

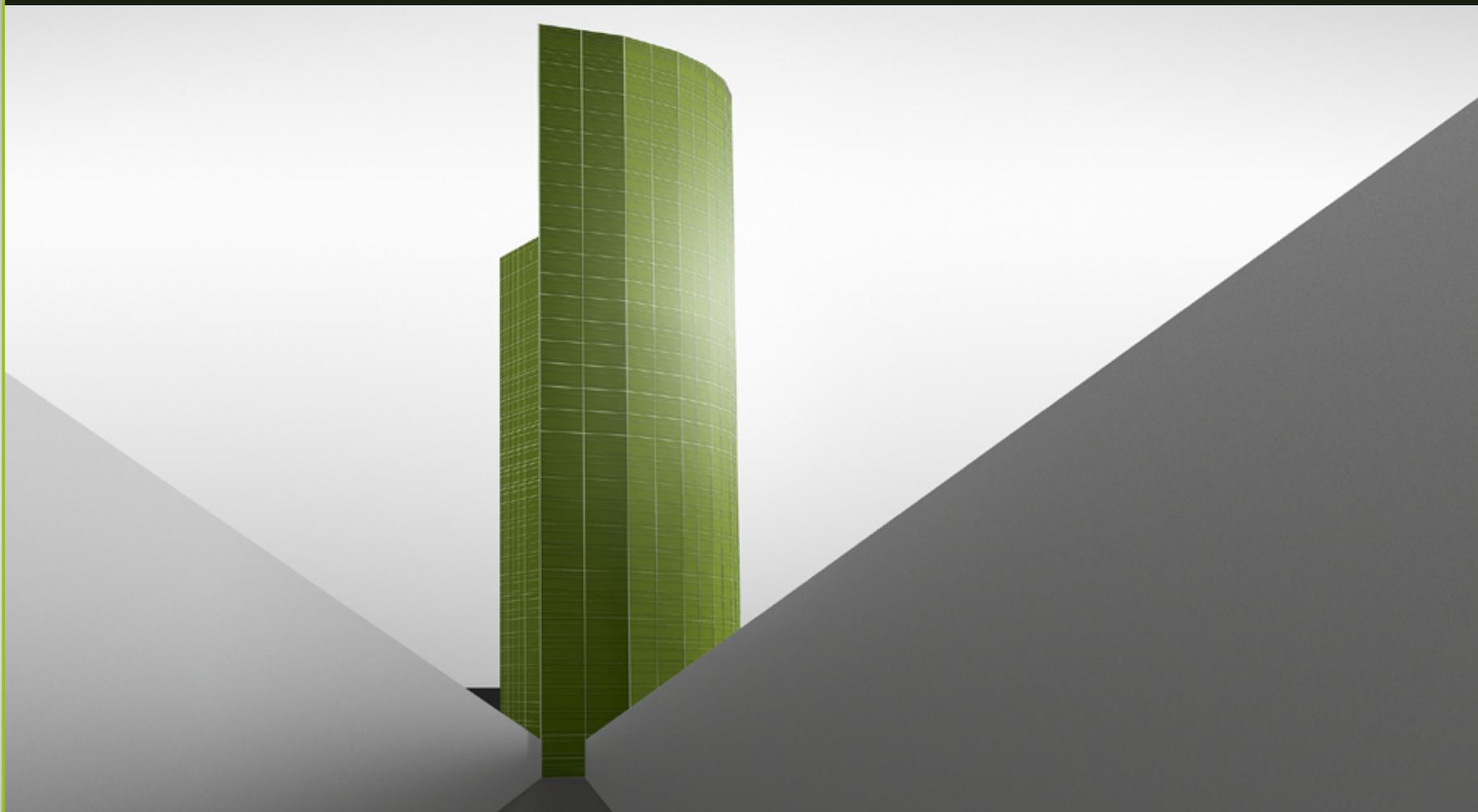
Annual Report 2015

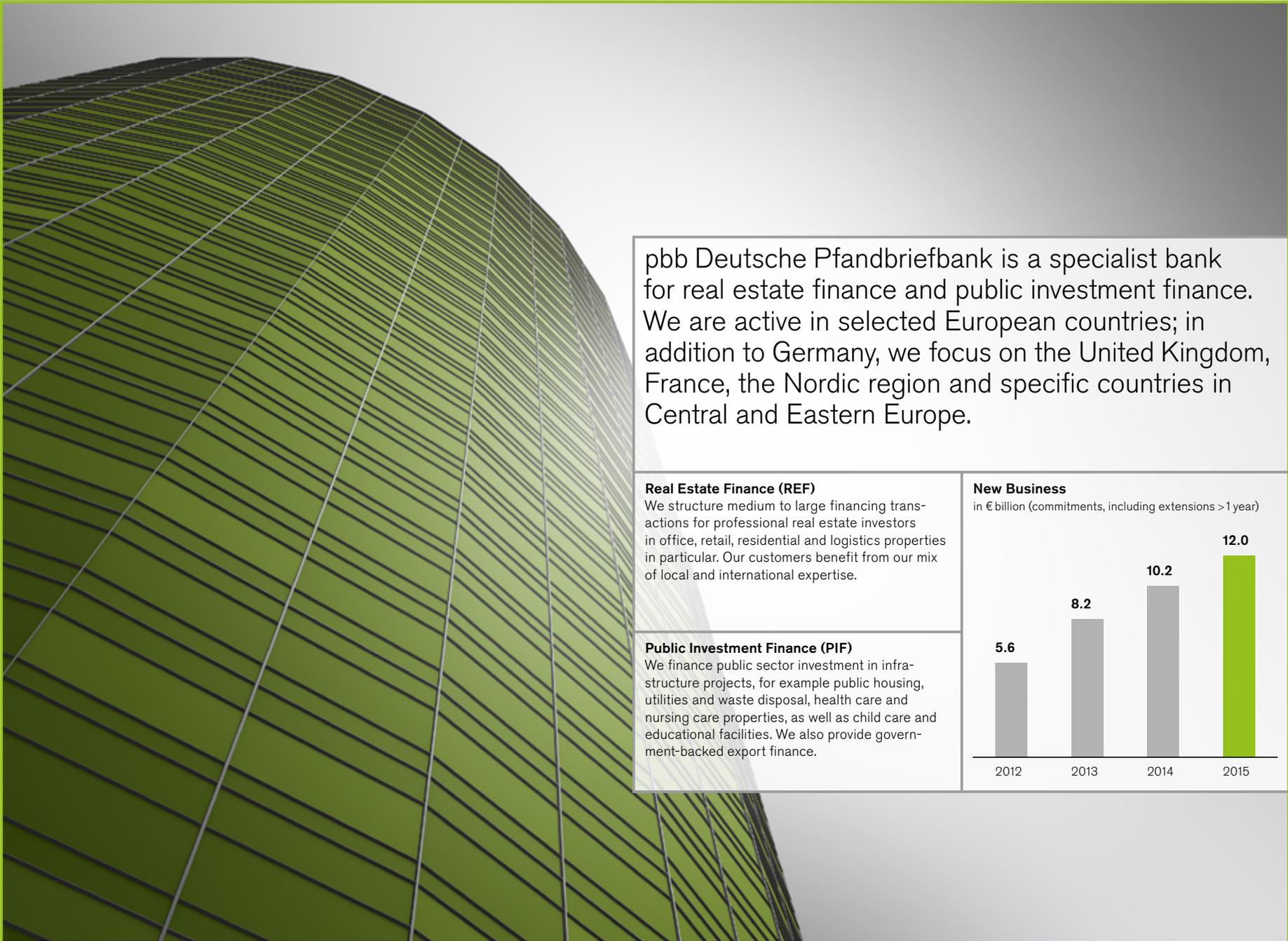
Deutsche Pfandbriefbank Group

PUBLIC SECTOR FINANCE
REAL ESTATE FINANCE

pbb

DEUTSCHE
PFANDBRIEFBANK





pbb Deutsche Pfandbriefbank is a specialist bank for real estate finance and public investment finance. We are active in selected European countries; in addition to Germany, we focus on the United Kingdom, France, the Nordic region and specific countries in Central and Eastern Europe.

Real Estate Finance (REF)

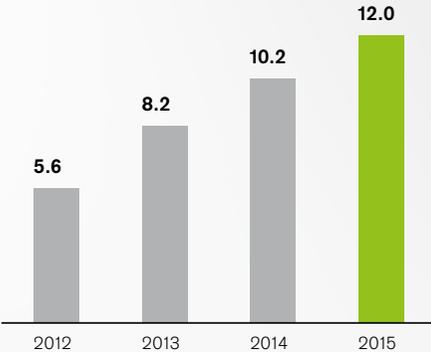
We structure medium to large financing transactions for professional real estate investors in office, retail, residential and logistics properties in particular. Our customers benefit from our mix of local and international expertise.

Public Investment Finance (PIF)

We finance public sector investment in infrastructure projects, for example public housing, utilities and waste disposal, health care and nursing care properties, as well as child care and educational facilities. We also provide government-backed export finance.

New Business

in € billion (commitments, including extensions > 1 year)



Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Additional Information

Deutsche Pfandbriefbank Group (pbb Group)		2015	2014
Operating performance according to IFRS			
Profit or loss before tax	in € million	195	54
Net income/loss	in € million	230	4
Key ratios			
Earnings per share (basic and diluted)	in €	1.71	0.03
Cost-income ratio	in %	51.8	77.0
Return on equity before tax	in %	6.2	1.6
New business volume ¹⁾	in € billion	12.0	10.2
Balance sheet figures			
Total assets	in € billion	66.8	74.9 ³⁾
Financial position equity (excluding revaluation reserve)	in € billion	2.7	3.4
Financial position equity	in € billion	2.7	3.5
Key regulatory capital ratios			
CET1 ratio	in %	18.9	22.2
CET1 ratio fully phased-in	in %	18.2	13.8
Own funds ratio	in %	23.4	26.6
Own funds ratio fully phased-in	in %	19.9	22.5
Leverage ratio ⁵⁾	in %	4.4	5.3
Leverage ratio fully phased-in ⁵⁾	in %	3.9	4.6
Staff			
Employees ⁶⁾		785	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⁾ The figures diverges from the values shown in the 2014 Annual Report, due to a retrospective adjustment.

⁵⁾ Leverage ratio is defined as the ratio of Tier 1 and the relevant exposure in accordance with CRR.

⁶⁾ On full-time equivalent basis

Senior unsecured ratings and ratings for Pfandbriefe of Deutsche Pfandbriefbank AG (pbb) ¹⁾	31.12.2015			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	Stable	Stable	–	Negative	Negative	Negative
Short-term rating	A–2	R–2 (high)	–	A–2	P–2	F1
Public sector Pfandbriefe	–	–	Aa1	AA+ ²⁾	Aa1	–
Mortgage Pfandbriefe	–	–	Aa1	AA+ ²⁾	Aa2	–

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.

¹⁾ Ratings from mandated rating agencies

²⁾ Negative outlook

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Additional Information

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Responsibility Statement

Auditor's Report

Additional Information

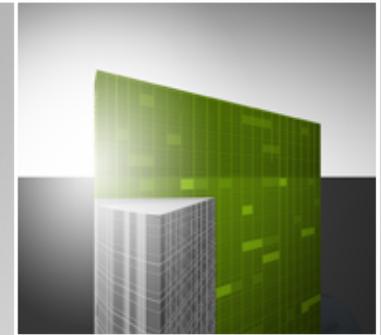
Summary of Quarterly and Annual Financial Data

Financial Calendar

Future-oriented Statements

Internet Service

Imprint



- Overview
- Contents
- Letter of the Management Board
- Report of the Supervisory Board
- The pbb Share
- Group Management Report
- Consolidated Financial Statements
- Additional Information

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Tour Séquoia Paris

€ 480 million

Public Sector Investment Financing
France
March 2015

Following a public tender, the French Postal Bank, La Banque Postale, and pbb were selected to fund the Tour Séquoia office building located in La Défense. This object, which was built in 1990 and recently completely renovated, accommodates the employees of two ministries. The €480 million financing structured as a finance lease enables the French state to pay a market rent over the term of the contract, and to acquire the building at the end of the lease period by paying a nominal sum of one Euro.

pbb uses synergies offered by its two business segments Real Estate Finance and Public Investment Finance to benefit its clients. The finance lease is becoming increasingly relevant for public entities as this structure allows them to use their funds for other purposes.

- Overview
- Contents
- Letter of the Management Board**
- Report of the Supervisory Board
- The pbb Share
- Group Management Report
- Consolidated Financial Statements
- Additional Information

Letter of the Management Board



The Management Board of Deutsche Pfandbriefbank AG (from left to right)
Andreas Schenk, Andreas Arndt (Co-CEO), Thomas Köntgen (Co-CEO), Dr. Bernhard Scholz

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Additional Information

Dear Shareholders, dear Business Partners, Ladies and Gentlemen,

A key aspect of our activities during 2015 was the privatisation of Deutsche Pfandbriefbank AG («pbb») – an objective that we have achieved, through a successful flotation, in a challenging capital markets environment. 80% of the Company's share capital was placed, within the scope of a secondary placement, almost exclusively with institutional investors in Germany and internationally. This has turned pbb into one of Germany's few listed banks. At the same time, upon privatisation the conditions imposed upon pbb's business activities by the European Commission have now ceased.

pbb shares are listed in the Prime Standard segment of the Frankfurt Stock Exchange. The first traded price of € 11.45 on 16 July 2015 exceeded the issue price of € 10.75. Just two months after initial listing, the pbb share was included in Deutsche Börse's mid-cap MDAX® index. Whilst the pbb share price performed relatively well during the period under review, compared with the national banking sector, it was unable to escape the general market trend in a difficult market environment overall.

pbb Group also performed successfully in its operating business during 2015, posting the best annual results since its re-start in 2009. The volume of new business, including extensions beyond one year, rose by close to € 2 billion, to a new record value of € 12 billion. Despite strong competition and whilst adhering to its strict risk standards, pbb was able to maintain average gross new business margins throughout the year – albeit around 15% below the previous year's level. Financing volumes of its strategic credit portfolios in Real Estate Finance and Public Investment Finance rose by 10% year-on-year, to € 31.3 billion – with the quality of the credit portfolio remaining high. The share of the portfolio which is investment grade, according to our internal risk classification, remained unchanged, at 96%.

Profit before taxes amounted to € 195 million; the previous year's figure was € 174 million – excluding a € 120 million valuation adjustment for receivables against Heta Asset Resolution AG – was € 174 million. pbb Group has again digested significant non-recurring effects during the current financial year, including a further write-down on receivables against Heta to 50% of their nominal amount. The very good results for the 2015 financial year underscored the level of operating strength and resilience which pbb has now achieved.

Profit after taxes rose to € 230 million, reflecting high deferred tax income. Against this background, the Management Board and Supervisory Board will propose to the Annual General Meeting to pay a pro-rata dividend of € 0.43 per share for the 2015 financial year. Grossed up to the full year, this means that we have already achieved a distribution ratio of 50% for the first dividend payment after flotation – at the upper end of the target range between 40%–50%.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Additional Information

Following its flotation, pbb will pursue its chosen path of being a leading European commercial real estate and public-sector lender; an institution that creates sustainable value for its shareholders and benefits for its stakeholders. Our strengths are the support we provide to our clients in their financing needs, and our comprehensive, conservative management of credit risk. We see ourselves as a reliable partner and attractive employer who assumes responsibility both on a commercial level, and to society.

Macroeconomic developments for 2016 are anticipated to continue to be moderately positive. We continue to assess the fundamental market environment as relatively benign, especially concerning real estate finance. At the same time, we believe that competitive pressures will persist. Moreover, uncertainty is being exacerbated by changes to regulatory requirements as imposed by the European Central Bank and the Basel Committee on Banking Supervision, especially concerning the recalibration of risk models and an expected increase in risk-weighted assets.

For the 2016 financial year, we plan to continue expanding our core business, further optimising processes at the same time. In spite of significant competitive pressure, we endeavour to maintain an adequate margin on new business by leveraging our special structuring expertise for more complex transactions. Our excellent, long-standing client relationships will continue to provide an outstanding basis. In addition, we plan to make careful adjustments to our product and country mix, to reflect a changing business environment, in line with our risk strategy. We want to generate additional income through syndication and the placement of loan tranches. We strive for broader diversification – in terms of regions and products – in our funding business.

pbb has responded to the challenges of the year 2015 with its strongest operating performance to date, and with a successful flotation. We would like to express our sincere thanks to our colleagues within the Bank, who have made this success possible.

Yours sincerely,



Andreas Arndt



Thomas Köntgen



Andreas Schenk



Dr. Bernhard Scholz

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

Corporate Governance

Supervisory Board Meetings

Supervisory Board Committees

Training and Continuous Professional Development

Annual Financial Statements

The pbb Share

Group Management Report

Consolidated Financial Statements

Additional Information

Report of the Supervisory Board

In this section, the Supervisory Board of Deutsche Pfandbriefbank AG («pbb») reports on the focal points of its supervisory and advisory activities during the 2015 financial year.

The 2015 financial year was shaped, in particular, by work related to the successful flotation. Despite the capital markets environment, which was highly uncertain at times during the summer, very positive results were achieved for all stakeholders. The Supervisory Board also sees this as evidence for the sustainable viability of pbb's business model.

This is equally evident in the business development data for the two strategic business segments, Real Estate Finance and Public Investment Finance. Against the background of a still-challenging low interest rate environment, along with intense competition, the Group continued to strengthen its origination platform and further improved segment results. This was a key focal area for the Supervisory Board's supervisory and advisory activities.

Further material topics discussed included extensive changes in the regulatory environment, such as the Supervisory Review and Evaluation Process (SREP), as well as the German Regulation on Remuneration in Financial Institutions (Institutsvergütungsverordnung – «InstVergV»), including implementation of a new remuneration system for Management Board members and employees. Likewise, the separation of Hypo Real Estate Holding AG (HRE Holding) and pbb, which was pursued at an early stage, as well as the flotation, required decisions concerning personnel changes on pbb's Management Board (the composition of which, until 31 March 2015 was identical to the Management Board of HRE Holding), as well as amendments to the Company's Memorandum and Articles of Association, and of the internal rules of procedure for the Management Board and the Supervisory Board.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

Corporate Governance

Supervisory Board Meetings

Supervisory Board Committees

Training and Continuous Professional Development

Annual Financial Statements

The pbb Share

Group Management Report

Consolidated Financial Statements

Additional Information

Corporate Governance

The Supervisory Board continually monitored the Management Board during the financial year 2015, as in the past, and provided it with regular advice on the management of the Company.

It assured itself in all cases that the management measures taken by the Management Board were lawful, appropriate, due and proper. The Management Board fulfilled its duties to provide information, and informed the Supervisory Board in a regular, timely and comprehensive manner, both in writing and orally, about matters and measures relevant to the Company. This also included information on any deviations between target and actual figures. The members of the Supervisory Board had sufficient opportunity, at all times, to critically assess the reports and proposed resolutions submitted by the Management Board, and to make its own suggestions in the Supervisory Board committee meetings and in the plenary sessions. In addition, the co-CEOs also reported to the Chairman of the Supervisory Board on all material developments between meetings.

In particular, the Supervisory Board held in-depth discussions on, and reviewed the plausibility of, all business transactions material to the Company on the basis of written and oral reports by the Management Board.

On 14 August 2015 and 26 February 2016, the Supervisory Board concerned itself with the declaration of conformity with the German Corporate Governance Code, which is published on pbb's website (<http://www.pfandbriefbank.com/en/investor-relations/mandatory-publications.html>). Following flotation, pbb is now also subject to this Code. Please also refer to the Group's remuneration report, which is printed in this annual report and is also available on pbb's website. With respect to the requirements of the German Corporate Governance Code, in conjunction with section 111(5) of the AktG, concerning the target and actual quotas of female members of the Supervisory Board, please refer to the corresponding table, in the Corporate Governance Statement pursuant to section 289 a of the German Commercial Code (HGB), which shows the composition of the Supervisory Board and its committees.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

Corporate Governance

Supervisory Board Meetings

Supervisory Board Committees

Training and Continuous Professional Development

Annual Financial Statements

The pbb Share

Group Management Report

Consolidated Financial Statements

Additional Information

Supervisory Board Meetings

The Supervisory Board of pbb held ten meetings in 2015, one of which took the form of a conference call.

All regular meetings addressed the current business situation of pbb Group, which was discussed in detail with the Management Board in each case. The Management Board informed the Supervisory Board, regularly and in a timely manner, about pbb's financial situation and performance. During the regular meetings, the Supervisory Board also received reports on the risk position, risk management, new business in the Deutsche Pfandbriefbank Group (pbb Group), the liquidity situation and strategy, as well as on significant events that were of material importance to the assessment of the Company's position, development and management.

The two extraordinary meetings on 23 and 29 January 2015 were largely concerned with preparations for pbb's privatisation.

Alongside the regular topics already mentioned, the ordinary meeting on 5 March 2015 primarily discussed pbb's updated business and risk strategies, as well as amendments to the internal rules of procedure for the Risk Management and Liquidity Strategy Committee. The meeting also adopted the declaration of conformity with the Public Corporate Governance Code of the Federal Republic of Germany, to which pbb was subject as an indirect, wholly-owned subsidiary of the Federal Republic until its privatisation.

In the accounts review meeting held on 26 March 2015, the consolidated financial statements for 2014 were approved and the annual financial statements were adopted. Furthermore, the (ordinary) Annual General Meeting was also prepared, and the remuneration report for 2014 was discussed. The meeting adopted the draft concept for adjusting the remuneration system against the background of impending privatisation, target agreements with members of the Management Board, and the Corporate Governance Report. Furthermore, the Supervisory Board continued to pursue the separation of HRE Holding and pbb, also at Management Board level: as a consequence, the size of pbb's Management Board was reduced, and the Supervisory Board approved the related resignation by Mr. Wolfgang Groth from his office, as well as the amended distribution of responsibilities. At the same time, the remaining members of pbb's Management Board resigned from their offices as Management Board members of HRE Holding, with the exception of Dr. Bernhard Scholz, who retired from the Management Board of HRE Holding with effect from 1 June 2015.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

Corporate Governance

Supervisory Board Meetings

Supervisory Board Committees

Training and Continuous Professional Development

Annual Financial Statements

The pbb Share

Group Management Report

Consolidated Financial Statements

Additional Information

The meeting on 18 May 2015 was dominated by pbb Group's first-quarter report for 2015, and by the auditors' review of pbb Group's quarterly financial statements as at 31 March 2015. Furthermore, during the meeting, the Supervisory Board examined and determined risk-taker functions for 2015; it adopted the detailed concept for adjustments to the remuneration system, as well as the transformation plan to introduce variable remuneration after successful privatisation.

In its extraordinary meeting on 8 June 2015, the Supervisory Board discussed the flotation preparations in particular, including passing the mandate to the Executive and Nomination Committee to act as the Flotation Committee, as well as preparing resolution proposals for the Annual General Meeting – such as amendments to the Memorandum and Articles of Association, which included adjustments to the remuneration for members of the Supervisory Board, and authorisations for capital measures. The new Memorandum and Articles of Association were adopted by the Annual General Meeting on 10 June 2015.

In another extraordinary meeting on 18 June 2015, the Supervisory Board continued preparations for privatisation, discussed the composition of the Supervisory Board following flotation, and adopted the amended internal rules of procedure for the Management Board, the Supervisory Board and Supervisory Board committees, which were required following privatisation.

The Supervisory Board discussed pbb Group's interim report as at 30 June 2015, as well as its review by the external auditors, during the meeting on 14 August 2015. In the same meeting, the Supervisory Board adopted pbb's unconsolidated multi-year planning (in accordance with the HGB) as well as the updated business and risk strategies following flotation; the Supervisory Board also determined target quotas for female executives on pbb's Management Board and Supervisory Board. The Management Board has set a [target] quota of female managers for the first and second management level below the Management Board. Furthermore, the Supervisory Board concerned itself with filling vacant Supervisory Board seats, and approved the declaration of conformity with the German Corporate Governance Code. In this context, the Supervisory Board also adopted adjustments to deductibles for the Supervisory Board in the D&O insurance policy.

On 11 November 2015, the Supervisory Board resolved to carry out an examination of efficiency for the Management Board and the Supervisory Board, in accordance with section 25 d(11) of the German Banking Act (KWG). The Supervisory Board also discussed pbb Group's interim report as at 30 September 2015, its review by the external auditors, as well as the mandate for the audit of financial statements for 2016 and beyond. The Supervisory Board also passed outstanding resolutions concerning the adjusted remuneration systems for employees and the Management Board, as well as pbb's adjusted multi-year planning.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

Corporate Governance

Supervisory Board Meetings

Supervisory Board Committees

Training and Continuous Professional Development

Annual Financial Statements

The pbb Share

Group Management Report

Consolidated Financial Statements

Additional Information

At its meeting on 14 December 2015, the Supervisory Board extended Mr. Andreas Schenk's term of office on the Management Board, prior to its expiry, for another five years, for a term from 15 December 2015 to 14 December 2020. Moreover, the service contracts for Andreas Arndt, Thomas Köntgen and Dr. Bernhard Scholz were adjusted, effective 1 January 2016, regarding the introduction of variable remuneration. The Supervisory Board also adopted (variable) Management Board remuneration as well as target agreements with the members of the Management Board. It also resolved to submit an application for a new Supervisory Board member to be appointed by the court, in order to fill the vacant seat of a shareholder representative.

The Supervisory Board examined the requisite independence of the external auditors of the financial statements, KPMG AG Wirtschaftsprüfungsgesellschaft («KPMG»), instructed KPMG with the audit, and agreed the auditors' fee.

The co-CEOs were in continuous contact with the Chairman of the Supervisory Board with regard to important developments.

Supervisory Board Committees

During the period between 1 January and 31 December 2015, pbb's Supervisory Board had an Executive and Nomination Committee, an Audit Committee, a Risk Management and Liquidity Strategy Committee, and a Remuneration Oversight Committee. During this period, the Committees were comprised as follows:

The **Executive and Nomination Committee** convened for eight meetings, of which three were held in the form of conference calls. The committee consisted of Dr. Günther Bräunig (Chairman), Dagmar Kollmann, and Joachim Plesser.

The committee dealt with strategic and current issues concerning the Group, as well as with matters concerning the Management Board, for which it prepared corresponding proposals for the plenary meeting. Specifically, this concerned pbb's privatisation and flotation; in the context of the latter, the Supervisory Board appointed the committee to act as the Flotation Committee. The committee also discussed extensions of Management Board appointments due in 2016; it recommended to the plenary meeting of the Supervisory Board to extend the appointment of Mr. Andreas Schenk, prior to its expiry. Furthermore, the committee prepared the examination of efficiency of the Management Board, the Supervisory Board, and the Supervisory Board's committees. It also concerned itself with the introduction of a quota of female executives on pbb's Management Board and Supervisory Board, and with filling vacant Supervisory Board seats.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

Corporate Governance

Supervisory Board Meetings

Supervisory Board Committees

Training and Continuous Professional Development

Annual Financial Statements

The pbb Share

Group Management Report

Consolidated Financial Statements

Additional Information

The **Audit Committee** convened for five meetings; it consisted of Dagmar Kollmann (Chairperson), Dr. Günther Bräunig, Joachim Plesser and Dr. Hedda von Wedel.

During its meetings, the committee reviewed and discussed the annual financial statements and consolidated financial statements for 2014, the interim reports, and the reports by Internal Audit and KPMG on internal and external audit findings. In addition, the Audit Committee discussed the effects of current regulatory issues with the Management Board, and was informed of the development of ongoing audits. The Audit Committee also concerned itself with the mandate for the external auditors and their audit plan for the 2015 financial year. Furthermore, the Audit Committee satisfied itself of the independence of the external auditors, and recommended to the Supervisory Board to propose to the Annual General Meeting to elect KPMG as external auditors for the 2015 financial year. The Management Board of pbb, as well as the KPMG representatives, informed the committee about various individual topics related to the impact of current regulatory and business developments, such as legislative requirements regarding the appointment of external auditors, and a comprehensive analysis of net interest income. Furthermore, regular reports were received on the Internal Control System and the monitoring of key controls implemented, current litigation, Compliance issues, data protection and IT security, notable accounting issues, as well as the audit plan established by Internal Audit and its implementation.

The **Risk Management and Liquidity Strategy Committee** convened for four scheduled meetings. It also discussed credit exposures, usually during monthly conference calls. The committee consisted of Joachim Plesser (Chairman), Dr. Günther Bräunig, Dagmar Kollmann and Dr. Hedda von Wedel.

The committee supported the Supervisory Board's supervision of risk management and liquidity management; it reviewed the Management Board's risk reporting, and was involved in the credit approval process to the extent laid down in the rules of procedure. The committee also regularly discussed new business developments as well as the liquidity and funding status. During 2015, it also dealt with foreclosures and development loans, specific allowances, the reporting of own funds in accordance with the German Solvency Regulation, country limits, and asset/liability management.

In addition, the committee addressed individual credit exposures on numerous occasions, usually in the form of monthly conference calls. These related to regular re-submissions and approvals for change applications, and new business required to be submitted under the committee's rules of procedure.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

Corporate Governance

Supervisory Board Meetings

Supervisory Board Committees

Training and Continuous Professional Development

Annual Financial Statements

The pbb Share

Group Management Report

Consolidated Financial Statements

Additional Information

The **Remuneration Oversight Committee** convened for five meetings, one of which was held in the form of a conference call. The committee consisted of Dr. Günther Bräunig (Chairman), Dagmar Kollmann, Joachim Plesser, and Heike Theißing.

The committee concerned itself with measures required to prepare for pbb's privatisation, pbb's new remuneration system, the re-design of Management Board remuneration, the Remuneration Oversight Report 2014, target agreements with members of the Management Board, as well as with examining and determining risk-taker functions.

The Supervisory Board of pbb was comprised as follows between 1 January 2015 and 31 December 2015:

- > Dr. Günther Bräunig (Chairman)
- > Dagmar Kollmann (Deputy Chairperson)
- > Dr. Thomas Duhnkrack (from 21 July 2015)
- > Dr. Christian Gebauer-Rochholz
- > Georg Kordick
- > Joachim Plesser
- > Dr. Ludger Schuknecht (until 20 July 2015)
- > Heike Theißing
- > Dr. Hedda von Wedel
- > Dr. Jeromin Zettelmeyer (until 20 July 2015)

Upon successful conclusion of pbb's flotation, all pbb shareholder representatives resigned from their offices on the Supervisory Board of HRE Holding. In this context also changes in the composition of pbb's Supervisory Board took place during the course of the year. The representatives of the German Federal Ministry of Finance and the German Federal Ministry for Economic Affairs and Energy, Dr. Ludger Schuknecht and Dr. Jeromin Zettelmeyer, resigned with effect from 20 July 2015. Dr. Thomas Duhnkrack succeeded Dr. Ludger Schuknecht, with effect from 21 July 2015, as a deputy member of the Supervisory Board proposed by the Supervisory Board and elected by the Annual General Meeting. The Supervisory Board and its Executive and Nomination Committee discussed filling the second vacant Supervisory Board seat during several meetings. Accordingly, during its meeting on 14 December 2015, the Supervisory Board resolved to have the court appoint a new member of the Supervisory Board.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

Corporate Governance

Supervisory Board Meetings

Supervisory Board Committees

Training and Continuous Professional Development

Annual Financial Statements

The pbb Share

Group Management Report

Consolidated Financial Statements

Additional Information

Supervisory Board of pbb as of 31 December 2015		Supervisory Board function and meeting attendance	Committee function and meeting attendance			
Name and place of residence	Principal activity		Executive and Nomination Committee	Audit Committee	Risk Management and Liquidity Strategy Committee	Remuneration Oversight Committee
Dr. Günther Bräunig Frankfurt am Main, Germany	Member of the Management Board of KfW	Chairman 10 of 10	Chairman 8 of 8	Member 5 of 5	Member 4 of 4	Chairman 5 of 5
Dagmar Kollmann Vienna, Austria	Businesswoman	Deputy Chairperson 10 of 10	Member 8 of 8	Chairperson 5 of 5	Member 4 of 4	Member 5 of 5
Dr. Thomas Duhnkrack Kronberg im Taunus, Germany	Businessman	Member from 21.7.2015 3 of 3				
Dr. Christian Gebauer-Rochholz Hochheim, Germany	Bank employee	Employee representative 10 of 10				
Georg Kordick Poing, Germany	Bank employee	Employee representative 7 of 10				
Joachim Plesser Ratingen, Germany	Consultant	Member 10 of 10	Member 8 of 8	Member 5 of 5	Chairman 4 of 4	Member 5 of 5
Dr. Ludger Schuknecht Frankfurt am Main, Germany	Head of Department, Fiscal Policy and Macroeconomic Affairs, International Financial and Monetary Policy in the Federal Ministry of Finance	Member until 20.7.2015 7 of 7				
Heike Theißing Munich, Germany	Bank employee	Employee representative 9 of 10				Member 4 of 5
Dr. Hedda von Wedel Andernach, Germany	Deputy Chairperson of Transparency International Deutschland e.V.	Member 10 of 10		Member 5 of 5	Member 4 of 4	
Dr. Jeromin Zettelmeyer Berlin, Germany	Head of Department I, Economic Policy, in the Federal Ministry for Economic Affairs and Energy	Member until 20.7.2015 6 of 7				

Training and Continuous Professional Development

Members of the Supervisory Board took responsibility for any training or professional development measures that are necessary to fulfil their duties.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

Corporate Governance

Supervisory Board Meetings

Supervisory Board Committees

Training and Continuous Professional Development

Annual Financial Statements

The pbb Share

Group Management Report

Consolidated Financial Statements

Additional Information

Annual Financial Statements

KPMG, the auditors of the annual and consolidated financial statements elected by the Annual General Meeting, audited the annual and consolidated financial statements of pbb as at 31 December 2015, including the management reports, and issued them with an unqualified audit opinion. KPMG has submitted a declaration of its independence to the Supervisory Board. The financial statements documents and audit reports were submitted to all Supervisory Board members in good time. The Audit Committee addressed the financial statement documents in its meeting on 16 March 2016. The annual financial statements and consolidated financial statements, as well as the management reports and audit reports, were discussed in detail with the Management Board and representatives of the external auditors. Following its own review, the Supervisory Board did not raise any objections to the audit results submitted by the external auditors. In the accounts review meeting held on 17 March 2016, the Supervisory Board approved the consolidated financial statements prepared by the Management Board, and the annual financial statements were adopted. During the same meeting, the Supervisory Board also discussed the Management Board's proposal for the appropriation of profits with the Management Board. Following its examination, the Supervisory Board has endorsed the proposal for the appropriation of profit submitted by the Management Board.

The Supervisory Board would like to thank the Management Board and all employees for their strong personal commitment and contribution within the scope of the successful flotation, and for their work during the financial year under review.

The Supervisory Board would also like to express thanks to its members who retired during the 2015 financial year, Dr. Ludger Schuknecht and Dr. Jeromin Zettelmeyer, and to Wolfgang Groth, who retired from the Management Board during the 2015 financial year, for their strong commitment and their significant achievements for pbb. The Supervisory Board wishes them every success in the future.

For the Supervisory Board

Dr. Günther Bräunig

Chairman

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Successful Flotation – pbb Shares Included in the MDAX®

Strong Relative Performance

Capital Markets Communication

Analysts

Dividend Policy

Group Management Report

Consolidated Financial Statements

Additional Information

The pbb Share

Basic information

as of 31 December 2015

WKN (German Securities Code)	801900
ISIN	DE0008019001
Class of shares	Ordinary bearer shares with no par value
Number of ordinary shares	134,475,308
Trading symbol	PBB
Stock exchange	Xetra, Frankfurt
Stock segment	Regulated market, Prime Standard
Index	MDAX® (from 21 September 2015)
Initial listing	16 July 2015

Successful Flotation – pbb Shares Included in the MDAX®

On 16 July 2015, pbb shares opened their first trading day on the Prime Standard on the Regulated Market of the Frankfurt Stock Exchange (FWB) at a price of €11.45. The opening price constituted a premium of 6.5% over the €10.75 offer price.

A total of 107,580,245 shares were placed within the scope of the flotation, including an over-allotment of 6,589,289. The offer was several times oversubscribed, at the offer price. Almost all of the shares were allotted to institutional investors. Based on the offer price, the total gross volume of placement (including the completely exercised over-allotment option) amounted to approximately €1.156 billion. At that point, this made it the biggest German listing of the year.

The free float is 80%. The remaining 20% are held by the Federal Republic of Germany (indirectly via the Financial Market Stabilisation Fund [Finanzmarktstabilisierungsfonds – «FMS»] and Hypo Real Estate Holding AG [HRE Holding]). Under a lock-up agreement, and depending on specific exemption rules, HRE Holding is obliged to hold a share of 20% of pbb's share capital until 16 July 2017. FMS is administered by the German Financial Market Stabilisation Agency (FMSA), an institution of the Federal Republic of Germany.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Successful Flotation – pbb Shares Included in the MDAX®

Strong Relative Performance

Capital Markets Communication

Analysts

Dividend Policy

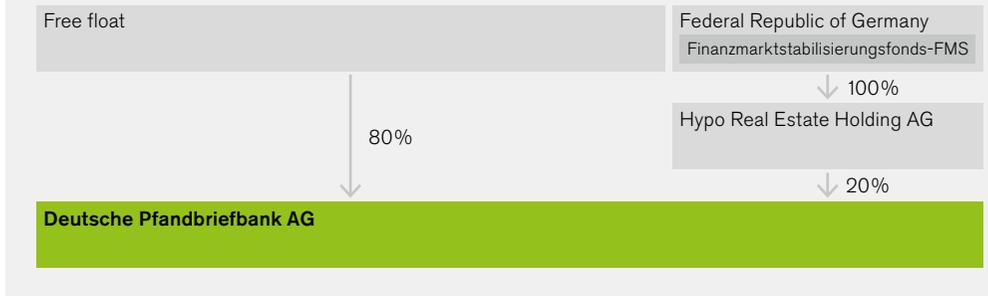
Group Management Report

Consolidated Financial Statements

Additional Information

Ownership structure Deutsche Pfandbriefbank AG

as of 31 December 2015



pbb shares were admitted to the MDAX® index on 21 September 2015, and thus belong to the 50 largest companies of the traditional sectors – below the constituents of the DAX® – within the Prime Standard of the Frankfurt Stock Exchange (FWB), in terms of market capitalisation and order book turnover.

Strong Relative Performance

Shares of Deutsche Pfandbriefbank AG Benchmark comparison 2015

indexed as of 16 July 2015 (initial listing of pbb shares)



Source: Bloomberg (Xetra closing prices)

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Successful Flotation – pbb Shares Included in the MDAX®

Strong Relative Performance

Capital Markets Communication

Analysts

Dividend Policy

Group Management Report

Consolidated Financial Statements

Additional Information

During the first half of 2015, European equity markets were particularly affected by uncertainty emanating from the ongoing financial crisis in Greece, as well as from geopolitical crises in the Ukraine and Syria. Despite this challenging environment, pbb managed to successfully float its shares in July.

In the weeks following the listing, the shares held their ground well, reaching a peak of €12.03 on 10 August 2015. From mid-August onwards, weak Chinese growth figures were a decisive factor for the overall negative development on the equity markets, as well as higher volatility. Asian stock exchanges experienced particularly strong price declines. The trend was driven by fear of weaker growth in emerging markets, and the prospect of an impending rise in interest rates by the US Federal Reserve. In spite of the negative market sentiment, pbb shares initially held their ground relatively well. But from mid-September onwards the share price gave way to the general down-trend when equity markets came under pressure, not only from the economic insecurity emerging from China, but also from the Volkswagen scandal – whereby the auto maker admitted manipulating air pollution tests in the US – and general global economic uncertainty.

After a general market recovery towards the end of the year, pbb-shares closed the year 2015 at €11.20 (a gain of 4.2% compared to the offer price of €10.75 and only slightly below the initial listing of €11.45 [–2.2%]). Compared to the performance of relevant indices, namely the Prime Banks Performance Index (–24.2%), MDAX® (–0.9%) and DAX® (–8.3%), pbb shares have put in a relatively strong performance since their initial listing.

Key figures		2015
as of 31 December 2015		
Offer price	in €	10.75
Share prices ¹⁾		
Initial price	in €	11.45
High	in €	12.03
Low	in €	10.28
Year-end closing	in €	11.20
Market capitalisation ^{1) 2)}	in € million	1,506
Book value per share	in €	20.42
Earnings per share	in €	1.71
Price/earnings ratio ^{1) 2)}	in %	15.3
Dividend proposal ³⁾	in €	0.43
Dividend yield ^{1) 2) 3)}	in %	7.7

¹⁾ Xetra closing prices

²⁾ Xetra year-end closing price

³⁾ Proposal to be submitted to the Annual General Meeting

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Successful Flotation – pbb Shares Included in the MDAX®

Strong Relative Performance

Capital Markets Communication

Analysts

Dividend Policy

Group Management Report

Consolidated Financial Statements

Additional Information

Capital Markets Communication

The main priority of Investor Relations (IR) activities in 2015 was achieving a successful privatisation. In view of this, IR activities were mainly aimed at making pbb and its investment story widely known on the capital markets, and on winning potential investors

In the run-up to the listing, the IR team organised numerous roadshows with pbb's management in Germany and abroad. The focus was especially on the international financial centres: Frankfurt, London, Paris, Zurich, and New York. During this time, the team conducted meetings with around 150 potential investors.

In the context of the publication of the annual and interim results, pbb held four conference calls for analysts and investors in 2015. During each of these calls the Management Board explained the results in detail, informed about current developments and (with the annual results) provided a strategic outlook. A separate annual press conference in Munich, and two conference calls concerning the interim results of the second and third quarter, were held for the media.

pbb wants to continue to pursue an open dialogue with investors and analysts, so as to inform market participants in a timely and transparent manner about company developments.

Analysts

Research and comments from brokerages and analyst firms are important information sources for investors, which is why pbb pays financial analysts a lot of attention. Thus, by the end of 2015, three further brokerages and analyst firms had initiated coverage of pbb's shares, in addition to the five banks mandated for the flotation, resulting in a total of eight brokerages and analyst firms publishing their research on pbb at the end of the financial year. As at 31 December 2015 there were four «buy» recommendations, three «neutral» recommendations and one «sell» recommendation. pbb publishes analysts' current recommendations on its website.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Successful Flotation – pbb Shares Included in the MDAX®

Strong Relative Performance

Capital Markets Communication

Analysts

Dividend Policy

Group Management Report

Consolidated Financial Statements

Additional Information

Dividend Policy

pbb's dividend policy is based upon a general distribution ratio of 40% to 50% of consolidated net income after taxes and non-controlling interest income, in accordance with International Financial Reporting Standards (IFRS). For 2015 this is applied on a pro rata basis, for the period commencing with the flotation. At the Annual General Meeting on 13 May 2016, Management Board and Supervisory Board will propose a dividend distribution of €0.43 per share. Grossed up for the whole year, this is equivalent to a distribution ratio of 50% (based on consolidated net income after taxes, in accordance with IFRS, of €1.71 per share). This equates to a dividend yield of 7.7%, based on the Xetra year-end closing price.

Group Management Report

- Overview
- Contents
- Letter of the Management Board
- Report of the Supervisory Board
- The pbb Share
- Group Management Report
 - Fundamental Information about the Group
 - Report on Economic Position
 - Report on Post-balance Sheet Date Events
 - Risk and Opportunity Report
 - pbb Group as an Employer
 - Remuneration Report
 - Report on Expected Developments
 - Supplemental Information
- Consolidated Financial Statements
- Additional Information

Patrizia
Benelux
€331 million

Development and Investment Finance
Benelux
February 2015

This syndicated deal was one of the largest residential property transactions in the Netherlands in 2015. The borrower was a real estate fund managed by the German PATRIZIA Group. The financing for the acquisition of this portfolio of 137 residential properties located throughout the Netherlands and comprising approximately 5,500 individual apartments with a combined leasable area of circa 370,000 sqm was provided by pbb together with Deutsche Hypothekenbank and ING Real Estate Finance.

pbb has a network of finance partners. In cooperation with such partners the funding of larger projects within the framework of syndicated loans is possible. With its cross-border approach, pbb can support its clients in their home markets and abroad.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Group Structure

Business Model and Strategy

Competitive Position

Strategy

Internal Management System

Sustainability

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Fundamental Information about the Group

Group Structure

Deutsche Pfandbriefbank AG (pbb) is the parent company of Deutsche Pfandbriefbank Group (pbb Group). The free float is 80%. The remaining 20% are held by the Federal Republic of Germany, indirectly via the Financial Market Stabilisation Fund (Finanzmarktstabilisierungsfonds – «FMS») and Hypo Real Estate Holding AG (HRE Holding), with a holding obligation until 16 July 2017.

Until the listing, pbb was fully owned by the Federal Republic of Germany (indirectly via the FMS and HRE Holding).

pbb has nine sales locations; five in Germany, and four in its other core markets. The bank's headquarters are in Unterschleißheim, near Munich, Germany.

Sales branches

as of 31 December 2015



Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Group Structure

Business Model and Strategy

Competitive Position

Strategy

Internal Management System

Sustainability

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Business Model and Strategy

The strategic business segments of pbb Group are Real Estate Finance and Public Investment Finance; the focus is on Pfandbrief eligible business. The geographic focus is on Germany, France, the United Kingdom, the Nordic countries as well as some Central and Eastern European countries. While pbb regularly reviews business opportunities outside the markets it currently serves, it remains committed to its core markets.

pbb's core business is medium- to long-term lending; pbb Group plays an important role in this area, supplying credit to the real estate sector and supporting the public sector with project financings for the provision and improvement of public infrastructure. pbb Group's focus is on primary client business. Besides traditional financing solutions tailored to clients' needs, the Group offers its clients derivatives for hedging risks associated with lending. pbb does not maintain a trading book for securities portfolios held to realise short-term gains.

In the lending business, pbb Group either acts as a sole lender or, particularly for large-volume transactions, works together with financing partners. In this regard, the Group has a wide network of banking and other partners, including insurance companies and private equity firms. In this syndicate business, when acting as Arranger, the Group sometimes takes over the complete co-ordination between the syndicate and the borrower or, in the role of an Agent, deals with tasks in connection with the management of syndicated loans.

In addition, the Group acts as an underwriter, initially being the sole provider of financing and then selling parts of this loan to interested partners in the context of syndication. pbb Group is planning to expand these activities in the future.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Group Structure

Business Model and Strategy

Competitive Position

Strategy

Internal Management System

Sustainability

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Competitive Position

In commercial real estate finance, pbb Group is one of the leading finance providers in its target markets and segments. In its core markets, pbb Group has a strong local presence and expertise across the entire process chain: real estate experts, property law specialists and financing experts, from the sales department up to the management of loan exposures. pbb Group uses this local expertise actively to also support clients with international transactions.

Strategic Portfolios

In Real Estate Finance (REF), the bank offers funding solutions for professional real estate investors. This includes national and international real estate companies, institutional investors and real estate funds; in Germany, the target group also includes investors with a regional focus. pbb Group targets medium-sized to larger financing volumes. The focus is on office buildings, retail properties, residential real estate and logistics properties. The regional focus is on our core European Pfandbrief markets – Germany, the United Kingdom, France, and Scandinavia, as well as on selected countries in Central and Eastern Europe. In this area, pbb Group offers both local and cross-border financing expertise. A large majority of the loans granted are for investment loans, i.e. loans for the acquisition or follow-up financing of existing properties with existing cash flows. Construction financing has substantially lower significance; it is primarily of a non-speculative nature and also encompasses the property developer business in Germany.

In Public Investment Finance (PIF), pbb Group finances medium to long-term projects (with financings eligible for inclusion in Pfandbrief cover) for the provision and improvement of public infrastructure. The focus here is on public institutions, municipal and social housing, buildings for the utilities and waste disposal market, transport infrastructure, as well as healthcare and nursing facilities. In addition, pbb Group is active in the publicly-guaranteed export credit business. It provides financing to public sector borrowers, companies operating under public or private law, and special-purpose vehicles under public guarantee. The Group's regional focus is on Germany and France, but it is also active in other selected European regions. Finally, pbb Group engages in finance leasing in this segment.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Group Structure

Business Model and Strategy

Competitive Position

Strategy

Internal Management System

Sustainability

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Run-down Portfolios

In addition to the portfolios of its two strategic business segments, pbb Group has a non-strategic portfolio, the Value Portfolio (VP). The Value Portfolio consists almost entirely of existing financings to the public sector which are not linked to specific projects (budget financing), and is primarily refinanced at matched maturities. It generates interest income, and matures in accordance with the underlying fixed terms. If and when economically feasible, the bank also uses portfolio sales to bring about a more rapid reduction. The Group is not involved in new business in this area. It only carries out individual transactions in order to manage the cover pools or secure liquidity. A few structured, fully state-guaranteed products, with a nominal value of €0.6 billion, remain in the Value Portfolio.

Funding

Loans are largely funded using matching maturities, and primarily via the Pfandbrief market, supplemented with unsecured funding. Issues are regularly placed on the international capital market in the benchmark format and via private placements. pbb Group structures private placements as bearer or registered securities in accordance with investors' requirements, meaning term and interest structure can, for instance, be negotiated on an individual basis. In accordance with the lending business, issues are denominated in various currencies, with a focus on the euro.

pbb issues Mortgage Pfandbriefe and Public Sector Pfandbriefe, and is (measured by outstanding volume) the largest issuer of Pfandbriefe. The Pfandbrief market is highly liquid, with a broad investor base. It is the second-largest market for fixed-income securities in Germany, after the market for public sector bonds. The main vehicles used for unsecured funding are promissory notes and bearer bonds.

Source: vdp

Banks, funds and insurance companies, but also central banks and government funds are the biggest investors in debt instruments. The Group does not sell debt instruments directly to private investors.

In March 2013, pbb Group added retail deposit business with private investors in Germany to its range of activities. Via the pbbdirekt.com online platform, pbb Group offers overnight and fixed term deposits with various maturities.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Group Structure

Business Model and Strategy

Competitive Position

Strategy

Internal Management System

Sustainability

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Strategy

Following the successful flotation and exchange listing, and the related waiver of conditions imposed under the European Commission's state aid proceedings, pbb Group's strategy continues to focus on sustainable business success. Both the assessment and appropriate pricing of credit risk in the lending business, and access to the funding markets at adequate terms are crucial to success. Managing the existing portfolio – so as to identify changing risks at an early stage and mitigate them by taking appropriate measures – is another important factor of success.

The Management Board has committed itself to further increasing profitability. It is intended to grow the strategic portfolios through profitable new business, while the non-strategic portfolio volume will be reduced further. At the same time, pbb will engage in further syndication and placement activities. Further business opportunities outside the markets it currently serves are reviewed on a regular basis. The Bank does not plan, however, to change the geographical scope of its core markets.

pbb plans to hold its operative cost base down by applying strict cost discipline.

Internal Management System

pbb Group's internal management system is pursuing a sustainable enhancement in value of the Group considering aspects of risks and regulatory requirements. The key objective is to achieve a balanced risk/return ratio. Risks should be compatible with external and internal risk-bearing capacity guidelines generating an adequate return on capital.

Monitoring and steering at pbb Group are based on a consistent and integrated key performance indicator system (KPI system), which assists executives in the management of the Group. The KPI system comprises the dimensions of profitability, growth in the strategic real estate finance and public investment finance portfolios, risk limitation and capital. Regular plan-actual comparisons and related analyses disclose the reasons for any deviations in the key performance indicators. Current market developments, such as the change on interest rate levels, are also displayed. In addition to strategic planning for the Bank as a whole, regular medium-term projections of profitability indicator and (stress) scenario forecasts ensure the management has a comprehensive overview of the Group's future business development.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Group Structure

Business Model and Strategy

Competitive Position

Strategy

Internal Management System

Sustainability

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

No changes were made to the internal management system year-on-year. Non-financial key performance indicators are not explicitly managed. The following financial key performance indicators have been defined:

- > One key profitability indicator is the return on equity after tax. It is calculated by dividing IFRS net income/loss by the average IFRS equity available in the financial year excluding the revaluation reserve. Profit or loss before tax is a further financial key performance indicator. The aim is to increase it both by generating higher revenues and through strict cost discipline. Cost discipline and efficiency are monitored using the cost-income ratio, i.e. the ratio of general and administrative expenses to operating income.
- > The notional amount of the funding in the strategic Real Estate Finance (REF) and Public Investment Finance (PIF) segments is a significant factor influencing the future earning power and has therefore been redefined as an additional financial key performance indicator. The financing volume can be controlled, above all, by the volume of new business including prolongations with maturities of more than one year, which also represent a financial key performance indicator. A present value approach is used for managing and calculating new business. In line with the management of the Bank as a whole, each new business transaction should make a positive value contribution to the Bank's overall income after the deduction of all costs (full cost approach).
- > Risk management is based on two risk-bearing capacity approaches, the going-concern approach and gone-concern approach. Management using the going-concern approach ensures that pbb Group can still meet the regulatory minimum capital ratios even after an adverse economic scenario, which occurs at a maximum of once every 20 years. The gone-concern approach, on the other hand, is based on the assumption that pbb Group, in the hypothetical event of the institute being liquidated, is able to fully service its unsubordinated debt instruments even in an extreme loss event. A precondition for demonstrating the risk-bearing capacity in both cases is that the risk covering potential exceeds the required economic risk capital. The methods and results of the risk-bearing capacity assessment and the methods used are described in detail in the opportunity and risk report.
- > The CET1 ratio, a key management parameter, is determined on a regular basis; it is calculated by dividing Common Equity Tier 1 (CET1) by risk-weighted assets (RWAs). The Advanced Internal Rating Based Approach (Advanced IRBA) is used to determine regulatory capital requirements for all material portfolios.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Group Structure

Business Model and Strategy

Competitive Position

Strategy

Internal Management System

Sustainability

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Sustainability

Companies must assume responsibility for their actions in the environment in which they operate: also towards their employees, their customers, their investors, society in general, and the environment. pbb Group integrates this into its corporate responsibility programme.

The key principle of pbb Group's corporate responsibility philosophy is that of sustainability. This means long-term, responsible actions, taking the consequences for all the Company's stakeholders and for the environment into account.

pbb Group is convinced that sustainable and responsible business practices can contribute to securing the Company's future and increasing its value.

Compliance

Transparent, fair, responsible and honest conduct with the required degree of expertise, professionalism and integrity in dealings with one other – and in relation to customers and business partners, competitors and the public – form the basis of pbb's business success. Implementing, and adhering to the relevant legal, supervisory and internal requirements – as well as other relevant laws and regulations – builds further trust.

Besides adherence to the legal and regulatory requirements, pbb Group's Code of Conduct sets out the ethical and legal framework within the Company. The Code of Conduct is available to the public on the pbb website and details the non-negotiable requirements that pbb Group expects of all its employees.

Since 16 July 2015, pbb as a listed company has been applying the German Corporate Governance Code, subject to the principle of «comply or explain». The Code sets out legal requirements for managing and monitoring German listed companies, and reflects current national as well as international developments together with standards of good and responsible corporate governance. Up until 15 July 2015, pbb, as a company wholly and indirectly owned by the Federal Republic of Germany, adhered to the Public Corporate Governance Code of the Federal Government.

All employees are subject to numerous binding internal policies and instructions; for example, guidelines on preventing criminal acts, information security guidelines and anti-money laundering rules (including the prevention of the financing of terrorism). In addition, pbb Group employees are regularly trained on the prevention of money laundering and other criminal acts, as well as on general compliance issues. The content and execution of the trainings are fixed, and reviewed on a regular basis by means of internal and external audits.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Group Structure

Business Model and Strategy

Competitive Position

Strategy

Internal Management System

Sustainability

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Employees

pbb Group employs men and women with different nationalities and diverse specialist backgrounds. They are the pillars of sustainable success. Particular importance is placed on diversity. pbb Group has been a signatory to the «Diversity Charter» since 2010, and is thus fundamentally committed to the economic benefit that comes with diversity, tolerance and fairness of the people in a company – as well as its clients and business partners. It obliges the Company to provide a working environment free from prejudices and exclusion, establishing an open and inclusive corporate culture based on mutual respect. We pursue this approach very actively. In 2015, the share of women holding an executive position on the first management level below the Management Board was 11%. The share of women on the Supervisory Board amounted to around 38%.

pbb Group aims to provide its employees with everything they need to get their technical, professional and personal development on track, and offers a variety of internal training and qualification programmes to meet this goal. The mainstays of the Bank's further education and training programme are a series of in-house seminars. With programmes that meet their needs for holistic and systematic qualification, pbb Group supports and promotes the long-term further education of its employees. The focus is on professional qualification and on the development of management skills, so that employees are better able to take on an active management role within their line function, or in projects. In addition to the regular series of seminars on offer, the bank provides a constantly expanding range of in-house seminars on professional qualifications, and qualifications in the areas of social and methodological competencies as well as language training. Any further requirements for training are met by external providers.

An important strategic management instrument to align employees' activities and priorities to the objectives and success of the company is the annual employee appraisal. The appraisal is not only about reviewing an employee's performance, but also about agreeing further personnel development and qualification measures. With the re-introduction of variable remuneration, the Bank has not only established an attractive remuneration model. It also enables employees to participate in the Bank's success.

The secret to success is capable and engaged employees, in every company. pbb Group is aware of that, and therefore invests heavily in employee health (see chapter «pbb Group as an Employer»).

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Group Structure

Business Model and Strategy

Competitive Position

Strategy

Internal Management System

Sustainability

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Customers and Products

As a specialist bank, pbb finances commercial real estate finance projects and public sector infrastructure projects. In both business areas, pbb sets high standards when granting loans, taking into account sustainability aspects. This process involves prioritising financings that meet the requirements for sustainability

Commercial Real Estate Finance mainly involves real estate such as office buildings, retail properties, properties for residential use and logistics properties. In order to promote sustainability aspects in the real estate industry and the real estate financing business, pbb Group is, for example, involved in the working groups of the Association of German Banks (Bundesverband deutscher Banken – BdB) and the Association of German Pfandbrief Banks (Verband deutscher Pfandbriefbanken – vdp).

In Public Investment Finance, pbb makes a major social contribution by financing projects for the provision and improvement of public infrastructure. The focus here is on public facilities (e.g. administrative and special purpose buildings, buildings for education, childcare and cultural institutions as well as sports facilities), municipal or social housing construction, buildings for the utilities and waste disposal market (e.g. power generation, water collection and supply, waste water disposal and treatment, waste disposal and recycling), transport infrastructure as well as healthcare and nursing facilities.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Group Structure

Business Model and Strategy

Competitive Position

Strategy

Internal Management System

Sustainability

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Investors

pbb Group is a commercial enterprise which aims to generate a sustainable and adequate return on its shareholders' investments. The criteria for loan and investment decisions are primarily of a commercial nature. However, they also include a range of social and environmental factors.

When making an investment decision, more and more institutional investors also consider an issuer's take on Corporate Responsibility, rated by an independent agency. pbb Group meets this demand through two actively supported Corporate Responsibility ratings from oekom and imug/EIRIS.

Corporate Responsibility Ratings

The rating agency oekom currently rates pbb Group as «Prime». oekom awards the Prime status to companies that are among the leaders in their industry in the context of oekom's corporate ratings and that meet the industry-specific minimum requirements. Around 3,500 companies are regularly rated by oekom, and of those around 550 companies have currently achieved Prime status.

The rating agency imug/EIRIS rates pbb's debt instruments. pbb's Pfandbriefe are currently classed as above average, with a «positive» rating. Its Mortgage Pfandbriefe and unsecured bonds are classed as average, with neutral. imug currently analyses and rates approximately 70 German and European bank bond issuers and covered bonds.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Group Structure

Business Model and Strategy

Competitive Position

Strategy

Internal Management System

Sustainability

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Social Responsibility

pbb Group fulfils its responsibility to society through two charitable foundations: pbb Stiftung Deutsche Pfandbriefbank and pbb Stiftung für Kunst und Wissenschaft. The foundations, based in Munich, are independently funded: their capital is ringfenced from the Bank, and is used solely to fulfil the foundations' purposes.

> pbb Stiftung Deutsche Pfandbriefbank supports projects aimed at promoting art and culture with a particular focus on the targeted support of young talent.

> pbb Stiftung für Kunst und Wissenschaft promotes works in the Federal State of Baden-Württemberg, focusing on intellectual and artistic work primarily in the fields of literature, painting, sculpture, music, theatre, architecture/design, regional and cultural studies and traditions.

pbb Group complements its primarily cultural and academic endeavours with commitments to social projects. It supports the Kinderhospiz St. Nikolaus in the Allgäu region, which offers support and acts as a retreat for families with children who are terminally ill or suffer a life-limiting illness. The hospice supports these children and their families by offering relief, medical support, professional care and other help.

In addition, the Group funds projects near the company's branches. Since 2013, this includes the «JugendKulturHaus Gleis 1» youth centre near the Unterschleißheim office. In initial projects with the centre, pbb Group supported the mobile youth work, the acquisition of IT equipment for a «job application terminal» and the centre's hockey team.

In the year under review, pbb Group also provided financial aid to a group of volunteers working with refugees in Unterschleißheim. The money has been used in supporting refugees who were temporarily housed in a local gym, as well as in helping families moving to a shared living home in February 2016. It has also gone towards funding German language classes for refugees, transportation tickets, educational materials, sanitary products and much-needed clothing.

pbb Group also supports its employees' personal, voluntary commitment towards other social projects. For pbb to provide financial support to a cause, an employee needs to be privately engaged in the charity in question – for example, working with the ill or elderly, with young people or socially underprivileged, or in projects on environmental protection or integrating foreigners into society.

pbb Group has also donated its collection of historical bank notes from Württemberg as a permanent loan to the HVB Stiftung's bank note collection. It comprises around 8,000 notes from every period of Württemberg's monetary history and is the largest and most significant special collection of Württemberg paper money. The complete pbb Group collection remains intact as part of the HVB Stiftung's banknote collection and is accessible to interested members of the public.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Group Structure

Business Model and Strategy

Competitive Position

Strategy

Internal Management System

Sustainability

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Environmental Responsibility

With the code of conduct, pbb Group has committed itself to conducting business in a sustainable and environmentally friendly way, and identifying environmental risks that may arise in its business activities. The Group is aware that certain resources are limited, and that these must be treated in a responsible manner. Although the Group at present does not prepare an explicit environmental report, it has set itself the target of minimising its energy and resource requirements to make an active contribution to climate protection. Against this background, pbb Group has pressed ahead with the following projects:

The rented headquarters buildings in Unterschleißheim near Munich are extremely energy-efficient. For instance, they have energy-efficient cooling ceilings instead of a conventional air conditioning system. Since 2011, all the electricity requirements there have been met with green power.

Workflows are designed to save paper. Where we cannot go paperless, we use only such paper certified as eco-friendly. 100% of the remnants from destroyed files are recycled. In addition, various electronic systems are used that largely replace paper-based processes such as electronic employee services (recording of working hours, payroll calculations, wage tax and social insurance documents, travel expense reports, etc.), electronic accounts and contract management, electronic credit files and document rooms. Since 2014, pbb Group has also refrained from supplying printed copies of its interim financial reports. These efforts resulted in a 17% year-on-year decrease in paper consumption during 2015.

The Group's Travel Policy principally requires that employees use the train for business travel between the company's branches in Unterschleißheim, near Munich, and Eschborn, near Frankfurt, as well as within Germany if reasonable. Flights by employees between Munich and Frankfurt were down 31% in 2015, year-on-year. The decrease recorded since the introduction of the new Travel Policy in September 2013 now amounts to 42%. The installation of videoconferencing facilities makes another contribution to reducing business travel costs.

Company cars have to meet certain carbon dioxide emission standards so as to limit their impact on the environment. Vehicles with CO₂ emissions above 155 g/km are given a financial penalty. Vehicles with CO₂ emissions above 180 g/km may not be purchased at all. The regulations are designed to the current development standards, and may be adjusted according to technological advances.

- Overview
- Contents
- Letter of the Management Board
- Report of the Supervisory Board
- The pbb Share
- Group Management Report**
- Fundamental Information about the Group
- Report on Economic Position**
- Macroeconomic Environment
- Sector-specific Environment
- Course of Business
- Development in Earnings
- Development in Assets
- Development in Financial Position
- Material Related Party Transactions
- Summary
- Report on Post-balance Sheet Date Events
- Risk and Opportunity Report
- pbb Group as an Employer
- Remuneration Report
- Report on Expected Developments
- Supplemental Information
- Consolidated Financial Statements
- Additional Information

Report on Economic Position

Macroeconomic Environment

While global economic growth did not gain any momentum in 2015, growth rates pertaining to the industrialised nations which are key to pbb Group rose again. The International Monetary Fund (IMF) assumes in its January 2016 Update that the growth rates for industrialised economies («Advanced Economies») for 2015 have only slightly increased, to 1.9% (after 1.8% in 2014).

In the relevant countries, private and public investments recovered slightly in 2015, resulting in minor growth rates being seen again. However, decreasing unemployment rates led to positive development of private consumption. In the euro zone, real gross domestic product (GDP) is likely to have risen by 1.5% in 2015, which clearly is an improvement over the previous year's level of only just under 1%. The development of individual euro zone countries still varies, but at a lower degree compared to the previous year. The German economy developed as described in our last forecast, resulting in a GDP growth rate of 1.7% in 2015. Fortunately, the euro zone as a whole was able to almost entirely close the growth gap to the German economy. With an economic real growth rate of 1.1% in 2015, France was able to overcome the economic stagnation of previous years. Simultaneously, a real growth rate of 0.7% was recorded for the Italian economy – the first increase in this important key ratio since 2011. In Spain, the positive economic development continued, leading to a strong GDP growth rate of 3.2% in 2015. In the Great Britain, the recovery of recent years was confirmed once more in 2015, albeit at a slightly slower pace. Economic momentum in Sweden further improved during the year under review. The development of the economy in some central and eastern European markets, such as in Poland and the Czech Republic, was also positive again.

In 2015, interest rate levels in the markets relevant to pbb Group generally made new historical lows. In the euro zone, the European Central Bank (ECB) left its key interest rate at a record low of 0.05%, and lowered the negative deposit rate for banks from –0.2% in 2014 to –0.3%. Inflation in the euro zone was also close to zero in 2015, after an already very low level in the previous year.

The currency markets reflected the central bank decisions for a looser monetary policy in the euro zone and the expectations of a future tightening of monetary policy in the United States and Great Britain. As from the first quarter 2015, the euro lost significantly in value in respect of the US dollar, particularly as the yield advantage of US dollar investments increased again due to the anticipated ECB bond purchase programme and the increase of key interest rates in the US. Although the EUR/USD exchange rate remained volatile during the rest of the year, the euro's year-end closing rate stood slightly above the closing rate for the first quarter 2015, translating into a total loss of almost 12% for the entire year compared to the US dollar. Against the British pound sterling, the

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Macroeconomic Environment

Sector-specific Environment

Course of Business

Development in Earnings

Development in Assets

Development in Financial Position

Material Related Party Transactions

Summary

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

euro weakened steadily throughout the year. The economic development in Europe depends, inter alia, on the euro exchange rate in trade-weighted terms. This key ratio decreased, compared to the major trading partners of the euro area, by 7% in 2015.

Sources: Bloomberg, ECB, IMF

Sector-specific Environment

Overall Situation in the Banking Sector

Despite the extensive provision of liquidity, the international banking sector still faces a difficult operative environment.

In the euro zone, banks in countries affected by the euro crisis particularly suffer under the burden of non-performing loans. The negative rating pressure weighing on the banking sector decreased slightly, although it is not limited to countries affected by the crisis, but challenges the European banking sector as a whole. Profitability in the sector was distinctly limited by persistent and comparably low demand for credit funding, together with the further decline of interest rate levels. The gradual implementation of plans to involve subordinated debt investors in bank resolutions negatively affected the capital costs of banks. In general, increasingly stricter regulation continues to have a negative influence on the sector's profitability.

Sources: Bloomberg, ECB

Real Estate Finance

Given the prevailing low interest rate environment, the market showed great demand for real estate in the context of capital investments. In particular, investments from large institutional investors, insurance companies and other institutional market participants increased considerably. Transaction volumes for the majority of European real estate markets further increased throughout 2015, particularly in Germany. As in previous years, the high demand for investments was supported by the willingness of commercial banks to enter into lending transactions, and the overall positive environment provided by central banks.

In the recent past, investors' focus was mainly on high-quality real estate in prime locations, the price level of which increased markedly due to the limited availability of such properties. However, investor risk appetite increased significantly in the meantime. In view of the limited availability of top-segment real estate, investors are now ready to invest in properties with a higher risk profile in terms of location, property quality, and rental situation. However, investors' equity investments

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Macroeconomic Environment

Sector-specific Environment

Course of Business

Development in Earnings

Development in Assets

Development in Financial Position

Material Related Party Transactions

Summary

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

continued to remain high. Against this background, during 2015 investment yields for first-class commercial property declined in many European economic centres, compared to the previous year.

In Germany, the dynamic in the investment markets observed in 2014 continued throughout 2015. Transaction volumes stood at €55 billion in the year under review and were thus about 40% above the volume of the previous year. The increase was mainly due to investors' interest in secondary properties and locations. Other European core markets featured similar developments.

The demand for real estate had a positive impact on the business development of financing banks and non-banks. In particular German Pfandbrief banks increased their new business compared to the previous year. The improvement of the new business volume covered all types of use. Nevertheless, increased competition resulted in continued pressure on credit margins and conditions. Alternative lenders, such as insurance companies, pension schemes and funds contributed to the increasing competition.

Sources: Research of Cushman & Wakefield, BNP Paribas Real Estate, CBRE, Association of German Pfandbrief Banks

Public Investment Finance

The situation in all segments of the municipal financing market is now back to normal conditions. The financing provided by retail banks and development banks for municipal financing was sufficient to fund the majority of relevant municipal investment projects in the countries covered by pbb Group.

Countries which were subject to a critical stance on the part of financing banks and investors in the previous year, such as Spain and Ireland, received increasing financing contributions from private banks and investors. In Spain, liquidity provided by the government resulted in a high margin pressure.

The German market provided sufficient demand for public investment finance. Nevertheless, financings with extremely long-term loans remained popular and were granted at very low margins, primarily by public-sector and development banks. The traditional public investment finance market was thus highly challenging for other providers. Competition picked up again on the French market, which was reflected in deteriorating margins during the year.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Macroeconomic Environment

Sector-specific Environment

Course of Business

Development in Earnings

Development in Assets

Development in Financial Position

Material Related Party Transactions

Summary

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Value Portfolio

The non-strategic portfolio (VP) mainly comprises public budget financing in which pbb Group has no new business.

The yields on government bonds narrowed sharply in almost all European countries, resulting in increasing market prices. For many countries forced to offer higher yields in the past, such as Spain, Italy and Portugal, risk premiums decreased significantly until year-end 2015.

Funding Markets

As in previous years, the trend of decreasing interest rates continued in the first quarter of 2015. It was only halted after the introduction of the two quantitative easing measures «Public Sector Purchase Program» (PSPP) and «Covered Bond Purchase Program 3» (CBPP3) by the European Central Bank (ECB) in March 2015. However, the market gave no indications of any sustained move towards higher interest rates. As a result, capital markets continued to be characterised by high stakes of liquidity, looking for investment opportunities, and persistently low yields. From an investor's perspective, the situation deteriorated considerably compared to previous years. Apart from the decrease of overall interest rate levels, credit spreads on covered issues further decreased, fuelled by ECB's CBPP3 programme. Uncovered issues were burdened additionally by the pending and unclear transposition of the Bank Recovery and Resolution Directive (BRRD) into national law, which establishes the seniority of covered issues and deposits protected by deposit guarantee schemes. Depending on the transposition into national law at the level of individual jurisdictions, uncovered issues may lose their eligibility for repo transactions at the respective national central bank.

During the course of 2015, an unusually high number of geopolitical risks and changes occurred. The interest rate and monetary policies of the larger central banks, such as the US Federal Reserve (Fed) and the ECB, were largely responsible for determining market sentiment. The Fed's announcements of potential interest rate increases for the first time in nine years led to uncertainty and reticence amongst investors. However, ECB's QE measures and a further interest rate cut in December pushed investors into longer maturities and higher-risk investments.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Macroeconomic Environment

Sector-specific Environment

Course of Business

Development in Earnings

Development in Assets

Development in Financial Position

Material Related Party Transactions

Summary

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Course of Business

2015 was a successful financial year for pbb Group. Given the positive business performance during the first nine months of the year, the forecast for pre-tax profit as provided in the Annual Report 2014 was lifted in the Interim Report as of 30 September 2015: in fact, early in 2015 a slight increase had been forecast for the previous year's profit before tax of €174 million, which had been adjusted for the Heta exposure. From that point onwards, pbb Group expected a clear increase in the positive performance trend. In the 2015 financial year, profit before tax stood at €195 million and was thus in line with the raised forecast. pbb was able to reduce the cost/income ratio to 51.8% during the year under review and therefore met expectations, which had also been revised, and provided for a significant improvement over the level of the previous year (57.3% after adjustments for the Heta exposure). Return on equity after tax stood at 7.4% (including income from deferred taxes) and was thus in line with the expectations from the beginning of 2015: considerable improvements were anticipated compared to the figure of the previous year (0.1%) and the figure including adjustments on the Heta exposure (3.4%).

At €12.0 billion, the volume of pbb Group's new business, including extensions with maturities of more than one year, reached the highest level since pbb relaunched its business activities in 2009 and thus fulfilled the forecast lifted in November 2015, according to which the new business volume 2015 was set to clearly exceed the €10.2 billion achieved in the previous year. The Real Estate Finance (REF) and Public Investment Finance (PIF) nominal volumes increased considerably, to €31.3 billion (31 December 2014: €28.4 billion). REF volumes increased by 10.1% and PIF volumes by 10.6%, while only slight improvements had been forecast.

Regarding the risk-bearing capacity, expectations from the previous year were met in the year under review: under the going-concern approach, the risk-covering potential available – after complying with regulatory minimum capital ratios – exceeded the required economic capital, and from a gone-concern perspective, pbb Group's capital available to cover risks exceeded the required economic capital.

As at 31 December 2015, the CET1 ratio^{a)} stood at 18.9% and was therefore clearly lower than in the previous year (21.7%), as projected. This was driven in particular by the repayment of the silent partnership contribution. However, pbb Group clearly exceeded the regulatory minimum capital ratio as well as the capital ratio of 12.5% aimed for by pbb Group.

Slight increases in total assets had been projected. However, due to market-induced effects and the further reduction of the non-strategic portfolio, total assets decreased by 10.9% to €66.8 billion.

^{a)} After confirmation of the 2015 financial statements and appropriation of profits, less the proposed dividend (subject to approval by the Annual General Meeting)

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Macroeconomic Environment

Sector-specific Environment

Course of Business

Development in Earnings

Development in Assets

Development in Financial Position

Material Related Party Transactions

Summary

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Development in Earnings

Deutsche Pfandbriefbank Group (pbb Group)

Net income/loss in comparison to the previous year is presented as follows:

pbb Group		2015	2014	Change
Operating performance				
Operating income	in € million	400	326	74
Net interest and commission income	in € million	440	422	18
Net interest income	in € million	426	421	5
Net fee and commission income	in € million	14	1	13
Net trading income	in € million	15	-30	45
Net income from financial investments	in € million	-32	-77	45
Net income from hedging relationships	in € million	11	-3	14
Net other operating income/expenses	in € million	-34	14	-48
Loan loss provisions	in € million	1	-21	22
General and administrative expenses	in € million	-207	-251	44
Net miscellaneous income/expenses	in € million	1	-	1
Profit or loss before tax	in € million	195	54	141
Income taxes	in € million	35	-50	85
Net income/loss	in € million	230	4	226
Key ratios				
Earnings per share (basic and diluted)	in €	1.71	0.03	
Cost-income ratio ¹⁾	in %	51.8	77.0	
Return on equity before tax ²⁾	in %	6.2	1.6	
Return on equity after tax ³⁾	in %	7.4	0.1	

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.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Macroeconomic Environment

Sector-specific Environment

Course of Business

Development in Earnings

Development in Assets

Development in Financial Position

Material Related Party Transactions

Summary

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Operating Income At €426 million, net interest income was on a par with the previous year (€421 million). The average strategic portfolio volume amounted to €30.2 billion and therefore increased compared to the previous year (€27.5 billion). One factor for the increase was the high level of new business volume (including extensions with maturities of more than one year) of €12.0 billion (2014: €10.2 billion). Fierce competition pressured lending margins, bringing them down year-on-year. However, they remained stable throughout 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 (€34 million; 2014: €0 million) and from early termination fees (€18 million; 2014: €51 million). In the 2014 financial year, a special effect of €15 million arose from the redemption of liabilities in respect of DEPPFA Finance N.V. prior to maturity.

Net fee and commission income of €14 million (2014: €1 million) included €5 million in income generated in connection with a REF portfolio financing, which has now been repaid in full. The position also included intermediation fees, e.g. from syndications.

Net trading income (€15 million; 2014: €-30 million) strongly benefited from positive measurement effects of derivatives, based on interest rate and exchange rate fluctuations (€20 million; 2014: €3 million). Additional income was generated by the subsequent measurement of derivatives, taking into account the bilateral credit value adjustment (CVA) of €20 million (2014: expenses of €12 million). A change in accounting 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 €19 million (2014: €21 million).

Net income from financial investments amounted to €-32 million (2014: €-77 million), burdened by €73 million (2014: €109 million) from additional valuation adjustments on securities issued by Heta Asset Resolution AG (Heta). As at 31 December 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 in the equivalent of €55 million. Further disposals of securities from the AfS and LaR categories led to net expenses of €15 million (2014: net income of €27 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 VP portfolio, with the associated capital relief creating growth potential for the strategic portfolios. Net reversal of portfolio-based allowances in the amount of €1 million (2014: €5 million) were the result of changed risk estimates of securities from certain countries in Southern Europe.

Net income from hedging relationships of €11 million (2014: €-3 million) was due to hedge inefficiencies of fair value hedge relationships (€10 million) within the range of 80% to 125% admissible according to IAS 39 (2014: expenses of €4 million) and €1 million (2014: €1 million) was attributable

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Macroeconomic Environment

Sector-specific Environment

Course of Business

Development in Earnings

Development in Assets

Development in Financial Position

Material Related Party Transactions

Summary

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

to income from inefficiencies of cash flow hedge accounting recognised through profit or loss. Net income from hedging relationships includes income of €5 million from a change of estimates used in option measurement, implemented in the third quarter 2015.

Net other operating income/expenses (€–34 million; 2014: €14 million) was burdened by the bank levy in the amount of €25 million (2014: €1 million). Due to the provision of cash collateral, which is recognised directly in equity in the amount of 30% of the bank levy, only €18 million of the expenses were recognised through profit or loss. Pre-tax income from the disposal of a foreclosed property in Japan, in connection with a former lending exposure, resulted in positive effects of €39 million. Currency translation effects generated additional income of €5 million (2014: €4 million). Rental income of €10 million (2014: €10 million) was generated from real estate taken over; the cost allocation with HRE Holding yielded income of €4 million (2014: €7 million) until the mid-year point.

Loan Loss Provisions Loan loss provisions were virtually neutral in the 2015 financial year (€1 million; 2014: €–21 million). They comprised net additions to specific allowances (€16 million; 2014: €32 million), net reversal of portfolio-based allowances (€13 million; 2014: €5 million), recovery payments on previously written-off loans and advances recognised through profit or loss (€3 million; 2014: €6 million), as well as income from the reversal of provisions for contingent liabilities and other commitments (€1 million; 2014: €0 million).

Specific allowances related to only a few exposures in the REF segment (net addition of €10 million) and a borrowers' note loan to Heta in the VP segment, reported under loans and advances to customers (addition of €6 million). As in the previous year, no specific allowances were recognised for PIF 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 due, inter alia, to rating improvements of borrowers.

General and Administrative Expenses pbb Group significantly reduced general and administrative expenses, to €207 million (2014: €251 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 servicing work. The decrease in non-personnel expenses more than compensated for the slight increase in personnel expenses during the period under review: personnel expenses (€112 million; 2014: €110 million) grew slightly, with a virtually unchanged average number of employees (832; 2014: 838). 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 €141 million to €95 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

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Macroeconomic Environment

Sector-specific Environment

Course of Business

Development in Earnings

Development in Assets

Development in Financial Position

Material Related Party Transactions

Summary

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

expenses for IT services also translated into decreasing income disclosed in net other operating income/expenses. Altogether, expenses for consultancy services declined, mainly due to a lower number of projects, even if they saw a slight increase during the course of the year given launch of a project for the implementation of external regulatory requirements and the increase in IT processing efficiency, pertaining in particular to Finance and Risk Management & Control.

Net Miscellaneous Income/Expenses Net miscellaneous income/expenses (€1 million; 2014: €0 million) resulted from other tax income items as well as from net additions to restructuring provisions, which will be used, inter alia, for the projected closing of the subsidiary Hypo Real Estate Capital Japan Corp., Tokyo.

Income Taxes Expenses for current taxes of €48 million (2014: €44 million) and income from deferred taxes of €83 million (2014: expenses of €6 million) resulted in total tax income of €35 million (2014: total tax expenses of €50 million). Out of the current tax expenses payable in Germany of €28 million (2014: €38 million), an amount of €6 million (2014: €22 million) was attributable to the 2015 financial year, while €22 million (2014: €16 million) was attributable to previous years. Out of the current tax expenses payable abroad, an amount of €9 million was attributable to the subsidiary Hayabusa Godo Kaisha, Tokyo, and was incurred, in particular, due to the disposal of a property in Japan. In France, provisions for tax risks from previous years were increased by €7 million. The deferred tax income of €83 million (2014: expenses of €6 million) was due to the deferred tax income item of €154 million (2014: €31 million) resulting from the reduction of temporary differences, which were attributable mainly to the revealing of hidden reserves in the German single-entity financial statements prepared in accordance with the German Commercial Code (HGB). At the same time, pbb incurred deferred tax expenses in the amount of €71 million (2014: €37 million) due to the reduction of deferred tax assets on loss carryforwards.

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 pbb'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 are allocated to the business segments (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), usually on a pro-rata basis, in line with financing volumes.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Macroeconomic Environment

Sector-specific Environment

Course of Business

Development in Earnings

Development in Assets

Development in Financial Position

Material Related Party Transactions

Summary

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

The allocation of equity (excluding revaluation reserves) was made in line with for the distribution of diversified economic capital within risk management (gone-concern approach).

Real Estate Finance (REF)

The Real Estate Finance (REF) operating segment comprises all strategic real estate financing arrangements of pbb Group. With €10.4 billion, new business volume (including extensions with maturities of more than one year) clearly exceeded the level of the previous year (€9.0 billion) despite the constant competitive pressure. This underscores pbb's solid market position.

Real Estate Finance		2015	2014 ¹⁾	Change
Operating performance				
Operating income	in € million	358	282	76
Net interest and commission income	in € million	322	296	26
Net interest income	in € million	308	294	14
Net fee and commission income	in € million	14	2	12
Net trading income	in € million	14	-13	27
Net income from financial investments	in € million	18	14	4
Net income from hedging relationships	in € million	5	-2	7
Net other operating income/expenses	in € million	-1	-13	12
Loan loss provisions	in € million	7	-14	21
General and administrative expenses	in € million	-160	-160	-
Net miscellaneous income/expenses	in € million	1	-	1
Profit or loss before tax	in € million	206	108	98
Key ratio				
Cost-income ratio	in %	44.7	56.7	
Balance-sheet-related measures				
Financing volumes ²⁾	in € billion	24.0	21.8	
Risk-weighted assets ³⁾	in € billion	6.5	7.0 ⁴⁾	
Equity ⁵⁾	in € billion	0.6	0.7	
Exposure at default ⁶⁾	in € billion	25.8	24.3	

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⁾ Adjusted retrospectively

⁵⁾ Excluding revaluation reserve

⁶⁾ For details see Risk and Opportunity Report

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Macroeconomic Environment

Sector-specific Environment

Course of Business

Development in Earnings

Development in Assets

Development in Financial Position

Material Related Party Transactions

Summary

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Operating Income Net interest income rose to €308 million (2014: €294 million). Whilst the average financing volume rose from €21.3 billion in 2014 to €23.2 billion in the year under review, the second half of 2015 saw a material volume of high-margin transactions being repaid as well as partial loan extensions, at reduced margins. Against this background, and despite the relatively stable new business margins during the course of 2015, the average margin of the portfolio declined. Income from early termination fees of €9 million (2014: €22 million) had a marginal positive effect. Net fee and commission income of €14 million (2014: €2 million) included €5 million in income generated in connection with a financing item, which has now been repaid in full, and from intermediation fees from syndications, for example. Income from security disposals contributed to an increase of the net income from financial investments to €18 million (2014: €14 million). Net trading income amounted to €14 million (2014: €-13 million) and was supported by positive derivative valuation and CVA effects. 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/expenses stood at €-1 million (2014: €-13 million); the increase compared to the previous year 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 €7 million were recognised in loan loss provisions (2014: additions of €14 million). Net additions of €10 million (2014: €24 million) were made to specific allowances given a limited number of individual items. Net reversals of €13 million were recognised in portfolio-based allowances (2014: €4 million). In addition, pbb recognised recovery payments on previously written-off loans and advances of €3 million (2014: €6 million) and income from the reversal of provisions for contingent liabilities and other commitments of €1 million (2014: €0 million).

General and Administrative Expenses General and administrative expenses were stable at €160 million.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Macroeconomic Environment

Sector-specific Environment

Course of Business

Development in Earnings

Development in Assets

Development in Financial Position

Material Related Party Transactions

Summary

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Public Investment Finance (PIF)

The Public Investment Finance (PIF) business segment comprises financings of public infrastructure projects which are eligible for inclusion in Pfandbrief cover. Despite increasing competition in the area of public investment financings, pbb increased its new business volume to €1.6 billion (2014: €1.2 billion).

Public Investment Finance		2015	2014 ¹⁾	Change
Operating performance				
Operating income	in € million	41	35	6
Net interest and commission income	in € million	44	40	4
Net interest income	in € million	44	40	4
Net fee and commission income	in € million	–	–	–
Net trading income	in € million	–	–4	4
Net income from financial investments	in € million	5	3	2
Net income from hedging relationships	in € million	2	–	2
Net other operating income/expenses	in € million	–10	–4	–6
Loan loss provisions	in € million	–	–	–
General and administrative expenses	in € million	–28	–31	3
Net miscellaneous income/expenses	in € million	–	–	–
Profit or loss before tax	in € million	13	4	9
Key ratio				
Cost-income ratio	in %	68.3	88.6	
Balance-sheet-related measures				
Financing volumes ²⁾	in € billion	7.3	6.6	
Risk-weighted assets ³⁾	in € billion	1.4	1.2 ⁴⁾	
Equity ⁵⁾	in € billion	0.2	0.5	
Exposure at default ⁶⁾	in € billion	8.3	7.8	

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⁾ Adjusted retrospectively

⁵⁾ Excluding revaluation reserve

⁶⁾ For details see Risk and Opportunity Report

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Macroeconomic Environment

Sector-specific Environment

Course of Business

Development in Earnings

Development in Assets

Development in Financial Position

Material Related Party Transactions

Summary

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Operating Income At €44 million, net interest income exceeded the previous year's figure of €40 million. Whilst the average financing volume rose from €6.2 billion in 2014 to €7.0 billion in the year under review, declining early termination fees of €3 million (2014: €7 million) had a negative effect. Net income from financial investments in the amount of €5 million (2014: €3 million) was attributable to income from security disposals. Net other operating income/expenses amounted to €-10 million (2014: €-4 million), with the allocated bank levy as one major driver.

Loan Loss Provisions No net additions or reversals were necessary in the financial years 2015 and 2014.

General and Administrative Expenses At €28 million, general and administrative expenses were lower than in the previous year (2014: €31 million) due to a decrease in non-personnel expenses.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Macroeconomic Environment

Sector-specific Environment

Course of Business

Development in Earnings

Development in Assets

Development in Financial Position

Material Related Party Transactions

Summary

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Value Portfolio (VP)

The Value Portfolio (VP) operating segment includes all of pbb Group's non-strategic portfolios and activities. The bank does not enter into new business in this segment.

Value Portfolio		2015	2014 ¹⁾	Change
Operating performance				
Operating income	in € million	-5	1	-6
Net interest and commission income	in € million	68	78	-10
Net interest income	in € million	68	79	-11
Net fee and commission income	in € million	-	-1	1
Net trading income	in € million	1	-13	14
Net income from financial investments	in € million	-55	-94	39
Net income from hedging relationships	in € million	4	-1	5
Net other operating income/expenses	in € million	-23	31	-54
Loan loss provisions	in € million	-6	-7	1
General and administrative expenses	in € million	-19	-60	41
Net miscellaneous income/expenses	in € million	-	-	-
Profit or loss before tax	in € million	-30	-66	36
Key ratio				
Cost-income ratio	in %	>100.0	>100.0	
Balance-sheet-related measures				
		31.12.2015	31.12.2014¹⁾	
Financing volumes ²⁾	in € billion	18.7	22.7	
Risk-weighted assets ³⁾	in € billion	4.4	5.5	
Equity ⁴⁾	in € billion	1.5	1.8	
Exposure at default ⁵⁾	in € billion	21.7	26.2	

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

⁵⁾ For details see Risk and Opportunity Report

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Macroeconomic Environment

Sector-specific Environment

Course of Business

Development in Earnings

Development in Assets

Development in Financial Position

Material Related Party Transactions

Summary

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Operating Income Due to declining financing volumes and the reduction in early termination fees (€6 million; 2014: €22 million), net interest income dropped from €79 million in 2014 to €68 million in the year under review. Net income from financial investments (€–55 million; 2014: €–94 million) was burdened in the financial years 2015 and 2014 from adjustments on the Heta exposure (€73 million; 2014: €109 million), which were partly offset by net income from security disposals. Net other operating income/expenses in the amount of €–23 million (2014: €31 million) was burdened, inter alia, by the allocated bank levy. The sharp decline was due to the termination of IT services rendered to DEPFA by year-end 2014, except for some minor finishing work.

Loan Loss Provisions Loan loss provisions in the amount of €6 million (2014: €7 million) resulted from specific allowances recognised on Heta borrowers' note loans.

General and Administrative Expenses At €19 million, general and administrative expenses were significantly lower than in the previous year (€60 million). The main reason for the decline was termination of the majority of IT services rendered to DEPFA.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Macroeconomic Environment

Sector-specific Environment

Course of Business

Development in Earnings

Development in Assets

Development in Financial Position

Material Related Party Transactions

Summary

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Consolidation & Adjustments (C&A)

Consolidation & Adjustments (C&A) reconciles the 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		2015	2014 ¹⁾	Veränderung
Operating performance				
Operating income	in € million	6	8	-2
Net interest and commission income	in € million	6	8	-2
Net interest income	in € million	6	8	-2
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	–	–	–
Loan loss provisions	in € million	–	–	–
General and administrative expenses	in € million	–	–	–
Net miscellaneous income/expenses	in € million	–	–	–
Profit or loss before tax	in € million	6	8	-2
Balance-sheet-related measures		31.12.2015	31.12.2014¹⁾	
Risk-weighted assets ²⁾	in € billion	1.1	1.5	
Equity ³⁾	in € billion	0.4	0.4	
Exposure at default ⁴⁾	in € billion	5.6	6.9	

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

⁴⁾ For details see Risk and Opportunity Report

Net interest income was the only income item, and arose from the investment of equity allocated to C&A.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Macroeconomic Environment

Sector-specific Environment

Course of Business

Development in Earnings

Development in Assets

Development in Financial Position

Material Related Party Transactions

Summary

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Development in Assets

Assets			
in € million	31.12.2015	31.12.2014 ¹⁾	Change
Cash reserve	1,265	57	1,208
Trading assets	1,600	2,016	-416
Loans and advances to other banks	2,742	6,800	-4,058
Loans and advances to customers	41,204	38,964	2,240
Allowances for losses on loans and advances	-127	-138	11
Valuation adjustment from portfolio hedge accounting	1	-	1
Financial investments	14,927	20,475	-5,548
Property and equipment	10	8	2
Intangible assets	21	23	-2
Other assets	5,013	6,659	-1,646
Income tax assets	105	30	75
Current tax assets	21	29	-8
Deferred tax assets	84	1	83
Total assets	66,761	74,894	-8,133

¹⁾ Adjusted due to IAS8.14 ff. and corrected due to IAS8.42. Details are disclosed in Note «Consistency».

General Development in Assets

Consolidated total assets of pbb Group as at 31 December 2015 amounted to €66.8 billion, down 10.9% from the previous year's level (31 December 2014: €74.9 billion).

During the period under review, pbb Group increased its strategic portfolio to a nominal volume of €31.3 billion (31 December 2014: €28.4 billion). This development was due to the increases in both the REF portfolio (+€2.2 billion) and the PIF portfolio (+€0.7 billion). The volume of non-strategic portfolios declined to €18.7 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 €2.7 billion, due – amongst other factors – to lower deposit investments as well as reduced cash collateral provided. Loans and advances to customers rose due to the fact that disbursed new business exceeded repayments. In the financial year 2015, pbb Group applied the portfolio fair value hedge accounting for the first time. The balance sheet item «Valuation adjustment from portfolio hedge accounting» discloses the fair value of assets resulting from the hedged risks in connection with the hedged

- Overview**
- Contents**
- Letter of the Management Board**
- Report of the Supervisory Board**
- The pbb Share**
- Group Management Report**
- Fundamental Information about the Group**
- Report on Economic Position**
 - Macroeconomic Environment
 - Sector-specific Environment
 - Course of Business
 - Development in Earnings
 - Development in Assets
 - Development in Financial Position**
 - Material Related Party Transactions
 - Summary
- Report on Post-balance Sheet Date Events**
- Risk and Opportunity Report**
- pbb Group as an Employer**
- Remuneration Report**
- Report on Expected Developments**
- Supplemental Information**
- Consolidated Financial Statements**
- Additional Information**

underlying transaction portfolios. Financial investments declined to €14.9 billion (31 December 2014: €20.5 billion), mainly due to maturities (notional value: €–3.3 billion) and active portfolio disposals (notional value: €–1.6 billion). Trading assets and other assets declined against the background of market interest rate fluctuations.

Investments

Given pbb's business model, investments in property and equipment and intangible assets are of minor significance. Nevertheless, pbb Group did invest in these areas during 2015. Additions of purchased and internally developed software amounted to €5 million (2014: €4 million) in the year under review, whilst operating and office equipment increased by €5 million (€7 million). These investments covered all segments of pbb Group.

Development in Financial Position

Equity and liabilities			
in € million	31.12.2015	31.12.2014¹⁾	Change
Liabilities to other banks	2,514	3,187	– 673
Liabilities to customers	10,824	10,593	231
Securitised liabilities	42,648	47,827	– 5,179
Valuation adjustment from portfolio hedge accounting	1	–	1
Trading liabilities	1,643	1,960	– 317
Provisions	229	272	– 43
Other liabilities	4,918	6,182	– 1,264
Income tax liabilities	113	82	31
Current tax liabilities	113	82	31
Subordinated capital	1,125	1,279	– 154
Financial liabilities	64,015	71,382	– 7,367
Financial equity	2,746	3,512	– 766
Total equity and liabilities	66,761	74,894	– 8,133

¹⁾ Adjusted due to IAS 8.14 ff. and corrected due to IAS 8.42. Details are disclosed in Note «Consistency».

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Macroeconomic Environment

Sector-specific Environment

Course of Business

Development in Earnings

Development in Assets

Development in Financial Position

Material Related Party Transactions

Summary

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Liabilities

Total Group liabilities amounted to €64.0 billion (31 December 2014: €71.4 billion). Securitised liabilities fell to €42.6 billion (31 December 2014: €47.8 billion), which is attributable particularly to maturing Pfandbriefe and smaller fair value adjustments in hedge accounting. The balance sheet item «Valuation adjustment from portfolio hedge accounting» discloses the fair value of liabilities resulting from the hedged risks in connection with the hedged underlying transaction portfolios. Trading liabilities and other liabilities declined due to market-induced fair value fluctuations.

Capital

Development of Financial Equity

The equity attributable to shareholders changed as follows:

Financial position equity in accordance with IFRS			
in € million	31.12.2015	31.12.2014 ¹⁾	Change
Equity attributable to shareholders	2,746	3,512	-766
Subscribed capital	380	380	-
Silent partnership contribution	-	999	-999
Additional paid-in capital	1,637	3,265	-1,628
Retained earnings	483	-1,148	1,631
Profits/losses from pension commitments	-71	-79	8
Foreign currency reserve	4	2	2
Revaluation reserve	83	89	-6
AfS reserve	-4	-100	96
Cash flow hedge reserve	87	189	-102
Consolidated profit/loss 1.1.–31.12.	230	4	226
Total financial position equity	2,746	3,512	-766

¹⁾ Corrected due to IAS 8.42. Details are disclosed in Note «Consistency».

As at 31 December 2015, pbb's equity amounted €2.7 billion (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. Thus, retained earnings decreased by €1 million.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Macroeconomic Environment

Sector-specific Environment

Course of Business

Development in Earnings

Development in Assets

Development in Financial Position

Material Related Party Transactions

Summary

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

As in the previous year, pbb's subscribed capital amounted to €380,376,059.67 as at 31 December 2015, and is composed of 134,475,308 registered ordinary bearer shares with no par value and 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, «HGB»), an amount of €908 million was reclassified from the additional paid-in capital to retained earnings due to a reconciliation of reported amounts.

In order to compensate the loss carried forward from previous years, and to replenish unappropriated profits required for the planned distribution of profits (€58 million), a withdrawal of €720 million from the additional paid-in capital was resolved in accordance with section 272(2) no. 4 of the HGB. In the IFRS financial statements, this led to a decrease of the additional paid-in capital in the amount of €720 million, and an increase of retained earnings in the same amount. In the financial year 2014, a withdrawal from the additional paid-in capital as disclosed in the single-entity financial statements prepared in accordance with the HGB was resolved (€1,771 million) to partially offset the accumulated balance sheet loss in accordance with section 272(2) no. 1–3 of the HGB. In the IFRS financial statements, this led to a decrease of the additional paid-in capital in the amount of €1,771 million, and an increase of retained earnings in the same amount.

The item profit/loss from pension commitments contributed to an equity increase of €8 million as the discount rate used to measure defined benefit pension obligations grew from 2.00% as at 31 December 2014 to 2.25% as at 31 December 2015, reflecting market interest rates.

The increase in the Available-for-Sale (AfS) reserve is a result of spread improvements for southern European bonds, which are assigned to the IFRS valuation category AfS. The cash flow hedge reserve decreased, mainly due to the decline of underlying transactions.

Key Regulatory Capital Ratios^{a)}

The CET1 ratio amounted to 18.9% as at 31 December 2015 (31 December 2014: 22.2%), the own funds ratio amounted to 23.4% (31 December 2014: 26.6%). Fully phased-in, therefore after expiry of all Basel III transitional regulations, CET1 ratio amounted to 18.2% (31 December 2014: 13.8%) and own funds ratio to 19.9% (31 December 2014: 22.5). Please refer to the Risk and Opportunity Report for further information regarding the key regulatory capital ratios.

^{a)} After confirmation of the 2015 financial statements and appropriation of profits, less the proposed dividend (subject to approval by the Annual General Meeting); the figures diverges from the values shown in the 2014 Annual Report, due to a retrospective adjustment

- Overview
- Contents
- Letter of the Management Board
- Report of the Supervisory Board
- The pbb Share
- Group Management Report
- Fundamental Information about the Group
 - Report on Economic Position
 - Macroeconomic Environment
 - Sector-specific Environment
 - Course of Business
 - Development in Earnings
 - Development in Assets
 - Development in Financial Position
 - Material Related Party Transactions
 - Summary
- Report on Post-balance Sheet Date Events
- Risk and Opportunity Report
- pbb Group as an Employer
- Remuneration Report
- Report on Expected Developments
- Supplemental Information
- Consolidated Financial Statements
- Additional Information

Liquidity

Principles and Objectives of the Liquidity and Financial Management

The primary objective of pbb Group's financial management is to secure and manage the liquidity of pbb and its subsidiaries in such a way that their financing and funding capabilities are assured at all times. Central liquidity management is done by raising and investing liquidity on the money and capital markets and on the interbank money market, as well as with central banks.

Maturities

Asset/liability management for pbb Group is performed by the Asset and Liability Committee (ALCO). The following table compares the remaining terms of the assets and liabilities:

Maturity structure of financial position	31.12.2015		31.12.2014 ¹⁾	
	Assets	Equity and liabilities	Assets	Equity and liabilities
in € million				
Total	66,761	66,761	74,900	74,900
up to 3 months	6,490	6,247	8,320	6,953
3 months to 1 year	4,344	6,995	5,548	6,760
1 year to 5 years	22,224	24,024	23,013	26,637
5 years and over	27,080	19,845	29,415	22,536
Other assets ^{2)/} equity and liabilities ³⁾	6,623	9,650	8,604	12,014

¹⁾ Adjusted due to IAS 8.14 ff. and corrected due to IAS 8.42. Details are disclosed in Note «Consistency».

²⁾ Trading assets, allowances for losses on loans and advances, valuation adjustment from portfolio hedge accounting, property and equipment, intangible assets, other assets, income tax assets

³⁾ Valuation adjustment from portfolio hedge accounting, trading liabilities, provisions, other liabilities, income tax liabilities, equity

Liquidity Management

Liquidity management within pbb Group is performed centrally by pbb's Treasury division. The sales units are refinanced internally on a one-to-one basis when they enter into new business. This means that risks are bundled and centrally managed. 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 2.9 at the balance sheet date (31 December 2014: 4.4). This was significantly higher than the statutory minimum of 1.0. The Monitoring of complying with liquidity ratios within foreign regulations of permanent establishments is also ensured, if this is demanded by local regulatory authorities.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Macroeconomic Environment

Sector-specific Environment

Course of Business

Development in Earnings

Development in Assets

Development in Financial Position

Material Related Party Transactions

Summary

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Funding

In the financial year 2015, a new long-term funding volume of €4.5 billion (2014: €6.0 billion) was realised. With €2.6 billion, more than half of long-term funding was issued in senior unsecured form, while Pfandbriefe contributed €1.9 billion to the funding volume. Early repayments on the assets side, together with adequate liquidity, allowed for a reduction in covered funding. €2.2 billion (2014: €2.6 billion) was attributable to new benchmark issues and increases of existing issues. The remaining funding volume was raised via private placements, particularly borrowers' note loans. 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 31 December 2015, the volume of deposits taken via «pbb direkt» totalled €2.6 billion (31 December 2014: €1.5 billion).

Benchmark issues							
ISIN	Announcement	Settlement	Maturity	Coupon in %	Volume in million	Issue price in %	Currency
DE000A12UA67 (unsecured benchmark issue)	13.1.2015	20.1.2015	20.1.2017	0.875	500	99.874	EUR
DE000A12UAR2 (tap) ¹⁾	19.1.2015	26.1.2015	17.9.2019	1.500	200	101.118	EUR
DE000A13SV81 (mortgage Pfandbrief)	23.7.2015	30.7.2015	30.7.2020	0.250	500	99.819	EUR
DE000A13SWA4 (unsecured benchmark issue)	8.10.2015	15.10.2015	15.1.2018	1.375	500	99.826	EUR
DE000A13SWB2 (Public sector Pfandbrief)	20.11.2015	27.11.2015	27.11.2020	0.125	500	99.900	EUR

¹⁾ Tap of a unsecured benchmark issue in the original amount of €300 million on 10 September 2014

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Macroeconomic Environment

Sector-specific Environment

Course of Business

Development in Earnings

Development in Assets

Development in Financial Position

Material Related Party Transactions

Summary

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Ratings

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

Senior unsecured ratings and ratings for Pfandbriefe of Deutsche Pfandbriefbank AG (pbb)	31.12.2015			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	Stable	Stable	–	Negative	Negative	Negative
Short-term rating	A–2	R–2 (high)	–	A–2	P–2	F1
Public sector Pfandbriefe	–	–	Aa1	AA+ ¹⁾	Aa1	–
Mortgage Pfandbriefe	–	–	Aa1	AA+ ¹⁾	Aa2	–

¹⁾ Negative 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.

During the financial year 2015, the ratings were influenced by legislative changes and, in this context, changes to rating methodologies and by the privatisation. 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. In addition, rating agencies increasingly factored in possible rating effects resulting from the privatisation of the Bank, and the accompanying loss of control by the German government into their assessment. In light of the announcement of the flotation, the flotation itself, and thereby the change of ownership, which has taken place in July 2015, the ratings were reviewed and were positioned by also reflecting the indirect minority shareholding of the Federal Republic of Germany, which is laid out for a duration of a minimum of two years from the date of the flotation.

During the reporting year, 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. Furthermore, the Bank terminated the mandate with Standard & Poor's to assign ratings for Pfandbriefe, and strengthened the ratings assigned to its Mortgage Pfandbriefe by Moody's. The ratings affected by the terminations were withdrawn by the rating agencies in each case.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Macroeconomic Environment

Sector-specific Environment

Course of Business

Development in Earnings

Development in Assets

Development in Financial Position

Material Related Party Transactions

Summary

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

During the financial year 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

- > On 3 February 2015, Standard & Poor's revised the outlook of the senior unsecured rating to «Developing» from «Negative».
- > On 9 June 2015, Standard & Poor's affirmed the senior unsecured ratings assigned to pbb. 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».
- > On 1 December 2015, Standard & Poor's affirmed the unsecured ratings assigned to pbb and increased the outlook from «Negative» to «Stable».

DBRS

- > On 25 June 2015, DBRS affirmed the senior unsecured ratings assigned to the Bank 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 until 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.

With regards to the Pfandbrief ratings that were mandated as of the reporting date, the following material rating actions occurred:

- > Based on the existing stable «Aa2» rating and pbb's voluntary contractual commitment to maintain overcollateralisation for its Mortgage Pfandbriefe above the legal requirements, Moody's has raised the rating for pbb's Mortgage Pfandbriefe by one notch, to «Aa1» – in line with pbb's Public Sector Pfandbriefe.

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.

Off-balance-sheet Obligations

Irrevocable loan commitments account for the majority of off-balance-sheet obligations and amount to €2.9 billion as of 31 December 2015 (31 December 2014: €2.2 billion). Contingent liabilities resulted from guarantees and warranty agreements and amounted to €0.2 billion as at the balance sheet date (31 December 2014: €0.1 billion).

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Macroeconomic Environment

Sector-specific Environment

Course of Business

Development in Earnings

Development in Assets

Development in Financial Position

Material Related Party Transactions

Summary

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Material Related Party Transactions

pbb entered into an agreement with HRE Holding during the year under review, 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, pbb agreed to a one-time payment of €24 million to HRE Holding. The corresponding restructuring provision was reversed accordingly. As of 31 December 2015, pbb Group had a net liability of €0.0 billion (31 December 2014: €0.3 billion) to its parent company, HRE Holding. As of 31 December 2015, HRE Holding held no financial investments of pbb Group (31 December 2014: €0.8 billion). Net interest income of pbb Group vs. HRE Holding amounted to €-2 million (2014: €-12 million). Net other operating income/expenses of €4 million (2014: €7 million) resulted from the cost allocation with HRE Holding until the mid-year point.

Under the current law, expenses incurred in the context of pbb's privatisation have to be borne by the seller, HRE Holding.

pbb is party to an underwriting agreement entered into between pbb, HRE Holding and the syndicate banks supporting the flotation. HRE Holding has undertaken, as part of pbb's privatisation process, to hold at least 20% of pbb's share capital for a period of at least two years after the flotation. Furthermore, HRE Holding contractually agreed not to exercise a controlling influence on pbb. HRE Holding also revoked its unrestricted letter of comfort (Patronatserklärung) in respect of pbb on 20 July 2015.

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 other related party transactions were of minor significance to pbb Group.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Macroeconomic Environment

Sector-specific Environment

Course of Business

Development in Earnings

Development in Assets

Development in Financial Position

Material Related Party Transactions

Summary

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Summary

2015 was a year of success for pbb Group: profit before tax increased considerably to €195 million, and was thus in line with the lifted forecast in the Interim Report as of 30 September 2015. At €12.0 billion, the volume of pbb Group's new business, including extensions with maturities of more than one year, reached the highest level since pbb relaunched its business activities in 2009 – a major driver for our success in 2015.

Consolidated total assets declined compared to the previous year by €8.1 billion.

The regulatory capital and liquidity ratio requirements were continuously met during the course of the financial year 2015.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Report on Post-balance Sheet Date Events

On 20 January 2016, HETA creditors were offered the repurchase of any and all debt instruments issued by HETA pursuant to section 2a of the FinStaG (Austrian Financial Market Stabilisation Act), by the Kärntner Ausgleichszahlungs-Fonds (Carinthian Compensation Payment Fund). The offers differentiate between senior and subordinated debt instruments and is subject to the conditions that (i) each of the Class A offer and the Class B offer has been accepted by no less than a quarter of the outstanding nominal amount of all instruments subject to each respective offer, and (ii) a qualified majority of no less than two thirds of the outstanding nominal amount of all instruments subject to both the Class A offer and the Class B offer, taken together, has accepted the offer. The offered purchase price for senior debt instruments equates to 75% of the adjusted specified denomination plus a contingent additional purchase price (which may apply in the context of HETA insolvency proceedings, and which payment is not expected prior to 2020). The offers made to holders of HETA debt instruments expire on 11 March 2016. In this matter, pbb exclusively holds HETA senior debt instruments, with a total nominal volume of €395 million. pbb resolved not to accept the repurchase offers.

There were no other material events after 31 December 2015.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System
Relevant for the Consolidated Financial Reporting
Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Risk and Opportunity Report

The risk and opportunity report shows the risks and also the opportunities identified for the individual risk types within the framework of the implemented risk management and risk controlling system. With regard to risks and opportunities relating to all areas of the Company and also general Company-specific risks and opportunities, please refer to the details in the report on expected developments.

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 25 a of the German Banking Act (Kreditwesengesetz – «KWG»).

The requirements for the waiver option under Article 7 of the Capital Requirements Regulation (CRR, previously section 2 a of the KWG) no longer applied as from early July 2015.

Pursuant to section 12(1) of the German Restructuring and Resolution Act (Sanierungs- und Abwicklungsgesetz – «SAG»), every institution [subject to the Act] must prepare a recovery plan and submit it to the supervisory authorities. Recovery plans must be drawn up in accordance with section 14 of the SAG as well as the Regulatory Technical Standards issued by the European Banking Authority (EBA).

Following privatisation, pbb Group is thus obliged to prepare a recovery plan for the Group, in accordance with IFRS. In such a plan, pbb Group outlines the measures through which the institution might be restored, in scenarios which potentially threaten its continued existence as a going-concern, observing the laws and guidelines set out above. Recovery planning and the related governance are rooted in pbb Group's organisational and governance structure.

Going forward, the recovery plan will generally be updated annually, taking applicable regulatory requirements into account. The recovery plan would also be adjusted in the event of any material changes to the Group's strategy during the course of the year.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System
Relevant for the Consolidated Financial Reporting
Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

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 principles, methods and processes of the risk management system of pbb Group are specified centrally by risk management and controlling of pbb and are applied in pbb Group. The risk management system comprises the plausible and systematic identification, analysis, valuation, management, documentation, monitoring and communication of all major risks.

The following are major components of the risk management system:

- > Defining, updating and communicating business and risk strategies as the basis of business activities and risk acceptance within pbb Group
- > Defining and improving organisation structures within pbb Group and in particular for risk management, which ensures that all major risks of pbb Group are managed and monitored
- > Adopting credit competences as a decision-making framework along the credit processes within pbb Group
- > Taking decisions regarding (portfolio) management measures outside the delegated competences

The Management Board of pbb notifies the Supervisory Board of pbb with regard to significant changes in the business and risk strategies as well as the risk profile of pbb Group. The Risk Management and Liquidity Strategy Committee (RLA) of the Supervisory Board is mainly responsible for controlling the overall risk situation and for monitoring, establishing and improving an efficient risk management system, and is also responsible for the liquidity management and assurance of pbb Group and resolves upon necessary credit approvals for credit decisions. The Management Board notifies this committee of all increases to specific allowances and the creation of new specific allowances in excess of €5 million and also notifies this committee at regular intervals of major exposures with higher levels of risk.

The committees detailed in the following have been set up at pbb Group level with the involvement of the respective decision-makers.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

The **Risk Committee (RC)**, consists of the Chief Risk Officer (CRO; Chairman), the Chief Financial Officer (CFO; Deputy Chairperson), the Chief Credit Officers REF/PIF (CCO) as well as the Head of Risk Management & Control. In general, the committee meets on a monthly basis and discusses the risk development, adopts guidelines/policies, methods for risk measurement, the related parameters as well as methods of monitoring for all risk types. The Risk Committee is responsible for the development of standard guidelines of risk management and risk controlling across the Group and also monitors the development of the risk-bearing capacity, economic capital, the risk cover funds as well as the credit portfolio and the compliance with limits. The Risk Committee discusses the portfolios of pbb Group.

The **Credit Committee** is chaired by the CRO. As a general rule, the committee meets at least once a week and takes credit decisions on new business, prolongations and material changes that fall within the scope of its authority. It also votes on all credit decisions which are in the responsibility of the Management Board and which have to be approved by the Risk Management and Liquidity Strategy Committee. The responsible decision-makers ensure that the credit decisions are consistent with the prevailing business and risk strategy.

The **Watchlist Committee** is chaired by the CCOs and meets every month. All exposures identified by the early warning system are discussed and, if appropriate, individual measures are decided there; these measures have to be subsequently implemented by the relevant departments. Where necessary, the committee takes decisions regarding the need to transfer exposures to CRM Workout, which then takes the necessary steps for restructuring and workout on the basis of an exposure strategy. All necessary credit decisions are taken by the key personnel in line with the allocation of credit powers or in the Credit Committee.

If there are any indications of an objective impairment of an exposure, the extent of the impairment is first determined and the result is presented in the **Risk Provisioning Committee (RPC)**. It is chaired by the CRO. The RPC takes decisions within the framework of a predefined set of allocated powers and in line with the IFRS/HGB regulations, and provides recommendations regarding the creation and reversal of provisions for losses on loans and advances as well as any necessary salvage acquisitions. The recommendations made by the committee have to be decided by the Management Board in line with the relevant set of rules governing powers.

The **New Product Process Committee** ensures that, before business commences with new products or in new markets, the resultant risks as well as the related impact on processes, controls and the infrastructure are systematically analysed and addressed. The recommendations made by the committee form the basis of decisions to be made by the pbb Management Board in line with the relevant set of rules governing powers.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System
Relevant for the Consolidated Financial Reporting
Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

The **Stress Test Committee**, which is a sub-committee of the Risk Committee, is responsible for the methodology, performance and monitoring of the internal stress tests. It is chaired by the CRO.

Besides the **Risk Committee**, there are the **Asset and Liability Committee (ALCO)** as well as the **Legal and Regulatory Risk Committee (LRRC)**. The tasks of the **ALCO** are: managing liquidity as well as pbb Group's balance sheet structure, defining long-term financing strategies, managing capital, regulatory capital ratios, as well as market risk exposure. The **LRRC** advises on legal and regulatory requirements, and may assign responsibility for implementation to business divisions, following consultation.

Organisation of Risk Management of pbb

as of 31 Dezember 2015

↑ Recommendation/proposal

Risk Management and Liquidity Strategy Committee (RLA) of the Supervisory Board of Deutsche Pfandbriefbank AG

Management Board of Deutsche Pfandbriefbank AG

Risk Committee (RC)

Credit
Committee

Watchlist
Committee

Risk Provisioning
Committee

New Product
Process Committee

Stress Test
Committee

Asset and
Liability
Committee
(ALCO)

Legal and
Regulatory
Risk
Committee¹⁾
(LRRC)

¹⁾ Reporting via Compliance

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System
Relevant for the Consolidated Financial Reporting
Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Chief Risk Officer (CRO) In addition to the above-mentioned committees, the following organisation units of the CRO, form an integral part of the risk management system of pbb Group:



The organisation of the CRO function comprises the following monitoring and back-office units at pbb Group level:

- > The unit **Risk Management & Control**, which is amongst others responsible for monitoring market, credit, operational and liquidity risks as well as the risk-bearing capacity of pbb Group and which is also responsible for Group-wide uniform risk measuring methods and risk reports.
- > The units of the **Chief Credit Officers REF/PIF** of pbb Group, which are each responsible for the analysis of new business and portfolio management. In addition to the traditional loan departments, CRM REF also comprises the Workout (Real Estate) unit, which is responsible for the recovery and workout of all critical exposures in the Real Estate Finance segment, and the central unit Credit Processes, which is responsible in particular for the organisation of the Credit Committee and implementation of regulatory requirements in the credit processes.
- > The unit **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.
- > The unit **Operations**, which is responsible for the global servicing and administration of the loan portfolio (including technical implementation of loan agreements), settlement of capital markets transactions, administration and processing of the Group's securities and derivatives portfolios, as well for handling domestic and international payments, also formed part of the CRO function during the reporting period.

In addition to the CRO function, the Corporate Office/Compliance entity and the Group Internal Audit entity (independent) complement the risk management system of pbb Group. The area of responsibility of Group Internal Audit comprises risk-oriented regular as well as event-driven audits of processes and systems. This also includes the revision of the risk management system. Regarding legal issues Risk Management is also supported by the Legal department.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and
Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System
Relevant for the Consolidated Financial Reporting
Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

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 has been effective since 15 July 2015. 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 carried out via risk policies for the individual operating segments as well as for 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 limit process as well as the escalation process if a limit is exceeded. The policies are regularly reviewed and updated where necessary.

Risk Reporting

Risk reporting reflects the structure of the operating segments. The Management Board of pbb receives regular risk reports which include an extensive overview as well as detailed information concerning the risk situation for each risk type and company as well as other management-relevant information. The supervisory bodies are also notified of risk-relevant issues at regular intervals. In addition, special reports are prepared on an ad hoc basis or at the request of the Management Board or Supervisory Board; such special reports consider specific and acute risk issues, for instance in relation to critical markets, products or counterparties.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System
Relevant for the Consolidated Financial Reporting
Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Risk Quantification and Risk Management

For the purposes of quantifying risk, pbb carries out a risk inventory at least once a year, to systematically identify and analyse potential risks which may arise from the bank's business model or external environment. Such risks are assessed as to their materiality for pbb and – to the extent possible – quantified using corresponding risk models or other procedures. They are then combined to form an aggregate risk exposure which is compared to available financial resources. For this purpose, an Internal Capital Adequacy Assessment Process (ICAAP) is used to determine and sustainably ascertain the appropriateness of the institution's equity, given its risk profile. Risks which cannot be quantified, or which cannot be sensibly limited by reference to available financial resources, are managed and limited using separate management tools and/or detailed regular reporting and clearly-defined requirements such as the Compliance and Corporate Governance guidelines. Liquidity risk is not incorporated in calculating the risk-bearing capacity, since it is covered by separate management tools.

As part of its risk strategy, pbb Group has implemented four approaches to risk and capital management, which incorporate risk models as well as scenario analyses and stress tests. Within these strategic management approaches, pbb Group defines its risk tolerance, which in turn defines the scope within which pbb Group is prepared to take risks.

pbb Group's risk management is based on the following approaches or objectives:

1. to ensure internal capital adequacy via the primary going-concern ICAAP management approach, with the objective of safeguarding the Bank's continued existence as a going-concern and hence, compliance with regulatory minimum ratios;
2. to ensure internal capital adequacy via the accompanying gone-concern ICAAP management approach, with the objective of protecting senior creditors in the event of liquidation;
3. to ensure the regulatory capital base, in order to monitor the own funds ratio as well as the CET1 ratio; and
4. to monitor the liquidity status, in order to ascertain pbb's ability to meet its payment obligations at all times.

On an operating level, material types of risk are managed within the management approaches referred to above, based on the defined risk tolerance. Risks are managed, at a portfolio and single transaction level, by way of:

- > daily monitoring of credit risk;
- > daily monitoring of market risk;
- > daily monitoring of liquidity risk;
- > ongoing monitoring of operational risk;
- > monitoring business, property, and equity investment risk on a regular basis.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System
Relevant for the Consolidated Financial Reporting
Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Limit and early warning systems have been implemented, in line with the risk tolerance, for each type of risk as well as across risk types, at the level of capital management circuits. The strategy underlying the respective type of risk, together with the associated risk definition, risk calculation methods, and risk reporting systems are described in detail in the following chapters.

Internal Capital Adequacy Assessment Process (ICAAP)

Pursuant to section 25 a(1) of the German Banking Act (Kreditwesengesetz – «KWG»), credit institutions are obliged to set up adequate and effective internal procedures to determine and sustainably maintain their risk-bearing capacity. The Internal Capital Adequacy Assessment Process (ICAAP) is the subject of regulatory reviews (within the «Supervisory Review and Evaluation Process» – SREP); it complements the regulatory procedures under Pillar 1 of the Basel III framework, as laid down in the Capital Requirements Regulation («CRR») and the Capital Requirements Directive IV («CRD IV»).

The risk inventory has identified market risk, credit risk, business risk, operational risk and property risk as material risks having an impact on capital. Accordingly, these five individual types of risk have been incorporated in the ICAAP, and backed by capital.

pbb Group has implemented a risk-bearing capacity analysis based on the ICAAP. This analysis uses the concept of economic capital to quantify risk. Economic capital is defined as the quantity of capital required by a bank in order to cover the potential losses with a defined probability (the confidence level) over a time horizon of one year. It is calculated for all relevant types of risk, and aggregated to form total economic capital (after diversification effects). Evidence of the bank's risk-bearing capacity is provided by comparing aggregate diversified economic capital to the corresponding available financial resources: If the latter exceed the former, this is deemed evidence of the bank's risk-bearing capacity.

To verify its risk-bearing capacity, pbb Group applies a going-concern approach as a primary management approach. This is explicitly based on the assumption that business will continue and the regulatory minimum capital ratios under Regulation (EU) 575/2013 (Capital Requirements Regulation – «CRR») will be complied with; it thus ensures that pbb Group will still comply with the required minimum capital ratios upon occurrence of an adverse economic scenario and associated losses.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

In addition, pbb Group has also implemented a gone-concern approach as an additional management approach. The objective of the gone-concern approach is to protect senior creditors in a hypothetical liquidation scenario, after the bank has incurred extreme losses. Besides a markedly higher confidence interval, compared to the going-concern approach, the gone-concern approach also encompasses a different level of available financial resources and different risk exposures in the liquidation scenario: given assumed liquidation, hidden encumbrances as well as credit spread risks on securities in the banking book are particularly important in this scenario.

The methods of calculating the economic capital for the individual risk types as well as current parameters are described in greater detail in the chapter «Result of Risk-bearing Capacity Analysis».

Over and above the risk-bearing capacity analysis, the ICAAP comprises additional management tools, including a system of limits and early-warning thresholds, as well as a comprehensive monitoring and reporting process. Moreover, stress tests are employed to analyse the impact of hypothetical developments on the risk-bearing capacity.

The results of the ICAAP and of the stress tests are regularly presented to the Management Board and the Group Risk Committee. The results are discussed there and if necessary management measures are defined.

Risk Types

pbb Group distinguishes the following major risk types for its business activities:

- > Credit risk (counterparty risk)
- > Market risk
- > Liquidity risk
- > Operational risk (including legal risk)
- > Business risk (partial consideration within the scope of the risk-bearing capacity analysis)
- > Property risk

The following are major risk types of pbb Group which are not quantified but which are limited by means of suitable reports, guidelines and policies:

- > Strategic risks
- > Regulatory risks

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Credit Risk (Counterparty Risk)

Definitions

The credit risk in general is defined as the risk of an unexpected default or decline in the fair value of a receivable or a derivative, resulting from a deterioration in the hedging situation or deterioration in the creditworthiness of a country or a counterparty.

The credit risk comprises the loan risk, counterparty default risk, issuer risk, country risk, concentration risk, fulfilment risk, tenant risk and realisation risk (related to defaulted clients), which are defined as follows in pbb Group's risk strategy:

- > Loan risk is defined as the risk which considers loans and traditional credit products. A major factor determining the loan risk is the ability of the borrower to fulfil his financial obligations as well as the value of collateral in the case of a borrowers' default. Declines in the fair value as a result of rating changes are taken into consideration for calculating the loan risk.
- > Counterparty default risk is defined as the risk of a potential unexpected default or decline in the fair value of a claim or a derivative. This is due to a deterioration in the creditworthiness of a counterparty or a deterioration of the hedging situation. The counterparty default risk includes the replacement risk and the repayment risk.
- > Issuer risk is defined as the risk in relation to bonds and other securities. In particular, it refers to the ability of the issuer to meet his financial obligations and also relates to the value of collateral in the event of the default of an issuer. Declines in the fair value as a result of rating changes are taken into consideration for calculating the issuer risk.
- > Country risk arises from changes in the values of international exposures due to country-specific political and economic conditions. It essentially comprises the risk that arises in connection with business activities in certain countries. The country risk includes the conversion risk, transfer risk and sovereign default risk.
- > Concentration risk is defined as the risk of cluster formation in relation to a risk factor or counterparties, or a strongly correlated group of risk factors or counterparties.
- > Fulfilment risk is defined as the risk that the Bank makes a payment or delivers an asset which has been sold to a counterparty but does not receive a payment or the purchased asset.
- > Tenant risk describes the risk that losses in rental income for properties will negatively influence the respective borrowers' debt service capacity. In addition, it includes the secondary concentration risk (tenant cluster risk), which arises when one and the same tenant is involved in multiple properties funded by the bank.
- > Realisation risk is defined as the risk, related to defaulted clients, that specific and portfolio-based allowances recognised may change over the observation period, or that actual realisation rates differ, should collateral need to be realised.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Credit Risk Strategy and Principles

pbb Group has broken down the overall credit portfolio into the segments Real Estate Finance (REF), Public Investment Finance (PIF), Value Portfolio (VP) and «Consolidation & Adjustments» (C&A). The strategic business is attributable to Real Estate Finance (REF) and Public Investment Finance (PIF). The risk strategy of pbb Group also reflects this structure.

New business in the REF segment largely focuses on Pfandbrief-eligible financing of commercial real estate with sustainable cash flow in selected European countries. The main target customers of these operations are professional investors, institutional clients, real estate funds or selected developers.

In the PIF segment, new business focuses on public investment financings eligible for inclusion in Pfandbrief cover, in selected European countries. Financings outside Europe may also be eligible, but are limited to export financings where the export credit insurer (or agency) is domiciled in Europe.

New business is to be refinanced with matching maturities where possible, mainly using Pfandbrief issues.

Credit Risk Reports

The credit risk reports of pbb Group provide information about the following main components:

- > The **pbb Group Risk Report** contains the development in volumes as well as relevant credit risk management indicators such as the development of the expected loss as well as the unexpected loss via value at risk (VaR). The report shows the credit risk at the level of pbb Group in the context of the overall bank risk and the risk-bearing capacity, it reports limit utilisations and violations of existing limits, and also identifies risk concentrations. Key indicators, such as the development of the exposure at default (EaD), the expected loss (EL), the credit value at risk (Credit VaR) as well as problem loans are integrated in this report and are discussed by the Management Board; the report is also submitted to the Risk Management and Liquidity Strategy Committee (RLA) of the Supervisory Board to be noted.
- > For decisions relating to new business and adjustments of terms, major parameters, contents and analyses are presented to the Credit Committee and discussed.
- > In the active business, further regular reports support operational management with regard to the management and timely recognition of risks at the sub-portfolio level.
- > Unusual developments which might result in a major deterioration in the risk position of an individual exposure are reported to a wider group up to the CRO by way of so-called «Credit Issue Notes».

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

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

Credit Portfolio Model

For calculating the economic capital for credit risk pbb Group uses a credit portfolio model. For details concerning this model and economic credit risk quantification, please refer to the section «Result of Risk-bearing Capacity Analysis».

Stress Tests

The stress tests for economic capital in credit risk are described in greater detail in the section «Result of Risk-bearing Capacity Analysis».

In addition to the stress tests for economic capital, there are also RWA reverse stress tests. They investigate the extent to which a certain risk parameter (e.g. rating, loss-given default (LGD), currency) can change before the minimum common equity (CET1) of 9% is no longer met. Tolerance change levels have been defined for all tested risk parameters; these levels must not be violated if the test of pbb Group is to be successfully completed.

Credit Risk Quantification according to CRR

The Basel III Framework Agreement of the Basel Committee was implemented in the European context by means of the Capital Requirements Regulation («CRR»). pbb Group applies the so-called Advanced Internal Rating-Based Approach (Advanced IRBA) for determining the regulatory capital backing.

Credit Risk Management and Monitoring

Credit Risk Management

At the portfolio level, the intended portfolio structure is defined in the risk strategy by means of structure components. The limits are also based on the available financial resources, and include for pbb Group for example:

- > Limiting of country risks
- > Definition of strategic risk parameters (e.g. regions, financing duration)

The following reports and measures are key elements for monitoring compliance with the defined limits and the intended risk and return parameters at the portfolio level and also at the level of individual transactions:

- > Analysis of portfolio developments in the Risk Committee
- > Determining the credit-VaR at the portfolio level by way of a credit portfolio model and partly limiting at the segment level; analysis of concentration risks and various stress tests

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

- > Central Group-wide monitoring of risk concentrations by way of special, regular and ad hoc evaluations, such as regional or product-specific evaluations
- > Continuous analysis of the portfolio and the relevant markets by the local Credit Risk Management units
- > Regular evaluation of the collateral
- > Special reports for exposures which are potentially at risk (e.g. «credit issue notes»)
- > Calculation of a risk-adjusted margin using a defined RaRoC for new business

Depending upon the counterparty group, Expected Loss class or exposure size at GCC (Group of connected clients) level, the lending authority regulations determine the approval powers of individual Credit Officers for new or existing exposures.

Credit Risk Management and Monitoring

At the level of individual transactions, the credit process guidelines define the necessary steps of assessing risk for new business, prolongations as well as the procedures for transferring exposures to the watchlist or workout.

Core processes of credit risk management and monitoring as well as the relevant areas of the CRO function which are involved are described in the following:

The CRM entities carry out the initial risk analysis for new business and annual risk analysis for existing business. Probability of default (PD) and loss given default (LGD) rating tools, which are developed by Credit Risk as part of Risk Management and Control (RMC) and annually validated and calibrated, are used for valuation purposes and for preparing the credit decision in new and prolongation business. Property Analysis & Valuation (PAV) provides support for analysing and valuing the securities.

The Legal department, where appropriate together with external lawyers/lawyers' offices, is responsible for the contract and collateral organisation.

Defined early warning indicators are constantly monitored by CRM. If essential problems are identified, an exceptional test is performed on the credit default risk (including a review of the value of collateral) and appropriate alternative actions are identified. Such cases are also included in a mostly monthly, at least quarterly monitoring cycle and presented in the Watchlist Committee.

If there are any objective indications of an impairment, the extent of such an impairment is determined. In the Risk Provisioning Committee, the results are discussed and, where necessary, decisions are taken with regard to creating or reversing impairments.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System
Relevant for the Consolidated Financial Reporting
Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

A restructuring plan or a workout plan for critical or impaired exposures is drawn up. The decision regarding restructuring or workout takes account of scenario analyses for the potential development of the borrower, the collateral or the relevant market. These are presented and approved in the Credit Committee, if necessary.

Critical exposures (watchlist) as well as restructuring and workout cases (non-performing loans) are reported on an aggregate basis monthly in the Group Risk Report and in the Risk Committee and also, upon request, in special analyses to the Management Board and Supervisory Board.

Hedging and Minimising Risk by Collateral

In the REF segment, financing arrangements are normally backed by property charges. On the occasion of the regular credit reports for existing financing arrangements or as part of the decision-making process in the case of new financing, the LTVs (loan-to-value) as well as the property (micro and macro location, rental situation, condition of property) and market circumstances are discussed and are also taken into consideration as part of the assessment process for individual loans.

In addition to the property charge, the financing security in the REF segment also generally comprises rent assignment and the assignment of insurance claims, accompanied by extensive notification and consultation obligations of the borrowers. Apart from the property charges, only a few more selected securities are considered to be of value in the credit assessment process or in the calculation of LGD, and in particular this is applicable for cash security, bank guarantees, other credit protections as well as guarantees of public-sector institutions. Corresponding haircuts are recognised in relation to foreign currency security in order to take account of potential exchange rate risks.

Properties in the Real Estate Finance business are valued using strict quality criteria. Property collateral values are determined when the loan is initially granted, and reviewed on an annual basis. pbb maintains a separate department of real estate analysts and surveyors (reporting directly to the CRO); the majority of staff members in this department have either passed the HypZert examination or comparable foreign qualifications (such as RICS certification). This department is always involved in the initial valuation (when a new loan is granted) or regular revaluations, as well as in the valuation reviews which are carried out at least once a year. Depending on the type and location of the property involved, market developments and other risk indicators, such valuations may also be carried out, in some cases, by specially qualified credit department staff, based on defined parameters and processes.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

For development financings, project monitoring regularly comprises the monitoring of planning progress, budget, procurements, construction schedules, as well as sales or letting progress. As a rule, for complex developments, such monitoring is carried out by renowned external construction controllers on a monthly basis, on the Bank's behalf and coordinated by PAV. For less complex residential real estate developments, construction progress is generally monitored, every three months, by experienced internal property analysts. CRM monitors costs, ensuring a daily forecast of cost developments for development projects, which is reconciled against the results of external and/or internal monitoring. This approach ensures that any deviations from project planning (and hence, project risks) which may occur during construction are identified as early as possible.

In the PIF segment, guarantees are often accepted as collateral (including contractual guarantees from public-sector authorities, export guarantees, etc.). Moreover, Public Investment Finance exposures often involve a specific legal framework, such as the support obligation (Anstaltslast) of public-sector entities, or other (direct and indirect) cover mechanisms which allow for recourse to a public-sector institution in the case of borrowers organised under public law.

In Treasury, deposits and securities are made available or accepted as collateral when trading with other banks. The collateralisation is based on standard agreements, which can be amended in individual cases if required or which can be subjected to individual review by the legal department.

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.

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

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System

Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

As of 31 December 2015 the Group-wide credit portfolio EaD amounted to €61.6 billion (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 transfer has not yet been possible as a result of various considerations. In 2010, the credit risk of these assets was transferred by means of guarantees provided by FMS Wertmanagement, so that pbb Group ultimately retains a counterparty risk with regard to FMS Wertmanagement and thus indirectly with regard to BRD in connection with these positions.

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 the total exposure of pbb Group amounted to €61.4 billion as of 31 December 2015 (31 December 2014: €65.2 billion). The EaD figure as at 31 December 2015 includes a €0.8 billion reduction, due to a review of credit conversion factors (CCFs) in the Real Estate Finance segment, resulting from the annual validation of the CCF model that was not taken into account in the figures as at 31 December 2014. Without this credit conversion factor adjustment effect, EaD as at 31 December 2015 would have been €0.8 billion higher.

Overview of the Total Exposure of pbb Group: €61.4 billion EaD

The credit portfolio is broken down into the following segments

- > Real Estate Finance (REF),
- > Public Investment Finance (PIF)
- > as well as the non-strategic segment Value Portfolio (VP) which is earmarked for being wound down.

In addition «Consolidation & Adjustments» shows besides the internal reconciliation and consolidation positions, the EaD for transactions which are not directly attributable to the operating segments. These are basically asset positions for asset and liability management.

As of 31 December 2015, 71% (31 December 2014: 54%) of the EaD in C&A was attributed to the rating classes AAA to AA- and 13% (31 December 2014: 24%) of the EaD was attributed to the rating classes A+ to A-. 16% (31 December 2014: 22%) of the EaD was in the rating classes BBB+ to BBB-. The figure for the EaD in BB+ and positions rated lower was below 1% (31 December 2014: <1%).

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Total portfolio: EaD according to business segments				
in € billion	31.12.2015	31.12.2014 ¹⁾	Change	
			in € billion	in %
Real Estate Finance	25.8	24.3	1.5	6.2
Public Investment Finance	8.3	7.8	0.5	6.4
Value Portfolio	21.7	26.2	-4.5	-17.2
Consolidation & Adjustments	5.6	6.9	-1.3	-18.8
Total	61.4	65.2	-3.8	-5.8

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.

As of 31 December 2015 the total exposure at default (EaD) of pbb Group decreased compared to yearend 2014 by € 3.8 billion to € 61.4 billion. On the whole, the percentage share of EaDs in the strategic segments REF (42%; 31 December 2014: 37%) and PIF (14%; 31 December 2014: 12%) increased whereas it decreased in the non-strategic VP (35%; 31 December 2014: 40%). Explanations concerning changes in individual segments are provided with the detailed presentation of the respective segment.

Risk Parameters Expected Loss The expected loss (EL) for a time period of one year is calculated for the entire exposure, with the exception of non-performing loans for which a specific allowance has already been recognised. This is calculated from the annual probability of default (PD), the loss-given default (LGD) and the exposure at default (EaD) using the parameters defined under Basel III.

Expected loss for pbb Group amounted to € 73 million as at 31 December 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. The recognition of a specific allowance for another larger-sized financing in the Real Estate Finance segment also contributed to the decline in expected loss.

Factors contributing to the lower Expected Loss for the VP segment included the decline in LGD for a Portuguese regional government, as well as the sale of Italian bonds as part of VP optimisation.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System

Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

The figure was split to the segments as follows:

Total exposure: expected loss according to business segments in € million	31.12.2015	31.12.2014 ¹⁾	Change	
			in € million	in %
Real Estate Finance	51	121	-70	-57.9
Public Investment Finance	2	2	-	-
Value Portfolio	20	23	-3	-13.0
Consolidation & Adjustments	-	1	-1	-100.0
Total	73	146	-73	-50.0

¹⁾ The figures reflect EL 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.

It has to be stated that future changes, for instance in the economy or in developments of individual risks, may result in changes in the EL figures stated above. Realised losses can differ from the expected losses.

Economic Credit Risk Capital pbb Group calculates economic capital for credit risk using a credit portfolio model. For details concerning credit risk quantification, please refer to the section «Result of Risk-bearing Capacity Analysis».

Regional Breakdown of the Portfolio At the reporting date, the main focus of the exposure of pbb Group was unchanged on Western Europe. Germany continued to account for most of the overall exposure, with 41% (€ 25.4 billion). The € 1.9 billion year-on-year decline in EaD for Germany was mainly attributable to maturities and repayments of securities and promissory notes in VP as well as in C&A. The € 1.0 billion decline in exposure to Italy was mainly the result of a sale of Italian securities. A € 0.5 billion reduction of exposure to Poland was mainly due to securities maturing during the first half of 2015. In addition, maturities of Polish real estate loans, in the amount of € 0.3 billion, were virtually offset by corresponding new business. The € 1.0 billion reduction in the Spanish portfolio was predominantly due to maturities of securities and promissory notes.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Exposure expansion in France reflected new business originated in the strategic REF and PIF segments. New business in the REF segment in particular led to an exposure increase in the Czech Republic, Sweden, and the United Kingdom.

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 and Belgium with €0.4 billion each (31 December 2014: Switzerland €0.4 billion, Belgium €0.5 billion).

Total portfolio: EaD according to regions				
in € billion	31.12.2015	31.12.2014 ¹⁾	Change	
			in € billion	in %
Germany	25.4	27.3	-1.9	-7.0
France	7.1	6.1	1.0	16.4
Austria	6.9	7.2	-0.3	-4.2
United Kingdom	5.1	4.9	0.2	4.1
Spain	4.2	5.2	-1.0	-19.2
Other ²⁾	2.4	2.6	-0.2	-7.7
Italy	2.3	3.3	-1.0	-30.3
Other Europe ³⁾	1.8	2.1	-0.3	-14.3
Poland ⁴⁾	1.6	2.2	-0.6	-27.3
Sweden	1.5	1.2	0.3	25.0
Portugal	1.4	1.4	-	-
Czech Republic	0.7	0.4	0.3	75.0
Hungary ⁴⁾	0.6	0.8	-0.2	-25.0
Finland	0.5	0.5	-	-
Total	61.4	65.2	-3.8	-5.8

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.

²⁾ Comprises amongst others supranational organisations, Japan and the United States of America.

³⁾ Comprises amongst others Switzerland, Belgium, the Netherlands, Slovenia and Denmark; in the Annual Report 2014 Czech Republic and Finland were also included in «Other Europe»; these countries are now reported separately

⁴⁾ In the Annual Report 2014 Poland and Hungary were included in «Emerging Markets»; these countries are now reported separately; 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 are defined for each individual country; these limits restrict pbb Group's business activities. All country limits are monitored daily by RMC.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Real Estate Finance: €25.8 billion EaD

Portfolio Development and Structure The REF segment comprises real estate loans and related customer derivatives. EaD of the REF portfolio rose by a total of €1.5 billion, compared to 31 December 2014, to €25.8 billion. Moreover, EaD as at 31 December 2015 includes a €0.8 billion reduction, due to a review of credit conversion factors (CCFs) in the REF segment, resulting from the annual validation of the CCF model that was not fully taken into account in the figures as at 31 December 2014. Without this credit conversion factor adjustment effect, EaD would have increased by a total of €2.3 billion during the period from 31 December 2014 to 31 December 2015. Customer derivatives in the portfolio accounted for EaD of €0.4 billion as at 31 December 2015 (31 December 2014: €0.5 billion).

The exposure increase in the REF segment was mainly due to new business in the United Kingdom, France, Czechia and Sweden. Additionally the EaD in Germany per se increased because of new business, which however was overcompensated by the EaD reducing effect from the review of credit conversion factors (adjustment effect for Germany €-0.7 billion).

Real Estate Finance: EaD according to regions				
in € billion	31.12.2015 ¹⁾	31.12.2014 ²⁾	Change	
			in € billion	in %
Germany	12.2	12.5	-0.3	-2.4
United Kingdom	5.0	4.2	0.8	19.0
France	3.2	2.7	0.5	18.5
Sweden	1.4	1.2	0.2	16.7
Poland ³⁾	1.3	1.4	-0.1	-7.1
Other Europe ⁴⁾	0.8	0.8	-	-
Czech Republic	0.6	0.3	0.3	100.0
Hungary ³⁾	0.4	0.4	-	-
Spain	0.3	0.4	-0.1	-25.0
Austria	0.3	0.2	0.1	50.0
Finland	0.3	0.3	-	-
Portugal	<0.1	<0.1	-	-
Italy	<0.1	<0.1	-	-
Other	-	<0.1	-	-
Total	25.8	24.3	1.5	6.2

¹⁾ Breakdown including customer derivatives of approx. €0.4 billion

²⁾ Breakdown including customer derivatives of approx. €0.5 billion

³⁾ In the Annual Report 2014 Poland and Hungary were included in «Emerging Markets»; these countries are now reported separately

⁴⁾ Comprises among others Switzerland, the Netherlands and Luxembourg.

In the Annual Report 2014 Czech Republic and Finland were also included in «Other Europe»; these countries are now reported separately.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System

Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

The breakdown of the portfolio by property type as at 31 December 2015 changed only slightly as against year-end 2014.

The main items were still the property types «Office buildings» with €8.5 billion EaD or 33% of the overall REF portfolio (31 December 2014: €7.2 billion or 30%) and «Retail» with €7.5 billion EaD or 29% of the REF portfolio (31 December 2014: €6.7 billion or 28%). The percentage of the financing of properties with residential use (16%) was below the percentage as at yearend 2014 (19%). Worth mentioning is also the slight increased percentage of 10% of the property type «Logistics/storage» (31 December 2014: 9%) in the REF portfolio as well as the significant reduction in mixed-use properties in the «Mixed Use» category of 7% as of 31 December 2014 to 4% as of 31 December 2015.

Real Estate Finance: EaD according to property type				
in € billion	31.12.2015	31.12.2014	Change	
			in € billion	in %
Office buildings	8.5	7.2	1.3	18.1
Retail	7.5	6.7	0.8	11.9
Housing construction	4.1	4.7	-0.6	-12.8
Logistics/storage	2.7	2.3	0.4	17.4
Mixed use	1.1	1.6	-0.5	-31.3
Hotel/leisure	1.0	0.7	0.3	42.9
Other	0.9	1.2	-0.3	-25.0
Total	25.8	24.3	1.5	6.2

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System

Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

At 31 December 2015, investment financings continued to dominate the portfolio (90%; 31 December 2014: 89%); development financings accounted only for 7% of EaD (31 December 2014: 8%). The decline compared to year-end 2014 is attributable to the adjustment of credit conversion factors. 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	31.12.2015	31.12.2014	Change	
			in € billion	in %
Investment financing	23.3	21.6	1.7	7.9
Development financing	1.9	2.0	-0.1	-5.0
Customer derivatives	0.4	0.5	-0.1	-20.0
Other	0.2	0.1	0.1	100.0
Total	25.8	24.3	1.5	6.2

Public Investment Finance: €8.3 billion EaD

Portfolio Development and Structure The portfolio comprises the following financing:

- (I) Financing concluded directly with a public sector debtor, eligible according to the German Pfandbrief Act, on the basis of a specific earmarking according to a defined product catalogue;
- (II) Financing of companies, which have a public sector or private legal structure and funding, which are 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-profits, associations); and
- (III) Financing of special-purpose vehicles, which are almost entirely collateralised with a public sector guarantee within the meaning of the German Pfandbrief Act. This also includes export financings covered by insurance policies or guarantees issued by the Federal Government or by other export credit agencies permitted for inclusion in Pfandbrief cover.

Exposures in the PIF segment consist of loans including promissory notes (77%) and of securities (18%), with other types of financing, such as leases or loans, accounting for the remaining 5%.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System

Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

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 as Italy does not represent a strategic market for the PIF segment. 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 loans, leading to a net increase in the Public Investment Finance segment of €0.5 billion.

Public Investment Finance: EaD according to regions				
in € billion	31.12.2015	31.12.2014 ¹⁾	Change	
			in € billion	in %
France	2.9	2.2	0.7	31.8
Germany	2.8	2.5	0.3	12.0
Spain	1.7	2.1	-0.4	-19.0
Other Europe ²⁾	0.3	0.3	-	-
Austria	0.3	0.3	-	-
Finland	0.2	0.2	-	-
Other ³⁾	0.1	0.1	-	-
United Kingdom	0.1	0.1	-	-
Sweden	<0.1	<0.1	-	-
Total	8.3	7.8	0.5	6.4

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.

²⁾ Almost 100% Belgium;
in the Annual Report 2014 Austria, Sweden and Finland were also included in «Other Europe»; these countries are now reported separately.

³⁾ Category «Other» almost exclusively comprises bonds issued by supranational organisations.

To date, we have analysed EaD by counterparty without taking guarantees whose inclusion is permitted under Basel II, or other forms of credit support, into account. In order to better reflect the actual economic risk, such collateral is now also being considered, and the counterparty structure adapted to relate to the ultimate bearer of risk. In this annual report, the counterparty structure is shown twice, to facilitate comparability: once as presented in the 2014 annual report (without inclusion) and once in the new presentation format. The columns in the table below have been labelled accordingly.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System

Relevant for the Consolidated Financial Reporting

Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

«Public Sector Borrowers» summarises claims against sovereign states respectively exposure guaranteed by them (26%), public-sector enterprises respectively exposure guaranteed by them (19%), and regional governments and municipalities respectively exposure guaranteed by them (55%).

Public Investment Finance: EaD according to counterparty structure in € billion	31.12.2015 ¹⁾	31.12.2014 ¹⁾²⁾	Change		31.12.2014 ³⁾
			in € billion	in %	
Public sector borrowers	7.9	7.4	0.5	6.8	6.0
Companies/special-purpose entities ⁴⁾	0.4	0.3	0.1	33.3	1.7
Financial institutions ⁵⁾	<0.1	<0.1	–	–	<0.1
Total	8.3	7.8	0.5	6.4	7.8

¹⁾ Counterparty structure including guarantees permitted under Basel II or other forms of credit support

²⁾ 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.

³⁾ Counterparty structure without guarantees permitted under Basel II or other forms of credit support

⁴⁾ Almost entirely collateralised by guarantees and surety bonds

⁵⁾ Financial institutions with a state background or state guarantee

The EaD share in the PIF segment in rating classes AAA to AA– increased from 50% to 52% due, this was amongst other factors, due to new business.

Public Investment Finance: EaD according to internal ratings ¹⁾ in € billion	31.12.2015	31.12.2014 ²⁾	Change	
			in € billion	in %
AAA to AA–	4.3	3.9	0.4	10.3
A+ to A–	3.1	2.9	0.2	6.9
BBB+ to BBB–	0.5	0.7	–0.2	–28.6
BB+ and worse	0.4	0.3	0.1	33.3
Total	8.3	7.8	0.5	6.4

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

²⁾ 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.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Value Portfolio: €21.7 billion EaD

Portfolio Development and Structure The Value Portfolio comprises non-strategic portfolios of pbb Group and includes bonds (55%) and borrowers' note loans (45%). 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 as Italy does not represent a strategic market for the PIF segment. The comparative figures as at 31 December 2014, as shown in the table, show the EaD after this segment reclassification.

In conformity with this strategy, the further decrease in the exposure as of 31 December 2015 compared with 31 December 2014 was mainly due to matured bonds and borrowers' note loans in Germany and the sale of Italian bonds, 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 matured bonds.

Value Portfolio: EaD according to regions				
in € billion	31.12.2015	31.12.2014 ¹⁾	Change	
			in € billion	in %
Germany	6.6	8.8	-2.2	-25.0
Austria	6.3	6.7	-0.4	-6.0
Italy	2.3	3.3	-1.0	-30.3
Spain	1.8	1.9	-0.1	-5.3
Other ²⁾	1.4	1.5	-0.1	-6.7
Portugal	1.4	1.4	-	-
France	0.7	0.9	-0.2	-22.2
Other Europe ³⁾	0.5	0.6	-0.1	-16.7
Poland ⁴⁾	0.3	0.8	-0.5	-62.5
Hungary ⁴⁾	0.3	0.4	-0.1	-25.0
Czech Republic	0.1	0.1	-	-
Finland	<0.1	<0.1	-	-
Total	21.7	26.2	-4.5	-17.2

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.

²⁾ Category «Other» comprises supranational organisations and Japan.

³⁾ Category «Other Europe» comprises Belgium, Slovenia, Switzerland and Denmark.

⁴⁾ In the Annual Report 2014 Poland and Hungary were included in «Emerging Markets»; these countries are now reported separately.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System

Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

To date, we have analysed EaD by counterparty without taking guarantees whose inclusion is permitted under Basel II, or other forms of credit support, into account. In order to better reflect the actual economic risk, such collateral is now also being considered, and the counterparty structure adapted to relate to the ultimate bearer of risk. In this annual report, the counterparty structure is shown twice, to facilitate comparability: once as presented in the 2014 annual report (without inclusion) and once in the new presentation format. The columns in the table below have been labelled accordingly.

Value Portfolio: EaD according to counterparty structure in € billion	31.12.2015 ¹⁾	31.12.2014 ²⁾	Change		31.12.2014 ²⁾
			in € billion	in %	
Public sector borrowers	19.3	22.7	-3.4	-15.0	20.6
Financial institutions	2.4	3.5	-1.1	-31.4	4.8
Companies	< 0.1	< 0.1	-	-	0.8
Total	21.7	26.2	-4.5	-17.2	26.2

¹⁾ Counterparty structure including guarantees permitted under Basel II or other forms of credit support

²⁾ Counterparty structure without guarantees permitted under Basel II or other forms of credit support

³⁾ 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.

Structured Products

pbb Group's residual holdings of Collateralised Debt Obligations guaranteed by one regional government had a notional value of €0.6 billion as at 31 December 2015 (31 December 2014: €0.7 billion) and a current fair value of €0.6 billion (31 December 2014: €0.7 billion).

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 2015 in the nominal amount of €85 million.

The valuation of assets was based on available market prices.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System

Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Watchlist and Non-performing Loans

Early Warning System

The early warning system of pbb Group has defined triggers (= criteria) for including loans in the watchlist and for being classified as workout loans (e.g. past due payments, failure to meet covenants – e.g. loan-to-value [LTV], interest service coverage [ISC]). The system constantly monitors whether a trigger has been set off. In the event of any problems being identified, the counterparty is analysed and, where appropriate, promptly transferred to restructuring or workout loans. Watchlist and non-performing loans (restructuring and workout loans) are defined as follows:

- > **Watchlist Loans** Payments past due by more than 60 days or another defined early warning signal is triggered (for instance insolvency of a main tenant in the REF segment).
- > **Restructuring Loans** Payments past due by more than 90 days or another defined early warning signal is triggered (for instance insolvency of a borrower).
- > **Workout Loans** There are no indications that the loan can be restructured. Enforcement measures have been/will be introduced, respectively specific allowances have been created or are planned.

Non-performing loan processing is also responsible for carrying out an impairment test in line with the relevant accounting regulations.

Development of Watchlist and Non-performing Loans of pbb Group

Watchlist and non-performing loans of pbb Group	31.12.2015				31.12.2014 ¹⁾				Change	
	REF	PIF	VP	Total	REF	PIF	VP	Total	in € million	in %
EaD in € million										
Workout loans	3	–	–	3	9	–	–	9	–6	–66.7
Restructuring loans	533	–	241	774	818	–	316	1,134	–360	–31.7
Non-performing loans¹⁾	536	–	241	777	827	–	316	1,143	–366	–32.0
Watchlist loans	91	–	244	335	116	–	244	360	–25	–6.9

¹⁾ In addition €1 million EaD as of 31 December 2014 in C&A

Watchlist and non-performing loans declined by a total of €391 million during the period from 31 December 2014 to 31 December 2015.

The watchlist loans decreased by €25 million (net). In the REF segment, five exposures with an aggregate volume of €112 million were repaid or returned to ordinary coverage. In return, nine exposures with an aggregate volume of €87 million were included on the Watchlist.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System

Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

The non-performing loans decreased by € 400 million (gross)^{a)} respectively by € 366 million (net). This development was largely characterised by three effects: firstly successful restructuring and repayment of loans totalling € 298 million; secondly, a reduction in EaD by € 72 million, due to a further valuation adjustment on the Heta exposure in the VP segment; thirdly, in the reporting period a foreclosed property involving a financing of € 30 million was taken on the Bank's own books, and thus had to be consolidated both in accordance with IFRS and from a bank regulation point of view.

As an offsetting effect, exposures with an aggregate volume of € 21 million were newly classified as non-performing. Exchange rate fluctuations increased the net balance by € 13 million.

Impairments and Provisions

Specific Allowances and Portfolio-based Allowances

All financial assets which are not evaluated at fair value through profit or loss are subject to a regular impairment test. An assessment is first made to determine whether there is an objective indication of an impairment. The extent of any such impairment is then calculated as the difference between the carrying amount, at AfS assets (AfS=available for sale) plus AfS reserve, and the present value of the cash flows expected in future.

Portfolio-based allowances are calculated using risk parameters which are compliant with Basel III, such as probability of default (PD) and loss-given default (LGD). The resultant expected loss in relation to a time horizon of one year is scaled using an IFRS-compliant conversion factor to the period which on average is required for identifying the impairment event in the pbb.

If differences are identified between long-term average values for the parameters PD and LGD on the one hand and the current figures on the other as a result of the market environment in some portfolios of the operating segments, these are taken into consideration accordingly.

The specific allowances are approved in the Risk Provisioning Committee.

Risk Provisioning of pbb Group

An overview of the development in provisions for losses on loans and advances and provisions is set out in the Notes.

^{a)} Excluding opposite effects

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Coverage for Non-performing Loans^{a)}

The coverage ratio is defined as the ratio between the provisions created in relation to the 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 of 31 December 2015, pbb Group's non-performing loans were covered at 44% (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.

The non-performing loans in the REF segment were covered at 40% (31 December 2014: 24%). The improvement resulted from successful restructuring and workout of non-performing loans. As in the previous year, as at 31 December 2015 the PIF segment had no non-performing loans. The coverage ratio in Value Portfolio stood at 46% (31 December 2014: 37%). The increase compared to the year-end 2014 was mainly related to valuation adjustments on the Heta exposures.

Including collateral furnished, the non-performing loans in the REF segment were completely covered.

Opportunities

The parameters for the risk dimensions for the credit risk are defined using statistical methods on the basis of numerous historical observations. The risk measures also depend on assumptions relating to future developments of macro-economic factors as well as developments on the credit markets. It is in the nature of things and is also in line with historical experience that there is a certain probability that such economic conditions perform more positively than originally assumed and that the potential losses arising from the credit risk therefore tend to be less than originally quantified by the risk measures. Such potentially positive developments then represent opportunities for pbb Group which can be utilised for reducing risk.

In specific terms, there are opportunities if fewer loans in future are affected by a default in performance than had originally been assumed as part of the risk quantification process.

^{a)} Not included are synthetically securitised parts of a loan.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System

Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

There are also opportunities if there are in future fewer migrations to less positive rating categories than originally assumed.

There are also opportunities if the loss ratios of non-performing loans in future are lower than was originally assumed as part of the risk quantification process. Lower loss ratios may be triggered by various positive developments. Firstly, it is possible that the process of disposing of collateral might generate higher proceeds than was originally assumed in the risk quantification process. Secondly, it is possible that a higher percentage of non-performing loans subsequently become performing loans again without any losses than had been the case in the past.

Besides positive developments in terms of default or LGD rates, opportunities may also arise in the context of credit risk in the event of falling exposure values in the portfolio. For instance, this may occur if borrowers redeem or repay their loans faster than anticipated, given contractual agreements or historical data. Exposure values in the derivatives portfolio may decline where the market values of positions associated with replacement risk decrease, due to changes in certain market parameters such as interest rates or exchange rates.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and
Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System
Relevant for the Consolidated Financial Reporting
Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Market Risk

Definition

Market risk is defined as the risk of a loss of value resulting from the fluctuation of the market prices of financial instruments. Transactions entered into by pbb Group are mainly exposed to the following types of market risk:

- > Credit spread risk (risk from changes in credit spreads)
- > General interest rate risk (risk from changes in market interest rates)
- > Volatility risk (risk from changes in implied volatility)
- > Foreign currency risk (risk from changes in foreign exchange rates)
- > Basis risk (risk from changes in OIS spreads, tenor spreads, and cross-currency basis spreads)
- > Concentration risk (risk of additional losses due to a non-diversified portfolio mix; accounted for by using correlations between risk factors when determining value at risk)

Market Risk Strategy

pbb Group adheres to the following fundamental principles in relation to market risks:

- > Transactions may be conducted exclusively in financial instruments which have successfully passed the new product process, and which are measured independently via a model or for which market prices are observable.
- > All positions entered into are subject to daily monitoring, in terms of risk and performance, by RMC.

Market Risk Management Organisation

Positions are monitored by the RMC unit, which is separated from trading in the structural organisation, right through to senior management.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Market Risk Reports

RMC prepares detailed market risk reports for various recipients, on a daily basis:

- > The daily Market Risk Report is addressed to the Management Board of pbb Group in particular. It outlines value-at-risk (VaR) attributable to market risk, limit utilisations and economic performance figures across all levels of the portfolio structure
- > Daily sensitivity reports comprise analyses for the main risk factors, at various levels of detail. They are also made available to the Management Board.

Market Risk Measurement and Limits

Market Risk Value at Risk

RMC determines VaR attributable to market risk, at an overall as well as partial portfolio level, on a daily basis, using a simulated model based on historical data. All positions are taken into account for determining VaR, whereby the credit spread VaR from items classified under IFRS category Loans & Receivables is not taken into consideration within market risk, but in credit risk.

- > The simulation model is based on historical market data of the past seven years, which is incorporated in the simulation with an equal weighting.
- > Individual types of market risk are aggregated to form a total VaR, which forms the basis of limit monitoring.
- > For the purposes of daily operational risk management, VaR is determined using a holding period of ten days and a one-sided 99% confidence interval.

In the third quarter of 2015, pbb Group introduced a new method for calculating VaR; this approach is based on a seven-year market data history, which is fed into a VaR simulation model. Some of the VaR figures increased due to the longer data history. Simultaneously, the valuation of volatility risks (non-linear interest rate risks) was partly adjusted to the current interest rate environment, with low or even negative interest rates.

Market risk VaR as at 31 December 2015 amounted to €67 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 change of models. 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 market risk limit of pbb Group was cut from €120 million to €90 million at the beginning of 2015.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

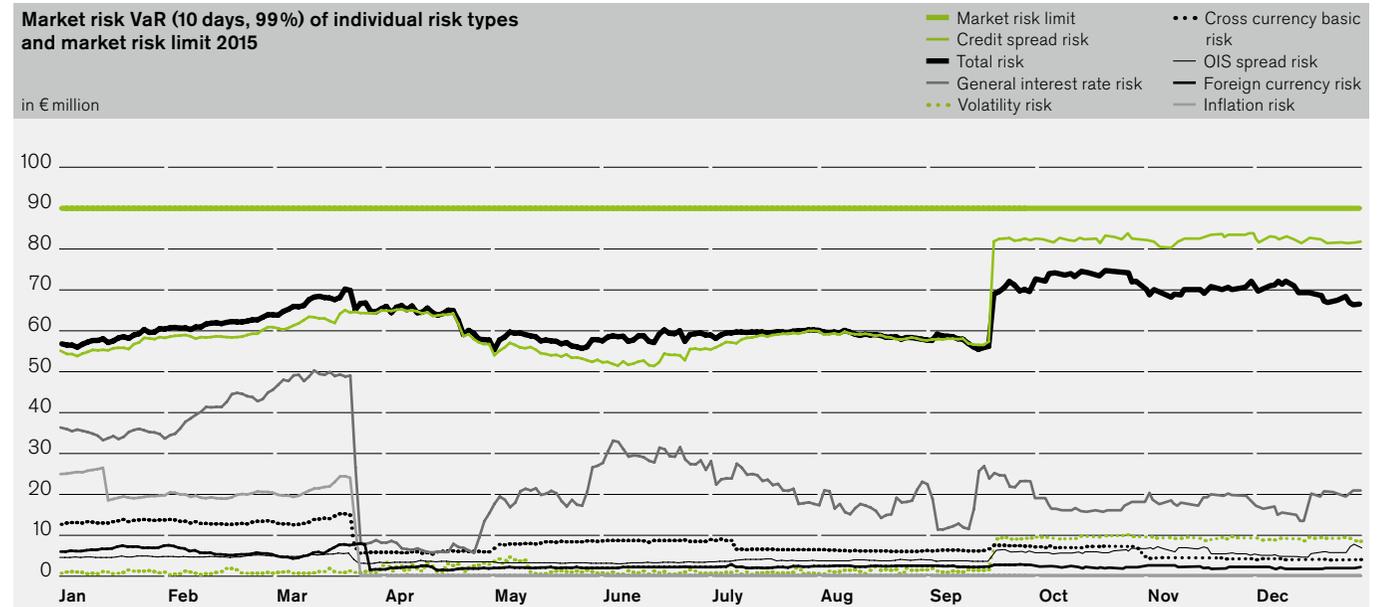
Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Besides the conversion to a seven-year market data history, as outlined above, and shifts in credit spread volatility, market-risk-induced VaR was largely influenced during the course of 2015 by the sale of an inflation-linked bond from the bank's capital investment book. Given largely unchanged VaR attributable to market risk, this led to a marked reduction in VaR induced by interest rate and inflation risks. The following chart shows the development of market-risk-induced VaR and its components, compared to the market risk VaR limit during the course of the year:



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

Sensitivity Analyses

Overnight yield curves are used for the purposes of measurement relevant to sensitivity analyses. Sensitivity analyses quantify the impact of changes in individual market parameters upon the value of positions. For instance, the credit spread sensitivity provides an indication of the change in economic present value which results from a one basis point change (all other factors remaining unchanged) in the credit spreads which are relevant for measurement purposes.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System
Relevant for the Consolidated Financial Reporting
Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

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. The 200 basis point parallel upwards shift in the yield curve – as required by regulatory authorities – would have resulted in market value losses of €116 million as at 31 December 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 €19 million (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 capped at an interest rate of zero per cent. An extreme increase in relevant credit spreads would have resulted in market value losses of €298 million as at 31 December 2015. 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; these methods are reviewed on an ongoing 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 31 December 2015, based on a data history of 250 trading days. Both outliers were attributable to extraordinarily strong fluctuations of credit spreads. The risk model employed by pbb Group therefore has «green» status, as defined in the «traffic light» system of the Basel Capital Accord.

Economic Capital for Market Risk

The chapter «Result of Risk-bearing Capacity Analysis» provides details concerning the calculation as well as the quantification of economic capital for market risk.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System
Relevant for the Consolidated Financial Reporting
Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Mapping and Recognition of Economic Hedges as On-balance-sheet Hedges

The concept of hedge accounting refers to specific accounting rules applicable to hedge relationships in accordance with IAS 39, entered into for the purpose of neutralising the change in value of the hedged underlying transaction against the change in value of the hedging instrument to a large extent. The criteria set out in IAS 39 must be satisfied for a hedge to be recognised accordingly. To a certain extent, these criteria – such as the requirements relating to hedge effectiveness – are inconsistent with the methods applied to bank management. As a result, there may be differences between economic hedges and hedge relationships recognised on the balance sheet.

Market Risk Management, Monitoring and Reduction

pbb Group uses a three-pillar approach for managing and monitoring market risk:

> management of positions maintained by the Treasury

> risk measurement and monitoring compliance with limits by RMC and

> escalation processes across all decision-making bodies, right through to the Management Board

For all positions, market risk is monitored through a combination of value-at-risk (VaR) limits and monitoring of sensitivities by RMC, which is independent from trading units.

General Interest Rate Risk

General interest rate risk declined significantly to €21 million as at 31 December 2015, compared to €36 million as at 31 December 2014. Excluding the capital investment portfolio, general interest rate risk exposure remained at a low level throughout 2015.

Volatility Risk

VaR used for the measurement of volatility risk (defined as non-linear interest rate risk) increased to €9 million as at 31 December 2015 (31 December 2014: €49,000). The increase was mainly due to the recognition of legal 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

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. The Bank has risk measurement systems in place for calculating credit spread risk for all relevant exposures. Only credit spread risks of holdings classified as available for sale (AfS) are subject to VaR limitation. Positions classified as Loans and Receivables (LaR), however, are not subject thus.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

The credit spread VaR for the AfS portfolio amounted to €82 million at the end of December 2015; the year-on-year increase (31 December 2014: €56 million) was primarily due to the model change during the third quarter of 2015, as outlined above.

Other Market Risks

The present value of foreign currency risk was €2 million as at 31 December 2015 (31 December 2014: €5 million). There was no more inflation risk at the record date, due to the sale of a position from the capital investment portfolio, as mentioned above.

Basis risks include OIS, cross-currency spread and tenor spread basis risks (including Libor/Euribor basis risks); these are 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 reported overnight index risks of €7 million, tenor spread risks of €1 million, and cross-currency spread risks of €4 million on the reporting date. 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 €19 million.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Liquidity Risk

Definition

Liquidity risk is defined as the risk of not being able to meet the amount and/or due dates of existing or future payment obligations, in full or on time.

Liquidity Risk Strategy

The liquidity risk strategy is a key component of pbb Group's risk strategy. It is broken down into various modules (comprising various liquidity scenarios, given certain market conditions and stress parameters). This ensures that the Group's short- and medium-term funding is monitored and managed by means of a limit system, whereby the limits are defined as part of the annual business planning process.

Organisation of Liquidity Risk Management

RMC identifies, measures, reports and monitors liquidity risk. The Treasury department, which is independent from RMC, is responsible for managing liquidity risk. The processes and methods employed are reviewed on a regular basis by the Risk Committee and the Asset Liability Committee. Liquidity Risk cannot be calculated and reported at a business segment level.

Liquidity Risk Report

Liquidity management reports are prepared daily and submitted to the entire Management Board, as well as to the ECB's Joint Supervisory Teams (JSTs), and to national competent authorities. The reports contain up-to-date information on the day's liquidity situation as well as forecasts made using contractual cash flows and in recognition of future events that could potentially influence liquidity developments.

Liquidity Risk Measurement and Limits

To manage liquidity risks, pbb has established a system for measuring and limiting short-term and medium-term variances within cash flows. This incorporates both contractual as well as optional cash flows. The data is subject to regular back-testing.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

The liquidity position resulting from the liquidity reserve as well as contractual and optional cash flows is measured in different scenarios, with three liquidity positions being projected on a daily basis. The projections assume:

> unchanged market and funding conditions (base scenario)

> a risk scenario (modified [historical] stress scenario) and

> liquidity stress ([historical] stress scenario).

For instance, the risk and the (historical) stress scenario simulate possible client behaviour in stress situations. Historical time series are used to calculate 95% and 99% quantiles.

Liquidity risk triggers have been defined for 12-month and 24-month horizons in the base scenario. Limits in the risk and the (historical) stress scenario are applicable for a six-month horizon.

The limit system consists of:

> limits relating to the liquidity stress profile (risk scenario and (historical) stress scenario); and

> triggers for the base scenario

In addition to reporting, pbb Group uses stress tests, conducted at regular intervals, for investigating the impact of additional stress events on the liquidity position.

Scenario analyses are performed to simulate the potential impact of crises attributable to macro-economic, monetary policy or political crises on the liquidity situation.

The scenarios are reported to the Management Board, as well as to external bodies such as the ECB's Joint Supervisory Teams (JSTs) and national competent authorities.

Liquidity Risk Monitoring and Management

Monitoring of liquidity risks is ascertained through daily reporting of the liquidity situation and a defined escalation process. A liquidity emergency plan has also been adopted in this context; this plan forms the factual and organisational framework for the handling of any liquidity shortages.

Liquidity risk management is based on various interconnected components (daily and monthly liquidity reports), which are based on a «liquidity risk tolerance» defined by the Management Board. This ensures that pbb Group has adequate liquidity reserves at its disposal.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and
Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System
Relevant for the Consolidated Financial Reporting
Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Hedging and Reduction of Liquidity Risk

A risk tolerance system is in place, to limit liquidity risk. Risk tolerance is integrated in the liquidity management process by means of triggers (limit system), in order to safeguard a «survival period» for pbb Group in stressed conditions.

The limits applicable for risk tolerance are determined in line with stress scenarios, and adjusted at regular intervals.

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 31 December 2015 amounted to €6.0 billion for a 12-month horizon in the base scenario – a €1.7 billion increase compared to the previous year (based on the same projection horizon). As at 31 December 2015, the cumulative liquidity position for a six-month horizon amounted to €4.0 billion in the risk scenario (2014: €1.8 billion).

pbb's liquidity ratio in accordance with the German Liquidity Ordinance was 2.9 as at 31 December 2015, thus exceeding the statutory minimum of 1.0.

Regulatory Liquidity Coverage Requirements (LCR)

A minimum Liquidity Coverage Ratio (LCR) of 60% has applied to regulatory liquidity reports since 1 October 2015; this minimum value will rise to 100% by 1 January 2018.

The figures determined (internally) for pbb Group were clearly above 100%.

Funding Markets

Following the trend seen in previous years, interest rates continued to decline during the first quarter of 2015. This development only came to a halt after the start of the ECB's two quantitative easing policy measures – the Public-Sector Purchase Programme («PSPP») and the Covered Bond Purchase Programme 3 («CBPP3») – in March. In the absence of any indications for a sustained turn-around towards higher interest rates, capital markets remained in a conflict between exuberant liquidity searching for investments and low yields. From an investor's perspective, the situation once again exacerbated considerably, compared to previous years. Besides the decline in overall interest rate levels, credit spreads on covered issues narrowed further, driven by CBPP3, whilst unsecured

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System
Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

issues were burdened by uncertainty with regard to the implementation of the EU Bank Recovery and Resolution Directive (BRRD) into national law. The Directive defines the seniority of covered bond issues and deposits covered by deposit guarantee schemes; depending on how this is enshrined in national law, uncovered issues might no longer be eligible for repo transactions with the relevant national central bank.

An unusual number of geopolitical risks and changes materialised during the course of 2015 – with the crises in Greece and the Ukraine, the conflict in Syria and the fight against IS and Islamic terrorists being only a number of examples. Nonetheless, markets were driven by interest rate and monetary policies of the major central banks – the US Federal Reserve (Fed) and the ECB. Whilst the Fed's communications concerning its first interest rate hike for many years caused uncertainty and reticence with investors, the ECB's quantitative easing policy and a further interest rate cut in December pushed investors further out on the maturity or risk curves.

During the 2015 financial year, new long-term funding was raised in the amount of €4.5 billion (2014: €6.0 billion). €2.6 billion, more than half of long-term funding was issued in senior unsecured form; Pfandbriefe contributed about €1.9 billion. Early repayments on the assets side and adequate liquidity allowed for a reduction in covered funding.

€2.2 billion (2014: €2.6 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 31 December 2015, the volume of deposits taken via «pbb direkt» totalled €2.6 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 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);

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

- > 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

Funding Risk

Please refer to the description of business risk in the «Result of Risk-bearing Capacity Analysis» for details concerning funding risk.

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.

Opportunities

pbb Group's cumulative liquidity position of €6.0 billion in the base scenario over a 12-month horizon, which is detailed in the section «Development of pbb Group's Risk Position», as at 31 December 2015 provides the Group with scope for a flexible response, particularly with regard to possible new business.

If the external factors specified in the section «Forecast Liquidity Requirement» were to develop favourably for pbb Group, this would result in a lower future liquidity requirement.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Operational Risk (including Legal Risks)

Definition

pbb Group defines operational risk as the risk of loss resulting from inadequate or failed internal processes, human error, technological failure, or from external events. The definition includes legal, model, conduct, reputational, and outsourcing risks.

Strategy for Operational Risks

In the context of operational risk management, the top priority of pbb Group is to minimise financial losses from potential operational risk events. Key cornerstones of this strategy are the early recognition, recording, assessment as well as monitoring, prevention and limiting of operational risks, as well as early and meaningful management reporting.

Organisation of Operational Risk Management

Within RMC, the Operational Risk unit is responsible for coordinating consistent, Group-wide processes, tools and practices for the recording, assessment, monitoring and reporting of operational risks throughout pbb Group.

Special Developments in the Organisation of Legal Risk Management

In accordance with MaRisk, material risks in financial institutions must be evaluated by a unit that is independent from the front office and trading areas.

As the legal risk is regarded as material, the Legal department is responsible for managing legal risks, and is therefore a fixed component of risk management within pbb Group.

The primary objective of the Legal department in managing legal risks is to structure transactions so that they are legally enforceable and certain. This includes protecting the integrity and reputation of pbb Group. Accordingly, the Legal department supports the transactions of pbb Group by providing active and business-oriented advice.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

The Legal department also assist pbb Group's business divisions by monitoring developments in the relevant legislation and case law, and reviews the effects of such developments on new and existing business. The results are discussed with the responsible divisions and/or in the Legal and Regulatory Risk Committee. The Legal Policy describes the roles and responsibilities of the Legal department within pbb Group and serves as a guideline for pbb Group staff.

Legal risk is included and monitored in the context of the existing OpRisk Framework. This includes the Key Risk Indicator Report, the Operational Risk Self-Assessment, and an analysis of risk events.

The legal risk is also taken into account and described in all the important risk documents. It is regarded as being material for the Group, partially included in the ICAAP and backed by capital. Besides expert estimates, legal risk is also quantified for the purposes of Pillar II via the internal operational risk model within the ICAAP. In addition to the management, follow-up and capital-backing of legal risks, the Legal and Finance departments meet quarterly to discuss pending legal cases, to determine whether provisions need to be recognised, or such cases disclosed.

The Legal department indicates the probability of successful conclusion for each legal case.

Provisions for legal risks are recognised in accordance with IAS 37. Provisions are recognised for liabilities whose payment date or amount is uncertain. Provisions must be recognised if a present obligation has arisen for an entity from an event from which an outflow of resources with economic benefit for meeting this obligation is sufficiently probable, given a reasonable assessment of all circumstances, and the amount of the obligation can be reliably estimated. In accordance with IAS 37.15 there are isolated cases for which it is unclear whether a present obligation exists. In these cases, a past event leads to a present obligation if, taking into account all the available substantial indications for the existence of a present obligation as at the balance sheet date, there are more indications in favour than against the obligation. For exceptions, such as a legal dispute, the issue of whether certain events have occurred or whether these have led to a present obligation can be debated. In such cases, pbb determines whether a present obligation exists as at the balance sheet date, taking into account all the available substantial indications – including the opinion of, for instance, experts. Please refer to the Report on Expected Developments and the Note «Provisions» for a presentation of the legal risks.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Risk Reports, Monitoring and Management of Operational Risks

Operational risks are monitored by means of a network of controls, procedures, reports and responsibilities. Within pbb Group, each individual business area and management level takes on responsibility for its own operational risks, and provides appropriate resources and processes for limiting such risks. The focus is on active identification, management and mitigation of risks rather than on just risk monitoring, measurement and risk response.

Consolidated information is used in order to determine pbb Group's operational risk profile, and any measures required to mitigate identified risks. Annual operational risk scenario analyses are also used in this context.

Regular reports are prepared for the Chief Risk Officer (CRO) and the Group Risk Committee. The monthly Group Risk Report includes details concerning operational risk events and losses, as well as key risk issues affecting pbb Group. In addition, a quarterly risk report regarding key risk indicators informs the Management Board of potential risk sources. An Annual Operational Risk Report is produced, which includes a summary of important events during the year, plus the results of the operational risk self-assessment process. This report is circulated to pbb's Management Board, and presented to the Group Risk Committee.

Risk Measurement

The chapter «Result of Risk-bearing Capacity Analysis» provides details concerning the calculation as well as the quantification of economic capital for operational risk.

In line with the Standardised Approach, the regulatory capital backing for operational risks, which is calculated at the end of each year, was €64 million as at 31 December 2015 (31 December 2014: €81 million).

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Operational Risks Profile of pbb Group

pbb Group suffered financial losses of €2.8 million from operational risks during 2015 (2014: €10.9 million). In terms of operational losses, 54% was accounted for by the REF segment, 26% by the PIF segment, and 20% by the VP segment.

The Basel II event type «Execution, Delivery & Process Management» was the category with both the highest number of events (68%) and virtually all related financial effects (94%) during 2015. This result was also reflected in the operational risk self-assessment process, which is a detailed bottom-up risk assessment performed by all of the bank's divisions.

pbb Group's operational risk profile has improved continually over the past few years, thanks – amongst other factors – to pbb Group's successful privatisation as well as various IT projects which have contributed to stabilising and standardising the Group's IT systems.

Opportunities

The annual reports published in recent years noted that pbb Group has an increased reliance on employees in key positions. Whilst pbb Group assumes that this risk is set to remain unchanged, even after privatisation, there is a chance for this risk to decline over the next quarters, also due to the introduction of the new remuneration, and given the future of pbb Group.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and
Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System
Relevant for the Consolidated Financial Reporting
Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Property Risk

Property risks are defined as potential negative changes in the value of the Company's own property portfolio, due to a deterioration of the general real estate situation or a negative change of the specific characteristics of the individual property – caused by the property being vacant, changed usage options, building damages, investment requirements, changes to the legal framework or economic environment, etc.

pbb Group's own property portfolio (almost exclusively the result of salvage acquisitions carried out by subsidiaries) of pbb Group is limited to a few isolated cases. Salvage acquisitions are not regarded as a part of the Company's objectives (within the meaning of its business strategy) but are subject to a case-by-case assessment. In this context, the fundamental objective is to develop such properties with reference to comprehensive real estate criteria, such as costs vs. income, increasing occupancy ratios, optimising usage options as well as further development of the location, and to work out solutions in individual cases – or to subsequently sell the property with the most favourable impact on value.

By calculating economic capital at the level of individual transactions, property risk is recognised as a whole and monitored on a regular basis.

The administration and active risk management of salvage acquisitions is carried out by the Bank's Rescue Deal Management unit, which specialises on this business area.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Result of Risk-bearing Capacity Analysis

Going-Concern

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

Going-concern: economic capital			
in € million	31.12.2015	31.12.2014	Change
Credit risk	221	219	2
Market risk	155	256	-101
Operational risk	41	39	2
Business risk	-	3	-3
Property risk	4	10	-6
Total before diversification effects	420	527	-107
Total after diversification effects	390	488	-98
Available financial resources (free capital)	1,610	1,464	146
Excess capital (+)/capital shortfall (-)	1,220	976	244

The decline in total economic capital (after diversification effects) was largely shaped by lower market risk, reduced as a result of the sale of a state-guaranteed UK security, and the related reversal of inflation, interest rate, and foreign exchange risks. Moreover, credit spread risk was reduced by sales of Italian public-sector securities. To a lesser extent, the reduction was also due to methodological enhancements of the market risk model.

Despite further developments in the operational risk model, the related contribution to risk did not change materially compared to 2014.

Besides the sale of a property in Japan during the first half of 2015, some properties (salvage acquisitions) were written down to fair value (Teilwert); as a result, the property risk also declined. Credit risk increased only slightly during the course of the year.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System

Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

This is opposed by available financial resources in the form of so-called free capital, largely comprising available CET1 capital, plus accrued profits, less the CET1 capital necessary for covering the regulatory minimum ratios (in accordance with Regulation (EU) No 575/2013 – the «CRR») and additional adjustment items. In accordance with the principle of prudence, an additional charge in relation to risk-weighted assets is taken into account in order to determine the CET1 capital necessary for covering the regulatory minimum ratios. The free capital is calculated both on the basis of current figures, as well as on planned values over a time horizon of one year. The lower free capital arising from these calculations is used as available financial resources in the going-concern approach. The significant increase in free capital was predominantly due to profits accrued during 2015.

Excess coverage increased further, thanks to the decline in economic capital (including diversification effects) and the simultaneous increase in available financial resources. Proof of pbb's risk-bearing capacity as at the reporting date was thus evident in this approach.

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

Going-concern: economic capital according to segments			
in € million	31.12.2015	31.12.2014 ¹⁾	Change
Real Estate Finance	124	135	-11
Public Investment Finance	16	12	4
Value Portfolio	213	257	-44
Consolidation & Adjustments	43	95	-52
Total²⁾	390	488	-98

¹⁾ In order to enhance comparability, economic capital figures as at 31 December 2014 are pro-forma figures which already contain the transfer of the Italian portfolio from the PIF segment to the VP segment on 1 January 2015 and which were calculated with the same segment allocation as at reporting date 31 December 2015.

²⁾ Due to diversification effects the total of economic capital of pbb Group does not equal the sum of economic capital of the individual segments.

The most important developments on a segment level during the 2015 reporting period took place in the C&A and VP segments. Lower economic capital in these two segments reflected the securities sales during the first six months of the year. In C&A, this mainly reflected the sale of a state-guaranteed security issued by a UK borrower, whilst the sale of Italian public-sector securities contributed to the decline in economic capital in the VP segment. The decline in REF was predominantly due to positive developments of risk parameters (LGD), and to a recalibration of the share of systematic risk attributed to real estate borrowers within the credit portfolio model. The rating change of a public sector borrower significantly increased the risk in the PIF segment.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Gone-Concern

Supplementing the going-concern approach, pbb Group uses a gone-concern approach (liquidation perspective) as an additional, parallel management approach. The objective of the gone-concern approach is to guarantee protection of senior lenders in a hypothetical liquidation scenario, with a very high probability. pbb Group has selected a confidence level of 99.91% that is harmonised with the generally conservative parametrisation of the models. However, this liquidation scenario does not assume an opportunistic winding up of portfolios as postulated by the German Pfandbrief Act, and instead assumes an immediate sale of assets recognised at fair value and of securities in the investment book. According to this assumption, besides the already mentioned material risks identified in the going-concern approach, it also takes account of credit spread risks arising from securities in the investment book for calculating economic capital for market risk, and simultaneously deducts net hidden losses attributable to these securities for determining available financial resources.

Gone-concern: economic capital			
in € million	31.12.2015	31.12.2014	Change
Credit risk	1,249	1,437	-188
Market risk	1,072	1,356	-284
Operational risk	86	84	2
Business risk	35	65	-30
Property risk	6	23	-17
Total before diversification effects	2,448	2,965	-517
Total after diversification effects	2,221	2,647	-426
Available financial resources before hidden losses	3,243	4,147	-904
Hidden losses	-	-	-
Available financial resources	3,243	4,147	-904
Excess capital (+)/capital shortfall (-)	1,021	1,500	-479

The decline in diversified economic capital during the reporting period was largely attributable to lower market risk and credit risk.

Market risk declined, largely due to the same developments as in the going-concern approach. Both the sale of Italian government bonds from the VP segment 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.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

The decrease in credit risk was largely due to sales of securities issued by Italian public-sector borrowers; this had a positive effect upon credit risk exposure, thanks to a reduction in risk concentrations. In addition, credit risk was lower due to improved parameters related to realisation rates, a recalibration of the share of systematic risk attributed to real estate borrowers within the credit portfolio model, as well as lower conversion factors applied to certain undrawn credit lines.

Business risk was also lower compared to the previous year, due to a decline in funding risk (which is included in business risk), caused by lower excess coverage requirements for Mortgage Pfand-brief cover assets pools.

Property risk declined, due to the sale of a Japanese property in April 2015 and write-downs of salvage acquisitions to fair value (Teilwert).

Despite further developments in the operational risk model, the related contribution to risk did not change materially compared to 2014.

Aggregate diversified economic capital after diversification effects decreased significantly as a result of the changes outlined above.

The repayment of the silent partnership contribution 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 capital fell in 2015 but was nonetheless significant, evidencing the Bank's risk-bearing capacity as at the reporting date in the gone-concern approach as well.

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.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System

Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

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

Gone-concern: economic capital according to segments			
in € million	31.12.2015	31.12.2014 ¹⁾	Change
Real Estate Finance	482	650	-168
Public Investment Finance	209	237	-28
Value Portfolio	1,266	1,557	-291
Consolidation & Adjustments	302	334	-32
Total²⁾	2,221	2,647	-426

¹⁾ In order to enhance comparability, economic capital figures as at 31 December 2014 are pro-forma figures which already contain the transfer of the Italian portfolio from the PIF segment to the VP segment on 1 January 2015 and which were calculated with the same segment allocation as at reporting date 31 December 2015.

²⁾ Due to diversification effects the total of economic capital of pbb Group does not equal the sum of economic capital of the individual segments.

The decline in the VP segment was predominantly attributable to the sale of securities of public-sector borrowers. Moreover, further developments in market risk models – especially in the VP and REF segments – resulted in lower economic capital; improved asset valuations for bond holdings in the event of large parameter shifts had a positive impact in this respect.

The decline in REF was largely due to improved parameters related to realisation rates, lower conversion factors applied to certain undrawn credit lines, and to a recalibration of the share of systematic risk attributed to real estate borrowers within the credit portfolio model.

Market risk modelling developments during the second quarter, with improved inclusion of negative interest rates and the use of sensitivity parameters which are more closely aligned to the liquidation approach, led to higher market risk, particularly in C&A which comprises own funds investments including interest rate positions. Whilst this increase more than offset the positive effect of the sale of a state-guaranteed UK security, the overall economic capital in C&A declined during the reporting period. This was due to a significant decline in business risk in the gone-concern stress scenario during the fourth quarter, reflecting lower excess coverage requirements for Mortgage Pfandbrief cover assets pools.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Opportunities

pbb Group observed relief on European bond markets during the course of 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 coverage in the ICAAP.

Method Used for the Individual Risk Types

Economic capital for each risk type is determined using a quantitative approach, and is aggregated to form an overall bank risk, with due consideration being given to specific correlations. In line with the common market standard, figures for the various risk types are calculated for a period of one year and in relation to a defined confidence level (99.91% in the gone-concern, 95% in the going-concern approach).

The methods of calculating economic capital for the individual material risk types for 2015 are explained below:

Credit Risk

For calculating the credit risk at the portfolio level, pbb Group uses a credit portfolio model which is based on the approach of a so-called asset value model. As the fundamental underlying concept, repeated simulation of correlated rating migrations and borrower defaults, together with a calculation of resulting value changes (via a corresponding revaluation of the portfolio) allows for probability statements to be made with regard to potential losses from the lending business. The loss distribution calculated in this way can then be used to calculate the economic credit risk capital as an unexpected loss. This defines the maximum unexpected loss calculated for a defined confidence level, which may be incurred within one year, due to rating migrations and defaults in the lending business. Besides the loss distribution of the credit portfolio, as a significant result of this process, credit risk capital can be assigned to individual borrower units in line with the risks involved, using the so-called expected shortfall principle. This ensures a fair, risk-adequate allocation to borrowers, and thus constitutes a major cornerstone in the risk-oriented management of the credit portfolio.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System

Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Market Risk

The purpose of calculating economic capital for market risk is to identify potential financial losses resulting from price changes affecting all positions. In this process, the potential non-systematic losses are derived from an analysis of historical time series of specific influencing factors (risk factors), including interest rates, exchange rates and credit spreads, over the preceding seven years. The seven-year horizon ensures that economic phases which were not favourable for the bank are also taken into account in the model. The annual loss distribution of the portfolio market value is then determined by means of a simulation procedure and using the linear sensitivities of the financial instruments; this can then be used to determine the economic capital in relation to a confidence level of 95% and 99.91%, respectively.

The market risk methodology was further developed during the second quarter of 2015 – firstly, to better reflect negative interest rates observed in the market, and secondly, to more precisely capture changes in the value of bonds caused by large market movements. Moreover, the calculation of sensitivity parameters for the gone-concern approach was consistently adapted to the liquidation view in this management approach.

Operational Risk

The procedure for incorporating operational risk into the ICAAP was reviewed during the second half of 2015, and also brought into line with the Supervisory Review and Evaluation Process (SREP). As a matter of principle, data from both internal and external historical loss databases as well as scenario data and expert estimates are used to quantify operational risks. The model's mathematical core is based on a standardised approach where a loss distribution is calculated via separate estimates of loss amount and loss frequency, using a Monte Carlo simulation. The distribution is additionally enhanced by expert information, especially in order to capture sub-risks which cannot be fully mapped using models – legal risk, for example. Furthermore, sub-risks of operational risk which cannot be quantified (or only partially), such as reputational risk or behavioural risk, are covered by a capital buffer. When reporting economic capital for operational risk, the Bank also ensures that this amounts to at least 90% of the capital requirement calculated via the standardised approach for operational risks pursuant to Articles 317 et seq. of the «CRR».

Business Risk

pbb Group generally defines business risk as the risk of reductions in profit, due to changes in the external business environment which affect the Bank's economic conditions. Alongside non-quantifiable risks, such as regulatory risk and strategic risk, these include risks arising from increased funding costs and/or higher funding requirements, as well as earnings risk. Economic capital for business risk is calculated using a scenario-based increase in funding costs due to higher funding requirements, and a simultaneous increase in the unsecured funding rate. One way in which earnings risk is taken into account is the exclusion of planned income from new business from available financial resources.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Property Risk

pbb Group's property risk is calculated using a mathematical-statistical model that enables the Bank to make statements on the probability of potential declines in the value of properties in its portfolio. The input parameters for the model are mainly based on time series of real estate indices which are representative of the portfolio.

Liquidity Risk

Liquidity risk in the narrower sense cannot be covered by capital. Liquidity risks in a broader sense – i.e. higher funding costs for potential funding gaps – are recognised in economic capital for business risk.

Stress Testing

Stress tests play an important role, both from a supervisory perspective and for the Bank's internal management. All activities, developments and decisions relating to stress tests are brought together within the Stress Test Committee, which reports directly to the Risk Committee. As part of an integrated approach, the impact of macroeconomic stress scenarios on all material risks and on available financial resources under stressed market parameters was calculated for a horizon of several years during the period under review. These scenarios focus on an escalation of the sovereign debt crisis and on unfavourable developments on the real estate markets.

Furthermore, stress tests relating to economic capital and available financial resources are used to obtain a deeper understanding of the sensitivity of risk-bearing capacity to adverse changes in economic factors. In addition, inverse stress tests are conducted regularly. The results of these test describe specific constellations of parameters under which the risk-bearing capacity would be at risk.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

SREP

On 19 December 2014, the EBA published its final guideline (EBA/GL/2014/13) on the Supervisory Review and Evaluation Process («SREP»), following a consultation process. The objective of the SREP is a holistic analysis of institutions; amongst other factors, this includes a comprehensive analysis of the business model, of risk and corporate governance, the risk situation, as well as capitalisation and liquidity status. In keeping with the proportionality principle, intensity and frequency of audits are linked to a classification of institutions with regard to size, importance, and business activities. The key result of the SREP is the institution's differentiated credit quality score – the SREP score, which is in turn the result of individual scores assigned regarding the issues mentioned (business model, governance, capital and liquidity). Supervisors are not bound to use a simple average of these single scores. The SREP is thus targeted upon a holistic evaluation of an institution, culminating in a five-level overall credit quality grading of an institution. Besides grades 1 to 4, the lowest result is «F» («failing» or «likely to fail»). SREP is therefore the bridge between the former Pillar II (in accordance with Articles 76–87, 97 of Capital Requirements Directive - «CRD IV») and the EU Bank Recovery and Resolution Directive (2014/59/EU – «BRRD»), which focuses on winding up and reorganisation.

Based on the results of the analysis as well as using benchmark comparison, the ECB may impose minimum capitalisation or liquidity requirements, over and above existing regulatory requirements. As a key SREP result, a minimum CET1 ratio was prescribed for pbb Group, which the Group complied with as at 31 December 2015. Continued compliance with the SREP ratio is ensured by a limit system. A «traffic light» system and regular reporting within the Group Risk Report ensure that pbb is able to detect any potential shortfall at an early stage, and that senior management can be informed accordingly.

Key Regulatory Capital Ratios

During the period under review, until the time of its privatisation, pbb was exempted – under the waiver option pursuant to Article 7 of the Capital Requirements Regulation («CRR») – from determining own funds and own funds requirements at a single-entity level as well as at pbb Group level. Until this point in time, pbb Group disclosed these figures on a voluntary basis. Since the waiver has no longer been available since July 2015, pbb must determine own funds and own funds requirements at single-entity and combined levels, pursuant to section 10 a (1) of the German Banking Act (Kreditwesengesetz – «KWG» – in conjunction with Articles 11 et seq. of the Capital Requirements Regulation – «CRR»).

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System

Relevant for the Consolidated Financial Reporting

Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

The Capital Requirements Regulation («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, pbb has determined its regulatory capital ratios 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», 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%. Moreover, the so-called capital conservation buffer, which imposes a 0.625% add-on for these ratios (and which will rise to 2.5% by 2019), has come into force in 2016.

The Advanced Internal Rating Based Approach (Advanced IRBA) is used to determine regulatory capital requirements for all material portfolios.

Own Funds in € million	31.12.2015		31.12.2014	
	31.12.2015 ¹⁾	Basel III fully phased-in ¹⁾²⁾	Basel III ³⁾	Basel III fully phased-in ²⁾³⁾
CET1	2,533	2,439	3,364	2,090
Additional Tier 1	209	–	195	999
Tier 1	2,742	2,439	3,559	3,089
Tier 2	398	231	483	334
Own Funds	3,140	2,670	4,042	3,423

¹⁾ After confirmation of the 2015 financial statements and appropriation of profits, less the proposed dividend (subject to approval by the Annual General Meeting)

²⁾ After expiry of all Basel III transitional regulations

³⁾ Consolidated in accordance with CRR (including appropriation of 2014 results)

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Risk-weighted assets (RWA)¹⁾	31.12.2015		31.12.2014	
in € million	31.12.2015	Basel III fully phased-in²⁾	31.12.2014	Basel III fully phased-in²⁾³⁾⁴⁾
Market risks	70	70	217	217
thereof interest rate risks	–	–	–	–
thereof foreign exchange risks	70	70	217	217
Operational risks	795	795	706	706
Credit risks	12,371	12,371	14,261	14,261
thereof CVA charge	374	374	445	445
Other RWA	166	166	1	1
RWA total	13,402	13,402	15,185	15,185

¹⁾ Including weighted credit risk positions and capital charges for market risk positions and operational risk, using a scaling factor of 12.5

²⁾ After expiry of all Basel III transitional regulations

³⁾ Consolidated in accordance with CRR

⁴⁾ The figures diverge from the values shown in the 2014 Annual Report, due to a retrospective adjustment

Capital ratios	31.12.2015		31.12.2014	
in %	31.12.2015¹⁾	Basel III fully phased-in¹⁾²⁾	31.12.2014	Basel III fully phased-in²⁾³⁾⁴⁾
CET1 ratio	18.9	18.2	22.2	13.8
Tier 1 ratio	20.5	18.2	23.4	20.3
Own funds ratio	23.4	19.9	26.6	22.5

¹⁾ After confirmation of the 2015 financial statements and appropriation of profits, less the proposed dividend (subject to approval by the Annual General Meeting)

²⁾ After expiry of all Basel III transitional regulations

³⁾ Consolidated in accordance with CRR (including appropriation of 2014 results)

⁴⁾ The figures diverge from the values shown in the 2014 Annual Report, due to a retrospective adjustment

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System

Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

Concept

The internal control system and risk management system relevant for the consolidated financial reporting process comprise the principles, processes and measures used to ensure the effectiveness and efficiency of financial reporting, as well as to ensure compliance with statutory provisions. The objective of the internal control system and risk management system relevant for the consolidated financial reporting process system is to ensure that the consolidated financial statements comply with the relevant rules in respect of the consolidated financial statement. Risks that may prevent this overall objective from being achieved are identified and assessed in the process; any risks identified are limited and their effect on the financial statements and their appropriate presentation are reviewed. The internal control system relevant for the consolidated financial reporting process is an integral part of the risk management system. It aims to implement controls so as to provide sufficient assurance that, despite the risks identified, the financial statements are prepared in accordance with the relevant rules. However, an internal control and risk management system relevant for the consolidated financial reporting process cannot provide an absolute guarantee that these goals will be met.

pbb Group's internal control system and risk management system relevant for the consolidated financial reporting process is reflected in its organisational structure and workflows. With respect to the organisational structure, it primarily comprises the Management Board, the Supervisory Board as the supervisory body, the Audit Committee established by the Supervisory Board, the Finance division reporting to Co-CEO/CFO and the Group Finance Committee (GFC).

pbb's Management Board is required to prepare consolidated financial statements and a Group management report. In connection with the requirement to establish a Group-wide internal control and risk management system, the whole Management Board of pbb is also responsible for the form – i.e. the concept, implementation, maintenance and monitoring – of an appropriate and effective internal control and risk management system relevant for the consolidated financial reporting process. All strategies are decided on by the whole Management Board on the basis of recommendations made by the Co-CEO/CFO or the GFC.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System
Relevant for the Consolidated Financial Reporting
Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

The Supervisory Board is tasked with advising and monitoring the Management Board. It also has audit and reporting-related obligations. pbb's Supervisory Board established an Audit Committee to support its activities in this area. In accordance with section 100(5) of the Aktiengesetz (AktG – German Stock Corporation Act), at least one member of the Supervisory Board must have expertise in accounting or auditing. Pursuant to the so-called EU Audit Reform, pbb's Audit Committee will have to comply with stricter requirements, with effect from 17 June 2016: for example, the committee as a whole needs to have extensive knowledge of the banking sector (the concept of «sector competence»). Given the relevant professional experience of every Audit Committee member, the Committee already has the sector competence which will be required in the future.

Group Internal Audit supports the Management Board and the Supervisory Board in its control function by performing independent audits.

At 31 December 2015, the Co-CEO/CFO was responsible for Communications, Corporate Office/ Compliance, Finance and Legal. The Finance division comprises the Accounting, Financial Reporting, Regulatory Reporting, Procurement Services & Corporate Controlling and Tax departments. The Finance division prepares the consolidated financial statements in accordance with IFRS as applicable in the EU and provides the capital market information relevant to accounting. pbb Group companies prepare their financial statements in accordance with the relevant local legal requirements. These financial statements are standardised around uniform Group accounting policies in accordance with IFRS for the purposes of Group financial reporting. Each entity included in the consolidated financial statements reports its statement of financial position, income statement, and notes to a central department in Group Accounting via the consolidation software. Group Accounting translates the foreign currency positions into euros using the consolidation software. The data are validated, analysed and consolidated.

The GFC issues recommendations to the Management Board. These include, among other things, establishing and monitoring the accounting and reporting policies as well as workflows for all units and segments. The GFC is composed of the members of the Management Board and the managers of the Finance, Risk Management & Control and Treasury divisions.

With respect to workflows, the internal control system and risk management system relevant for the consolidated financial reporting process is based on the objective of largely standardised the processes and software. Core activities and processes are governed by policies and a code of conduct, according to which the four eye principle must be applied in all material transactions. Data and IT systems are protected against unauthorised access. In addition, certain relevant information is only made available to those employees who need it for their work. Where necessary, results are agreed at Group level.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and
Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

**Internal Control System and Risk Management System
Relevant for the Consolidated Financial Reporting
Process**

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Implementation

pbb Group implemented the concept for the internal control system and risk management system relevant for the consolidated financial reporting process to identify, assess and limit risks.

pbb Group has introduced a control attestation process to strengthen the internal control system. After adjusting for risk, all the significant controls of divisions of pbb Group are recorded and controlled in this process. These key controls are reviewed and confirmed by the divisions in a regular reporting process. Corporate Office/Compliance and Group Internal Audit review these in a downstream process.

There is a clear separation of functions within the Finance division. The GFC and other committees, as well as divisional meetings serve as overarching links between the different tasks. In addition, executing, accounting and administrative activities such as payment transfers and payment entries are clearly separated or subject to the four eye principle. Furthermore, the units included in the consolidated financial statements report their data to a central Group department, ensuring the subsequent processing in a uniform manner.

Systems-based and non-systems-based risk management measures and internal controls are used within the workflows. At the systems level, standard software is used as far as possible to post, reconcile, check and report data so as to avoid errors. The same applies to consolidation, which is performed using standard market software. The consolidation software supports the reconciliation of intragroup transactions at a technical level in a clearly defined process, ensuring that these transactions are eliminated correctly and in full. Data from the entities included in the consolidated financial statements are reported using a uniform, standardised chart of accounts. Automated plausibility checks are performed on the data reported by subsidiaries for consolidation purposes, for example. The largest part of assets and liabilities is held by the parent company pbb. The balances carried forward are checked by the system. To prevent data loss, the data in the consolidation software are backed up on a daily basis and the backup is stored on tape. As a general rule, pbb Group's software is protected against unauthorised access by a clearly defined administration concept and authorisation rules.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System
Relevant for the Consolidated Financial Reporting
Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Alongside the systems-based measures, pbb Group has implemented manual and non-systems-based processes. For example, the correctness and completeness of the data reported are checked using a standardised process involving variance analyses based on plan/actual comparisons, among other things. In addition, the consolidated statement of financial position and the consolidated income statement are determined on a monthly basis. Projections and forecasts are also drawn up. Mandatory Group-wide accounting guidelines are defined and communicated in a manual, among other ways. These guidelines cover the analysis and interpretation of new and existing IFRS standards and interpretations so as to ensure the application of uniform accounting policies across the Group. Generally applicable valuation methods are used. The procedures used and the underlying parameters are reviewed at regular intervals and modified as necessary.

In order to improve the quality of controls, various divisions are integrated in certain processes and are required to reconcile. For example, the interdepartmental new product process and the review of existing products (with a right of veto by the Finance division) are designed to ensure that products are recognised in the financial reporting in a uniform and systematic manner. In addition, the processes of the market valuations undertaken by Risk Management & Control are coordinated in the GFC. Annual and interim report preparation is another example of interdepartmental coordination. All of the areas involved must sign off on these reports before they are officially prepared by the Management Board (subcertification process), creating an additional level of control for the products to be disclosed. All of the divisions affected agree in advance on the content of material sections of the annual and interim reports in editorial meetings.

As part of the risk management system relevant for the consolidated financial reporting process, pbb Group takes measures to combat fraud and intentional violations that negatively impact the Group. Fraud against pbb Group includes theft, embezzlement, or breach of fiduciary duty, as well as intentional accounting errors in connection with the consolidated financial reporting process. pbb Group identifies and evaluates risks and takes measures to prevent such fraudulent activities and intentional violations. In addition, a systems-based concept is used to train employees in compliance regulations.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

**Internal Control System and Risk Management System
Relevant for the Consolidated Financial Reporting
Process**

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Maintenance

pbb Group reviews and improves its internal control system and risk management system relevant for the consolidated financial reporting process on an ongoing basis, amongs others, as part of Management Board and GFC meetings, to ensure that risks are identified, assessed and limited as accurately and as comprehensively as possible. Consequently, the internal control and risk management system relevant for the consolidated financial reporting process is adapted to new circumstances such as changes to pbb Group's structure and business model or new statutory requirements.

The risk of fraud and intentional violations is regularly analysed in order to take defensive measures. Factors taken into account include suspicious events and changes in pbb Group's situation and that of individual employees.

Any changes to processes and IT systems required as a result of legislative amendments are implemented as separate interdepartmental projects with a clear allocation of functions. At the same time, the risk management system relevant for the consolidated financial reporting process is also adapted to the changes in the provisions.

pbb Group's IT landscape is continually enhanced. A project to further optimise the target IT architecture for Finance and Risk was launched during the year under review. The scope of this project bundles the implementation of new accounting requirements (such as IFRS 9) and regulatory requirements, plus adjustments to IT systems and processes for preparing the financial statements. In 2014 the number of company codes were reduced and the general ledger was improved.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

Organisation and Principles of Risk and Capital Management

Risk Types

Credit Risk (Counterparty Risk)

Market Risk

Liquidity Risk

Operational Risk (including Legal Risk)

Property Risk

Result of Risk-bearing Capacity Analysis

Internal Control System and Risk Management System Relevant for the Consolidated Financial Reporting Process

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Monitoring

The Group Internal Audit division reports to the Co-CEO/Treasurer. This division is in particular responsible for checking that processes and procedures are carried out in a due and proper manner and identifying inefficiencies, irregularities or manipulation. The Group Internal Audit division also reviews the effectiveness and appropriateness of risk management and the internal control system in an independent and risk-oriented manner in line with the rules set out in the Minimum Requirements for Risk Management (MaRisk), and identifies any weaknesses in risk identification, assessment and mitigation. This also includes reviewing the IT systems and the processes and controls of the Finance functions. Concrete action plans with specific deadlines are drawn up and their implementation monitored to remedy the identified shortcomings. Group Internal Audit as an independent division is not integrated into the workflow, nor is it responsible for the results of the audited process. In order to be able to carry out its duties, Group Internal Audit has a full and unrestricted right to information on activities, processes and the IT systems.

As the body responsible for supervising and advising the Management Board, the Supervisory Board may inspect and examine the Company's books and assets in accordance with section 111(2) of the AktG. In addition, the Management Board reports regularly to the Supervisory Board. Group Internal Audit reports to the whole Management Board and the Audit Committee of the Supervisory Board at appropriate intervals, however, at least quarterly. In accordance of section 25 d(8) of the German Banking Act (Kreditwesengesetz) the Chairman of the Audit Committee can directly obtain information from the heads of Group Internal Audit and Risk Management & Control. The Supervisory Board discusses the internal control and risk management system relevant for the consolidated financial reporting process. The Supervisory Board appoints the auditors of the consolidated financial statements and the Group management report. The Supervisory Board approves the consolidated financial statements and the Group management report prepared by the Management Board and audited by the independent auditors.

The auditors of the financial statements attend the Supervisory Board meetings relating to the financial statements and all of the meetings of pbb Group's Audit Committee to report on the material findings of their audit including material weaknesses in the internal control and risk management system relevant for the consolidated financial reporting process. Where relevant, the auditors immediately report findings and issues that emerge during the audit and that are material for Supervisory Board to carry out their duties. The Supervisory Board discusses the focus of the audit with the auditors in advance.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

pbb Group as an Employer

pbb Group employed 824 people at the end of 2015 (2014: 844). In 2015, the adjusted fluctuation rate for pbb Group was 8.42% (2014: 14.0%).

As part of the preparations for the privatisation of pbb Group (and the associated split-off of HRE Holding and pbb Group), the Group successfully implemented further organisational changes during the course of 2015. In this context, pbb Group continued to focus on implementing an organisational structure with efficient processes, as in the previous year.

Given the strong emphasis of pbb Group's business model on experts with excellent qualifications, training and continuous professional development (CPD) measures form an integral part of Human Resources development. Training offers thus continued throughout 2015, and were continuously adapted to the CPD requirements of business divisions and staff. As in previous years, the focus was on internal management trainings, staff seminars, as well as external training measures concerning various professional topics such as regulatory requirements and current developments in capital markets law, credit risk and interest rate derivatives, as well as requirements in the areas of social and procedural skills.

Expenses for internal and external staff qualification measures totalled €0.7 million (2014: €0.8 million) during 2015. This was equivalent to 3.2 training days per employees, or 9.4 days on average for the 208 staff members who took part in qualification measures.

pbb Group is committed to enabling its employees to enjoy both their career and their family – for instance, allowing for highly flexible working hours. 15% of employees worked part time in 2015: at 34%, the share of women opting for part-time work was considerably higher than for men.

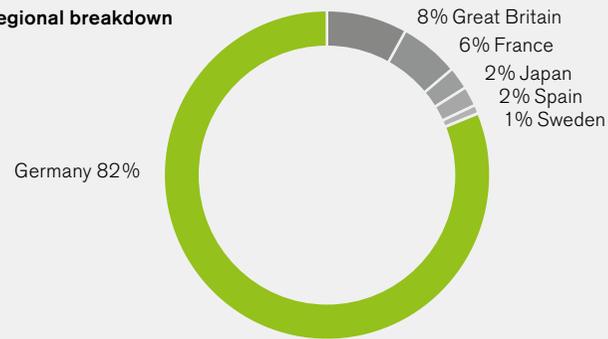
pbb Group's position as an attractive employer is also underlined by the fact that 99% of Group staff are in permanent employment.

- Overview
- Contents
- Letter of the Management Board
- Report of the Supervisory Board
- The pbb Share
- Group Management Report
- Fundamental Information about the Group
- Report on Economic Position
- Report on Post-balance Sheet Date Events
- Risk and Opportunity Report
- pbb Group as an Employer
- Remuneration Report
- Report on Expected Developments
- Supplemental Information
- Consolidated Financial Statements
- Additional Information

Employees pbb Group

as of 31 December 2015

Regional breakdown



Gender distribution



Health Promotion

pbb Group has expanded its support for health-promotion measures, providing an annual health budget promoting individual (private) activities as well as group activities founded upon employee initiatives regarding exercise, nutrition, and stress prevention. The related budget totalled € 80,000 in 2015.

Promoting Social Commitment

pbb Group highly values the social commitment of its employees, promoting staff initiatives as well. As a prerequisite for financial support to be provided by pbb Group, such private initiatives must be dedicated to non-profit projects, such as work for young people, sick people, the elderly, socially disadvantaged people – or in connection with projects on topics such as environmental protection or the integration of foreigners into society.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Management Board

Supervisory Board

Employee Remuneration

Remuneration Oversight Committee and Remuneration Officer

Risk-Takers

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Remuneration Report

The Remuneration Report follows the recommendations of the German Corporate Governance Code (the «Code») and includes the information required pursuant to the German Commercial Code (Handelsgesetzbuch – «HGB»), and in accordance with the International Financial Reporting Standards (IFRS). The Report provides an overview of the various components of remuneration for the members of the Management Board and the Supervisory Board, and on the principles of staff remuneration.

As in the previous years, pbb Group's remuneration system exclusively provided for fixed remuneration components.

Pursuant to section 10(2a) of the German Financial Markets Stabilisation Fund Act (Finanzmarktstabilisierungsfondsgesetz – «FMStFG»), until its privatisation in July 2015, pbb Group was prohibited from paying variable remuneration to the members of its Management Board, and its employees. Moreover, fixed salaries were limited to a maximum of €500,000 per annum. These requirements, which apply to certain banks supported by the State during the financial markets crisis, contradict the remuneration rules set out in the German Remuneration Ordinance for Institutions (Institutsvergütungsverordnung – «InstVergV») and in Articles 92 et seq. of CRD IV. When pbb Group was privatised, the remuneration systems for the Management Board and employees therefore needed to be adjusted. Based on an analysis of requirements for such adjustments (which was already carried out the year before), in 2015 pbb Group redesigned the remuneration systems for the Group in its current situation, in an appropriate manner that is in line with the law and prevailing market conditions, also introducing variable remuneration. This adjusted remuneration system was implemented with effect from the year 2016. In this context, pbb Group's objective was to implement the design of the adjusted remuneration system, for all of the Group's domestic and international employees and the members of the Management Board, in as uniform a manner as practicable, as well as to the degree permissible under contractual agreements and regulatory requirements.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Management Board

Supervisory Board

Employee Remuneration

Remuneration Oversight Committee

and Remuneration Officer

Risk-Takers

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Management Board

Principles

In principle, remuneration for the members of pbb's Management Board is designed to ensure a performance-oriented payment, taking the Company's size and international business activities into account. Besides a peer review, based on remuneration for Management Boards and senior management roles in similar companies in Germany and abroad, and a comparison to remuneration for other functions within pbb Group, the Company's financial situation and performance is also taken into account. The Remuneration Oversight Committee and the plenary meeting of the Supervisory Board discuss the amount and structure of Management Board remuneration on a regular basis, also involving external advisors.

In light of section 10 (2a) of the German Financial Markets Stabilisation Fund Act (Finanzmarktstabilisierungsfondsgesetz – «FMStFG»), no variable remuneration was implemented or paid for the year 2015. In this respect, the Group thus also diverged from the principle of performance-based payment.

Until 31 March 2015 (in the case of Dr. Bernhard Scholz, until 1 June 2015), the members of pbb's Management Board were also Management Board members of HRE Holding. Whilst the service contracts for members of the Management Board were entered into with pbb in 2014, up until the split-off between pbb Group and HRE Holding on 31 March 2015, pbb passed on costs incurred from Management Board remuneration to HRE Holding. Furthermore, 10.82% of the remuneration for Dr. Bernhard Scholz for the months of April and May 2015 was passed on, due to services rendered to HRE Holding.

The Management Board members' service contracts comply with the prevailing remuneration principles set out by the German Financial Markets Stabilisation Fund (Finanzmarktstabilisierungsfonds – «FMS»), even though the limitations of section 10 (2a) and (2b) of the FMStFG no longer apply after the privatisation of pbb Group.

Remuneration Components

The service contracts entered into with the Management Board members generally provide for the following remuneration components:

- > non-performance related (monetary) remuneration, plus non-cash remuneration;
- > performance-related variable remuneration;
- > pension commitment.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Management Board

Supervisory Board

Employee Remuneration

Remuneration Oversight Committee
and Remuneration Officer

Risk-Takers

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Non-performance-related Remuneration

Fixed remuneration levels are reviewed, and adjusted if appropriate, at regular intervals, using an external market survey. No automatic adjustment will take place. As part of the review, carried out during 2015, of whether existing remuneration for Management Board members was appropriate, the fixed remuneration for Messrs Andreas Arndt, Thomas Köntgen and Andreas Schenk was brought in line with the fixed remuneration for Dr. Bernhard Scholz. With effect from 1 November 2015, fixed remuneration has thus amounted to €500,000 gross per annum for each Management Board member. In addition, the Company granted non-cash benefits to the members of the Management Board which are within customary scope. These non-cash benefits include the provision of a company car (including driver), whereby the Company covered all costs incurred in this respect. Where a member of the Management Board was required to maintain a second household, the Company paid the cost for a second apartment at the place of work, for a maximum of two years. Moreover, the Company has taken out a group accident insurance policy for the members of the Management Board. The Management Board members pay taxes due on these benefits in kind.

No additional remuneration is paid for any offices which individual Management Board members hold on (supervisory) boards or management boards within pbb Group.

The members of the Management Board have waived their contractual claim on a payment due upon successful conclusion of pbb's privatisation.

Variable Remuneration

No variable remuneration was paid to Management Board members for 2015. Following privatisation of pbb Group, and the associated lapse of limitations of section 10 (2a) and (2b) of the FMStFG, variable remuneration was introduced with effect from 1 January 2016.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Management Board

Supervisory Board

Employee Remuneration

Remuneration Oversight Committee and Remuneration Officer

Risk-Takers

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Conclusion of New Services Agreements/Termination Agreements

The Supervisory Board has extended the appointment of Andreas Schenk to the Management Board early, with effect from 15 December 2015, for a further term of five years expiring on 14 December 2020. The reason for the early extension was to remove the concentration of hitherto largely identical end dates of Management Board service contracts, in the interests of the Company's stability. In this context, a new service contract was concluded with Andreas Schenk, for a term that is identical to his term of office, and including variable remuneration provisions as in force from 1 January 2016.

In December 2015, the service contracts with Andreas Arndt, Thomas Köntgen and Dr. Bernhard Scholz were amended, by way of corresponding amendment agreements, incorporating – amongst other things – the provisions governing variable remuneration from 1 January 2016 onwards, as well as the requirements of the German Corporate Governance Code (the «Code») regarding a cap on Management Board remuneration (section 4.2.3 (2) of the Code) and a severance payment cap (section 4.2.3 (4) of the Code). The same applied to the new service contract entered into with Andreas Schenk.

Mr. Wolfgang Groth resigned from his office as a member of pbb's Management Board, effective 31 March 2015, in agreement with the Supervisory Board, and entered into an agreement to terminate his service contract. No one-off special allowance was paid, nor were any severance or transitional payments made.

Disclosure of Management Board remuneration in Accordance with the German Corporate Governance Code

Pursuant to section 4.2.5 of the Code (as amended on 5 May 2015), which has been detailed further by way of sample tables attached to the Code, benefits granted for the year under review (including target or expected values) as well as the allocation (i.e. the actual amounts disbursed) for the year under review, for each member of the Management Board are disclosed. Both benefits and allocations must be broken down by fixed remuneration, fringe benefits, variable remuneration and pension expenses (that is, service cost as defined in IAS 19). The following table follows these specifications. For ease of reference, details have been compiled into one table for each member of the Management Board who was in office during 2015.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Management Board

Supervisory Board

Employee Remuneration

Remuneration Oversight Committee and Remuneration Officer

Risk-Takers

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Andreas Arndt Co-CEO/CFO in € thousand	Benefits granted				Allocation	
	2015	Minimum	Maximum	2014	2015	2014
Fixed remuneration	483	483	483	341	483	341
Fringe benefits ¹⁾	27	27	27	16	27	16
Total	510	510	510	357	510	357
One-year variable remuneration	–	–	–	–	–	–
Multi-year variable remuneration	–	–	–	–	–	–
Plan description (plan term)	–	–	–	–	–	–
Total	510	510	510	357	510	357
Service ²⁾	616	616	616	–	616	–
Total remuneration	1,126	1,126	1,126	357	1,126	357

¹⁾ Including taxable non-cash benefits within the customary scope

²⁾ Pension claims will only be vested upon expiry of the service contract.

Additional voluntary disclosures						
Service ¹⁾	616	616	616	421	616	421
Total remuneration ¹⁾	1,126	1,126	1,126	778	1,126	778

¹⁾ To enhance comparability, figures are shown on the basis of a pro-rata temporis vesting.

Thomas Köntgen Co-CEO/Treasurer in € thousand	Benefits granted				Allocation	
	2015	Minimum	Maximum	2014	2015	2014
Fixed remuneration	483	483	483	120	483	120
Fringe benefits ¹⁾	34	34	34	9	34	9
Total	517	517	517	129	517	129
One-year variable remuneration	–	–	–	–	–	–
Multi-year variable remuneration	–	–	–	–	–	–
Plan description (plan term)	–	–	–	–	–	–
Total	517	517	517	129	517	129
Service ²⁾	562	562	562	–	562	–
Total remuneration	1,079	1,079	1,079	129	1,079	129

¹⁾ Including taxable non-cash benefits within the customary scope

²⁾ Pension claims will only be vested upon expiry of the service contract.

Additional voluntary disclosures						
Service ¹⁾	562	562	562	133	562	133
Total remuneration ¹⁾	1,079	1,079	1,079	262	1,079	262

¹⁾ To enhance comparability, figures are shown on the basis of a pro-rata temporis vesting.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Management Board

Supervisory Board

Employee Remuneration

Remuneration Oversight Committee and Remuneration Officer

Risk-Takers

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Andreas Schenk CRO	Benefits granted					Allocation	
	2015	Minimum	Maximum	2014	2015	2014	
in € thousand							
Fixed remuneration	483	483	483	400	483	400	
Fringe benefits ¹⁾	20	20	20	18	20	18	
Total	503	503	503	418	503	418	
One-year variable remuneration	–	–	–	–	–	–	
Multi-year variable remuneration	–	–	–	–	–	–	
Plan description (plan term)	–	–	–	–	–	–	
Total	503	503	503	418	503	418	
Service (from 15 December 2015)	466	466	466	–	466	–	
Total remuneration	969	969	969	418	969	418	

¹⁾ Including taxable non-cash benefits within the customary scope

Dr. Bernhard Scholz Real Estate Finance/Public Investment Finance	Benefits granted					Allocation	
	2015	Minimum	Maximum	2014 ²⁾	2015	2014 ²⁾	
in € thousand							
Fixed remuneration	500	500	500	500	500	500	
Fringe benefits ¹⁾	13	13	13	15	13	15	
Total	513	513	513	515	513	515	
One-year variable remuneration	–	–	–	–	–	–	
Multi-year variable remuneration	–	–	–	–	–	–	
Plan description (plan term)	–	–	–	–	–	–	
Total	513	513	513	515	513	515	
Service ³⁾	120	120	120	–	120	–	
Total remuneration	633	633	633	515	633	515	

¹⁾ Including taxable non-cash benefits within the customary scope

²⁾ Benefits and allocations for 2014 also include remuneration granted or paid to Dr. Bernhard Scholz under his service contract with HRE Holding, which was terminated with effect from 31 August 2014.

³⁾ Due to vested pension claims from his years of service for HRE Holding, Dr. Bernhard Scholz receives an annual pension of 1% for each full year of service as a member of pbb's Management Board, subject to a cap of 15%; the rate of increase for the period from 1 September 2016 to 30 April 2017 (the date on which Dr. Scholz's service contract will expire) will be determined pro rata temporis, and will thus amount to 0.67% for this period.

Additional voluntary disclosures	2015	Minimum	Maximum	2014	2015	2014
Service ¹⁾	120	120	120	40	120	40
Total remuneration ¹⁾	633	633	633	555	633	555

¹⁾ To enhance comparability, figures are shown on the basis of a pro-rata temporis vesting.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Management Board

Supervisory Board

Employee Remuneration

Remuneration Oversight Committee and Remuneration Officer

Risk-Takers

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Wolfgang Groth

Treasury /Asset Management (until 31 March 2015)

in € thousand	Benefits granted				Allocation	
	2015	Minimum	Maximum	2014 ³⁾	2015	2014 ³⁾
Fixed remuneration	125	125	125	500	125	500
Fringe benefits ¹⁾	4	4	4	17	4	17
Total	129	129	129	517	129	517
One-year variable remuneration	–	–	–	–	–	–
Multi-year variable remuneration	–	–	–	–	–	–
Plan description (plan term)	–	–	–	–	–	–
Total	129	129	129	517	129	517
Service ²⁾	–	–	–	–	–	–
Total remuneration	129	129	129	517	129	517

¹⁾ Including taxable non-cash benefits within the customary scope

²⁾ There is no commitment to pension benefits.

³⁾ Benefits and allocations for 2014 also include remuneration granted or paid to Wolfgang Groth under his service contract with HRE Holding, which was terminated with effect from 28 February 2014.

Pension Commitments

With the exception of Wolfgang Groth, no commitments to pension benefits for old age, or for occupational and general disability, were made to members of the Management Board who were in office during 2015.

Messrs Andreas Arndt and Thomas Köntgen receive a pension in the amount of 5.2% of their basic annual remuneration, subject to a cap of 60%, which will be vested upon expiry of the three-year service contract, and may be drawn upon once the respective Management Board member has reached the age of 62.

When his new service contract (dated 15 December 2015) came into effect, Andreas Schenk received a vested claim on pension benefits of 5.2% of his basic annual remuneration and will receive 5.2% for each full year of service as a Management Board member following 15 December 2015, subject to a cap of 50%. These claims on pension benefits are vested in substance and may be drawn upon once the respective Management Board member has reached the age of 63.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Management Board

Supervisory Board

Employee Remuneration

Remuneration Oversight Committee

and Remuneration Officer

Risk-Takers

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Due to vested pension claims from his years of service for HRE Holding, Dr. Bernhard Scholz receives an annual pension of 1% of his basic annual salary for each full year of service as a member of the Management Board, subject to a cap of 15% of his basic annual salary; the rate of increase for the period from 1 September 2016 to 30 April 2017 (the date on which Dr. Scholz's service contract will expire) will be determined pro rata temporis, and will thus amount to 0.67% for this period. These pension claims may be drawn upon once Dr. Scholz has reached the age of 62.

Section 16 of the German Company Pensions Act (Betriebsrentengesetz) applies to the examination of whether pension benefits need to be adjusted after retirement.

In the case of the death of a Management Board member, his or her spouse receives 60% of the pension entitlement. In addition, pensions to half-orphans and orphans are paid until the respective children reach the age of 18. Where a child is still in education beyond the age of 18, orphans' benefits will continue to be paid until conclusion of vocational training – in any case, not after the child has reached the age of 25. The total amounts received by half-orphans must not exceed 30% of the pension entitlement of the deceased parent as long as the surviving spouse receives survivor benefits. Full orphans will jointly receive up to 60% of the pension of the deceased parent.

Surviving spouses and children from a marriage that the Management Board member enters into after retirement are not entitled to receive a survivor's pension or orphan allowances.

Pension commitments to current Management Board members of Deutsche Pfandbriefbank AG ¹⁾	Present value of pension claims vested during the business year			Pension obligation as at 31 December 2015 ²⁾
	Interest cost	Outstanding past service cost		
in € thousand				
Andreas Arndt	616	–	–	597
Thomas Köntgen	562	–	–	528
Andreas Schenk	–	–	466	466
Dr. Bernhard Scholz	120	–	–	117
Total	1,298	–	466	1,708

¹⁾ For details concerning pension commitments to former members of the Management Board and their surviving dependants, please refer to the Notes.

²⁾ No pension obligations vis-à-vis Andreas Arndt and Thomas Köntgen were recognised as at 31 December 2014, since claims from the respective obligation are only vested after completion of a full year of service, and vesting on a pro rata temporis basis is contractually excluded. This also applies to Dr. Bernhard Scholz, since his contract excludes service years prior to 31 August 2014, and to Andreas Schenk, who only became entitled to a pension commitment with effect from 15 December 2015.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Management Board

Supervisory Board

Employee Remuneration

Remuneration Oversight Committee

and Remuneration Officer

Risk-Takers

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Other Provisions

In the event that the Company does not renew the employment relationship for reasons outside the respective Management Board members' responsibility, the service contracts entered into with Andreas Arndt and Thomas Köntgen contain a clause according to which they are entitled – in accordance with the remuneration principles of the FMS – to a transitional allowance (Übergangsgeld) in the amount of half a basic annual remuneration for each full five years of service as a member of pbb's Management Board. In such a case, in line with the original service contract with Dr. Bernhard Scholz, his current contract provides for a transitional allowance of €50,000.00 (gross) per month during the period from May 2017 until the end of the month in which he turns 60 (February 2018).

Where the appointment as a member of the Management Board is terminated prematurely without good cause, severance payment to Management Board members is capped at two years' remuneration, calculated as follows: two years' remuneration is calculated as twice the amount of (i) basic annual remuneration for the preceding calendar year and (ii) the share of variable remuneration exclusively attributable to the Bank's performance, which is allocated mathematically to the preceding year. In this context, pbb is entitled to determine a higher or lower amount for the share of calculatory variable remuneration attributable to a given calendar year if there is sufficient evidence that the Company's performance during the current calendar year is higher or lower than its performance in the preceding calendar year. Furthermore, severance pay is limited to the extent that it must not exceed the remuneration due for the remaining term of the employment relationship. The service contracts entered into with the members of Management Board do not include any clauses giving rise to severance payments.

No member of the Management Board received payments from, or benefits committed upon, by third parties, by reference to the office held as member of the Management Board during the financial year under review.

The service contracts entered into with the members of the Management Board do not contain any clauses for severance pay upon a change of control. No compensation agreements, as defined in section 315 (4) no.9 of the German Commercial Code (Handelsgesetzbuch – «HGB»), which provide for compensation in the event of a takeover bid, have been entered into with Management Board members or employees.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Management Board

Supervisory Board

Employee Remuneration

Remuneration Oversight Committee
and Remuneration Officer

Risk-Takers

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Main Components of the Adjusted Remuneration System for Members of the Management Board from 2016 Onwards

Following privatisation, and the associated lapse of limitations of section 10 (2a) and (2b) of the FMStFG, an adjusted variable remuneration system for members of the Management Board was developed in 2015 and introduced with effect from 1 January 2016.

The adjusted variable remuneration system was designed as an appropriate and transparent system which sustainably takes pbb's development into account. Specifically, the adjustment to the remuneration system considered the regulatory requirements the remuneration systems as set out in new or amended rules pursuant to the CRD IV, the German Banking Act (Kreditwesengesetz – «KWG»), the InstVergV and, in relation to members of the Management Board, the requirements under the German Public Limited Companies Act (Aktiengesetz – «AktG») and the Code. Moreover, provisions under framework or contractual arrangements, as well as the remuneration principles of the FMS (as amended, most recently in February 2012) were observed.

Variable remuneration is paid in cash. No share-based remuneration system is in place, although the amount of variable remuneration is determined by the development of the pbb share price, as part of the sustainability component.

The variable remuneration component is determined on the basis of a calculatory reference value set for each Management Board member. This is a calculatory value which reflects the amount of variable remuneration attributed to a performance level of 100% on all relevant performance levels. The calculatory reference value has been set at a uniform level of €200,000 for all members of the Management Board.

The variable remuneration earned by each Management Board member for a given year is capped at 150% of his/her individual calculatory reference value, as set out above. The Company has not sought any resolution by the Annual General Meeting, pursuant to section 25a(5) sentence 5 of the KWG; therefore, the variable remuneration for members of the Management Board must not exceed 100% of their fixed remuneration.

Granting of variable remuneration is subject to the prior determination of a total amount of the variable remuneration (taking into account the requirements of section 7 of the InstVergV). The total amount of variable remuneration is determined by the Supervisory Board at the end of each financial year, within the framework of a formal and transparent process.

The amount of variable remuneration is determined on the basis of performance measured on three levels: (i) the institution's performance; (ii) the performance of the organisational unit (i.e. the Management Board member's respective area of responsibility); and (iii) the Management Board

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Management Board

Supervisory Board

Employee Remuneration

Remuneration Oversight Committee and Remuneration Officer

Risk-Takers

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

member's individual performance. As the first step of performance measurement, the calculatory reference values (as adjusted through the determination of the total amount of the variable remuneration) are distributed among the three performance measurement levels. Specifically, 80% of the reference value is allocated to an institution pool (exclusively linked to the institution's performance), and 10% each to a division pool (exclusively linked to the performance of the respective Management Board member's area of responsibility) and a personal pool (exclusively linked to the individual performance of the respective Management Board member).

Based on these calculatory pools, the share of calculatory reference values allocated to the institution pool is distributed among the members of Management Board, in equal proportions. On the two other levels, the Management Board members' share of calculatory reference values allocated to the respective level is first divided by the number of members; then, the individual share for the respective level is calculated by reference to the degree of target achievement for the relevant Management Board member. The calculatory pro-rata reference values calculated in this manner are added up and allocated to the respective Management Board member, as an Envisaged Personal Reward (EPR) value. In principle, variable remuneration may range between a minimum of 0% and a maximum of 150% of the relevant personal calculatory reference value.

As a significant institution as defined by section 17 of the InstVergV, pbb must in particular observe the requirements of section 20 of the InstVergV regarding variable remuneration of risk-takers. Management Board members are risk-takers as defined by the Delegated Regulation (EU) 604/2014. Hence, disbursement of variable remuneration for Management Board members is generally subject to the following conditions: the EPR value is broken down into a disbursement portion and a deferral portion; the purpose of the latter includes setting a multi-year assessment basis (as defined by company law) and to let Management Board members participate in the Company's long-term performance. The disbursement portion for Management Board members amounts to 40% of their personal EPR value, with the deferral portion equivalent to 60%. 50% of the disbursement portion is paid out in cash when the conditions for disbursement have been met. Disbursement of the remaining 50% is deferred over one year, with the amount adjusted in line with the sustainability component. Portions linked to the sustainability component are granted via virtual options, which means that the members of the Management Board participate financially in the price development of pbb shares. The deferral period for the deferred portion due to Management Board members is five years. The deferral portion is vested in line with current regulatory requirements (pro-rata vesting under a synchronised approach). The malus test, which may lead to a reduction in the deferral portion, considers negative, ex-post performance contributions affecting the performance of the institution, the organisational unit, and the individual Management Board member («back-testing»), as well as personal misconduct («knock-outs»), and the relevant financial conditions for disbursement (pursuant to section 7 of the InstVergV). Following this malus test, 50% of the relevant deferral portion is subject to an additional one-year retention; during this period, it is linked to pbb's sustainable development, in line with the applicable sustainability component.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Management Board

Supervisory Board

Employee Remuneration

Remuneration Oversight Committee
and Remuneration Officer

Risk-Takers

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Supervisory Board

The Annual General Meeting on 10 June 2015 adopted an amendment to the Memorandum and Articles of Association, which also changed the rules governing remuneration of pbb's Supervisory Board members. The new Memorandum and Articles of Association became effective upon registration with the Commercial Register on 18 June 2015. For the financial year 2015, remuneration to the Supervisory Board was calculated on a pro-rata basis: (i) for the period from 1 January 2015 to 17 June 2015 (168/365), in accordance with the Memorandum and Articles of Association in force until 17 June 2015; and (ii) for the period from 18 June 2015 to 31 December 2015 (197/365), in accordance with the Memorandum and Articles of Association in force since 18 June 2015.

Remuneration of the Supervisory Board, in accordance with the Memorandum and Articles of Association in force until 17 June 2015

The members of pbb's Supervisory Board received annual remuneration of € 10,000 (plus any value-added tax), in accordance with Article 10(1) of the Memorandum and Articles of Association in force until 17 June 2015. No additional remuneration was paid for committee work. Remuneration entitlements accrued on a pro rata basis for the period of the appointment in each case. The Bank reimbursed travel expenses; no attendance fees were paid. The Company was entitled to take out a Directors & Officers (D&O) liability insurance policy in favour of members of the Supervisory Board, with a maximum aggregate annual cover of € 200 million, covering statutory third-party liability claims which may have arisen from Supervisory Board work (including work on Supervisory Board committees), as well as any statutory third-party liability claims arising from Supervisory Board members' work on corporate bodies and committees of the Company's subordinated associates. The Company undertook to bear the costs of this insurance policy.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Management Board

Supervisory Board

Employee Remuneration

Remuneration Oversight Committee
and Remuneration Officer

Risk-Takers

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Remuneration of the Supervisory Board, in accordance with the Memorandum and Articles of Association in force since 18 June 2015

Pursuant to article 11 (1) of the Memorandum and Articles of Association in force since 18 June 2015, members of the Supervisory Board now receive a basic annual remuneration of €30,000. The Chairman receives twice this amount, the Deputy Chairman one-and-a-half times this amount. The fixed remuneration is increased by €10,000 p.a. for any Supervisory Board committee member, and by twice this amount for chairmanship of a Supervisory Board committee. Remuneration entitlements accrue on a pro rata basis for the period of the appointment in each case.

Moreover, members of the Supervisory Board receive a €500 attendance fee for each meeting of the Supervisory Board (or Supervisory Board committee) they attend, except where meetings are held in the form of a conference call or video conference.

Members of the Supervisory Board receive their remuneration and attendance fees plus statutory value-added tax. Furthermore, members of the Supervisory Board are reimbursed for their reasonable expenses.

The Company may take out a Directors & Officers (D&O) liability insurance policy in favour of members of the Supervisory Board, with a maximum aggregate annual cover of €200 million, which covers statutory third-party liability claims which may arise from Supervisory Board work (including work on Supervisory Board committees), as well as any statutory third-party liability claims arising from Supervisory Board members' work on corporate bodies and committees of the Company's subordinated associates. The Company shall bear the costs of this insurance policy.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Management Board

Supervisory Board

Employee Remuneration

Remuneration Oversight Committee and Remuneration Officer

Risk-Takers

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Remuneration for members of pbb's Supervisory Board in 2015 ¹⁾							2015	2014
	Remuneration in accordance with the Memorandum and Articles of Association in force until 17 June 2015			Remuneration in accordance with the Memorandum and Articles of Association in force since 18 June 2015			Total	Total
	Remuneration	Value-added tax (19%)	Basic remuneration and remuneration for committee work	Attendance fees	Subtotal	Value-added tax (19%)		
in €								
Dr. Günther Bräunig	4,602.74	874.52	72,863.01	7,500.00	80,363.01	15,268.97	101,109.24	11,900.00
Dr. Thomas Duhnkrack (since 21 July 2015)	–	–	13,479.45	1,500.00	14,979.45	2,846.10	17,825.55	–
Dr. Christian Gebauer-Rochholz ²⁾³⁾	4,602.74	–	16,191.78	2,000.00	18,191.78	–	22,794.52	10,000.00
Dr. Alexander Groß (until 25 February 2014) ⁴⁾	–	–	–	–	–	–	–	1,534.00
Dagmar Kollmann ⁵⁾	4,602.74	–	51,273.97	7,500.00	58,773.97	–	63,376.71	10,000.00
Georg Kordick ²⁾	4,602.74	874.52	16,191.78	1,500.00	17,691.78	3,361.43	26,530.48	11,900.00
Joachim Plessner (since 26 August 2014)	4,602.74	874.52	43,178.08	7,500.00	50,678.08	9,628.84	65,784.18	4,173.00
Dr. Ludger Schuknecht (until 20 Juli 2015) ⁴⁾	4,602.74	–	2,712.33	500.00	3,212.33	–	7,815.07	10,000.00
Heike Theißing ²⁾³⁾	4,602.74	–	21,589.04	2,500.00	24,089.04	–	28,691.78	10,000.00
Dr. Bernd Thiemann (until 26 August 2014)	–	–	–	–	–	–	–	7,760.00
Dr. Hedda von Wedel	4,602.74	874.52	26,986.30	4,000.00	30,986.30	5,887.40	42,350.96	11,900.00
Dr. Jeromin Zettelmeyer (until 20 Juli 2015) ⁴⁾	4,602.74	–	2,712.33	500.00	3,212.33	–	7,815.07	7,151.00
Total	41,424.66	3,498.08	267,178.07	35,000.00	302,178.07	36,992.74	384,093.56	96,318.00

¹⁾ The table does not specify the cost of the D&O liability insurance policy taken out in favour of Supervisory Board members. The Company has entered into a group insurance policy which, in addition to the Supervisory Board members, also covers the members of the Management Board as well as staff members of the Company and its associates. The total cost of this D&O liability insurance policy amounts to approximately €1.26 million p.a., plus insurance tax.

²⁾ Employee representative

³⁾ Income from this activity is exempted from value-added tax, under the so-called 'small business rule' (Kleinunternehmerregelung).

⁴⁾ Since representatives of ministries exercise their Supervisory Board work on instruction of their employer, income from this activity is exempted from value-added tax.

⁵⁾ No value-added tax applies, due to the member's domicile abroad; instead, the Company pays tax on behalf of the Supervisory Board member.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Management Board

Supervisory Board

Employee Remuneration

Remuneration Oversight Committee

and Remuneration Officer

Risk-Takers

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Employee Remuneration

Employees are remunerated in accordance with regulatory and statutory requirements – in particular, Articles 92 et seq. of CRD IV, the FMStFG as well as the InstVergV. In the course of the implementation of these requirements, the new remuneration system introduced in the financial year 2010 was adapted to reflect the special provisions and requirements prohibiting variable remuneration. The variable remuneration system was suspended and remained in place as a target system only. Therefore, no variable remuneration was paid for 2015. As a result, it was once again impossible to fully take into account the regulatory requirements derived from the InstVergV (amongst other regulations) and governing, for example, the long-term nature of remuneration, its sustainability and an appropriate management and incentive effect. In cooperation with employee representatives, a functional allowance was introduced in 2011 in order to maintain the Company's operational capacity to act. However, this was well below the variable remuneration originally planned, both on aggregate and in the individual cases.

Main Components of the Adjusted Remuneration System for Employees from 2016 Onwards

Following privatisation of pbb Group, and the associated lapse of limitations of section 10(2a) and (2b) of the FMStFG, variable remuneration – in line with the requirements of the InstVergV, as amended on 16 December 2013 – will be re-introduced with effect from 1 July 2016. Contractual preparations for implementation already took place in 2015.

The Company has not sought any resolution by the Annual General Meeting, pursuant to section 25 a(5) sentence 5 of the KWG; therefore, the variable remuneration for employees must not exceed 100% of their fixed remuneration.

The objective is to implement the design of the adjusted remuneration system, for all of the Group's domestic and international employees and senior managers, in as uniform a manner as practicable, as well as to the degree permissible under contractual agreements and regulatory requirements. Hence, the key elements of the variable remuneration system were harmonised for Management Board members and employees:

- > the examination of requirements for determining the total amount of the variable remuneration, as well as the risk-adjusted performance measurement parameter at the level of the institution;
- > the maximum level of target achievement (150%);
- > the disbursement structure for risk-takers; and
- > determination of the variable remuneration component on the basis of an individual calculatory reference value.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Management Board

Supervisory Board

Employee Remuneration

Remuneration Oversight Committee
and Remuneration Officer

Risk-Takers

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Performance Measurement

In line with the procedure for the Management Board, employee performance is also measured on three levels: institutional, organisational unit (division), and personal performance. For employees, these three levels are connected by aggregating calculatory reference values for employees into a variable remuneration pool, the amount of which is linked to the institution's performance. This variable remuneration pool is then distributed amongst the divisions, with 50% linked to the performance of the respective organisational unit (division) and 50% linked to the institution's performance. Divisional pools created in this manner are then distributed amongst employees in the division concerned, based on the personal performance contribution of each staff member. The share in the relevant divisional pool is allocated to each respective employee in the form of an calculatory EPR value. In principle, the calculatory EPR value allocated may range between a minimum of 0% and a maximum of 150% of the relevant personal calculatory reference value.

Remuneration Oversight Committee and Remuneration Officer

The Supervisory Board has established a Remuneration Oversight Committee. Two Remuneration Officers were appointed, who act as deputies for each other.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Management Board

Supervisory Board

Employee Remuneration

Remuneration Oversight Committee
and Remuneration Officer

Risk-Takers

Report on Expected Developments

Supplemental Information

Consolidated Financial Statements

Additional Information

Risk-Takers

The criteria for identifying functions which significantly influence the Bank's risk profile («risk-takers»), as defined by section 18 of the InstVergV, were adjusted – to the extent required – to the criteria set out in Delegated Regulation (EU) 604/2014. In total, besides the five Management Board members, 94 employees (2014: 5 Management Board members and 127 employees) were identified as risk-takers. The reduction in the number of employees identified as risk-takers was due, in particular, to adjusted committee structures within the scope of the split-off of HRE Holding and pbb.

The requirements to variable remuneration, pursuant to section 20 of the InstVergV, were implemented on a uniform basis, in line with the remuneration rules for Management Board members. This applied in particular with regard to:

- > the deferral portion (40% for employees; 60% for senior executives);
- > the deferral period (three years for employees; five years for second-level manager) and the rules governing the (pro-rata) vesting of deferrals;
- > back-testing and malus test; as well as
- > the sustainability component.

This disbursement structure in line with regulatory requirements will not apply where the EPR value determined for a given financial year is lower than a threshold defined by law (or by the German Federal Financial Supervisory – BaFin – or another competent supervisory authority), below which such disbursement structure for risk-takers is waived for reasons of proportionality. (At present, this threshold is €50,000 p.a. per person).

- Overview
- Contents
- Letter of the Management Board
- Report of the Supervisory Board
- The pbb Share
- Group Management Report**
- Fundamental Information about the Group
- Report on Economic Position
- Report on Post-balance Sheet Date Events
- Risk and Opportunity Report
- pbb Group as an Employer
- Remuneration Report
- Report on Expected Developments**
- Macroeconomic Forecast
- Sector-specific Forecasts
- Company Forecasts
- Summary
- Supplemental Information
- Consolidated Financial Statements
- Additional Information

Report on Expected Developments

Macroeconomic Forecast

The 2016 outlook for the macro-economic environment is positive, with the global economy continuing to gain some momentum in spite of geopolitical turbulence. No financial, economic or political shocks are being anticipated. The IMF projects real economic growth in developed economies to rise from the 1.9% registered in 2015 to 2.1% in 2016. The euro zone's sluggish economy will continue along a slow path to recovery, with marked differences in progress between countries. Fiscal policy consolidation should continue to limit the short-term potential for economic expansion in the member states. In turn, the consolidation of national budgets is likely to contribute positively to the sustainability of public finances. The euro zone's gross domestic product (GDP) growth should slightly accelerate as investment demand and net exports – not least due to the current weak state of the euro – stabilise. The European Commission and IMF expect a slight expansion of economic growth in the region, to 1.7% in 2016. For Germany, growth is anticipated to be slightly above potential growth, mainly driven by robust labour market data and a steady rise in consumer spending. Increasing export demand to European and North American markets should offset weak exports to China. Growth rates in Spain should once more exceed those registered in France and Italy, although both countries have overcome their economic standstill. The expected acceleration of the US economy should make an important contribution to invigorating exports from the euro zone. In the UK, economic growth is expected to slow down following a very energetic performance in 2015, but should remain at a comparatively high level. High growth rates are also expected from Sweden, Middle and Eastern Europe. Inflation worldwide, but especially in the euro zone, is expected to remain subdued during 2016. If energy prices were to stabilise, however, the pace of inflation would probably pick up. Against the background of ongoing deflationary tendencies, the ECB is likely to remain committed to its asset purchase programmes, including and foremost the purchase of bonds issued by euro zone countries. It will also continue to treat providing liquidity to the banking sector as its top priority. However, should energy and commodity prices continue to trade lower, inflation rates will probably linger at the previous year's level and the ECB further open its liquidity tap.

The ECB's ongoing expansive take on monetary policy should widen the schism between short-term and long-term interest rates in the euro and the dollar areas. While short-term interest rates in the euro zone should remain relatively close to their historic lows, short-term interest rates in the US should continue to rise and long-term interest rates in the US should increase as well.

Sources: Bloomberg, ECB, IMF

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Macroeconomic Forecast

Sector-specific Forecasts

Company Forecasts

Summary

Supplemental Information

Consolidated Financial Statements

Additional Information

Sector-specific Forecasts

Overall Situation in the Banking Sector

The international banking sector will continue to operate in a difficult environment during 2016, notwithstanding the glut of liquidity.

In the euro zone, banks in the countries most affected by the sovereign debt crisis continue to groan under the weight of non-performing loans. Albeit declining, the share of non-performing loans remains high when compared with historical levels, and continues to significantly limit profitability in the sector.

The negative rating pressure on the banking sector – not limited to the countries hit hardest by the sovereign debt crisis, but affecting the European banking sector as a whole – seems to have eased. Most ratings should already reflect plans to more strongly involve subordinated debt investors in bank resolutions, but these plans continue to weigh on banks' capital costs. Profitability is further limited by rising regulatory requirements and low economic momentum.

While the financial markets are optimistic when it comes to the credit default risk of the largest European banks, the prices of credit default swaps for the sector rose slightly during the year under review. Whilst the operating environment for banks remains challenging, the ongoing major expansion of the balance sheet of the European Central Bank – combined with high levels of excess liquidity in the banking sector – is likely to keep the sector's credit risk (as implied by the markets) at an extremely low level.

Geopolitical conflicts further intensified during 2015. Any future intensification or expansion of these conflicts could have an adverse effect on the financial markets and thus on the environment the banking sector operates in.

Sources: Bloomberg, ECB

Real Estate Finance

In Europe, the scene is set for further growth in commercial property markets during 2016. In view of low interest rates and a lack of yield-generating investment alternatives, investors will provide further high inflows of capital into real estate as an asset class. Surveys and press statements suggest that it is – in particular – institutional investors such as insurers who are looking to further increase the share of real estate in their portfolios in 2016.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Macroeconomic Forecast

Sector-specific Forecasts

Company Forecasts

Summary

Supplemental Information

Consolidated Financial Statements

Additional Information

Investors' primary focus is likely to remain on the highly liquid markets in Germany, France and the United Kingdom, followed by the Scandinavian and Eastern European markets. With the increasing interest shown by more opportunistic investors, the markets in countries such as Spain or the Netherlands are also likely to develop favourably.

Financing institutes are amongst the likely to profit from these positive developments. Still, a selective approach to loans is prudent as yields remain low and investments have been increasing for some time. Furthermore, more and more non-banks are providing loan financings, further increasing competitive pressure.

Sources: Research of Cushman & Wakefield, BNP Paribas Real Estate

Public Investment Finance

Lending banks active in public investment finance will continue to post high transparency demands for public borrowers. Loan decisions will be based on the transparent disclosure of financial situation of the potential borrower, an analysis of the investment objective that is to be financed, as well as on the economic situation and outlook.

The competitive environment is expected to change, with formerly reticent banks taking on a more active role in financing in individual countries, alongside other market participants such as insurers and credit funds also offering financings.

The situation in the German and French markets is expected to remain more or less unchanged vis-à-vis 2015. The German market continues to be dominated by public sector banks and development banks, with margins at a low level. In France, fierce competition has led to shrinking margins – a trend that could well continue in 2016. The French market continues to be very fragmented, with borrowers who appreciate diversified funding sources: this is evidenced by continuously shrinking average transaction volumes.

In export financing, we have seen banks that used to be very active shift their strategic focus, giving rise to plenty of opportunity for originating new business. However, low growth rates across the BRICS countries might slightly curb exports and export financings, particularly business covered by Euler Hermes.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Macroeconomic Forecast

Sector-specific Forecasts

Company Forecasts

Summary

Supplemental Information

Consolidated Financial Statements

Additional Information

Value Portfolio

The Value Portfolio (VP) comprises mainly low-risk and low-margin loans, bonds and promissory notes. Its strategic objective is an opportunistic wind-down that maximises the items' value. The pace of the wind-down depends heavily on the risk premiums for European sovereign debt and their development. Should these premiums continue to develop favourably, as they did throughout 2015, this could create further opportunities to increase that pace. A speedier wind-down would allow pbb Group to further increase its profitability, as low-margin commitments could be replaced by strategic new business originated in the REF and PIF segments.

Funding Markets

The ECB continues to set the tone in the European funding markets. Its pledge to continue the government and covered bond purchasing programmes until March 2017 or beyond, combined with an ongoing low interest rate policy, should bolster demand for secured issues and keep funding costs low. At the same time, the ECB's measures result in a marked decrease in secondary market liquidity for secured issues and a massive extrusion of the existing investor base.

The regulatory environment has dramatically changed over the past years, and will continue to pose significant challenges to both issuers and investors in the future. Regulatory requirements may compromise the ability to place unsecured bonds. The transposition of the Bank Recovery and Resolution Directive (BRRD) into German law may lead to unsecured bank bonds losing their eligibility for central bank repo transactions. BRRD is also linked to further regulatory requirements such as the Minimum Requirement on Eligible Liabilities (MREL) and Total Loss Absorbing Capital (TLAC). These are to limit taxpayers' risk in connection with saving banks using tax money and provide that both equity and debt providers will be required to carry the risk instead. Thus, MREL and TLAC define which liabilities on a balance sheet may be used to absorb losses, and this may well affect uncovered bonds. Banks might be able to adjust their balance sheet structures by issuing subordinated equity products.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Macroeconomic Forecast

Sector-specific Forecasts

Company Forecasts

Summary

Supplemental Information

Consolidated Financial Statements

Additional Information

Company Forecasts

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.

In light of increased volatility in the capital markets, in particular with regards to the financial sector, credit risk premiums on government bonds and some significant changes in funding spreads for banks, we need to be especially careful when making projections for the year 2016. Additional uncertainty arises from the ECB's expansive monetary policy – with its unpredictable consequences – and the toughening of its regulatory course, which has been conceivable since the beginning of the year. Regulatory pressures are likely to focus on capital requirements for lending risks, from a recalibration of risk models towards a to-be-defined floor, to a 100% switch to standard rates. The impact on both capital ratios and capital costs of banks will be severe, the extent of which, however, cannot be predicted with certainty. What is more, competition will further increase while real estate financing markets will remain stable.

Future Developments in Assets, Financial Position and Earnings

Against this background, pbb Group took action in 2015 that will allow for a pre-tax profit slightly below last year's good figure of € 195 million to be reached in the forecast period for 2016. In spite of an increasing pressure on the interest result, this expectation is based on the assumption that loan loss provisions will normalise around Expected Loss for the strategic REF portfolio of between 10 and 12 basis points. In the 2015 financial year, there were no net additions to loan loss provisions.

In 2016, the Real Estate Finance (REF) segment is expected to – again – contribute the lion's share to profit before tax. In the Public Investment Finance (PIF) segment, pbb expects a minor profit before tax; in the Value Portfolio (VP) segment an almost balanced profit or loss before tax.

Return on average capital employed before tax was 6.2% in 2015, and is projected to be stable. In 2015, return on equity after tax benefited from a high contribution from deferred taxes. That said, pbb does not expect similar positive effects for 2016. Assuming a normalised tax rate, return on equity after tax should decrease significantly, from 7.4% recorded in 2015. pbb Group is targeting the cost/income ratio to stabilise in 2016 at the previous year's level of 51.8%.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Macroeconomic Forecast

Sector-specific Forecasts

Company Forecasts

Summary

Supplemental Information

Consolidated Financial Statements

Additional Information

New business (including extensions by more than one year) should also reach the level seen the previous year (2015: €12.0 billion). pbb plans to strongly increase financing volumes in its strategic segments REF and PIF (2015: €31.3 billion), while early repayments are expected to plummet. The financing volume attributable to the non-strategic VP should continue to shrink significantly, possibly beyond the underlying fixed maturities. Total assets are forecast to slightly rise year-on-year (2015: €66.8 billion).

For pbb to meet its earnings and profitability targets, its risk bearing capacity must be ensured. From a going-concern perspective, the regulatory minimum capital ratios will be complied with, even under adverse economic scenarios. From a gone-concern perspective, pbb Group aims for the available capital to exceed the required economic capital. This goal remains within reach as long as spreads in the European countries in focus do not widen significantly, increasing the hidden losses.

For 2016, pbb endeavours to achieve a CET1 ratio significantly above the minimum 5.125% requirement under the CRR, as well as above the 12.5% targeted. Based on its current capital ratios, pbb Group has a comfortable buffer for higher requirements on risk weights, with a CET1 ratio of 18.2% (fully phased-in, and including 2015's profit distribution).

Opportunities

The following opportunities may affect the future development in assets, financial position and earnings:

- > pbb Group has developed an excellent market position, which has also been evident in the continuing increase in new business volume in recent years. 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.
- > With the successful IPO pbb Group achieved a key objective in 2015. After successfully 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, opening the door for cautious adjustments in business – in line with changes in market values, but without changing the portfolio's conservative risk profile.
- > 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 (regardless of cyclical fluctuations); 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.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Macroeconomic Forecast

Sector-specific Forecasts

Company Forecasts

Summary

Supplemental Information

Consolidated Financial Statements

Additional Information

- > 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 in the public sector, could allow pbb Group to 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 create potential for growth in the strategic segments, which might have a positive effect on the development in earnings.
- > Any future recovery in the value of impaired assets, for example by means of successful restructurings, may contribute positively to the development in assets, financial position and 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 boost the development in earnings.
- > Pfandbriefe are perceived as 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 asset growth which could increase the profitability. This would positively influence the development in earnings.
- > The successful 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 in achieving its ambitious targets.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Macroeconomic Forecast

Sector-specific Forecasts

Company Forecasts

Summary

Supplemental Information

Consolidated Financial Statements

Additional Information

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 as well as the seriousness of the following:

- > 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 integration or turbulences, the crisis of individual countries spreads to debtors currently considered to be solvent. The legal framework for government guarantees and warranties may change. The spread risk inherent in European countries may significantly curtail pbb's ability to provide cover assets.
- > 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 (CBPP3). 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 transposition of the Bank Recovery and Resolution Directive (BRRD) into German law may lead to unsecured bank bonds losing their eligibility for central bank repo transactions. Combined with the general «bail-in» discussion, this may place further strain upon securities-based funding. After the Federal Reserve's decision to raise interest rates in December, the first raise in nine years, a too strong interest rate hike could jeopardize global economic recovery. 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 sharp reductions in placements on the issuing markets, or significantly lower interbank market volumes. Should the eligibility for ECB repurchase operations be lost, global economic recovery come to a standstill, the funding markets be disrupted by a recession, or the Euro crisis flame up again, pbb Group's liquidity situation might be compromised. This might trigger a deliberate reduction in the volume of new business.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Macroeconomic Forecast

Sector-specific Forecasts

Company Forecasts

Summary

Supplemental Information

Consolidated Financial Statements

Additional Information

- > Rating agencies continuously 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 European legislative initiatives to centralise supervision of large banks and to support bank resolution and bail-in of senior unsecured creditors. As of 31 December 2015, the methodological changes that have been announced in this context were not fully finalised. 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 a minimum of two years from the flotation and – against this background – especially the continued positive development of the bank and its rating drivers, in line with the rating agencies' expectations. 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 the development of its assets, financial position, and earnings.
- > pbb Group's planned profitability is based on the assumption of adequate growth and reasonably 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.
- > Adjustments of the ECB's interest rate policy in the light of the European financial crisis and the resulting decline in overall interest rates entail the risk that investors underweight the bond market when allocating funds. This could lead to a general increase in funding spreads. The ongoing debates regarding the continuation of the euro zone in its current composition could also influence the development of the funding spread.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Macroeconomic Forecast

Sector-specific Forecasts

Company Forecasts

Summary

Supplemental Information

Consolidated Financial Statements

Additional Information

- > 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. Further changes to the three-pillar regime of Basel III are on the horizon, particularly a review of risk assessment. These changes may affect the capital requirements and business model of pbb. 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.
- > On 4 November 2014, the ECB assumed responsibility for the supervision of pbb. As a result, it is the ECB, and no longer BaFin, that is responsible for reviewing the existing, already approved, current or future IRBA models. This may lead to different, stricter new requirements being imposed upon pbb (bearing in mind that the ECB is striving to harmonise the use of IRBA models on a European basis), that may result in higher RWAs and, as a consequence, a call for higher capital requirements. As part of a sector-wide review, the ECB has started to also review some of the models used by pbb Group. Should one or more models need be adapted, pbb Group expects the ECB to grant them an appropriate period of time for implementation.
- > In December 2014, the EBA published its «Guidelines for common procedures and methodologies for the supervisory review and evaluation process» (SREP Guidelines), to be applied in the supervision and evaluation of all institutions. This guideline (EBA/GL/2014/13) is directed at national competent authorities of the EU member states; it is set for implementation by institutions from 2016 onwards. It focuses on the evaluation of the financial position of an institution with selected key indicators, a review of the business model, of corporate governance and risk governance, and of the institution's capital and liquidity base. Review and evaluation are based, amongst other things, on a bank's credit risk, interest rate risk in the banking book, operational risk and liquidity risk. As a material result from the SREP, a CET1 minimum ratio was set for pbb Group. It cannot be ruled out that the ECB defines even higher capital requirements, or even higher equity ratios. This could impact the development in assets, financial position and earnings of pbb Group.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Macroeconomic Forecast

Sector-specific Forecasts

Company Forecasts

Summary

Supplemental Information

Consolidated Financial Statements

Additional Information

- > 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 (e.g. for its London operations), external tax audits in other countries in which pbb has a permanent establishment 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 credit default 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.
- > In the event of a harmful change in ownership as provided 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. In addition, current taxes could increase. This would result in a negative net income/loss and a negative return on equity after tax.
- > pbb Group will have to apply IFRS 9 Financial Instruments on 1 January 2018 for the first time. The initial application of IFRS 9 is expected to have an extensive impact on pbb's development in assets, financial position and earnings. The impact of the changes in recognition and measurement of financial assets will depend, amongst other things, on the business models underlying the portfolios as at the date of initial application of IFRS 9. Allowances recognised in accordance with IFRS 9 are expected to exceed the level of specific and portfolio-based allowances recognised based on loss events that have materialised in accordance with IAS 39. Further, the Bank's earnings are expected to exhibit a higher level of volatility than they currently do under the rule of IAS 39, due to the higher number of financial assets to be measured at fair value through profit or loss, and to the new regulations on allowances in IFRS 9. 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 securities in the investment book 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.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Macroeconomic Forecast

Sector-specific Forecasts

Company Forecasts

Summary

Supplemental Information

Consolidated Financial Statements

Additional Information

- > 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. Giving due consideration to the opportunities and risks, for 2016 pbb Group expects to generate a pre-tax profit slightly below last year's very satisfactory figure of €195 million.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Disclosures Pursuant to Section 315(4) of the German Commercial Code (HGB)

Corporate Governance Statement Pursuant to Section 289 a of the HGB

Consolidated Financial Statements

Additional Information

Supplemental Information

Disclosures Pursuant to Section 315 (4) of the German Commercial Code (HGB)

Composition of Subscribed Capital

The composition of pbb's subscribed capital is shown in the notes to the consolidated financial statements under «Equity». Each bearer share with no par value entitles the shareholder to one vote at the Annual General Meeting of the Company. The Company currently does not hold any treasury shares.

Restrictions Affecting the Voting Rights or the Transfer of Shares

The exercise of voting rights from the shares concerned is precluded by law in the cases where section 136 of the German Stock Corporation Act (AktG) applies. Where the Company holds treasury shares, section 71 b of the AktG prohibits the exercise of rights vested in such shares.

HRE Holding has agreed to enter into a lock-up agreement, according to which – subject to certain contractually-agreed exceptions – it will continue to hold a minimum stake of 20% until 16 July 2017. HRE Holding has committed itself to avoid exercise of control over pbb by entering into a control termination agreement with pbb. The control termination agreement applies for the first time to pbb's 2016 Annual General Meeting and remains in place until the end of the fifth subsequent Annual General Meeting; however, it applies to a minimum period of five years, beginning on 16 July 2015. Until the end of such period, the agreement cannot be terminated ordinarily. After the end of such period, the agreement will be extended automatically until the end of the subsequent Annual General Meeting if it is not cancelled by one of the contracting parties by no later than two months prior to its expiry. According to the control termination agreement, HRE Holding undertakes

- a) to exercise voting rights vested to it at the point in time at which the control termination agreement enters into effect, and/or at any subsequent point in time at which HRE Holding holds pbb shares, to a maximum of 49% of the present voting capital (according to the list of participants made available to all participants before the first vote, or any additional vote, if applicable) at the adoption of resolutions regarding the appointment or removal of Supervisory Board members as well as resolutions taken as part of management decisions according to sections 83, 111 (4) sentences 3 to 5, 119(2) or 179 a of the (AktG),

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Disclosures Pursuant to Section 315(4) of the German Commercial Code (HGB)

Corporate Governance Statement Pursuant to Section 289a of the HGB

Consolidated Financial Statements

Additional Information

- b) not to make any proposals for resolution to pbb's Annual General Meeting, in particular for the appointment of Supervisory Board members (the right to make proposals according to lit. c) in line with the new framework agreement entered into between pbb, the German Federal Agency for Financial Market Stabilisation (FMSA) and the German Financial Markets Stabilisation Fund (FMS) remains unaffected), and
- c) not to vote for candidates for pbb's Supervisory Board which are not independent from HRE Holding, FMS, FMSA and the Federal Republic of Germany, with the exception of two Supervisory Board members proposed by FMSA to pbb in line with the new framework agreement; nevertheless, the regulations as set in lit. a) remain unaffected.

pbb shares attributable to HRE Holding according to section 16(4) of the AktG shall also be considered as «held by HRE Holding». In such cases, HRE Holding undertakes to ensure that the restrictions to exercise voting rights described above are adhered to by any and all of its dependent companies.

We are not aware of any other restrictions affecting voting rights or the transfer of shares.

Shareholdings Exceeding 10% of Voting Rights

As at 31 December 2015, the Federal Republic of Germany, through the intermediary of the FMS, and HRE Holding, were the only shareholders with shareholdings of more than 10% of the shares, to the knowledge of the Company. The respective shareholding of these two shareholders totalled 20.000001% as at 31 December 2015.

Applying to the same date, Morgan Stanley reported to pbb, in accordance with section 25a of the German Securities Trading Act (WpHG), that a total of 3.47% of the voting rights and 7.03% of the options within the meaning of section 25(1) no. 1 of the WpHG, thus a total shareholding of 10.50%, was attributable to Morgan Stanley (or its affiliated companies).

The notifications of voting rights pursuant to sections 21 et seq. of the WpHG, published by the Company according to section 26 of the WpHG, are available online under «<https://www.pfandbriefbank.com/en/investor-relations/mandatory-publications/notifications-on-voting-rights.html>».

Shares with Special Rights Conferring Powers of Control

No shares carrying special rights, which would permit the holder to exercise control, were issued.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Disclosures Pursuant to Section 315(4)
of the German Commercial Code (HGB)

Corporate Governance Statement Pursuant to
Section 289a of the HGB

Consolidated Financial Statements

Additional Information

Type of Control of Voting Rights Regarding Shares Held by Employees with their Rights of Control not Being Directly Exercised

Employees holding pbb shares exercise their rights of control, like all other shareholders, according to statutory provisions and the Memorandum and Articles of Association.

Statutory Provisions, and Provisions in the Memorandum and Articles of Association Regarding the Appointment and Removal of Members of the Management Board, and Regarding Amendments to the Memorandum and Articles of Association

In accordance with section 84 of the AktG and section 6 of the Memorandum and Articles of Association, the members of the Management Board are appointed by the Supervisory Board. The number of members of the Management Board is determined by the Supervisory Board. Pursuant to the Memorandum and Articles of Association, the Management Board consists of at least two members. Members of the Management Board are appointed for no more than five years per term. This term of office may be renewed or extended for a maximum of five years in each case. In case of urgency, the Munich Amtsgericht (District Court) shall appoint a missing member of the Management Board upon application of a party involved (section 85 of the AktG). The Supervisory Board may revoke an appointment to the Management Board, and also an appointment to the position of Chairman of the Management Board, should there be good cause for doing so. In particular, such cause shall be a gross breach of duty, inability to properly manage the business, or the withdrawal of confidence by the Annual General Meeting – unless confidence is withdrawn for evidently subjective reasons.

Evidence that the Management Board members are trustworthy, have the required professional qualifications, and are sufficiently available, must be provided to BaFin, ECB and the German Bundesbank. A prerequisite for the professional qualifications of Management Board members is that they have adequate theoretical and practical knowledge of the business concerned, as well as managerial experience (sections 24 (1) no. 1 and 25 c(1) of the German Banking Act (KWG)). BaFin may appoint a special representative, and entrust him or her with the performance of activities of individual Management Board members and assign him or her the requisite power, if such Management Board members are not trustworthy or do not have the required professional qualifications – or if the minimum threshold of Management Board members at the credit institution is not met. If the members of the Management Board are not trustworthy or do not have the required professional qualifications, or if they are unaware of serious violations of the principles of proper management, or if they did not do everything needed to counter detected infringements, BaFin may entrust the special representative with the performance of all Management Board activities and assign him or her the requisite powers. In all such cases, the tasks and powers of the Management Board, or the Management Board members affected, shall be suspended (section 45 c(1) to (3) of the KWG).

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Disclosures Pursuant to Section 315(4) of the German Commercial Code (HGB)

Corporate Governance Statement Pursuant to Section 289a of the HGB

Consolidated Financial Statements

Additional Information

If there is any danger to the discharge of an institution's obligations to its creditors, or if there are grounds for suspecting that effective supervision of the institution is not possible, BaFin may take temporary measures to avert this danger. Within this context, BaFin may prohibit members of the Management Board from carrying out their activities, or limit the performance of these activities (section 46(1) of the KWG).

Any amendment of the Memorandum and Articles of Association requires a resolution of the Annual General Meeting (section 179(1) sentence 1 of the AktG). According to section 17 of the Memorandum and Articles of Association, the Annual General Meeting passes resolutions with a simple majority of the votes cast, to the extent that no larger majority is required by law or other sections of the Memorandum and Articles of Association. In cases where a majority of the share capital represented during the passing of the relevant resolution is required – under no formal restrictions – due to regulatory requirements, the simple majority of the share capital represented during the passing of the relevant resolution shall be sufficient. According to section 9(3) of the Memorandum and Articles of Association, the Supervisory Board shall be authorised to amend the Memorandum and Articles of Association, provided that such amendments are restricted to the wording.

Authorisation of the Management Board to Issue or Repurchase Shares

Authorised Capital

The Management Board is authorised to increase, on one or more occasions, the Company's share capital by up to a maximum total amount of €190,188,029.83 by issuance of bearer share with no par value for contribution in cash or in kind, subject to the approval of the Supervisory Board (Authorised Capital 2015). This authority will expire on 9 June 2020. Shareholders shall generally be granted a subscription right; the statutory subscription rights may be granted in such a way that the new shares are subscribed by one or more credit institutions, or by entities which are to be treated as credit institutions according to section 186(5) sentence 1 of the AktG, subject to the obligation of offering these to the shareholders for subscription.

However, subject to the approval of the Supervisory Board, the Management Board may exclude subscription rights in the following cases:

- > in order to exclude fractional amounts from subscription rights;
- > in order to grant subscription rights, to the extent necessary, to holders of conversion or option rights issued already or subject to issue from the Bank or group entities (section 18(1) of the AktG) subordinated to the Bank, in a volume to which they would be entitled after the conversion or option right had been exercised, or after the conversion or option obligation had been satisfied, or after the Bank's substitution rights had been exercised;

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Disclosures Pursuant to Section 315(4) of the German Commercial Code (HGB)

Corporate Governance Statement Pursuant to Section 289a of the HGB

Consolidated Financial Statements

Additional Information

- > in order to issue employee shares with a total nominal amount of up to €2,852,820.45 to employees of the Bank or employees of affiliated entities (within the meaning of section 15 of the AktG), in which the Company directly or indirectly holds interests, or can exercise a controlling influence;
- > in order to increase the Company's share capital against contribution in kind;
- > in order to carry out scrip dividends pursuant to which the shareholders of the Company are granted the option to trade (all or parts of) their dividend rights for new shares out of the Authorised Capital 2015 by way of contribution in kind;
- > In the event of a capital increase against cash contributions, provided that the issue price of the new shares is not significantly lower than the quoted price of the Company's listed shares of the same kind at the time of the final determination of the issue price. The shares issued under this authorisation and excluding subscription rights pursuant to sections 203 (1), 186 (3) sentence 4 of the AktG are limited to a notional interest of no more than 10% of the Company's share capital at the time the authorisation becomes effective or – if the relevant amount is lower – at the time this authorisation is utilised. Furthermore, said threshold of 10% of the share capital is reduced by the proportionate interest in the share capital attributable to those treasury shares of the Company that were sold and transferred by the Company during the term of the Authorised Capital 2015, while excluding shareholders' subscription rights pursuant to sections 71 (1) no. 8 sentence 5, 186 (3) sentence 4 of the AktG. In addition, said threshold is reduced by the proportionate interest in the share capital attributable to those shares which have to be granted to service convertible bonds, convertible profit participation rights, convertible hybrid bonds or warrants attached to warrant bonds or profit-sharing certificates with warrants, in each case, issued with conversion or option right or with obligation to convert or the Company's right to substitute, to the extent that such bonds or profit participation rights are issued during the term of the Authorised Capital 2015, while excluding the subscription rights subject to appropriate application of Section 186 (3) sentence 4 of the AktG.

Conditional Capital

Pursuant to the resolution of the Annual General Meeting of the Company dated 10 June 2015, the share capital of the Company shall be conditionally increased by up to €190,188,029.83 through the issuance of up to 67,237,653 new ordinary bearer shares with no par value (Conditional Capital 2015). The conditional capital increase can only be carried out to the extent to which the conversion or option rights of the holders or creditors of convertible bonds, convertible profit participation rights, convertible hybrid bonds or warrants attached to warrant bonds or profit-sharing certificates with warrants, which are issued or guaranteed by the Bank or group entities (section 18 (1) of the AktG) subordinated to the Bank in accordance with the authorisation resolution of the Annual General Meeting dated 10 June 2015 (Authorisation 2015) before 9 June 2020, are exercised, or holders or creditors with an obligation to convert fulfil their obligations to convert, or the Company uses its right to substitute, and other forms of performance in satisfaction thereof are not chosen. The new shares are to be issued at the option and/or conversion prices calculated in each case in accordance with the Authorisation 2015. The new shares shall be entitled to a dividend from the

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Disclosures Pursuant to Section 315(4) of the German Commercial Code (HGB)

Corporate Governance Statement Pursuant to Section 289a of the HGB

Consolidated Financial Statements

Additional Information

beginning of the financial year in which they are created, by exercise of conversion and/or option rights or by fulfilment of respective obligations to convert or by use of the Company's right to substitute; to the extent legally permissible, the Management Board shall be authorised, with the consent of the Supervisory Board, to assign the profit participation of the new shares, in derogation from section 60(2) of the AktG, also for a financial year which has already expired.

Furthermore, the Management Board shall be authorised, with the consent of the Supervisory Board, to determine further details concerning the rights attached to shares as well as the conditions of share issuances in the context of the capital measures specified in section 4 of the Memorandum and Articles of Association (authorised and conditional capital).

Convertible Bonds, Warrant Bonds, Profit Participation Rights and Hybrid Bonds

1. Term of Authorisation; Nominal Amount; Number of Shares; Maturities; Interest Rates

The Management Board is authorised to issue convertible bonds, warrant bonds, profit participation rights or hybrid bonds, on one or more occasions, on or before 9 June 2020 (in the context of the Authorisation, the term «hybrid bonds» refers to hybrid bonds which fulfil the requirements of banking regulatory law to be attributable to the Company's Additional Tier 1 capital but are possibly not classified by law as profit participation rights), with or without conversion or option rights or obligation to convert or the Company's right to substitute as well as with or without limitation of maturities against contributions in cash or in kind (all financial instruments listed above collectively referred to as «Financial Instruments»). The total nominal amount of all Financial Instruments to be issued under the Authorisation shall not exceed a total value of €3,000,000,000.00. The Financial Instruments may be issued in registered or bearer form. As further set out in the conditions of the relevant Financial Instruments, the conversion and/or option rights and/or the respective obligations to convert granted to or imposed on the holders of the Financial Instruments (hereinafter referred to as «Holders») (including, for the avoidance of doubt, profit participation rights and/or other hybrid bonds issued with such conversion and/or option rights and/or the respective obligations to convert) may be issued in respect of shares of the Company in the total number of up to 67,237,654 shares and with a proportionate amount of share capital of up to a nominal sum of €190,188,029.83. The Company may abstain from granting conversion and/or option rights to the Holders of the Financial Instruments if this is permitted pursuant to the AktG at the time the Authorisation is exercised. The respective maturity of the conversion and/or option rights and/or the obligations to convert must not exceed the maturity of the relevant Financial Instruments. Interest payable on the Financial Instruments may be variable; it may also be fully or partially dependent on key profit figures of the Company or the Group (including net retained earnings or the dividend payable on Company shares as set by the resolution on the appropriation of profits). Moreover, the conditions of the Financial Instruments may provide for a subsequent payment for benefits not provided in previous years.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Disclosures Pursuant to Section 315(4)
of the German Commercial Code (HGB)

Corporate Governance Statement Pursuant to
Section 289a of the HGB

Consolidated Financial Statements

Additional Information

2. Currency; Issuances of Group Entities; Qualification as Additional Tier 1 Capital or Regulatory Capital

- a) The Financial Instruments may, other than in euro – and subject to a limit on the equivalent amount in euro – also be issued in the currency of another OECD country.
- b) Furthermore, the Financial Instruments may also be issued by group entities (section 18(1) of the AktG) subordinated to the Company. In this case, the Management Board shall be authorised to provide the guarantee for such Financial Instruments on behalf of the Company, to grant a right to substitute to the Company (see No. 4 (a)) and to grant or guarantee to the Holders of such Financial Instruments conversion and/or option rights or obligations to convert in respect of shares of the Company.
- c) The Financial Instruments may be structured to qualify as Additional Tier 1 capital instruments or otherwise as regulatory capital at the time of issue.

3. Conversion and Option Rights

- a) If convertible bonds are issued, Holders of the respective individual bonds (a «Bond», or the «Bonds») have the right to convert their Bond(s) into shares of the Company, subject to the conditions of the respective convertible bond. The ratio of conversion is calculated by dividing the nominal amount or – if the price is lower – the issue price of the Bond by the fixed conversion price of the share of the Company. Fractions of shares resulting from the ratio of conversion will be settled in cash; moreover, an additional cash adjustment may be determined as well as the combination or a compensation for fractional amounts which cannot be converted. The conditions of the Financial Instruments linked to a conversion right may provide for a variable ratio of conversion and a determination of the conversion price (subject to the minimum price specified under No. 5) within a predetermined range, depending on the performance of the share of the Company during the term of the respective convertible bond. The proportion of share capital attributed to each individual share to be issued upon conversion must not exceed the nominal amount or – if the price is lower – the issue price of the Bond.
- b) When issuing warrant bonds linked to an option right, one or more warrants are attached to each Bond which entitle the Holder of such Bond(s), subject to the conditions of the respective Financial Instrument, to buy shares of the Company against contributions in cash or in kind. The conditions of the Financial Instrument linked to an option right may also provide that the option price can fully or partially be settled by the transfer of Bonds. In this case, the ratio of subscription is calculated by dividing the nominal amount or – if the price is lower – the issue price of the Bond by the fixed option price of the share of the Company. Fractions of shares resulting from the ratio of subscription will be settled in cash; moreover, such fractions may be added together for the acquisition of whole shares, where appropriate, against payment of an additional amount – where applicable – and in accordance with the conditions of the respective Financial Instrument. The conditions of the Financial Instruments linked to an option right may also provide for a variable determination of the option price (subject to the minimum price specified under No. 5) within a predetermined range, depending on the performance of the share of

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Disclosures Pursuant to Section 315(4) of the German Commercial Code (HGB)

Corporate Governance Statement Pursuant to Section 289a of the HGB

Consolidated Financial Statements

Additional Information

the Company during the term of the respective Financial Instrument. The proportion of share capital attributed to each individual share to be issued upon exercise of the option right may not exceed the nominal amount or – if the price is lower – the issue price of the Bond.

c) When issuing profit participation rights or hybrid bonds with conversion rights, No. 3 a) shall apply; when issuing profit participation rights or hybrid bonds with option rights, No. 3 b) shall apply.

4. Conversion or Option Obligations and Substitution Rights; Granting of New or Existing Shares; Cash Payments

a) The conditions of the Financial Instruments may create the unconditional or conditional obligation to exercise the conversion and/or option rights at the end of the term or at another time (hereinafter collectively referred to as «Final Maturity») of the respective Financial Instrument (including the Final Maturity depending on an uncertain future event at the time the financial instrument is issued and/or the exercise of a right of termination) or provide the obligation of the Company to grant shares of the Company instead of payment of a cash amount upon Final Maturity of the respective Financial Instrument. Moreover, the conditions of the Financial Instruments may give the right to the Company, upon Final Maturity of the respective Financial Instrument, to grant the Holders of the Financial Instruments shares in the Company in full or in part instead of payment of the due cash amount (substitution rights). The proportion of share capital attributed to each individual share to be issued upon Final Maturity may once again not exceed the nominal amount or the issue price (if lower) of the Financial Instruments. For the determination of the number of shares to be issued upon Final Maturity of the Financial Instruments (i) linked to a conversion obligation, the rules on the ratio of conversion, on the compensation for fractional portions or amounts which cannot be converted, on payments of additional amounts, on the variable ratio of conversion and on the determination of the conversion price within a predetermined range (No. 3 (a)) shall apply, and (ii) linked to an option obligation, the rules on the transfer of Bonds to settle the option price, on the subscription ratio, on the compensation for fractional portions without subscription rights, on the adding together of such fractions for the acquisition of whole shares as well as on the determination of the option price within a predetermined range (No. 3 (b)) shall apply mutatis mutandis subject to the conditions of the respective Financial Instruments.

b) In the case of conversions (including conversion obligations), or the exercise of options (including option obligations), or the use of the Company's right to substitute, where the Company is obliged to grant shares of the Company, the Company is entitled at its free discretion to either grant new shares or already existing shares of the Company. In addition, the conditions of the Financial Instruments with conversion or option rights or obligations to convert may give the right to the Company, upon exercise of the conversion and/or option rights or fulfilment of the obligations to convert, to pay the equivalent value in cash instead of granting shares of the Company. In this regard, the value of the shares of the Company corresponds to the arithmetic mean of the volume-weighted average prices of the Company's shares in Xetra trading on the Frankfurt Stock Exchange (or in a successor system replacing Xetra) on the last ten trading days prior to the decision of the Company to pay the equivalent value of the shares in cash.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Disclosures Pursuant to Section 315(4)
of the German Commercial Code (HGB)

Corporate Governance Statement Pursuant to
Section 289a of the HGB

Consolidated Financial Statements

Additional Information

5. Conversion and Option Prices; Value-preserving Adjustments to the Conversion and Option Prices

- a) The conversion or option price to be determined must
 - aa) correspond to at least 50% of the arithmetic mean of volume-weighted average prices of the Company's shares in Xetra trading on the Frankfurt Stock Exchange (or in a successor system replacing Xetra) on the last ten trading days prior to the resolution of the Management Board on the issuance of Financial Instruments with conversion or option right, or
 - bb) in case a subscription right is granted, correspond to at least 50% of the arithmetic mean of volume-weighted average prices of the Company's shares in Xetra trading on the Frankfurt Stock Exchange (or in a successor system replacing Xetra) over the period commencing at the beginning of the subscription period up to and including the day prior to the announcement of the final terms and conditions established pursuant to section 186(2) AktG, or
 - cc) in case of convertible bonds or warrant bonds issued under exclusion of subscription rights against contribution of variable remuneration claims, gratifications or similar claims of Management Board members or senior managers or employees of the Company and such affiliated entities (within the meaning of section 15 of the AktG) in which the Company, directly or indirectly, holds interests or over which the Company can exercise a controlling influence, the conversion or option price must correspond to the arithmetic mean of volume-weighted average prices of the Company's shares in Xetra trading on the Frankfurt Stock Exchange (or in a successor system replacing Xetra) on all trading days in Frankfurt am Main during the reference period from December of the financial year which has expired up to and including February of the following financial year in which the Management Board resolves, with the consent of the Supervisory Board, to issue the convertible bonds or warrant bonds.
- b) In derogation from (a) (aa) and (bb) above, the conversion or option price of Financial Instruments linked to a conversion or option obligation and/or to the Company's right to substitute (No. 4(a)) may correspond to the arithmetic mean of volume-weighted average prices of the Company's shares in Xetra trading on the Frankfurt Stock Exchange (or in a successor system replacing Xetra) on the ten trading days prior to or following the Final Maturity of the Financial Instruments even if such average stock price falls below the aforementioned minimum conversion or option price (50%).
- c) Section 9(1) and section 199(2) of the AktG shall remain unaffected.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Disclosures Pursuant to Section 315(4) of the German Commercial Code (HGB)

Corporate Governance Statement Pursuant to Section 289a of the HGB

Consolidated Financial Statements

Additional Information

- d) If during the term of Financial Instruments linked to a conversion or option right or a conversion or option obligation, the economic value of the existing conversion or option rights or existing conversion or option obligations is diluted, the conversion or option prices may, notwithstanding section 9(1) of the AktG, be adjusted to preserve value where such adjustment is not already required by mandatory legal provisions. Subject to the more specific conditions of the Financial Instruments pursuant to section 216(3) of the AktG, the conversion or option price may, in particular, be adjusted to preserve value if, during the conversion or option period, (i) the Company increases the nominal share capital from retained earnings by issuing new shares, or (ii) the Company increases the nominal share capital or sells treasury shares by granting an exclusive subscription right to the shareholders (irrespective of any exclusion of subscription rights for fractional amounts), or (iii) while granting an exclusive subscription right to its shareholders, the Company issues, grants or guarantees further Financial Instruments with conversion or option rights or a conversion or option obligation or the Company's right to substitute (irrespective of any exclusion of subscription rights for fractional amounts), and in the cases (i) to (iii) listed above, the Holders of already existing conversion or option rights or existing conversion or option obligations or Financial Instruments with the Company's right to substitute are not granted the subscription right they would have been entitled to by operation of law following the exercise of the conversion or option right or fulfilment of the conversion or option obligation or use of the Company's right to substitute.
- e) Instead of the aforementioned adjustment of the conversion or option price to preserve value the conditions of the Financial Instruments may provide for an adjustment of the conversion or option rights or conversion or option obligations or the Company's right to substitute with regard to all aforementioned cases and additionally, in the event that the share capital of the Company is decreased or other extraordinary courses of action or events occur, which lead to a dilution of the economic value of the existing conversion or option rights or existing conversion or option obligations (e.g. reorganizations, share splits, dividend payments or a change of control). Such adjustment may, subject to the conditions of the Financial Instruments, include a corresponding cash payment by the Company upon exercise of the conversion or option rights, or fulfilment of the conversion or option obligations, or the granting of subscription rights to the Holders of the Financial Instruments as a compensation. To the extent necessary for the protection against dilution, the conditions of the Financial Instruments may also provide in all abovementioned cases that the number of conversion or option rights or conversion or option obligations per Bond gets adjusted. Section 9(1) and section 199(2) of the AktG shall remain unaffected.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Disclosures Pursuant to Section 315(4)
of the German Commercial Code (HGB)

Corporate Governance Statement Pursuant to
Section 289a of the HGB

Consolidated Financial Statements

Additional Information

6. Subscription Rights; Exclusion of Subscription Rights

- a) Subscription rights with regard to Financial Instruments have to be granted to the Company's shareholders to the extent a statutory subscription right applies. The statutory subscription rights may be granted in such a way that the Financial Instruments are subscribed by one or more credit institutions, or by entities which are to be treated as credit institutions according to section 186(5) sentence 1 of the AktG, subject to the obligation of offering these to the shareholders for subscription (indirect subscription right). In case the Financial Instruments are issued by a subordinated Group entity, the Company has to ensure the statutory subscription rights of the shareholders of the Company.
- b) However, subject to the approval of the Supervisory Board, the Management Board may exclude shareholders' subscription rights with regard to Financial Instruments
 - aa) for fractional amounts arising from the subscription ratio;
 - bb) insofar as is necessary to grant to the Holders of Financial Instruments previously issued (with conversion and/or option rights or obligations to convert or the Company's right to substitute) subscription rights to the extent that they as shareholders would be entitled to such subscription rights after exercising their conversion and/or option rights, or fulfilment of the obligations to convert, or the use of the Company's right to substitute;
 - cc) insofar as, in case of Financial Instruments issued against cash payments, the issue price is not substantially lower than the theoretical market value of the Financial Instruments established using recognised actuarial methods. However, the total number of shares to be issued on the basis of Financial Instruments with conversion and/or option rights or conversion and/or options obligations, or the Company's right to substitute while excluding the shareholders' subscription right, is limited to shares of the Company with a proportionate amount of no more than 10% of the Company's share capital at the time the Authorisation becomes effective or – if the value is lower – at the time the Authorisation is utilised. This maximum threshold of 10% of the share capital is reduced by the proportionate amount of the share capital attributable to those shares that are sold and transferred or issued by the Company during the term of the Authorisation, on the basis of other authorisations for the sale and transfer or the issuance of shares of the Company or Financial Instruments with the right or the obligation to buy such shares of the Company, while excluding the shareholders' subscription rights pursuant to section 186(3) sentence 4 of the AktG;
 - dd) if the Financial Instruments are issued against contributions in kind;
 - ee) in case of profit participation rights or hybrid bonds without conversion or option rights or obligations to convert (or without the Company's right to substitute), provided these are structured like straight bonds, i.e. (i) do not confer any rights of membership in the Company or (ii) rights to liquidation proceeds from the Company and (iii) the interest paid on them is not linked to the size of the net profit for the year, the net retained earnings or the dividend of the Company. Furthermore, the interest payable and the issue price of the profit participation rights or hybrid bonds must reflect current market conditions for similar fund-raising transactions at the time of issue.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Disclosures Pursuant to Section 315(4) of the German Commercial Code (HGB)

Corporate Governance Statement Pursuant to Section 289a of the HGB

Consolidated Financial Statements

Additional Information

7. Authorisation to Determine Further Details of Financial Instruments

The Management Board shall be authorised to determine within the framework defined above further details concerning the issuance and features of the Financial Instruments, in particular, volume, time of issue, rate of interest, method of interest calculation, issue price, variable ratio of conversion or variable option price, term and denomination, provisions on protection against dilution as well as the option or conversion period. In case of Financial Instruments issued by Group entities (section 18(1) of the AktG) subordinated to the Company, such determination also requires the consent of the Boards of the respective Group entity.

Treasury Shares

The Company is authorised to buy, for purposes other than securities trading, its own shares in a total volume of up to 10% of the share capital as of 10 June 2015 or – if the value is lower – of the share capital at the time this authorisation is exercised. Together with other own shares which are in the Company's possession or attributable to the Company pursuant to sections 71d and 71e of the AktG, the own shares purchased on the basis of this authorisation may not at any time exceed 10% of the Company's share capital. This authorisation to acquire own shares may be exercised directly by the Company, Group entities (section 18(1) of the AktG) subordinated to the Company, or third parties acting on behalf of the Company or on behalf of Group entities subordinated to the Company. This authorisation may be exercised fully or partially, and – in case of a partial exercise – more than once. This authorisation applies until 9 June 2020.

- a) The own shares may, at the discretion of the Management Board, be bought aa) through the stock exchange or bb) by means of a public purchase offer or cc) by means of a public invitation to all shareholders to submit tenders.
 - aa) The price for the purchase of shares (excluding ancillary purchase costs) through the stock exchange may not be more than 10% higher or lower than the arithmetic mean of volume-weighted average prices of the Company's shares in Xetra trading on the Frankfurt Stock Exchange (or in a successor system replacing Xetra) on the last three trading days prior to the acquisition of the shares.
 - bb) In the case of a public purchase offer to all shareholders, the offered and paid purchase price per share (excluding ancillary purchase costs) may not be more than 10% higher or lower than the arithmetic mean of volume-weighted average prices of the Company's shares in Xetra trading on the Frankfurt Stock Exchange (or in a successor system replacing Xetra) on the last three trading days prior to the cutoff date (as specified below). Cutoff date shall be the day on which the Management Board takes the final decision on the formal purchase offer. In case of any adjustment to the purchase offer, which is permissible if, after the publication of the offer, the market price of the shares has deviated significantly from the relevant price, the relevant cutoff date is the date on which the Management Board finally and formally decides on the adjustment of the offer.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Disclosures Pursuant to Section 315(4) of the German Commercial Code (HGB)

Corporate Governance Statement Pursuant to Section 289a of the HGB

Consolidated Financial Statements

Additional Information

The buyback volume of a public purchase offer may be limited. If the volume of shares offered in a public purchase offer exceeds the planned buyback volume, acceptance may be in proportion to the shares offered in each case (tender ratio); in this regard, the right of the shareholders to offer their shares in proportion to their interest in the Company's share capital is excluded. Moreover, commercial rounding to avoid fractions of shares and the preferred acceptance of small quantities of up to 50 of the Company's shares offered for purchase per shareholder may be provided for. In these cases, any further shareholders' rights to offer their shares are excluded.

- cc) In the case of a public invitation to all shareholders to submit tenders, the Management Board shall be authorised to determine a purchase price range per share within which offers may be submitted. The purchase price range may be adjusted if during the tender floating period the market price of the shares deviates significantly from the relevant price at the time of the publication of the public invitation to submit tenders. The purchase price per share paid by the Company on the basis of the submitted tenders (excluding ancillary purchase costs) may not be more than 10% higher or lower than the arithmetic mean of volume-weighted average prices of the Company's shares in Xetra trading on the Frankfurt Stock Exchange (or in a successor system replacing Xetra) on the last three trading days prior to the cutoff date (as specified below). Cutoff date shall be the day on which the Management Board takes the final decision to accept the tenders.

The buyback volume of a public invitation to submit tenders may be limited. If not all of several similar tenders can be accepted due to the volume restriction, acceptance may be in proportion to the shares offered in each case (tender ratio); in this regard, the right of the shareholders to offer their shares in proportion to their interest in the Company's share capital is excluded. Moreover, commercial rounding to avoid fractions of shares and the preferred acceptance of small quantities of up to 50 of the Company's shares offered for purchase per shareholder may be provided for. In these cases, any further shareholders' rights to offer their shares are excluded.

- b) The Management Board is authorised, with the consent of the Supervisory Board, to use any shares purchased on the basis of the authorisation described under (a) – besides the disposal on the stock exchange or for an offer to all shareholders – for certain other purposes:
- aa) any other form of disposal of the shares against cash payment provided that the price may not be substantially lower than the stock price of the shares of the Company of the same kind [at the time of sale] in accordance with section 186(3) sentence 4 of the AktG. In this case, the total number of shares to be disposed of, together with those new shares which during the term of this authorisation have been issued by increasing the share capital of the Company while excluding the shareholders' subscription right pursuant to section 186(3) sentence 4 of the AktG, may not exceed 10% of the share capital as of 10 June 2015 or – if the value is lower – of the share capital at the time this authorisation is exercised. This maximum threshold of 10% of the share capital is also reduced by the proportionate amount of the share capital attributable to those shares that are issued to service convertible

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Disclosures Pursuant to Section 315(4) of the German Commercial Code (HGB)

Corporate Governance Statement Pursuant to Section 289a of the HGB

Consolidated Financial Statements

Additional Information

bonds, convertible profit participation rights, convertible hybrid bonds or warrants attached to warrant bonds or profit-sharing certificates with warrants, in each case, issued with conversion or option right or conversion or option obligation to the extent that such bonds or profit participation rights are issued during the term of this authorisation, while excluding the subscription rights subject to appropriate application of section 186(3) sentence 4 of the AktG.

- bb) to dispose the purchased shares against contribution in kind, in particular for the purpose of acquiring companies, parts thereof or shareholdings in companies, including increasing existing shareholdings and the merger of companies.
- cc) to redeem all or some of the shares, without the execution of this redemption process requiring a further resolution by the Annual General Meeting. The redemption leads to a decrease of the share capital of the Company in the proportionate amount of the share capital attributable to such redeemed shares. The Supervisory Board shall be authorised to make amendments to the Memorandum and Articles of Association reflecting the decrease of the share capital of the Company. Alternatively, the Management Board shall be authorised, with the consent of the Supervisory Board, to decide that the share capital remains unaffected by the redemption process and that instead the proportion to the interest of the remaining shares in the Company's share capital increases due to the redemption pursuant to section 8(3) of the AktG. In this case, the Management Board may amend the number of shares of the Company in the Memorandum and Articles of Association. The redemption may be limited to a fraction of the purchased shares. This authorisation to redeem shares may be exercised more than once.
- c) The authorisations as described under (b) may be exercised separately or collectively, in whole or in part, on one or more occasions. Such authorisation also comprises the use of treasury shares of the Company which are acquired pursuant to section 71 d sentence 5 of the AktG, or by Group entities (within the meaning of section 18(1) of the AktG) subordinated to the Company or third parties acting on behalf of the Company or on behalf of Group entities subordinated to the Company.
- d) The shareholders' subscription rights are excluded to the extent that the Company's treasury shares are used according to the authorisations described under (b), (aa) and (bb). In addition, the Management Board may, with the consent of the Supervisory Board, except fractional amounts from shareholders' subscription rights in case of a public purchase offer to all shareholders.

The purchase of shares, subject to the authorisation to acquire own shares as set out above, may be executed, apart from in the ways described in the paragraphs above, with the use of put and call options or forward purchase contracts (hereinafter collectively referred to as «Equity Derivatives»).

Overview**Contents****Letter of the Management Board****Report of the Supervisory Board****The pbb Share****Group Management Report****Fundamental Information about the Group****Report on Economic Position****Report on Post-balance Sheet Date Events****Risk and Opportunity Report****pbb Group as an Employer****Remuneration Report****Report on Expected Developments****Supplemental Information****Disclosures Pursuant to Section 315(4) of the German Commercial Code (HGB)****Corporate Governance Statement Pursuant to Section 289a of the HGB****Consolidated Financial Statements****Additional Information**

The Company may enter into Equity Derivatives based on physical delivery if the derivative conditions provide that these Equity Derivatives may be fulfilled only through the delivery of shares which themselves were acquired subject to compliance with the principle of equal treatment. All share purchases based on Equity Derivatives are limited to shares in a maximum volume of 5% of the share capital as of 10 June 2015 or – if the value is lower – of the share capital at the time this authorisation is exercised. The term of the Equity Derivatives must be selected in such a way that the share purchase based on the Equity Derivatives or upon their exercise is carried out, at the latest, on 9 June 2020.

The purchase price to be paid per share upon exercise of the put options or upon the maturity of the forward purchase may not be more than 10% higher or more than 10% lower than the arithmetic mean of volume-weighted average prices of the Company's shares in Xetra trading on the Frankfurt Stock Exchange (or in a successor system replacing Xetra) on the last three trading days prior to the conclusion of the respective transaction, in each case excluding ancillary purchase costs but taking into account the option premium received. The call options may only be exercised if the purchase price to be paid is not more than 10% higher or more than 10% lower than the arithmetic mean of volume-weighted average prices of the Company's shares in Xetra trading on the Frankfurt Stock Exchange (or in a successor system replacing Xetra) on the last three trading days prior to the acquisition of the shares, in each case excluding ancillary purchase costs but taking into account the option premium paid. The option premium paid by the Company with regard to call options, and received by the Company with regard to put options, may not deviate from the theoretical market value of the respective options by more than 5%, established using recognised actuarial methods.

If treasury shares are acquired with the use of Equity Derivatives in line with the provisions set out above, the right of the shareholders to conclude such Equity Derivatives with the Company is excluded pursuant to appropriate application of section 186(3) sentence 4 of the AktG. Shareholders only have a right to offer their shares to the Company to the extent that the Company is obliged to purchase the relevant shares under the Equity Derivatives. Any further shareholders' rights to offer their shares are excluded. With regard to the disposal and the redemption of own shares acquired with the use of Equity Derivatives, the corresponding provisions set forth under (a) to (d) apply mutatis mutandis.

As at 31 December 2015, the Company neither held treasury shares nor Equity Derivatives.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Fundamental Information about the Group

Report on Economic Position

Report on Post-balance Sheet Date Events

Risk and Opportunity Report

pbb Group as an Employer

Remuneration Report

Report on Expected Developments

Supplemental Information

Disclosures Pursuant to Section 315(4)
of the German Commercial Code (HGB)

Corporate Governance Statement Pursuant to
Section 289 a of the HGB

Consolidated Financial Statements

Additional Information

Material Company Agreements which are Subject to Change of Control Clauses Triggered in the Event of a Takeover Offer

The Company did not enter into material Company agreements which are subject to change of control clauses triggered in the event of a takeover offer.

Compensation Agreements Entered into with Members of the Management Board or Employees in the Event of a Takeover Offer

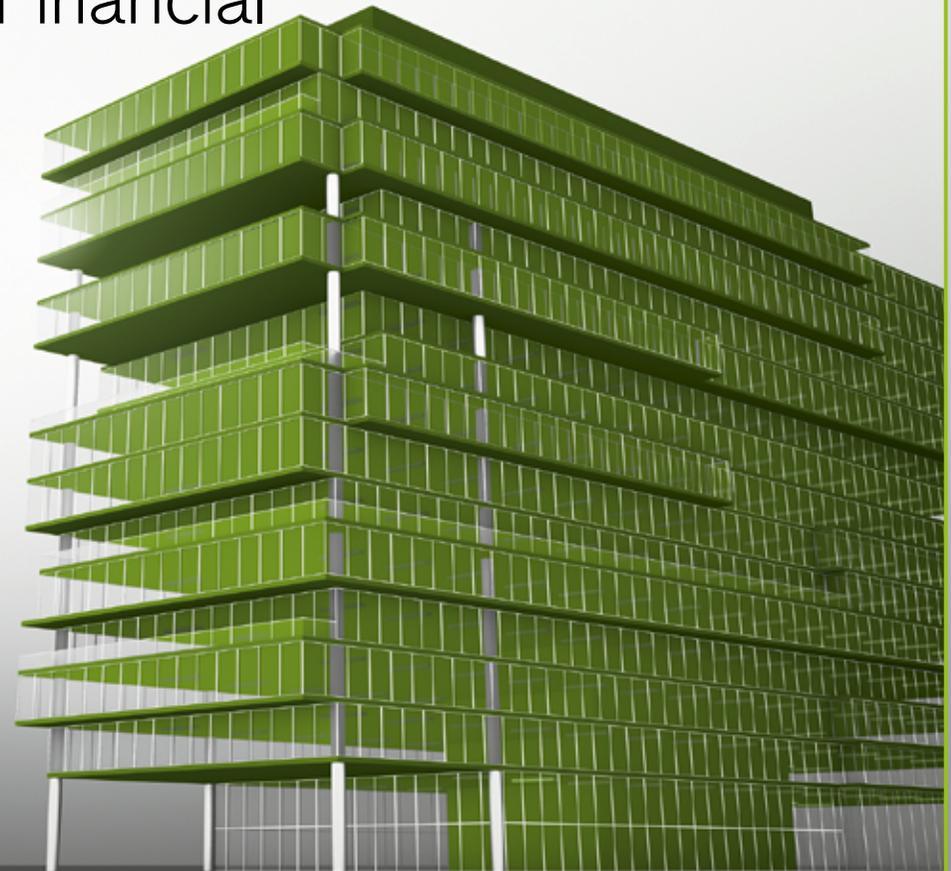
Please refer to the remuneration report for further information on compensation agreements entered into with members of the Management Board or employees in the event of a takeover offer.

Corporate Governance Statement Pursuant to Section 289 a of the HGB

Please refer to pbb's website (www.pfandbriefbank.com) for the Corporate Governance Statement pursuant to section 289 a of the HGB.

- Overview
- Contents
- Letter of the Management Board
- Report of the Supervisory Board
- The pbb Share
- Group Management Report
- Consolidated Financial Statements**
- Consolidated Income Statement
- Consolidated Statement of Comprehensive Income
- Consolidated Statement of Financial Position
- Consolidated Statement of Changes in Equity
- Consolidated Statement of Cash Flows
- Notes
- Responsibility Statement
- Auditor's Report
- Additional Information

Consolidated Financial Statements



HORIZON Düsseldorf €150 million

Development and Investment Finance
Germany
September 2015

pbb provided a property company of die developer Projektentwicklung GmbH («die developer») with a loan for the purchase of a plot of land and the subsequent construction of a 60-meter high office building located in a prominent position on Kennedydamm in Düsseldorf. The complete development project has a total volume of approximately €150 million, the main part of which is covered by the loan provided by pbb. The exceptional architecture of the new building and a strong anchor tenant will further upgrade the established office location, Kennedydamm. The outstanding building has been designed by «die developer» together with the well-known Düsseldorf architects HPP Architekten.

The strong regional presence in Germany underlines the significance of its home market for pbb. With offices in Munich, Berlin, Düsseldorf, Frankfurt/Eschborn and Hamburg, pbb can provide the know-how necessary to carry out complex and sophisticated financing projects. At the same time, the bank supports its clients with detailed knowledge at a regional level.

- Overview
- Contents
- Letter of the Management Board
- Report of the Supervisory Board
- The pbb Share
- Group Management Report
- Consolidated Financial Statements**
- Consolidated Income Statement
- Consolidated Statement of Comprehensive Income
- Consolidated Statement of Financial Position
- Consolidated Statement of Changes in Equity
- Consolidated Statement of Cash Flows
- Notes
- Responsibility Statement
- Auditor's Report
- Additional Information

Consolidated Income Statement

Consolidated income statement			
in € million	Note	2015	2014
Operating income		400	326
Net interest income	33	426	421
Interest income		2,071	2,333
Interest expenses		-1,645	-1,912
Net fee and commission income	34	14	1
Fee and commission income		17	13
Fee and commission expenses		-3	-12
Net trading income	35	15	-30
Net income from financial investments	36	-32	-77
Net income from hedging relationships	37	11	-3
Net other operating income/expenses	38	-34	14
Loan loss provisions	39	1	-21
General and administrative expenses	40	-207	-251
Net miscellaneous income/expenses	41	1	-
Profit or loss before tax		195	54
Income taxes	42	35	-50
Net income/loss		230	4
attributable to:			
Equity holders		230	4

Earnings per share			
in €		2015	2014
Basic earnings per share		1.71	0.03
Diluted earnings per share		1.71	0.03

- Overview
- Contents
- Letter of the Management Board
- Report of the Supervisory Board
- The pbb Share
- Group Management Report
- Consolidated Financial Statements**
- Consolidated Income Statement
- Consolidated Statement of Comprehensive Income**
- Consolidated Statement of Financial Position
- Consolidated Statement of Changes in Equity
- Consolidated Statement of Cash Flows
- Notes
- Responsibility Statement
- Auditor's Report
- Additional Information

Consolidated Statement of Comprehensive Income

Consolidated statement of comprehensive income	2015			2014		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
in € million						
Profit or loss	195	35	230	54	-50	4
Items that will not be reclassified to income statement	12	-4	8	-53	15	-38
Profits/losses from pension commitments	12	-4	8	-53	15	-38
Items that may be reclassified to income statement	-8	4	-4	34	-9	25
Foreign currency reserve	2	-	2	1	-	1
AfS reserve	132	-36	96	166	-46	120
Cash flow hedge reserve	-142	40	-102	-133	37	-96
Total other comprehensive income	4	-	4	-19	6	-13
Total comprehensive income of the period	199	35	234	35	-44	-9
attributable to:						
Equity holders	199	35	234	35	-44	-9

Components of consolidated statement of comprehensive income	2015	2014
in € million		
Net income/loss	230	4
Profits/losses from pension commitments	8	-38
Unrealised gains/losses	8	-38
Foreign currency reserve	2	1
Unrealised gains/losses	2	1
AfS reserve	96	120
Unrealised gains/losses	96	120
Cash flow hedge reserve	-102	-96
Unrealised gains/losses	-37	60
Reclassification adjustments for gains/losses included in profit or loss	-65	-156
Total other comprehensive income	4	-13
Total unrealised gains/losses	69	143
Total reclassification adjustments for gains/losses included in profit or loss	-65	-156
Total comprehensive income of the period	234	-9

- Overview
- Contents
- Letter of the Management Board
- Report of the Supervisory Board
- The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Responsibility Statement

Auditor's Report

Additional Information

Consolidated Statement of Financial Position

Assets			31.12.2015	31.12.2014 ¹⁾	1.1.2014 ¹⁾
in € million	Notes				
Cash reserve	10, 45		1,265	57	3,532
Trading assets	11, 46		1,600	2,016	1,642
Loans and advances to other banks	12, 47		2,742	6,800	6,685
Loans and advances to customers	12, 48		41,204	38,964	36,242
Allowances for losses on loans and advances	13, 49		-127	-138	-148
Valuation adjustment from portfolio hedge accounting	8, 50		1	-	-
Financial investments	14, 51		14,927	20,475	20,725
Property and equipment	15, 52		10	8	1
Intangible assets	16, 53		21	23	31
Other assets	17, 54		5,013	6,659	4,769
Income tax assets	26, 55		105	30	45
Current tax assets			21	29	44
Deferred tax assets			84	1	1
Total assets			66,761	74,894	73,524

¹⁾ Adjusted due to IAS 8.14 ff. and corrected due to IAS 8.42. Details are disclosed in Note «Consistency».

Consolidated Statement of Financial Position, Equity and liabilities



Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Responsibility Statement

Auditor's Report

Additional Information

Consolidated Statement of Financial Position, Assets

Equity and liabilities			31.12.2015	31.12.2014 ¹⁾	1.1.2014 ¹⁾
in € million	Notes				
Liabilities to other banks	18, 59		2,514	3,187	3,522
Liabilities to customers	18, 60		10,824	10,593	10,848
Securitised liabilities	18, 61		42,648	47,827	46,858
Valuation adjustment from portfolio hedge accounting	8, 62		1	–	–
Trading liabilities	19, 63		1,643	1,960	1,453
Provisions	20, 64		229	272	209
Other liabilities	21, 65		4,918	6,182	4,722
Income tax liabilities	26, 66		113	82	64
Current tax liabilities			113	82	64
Subordinated capital	22, 67		1,125	1,279	2,357
Liabilities			64,015	71,382	70,033
Equity attributable to equity holders			2,746	3,512	3,491
Subscribed capital	68		380	380	380
Silent partnership contribution	23, 68		–	999	999
Additional paid-in capital	68		1,637	3,265	5,036
Retained earnings	68		483	–1,148	–3,109
Profits/losses from pension commitments	20		–71	–79	–41
Foreign currency reserve	25		4	2	1
Revaluation reserve	8		83	89	65
AfS reserve			–4	–100	–220
Cash flow hedge reserve			87	189	285
Consolidated profit/loss 1.1.–31.12.			230	4	160
Equity			2,746	3,512	3,491
Total equity and liabilities			66,761	74,894	73,524

¹⁾ Adjusted due to IAS 8.14 ff. and corrected due to IAS 8.42. Details are disclosed in Note «Consistency».

Consolidated Statement of Changes in Equity

Consolidated statement of changes in equity	Equity attributable to equity holders									
	Revaluation reserve									
	Subscribed capital	Silent participation	Additional paid-in capital	Retained earnings	Profits/losses from pension commitments	Foreign currency reserve	AfS reserve	Cash flow hedge reserve	Consolidated profit/loss	Equity
in € million										
Equity at 31.12.2013¹⁾	380	999	5,036	-3,115	-41	1	-220	285	160	3,485
Correction due to IAS8.42 ²⁾	-	-	-	6	-	-	-	-	-	6
Equity at 1.1.2014	380	999	5,036	-3,109	-41	1	-220	285	160	3,491
Capital increase	-	-	-	-	-	-	-	-	-	-
Transaction costs of capital measures	-	-	-	-	-	-	-	-	-	-
Equity transfer	-	-	-1,771	1,771	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-	-
Distribution	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-38	1	120	-96	4	-9
Net income/loss	-	-	-	-	-	-	-	-	4	4
Total other comprehensive income	-	-	-	-	-38	1	120	-96	-	-13
Transfer to retained earnings	-	-	-	160	-	-	-	-	-160	-
Changes in the group of consolidated companies	-	-	-	-	-	-	-	-	-	-
Contribution from equity holder	-	-	-	30	-	-	-	-	-	30
Equity at 31.12.2014	380	999	3,265	-1,148	-79	2	-100	189	4	3,512
Equity at 1.1.2015	380	999	3,265	-1,148	-79	2	-100	189	4	3,512
Capital increase	-	-	-	-	-	-	-	-	-	-
Transaction costs of capital measures	-	-	-	-	-	-	-	-	-	-
Equity transfer	-	-	-1,628	1,628	-	-	-	-	-	-
Redemption of silent partnership contribution	-	-999	-	-1	-	-	-	-	-	-1,000
Treasury shares	-	-	-	-	-	-	-	-	-	-
Distribution	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	8	2	96	-102	230	234
Net income/loss	-	-	-	-	-	-	-	-	230	230
Total other comprehensive income	-	-	-	-	8	2	96	-102	-	4
Transfer to retained earnings	-	-	-	4	-	-	-	-	-4	-
Changes in the group of consolidated companies	-	-	-	-	-	-	-	-	-	-
Contribution from equity holder	-	-	-	-	-	-	-	-	-	-
Equity at 31.12.2015	380	-	1,637	483	-71	4	-4	87	230	2,746

¹⁾ As disclosed in consolidated financial statements 2014

²⁾ Details are disclosed in Note «Consistency».

- Overview
- Contents
- Letter of the Management Board
- Report of the Supervisory Board
- The pbb Share
- Group Management Report
- Consolidated Financial Statements
- Consolidated Income Statement
- Consolidated Statement of Comprehensive Income
- Consolidated Statement of Financial Position
- Consolidated Statement of Changes in Equity
- Consolidated Statement of Cash Flows
- Notes
- Responsibility Statement
- Auditor's Report
- Additional Information

Consolidated Statement of Cash Flows

Consolidated statement of cash flows ¹⁾		
in € million	2015	2014
Net income/loss	230	4
Write-downs, provisions for losses on, and write-ups of, loans and advances and additions to provisions in lending business	-6	27
Write-downs and depreciation less write-ups on non-current assets	84	98
Change in other non-cash positions	-224	157
Result from the sale of non-current assets	-40	-23
Other adjustments	-459	-371
Subtotal	-415	-108
Change in assets and liabilities from operating activities after correction for non-cash components		
Increase in assets/decrease in liabilities (-)		
Decrease in assets/increase in liabilities (+)		
Trading portfolio	137	-8
Loans and advances to other banks	3,991	-1,132
Loans and advances to customers	-2,440	-1,331
Other assets from operating activities	53	4
Liabilities to other banks	-666	-490
Liabilities to customers	293	-251
Securitised liabilities	-4,394	-1,229
Other liabilities from operating activities	-172	-290
Interest income received	1,960	2,186
Interest expense paid	-1,447	-1,661
Taxes on income paid/refund	-9	-10
Cash flow from operating activities	-3,109	-4,320

¹⁾ Explanations in Note «Notes to the Items in the Consolidated Statement of Cash Flows»

Consolidated Statement of Cash Flows, continuation



Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Responsibility Statement

Auditor's Report

Additional Information



Consolidated Statement of Cash Flows, beginning

Consolidated statement of cash flows ¹⁾		
in € million	2015	2014
Proceeds from the sale of non-current assets	5,795	3,081
Payments for the acquisition of non-current assets	-321	-2,134
Proceeds from the sale of subsidiaries	-	6
Cash flow from investing activities	5,474	953
Contribution from equity holder	-	30
Redemption of silent partnership contribution	-1,000	-
Payments of subordinated capital	-157	-138
Cash flow from financing activities	-1,157	-108
Cash and cash equivalents at the end of the previous period	57	3,532
+/- Cash flow from operating activities	-3,109	-4,320
+/- Cash flow from investing activities	5,474	953
+/- Cash flow from financing activities	-1,157	-108
+/- Effects of exchange rate changes and non-cash valuation changes	-	-
Cash and cash equivalents at the end of the period	1,265	57

¹⁾ Explanations in Note «Notes to the Items in the Consolidated Statement of Cash Flows»

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

1 General Information

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement
of Financial Position (Assets)

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Notes

1 General Information

Deutsche Pfandbriefbank AG (pbb), with its registered offices in Munich, is a leading provider of commercial real estate finance and public investment finance and, simultaneously, the largest Pfandbrief issuer and a major issuer of covered bonds in Europe. The Company is registered in the commercial register of the Amtsgericht (local court) Munich (HRB 41054) and represents the ultimate parent company of the Deutsche Pfandbriefbank Group (pbb Group).

In July 2015, Hypo Real Estate Holding AG (HRE Holding) placed 107,580,245 shares held on its own books (including an over-allotment («Greenshoe») of 6,589,289 shares) with a broad investor base, as part of a flotation in its capacity as the then sole owner of pbb. 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. Effective 21 September 2015, the pbb share was included in the MDAX®.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

2 Principles

3 Consistency

4 Uniform Consolidated Accounting

5 Consolidation

6 Disclosures of Interests in Subsidiaries

7 Disclosures of Interests in Associates

8 Financial Instruments

9 Leases

10 Cash Reserve

11 Trading Assets

12 Loans and Advances

13 Allow. for Losses on Loans and Adv. and Provisions for Conting. Liabilities and Other Commitments

14 Financial Investments

15 Property and Equipment

16 Intangible Assets

17 Other Assets

18 Liabilities

19 Trading Liabilities

20 Provisions

21 Other Liabilities

22 Subordinated Capital

23 Silent Partnership Contribution

24 Share-based Compensation

25 Currency Translation

26 Income Taxes

27 Non-current Assets Held for Sale

28 Accounting Estimates and Assumptions

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Cons. Statem. of Fin. Position (Assets)

Notes to the Cons. Statem. of Fin. Position (Equity+Liab.)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Accounting Policies

2 Principles

pbb has prepared its these consolidated financial statements for the period ended 31 December 2015 in line with EC ordinance No. 1606/2002 of the European Parliament and Council of 19 July 2002 in accordance with International Financial Reporting Standards (IFRS). The IFRS are standards and interpretations adopted by the International Accounting Standards Board (IASB). These are the International Financial Reporting Standards (IFRS), the International Accounting Standards (IAS) and the interpretations of the IFRS Interpretations Committee (formerly IFRIC) respectively the former Standing Interpretations Committee (SIC); they are also based on the regulations of commercial law which are applicable in accordance with Section 315 a(1) HGB (German Commercial Code).

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

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

The Management Board of pbb prepared these consolidated financial statements on 1 March 2016 under the going-concern assumption.

Initially Adopted Standards, Interpretations and Amendments Applied for the First Time

The following standards, interpretations and amendments were applied for the first time in financial year 2015:

> IFRIC Interpretation 21 Levies

> Annual Improvements to IFRSs 2011–2013 Cycle

IFRIC Interpretation 21 IFRIC 21 clarifies when a present obligation arises regarding levies imposed by government agencies. In accordance with IFRIC 21, the obligating event for the recognition of a liability is the activity which triggers the payment of a levy pursuant to applicable legislation.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

2 Principles

3 Consistency

4 Uniform Consolidated Accounting

5 Consolidation

6 Disclosures of Interests in Subsidiaries

7 Disclosures of Interests in Associates

8 Financial Instruments

9 Leases

10 Cash Reserve

11 Trading Assets

12 Loans and Advances

13 Allow. for Losses on Loans and Adv. and Provisions for Conting. Liabilities and Other Commitments

14 Financial Investments

15 Property and Equipment

16 Intangible Assets

17 Other Assets

18 Liabilities

19 Trading Liabilities

20 Provisions

21 Other Liabilities

22 Subordinated Capital

23 Silent Partnership Contribution

24 Share-based Compensation

25 Currency Translation

26 Income Taxes

27 Non-current Assets Held for Sale

28 Accounting Estimates and Assumptions

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Cons. Statem. of Fin. Position (Assets)

Notes to the Cons. Statem. of Fin. Position (Equity+Liab.)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Annual Improvements to IFRSs 2011–2013 Cycle Annual Improvements to IFRSs 2011–2013 introduces amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40. All amendments are not relevant or of minor significance for pbb Group, i.e. there are no material effects on the present consolidated financial statements.

Standards, Interpretations and Amendments Endorsed by the EU but Not Yet Effective

pbb Group does not plan earlier adoption of standards, interpretations and amendments, which will be applicable in future financial years.

The following standards, interpretations and amendments were endorsed by the EU as of the balance sheet date but are not yet applicable and were not voluntarily applied early:

> Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations

> Amendments to IAS 1: Disclosure Initiative

> Amendments to IAS 16 and IAS 41: Bearer Plants

> Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

> Amendments to IAS 19 (revised 2011) Employee Benefits: Defined Benefit Plans – Employee Contributions

> Amendments to IAS 27: Equity Method in Separate Financial Statements

> Annual Improvements Project

> Annual Improvements to IFRSs 2010–2012 Cycle

> Annual Improvements to IFRSs 2012–2014 Cycle

Amendments to IFRS 11 The amendments to IFRS 11 relate to a clarification that acquisitions of shares in joint ventures that represent a business within the meaning of IFRS 3 must also be accounted for in accordance with the principles of IFRS 3. The amendments are to be applied for the first time to reporting periods beginning on or after 1 January 2016. The effects on pbb Group will depend on whether shares in joint ventures within the meaning of IFRS 11 will be held in the future. This was not the case in the financial year of 2015.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

2 Principles

3 Consistency

4 Uniform Consolidated Accounting

5 Consolidation

6 Disclosures of Interests in Subsidiaries

7 Disclosures of Interests in Associates

8 Financial Instruments

9 Leases

10 Cash Reserve

11 Trading Assets

12 Loans and Advances

13 Allow. for Losses on Loans and Adv. and Provisions for Conting. Liabilities and Other Commitments

14 Financial Investments

15 Property and Equipment

16 Intangible Assets

17 Other Assets

18 Liabilities

19 Trading Liabilities

20 Provisions

21 Other Liabilities

22 Subordinated Capital

23 Silent Partnership Contribution

24 Share-based Compensation

25 Currency Translation

26 Income Taxes

27 Non-current Assets Held for Sale

28 Accounting Estimates and Assumptions

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Cons. Statem. of Fin. Position (Assets)

Notes to the Cons. Statem. of Fin. Position (Equity+Liab.)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

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

> Presentation of subtotals

> Structure of the Notes, for instance depending on the relevance of individual information for understanding development in assets, financial position and earnings

> Disclosures regarding accounting methods

> Presentation of results of companies measured according to the equity method in the statement of comprehensive income as an independent item

The amendments are required to be applied to financial years beginning on or after 1 January 2016. pbb Group plans to review and, if appropriate, adjust the disclosures in the consolidated financial statements against the backdrop of the Amendments to IAS 1.

Amendments to IAS 16 and IAS 41 The amendments govern the accounting for so-called bearer plants and are required to be applied for the first time to reporting periods beginning on or after 1 January 2016. The amendments will have no effect on the consolidated financial statements as pbb Group has no assets within the meaning of IAS 41 in its portfolio.

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

Amendments to IAS 19 (revised 2011) The amendments to IAS 19 clarify the requirements regarding the attribution of employee contributions or contributions from third parties to periods of service when the contributions are linked to service. They also provide relief when contributions are independent of the number of years of service. The amendments do not have any material effects on the present consolidated financial statements.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

2 Principles

3 Consistency

4 Uniform Consolidated Accounting

5 Consolidation

6 Disclosures of Interests in Subsidiaries

7 Disclosures of Interests in Associates

8 Financial Instruments

9 Leases

10 Cash Reserve

11 Trading Assets

12 Loans and Advances

13 Allow. for Losses on Loans and Adv. and Provisions for Conting. Liabilities and Other Commitments

14 Financial Investments

15 Property and Equipment

16 Intangible Assets

17 Other Assets

18 Liabilities

19 Trading Liabilities

20 Provisions

21 Other Liabilities

22 Subordinated Capital

23 Silent Partnership Contribution

24 Share-based Compensation

25 Currency Translation

26 Income Taxes

27 Non-current Assets Held for Sale

28 Accounting Estimates and Assumptions

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Cons. Statem. of Fin. Position (Assets)

Notes to the Cons. Statem. of Fin. Position (Equity+Liab.)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Amendments to IAS 27 Interests in subsidiaries, joint ventures and associated companies can, in future, also be accounted for using the equity method in the IFRS separate financial statements. The amendments are required to be applied to reporting periods beginning on or after 1 January 2016. As the regulations relate exclusively to IFRS separate financial statements, no effects are expected to impact pbb's IFRS consolidated financial statements.

Annual Improvements Project The standards affected by Annual Improvements to IFRSs 2010–2012 Cycle are IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 38 and IAS 24. Annual Improvements to IFRSs 2012–2014 Cycle introduce changes to the standards IFRS 5, IFRS 7, IAS 19 and IAS 34. The amendments are required to be applied for the first time to reporting periods beginning on or after 1 January 2016. No significant effects on the consolidated financial statements are expected.

Standards, Interpretations and Amendments Issued but Not Yet Endorsed by the EU

In addition, standards, interpretations and amendments were issued, but had not yet been endorsed by the European Union and not applied early by pbb Group as at the reporting date.

The dates of the first application for the following standards are subject to endorsement by the European Union:

> IFRS 9 Financial Instruments

> IFRS 14 Regulatory Deferral Account

> IFRS 15 Revenue from Contracts with Customers

> Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities –
Applying the Consolidation Exception

> Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets Between an Investor
and its Associate or Joint Venture

IFRS 9 The IASB concluded its project to replace IAS 39 Financial Instruments: Recognition and Measurement with the publication of IFRS 9 in July 2014. In its final version, the standard contains fundamental revisions of Classification and Measurement, Impairment Methodology and Hedge Accounting; the latter, however, without regulations on macro hedging.

The Classification and Measurement phase provides for the following measurement categories for the classification of financial instruments:

> at fair value through profit or loss

> at fair value through other comprehensive income

> at amortised cost

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

2 Principles

3 Consistency

4 Uniform Consolidated Accounting

5 Consolidation

6 Disclosures of Interests in Subsidiaries

7 Disclosures of Interests in Associates

8 Financial Instruments

9 Leases

10 Cash Reserve

11 Trading Assets

12 Loans and Advances

13 Allow. for Losses on Loans and Adv. and Provisions for Conting. Liabilities and Other Commitments

14 Financial Investments

15 Property and Equipment

16 Intangible Assets

17 Other Assets

18 Liabilities

19 Trading Liabilities

20 Provisions

21 Other Liabilities

22 Subordinated Capital

23 Silent Partnership Contribution

24 Share-based Compensation

25 Currency Translation

26 Income Taxes

27 Non-current Assets Held for Sale

28 Accounting Estimates and Assumptions

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Cons. Statem. of Fin. Position (Assets)

Notes to the Cons. Statem. of Fin. Position (Equity+Liab.)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

The classification of financial debt instruments on the assets side depends on the entity's business model for managing financial assets and the characteristics of the contractual cash flows of the financial asset. Upon initial recognition, the relevant financial asset is either classified as «at fair value through profit or loss», as «at amortised cost» or as «at fair value through other comprehensive income». In contrast, equity instruments are generally measured at fair value; in this context, an option for non-trading book assets exists pursuant to which the changes in the fair value are recognised either through profit or loss or through other comprehensive income.

The classification and measurement of financial obligations in accordance with IFRS 9 remains largely unchanged compared to the current regulations included in IAS 39. Non-derivative liabilities that are not held for trading or that the entity does not voluntarily measure at fair value must be measured at amortised cost. Changes in the value of liabilities at FVTPL that are attributable to changes in the entity's own credit risk are required to be recognised through other comprehensive income.

The regulations regarding impairment in accordance with IFRS 9 are relevant for assets measured either at amortised cost or at fair value through other comprehensive income as well as for unrecognised obligations such as loan commitments and financial guarantees. While the impairment model in accordance with IAS 39 provides for the recognition of loss allowances in case that a triggering event occurs, IFRS 9 introduces a model where provisions for credit losses upon initial recognition of the financial asset (or at the date when the Group becomes a contracting party of the loan commitment or the financial guarantee) are recognised on the basis of potential credit losses expected at that time. Upon initial recognition, the loss allowance is based on expected credit losses for the first twelve months (so-called Level 1). In case of a significant increase in the financial asset's credit risk within the context of subsequent measurement, the loss allowances has to reflect the lifetime expected credit losses (so-called Level 2 and Level 3).

With the new regulations in hedge accounting, accounting for hedging relationships will be more closely tied to the economic risk management of a company. In general, some of the restrictions imposed by the current regulations were removed so that a larger selection of hedging instruments and hedged items are available for hedge accounting. In addition, the mandatory quantitative effectiveness tests for hedging relationships will no longer be required; the test can also be of a pure qualitative nature. As long as regulations on accounting for macro hedges have not yet been adopted, the IASB grants an accounting option according to which the former rules of IAS 39 can be applied.

IFRS 9 is required to be applied to reporting periods beginning on or after 1 January 2018. The standard must be initially applied retrospectively, however, various simplification options are available. The standard may be applied earlier voluntarily.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

2 Principles

3 Consistency

4 Uniform Consolidated Accounting

5 Consolidation

6 Disclosures of Interests in Subsidiaries

7 Disclosures of Interests in Associates

8 Financial Instruments

9 Leases

10 Cash Reserve

11 Trading Assets

12 Loans and Advances

13 Allow. for Losses on Loans and Adv. and Provisions for Conting. Liabilities and Other Commitments

14 Financial Investments

15 Property and Equipment

16 Intangible Assets

17 Other Assets

18 Liabilities

19 Trading Liabilities

20 Provisions

21 Other Liabilities

22 Subordinated Capital

23 Silent Partnership Contribution

24 Share-based Compensation

25 Currency Translation

26 Income Taxes

27 Non-current Assets Held for Sale

28 Accounting Estimates and Assumptions

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Cons. Statem. of Fin. Position (Assets)

Notes to the Cons. Statem. of Fin. Position (Equity+Liab.)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Since the statement of financial position of pbb Group largely consists of financial instruments, the initial application of IFRS 9 will have far-reaching effects on the consolidated financial statements. As a result of the new regulations for the classification and measurement of financial assets, it is likely that some of the assets and liabilities previously measured at amortised cost will be measured at fair value in future. For example, these include financial assets that do not meet the cash flow characteristics criterion due to their contractual stipulations and therefore have to be applied at fair value through profit or loss. Another example refers to the liquidity portfolio, which is expected to be reported at fair value through other comprehensive income. In turn, some securities recognised as part of the available-for-sale portfolio in accordance with IAS 39 will be measured at amortised cost in accordance with IFRS 9. The effects from the classification and measurement of financial assets will depend, among other things, from the portfolios' business model as at the date of first-time application of IFRS 9.

In addition, the accounting processes relating to impairment losses will have to be substantially adjusted in accordance with the new rules, which is expected to result in higher loss allowances. The reason for this is the requirement to recognise a loss allowance in the amount of the expected credit losses for the first twelve months also for such instruments where the credit risk has not increased since initial recognition, and in the amount of the lifetime expected credit loss for financial assets where the credit risk has increased substantially. The loss allowances recognised on this basis are expected to exceed the amount of specific and portfolio-based allowances reported in accordance with IAS 39 on the basis of loss events occurred.

Moreover, the results of operations will become more volatile compared to the current regulations under IAS 39 due to the higher number of financial assets to be measured at fair value through profit or loss and the new regulations regarding loss allowances pursuant to IFRS 9. As a result of, among other things, the currently existing uncertainties and interpretation possibilities, a reliable quantification of the effects is not yet possible.

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

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

2 Principles

3 Consistency

4 Uniform Consolidated Accounting

5 Consolidation

6 Disclosures of Interests in Subsidiaries

7 Disclosures of Interests in Associates

8 Financial Instruments

9 Leases

10 Cash Reserve

11 Trading Assets

12 Loans and Advances

13 Allow. for Losses on Loans and Adv. and Provisions for Conting. Liabilities and Other Commitments

14 Financial Investments

15 Property and Equipment

16 Intangible Assets

17 Other Assets

18 Liabilities

19 Trading Liabilities

20 Provisions

21 Other Liabilities

22 Subordinated Capital

23 Silent Partnership Contribution

24 Share-based Compensation

25 Currency Translation

26 Income Taxes

27 Non-current Assets Held for Sale

28 Accounting Estimates and Assumptions

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Cons. Statem. of Fin. Position (Assets)

Notes to the Cons. Statem. of Fin. Position (Equity+Liab.)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

In the context of the implementation of the new classification and measurement rules, the portfolio of loans and advances and securities was classified based on the cash flow characteristics. In addition, the analysis of the portfolios was made on the basis of the current business model. Work commenced on the technical specifications to implement the requirements for the upstream systems. As regards the implementation of the new allowance rules, pbb Group is in the process of developing a system for determining the amount of the allowances for Levels 1 and 2 and believes it is making good progress to apply IFRS 9 for the first time as of 1 January 2018.

IFRS 14 With the new standard, first-time adopters of IFRS will be able to retain certain regulatory deferral accounts for rate-regulated activities in the IFRS financial statements. The currently available standard is intended by the IASB as an interim solution until the accounting rules for rate-regulated activities are published in their final version. The current version of IFRS 14 is required to be applied to reporting periods beginning on or after 1 January 2016. The European Commission will exclusively adopt the final IFRS 14 in European law, but not the current interim solution. As pbb Group is not a first-time adopter of IFRS, there will be no effects on the consolidated financial statements.

IFRS 15 The new standard supersedes the current standards on revenue recognition, IAS 18 and IAS 11. In accordance with IFRS 15, revenue has to be recognised when the customer obtains control over the contractual goods and services and can obtain benefits from these goods and services. IFRS 15 is required to be applied to reporting periods beginning on or after 1 January 2018. Due to its business model, the existing products and the contractual arrangements of pbb Group, no material effects on the consolidated financial statements are expected.

Amendments to IFRS 10, IFRS 12 and IAS 28 The amendments clarify exemptions from the duty to prepare consolidated financial statements pursuant to IFRS 10.4(a) and now also prescribe that investment entities that measure their subsidiaries at fair value are included in the scope of IFRS 12. The amendments are required to be applied to financial years beginning on or after 1 January 2016. Due to its business model, no material effects on the consolidated financial statements are expected.

Amendments to IFRS 10 and IAS 28 This amendment removes an inconsistency between IFRS 10 and IAS 28 and clarifies the recognition of unrealised gains from a disposal or addition of assets between an investor and an associate or a joint venture. Originally, the amendments should be required to be applied to reporting periods beginning on or after 1 January 2016. However, the IASB postponed the date of mandatory first-time application for the time being since a conflict was identified between the new and the existing regulations of IAS 28. The effects on the consolidated financial statements will depend on whether such transactions will be conducted in future. This was not the case in the financial year 2015.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

- 2 Principles
- 3 Consistency
- 4 Uniform Consolidated Accounting
- 5 Consolidation
- 6 Disclosures of Interests in Subsidiaries
- 7 Disclosures of Interests in Associates
- 8 Financial Instruments
- 9 Leases
- 10 Cash Reserve
- 11 Trading Assets
- 12 Loans and Advances
- 13 Allow. for Losses on Loans and Adv. and Provisions for Conting. Liabilities and Other Commitments
- 14 Financial Investments
- 15 Property and Equipment
- 16 Intangible Assets
- 17 Other Assets
- 18 Liabilities
- 19 Trading Liabilities
- 20 Provisions
- 21 Other Liabilities
- 22 Subordinated Capital
- 23 Silent Partnership Contribution
- 24 Share-based Compensation
- 25 Currency Translation
- 26 Income Taxes
- 27 Non-current Assets Held for Sale
- 28 Accounting Estimates and Assumptions

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Cons. Statem. of Fin. Position (Assets)

Notes to the Cons. Statem. of Fin. Position (Equity+Liab.)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Statement of Compliance for the German Corporate Governance Code

Company's Management Board and the Supervisory Board published a statement of compliance for the German Corporate Governance Code online (www.pfandbriefbank.com).

Group Management Report

The Group management report meets the requirements of section 315 (1) and (2) HGB and DRS 20. It comprises fundamental information about the Group, a report on the economic position, a report on post-balance sheet date events, a risk and opportunity report, a report on expected developments and supplemental information. The risk and opportunity report contains information which, under IFRS 7, is required to be disclosed. Events after the balance sheet date are described in the report on post-balance sheet date events.

3 Consistency

pbb Group applies accounting policies consistently in accordance with the IFRS framework concept as well as IAS 1 and IAS 8.

During the financial year 2015, recognition of deferred tax assets and deferred tax liabilities was adjusted in accordance with IAS 8.14 et seq. Due to the adjustment to the prevailing accounting practice pursuant to IAS 12.74, deferred tax assets and liabilities have been reported on an offset basis since 30 June 2015. The presentation of the previous year's figures was adjusted accordingly. As of 31 December 2015, deferred tax assets amounted to € 516 million (31 December 2014: € 631 million; 1 January 2014: € 1,125 million) and deferred tax liabilities amounted to € 432 million (31 December 2014: € 630 million; 1 January 2014: € 1,124 million). On an offset basis, this led to a net deferred tax asset of € 84 million (31 December 2014: € 1 million, 1 January 2014: € 1 million).

In a reporting period before the earliest period presented in the consolidated financial statements, deferred income tax assets were erroneously reported in an amount too low; this was corrected in the fourth quarter of 2015 in accordance with IAS 8.42. In this context, deferred tax assets and retained earnings as at the reporting dates 31 December 2014 and 1 January 2014 were adjusted by € 6 million each. After the correction, deferred tax assets amounted to € 1 million as at 31 December 2014 and 1 January 2014, and retained earnings amounted to € -1,148 million as at 31 December 2014 and € -3,109 million as at 1 January 2014.

Beyond as of 31 December 2015 pbb Group applied the same accounting and measurement principles as in the consolidated financial statements as of 31 December 2014.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

- 2 Principles
- 3 Consistency
- 4 Uniform Consolidated Accounting
- 5 Consolidation
- 6 Disclosures of Interests in Subsidiaries
- 7 Disclosures of Interests in Associates
- 8 Financial Instruments
- 9 Leases
- 10 Cash Reserve
- 11 Trading Assets
- 12 Loans and Advances
- 13 Allow. for Losses on Loans and Adv. and Provisions for Conting. Liabilities and Other Commitments
- 14 Financial Investments
- 15 Property and Equipment
- 16 Intangible Assets
- 17 Other Assets
- 18 Liabilities
- 19 Trading Liabilities
- 20 Provisions
- 21 Other Liabilities
- 22 Subordinated Capital
- 23 Silent Partnership Contribution
- 24 Share-based Compensation
- 25 Currency Translation
- 26 Income Taxes
- 27 Non-current Assets Held for Sale
- 28 Accounting Estimates and Assumptions

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Cons. Statem. of Fin. Position (Assets)

Notes to the Cons. Statem. of Fin. Position (Equity+Liab.)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

4 Uniform Consolidated Accounting

The separate financial statements of the consolidated domestic and foreign companies are incorporated in the consolidated financial statements of pbb Group using uniform accounting and measurement principles.

5 Consolidation

Number of subsidiaries/entities ¹⁾	Fully consolidated subsidiaries		Not fully consolidated subsidiaries ²⁾		Associated entities and other investments		Total
	Total	Thereof special-purpose entities	Total	Thereof special-purpose entities	Associated entities	Other investments	
1.1.2014	10	5	3	–	3	4	20
Additions	1	–	–	–	–	–	1
Disposals	–1	–1	–1	–	–	–1	–3
Mergers	–	–	–	–	–	–	–
31.12.2014	10	4	2	–	3	3	18
1.1.2015	10	4	2	–	3	3	18
Additions	–	–	–	–	–	–	–
Disposals	–	–	–	–	–	–	–
Mergers	–	–	–	–	–	–	–
31.12.2015	10	4	2	–	3	3	18

¹⁾ pbb, subsidiaries, associated companies and other investments

²⁾ Not fully consolidated due to immateriality

A subsidiary is a entity that is controlled by another entity. Control is deemed to exist if pbb has decision-making powers to manage relevant activities, has a right to significant returns from the subsidiary and can use its decision-making powers to influence the amount of the significant variable returns. Structured entities are entities in which voting rights or similar rights are not the dominant factors in determining control, such as if the voting rights relate merely to administrative duties and the relevant activities are governed by contractual agreements. As for subsidiaries, structured entities must be consolidated if the structured entity is controlled.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

- 2 Principles
- 3 Consistency
- 4 Uniform Consolidated Accounting
- 5 Consolidation
- 6 Disclosures of Interests in Subsidiaries
- 7 Disclosures of Interests in Associates
- 8 Financial Instruments
- 9 Leases
- 10 Cash Reserve
- 11 Trading Assets
- 12 Loans and Advances
- 13 Allow. for Losses on Loans and Adv. and Provisions for Conting. Liabilities and Other Commitments
- 14 Financial Investments
- 15 Property and Equipment
- 16 Intangible Assets
- 17 Other Assets
- 18 Liabilities
- 19 Trading Liabilities
- 20 Provisions
- 21 Other Liabilities
- 22 Subordinated Capital
- 23 Silent Partnership Contribution
- 24 Share-based Compensation
- 25 Currency Translation
- 26 Income Taxes
- 27 Non-current Assets Held for Sale
- 28 Accounting Estimates and Assumptions

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Cons. Statem. of Fin. Position (Assets)

Notes to the Cons. Statem. of Fin. Position (Equity+Liab.)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

In the financial year 2015, there was one change in the scope of consolidation since, on 17 December 2015, a financed property in the Netherlands was sold; pbb had consolidated the property initially on 12 November 2014 due to contractual arrangements entered into with the owner. The selling price of € 15 million corresponded to the carrying amount so that there was no significant effect on the income statement. In the statement of financial position, there was an asset swap which resulted in an increase in loans and advances to other banks by € 15 million while other assets declined by the same amount. There were no other changes in the scope of consolidation between 1 January and 31 December 2015.

Consolidation Principles

At the acquisition date the costs of a business combination are allocated by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria according to IFRS 3.10 at their fair values at that date. Any difference between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities so recognised are accounted as goodwill or as an excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities in accordance with IFRS 3.32–36. If the interest in net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the costs of business combination the acquirer shall reassess the identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination, and recognise immediately in profit or loss any excess remaining after reassessment.

Business relations within the group of consolidated companies are netted with respect to each other. Intercompany results attributable to internal transactions are eliminated.

There are no material interests in associated companies or joint ventures. The holdings are accounted as AfS financial instruments.

6 Disclosures of Interests in Subsidiaries

These consolidated financial statements set out a list of shareholdings in the Note «Holdings of pbb». In this list, the subsidiaries are classified on the basis of whether or not they are consolidated. Other shareholdings are also listed. The financial year for all fully-consolidated companies is the calendar year.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

- 2 Principles
- 3 Consistency
- 4 Uniform Consolidated Accounting
- 5 Consolidation
- 6 Disclosures of Interests in Subsidiaries
- 7 Disclosures of Interests in Associates
- 8 Financial Instruments
- 9 Leases
- 10 Cash Reserve
- 11 Trading Assets
- 12 Loans and Advances
- 13 Allow. for Losses on Loans and Adv. and Provisions for Conting. Liabilities and Other Commitments
- 14 Financial Investments
- 15 Property and Equipment
- 16 Intangible Assets
- 17 Other Assets
- 18 Liabilities
- 19 Trading Liabilities
- 20 Provisions
- 21 Other Liabilities
- 22 Subordinated Capital
- 23 Silent Partnership Contribution
- 24 Share-based Compensation
- 25 Currency Translation
- 26 Income Taxes
- 27 Non-current Assets Held for Sale
- 28 Accounting Estimates and Assumptions

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Cons. Statem. of Fin. Position (Assets)

Notes to the Cons. Statem. of Fin. Position (Equity+Liab.)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

The effects of the contractual relations between the Group companies and the subsidiaries which are not consolidated are set out in the consolidated financial statements. Pbb Group was unable to reliably determine a fair value for two interests in subsidiaries (31 December 2014: two) that are not included as they are of minor importance to the Group. Interests in these companies in the legal form of a limited company (GmbH) are not traded in an active market and are therefore measured at cost and accounted for in the AfS financial investments.

The total amount of the book values of the company's interests in subsidiaries individually regarded as minor amounted to €0 million (31 December 2014: €0 million). The summarised balance sheet totals of the subsidiaries not included in the scope of consolidation comprised less than 0.1% of the consolidated balance sheet total, as in the previous year. The total of the Group's interests in the profit or loss of the interests in subsidiaries regarded as minor amounted to €0 million (31 December 2014: €0 million). In the financial year 2015, no financial investments whose fair value could not be reliably determined were derecognised (2014: €0 million).

Two consolidated subsidiaries and one subsidiary that was not consolidated due to it being of subordinate importance for pbb Group were in liquidation. The balance sheet totals of these companies amounted to €72 million in total (31 December 2014: €0 million). These liquidations are expected to be concluded in the first quarter of 2017.

Significant Restrictions with Respect to the Usability of Assets within the Group

Statutory, contractual or regulatory restrictions and protective rights of non-controlling interests may limit the Group in its ability to obtain access to the assets and to easily transfer same to another company or other companies and pay the Group's liabilities. As of the balance sheet date the Group had no significant interests over which it could exert control. 100% of the voting right is retained in all the companies controlled by pbb. Consequently, there are no significant restrictions due to third-party protective rights.

Due to the principle of burden sharing required by the EU Commission, a condition imposed by same in 2011 as a result of the state aid procedure, profits were retained by pbb Group until privatisation, and used for repaying the silent participation of the Federal Republic of Germany. In particular, no repayments of other equity instruments (e.g. hybrid capital instruments, profit participation certificates) not required by law may be undertaken. This requirement no longer applies due to the privatisation in 2015.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

- 2 Principles
- 3 Consistency
- 4 Uniform Consolidated Accounting
- 5 Consolidation
- 6 Disclosures of Interests in Subsidiaries
- 7 Disclosures of Interests in Associates
- 8 Financial Instruments
- 9 Leases
- 10 Cash Reserve
- 11 Trading Assets
- 12 Loans and Advances
- 13 Allow. for Losses on Loans and Adv. and Provisions for Conting. Liabilities and Other Commitments
- 14 Financial Investments
- 15 Property and Equipment
- 16 Intangible Assets
- 17 Other Assets
- 18 Liabilities
- 19 Trading Liabilities
- 20 Provisions
- 21 Other Liabilities
- 22 Subordinated Capital
- 23 Silent Partnership Contribution
- 24 Share-based Compensation
- 25 Currency Translation
- 26 Income Taxes
- 27 Non-current Assets Held for Sale
- 28 Accounting Estimates and Assumptions

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Cons. Statem. of Fin. Position (Assets)

Notes to the Cons. Statem. of Fin. Position (Equity+Liab.)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

7 Disclosures of Interests in Associates

An associated company is of significance to the Group due to the book values of the company's interest and the share in the profits of the investment company. pbb Group held interests in three associated companies (31 December 2014: three). Pbb Group currently has no investments in associated companies to be included according to the at-equity method due to minor importance. Interests in these companies in the legal form of a partnership are measured at amortised cost and accounted for under the AfS financial investments.

The total amount of the book values of the company's interests in associated companies individually regarded as minor amounted to €0 million (31 December 2014: €0 million). In financial year 2015 the totals of the Group's interests in the profit or loss of the interests in associated companies individually regarded as minor amounted to €1 million (2014: less than €1 million).

8 Financial Instruments

According to IAS 32, a financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Recognition and Derecognition

pbb Group recognises a financial asset or a financial liability in its statement of financial position if a Group company becomes party to the contractual provisions of the financial instrument.

The purchases or sales of financial instruments are recognised on the trading date. Premiums and discounts are recognised in accordance with the accrual concept in the position net interest and similar income. In accordance with the primary derecognition concept of IAS 39, a financial asset has to be derecognised when all risks and rewards have substantially been transferred. If the main risks and rewards of ownership of the transferred financial asset are neither transferred nor retained, and if control over the transferred asset is retained, the Company has to recognise the asset to the extent of its continuing involvement. There are no transactions within pbb Group which result in partial derecognition due to a continuing involvement.

In case of pension agreements and synthetic securitisations the assets transferred do not qualify for derecognition because derecognition criteria of IAS 39 are not met.

Collateral with the same counterparty and same conditions (e.g. ISDA master agreement) must be netted according to IAS 32. Accordingly, only the net amount is disclosed.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

- 2 Principles
- 3 Consistency
- 4 Uniform Consolidated Accounting
- 5 Consolidation
- 6 Disclosures of Interests in Subsidiaries
- 7 Disclosures of Interests in Associates
- 8 Financial Instruments
- 9 Leases
- 10 Cash Reserve
- 11 Trading Assets
- 12 Loans and Advances
- 13 Allow. for Losses on Loans and Adv. and Provisions for Conting. Liabilities and Other Commitments
- 14 Financial Investments
- 15 Property and Equipment
- 16 Intangible Assets
- 17 Other Assets
- 18 Liabilities
- 19 Trading Liabilities
- 20 Provisions
- 21 Other Liabilities
- 22 Subordinated Capital
- 23 Silent Partnership Contribution
- 24 Share-based Compensation
- 25 Currency Translation
- 26 Income Taxes
- 27 Non-current Assets Held for Sale
- 28 Accounting Estimates and Assumptions

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Cons. Statem. of Fin. Position (Assets)

Notes to the Cons. Statem. of Fin. Position (Equity+Liab.)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Categories According to IAS 39

When a financial asset or financial liability is recognised initially, it is measured at its fair value.

For subsequent measurement purposes IAS 39 requires that all financial instruments have to be classified according to this standard, to be disclosed in the statement of financial position and to be measured according to its categorisation:

Held-for-Trading A financial asset or a financial liability is held for trading if it is:

- > acquired or incurred principally for the purpose of selling or repurchasing it in the near term,
- > part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or
- > a derivative (except for a derivative that is a designated and effective hedging instrument).

Held-for-trading financial instruments are measured at fair value. Changes in fair value are recognised in profit or loss. Held-for-trading financial instruments are disclosed as trading assets and trading liabilities. Interest and dividend income as well as the refinancing costs for the held-for-trading instruments are recognised in net interest or similar income.

If there is a difference between transaction price and market value at the trading date and the difference results from unobservable data that have a significant impact on the measurement of a financial instrument, the difference (so-called day one profit) is not recognised immediately in profit or loss but is recognised over the life of the transaction. The remaining difference is recognised directly in profit or loss when the inputs become observable, when the transaction matures or is closed out. In the financial years 2015 and 2014 there were no material day one profits.

Designated at Fair Value through Profit or Loss (dFVTPL) If certain conditions are satisfied, financial assets or liabilities can be classified as a financial asset respectively a financial liability at fair value through profit or loss when they are initially recognised. A designation can be made if the use of the measurement category means that a recognition and measurement inconsistency is either avoided or considerably reduced, and management and performance measurement of a portfolio of financial instruments are based on the fair values or if the instrument contains a separable embedded derivative. dFVTPL financial instruments are measured at fair value. Changes in fair value are recognised in profit or loss.

As of 31 December 2015 and as of 31 December 2014, pbb Group had no financial assets and no financial liabilities in the category dFVTPL.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

- 2 Principles
- 3 Consistency
- 4 Uniform Consolidated Accounting
- 5 Consolidation
- 6 Disclosures of Interests in Subsidiaries
- 7 Disclosures of Interests in Associates
- 8 Financial Instruments
- 9 Leases
- 10 Cash Reserve
- 11 Trading Assets
- 12 Loans and Advances
- 13 Allow. for Losses on Loans and Adv. and Provisions for Conting. Liabilities and Other Commitments
- 14 Financial Investments
- 15 Property and Equipment
- 16 Intangible Assets
- 17 Other Assets
- 18 Liabilities
- 19 Trading Liabilities
- 20 Provisions
- 21 Other Liabilities
- 22 Subordinated Capital
- 23 Silent Partnership Contribution
- 24 Share-based Compensation
- 25 Currency Translation
- 26 Income Taxes
- 27 Non-current Assets Held for Sale
- 28 Accounting Estimates and Assumptions

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Cons. Statem. of Fin. Position (Assets)

Notes to the Cons. Statem. of Fin. Position (Equity+Liab.)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Held-to-Maturity (HtM) Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. HtM financial investments are measured at amortised cost. In financial years 2015 and 2014, no financial assets were classified as HtM at pbb Group.

Loans and Receivables (LaR) Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include bonded notes.

Loans and receivables are recognised in the positions loans and advances to banks, loans and advances to customers and financial investments, and are measured at amortised cost. Interest income from loans and receivables is recognised in net interest and similar income. Market price related net gains and net losses attributable to prepayment penalties and disposal of loans and advances to customers and of loans and advances to other banks are disclosed in net interest and similar income. Such net gains and net losses from financial investments are recognised in net income from financial investments. Impairments due to credit standing factors and which affecting profit or loss are recognised in loan loss provisions respectively, in the case of financial investments, in net income from financial investments.

Available-for-Sale (AfS) Available-for-sale assets are those non-derivative financial assets that are classified as available for sale and which are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. pbb Group only classifies securities as AfS but not loans and advances.

AfS financial assets are measured at fair value. Changes in fair value are recognised in a separate item of equity (AfS reserve) not affecting profit or loss until the asset is sold, withdrawn or otherwise disposed of or if an impairment is established for the financial asset in accordance with IAS 39.58 et seq., so that the cumulative loss previously recognised in equity is now recognised in profit or loss. If the objective evidence for the impairment of an AfS debt instrument drops out, the impairment has to be reversed through profit or loss. On the other hand, impairments of an AfS equity instrument which have been recognised in profit or loss are not permitted to be reversed through profit or loss.

AfS financial assets are disclosed as financial investments. Interest income from AfS assets is recognised in net interest and similar income. Net gains and net losses generated by the disposal of AfS financial instruments as well as by changes in value as a result of impairment or reversals to be recognised in profit or loss are recognised in net income from financial investments.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

- 2 Principles
- 3 Consistency
- 4 Uniform Consolidated Accounting
- 5 Consolidation
- 6 Disclosures of Interests in Subsidiaries
- 7 Disclosures of Interests in Associates
- 8 Financial Instruments
- 9 Leases
- 10 Cash Reserve
- 11 Trading Assets
- 12 Loans and Advances
- 13 Allow. for Losses on Loans and Adv. and Provisions for Conting. Liabilities and Other Commitments
- 14 Financial Investments
- 15 Property and Equipment
- 16 Intangible Assets
- 17 Other Assets
- 18 Liabilities
- 19 Trading Liabilities
- 20 Provisions
- 21 Other Liabilities
- 22 Subordinated Capital
- 23 Silent Partnership Contribution
- 24 Share-based Compensation
- 25 Currency Translation
- 26 Income Taxes
- 27 Non-current Assets Held for Sale
- 28 Accounting Estimates and Assumptions

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Cons. Statem. of Fin. Position (Assets)

Notes to the Cons. Statem. of Fin. Position (Equity+Liab.)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Financial Liabilities at Amortised Cost Financial liabilities at amortised cost are those non-derivative financial liabilities that are not classified at fair value through profit or loss.

Financial liabilities at amortised cost are measured at amortised cost. Financial liabilities at amortised cost that are not securitised are recognised in liabilities to other banks and liabilities to customers. If these financial liabilities are securitised and not subordinated, they are recognised in securitised liabilities. Subordinated liabilities are recognised in subordinated capital. Interest expenses from financial liabilities at amortised cost are recognised in net interest and similar income. In addition, the position net interest and similar income includes net gains and net losses attributable to repurchases or withdrawals before maturity as well as impairments and impairment reversals of financial liabilities at amortised cost.

Derivatives Derivatives are measured at fair value. Changes in fair value are recognised in profit or loss if the derivatives are not part of cash flow hedge accounting. The measurement gains and losses from stand-alone derivatives are recognised in net trading income and from hedging derivatives in net income from hedging relationships. In the statement of financial position, stand-alone derivatives are disclosed as trading assets and trading liabilities. Hedging derivatives are disclosed as other assets and other liabilities.

Outside the held-for-trading and dFVTPL category, embedded derivative financial instruments within a structured product and which are required to be separated are separated from the host contract and recognised as stand-alone derivative financial instruments. Thereafter, the host contract is measured in accordance with its classification. The change in value arising from the separated derivatives that are measured at fair value is recognised in profit or loss.

Classes

IFRS 7 and IFRS 13 required disclosures according to classes of financial instruments. pbb Group mainly defined the IAS 39 measurement categories, irrevocable loan commitments, financial guarantees, hedging derivatives and cash reserve as classes as well as claims from finance lease agreements.

Measurement Methods Financial instruments at fair value are measured on the basis of stock market prices or other market prices, if existent. If a price is not available from an active market, observable market prices from comparable financial instruments are used. If prices from comparable financial instruments are not available, valuation models are used that base on observable market parameters. If these parameters are not observable at the markets, the measurement of the financial assets is based on models with non-market-observable parameters. The used measurement models are market standard models. A description of these models and the products is given in the Note «Fair Values of Financial Instruments».

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

- 2 Principles
- 3 Consistency
- 4 Uniform Consolidated Accounting
- 5 Consolidation
- 6 Disclosures of Interests in Subsidiaries
- 7 Disclosures of Interests in Associates
- 8 Financial Instruments
- 9 Leases
- 10 Cash Reserve
- 11 Trading Assets
- 12 Loans and Advances
- 13 Allow. for Losses on Loans and Adv. and Provisions for Conting. Liabilities and Other Commitments
- 14 Financial Investments
- 15 Property and Equipment
- 16 Intangible Assets
- 17 Other Assets
- 18 Liabilities
- 19 Trading Liabilities
- 20 Provisions
- 21 Other Liabilities
- 22 Subordinated Capital
- 23 Silent Partnership Contribution
- 24 Share-based Compensation
- 25 Currency Translation
- 26 Income Taxes
- 27 Non-current Assets Held for Sale
- 28 Accounting Estimates and Assumptions

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Cons. Statem. of Fin. Position (Assets)

Notes to the Cons. Statem. of Fin. Position (Equity+Liab.)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Impairment

According to IAS 39.58 a financial asset must be tested for impairment. At least at each balance sheet date pbb Group assesses on a case-by-case basis whether there is objective evidence for impairment. The criteria used to determine if there is such objective evidence included:

- > significant financial difficulties of the borrower
- > overdue contractual payments of either principal or interest or other breaches of contract
- > increased probability that the borrower will enter bankruptcy or other financial reorganisation
- > renegotiations due to economic problems
- > a decline in the fair value of a financial asset below its (amortised) cost

Receivables at risk of default are restructured by pbb Group if the borrower's financial position has deteriorated but a positive going-concern forecast for the loan exposure can still be carried out. This is carried out by changing the underlying terms and conditions or side agreements by means of a unilateral or mutual declaration of intent. Restructuring agreements should maximise opportunities for pbb Group to realise its outstanding receivables or at least minimise the risk of default of the loan exposure. These generally include inter alia standstill agreements, changed interest payment/repayment terms, interest/repayment reductions or the suspension of contractual agreements (e.g. financial covenants) so that the borrower is again able to meet their payment obligations. The credit risk associated with restructured loans is managed by the Group's Credit Risk Management units. The methods used to measure and manage risk are presented in the section of the risk and opportunity report entitled «Credit Risk». Further information is provided in the Note «Restructured Loans and Advances».

Two types of allowances are in place: specific allowances and portfolio-based allowances. Allowances for loans and advances are recognised in a separate account (allowances for losses on loans and advances) instead of directly reducing the carrying amount of the assets. The expense is recognised in provisions for losses on loans and advances through profit or loss. Changes in an impairment already recognised are recorded as a change in the allowance and also disclosed in profit or loss as a component of loan loss provisions. Specific allowances on AfS financial investments as well as specific allowances and portfolio-based allowances on LaR financial investments are deducted directly from the carrying amount of the asset. The expense is recognised in net income from financial investments through profit or loss. Where subsequent measurement of financial assets is based on fair value through profit or loss, impairment is implied in the fair value.

pbb Group impairs loans and advances as well as financial investments whose terms have been renegotiated if there is objective evidence for impairment.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

- 2 Principles
- 3 Consistency
- 4 Uniform Consolidated Accounting
- 5 Consolidation
- 6 Disclosures of Interests in Subsidiaries
- 7 Disclosures of Interests in Associates
- 8 Financial Instruments
- 9 Leases
- 10 Cash Reserve
- 11 Trading Assets
- 12 Loans and Advances
- 13 Allow. for Losses on Loans and Adv. and Provisions for Conting. Liabilities and Other Commitments
- 14 Financial Investments
- 15 Property and Equipment
- 16 Intangible Assets
- 17 Other Assets
- 18 Liabilities
- 19 Trading Liabilities
- 20 Provisions
- 21 Other Liabilities
- 22 Subordinated Capital
- 23 Silent Partnership Contribution
- 24 Share-based Compensation
- 25 Currency Translation
- 26 Income Taxes
- 27 Non-current Assets Held for Sale
- 28 Accounting Estimates and Assumptions

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Cons. Statem. of Fin. Position (Assets)

Notes to the Cons. Statem. of Fin. Position (Equity+Liab.)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

To measure the impairment loss, the following factors are especially considered:

- > pbb Group's aggregate exposure to the customer
- > the amount and timing of expected interest and redemption payments
- > the realisable value of collateral and likelihood and time of successful repossession
- > the likely deduction of any costs involved in recovering amounts outstanding
- > the market price of the asset if available

If there is no reasonable prospect for a repayment of the loan or advance and the collateral were realised or transferred to pbb Group, the respective loan or advance and the associated allowance is written off.

For the purpose of calculating portfolio-based allowances, financial assets measured at amortised cost for which no impairment has been identified on an individual basis are grouped in portfolios according to their credit risk. The portfolio-based allowances cover impairments which have been incurred but not yet been identified. The parameters used to determine portfolio-based allowances are checked regularly and adjusted if necessary. The allowances are determined after taking into account the following factors:

- > historical loss experience in portfolios of similar credit risk characteristics
- > a judgement whether current economic conditions and credit conditions improved or deteriorated compared to the past
- > the estimated period between impairment occurring and the impairment being identified
- > state of the current economic cycle

Hedge Accounting

Hedging relationships between financial instruments are classified as a fair value hedge, a cash flow hedge or hedge of a net investment in a foreign operation in accordance with IAS 39. Hedging instruments used to hedge interest rate risks are mainly interest rate derivatives, for example interest rate swaps and options.

Fair Value Hedge Under IAS 39, with a fair value hedge, a recognised asset, a recognised liability, offbalance-sheet fixed obligation or a precisely designated part of such an asset, liability or obligation, is hedged against the risk of a change in fair value which is attributable to a specific risk and possibly has an effect on profit or loss for the period.

If the hedge of the fair value in the course of the reporting period meets the criteria of IAS 39.88, the hedge is accounted as follows:

- > The profit or loss arising when the hedging instrument is remeasured at fair value (for a derivative hedging instrument) or the currency component of its carrying amount measured in accordance with IAS 21 (for non-derivative hedging instruments) is recognised in profit or loss for the period and

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

- 2 Principles
- 3 Consistency
- 4 Uniform Consolidated Accounting
- 5 Consolidation
- 6 Disclosures of Interests in Subsidiaries
- 7 Disclosures of Interests in Associates
- 8 Financial Instruments
- 9 Leases
- 10 Cash Reserve
- 11 Trading Assets
- 12 Loans and Advances
- 13 Allow. for Losses on Loans and Adv. and Provisions for Conting. Liabilities and Other Commitments
- 14 Financial Investments
- 15 Property and Equipment
- 16 Intangible Assets
- 17 Other Assets
- 18 Liabilities
- 19 Trading Liabilities
- 20 Provisions
- 21 Other Liabilities
- 22 Subordinated Capital
- 23 Silent Partnership Contribution
- 24 Share-based Compensation
- 25 Currency Translation
- 26 Income Taxes
- 27 Non-current Assets Held for Sale
- 28 Accounting Estimates and Assumptions

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Cons. Statem. of Fin. Position (Assets)

Notes to the Cons. Statem. of Fin. Position (Equity+Liab.)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

> The carrying amount of a hedged item is adjusted by the profit or loss arising from the hedged item and attributable to the hedged risks, and is recognised in profit or loss for the period. This is applicable if the hedged item is otherwise measured at cost. The profit or loss attributable to the hedged risk is recognised in profit or loss for the period if the hedged item is an available-for-sale (AfS) financial asset. The amortisation of the hedge adjustment is started on the date of the revoking of the hedge relationship.

pbb Group uses fair value hedge accounting for presenting micro-hedge and macro-hedge relationships.

Interest rate risks are hedged under micro fair value hedge accounting. Any ineffectiveness within the permissible range pursuant to IAS 39 is reported under net income from hedging relationships. Positive and negative market values of hedging instruments are reported at fair value in other assets or other liabilities, respectively. The adjustment of the hedged item's carrying amount by the profit or loss attributable to the hedged risk directly affects the hedged item. The retrospective effectiveness test is conducted using the regression analysis. The dollar-offset method is used to quantify prospective ineffectiveness. If the hedge relationship is terminated for reasons other than the derecognition of the hedged item, the difference between the carrying amount of the hedged item at that point and the value at which it would have been carried, had the hedge never existed (the unamortised fair value adjustment), is amortised through profit or loss over the remaining term of the original hedge and recognised in net interest income. If the hedged item is derecognised, e.g. due to disposal or repayment, the unamortised fair value adjustment is recognised immediately in profit or loss.

In the context of portfolio hedge accounting within the meaning of IAS 39, interest rate risks from loans and advances as well as from liabilities are hedged on a portfolio basis. The fair values as regards the hedged risks in the hedged cash flows of the portfolios of hedged items are reported either on the assets or on the liabilities side as valuation adjustments from portfolio hedge accounting. The changes in the fair value of hedged risks from the portfolios of hedged items are recognised in net income from hedging relationships. Positive and negative market values of hedging instruments are recognised in statement of financial position at fair value in other assets or other liabilities, respectively. The changes in value are shown in net income from hedging relationships, thus largely compensating the effect on profit or loss from the valuation of the cash flows from the portfolios of hedged items. The cash flows from the portfolios of hedged items are determined monthly within the framework of a dynamic hedge designation and discontinuation process. The resulting valuation adjustments are amortised over the remaining term of the time band and recognised in net interest income. In case of a derecognition of cash flows of hedged items from the portfolio of hedged items, the associated valuation adjustment is reversed on a pro-rata basis and recognised in net interest income.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

- 2 Principles
- 3 Consistency
- 4 Uniform Consolidated Accounting
- 5 Consolidation
- 6 Disclosures of Interests in Subsidiaries
- 7 Disclosures of Interests in Associates
- 8 Financial Instruments
- 9 Leases
- 10 Cash Reserve
- 11 Trading Assets
- 12 Loans and Advances
- 13 Allow. for Losses on Loans and Adv. and Provisions for Conting. Liabilities and Other Commitments
- 14 Financial Investments
- 15 Property and Equipment
- 16 Intangible Assets
- 17 Other Assets
- 18 Liabilities
- 19 Trading Liabilities
- 20 Provisions
- 21 Other Liabilities
- 22 Subordinated Capital
- 23 Silent Partnership Contribution
- 24 Share-based Compensation
- 25 Currency Translation
- 26 Income Taxes
- 27 Non-current Assets Held for Sale
- 28 Accounting Estimates and Assumptions

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Cons. Statem. of Fin. Position (Assets)

Notes to the Cons. Statem. of Fin. Position (Equity+Liab.)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Cash Flow Hedge Hedge According to IAS 39, a cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with the recognised asset or liability (for instance some or all future interest payments on variable-interest debt) or a highly probable forecast transaction that could affect profit or loss. For instance, future variable interest payments on variable interest receivables and liabilities are swapped for fixed payments primarily by means of interest rate swaps.

Under cash flow hedge accounting, hedging instruments are measured at fair value. The measurement result has to be broken down into an effective and an ineffective portion of the hedge relationship.

The effective portion of the hedging instrument is recognised in a separate item of equity without any impact on profit or loss (cash flow hedge reserve). The inefficient portion of the hedging instrument is recognised in profit or loss in the net income from hedging relationships.

A hedging relationship is deemed to be effective if, at the beginning and throughout the entire duration of the transactions, variability in cash flows of the hedged item are compensated almost completely (range of 80% to 125%) by variability in cash flows of the hedging instruments. For the purpose of establishing whether a specific portion of the hedging instrument is effective, the future variable interest payments on the receivables and liabilities to be hedged are compared quarterly with the variable interest payments from the interest derivatives in detailed maturity bands. The dollar offset method is used to assess effectiveness.

If a cash flow hedge for a forecast transaction is deemed to be no longer effective, or if the hedge relationship is revoked, the cumulative gains or losses on the hedging instrument initially recognised in equity remain in equity until the agreed or forecast transaction occurs. At this point, the gains or losses are recognised in profit or loss. pbb Group uses a macro approach for cash flow hedge accounting.

Hedge of a Net Investment in a Foreign Operation A net investment hedge is a hedge of the foreign currency exposure on a net investment in a foreign operation. Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. pbb Group did not hedge a net investment in a foreign operation in the financial years 2015 and 2014.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

- 2 Principles
- 3 Consistency
- 4 Uniform Consolidated Accounting
- 5 Consolidation
- 6 Disclosures of Interests in Subsidiaries
- 7 Disclosures of Interests in Associates
- 8 Financial Instruments
- 9 Leases
- 10 Cash Reserve
- 11 Trading Assets
- 12 Loans and Advances
- 13 Allow. for Losses on Loans and Adv. and Provisions for Conting. Liabilities and Other Commitments
- 14 Financial Investments
- 15 Property and Equipment
- 16 Intangible Assets
- 17 Other Assets
- 18 Liabilities
- 19 Trading Liabilities
- 20 Provisions
- 21 Other Liabilities
- 22 Subordinated Capital
- 23 Silent Partnership Contribution
- 24 Share-based Compensation
- 25 Currency Translation
- 26 Income Taxes
- 27 Non-current Assets Held for Sale
- 28 Accounting Estimates and Assumptions

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Cons. Statem. of Fin. Position (Assets)

Notes to the Cons. Statem. of Fin. Position (Equity+Liab.)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

9 Leases

In accordance with IAS 17, a lease is an agreement whereby the lessor conveys to the lessee in return for a payment the right to use an asset for an agreed period. Lease agreements have to be classified as either finance leases or operating leases. A lease is classified as an operating lease if substantially all the risks and rewards incidental to ownership of the leased asset remains with the lessor. In contrast, a lease is classified as a finance lease if substantially all risks and rewards incidental to ownership are transferred to the lessee.

pbb Group as a Lessor

Operating Lease In the case of operating leases, the assets leased to the lessee are attributed to the lessor who has to continue to account for the leased assets. pbb Group does not hold any assets under operating leases as lessor.

Finance Lease Finance leases In the case of finance leases, the lessor has to recognise a receivable from the lessee as an asset. This receivable is measured at the amount of the net investment in the lease at inception of the lease. The received lease payments are divided into an interest portion, which is recognised in profit or loss, and a principal portion. Interest income is recognised over the lease term, generally based on a pattern reflecting a constant periodic rate of return on the net investment in the lease; the principal portion (being a redemption of principal) reduces the outstanding receivable.

pbb Group as a Lessee

Operating Lease The lease instalments paid by the lessee in the context of operating leases are recognised as an expense over the lease term and reported as other operating expenses, or administrative expenses if the payments refer to rental expenses. The rental term commences as soon as the lessee starts to control the actual use of the leased asset. The corresponding leased assets are not recognised as an asset by the lessee.

Finance Lease In the case of finance leases, the lessee recognises the leased assets in its statement of financial position. pbb Group does not hold any assets under finance leases as lessee.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

- 2 Principles
- 3 Consistency
- 4 Uniform Consolidated Accounting
- 5 Consolidation
- 6 Disclosures of Interests in Subsidiaries
- 7 Disclosures of Interests in Associates
- 8 Financial Instruments
- 9 Leases
- 10 Cash Reserve
- 11 Trading Assets
- 12 Loans and Advances
- 13 Allow. for Losses on Loans and Adv. and Provisions for Conting. Liabilities and Other Commitments
- 14 Financial Investments
- 15 Property and Equipment
- 16 Intangible Assets
- 17 Other Assets
- 18 Liabilities
- 19 Trading Liabilities
- 20 Provisions
- 21 Other Liabilities
- 22 Subordinated Capital
- 23 Silent Partnership Contribution
- 24 Share-based Compensation
- 25 Currency Translation
- 26 Income Taxes
- 27 Non-current Assets Held for Sale
- 28 Accounting Estimates and Assumptions

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Cons. Statem. of Fin. Position (Assets)

Notes to the Cons. Statem. of Fin. Position (Equity+Liab.)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

10 Cash Reserve

Cash reserve contains balances with central banks which are measured at cost.

11 Trading Assets

Trading assets comprise positive market values of stand-alone derivatives of the bank book. pbb Group has no non-derivative trading instruments in its portfolio. Trading assets are measured at fair value. Gains and losses arising from the valuation and realisation of trading assets are recognised in net trading income in profit or loss.

12 Loans and Advances

Loans and advances to other banks and loans and advances to customers are measured in accordance with IAS 39 at amortised cost if they are not categorised dFVTPL or AfS or a hedged item of a fair value hedge. As of 31 December 2015, and as of 31 December 2014, pbb Group did not have loans and advances which are classified as AfS or dFVTPL.

Additions to allowances for losses on loans and advances are disclosed as a separate item provisions for losses in profit or loss. Value changes from hedge relationships are recognised under net income from hedging relationships. All other income and expenses from loans and advances, including net gains and net losses, are recognised in net interest income.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

- 2 Principles
- 3 Consistency
- 4 Uniform Consolidated Accounting
- 5 Consolidation
- 6 Disclosures of Interests in Subsidiaries
- 7 Disclosures of Interests in Associates
- 8 Financial Instruments
- 9 Leases
- 10 Cash Reserve
- 11 Trading Assets
- 12 Loans and Advances
- 13 Allow. for Losses on Loans and Adv. and Provisions for Conting. Liabilities and Other Commitments
- 14 Financial Investments
- 15 Property and Equipment
- 16 Intangible Assets
- 17 Other Assets
- 18 Liabilities
- 19 Trading Liabilities
- 20 Provisions
- 21 Other Liabilities
- 22 Subordinated Capital
- 23 Silent Partnership Contribution
- 24 Share-based Compensation
- 25 Currency Translation
- 26 Income Taxes
- 27 Non-current Assets Held for Sale
- 28 Accounting Estimates and Assumptions

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Cons. Statem. of Fin. Position (Assets)

Notes to the Cons. Statem. of Fin. Position (Equity+Liab.)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

13 Allowances for Losses on Loans and Advances and Provisions for Contingent Liabilities and Other Commitments

Allowances for losses on loans and advances are recognised if there is objective evidence that it will not be possible for the entire amount which is due in accordance with the original contractual conditions to be recovered. Allowances for loans and advances are measured mainly on the basis of expectations with regard to loan defaults, the structure and quality of the loan portfolio as well as macroeconomic parameters on an specific and portfolio basis.

Specific Allowances

For all recognisable default risks, the extent of the allowance for losses on loans and advances is calculated as the difference between the carrying amount of the asset and the present value of the expected future cash flows. The latter is calculated on the basis of the initial effective interest rate. Market interest rate changes do not have any effect in this respect. The increase in the present value of an adjusted receivable (so-called unwinding) which occurs over a period of time is recognised as an interest income.

Portfolio-based Allowances

Under IAS 39.64, loans which were not specifically impaired are pooled in risk-inherent portfolios. Portfolio-based allowances are recognised for these portfolios; these allowances are measured in respect of current events and information with regard to significant changes with detrimental consequences which have occurred in the technology, market, economic or legal environment, as well as historical default rates.

Allowances for losses on loans and advances are broken down into allowances relating to loans and advances and provisions for contingent liabilities and other commitments like irrevocable loan commitments. An allowance relating to loans and advances is disclosed as a negative item on the assets side of the statement of financial position, whereas a provision for contingent liabilities and other commitments is disclosed on the liabilities side of the statement of financial position. In profit or loss, all effects are disclosed as loan loss provisions apart from time-related increases in the present value of impaired receivables which are disclosed in net interest income.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

- 2 Principles
- 3 Consistency
- 4 Uniform Consolidated Accounting
- 5 Consolidation
- 6 Disclosures of Interests in Subsidiaries
- 7 Disclosures of Interests in Associates
- 8 Financial Instruments
- 9 Leases
- 10 Cash Reserve
- 11 Trading Assets
- 12 Loans and Advances
- 13 Allow. for Losses on Loans and Adv. and Provisions for Conting. Liabilities and Other Commitments
- 14 Financial Investments
- 15 Property and Equipment
- 16 Intangible Assets
- 17 Other Assets
- 18 Liabilities
- 19 Trading Liabilities
- 20 Provisions
- 21 Other Liabilities
- 22 Subordinated Capital
- 23 Silent Partnership Contribution
- 24 Share-based Compensation
- 25 Currency Translation
- 26 Income Taxes
- 27 Non-current Assets Held for Sale
- 28 Accounting Estimates and Assumptions

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Cons. Statem. of Fin. Position (Assets)

Notes to the Cons. Statem. of Fin. Position (Equity+Liab.)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

14 Financial Investments

LaR and AfS securities are recognised and disclosed as financial investments. AfS financial assets are measured at fair value. Changes in fair value of AfS financial assets are disclosed as a separate item of equity (AfS reserve) not affecting profit or loss until the asset is sold, withdrawn, disposed of, or if impairment is established for the financial asset in accordance with IAS 39.58 et seq. Therefore, the cumulative profit or loss previously recognised in equity is now affecting profit or loss. Specific allowances on AfS financial assets are directly deducted from the carrying amount of the assets. Portfolio-based allowances on AfS financial assets shall not be created for AfS financial assets. AfS financial assets which are hedged effectively against market price risks are part of the hedge accounting. LaR financial investments are measured at amortised cost. Specific allowances and portfolio-based allowances on LaR financial investments are directly deducted from the carrying amount of the assets. In the financial years 2015 and 2014, pbb Group did not have any HtM and dFVTPL financial assets.

15 Property and Equipment

Property and equipment are generally measured at cost of purchase or cost of production. The carrying amounts of tangible assets (except land) are depreciated on a straight-line basis in accordance with the expected useful lives of the assets. In addition, property and equipment are tested at least annually for impairment. If the value of property and equipment has impaired, an impairment loss is recognised in profit or loss. If the reasons for the impairment no longer exist, an amount not exceeding amortised cost or cost of production is reversed through profit or loss. In the case of fittings in rented buildings, the contract duration taking account of extension options is used as the basis of this contract duration if it is shorter than the useful life.

Useful lives	
Fixture in rental buildings	5–15 years
IT equipment (broad sense)	3–5 years
Other plant and operating equipment	3–25 years

Subsequent cost of purchase or costs of conversion are capitalised if an additional economic benefit flows to the Company. Maintenance expenses of property and equipment are recognised in profit or loss of the financial year in which they arose.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

- 2 Principles
- 3 Consistency
- 4 Uniform Consolidated Accounting
- 5 Consolidation
- 6 Disclosures of Interests in Subsidiaries
- 7 Disclosures of Interests in Associates
- 8 Financial Instruments
- 9 Leases
- 10 Cash Reserve
- 11 Trading Assets
- 12 Loans and Advances
- 13 Allow. for Losses on Loans and Adv. and Provisions for Conting. Liabilities and Other Commitments
- 14 Financial Investments
- 15 Property and Equipment
- 16 Intangible Assets
- 17 Other Assets
- 18 Liabilities
- 19 Trading Liabilities
- 20 Provisions
- 21 Other Liabilities
- 22 Subordinated Capital
- 23 Silent Partnership Contribution
- 24 Share-based Compensation
- 25 Currency Translation
- 26 Income Taxes
- 27 Non-current Assets Held for Sale
- 28 Accounting Estimates and Assumptions

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Cons. Statem. of Fin. Position (Assets)

Notes to the Cons. Statem. of Fin. Position (Equity+Liab.)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

16 Intangible Assets

Purchased and internally generated software are the main items recognised as intangible assets. Goodwill, brand names and customer relations are not capitalised.

Software is an intangible asset with a finite useful life. Purchased software is measured at the amortised purchase cost. pbb Group capitalises internally generated software if it is probable that future economic benefits will flow to the Group and the expenses can be measured reliably. Expenses eligible for the capitalisation of internally generated software include external, directly attributable costs of materials and services as well as personnel expenses for employees directly associated with the creation of software used by the Company. Software is amortised on a straight-line basis over expected useful lives of three to five years. In addition, intangible assets with a finite useful life are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired.

17 Other Assets

Other assets mainly comprise positive fair values from derivative financial instruments (hedging derivatives) and salvage acquisitions. Salvage acquisitions are measured as inventories at the lower of cost of purchase and net realisable value in accordance with IAS 2.

18 Liabilities

Liabilities other than hedged items of an effective fair value hedge and which are not classified as dFVTPL are measured at amortised cost. Premiums and discounts are recognised on a pro rata basis. Interest-free liabilities are recognised with their present value. pbb Group has not designated any liabilities into the category dFVTPL. Changes in value resulting from hedge relationships are disclosed under net income from hedging relationships. All income and expenses from liabilities including net gains and net losses resulting from redemption of liabilities are recognised in net interest income.

19 Trading Liabilities

Trading liabilities include negative market values of trading derivatives and of stand-alone derivatives of the bank book. Trading liabilities are measured at fair value. Unrealised and realised profits and losses attributable to trading liabilities are recognised in net trading income in profit or loss.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

- 2 Principles
- 3 Consistency
- 4 Uniform Consolidated Accounting
- 5 Consolidation
- 6 Disclosures of Interests in Subsidiaries
- 7 Disclosures of Interests in Associates
- 8 Financial Instruments
- 9 Leases
- 10 Cash Reserve
- 11 Trading Assets
- 12 Loans and Advances
- 13 Allow. for Losses on Loans and Adv. and Provisions for Conting. Liabilities and Other Commitments
- 14 Financial Investments
- 15 Property and Equipment
- 16 Intangible Assets
- 17 Other Assets
- 18 Liabilities
- 19 Trading Liabilities
- 20 Provisions
- 21 Other Liabilities
- 22 Subordinated Capital
- 23 Silent Partnership Contribution
- 24 Share-based Compensation
- 25 Currency Translation
- 26 Income Taxes
- 27 Non-current Assets Held for Sale
- 28 Accounting Estimates and Assumptions

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Cons. Statem. of Fin. Position (Assets)

Notes to the Cons. Statem. of Fin. Position (Equity+Liab.)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

20 Provisions

A provision is a liability of uncertain timing or amount. A provision shall be recognised when an entity has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. According to IAS 37.15 in rare cases it is not clear whether there is a present obligation. In these cases a present event is deemed to give rise to a present obligation if, taking into account of all available evidence, it is more likely that not that a present obligation exists at the end of the reporting period. In rare cases, for example in a law suit, it may be disputed either whether certain events have occurred or whether those events result in a present obligation. In such a case, pbb determines whether a present obligation exists at the end of the reporting period by taking account of all available evidence, including, for example, the opinion of experts.

Under IAS 37.36 et seq., the best estimate is used for measuring provisions for contingent liabilities and contingent losses attributable to pending transactions. Long-term provisions are generally discounted with an interest rate that reflects the current assessments of the time value of money and the risks specific to the liability.

Provisions for defined benefit plan provisions are calculated on the basis of actuarial reports in accordance with IAS 19. They are measured using the projected unit credit method. The amount of the provision equals the so-called net defined benefit liability which is the difference between the present value of the defined benefit obligation and the fair value of plan assets. pbb closed plan assets in the form of a qualifying insurance policy to hedge parts of the risk from the defined benefit obligations. The reinsurance is pledged to the plan beneficiaries.

The determination of the net defined benefit liability is based on demographic and financial actuarial assumptions. A demographic assumption is for example the mortality for which pbb uses guidance tables. In financial actuarial assumptions the discount rate has the greatest effect on the amount of defined benefit liability. The rate used for the measurement is determined by reference to market yields at the end of the reporting period on high-quality, fixed-interest corporate bonds.

Net interest on the defined benefit liability is determined by multiplying the defined benefit liability by the discount rate. The determination is done at the beginning of the financial year taking account of any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. Net interest on defined benefit liability are shown together with all other effects on income statement from the defined benefit obligations and the plan assets in the position pension expenses and related employee benefit costs in general and administrative expenses.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

- 2 Principles
- 3 Consistency
- 4 Uniform Consolidated Accounting
- 5 Consolidation
- 6 Disclosures of Interests in Subsidiaries
- 7 Disclosures of Interests in Associates
- 8 Financial Instruments
- 9 Leases
- 10 Cash Reserve
- 11 Trading Assets
- 12 Loans and Advances
- 13 Allow. for Losses on Loans and Adv. and Provisions for Conting. Liabilities and Other Commitments
- 14 Financial Investments
- 15 Property and Equipment
- 16 Intangible Assets
- 17 Other Assets
- 18 Liabilities
- 19 Trading Liabilities
- 20 Provisions
- 21 Other Liabilities
- 22 Subordinated Capital
- 23 Silent Partnership Contribution
- 24 Share-based Compensation
- 25 Currency Translation
- 26 Income Taxes
- 27 Non-current Assets Held for Sale
- 28 Accounting Estimates and Assumptions

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Cons. Statem. of Fin. Position (Assets)

Notes to the Cons. Statem. of Fin. Position (Equity+Liab.)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Remeasurements of the net defined benefit liability result from actuarial gains and losses and the return on plan assets excluding amounts included in net interest on the net defined benefit liability. Remeasurements of the net defined benefit liability are shown in equity in the position profit/losses from pension obligations. Changes of remeasurements of the net defined benefit liability within a period are shown as a component of the consolidated statement of comprehensive income. Actuarial gains and losses result from increases or decreases in the present value of the defined benefit obligation due to changes of actuarial assumptions and experience adjustments. Changes of the discount rate usually have the biggest effect on the actuarial gains and losses.

21 Other Liabilities

Besides negative fair values from derivatives recognised in hedge accounting, accrued liabilities are one of the items recognised in other liabilities. Accruals arise from liabilities for products or services which have been received or supplied and have not yet been paid for, invoiced by the supplier or formally agreed. This also includes short-term liabilities to employees, for instance flexi-time credits and vacation entitlements. The accrued liabilities are recognised at the amount likely to be utilised. If the obligations listed at this note cannot be quantified more precisely on the balance sheet date and if the criteria specified in IAS 37 for recognising provisions are satisfied, these items have to be disclosed as provisions.

22 Subordinated Capital

In the event of insolvency or liquidation subordinated capital may only be repaid after all non-subordinated creditors have been satisfied. Subordinated capital of pbb Group encompasses subordinated liabilities, participating certificates outstanding and hybrid capital instruments. For some instruments of subordinated capital the holders participate in any net loss or consolidated loss. In addition, the interest entitlement can be ceased or reduced under specific conditions. For other instruments the interest ceases only in case of a net loss which can be caught up depending on the structuring.

Pursuant to IAS 32 the subordinated capital instruments issued by companies of pbb Group were classified as financial liabilities or equity instruments in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument. Financial liabilities are measured at amortised cost. The amortised costs are the amount at which the financial liability is measured at initial recognition minus principal payments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount and minus any expected reduction of interest and/or principal payments.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

- 2 Principles
- 3 Consistency
- 4 Uniform Consolidated Accounting
- 5 Consolidation
- 6 Disclosures of Interests in Subsidiaries
- 7 Disclosures of Interests in Associates
- 8 Financial Instruments
- 9 Leases
- 10 Cash Reserve
- 11 Trading Assets
- 12 Loans and Advances
- 13 Allow. for Losses on Loans and Adv. and Provisions for Conting. Liabilities and Other Commitments
- 14 Financial Investments
- 15 Property and Equipment
- 16 Intangible Assets
- 17 Other Assets
- 18 Liabilities
- 19 Trading Liabilities
- 20 Provisions
- 21 Other Liabilities
- 22 Subordinated Capital
- 23 Silent Partnership Contribution
- 24 Share-based Compensation
- 25 Currency Translation
- 26 Income Taxes
- 27 Non-current Assets Held for Sale
- 28 Accounting Estimates and Assumptions

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Cons. Statem. of Fin. Position (Assets)

Notes to the Cons. Statem. of Fin. Position (Equity+Liab.)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

23 Silent Partnership Contribution

Finanzmarktstabilisierungsfonds-FMS provided pbb with a silent partnership contribution of €1.0 billion less transaction costs in 2009. The silent partnership contribution was classified as an equity instrument on initial recognition in accordance with the substance of the contractual arrangement and the definitions in IAS 32. The silent partnership contribution is measured initially at cost, with such cost being equivalent to the fair value of the consideration received. pbb Group repaid the silent partnership contribution on 6 July 2015, at the nominal value of €1.0 billion. This reduced retained earnings by €1 million. In conjunction with the 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.

24 Share-based Compensation

As of 31 December 2015 and as of 31 December 2014 no company of pbb Group has provided a commitment for share-based compensation.

25 Currency Translation

Currency translation is carried out in accordance with the regulations of IAS 21. On the balance sheet date, monetary items in a foreign currency are translated into the functional currency. The reporting currency is the euro. Non-monetary items which were stated in a foreign currency using historical cost of purchase are measured using the exchange rate applicable at date of purchase.

Income and expenses attributable to currency translation of the affiliated companies' single financial statements into the functional currency are generally recognised in profit or loss in balance of other operating income/expenses.

In this consolidated financial statement, balance sheet items of the subsidiaries, if they do not prepare financial statements in euros, are translated using the closing rates at the balance sheet date. For translating the expenses and income of these subsidiaries, the average rates are used. Differences resulting from the translation of the financial statements of the subsidiaries do not affect profit or loss and are disclosed in the consolidated statement of changes in equity. The group of consolidated companies does not include any companies from hyperinflationary countries.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

- 2 Principles
- 3 Consistency
- 4 Uniform Consolidated Accounting
- 5 Consolidation
- 6 Disclosures of Interests in Subsidiaries
- 7 Disclosures of Interests in Associates
- 8 Financial Instruments
- 9 Leases
- 10 Cash Reserve
- 11 Trading Assets
- 12 Loans and Advances
- 13 Allow. for Losses on Loans and Adv. and Provisions for Conting. Liabilities and Other Commitments
- 14 Financial Investments
- 15 Property and Equipment
- 16 Intangible Assets
- 17 Other Assets
- 18 Liabilities
- 19 Trading Liabilities
- 20 Provisions
- 21 Other Liabilities
- 22 Subordinated Capital
- 23 Silent Partnership Contribution
- 24 Share-based Compensation
- 25 Currency Translation
- 26 Income Taxes
- 27 Non-current Assets Held for Sale
- 28 Accounting Estimates and Assumptions

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Cons. Statem. of Fin. Position (Assets)

Notes to the Cons. Statem. of Fin. Position (Equity+Liab.)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

26 Income Taxes

Income taxes are accounted for and measured in accordance with IAS 12. Apart from the exceptions defined in the standard, deferred taxes are calculated for all temporary differences between the IFRS values and the tax values as well as for the differences resulting from uniform Group measurement principles and differences from the consolidation (balance sheet method). Deferred tax assets arising from non-utilised losses carried forward, interest assets carried forward and tax credits are recognised if required in accordance with IAS 12.34 et seq. and not opposed by a change in tax status in accordance with SIC-25.

Deferred taxes are calculated using the national tax rates which are expected at the time the differences are balanced, as the concept of deferred taxes is based on the presentation of future tax assets or tax liabilities (liability method). Changes in tax rates have been taken into account. The corporate income tax claim which was capitalised on 31 December 2006 has been paid out since 1 January 2008 over a period of ten years independently of a dividend payment. The interest-free claim is measured at the present value. An unchanged rate of 3.7% p.a. was used for discounting purposes.

27 Non-current Assets Held for Sale

In accordance with IFRS 5, a non-current asset or disposal group must be classified as held for sale if the related carrying amount is primarily realised by a disposal transaction and not by continued use. To reclassify an asset as held for sale, certain conditions must be met on a cumulative basis. Above all, there must be a specific intention to sell, the asset must be immediately available and the disposal must be highly probable. As at 31 December 2015 and at 31 December 2014 pbb Group did not own any assets held for sale.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

- 2 Principles
- 3 Consistency
- 4 Uniform Consolidated Accounting
- 5 Consolidation
- 6 Disclosures of Interests in Subsidiaries
- 7 Disclosures of Interests in Associates
- 8 Financial Instruments
- 9 Leases
- 10 Cash Reserve
- 11 Trading Assets
- 12 Loans and Advances
- 13 Allow. for Losses on Loans and Adv. and Provisions for Conting. Liabilities and Other Commitments
- 14 Financial Investments
- 15 Property and Equipment
- 16 Intangible Assets
- 17 Other Assets
- 18 Liabilities
- 19 Trading Liabilities
- 20 Provisions
- 21 Other Liabilities
- 22 Subordinated Capital
- 23 Silent Partnership Contribution
- 24 Share-based Compensation
- 25 Currency Translation
- 26 Income Taxes
- 27 Non-current Assets Held for Sale
- 28 Accounting Estimates and Assumptions

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Cons. Statem. of Fin. Position (Assets)

Notes to the Cons. Statem. of Fin. Position (Equity+Liab.)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

28 Accounting Estimates and Assumptions

When the financial statements are being prepared, pbb Group makes future-related assumptions as well as estimations, resulting in a considerable risk of a major change to the disclosed assets and liabilities becoming necessary during the next financial year. The assumptions and parameters underlying the estimates to be made are based on the exercise of appropriate judgement.

Going-Concern

The consolidated financial statements of pbb are based on the assumption of going-concern. The conditions of going-concern are described in the report on expected developments.

Allowances

The portfolio of pbb Group is reviewed for impairments at least annually. It is necessary to assess whether the estimated future cash flows of a loan portfolio are lower than the actually agreed cash flows. For this purpose, it is necessary to make judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or economic factors that correlate with defaults on assets in the portfolio. The methods and assumptions concerning the estimates of the extent and timing of the payment streams are reviewed regularly to keep any differences between estimated and actual defaults as low as possible. In addition, the determination of portfolio-based allowances is based on a loss identification period as well as the expected loss based on statistical data.

Fair Values of Original and Derivative Financial Instruments

The fair value of financial instruments that are not listed on active markets is measured using valuation models. In the cases in which valuation models are used, a check is performed regularly to assess whether the valuation models provide a comparable standard for current market prices. The valuation models can only take account of quantifiable factors (e.g. cash flows and discount rates) that also require estimates. Changes in assumptions relating to these factors might have an impact on the fair values of the financial instruments.

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, 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 net income of € 5 million, reported in net income from hedging relationships.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

- 2 Principles
- 3 Consistency
- 4 Uniform Consolidated Accounting
- 5 Consolidation
- 6 Disclosures of Interests in Subsidiaries
- 7 Disclosures of Interests in Associates
- 8 Financial Instruments
- 9 Leases
- 10 Cash Reserve
- 11 Trading Assets
- 12 Loans and Advances
- 13 Allow. for Losses on Loans and Adv. and Provisions for Conting. Liabilities and Other Commitments
- 14 Financial Investments
- 15 Property and Equipment
- 16 Intangible Assets
- 17 Other Assets
- 18 Liabilities
- 19 Trading Liabilities
- 20 Provisions
- 21 Other Liabilities
- 22 Subordinated Capital
- 23 Silent Partnership Contribution
- 24 Share-based Compensation
- 25 Currency Translation
- 26 Income Taxes
- 27 Non-current Assets Held for Sale
- 28 Accounting Estimates and Assumptions

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Cons. Statem. of Fin. Position (Assets)

Notes to the Cons. Statem. of Fin. Position (Equity+Liab.)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

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 on consolidated net income, reported in net trading income.

Embedded Derivatives

In accordance with IAS 39.11, an embedded derivative must be separated from the host contract and measured separately if, in addition to other criteria, the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. In order to evaluate the existence of an obligation to separate, the economic risks of the host contracts and embedded derivatives are assessed.

Hedge Accounting

Relations between hedged items and hedging instruments can be presented in hedge accounting. A relation only qualifies for hedge accounting when certain conditions specified under IAS 39.88 are satisfied. One of these conditions is that the hedge has to be very efficient with regard to achieving compensation for the risks resulting from changes in the fair value or the cash flow in relation to the hedged risk.

The determination of the effectiveness of the risk hedge depends on risk measuring methods, the parameters which are used and assumptions relating to the probability of occurrence. These methods and parameters are continuously developed in line with the risk management objectives and strategies.

Intangible Assets and Property and Equipment

pbb Group's accounting for intangible assets and property and equipment is subject to estimating uncertainty, particularly in the determination of the useful life of assets and the associated amount of depreciation/amortisation recognised per period.

Provisions

Estimates are used in the measurement of provisions at pbb Group. Estimating uncertainty arises in particular during assessment of the amount of the future cash outflows, the time horizon and the discount rate.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

- 2 Principles
- 3 Consistency
- 4 Uniform Consolidated Accounting
- 5 Consolidation
- 6 Disclosures of Interests in Subsidiaries
- 7 Disclosures of Interests in Associates
- 8 Financial Instruments
- 9 Leases
- 10 Cash Reserve
- 11 Trading Assets
- 12 Loans and Advances
- 13 Allow. for Losses on Loans and Adv. and Provisions for Conting. Liabilities and Other Commitments
- 14 Financial Investments
- 15 Property and Equipment
- 16 Intangible Assets
- 17 Other Assets
- 18 Liabilities
- 19 Trading Liabilities
- 20 Provisions
- 21 Other Liabilities
- 22 Subordinated Capital
- 23 Silent Partnership Contribution
- 24 Share-based Compensation
- 25 Currency Translation
- 26 Income Taxes
- 27 Non-current Assets Held for Sale
- 28 Accounting Estimates and Assumptions

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Cons. Statem. of Fin. Position (Assets)

Notes to the Cons. Statem. of Fin. Position (Equity+Liab.)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Income Taxes

pbb Group is subject to a wide range of national tax regulations with regard to the calculation of income taxes. In order to measure the tax expenses, it is necessary to make estimates that are calculated with the knowledge existing as of the balance sheet date and closely related to the tax return prepared in the following financial year. In some countries, the current tax charges attributable to the current financial year can only be definitely finalised after the corresponding tax audit has been completed. The variances with regard to the estimated tax burden may have a positive or negative influence on the tax burden in future financial years.

With regard to the capitalisation of losses carried forward and other tax credits, the extent as well as the actual availability of such tax benefits are subject to estimation. Major losses carried forward are subject to national German tax law, and their availability also depends inter alia on the restrictions set out in Sections 10 d EStG, 8 c KStG as well as Section 10 a GewStG. Restrictions based on a change in the tax status (SIC-25) as a result of the privatisation implemented in 2015 did not occur as of the balance sheet date. Deferred tax assets arising from losses carried forward are therefore recognised to the extent as it is likely that future taxable income will be available to offset the non-utilised tax losses carried forward.

Consolidation

Companies and structured entities must be consolidated if pbb has direct or indirect control over them. Control is deemed to exist if pbb has decision-making powers to manage relevant activities, has a right to significant returns from the subsidiary and can use its decision-making powers to influence the amount of the significant variable returns. The level of control is assessed on the basis of contractual and economic relationships to the company or the structured entity. In assessing whether pbb exerts control or substantial influence over the company, estimates or discretionary leeways are required.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

29 Notes to Segment Reporting
by Operating Segment

30 Income Statement by Operating Segment

31 Balance-sheet-related Measures
by Operating Segment

32 Breakdown of Operating Income

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement
of Financial Position (Assets)

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Segment Reporting

29 Notes to Segment Reporting by Operating Segment

Segment reporting for the 2015 financial year was prepared in accordance with IFRS 8 Operating Segments. In line with the Management Approach under IFRS 8, segment reporting discloses segment-specific, management-relevant financial information that is also regularly used by senior management when deciding on the allocation of resources, and for assessing the earnings power of segments. Based on the organisational structure of pbb Group, which is aligned to the various products and services offered, three business segments have been determined in line with internal management 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.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

29 Notes to Segment Reporting
by Operating Segment

30 Income Statement by Operating Segment

31 Balance-sheet-related Measures
by Operating Segment

32 Breakdown of Operating Income

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement
of Financial Position (Assets)

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

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.

Real Estate Finance (REF)

The REF operating segment comprises financing for professional real estate investors with a medium- to long-term orientation. These include professional national and international real estate companies, institutional investors, property funds as well as, in Germany, customers with a regional focus. Adequate batch sizes and loan-to-values commensurate for the level of risk involved are essential. Strategic partnerships are agreed with other institutions with the aim of permitting higher loan-to-values and larger volumes for customers by means of syndications and syndicated financing arrangements.

Public Investment Finance (PIF)

The PIF operating segment comprises financing eligible for covered bonds for the provision of public infrastructure. The focus here is on public institutions, municipal and social housing construction, buildings for the utilities and waste disposal market, transport infrastructure as well as healthcare and nursing institutions. In addition, pbb Group is active in publicly guaranteed export financing. Financing is given to public sector debtors, companies with a public or private legal structure as well as special-purpose vehicles with a public service guarantee.

Value Portfolio (VP)

The VP operating segment includes all of pbb Group's non-strategic portfolios and activities. In particular, the Budget Finance segment comprises non-strategic public-sector investment finance exposures, as well as selected structured products.

Consolidation & Adjustments (C&A) reconciles the aggregated segment results with the consolidated result. The column also includes income from the investment of allocated equity.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

29 Notes to Segment Reporting
by Operating Segment

30 Income Statement by Operating Segment

31 Balance-sheet-related Measures
by Operating Segment

32 Breakdown of Operating Income

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement
of Financial Position (Assets)

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

30 Income Statement by Operating Segment

Income/expenses						
in € million		REF	PIF	VP	C&A	pbb Group
Operating income	2015	358	41	-5	6	400
	2014 ¹⁾	282	35	1	8	326
Net interest and similar income	2015	308	44	68	6	426
	2014 ¹⁾	294	40	79	8	421
Net fee and commission income	2015	14	-	-	-	14
	2014 ¹⁾	2	-	-1	-	1
Net trading income	2015	14	-	1	-	15
	2014 ¹⁾	-13	-4	-13	-	-30
Net income from financial investments	2015	18	5	-55	-	-32
	2014 ¹⁾	14	3	-94	-	-77
Net income from hedging relationships	2015	5	2	4	-	11
	2014 ¹⁾	-2	-	-1	-	-3
Net other operating income/expenses	2015	-1	-10	-23	-	-34
	2014 ¹⁾	-13	-4	31	-	14
Loan loss provisions	2015	7	-	-6	-	1
	2014 ¹⁾	-14	-	-7	-	-21
General and administrative expenses	2015	-160	-28	-19	-	-207
	2014 ¹⁾	-160	-31	-60	-	-251
Net miscellaneous income/expenses	2015	1	-	-	-	1
	2014 ¹⁾	-	-	-	-	-
Profit or loss before tax	2015	206	13	-30	6	195
	2014 ¹⁾	108	4	-66	8	54

¹⁾ Adjusted in accordance with IFRS 8.29

Cost-income ratio ¹⁾					
in %		REF	PIF	VP	pbb Group
Cost-income ratio	2015	44.7	68.3	>100.0	51.8
	2014 ²⁾	56.7	88.6	>100.0	77.0

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

²⁾ Adjusted in accordance with IFRS 8.29

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

29 Notes to Segment Reporting
by Operating Segment

30 Income Statement by Operating Segment

31 **Balance-sheet-related Measures**
by Operating Segment

32 Breakdown of Operating Income

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement
of Financial Position (Assets)

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

31 Balance-sheet-related Measures by Operating Segment

The Management Board controls balance-sheet-related measures by operating segments based on equity, risk-weighted assets and on financing volumes.

Balance-sheet-related measures by operating segment						
in € billion		REF	PIF	VP	C&A	pbb Group
Financing volumes ¹⁾	31.12.2015	24.0	7.3	18.7	–	50.0
	31.12.2014 ²⁾	21.8	6.6	22.7	–	51.1
Risk-weighted assets ³⁾	31.12.2015	6.5	1.4	4.4	1.1	13.4
	31.12.2014 ²⁾	7.0	1.2	5.5	1.5	15.2
Equity ⁴⁾	31.12.2015	0.6	0.2	1.5	0.4	2.7
	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

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

29 Notes to Segment Reporting
by Operating Segment

30 Income Statement by Operating Segment

31 Balance-sheet-related Measures
by Operating Segment

32 Breakdown of Operating Income

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement
of Financial Position (Assets)

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

32 Breakdown of Operating Income

Operating Income by Products

Operating income by products					
in € million		Real estate financing	Public investment financing	Other products	pbb Group
Operating income	2015	358	41	1	400
	2014 ¹⁾	282	35	9	326

¹⁾ Adjusted according to IFRS 8.29

Operating Revenues by Regions

pbb Group differentiates between the regions Germany, Rest of Europe and America/Asia. Allocation of values to regions is based on the location of the registered offices of the Group companies or their branches.

Operating revenues by regions

in € million		Germany	Rest of Europe	America/Asia	pbb Group
Operating income	2015	330	53	17	400
	2014	286	35	5	326

Operating Revenues by Customers

There were no significant customers within the meaning of IFRS 8.34 in the financial years 2015 and 2014.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

33 Net Interest Income

34 Net Fee and Commission Income

35 Net Trading Income

36 Net Income from Financial Investments

37 Net Income from Hedging Relationships

38 Net Other Operating Income/Expenses

39 Loan Loss Provisions

40 General and Administrative Expenses

41 Net Miscellaneous Income/Expenses

42 Income Taxes

43 Net Gains/Net Losses

44 Earnings Per Share

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Notes to the Consolidated Income Statement

33 Net Interest Income

Net interest income by categories of income/expenses	2015	2014
in € million		
Interest income	2,071	2,333
Lending and money-market business	1,254	1,336
Fixed-income securities and government-inscribed debt	511	637
Current gains/losses from swap transactions (net interest income and expense)	304	360
Other	2	-1,912
Interest expenses	-1,645	-1,912
Liabilities to other banks and customers	-329	-409
Securitised liabilities	-1,232	-1,403
Subordinated capital	-84	-100
Total	426	421

Total interest income for financial assets that are measured at amortised cost, amounted to €1.8 billion (2014: €2.0 billion). Total interest expenses for financial liabilities that are not measured at fair value through profit or loss amounted to €1.6 billion (2014: €1.9 billion).

Net income from negative interest amounted to €2 million in the reporting year (2014: €0 million) and was reported in interest income from lending and money-market business (€-1 million), in current gains/losses from swap transactions (€4 million) and in interest expenses from liabilities to other banks and customers (€-1 million).

34 Net Fee and Commission Income

Net fee and commission income	2015	2014
in € million		
Securities and custodial services	-1	-2
Lending operations and other service	15	3
Total	14	1

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

33 Net Interest Income

34 Net Fee and Commission Income

35 Net Trading Income

36 Net Income from Financial Investments

37 Net Income from Hedging Relationships

38 Net Other Operating Income/Expenses

39 Loan Loss Provisions

40 General and Administrative Expenses

41 Net Miscellaneous Income/Expenses

42 Income Taxes

43 Net Gains/Net Losses

44 Earnings Per Share

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Net commission income is attributable exclusively to financial assets and financial liabilities which are not designated at fair value through profit or loss.

35 Net Trading Income

Net trading income	2015	2014
in € million		
From interest rate instruments and related derivatives	14	-31
From credit risk instruments and related derivatives	1	1
Total	15	-30

36 Net Income From Financial Investments

Net income from financial investments consists of income from the sale of securities of the measurement categories AfS and LaR together with changes in the value of such instruments that are to be recognised in profit or loss. HtM investments were not held in 2015 and 2014. Based on measurement categories, net income from financial investments is broken down as follows:

Net income from financial investments of financial instruments by IAS39 categories	2015	2014
in € million		
AfS financial investments	-3	7
LaR financial investments	-29	-105
No IAS39 category attributable	-	21
Total	-32	-77

In 2014 earnings of €21 million resulted from the sale of DEPFA Finance N.V.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

33 Net Interest Income

34 Net Fee and Commission Income

35 Net Trading Income

36 Net Income from Financial Investments

37 Net Income from Hedging Relationships

38 Net Other Operating Income/Expenses

39 Loan Loss Provisions

40 General and Administrative Expenses

41 Net Miscellaneous Income/Expenses

42 Income Taxes

43 Net Gains/Net Losses

44 Earnings Per Share

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

37 Net Income from Hedging Relationships

Net income from hedging relationships	2015	2014
in € million		
Result from micro fair value hedge accounting	10	-4
Result from hedged items	-16	-403
Result from hedging instruments	26	399
Result from portfolio hedge accounting	-	-
Result from hedged items	-1	-
Result from hedging instruments	1	-
Ineffectiveness from cash flow hedge accounting recognised in net income	1	1
Total	11	-3

38 Net Other Operating Income/Expenses

Net other operating income/expenses	2015	2014
in € million		
Other operating income	72	87
Other operating expenses	-106	-73
Net other operating income/expenses	-34	14

Net other operating income/expenses (€-34 million; 2014: €14 million) was burdened by the bank levy in the amount of €25 million (2014: €1 million). Due to the provision of cash collateral, which is recognised directly in equity in the amount of 30% of the bank levy, only €18 million of the expenses were recognised through profit or loss. Pre-tax income from the disposal of a foreclosed property in Japan, in connection with a former lending exposure, resulted in positive effects of €39 million. Currency translation effects generated additional income of €5 million (2014: €4 million). Rental income of €10 million (2014: €10 million) was generated from real estate taken over; the cost allocation with HRE Holding yielded income of €4 million (2014: €7 million) until the mid-year point.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

33 Net Interest Income

34 Net Fee and Commission Income

35 Net Trading Income

36 Net Income from Financial Investments

37 Net Income from Hedging Relationships

38 Net Other Operating Income/Expenses

39 Loan Loss Provisions

40 General and Administrative Expenses

41 Net Miscellaneous Income/Expenses

42 Income Taxes

43 Net Gains/Net Losses

44 Earnings Per Share

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

39 Loan Loss Provisions

Loan loss provisions	2015	2014
in € million		
Allowances for losses on loans and advances	-3	-27
Additions	-26	-48
Reversals	23	21
Allowances for contingent liabilities and other commitments	1	-
Additions	-	-
Reversals	1	-
Recoveries from written-off loans and advances	3	6
Total	1	-21

The development of specific allowances on loans and advances as well as portfolio-based allowances is disclosed in the note «Allowances for Losses on Loans and Advances».

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

33 Net Interest Income

34 Net Fee and Commission Income

35 Net Trading Income

36 Net Income from Financial Investments

37 Net Income from Hedging Relationships

38 Net Other Operating Income/Expenses

39 Loan Loss Provisions

40 General and Administrative Expenses

41 Net Miscellaneous Income/Expenses

42 Income Taxes

43 Net Gains/Net Losses

44 Earnings Per Share

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

40 General and Administrative Expenses

General and administrative expenses	2015	2014
in € million		
Personnel expenses	-112	-110
Wages and salaries	-85	-85
Social security costs	-16	-17
Pension expenses and related employee benefit costs	-11	-8
Non-personnel expenses	-95	-141
Other general and administrative expenses	-85	-130
Consulting expenses	-13	-18
IT expenses	-34	-77
Office and operating expenses	-11	-13
Other non-personnel expenses	-27	-22
Depreciation, amortisation and impairment	-10	-11
of software and other intangible assets excluding goodwill	-8	-11
of property and equipment	-2	-
Total	-207	-251

41 Net Miscellaneous Income/Expenses

Net miscellaneous income/expenses	2015	2014
in € million		
Miscellaneous income	8	5
thereof:		
Reversals of restructuring provisions	4	4
Other taxes	4	1
Miscellaneous expenses	-7	-5
thereof:		
Additions to restructuring provisions	-7	-4
Net miscellaneous income/expenses	1	-

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

33 Net Interest Income

34 Net Fee and Commission Income

35 Net Trading Income

36 Net Income from Financial Investments

37 Net Income from Hedging Relationships

38 Net Other Operating Income/Expenses

39 Loan Loss Provisions

40 General and Administrative Expenses

41 Net Miscellaneous Income/Expenses

42 Income Taxes

43 Net Gains/Net Losses

44 Earnings Per Share

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

42 Income Taxes

Breakdown	2015	2014
in € million		
Current taxes	-48	-44
Deferred taxes	83	-6
thereof:		
Deferred taxes on losses carried forward	-71	-34
Total	35	-50

Current taxes include a tax expense for prior years of €27 million (2014: €18 million). In the prior year, current tax expense of €18 million was largely due to the effects from a tax audit.

The following overview shows the development of the deferred taxes recognised in the financial statements.

Development of deferred taxes	2015	2014
in € million		
Deferred taxes recognised in the statement of financial position	84	1
Difference to prior year	83	-
thereof:		
Recognised in profit or loss	83	-6
Recognised in profits/losses from pension commitments	-4	15
Recognised in AfS reserve	-36	-46
Recognised in cash flow hedge reserve	40	37

The change in deferred taxes regarding profits/losses from pension commitments recognised outside profit or loss in the amount of €-4 million (2014: €15 million) is included in deferred taxes from provisions.

The change in deferred taxes regarding the AfS reserve recognised outside profit or loss in the amount of €-36 million (2014: €-46 million) is included in deferred taxes from financial investments.

The change in deferred taxes regarding the cash flow hedge reserve recognised outside profit or loss in the amount of €40 million (2014: €37 million) is included in deferred taxes from financial investments.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

33 Net Interest Income

34 Net Fee and Commission Income

35 Net Trading Income

36 Net Income from Financial Investments

37 Net Income from Hedging Relationships

38 Net Other Operating Income/Expenses

39 Loan Loss Provisions

40 General and Administrative Expenses

41 Net Miscellaneous Income/Expenses

42 Income Taxes

43 Net Gains/Net Losses

44 Earnings Per Share

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Reconciliation	2015	2014
in € million (unless otherwise indicated)		
Profit or loss before tax	195	54
Applicable (legal) tax rate in %	27.67	27.67
Expected (computed) tax expense	-54	-15
Tax effects		
arising from tax rate differences	-30	-1
arising from tax-free income	10	-
arising from deductible and non-deductible items	237	-15
arising from valuation adjustments and non-application of deferred taxes	-101	-1
arising from prior years	-27	-18
Reported income taxes	35	-50
Group tax ratio in %	-17.95	92.59

The tax rate applicable for the financial year, including solidarity surcharge, is 27.67% (2014: 27.67%) and is comprised of the 15.0% German corporate tax rate currently valid, the payable solidarity surcharge of 5.5% as well as the average trade tax rate of 11.843% (2014: 11.843%).

The effect from tax rate differences is primarily a result of the different local tax rates for the foreign permanent establishments.

The effect attributable to tax deductible and non-deductible items primarily relate to expenses which are not deductible for tax purpose. Since these effects result in permanent differences they are excluded from the calculation of deferred taxes, yet reduce or increase the tax-base.

The effects attributable to deductible and non-deductible items relate primarily to non-deductible expenses, which do not have to be taken into account as deferred taxes as a result of permanent differences, but which have reduced or increased the basis of taxation.

The effects arising from valuation adjustments and non-application of deferred taxes, on the one hand, comprise effects from the write down of deferred tax assets on losses carried forward and, on the other hand, opposing effects from the use of tax losses carried forward previously not accounted for.

The effects from previous years include current taxes for previous years which have been incurred as a result of tax audits or a reassessment of the tax liability.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

33 Net Interest Income

34 Net Fee and Commission Income

35 Net Trading Income

36 Net Income from Financial Investments

37 Net Income from Hedging Relationships

38 Net Other Operating Income/Expenses

39 Loan Loss Provisions

40 General and Administrative Expenses

41 Net Miscellaneous Income/Expenses

42 Income Taxes

43 Net Gains/Net Losses

44 Earnings Per Share

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

The Group tax ratio is the quotient of the stated income taxes (current and deferred taxes) and profit or loss before tax.

The deferred tax liabilities or deferred tax assets relate to the following items:

Deferred tax liabilities/assets	2015	2014
in € million		
Loans and advances to other banks/customers (including loan loss allowances)	24	52
Financial investments	152	150
Trading assets	117	130
Other assets/liabilities	139	297
Others	–	1
Deferred tax liabilities before offsetting	432	630
Offsetting	–432	–630
Deferred tax liabilities after offsetting	–	–
Loans and advances to other banks/customers (including loan loss allowances)	14	7
Financial investments	138	135
Provisions	35	40
Other assets/liabilities	106	228
Trading liabilities	118	42
Securitised liabilities	–	2
Losses carried forward	105	177
Deferred tax assets before offsetting	516	631
Offsetting	–432	–630
Deferred tax assets after offsetting	84	1

For domestic companies, the deferred taxes are calculated using the future uniform rate of corporation tax of 15.0% plus the corresponding 5.5% solidarity surcharge and the trade tax depending on the locally applicable assessment rate (the current basic rate is 3.5%). For pbb, the tax rate for the calculation of deferred taxes is 27.67% (2014: 27.67%).

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

33 Net Interest Income

34 Net Fee and Commission Income

35 Net Trading Income

36 Net Income from Financial Investments

37 Net Income from Hedging Relationships

38 Net Other Operating Income/Expenses

39 Loan Loss Provisions

40 General and Administrative Expenses

41 Net Miscellaneous Income/Expenses

42 Income Taxes

43 Net Gains/Net Losses

44 Earnings Per Share

Notes to the Consolidated Statement
of Financial Position (Assets)

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

On the reporting date, there are unused tax losses carried forward totalling €3,831 million (2014: €3,670 million) at corporate tax level and €3,757 million (2014: €3,800 million) at trade tax level. Deferred tax assets have been recognised on a portion of €424 million (2014: €607 million) at corporate tax level and €324 million (2014: €681 million) at trade tax level, because the criteria for recognition in accordance with IAS 12.34 et seq. were satisfied. The impairment assessment as regards deferred tax assets on tax loss carryforwards is based on a 3-year tax planning which was derived from general corporate planning. The losses carried forward can be utilised for an unlimited period. An allowance of €-1 million was recognised on deferred taxes from temporary differences in the financial year 2015 (2014: no allowances). Deferred tax income from the origination and reversal of temporary differences arose in the amount of €154 million (2014: deferred tax income of €28 million).

Tax rate changes did not result in major deferred tax expenses or income in the current year nor in the previous year.

The use of tax losses previously not recognised resulted in a reduction in the current income tax expense of €3 million (2014: €3 million). From the origination and write-down of loss carryforwards previously recognised, deferred tax expense arose in the amount of €71 million (2014: deferred tax expense of €3 million).

On differences associated with investments in subsidiaries, deferred tax liabilities in the amount of €50 million (2014: €160 million) have not been recognised because the Group has the ability and the intention to invest profits permanently in these subsidiaries.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

33 Net Interest Income

34 Net Fee and Commission Income

35 Net Trading Income

36 Net Income from Financial Investments

37 Net Income from Hedging Relationships

38 Net Other Operating Income/Expenses

39 Loan Loss Provisions

40 General and Administrative Expenses

41 Net Miscellaneous Income/Expenses

42 Income Taxes

43 Net Gains/Net Losses

44 Earnings Per Share

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

43 Net Gains/Net Losses

The income statement contains the following net gains/net losses recognised in profit or loss according to IFRS 7.20(a):

Net gains/net losses	2015	2014
in € million		
Loans and receivables	23	-75
Available for sale	-3	7
Held for trading	15	-30
Financial liabilities at amortised cost	-9	-4

44 Earnings Per Share

Earning per share ¹⁾	2015	2014
Consolidated profit/loss	230	4
Average number of ordinary shares issued	134,475,308	134,475,308
Adjusted average number of ordinary shares issued pieces	134,475,308	134,475,308
Basic earnings per share	1.71	0.03
Diluted earnings per share	1.71	0.03

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

Under the assumption that authorised and contingent capital was fully utilised, the number of ordinary shares issued would double, which in turn would result in a decrease of earnings per share by 50%.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement
of Financial Position (Assets)

45 Cash Reserve

46 Trading Assets

47 Loans and Advances to Other Banks

48 Loans and Advances to Customers

49 Allowances for Losses on Loans and Advances

50 Valuation Adjustment from Portfolio Hedge
Accounting

51 Financial Investments

52 Property and Equipment

53 Intangible Assets

54 Other Assets

55 Income Tax Assets

56 Subordinated Assets

57 Repurchase Agreements

58 Securitisation

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Notes to the Consolidated Statement of Financial Position (Assets)

45 Cash Reserve

Cash reserve	31.12.2015	31.12.2014
in € million		
Balance with central banks	1,265	57
Total	1,265	57

Cash in hand as of 31 December 2015 amounts to less than €1 million as was the case in the previous year.

46 Trading Assets

Trading assets	31.12.2015	31.12.2014
in € million		
Positive fair values of derivative financial instruments	1,600	2,016
Total	1,600	2,016

47 Loans and Advances to Other Banks

Loans and advances to other banks by type of business	31.12.2015	31.12.2014
in € million		
Loans and advances	2,733	3,153
Public sector loans	972	1,136
Other loans and advances	1,761	2,017
Investments	9	3,647
Total	2,742	6,800

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement
of Financial Position (Assets)

45 Cash Reserve

46 Trading Assets

47 Loans and Advances to Other Banks

48 Loans and Advances to Customers

49 Allowances for Losses on Loans and Advances

50 Valuation Adjustment from Portfolio Hedge
Accounting

51 Financial Investments

52 Property and Equipment

53 Intangible Assets

54 Other Assets

55 Income Tax Assets

56 Subordinated Assets

57 Repurchase Agreements

58 Securitisation

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Loans and advances to other banks by maturities

in € million

	31.12.2015	31.12.2014
Repayable on demand	1,758	2,011
With agreed maturities	984	4,789
up to 3 months	3	3,689
3 months to 1 year	190	132
1 year to 5 years	234	404
5 years and over	557	564
Total	2,742	6,800

48 Loans and Advances to Customers

Loans and advances to customers by type of business

in € million

	31.12.2015	31.12.2014
Loans and advances	40,848	38,964
Public sector loans	16,846	17,125
Real estate loans	23,985	21,822
Other loans and advances	17	17
Investments	125	–
Claims from finance lease agreements	231	–
Total	41,204	38,964

Loans and advances to customers by maturities

in € million

	31.12.2015	31.12.2014
Repayable on demand	1,085	591
With agreed maturities	40,119	38,373
up to 3 months	1,447	1,102
3 months to 1 year	2,696	2,349
1 year to 5 years	18,030	16,933
5 years and over	17,946	17,989
Total	41,204	38,964

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement
of Financial Position (Assets)

45 Cash Reserve

46 Trading Assets

47 Loans and Advances to Other Banks

48 Loans and Advances to Customers

49 Allowances for Losses on Loans and Advances

50 Valuation Adjustment from Portfolio Hedge
Accounting

51 Financial Investments

52 Property and Equipment

53 Intangible Assets

54 Other Assets

55 Income Tax Assets

56 Subordinated Assets

57 Repurchase Agreements

58 Securitisation

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

49 Allowances for Losses on Loans and Advances

Development	Specific allowances	Portfolio-based allowances	Total
in € million			
Balance at 1.1.2014	-97	-51	-148
Changes affecting income	-24	5	-19
Gross additions	-43	-5	-48
Reversals	11	10	21
Increase of the present value due to passage of time (unwinding)	8	-	8
Changes not affecting income	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 affecting income	-11	13	2
Gross additions	-25	-1	-26
Reversals	9	14	23
Increase of the present value due to passage of time (unwinding)	5	-	5
Changes not affecting income	9	-	9
Use of existing allowances	13	-	13
Effects of foreign currency translations and other changes	-4	-	-4
Balance at 31.12.2015	-95	-32	-127

The allowances for losses on loans and advances were exclusively created for the measurement category loans and receivables.

50 Valuation Adjustment from Portfolio Hedge Accounting

In the financial year 2015, pbb Group for the first time applied portfolio hedge accounting. The line item «Valuation adjustments from macro fair value hedge accounting» on the assets side includes the positive fair values in relation to the hedged risks in the portfolios of hedged items. They amounted to €1 million as at 31 December 2015.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement
of Financial Position (Assets)

45 Cash Reserve

46 Trading Assets

47 Loans and Advances to Other Banks

48 Loans and Advances to Customers

49 Allowances for Losses on Loans and Advances

50 Valuation Adjustment from Portfolio Hedge
Accounting

51 Financial Investments

52 Property and Equipment

53 Intangible Assets

54 Other Assets

55 Income Tax Assets

56 Subordinated Assets

57 Repurchase Agreements

58 Securitisation

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

51 Financial Investments

Breakdown	31.12.2015	31.12.2014
in € million		
AfS financial investments	3,521	4,906
Debt securities and other fixed-income securities	3,518	4,903
Equity securities and other variable-yield securities	3	3
LaR financial investments	11,406	15,569
Debt securities and other fixed-income securities	11,406	15,569
Total	14,927	20,475

The carrying amounts of the LaR financial investments were reduced by portfolio-based allowances amounting to €–8 million (31 December 2014: €–9 million).

Financial investments by maturities	31.12.2015	31.12.2014
in € million		
Unspecified terms	3	3
With agreed maturities	14,924	20,472
up to 3 months	929	867
from 3 months to 1 year	1,458	3,067
from 1 year to 5 years	3,960	5,676
from 5 years and over	8,577	10,862
Total	14,927	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%.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement
of Financial Position (Assets)

45 Cash Reserve

46 Trading Assets

47 Loans and Advances to Other Banks

48 Loans and Advances to Customers

49 Allowances for Losses on Loans and Advances

50 Valuation Adjustment from Portfolio Hedge
Accounting

51 Financial Investments

52 Property and Equipment

53 Intangible Assets

54 Other Assets

55 Income Tax Assets

56 Subordinated Assets

57 Repurchase Agreements

58 Securitisation

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

The following tables summarise the carrying amounts and fair values as of 31 December 2015 and 31 December 2014 as well as fair value gains and losses that would have been recognised in 2015 and 2014 if the financial assets had not been reclassified.

Reclassifications in 2008 Effects as of 31 December 2015	into: Finanzanlagen (LaR)		Effect in reporting period if no assets had been reclassified (1.1.–31.12.2015)	
	Carrying amount in € billion	Fair value in € billion	Income statement in € million	AfS reserve (after taxes) in € million
out of:				
Financial investments (AfS)	6.0	6.3	–2	–21

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

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement
of Financial Position (Assets)

45 Cash Reserve

46 Trading Assets

47 Loans and Advances to Other Banks

48 Loans and Advances to Customers

49 Allowances for Losses on Loans and Advances

50 Valuation Adjustment from Portfolio Hedge
Accounting

51 Financial Investments

52 Property and Equipment

53 Intangible Assets

54 Other Assets

55 Income Tax Assets

56 Subordinated Assets

57 Repurchase Agreements

58 Securitisation

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

52 Property and Equipment

Development of property and equipment		
in € million	2015	2014
Operating equipment		
Acquisition/production costs		
Balance at 1.1.	21	15
Additions	5	7
Disposals	-3	-1
Balance at 31.12.	23	21
Depreciation and write-ups		
Balance at 1.1.	-13	-14
Depreciation	-2	-
Disposals	2	1
Balance at 31.12.	-13	-13
Carrying amounts		
Balance at 31.12.	10	8

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement
of Financial Position (Assets)

45 Cash Reserve

46 Trading Assets

47 Loans and Advances to Other Banks

48 Loans and Advances to Customers

49 Allowances for Losses on Loans and Advances

50 Valuation Adjustment from Portfolio Hedge
Accounting

51 Financial Investments

52 Property and Equipment

53 Intangible Assets

54 Other Assets

55 Income Tax Assets

56 Subordinated Assets

57 Repurchase Agreements

58 Securitisation

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

53 Intangible Assets

Development of intangible assets				2015	2014
	Software acquired	Internally developed software	Other intangible assets	Total	Total
in € million					
Acquisition/production costs					
Balance at 1.1.	76	42	4	122	130
Additions	1	4	1	6	6
Reclassifications	–	3	–	3	–
Disposals	–36	–8	–4	–48	–14
Balance at 31.12.	41	41	1	83	122
Amortisation and write-ups					
Balance at 1.1.	–75	–24	–	–99	–99
Depreciation	–1	–7	–	–8	–11
Disposals	36	9	–	45	11
Balance at zum 31.12.	–40	–22	–	–62	–99
Carrying amounts					
Balance at 31.12.2015	1	19	1	21	
Balance at 31.12.2014	1	18	4	23	

54 Other Assets

Other assets		
in € million		
	31.12.2015	31.12.2014
Positive fair values from derivative financial instruments	4,960	6,449
Hedging derivatives	4,960	6,449
Micro fair value hedge	4,959	5,975
Portfolio hedge	1	–
Cash flow hedge	–	474
Salvage acquisitions	23	120
Other assets	23	81
Reimbursements under insurance policies	7	9
Total	5,013	6,659

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement
of Financial Position (Assets)

45 Cash Reserve

46 Trading Assets

47 Loans and Advances to Other Banks

48 Loans and Advances to Customers

49 Allowances for Losses on Loans and Advances

50 Valuation Adjustment from Portfolio Hedge
Accounting

51 Financial Investments

52 Property and Equipment

53 Intangible Assets

54 Other Assets

55 Income Tax Assets

56 Subordinated Assets

57 Repurchase Agreements

58 Securitisation

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

55 Income Tax Assets

Income tax assets		
in € million	31.12.2015	31.12.2014 ¹⁾
Current tax assets	21	29
Deferred tax assets	84	1
Insgesamt	105	30

¹⁾ Adjusted due to IAS 8.14 ff. and corrected due to IAS 8.42. Details are disclosed in Note «Consistency».

56 Subordinated Assets

The balance sheet items do not contain subordinated assets.

57 Repurchase Agreements

As a pledgor of genuine repurchase agreements, pbb Group has pledged assets with a book value of €0.9 billion (31 December 2014: €0.7 billion). The securities are still recognised as assets. The considerations which have been received amount to €0.6 billion (31 December 2014: €0.6 billion) and are recognised solely as liabilities to other banks. Assets in repurchase agreements are the only transferable assets the acquirer can sell or repledge in the absence of default according to IAS 39.37 (a).

58 Securitisation

As of 31 December 2015 pbb Group had the synthetic securitisation Estate UK-3 with a transaction period of 15 years (maturity 2022) and a total volume of lending of €306 million (31 December 2014: €323 million) in the portfolio. The collateral-taker of the transaction with commercial mortgage loans is pbb. The credit linked notes were completely sold to the investors. Overall a reduction of expected loss according to Basel III of €168 million (31 December 2014: €147 million) was achieved.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

59 Liabilities to Other Banks

60 Liabilities to Customers

61 Securitised Liabilities

62 Valuation Adjustment from Portfolio Hedge Accounting

63 Trading Liabilities

64 Provisions

65 Other Liabilities

66 Income Tax Liabilities

67 Subordinated Capital

68 Equity

69 Trust Business

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

59 Liabilities to Other Banks

Liabilities to other banks by maturities		
in € million	31.12.2015	31.12.2014
Repayable on demand	1,255	1,693
With agreed maturities	1,259	1,494
up to 3 months	157	529
3 months to 1 year	430	116
1 year to 5 years	150	305
5 years and over	522	544
Total	2,514	3,187

60 Liabilities to Customers

Liabilities to customers by maturities		
in € million	31.12.2015	31.12.2014
Repayable on demand	1,271	1,154
With agreed maturities	9,553	9,439
up to 3 months	1,291	1,274
3 months to 1 year	2,139	1,328
1 year to 5 years	4,829	5,305
5 years and over	1,294	1,532
Total	10,824	10,593

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement
of Financial Position (Assets)

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

59 Liabilities to Other Banks

60 Liabilities to Customers

61 Securitised Liabilities

62 Valuation Adjustment from Portfolio Hedge
Accounting

63 Trading Liabilities

64 Provisions

65 Other Liabilities

66 Income Tax Liabilities

67 Subordinated Capital

68 Equity

69 Trust Business

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

61 Securitised Liabilities

Securitised liabilities by type of business		
in € million	31.12.2015	31.12.2014
Debt securities issued	21,520	25,330
Mortgage Pfandbriefe	10,382	10,135
Public sector Pfandbriefe	6,833	10,026
Other debt securities	4,193	5,169
Money market securities	112	–
Registered notes issued	21,128	22,497
Mortgage Pfandbriefe	5,896	5,912
Public sector Pfandbriefe	13,341	14,715
Other debt securities	1,891	1,870
Total	42,648	47,827

Securitised liabilities by maturities		
in € million	31.12.2015	31.12.2014
With agreed maturities		
up to 3 months	2,050	2,258
3 months to 1 year	4,411	5,166
1 year to 5 years	18,335	20,137
5 years and over	17,852	20,266
Total	42,648	47,827

62 Valuation Adjustment from Portfolio Hedge Accounting

In the financial year 2015, pbb Group for the first time applied portfolio hedge accounting. The line item «Valuation adjustments from macro fair value hedge accounting» on the liability side includes the negative fair values in relation to the hedged risks in the portfolios of hedged items. They amounted to €1 million as at 31 December 2015.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement
of Financial Position (Assets)

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

59 Liabilities to Other Banks

60 Liabilities to Customers

61 Securitised Liabilities

62 Valuation Adjustment from Portfolio Hedge
Accounting

63 Trading Liabilities

64 Provisions

65 Other Liabilities

66 Income Tax Liabilities

67 Subordinated Capital

68 Equity

69 Trust Business

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

63 Trading Liabilities

Trading liabilities	31.12.2015	31.12.2014
in € million		
Negative fair values from derivative financial instruments	1,643	1,960
Total	1,643	1,960

64 Provisions

Breakdown	31.12.2015	31.12.2014
in € million		
Provisions for pensions and similar obligations	102	115
Restructuring provisions	15	42
Provisions for contingent liabilities and other commitments	1	11
Other provisions	111	104
thereof:		
Long-term liabilities to employees	1	2
Total	229	272

There are defined contribution and defined benefit plans for the employees of pbb Group. In the defined contribution plans pbb makes payments for commitments by industry-wide organisations, for instance the BVV in Germany. In almost all non-German entities, a defined percentage of fixed salary is paid into externally managed pension funds for employees as part of defined contribution pension schemes. Expenses in respect of defined contribution plans amounted to €4 million (2014: €4 million). The expense is expected to slightly decrease in 2016. Expenses in respect of defined contribution plans for persons with a key function in the Group amounted to €1 million (2014: €1 million). The employer's contribution to the statutory pension insurance amounted to €5 million in 2015 (2014: €6 million).

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement
of Financial Position (Assets)

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

59 Liabilities to Other Banks

60 Liabilities to Customers

61 Securitised Liabilities

62 Valuation Adjustment from Portfolio Hedge
Accounting

63 Trading Liabilities

64 Provisions

65 Other Liabilities

66 Income Tax Liabilities

67 Subordinated Capital

68 Equity

69 Trust Business

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

There are defined benefit pension commitments for many employees in Germany. There are no defined benefit pension commitments in the non-German entities. For the defined benefit plans the employees receive a direct commitment from their respective company. The pension plan especially contains retirement pensions, disability pensions and surviving dependant's pensions. The receipt of retirement pensions or disability pensions starts after a vesting period is fulfilled, at the earliest after reaching a minimum age in the case of part or full incapacity for work, at the latest when going into retirement, usually after completion of the 65th year of life. In the case of active employees, there are predominantly modern modular pension plans. For the other eligible persons there are also final salarybased defined benefit plans. The annual pension module depends, among other things, on the gross annual salary paid and the member's length of service. The surviving dependant's pension usually amounts to 60% of the pension of the spouse respectively the entitlement on that. The pension plan is administered by pbb itself with the aid of an external service provider for the administration.

Pension provisions are recognised for obligations arising from direct commitments. The defined benefit plans have been principally closed for new entrants since 1 April 2004. There have been no plan amendments, curtailments and settlements in the years 2015 and 2014.

The risk of insolvency is covered within the framework of legal requirements by Pensionssicherungsverein a. G. in relation to the total amount of pension obligations.

The following actuarial assumptions were used to measure the defined benefit pension obligations:

Actuarial assumptions	31.12.2015/ 1.1.2016	31.12.2014/ 1.1.2015
in %		
Discount rate	2.25	2.00
Rate of increase in pension obligations	1.75	1.75
Rate of increase in future compensation and vested rights	2.50 ¹⁾	2.50

¹⁾ Against the background of the adjustments of annual base salaries made in 2015 to a uniform amount of €500,000 and the introduction of a variable remuneration component, we expect a rate of increase in future compensation and vested rights of 0%, also in view of the appropriateness of Management Board compensation for the active Management Board members in the financial year 2015.

The rate of increase in career for members of the Management Board amounts 0.0% (31 December 2014: 0.0%), for directors and non-pay-scale staff 1.5% (31 December 2014: 1.5%) and for pay-scale staff 0.5% (31 December 2014: 0.5%). The guidance tables 2005G from Klaus Heubeck were used as the biometric basis.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement
of Financial Position (Assets)

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

59 Liabilities to Other Banks

60 Liabilities to Customers

61 Securitised Liabilities

62 Valuation Adjustment from Portfolio Hedge
Accounting

63 Trading Liabilities

64 Provisions

65 Other Liabilities

66 Income Tax Liabilities

67 Subordinated Capital

68 Equity

69 Trust Business

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

The defined benefit pension commitments of pbb do not contain any unusual or entity-specific risks. pbb is faced by the common demographic risks, for example from longevity or invalidity of the entitled employees, and common financial risks like for example a change of the discount rate. pbb took out reinsurance to protect itself against parts of these risks. The reinsurance is a qualifying insurance policy in accordance with IAS 19 and thus is a plan asset. The fair value of plan assets is a component of the net liability from defined benefit plans which is deducted from the present value of the defined benefit obligation. The reinsurance does not consist of any unusual or plan-specific risks.

Principally, the pension payments of the reinsured pension obligations are funded by the income from the plan assets. If the income does not cover the pension payments pbb has to pay the pensions out of its own funds. For the non-reinsured pension obligations the payments are also made out of own funds.

Balance sheet items (net defined benefit liability)		
in € million	2015	2014
Present value of defined benefit obligation	281	297
Fair value of plan assets	-179	-182
Total	102	115

Development of net defined benefit liability		
in € million	2015	2014
Balance at 1.1.	115	65
Transfer of staff	-	-
Pension expenses	6	3
Remeasurements	-12	53
Reclassifications in reimbursements	-1	-
Payments into plan assets	-1	-
Direct payments to beneficiaries	-5	-6
Balance at 31.12.	102	115

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

59 Liabilities to Other Banks

60 Liabilities to Customers

61 Securitised Liabilities

62 Valuation Adjustment from Portfolio Hedge Accounting

63 Trading Liabilities

64 Provisions

65 Other Liabilities

66 Income Tax Liabilities

67 Subordinated Capital

68 Equity

69 Trust Business

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Development of defined benefit obligation

in € million

	2015	2014
Balance at 1.1.	297	247
Transfer of staff	-1	-
Current service costs	4	1
Interest expenses	6	8
Remeasurements	-11	55
Actuarial gains/losses from demographic assumptions	-	-
Actuarial gains/losses from financial assumptions	-12	51
Actuarial gains/losses from experience assumptions	1	4
Settlements	-	-
Payments to beneficiaries	-14	-14
Balance at 31.12.	281	297

Plan assets consist exclusively of reinsurance pledged to plan beneficiaries. The plan assets accordingly do not contain any own financial instruments or any own used property and equipment. No further contributions to the plan assets are aimed in 2016. pbb does not use special asset-liability matching strategies to manage the pledged reinsurance.

Development of fair value of plan assets

in € million

	2015	2014
Balance at 1.1.	182	182
Transfer to staff	-1	-
Interest income	4	6
Remeasurements	1	2
Payments into plan assets	1	-
Payments to beneficiaries	-9	-8
Reclassifications in/from reimbursements	1	-
Balance at 31.12. zum 31.12.	179	182

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement
of Financial Position (Assets)

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

59 Liabilities to Other Banks

60 Liabilities to Customers

61 Securitised Liabilities

62 Valuation Adjustment from Portfolio Hedge
Accounting

63 Trading Liabilities

64 Provisions

65 Other Liabilities

66 Income Tax Liabilities

67 Subordinated Capital

68 Equity

69 Trust Business

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Development of pension expenses

in € million

	2015	2014
Service costs	4	1
Current service costs	3	1
Past service costs	1	–
Curtailments	–	–
Gains/losses on settlements	–	–
Net interest expenses	2	2
Interest expenses on defined benefit obligation	6	8
Interest income on plan assets	–4	–6
Total	6	3

Compared to 2015 a slight increase in the pension expense is expected for 2016 due to individual new commitments. Pension expenses are part of general and administrative expenses.

Remeasurements of the net defined benefit liability result from actuarial gains and losses and the return on plan assets excluding amounts included in net interest on the net defined benefit liability.

Remeasurement recognised in other comprehensive income (equity)

in € million

	2015	2013
Actuarial gains/losses from demographic assumptions	–	–
Actuarial gains/losses from financial assumptions	12	–51
Actuarial gains/losses from experience assumptions	–1	–4
Remeasurements from plan assets	1	2
Total	12	–53

Development of reimbursement

in € million

	2015	2014
Balance 1.1.	9	9
Additions	–1	–
Balance at 31.12.	8	9

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

59 Liabilities to Other Banks

60 Liabilities to Customers

61 Securitised Liabilities

62 Valuation Adjustment from Portfolio Hedge Accounting

63 Trading Liabilities

64 Provisions

65 Other Liabilities

66 Income Tax Liabilities

67 Subordinated Capital

68 Equity

69 Trust Business

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

As at 31 December 2015, the quantitative sensitivity analysis – which uses the same measurement methods as the obligation recognised in the statement of financial position – for the material actuarial assumptions is as follows:

Actuarial assumptions				
in € million	Change of sensitivity level (+ increase / – decrease)		Gross obligation	
Discount rate	in percentage points	+0.5	in € million	262
	in percentage points	–0.5	in € million	303
Rate of increase in pension obligations	in percentage points	+0.5	in € million	297
	in percentage points	–0.5	in € million	266
Rate of increase in future compensation and vested rights	in percentage points	+0.5	in € million	281
	in percentage points	–0.5	in € million	280

The assumption of mortality only has an immaterial effect because the risk of longevity is mainly covered by the plan assets.

The weighted average duration of the defined benefit obligations amounted to 15 years at 31 December 2015 (31 December 2014: 15 years).

Development of provisions (without provisions for pension and similar obligations)			
in € million	Restructuring provisions	Provisions for contingent liabilities and other commitments	Other provisions
Balance at 1.1.2014	48	13	83
Additions	4	–	81
Reversals	–4	–	–11
Increase of the present value due to passage of time (unwinding)	1	–	–
Amounts used	–7	–	–44
Reclassifications	–	–2	–5
Balance at 31.12.2014	42	11	104
Balance at 1.1.2015	42	11	104
Additions	7	–	87
Reversals	–4	–9	–13
Increase of the present value due to passage of time (unwinding)	–	–	–
Amounts used	–30	–1	–67
Reclassifications	–	–	–
Balance at 31.12.2015	15	1	111

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement
of Financial Position (Assets)

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

59 Liabilities to Other Banks

60 Liabilities to Customers

61 Securitised Liabilities

62 Valuation Adjustment from Portfolio Hedge
Accounting

63 Trading Liabilities

64 Provisions

65 Other Liabilities

66 Income Tax Liabilities

67 Subordinated Capital

68 Equity

69 Trust Business

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

On 19 December 2008 the Management Board and Supervisory Board of pbb Group decided upon the strategic realignment and restructuring of the Group. A restructuring provision amounting to €120 million was created for obligations relating to the strategic realignment and restructuring in the fourth quarter 2008. In addition new measures were decided in 2015. In total restructuring provisions amounted to €15 million as at balance sheet date (31 December 2014: €42 million). The restructuring provision will probably be completely utilised by the year 2018.

The provisions for contingent liabilities and other commitments mainly comprise provisions for guarantee risks, letters of credit, irrevocable loan commitments and litigation risks in the lending business.

The other provisions comprise provisions for legal risks of €87 million (31 December 2014: €77 million). They also include among others provisions for other taxes and long-term liabilities with regard to employees.

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 claim-

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement
of Financial Position (Assets)

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

59 Liabilities to Other Banks

60 Liabilities to Customers

61 Securitised Liabilities

62 Valuation Adjustment from Portfolio Hedge
Accounting

63 Trading Liabilities

64 Provisions

65 Other Liabilities

66 Income Tax Liabilities

67 Subordinated Capital

68 Equity

69 Trust Business

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

ants 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 €36.5 million are currently subject to pending litigation. Within these legal proceedings, claimants are demanding the repayment of a nominal €42.7 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 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.

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 will 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 €7.7 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.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

59 Liabilities to Other Banks

60 Liabilities to Customers

61 Securitised Liabilities

62 Valuation Adjustment from Portfolio Hedge Accounting

63 Trading Liabilities

64 Provisions

65 Other Liabilities

66 Income Tax Liabilities

67 Subordinated Capital

68 Equity

69 Trust Business

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

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.

65 Other Liabilities

Other liabilities		
in € million	31.12.2015	31.12.2014
Negative fair values from derivative financial instruments	4,818	6,083
Hedging derivatives	4,818	6,083
Micro fair value hedge	4,818	5,649
Portfolio hedge	–	–
Cash flow hedge	–	434
Other liabilities	100	99
Total	4,918	6,182

Other liabilities include, amongst others, accruals pursuant to IAS 37 including accounts payable in respect of invoices still outstanding, short-term liabilities to employees and other accruals in respect of commission, interest, non-personnel expenses and similar expenses.

66 Income Tax Liabilities

Income tax liabilities		
in € million	31.12.2015	31.12.2014 ¹⁾
Current tax liabilities	113	82
Deferred tax liabilities	–	–
Total	113	82

¹⁾ Adjusted due to IAS 8.14 ff. Details are disclosed in Note «Consistency».

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement
of Financial Position (Assets)

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

59 Liabilities to Other Banks

60 Liabilities to Customers

61 Securitised Liabilities

62 Valuation Adjustment from Portfolio Hedge
Accounting

63 Trading Liabilities

64 Provisions

65 Other Liabilities

66 Income Tax Liabilities

67 Subordinated Capital

68 Equity

69 Trust Business

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

67 Subordinated Capital

Breakdown	31.12.2015	31.12.2014
in € million		
Subordinated liabilities	764	939
Hybrid capital instruments	361	340
Total	1,125	1,279

Early repayment obligation on the part of the issuer cannot occur for any subordinated liabilities. In the event of bankruptcy or liquidation, such liabilities may only be repaid after all non-subordinated creditors have been satisfied.

Subordinated capital by maturities	31.12.2015	31.12.2014
in € million		
With agreed maturities		
up to 3 months	223	45
3 months to 1 year	15	150
1 year to 5 years	710	890
5 years and over	177	194
Total	1,125	1,279

The unwinding of value adjusted instruments of subordinated capital led to an expense of €10 million (2014: €19 million).

Hybrid Capital Instruments

Hybrid capital instruments in particular include issues in the form of preferred securities placed by specifically established special-purpose entities. These instruments differ from conventional supplementary capital as they are subject to more stringent conditions in terms of maturity. In addition, hybrid capital instruments are not repaid until after supplementary capital (subordinated liabilities and participating certificates outstanding) in the event of bankruptcy. In contrast to traditional components of core capital, the claim to a share of profit, which depends on the existence of profit, takes the form of a fixed or variable interest payment in the case of hybrid capital instruments. Moreover, hybrid capital can be issued both with unlimited maturity and repayable in the long term.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement
of Financial Position (Assets)

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

59 Liabilities to Other Banks

60 Liabilities to Customers

61 Securitised Liabilities

62 Valuation Adjustment from Portfolio Hedge
Accounting

63 Trading Liabilities

64 Provisions

65 Other Liabilities

66 Income Tax Liabilities

67 Subordinated Capital

68 Equity

69 Trust Business

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

68 Equity

Subscribed capital equals the maximum liability of the shareholder for the liabilities of the corporation to its creditors. The subscribed capital as of 31 December 2015 and during the entire financial year 2015 amounted to €380,376,059.67 which is divided into 134,475,308 ordinary bearer shares with no par value representing a theoretical interest in the share capital of approximately €2.83 per share. As at 31 December 2015 and during the entire financial year 2015, pbb did not hold any treasury shares.

Please refer to the disclosures pursuant to section 315 (4) HGB included in the «Other Notes» section for information on authorised and contingent capital.

Additional paid-in capital includes contributions from a previous financial year as well as premiums from the issue of shares. Retained earnings were generally created only from net income of the current financial year or previous periods. This includes legal reserves to be created from net income and other retained earnings. In conjunction with repayment of the Finanzmarktstabilisierungsfonds-FMS silent partnership contribution at par on 6 July 2016 (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. In order to compensate the loss carried forward from previous years, and to replenish unappropriated profits required for the planned distribution of profits (€58 million), a withdrawal of €720 million from the additional paid-in capital was resolved in accordance with section 272 (2) no. 4 of the HGB. In the IFRS financial statements, this led to a decrease of the additional paid-in capital in the amount of €720 million, and an increase of retained earnings in the same amount. In the financial year 2014, a withdrawal from the additional paid-in capital as disclosed in the single-entity financial statements prepared in accordance with the HGB was resolved (€1,771 million) to partially offset the accumulated balance sheet loss in accordance with section 272 (2) no. 1–3 of the HGB. In the IFRS financial statements, this led to a decrease of the additional paid-in capital in the amount of €1,771 million, and an increase of retained earnings in the same amount.

At the Annual General Meeting on 13 May 2016, the Management Board and the Supervisory Boards will propose to distribute a dividend of €0.43 per share.

69 Trust Business

As at 31 December 2015 and 31 December 2014, there were no trust assets or liabilities reported in the statement of financial position.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement
of Financial Position (Assets)

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

**70 Notes to the Items in the Consolidated Statement
of Cash Flows**

Notes to the Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Notes to the Consolidated Statement of Cash Flows

70 Notes to the Items in the Consolidated Statement of Cash Flows

The consolidated statement of cash flows shows the cash flows of the financial year broken down by operating activities, investing activities and financing activities. Cash and cash equivalents correspond to the balance sheet item cash reserve, and include cash in hand and credit balances at central banks.

Operating activities are defined broadly, and correspond to operating result. Cash flow from operating activities includes payments (inflows and outflows) attributable to loans and advances to other banks and customers as well as securities attributable to trading assets and other assets. Inflows and outflows attributable to liabilities to other banks and customers, securitised liabilities and other liabilities are also included under operating activities. The interest and dividend payments resulting from operating activities are shown under cash flow from operating activities.

Cash flow from investing activities comprises payments for investment and security holdings as well as for property and equipment.

Cash flow from financing activities comprises inflows from capital increases, payments into reserves and silent participations as well as inflows and outflows for subordinated capital.

In the year under review, no subsidiaries were disposed. In the financial year 2014, DEPFA Finance N.V. was sold. The selling price of €6 million was recognised in the cash flow from investing activities.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

71 Derivative Transactions

72 Cash Flow Hedge Accounting

73 Undiscounted Cash Flows of Financial Liabilities

74 Assets Assigned or Pledged as Collateral

75 Collaterals Permitted to Resell or Repledge

76 Transfer of Financial Assets

77 Fair Values of Financial Instruments

78 Past Due but Not Impaired Assets

79 Restructured Loans and Advances

80 Netting of Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Notes to the Financial Instruments

71 Derivative Transactions

In order to minimise (reduce) both the economic and the regulatory credit risk, bilateral netting agreements have been concluded. By means of such netting agreements, the positive and negative fair values of the derivatives contracts included under the master agreement can be offset against one another, and the future regulatory risk add-ons for these products can be reduced. Through this netting process, the credit risk is limited to a single net claim on the party to the contract.

For both regulatory reports and the internal measurement and monitoring of the credit commitments, such risk-reducing techniques are utilised only if they are considered to be enforceable under the respective legal system in the event that the business associate becomes insolvent. Legal advice is taken in order to check enforceability.

Similar to the master agreements, pbb Group concludes collateral agreements with its business associates to collateralise the net claim or liability remaining after netting (obtained or pledged collateral). Usually, this collateral management reduces credit risk by means of prompt measurement and adjustment of the exposure to customers.

Volume of derivatives at 31 December 2015	Notional amount			Fair value		
	Remaining maturities			Total	positive	negative
	Less than 1 year	1 to 5 years	More than 5 years			
in € million						
Interest-based transactions						
OTC products	10,192	39,645	34,301	84,138	6,472	6,363
Forward rate agreements	341	–	–	341	–	–
Interest rate swaps	9,255	33,524	34,067	76,846	6,463	6,354
Interest rate options	596	6,121	234	6,951	9	9
Call options	306	3,065	117	3,488	9	–
Put options	290	3,056	117	3,463	–	9
Total	10,192	39,645	34,301	84,138	6,472	6,363
Foreign-currency-based transactions						
OTC products	4,590	1,239	447	6,276	88	98
Spot and forward currency transactions	4,477	–	–	4,477	51	35
Interest rate/currency swaps	113	1,239	447	1,799	37	63
Total	4,590	1,239	447	6,276	88	98
Total	14,782	40,884	34,748	90,414	6,560	6,461

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement
of Financial Position (Assets)

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

71 Derivative Transactions

72 Cash Flow Hedge Accounting

73 Undiscounted Cash Flows of Financial Liabilities

74 Assets Assigned or Pledged as Collateral

75 Collaterals Permitted to Resell or Repledge

76 Transfer of Financial Assets

77 Fair Values of Financial Instruments

78 Past Due but Not Impaired Assets

79 Restructured Loans and Advances

80 Netting of Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Use made of derivative transactions at 31 December 2015

in € million	Notional amount	Fair value	
		positive	negative
Interest-based transactions			
Fair value hedge accounting	48,769	4,947	4,769
Stand-alone derivatives	35,368	1,526	1,594
Total	84,137	6,473	6,363
Foreign-currency-based transactions			
Fair value hedge accounting	398	13	49
Stand-alone derivatives	5,879	74	49
Total	6,277	87	98
Total	90,414	6,560	6,461

Volume of derivatives at 31 December 2014

in € million	Notional amount				Fair value	
	Remaining maturities			Total	positive	negative
	Less than 1 year	1 to 5 years	More than 5 years			
Interest-based transactions						
OTC products	11,880	42,817	37,248	91,945	8,411	7,939
Interest rate swaps	10,464	38,001	37,190	85,655	8,407	7,934
Interest rate options	1,416	4,816	58	6,290	4	5
Call options	677	2,408	29	3,114	4	–
Put options	739	2,408	29	3,176	–	5
Total	11,880	42,817	37,248	91,945	8,411	7,939
Foreign-currency-based transactions						
OTC products	4,355	1,284	344	5,983	54	104
Spot and forward currency transactions	4,194	–	–	4,194	19	55
Interest rate/currency swaps	161	1,284	344	1,789	35	49
Total	4,355	1,284	344	5,983	54	104
Total	16,235	44,101	37,592	97,928	8,465	8,043

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement
of Financial Position (Assets)

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

71 Derivative Transactions

72 Cash Flow Hedge Accounting

73 Undiscounted Cash Flows of Financial Liabilities

74 Assets Assigned or Pledged as Collateral

75 Collaterals Permitted to Resell or Repledge

76 Transfer of Financial Assets

77 Fair Values of Financial Instruments

78 Past Due but Not Impaired Assets

79 Restructured Loans and Advances

80 Netting of Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Use made of derivative transactions at 31 December 2014

in € million	Notional amount	Fair value	
		positive	negative
Interest-based transactions			
Fair value hedge accounting	52,880	5,975	5,649
Cash flow hedge accounting	4,462	450	401
Stand-alone derivatives	34,603	1,986	1,889
Total	91,945	8,411	7,939
Foreign-currency-based transactions			
Cash flow hedge accounting	391	24	33
Stand-alone derivatives	5,592	30	71
Total	5,983	54	104
Total	97,928	8,465	8,043

Counterparties in € million	31.12.2015		31.12.2014	
	Fair value		Fair value	
	positive	negative	positive	negative
OECD banks	5,917	6,396	7,516	7,967
OECD financial institutions	4	–	209	25
Other companies and private individuals	639	65	740	51
Total	6,560	6,461	8,465	8,043

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

71 Derivative Transactions

72 Cash Flow Hedge Accounting

73 Undiscounted Cash Flows of Financial Liabilities

74 Assets Assigned or Pledged as Collateral

75 Collaterals Permitted to Resell or Repledge

76 Transfer of Financial Assets

77 Fair Values of Financial Instruments

78 Past Due but Not Impaired Assets

79 Restructured Loans and Advances

80 Netting of Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

72 Cashflow Hedge Accounting

The cash flows of the hedging items shown in cash flow hedge accounting are expected to occur in the following periods:

Cash flow hedge: periods of hedging items when cash flows are expected to occur	31.12.2015	31.12.2014
in € million		
up to 1 month	–	–1
1 month to 3 months	–	–3
3 months to 1 year	–	–2
1 year to 2 years	–	–1
2 years to 5 years	–	–8
5 years and over	–	–53
Total	–	–68

It is expected that the cash flows will affect the income statement in the period of occurrence.

The development of the cash flow hedge reserve is shown in the consolidated statement of changes in equity.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

71 Derivative Transactions

72 Cash Flow Hedge Accounting

73 Undiscounted Cash Flows of Financial Liabilities

74 Assets Assigned or Pledged as Collateral

75 Collaterals Permitted to Resell or Repledge

76 Transfer of Financial Assets

77 Fair Values of Financial Instruments

78 Past Due but Not Impaired Assets

79 Restructured Loans and Advances

80 Netting of Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

73 Undiscounted Cash Flows of Financial Liabilities

Contractually agreed undiscounted cash flows of the financial liabilities according to IFRS 7.39		
in € billion	31.12.2015	31.12.2014
up to 3 months	3	4
from derivative financial instruments	–	–
from non-derivative financial instruments	3	4
3 months to 1 year	8	9
from derivative financial instruments	1	1
from non-derivative financial instruments	7	8
1 year to 5 years	28	32
from derivative financial instruments	2	2
from non-derivative financial instruments	26	30
5 years and over	26	31
from derivative financial instruments	3	3
from non-derivative financial instruments	23	28

In conformity with the requirements, the contractually agreed undiscounted cash flow maturities are presented in accordance with the worst-case scenario, meaning that if there are options or terminations rights involved the most unfavourable case from a liquidity perspective will be assumed. This presentation does not reflect the economic management which is based on expected cash flows. The liquidity risk strategy and management of pbb Group is described in the risk and opportunity report.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

71 Derivative Transactions

72 Cash Flow Hedge Accounting

73 Undiscounted Cash Flows of Financial Liabilities

74 Assets Assigned or Pledged as Collateral

75 Collaterals Permitted to Resell or Repledge

76 Transfer of Financial Assets

77 Fair Values of Financial Instruments

78 Past Due but Not Impaired Assets

79 Restructured Loans and Advances

80 Netting of Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

74 Assets Assigned or Pledged as Collateral

Assets have been pledged as collateral for the following assets and received collaterals:

Liabilities	31.12.2015	31.12.2014
in € million		
Liabilities to other banks	881	845
Liabilities to customers	1	–
Total	882	845

The following assets were pledged as collateral for the above liabilities:

Assets pledged	31.12.2015	31.12.2014
in € million		
Loans and advances to customers	251	278
Financial investments	861	695
Total	1,112	973

The assets pledged mainly resulted from repurchase agreements. The transactions were carried out at the normal standard terms for repurchase transactions and concluded on an arm's-length basis.

In the current financial year, no properties were taken over. In financial year 2014, two properties in Hungary and one property in the Netherlands were taken over with a total carrying amount of €32 million. The financed property in the Netherlands had a carrying amount of €15 million and was sold in the financial year 2015.

75 Collaterals Permitted to Resell or Repledge

As of 31 December 2015 and as of 31 December 2014 there were no collaterals that may be resold or repledged in the absence of default.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

71 Derivative Transactions

72 Cash Flow Hedge Accounting

73 Undiscounted Cash Flows of Financial Liabilities

74 Assets Assigned or Pledged as Collateral

75 Collaterals Permitted to Resell or Repledge

76 Transfer of Financial Assets

77 Fair Values of Financial Instruments

78 Past Due but Not Impaired Assets

79 Restructured Loans and Advances

80 Netting of Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

76 Transfer of Financial Assets

in € million	Fair values	Transferred assets that are not derecognised in their entirety		
		Transferred assets		Corresponding liabilities
		thereof: Repo transactions	Fair values	thereof: Repo transactions
AfS assets	376	376	252	252
Bonds	376	376	252	252
LaR assets	736	485	630	379
Bonds	485	485	379	379
Loans and advances	251	–	251	–
Total	1,112	861	882	631

in € million	Fair values	Transferred assets that are not derecognised in their entirety		
		Transferred assets		Corresponding liabilities
		thereof: Repo transactions	Fair values	thereof: Repo transactions
AfS assets	394	394	277	277
Bonds	394	394	277	277
LaR assets	579	301	568	290
Bonds	301	301	289	290
Loans and advances	278	–	279	–
Total	973	695	845	567

When pbb Group transfers financial assets that do not qualify for derecognition (see also Note «Financial Instruments»), they continue to be reported in the statement of financial position. These transactions particularly are securities repurchase transactions (31 December 2015: € 861 million; 31 December 2014: € 695 million) as well as loans granted against the assignment of claims (31 December 2015: € 251 million; 31 December 2014: € 278 million). In addition, securities with a carrying amount of € 38 million were transferred to EUREX as collateral for Clearing Fund Contribution and Initial Margin for derivative transactions.

pbb Group generally has no continuing involvement in transferred and derecognised financial assets.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement
of Financial Position (Assets)

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

71 Derivative Transactions

72 Cash Flow Hedge Accounting

73 Undiscounted Cash Flows of Financial Liabilities

74 Assets Assigned or Pledged as Collateral

75 Collaterals Permitted to Resell or Repledge

76 Transfer of Financial Assets

77 Fair Values of Financial Instruments

78 Past Due but Not Impaired Assets

79 Restructured Loans and Advances

80 Netting of Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

77 Fair Values of Financial Instruments

The fair value of financial instruments, in the opinion of pbb Group, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price). The fair values were determined as of the balance sheet date based on the market information available and on valuation methods described here.

All financial assets and liabilities that are measured at fair value are grouped into the three fair value hierarchies by pbb Group. Reclassifications within the fair value hierarchy are made at the end of the reporting period. The three-level hierarchy is based on the degree to which the input for the fair value measurement is observable:

- > Level 1 – quoted priced (unadjusted) in active markets for identical financial assets or financial liabilities (market prices)
- > Level 2 – inputs that are observable either directly or indirectly, other than quoted prices included within Level 1
- > Level 3 – valuation techniques that include inputs that are not based on observable market data (unobservable inputs)

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

71 Derivative Transactions

72 Cash Flow Hedge Accounting

73 Undiscounted Cash Flows of Financial Liabilities

74 Assets Assigned or Pledged as Collateral

75 Collaterals Permitted to Resell or Repledge

76 Transfer of Financial Assets

77 Fair Values of Financial Instruments

78 Past Due but Not Impaired Assets

79 Restructured Loans and Advances

80 Netting of Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Fair values and fair value hierarchy of financial instruments

31.12.2015

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

¹⁾ Reduced by allowances for losses on loans and advances and claims from finance lease agreements

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

71 Derivative Transactions

72 Cash Flow Hedge Accounting

73 Undiscounted Cash Flows of Financial Liabilities

74 Assets Assigned or Pledged as Collateral

75 Collaterals Permitted to Resell or Repledge

76 Transfer of Financial Assets

77 Fair Values of Financial Instruments

78 Past Due but Not Impaired Assets

79 Restructured Loans and Advances

80 Netting of Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

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
Cashflow 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

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement
of Financial Position (Assets)

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

71 Derivative Transactions

72 Cash Flow Hedge Accounting

73 Undiscounted Cash Flows of Financial Liabilities

74 Assets Assigned or Pledged as Collateral

75 Collaterals Permitted to Resell or Repledge

76 Transfer of Financial Assets

77 Fair Values of Financial Instruments

78 Past Due but Not Impaired Assets

79 Restructured Loans and Advances

80 Netting of Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

In the financial years 2015 and 2014, no financial instruments measured at fair value were reclassified from Level 1 to Level 2 and vice versa. Financial liabilities in the amount of €6 million (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 €27 million (2014: €17 million) and financial liabilities in the amount of €1 million (2014: €3 million) were reclassified from Level 3 to Level 2 since inputs were observable on the market again.

Disclosures to the Measurement Methods and Input Parameters

Measurement Process Both the Finance and the Risk Management & Control divisions play a role in the measurement process. The Finance division supplies accounting data. This includes:

- > identification data, such as business identification numbers or International Securities Identification Numbers (ISINs)
- > static data such as notional amounts, name and country of the counterparty and (remaining) terms
- > accounting data such as carrying amounts, accruals and the effects of hedge accounting

Risk Management & Control calculates additional data used to measure fair value such as interest rates, credit spreads and market prices, as well as internal ratings and LGDs for certain financial instruments.

Finance compiles the data and checks it for completeness. The division then calculates the fair values of the financial instruments using measurement methods determined by Risk Management & Control. Once measurement is complete, Finance performs quality checks on the data and then approves it for further use.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

71 Derivative Transactions

72 Cash Flow Hedge Accounting

73 Undiscounted Cash Flows of Financial Liabilities

74 Assets Assigned or Pledged as Collateral

75 Collaterals Permitted to Resell or Repledge

76 Transfer of Financial Assets

77 Fair Values of Financial Instruments

78 Past Due but Not Impaired Assets

79 Restructured Loans and Advances

80 Netting of Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Level 2 instruments measured at fair value as of 31.12.2015

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

Level 3 instruments measured at fair value as of 31.12.2015

Measurement methods	Non-observable parameters	Parameter range (weighted average)
Option pricing models	Historical index/index correlations	74.70%
	Historical index/exchange rate correlations	-12.69% to 11.39% (-0.65%)
	Volatilities ASW spread	0.61%
	Exchange rates volatilities (beyond 10 years)	12.85%

Sensitivities

As at 31 December 2015, financial assets measured at fair value were subject to positive and negative changes of €1 million each, and financial assets measured at fair value were subject to positive and negative changes of less than €1 million each. The calculation of the sensitivity for the four relevant derivatives, which are largely used in hedge accounting, is based on shock scenarios for correlations and volatilities pursuant to the table above. There are interactions between the input parameters used, except for spread volatilities. If the scenario effects are taken into account on an aggregate basis, the maximum change for assets is €1 million and for liabilities €2 million. As at 31 December 2015, the sensitivity analysis resulted in positive and negative changes in liabilities of €1 million each. These amounts were calculated independently from each other. Offsetting effects due to compensating derivatives and hedge relationships reduce both positive and negative changes. There were no methodological changes compared to the previous year, however, the exchange rate volatility was included as a new significant unobservable parameter.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

71 Derivative Transactions

72 Cash Flow Hedge Accounting

73 Undiscounted Cash Flows of Financial Liabilities

74 Assets Assigned or Pledged as Collateral

75 Collaterals Permitted to Resell or Repledge

76 Transfer of Financial Assets

77 Fair Values of Financial Instruments

78 Past Due but Not Impaired Assets

79 Restructured Loans and Advances

80 Netting of Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Changes in Level 3 Financial Instruments measured at Fair Value

Changes in level 3 financial assets	Financial assets at fair value		Total
	through profit or loss	not affecting profit or loss	
in € million	Fair value hedge derivatives	Cash flow hedge derivatives	
Balance at 1.1.2014	79	4	83
Income statement	2	-1	1
Purchases	19	-	19
Sales	-19	-	-19
Transfers into level 3	8	-	8
Transfers out of level 3	-14	-3	-17
Balance at 31.12.2014	75	-	75
Balance at 1.1.2015	75	-	75
Income statement	-4	-	-4
Reclassification out of level 3	-27	-	-27
Balance at 31.12.2015	44	-	44

Changes in level 3 financial liabilities	Financial liabilities at fair value not affecting profit or loss		Total
	Trading liabilities	Fair value hedge derivatives	
in € million			
Balance at 1.1.2014	2	10	12
Income statement	-	-1	-1
Transfers out of level 3	-	-3	-3
Balance at 31.12.2014	2	6	8
Balance at 1.1.2015	2	6	8
Income statement	-1	4	3
Transfers into level 3	-	6	6
Transfers out of level 3	-1	-	-1
Balance at 31.12.2015	-	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.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

71 Derivative Transactions

72 Cash Flow Hedge Accounting

73 Undiscounted Cash Flows of Financial Liabilities

74 Assets Assigned or Pledged as Collateral

75 Collaterals Permitted to Resell or Repledge

76 Transfer of Financial Assets

77 Fair Values of Financial Instruments

78 Past Due but Not Impaired Assets

79 Restructured Loans and Advances

80 Netting of Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Assets and Liabilities According to Measurement Categories and Classes

The carrying amounts reflect the maximum on balance sheet exposure to credit default risk of the assets respectively the maximum exposure of the other items according to IFRS 7.

Asset and liabilities according to measurement categories and classes in accordance with IAS 39		
in € million	31.12.2015	31.12.2014
Assets		
Loans and receivables (LaR)	54,994	61,195
Available-for-sale (AfS)	3,521	4,906
Held-for-trading (HfT)	1,600	2,016
Cash reserve	1,265	57
Claims from finance lease agreements	231	–
Positive fair values from hedging derivatives	4,960	6,449
Liabilities		
Held-for-trading (HfT)	1,643	1,960
Financial liabilities at amortised cost	57,139	62,911
Negative fair values from hedging derivatives	4,818	6,083

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

71 Derivative Transactions

72 Cash Flow Hedge Accounting

73 Undiscounted Cash Flows of Financial Liabilities

74 Assets Assigned or Pledged as Collateral

75 Collaterals Permitted to Resell or Repledge

76 Transfer of Financial Assets

77 Fair Values of Financial Instruments

78 Past Due but Not Impaired Assets

79 Restructured Loans and Advances

80 Netting of Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

78 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 31 December 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	31.12.2015	31.12.2014
up to 3 months	10	32
from 3 months to 6 months	2	10
from 6 months to 1 year	–	7
from 1 year and over	12	10
Total	24	59

Carrying amounts LaR assets		
in € billion	31.12.2015	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
Carrying amount of individually assessed impaired LaR assets (net)	0.5	0.6
Balance of specific allowances	0.1	0.1
Balance of portfolio-based allowances	–	0.1
Total	55.1	61.4
thereof:		
Loans and advances to other banks (including investments)	2.7	6.8
Loans and advances to customers (including investments)	41.0	39.0
Financial investments (gross)	11.4	15.6

The carrying amount of assets that would otherwise be past due or impaired and whose terms have been renegotiated amounted to €11 million (2014: €88 million).

The fair value of collaterals for the impaired financial assets amounted to approximately €0.5 billion (2014: €0.6 billion). The collaterals mainly consist of land charges.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

71 Derivative Transactions

72 Cash Flow Hedge Accounting

73 Undiscounted Cash Flows of Financial Liabilities

74 Assets Assigned or Pledged as Collateral

75 Collaterals Permitted to Resell or Repledge

76 Transfer of Financial Assets

77 Fair Values of Financial Instruments

78 Past Due but Not Impaired Assets

79 Restructured Loans and Advances

80 Netting of Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

AfS Assets

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

79 Restructured Loans and Advances

In the financial years 2015 and 2014, restructuring agreements mainly related to standstill agreements and to the discontinuation of contractual arrangements.

Restructured loans and advances		
in € million	31.12.2015	31.12.2014
Carrying amount of loans and advances that are neither impaired nor past due	223	1,048
Carrying amount of loans that are past due but not impaired (gross)	5	12
Carrying amount of individually assessed impaired loans and advances (gross)	462	241
Total	690	1,301

Development of restructured loans and advances		
in € million	2015	2014
Balance at 1.1.	1,301	1,508
Additions	35	592
Disposals	-436	-633
Reclassifications after expiry of good conduct period	-210	-135
Changes in the basis of consolidation	-	-31
Balance at 31.12.	690	1,301

Proportion of restructured loans and advances in the total portfolio		
in %	31.12.2015	31.12.2014
Proportion of restructured loans and advances in the total portfolio	1.6	2.8

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

71 Derivative Transactions

72 Cash Flow Hedge Accounting

73 Undiscounted Cash Flows of Financial Liabilities

74 Assets Assigned or Pledged as Collateral

75 Collaterals Permitted to Resell or Repledge

76 Transfer of Financial Assets

77 Fair Values of Financial Instruments

78 Past Due but Not Impaired Assets

79 Restructured Loans and Advances

80 Netting of Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Allowances for losses on restructured loans and advances		
in € million	31.12.2015	31.12.2014
Specific allowances	74	73
Portfolio-based allowances	3	4
Total	77	77

Proportion of allowances for losses in the restructured loans and advances portfolio		
in %	31.12.2015	31.12.2014
Proportion of allowances for losses in the restructured loans and advances portfolio	11.2	6.0

80 Netting of Financial Instruments

The following tables show the gross carrying amounts of recognised financial assets respectively liabilities, the gross carrying amounts of the items offset in the statement of financial position and the net amounts of the financial assets and liabilities recognised in the statement of financial position. They also show the rights of set-off that did not lead to an offsetting in the statement of financial position, the collateral received for financial assets, the collateral pledged for financial liabilities and the net amounts of financial assets and liabilities remaining following the application of the netting agreements and deduction of the collateral.

Netting Agreements

pbb Group routinely enters into standardised bilateral netting agreements in the derivatives business to minimise the legal risk as well as the economic and regulatory counterparty default risk. The national respectively international agreements used are the German Master Agreement for Financial Futures and the ISDA Master Agreement issued by the International Swaps and Derivatives Association. The derivatives cannot be offset in the statement of financial position since their conditions are not identical (e.g. different terms or currency underlyings).

Collateral

In addition, pbb Group also enters into collateral agreements to hedge the net receivables and net liabilities arising following offsetting according to the netting agreements (collateral received or pledged). The collateral used is primarily cash collateral; however, securities are sometimes also used by way of title transfer. The collateral agreements likewise cannot be offset against the derivatives.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

71 Derivative Transactions

72 Cash Flow Hedge Accounting

73 Undiscounted Cash Flows of Financial Liabilities

74 Assets Assigned or Pledged as Collateral

75 Collaterals Permitted to Resell or Repledge

76 Transfer of Financial Assets

77 Fair Values of Financial Instruments

78 Past Due but Not Impaired Assets

79 Restructured Loans and Advances

80 Netting of Financial Instruments

Other Notes

Responsibility Statement

Auditor's Report

Additional Information

Netting of financial instruments as of 31 December 2015

in € billion	Gross carrying amounts of recognised financial assets/liabilities	Gross carrying amounts of the items offset in the statement of financial position	Net amounts presented in the statement of financial position	Rights of set-off that did not lead to an offsetting in the statement of financial position	Received respectively pledged collaterals	Remaining net
Financial assets	6.6	-	6.6	4.8	1.4	0.4
Positive fair values of derivatives	6.6	-	6.6	4.8	1.4	0.4
Financial liabilities	6.5	-	6.5	4.8	1.6	0.1
Negative fair values of derivatives	6.5	-	6.5	4.8	1.6	0.1

Netting of financial instruments as of 31 December 2014

in € billion	Gross carrying amounts of recognised financial assets/liabilities	Gross carrying amounts of the items offset in the statement of financial position	Net amounts presented in the statement of financial position	Rights of set-off that did not lead to an offsetting in the statement of financial position	Received respectively pledged collaterals	Remaining net
Financial assets	8.5	-	8.5	6.0	1.8	0.7
Positive fair values of derivatives	8.5	-	8.5	6.0	1.8	0.7
Financial liabilities	8.0	-	8.0	6.0	1.9	0.1
Negative fair values of derivatives	8.0	-	8.0	6.0	1.9	0.1

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

81 Contingent Liabilities and Other Commitments

82 Leases

83 Key Regulatory Capital Ratios

84 Group Auditors' Fee

85 Relationship with Related Parties

86 Employees

87 Members of the Supervisory Board and of the Management Board

88 Holdings of pbb

89 Country-by-Country Reporting

Responsibility Statement

Auditor's Report

Additional Information

Other Notes

81 Contingent Liabilities and Other Commitments

Contingent liabilities and other commitments		
in € million	31.12.2015	31.12.2014
Contingent liabilities	184	84
Guarantees and warranties	184	84
Performance guarantees and warranties	184	84
Other commitments	2,946	2,238
Irrevocable loan commitments	2,946	2,238
Guarantees	23	6
Mortgage and public sector loans	2,923	2,232
Total	3,130	2,322

pbb as a legal successor of Hypo Real Estate Bank International AG, has taken over with the announcement as of 2 January 2006 irrevocable and unconditional guarantees to fulfil all liabilities of Hypo Public Finance Bank puc, Dublin (trading as DEPFA Public Finance Bank puc). By the fact that all shares of Hypo Public Finance Bank puc were sold, the commitment was limited according to the guarantee contract to all liabilities, which existed until the date of sale. Due to the current development in earnings, assets and financial position as well as the expected future development, pbb does not rule out the default of Hypo Public Finance Bank puc but a default should be rather unlikely. If claims are asserted against pbb under the guarantee, it may revert to DEPFA Bank plc, Dublin, for recourse.

For pbb Group irrevocable loan commitments form the largest part of other commitments. Irrevocable loan commitments comprise all commitments of a creditor which can grant a loan and advance at a later date and which can cause a credit risk. These are mainly credit commitments which are not fully drawn.

82 Leases

Operate Lease as a Lessee

pbb Group is a lessee in the context of operate lease agreements. Non-terminable operate lease agreements for land and buildings as well as for operating and business equipment existed as of 31 December 2015 and as of 31 December 2014.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement
of Financial Position (Assets)

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

81 Contingent Liabilities and Other Commitments

82 Leases

83 Key Regulatory Capital Ratios

84 Group Auditors' Fee

85 Relationship with Related Parties

86 Employees

87 Members of the Supervisory Board
and of the Management Board

88 Holdings of pbb

89 Country-by-Country Reporting

Responsibility Statement

Auditor's Report

Additional Information

Future minimum lease payments by maturities		
in € million	31.12.2015	31.12.2014
up to 1 year	11	12
1 year to 5 years	39	37
5 years and over	21	27
Total	71	76

Operating lease agreements concluded by pbb Group were made on an arm's-length basis and are mainly related to the rental of land and buildings. The agreements include partial renewal options that the lease can be extended for several periods, and price escalation clauses in the form of stepped rents or indexation clauses as well as release clauses. Rental expenses including incidental rental costs amounted to €7 million (2014: €7 million).

Finance Lease as a Lessor

Reconciliation	
in € million	31.12.2015
Gross investment	273
Unearned finance income	-42
Net investment/present value of minimum lease payments	231

Allocation by maturities	
in € million	31.12.2015
Gross investment	273
up to 1 year	11
1 year to 5 years	56
5 years and over	206
Present value of minimum lease payments	231
up to 1 year	7
1 year to 5 years	41
5 years and over	183

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

81 Contingent Liabilities and Other Commitments

82 Leases

83 Key Regulatory Capital Ratios

84 Group Auditors' Fee

85 Relationship with Related Parties

86 Employees

87 Members of the Supervisory Board and of the Management Board

88 Holdings of pbb

89 Country-by-Country Reporting

Responsibility Statement

Auditor's Report

Additional Information

83 Key Regulatory Capital Ratios

During the period under review, until the time of its privatisation, pbb was exempted – under the waiver option pursuant to Article 7 of the Capital Requirements Regulation (CRR) – from determining own funds and own funds requirements at a single-entity level as well as at pbb Group level. Until this point in time, pbb Group disclosed these figures on a voluntary basis. Since the waiver has no longer been available since July 2015, pbb must determine own funds and own funds requirements at single-entity and combined levels, pursuant to section 10 a(1) of the KWG in conjunction with Articles 11 et seq. of the CRR.

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, pbb has determined its regulatory capital ratios 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, 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%. Moreover, the so-called capital conservation buffer, which imposes a 0.625% add-on for these ratios (and which will rise to 2.5% by 2019), has come into force in 2016.

The Advanced Internal Rating Based Approach (Advanced IRBA) is used to determine regulatory capital requirements for all material portfolios.

Own Funds	31.12.2015		31.12.2014	
	31.12.2015 ¹⁾	Basel III fully phased-in ¹⁾²⁾	Basel III ³⁾	Basel III fully phased-in ²⁾³⁾
in € million				
CET1	2,533	2,439	3,364	2,090
Additional Tier 1	209	–	195	999
Tier 1	2,742	2,439	3,559	3,089
Tier 2	398	231	483	334
Own Funds	3,140	2,670	4,042	3,423

¹⁾ After confirmation of the 2015 financial statements and appropriation of profits, less the proposed dividend (subject to approval by the Annual General Meeting)

²⁾ After expiry of all Basel III transitional regulations

³⁾ Consolidated in accordance with CRR (following the appropriation of net profit 2014)

Overview
Contents
Letter of the Management Board
Report of the Supervisory Board
The pbb Share
Group Management Report
Consolidated Financial Statements
Consolidated Income Statement
Consolidated Statement of Comprehensive Income
Consolidated Statement of Financial Position
Consolidated Statement of Changes in Equity
Consolidated Statement of Cash Flows

Risk-weighted assets (RWA)¹⁾	31.12.2015		31.12.2014	
in € million	31.12.2015	Basel III fully phased-in²⁾	31.12.2014 Basel III³⁾⁴⁾	31.12.2014 Basel III fully phased-in²⁾³⁾⁴⁾
Market risks	70	70	217	217
thereof interest rate risks	–	–	–	–
thereof foreign exchange risks	70	70	217	217
Operational risks	795	795	706	706
Credit risks	12,371	12,371	14,262	14,262
thereof CVA charge	374	374	445	445
Other RWA	166	166	0	0
RWA total	13,402	13,402	15,185	15,185

Notes
Accounting Policies
Segment Reporting
Notes to the Consolidated Income Statement
Notes to the Consolidated Statement of Financial Position (Assets)
Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)
Notes to the Consolidated Statement of Cash Flows
Notes to the Financial Instruments

- ¹⁾ Including weighted credit risk positions and capital charges for market risk positions and operational risk, using a scaling factor of 12.5
- ²⁾ After expiry of all Basel III transitional regulations
- ³⁾ Consolidated in accordance with CRR
- ⁴⁾ The figures diverges from the values shown in the 2014 Annual Report, due to a retrospective adjustment.

Other Notes
81 Contingent Liabilities and Other Commitments
82 Leases
83 Key Regulatory Capital Ratios
84 Group Auditors' Fee
85 Relationship with Related Parties
86 Employees
87 Members of the Supervisory Board and of the Management Board
88 Holdings of pbb
89 Country-by-Country Reporting

Capital ratios	31.12.2015		31.12.2014	
in %	31.12.2015¹⁾	Basel III fully phased-in¹⁾²⁾	31.12.2014 Basel III³⁾⁴⁾	31.12.2014 Basel III fully phased-in²⁾³⁾⁴⁾
CET1 ratio	18.9	18.2	22.2	13.8
Tier 1 ratio	20.5	18.2	23.4	20.3
Own funds ratio	23.4	19.9	26.6	22.5

- ¹⁾ After confirmation of the 2015 financial statements and appropriation of profits, less the proposed dividend (subject to approval by the Annual General Meeting)
- ²⁾ After expiry of all Basel III transitional regulations
- ³⁾ Consolidated in accordance with CRR (following the appropriation of net profit 2014)
- ⁴⁾ The figures diverges from the values shown in the 2014 Annual Report, due to a retrospective adjustment

Responsibility Statement
Auditor's Report
Additional Information

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement
of Financial Position (Assets)

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

81 Contingent Liabilities and Other Commitments

82 Leases

83 Key Regulatory Capital Ratios

84 Group Auditors' Fee

85 Relationship with Related Parties

86 Employees

87 Members of the Supervisory Board
and of the Management Board

88 Holdings of pbb

89 Country-by-Country Reporting

Responsibility Statement

Auditor's Report

Additional Information

84 Group Auditors' Fee

Group auditors' fee	2015	2014
in € thousand		
Audit	2,280	2,280
Other assurance services	462	486
Tax advisory services	–	–
Other non-audit services	232	1,164
Total	2,974	3,930

The table shows fees to the group auditor KPMG AG Wirtschaftsprüfungsgesellschaft.

KPMG AG, Frankfurt am Main, has been engaged as auditor of the annual and consolidated financial statements in behalf of pbb since the merger of Hypo Real Estate Bank AG and DEPFA Deutsche Pfandbriefbank AG to Deutsche Pfandbriefbank AG in 2009. The financial statements were signed by German Public Auditors (Wirtschaftsprüfer) Gero Wiechens and, since the financial year 2012, Christine Schmidt. In the financial year 2015, the undersigned Public Auditors are Jürgen Mock and Franz Haider.

85 Relationship with Related Parties

According to IAS 24 (Related-Party Disclosures), a party is related to an entity if, directly or indirectly through one or more intermediaries, the party controls or is controlled by the reporting entity, has an interest in the entity that gives it significant influence over the entity or has joint control over the entity as well as associates and joint ventures. In addition, retirement benefit schemes for post-employment benefits for employees are also included under related parties.

Related Entities

As at 31 December 2015, pbb was subject to significant influence from the Federal Republic of Germany via its largest shareholder, HRE Holding, although pbb has not been controlled by HRE Holding, Finanzmarktstabilisierungsfonds-FMS or the Federal Republic of Germany since 20 July 2015 due to a control termination agreement (Entherrschungsvertrag). Accordingly, until 20 July 2015, pbb Group was classified as a related party of other companies that were subject to the control, joint control or significant influence of the Federal Republic of Germany. Since this date, pbb Group has continued to consider itself as a related party of the above-mentioned companies as a matter of precaution.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement
of Financial Position (Assets)

Notes to the Consolidated Statement
of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

81 Contingent Liabilities and Other Commitments

82 Leases

83 Key Regulatory Capital Ratios

84 Group Auditors' Fee

85 Relationship with Related Parties

86 Employees

87 Members of the Supervisory Board
and of the Management Board

88 Holdings of pbb

89 Country-by-Country Reporting

Responsibility Statement

Auditor's Report

Additional Information

pbb entered into an agreement with HRE Holding during the year under review, 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, pbb agreed to a one-time payment of €24 million to HRE Holding. The corresponding restructuring provision was reversed accordingly.

As of 31 December 2015, pbb Group had a net liability of €0.0 billion (31 December 2014: €0.3 billion) to its parent company, HRE Holding. As of 31 December 2015, HRE Holding held no financial investments of pbb Group (31 December 2014: €0.8 billion). Net interest income of pbb Group vs. HRE Holding amounted to €-2 million (2014: €-12 million). Net other operating income/expenses of €4 million (2014: €7 million) resulted from the cost allocation with HRE Holding until the mid-year point.

Under the current law, expenses incurred in the context of pbb's privatisation have to be borne by the seller, HRE Holding.

pbb is party to an underwriting agreement entered into between pbb, HRE Holding and the syndicate banks supporting the flotation. HRE Holding has undertaken, as part of pbb's privatisation process, to hold at least 20% of pbb's share capital for a period of at least two years after the flotation. Furthermore, HRE Holding contractually agreed not to exercise a controlling influence on pbb. HRE Holding also revoked its unrestricted letter of comfort (Patronatserklärung) in respect of pbb on 20 July 2015.

The silent partnership contribution provided by Finanzmarktstabilisierungsfonds-FMS was repaid on 6 July 2015, at par of €1.0 billion.

As at 31 December 2015 and 31 December 2014, there were no loans and advances or liabilities to non-consolidated subsidiaries. As at the reporting date, pbb Group had loans and advances to associates not accounted for using the equity method in the amount of €39 million (31 December 2014: €39 million) and no liabilities (31 December 2014: no liabilities) to such associates.

All further transactions carried out in the current financial year and in the previous period 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.

On 31 December 2015 liabilities to defined contribution plans amounted to €2 million (31 December 2014: €2 million).

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

81 Contingent Liabilities and Other Commitments

82 Leases

83 Key Regulatory Capital Ratios

84 Group Auditors' Fee

85 Relationship with Related Parties

86 Employees

87 Members of the Supervisory Board and of the Management Board

88 Holdings of pbb

89 Country-by-Country Reporting

Responsibility Statement

Auditor's Report

Additional Information

Related Parties

pbb Group defines related parties as the members of the Management Board and the Supervisory Board, plus pbb's second-level managers and members of senior management of pbb's subsidiaries, in each case together with close members of their families. Total remuneration of former members of the Management Board and their surviving dependants amounted to €5,067 thousand (2014: €5,136 thousand) for the year 2015. Remuneration for the Supervisory Board totalled €384 thousand (2014: €96 thousand) during the year under review. This comprised exclusively fixed remuneration. There were no claims against related parties from loans or advances on the balance sheet date.

Vested remuneration claims of persons holding key positions within the Group (senior management)				2015	2014 ²⁾	
	in € thousand	Remuneration ¹⁾	Severance payments	Service cost	Total	Total
Total		8,958	–	1,764	10,722	6,579

¹⁾ Reporting follows the «vesting principle», disclosing those remuneration components which were vested during the relevant 2015 reporting period.

²⁾ In 2014, pbb passed on the full cost of Management Board remuneration to HRE Holding.

Pension obligations to persons holding key positions within the Group (senior management)	31.12.2015	31.12.2014
in € thousand		
Total ¹⁾	79,226	85,650

¹⁾ Including €65,034 thousand (2014: €71,154 thousand) for pensioners and their surviving dependants

Disclosure by Deutsche Pfandbriefbank AG Pursuant to Section 314 Nos. 6 a and 6 b of the HGB, by Groups of Individuals

Remuneration paid to Management Board members of Deutsche Pfandbriefbank AG	2015 ¹⁾	
	Remuneration	Total
in € thousand		
Management Board members who were in office during the financial year 2015	2,172	2,172
Management Board members who retired prior to the financial year 2015	–	–
Total	2,172	2,172

¹⁾ Remuneration of €2,645 thousand paid to Management Board members who were in office during the 2014 financial year was borne in full by HRE Holding. As in 2015, retired Management Board members did not receive any remuneration in the 2014 financial year.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

81 Contingent Liabilities and Other Commitments

82 Leases

83 Key Regulatory Capital Ratios

84 Group Auditors' Fee

85 Relationship with Related Parties

86 Employees

87 Members of the Supervisory Board and of the Management Board

88 Holdings of pbb

89 Country-by-Country Reporting

Responsibility Statement

Auditor's Report

Additional Information

Provisions for pensions	2015 ¹⁾	
	Additions	Total
in € thousand		
Management Board members who were in office during the financial year 2015	1,708	1,708
Management Board members who retired prior to the financial year 2015	-6,120 ²⁾	65,034
Total	-4,412	66,742

¹⁾ No pension obligations vis-à-vis Andreas Arndt and Thomas Köntgen were recognised as at 31 December 2014, since claims from the respective obligation are only vested after completion of a full year of service, and vesting on a pro rata temporis basis is contractually excluded. This also applies to Dr. Bernhard Scholz, since his contract excludes service years prior to 31 August 2014, and to Andreas Schenk, who only became entitled to a pension commitment with effect from 15 December 2015. Provisions for pensions recognised for Management Board members who retired prior to the 2015 financial year amounted to €71,154 thousand as at 31 December 2014.

²⁾ Reversals were due, in particular, to interest rate effects, as well as the lower number of entitled persons.

Remuneration paid to Supervisory Board members	2015 ¹⁾
	Total fixed remuneration
in € thousand	
Supervisory Board members who were in office during the financial year 2015	384
Supervisory Board members who retired prior to the financial year 2015	-
Total	384

¹⁾ Remuneration paid to Supervisory Board members who were in office during the 2014 financial year totalled €96 thousand. As in 2014, Supervisory Board members who retired prior to the 2015 financial year did not receive any remuneration in the 2015 financial year.

Members of pbb's Supervisory Board did not receive any remuneration for services rendered in person in 2015. As at 31 December 2015, there were no claims against Supervisory Board members who were in office on the balance sheet date.

Statement According to Section 15 a WpHG

According to the pbb's knowledge, the members of the Management Board and the Supervisory Board as well as persons closely related to these members did not hold any shares of the Company as at 31 December 2015 or 31 December 2014. In the years 2015 and 2014, according to the Company's knowledge, no pbb shares or derivatives relating to such shares were acquired or sold by members of the Management Board and the Supervisory Board or by persons closely related to such members.

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

81 Contingent Liabilities and Other Commitments

82 Leases

83 Key Regulatory Capital Ratios

84 Group Auditors' Fee

85 Relationship with Related Parties

86 Employees

87 Members of the Supervisory Board and of the Management Board

88 Holdings of pbb

89 Country-by-Country Reporting

Responsibility Statement

Auditor's Report

Additional Information

86 Employees

Average number of employees	2015	2014
Employees (excluding apprentices)	832	838
thereof: senior staff in Germany	17	17
Total	832	838

87 Members of the Supervisory Board and of the Management Board

Supervisory Board of pbb

in fiscal year 2015

Name, place of residence Function in the Supervisory Board	Principal activity Function in the Committees of the Supervisory Board	Mandates held in Supervisory Bodies under the Respective Law for Major Corporations
Dr. Günther Bräunig Frankfurt am Main, Germany Chairman	Member of the Management Board of KfW Chairman of the Presidential and Nominations Committee and of the Remuneration Control Committee, Member of the Audit Committee and of the Risk Management and Liquidity Strategy Committee	True Sale International GmbH, Frankfurt am Main, Germany – Chairman of the Shareholder's Advisory Board HRE Holding AG, Munich, Germany – Chairman of the Supervisory Board (until 20.7.2015)
Dagmar Kollmann Vienna, Austria Deputy Chairperson	Entrepreneur Chairperson of the Audit Committee and Member of the Presidential- and Nominations Committee, of the Risk Management and Liquidity Strategy Committee and of the Remuneration Control Committee	Deutsche Telekom AG, Bonn, Germany – Member of the Supervisory Board KfW IPEX-Bank GmbH, Frankfurt am Main, Germany – Member of the Supervisory Board Bank Gutmann AG, Vienna, Austria – Member of the Supervisory Board Unibail-Rodamco SE, Paris, France – Member of the Supervisory Board HRE Holding AG, Munich, Germany – Deputy Chairperson of the Supervisory Board (until 20.7.2015)
Dr. Thomas Duhnkrack Kronberg im Taunus, Germany Member (from 21.7.2015)	Entrepreneur	Hauck & Aufhäuser Privatbankiers KGaA, Frankfurt am Main, Germany – Member of the Supervisory Board Lloyd Fonds AG, Hamburg, Germany – Deputy Chairman of the Supervisory Board
Dr. Christian Gebauer- Rochholz Hochheim, Germany Workers' Council Representative	Bank employee	–
Georg Kordick Poing, Germany Workers' Council Representative	Bank employee	–

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

81 Contingent Liabilities and Other Commitments

82 Leases

83 Key Regulatory Capital Ratios

84 Group Auditors' Fee

85 Relationship with Related Parties

86 Employees

87 [Members of the Supervisory Board and of the Management Board](#)

88 Holdings of pbb

89 Country-by-Country Reporting

Responsibility Statement

Auditor's Report

Additional Information

Supervisory Board of pbb

in fiscal year 2015

Name, place of residence Function in the Supervisory Board	Principal activity Function in the Committees of the Supervisory Board	Mandates held in Supervisory Bodies under the Respective Law for Major Corporations
Joachim Plesser Ratingen, Germany Member	Consultant Chairman of the Risk Management and Liquidity Strategy Committee, Member of the Executive and Nomination Committee, of the Audit Committee and of the Remuneration Oversight Committee	Commerz Real Investmentgesellschaft mbH, Wiesbaden, Germany – Member of the Supervisory Board DIC Beteiligungs AG, Frankfurt am Main, Germany – Member of the Supervisory Board GEG German Estate Group AG, Frankfurt am Main, Germany – Member of the Supervisory Board Pandion AG, Cologne, Germany – Chairman of the Supervisory Board HRE Holding AG, Munich, Germany – Member of the Supervisory Board (until 20.7.2015)
Dr. Ludger Schuknecht Frankfurt am Main, Germany Member (until 20.7.2015)	Director General for economic and fiscal policy strategy; international economy and finance in the Bundesministerium der Finanzen	HRE Holding AG, Munich, Germany – Member of the Supervisory Board (until 20.7.2015)
Heike Theißing Munich, Germany Workers' Council Representative	Bank employee Member of the Remuneration Oversight Committee	–
Dr. Hedda von Wedel Andernach, Germany Member	Deputy Chairperson of Transparency International Deutschland e.V. Member of the Audit Committee as well as of the Risk Management and Liquidity Strategy Committee	HRE Holding AG, Munich, Germany – Member of the Supervisory Board (until 20.7.2015)
Dr. Jeromin Zettelmeyer Berlin, Germany Member (until 20.7.2015)	Head of the Economic Policy department in the Bundesministerium für Wirtschaft und Energie	HRE Holding AG, Munich, Germany – Member of the Supervisory Board (until 20.7.2015) DB Netz AG, Frankfurt am Main, Germany – Member of the Supervisory Board (until 17.6.2015)

Management Board of pbb

in fiscal 2015

Name and place of residence	Function in the Management Board	Mandates held in Supervisory Bodies under the Respective Law for Major Corporations
Andreas Arndt Munich, Germany	Co-CFO	–
Thomas Köntgen Frankfurt am Main, Germany	Co-CEO/Treasurer	–
Wolfgang Groth Tawern, Germany	Treasury/Asset Management (until 31.3.2015)	–
Andreas Schenk Dreieich, Germany	CRO	–
Dr. Bernhard Scholz Regensburg, Germany	Real Estate Finance/Public Investment Finance	–

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

81 Contingent Liabilities and Other Commitments

82 Leases

83 Key Regulatory Capital Ratios

84 Group Auditors' Fee

85 Relationship with Related Parties

86 Employees

87 Members of the Supervisory Board and of the Management Board

88 Holdings of pbb

89 Country-by-Country Reporting

Responsibility Statement

Auditor's Report

Additional Information

88 Holdings of pbb

Holdings of pbb as of 31 December 2015

Additional statement according to HGB

Name, place of business	Purpose of business	Interest in %			Differing voting rights in %	Currency	Equity in thousands	Net income/loss in thousands
		Total Sec 16 (4) Aktiengesetz	of which held indirectly					
Consolidated companies								
Hayabusa Godo Kaisha i.L. ¹⁾ Tokyo, Japan	in liquidation	100.00%	100.00%	-	JPY	-252,896	-9,050	
Hypo Real Estate Capital India Corp. Private Ltd. i.L. ¹⁾ Mumbai, India	in liquidation	100.00%	-	-	INR	19,099	447	
Hypo Real Estate Capital Japan Corp. ¹⁾ Tokyo, Japan	Credit intermediary	100.00%	-	-	JPY	30,486,256	-117,223	
Hypo Real Estate International LLC I ¹⁾ Wilmington, USA	Funding	100.00%	-	-	EUR	134,772	20,591	
Hypo Real Estate International Trust I ¹⁾ Wilmington, USA	Funding	100.00%	-	-	EUR	-59,450	54,250	
IMMO Immobilien Management GmbH & Co. KG Munich, Germany	Real estate company	100.00%	-	-	EUR	3,308	2,086	
IMMO Invest Real Estate GmbH ²⁾ Munich, Germany	Salvage acquisition	100.00%	-	-	EUR	6,848	-	
Ragnarök Vermögensverwaltung AG & Co. KG ³⁾ Munich, Germany	Real estate company	100.00%	-	-	EUR	3,285	2,126	
RPPSE Espacio Oviedo S.L.U. ¹⁾ Madrid, Spain	Salvage acquisition	100.00%	100.00%	-	EUR	-2,462	-13,609	
Non-consolidated companies due to minor significance								
GfI-Gesellschaft für Immobilienentwicklung und -verwaltung mbH i.L. Stuttgart, Germany	in liquidation	100.00%	-	-	EUR	10	-	
Immo Immobilien Management Beteiligungs-gesellschaft mbH Munich, Germany	Real estate company	100.00%	-	-	EUR	24	3	

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

81 Contingent Liabilities and Other Commitments

82 Leases

83 Key Regulatory Capital Ratios

84 Group Auditors' Fee

85 Relationship with Related Parties

86 Employees

87 Members of the Supervisory Board and of the Management Board

88 Holdings of pbb

89 Country-by-Country Reporting

Responsibility Statement

Auditor's Report

Additional Information

Holdings of pbb as of 31 December 2015

Additional statement according to HGB

Name, place of business	Purpose of business	Interest in %			Currency	Equity in thousands	Net income/loss in thousands
		Total Sec 16 (4) Aktiengesetz	of which held indirectly	Differing voting rights in %			
Associated companies due to minor significance not measured at equity							
SANO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dresden KG ¹⁾ Düsseldorf, Germany	Model of bank holding	33.33%	–	25.00%	EUR	–2,742	589
SOMA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Darmstadt KG ¹⁾ Düsseldorf, Germany	Model of bank holding	33.33%	–	25.00%	EUR	–11,701	143
WISUS Beteiligungs GmbH & Co. Zweite Vermietungs-KG ¹⁾⁴⁾ Munich, Germany	Model of bank holding	33.00%	–	24.44%	EUR	–1,602	357

¹⁾ Financial figures from the financial year 2014

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

³⁾ General partner liability (Komplementärhaftung) of pbb

⁴⁾ In accordance with section 264b HGB the annual financial statement was not published

Exchange rates

€1 corresponds to

31.12.2015

India	INR	72.0215
Japan	JPY	131.0700

89 Country-by-Country Reporting

The requirements of article 89 of EU Directive 2013/36/EU (Capital Requirements Directive CRD IV) concerning to so-called Country-by-Country Reporting were endorsed in German law by section 26a KWG (German Banking Act). In financial year 2015 no entity respectively no branch of pbb received public subsidies. On 31 December 2015, the ratio of net profit and total balance sheet of pbb Group was 0.3%. The further figures required by section 26a KWG are disclosed in the following table:

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Accounting Policies

Segment Reporting

Notes to the Consolidated Income Statement

Notes to the Consolidated Statement of Financial Position (Assets)

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

Notes to the Consolidated Statement of Cash Flows

Notes to the Financial Instruments

Other Notes

81 Contingent Liabilities and Other Commitments

82 Leases

83 Key Regulatory Capital Ratios

84 Group Auditors' Fee

85 Relationship with Related Parties

86 Employees

87 Members of the Supervisory Board and of the Management Board

88 Holdings of pbb

89 Country-by-Country Reporting

Responsibility Statement

Auditor's Report

Additional Information

Country-by-country reporting

(Additional statement according to section 26a KWG)

31 December 2015

Type of business

Name and place of business	Country	Number of employees ¹⁾	Turnover ²⁾³⁾ (in € million)	Income/loss before tax ³⁾ (in € million)	Income taxes ³⁾ (in € million)
Deposit taking credit institution					
Deutsche Pfandbriefbank AG, Munich	Germany	642	469	289	56
Branch of a deposit taking credit institution					
Deutsche Pfandbriefbank AG, London branch	UK	64	29	13	–
Deutsche Pfandbriefbank AG, Madrid branch	Spain	12	2	–1	–
Deutsche Pfandbriefbank AG, Paris branch	France	47	22	11	–11
Deutsche Pfandbriefbank AG, Stockholm branch	Sweden	8	11	9	–2
Financial corporation					
Hypo Real Estate Capital Japan Corp., Tokyo	Japan	13	–21	–26	–
Hypo Real Estate International LLC I, Wilmington	USA	–	9	9	–
Hypo Real Estate International Trust I, Wilmington	USA	–	–10	–10	–
Provider of ancillary services					
IMMO Invest Real Estate GmbH, Munich	Germany	–	–	–	–
Hayabusa Godo Kaisha i.L., Tokyo	Japan	–	38	38	–7
IMMO Immobilien Management GmbH & Co. KG, Munich	Germany	–	–	2	–
Ragnarök Vermögensverwaltung AG & Co. KG, Munich	Germany	–	–	2	–
Other corporations					
Hypo Real Estate Capital India Corp. Private Ltd. i.L., Mumbai	India	–	–	–	–
RPPSE Espacio Oviedo S.L.U., Madrid	Spain	–	–5	–5	–

¹⁾ Full-time equivalents not including apprentices, interns/working students and short-term employees with fixed terms <1 year

²⁾ Operating income as turnover equivalent

³⁾ Figures before consolidation

Munich, 1 March 2016

Deutsche Pfandbriefbank AG
The Management Board

Andreas Arndt

Thomas Köntgen

Andreas Schenk

Dr. Bernhard Scholz

- Overview
- Contents
- Letter of the Management Board
- Report of the Supervisory Board
- The pbb Share
- Group Management Report
- Consolidated Financial Statements
- Consolidated Income Statement
- Consolidated Statement of Comprehensive Income
- Consolidated Statement of Financial Position
- Consolidated Statement of Changes in Equity
- Consolidated Statement of Cash Flows
- Notes
- Responsibility Statement
- Auditor's Report
- Additional Information

Responsibility Statement

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

Munich, 1 March 2016

Deutsche Pfandbriefbank AG
The Management Board



Andreas Arndt



Thomas Köntgen



Andreas Schenk



Dr. Bernhard Scholz

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Responsibility Statement

Auditor's Report

Additional Information

Auditor's Report

We have audited the consolidated financial statements prepared by the Deutsche Pfandbriefbank AG, Munich, comprising consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes, together with the group management report for the business year from January 1, 2015 to December 31, 2015. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315 a Abs. 1 HGB (Handelsgesetzbuch «German Commercial Code») are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes

Responsibility Statement

Auditor's Report

Additional Information

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to §315 a Abs.1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, 2 March 2016

KPMG AG

Wirtschaftsprüfungsgesellschaft

[original German version signed by:]

Mock

Wirtschaftsprüfer

[German Public Auditor]

Haider

Wirtschaftsprüfer

[German Public Auditor]

Additional Information

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Additional Information

Summary of Quarterly and Annual Financial Data

Financial Calendar

Future-oriented Statements

Internet-Service

Imprint

Bicester Village Oxfordshire **GBP425 million**

Development Financing in a Consortium
United Kingdom
December 2015

A syndicate consisting of pbb, Santander, Crédit Agricole, Royal Bank of Scotland and Deutsche Hypothekenbank provided a GBP425 million loan facility to Value Retail to Bicester Village, one of the world's leading luxury shopping outlets. It is one outlet of 9 Villages developed and operated by Value Retail. Bicester Village is home to more than 130 boutiques of world famous brands.

In addition to Germany, the main business focus is on the UK, France, the Nordic countries and selected countries in Central and Eastern Europe. In these core markets, pbb offers its customers a strong local presence with expert knowledge across the whole spectrum of the financing process.

- Overview
- Contents
- Letter of the Management Board
- Report of the Supervisory Board
- The pbb Share
- Group Management Report
- Consolidated Financial Statements

Additional Information

Summary of Quarterly and Annual Financial Data

Financial Calendar

Future-oriented Statements

Internet-Service

Imprint

Summary of Quarterly and Annual Financial Data

pbb Group	2014				2015
	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter
in € million					
Operating performance					
Operating income	11	93	109	98	100
Net interest income	118	113	116	95	102
Net fee and commission income	1	7	2	3	2
Net trading income	-9	5	2	-	8
Net income from financial investments	-100	-20	-17	5	-
Net income from hedging relationships	2	-1	3	7	2
Net other operating income/expenses	-1	-11	3	-12	-14
Loan loss provisions	-20	4	1	3	-7
General and administrative expenses	-63	-48	-50	-52	-57
Net miscellaneous income/expenses	-1	2	1	4	-6
Profit or loss before tax	-73	51	61	53	30

Real Estate Finance	2014 ¹⁾				2015 ¹⁾
	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter
in € million					
Operating performance					
Operating income	66	92	114	69	83
Net interest income	72	75	83	68	82
Net fee and commission income	2	7	2	3	2
Net trading income	-4	2	1	4	7
Net income from financial investments	3	13	5	-	-
Net income from hedging relationships	-	-1	2	3	1
Net other operating income/expenses	-7	-4	21	-9	-9
Loan loss provisions	-12	10	1	3	-7
General and administrative expenses	-42	-37	-38	-41	-44
Net miscellaneous income/expenses	-2	2	1	3	-5
Profit or loss before tax	10	67	78	34	27

¹⁾ Adjusted in accordance with IFRS 8.29

Overview
Contents
Letter of the Management Board
Report of the Supervisory Board
The pbb Share
Group Management Report
Consolidated Financial Statements
Additional Information
Summary of Quarterly and Annual Financial Data
Financial Calendar
Future-oriented Statements
Internet-Service
Imprint

Public Investment Finance	2014 ¹⁾				2015 ¹⁾
	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter
in € million					
Operating performance					
Operating income	11	13	9	5	14
Net interest income	13	8	14	6	16
Net fee and commission income	–	–	–	–	–
Net trading income	–2	1	–	–1	–
Net income from financial investments	–	6	–	–	–1
Net income from hedging relationships	2	–	–	1	1
Net other operating income/expenses	–2	–2	–5	–1	–2
Loan loss provisions	–1	–	–	–	–
General and administrative expenses	–9	–6	–7	–7	–8
Net miscellaneous income/expenses	–	–	–	1	–1
Profit or loss before tax	1	7	2	–1	5

¹⁾ Adjusted in accordance with IFRS 8.29

Value Portfolio	2014 ¹⁾				2015 ¹⁾
	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter
in € million					
Operating performance					
Operating income	–71	–14	–14	22	1
Net interest income	29	28	19	19	2
Net fee and commission income	–1	–	–	–	–
Net trading income	–3	2	1	–3	1
Net income from financial investments	–103	–39	–22	5	1
Net income from hedging relationships	–	–	1	3	–
Net other operating income/expenses	7	–5	–13	–2	–3
Loan loss provisions	–7	–6	–	–	–
General and administrative expenses	–12	–5	–5	–4	–5
Net miscellaneous income/expenses	1	–	–	–	–
Profit or loss before tax	–89	–25	–19	18	–4

¹⁾ Adjusted in accordance with IFRS 8.29

Overview
Contents
Letter of the Management Board
Report of the Supervisory Board
The pbb Share
Group Management Report
Consolidated Financial Statements
Additional Information
Summary of Quarterly and Annual Financial Data
Financial Calendar
Future-oriented Statements
Internet-Service
Imprint

Consolidation & Adjustments	2014 ¹⁾				2015 ¹⁾
	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter
in € million					
Operating performance					
Operating income	5	2	–	2	2
Net interest income	4	2	–	2	2
Net fee and commission income	–	–	–	–	–
Net trading income	–	–	–	–	–
Net income from financial investments	–	–	–	–	–
Net income from hedging relationships	–	–	–	–	–
Net other operating income/expenses	1	–	–	–	–
Loan loss provisions	–	–	–	–	–
General and administrative expenses	–	–	–	–	–
Net miscellaneous income/expenses	–	–	–	–	–
Profit or loss before tax	5	2	–	2	2

¹⁾ Adjusted in accordance with IFRS 8.29

Summary of annual financial data					
in € million	2011	2012	2013	2014	2015
Operating performance					
Operating income	526	467	482	326	400
Net interest income	371	296	319	421	426
Net fee and commission income	32	23	9	1	14
Net trading income	–8	10	–51	–30	15
Net income from financial investments	3	13	96	–77	–32
Net income from hedging relationships	–56	–6	9	–3	11
Net other operating income/expenses	184	131	100	14	–34
Loan loss provisions	12	4	–8	–21	1
General and administrative expenses	–357	–341	–312	–251	–207
Net miscellaneous income/expenses	7	–6	3	–	1
Profit or loss before tax	188	124	165	54	195

[Overview](#)

[Contents](#)

[Letter of the Management Board](#)

[Report of the Supervisory Board](#)

[The pbb Share](#)

[Group Management Report](#)

[Consolidated Financial Statements](#)

[Additional Information](#)

[Summary of Quarterly and Annual Financial Data](#)

[Financial Calendar](#)

[Future-oriented Statements](#)

[Internet-Service](#)

[Imprint](#)

Financial Calendar

Financial calendar 2016

2 March 2016	Preliminary Annual Results 2015/Annual Press Briefing
18 March 2016	Annual Report 2015
12 May 2016	Result of the first quarter 2016
13 May 2016	Annual General Meeting
12 August 2016	Result of the second quarter 2016/Interim Report as of 30 June 2016
14 November 2016	Result of the third quarter 2016

Overview

Contents

Letter of the Management Board

Report of the Supervisory Board

The pbb Share

Group Management Report

Consolidated Financial Statements

Additional Information

Summary of Quarterly and Annual Financial Data

Financial Calendar

Future-oriented Statements

Internet-Service

Imprint

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.

Internet Service

Visit us at the World Wide Web:
www.pfandbriefbank.com

Go to «Investor Relations» and find information on external ratings of our Group companies, facts and figures. Our Annual and Interim Reports can be read online, downloaded on your computer or a print version can be ordered online.

Publisher

Deutsche Pfandbriefbank AG, Munich, Germany
(Copyright 2016)

Concept, Design and Realisation

KMS TEAM GmbH, www.kms-team.com

Deutsche Pfandbriefbank AG

Freisinger Straße 5
85716 Unterschleißheim

Germany

T +49 (0)89 2880-0

F +49 (0)89 2880-10319

info@pfandbriefbank.com

www.pfandbriefbank.com