Interim Report
as of 30 June 2016

Deutsche Pfandbriefbank Group

PUBLIC SECTOR FINANCE
REAL ESTATE FINANCE

DEUTSCHE
PFANDBRIEFBANK

Overview

Deutsche Pfandbriefbank Group (pbb Group)		1.1.–30.6. 2016	1.1.–30.6. 2015
Operating performance according to IFRS			
Profit or loss before tax	in € million	87	112
Net income/loss	in € million	66	88
Key ratios			
Earnings per share (basic and diluted)	in €	0.49	0.65
Cost-income ratio	in %	51.9	48.5
Return on equity before tax	in %	6.5	6.5[1]
Return on equity after tax	in %	4.9	5.1[1]
New business volume[2]	in € billion	4.7	6.0
Balance sheet figures according to IFRS		**30.6.2016**	**31.12.2015**
Total assets	in € billion	67.5	66.8
Financing volumes Real Estate Finance and Public Investment Finance	in € billion	31.3	31.3
Financial position equity (excluding revaluation reserve)	in € billion	2.6	2.7
Financial position equity	in € billion	2.7	2.7
Key regulatory capital ratios		**30.6.2016**	**31.12.2015[3]**
CET1 ratio	in %	19.1	18.9
CET1 ratio fully phased-in	in %	18.4	18.2
Own funds ratio	in %	23.2	23.4
Own funds ratio fully phased-in	in %	20.0	19.9
Leverage ratio[4]	in %	4.2	4.4
Leverage ratio fully phased-in[4]	in %	3.8	3.9
Staff		**30.6.2016**	**31.12.2015**
Employees[5]		765	785

[1] Excluding the silent partnership contribution, return on equity before tax woult amount to 9.1% and return on equity after tax would be 7.2%.
[2] Including prolongations with maturities of more than one year.
[3] After confirmation of the 2015 financial statements and appropriation of profits.
[4] Leverage ratio is defined as the ratio of Tier 1 capital and the relevant exposure in accordance with CRR.
[5] On full-time equivalent basis.

Senior unsecured ratings and ratings for Pfandbriefe of Deutsche Pfandbriefbank AG (pbb)[1]	30.6.2016			31.12.2015		
	Standard & Poor's	DBRS	Moody's	Standard & Poor's	DBRS	Moody's
Long-term rating	BBB	BBB	–	BBB	BBB	–
Outlook	Stable	Stable	–	Stable	Stable	–
Short-term rating	A–2	R–2 (high)	–	A–2	R–2 (high)	–
Public sector Pfandbriefe	–	–	Aa1	–	–	Aa1
Mortgage Pfandbriefe	–	–	Aa1	–	–	Aa1

[1] Ratings from mandated rating agencies.

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

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DEVELOPMENT IN EARNINGS

Deutsche Pfandbriefbank Group ("pbb Group")

During the period under review (1 January to 30 June 2016 – referred to as "6m2016" below), pbb Group generated €87 million in profit before tax. Whilst pre-tax profit was lower than the figure for the same period of the previous year (1 January to 30 June 2015 – "6m2015": €112 million), on a pro-rata basis it remained within the forecast made at the outset of 2016. That originally projected pre-tax profit for the full year 2016 to be slightly below the previous year's good result (1 January to 31 December 2015: €195 million), despite increasing pressure on net interest income. Whilst net interest income was significantly lower than the previous year's figure, general and administrative expenses were further reduced. Loan loss provisions also developed favourably: thanks to pbb Group's unchanged conservative risk policy, no new provisions needed to be recognised.

pbb Group		1.1.–30.6. 2016	1.1.–30.6. 2015	Change
Operating performance				
Operating income	in € million	181	202	–21
Net interest and commission income	in € million	198	238	–40
Net interest income	in € million	195	229	–34
Net fee and commission income	in € million	3	9	–6
Net trading income	in € million	–7	7	–14
Net income from financial investments	in € million	5	–37	42
Net income from hedging relationships	in € million	–	2	–2
Net other operating income/expenses	in € million	–15	–8	–7
Loan loss provisions	in € million	–	5	–5
General and administrative expenses	in € million	–94	–98	4
Net miscellaneous income/expenses	in € million	–	3	–3
Profit or loss before tax	in € million	87	112	–25
Income taxes	in € million	–21	–24	3
Net income/loss	in € million	66	88	–22
Key ratios				
Earnings per share	in €	0.49	0.65	
Cost-income ratio[1]	in %	51.9	48.5	
Return on equity before tax[2]	in %	6.5	6.5	
Return on equity after tax[3]	in %	4.9	5.1	

[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.

Operating Income Net interest income of €195 million for the first six months of 2016 was virtually unchanged compared with the second half of 2015 (€197 million), yet fell short of the figure for the reference period for the half-yearly report (6m2015: €229 million). The decline was mainly attributable to the reduction in pbb Group's non-strategic portfolios (due to maturities and sales, primarily of financial investments), and to lower non-recurring effects. In contrast, current net interest income from the strategic portfolios was only slightly lower. In this context, pbb Group benefited from higher average volumes of the REF and PIF portfolios during the first half of 2016 (compared to the first half of 2015), as new business disbursed exceeded repayments. The higher volume of strategic financings almost fully offset the impact of the lower average margin on existing exposures. Average margins decreased slightly, due to the fact that the majority of repayments were higher-margin business. Yet the average margin of the overall portfolio (comprising strategic as well as non-strategic portfolios) remained stable, reflecting the decreasing share of the non-strategic, low-margin Value Portfolio. Moreover, income declined as a result of generally lower interest rate levels, growing competitive pressure and the proliferation of negative interest rates throughout the euro area. Furthermore, non-recurring effects had a lower impact on net interest income: for instance, net interest income during the first half of the previous year benefited from €15 million in income realised upon the disposal of a promissory note loan.

Net fee and commission income from non-accruable fees declined to €3 million (6m2015: €9 million). The figure for the same period in the previous year included €5 million in commission income generated in connection with a financing arrangement which was repaid in full.

Negative net trading income of €–7 million (6m2015: €7 million) reflected effects from the measurement of derivatives – primarily due to bilateral Credit Value Adjustments of €–8 million (6m2015: €2 million), which reflects the credit risk of pbb and the counterparties to derivative contracts through a fair-value adjustment on derivative financial instruments. Credit spreads for derivatives counterparties rose as a general trend during the first half of 2016, an effect that was exacerbated from 24 June 2016 onwards, caused by the UK's decision to leave the European Union. Valuations deteriorated further as a consequence of the so-called 'Brexit'. Net trading income was burdened additionally by the so-called 'pull-to-par' effect (€–7 million; 6m2015: €–8 million), according to which the present value of derivatives approaches zero towards maturity. In contrast, measurement effects of interest rate and currency derivatives had a positive effect of €8 million (6m2015: €13 million).

Sales of securities held as liquidity reserves in particular generated €5 million in net income from financial investments (6m2015: €–37 million). The previous year's figure was materially influenced by additional valuation adjustments of €73 million on securities issued by Heta Asset Resolution AG ("Heta"), by €55 million in income from the sale of a security, and by €16 million in net expenses from further sales of AfS and LaR securities.

Net income from hedging relationships was flat (6m2015: €2 million). The figure for the previous year was exclusively due to ineffective portions from micro fair value hedge relationships within the range permitted under IAS 39 (80% to 125%).

Net other operating income/expenses (€–15 million; 6m2015: €–8 million) was predominantly burdened by the bank levy, with a total amount payable of €24 million. Given that pbb is able to pledge collateral amounting to 15% of the bank levy, it was only expenses of €21 million that needed to be recognised in income. In the first half of 2015, provisions of €25 million were recognised in income, based on the estimates at the time and without taking collateral into consideration. Additional expenses of €5 million were recognised for writing off a salvage acquisition in Spain. Following the conclusion of a tax audit, pbb received a reimbursement of pre-paid value-added tax in the amount of €11 million. Rental income of €2 million (6m2015: €6 million) was generated from foreclosed properties; currency translation effects amounted to €1 million (6m2015: €4 million). In the same period of the previous year, pre-tax income from the disposal of a property in Japan resulted in positive effects of €39 million.

Loan Loss Provisions Loan loss provisions were flat (6m2015: net additions of €5 million). Specific provisions of €1 million net were recognised during the first half of 2016 (6m2015: €7 million). Net additions and reversals of portfolio-based allowances (€1 million each) offset each other (6m2015: net reversals of €10 million). €1 million in income (6m2015: €1 million) was recognised from the reversal of provisions for contingent liabilities and other obligations. €1 million in receipts on loans and advances previously written off was recognised in income during the same period of the previous year.

General and Administrative Expenses pbb Group reduced general and administrative expenses to €94 million (6m2015: €98 million). Non-personnel expenses of €43 million were up slightly on the previous year (6m2015: €42 million). They include expenses for a bank-wide project for the implementation of new regulatory requirements, and to enhance efficiency (also encompassing the process to prepare the financial statements). In contrast, personnel expenses were reduced from €56 million in the first half of 2015 to €51 million in the period under review. Factors contributing to this reduction included the lower average staffing levels (809; 6m2015: 839) and disbursements during the reporting period for which provisions were recognised in previous periods.

Net Miscellaneous Income/Expenses This item was balanced in the first half of 2016 (6m2015: €3 million). Income for the same period of the previous year was attributable to a net reversal of restructuring provisions.

Income Taxes Expenses for current taxes of €12 million (6m2015: €12 million) and expenses for deferred taxes of €9 million (6m2015: €12 million) resulted in a total tax expense of €21 million (6m2015: €24 million).

Operating Segments

Real Estate Finance (REF)

The REF operating segment comprises all strategic real estate financing arrangements. New business origination was reduced during the second quarter of 2016, given the changed risk profile of potential transactions, as pbb Group concentrated upon maintaining its conservative risk strategy. Accordingly, the volume of new business (including extensions with maturities of more than one year) totalled €4.5 billion during the period under review, compared with €5.2 billion during the period of the previous year. Excluding extensions with maturities of more than one year, new business amounted to €3.8 billion (6m2015: €3.6 billion).

Real Estate Finance		1.1.–30.6. 2016	1.1.–30.6. 2015	Change
Operating performance				
Operating income	in € million	142	206	–64
Net interest and commission income	in € million	155	167	–12
Net interest income	in € million	152	158	–6
Net fee and commission income	in € million	3	9	–6
Net trading income	in € million	–7	3	–10
Net income from financial investments	in € million	3	18	–15
Net income from hedging relationships	in € million	–	1	–1
Net other operating income/expenses	in € million	–9	17	–26
Loan loss provisions	in € million	–	11	–11
General and administrative expenses	in € million	–73	–75	2
Net miscellaneous income/expenses	in € million	–	3	–3
Profit or loss before tax	in € million	69	145	–76
Key ratio				
Cost-income ratio	in %	51.4	36.4	
Balance-sheet-related measures		**30.6.2016**	**31.12.2015**	
Financing volumes [1]	in € billion	24.0	24.0	
Exposure at Default [2]	in € billion	26.0	25.8	
Risk-weighted assets [3]	in € billion	6.3	6.5	
Equity [4]	in € billion	0.5	0.6	

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

Operating Income At €152 million, net interest income was slightly lower than the figure for the same period of the previous year (6m2015: €158 million), reflecting repayments of high-margin financings. These led to a lower portfolio margin, which was partially offset by higher average portfolio volume of €24.0 billion (6m2015: €23.0 billion). Lower income not directly allocated to the segment also contributed to the decline in net interest income. Net fee and commission income from non-accruable fees amounted to €3 million (6m2015: €9 million). The figure for the same period in the previous year included €5 million in commission income generated in connection with a financing arrangement which was repaid in full. Net income from financial investments of €3 million (6m2015: €18 million) was due, in particular, to allocated proceeds from sales of securities held as liquidity reserves. Net other operating income/expenses in the amount of €–9 million (6m2015: €17 million) was primarily burdened by the allocated bank levy. The net figure for the same period of the previous year included income from the disposal of a property in Japan.

Loan Loss Provisions Loan loss provisions were flat (6m2015: net additions of €11 million). Net additions in the amount of €1 million (6m2015: €1 million) were recognised in specific allowances, resulting from a small number of individual exposures. Net additions and reversals of portfolio-based allowances offset each other (6m2015: net reversals of €10 million). €1 million in income (6m2015: €1 million) was recognised from the reversal of provisions for contingent liabilities and other obligations. €1 million in receipts on loans and advances previously written off was recognised in income in the same period of the previous year.

General and Administrative Expenses General and administrative expenses were reduced to €73 million (6m2015: €75 million), due – amongst other factors – to lower average staffing levels.

Public Investment Finance (PIF)

The PIF business segment comprises financings of public infrastructure projects which are eligible for inclusion in Pfandbrief cover. Given the opportunities and risks inherent in the profile of potential transactions, new business origination was scaled down during the period under review, reducing new business volumes to €0.2 billion (6m2015: €0.8 billion). Whilst there was good potential overall for new transactions, the Bank refrained from new business, for economic reasons.

Public Investment Finance		1.1.–30.6. 2016	1.1.–30.6. 2015	Change
Operating performance				
Operating income	in € million	18	22	–4
Net interest and commission income	in € million	18	22	–4
Net interest income	in € million	18	22	–4
Net fee and commission income	in € million	–	–	–
Net trading income	in € million	–	1	–1
Net income from financial investments	in € million	1	6	–5
Net income from hedging relationships	in € million	–	–	–
Net other operating income/expenses	in € million	–1	–7	6
Loan loss provisions	in € million	–	–	–
General and administrative expenses	in € million	–13	–13	–
Net miscellaneous income/expenses	in € million	–	–	–
Profit or loss before tax	in € million	5	9	–4
Key ratio				
Cost-income ratio	in %	72.2	59.1	
Balance-sheet-related measures		**30.6.2016**	**31.12.2015**	
Financing volumes [1]	in € billion	7.3	7.3	
Exposure at Default [2]	in € billion	8.3	8.3	
Risk-weighted assets [3]	in € billion	1.4	1.4	
Equity [4]	in € billion	0.3	0.2	

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

Operating Income At €18 million, net interest income was below the figure for the corresponding period of the previous year (6m2015: €22 million). Whilst net interest income original generated by the segment was up slightly, lower allocated Treasury income in particular contributed to the decline in the net figure. Net income from financial investments in the amount of €1 million (6m2015: €6 million) benefited from allocated income from security disposals. Net other operating income/expenses in the amount of €–1 million (6m2015: €–7 million) was burdened, inter alia, by the allocated bank levy.

Loan Loss Provisions No net additions or reversals were necessary in the first half of 2016, as was the case in the first six months of 2015.

General and Administrative Expenses General and administrative expenses of €13 million were in line with the previous year's level (6m2015: €13 million).

Value Portfolio (VP)

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

Value Portfolio		1.1.–30.6. 2016	1.1.–30.6. 2015	Change
Operating performance				
Operating income	in € million	19	–28	47
Net interest and commission income	in € million	22	47	–25
Net interest income	in € million	22	47	–25
Net fee and commission income	in € million	–	–	–
Net trading income	in € million	–	3	–3
Net income from financial investments	in € million	1	–61	62
Net income from hedging relationships	in € million	–	1	–1
Net other operating income/expenses	in € million	–4	–18	14
Loan loss provisions	in € million	–	–6	6
General and administrative expenses	in € million	–8	–10	2
Net miscellaneous income/expenses	in € million	–	–	–
Profit or loss before tax	in € million	11	–44	55
Key ratio				
Cost-income ratio	in %	42.1	>100.0	
Balance-sheet-related measures		**30.6.2016**	**31.12.2015**	
Financing volumes [1]	in € billion	17.4	18.7	
Exposure at Default [2]	in € billion	21.5	21.7	
Risk-weighted assets [3]	in € billion	4.3	4.4	
Equity [4]	in € billion	1.5	1.5	

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

Operating Income Net interest income of €22 million was lower than the previous year's figure (6m2015: €47 million). The planned reduction in the non-strategic portfolio was a contributing factor; furthermore, the figure for the same period of the previous year benefited from the sale of a promissory note loan. Due to security disposals net income from financial investments stood at €1 million in the first half of 2016 (6m2015: €–61 million); the figure for the previous year's period was burdened by the value adjustment of the Heta exposure and losses incurred in connection with the disposal of non-strategic securities. Net other operating income/expenses amounted to €–4 million (6m2015: €–18 million), with the allocated bank levy as major driver.

Loan Loss Provisions Loan loss provisions were flat (6m2015: net reversals of €6 million), with no material effects during the period under review. The figure for the previous year's period reflected a value adjustment on a Heta promissory note loan.

General and Administrative Expenses General and administrative expenses of €8 million were lower than the previous year's level (6m2015: €10 million), inter alia due to the low average staffing levels.

Consolidation & Adjustments (C&A)

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		1.1.–30.6. 2016	1.1.–30.6. 2015	Change
Operating performance				
Operating income	in € million	2	2	–
Net interest and commission income	in € million	3	2	1
Net interest income	in € million	3	2	1
Net fee and commission income	in € million	–	–	–
Net trading income	in € million	–	–	–
Net income from financial investments	in € million	–	–	–
Net income from hedging relationships	in € million	–	–	–
Net other operating income/expenses	in € million	–1	–	–1
Loan loss provisions	in € million	–	–	–
General and administrative expenses	in € million	–	–	–
Net miscellaneous income/expenses	in € million	–	–	–
Profit or loss before tax	in € million	2	2	–
Balance-sheet-related measures		**30.6.2016**	**31.12.2015**	
Risk-weighted assets [1]	in € billion	5.6	5.6	
Equity [2]	in € billion	1.0	1.1	
Exposure at Default [3]	in € billion	0.3	0.4	

[1] For details see Risk and Opportunity Report.
[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.

Net interest income arose from the investment of equity allocated to C&A.

DEVELOPMENT IN ASSETS

Assets

in € million	30.6.2016	31.12.2015	Change
Cash reserve	1,139	1,265	−126
Trading assets	1,872	1,600	272
Loans and advances to other banks	3,700	2,742	958
Loans and advances to customers	41,723	41,204	519
Allowances for losses on loans and advances	−129	−127	−2
Valuation adjustment from portfolio hedge accounting	6	1	5
Financial investments	13,911	14,927	−1,016
Property and equipment	9	10	−1
Intangible assets	21	21	–
Other assets	5,087	5,013	74
Income tax assets	153	105	48
Current tax assets	53	21	32
Deferred tax assets	100	84	16
Total assets	**67,492**	**66,761**	731

Total assets as at 30 June 2016 increased from the level as at 31 December 2015, mainly due to market-induced effects from the lower interest rate environment. Excluding these, total assets would have been slightly lower.

New business (including extensions beyond one year) originated during the first six months of 2016 totalled €4.7 billion (6m2015: €6.0 billion). As at the reporting date of 30 June 2016, the nominal volumes of strategic real estate financings (€24.0 billion) and of public investment financings (€7.3 billion) were unchanged compared to 31 December 2015. The non-strategic Value Portfolio declined to €17.4 billion during the first half of 2016 (31 December 2015: €18.7 billion), in line with planning.

DEVELOPMENT IN FINANCIAL POSITION

Equity and liabilities

in € million	30.6.2016	31.12.2015	Change
Liabilities to other banks	2,553	2,514	39
Liabilities to customers	10,952	10,824	128
Securitised liabilities	43,095	42,648	447
Valuation adjustment from portfolio hedge accounting	2	1	1
Trading liabilities	1,587	1,643	–56
Provisions	235	229	6
Other liabilities	5,414	4,918	496
Income tax liabilities	66	113	–47
Current tax liabilities	66	113	–47
Deferred tax liabilities	–	–	–
Subordinated capital	901	1,125	–224
Financial liabilities	**64,805**	**64,015**	790
Financial equity	**2,687**	**2,746**	–59
Total equity and liabilities	**67,492**	**66,761**	731

Liabilities As with assets, the increase in liabilities was largely attributable to market-induced effects.

Without these market-induced effects, liabilities would have been slightly lower. Specifically, subordinated capital declined due to maturities of subordinated liabilities. Provisions rose due to an increase in provisions for pensions, triggered by the application of a lower discount rate. The increase was partly offset by the utilisation of other provisions.

Funding During the first half of the year, new long-term funding was raised in the amount of €3.5 billion (6m2015: €2.2 billion), whilst repurchases and terminations totalled €0.8 billion (6m2015: €0.9 billion). At €1.7 billion, just under half of long-term funding was issued in senior unsecured form (6m2015: €1.5 billion), while three benchmark Pfandbrief issues contributed €1.8 billion (6m2015: €0.7 billion) to the funding volume. Unsecured issues comprised two benchmark issues totalling €1.0 billion, plus an increase to an existing benchmark issue by €0.1 billion (6m2015: €0.7 billion). The remaining funding volume was raised via private placements, particularly in the form of promissory note loans. Most issues were placed as fixed-rate bonds. Unhedged interest rate exposures are usually hedged by swapping fixed against floating interest rates. Funding activities have closely matched new lending exposures, in terms of currency, product, tenor and volume. In addition to capital markets funding, pbb Group has been extending its unsecured funding base through overnight and term deposits from retail investors. As at 30 June 2016, the volume of deposits taken via “pbb direkt” totalled €3.4 billion (31 December 2015: €2.6 billion).

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

Maturity structure of financial position

in € million	30.6.2016 Assets	30.6.2016 Equity and liabilities	31.12.2015 Assets	31.12.2015 Equity and liabilities
Total	**67,492**	**67,492**	**66,761**	**66,761**
Up to 3 months	7,087	6,406	6,490	6,247
More than 3 months to 1 year	5,151	7,761	4,344	6,995
More than 1 year to 5 years	21,071	20,933	22,224	24,024
More than 5 years	27,164	22,401	27,080	19,845
Other assets [1]/equity and liabilities [2]	7,019	9,991	6,623	9,650

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

Financial Position Equity The equity attributable to equity holders changed as follows:

Financial position equity in accordance with IFRS

in € million	30.6.2016	31.12.2015	Change
Equity attributable to equity holders	**2,687**	**2,746**	−59
Subscribed capital	380	380	–
Additional paid-in capital	1,637	1,637	–
Retained earnings	655	483	172
Profits/losses on pension commitments	−95	−71	−24
Foreign currency reserve	5	4	1
Revaluation reserve	39	83	−44
AfS reserve	−22	−4	−18
Cash flow hedge reserve	61	87	−26
Consolidated profit 1.1.–30.6./31.12.	66	230	−164
Total financial position equity	**2,687**	**2,746**	−59

The change in profit/loss on pension commitments decreased equity by €24 million, since the discount rate applied to measure defined benefit pension obligations declined from 2.25% as at 31 December 2015 to 1.50% as at 30 June 2016, reflecting movements in market interest rates. The decline in the AfS reserve largely reflected changes in the spreads for sovereign bonds issued by Southern European states. The cash flow hedge reserve decreased due to the decline in underlying transactions. Equity was reduced by a total of €59 million; disbursement of dividends in the amount of €0.43 per share in May 2016 accounted for €58 million thereof. There were no other material changes.

Key Regulatory Capital Ratios The CET1 ratio amounted to 19.1% as at 30 June 2016 (31 December 2015: 18.9%), the own funds ratio amounted to 23.2% (31 December 2015: 23.4%). Fully phased-in, therefore after expiry of all Basel III transitional regulations, CET1 ratio amounted to 18.4% (31 December 2015: 18.2%) and own funds ratio to 20.0% (31 December 2015: 19.9%).

Liquidity Ratio pbb calculates its liquidity indicator on a single-entity level, in accordance with the German Liquidity Ordinance. At the reporting date, it stood at 3.2 (31 December 2015: 2.9) and thus clearly exceeded the statutory minimum threshold of 1.0.

Since 1 October 2015, a minimum Liquidity Coverage Ratio (LCR) of (currently) 70% must be complied with in the regulatory liquidity reports. This minimum value will rise to 100% by 1 January 2018. The LCR determined (internally) for pbb Group as at 30 June 2016 was clearly above 100%.

Ratings The following table shows the senior unsecured ratings and ratings for Pfandbriefe, mandated by pbb as at the reporting date:

Senior unsecured ratings and ratings for Pfandbriefe of pbb

	30.6.2016			31.12.2015		
	Standard & Poor's	DBRS	Moody's	Standard & Poor's	DBRS	Moody's
Long-term rating	BBB	BBB	–	BBB	BBB	–
Outlook	Stable	Stable	–	Stable	Stable	–
Short-term rating	A–2	R–2 (high)	–	A–2	R–2 (high)	–
Public sector Pfandbriefe	–	–	Aa1	–	–	Aa1
Mortgage Pfandbriefe	–	–	Aa1	–	–	Aa1

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.

Senior unsecured bank ratings, as well as Pfandbrief ratings and assigned rating outlooks, remained unchanged during the first half of 2016.

Ongoing changes to the regulatory and economic environment, as well as any distortions (particularly those related to the United Kingdom's exit from the European Union) may lead to general pressure on ratings during the course of the year. Furthermore, there are indications that Standard & Poor's will make further adjustments to its rating methodology for banks; if such adjustments are implemented, they may have a negative effect upon ratings.

The impact of potential rating changes on pbb's developments in assets, financial position and earnings were outlined in the Report on Expected Developments in the 2015 Annual Report.

REAPPOINEMENT OF BOARD MEMBERS

On 11 May 2016, the Supervisory Board re-appointed Andreas Arndt and Thomas Köntgen as Management Board members, each for a term of five years. Dr Bernhard Scholz will retire from the Management Board, upon his own request, when his contract expires in April 2017.

At the same time, the distribution of Management Board responsibilities was adjusted. Thomas Köntgen, who has many years of experience in real estate finance, will take over responsibility for the front office in this field from Dr Bernhard Scholz. Thomas Köntgen will retain responsibility for the Treasury division for the time being. The Supervisory Board has already initiated the search for a Management Board member responsible for the Treasury.

Dr Bernhard Scholz will focus on Public Investment Finance sales, the expansion of syndications and placements, the establishment of the Group's business in the United States, as well as further strategic initiatives in the lending business.

Andreas Arndt will largely be responsible for the so-called central functions; he will retain his role as CFO. The Supervisory Board also appointed Andreas Arndt as Chief Executive Officer (CEO), and Thomas Köntgen as Deputy CEO.

MATERIAL RELATED PARTY TRANSACTIONS

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

Report on Post-balance Sheet Date Events

There were no significant events after 30 June 2016.

Risk and Opportunity Report

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

This report only includes a general description of the Company's risk management organisation, or a description of definitions, methods, management and measurement of particular types of risk, to the extent that there were changes during the period under review in comparison to the Risk and Opportunity Report provided in the 2015 Annual Report. For more details, please refer to the disclosures in the Risk and Opportunity Report in the 2015 Annual Report.

ORGANISATION AND PRINCIPLES OF RISK AND CAPITAL MANAGEMENT

pbb Group has 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).

ORGANISATION AND COMMITTEES

The Management Board of pbb is responsible for the risk management system at pbb Group, and decides on the strategies and material issues of risk management and risk organisation.

The principles, methods and processes of pbb Group's risk management system are specified centrally by pbb's Risk Management and Controlling, and are applied throughout pbb Group, subject to any special requirements at single-entity level. The risk management system comprises the plausible and systematic identification, analysis, valuation, management, documentation, monitoring and communication of all major risks.

Risk Strategy and Policies

Together with pbb's business strategy, the risk strategy forms the foundation for pbb Group's further planning. The risk strategy has been defined on the basis of the Group-wide risk tolerance; it reflects pbb Group's strategic direction as a specialist for real estate finance and public investment finance with a focus on Pfandbrief funding. Subject to any special requirements at single-entity level, the risk strategy is applicable for pbb Group's operating segments and legal entities. It is reviewed at least annually, and updated if applicable.

The risk strategy was last revised during the course of the annual strategy process in February 2016, and adopted by the Management Board on 23 February 2016. The risk strategy was presented to the Risk Management and Liquidity Strategy Committee of pbb's Supervisory Board for acknowledgement, and approved by the plenary meeting of the Supervisory Board on 26 February 2016.

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

RISK TYPES

pbb Group distinguishes the following major risk types for its business activities:
- > Credit risk (counterparty risk)
- > Market risk
- > Liquidity risk
- > Property risk
- > Pension risik
- > Business risk (partial consideration within the scope of the risk-bearing capacity analysis)
- > Operational risk (including legal 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 and
- > Regulatory risks

CREDIT RISK (COUNTERPARTY RISK)

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

Credit Portfolio Model The quantification of the the economic credit risk capital is described in the section Result of Risk-bearing Capacity Analysis in the Report on Risks and Opportunities of the Annual Report 2015.

Stresstests The stress tests for economic capital in credit risk are described in the Report on Risks and Opportunities of the Annual Report 2015.

In addition to the stress tests regarding economic capital, there are also RWA reverse stress tests. These investigate the extent to which a certain risk parameter (such as rating, loss-given default (LGD), currency) may change before a minimum Common Equity Tier 1 (CET1) ratio is no longer met. The minimum common equity tier 1 (CET1) ratio is deducted from the Bank's individual SREP CET1 ratio. For all tested risk parameters, tolerance change levels apply. These levels must not be violated if the tests of pbb Group are to be successfully completed.

Credit Risk Quantification according to CRR The Basel III Framework Agreement of the Basel Committee was implemented on a European level by means of the EU Capital Requirements Regulation (CRR). pbb Group applies the so-called Advanced Internal Rating-Based Approach (Advanced IRBA) for determing the regulatory capital backing.

Credit Portfolio
The entire credit portfolio of pbb Group is calculated by using the Exposure at Default (EaD). The values and tables below may be subject to rounding differences with regard to the overall portfolio or individual segments.

The Group's credit portfolio had an aggregate EaD of €61.6 billion as at 30 June 2016 (31 December 2015: €61.6 billion). This figure includes assets not regarded upon as core exposure of pbb Group, with an EaD of €0.2 billion (31 December 2015: €0.2 billion), which were selected for transfer to FMS Wertmanagement but where the legal (physical) transfer has not yet been possible. The credit risk of these assets was transferred in 2010, by means of guarantees provided by FMS Wertmanagement. As a result, pbb Group's ultimate exposure from these positions is a counterparty credit risk exposure vis-à-vis FMS Wertmanagement – and hence, indirectly against the Federal Republic of Germany.

To adequately reflect pbb Group's actual economic risk exposure, the following overviews of portfolio development and structure do not include these positions guaranteed by FMS Wertmanagement. The EaD for pbb Group's aggregate exposure totalled €61.4 billion as at 30 June 2016 (31 December 2015: €61.4 billion).

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

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

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

As at 30 June 2016, 60% (31 December 2015: 71%) of EaD in Consolidation & Adjustments was attributed to rating classes AAA to AA–, and 14% (31 December 2015: 13%) in rating classes A+ to A–. 26% (31 December 2015: 16%) of EaD was in rating classes BBB+ to BBB–. The portion of EaD in rating classes BB+ and below was smaller than 1% as at 30 June 2016 (31 December 2015: 1%). Internal rating classes were mapped to external rating classes for the purpose of determining the breakdown of EaD by rating class.

Total portfolio: EaD according to operating segments

in € billion	30.6.2016	31.12.2015	Change in € billion	Change in %
Real Estate Finance	26.0	25.8	0.2	0.8
Public Investment Finance	8.3	8.3	–	–
Value Portfolio	21.5	21.7	−0.2	−0.9
Consolidation & Adjustments	5.6	5.6	–	–
Total	**61.4**	**61.4**	–	–

The EaD of pbb Group remained stable at €61.4 billion with an increase in the strategic REF segment in the amount of €0.2 billion and a decrease in the non-stretegic segment VP in the amount of €0.2 billion. Overall, PIF as well as C&A remained unchanged.

Risk Parameters Expected Loss Expected Loss (EL) for the pbb Group amounted to €68 million as at 30 June 2016 (31 December 2015: €73 million). The EL decline was primarily attributable to repayments of loans previously flagged as defaulted, and the update of LGD model parameters (as part of the annual validation) for domestic real estate lending.

Total exposure: expected loss according to operating segments

in € million	30.6.2016	31.12.2015	Change in € million	Change in %
Real Estate Finance	46	51	−5	−9.8
Public Investment Finance	2	2	–	–
Value Portfolio	20	20	–	–
Consolidation & Adjustments	1	–	1	100.0
Total	**68**	**73**	−5	−6.8

As a general rule, future changes in economic data (for example) may lead to changes to the above-mentioned EL figures. Realised losses can differ from expected losses, too.

Regional Breakdown of the Portfolio The main focus of pbb Group's exposure at the reporting date was unchanged, being Western Europe. The slight decrease in the German exposure was largely due to the maturity of bonds and borrowers' note loans. In Austria and the Netherands (the latter belonging to the category Other Europe) new Real Estate Finance business let to an exposure increase. The decrease in United Kingdom amongst others was attributable to maturities and repayments in the REF segment as well as to exchange rate fluctuations.

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 the Netherlands (30 June 2016: €0.7 billion) as well as Switzerland and Belgium and with €0.4 billion each (31 December 2015: Switzerland and Belgium €0.4 billion each and the Netherlands €0.3 billion).

Total portfolio: EaD according to regions

			Change	
in € billion	30.6.2016	31.12.2015	in € billion	in %
Germany	25.1	25.4	−0.3	−1.2
France	7.3	7.1	0.2	2.8
Austria	7.3	6.9	0.4	5.8
United Kingdom	4.9	5.1	−0.2	−3.9
Spain	4.1	4.2	−0.1	−2.4
Other[1]	2.4	2.4	–	–
Italy	2.3	2.3	–	–
Other Europe[2]	2.1	1.8	0.3	16.7
Poland	1.6	1.6	–	–
Sweden	1.3	1.5	−0.2	−13.3
Portugal	1.3	1.4	−0.1	−7.1
Czech Republic	0.6	0.7	−0.1	−14.3
Hungary	0.6	0.6	–	–
Finland	0.4	0.5	−0.1	−20.0
Total	**61.4**	**61.4**	–	–

[1] Category Other comprises among others supranational Organisations, Japan and the United States.
[2] Category Other Europe comprises among others Switzerland, Belgium, the Netherlands, Slovenia, Denmark, Luxembourg and Romania.

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

Real Estate Finance: €26.0 billion EaD

Portfolio Development and Structure The REF segment comprises real estate loans and related customer derivatives. EaD in the Real Estate Finance was up by €0.2 billion, to €26.0 billion, as at 30 June 2016 in comparison to 31 December 2015.

Customer derivatives in the portfolio accounted for an EaD of €0.5 billion as at 30 June 2016 (31 December 2015: €0.4 billion).

The exposure increase in the Real Estate Finance segment was due to new business in Germany, France, Poland, the Netherlands (category Other Europe) and Austria. The decrease in United Kingdom can be explained amongst others by repayments – before maturity as well as at maturity – and exchange rate fluctuations.

Real Estate Finance: EaD according to regions

			Change	
in € billion	**30.6.2016[1)]**	**31.12.2015[2)]**	in € billion	in %
Germany	12.4	12.2	0.2	1.6
United Kingdom	4.7	5.0	−0.3	−6.0
France	3.3	3.2	0.1	3.1
Poland	1.4	1.3	0.1	7.7
Sweden	1.3	1.4	−0.1	−7.1
Other Europe[3)]	1.1	0.8	0.3	37.5
Czech Republic	0.6	0.6	–	–
Austria	0.5	0.3	0.2	66.7
Hungary	0.3	0.4	−0.1	−25.0
Spain	0.2	0.3	−0.1	−33.3
Finland	0.2	0.3	−0.1	−33.3
Portugal	<0.1	<0.1	–	–
Italy	<0.1	<0.1	–	–
Total	**26.0**	**25.8**	0.2	0.8

[1)] Breakdown including customer derivatives of approximately €0.5 billion.
[2)] Breakdown including customer derivatives of approximately €0.4 billion.
[3)] Category Other Europe comprises among others Switzerland, the Netherlands and Luxembourg.

The relative breakdown of the portfolio by property type as at 30 June 2016 changed only slightly compared to year-end 2015. The decrease in Retail is mainly due to repaid loans at maturity, the increase in the category Other mainly to new business in Germany and France.

Real Estate Finance: EaD according to property type

in € billion	30.6.2016	31.12.2015	Change in € billion	Change in %
Office buildings	8.6	8.5	0.1	1.2
Retail	6.8	7.5	−0.7	−9.3
Housing construction	4.0	4.1	−0.1	−2.4
Logistics/storage	2.9	2.7	0.2	7.4
Other	1.4	0.9	0.5	55.6
Mixed use	1.1	1.1	–	–
Hotel/leisure	1.1	1.0	0.1	10.0
Total	**26.0**	**25.8**	0.2	0.8

At 30 June 2016, investment financings continued to dominate the portfolio (88%; 31 December 2015: 90%); development financings accounted for 10% of EaD (31 December 2015: 7%). The increase in comparison to year-end 2015 is due to a higher new business volume of development financings. Investment financings are defined as real estate loans, the debt servicing ability of which largely depends upon current cash flows from the property, i.e. rental income.

Real Estate Finance: EaD according to loan type

in € billion	30.6.2016	31.12.2015	Change in € billion	Change in %
Investment financing	23.0	23.3	−0.3	−1.3
Development financing	2.5	1.9	0.6	31.6
Customer derivatives	0.5	0.4	0.1	25.0
Other	<0.1	0.2	−0.2	−100.0
Total	**26.0**	**25.8**	0.2	0.8

Public Investment Finance: €8.3 billion EaD

Portfolio Development and Structure The portfolio comprises the following financings:

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

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

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

The EaD in the segment PIF remained stable in comparison to the end of the previous year.

Public Investment Finance: EaD according to regions

in € billion	30.6.2016	31.12.2015	Change in € billion	Change in %
France	3.0	2.9	0.1	3.4
Germany	2.7	2.8	−0.1	−3.6
Spain	1.6	1.7	−0.1	−5.9
Other Europe[1]	0.3	0.3	–	–
Austria	0.3	0.3	–	–
Finland	0.2	0.2	–	–
United Kingdom	0.1	0.1	–	–
Other[2]	<0.1	0.1	−0.1	−100.0
Sweden	<0.1	<0.1	–	–
Total	**8.3**	**8.3**	–	–

[1] Category Other Europe comprises 100% Belgium.
[2] Category Other comprises bonds issued by supranational organisations.

“Public sector borrowers” summarises claims against sovereign states (26%), public-sector enterprises (20%), and regional governments and municipalities (54%).

Public Investment Finance: EaD according to counterparty structure

in € billion	30.6.2016	31.12.2015	Change in € billion	Change in %
Public sector borrowers	8.0	7.9	0.1	1.3
Corporates/special-purpose vehicles[1]	0.3	0.4	−0.1	−25.0
Financial institutions[2]	<0.1	<0.1	–	–
Total	**8.3**	**8.3**	–	–

[1] Almost entirely collateralised by guarantees and surety bonds.
[2] Financial institutions with a state background or state guarantee.

The EaD share in the PIF Segment in rating classes AAA to AA– remained stable at 52% in comparison to year-end 2015. Internal rating classes were mapped to external rating classes for the purpose of determining the breakdown of EaD by rating class.

Public Investment Finance: EaD according to internal ratings

in € billion	30.6.2016	31.12.2015	Change in € billion	Change in %
AAA to AA–	4.3	4.3	–	–
A+ to A–	3.1	3.1	–	–
BBB+ bis BBB–	0.4	0.5	−0.1	−20.0
BB+ and worse	0.4	0.4	–	–
Total	**8.3**	**8.3**	–	–

Value Portfolio: €21.5 billion EaD

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

In line with the strategy, the further decrease in the exposure as of 30 June 2016 compared with 31 December 2015 was mainly due to reductions in Germany, Portugal, Poland and Other Europe, with Germany remaining the focus in the portfolio. The EaD increase in Austria was a result of changes of the general interest rate level and corresponding changes of hedge adjustments.

Value Portfolio: EaD according to regions

			Change	
in € billion	30.6.2016	31.12.2015	in € billion	in %
Germany	6.5	6.3	0.2	3.2
Austria	6.4	6.6	−0.2	−3.0
Italy	2.3	2.3	–	–
Spain	1.8	1.8	–	–
Other [1]	1.5	1.4	0.1	7,1
Portugal	1.3	1.4	−0.1	−7.1
France	0.7	0.7	–	–
Other Europe [2]	0.4	0.5	−0.1	−20.0
Poland	0.3	0.3	–	–
Hungary	0.2	0.3	−0.1	−33.3
Czech Republic	<0.1	0.1	−0.1	−100.0
Finland	<0.1	< 0.1	–	–
Total	**21.5**	**21.7**	−0.2	−0.9

[1] Category Other comprises supranational organisations and Japan.
[2] Category Other Europe comprises Slovenia, Belgium, Switzerland and Denmark.

Value Portfolio: EaD according to counterparty structure

			Change	
in € billion	30.6.2016	31.12.2015	in € billion	in %
Public sector borrowers	19.1	19.3	−0.2	−1.0
Financial institutions	2.4	2.4	–	–
Companies	<0.1	<0.1	–	–
Total	**21.5**	**21.7**	−0.2	−0.9

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 30 June 2016 (31 December 2015: €0.6 billion) and a current fair value of €0.6 billion (31 December 2015: €0.6 billion).

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

Watchlist and Non-performing Loans

Watchlist and non-performing loans of pbb Group

EaD in € million	30.6.2016 REF	PIF	VP	Total[1]	31.12.2015 REF	PIF	VP	Total[1]	Change in € million	in %
Workout loans	2	–	–	2	3	–	–	3	–1	–33.3
Restructuring loans	407	–	244	651	533	–	241	774	–123	–15.9
Non-performing loans	**409**	**–**	**244**	**653**	**536**	**–**	**241**	**777**	–124	–16.0
Watchlist loans	**125**	**–**	**240**	**365**	**91**	**–**	**244**	**335**	30	9.0

[1] No figures for C&A.

Watchlist and non-performing loans declined by a total of €94 million during the period from 31 December 2015 to 30 June 2016.

Watchlist loans increased by €30 million net. In the REF segment, one exposure with a volume of €46 million was included on the Watchlist, while one exposure with a volume of €2 million was returned to ordinary coverage. Three exposures with an aggregate volume of €9 million were classified as non-performing. The remaining €1 million reduction was due to repayments.

The reduction in the VP segment was attributable to a repayment.

Non-performing loans decreased by €124 million (net) or respectively by €148 million (gross) excluding opposite effects, largely as a result of repayments and currency-related valuation effects in the REF segment. Exposures with an aggregate volume of €24 million were newly classified as non-performing.

Coverage for Non-performing Loans

The coverage ratio is defined as the ratio between the provisions recognised for non-performing exposures and the EaD or, with regard to securities, the nominal amount.

Given that the decline in the volume of non-performing loans as at 30 June 2016, compared to 31 December 2015, was proportional to the decline in provisions for losses on loans and advances during the same period, the coverage ratio for non-performing exposures remained virtually unchanged, at 43% as at 30 June 2016 (31 December 2015: 44%).

Non-performing loans in the REF segment were covered at 38% (31 December 2015: 40%). Here, the volume of non-performing exposures also declined in a similar ratio to the corresponding provisions for losses on loans and advances. As at 30 June 2016, the PIF segment had no non-performing loans, a situation unchanged from the end of previous year. The coverage ratio for the VP segment also remained virtually unchanged, at 47% (31 December 2015: 46%), reflecting only minor changes in the volume of non-performing loans and existing provisions for losses on loans and advances.

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

MARKET RISK

Market Risk Measurement and Limits

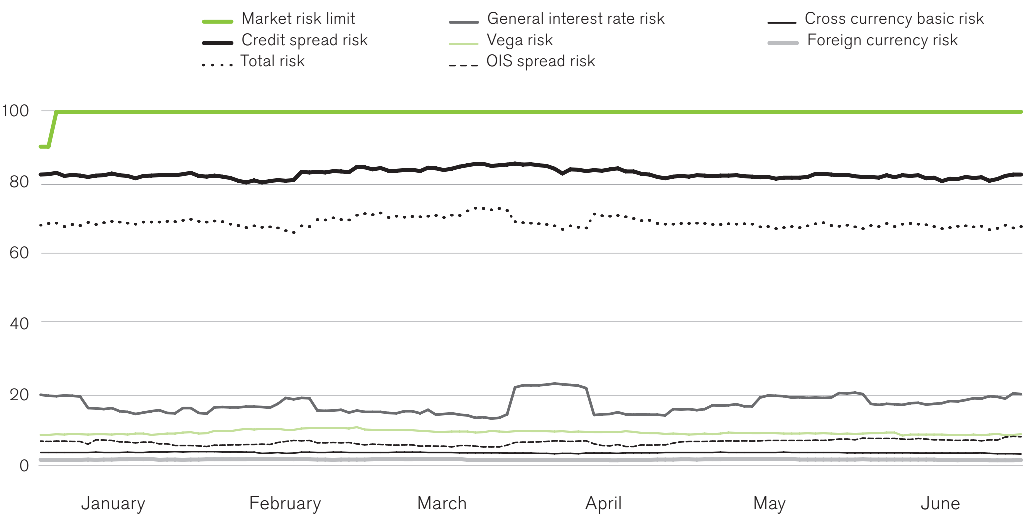
Market Risk Value at Risk Risks from Credit Valuation Adjustments of derivative instruments arising due to changes in CDS spreads were integrated into the VaR model during the second quarter of 2016. However, this only had a minor influence on the aggregate VaR.

Market risk VaR as at 30 June 2016 amounted to €67 million, taking diversification effects between the individual market risk types into consideration (31 December 2015: €67 million). There were no breaches of market risk VaR limits at pbb Group level during the period under review. The market risk limit of pbb was raised from €90 million to €100 million at the beginning of 2016.

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

Market risk VaR (10 days, 99 %) of individual risk types and market risk limit January to June 2016

in € million



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

Stress Testing Whilst VaR measures market risk in “normal” market conditions and does not provide a measure for potential maximum losses, stress scenarios are used to show market risk in extreme conditions. pbb Group employs hypothetical stress scenarios for key risk drivers, on a monthly basis, to determine the impact of extreme changes in yield curves, foreign exchange rates, credit spreads, inflation rates and volatility on the economic present value of pbb Group’s overall portfolio. Historical stress scenarios are simulated additionally.

The 200 basis point parallel upwards shift in the yield curve – as required by regulatory authorities – would have resulted in market value profits of €229 million as at 30 June (31 December 2015: market value losses €116 million). Conversely, a 200 basis point parallel downwards shift in the yield curve as also required by regulatory authorities would have resulted in market value losses of €60 million as at 30 June 2016 (31 December 2015: market value profits €19 million).

Changes compared to the previous year's figures largely reflect the fact that the calculation now incorporates interest rates charged to third parties (i.e. including client margins), whereas only internal rates (without client margins) had been included previously. A discount rate curve which reflects the credit risk of transactions is now used for discounting; in the past, only swap curves were used for this purpose.

The asymmetry between potential profits and losses is due, in particular, to the fact that the 200 basis point downward shift (in line with regulatory requirements) is capped at an interest rate of zero per cent, whereby rates that are already negative are not shifted any further. In contrast, curves are always shifted upwards by 200 basis points.

An extreme increase in the relevant credit spreads would have resulted in market value losses of €291 million as at 30 June 2016.

The Management Board and the executive bodies are informed about the results of stress test scenarios on a regular basis.

Back Testing The quality of the risk measurement methods in use is checked on an ongoing basis by comparing one-day VaR figures to the actual changes occurring in the portfolio's present value on a daily basis. pbb Group has adopted the Basel Capital Accord's traffic light system for the qualitative analysis of its risk model. For this purpose, the number of outliers detected in backtesting within a period of 250 trading days are counted. Overall, two outliers were observed as at 30 June 2016, based on a data history of 250 trading days which both were mainly 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.

General Interest Rate Risk General interest rate risk was at €20 million as at 30 June 2016 and therefore nearly at the same level compared to €21 million as at 31 December 2015. Aside from the capital investment portfolio, general interest rate risk was at a low level throughout the period under review. During the reporting period, neither falling interest rate levels nor the UK population's decision to leave the EU (the so-called 'Brexit') had any significant impact upon market risk parameters.

Volatility Risks The VaR used for the measurement of volatility risk (non-linear interest rate risks) was at €9 million as at 30 June 2016 (31 December 2015: €9 million).

Credit Spread Risk The credit spread risk reflects potential changes in the present value of exposures as a result of changes in the corresponding credit spread. The majority of credit spread risk is attributable to assets eligible as cover for Pfandbriefe. Risk measurement systems are 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 market risk VaR limitation. Positions classified as Loans and Receivables (LaR), however, are not subject thus.

The credit spread VaR for the AfS portfolios was at €82 million as at 30 June 2016 and therefore at the same level as at 31 December 2015.

Other Market Risks

The present value of foreign currency risk was €2 million as at 30 June 2016 (31 December 2015: €2 million).

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 (€8 million), tenor spread risks (€480 thousands), and cross-currency spread risks (€3 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.

In addition within the framework of the stress scenarios required by supervisory authorities, for example, a 200 basis point parallel upwards shift of the interest rate curve provides the opportunity for a market value gain of €229 million.

LIQUIDITY RISK

Development of pbb Group's Risk Position

The cumulative liquidity position (liquid assets plus projected net cash flows) determined as part of the liquidity risk measurement process as at 30 June 2016 amounted to €6.8 billion for a twelve-month horizon in the base scenario – an €0.8 billion increase from the end of the previous year (based on the same projection horizon). As at 30 June 2016, the cumulative liquidity position for a six-month horizon amounted to €4.5 billion in the risk scenario (31 December 2015: €4.0 billion).

pbb's liquidity ratio in accordance with the German Liquidity Ordinance was 3.19 as at 30 June 2016, thus exceeding the statutory minimum of 1.0.

Regulatory Liquidity Coverage Requirements (LCR)

A minimum Liquidity Coverage Ratio (LCR) of 70% has applied to regulatory liquidity reports since 1 January 2016. This minimum value will rise to 100% by 1 January 2018.

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

Funding Markets

The trend towards lower interest rates – as seen in previous years – continued unabated during the first half of 2016, despite the fact that interest rate levels were already low. There are various reasons for this. Firstly, in March, the European Central Bank (ECB) announced a further interest rate cut, in addition to an expansion of its bond-buying programmes (by €20 billion, to €80 billion per month), and the inclusion of corporate bonds into these programmes. The ECB's main refinancing rate has been 0.0% p.a. since then. Moreover, the rate for the ECB's deposit facility – which is more important for money and capital markets, given the enormous excess liquidity in the markets – was even lowered to -0.4% p.a. Towards the end of the first half-year, the results of the UK referendum on leaving the EU – the so-called 'Brexit' – caused additional uncertainty.

The ECB's announcements of new targeted longer-term refinancing operations ("TLTRO II") and of a new bond-buying programme, had significant influence upon the spreads of senior unsecured bank bonds. Even though the ECB does not buy bank bonds within the scope of its Corporate Bond Purchase Programme (CBPP), the central bank's purchases generally cause spreads to narrow, thus channelling demand to unsecured bank bonds.

During the first half of 2016, pbb Group raised long-term funding of €3.5 billion, of which €2.9 billion was placed in the form of benchmark transactions. Secured and unsecured issues each accounted for roughly half of long-term funding. Issues were placed almost exclusively in the form of fixed-rate bonds.

In addition to capital markets funding, pbb Group has extended its unsecured funding base through overnight and term deposits from retail investors. As of 30 June 2016, the related funding volume via "pbb direkt" totalled €3.4 billion (31 December 2015: €2.6 billion).

OPERATIONAL RISK (INCLUDING LEGAL RISKS)

Risk Measurement

The chapter Result of the Risk-bearing Capacity Analysis in the Report on Risks and Opportunities in the Annual Report 2015 provides details concerning the calculation as well as the quantification of ecocomic capital for operational risk.

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

Operational Risk Profile of pbb Group

pbb suffered financial losses of €0.1 million from operational risk during the first half of 2016 (2015: €2.8 million). In terms of operational losses, 74% was accounted for by the REF segment as well as 13% by the PIF segment and by the VP segment each.

The regulatory event type "Execution, Delivery & Process Management" was the category with both the highest number of events (64%) and also the category with all related financial effects during the first half of 2016. This result was also reflected in the operational risk self-assessment process, which is a bottom-up risk assessment performed by all of the bank's divisions.

RESULT OF RISK-BEARING CAPACITY ANALYSIS

Due to rounding differences minor deviations might occur.

Going-Concern

Going-concern: Economic capital

in € million	30.6.2016	31.12.2015	Change
Credit risk	219	221	−2
Market risk	166	155	10
Operational risk	33	41	−8
Business risk	–	–	-
Property risk	2	4	−2
Total before diversification effects	**419**	**420**	−1
Total after diversification effects	**388**	**390**	−2
Available financial resources (free capital)	1,057	1,610	−554
Excess capital (+)/capital shortfall (–)	669	1,220	−552

Aggregate diversified economic capital reduced slightly since the end of 2015. The increase in market risk (caused by higher interest rate sensitivity, plus the first-time inclusion of economic capital for CVA risks) was partly offset by a decrease in economic capital for operational risk, property risk as well as credit risk. Operational risk declined due to lower legal risks, whilst property risk was lower due to the sale of a property in Hungary, as well as the partial write-off of a foreclosed property in Spain. The slight decrease in credit risk was mainly due to higher collateral valuations.

Economic capital 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 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. Given the one-year horizon which needs to be taken into account for determining the risk-bearing capacity, free capital is calculated both on the basis of current figures, as well as on planned values over a time horizon of one year, with the lower amount of free capital arising from the two calculations being used as available financial resources in the going-concern approach.

The significant reduction in free capital was mainly due to the increase in minimum regulatory capital requirements under Pillar 1. Capital ratios pursuant to Regulation (EU) No 575/2013 (CRR) were used for the calculation of year-end figures for 2015. Since the beginning of 2016, the Bank has used a higher CET1 ratio to be covered, derived from the Bank's individual SREP CET1 ratio. This led to an increase in capital reserved for regulatory requirements, and hence, to lower free capital. Dividend payments further reduced free capital.

Whilst the slight increase in diversified economic capital and the simultaneous decline in available financial resources reduced excess capital, clear evidence of the Bank's risk-bearing capacity was provided in this approach.

Going-concern: Economic capital according to segments

in € million	30.6.2016	31.12.2015	Change
Real Estate Finance	110	124	–13
Public Investment Finance	18	16	2
Value Portfolio	216	213	3
Consolidation & Adjustments	50	43	7
Total[1]	**388**	**390**	–2

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

The most important developments on a segment level during the first half of 2016 took place in the REF segment. Besides lower operational risk, the decline in economic capital was mainly driven by improved calculated realisation ratios due to higher collateral valuations. C&A recorded an increase in economic capital, mainly for market risk.

Gone-Concern

Gone-concern: Economic capital

in € million	30.6.2016	31.12.2015	Change
Credit risk	1,214	1,249	–34
Market risk	1,146	1,072	73
Operational risk	78	86	–8
Business risk	10	35	–25
Property risk	3	6	–3
Total before diversification effects	2,451	2,448	2
Total after diversification effects	**2,214**	**2,221**	–7
Available financial resources before hidden losses	**3,126**	**3,243**	–116
Hidden losses	–	–	–
Available financial resources	3,126	3,243	–116
Excess capital (+)/capital shortfall (–)	912	1,021	–109

Diversified economic capital declined slightly during the reporting period. The increase in market risk was more than offset by the decline in business, credit and operational risks.

Changes in the economic capital for market risk, credit risk, operational risk and property risk during the first half of 2016 were largely due to the same developments as outlined in the going-concern approach. Business risk declined further during the first six months, mainly due to the issue of senior unsecured benchmark bonds, which enhanced the liquidity status and thus clearly reduced funding risk.

Aggregate diversified economic capital decreased as a result. Given that available financial resources also declined (due to the dividends distributed for the 2015 financial year during the first half of 2016, a decrease in eligible subordinated capital, and an increase in the buffer for other risks), excess capital decreased during the first half of 2016. Clear evidence of the Bank's risk-bearing capacity on the reporting date was provided for the gone-concern approach.

In the event of any renewed escalation in 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 – which would reduce excess capital.

Gone-concern: Economic capital according to segments

in € million	**30.6.2016**	**31.12.2015**	Change
Real Estate Finance	450	482	–32
Public Investment Finance	215	209	5
Value Portfolio	1,316	1,266	50
Consolidation & Adjustments	273	302	–29
Total[1)]	**2,214**	**2,221**	–7

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

The increase in economic capital for the VP segment was largely due to higher market risk. The decline in the REF segment was mainly due to lower credit risk. Economic capital in the C&A segment was reduced markedly due to lower funding risk.

Opportunities

After credit spreads for some Southern European countries had gapped out as a result of the Brexit referendum decision, markets calmed down again very quickly, also helped by the ECB's crisis management including extensive bond-buying programmes. In the event of the ECB's measures showing further success – in the form of stronger growth in Europe – trust in European public finances might be fully reinstated. Systematic rating upgrades might reduce risks, thus increasing excess capital within the ICAAP framework.

SREP

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

Based on the results of the analysis as well as using benchmark comparison, the ECB may impose minimum capitalisation or liquidity requirements, over and above existing regulatory requirements. As a key SREP result, a minimum CET1 ratio of 10.75% was prescribed for pbb Group, which the Group complied with as at 30 June 2016. 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 any potential shortfall can be detected at an early stage, and that senior management can be informed accordingly.

Key Regulatory Capital Ratios

The requirements for regulatory capital ratios were satisfied throughout the first six months of 2016.

Own Funds

in € million	30.6.2016	30.6.2016 Basel III fully phased-in[1]	31.12.2015 Basel III[2]	31.12.2015 Basel III fully phased-in[1][2]
CET1	2,483	2,387	2,533	2,439
Additional Tier 1	180	–	209	–
Tier 1	2,663	2,387	2,742	2,439
Tier 2	347	206	398	231
Own Funds	**3,010**	**2,593**	**3,140**	**2,670**

[1] After expiry of all Basel III transitional regulations.
[2] After confirmation of the 2015 financial statements and appropriation of profits.

Risk-weighted assets (RWA)

in € million	30.6.2016	30.6.2016 Basel III fully phased-in[1]	31.12.2015 Basel III	31.12.2015 Basel III fully phased-in[1]
Market risks	57	57	70	70
thereof interest rate risks	–	–	–	–
thereof foreign exchange risks	57	57	70	70
Operational risks	795	795	795	795
Credit risks	11,928	11,928	12,371	12,371
thereof CVA charge	357	357	374	374
Other RWA	215	215	166	166
RWA total	**12,995**	**12,995**	**13,402**	**13,402**

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

Capital ratios

in %	30.6.2016	30.6.2016 Basel III fully phased-in[1]	31.12.2015 Basel III[2]	31.12.2015 Basel III fully phased-in[1)2)]
CET1 ratio	19.1	18.4	18.9	18.2
Tier 1 ratio	20.5	18.4	20.5	18.2
Own funds ratio	23.2	20.0	23.4	19.9

[1] After expiry of all Basel III transitional regulations.
[2] After confirmation of the 2015 financial statements and appropriation of profits.

Recovery and Resolution Planning

Recovery Planning

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. The Recovery Plan pbb Group has drawn up in line with its accounting and financial reporting system in accordance with IFRS takes numerous rules and regulations into account, including the EU Bank Recovery and Resolution Directive (BRRD) and the SAG. The objective of the Recovery Plan is to set out the measures that the institution may use in order to secure or restore its financial stability in the event of its financial situation materially deteriorating, in a theoretical crisis event, where such deterioration may threaten the institution's continued existence. A possible impact upon the financial sector as a whole is also considered in this context.

The monitoring of recovery indicators, as well as recovery governance, are enshrined within pbb's organisational as well as operating structures; they form part of the Bank's overall management.

The Recovery Plan is updated at least once a year, or on an event-driven basis, taking applicable regulatory requirements into account.

Resolution Planning

The Single Resolution Board (SRB) is responsible for resolution planning, and holds resolution power. In Germany, the German Financial Markets Stabilisation Agency (Bundesanstalt für Finanzmarktstabilisierung – "FMSA") is responsible for the preparation of resolution plans; for this purpose, it requires input and support from pbb.

Report on Expected Developments

Forecasts concerning the future development of pbb Group are assessments based on information available. Should the assumptions underlying these forecasts fail to materialise, or the scope of risks and opportunities differ from the extent anticipated, actual results may diverge materially from currently expected results.

At the beginning of 2016, pbb Group expected to generate a pre-tax profit for the year slightly below the previous year's good result of €195 million. This expectation incorporated a moderate reversal of write-downs on Heta debt instruments, in the amount of €10 million. Return on average capital employed before tax was 6.2% in 2015; in line with the forecast at the outset of the year, it is projected to remain 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 a cost-income ratio at the previous year's level of 51.8%.

At €195 million, net interest income for the first half of 2016 was markedly lower (6m2015: €229 million). Even though pbb Group managed to stabilise the development of net interest income to some extent in the second half of 2015 (€197 million) and in the first six months of 2016, the Group assumes that pressure on net interest income will be even more evident during the second half of 2016. In contrast, general and administrative expenses were reduced further when compared to the same period of the previous year as well as to the second half of 2015. Loan loss provisions also developed favourably: thanks to pbb Group's unchanged conservative risk policy, no new provisions needed to be recognised (net). pbb Group expects loan loss provisions to remain clearly below the previous expectations during the second half of 2016. Against the background of the continued positive trends in general and administrative expenses as well as in loan loss provisions, and in spite of lower net interest income, pbb Group maintains its expectations concerning profit before tax, return on equity, and the cost-income ratio for the full year 2016. However, these expectations would no longer be feasible if the – already difficult – market situation were to escalate further.

On 18 May 2016 creditors of Heta, including pbb, as well as the Republic of Austria, entered into a Memorandum of Understanding ("MoU"), which provides for the largest part of certain Heta liabilities ("Heta debt securities") to be repaid. Based on this MoU, the parties confirmed their joint intention to achieve an amicable agreement regarding the restructuring of the Heta liabilities covered by a guarantee from the Austrian Federal State of Carinthia. It is intended that the Carinthia Equalisation Fund will make a buyback offer to Heta creditors for the Heta debt securities they hold. Should the offer be made, accepted and thus become effective, pbb Group would profit from a positive one-off effect of around €132 million before tax from today's perspective, expected to be recognised during the second half of 2016 and allocated to the Value Portfolio segment. Considering the planned reversal of value adjustments on Heta debt instruments in the amount of €10 million, this would give rise to an expected positive non-recurring effect of €122 million, compared to the forecast at the beginning of the year, with a commensurately favourable impact on return on equity and the cost-income ratio.

In its 2015 Report on Expected Developments, pbb Group had anticipated new business volume for the full year 2016 to be in line with 2015's €12.0 billion. During the first half of 2016 – and, in particular, during the second quarter – new business volumes were markedly lower than the figure projected for the period. This was due to pbb Group's adherence to a risk-conservative approach to new business, against the background of a continued increase in competitive pressure, very demanding credit markets, and financing requests which increasingly no longer fulfil pbb's expectations in terms of risk vs. returns. Uncertainty following the UK's decision to exit from the EU is likely to put further pressure on the challenging market environments in real estate finance and public investment finance, at least on a short- to medium-term horizon. Since pbb Group is determined to adhere to its risk standards and profitability requirements, the Group anticipates that the volume of new business for the full year 2016 will fall clearly short of the previous year's levels.

Given lower new business volumes, and repayments which are lower year-on-year – yet markedly above projections, financing volumes in the strategic portfolios are no longer expected to show a marked increase until the year-end 2016, as originally anticipated (31 December 2015: €31.1 billion). However, pbb Group endeavours to keep its strategic portfolios at least stable, or to achieve moderate growth. The Group is looking to reduce its funding activities accordingly.

Individual opportunities and risks which may have a (positive or negative) effect upon the Group's future development in assets, financial position and earnings are set out in detail on pages 117 to 122 of the 2015 Annual Report. The following material changes to this presentation occurred during the first half of 2016:

On 23 June 2016, the population of the United Kingdom decided in a referendum that the UK should leave the EU. It is, however, still unclear whether – and if so, when – the UK will apply for an exit from the EU pursuant to Article 50 of the Lisbon Treaties; at present, this is not expected to occur prior to the end of 2016. Mario Draghi, President of the European Central Bank (ECB), thus expects economic growth in the euro area to be 0.5% lower. The response by the capital markets to the unexpected outcome of the referendum is evident in a significantly weaker British currency versus the US dollar and the euro, lower inflation expectations for the euro area, and capital market yields at new all-time lows across the entire maturity spectrum. In fact, the markets are already anticipating further monetary policy easing by the ECB, in the form of further expansions to existing bond-buying programmes, as well as interest rate cuts.

The referendum might also have a negative impact on the rating drivers – and hence, the ratings – of pbb or its funding vehicles.

Furthermore, the UK's decision might have medium- to long-term implications for real estate markets, both in the United Kingdom and Continental Europe. At the very least, the impending phase of uncertainty may lead to significant delays of investment and financing decisions, which might have a negative impact on the development in assets, financial position and earnings of pbb Group.

Persistently low interest rates extending to longer maturities, ongoing political uncertainty, and a potential recession might lead to sustained distortions to the funding markets, and, by extension, pbb's own activities in those markets. This might result in a targeted reduction of new business volumes. The low interest rate levels might have a negative effect on the development in earnings.

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 these regulatory requirements could affect the development in earnings. For instance, pbb's capital requirements and business model might be affected by the amendments proposed by the Basel Committee in its consultation papers BCBS 306, 347, and 362 (revision of the Credit Risk Standard Approach, introduction of a CRSA floor, partial abolition of IRBA models), as well as by EBA's TRIM procedure (covering the systematic, industry-wide review of all IRBA models).

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Consolidated Income Statement

Consolidated income statement

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

Earnings per share

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

Consolidated Statement of Comprehensive Income

Consolidated statement of comprehensive income

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

Consolidated Statement of Financial Position

Assets

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

Equity and liabilities

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

Consolidated Statement of Changes in Equity

Consolidated statement of changes in equity

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

Consolidated Statement of Cash Flows (condensed)

Consolidated statement of cash flows (condensed)

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

Notes (condensed)

1 Principles

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

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

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

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

Initially adopted standards and interpretations

The following amendments were applied for the first time in the first half of 2016:
- Amendments to IAS 1: Disclosure Initiative
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 16 and IAS 41: Agriculture: Bearer Plants
- Amendments to IAS 19 (revised 2011) Employee Benefits: Defined Benefit Plans: Employee Contributions
- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
- Annual Improvements Project:
  - Annual Improvements to IFRSs 2010–2012 Cycle
  - Annual Improvements to IFRSs 2012–2014 Cycle

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

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

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

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

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

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

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

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

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

IFRS 9 Financial Statements

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

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

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

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

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

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

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

Changes in Accounting Estimates

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

Heta Asset Resolution AG („HETA“)

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

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

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

2 Consistency

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

3 Consolidation

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

4 Segment Reporting

Income/expenses

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

Cost/income ratio[1]

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

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

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

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

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

NOTES TO THE CONSOLIDATED INCOME STATEMENT

5 Net Interest Income

Net interest income by categories of income/expenses

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

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

6 Net Fee And Commission Income

Net fee and commission income

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

7 Net Trading Income

Net trading income

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

8 Net Income from Financial Investments

Net income from financial investments by IAS 39 categories

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

9 Net Income from Hedging Relationships

Net income from hedging relationships

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

10 Net Other Operating Income/Expenses

Net other operating income/expenses

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

11 Loan Loss Provisions

Loan loss provisions

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

12 General and Administrative Expenses

General and administrative expenses

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

13 Net Miscellaneous Income/Expenses

Net miscellaneous income/expenses

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

14 Income Taxes

Income taxes

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

15 Earnings Per Share

Earnings per share[1)]

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

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

NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

16 Trading Assets

Trading assets

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

17 Loans and Advances to Other Banks

Loans and advances to other banks by type of business

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

Loans and advances to other banks by maturities

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

18 Loans and Advances to Customers

Loans and advances to customers by type of business

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

Loans and advances to customers by maturities

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

19 Allowances for Losses on Loans and Advances

Development

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

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

20 Financial Investments

Breakdown

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

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

Financial investments by maturities

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

21 Other Assets

Other assets

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

22 Liabilities to Other Banks

Liabilities to other banks by maturities

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

23 Liabilities to Customers

Liabilities to customers by maturities

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

24 Securitised Liabilities

Securitised liabilities by type of business

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

Securitised liabilities by maturities

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

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

25 Trading Liabilities

Trading liabilities

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

26 Provisions

Breakdown

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

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

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

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

In appraisal proceedings relating to the merger of three predecessor mortgage banks to form pbb in 2001, the new appraisal ordered by the Munich Regional Court I has resulted in an additional payment averaging €1.00 per share. The potential subsequent payment claims amount up to €9.4 million plus interest since 2001. However, the Munich Regional Court I has rejected requests of claimants to increase compensation payments. Individual applicants have lodged com-plaints against the court's decision. As the Munich Regional Court I did not rectify these complaints, complaint proceed-ings have been initiated at the Munich Higher Regional Court.

The profit participation certificates issued by the predecessor institutions participated in significant losses due to the net losses for the period incurred since 2008 respectively pbb's unappropriated retained losses since this time. The redemption amounts have reduced and interest payment has been suspended. Individual investors therefore initiated legal pro-ceedings, contesting in particular various individual clauses relating to loss participation and replenishment following loss participation. The key questions in this connection are which balance sheet items must be taken into account to calculate loss participation and whether replenishment is required if pbb records a net income, unappropriated retained earnings or another income. Courts have decided against the legal view of pbb in view of the individual decisions regarding profit participation certificates. Some of the court decisions are legally binding; some have been subject to appeals lodged by pbb. The disputed profit-participation certificates originally had a total nominal volume of €296.5 million, out of which €54.3 million are currently subject to pending litigation. These proceedings may result in a partial or comprehensive increase in redemption claims, or in the subsequent distribution of cancelled coupon payments or interest payment claims. Further claims could possibly follow. Whilst the Bank endeavours to solve legal disputes by way of out-of-court settlements, it exploits the legal remedies at its disposal when needed.

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

27 Other Liabilities

Other liabilities

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

28 Subordinated Capital

Breakdown

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

Subordinated capital by maturities

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

NOTES TO THE FINANCIAL INSTRUMENTS

29 Fair Values of Financial Instruments

Fair values and fair value hierarchy

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

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

Fair values and fair value hierarchy

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

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

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

Level 2 instruments measured at fair value as of 30.6.2016

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

Level 3 instruments measured at fair value as of 30.6.2016

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

Changes in level 3 financial assets

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

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

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

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

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

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

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

30 Past Due but Not Impaired Assets

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

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

Carrying amounts of past due but not impaired LaR assets

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

Carrying amounts LaR assets

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

31 Restructured Loans and Advances

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

Restructured loans and advances

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

OTHER NOTES

32 Contingent Liabilities and Other Commitments

Contingent liabilities and other commitments

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

33 Relationship with Related Parties

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

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

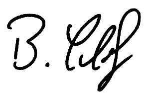
Munich, 3 August 2016

Deutsche Pfandbriefbank AG
The Management Board


Andreas Arndt


Thomas Köntgen


Andreas Schenk


Dr. Bernhard Scholz

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the consolidated interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group in accordance with German accepted accounting principles, and the Group interim 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 for the remaining months of the fiscal year.

Munich, 3 August 2016

Deutsche Pfandbriefbank AG
The Management Board

Andreas Arndt **Thomas Köntgen** **Andreas Schenk** **Dr. Bernhard Scholz**

Review Report

To Deutsche Pfandbriefbank AG, Munich

We have reviewed the condensed interim consolidated financial statements of the Deutsche Pfandbriefbank AG, Munich – comprising consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of change in equity, consolidated statement of cash flows (condensed) and notes (condensed) – together with the group interim management report of the Deutsche Pfandbriefbank, Munich, for the period from 1 January to 30 June 2016 that are part of the semi annual financial report according to § 37w WpHG [«Wertpapierhandelsgesetz»: «German Securities Trading Act»]. The preparation of the condensed interim consolidated financial statements in accordance with those IFRS applicable to interim financial reporting as adopted by the EU, and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports, is the responsibility of the Company's management. Our responsibility is to issue a report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

We performed our review of the condensed interim consolidated financial statements and the interim group management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, and that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditor's report.

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

Munich, 3 August 2016

KPMG AG
Wirtschaftsprüfungsgesellschaft
[original German version signed by:]

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

Additional Information

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 avail able 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 de viating 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

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Publisher
Deutsche Pfandbriefbank AG, Munich, Germany
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Concept, Design and Realisation
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