA Guidelines, minimum ratios – including the CET1 ratio and the own funds ratio – were prescribed for pbb Group on 10 July 2015. These ratios were met as at 30 September 2015.

Key Regulatory Capital Ratios

During the period under review, until the time of its re-privatisation, pbb was exempted – under the waiver option pursuant to Article 7 of EU Regulation no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (the Capital Requirements Regulation – «CRR») – from determining own funds and tier 1 ratios at a single-entity level; the pbb Group disclosed these figures on a voluntary basis.

The CRR came into effect on 1 January 2014.

Together with the EU Capital Requirements Directive («CRD IV»), the CRR forms the basis for determining regulatory capital.

Besides the minimum capital ratios, these regulations also govern requirements for the eligibility of capital instruments as well as the mandatory determination of regulatory capital, in line with the accounting standards used. For this reason regulatory capital ratios are determined based on IFRS since 1 January 2014.

The Management Board manages the Group's capitalisation, based on regulatory capital ratios in accordance with the CRR. According to the CRR, in 2015 the Common Equity Tier 1 ratio (CET1 ratio – the ratio of Common Equity Tier 1 capital to risk-weighted assets) must not fall below 4.5%, the Tier 1 ratio (Tier 1 capital to risk-weighted assets) must not fall below 6.0%, and the own funds ratio (own funds to risk-weighted assets) must not fall below 8.0%.

These requirements for regulatory capital ratios were satisfied throughout the first nine months of 2015.

Own Funds in € million	**30.9.2015**	**30.9.2015 Basel III fully phased-in**[1]	**31.12.2014**[2]	**31.12.2014 Basel III fully phased-in**[1,2]
CET1	2,350	2,229	3,364	2,090
Additional Tier 1	202	–	195	999
Tier 1	2,552	2,229	3,559	3,089
Tier 2	414	253	483	334
Own Funds	**2,966**	**2,482**	**4,042**	**3,423**

[1] After expiry of all transitional provisions under Basel III
[2] Includes the silent participation in the amount of €1.0 billion which had been repaid on 6 July 2015

Risk-weighted assets (RWA)[1] in € million	**30.9.2015**	**30.9.2015 Basel III fully phased-in**[2]	**31.12.2014**	**31.12.2014 Basel III fully phased-in**[2]
Market risks	78	78	217	217
thereof interest rate risks	–	–	–	–
thereof foreign exchange risks	78	78	217	217
Operational risks	1,010	1,010	1,010	1,010
Credit risks	12,754	12,754	14,261	14,261
thereof CVA charge	404	404	445	445
Other RWA	–	–	1	1
RWA total	**13,842**	**13,842**	**15,489**	**15,489**

[1] Including weighted credit risk exposures, plus amounts to be included for market risk and operational risk exposures, using a scaling factor of 12.5
[2] After expiry of all transitional provisions under Basel III

Capital ratios in %	**30.9.2015**	**30.9.2015 Basel III fully phased-in**[1]	**31.12.2014**[2]	**31.12.2014 Basel III fully phased-in**[1,2]
CET1 ratio	17.0	16.1	21.7	13.5
Tier 1 ratio	18.4	16.1	23.0	19.9
Own funds ratio	21.4	17.9	26.1	22.1

[1] After expiry of all transitional provisions under Basel III
[2] Includes the silent participation in the amount of €1.0 billion which had been repaid on 6 July 2015

Report on Expected Developments

The forecasts for pbb Group's future development represent estimates that were made on the basis of the information currently available. If the assumptions on which the forecasts are based on do not materialise or if risks and opportunities do not occur to the extent calculated, the actual results may differ significantly from the results currently expected.

Future Developments in Assets, Financial Position and Earnings

At the beginning of 2015, pbb issued guidance for a slight increase in pre-tax profits compared to the previous year's adjusted € 174 million (excluding a valuation adjustment for the Heta exposure, in the amount of €–120 million). In light of a positive performance during the first nine months, and the outlook for the fourth quarter of 2015, pbb Group now expects this positive trend to augment. The guidance on (unadjusted) pre-tax profit remains unchanged, with pbb still aiming for a considerable increase on the previous year's level (2014: € 54 million). Regarding new business, for 2015 pbb Group had projected a slight increase on the previous year (2014: € 10.2 billion) in its 2014 Report on Expected Developments. Now, pbb Group expects the positive trend witnessed so far to markedly improve new business figures. The guidance on notional volume of REF and PIF financing (31 December 2014: € 29.8 billion) remains unchanged; pbb expects a slight increase. Furthermore, pbb is still striving to significantly improve return on equity after tax compared to the previous year, both in terms of the disclosed figure (0.1%) as well as in terms of return on equity excluding the value adjustment on the Heta exposure (3.4%). The cost/income ratio was expected to modestly improve on the level of 2014, excluding the value adjustment on the Heta exposure (57.3%) – now, pbb aims for a significant improvement. Including the Heta burden, that number was 77.0%; pbb continues to antiicipate a marked improvement over this figure.

An important secondary condition for pbb Group meeting its earnings and profitability targets is to ensure its risk bearing capacity. With respect to the going-concern perspective, it is aimed for that the risk covering potential available after complying with regulatory minimum capital ratios will exceed the economic capital requirements. From a gone-concern perspective, pbb Group aims for the available capital to exceed the economic capital requirements which is likely as long as spreads of the European countries in focus do not significantly widen increasing the hidden liabilities.

pbb aims at a markedly lower CET1 ratio in 2015, compared to the level of 2014 (21.7%), due to the repayment of silent partnership contribution in July 2015. However, pbb aims to achieve a CET1 ratio significantly above the minimum 4.5% requirement under the CRR, as well as above the 12.5% targeted by pbb Group.

In the event of a harmful change in ownership as provided for in section 8c Körperschaftssteuergesetz (German Corporate Tax Act), all or part of pbb Group's current tax losses carried forward could no longer be usable. As a result, the current deferred tax assets on tax losses carried forward would have to be written off. This would result in a negative net income/loss and a negative return on equity after tax.

Opportunities

Especially the following opportunities may affect the future developments in assets, financial position and earnings:

> In recent years, pbb Group has developed an excellent market position, which has also been evident in the increase in new business volume during the period from 1 January to 30 September 2015, compared with the corresponding period of the previous year. This has built the basis for pbb Group to continue its healthy development and achieve growth in its core business areas of commercial real estate finance and public investment finance and to increase the profitability.

> After succesfully completing the privatisation pbb can increase its focus on the relevant client markets. This is aimed to have a positive impact on new business volumes, and hence also on the development in assets and earnings.

> The conditions imposed by the European Commission on pbb Group in connection with the approval of state aid have been lifted following privatisation. Thus, future new business will no longer be subject to such limitations. For instance, pbb Group could expand its business activities in new markets and thereby increase its profitability; however, it does not intend to change the conservative risk profile of its portfolio at this time.

> There is strong demand for financing on the markets which are relevant for pbb Group. In this context, pbb Group considers that the market climate in commercial real estate finance will be attractive in the long term; this would have a positive impact on the volume of new business and could thus have a positive impact on the development in assets and earnings.

> Likewise, pbb Group sees an attractive market environment in the second strategic segment public investment finance. A high demand for financing of the public infrastructure continues to be expected, which could have a positive effect on the volume of new business and consequently on the development in assets and earnings.

> The introduction of new products, such as finance leases, allows pbb Group to increase its innovational strength. This may also improve the development in assets and earnings.

> The non-strategic Value Portfolio has decreased significantly in recent years, and is expected to decline further in the future. The associated release of risk-weighted assets will therefore create potential for growth in the strategic segments, which might have a positive effect on the development in earnings.

> Currently the market interest rate is at low levels. If market interest rates increase in the long run, this could have positive effects on earnings of some of pbb Group's portfolios, such as the investment of the liquidity reserve and of own funds. This may in turn boost the development in earnings.

> Pfandbriefe are a sound investment with a tried-and-tested market infrastructure; this is also reflected by the strong demand from investors. pbb Group has extensive experience in the Pfandbrief market and is able to build on its existing customer relationships. As a result, it was able to successfully place several mortgage Pfandbrief issues on the market in recent years. pbb Group therefore utilises a capital market instrument that is still in demand – something that has a positive effect on its development in financial position.

> pbb Group issues overnight deposits and term deposits with terms of up to ten years via pbb direkt. The latter's deposit volumes have increased continuously in recent years, allowing pbb Group to access a new source of funding and react flexibly to market opportunities. This has a positive impact on pbb Group's liquidity and the development in financial position.

> pbb Group's strict focus on costs represents a further opportunity. General and administrative expenses were reduced continuously in recent years. The status of processes will be continuously monitored in order to identify appropriate improvement measures. pbb Group aims to maintain a basically stable cost base by an active growth which could increase the profitability. This would positively influence the development in earnings.

> The succesful privatisation boosted the attractiveness of pbb Group as an employer. Capable and highly qualified employees and executives can be recruited and retained who support pbb Group achieve its ambitious targets.

Risks

However, the possibility of future negative effects on pbb Group's development in assets, financial position and earnings cannot be ruled out. The level of exposure is influenced through the occurrence or non-occurrence of the following risks, or the extent to which especially the following risks might materialise:

> Several European countries were only able to obtain funding with the support of international aid programmes in recent years. If the debt crisis in certain countries worsened further and it became necessary for creditors to take a haircut on other countries' liabilities (including sub-sovereigns) or if public sector debtors became insolvent pbb Group could also suffer substantial allowances for losses on loans and advances and securities. These allowances might increase if, due to market turbolences, the crisis of individual countries spreads to debtors currently considered to be solvent. The legal framework for government guarantees and warranties may change. Such changes are currently being discussed in Austria against the background of state guarantees and warranties for Heta.

> Allowances on losses for loans and advances were only required for a small number of individual exposures in recent years thanks, among other things, to pbb Group's successful portfolio management. Nevertheless , it is still possible that significant allowances on losses for loans and advances will have to be recognised in the future. The need to recognise allowances on losses for loans and advances in commercial real estate finance primarily depends on the economic situation of the financed objects and their owners, although it could also be the result of a general crisis in individual markets, such as the real estate markets of various countries.

> The number of geopolitical conflicts increased globally. Any future intensification or expansion of these conflicts could have a negative effect on the markets and thus the earning power of pbb Group.

> The ECB continues to invest in Pfandbriefe through its Covered Bond Purchase Programme 3. While this results in historical lows for funding costs, it also drives existing investors out of the market. Continued high central bank demand, combined with low interest rates and spreads, may impair the placement of issues. The implementation of the Bank Recovery and Resolution Directive (BRRD) into German law may lead to unsecured bank bonds losing their eligibility for central bank repurchase operations. Combined with the general «bail-in» discussion, this may place further strain upon securities-based funding. With ongoing speculation regarding an interest rate hike from the US Federal Reserve, volatility in the capital markets has increased, resulting in investors keeping a low profile. Furthermore, if the European economy were to dip again into recession, the recovery from the debt crisis in some states would be put at risk – resulting in a renewed loss of confidence and significantly lower issuing markets volumes. Should the eligibility for ECB repurchase operations be lost, the uncertainties surrounding the Fed's interest rate policy prevail, or the funding markets be disrupted by a recession in Europe, pbb Group's liquidity situation might be compromised. This might trigger a deliberate reduction in the volume of new business.

- Rating agencies continue to adapt their methodologies and models in order to assess, amongst other factors, the changing macro-economic environment and the potential impact of the European sovereign debt crisis. These include the new legal regulations to centralise supervision of large banks and to support bank restructuring and resolution and bail-in of senior unsecured creditors. As of 30 September 2015, the methodological changes that have been announced in this context were not fully finalised. The possible extent of rating downgrades depends on the respective degree of systemic support uplift taken into account in the senior unsecured ratings and the rating agencies' ultimate dealings with this topic. Furthermore, changes to specific rating drivers with regards to the bank and the Pfandbriefe, its other debt and hybrid instruments may result in rating changes. This also includes the termination of the Federal Republic of Germany's indirect minority shareholding in pbb, which is laid out for a duration of two years from the flotation. Due to the existing linkages, changes to issuer ratings can correspondingly affect the Pfandbrief ratings. Downgrades of the bank and/or Pfandbrief ratings and/or other debt and hybrid instruments ratings, could have a negative impact, particularly on the bank's funding conditions, on triggers and termination rights within derivatives and other contracts and on access to suitable hedge counterparties and hence may compromise pbb's liquidity as well as its development in assets, financial position and earnings.
- pbb Group's planned profitability is based on the assumption of adequate growth and high portfolio profitability. Should the targeted development of portfolio size and margins not be achieved – for example, due to a further increased competition on the market or early repayments above the plan – pbb Group will not be able to reach the required cost-income ratio.
- Currently the market interest rate is at low levels. If market interest rates remained at this low in the long run or dropped even further, it could have negative effects on some of pbb Group's portfolios, such as the investment of the liquidity reserve and the investment of own funds. This may compromise the development in earnings. Negative effects may also impact other market participants, which may have a positive or negative effect on the competition. In extreme cases, turbulences may arise on the market due to the interconnected nature of the markets. Furthermore low market interest rates may result in premature extensions of credit exposures, possibly pressuring future margins. The low interest rate environment may also trigger market exuberance in other asset classes. As such, the volatilities of real estate valuations may rise, irrespective of the quality of the underlying property.
- The ongoing development of national and international regulatory requirements may have an impact on pbb Group's business activities – in particular, on the structure of assets and liabilities, as well as on the fact that expenses incurred for compliance with regulatory requirements could affect the development in earnings. For instance the further development of the obligations presented by the Basel Committee on Banking Supervision («Basel III» regulation), introduced in the EU via the CRR, regarding more stringent liquidity and capital requirements might have a negative impact on profitability. In addition it is possible that additional requirements for the capital structure (Minimum Requirement for Own Funds and Eligible Liabilities – MREL) and the level of indebtedness (Leverage Ratio) currently under discussion may have a negative effect on the funding and business activity of pbb Group. Existing regulatory and economic parameters could be impacted, too resulting for example in a change in the capitalisation.

- With its «Guidelines for common procedures and methodologies for the supervisory review and evaluation process» (SREP Guidelines) from December 2014 the EBA proposed a uniform procedure to be used by the ECB in reviewing and assessing credit institutions. The key areas of focus are credit, market price and operational risks, interest rate fluctuation risks in the investment book, risks of excessive indebtedness, liquidity risks and their management. Minimum ratios have been provided for monitoring purposes. pbb Group does not rule out that the ECB may demand a higher capitalisation and even higher equity ratios in the future. This could impact the development in assets, financial position and earnings of pbb Group.
- External tax audits may result in additional taxable income, and thus in higher tax expenses for previous periods. In particular, tax audits in Germany and France question the appropriateness of the distribution of profits between pbb in Germany and its permanent establishment in France. Where no «Advanced Pricing Agreement» (APA) has been (or will be) signed, external tax audits in other countries in which pbb has a permanent establishment (e.g. its London operations) may also raise this subject. pbb calculates cross-border profit distribution between such permanent establishments by means of matched funding, i.e. the congruent funding of permanent establishments by the head office, and internal Credit Default Swaps corresponding with the head office's risk associated with loans granted by permanent establishments. If a tax audit does not deem the profit attribution to be appropriate, this usually results in double taxation. To eradicate these double taxations, so-called mutual understandings are arranged between the competent financial authorities. While pbb Group has recognised sufficient provisions to allow for the risk of double taxation, these provisions may not suffice.
- As of 2018, pbb Group will have to to apply IFRS 9 Financial Instruments for the first time. The standard is expected to have an extensive impact on pbb's development in assets, financial position and earnings, which have not yet been fully determined. Expenses incurred with the implementation of IFRS 9 will burden pbb's development in earnings until 2018.
- The methods used to value financial instruments are constantly evolving on the market. For example, the market conventions for valuing derivatives have changed, the effect of which can, inter alia, be seen in the increasing use of funding value adjustments for taking into account funding costs of unsecured transactions when measuring derivatives. Such or similar changes could have a negative impact on pbb Group's development in earnings in the future.
- The risk bearing capacity concept is enhanced on a continuous basis. These enhancements respectively new regulatory requirements could have an impact on the risk bearing capacity assessment using both the going-concern approach and the gone-concern approach. The development of the market values of assets and liabilities is an influencing factor affecting the risk bearing capacity in the gone-concern approach. If hidden liabilities increased due to changes in fair value, the cover capital could fall below the economic capital requirement.
- Due to the nature of its business and the international expansion as well as the high number of relevant laws and regulations, pbb Group is involved in litigation, arbitration and regulatory proceedings in some countries. Legal disputes which are currently pending (especially relating to participation certificates issued, described under the Note «Provisions»), or could become pending in the future, could have a material negative impact on pbb Group's profit or loss and equity base.
- New developments in legislation and case law could have a negative effect on the business and thus the development in assets, financial position and earnings of pbb Group.
- pbb Group is exposed to operational risks, resulting, for example, from technology risks. Although pbb Group has partially already successfully completed a number of projects to optimise processes and IT infrastructure, it is exposed to operational risks that could result in significant losses.

> A further operational risk results from reliance on employees who hold risk-taking positions. Resignations of employees in key positions, as well as the inability to replace such employees with appropriate successors, cannot be ruled out. This could impact the development in assets, financial position and earnings.
> Additional bank levies are planned or under discussion in most EU countries. Examples include the introduction of a European restructuring fund or a financial market transaction tax. Such taxes could have a negative impact on pbb Group's total comprehensive income for the period and render certain transactions unprofitable.

Summary

pbb Group is well-positioned for continuous profitability, even in an increasingly difficult market environment that features not only growing regulatory requirements but also shrinking margins due to intensified competition. However, this assessment is based on the assumption that risks arising – for instance, from factors beyond pbb's control – do not materialise. Overall, giving due consideration to the opportunities and risks, pbb Group expects the positive trend projected for 2015 pre-tax profit to provide a notable improvement over the previous year's adjusted €174 million (excluding the value adjustment for the Heta exposure). The guidance on (unadjusted) profit or loss before tax remains unchanged, with pbb still aiming for a considerable increase on the previous year's level (2014: €54 million).

Consolidated Interim Financial Statements
Consolidated Income Statement

Consolidated income statement	3rd quarter		1.1. to 30.9.	
in € million	2015	2014	2015	2014
Operating income	98	112	300	315
Net interest income	95	108	324	303
Interest income	517	586	1,581	1,764
Interest expenses	–422	–478	–1,257	–1,461
Net fee and commission income	3	–	12	–
Fee and commission income	3	2	14	8
Fee and commission expenses	–	–2	–2	–8
Net trading income	–	–3	7	–21
Net income from financial investments	5	22	–32	23
Net income from hedging relationships	7	1	9	–5
Net other operating income/expenses	–12	–16	–20	15
Loan loss provisions	3	1	8	–1
General and administrative expenses	–52	–64	–150	–188
Net miscellaneous income/expenses	4	–5	7	1
Profit or loss before tax	**53**	**44**	**165**	**127**
Income taxes	–	–10	–24	–19
Net income/loss	**53**	**34**	**141**	**108**
attributable to:				
Equity holders	53	34	141	108

Earnings per share	3rd quarter		1.1. to 30.9.	
in €	2015	2014	2015	2014
Basic earnings per share	0.39	0.25	1.05	0.80
Diluted earnings per share	0.39	0.25	1.05	0.80

Consolidated Statement of Comprehensive Income

Consolidated statement of comprehensive income						3rd quarter
			2015			2014
in € million	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Profit or loss	**53**	**–**	**53**	**44**	**–10**	**34**
Items that will not be reclassified to profit or loss	–	–	–	–17	5	–12
Profits/losses from pension commitments	–	–	–	–17	5	–12
Items that may be reclassified to profit or loss	27	–8	19	11	–4	7
Foreign currency reserve	–	–	–	–	–	–
AfS reserve	70	–20	50	43	–13	30
Cash flow hedge reserve	–43	12	–31	–32	9	–23
Total other comprehensive income	**27**	**–8**	**19**	**–6**	**1**	**–5**
Total comprehensive income of the period	**80**	**–8**	**72**	**38**	**–9**	**29**
attributable to:						
Equity holders	80	–8	72	38	–9	29

Consolidated statement of comprehensive income						1.1. to 30.9.
			2015			2014
in € million	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Profit or loss	**165**	**–24**	**141**	**127**	**–19**	**108**
Items that will not be reclassified to profit or loss	10	–3	7	–34	10	–24
Profits/losses from pension commitments	10	–3	7	–34	10	–24
Items that may be reclassified to profit or loss	–23	7	–16	66	–19	47
Foreign currency reserve	1	–	1	1	–	1
AfS reserve	101	–28	73	152	–43	109
Cash flow hedge reserve	–125	35	–90	–87	24	–63
Total other comprehensive income	**–13**	**4**	**–9**	**32**	**–9**	**23**
Total comprehensive income of the period	**152**	**–20**	**132**	**159**	**–28**	**131**
attributable to:						
Equity holders	152	–20	132	159	–28	131

Components of consolidated statement of comprehensive income		3rd quarter		1.1. to 30.9.
in € million	2015	2014	2015	2014
Net income/loss	**53**	**34**	**141**	**108**
Profits/losses from pension commitments	–	–12	7	–24
Unrealised gains/losses	–	–12	7	–24
Foreign currency reserve	–	–	1	1
Unrealised gains/losses	–	–	1	1
AfS reserve	50	30	73	109
Unrealised gains/losses	50	30	73	109
Cash flow hedge reserve	–31	–23	–90	–63
Unrealised gains/losses	–4	–7	–25	79
Reclassifications of realised gains/losses included in profit or loss	–27	–16	–65	–142
Total other comprehensive income	19	–5	–9	23
Total unrealised gains/losses	46	11	56	165
Total reclassifications of realised gains/losses included in profit or loss	–27	–16	–65	–142
Total comprehensive income of the period	**72**	**29**	**132**	**131**

Consolidated Statement of Financial Position

Assets in € million	30.9.2015	31.12.2014[1]	1.1.2014[1]
Cash reserve	299	57	3,532
Trading assets	1,914	2,016	1,642
Loans and advances to other banks	2,787	6,800	6,685
Loans and advances to customers	40,347	38,964	36,242
Allowances for losses on loans and advances	−127	−138	−148
Financial investments	16,564	20,475	20,725
Property and equipment	11	8	1
Intangible assets	21	23	31
Other assets	5,284	6,659	4,769
Income tax assets	19	30	45
Current tax assets	18	29	44
Deferred tax assets	1	1	1
Total assets	**67,119**	**74,894**	**73,524**

Equity and liabilities in € million	30.9.2015	31.12.2014[1]	1.1.2014[1]
Liabilities to other banks	3,198	3,187	3,522
Liabilities to customers	10,664	10,593	10,848
Securitised liabilities	42,337	47,827	46,858
Trading liabilities	1,696	1,960	1,453
Provisions	276	272	209
Other liabilities	5,092	6,182	4,722
Income tax liabilities	92	88	70
Current tax liabilities	86	82	64
Deferred tax liabilities	6	6	6
Subordinated capital	1,126	1,279	2,357
Liabilities	**64,481**	**71,388**	**70,039**
Equity attributable to equity holders	**2,638**	**3,506**	**3,485**
Subscribed capital	380	380	380
Silent partnership contribution	–	999	999
Additional paid-in capital	2,357	3,265	5,036
Retained earnings	−243	−1,154	−3,115
Profits/losses from pension commitments	−72	−79	−41
Foreign currency reserve	3	2	1
Revaluation reserve	72	89	65
AfS reserve	−27	−100	−220
Cash flow hedge reserve	99	189	285
Consolidated profit/loss 1.1.–30.9./31.12.	141	4	160
Equity	**2,638**	**3,506**	**3,485**
Total equity and liabilities	**67,119**	**74,894**	**73,524**

[1] Adjustments in accordance with IAS 8.14 et seq. Details are disclosed in Note «Principles».

Consolidated Statement of Changes in Equity Consolidated Statement of Cash Flows (condensed)

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 from pension commitments	Foreign currency reserve	AfS reserve	Cash flow hedge reserve	Consolidated profit/loss	Equity
Equity at 1.1.2014	**380**	**999**	**5,036**	**–3,115**	**–41**	**1**	**–220**	**285**	**160**	**3,485**
Capital increase	–	–	–	–	–	–	–	–	–	–
Costs of equity transactions	–	–	–	–	–	–	–	–	–	–
Treasury shares	–	–	–	–	–	–	–	–	–	–
Distribution	–	–	–	–	–	–	–	–	–	–
Total comprehensive income of the period	–	–	–	–	–24	1	109	–63	108	131
Transfers to retained earnings	–	–	–	160	–	–	–	–	–160	–
Changes in the basis of consolidation	–	–	–	–	–	–	–	–	–	–
Equity at 30.9.2014	**380**	**999**	**5,036**	**–2,955**	**–65**	**2**	**–111**	**222**	**108**	**3,616**
Equity at 1.1.2015	**380**	**999**	**3,265**	**–1,154**	**–79**	**2**	**–100**	**189**	**4**	**3,506**
Capital increase	–	–	–	–	–	–	–	–	–	–
Costs of equity transactions	–	–	–	–	–	–	–	–	–	–
Equity transfer	–	–	–908	908	–	–	–	–	–	–
Redemption of silent partnership contribution	–	–999	–	–1	–	–	–	–	–	–1,000
Treasury shares	–	–	–	–	–	–	–	–	–	–
Distribution	–	–	–	–	–	–	–	–	–	–
Total comprehensive income of the period	–	–	–	–	7	1	73	–90	141	132
Transfer to retained earnings	–	–	–	4	–	–	–	–	–4	–
Changes in the basis of consolidation	–	–	–	–	–	–	–	–	–	–
Equity at 30.9.2015	**380**	**–**	**2,357**	**–243**	**–72**	**3**	**–27**	**99**	**141**	**2,638**

Consolidated statement of cash flows (condensed) in € million	2015	2014
Cash reserve at 1.1.	**57**	**3,532**
+/– Cash flow from operating activities	–2,583	–3,552
+/– Cash flow from investing activities	3,972	173
+/– Cash flow from financing activities	–1,147	–139
+/– Effects of exchange rate changes and non-cash measurement changes	–	–
Cash reserve at 30.9.	**299**	**14**

Notes (condensed)

1 Principles

pbb Group has prepared the condensed consolidated interim financial statements for the period ended 30 September 2015 in line with EC regulation No. 1606/2002 of the European Parliament and of the Council from 19 July 2002 in accordance with International Financial Reporting Standards (IFRS). The IFRS are standards and interpretations adopted by the International Accounting Standards Board (IASB). These are the International Financial Reporting Standards (IFRS), the International Accounting Standards (IAS) and the interpretations of the IFRS Interpretations Committee (formerly IFRIC) respectively the former Standing Interpretations Committee (SIC). The condensed consolidated interim financial statements are based on the IFRS, which have been adopted into European Law by the European Commission as part of the endorsement process. In particular, requirements of IAS 34 were considered. With the exception of specific regulations relating to fair value hedge accounting for a portfolio hedge of interest risks in IAS 39 all those IFRS, which are mandatory applicable according to the IASB requirements, have been completely endorsed by the European Union (EU). pbb Group does not apply fair value hedge accounting for a portfolio hedge of interest risks as of 30 September 2015. Therefore, the condensed consolidated interim financial statements are consistent with the entire IFRS as well as with the IFRS as applicable in the EU.

The condensed consolidated interim financial statements are also based on the regulations of the Commercial Law which are applicable in accordance with section 315 a (1) HGB (German Commercial Code).

Furthermore the German Accounting Standards (Deutsche Rechnungslegungs Standards – DRS) published by the Deutsche Rechnungslegungs Standards Committee (DRSC) have been taken into account provided that they are not contrary to IFRS.

On 3 November 2015, the management board of pbb prepared these condensed consolidated interim financial statements under the going-concern assumption.

Initially Adopted Standards and Interpretations

The following standards, interpretations and amendments were initially applied in the period from 1 January to 30 September 2015:

> IFRIC Interpretation 21 Levies
> Amendments to IAS 19 (revised 2011) Employee Benefits: Defined Benefit Plans – Employee Contributions
> Annual Improvements Project:
  > Annual Improvements to IFRSs 2010–2012 Cycle
  > Annual Improvements to IFRSs 2011–2013 Cycle

IFRIC Interpretation 21 IFRIC 21 clarifies when a present obligation exists for levies imposed by governments. With first-time adoption the full amount of the expected annual contribution of the bank levy 2015 in the amount of € 25 million was recognised already.

Amendments to IAS 19 (revised 2011) 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. The amendments are effective for financial years beginning on or after 1 July 2014. There were no material impacts on these condensed consolidated interim financial statements.

Annual Improvements Project Annual Improvements to IFRSs 2010–2012 relates to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 38 and IAS 24, and Improvements to IFRSs 2011–2013 to IFRS 1, IFRS 3, IFRS 13 and IAS 40. The amendments are to be applied initially for periods beginning on or after 1 July 2014. All the amendments and adjustments are either not relevant or of minor importance for pbb Group. For this reason there were no material impacts on these condensed consolidated interim financial statements.

Changes in Accounting Estimates

Pursuant to IAS 8.34, accounting-related estimates need to be revised if changes occur in the circumstances on which the estimate was based, or as a result of new information or more experience. During the third quarter of 2015, in view of euro interest rates being close to zero, the pbb Group changed the valuation of options, replacing the traditional Black-Scholes approach with the Bachelier formula. As a result of this change, «normal» volatility data (incorporating the «volatility smile») is now being used instead of lognormal volatility (which excludes the smile). The change triggered a positive effect on consolidated income of €5 million, in net income from hedging relationships.

Moreover, an accounting-related estimate used for determining Credit Value Adjustments for client derivatives was changed, using market-implied CDS spread proxies for the first time instead of historical PD data. Proxy spreads are mapped to individual clients on the basis of internal client ratings. The change triggered a €6 million negative effect upon consolidated income statement, reported in net trading income.

2 Consistency

During the period under review, recognition of deferred tax assets and deferred tax liabilities was adjusted in accordance with IAS 8.14 et seq. Due to the newly-established process-related requirements regarding the offsetting of deferred tax assets and liabilities according to IAS 12.74, such deferred tax assets and liabilities were disclosed on an offset basis as since 30 June 2015. The previous year's figures were adjusted accordingly. Beyond pbb Group applied the same accounting and measurement principles as in the consolidated financial statements as of 31 December 2014.

3 Consolidation

On page 196, the Annual Report 2014 of pbb Group contains a list of all consolidated and non-consolidated investments of pbb. In the period from 1 January to 30 September the basis of consolidation remained unchanged.

4 Segment Reporting

Within segment reporting, income is determined by deducting matched-maturity funding rates prevailing at the time of concluding a transaction from the interest rate charged to the client. The input parameters required for this purpose are set at the time of originating a new business transaction, within the scope of accounting for individual transactions. In addition, income from investing the Bank's own funds and imputed costs for holding liquidity after drawdown are included at segment level.

Further income or expenses that cannot be allocated directly to a specific lending transaction (in particular, the results from disposal of assets held for liquidity management, early termination fees, from market-induced effects on net trading income, hedging relationships, and the bank levy) are allocated to the business segments, usually on a pro-rata basis, in line with financing volumes.

Public investment financings provided to Italy were classified as non-strategic activities as at 1 January 2015. Hence, a portfolio with a nominal volume of € 1.3 billion was reclassified within segment reporting from the strategic Public Investment Finance (PIF) segment to the non-strategic Value Portfolio (VP) segment. Furthermore, the methodology used for the allocation of IFRS equity to the operating segments was adjusted at the beginning of the 2015 financial year. This adjustment includes the following major changes to the previous approach:

> Equity, excluding revaluation reserves, is fully allocated to the operating segments and the Consolidation & Adjustments (C&A) reconciliation column without disclosure of excess capital as in the previous approach.

> The allocation of equity (excluding revaluation reserves) to the operating segments and C&A now follows a proportionate approach and is therefore consistent with the distribution of diversified economic capital within risk management (Gone-Concern approach). These adjustments enable the Bank to balance risk and income management more easily.

Allocation of the diversified economic capital is based on the allocation of losses across the operating segments using an Expected Shortfall Approach with a confidence level of 99.0%. The chosen confidence level allows for a balanced consideration of both credit spread-related market risks as well as concentration risks.

The previous period's figures were adjusted according to IFRS 8.29. These adjustments translate into positive effects for the profit or loss before tax of the VP segment and burdens for the profit or loss before tax of the PIF segment and the C&A reconciliation column.

Income/expenses in € million		REF	PIF	VP	Consolidation & Adjustments	pbb Group
Operating income	1.1.–30.9.2015	275	27	–6	4	300
	1.1.–30.9.2014[1]	220	24	67	4	315
Net interest income	1.1.–30.9.2015	226	28	66	4	324
	1.1.–30.9.2014[1]	226	28	44	5	303
Net fee and commission income	1.1.–30.9.2015	12	–	–	–	12
	1.1.–30.9.2014[1]	–	–	–	–	–
Net trading income	1.1.–30.9.2015	7	–	–	–	7
	1.1.–30.9.2014[1]	–9	–3	–9	–	–21
Net income from financial investments	1.1.–30.9.2015	18	6	–56	–	–32
	1.1.–30.9.2014[1]	11	3	9	–	23
Net income from hedging relationships	1.1.–30.9.2015	4	1	4	–	9
	1.1.–30.9.2014[1]	–2	–2	–1	–	–5
Net other operating income/expenses	1.1.–30.9.2015	8	–8	–20	–	–20
	1.1.–30.9.2014[1]	–6	–2	24	–1	15
Loan loss provisions	1.1.–30.9.2015	14	–	–6	–	8
	1.1.–30.9.2014[1]	–2	–	1	–	–1
General and administrative expenses	1.1.–30.9.2015	–116	–20	–14	–	–150
	1.1.–30.9.2014[1]	–118	–23	–47	–	–188
Net miscellaneous income/expenses	1.1.–30.9.2015	6	1	–	–	7
	1.1.–30.9.2014[1]	2	–	–1	–	1
Profit or loss before tax	1.1.–30.9.2015	**179**	**8**	**–26**	**4**	**165**
	1.1.–30.9.2014[1]	**102**	**1**	**20**	**4**	**127**

[1] Adjusted according to IFRS 8.29

Cost/income ratio[1] in %		REF	PIF	VP	pbb Group
Cost/income ratio	1.1.–30.9.2015	42.2	74.1	>100.0	50.0
	1.1.–30.9.2014[2]	53.6	95.8	70.1	59.7

[1] The cost/income ratio is the ratio between general and administrative expenses and operating income.
[2] Adjusted according to IFRS 8.29

Balance-sheet-related measures, broken down by operating segments in € billion		REF	PIF	VP	Consolidation & Adjustments	pbb Group
Financing volumes[1]	30.9.2015	23.4	7.1	19.7	–	50.2
	31.12.2014[2]	21.8	6.6	22.7	–	51.1
Risk-weighted assets[3]	30.9.2015	6.9	1.2	4.7	1.0	13.8
	31.12.2014[2]	7.2	1.3	5.5	1.5	15.5
Equity[4]	30.9.2015	0.6	0.2	1.3	0.5	2.6
	31.12.2014[2]	0.7	0.5	1.8	0.4	3.4

[1] Notional amounts of the drawn parts of granted loans and parts of the securities portfolio
[2] Adjusted according to IFRS 8.29
[3] 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
[4] 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.–30.9. 2015	1.1.–30.9. 2014
Interest income	**1,581**	**1,764**
Lending and money-market business	944	1,014
Fixed-income securities and government-inscribed debt	395	482
Current gains/losses from swap transactions (net interest income and expense)	241	268
Other	1	–
Interest expenses	**–1,257**	**–1,461**
Liabilities to other banks and customers	–246	–317
Securitised liabilities	–948	–1,063
Subordinated capital	–63	–81
Total	**324**	**303**

Negative interest of € 4 million during the period under review (9m 2014: € 0 million) was reported under current results from swap transactions.

6 Net Fee and Commission Income

Net fee and commission income in € million	1.1.–30.9. 2015	1.1.–30.9. 2014
Securities and custodial services	–1	–1
Lending operations and other service	13	1
Total	**12**	**–**

7 Net Trading Income

Net trading income in € million	1.1.–30.9. 2015	1.1.–30.9. 2014
From interest rate instruments and related derivatives	7	–22
From foreign currency instruments and related derivatives	–	1
Total	**7**	**–21**

8 Net Income from Financial Investments

Net income from financial investments by IAS 39 categories in € million	1.1.–30.9. 2015	1.1.–30.9. 2014
AfS financial investments	–67	24
LaR financial investments	35	–1
Total	**–32**	**23**

9 Net Income from Hedging Relationships

Net income from hedging relationships in € million	1.1.–30.9. 2015	1.1.–30.9. 2014
Result from fair value hedge accounting	8	–6
Result from hedged items	43	–469
Result from hedging instruments	–35	463
Ineffectiveness from cash flow hedge accounting recognised in profit or loss	1	1
Total	**9**	**–5**

The change in the valuation of options during the third quarter of 2015, replacing the traditional Black-Scholes approach with the Bachelier formula, led to income of €5 million.

10 Net Other Operating Income/Expenses

Net other operating income/expenses in € million	1.1.–30.9. 2015	1.1.–30.9. 2014
Other operating income	70	58
Other operating expenses	–90	–43
Net other operating income/expenses	**–20**	**15**

11 Loan Loss Provisions

Loan loss provisions in € million	1.1.–30.9. 2015	1.1.–30.9. 2014
Allowances for losses on loans and advances	6	–6
Additions	–13	–22
Reversals	19	16
Provisions for contingent liabilities and other commitments	1	–
Additions	–	–
Reversals	1	–
Recoveries from written-off loans and advances	1	5
Total	**8**	**–1**

12 General and Administrative Expenses

General and administrative expenses in € million	1.1.–30.9. 2015	1.1.–30.9. 2014
Personnel expenses	–84	–81
Wages and salaries	–65	–63
Social security costs	–12	–12
Pension expenses and related employee benefit costs	–7	–6
Non-personnel expenses	–66	–107
Other general and administrative expenses	–58	–98
Consulting expenses	–8	–13
IT expenses	–22	–56
Office and operating expenses	–8	–9
Other non-personnel expenses	–20	–20
Depreciation, amortisation and impairment	–8	–9
of software and other intangible assets	–6	–9
of property and equipment	–2	–
Total	**–150**	**–188**

13 Net Miscellaneous Income/Expenses

Net miscellaneous income/expenses in € million	1.1.–30.9. 2015	1.1.–30.9. 2014
Miscellaneous income	8	6
thereof: Reversals of restructuring provisions	4	5
Other taxes	4	–
Miscellaneous expenses	–1	–5
thereof: Reversals of restructuring provisions	–1	–5
Net miscellaneous income/expenses	**7**	**1**

14 Income Taxes

Breakdown in € million	1.1.–30.9. 2015	1.1.–30.9. 2014
Current taxes	–20	–27
Deferred taxes	–4	8
thereof: Deferred taxes on capitalised losses carried forward	–92	–45
Total	**–24**	**–19**

15 Earnings Per Share

Earnings per share[1]		1.1.–30.9. 2015	1.1.–30.9. 2014
Consolidated profit/loss	in € million	141	108
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 €	**1.05**	**0.80**
Diluted earnings per share	in €	**1.05**	**0.80**

[1] Earnings per share are calculated in accordance with IAS 33 by dividing the consolidated profit/loss by the weighted average number of shares.

Notes to the Consolidated Statement of Financial Position

16 Trading Assets

Trading assets in € million	30.9.2015	31.12.2014
Positive fair values of derivative financial instruments	1,914	2,016
Total	**1,914**	**2,016**

17 Loans and Advances to Other Banks

Loans and advances to other banks by type of business in € million	30.9.2015	31.12.2014
Loans and advances	2,670	3,153
Public sector loans	980	1,136
Other loans and advances	1,690	2,017
Investments	117	3,647
Total	**2,787**	**6,800**

Loans and advances to other banks by maturities in € million	30.9.2015	31.12.2014
Repayable on demand	1,688	2,011
With agreed maturities	1,099	4,789
up to 3 months	116	3,689
more than 3 months to 1 year	56	132
more than 1 year to 5 years	372	404
more than 5 years	555	564
Total	**2,787**	**6,800**

18 Loans and Advances to Customers

Loans and advances to customers by type of business in € million	30.9.2015	31.12.2014
Loans and advances	40,112	38,964
Public sector loans	16,765	17,125
Real estate loans	23,342	21,822
Other loans and advances	5	17
Claims from finance lease agreements	235	–
Total	**40,347**	**38,964**

Loans and advances to customers by maturities in € million	30.9.2015	31.12.2014
Repayable on demand	730	591
With agreed maturities	39,617	38,373
up to 3 months	1,507	1,102
more than 3 months to 1 year	2,298	2,349
more than 1 year to 5 years	18,231	16,933
more than 5 years	17,581	17,989
Total	**40,347**	**38,964**

19 Allowances for Losses on Loans and Advances

Development in € million	Specific allowances	Portfolio-based allowances	Total
Balance at 1.1.2014	**–97**	**–51**	**–148**
Changes through profit or loss	–24	5	–19
Gross additions	–43	–5	–48
Reversals	11	10	21
Unwinding	8	–	8
Changes not affecting profit or loss	28	1	29
Use of existing allowances	32	1	33
Effects of foreign currency translations and other changes	–4	–	–4
Balance at 31.12.2014	**–93**	**–45**	**–138**
Balance at 1.1.2015	**–93**	**–45**	**–138**
Changes through profit or loss	–2	13	11
Gross additions	–12	–1	–13
Reversals	5	14	19
Unwinding	5	–	5
Changes not affecting profit or loss	–	–	–
Use of existing allowances	3	–	3
Effects of foreign currency translations and other changes	–3	–	–3
Balance at 30.9.2015	**–95**	**–32**	**–127**

Allowances for losses on loans and advances were solely recognised in the measurement category loans and receivables.

20 Financial Investments

Breakdown in € million	**30.9.2015**	**31.12.2014**
AfS financial investments	4,139	4,906
Debt securities and other fixed-income securities	4,136	4,903
Shares and other variable-yield securities	3	3
LaR financial investments	12,425	15,569
Debt securities and other fixed-income securities	12,425	15,569
Total	**16,564**	**20,475**

The carrying amounts of the LaR financial investments were reduced by portfolio-based allowances amounting to €–9 million (31 December 2014: €–9 million).

Financial investments by maturities in € million	**30.9.2015**	**31.12.2014**
Unspecified terms	3	3
With agreed maturities	16,561	20,472
up to 3 months	1,695	867
more than 3 months to 1 year	1,980	3,067
more than 1 year to 5 years	3,980	5,676
more than 5 years	8,906	10,862
Total	**16,564**	**20,475**

pbb Group has made use of the IASB amendments to IAS 39 and IFRS 7, published on 13 October 2008, and reclassified retrospectively as of 1 July 2008 financial investments out of the measurement category AfS of €30.2 billion. At the date of reclassification the effective interest rate for the AfS securities was between 0.25% and 34.4%.

Reclassifications in 2008 Effects as of 30 September 2015	into: Financial investment (LaR)		Effect in reporting period if no assets had been reclassified (1.1.–30.9.2015)	
	30.9.2015			
	Carrying amount in € billion	Fair value in € billion	Through profit or loss in € million	AfS reserve (after taxes) in € million
out of: Financial investments (AfS)	6.5	6.8	–1	2

Reclassifications in 2008 Effects as of 31 December 2014	into: Financial investment (LaR)		Effect in reporting period if no assets had been reclassified (1.1.–31.12.2014)	
	31.12.2014			
	Carrying amount in € billion	Fair value in € billion	Through profit or loss in € million	AfS reserve (after taxes) in € million
out of: Financial investments (AfS)	8.9	9.3	–	303

21 Other Assets

Other assets in € million	30.9.2015	31.12.2014
Positive fair values from derivative financial instruments	5,207	6,449
Hedging derivatives	5,207	6,449
Fair value hedge	5,095	5,975
Cash flow hedge	112	474
Salvage acquisitions	41	120
Other assets	27	81
Reimbursements under insurance policies	9	9
Total	**5,284**	**6,659**

22 Liabilities to Other Banks

Liabilities to other banks by maturities in € million	30.9.2015	31.12.2014
Repayable on demand	1,494	1,693
With agreed maturities	1,704	1,494
up to 3 months	487	529
more than 3 months to 1 year	497	116
more than 1 year to 5 years	197	305
more than 5 years	523	544
Total	**3,198**	**3,187**

23 Liabilities to Customers

Liabilities to customers by maturities in € million	30.9.2015	31.12.2014
Repayable on demand	1,222	1,154
With agreed maturities	9,442	9,439
up to 3 months	812	1,274
more than 3 months to 1 year	2,273	1,328
more than 1 year to 5 years	5,068	5,305
more than 5 years	1,289	1,532
Total	**10,664**	**10,593**

24 Securitised Liabilities

Securitised liabilities by type of business

in € million	30.9.2015	31.12.2014
Debt securities issued	20,916	25,330
Mortgage bonds	10,470	10,135
Public sector bonds	6,435	10,026
Other debt securities	3,727	5,169
Money market securities	284	–
Registered notes issued	21,421	22,497
Mortgage bonds	5,922	5,912
Public sector bonds	13,669	14,715
Other debt securities	1,830	1,870
Total	**42,337**	**47,827**

Securitised liabilities by maturities

in € million	30.9.2015	31.12.2014
With agreed maturities		
up to 3 months	1,141	2,258
more than 3 months to 1 year	4,377	5,166
more than 1 year to 5 years	18,831	20,137
more than 5 years	17,988	20,266
Total	**42,337**	**47,827**

25 Trading Liabilities

Trading liabilities

in € million	30.9.2015	31.12.2014
Negative fair values from derivative financial instruments	1,696	1,960
Total	**1,696**	**1,960**

26 Provisions

Breakdown in € million	30.9.2015	31.12.2014
Provisions for pensions and similar obligations	105	115
Restructuring provisions	11	42
Provisions for contingent liabilities and other commitments	8	11
Other provisions	152	104
thereof: Long-term liabilities to employees	1	2
Total	**276**	**272**

pbb closed a reinsurance in the form of a qualifying insurance policy according to IAS 19 to hedge parts of the risk from the defined benefit obligations. A discount rate of 2.25% (31 December 2014: 2.00%) was used for the measurement of the defined benefit pension obligations as of 30 September 2015. The other actuarial assumption remained unchanged compared to the consolidated financial statements 2014.

Other provisions include provisions for legal risks amounting to €128 million (31 December 2014: €77 million).

Legal risks (litigation risks)

pbb Group is obliged, in all jurisdictions in which it conducts its business, to comply with a large number of statutory and supervisory requirements and regulations such as certain rules of conduct to 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 regulatory proceedings in some countries. These also include criminal and administrative 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 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.

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 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 a other 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 had a total nominal volume of € 221 million, out of which € 25.8 million are currently subject to pending litigation. Within these legal proceedings, claimants are demanding the repayment of a nominal € 20.4 million volume, plus accessory claims. 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. Furthermore, of profit-participation certificate holders have extra-judicially asserted their rights of partial or full replenishment, subsequent distribution of cancelled coupon payments as well as interest payments in the order of a nominal volume in the high double-digit million euro range, while 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.

Since the decisions of the Federal Court of Justice in 2014 on the inadmissibility of a credit processing fee in credit agreements with private customers, the Bank sees itself facing queries from previous private customers for the repayment of alleged credit processing fees. These demands have not yet proven to be justified. Since the end of last year, individual commercial customers have requested the repayment of the credit processing fees.

In February 2014, pbb has filed with the Federal Central Tax Office (Bundeszentralamt für Steuern) an application to initiate a mutual agreement procedure according to the EU Arbitration Convention for the years 2006 to 2012. The subject matter of this mutual agreement procedure is the attribution of tax income to the branch in Paris, France. This application was made as an agreement regarding the allocation of taxable profit could not be reached between the German and French fiscal authorities in the context of negotiations regarding an «Advanced Pricing Agreement» as well as a tax audit of the Paris branch performed in the meantime may result in a factual mutual agreement with the consequence of subsequent tax payments (including interest) concerning the years 2010 to 2012 and totaling to approximately € 7.6 million. Therefore, double taxation of income may be possible. An equivalent provision was created for these impending subsequent tax payments and the corresponding interest. Depending on the outcome of the mutual agreement procedure, this could result in a further tax expense or a tax income for pbb Group.

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	30.9.2015	31.12.2014
Negative fair values from derivative financial instruments	4,956	6,083
Hedging derivatives	4,956	6,083
Fair value hedge	4,911	5,649
Cash flow hedge	45	434
Other liabilities	136	99
Total	**5,092**	**6,182**

28 Subordinated Capital

Breakdown in € million	30.9.2015	31.12.2014
Subordinated liabilities	770	939
Hybrid capital instruments	356	340
Total	**1,126**	**1,279**

Subordinated capital by maturities in € million	30.9.2015	31.12.2014
With agreed maturities		
up to 3 months	32	45
more than 3 months to 1 year	212	150
more than 1 year to 5 years	690	890
more than 5 years	192	194
Total	**1,126**	**1,279**

The unwinding of value adjusted instruments of subordinated capital led to an expense of €10 million (9m 2014: €14 million).

Notes to the Financial Instruments

29 Fair Values of Financial Instruments

Fair values and fair value hierarchy of financial instruments					**30.9.2015**
in € million	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets	**66,756**	**68,921**	**11,843**	**25,638**	**31,440**
at fair value through profit or loss	7,009	7,009	–	6,966	43
at fair value not affecting profit or loss	4,251	4,251	4,139	112	–
not measured at fair value in the balance sheet	55,496	57,661	7,704	18,560	31,397
Cash reserve	299	299	299	–	–
Trading assets (HfT)	1,914	1,914	–	1,914	–
Loans and advances to other banks	2,787	2,823	1,628	778	417
Category LaR	2,787	2,823	1,628	778	417
Loans and advances to customers[1]	39,985	42,007	–	13,949	28,058
Category LaR	39,985	42,007	–	13,949	28,058
Real Estate Finance	23,216	24,357	–	–	24,357
Public Investment Finance	5,797	6,155	–	4,553	1,602
Value Portfolio	9,292	9,697	–	7,599	2,098
Consolidation & Adjustments	1,712	1,830	–	1,797	33
Portfolio-based allowances	−32	−32	–	–	−32
Financial investments	16,564	16,671	9,916	3,833	2,922
Category AfS	4,139	4,139	4,139	–	–
Category LaR	12,425	12,532	5,777	3,833	2,922
Other assets	5,207	5,207	–	5,164	43
Fair value hedge derivatives	5,095	5,095	–	5,052	43
Cash flow hedge derivatives	112	112	–	112	–
Financial liabilities	**64,022**	**65,476**	**18,904**	**8,258**	**38,314**
at fair value through profit or loss	6,607	6,607	–	6,591	16
at fair value not affecting profit or loss	45	45	–	45	–
not measured at fair value in the balance sheet	57,370	58,824	18,904	1,622	38,298
Liabilities to other banks	3,198	3,310	1,494	775	1,041
Liabilities to customers	10,664	10,932	933	–	9,999
Securitised liabilities	42,337	43,417	16,477	836	26,104
Covered	36,778	37,937	13,775	717	23,445
Uncovered	5,559	5,480	2,702	119	2,659
Trading liabilities (HfT)	1,696	1,696	–	1,696	–
Other liabilities	5,001	5,001	–	4,940	61
Fair value hedge derivatives	4,911	4,911	–	4,895	16
Cash flow hedge derivatives	45	45	–	45	–
Other financial liabilities	45	45	–	–	45
Subordinated capital	1,126	1,120	–	11	1,109
Other items	**2,867**	**2,888**	**–**	**–**	**2,888**
Contingent liabilities	182	182	–	–	182
Irrevocable loan commitments	2,685	2,706	–	–	2,706

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

Fair values and fair value hierarchy of financial instruments					31.12.2014
in € million	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets	**74,623**	**76,959**	**13,345**	**31,390**	**32,224**
at fair value through profit or loss	7,991	7,991	–	7,916	75
at fair value not affecting profit or loss	5,380	5,380	4,906	474	–
not measured at fair value in the balance sheet	61,252	63,588	8,439	23,000	32,149
Cash reserve	57	57	57	–	–
Trading assets (HfT)	2,016	2,016	–	2,016	–
Loans and advances to other banks	6,800	6,846	1,955	3,907	984
Category LaR	6,800	6,846	1,955	3,907	984
Loans and advances to customers[1]	38,826	41,063	–	13,193	27,870
Category LaR	38,826	41,063	–	13,193	27,870
Real Estate Finance	21,664	22,858	–	–	22,858
Public Investment Finance	5,367	5,731	–	3,560	2,171
Value Portfolio	10,024	10,550	–	7,694	2,856
Consolidation & Adjustments	1,816	1,969	–	1,939	30
Portfolio-based allowances	–45	–45	–	–	–45
Financial investments	20,475	20,528	11,333	5,900	3,295
Category AfS	4,906	4,906	4,906	–	–
Category LaR	15,569	15,622	6,427	5,900	3,295
Other assets	6,449	6,449	–	6,374	75
Fair value hedge derivatives	5,975	5,975	–	5,900	75
Cash flow hedge derivatives	474	474	–	474	–
Financial liabilities	**70,954**	**73,105**	**17,778**	**13,715**	**41,612**
at fair value through profit or loss	7,609	7,609	–	7,601	8
at fair value not affecting profit or loss	434	434	–	434	–
not measured at fair value in the balance sheet	62,911	65,062	17,778	5,680	41,604
Liabilities to other banks	3,187	3,322	1,690	317	1,315
Liabilities to customers	10,593	11,035	1,192	–	9,843
Securitised liabilities	47,827	49,388	14,884	5,363	29,141
Covered	40,967	42,541	12,194	5,168	25,179
Uncovered	6,860	6,847	2,690	195	3,962
Trading liabilities (HfT)	1,960	1,960	–	1,958	2
Other liabilities	6,108	6,108	12	6,077	19
Fair value hedge derivatives	5,649	5,649	–	5,643	6
Cash flow hedge derivatives	434	434	–	434	–
Other financial liabilities	25	25	12	–	13
Subordinated capital	1,279	1,292	–	–	1,292
Other items	**2,322**	**2,342**	–	–	2,342
Contingent liabilities	84	84	–	–	84
Irrevocable loan commitments	2,238	2,258	–	–	2,258

[1] Reduced by allowances for losses on loans and advances

As at 30 September 2015, no financial instruments measured at fair value were reclassified from Level 1 to Level 2 or vice versa (31 December 2014: none). Financial liabilities in the amount of € 6 million (31 December 2014: financial assets in the amount of € 8 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 € 20 million (31 December 2014: €17 million) and financial liabilities in the amount of € 1 million (31 December 2014: € 3 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 30.9.2015

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 30.9.2015

Measurement methods	Non-observable parameters	Range (weighted average)
Option pricing models	Historical index/index correlations	73.49% (73.49%)
	Historical index/exchange rate correlations	−1.44% to −17.56% (−9.50%)
	Volatility ASW spread	0.60% (0.60%)
	Exchange rate volatility (beyond 10 years)	12.95% (12.95%)

Sensitivities

Positive and negative changes of less than € 1 million each arose for financial assets and financial liabilities measured at fair value on 30 September 2015. On 31 December 2014 the sensitivity analysis resulted in positive and negative changes for liabilitites of € 1 million each.

Changes in Level 3 Financial Instruments measured at Fair Value

Changes in level 3 financial assets in € million	Financial assets at fair value through profit or loss Fair value hedge derivatives	Financial assets at fair value not affecting profit or loss Cash flow hedge derivatives	Total
Balance at 1.1.2014	**79**	**4**	**83**
Through profit or loss	2	–1	1
Purchases	19	–	19
Sales	–19	–	–19
Reclassification into Level 3	8	–	8
Reclassification out of Level 3	–14	–3	–17
Balance at 31.12.2014	**75**	**–**	**75**
Balance at 1.1.2015	**75**	**–**	**75**
Through profit or loss	–12	–	–12
Reclassification out of Level 3	–20	–	–20
Balance at 30.9.2015	**43**	**–**	**43**

Changes in level 3 financial liabilities in € million	Financial liabilities at fair value through profit or loss Trading liabilities	 Fair value hedge derivatives	Total
Balance at 1.1.2014	**2**	**10**	**12**
Through profit or loss	–	–1	–1
Reclassification out of Level 3	–	–3	–3
Balance at 31.12.2014	**2**	**6**	**8**
Balance at 1.1.2015	**2**	**6**	**8**
Through profit or loss	–1	4	3
Reclassification into Level 3	–	6	6
Reclassification out of Level 3	–1	–	–1
Balance at 30.9.2015	**–**	**16**	**16**

The earnings contributions made by trading assets and trading liabilities are presented under net trading income, whereas the effects of hedge relationships recognised in profit or loss are reported under net income from hedging relationships.

Assets and Liabilities According to Measurement Categories and Classes

Assets and liabilities according to measurement categories and classes according to IAS 39 in € million	**30.9.2015**	**31.12.2014**
Assets		
Loans and receivables (LaR)	55,197	61,195
Available for sale (AfS)	4,139	4,906
Held for trading (HfT)	1,914	2,016
Cash reserve	299	57
Claims from finance lease agreements	235	–
Positive fair values from hedging derivatives	5,207	6,449
Liabilities		
Held for trading (HfT)	1,696	1,960
Financial liabilities at amortised cost	57,370	62,911
Negative fair values from hedging derivatives	4,956	6,083

30 Past Due but Not Impaired Assets

The following table shows the total portfolio of the partly or completely past due but not impaired loans and advances as of 30 September 2015 and as of 31 December 2014. However, no specific allowances were made for these assets respectively the underlying collaterals as pbb Group does not consider that there is any issue regarding their recoverability. Such timing issues in receipts of payments due occur regularly (up to three months) in the normal course of business and are not considered to be an evidence for impairment.

LaR Assets

Carrying amounts of past due but not impaired LaR assets in € million	**30.9.2015**	**31.12.2014**
up to 3 months	56	32
more than 3 months to 6 months	2	10
more than 6 months to 1 year	–	7
more than 1 year	7	10
Total	**65**	**59**

Carrying amounts LaR assets in € billion	**30.9.2015**	**31.12.2014**
Carrying amount of LaR assets that are neither impaired nor past due	54.5	60.5
Carrying amount of LaR assets that are past due but not impaired (total investment)	0.1	0.1
Carrying amount of individually assessed impaired LaR assets (net)	0.6	0.6
Balance of specific allowances	0.1	0.1
Balance of portfolio-based allowances	–	0.1
Total	**55.3**	**61.4**
thereof: Loans and advances to other banks (including investments)	2.8	6.8
Loans and advances to customers (including investments)	40.1	39.0
Financial investments (gross)	12.4	15.6

AfS Assets

As of 30 September 2015 and as of 31 December 2014 pbb Group had neither past due and not impaired nor impaired AfS financial investments in the portfolio.

31 Restructured Loans and Advances

As of 30 September 2015 and as of 31 December 2014, restructuring agreements mainly related to standstill agreements and to the discontinuation of contractual arrangements.

Restructured loans and advances in € million	30.9.2015	31.12.2014
Carrying amount of loans and advances that are neither impaired nor past due	389	1,048
Carrying amount of loans that are past due but not impaired (gross)	7	12
Carrying amount of impaired loans and advances (gross)	458	241
Total	**854**	**1,301**

Other Notes

32 Contingent Liabilities and Other Commitments

Contingent liabilities and other commitments in € million	**30.9.2015**	**31.12.2014**
Contingent liabilities	**182**	**84**
Guarantees and warranties	182	84
Performance guarantees and warranties	182	84
Other commitments	**2,685**	**2,238**
Irrevocable loan commitments	2,685	2,238
Guarantees	22	6
Mortgage and public sector loans	2,663	2,232
Total	**2,867**	**2,322**

33 Relationship with Related Parties

As at 30 September 2015, pbb was under an indirect significant influence of the Federal Republic of Germany, through HRE Holding, pbb's largest shareholder. Accordingly, pbb Group is classified as a related party to other companies which are controlled, jointly controlled or significantly influenced by the Federal Republic of Germany.

pbb entered into an agreement with HRE Holding during the first half of 2015, according to which all opportunities and risks associated with a property rented on a contractual basis were transferred from pbb to HRE Holding. In return, the Bank agreed to a one-time payment of € 24 million to HRE Holding. The restructuring provision recognised so far was reversed accordingly.

Expenses incurred in the context of pbb's privatisation (carried out by HRE Holding) are borne by the seller (again, HRE Holding).

Cost allocation with HRE Holding resulted in income for pbb Group of € 4 million (9m 2014: € 5 million), generated until the mid-year 2015.

The majority of IT services rendered to DEPFA were discontinued by year-end 2014. With these services, pbb Group generated net income of less than € 1 million (9m 2014: € 25 million).

The silent partnership contribution provided by the German Financial Markets Stabilisation Fund (FMS) was repaid on 6 July 2015, at the nominal value of € 1.0 billion.

All further transactions carried out in the first half of 2015 and in the first half of 2015 with companies, which were controlled, jointly controlled or significantly influenced by the Federal Republic of Germany, related to operational business, and overall were immaterial for pbb Group.

34 Employees

Average number of employees	1.1.–30.9. 2015	1.1.–31.12. 2014
Employees (excluding apprentices)	834	838
thereof: senior staff in Germany	17	17
Total	**834**	**838**

Munich, 3 November 2015

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 September, 2015 that are part of the quarterly financial report according to § 37 x Abs. 3 WpHG [«Wertpapierhandelsgesetz»: «German Securities Trading Act»]. The preparation of the condensed 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 responsibility of the Company's management. Our responsibility is to issue a report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

We performed our review of the condensed interim consolidated financial statements and the interim group management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with 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, 4 November 2015

KPMG AG
Wirtschaftsprüfungsgesellschaft
[original German version signed by:]

Mock	**Schmidt**
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]

Additional Information
Future-oriented Statements
Internet Service

Future-oriented Statements

This report contains future-oriented statements in the form of intentions, assumptions, expectations or forecasts. These statements are based on the plans, estimates and predictions currently available to the management of Deutsche Pfandbriefbank AG. Future-oriented statements therefore only apply on the day on which they are made. We do not undertake any obligation to update such statements in light of new information or future events. By their nature, future-oriented statements contain risks and factors of uncertainty. A number of important factors can contribute to actual results deviating considerably from future-oriented statements. Such factors include the condition of the financial markets in Germany, Europe and the USA, the possible default of borrowers or counterparties of trading companies, the reliability of our principles, procedures and methods for risk management as well as other risks associated with our business activity.

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