Annual Financial Statements
2017

Deutsche Pfandbriefbank AG

DEUTSCHE PFANDBRIEFBANK

Combined Management Report

The Management Report of Deutsche Pfandbriefbank AG (pbb) and the Group Management Report are combined pursuant to section 315 (5) of the German Commercial Code (Handelsgesetzbuch – HGB) in connection with section 298 (2) HGB and is published in the Annual Report 2017 of Deutsche Pfandbriefbank Group (pbb Group).

The Annual Financial Statements and the Management Report combined with the Group Management Report for the financial year 2017 will be submitted to and published by the operator of the German Federal Gazette (Bundesanzeiger).

pbb's Annual Financial Statements and pbb Group's Annual Report are also available online at www.pfandbriefbank.com.

Annual Financial Statements

Income Statement

Income statement

in € million			2017	2016
1. Interest income from				
a) lending and money market business	2,524			3,381
b) fixed-income and government-inscribed debt	414	2,938		468
2. Interest expenses		−2,476		−3,476
			462	373
3. Current income from				
a) equity shares and other variable-income securities		–		–
b) participating interests		–		–
c) investments in affiliated companies		22		–
			22	–
4. Income from profit pooling, profit transfer or partial profit transfer agreements			–	–
5. Commission income		11		10
6. Commission expenses		−3		−2
			8	8
7. Other operating income			63	55
8. General and administrative expenses				
a) personnel expenses				
aa) wages and salaries	−100			−86
ab) social security contributions and expenses for pensions and other employee benefits	−22	−122		−22
thereof: for pensions €8 million (2016: €7 million)				
b) other administrative expenses		−114		−95
			−236	−203
9. Amortisation/depreciation and write-downs of intangible and tangible assets			−4	−4
10. Other operating expenses			−45	−50
11. Write-downs of claims and certain securities as well as additions to provisions in the lending business		–		–
12. Income from write-ups of claims and certain securities as well as reversals of provisions in the lending business		9		53
			9	53
13. Write-downs and impairments to participating interests, investments in affiliated companies and securities treated as fixed assets		−2		–
14. Income from write-ups to participating interests, investments in affiliated companies and securities treated as fixed assets		–		93
			−2	93
15. Additions to the fund for general banking risks			–	–
16. Expenses from assumption of losses			−3	−7
17. Result from ordinary activities			274	318
18. Extraordinary income			3	2
19. Extraordinary expenses			–	−8
20. Extraordinary result			3	−6
21. Income taxes		−40		−59
22. Other tax unless reported under item no. 10		–	–	−1
			−40	−60
23. Net income/loss			237	252
24. Profit/loss carried forward from the previous year			–	–
			237	252
25. Withdrawals from additional paid-in capital			–	–
26. Withdrawals from participatory capital			4	–
27. Allocation to retained earnings			−97	−97
28. Replenishment of participatory capital			–	−14
29. Unappropriate retained earnings			**144**	**141**

Balance Sheet

Assets

in € million			31.12.2017	31.12.2016
1. Cash reserve				
a) cash on hand		–		–
b) balances with central banks		999		1,136
thereof: with the Deutsche Bundesbank €999 million (31.12.2016: €1,136 million)				
			999	1,136
2. Loans and advances to other banks				
a) mortgage loans		–		–
b) public-sector loans		713		782
c) other loans and advances		2,295		2,643
thereof: repayable on demand €1,795 million (31.12.2016: €2,078 million)				
thereof: collateralised by securities €– million (31.12.2016: €– million)				
			3,008	3,425
3. Loans and advances to customers				
a) mortgage loans		24,943		24,065
b) public-sector loans		13,323		14,559
c) other loans and advances		44		51
thereof: collateralised by securities €– million (31.12.2016: €– million)				
			38,310	38,675
4. Bonds and other fixed-income securities				
a) money market instruments				
aa) of public-sector issuers	–			–
thereof: eligible as collateral for Deutsche Bundesbank €– million (31.12.2016: €– million)				
ab) of other issuers	–			–
thereof: eligible as collateral for Deutsche Bundesbank €– million (31.12.2016: €– million)				
		–		–
b) Bonds and notes				
ba) of public-sector issuers	4,910			5,838
thereof: eligible as collateral for Deutsche Bundesbank €3,835 million (31.12.2016: €4,631 million)				
bb) of other issuers	4,337			5,311
thereof: eligible as collateral for Deutsche Bundesbank €2,807 million (31.12.2016: €3,633 million)				
		9,247		11,149
c) own debt securities		1,207		1,781
notional amount €1,183 million (31.12.2016: €1,746 million)				
			10,454	12,930
5. Equity shares and other variable-income securities			2	2
6. Participating interests			–	–
thereof: in banks €– million (31.12.2016: €– million)				
thereof: in financial services institutions €– million (31.12.2016: €– million)				
7. Investments in affiliated companies			15	52
thereof: in banks €– million (31.12.2016: €– million)				
thereof: in financial services institutions €– million (31.12.2016: €– million)				
8. Assets held in trust			–	–
thereof: loans on a trust basis €– million (31.12.2016: €– million)				
Carryover			**52,788**	**56,220**

in € million			31.12.2017	31.12.2016
Carryover			**52,788**	**56,220**
9. Intangible assets				
a) internally generated commercial property rights and similar rights and assets		–		–
b) purchased concessions, commercial property rights and similar rights and assets as well as licences in such rights and assets		8		4
c) goodwill		–		–
d) down-payments		–		–
			8	4
10. Tangible assets			6	8
11. Sundry assets			145	137
12. Prepaid expenses				
a) from the issuance and loan business		114		106
b) other		274		313
			388	419
13. Overfunded plan assets			6	–
Total assets			**53,341**	**56,788**

Liabilities and equity

in € million				
1. Liabilities to other banks				
a) registered Mortgage Pfandbriefe issued		280		289
b) registered Public Pfandbriefe issued		174		232
c) other liabilities		3,822		3,826
thereof: repayable on demand €990 million (31.12.2016: €973 million)				
			4,276	4,347
thereof: delivered to lender as collateral for received loans				
registered Mortgage Pfandbriefe €– million (31.12.2016: €– million)				
registered Public Pfandbriefe €– million (31.12.2016: €– million)				
2. Liabilities to customers				
a) registered Mortgage Pfandbriefe issued		4,473		4,615
b) registered Public Pfandbriefe issued		8,690		9,345
c) savings deposits				
ca) with agreed notice period of three months	–			–
cb) with agreed notice period of more than three months	–			–
		–		–
d) other liabilities		10,418		11,796
thereof: repayable on demand €1,399 million (31.12.2016: €1,623 million)				
			23,581	25,756
thereof: delivered to lender as collateral for received loans				
registered Mortgage Pfandbriefe €7 million (31.12.2016: €7 million)				
registered Public Pfandbriefe €13 million (31.12.2016: €13 million)				
3. Securitised liabilities				
a) bonds in issue				
aa) Mortgage Pfandbriefe	9,876			9,397
ab) Public Pfandbriefe	5,665			6,897
ac) other bonds	5,295			5,754
		20,836		22,048
b) other securitised liabilities		–		30
thereof: money market instruments €– million (31.12.2016: €30 million)				
			20,836	22,078
Carryover			**48,693**	**52,181**

in € million			31.12.2017	31.12.2016
Carryover			**48,693**	**52,181**
4. Liabilities held in trust			–	–
thereof: liabilities on a trust basis € – million (31.12.2016: € – million)				
5. Sundry liabilities			34	179
6. Deferred income				
a) from issuance and loan business		136		133
b) other		483		557
			619	690
7. Provisions				
a) provisions for pensions and similar obligations		34		19
b) provisions for taxes		57		57
c) other provisions		219		204
			310	280
8. Subordinated liabilities			1,002	875
9. Participatory capital			–	–
thereof: maturing in less than two years € – million (31.12.2016: € – million)				
10. Fund for general banking risks			47	47
11. Equity				
a) share capital			380	380
b) additional paid-in capital			1,639	1,639
c) retained earnings				
ca) legal reserve		13		13
cb) reserve for shares in a controlling or major shareholding entity		–		–
cc) statutory reserves		–		–
cd) other retained earnings		460		363
			473	376
d) unappropriated retained earnings			144	141
			2,636	2,536
Total liabilities and equity			**53,341**	**56,788**
1. Contingent liabilities				
a) contingent liabilities from settled rediscounted bills of exchange		–		–
b) liabilities from guarantees and indemnity agreements (regarding keepwell statements, see disclosures in the Notes)		120		171
c) liability arising from the provision of collateral for third-party liabilities		–		–
			120	171
2. Other commitments				
a) repurchase obligations from non-genuine sale and repurchase agreements		–		–
b) placement and underwriting obligations		–		–
c) irrevocable loan commitments		4,667		3,802
			4,667	3,802
Total of contingent liabilities and other commitments			**4,787**	**3,973**

Notes

ACCOUNTING POLICIES

1 Accounting Regulations

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

The 2017 annual financial statements of pbb were prepared in accordance with the financial reporting principles set out in the German Commercial Code (Handelsgesetzbuch – "HGB") and the additional provisions of the German Public Limited Companies Act (Aktiengesetz – "AktG"), the German Banking Act (Kreditwesengesetz – "KWG") and the German Pfandbrief Act (Pfandbriefgesetz – "PfandBG"), as applicable to specific legal forms and institutions. The structure and the content of balance sheet and income statement is mainly prescribed by the German Accounting Directive for Banks and Financial Services Providers (Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute – "RechKredV"). The German Accounting Standards (GAS) issued by the German Accounting Standards Committee (GASC) were also applied.

The annual financial statements comprise income statement, balance sheet and notes to the financial statements. In addition, a management report was prepared pursuant to the requirements of section 289 HGB. pbb excercised the option of section 315 (5) HGB in connection with section 298 (2) HGB to combine the Group Management Report with the Management Report of the ultimate parent entity. The combined Management Report is included in Deutsche Pfandbriefbank Group's (pbb Group) Annual Report 2017.

2 Accounting and Measurement Principles

The Management Board prepared these annual financial statements on 6 March 2018 under the going-concern assumption.

Cash reserve
Cash reserve is measured at notional amounts.

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

Risk provisioning
All identifiable individual default risks in the lending business were covered by specific allowances and provisions. General allowances are recognised for potential default risks in the lending business. They are determined based on expected losses. The options set out in section 340f (3) HGB in conjunction with section 340c (2) HGB were exercised.

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

Securities treated as fixed assets are recognised at cost of purchase respectively at amortised cost in accordance with section 253 (3) HGB in conjunction with section 340e HGB. (modified lower-of-cost-or-market principle). In case of an expected permanent impairment, securities treated as fixed assets are carried at the lower fair value. The review as to whether there is an expected permanent impairment is performed regularly. A permanent impairment is deemed to exist, subject to a rebuttable presumption, when there are doubts – due to credit quality issues – as to whether the expected future cash flows can be recovered. A general allowance is recorded for potential default risks in relation to securities treated as fixed assets. They are determined based on expected losses. If the reason for a write-down ceases to exist, a write-up up to amortised cost has to be recognised.

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

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

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

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

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

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

Derivatives

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

Liabilities

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

Provisions

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

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

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

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

Calculations were based on the following assumptions:

- Discount rate: 3.68% p.a. (31 December 2016: 4.01% p.a.)
- Rate of increase in future compensation[1]: 2.50% p.a. (31 December 2016: 2.50% p.a.)
- Rate of increase in pension obligations: 1.50% p.a. (31 December 2016: 1.50% p.a.)
- Mortality tables: actuarial tables issued by K. Heubeck in 2005 ("Richttafeln 2005 G")

[1] pbb expects a rate of increase in future compensation of 0% for the active Management Board members in the financial years 2017 and 2016.

Provisions for pensions and similar obligations were discounted in the financial year 2017 pursuant to section 253 (2) HGB on a lump-sum basis, using the published average market interest rate for the past ten years which is determined based on an assumed remaining term of 15 years. The interest rate used in this context is 3.68% (2016: 4.01%). The difference between the recognition of provisions for pensions as at 31 December 2017, using an average market interest rate for the past ten years (3.68%), and the average market interest rate for the past seven years (2.80%), amounts to €26 million and is not available for dividend distribution.

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

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

Loss-free valuation
In accordance with the statement of the IDW (IDW RS BFA 3) regarding the loss-free measurement of interest-bearing transactions included in the banking ledger, pbb conducted a loss free measurement using the present value method as at the balance sheet date. The valuation object analysed is, in accordance with risk management, an interest ledger of on-balance sheet and off-balance sheet transactions. The calculated present value margin of the existing transactions in the interest rate ledger is compared with any associated administrative and risk costs that are included until the interest rate transactions mature and which are determined using present values. There was no surplus of liabilities in relation to the valuation object as at 31 December 2017 and 31 December 2016.

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

Deferred taxes

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

At pbb, deferred tax assets mainly arise due to the fact that the option provided for under tax laws is not exercised in relation to the partial write-offs of short-term and long-term securities, the recognition of other provisions that are not tax-deductible, a different measurement of pension provisions under tax laws, and valuation differences from so-called unilateral terminations. There were deferred tax liabilities as at the balance sheet date resulting from pension provisions, which have to be regonised solely for tax purposes and from so-called unilateral terminations. The existing tax loss carryforwards increase the deferred tax assets in an amount that is equivalent to their realisation. The measurement of deferred taxes is based on a combined income tax rate of 27.7% (previous year: 27.7%) which comprises corporation tax, trade tax and solidarity surcharge.

Prepaid expenses and deferred income

Amounts paid or received before balance sheet date which represent expenses or income after balance sheet date have to be recognised as prepaid expenses and deferred income pursuant to section 250 (1), (2) HGB. pbb recognises discounts from debt securities and loans received and premiums from loans and advances granted as prepaid expenses, and discounts from loans and advances granted and premiums from debt securities and loans received as deferred income. Prepaid expenses and deferred income in connection with derivatives are recognised for option and upfront premiums.

Auditor's fees

The auditors' fee for KPMG AG Wirtschaftsprüfungsgesellschaft comprised – for the most part – the audit of the consolidated financial statements and the annual financial statements of Deutsche Pfandbriefbank as well as the audit of financial statements prepared by different subsidiaries, including the extension of the audit assignment in line with the applicable legal requirements and the focal points of the audit as agreed upon with the Supervisory Board. In addition, we were engaged in the review of interim financial statements, and project-related reviews in accordance with IDW PS 850.

Moreover, we provided comfort letters in connection with bond issues, and were assigned with a limited assurance engagement for the summarised separate non-financial report of Deutsche Pfandbriefbank as well as statutory audits, such as the audit according to section 36 (1) of the German Securities Trading Act (Wertpapierhandelsgesetz – "WpHG"), and other assurance services required by supervisory authorities.

KPMG AG Wirtschaftsprüfungsgesellschaft also provided additional other non-audit services, which mainly comprised quality assurance services in connection with recently introduced legal and regulatory requirements, together with compliance and IT projects unrelated to the introduction or implementation of internal control and risk management procedures. Furthermore, this item included the services rendered in connection with a transaction-based due diligence as well as market value determinations without a material impact on the financial statements.

Please refer to the consolidated financial statements of Deutsche Pfandbriefbank for further information on auditor fees. Given the exemptive effects of the group clause provided under section 285 no. 17 HGB, this information is not provided in this report.

Notice

Rounding may result in slight differences when aggregating figures and calculating percentages.

NOTES TO THE INCOME STATEMENT

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

In view of clarity and transparency, expenses from the unwinding of provisions were not reported separately in the income statement, in deviation of section 340a (1) in conjunction with section 277 (5) sentence 1 HGB. The expenses from the unwinding of provisions in the amount of €1 million (2016: €1 million) are reported under interest expenses.

The negative interest income of €16 million (2016: €15 million) and the positive interest expenses of €16 million (2016: €14 million) resulted mainly from swap transactions.

A net amount of €1 million (2016: €–2 million) resulted from income from reinsurance claims and expenses from pensions and similar obligations.

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

Commission income mainly results from upfront fees of €9 million (2016: €8 million) and from guarantee commissions of €2 million (2016: €2 million) from. The commission expenses include, amongst others, fees from securities and custodial business of €2 million (2016: €2 million).

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

Other operating income includes mainly reversals of other provisions in non-lending business of €19 million (2016: €10 million), foreign currency translation effects of €3 million (2016: €7 million) and income from previous reporting periods of €17 million (2016: €16 million).

6 General and Administrative Expenses (Income Statement Item No. 8)

General and administrative expenses consist of personnel expenses of €122 million (2016: €108 million) and other administrative expenses of €114 million (2016: €95 million).

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

Other operating expenses include mainly additions to other provisions in non-lending business of €23 million (2016: €24 million) and expenses for bank levy of €19 million (2016: €21 million) considering collateral pledged in the amount of 15% from total bank levy.

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

In financial year 2017 no net income or net expenses (2016: net income of €93 million) resulted from write-ups, sales proceeds and expenses from write-downs of securities treated as fixed assets. Net expenses from participating interest and investments in affiliated companies amounted to €2 million (2016: €0 million).

9 Extraordinary Result (Income Statement Item No. 20)

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

10 Income Taxes (Income Statement Item No. 21)

Expenses for income taxes amounted to €40 million (2016: €59 million), thereof expenses of €45 million (2016: €35 million) were attributable to the current financial year and income of €5 million (2016: expenses of €24 million) was attributable to previous periods.

NOTES TO THE BALANCE SHEET

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

Cover statement

in € million	31.12.2017	31.12.2016
A. Mortgage Pfandbriefe		
Cover assets		
Loans and advances to other banks		
a) Mortgage loans	–	–
Loans and advances to customers		
a) Mortgage loans	16,039	15,942
Tangible assets (land charges on the Bank's own property)	–	–
Sundry assets	–	–
	16,039	15,942
Further cover assets		
Other loans and advances to other banks	–	–
Bonds and other fixed-income securities	1,022	1,020
Claims from derivatives	–	–
Total cover assets	**17,061**	**16,962**
Total Mortgage Pfandbriefe requiring cover	14,506	14,163
thereof liabilities from derivatives	–	–
Over-collateralisation	**2,555**	**2,799**
B. Public Pfandbriefe		
Cover assets		
Loans and advances to other banks		
a) Mortgage loans	–	–
b) Public-sector loans	409	461
Loans and advances to customers		
a) Mortgage loans	8	25
b) Public-sector loans	13,185	14,407
Bonds and other fixed-income securities	3,114	4,149
	16,716	19,042
Further cover assets		
Other loans and advances to other banks	–	–
Claims from derivatives	–	–
Total cover assets	**16,716**	**19,042**
Total Public Pfandbriefe requiring cover	14,263	16,157
thereof liabilities from derivatives	–	–
Over-collateralisation	**2,453**	**2,885**

12 Maturities of Selected Balance Sheet Items, by Remaining Term

Maturities of selected balance sheet items

in € million	31.12.2017	31.12.2016
Loans and advances to other banks (assets side item no. 2)	**3,008**	**3,425**
Repayable on demand	1,795	2,078
Loans and advances with duration	1,213	1,347
up to 3 months	545	582
more than 3 months to 1 year	104	44
more than 1 year to 5 years	14	163
more than 5 years	550	558
Loans and advances to customers (assets side item no. 3)	**38,310**	**38,675**
of undetermined duration	–	–
up to 3 months	2,652	2,244
more than 3 months to 1 year	2,459	2,840
more than 1 year to 5 years	17,232	17,799
more than 5 years	15,967	15,792
Bonds and other fixed-interest securities (assets side item no. 4)	**10,454**	**12,930**
thereof maturing in the subsequent year	774	2,876
Liabilities to other banks (liabilities side item no. 1)	**4,276**	**4,347**
Repayable on demand	990	973
Liabilities with agreed duration or notice period	3,286	3,374
up to 3 months	560	2,189
more than 3 months to 1 year	81	113
more than 1 year to 5 years	2,050	249
more than 5 years	595	823
Liabilities to customers (liabilities side item no. 2)	**23,581**	**25,756**
Repayable on demand	1,399	1,623
Liabilities with agreed duration or notice period	22,182	24,133
up to 3 months	1,076	1,840
more than 3 months to 1 year	2,295	2,360
more than 1 year to 5 years	6,643	7,304
more than 5 years	12,168	12,629
Securitised liabilities (liabilities side item no. 3)	**20,836**	**22,078**
a) bonds in issue	20,836	22,048
thereof maturing in the subsequent year	2,950	5,641
b) other securitised liabilities	–	30
up to 3 months	–	–
more than 3 months to 1 year	–	30
more than 1 year to 5 years	–	–
more than 5 years	–	–

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

There are no subordinated assets to be recognised neither as of 31. December 2017 nor as of 31 December 2016.

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

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

Marketable securities and other financial investments

	listed		unlisted	
in € million	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Bonds and other fixed-income securities	9,187	11,726	1,267	1,204
Equity shares and other variable-income securities	–	–	2	2
Participating interests	–	–	–	–
Investments in affiliated companies	–	–	–	–

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

Of the bonds and other fixed-income securities (assets side item No. 4), pbb holds third-party bonds with a carrying amount of €9,247 million (31 December 2016: €11,149 million). Of this amount, €8,271 million (31 December 2016: €9,275 million) are treated as fixed assets, and €976 million (31 December 2016: €1,874 million) are treated as current assets.

Overall, securities treated as fixed assets with a carrying amount of €3.965 million (31 December 2016: €6,079 million) are not measured with the lower fair value as at the balance sheet date of €3.659 million (31 December 2016: €5,640 million). The unrecognised write-downs to the lower fair value in the amount of €306 million (31 December 2016: €439 million) are attributable to the following issuer groups:

Omitted write-downs, by issuer

				31.12.2017	31.12.2016
in € million	Public issuers	Other banks	Other issuers	Total	Total
Carrying amount	1,801	1,221	943	3,965	6,079
Fair value	1,567	1,183	909	3,659	5,640
Omitted write-downs of fixed assets	234	38	34	306	439

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

In the following year, an amount of €774 million (2016: €2,876 million) of the portfolio of bonds and other fixed-income securities will mature.

16 Participating Interests and Investments in Affiliated Companies (Assets Side Items Nos. 6 & 7)

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

Name and registred office	Capital share section 16 (4) AktG	of which held indirectly	Equity in thousand	Net income in thousand	Currency
CAPVERIANT GmbH, Munich, Germany	100.00%	–	4,772	–728	EUR
Immo Immobilien Management Beteiligungsgesellschaft mbH, Munich, Germany	100.00%	–	25	–	EUR
IMMO Immobilien Management GmbH & Co. KG, Munich, Germany	100.00%	–	569	34	EUR
IMMO Invest Real Estate GmbH, Munich, Germany[1]	100.00%	–	8,448	–	EUR

[1] Profit transfer by shareholders on the basis of profit and loss transfer agreement.

Participating interests (assets side item no. 6)

Name and registred office	Capital share section 16 (4) AktG	of which held indirectly	Equity in thousand	Net income in thousand	Currency
SANO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dresden KG, Duesseldorf, Germany[1]	33.33%	–	–1,413	695	EUR
SOMA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Darmstadt KG, Duesseldorf, Germany[1]	33.33%	–	–8,864	2,660	EUR
WISUS Beteiligungs GmbH & Co. Zweite Vermietungs-KG, Munich, Germany	33.00%	–	–271	488	EUR

[1] Financial figures from the financial year 2016.

The following companies were liquidated in the course of financial year 2017:
> Hypo Real Estate Capital India Corp. i.L., Mumbai, India
> Hypo Real Estate Capital Japan Corp. i.L., Tokyo, Japan
> Hypo Real Estate International LLC I i.L., Wilmington, USA
> Hypo Real Estate International Trust I i.L., Wilmington, USA

The company Ragnarök Vermögensverwaltung AG & Co. KG, Munich, Germany, accrued to pbb on 12 December 2017.

The affiliated company IMMO Invest Real Estate GmbH, Munich, Germany, sold 100% of the shares in the company RPPSE Espacio Oviedo S.L.U., Madrid, Spain, on 15 December 2017.

pbb holds 100% in the shares of the the company CAPVERIANT GmbH, Munich, Germany, which was established on 1 December 2017.

pbb was not general partner in any company diclosed under the positions participating interests (assets side item no. 6) and affiliated companies (assets side item no. 7).

All other shareholding in companies was less than 20%. There were no shares in large corporations exceededing 5% of voting rights.

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

Assets and liablities held in trust amounted to less than €1 million as of 31 December 2017 and as of 31 December 2016.

18 Intangible Assets (Assets Side Item No. 9)

Intangible assets include purchased software amounting to €7 million (31 December 2016: €4 million).

19 Tangible Assets (Assets Side Item No. 10)

Tangible assets include operating equipment of €6 million (31 December 2016: €8 million).

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

Development in fixed assets

in € million	Intangible assets	Tangible assets	Securities treated as fixed assets	Participating interests	Shares in affiliated companies
Cost of purchase or production					
1.1.2016	**58**	**24**	**–**	**–**	**–**
Additions	–	1	–	–	–
Disposals	–	−5	–	–	–
Transfers	–	–	–	–	–
Foreign currency translation effects	–	–	–	–	–
31.12.2016	**58**	**20**	**–**	**–**	**–**
1.1.2017	**58**	**20**	**–**	**–**	**–**
Additions	6	–	–	–	–
Disposals	–	–	–	–	–
Transfers	–	–	–	–	–
Foreign currency translation effects	–	–	–	–	–
31.12.2017	**64**	**20**	**–**	**–**	**–**
Write-down					
1.1.2016	**−52**	**−14**	**–**	**–**	**–**
Write-up	–	–	–	–	–
Disposals	–	4	–	–	–
Transfers	–	–	–	–	–
Depreciation or amortisation	−2	−2	–	–	–
Impairment write-down	–	–	–	–	–
Foreign currency translation effects	–	–	–	–	–
31.12.2016	**−54**	**−12**	**–**	**–**	**–**
1.1.2017	**−54**	**−12**	**–**	**–**	**–**
Write-up	–	–	–	–	–
Disposals	–	–	–	–	–
Transfers	–	–	–	–	–
Depreciation or amortisation	−2	−2	–	–	–
Impairment write-down	–	–	–	–	–
Foreign currency translation effects	–	–	–	–	–
31.12.2017	**−56**	**−14**	**–**	**–**	**–**
Carrying amounts					
1.1.2016	**6**	**10**	**10,919**	**–**	**53**
Aggregation according to section 34 (3) RechKredV	–	–	−1,644	–	−1
31.12.2016	**4**	**8**	**9,275**	**–**	**52**
1.1.2017	**4**	**8**	**9,275**	**–**	**52**
Aggregation according to section 34 (3) RechKredV	–	–	−1,004	–	−37
31.12.2017	**8**	**6**	**8,271**	**–**	**15**

21 Sundry Assets (Assets Side Item No. 11)

In addition to the adjustment items resulting from the measurement of hedged foreign currency transactions recognised in note "Financial Derivatives" the major part of sundry assets resulted from income tax assets in the amount of €41 million (31. December 2016: €47 million). Furthermore, sundry assets include cash collateral of €15 million (31 December 2016: €11 million) pledged within the scope of the bank levy.

In accordance with section 246 (2) sentence 2 HGB, other assets include unpledged claims from reinsurance policies for pensions in the amount of €2 million (31 December 2016: €2 million).

The fair values of pledged claims from retirement benefit obligations, if any, after setting off reinsured pension provisions and provisions for partial retirement schemes, are reported in the item "overfunded plan assets".

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

As of 31 December 2017, overfunded plan assets amounting of €6 million were recognised pursuant to section 246 (2) sentences 2 and 3 HGB. The amount resulted from the fair value of reinsurance claims from pensions (€193 million) offset by provisions for pensions and similar obligations (€187 million). As of 31 December 2016, no overfunded plan assets were recognised.

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

Prepaid expenses and deferred income

in € million	31.12.2017	31.12.2016
Assets side item no. 12a)		
Prepaid expenses from the issuance and loan business	114	106
thereof:		
discount from debt securities and loans received	61	63
premium from loans and advances granted	53	43
Liabilities side item no. 6a)		
Deferred income from the issuance and loan business	136	133
thereof:		
discount from loans and advances granted	110	99
premium from debt securities and loans received	26	34

24 Sundry Liabilities (Liabilities Side Item No. 5)

In addition to the adjustment items resulting from the measurement of hedged foreign currency transactions recognised in note "Financial Derivatives" the major part of sundry liabilities is trade accounts payable amounting to €19 million (31 December 2016: €8 million).

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

As of 31 December 2017, this item includes, pursuant to section 246 (2) sentence 2 HGB, only provisions for pensions and similar obligations after offsetting against plan assets. The offsetting is presented under note "Overfunded Plan Assets (Assets Side Item No. 13)".

The pension provisions and similar obligations to former Management Board members and their surviving dependants amounted to € 64 million (31 December 2016: € 62 million).

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

The following major single items are included in other provisions:

> Restructuring provisions of € 3 million (31 December 2016: €14 million)
> Provisions relating to valuation units € 21 million (31 December 2016: € 22 million)
> Provisions for legal and litigation risks and corresponding default interest payments of € 65 million (31 December 2016: € 75 million)

27 Subordinated Liabilities (Liabilities Side Item No. 8)

This item refers to promissory note loans, bearer bonds and registered bonds. The interest rates for fixed-income issues are between 1.611% p.a. and 8.06% p.a. They mature between 2017 and 2032.

Interest expenses of € 47 million (2016: € 53 million) were incurred for subordinated liabilities. This balance sheet item includes interest in the amount of € 26 million (31 December 2016: € 31 million).

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

Year of issue	Notional in € million	Interest rate in %	Maturity
2017	150	4.600	2027
2017	300	2.875	2027 (callable 2022)

28 Participatory Capital (Liabilities Side Item No. 9)

As of 31 December 2017 and as of 31 December 2016 pbb owed no participatory capital.

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

The fund for general banking risks pursuant to section 340g HGB remained unchanged at € 47 million as of 31 December 2017 (31. December 2016: € 47 million), since no amounts were transferred to or withdrawn from the fund within the financial year 2017.

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

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

in € million	Share capital	Additional paid-in capital	Legal reserve	Other reserves	Retained earnings **Total**	Unappropriated retained earnings/loss (–)	**Total**
Equity as of 1.1.2016	**380**	**1,639**	**13**	**266**	**279**	**58**	**2,356**
Net income/loss	–	–	–	–	–	252	252
Dividend distribution	–	–	–	–	–	–58	–58
Capital transfer	–	–	–	–	–	–	–
Changes in participatory capital	–	–	–	–	–	–14	–14
Allocation to retained earnings	–	–	–	97	97	–97	–
Equity as of 31.12.2016	**380**	**1,639**	**13**	**363**	**376**	**141**	**2,536**
Equity as of 1.1.2017	**380**	**1,639**	**13**	**363**	**376**	**141**	**2,536**
Net income/loss	–	–	–	–	–	237	237
Dividend distribution	–	–	–	–	–	–141	–141
Capital transfer	–	–	–	–	–	–	–
Changes in participation capital	–	–	–	–	–	4	4
Addtions to retained earnings	–	–	–	97	97	–97	–
Equity as of 31.12.2017	**380**	**1,639**	**13**	**460**	**473**	**144**	**2,636**

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

Share capital amounted to € 380,376,059.67 during the entire financial years 2017 and 2016 and is divided into 134,475,308 ordinary bearer shares with no par value representing a theoretical interest in the share capital of approximately € 2.83 per share. pbb did not hold any treasury shares during the entire financial years 2017 and 2016.

For information on authorised and contingent capital please refer to the chapter "Supplemental Information" of the Combined Management Report in pbb Group's Annual Report 2017.

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

In the financial years 2017 and 2016 there were no transfers to or withdrawals from additional paid-in capital.

Except for an amount of €25,383,131.91 (31 December 2016: €25,383,131.91) the additional paid-in capital is freely available pursuant to section 272 (2) no. 4 HGB.

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

The legal reserve remained unchanged in the financial years 2017 and 2016. The amount of €97 million (31 December 2016: €97 million) was transferred from net income to other reserves.

34 Foreign Currency Assets and Liabilities

Foreign currency assets amounted to €8,561 million (31 December 2016: 8,259 million), whereas foreign currency liabilities amounted to 8,519 million (31 December 2016: 8,247 million).

35 Assets transferred as Collateral

The following assets were transferred as collateral for own liabilities:

Assets transferred as collateral

	Carrying amount	
in € million	31.12.2017	31.12.2016
Pledging of securities arising from TLTRO with the ECB	1,797	–
Securities held under repurchase agreements	–	1,713
Securities held connected with EUREX transactions	53	–
Loans and advances held under repurchase agreements	51	69
Pledging of loans and advances as collateral for loans and advances received	234	208
Cash collateral deposited at other banks	1,775	2,064

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

Additionally, cash collateral amounting to €15 million as of balance sheet date (31 December 2016: €11 million) was pledged in connection with bank levies.

36 Loans and Advances and Liabilities to Affiliated and Participated Companies

Loans and advances and liabilities to affiliated and participated companies

in € million	to affiliated companies 31.12.2017	to affiliated companies 31.12.2016	to participated companies 31.12.2017	to participated companies 31.12.2016
Loans and advances to other banks (assets side item no. 2)	–	–	–	–
Loans and advances to customers (assets side item no. 3)	–	7	27	31
Bonds and other fixed-interest securities (assets side item no. 4)	–	–	–	–
Liabilities to other banks (liabilities side item no. 1)	–	–	–	–
Liabilities to customers (liabilities side item no. 2)	12	63	–	–
Securitised liabilities (liabilities side item no. 3)	–	–	–	–
Subordinated liabilities (liabilities side item no. 8)	–	361	–	–

OTHER NOTES

37 Supplemental Disclosures According to Section 28 PfandBG

Mortgage Pfandbriefe outstanding and their cover

in € million	Notional 31.12.2017	Notional 31.12.2016	Present value 31.12.2017	Present value 31.12.2016	Risk-adjusted net present value[1] 31.12.2017	Risk-adjusted net present value[1] 31.12.2016
Total outstanding						
Mortgage Pfandbriefe	14,506	14,163	15,567	15,496	16,135	15,648
Cover Pool	17,061	16,962	18,336	18,353	18,505	17,890
Over-collateralisation	**2,555**	**2,799**	**2,769**	**2,857**	**2,370**	**2,242**
Over-collateralisation in % of Pfandbriefe outstanding	17.6%	19.8%	17.8%	18.4%	14.7%	14.3%
Over-collateralisation in consideration of vdp-credit-quality-differentiation model	2,555	2,799	2,769	2,857	–	–
Over-collateralisation in % of Pfandbriefe outstanding	17.6%	19.8%	17.8%	18.4%	–	–

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

Maturity structure (remaining maturity) notional

in € million	Mortgage Pfandbriefe 31.12.2017	Mortgage Pfandbriefe 31.12.2016	Cover pool 31.12.2017	Cover pool 31.12.2016
up to 0.5 years	539	955	1,710	1,255
more than 0.5 years to 1 year	827	1,862	976	1,155
more than 1 year to 1.5 years	1,743	580	1,429	1,088
more than 1.5 years to 2 years	1,156	827	1,467	1,041
more than 2 years to 3 years	3,270	2,040	2,306	3,105
more than 3 years to 4 years	901	2,334	2,216	2,752
more than 4 years to 5 years	1,633	321	2,066	2,324
more than 5 years to 10 years	2,053	2,915	4,146	3,614
more than 10 years	2,384	2,329	745	628

Further cover assets for Mortgage Pfandbriefe as of 31 December 2017

in € million	Equalisation claims	Money claims: Total money claims	Money claims: thereof: covered bonds	Bonds	**Total**
Belgium	–	–	–	–	**–**
Germany	–	194	–	30	**224**
France	–	46	–	75	**121**
United Kingdom	–	52	–	–	**52**
Italy	–	–	–	205	**205**
Japan	–	–	–	44	**44**
Austria	–	–	–	64	**64**
Poland	–	–	–	–	**–**
Portugal	–	–	–	–	**–**
Slovenia	–	–	–	–	**–**
Spain	–	–	–	–	**–**
Czech Republic	–	–	–	–	**–**
Hungary	–	–	–	–	**–**
Luxembourg	–	170	–	–	**170**
Netherlands	–	–	–	100	**100**
Denmark	–	–	–	42	**42**
Total of all countries	**–**	**462**	**–**	**560**	**1,022**

Further cover assets for Mortgage Pfandbriefe as of 31 December 2016

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

Volume of claims used to cover Mortgage Pfandbriefe, split by countries where the property is located, and by property type as of 31 December 2017

		thereof: residential					
in € million	**Total of used claims**	Apartments	Single-and two-family houses	Multi-family houses	Buildings under con-struction	Building land	**Total residential**
Germany	**7,469**	533	14	1,749	297	–	**2,593**
Belgium	**–**	–	–	–	–	–	**–**
France	**1,932**	–	–	7	–	–	**7**
United Kingdom	**2,572**	26	–	18	–	–	**44**
Netherlands	**339**	–	–	68	–	–	**68**
Austria	**262**	–	–	–	–	–	**–**
Switzerland	**155**	–	–	–	–	–	**–**
USA	**529**	–	–	–	–	–	**–**
Denmark	**–**	–	–	–	–	–	**–**
Finland	**164**	–	–	–	–	–	**–**
Italy	**–**	–	–	–	–	–	**–**
Luxembourg	**39**	–	–	–	–	–	**–**
Norway	**17**	–	–	–	–	–	**–**
Poland	**901**	–	–	–	–	–	**–**
Sweden	**975**	–	–	198	–	–	**198**
Slovakia	**73**	–	–	–	–	–	**–**
Spain	**96**	–	–	–	–	–	**–**
Czech Republic	**288**	–	–	–	–	–	**–**
Hungary	**112**	–	–	–	–	–	**–**
Japan	**–**	–	–	–	–	–	**–**
Romania	**52**	–	–	–	–	–	**–**
Slovenia	**64**	–	–	–	–	–	**–**
Total of all countries	**16,039**	**559**	**14**	**2,040**	**297**	**–**	**2,910**

Volume of claims used to cover Mortgage Pfandbriefe, split by countries where the property is located, and by property type as of 31 December 2017

	thereof: commercial						
in € million	Office buildings	Retail buildings	Industrial buildings	other commercially used buildings	Buildings under con-struction	Building land	**Total commercial**
Germany	2,032	1,214	47	929	507	147	**4,876**
Belgium	–	–	–	–	–	–	**–**
France	1,016	281	98	279	251	–	**1,925**
United Kingdom	731	1,239	14	421	123	–	**2,528**
Netherlands	127	63	–	81	–	–	**271**
Austria	130	112	–	–	20	–	**262**
Switzerland	15	140	–	–	–	–	**155**
USA	400	97	–	32	–	–	**529**
Denmark	–	–	–	–	–	–	**–**
Finland	43	34	87	–	–	–	**164**
Italy	–	–	–	–	–	–	**–**
Luxembourg	15	–	–	24	–	–	**39**
Norway	–	17	–	–	–	–	**17**
Poland	220	468	16	197	–	–	**901**
Sweden	202	373	149	53	–	–	**777**
Slovakia	–	22	–	51	–	–	**73**
Spain	–	96	–	–	–	–	**96**
Czech Republic	78	123	59	28	–	–	**288**
Hungary	70	42	–	–	–	–	**112**
Japan	–	–	–	–	–	–	**–**
Romania	–	52	–	–	–	–	**52**
Slovenia	–	64	–	–	–	–	**64**
Total of all countries	**5,079**	**4,437**	**470**	**2,095**	**901**	**147**	**13,129**

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

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

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

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

Claims used to cover Mortgage Pfandbriefe

	Total amount of payments in arrears for at least 90 days		Total amount of these claims in as much as the respective amount in arrears is at least 5% of the claim	
in € million	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**
Germany	2	2	2	3
France	–	1	–	3
Spain	–	12	–	39
Total of all countries	**2**	**15**	**2**	**45**

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

in € million	31.12.2017	31.12.2016
up to €300 thousand	116	136
more than €300 thousand up to €1 million	258	314
more than €1 million up to €10 million	1,686	1,780
more than €10 million	13,979	13,712
Total	**16,039**	**15,942**

Key figures about outstanding Mortgage Pfandbriefe and cover pool used

in € million		31.12.2017	31.12.2016
Outstanding Mortgage Pfandbriefe		14,506	14,163
thereof fixed-rate Pfandbriefe		92.1%	90.9%
Cover pool		17,061	16,962
thereof total amount of claims which exceed the limits according to section 13 (1) PfandBG		–	–
thereof total amount of the claims which exceed the limits according to section 19 (1) no. 2 PfandBG		–	–
thereof total amount of the claims which exceed the limits according to section 19 (1) no. 3 PfandBG		–	–
thereof fixed-rate cover assets		46.9%	39.5%
Net present value for each foreign currency in € (net of assets and liabilities)	CHF	202	231
	DKK	–	1,964
	GBP	1,273	64
	JPY	61	763
	NOK	18	19
	SEK	566	3
	USD	−10	122
Volume-weighted average time in years (seasoning)		3.4	3.6
Weighted average loan-to-value ratio		54.6%	55.6%
Weighted average loan-to-value ratio, based upon the market value – optional –		36.4%	39.5%

Enforcement measures (assets side nos. 2 and 3)

	Number of cases		thereof: commercial		thereof: residential	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Pending as of 31 December						
Forced sales	5	5	1	1	4	4
Administrative receivership	1	2	–	–	1	2
therof included in pending forced sales	1	2	–	–	1	2
Forced sales in the current financial year	–	–	–	–	–	–

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

Overdue interests (assets side items nos. 2 & 3): Total overdue interests to be paid by mortgage debtors (if not written off in previous periods) amounted to €5 million (31 December 2016: less than 1 million) for commercial purposes and to €13 million (31 December 2016: less than 1 million) for residential purposes.

Public Pfandbriefe outstanding and their cover

	Notional		Present value		Risk-adjusted net present value[1]	
in € million	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Total Outstanding						
Public Pfandbriefe	14,263	16,157	17,374	19,962	16,202	18,442
Cover pool	16,716	19,042	19,854	22,933	18,460	21,176
Over-collateralisation	**2,453**	**2,885**	**2,480**	**2,971**	**2,258**	**2,734**
Over-collateralisation in % of Pfandbriefe outstanding	17.2%	17.9%	14.3%	14.9%	13.9%	14.8%
Over-collateralisation in consideration of vdp-credit-quality-differentiation model	2,453	2,854	2,480	2,938	–	–
Over-collateralisation in % of Pfandbriefe outstanding	17.2%	17.7%	14.3%	14.7%	–	–

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

Maturity structure (remaining maturity) notional

	Public Pfandbriefe		Cover pool	
in € million	31.12.2017	31.12.2016	31.12.2017	31.12.2016
up to 0.5 years	1,156	1,537	1,051	1,182
more than 0.5 years to 1 year	226	371	587	1,194
more than 1 year to 1.5 years	356	1,192	961	999
more than 1.5 years to 2 years	1,992	203	472	887
more than 2 years to 3 years	1,072	2,115	2,337	1,457
more than 3 years to 4 years	576	1,167	722	2,222
more than 4 years to 5 years	622	549	841	807
more than 5 years to 10 years	2,922	3,068	3,135	3,171
more than 10 years	5,341	5,955	6,610	7,123

Volume of claims used to cover Public Pfandbriefe as of 31 December 2017

	Cover assets		thereof owed by				thereof guaranteed by			
in € million	**Total**	thereof granted for reasons of promoting exports	Central state	Regional authorities	Local authorities	Other	Central state	Regional authorities	Local authorities	Other
Germany	**6,892**	858	1,332	3,392	450	383	950	232	153	–
Belgium	**188**	–	–	–	–	–	50	138	–	–
Finland	**142**	–	8	–	37	97	–	–	–	–
France	**2,820**	–	216	964	445	987	–	20	188	–
Greece	**–**	–	–	–	–	–	–	–	–	–
Luxembourg	**–**	–	–	–	–	–	–	–	–	–
Italy	**483**	–	–	405	78	–	–	–	–	–
Japan	**189**	–	129	–	60	–	–	–	–	–
Lithuania	**–**	–	–	–	–	–	–	–	–	–
Netherlands	**24**	–	–	–	–	–	24	–	–	–
Austria	**4,147**	–	3,175	–	–	–	370	526	76	–
Portugal	**349**	–	–	44	–	125	–	180	–	–
Sweden	**40**	–	–	–	40	–	–	–	–	–
Slovakia	**–**	–	–	–	–	–	–	–	–	–
Spain	**865**	–	–	657	105	103	–	–	–	–
Poland	**100**	–	100	–	–	–	–	–	–	–
Switzerland	**50**	–	–	–	–	50	–	–	–	–
Slovenia	**113**	–	–	–	–	–	113	–	–	–
Czech Republic	**–**	–	–	–	–	–	–	–	–	–
Canada	**–**	–	–	–	–	–	–	–	–	–
Denmark	**–**	–	–	–	–	–	–	–	–	–
Hungary	**–**	–	–	–	–	–	–	–	–	–
United Kingdom	**68**	26	–	14	28	–	26	–	–	–
USA	**11**	–	–	–	–	11	–	–	–	–
International Organisations	**235**	–	–	–	–	235	–	–	–	–
Total of all countries	**16,716**	**884**	**4,960**	**5,476**	**1,243**	**1,991**	**1,533**	**1,096**	**417**	**–**

Volume of claims used to cover Public Pfandbriefe as of 31 December 2016

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

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

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

in € million	31.12.2017	31.12.2016
up to €10 million	292	347
more than €10 million up to €100 million	4,280	3,875
more than €100 million	12,144	14,820
Total	**16,716**	**19,042**

Key figures about outstanding Public Pfandbriefe and cover pool used

in € million		31.12.2017	31.12.2016
Outstanding Public Pfandbriefe		14,263	16,157
thereof fixed-rate Pfandbriefe		87.1%	87.6%
Cover pool		16,716	19,042
thereof total amount of the claims which exceed the limits according to section 20 (2) PfandBG		–	–
thereof fixed-rate cover assets section		70.2%	72.1%
Net present value for each foreign currency in € (net of assets and liabilities)	CAD	13	15
	CHF	124	−106
	GBP	−30	80
	JPY	178	186
	USD	321	475

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

The liabilities from guarantees and indemnity agreements of €120 million (31 December 2016: €171 million) were granted in connection with banking business. Prior to granting, the potential guarantee or indemnity holders are subjected to a thorough credit assessment. Any subsequent credit deteriorations are closely monitored, and corresponding provisions are recorded, if appropriate. Potential risks from guarantee or indemnity agreements are reflected through the recognition of additional general allowances. In this connection, pbb does not have any indication that would suggest additional future defaults.

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

The reported amount of irrevocable loan commitments of a total of €4,667 million (31 December 2016: €3,802 million) comprises commitments for mortgage loans of €4,176 million (31 December 2016: €3,253 million) and loan commitments to the public sector in the amount of €491 million (31 December 2016: €540 million). Prior to granting, potential borrowers are subjected to a thorough credit assessment. Any subsequent credit deteriorations are closely monitored, and corresponding provisions are recorded, if appropriate. Potential risks from irrevocable loan commitments are reflected through the recognition of additional general allowances. pbb does not have any indication that would suggest additional future defaults.

40 Off-Balance-Sheet Transactions and Other Financial Commitments

Non-terminable operate lease agreements for land and buildings as well as for operating and business equipment existed as of 31 December 2017 and as of 31 December 2016.

Future minimum lease payments by maturities

in € million	31.12.2017	31.12.2016
up to 1 year	7	7
more than 1 year to 5 years	24	14
more than 5 years	13	2
Total	**44**	**23**

Furthermore, commitments from bank levies existed in the form of pledged collateral in the amount of €15 million (31 December 2016: €11 million).

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

41 Legal Risks (Litigation Risks)

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

The profit participation certificates issued by the predecessor institutions participated in significant losses due to the net losses for the period incurred in the yeras 2008 et. seq. respectively pbb's unappropriated retained losses since this time. The redemption amounts have reduced and interest payment has been suspended. Individual investors therefore initiated legal proceedings, contesting in particular various individual clauses relating to loss participation and replenishment following loss participation. The key questions in this connection are which balance sheet items must be taken into account to calculate loss participation and whether replenishment is required if pbb records a net income, unappropriated retained earnings or another income. Courts have decided against the legal view of pbb in view of the individual decisions regarding profit participation certificates. Some of the court decisions are legally binding; some have been subject to appeals lodged by pbb. At present, legal proceedings with a total amount in dispute of approximately €22 million are pending. These proceedings may result in a partial or comprehensive increase in redemption claims, or in the subsequent distribution of cancelled coupon payments or interest payment claims. Further claims could possibly follow. Whilst pbb endeavours to solve legal disputes by way of out-of-court settlements, it exploits the legal remedies at its disposal when needed.

pbb recognised sufficient provisions for trial costs of first and second instance proceedings at the German fiscal court (Finanzgericht) regarding fiscal authority audit findings affecting one of its predecessor institutions during the period from 2003 to 2008, and the corresponding tax assessment notes, which were issued in 2016.

Hypo Real Estate Bank International AG – a predecessor institution of pbb – issued Credit Linked Notes ("CLNs") in February 2007, within the scope of the Estate UK-3 ("UK-3") synthetic securitisation transaction. The CLNs were issued in order to hedge a portfolio of loans in the UK. The portfolio comprised 13 loans, financing 110 commercial property assets. The CLNs have an aggregate volume of GBP113.68 million, structured in six classes with sequential loss allocation. The biggest individual loan in the portfolio (amounting to approximately GBP176 million) subsequently defaulted, and the underlying collateral was realised in January 2016. The proceeds from realisation were clearly lower than the original collateral value, leading to a default loss of approximately GBP113 million. On 30 November 2016, pbb requested the auditor Deloitte (the Trustee of the UK-3 transaction) to allocate the losses to UK-3 investors. On 13 December 2016, Deloitte has notified pbb that doubts remain as to whether the loss allocation intended by pbb is admissible, and that they will appoint an Expert to decide on that matter. In the second quarter of 2017, the expert was appointed. In pbb's opinion, the prerequisites for the intended allocation of losses have been met. In the event of the loss allocation being fully or partially inadmissible, pbb would have to bear the losses to the corresponding extent.

On 4 July 2017, the German Federal Court of Justice (Bundesgerichtshof, "BGH") determined the inadmissibility of processing fees for corporate loans agreed upon by way of a standard form. pbb still believes that the financing pa-rameters used for complex financing structures in the lending business are generally subject to individual negotiations. pbb recognised sufficient provisions for all doubtful cases.

Moreover, no proceedings exist for which the Management Board believes the probability of an outflow of resources to be likely (or which are of material significance to pbb for other reasons) with an amount in dispute in excess of €5 million. However, pbb is subject to prudential proceedings, which bear the risk of a material outflow of resources.

42 Financial Derivatives

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

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

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

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

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

As at 31 December 2017, the notional volume of the off-balance sheet derivatives amounted to €81,076 million (31 December 2016: €85,039 million). Under the mark-to-market method, the counterparty default risk exposure (before netting) currently amounts to €5,092 million (31 December 2016: €6,316 million), which corresponds to 6.3% (2016: 7.4%) of the notional volume. The fair value of the derivatives was calculated on the basis of generally recognised actuarial models (discounted cash flow method, Black-Scholes model, Hull-White model, Bachelier model).

Financial derivatives (before netting)	Notional amounts					Fair value			
	Remaining maturities			**Total**	**Total**	positive		negative	
in € million	up to 1 year	1 to 5 years	more than 5 years	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**	**31.12.2017**	**31.12.2016**
Interest-based transactions	**28,893**	**24,414**	**22,317**	**75,624**	**79,102**	**5,054**	**6,302**	**5,428**	**6,559**
OTC products									
Interest rate swaps	27,144	17,063	20,655	64,862	69,569	5,046	6,295	5,396	6,512
Interest rate options – calls	135	1,480	76	1,691	3,942	2	5	–	–
Interest rate options – puts	1,614	5,871	1,586	9,071	5,591	6	2	32	47
Currency-based transactions	**4,540**	**507**	**405**	**5,452**	**5,937**	**38**	**14**	**46**	**224**
OTC products									
Forward exchange transactions	3,794	–	–	3,794	4,383	29	8	16	116
Cross-currency swaps	746	507	405	1,658	1,554	9	6	30	108
Total	**33,433**	**24,921**	**22,722**	**81,076**	**85,039**	**5,092**	**6,316**	**5,474**	**6,783**

Financial derivatives (after netting)

in € million	Notional amounts: Remaining maturities up to 1 year	1 to 5 years	more than 5 years	Total 31.12.2017	Total 31.12.2016	Fair value positive 31.12.2017	positive 31.12.2016	negative 31.12.2017	negative 31.12.2016
Interest-based transactions	**28,893**	**24,414**	**22,317**	**75,624**	**79,102**	**3,510**	**4,567**	**3,799**	**4,850**
OTC products									
Interest rate swaps	27,144	17,063	20,655	64,862	69,569	3,502	4,561	3,767	4,803
Interest rate options – calls	135	1,480	76	1,691	3,942	2	4	–	–
Interest rate options – puts	1,614	5,871	1,586	9,071	5,591	6	2	32	47
Currency-based transactions	**4,540**	**507**	**405**	**5,452**	**5,937**	**38**	**14**	**46**	**224**
OTC products									
Forward exchange transactions	3,794	–	–	3,794	4,383	29	8	17	116
Cross-currency swaps	746	507	405	1,658	1,554	9	6	29	108
Total	**33,433**	**24,921**	**22,722**	**81,076**	**85,039**	**3,548**	**4,581**	**3,845**	**5,074**

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

Accrued interest

in € million	31.12.2017 Interest-based transactions	31.12.2017 Currency-based transactions	31.12.2017 Total	31.12.2016 Total
Loans and advance to other banks (assets side item no. 2)	502	–3	499	564
Loans and advance to customers (assets side item no. 3)	31	–	31	37
Sundry assets (assets side item no. 11)	–	–	–	–
Liabilities to other banks (liabilities side item no. 1)	516	1	517	567
Liabilities to customers (liabilities side item no. 2)	1	–	1	1
Sundry liabilities (liabilities side item no. 5)	–	–	–	–
Total	**16**	**–4**	**12**	**33**

Currency effect

in € million	31.12.2017 Interest-based transactions	31.12.2017 Currency-based transactions	31.12.2017 Total	31.12.2016 Total
Sundry assets (assets side item no. 11)	–	79	79	31
Sundry liabilities (liabilities side item no. 5)	–	–	–	143
Total	**–**	**79**	**79**	**–112**

Option an upfront premiums

in € million	31.12.2017 Interest-based transactions	31.12.2017 Currency-based transactions	31.12.2017 Total	31.12.2016 Total
Prepaid expenses (assets side item no. 12)	257	8	265	304
Deferred income (liabilities side item no. 6)	452	30	482	556
Total	**–195**	**–22**	**–217**	**–252**

Pending loss provisions

in € million	31.12.2017 Interest-based transactions	31.12.2017 Currency-based transactions	31.12.2017 Total	31.12.2016 Total
Other provisions (liabilities side item no. 7)	21	–	21	22

43 Credit Derivatives

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

44 Valuation Units

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

Valuation units

in € million	Carrying amounts 31.12.2017	Carrying amounts 31.12.2016
Assets		
Bonds and other fixed-income securities	6,674	7,564
Loans and advances to customers	9,753	7,921
Loans and advances to other banks	300	–
Liabilities		
Securitised liabilities	13,175	14,273
Liabilities to customers	13,974	11,888
Liabilities to other banks	298	3,970
Subordinated liabilities	269	–
Positive fair values (clean) of derivatives	3,332	4,304
Negative fair values (clean) of derivatives	3,650	4,590

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

Hedged risks

in € million	31.12.2017 effective portion	31.12.2017 negative ineffective portion	31.12.2016 effective portion	31.12.2016 negative ineffective portion
Assets				
Bonds and other fixed-income securities	1,372	–	1,748	–
Loans and advances to customers	1,959	–	2,454	–
Loans and advances to other banks	–	–	–	–
Liabilities				
Securitised liabilities	275	2	494	1
Liabilities to customers	2,783	14	3,191	14
Liabilities to other banks	35	–	370	1
Subordinated liabilities	9	–	–	–
Positive fair values of derivatives	3,183	–	4,142	–
Negative fair values of derivatives	3,412	5	4,289	6

The negative, ineffective portion, in total €21 million (2016: €22 million), represents the effects resulting from valuation units with a negative ineffectiveness, for which a provision for pending losses from executory contracts has to be recorded. In the current financial year, provisions for pending losses were reversed accordingly in the amount of €1 million (2016: €7 million). The provision for pending losses as at 31 December 2017 account for €21 million (2016: €22 million).

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

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

45 Board Members

Supervisory Board of pbb in financial year 2017

Name and place of residence Function in Supervisory Board	**Principal occupation** Functions in the Committees of the Supervisory Board	**Supervisory Board memberships and other directorships in 2017**
Dr Günther Bräunig Frankfurt/Main, Germany Chairman	**Deputy CEO of KfW (CEO since 1.1.2018)** Chairman of the Executive and Nomination Committee and of the Remunaration Committee, Member of the Audit Committee and of the Risk Management and Liquidity Strategy Committee	**True Sale International GmbH, Frankfurt/Main, Germany** – Chairman of the Shareholder's Advisory Board
Dagmar Kollmann Vienna, Austria Deputy Chairman	**Entrepreneur** Chairman of the Audit Committee and Member of the Executive and Nomination Committee and of the Remunaration Committee	**Deutsche Telekom AG, Bonn, Germany** – Member of the Supervisory Board **KfW IPEX-Bank GmbH, Frankfurt/Main, Germany** – Member of the Supervisory Board **Bank Gutmann AG, Vienna, Austria** – Member of the Supervisory Board **Unibail-Rodamco SE, Paris, France** – Member of the Supervisory Board
Dr Thomas Duhnkrack Kronberg/Taunus, Germany Member	**Entrepreneur** Member of the Audit Committee	**Hauck & Aufhäuser Privatbankiers AG, Frankfurt/Main, Germany** – Member of the Supervisory Board **Lloyd Fonds AG, Hamburg, Germany** – Deputy Chairman of the Supervisory Board (until 10.12.2017)
Dr Christian Gebauer-Rochholz Hochheim, Germany Employee Representative	**Bank employee**	–
Georg Kordick Poing, Germany Employee Representative	**Bank employee**	–
Joachim Plesser Ratingen, Germany Member	**Consultant** Chairman of the Risk Management and Liquidity Strategy Committee, Member of the Executive and Nomination Committee and of the Remunaration Committee	**Commerz Real Investmentgesellschaft mbH, Wiesbaden, Germany** Member of the Supervisory Board **DIC Beteiligungs AG, Frankfurt/Main, Germany** – Member of the Supervisory Board **GEG German Estate Group AG, Frankfurt/Main, Germany** – Member of the Supervisory Board **Pandion AG, Cologne, Germany** – Chairman of the Supervisory Board
Oliver Puhl Frankfurt/Main, Germany Member	**Entrepreneur** Member of the Risk Management and Liquidity Strategy Committee	–
Heike Theißing Munich, Germany Employee Representative	**Bank employee** Member of the Remunaration Committee	–
Dr Hedda von Wedel Andernach, Germany Member	**President of the Bundesrechnungshof (retired)** Member of the Audit Committee and of the Risk Management and Liquidity Strategy Committee	–

Management Board of pbb in financial year 2017

Name and place of residence	Function in the Management Board	Supervisory Board memberships
Andreas Arndt Munich, Germany	CEO/CFO	–
Thomas Köntgen Frankfurt/Main, Germany	Deputy CEO Treasury and Real Estate Finance (including Credit Markets/Public Fincance since1.5.2017)	–
Andreas Schenk Dreieich, Germany	CRO	–
Dr Bernhard Scholz Regensburg, Germany	Credit Markets/Public Fincance (until 30.4.2017)	–

46 Disclosures According to Section 340a (4) No. 1 HGB

In the financial years 2017 and 2016, neither the legal representatives nor other employees held offices in legally prescribed supervisory boards of large corporations within the meaning of section 267 (3) HGB.

47 Employees According to Section 340a (4) No. 2 HGB

Average number of employees

	2017	2016
Employees (excluding apprentices)	777	795
Thereof: senior staff in Germany	18	17
Total	**777**	**795**

48 Disclosures According to Section 285 Nos. 9 HGB

Remuneration paid to Management Board members of pbb

	2017[1)]	
in € thousand	Remuneration	**Total**
Management Board members who were in office during the financial year 2017	2,557	2,557
Management Board members who retired prior to the financial year 2017	–	–
Total	**2,557**	**2,557**

[1)] Remuneration paid to Management Board members who were in office during the financial year 2016 amounted to € 3,068 thousand. Management Board members who retired prior the financial year 2016 did not receive any remuneration in 2016.

As of balance sheet date, there were no receivables to related persons from loans or advances or other commitments.

Provisions for pensions under HGB

	31.12.2017[1)]	
in € thousand	Additions	**Total**
Management Board members who were in office during the financial year 2017	1,477	3,803
Management Board members who retired prior to the financial year 2017	–340	52,399
Total	**1,137**	**56,202**

[1)] Provisions for pensions to Management Board members who were in office during the financial year 2016 amounted to € 2,326 thousand as of 31 December 2016. Provisions for pensions to Management Board members who were retired prior the financial year 2016 amounted to € 52,739 thousand as of 31 December 2016.

Remuneration paid to Supervisory Board members of pbb

in € thousand	2017[1)] Total fixed remuneration
Supervisory Board members who were in office during the financial year 2017	694
Supervisory Board members who retired prior to the financial year 2017	–
Total	**694**

[1)] Remuneration paid to Supervisory Board members who were in office during the financial year 2016 amounted to € 668 thousand in the year 2016. Supervisory Board memebers who retired prior the financial year 2016 did not receive any remuneration in 2016.

The remuneration of the Management Board members and the Supervisory Board members is disclosed (including the corresponding tables) on an individual basis in the Remuneration Report included in the Combined Management Report. Except from the employee representatives in the Supervisory Board who receive remuneration from pbb based on their employment contracts, other Supervisory Board members did not receive any remuneration in 2017 for services rendered in person in line with no. 5.4.6 of the German Corporate Coverance Kodex (Deutscher Corporate Governance Kodex – DCGK).

49 Disclosures of Contingecies According to Section 34 (2) No. 4 RechKredV

Liabilities from contingencies within the meaning of section 251 HGB are disclosed off-balance sheet, as well as in the notes “Contingent Liabilities (Off-Balance-Sheet Item No. 1b)” and „Other commitments (Off-Balance-Sheet Item No. 2c)” as well as “Off-Balance-Sheet Transactions And Other Financial Commitments”.

50 Disclosures According to Section 26 et seq WpHG [Section 21 et seq WpHG old version]

In accordance with section 160 (1) No. 8 AktG, disclosures have to be made in relation to the existence of shareholdings of which pbb received notifications pursuant to section 26 (1), (1a) WpHG [section 21 (1), (1a) WpHG old version]. In addition to the legal requirements, we also disclose the reportable options pursuant to section 31 WpHG [section 25 WpHG old version] as well as voting rights and options pursuant to section 32 WpHG [section 25a WpHG, old version] notified respectively in the financial year 2017, in the following table. All notifications of shareholdings were published by pbb in the financial year 2017 pursuant to section 33 (1) WpHG [section 26 (1) WpHG old version] and are available, amongst others, online under www.pfandbriefbank.com/en/investors. Please note that the disclosures on shareholdings may have become outdated in the meantime.

Notifying party	Date of reaching, exceeding or falling below the threshold	Notification pursuant WpHG (old version)	Notified holding (voting rights and/or options) in %	Voting rights	Options	Total voting rights and options
Matthew Wood	13.1.2017	section 21, 25	5.03	1,185,776	5,582,145	6,767,921
Ministry of Finance Norway/Norges Bank	19.1.2017	section 21	3.05	4,098,423	–	4,098,423
Matthew Wood	25.1.2017	section 21, 25	0.00	–	–	–
Ministry of Finance Norway/Norges Bank	31.1.2017	section 21	2.99	4,030,235	–	4,030,235
Ministry of Finance Norway/Norges Bank	6.2.2017	section 21	3.01	4,045,575	–	4,045,575
Ministry of Finance Norway/Norges Bank	8.2.2017	section 21	2.98	4,004,162	–	4,004,162
Artemis Investment Management LLP	10.2.2017	section 21	2.99	4,018,687	–	4,018,687
Ministry of Finance Norway/Norges Bank	15.2.2017	section 21	3.47	4,666,677	–	4,666,677
Lancaster Investment Management LLP	1.3.2017	section 25a	4.88	1,257,708	5,311,322	6,569,030
Artemis Investment Management LLP	8.3.2017	section 21	3.39	4,554,545	–	4,554,545
Morgan Stanley	22.3.2017	section 21, 25, 25a	0.93	840,357	410,759	1,251,116
Morgan Stanley	18.4.2017	section 25a	6.30	1,850,096	6,628,051	8,478,147
Union Investment Privatfonds GmbH	2.5.2017	section 21	3.58	4,808,216	–	4,808,216
Morgan Stanley	2.5.2017	section 25	6.13	1,480,260	6,756,454	8,236,714
Morgan Stanley	4.5.2017	section 21, 25, 25a	0.89	766,246	434,676	1,200,922
Union Investment Privatfonds GmbH	8.5.2017	section 21	1.31	1,768,216	–	1,768,216
Ministry of Finance Norway/Norges Bank	30.5.2017	section 21	2.97	3,996,111	–	3,996,111
Ministry of Finance Norway/Norges Bank	1.6.2017	section 21	3.09	4,160,605	–	4,160,605
Artemis Investment Management LLP	31.5.2017	section 21	2.92	3,925,825	–	3,925,825
MainFirst SICAV	24.8.2017	section 21	5.02	6,746,907	–	6,746,907
JPMorgan Chase & Co.	21.9.2017	section 21, 25a	5.02	6,472,082	277,209	6,749,291
JPMorgan Chase & Co.	26.9.2017	section 21, 25a	0.44	24,671	572,624	597,295

51 Consolidated Financial Statements according to Section 285 No. 14a HGB

pbb, as the ultimate parent company, prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements are published in the electronic German Federal Gazette (elektronischer Bundesanzeiger). The consolidated financial statements are also available online under www.pfandbriefbank.com/en/investors.

52 Exceptional Scale Individual Income and Expenses according to Section 285 No. 31 HGB

No exeptional scale income or expenses resulted in financial year 2017. In the previous year, a positive effect in the amount of €104 million resulted from an agreement with the Republic of Austria regarding the securities of Heta Asset Resolution AG.

53 Appropriation of Net Income according to Section 285 No. 34 HGB

Based on unappropriate retained earnings in accordance with the HGB for the financial year 2017 in the amount of €143,888,579.56 the Management Board and the Supervisory Board will propose the payment of a dividend of €1,07 per dividend-entitled share to the Annual General Meeting; this corresponds to a total dividend payout of €143,888,579.56 based on the total number of shares issued (134,475,308).

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

The Management Board and Supervisory Board of pbb resolved on a new dividend policy on 1 March 2018: The current pay-out ratio of between 40% and 50% of consolidated profit after taxes in accordance with IFRS is set to be raised to a regular dividend of 50% plus a special dividend of 25%, until 2019 inclusive. The dividend policy is subject to regular review against legal and regulatory requirements, as well as in terms of commercial viability.

No further significant events occured after 31 December 2017.

55 Statement of Compliance with the German Corporate Governance Kodex

The statement of compliance with the German Corporate Governance Kodex of Management Board and Supervisory Board is published online under www.pfandbriefbank.com/en/investors/mandatory-publications.

Munich, 6 March 2018

Deutsche Pfandbriefbank AG
The Management Board

Andreas Arndt | Thomas Köntgen | Andreas Schenk

Responsibility Statement

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

Munich, 6 March 2018

Deutsche Pfandbriefbank AG
The Management Board

Andreas Arndt **Thomas Köntgen** **Andreas Schenk**

Independent Auditor's Report

[Note: This is a translation of the German original. Solely the original text in German language is authoritative.]

To Deutsche Pfandbriefbank AG, Munich

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE COMBINED MANAGEMENT REPORT

Opinions

We have audited the annual financial statements of Deutsche Pfandbriefbank AG, which comprise the balance sheet as at 31 December 2017 and the statement of profit or loss for the financial year from 1 January 2017 to 31 December 2017, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Deutsche Pfandbriefbank AG and the Group (combined management report) for the financial year from 1 January 2017 to 31 December 2017. In accordance with the German legal requirements we have not audited the content of the corporate governance statement/corporate governance report which is included in the "Other disclosures" section of the combined management report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2017 and of its financial performance for the financial year from 1 January 2017 to 31 December 2017 in compliance with German Legally Required Accounting Principles, and
- the accompanying combined management report as a whole provides an appropriate view of the Company's position. In all material respects, this combined management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the combined management report does not cover the content of the corporate governance statement/corporate governance report mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the combined management report.

Basis for the Opinions

We conducted our audit of the annual financial statements and of the combined management report in accordance with Section 317 HGB and EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the combined Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the

EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the combined management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements for the financial year from 1 January to 31 December 2017. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Determination of specific loan loss provisions for the Real Estate Finance segment
For the accounting policies and assumptions applied, please refer to the disclosures in the notes, section 2 "Accounting Policies".

The Financial Statemet Risk
Net expenses arising from specific loan loss provisions, provisions and direct impairments on loans amounted to EUR 2 million as at 31 December 2017 (PY: net income of EUR 4 million).

Determining specific loan loss provisions requires judgements and estimates of future cash flows from principal and interest payments by borrowers and/or the use of loan collateral provided depending on the restructuring or settlement strategy specified for the loan commitment. Expectations as to rental and sales success also have an effect on the valuation of collateral for the purpose of real estate financing. This has implications in particular with regard to expected future market developments and the associated changes in cash flows from ongoing management of the mortgaged property.

Therefore, it was of particular significance with respect to our audit that specific loan loss provisions were recognised in sufficient or the necessary amount and that appropriate assumptions were made when determining specific loan loss provisions with regard to the borrowers' capacity to repay principal and interest and regarding estimates of future cash flows from the use of loan collateral provided.

Our Audit Approach
Based on our risk assessment and evaluation of the risks of material misstatement, we used both control-based and substantive audit procedures for our audit opinion. We therefore performed the following audit procedures, among others:

In a first step, we gained a better understanding of the performance of the credit portfolio, the associated credit risks and the internal control system with regard to identifying, controlling, monitoring and evaluating credit risks for the credit portfolio.

To identify particular risk attributes, we conducted IT-based analyses of the entire credit portfolio. We analysed the credit portfolio on the basis of various product types and with respect to the presence of early warning indicators pointing to increased credit risk.

To assess the appropriateness of the internal control system with regard to identifying, controlling, monitoring and evaluating credit risks for the credit portfolio we conducted interviews and inspected the procedural and process documentation. In addition, we verified that proper controls were implemented and that they are effective to ensure adherence to the procedure for determining specific loan loss provisions. For the IT systems used, we verified the effectiveness of rules and procedures relating to numerous IT applications and supporting the effectiveness of application controls, with the involvement of our IT experts.

By taking into account the early warning indicators, we confirmed the recoverability of receivables using a risk-based selection of individual items and in doing so particularly assessed the estimates of future cash flows based on borrowers' credit ratings and/or the use of loan collateral provided, depending on the restructuring or settlement strategy specified for the loan commitment. For the purposes of impairment-testing of the underlying collateral, we used appraisals from independent experts for our opinion as well as publicly available data to assess whether the assumptions used for the independent expert opinions were properly derived. We also confirmed the competence, professional skills and impartiality of the experts based on interviews and publicly available information on the experts engaged.

Our Observations

Judgements were properly exercised as at 31 December 2017 with respect to assumptions about the amount of expected future cash flows based on borrowers' credit ratings and/or the use of loan collateral provided to determine specific loan loss provisions for the Real Estate Finance segment and were made in accordance with the applicable accounting standards.

Valuation of the receivable underlying Reference Claim No 3 relating to the securitised transaction "Estate UK-3"

Please refer to section 41 "Legal risks (litigation risk)" of the notes and the "Forecast" section of the combined management report for the risks relating to the securitised transaction Estate UK-3.

The Financial Statement Risk

Deutsche Pfandbriefbank AG, the legal successor of Hypo Real Estate Bank International AG, Stuttgart, issues credit linked notes in connection with the securitised transaction Estate UK-3. These credit linked notes secure the credit risk of a UK credit portfolio of Deutsche Pfandbriefbank AG, provided the requirements for loss allocation in accordance with the terms of the credit linked notes are fulfilled. A default affecting one of the hedged exposures (Reference Claim No 3) has caused a loss of approximately GBP 113 million, and a request has been made by Deutsche Pfandbriefbank AG to allocate this loss to the credit linked notes. The trustee of the transaction has raised doubts as to the permissibility of loss allocation and has appointed an expert who will decide on whether the loss allocation is justified.

As it is considered highly likely that the loss will be allocated in full to the credit linked notes, Deutsche Pfandbriefbank AG does not recognise any risk provisions for the receivable underlying Reference Claim No 3. In the event of the loss allocation being fully or partially impermissible, Deutsche Pfandbriefbank AG would have to bear the losses to that extent.

Material judgements are exercised in relation to Estate UK-3, particularly with regard to the legal assessment of the prospects of success of the loss allocation request during the expert proceedings. Based on opinions provided by legal firms, Deutsche Pfandbriefbank AG as at 31 December 2017 assumed that the contract terms and conditions were fulfilled and consequently that the expert will confirm the permissibility of loss allocation.

There is the risk for the financial statements that receivables are overvalued in the event that loss allocation is not feasible

Our Audit Approach
Our risk assessment and evaluation of the risks of material misstatement are based in particular on an assessment of the adequacy of internal control with regard to credit risk and our understanding of the transaction and its legal basis. As a result, our opinion was based on substantive audit procedures. We therefore performed the following audit procedures, among others:

We obtained and used confirmations from lawyers who were commissioned by the Bank to provide a legal assessment of the prospects of success of the requested loss allocation. We also confirmed the competence, professional skills and impartiality of these lawyers based on interviews conducted with Deutsche Pfandbriefbank AG's management as well as publicly available information on the lawyers engaged. We also tasked experts of KPMG Rechtsanwalts GmbH with assessing the prospects of success and included their opinion in our evaluation of Deutsche Pfandbriefbank AG's assessment of the prospects of success.

Our Observations
The judgements exercised as at 31 December 2017 were reasonable with respect to determining the risk provisions for the receivable underlying Reference Claim No 3. The assumptions and estimates used for determining specific loan loss provisions, especially with regard to the legal enforceability of the requested loss application, were plausibly derived from the available information.

Other Information

Management is responsible for the other information. The other information comprises:
> the corporate governance statement/corporate governance report, and
> the remaining parts of the annual report, with the exception of the audited annual financial statements and combined management report and our auditor's report.

Our opinions on the annual financial statements and on the combined management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information
> is materially inconsistent with the annual financial statements, with the combined management report or our knowledge obtained in the audit, or
> otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Annual Financial Statements and the combined Management Report

Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to banks, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of the combined management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the combined management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the combined Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

> obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
> evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
> conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
> evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
> evaluate the consistency of the combined management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.
> perform audit procedures on the prospective information presented by management in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 30 May 2017. We were engaged by the chairperson of the audit committee of the supervisory board on 25 July 2017. We have been the auditor of Deutsche Pfandbriefbank AG and its legal predecessors without interruption for more than 20 years.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Markus Winner.

Munich, 7 March 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft
[original German version signed by:]

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

Future-oriented statements

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

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The German version of these Annual Financial Statements and of the Combined Management Report are the authoritative versions and only these German versions were audited by the auditors.

Deutsche Pfandbriefbank AG
Freisinger Strasse 5
85716 Unterschleissheim
Germany

T +49 (0)89 2880-0
F +49 (0)89 2880-10319
info@pfandbriefbank.com
www.pfandbriefbank.com