

# Interim Report as of 30 June 2017

Deutsche Pfandbriefbank Group

PUBLIC SECTOR FINANCE  
REAL ESTATE FINANCE



DEUTSCHE  
PFANDBRIEFBANK

# Overview

## Deutsche Pfandbriefbank Group (pbb Group)

|   |              | 1.1.–30.6.2017        | 1.1.–30.6.2016                  |
|---|--------------|-----------------------|---------------------------------|
| <b>Operating performance according to IFRS</b>                      |              |                       |                                 |
| Profit or loss before tax   | in € million | 103                   | 87                              |
| Net income/loss   | in € million | 85                    | 66                              |
| <b>Key ratios</b>   |              | <b>1.1.–30.6.2017</b> | <b>1.1.–30.6.2016</b>           |
| Earnings per share  | in €         | 0.63                  | 0.49                            |
| Cost-income ratio   | in %         | 50.2                  | 51.9                            |
| Return on equity before tax   | in %         | 7.4                   | 6.5                             |
| Return on equity after tax  | in %         | 6.1                   | 4.9                             |
| New business volume <sup>1)</sup>                                   | in € billion | 5.0                   | 4.7                             |
| <b>Balance sheet figures according to IFRS</b>                      |              | <b>30.6.2017</b>      | <b>31.12.2016</b>               |
| Total assets  | in € billion | 60.7                  | 62.6                            |
| Financing volumes Real Estate Finance and Public Investment Finance | in € billion | 32.0                  | 31.5                            |
| Equity  | in € billion | 2.7                   | 2.8                             |
| <b>Key regulatory capital ratios</b>                                |              | <b>30.6.2017</b>      | <b>31.12.2016 <sup>2)</sup></b> |
| CET1 ratio  | in %         | 19.6                  | 19.5                            |
| CET1 ratio fully phased-in  | in %         | 19.4                  | 19.0                            |
| Own funds ratio   | in %         | 24.9                  | 23.7                            |
| Own funds ratio fully phased-in                                     | in %         | 24.8                  | 20.7                            |
| Leverage ratio  | in %         | 4.3                   | 4.6                             |
| Leverage ratio fully phased-in                                      | in %         | 4.3                   | 4.2                             |
| <b>Staff</b>  |              | <b>30.6.2017</b>      | <b>31.12.2016</b>               |
| Employees (on full-time equivalent basis)                           |              | 741                   | 756                             |

<sup>1)</sup> Including prolongations with maturities of more than one year.

<sup>2)</sup> After confirmation of the 2016 financial statements and appropriation of profits.

## Senior unsecured ratings and ratings for Pfandbriefe of Deutsche Pfandbriefbank AG (pbb)<sup>1)</sup>

|  | 30.6.2017         |                   |         | 31.12.2016                  |                   |         |
|--|-------------------|-------------------|---------|-----------------------------|-------------------|---------|
|  | Standard & Poor's | DBRS              | Moody's | Standard & Poor's           | DBRS              | Moody's |
| Long-term issuer rating/outlook                                      | A-/Negative       | BBB/Stable        | –       | BBB/Credit Watch Positive   | BBB/Stabil        | –       |
| Short-term issuer rating   | A-2               | R-2 (high)        | –       | A-2                         | R-2 (high)        | –       |
| Long-term "preferred" senior unsecured debt rating <sup>2)</sup>     | A-                | BBB <sup>4)</sup> | –       | BBB/Credit Watch Developing | BBB               | –       |
| Long-term "non-preferred" senior unsecured debt rating <sup>3)</sup> | BBB-              | BBB <sup>4)</sup> | –       | N/A <sup>4)</sup>           | N/A <sup>4)</sup> | –       |
| Public sector Pfandbriefe  | –                 | –                 | Aa1     | –                           | –                 | Aa1     |
| Mortgage Pfandbriefe   | –                 | –                 | Aa1     | –                           | –                 | Aa1     |

<sup>1)</sup> Ratings provided by mandated rating agencies; overview does not contain all ratings/outlooks.

<sup>2)</sup> S&P: "Senior Unsecured Debt"; DBRS: "Senior Unsecured Debt".

<sup>3)</sup> S&P: "Senior Subordinated Debt"; DBRS: "Senior Unsecured Debt".

<sup>4)</sup> As at 31 December 2016, the intended split of S&P's rating class for "senior unsecured debt" was not implemented; at present, DBRS does formally not differentiate in this respect.

### Information due to rounding

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

### Explanation of alternative performance measures

For further information regarding the definition, usefulness and calculation of alternative performance measures see „Investor Relations/ Financial Reports" at [www.pfandbriefbank.com](http://www.pfandbriefbank.com).

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# GROUP INTERIM MANAGEMENT REPORT

## Report on Economic Position

### DEVELOPMENT IN EARNINGS

#### Deutsche Pfandbriefbank Group ("pbb Group")

During the period under review (1 January to 30 June 2017 – referred to as "6m2017" below), pbb Group generated €103 million in profit before tax, a clear improvement from the €87 million generated in the same period of the previous year (1 January to 30 June 2016 – referred to as "6m2016"). The positive development was driven mainly by net interest income, which accelerated despite the intensive competitive environment. Furthermore, the result benefited from the sale of assets held in pbb's non-strategic Value Portfolio. Loan loss provisions remained at a balanced level, thanks to pbb Group's conservative risk policy and the benign market environment.

#### pbb Group

|  |              | 1.1.–30.6.<br>2017 | 1.1.–30.6.<br>2016 | Change |
|--|--------------|--------------------|--------------------|--------|
| <b>Operating performance</b>           |              |                    |                    |        |
| Operating income                       | in € million | 203                | 181                | 22     |
| Net interest and commission income     | in € million | 211                | 198                | 13     |
| Net interest income                    | in € million | 206                | 195                | 11     |
| Net fee and commission income          | in € million | 5                  | 3                  | 2      |
| Net trading income                     | in € million | –                  | –7                 | 7      |
| Net income from financial investments  | in € million | 1                  | 5                  | –4     |
| Net income from hedging relationships  | in € million | 1                  | –                  | 1      |
| Net other operating income/expenses    | in € million | –10                | –15                | 5      |
| Loan loss provisions                   | in € million | –                  | –                  | –      |
| General and administrative expenses    | in € million | –102               | –94                | –8     |
| Net miscellaneous income/expenses      | in € million | 2                  | –                  | 2      |
| Profit or loss before tax              | in € million | 103                | 87                 | 16     |
| Income taxes                           | in € million | –18                | –21                | 3      |
| Net income/loss                        | in € million | 85                 | 66                 | 19     |
| <b>Key ratios</b>                      |              |                    |                    |        |
| Earnings per share (basic and diluted) | in €         | 0.63               | 0.49               |        |
| Cost-income ratio                      | in %         | 50.2               | 51.9               |        |
| Return on equity before tax            | in %         | 7.4                | 6.5                |        |
| Return on equity after tax             | in %         | 6.1                | 4.9                |        |

## Operating Income

Net interest income increased to €206 million during the period under review (6m2016: €195 million). The increase was due to lower interest expenses, which declined reflecting maturities of higher-yielding liabilities. Non-recurring income from prepayment penalties amounted to €16 million, thus slightly ahead of the previous year's level (6m2016: €14 million). At €31.8 billion, the average aggregate volume of interest-bearing financing volumes in Real Estate Finance and Public Investment Finance was marginally above the same period of the previous year (6m2016: €31.3 billion), whereas the volume of the non-strategic Value Portfolio continued to decline, in line with pbb's strategy. During the first half of 2017, the average margin of the overall portfolio slightly expanded compared to the same period of the previous year.

Net fee and commission income from non-accrual fees amounted to €5 million (6m2016: €3 million).

pbb Group disclosed a balanced net trading income (6m2016: €-7 million). The pull-to-par effect, according to which the market value of derivatives approaches zero towards maturity, translated into expenses of €4 million (6m2016: €7 million); measurement effects of interest rate and exchange rate induced derivatives resulted in expenses of €1 million (6m2016: income of €8 million). This was offset by income from the credit risk measurement of pbb as well as its derivatives counterparties (the so-called bilateral Credit Valuation Adjustment) in the amount of €5 million (6m2016: expenses of €8 million).

Reversals of portfolio-based allowances resulting from the changed internal risk classification for a Southern European region contributed to the positive net income from financial investments of €1 million (6m2016: €5 million). In the same period of the previous year, net income from financial investments resulted in particular from the disposal of securities held in the liquidity buffer.

The net income from hedging relationships of €1 million (6m2016: €0 million) was due exclusively to ineffective portions from fair value micro-hedge relationships within the range permitted under IAS 39 (80% to 125%).

Net other operating income/expenses (€-10 million; 6m2016: €-15 million) included the bank levy for the full year of 2017. Taking into account pledged collateral amounting to 15%, pbb Group recognised expenses of €19 million (6m2016: €21 million). Additional effects from various matters totalled in a positive amount of €9 million: the sale of assets held in pbb's non-strategic Value Portfolio, and VAT reimbursements, more than offset the expenses incurred from additions to provisions and the impairment losses recognised in connection with a salvage acquisition.

### **Loan Loss Provisions**

As in the same period of the previous year, loan loss provisions were flat. Whilst specific allowances for a small number of real estate finance exposures were raised by €4 million net (6m2016: €1 million), portfolio-based allowances of €4 million net were reversed (6m2016: €0 million). Additional income of €1 million was recognised during the same period of the previous year from the reversal of provisions for contingent liabilities and other obligation.

### **General and Administrative Expenses**

General and administrative expenses rose to €102 million (6m2016: €94 million). During the first half of 2016, personnel expenses benefited from the utilisation of provisions recognised in previous periods. During the first half of 2017, personnel expenses reached a normalised level, whilst the staffing level declined. The increase in non-personnel expenses was due in particular to a Bank-wide project for the optimisation of the finance and risk IT target architecture, which comprises, inter alia, the implementation of the requirements resulting from IFRS 9 and regulatory changes as well as the adjustment of the IT systems and processes used to prepare financial statements.

### **Net Miscellaneous Income/Expenses**

Net miscellaneous income/expenses in the amount of €2 million (6m2016: €0 million) was due to the reversal of restructuring provisions.

### **Income Taxes**

Expenses for current taxes of €22 million (6m2016: €12 million) and income from deferred taxes in the amount of €4 million (6m2016: expenses of €9 million) resulted in a total tax expense of €18 million (6m2016: €21 million).

## Operating Segments

### Real Estate Finance (REF)

The REF segment comprises all strategic real estate financing arrangements. New business volume (including extensions with maturities of more than one year) totalled €4.5 billion and was thus on par with the same period of the previous year.

### Real Estate Finance

|  |              | 1.1.–30.6.<br>2017 | 1.1.–30.6.<br>2016 | Change |
|--|--------------|--------------------|--------------------|--------|
| <b>Operating performance</b>           |              |                    |                    |        |
| Operating income                       | in € million | 159                | 142                | 17     |
| Net interest and commission income     | in € million | 172                | 155                | 17     |
| Net interest income                    | in € million | 167                | 152                | 15     |
| Net fee and commission income          | in € million | 5                  | 3                  | 2      |
| Net trading income                     | in € million | 2                  | –7                 | 9      |
| Net income from financial investments  | in € million | –                  | 3                  | –3     |
| Net income from hedging relationships  | in € million | 1                  | –                  | 1      |
| Net other operating income/expenses    | in € million | –16                | –9                 | –7     |
| Loan loss provisions                   | in € million | –1                 | –                  | –1     |
| General and administrative expenses    | in € million | –81                | –73                | –8     |
| Net miscellaneous income/expenses      | in € million | 2                  | –                  | 2      |
| Profit or loss before tax              | in € million | 79                 | 69                 | 10     |
| <b>Key ratio</b>                       |              |                    |                    |        |
| Cost-income ratio                      | in %         | 50.9               | 51.4               |        |
| <b>Balance-sheet-related measures</b>  |              |                    |                    |        |
|  |              | <b>30.6.2017</b>   | <b>31.12.2016</b>  |        |
| Financing volumes                      | in € billion | 24.4               | 24.1               |        |
| Exposure at Default <sup>1)</sup>      | in € billion | 27.3               | 27.1               |        |
| Risk-weighted assets <sup>2)</sup>     | in € billion | 6.5                | 6.4                |        |
| Equity (excluding revaluation reserve) | in € billion | 0.6                | 0.6                |        |

<sup>1)</sup> For details see Risk and Opportunity Report.

<sup>2)</sup> Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5.

**Operating Income** At €167 million, net interest income was higher than the figure for the previous year's period (€152 million). The driving factor here was lower interest expenses, which declined due to maturities of higher-yielding liabilities. At €24.2 billion, the average financing volume was slightly higher than the figure for the previous year's period (€24.0 billion). Income from prepayment penalties stood at €7 million (6m2016: €6 million). Net fee and commission income from non-accruable fees amounted to €5 million (6m2016: €3 million). Net trading income stood at €2 million (6m2016: €–7 million) and was supported by bilateral Credit Valuation Adjustment effects. Net other operating income/expenses in the amount of €–16 million (6m2016: €–9 million) was burdened in particular by the allocated bank levy.

**Loan Loss Provisions** Net additions to loan loss provisions amounted to €1 million (6m2016: €0 million). Specific provisions in the amount of €4 million net were recognised (6m2016: €1 million), whilst portfolio-based allowances in the amount of €3 million net were reversed (6m2016: €0 million). Income of €1 million was recognised during the same period of the previous year from the reversal of provisions for contingent liabilities and other obligations.

**General and Administrative Expenses** General and administrative expenses increased to €81 million (6m2016: €73 million). In the previous year's period, personnel expenses benefited from the utilisation of provisions. Hence, personnel expenses reached a normalised level in the first half of 2017. The rise in non-personnel expenses was due to increasing regulatory requirements.

## Public Investment Finance (PIF)

The PIF segment comprises all strategic financings of public infrastructure projects which are eligible for inclusion in Pfandbrief cover. The volume of new business increased to €0.5 billion (6m2016: €0.2 billion).

## Public Investment Finance

|  |              | 1.1.–30.6.<br>2017 | 1.1.–30.6.<br>2016 | Change |
|--|--------------|--------------------|--------------------|--------|
| <b>Operating performance</b>           |              |                    |                    |        |
| Operating income                       | in € million | 14                 | 18                 | –4     |
| Net interest and commission income     | in € million | 18                 | 18                 | –      |
| Net interest income                    | in € million | 18                 | 18                 | –      |
| Net fee and commission income          | in € million | –                  | –                  | –      |
| Net trading income                     | in € million | –1                 | –                  | –1     |
| Net income from financial investments  | in € million | 1                  | 1                  | –      |
| Net income from hedging relationships  | in € million | –                  | –                  | –      |
| Net other operating income/expenses    | in € million | –4                 | –1                 | –3     |
| Loan loss provisions                   | in € million | –                  | –                  | –      |
| General and administrative expenses    | in € million | –14                | –13                | –1     |
| Net miscellaneous income/expenses      | in € million | –                  | –                  | –      |
| Profit or loss before tax              | in € million | –                  | 5                  | –5     |
| <b>Key ratio</b>                       |              |                    |                    |        |
| Cost-income ratio                      | in %         | 100.0              | 72.2               |        |
| <b>Balance-sheet-related measures</b>  |              |                    |                    |        |
|  |              | <b>30.6.2017</b>   | <b>31.12.2016</b>  |        |
| Financing volumes                      | in € billion | 7.6                | 7.4                |        |
| Exposure at Default <sup>1)</sup>      | in € billion | 8.4                | 8.5                |        |
| Risk-weighted assets <sup>2)</sup>     | in € billion | 1.4                | 1.4                |        |
| Equity (excluding revaluation reserve) | in € billion | 0.3                | 0.3                |        |

<sup>1)</sup> For details see Risk and Opportunity Report.

<sup>2)</sup> Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5.

**Operating Income** Given the average financing volume of €7.6 billion (6m2016: €7.3 billion), net interest income of €18 million was in line with the same period of the previous year (6m2016: €18 million). Net income from financial investments in the amount of €1 million (6m2016: €1 million) resulted from the changed internal risk classification for a Southern European region affecting portfolio-based allowances. Net other operating income/expenses in the amount of €–4 million (6m2016: €–1 million) was burdened, inter alia, by the allocated bank levy.

**Loan Loss Provisions** No additions or reversals were necessary in the first half of 2017, as was the case in the first six months of 2016.

**General and Administrative Expenses** General and administrative expenses increased to €14 million due to rising personnel and non-personnel expenses (6m2016: €13 million).



## Value Portfolio (VP)

The VP operating segment includes all of pbb Group's non-strategic portfolios and activities, and is continuously divested in line with pbb's strategy.

## Value Portfolio

|  |              | 1.1.–30.6.<br>2017 | 1.1.–30.6.<br>2016 | Change |
|--|--------------|--------------------|--------------------|--------|
| <b>Operating performance</b>           |              |                    |                    |        |
| Operating income                       | in € million | 28                 | 19                 | 9      |
| Net interest and commission income     | in € million | 19                 | 22                 | –3     |
| Net interest income                    | in € million | 19                 | 22                 | –3     |
| Net fee and commission income          | in € million | –                  | –                  | –      |
| Net trading income                     | in € million | –1                 | –                  | –1     |
| Net income from financial investments  | in € million | –                  | 1                  | –1     |
| Net income from hedging relationships  | in € million | –                  | –                  | –      |
| Net other operating income/expenses    | in € million | 10                 | –4                 | 14     |
| Loan loss provisions                   | in € million | 1                  | –                  | 1      |
| General and administrative expenses    | in € million | –7                 | –8                 | 1      |
| Net miscellaneous income/expenses      | in € million | –                  | –                  | –      |
| Profit or loss before tax              | in € million | 22                 | 11                 | 11     |
| <b>Key ratio</b>                       |              |                    |                    |        |
| Cost-income ratio                      | in %         | 25.0               | 42.1               |        |
| <b>Balance-sheet-related measures</b>  |              |                    |                    |        |
|  |              | <b>30.6.2017</b>   | <b>31.12.2016</b>  |        |
| Financing volumes                      | in € billion | 14.6               | 15.8               |        |
| Exposure at Default <sup>1)</sup>      | in € billion | 17.8               | 19.5               |        |
| Risk-weighted assets <sup>2)</sup>     | in € billion | 3.7                | 4.1                |        |
| Equity (excluding revaluation reserve) | in € billion | 1.5                | 1.5                |        |

<sup>1)</sup> For details see Risk and Opportunity Report.

<sup>2)</sup> Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5.

**Operating Income** At €19 million, net interest income lagged the same period of the previous year (6m2016: €22 million), due, amongst other things, to the planned reduction of non-strategic portfolios. Net other operating income/expenses amounted to €10 million (6m2016: €–4 million) and resulted from income generated with asset disposals, which more than offset the expenses incurred in connection with the allocated bank levy.

**Loan Loss Provisions** Loan loss provisions in the amount of €1 million (6m2016: €0 million) resulted from net reversals of portfolio-based allowances.

**General and Administrative Expenses** General and administrative expenses stood at €7 million (6m2016: €8 million). Given that the Value Portfolio's share in the total financing volume has declined, the overhead costs allocated to this segment have declined accordingly.

## Consolidation & Adjustments (C&A)

C&A reconciles the segment results with the consolidated result. Besides consolidation adjustments, this includes certain income and expense items outside the operating segments' responsibility.

## Consolidation & Adjustments

|  |              | 1.1.–30.6.<br>2017 | 1.1.–30.6.<br>2016 | Change |
|--|--------------|--------------------|--------------------|--------|
| <b>Operating performance</b>           |              |                    |                    |        |
| Operating income                       | in € million | 2                  | 2                  | –      |
| Net interest and commission income     | in € million | 2                  | 3                  | –1     |
| Net interest income                    | in € million | 2                  | 3                  | –1     |
| Net fee and commission income          | in € million | –                  | –                  | –      |
| Net trading income                     | in € million | –                  | –                  | –      |
| Net income from financial investments  | in € million | –                  | –                  | –      |
| Net income from hedging relationships  | in € million | –                  | –                  | –      |
| Net other operating income/expenses    | in € million | –                  | –1                 | 1      |
| Loan loss provisions                   | in € million | –                  | –                  | –      |
| General and administrative expenses    | in € million | –                  | –                  | –      |
| Net miscellaneous income/expenses      | in € million | –                  | –                  | –      |
| Profit or loss before tax              | in € million | 2                  | 2                  | –      |
| <b>Balance-sheet-related measures</b>  |              |                    |                    |        |
|  |              | <b>30.6.2017</b>   | <b>31.12.2016</b>  |        |
| Exposure at Default <sup>1)</sup>      | in € billion | 5.8                | 5.5                |        |
| Risk-weighted assets <sup>2)</sup>     | in € billion | 1.3                | 1.2                |        |
| Equity (excluding revaluation reserve) | in € billion | 0.3                | 0.4                |        |

<sup>1)</sup> For details see Risk and Opportunity Report.

<sup>2)</sup> Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5.

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

## DEVELOPMENT IN ASSETS

### Assets

| in € million   | 30.6.2017     | 31.12.2016    | Change        |
|--|---------------|---------------|---------------|
| Cash reserve   | 1,902         | 1,136         | 766           |
| Trading assets                                       | 1,069         | 1,089         | -20           |
| Loans and advances to other banks                    | 2,615         | 2,841         | -226          |
| Loans and advances to customers                      | 40,419        | 41,146        | -727          |
| Allowances for losses on loans and advances          | -120          | -130          | 10            |
| Valuation adjustment from portfolio hedge accounting | -1            | 2             | -3            |
| Financial investments                                | 11,686        | 12,845        | -1,159        |
| Property and equipment                               | 7             | 8             | -1            |
| Intangible assets                                    | 26            | 24            | 2             |
| Other assets   | 2,951         | 3,550         | -599          |
| Income tax assets                                    | 104           | 118           | -14           |
| Current tax assets                                   | 29            | 47            | -18           |
| Deferred tax assets                                  | 75            | 71            | 4             |
| <b>Total assets</b>                                  | <b>60,658</b> | <b>62,629</b> | <b>-1,971</b> |

Total assets as at 30 June 2017 decreased compared to 31 December 2016, which was mainly due to maturing securities and public-sector loans, translating into declining financial investments, or loans and advances to customers, respectively. Furthermore, derivative market values recognised under other assets declined, given market-induced effects from steepening yield curves. Maturities lead to an increase of the cash reserve.

New business (including extensions beyond one year) originated during the first half of 2017 amounted to €5.0 billion (6m2016: €4.7 billion). As at 30 June 2017, the nominal volumes of strategic real estate financings (€24.4 billion; 31 December 2016: €24.1 billion) and of public investment financings (€7.6 billion; 31 December 2016: €7.4 billion) were slightly above the figures at the end of the previous year, respectively. During the first half of 2017, the non-strategic Value Portfolio declined from €15.8 billion on 31 December 2016 to €14.6 billion, in line with the strategy.

## DEVELOPMENT IN FINANCIAL POSITION

### Equity and liabilities

| in € million   | 30.6.2017     | 31.12.2016    | Change         |
|--|---------------|---------------|----------------|
| Liabilities to other banks                           | 3,625         | 3,179         | 446            |
| Liabilities to customers                             | 8,952         | 9,949         | - 997          |
| Securitised liabilities                              | 39,778        | 40,381        | - 603          |
| Valuation adjustment from portfolio hedge accounting | - 2           | 1             | - 3            |
| Trading liabilities                                  | 1,059         | 1,355         | - 296          |
| Provisions   | 239           | 242           | - 3            |
| Other liabilities                                    | 3,224         | 3,778         | - 554          |
| Income tax liabilities                               | 57            | 59            | - 2            |
| Current tax liabilities                              | 57            | 59            | - 2            |
| Deferred tax liabilities                             | -             | -             | -              |
| Subordinated capital                                 | 986           | 886           | 100            |
| <b>Liabilities</b>                                   | <b>57,918</b> | <b>59,830</b> | <b>- 1,912</b> |
| Equity   | 2,740         | 2,799         | - 59           |
| <b>Total equity and liabilities</b>                  | <b>60,658</b> | <b>62,629</b> | <b>- 1,971</b> |

### Liabilities

Liabilities declined due to, among other things, maturing promissory note loans recognised under liabilities to customers. The decrease in securitised liabilities mainly resulted from fair value adjustments of micro fair value hedge items. However, the nominal portfolio only changed marginally because the issues were just about offset by maturities. Derivatives market values recognised under other assets declined, given market-induced effects from steepening yield curves. Trading liabilities declined, in particular due to maturities.

Regarding subordinated capital, the termination of hybrid capital instruments of €0.4 billion was more than compensated by initial issues of €0.5 billion.

### Funding

During the first half of 2017, new long-term funding was raised in the amount of €4.5 billion (6m2016: €3.5 billion). At €2.3 billion, a little more than the half of the total volume were Pfandbrief issues (6m2016: €1.8 billion). One of the key issues was a three-year Mortgage Pfandbrief with a total volume of USD 0.6 billion. Unsecured issues contributed €1.7 billion (6m2016: €1.7 billion), while subordinated issues contributed €0.5 billion to the overall refinancing volume. At the beginning of the year, pbb launched a four-year benchmark issue totalling €0.5 billion on an uncovered basis. The majority of the remaining uncovered funding volume was raised via promissory note loans. Most issues were placed as fixed-rate bonds.

Unhedged interest rate exposures are usually hedged by swapping fixed against floating interest rates. In general, funding activities have closely matched new lending exposures in terms of currency, product, tenor, and volume. In addition to capital market funding, pbb Group has been extending its unsecured funding base through overnight and term deposits from retail investors. As at 30 June 2017, the volume of deposits taken via "pbb direct" amounted to €3.4 billion (31 December 2016: €3.5 billion).

On 23 March 2017, the European Central Bank (ECB) provided a total of €233.5 billion for a maximum term of four years to banks within the euro area, within the scope of Targeted Longer-Term Refinancing Operations (TLTRO). Under this TLTRO, pbb Group was allocated a €1.9 billion, four-year tranche, at an interest rate of 0.0% (the interest rate for the ECB's main refinancing facility at the time of drawing the tranche). The interest rate applicable for this tranche may be reduced further, under certain conditions, and may thus turn negative. pbb Group assumes that these conditions will be met, hence interest-rate benefits are accrued over the term. The allocated TLTRO tranche was reported under liabilities to banks as at 30 June 2017.

## Maturities

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

### Maturity structure of financial position

| in € million   | 30.6.2017     |                        | 31.12.2016    |                        |
|--|---------------|------------------------|---------------|------------------------|
|  | Assets        | Equity and liabilities | Assets        | Equity and liabilities |
| <b>Total</b>   | <b>60,658</b> | <b>60,658</b>          | <b>62,629</b> | <b>62,629</b>          |
| Up to 3 months   | 6,284         | 6,249                  | 6,171         | 8,761                  |
| More than 3 months to 1 year                                     | 3,903         | 4,480                  | 4,595         | 5,200                  |
| More than 1 year to 5 years                                      | 20,988        | 22,441                 | 20,773        | 19,231                 |
| More than 5 years  | 25,447        | 20,171                 | 26,429        | 21,203                 |
| Other assets <sup>1)</sup> /equity and liabilities <sup>2)</sup> | 4,036         | 7,317                  | 4,661         | 8,234                  |

<sup>1)</sup> Trading assets, allowances for losses on loans and advances, valuation adjustment from portfolio hedge accounting, property and equipment, intangible assets, other assets, income tax assets.

<sup>2)</sup> Valuation adjustment from portfolio hedge accounting, trading liabilities, provisions, other liabilities, income tax liabilities, equity.

## Equity

The equity attributable to equity holders changed as follows:

### Equity

| in € million                                 | 30.6.2017    | 31.12.2016   | Change     |
|--|--------------|--------------|------------|
| <b>Equity attributable to equity holders</b> | <b>2,740</b> | <b>2,799</b> | <b>-59</b> |
| Subscribed capital                           | 380          | 380          | -          |
| Additional paid-in capital                   | 1,637        | 1,637        | -          |
| Retained earnings                            | 712          | 656          | 56         |
| Profits/losses on pension commitments        | -74          | -82          | 8          |
| Foreign currency reserve                     | 3            | 3            | -          |
| Revaluation reserve                          | -3           | 8            | -11        |
| AfS reserve                                  | -35          | -36          | 1          |
| Cash flow hedge reserve                      | 32           | 44           | -12        |
| Consolidated profit                          | 85           | 197          | -112       |
| <b>Total equity</b>                          | <b>2,740</b> | <b>2,799</b> | <b>-59</b> |

At the beginning of June 2017, pbb distributed dividends of €141 million (or €1.05 per share). The remaining consolidated profit for 2016 of €56 million was appropriated to retained earnings.

Changes recognised under the item gains/losses on pension commitments translated into an increase in equity of €8 million. The reason for this increase was the discount rate used to measure defined benefit pension obligations: it rose from 1.75% as at 31 December 2016 to 2.00% on 30 June 2017, reflecting market interest rates.

pbb Group has ceased active cash flow hedge accounting, meaning that changes in the cash flow hedge reserve only reflect utilisations. The remaining cash flow hedge reserve will be reversed in line with the hedged cash flows from underlying transactions.

### Key Regulatory Capital Ratios

The CET1 ratio amounted to 19.6% as at 30 June 2017 (31 December 2016: 19.5%), the own funds ratio amounted to 24.9% (31 December 2016: 23.7%). Fully phased-in, therefore after expiry of all Basel III transitional regulations, CET1 ratio amounted to 19.4% (31 December 2016: 19.0%) and own funds ratio to 24.8% (31 December 2016: 20.7%).

### Liquidity

pbb calculates its liquidity indicator on a single-entity level, in accordance with the German Liquidity Ordinance. At the reporting date, it stood at 3.0 (31 December 2016: 1.6) and thus clearly exceeded the statutory minimum threshold of 1.0.

A minimum Liquidity Coverage Ratio (LCR) of 80% has complied to regulatory liquidity reports since 1 January 2017. This minimum value will rise to 100% by 1 January 2018. The figures determined for pbb Group for the first half of 2017 were clearly above 100%.

## Ratings

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

### Senior unsecured ratings and ratings for Pfandbriefe of Deutsche Pfandbriefbank AG (pbb)<sup>1)</sup>

|  | 30.6.2017         |                   |         | 31.12.2016                  |                   |         |
|--|-------------------|-------------------|---------|-----------------------------|-------------------|---------|
|  | Standard & Poor's | DBRS              | Moody's | Standard & Poor's           | DBRS              | Moody's |
| Long-term issuer rating/outlook                                      | A-/Negative       | BBB/Stable        | –       | BBB/Credit Watch Positive   | BBB/Stabil        | –       |
| Short-term issuer rating   | A-2               | R-2 (high)        | –       | A-2                         | R-2 (high)        | –       |
| Long-term "preferred" senior unsecured debt rating <sup>2)</sup>     | A-                | BBB <sup>4)</sup> | –       | BBB/Credit Watch Developing | BBB               | –       |
| Long-term "non-preferred" senior unsecured debt rating <sup>3)</sup> | BBB-              | BBB <sup>4)</sup> | –       | N/A <sup>4)</sup>           | N/A <sup>4)</sup> | –       |
| Public sector Pfandbriefe  | –                 | –                 | Aa1     | –                           | –                 | Aa1     |
| Mortgage Pfandbriefe   | –                 | –                 | Aa1     | –                           | –                 | Aa1     |

<sup>1)</sup> Ratings provided by mandated rating agencies; overview does not contain all ratings/outlooks.

<sup>2)</sup> S&P: "Senior Unsecured Debt"; DBRS: "Senior Unsecured Debt".

<sup>3)</sup> S&P: "Senior Subordinated Debt"; DBRS: "Senior Unsecured Debt".

<sup>4)</sup> As at 31 December 2016, the intended split of S&P's rating class for "senior unsecured debt" was not implemented; at present, DBRS does formally not differentiate in this respect.

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

During the first half of 2017, the following material changes applied to pbb's unsecured ratings:

The unsecured ratings of pbb were mainly influenced by changes to legislative parameters and, in this context, resulting changes to rating methodologies. Particularly in view of increasingly detailed specifications concerning the implementation of the European Bank Recovery and Resolution Directive (BRRD), rating actions took place, some of which had already been announced at year-end 2016.

#### Standard & Poor's (S&P)

In the context of the regulatory changes related to the BRRD, S&P has split the rating class for "senior unsecured" debt. Depending on the future ranking in a "bail-in" or insolvency scenario, such debt was allocated either to a new "senior subordinated" rating class or remained in the hitherto existing "senior unsecured" rating class.

Against this background, S&P had launched a review of the ratings assigned to unsecured refinancing instruments of 13 German banks, as well as of unsecured long-term issuer ratings of the four systematically important banks within this group of 13, including pbb, and placed them on "Credit-Watch" on 15 December 2016. As the main reason for the proposed adjustments, S&P named the statutory subordination of certain unsecured securities valid in Germany as of 1 January 2017.

The rating review was completed on 28 March 2017, and resulted in the following material changes for pbb:

- > The long-term issuer credit rating improved by two notches, from "BBB" to "A–", due to the consideration of "senior subordinated" debt within the Additional Loss-Absorbing Capacity framework ("ALAC"). The short-term issuer rating was confirmed at "A–2".
- > At the same time, the long-term ratings for "senior unsecured" (preferred) liabilities improved from "BBB" to "A–", whereas the long-term ratings for "senior subordinated" ("non-preferred") liabilities were downgraded by one notch, from "BBB" to "BBB–".
- > The rating for subordinated refinancing instruments remained unchanged, at "BB+".
- > The rating outlook is negative. The negative rating outlook reflects S&P's opinion that the economic risk for banks active on the German market may deteriorate, which could potentially lead to a deterioration of pbb's anchor rating. Furthermore, the negative rating outlook reflects the risk that pbb may not maintain the current Risk-Adjusted Capital (RAC) ratio which forms the basis for the current capital assessment.

The publication of the changes to S&P's Bank Capital Methodology on 20 July 2017 did not have an immediate impact on the ratings.

## DBRS

On 23 June 2017, DBRS affirmed the unsecured ratings assigned to the bank with an unchanged stable outlook. On 13 January 2017, DBRS placed subordinated debt securities of 27 European banks, including pbb, on "Under Review with Negative Implications". At that time, the rating agency expected a rating downgrade by one notch, on the grounds that the probability of losses under the BRRD for all subordinated debt had increased. Following the introduction of the updated Bank Rating Methodology, the rating review was completed on 09 June 2017: as suggested at the beginning of the review, the subordinated debt rating was downgraded from "BBB (low)" to "BB (high)".

Ongoing changes to the regulatory and economic environment, as well as any other distortions, particularly those related to the United Kingdom's exit from the European Union, may lead to general pressure on ratings during the course of the year.

Reasons for potential rating changes as well as their potential impact on the development of pbb's assets, financial position and earnings were outlined in the Report on Expected Developments in the 2016 Annual Report.

## MATERIAL RELATED PARTY TRANSACTIONS

No material transactions with related parties were entered into during the first half of 2017.

# Report on Post-balance Sheet Date Events

There were no significant events after 30 June 2017.



# Risk and Opportunity Report

The Risk and Opportunity Report shows the identified risks and the opportunities for the individual risk types within the framework of the implemented risk management and risk controlling system. For more general or bank-wide risks and opportunities, please refer to the Report on Expected Developments.

This report only includes a general description of the Company's risk management organisation, or a description of definitions, methods, management and measurement of particular types of risk, to the extent that there were changes during the period under review in comparison to the Risk and Opportunity Report provided in the 2016 Annual Report. For more details, please refer to the disclosures in the Risk and Opportunity Report in the 2016 Annual Report.

## ORGANISATION AND PRINCIPLES OF RISK AND CAPITAL MANAGEMENT

pbb Group has implemented a Group-wide risk management and risk control system, which provides for uniform risk identification, measurement and limitation in accordance with section 91 (2) of the German Stock Corporation Act (AktG) and section 25 a of the German Banking Act (Kreditwesengesetz – “KWG”).

### Organisation and Committees

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

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

### Risk Strategy and Policies

Together with pbb's business strategy, the risk strategy forms the foundation for pbb Group's further planning. The risk strategy has been defined on the basis of the Group-wide risk tolerance; it reflects pbb Group's strategic direction as a specialist for real estate finance and public investment finance with a focus on Pfandbrief funding. Subject to any special requirements at single-entity level, the risk strategy is applicable for pbb Group's operating segments and legal entities. It is reviewed at least annually, and updated if applicable. The currently valid risk strategy is based on a resolution passed by the Management Board on 25 April 2017, which was approved by the Supervisory Board on 12 May 2017.

The operationalisation of the risk strategy is carried out via risk policies for the individual operating segments as well as for all major risk types. These risk policies describe risk measurement, risk monitoring, risk management, the limitation process as well as the escalation process if a limit is exceeded. The policies are regularly reviewed and updated where necessary.

## RISK TYPES

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

- > Credit risk (counterparty risk)
- > Market risk
- > Liquidity risk
- > Operational risk (including legal risk)
- > Business risk
- > Property risk
- > Pension risk

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

- > Strategic risk
- > Regulatory risk
- > Tenant cluster risk (as part of credit risk)

### Credit Risk (Counterparty Risk)

#### Definition

The credit risk in general is defined as the risk due to a threatened unexpected default or decline in the market value of a receivable (loan or bond) or a derivative (alternatively of an entire portfolio of claims/derivatives). The reason for this can be either a deterioration in a country's or counterparty's creditworthiness or by a deterioration in collateralization.

The credit risk comprises the default risk, migration risk, realization risk of defaulted positions, transfer and conversion risk, tenant risk, settlement risk, extension risk as well as concentration risk which are defined as follow in pbb Group's risk strategy.

- > Default risk comprises risk due to defaults of other parties. This includes defaults of loans and other traditional credit products (loan risk) or bonds and other securities (issuer risk) and counterparty risk due to default of a counterparty of derivatives (replacement risk) and money market transactions (repayment risk). The impact of rating migrations of state or regional governments is also included (sovereign risk).
- > Migration risk is the risk of a decline in value through rating migration. This includes rating migrations of loans and other traditional credit products (loan risk) or bonds and other securities (issuer risk) and counterparty risk caused through rating migrations of a counterparty of derivatives (replacement risk) and money market transactions (repayment risk). The impact of rating migrations of state or regional governments is also included (sovereign default risk).
- > Realization risk of defaulted positions is the risk that the existing general and specific loan loss provisions change during the timeframe of the evaluation or that deviations occur in the case of realization.
- > Transfer risk is the risk that a government or central bank restricts the use of the currency to their own country. This includes the conversion risk, which is the risk that a government or central bank declares its own currency as non-convertible. Together with the sovereign risk, the transfer and the conversion risk form the country risk.

- > Tenant risk describes the risk that losses in rental income for properties will negatively influence the respective borrowers' debt service capacity. In addition, it includes the secondary concentration risk (tenant cluster risk), which arises when one and the same tenant is involved in multiple-properties funded by the bank.
- > Fulfilment risk is defined as the risk that the Bank makes a payment or delivers an asset which has been sold to a counterparty but does not receive a payment or the purchased asset.
- > Extension risk is the risk of an unexpected extension of the holding period of a credit risk related asset.
- > Concentration risk is defined as the risk of cluster formation in relation to a risk factor or counterparty, or a strongly correlated group of risk factors or counterparties.

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

**Credit Portfolio Model** The quantification of economic credit risk is described in more detail in the section Result of Risk-bearing Capacity Analysis in the Report on Risks and Opportunities of the Annual Report 2016.

**Stresstests** The stress tests for economic capital in credit risk are described in the Report on Risks and Opportunities of the Annual Report 2016.

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

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

#### **Credit Portfolio**

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

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

The Group's credit portfolio had an aggregate EaD of €59.4 billion as at 30 June 2017 (31 December 2016: €60.6 billion<sup>1)</sup>).

<sup>1)</sup> Excluding €0.2 billion in exposure guaranteed by FMS Wertmanagement.

**Overview of the Total Exposure of pbb Group: €59.4 billion EaD** The credit portfolio is broken down into the segments of

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

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

As at 30 June 2017, 60% (31 December 2016: 57%) of EaD in Consolidation & Adjustments was attributed to rating classes AAA to AA–, and 21% (31 December 2016: 27%) in rating classes A+ to A–. 16% (31 December 2016: 15%) of EaD was in rating classes BBB+ to BBB–. The portion of EaD in rating classes BB+ and below was at 3% as at 30 June 2017 (31 December 2016: 1%). Internal rating classes were mapped to external rating classes for the purpose of determining the breakdown of EaD by rating class.

#### Total portfolio: EaD according to operating segments

| in € billion                | 30.6.2017   | 31.12.2016 <sup>1)</sup> | Change       |             |
|-----------------------------|-------------|--------------------------|--------------|-------------|
|                             |             |                          | in € billion | in %        |
| Real Estate Finance         | 27.3        | 27.1                     | 0.2          | 0.7         |
| Public Investment Finance   | 8.4         | 8.5                      | –0.1         | –1.2        |
| Value Portfolio             | 17.8        | 19.5                     | –1.7         | –8.7        |
| Consolidation & Adjustments | 5.8         | 5.5                      | 0.3          | 5.5         |
| <b>Total</b>                | <b>59.4</b> | <b>60.6</b>              | <b>–1.2</b>  | <b>–2.0</b> |

<sup>1)</sup> Excluding €0.2 billion in exposure guaranteed by FMS Wertmanagement.

pbb Group's aggregate EaD declined to €59.4 billion during the first half of 2017, whereby the strategic REF segment showed a €0.2 billion increase and the strategic PIF segment a decline of €0.1 billion. EaD in the non-strategic VP segment was reduced by €1.7 billion.

**Risk Parameters** Expected Loss (EL) for the pbb Group amounted to €75 million as at 30 June 2017 (31 December 2016: €83 million). The reduction in Expected Loss was primarily due to repayment of a loan that had been set to default.

#### Total exposure: expected loss according to operating segments

| in € million                | 30.6.2017 | 31.12.2016 | Change       |             |
|-----------------------------|-----------|------------|--------------|-------------|
|                             |           |            | in € million | in %        |
| Real Estate Finance         | 40        | 46         | –6           | –13.0       |
| Public Investment Finance   | 2         | 2          | –            | –           |
| Value Portfolio             | 32        | 35         | –3           | –8.6        |
| Consolidation & Adjustments | 1         | 1          | –            | –           |
| <b>Total</b>                | <b>75</b> | <b>83</b>  | <b>–8</b>    | <b>–9.6</b> |

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

**Regional Breakdown of the Portfolio** The main focus of pbb Group's exposure at the reporting date remained unchanged, on Western Europe. At 41% (or €24.2 billion), the lion's share of the total exposure was to Germany. The €0.8 billion decline in EaD attributable to Germany was largely due to repayment of maturing promissory note loans in the VP segment. The exposure increases in France, the US and the United Kingdom reflected new business in the strategic PIF and REF segments. The reduction in the exposure to Austria was mainly a reflection of changes in the general interest rate levels and the associated changes in hedge adjustments, whilst the lower exposure to Spain was mainly due to the repayment of bonds carried in the Value Portfolio.

The largest exposures in the Other Europe category related to the Netherlands (30 June 2017: €0.7 billion), Switzerland (30 June 2017: €0.4 billion), Slovenia and Belgium (30 June 2017: €0.3 billion each) (31 December 2016: Netherlands €0.8 billion; Switzerland €0.4 billion; Slovenia and Belgium: €0.3 billion each). The Other category, which accounted for approximately 3% of the portfolio (€1.5 billion), largely included bonds issued by supranational organisations.

#### Total portfolio: EaD according to regions

| in € billion                | 30.6.2017   | 31.12.2016 <sup>1)</sup> | Change       |             |
|-----------------------------|-------------|--------------------------|--------------|-------------|
|                             |             |                          | in € billion | in %        |
| Germany                     | 24.2        | 25.0                     | -0.8         | -3.2        |
| France                      | 7.9         | 7.6                      | 0.3          | 3.9         |
| Austria                     | 6.4         | 6.8                      | -0.4         | -5.9        |
| United Kingdom              | 5.3         | 5.0                      | 0.3          | 6.0         |
| Spanien                     | 3.6         | 4.3                      | -0.7         | -16.3       |
| Italy                       | 2.2         | 2.3                      | -0.1         | -4.3        |
| Other Europe <sup>2)</sup>  | 2.0         | 2.1                      | -0.1         | -4.8        |
| Poland                      | 1.6         | 1.6                      | -            | -           |
| Other <sup>3)</sup>         | 1.5         | 1.6                      | -0.1         | -6.3        |
| Sweden                      | 1.4         | 1.4                      | -            | -           |
| Portugal                    | 1.0         | 1.2                      | -0.2         | -16.7       |
| United States <sup>4)</sup> | 0.9         | 0.5                      | 0.4          | 80.0        |
| Czech Republic              | 0.5         | 0.4                      | 0.1          | 25.0        |
| Ungarn                      | 0.4         | 0.6                      | -0.2         | -33.3       |
| Finland                     | 0.4         | 0.4                      | -            | -           |
| <b>Total</b>                | <b>59.4</b> | <b>60.6</b>              | <b>-1.2</b>  | <b>-2.0</b> |

<sup>1)</sup> Excluding €0.2 billion in exposure guaranteed by FMS Wertmanagement.

<sup>2)</sup> Category "Other Europe" comprises the Netherlands, Switzerland, Slovenia, Belgium, Slovakia, Romania, Luxembourg, Ireland, Denmark, Norway and Sweden.

<sup>3)</sup> Category "Other" comprises Supranationals, Japan, Canada and Hongkong.

<sup>4)</sup> In the Annual Report 2016 the United States were included in the category "Other" and are now reported separately.

Depending on the results of the internal rating process, maximum limits are defined for each segment in each individual country; these limits restrict pbb Group's business activities. All country limits are monitored daily.

### Real Estate Finance: €27.3 billion EaD

The REF segment comprises real estate loans and corresponding client derivatives. EaD of the REF portfolio amounted to €27.3 billion as at 30 June 2017, up €0.2 billion from 31 December 2016.

Client derivatives in the portfolio accounted for an EaD of €0.3 billion as at 30 June 2017 (31 December 2016: €0.4 billion).

The increase in the REF segment's exposure reflected new business originated, including in the US, France, Sweden, and the United Kingdom, whereas exposures in Germany, Poland, Spain, and in the Other Europe category declined.

### Real Estate Finance: EaD according to regions

| in € billion                | 30.6.2017 <sup>1)</sup> | 31.12.2016 <sup>2)</sup> | Change       |            |
|-----------------------------|-------------------------|--------------------------|--------------|------------|
|                             |                         |                          | in € billion | in %       |
| Germany                     | 12.9                    | 13.1                     | -0.2         | -1.5       |
| United Kingdom              | 4.8                     | 4.7                      | 0.1          | 2.1        |
| France                      | 3.5                     | 3.3                      | 0.2          | 6.0        |
| Sweden                      | 1.4                     | 1.3                      | 0.1          | 7.7        |
| Poland                      | 1.3                     | 1.4                      | -0.1         | -7.1       |
| Other Europe <sup>3)</sup>  | 1.1                     | 1.2                      | -0.1         | -8.3       |
| United States <sup>4)</sup> | 0.7                     | 0.3                      | 0.4          | >100.0     |
| Austria                     | 0.5                     | 0.5                      | -            | -          |
| Czech Republic              | 0.4                     | 0.4                      | -            | -          |
| Hungary                     | 0.3                     | 0.3                      | -            | -          |
| Finland                     | 0.2                     | 0.2                      | -            | -          |
| Spain                       | 0.2                     | 0.3                      | -0.1         | -33.3      |
| Italy                       | 0.1                     | 0.1                      | -            | -          |
| <b>Total</b>                | <b>27.3</b>             | <b>27.1</b>              | <b>0.2</b>   | <b>0.7</b> |

<sup>1)</sup> Breakdown including customer derivatives of approximately €0.3 billion.

<sup>2)</sup> Breakdown including customer derivatives of approximately €0.4 billion.

<sup>3)</sup> Category "Other Europe" comprises the Netherlands, Switzerland, Slovenia, Romania, Luxembourg and Norway.

<sup>4)</sup> In the Annual Report 2016 the United States were shown within the category "Other" and is now reported separately.

The portfolio breakdown by property type as at 30 June 2017 changed slightly compared to the 2016 year-end. The increase in the Office buildings category was largely due to new business originated in Germany, the United Kingdom and the US. The reduction in the Mixed use category was mainly caused by loans repaid.

### Real Estate Finance: EaD according to property type

| in € billion         | 30.6.2017   | 31.12.2016  | Change       |            |
|----------------------|-------------|-------------|--------------|------------|
|                      |             |             | in € billion | in %       |
| Office buildings     | 9.5         | 8.9         | 0.6          | 6.7        |
| Retail               | 7.1         | 7.1         | –            | –          |
| Housing construction | 4.3         | 4.4         | –0.1         | –2.3       |
| Logistics/storage    | 3.0         | 3.0         | –            | –          |
| Mixed Use            | 0.8         | 1.2         | –0.4         | –33.3      |
| Hotel/leisure        | 1.4         | 1.3         | 0.1          | 7.7        |
| Other                | 1.2         | 1.4         | –0.2         | –14.3      |
| <b>Total</b>         | <b>27.3</b> | <b>27.1</b> | <b>0.2</b>   | <b>0.7</b> |

At 30 June 2017, investment financings continued to dominate the portfolio (84%; 31 December 2016: 85%). Investment financings are defined as real estate loans, the debt servicing ability of which largely depends upon current cash flows from the property rental income.

Development financings accounted for 15% of EaD (31 December 2016: 13%). The increase in the share of Development financings, compared to the 2016 year-end, was due to new business originated.

### Real Estate Finance: EaD according to loan type

| in € billion          | 30.6.2017   | 31.12.2016  | Change       |            |
|-----------------------|-------------|-------------|--------------|------------|
|                       |             |             | in € billion | in %       |
| Investment financing  | 22.8        | 23.0        | –0.2         | –0.9       |
| Development financing | 4.1         | 3.6         | 0.5          | 13.9       |
| Customer derivatives  | 0.3         | 0.4         | –0.1         | –25.0      |
| Other                 | 0.1         | 0.1         | –            | –          |
| <b>Total</b>          | <b>27.3</b> | <b>27.1</b> | <b>0.2</b>   | <b>0.7</b> |

### Public Investment Finance: € 8.4billion EaD

The portfolio comprises particularly the following financings:

- (I) financings concluded directly with a public-sector debtor, which are eligible for inclusion in cover pursuant to the German Pfandbrief Act, on the basis of a specific designation of purpose according to a defined product catalogue;
- (II) financings for enterprises, which have a public-sector or private legal ownership structure, which are to a great extent collateralised with a public-sector guarantee within the meaning of the German Pfandbrief Act (transport and utility companies, municipal utilities, special-purpose associations, management companies, non-profit entities, associations); and
- (III) financings of special-purpose vehicles, which are collateralised with a public-sector guarantee within the meaning of the German Pfandbrief Act. This also includes export financings covered by insurance policies or guarantees issued by the Federal Government or by other export credit agencies permitted for inclusion in Pfandbrief cover.

EaD in the PIF segment decreased slightly, by €0.1 billion from the end of the previous year, to €8.4 billion. An increase in EaD, due to new business, was evident in Spain and France in particular. However, EaD in Germany declined, due to repayments.

### Public Investment Finance: EaD according to regions

| in € billion               | 30.6.2017  | 31.12.2016 | Change       |             |
|----------------------------|------------|------------|--------------|-------------|
|                            |            |            | in € billion | in %        |
| France                     | 3.5        | 3.4        | 0.1          | 2.9         |
| Germany                    | 2.3        | 2.6        | -0.3         | -11.5       |
| Spain                      | 1.7        | 1.5        | 0.2          | 13.3        |
| Other Europe <sup>1)</sup> | 0.3        | 0.3        | -            | -           |
| Austria                    | 0.3        | 0.3        | -            | -           |
| Finland                    | 0.1        | 0.2        | -0.1         | -50.0       |
| United Kingdom             | 0.1        | 0.1        | -            | -           |
| Sweden                     | < 0.1      | < 0.1      | -            | -           |
| Other <sup>2)</sup>        | < 0.1      | < 0.1      | -            | -           |
| <b>Total</b>               | <b>8.4</b> | <b>8.5</b> | <b>-0.1</b>  | <b>-1.2</b> |

<sup>1)</sup> Category "Other Europe" comprises Belgium and the Netherlands.

<sup>2)</sup> Category "Other" comprises 100% bonds issued by supranational organisations.

"Public Sector Borrowers" summarises claims against sovereign states (23%), public-sector enterprises (20%), and regional governments and municipalities (57%). The definition also includes exposures guaranteed by these counterparties.

### Public Investment Finance: EaD according to counterparty structure

| in € billion                                     | 30.6.2017  | 31.12.2016 | Change       |             |
|--|------------|------------|--------------|-------------|
|  |            |            | in € billion | in %        |
| Public sector borrowers                          | 8.2        | 8.3        | -0.1         | -1.2        |
| Companies/special-purpose entities <sup>1)</sup> | 0.2        | 0.3        | -0.1         | -33.3       |
| Financial institutions <sup>2)</sup>             | -          | < 0.1      | -            | -           |
| <b>Total</b>                                     | <b>8.4</b> | <b>8.5</b> | <b>-0.1</b>  | <b>-1.2</b> |

<sup>1)</sup> Largely collateralised by guarantees and surety bonds.

<sup>2)</sup> Financial institutions with a state background or state guarantee.

There were no material changes to percentage shares, or the EaD breakdown by rating class, compared to the 2016 year-end. Internal rating classes were mapped to external rating classes for the purpose of determining the breakdown of EaD by rating class.

### Public Investment Finance: EaD according to internal ratings

| in € billion  | 30.6.2017  | 31.12.2016 | Change       |             |
|---------------|------------|------------|--------------|-------------|
|               |            |            | in € billion | in %        |
| AAA to AA-    | 3.9        | 4.1        | -0.2         | -4.9        |
| A+ to A-      | 3.9        | 3.9        | -            | -           |
| BBB+ to BBB-  | 0.3        | 0.2        | 0.1          | 50.0        |
| BB+ and worse | 0.3        | 0.3        | -            | -           |
| <b>Total</b>  | <b>8.4</b> | <b>8.5</b> | <b>-0.1</b>  | <b>-1.2</b> |



### Value Portfolio: €17.8 billion EaD

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

In line with the strategy, the further decrease in the exposure as of 30 June 2017 compared with 31 December 2016 was due to reductions in Spain, Austria, Germany, Portugal, Italy and Hungary; Austria and Germany continued to account for the lion's share of the portfolio.

The EaD decline concerning Austria was due to changes in the general interest rate levels and the associated changes in hedge adjustments, whilst the lower exposure to Spain was mainly due to the repayment of bonds.

### Value Portfolio: EaD according to regions

| in € billion               | 30.6.2017   | 31.12.2016 <sup>1)</sup> | Change       |             |
|----------------------------|-------------|--------------------------|--------------|-------------|
|                            |             |                          | in € billion | in %        |
| Austria                    | 5.6         | 6.0                      | -0.4         | -6.7        |
| Germany                    | 5.4         | 5.7                      | -0.3         | -5.3        |
| Italy                      | 2.1         | 2.2                      | -0.1         | -4.5        |
| Spain                      | 1.2         | 1.8                      | -0.6         | -33.3       |
| Other <sup>2)</sup>        | 1.1         | 1.2                      | -0.1         | -8.3        |
| Portugal                   | 1.0         | 1.2                      | -0.2         | -16.7       |
| France                     | 0.7         | 0.7                      | -            | -           |
| Other Europe <sup>3)</sup> | 0.2         | 0.3                      | -0.1         | -33.3       |
| Poland                     | 0.2         | 0.2                      | -            | -           |
| Hungary                    | 0.1         | 0.2                      | -0.1         | -50.0       |
| Czech Republic             | <0.1        | <0.1                     | -            | -           |
| Finland                    | <0.1        | <0.1                     | -            | -           |
| <b>Total</b>               | <b>17.8</b> | <b>19.5</b>              | <b>-1.7</b>  | <b>-8.7</b> |

<sup>1)</sup> Excluding €0.2 billion in exposure guaranteed by FMS Wertmanagement.

<sup>2)</sup> Category "Other" comprises supranational organisations and Japan.

<sup>3)</sup> Category "Other Europe" comprises Slovenia, Switzerland and Denmark.

### Value Portfolio: EaD according to counterparty structure

| in € billion            | 30.6.2017   | 31.12.2016 <sup>1)</sup> | Change       |             |
|-------------------------|-------------|--------------------------|--------------|-------------|
|                         |             |                          | in € billion | in %        |
| Public sector borrowers | 16.2        | 17.1                     | -0.9         | -5.3        |
| Financial institutions  | 1.6         | 2.3                      | -0.7         | -30.4       |
| Companies               | <0.1        | <0.1                     | -            | -           |
| <b>Total</b>            | <b>17.8</b> | <b>19.5</b>              | <b>-1.7</b>  | <b>-8.7</b> |

<sup>1)</sup> Excluding €0.2 billion in exposure guaranteed by FMS Wertmanagement.

### Structured Products

pbb Group's residual holding of a Mortgage-backed Security guaranteed by one regional government had a notional value of €0.6 billion as at 30 June 2017 (31 December 2016: €0.6 billion) and a current fair value of €0.5 billion (31 December 2016: €0.6 billion).

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

## Watchlist and Non-performing Loans

### Development of Watchlist and non-performing loans of pbb Group

| EaD in € million            | 30.6.2017  |           |            |                     | 31.12.2016 |          |            |                     | Change       |              |
|-----------------------------|------------|-----------|------------|---------------------|------------|----------|------------|---------------------|--------------|--------------|
|                             | REF        | PIF       | VP         | Total <sup>1)</sup> | REF        | PIF      | VP         | Total <sup>1)</sup> | in € million | in %         |
| Workout loans               | 2          | –         | –          | 2                   | 3          | –        | –          | 3                   | –1           | –33.3        |
| Restructuring loans         | 320        | –         | –          | 320                 | 385        | –        | –          | 385                 | –65          | –16.9        |
| <b>Non-performing loans</b> | <b>322</b> | <b>–</b>  | <b>–</b>   | <b>322</b>          | <b>388</b> | <b>–</b> | <b>–</b>   | <b>388</b>          | <b>–66</b>   | <b>–17.0</b> |
| <b>Watchlist loans</b>      | <b>17</b>  | <b>80</b> | <b>230</b> | <b>327</b>          | <b>37</b>  | <b>–</b> | <b>237</b> | <b>274</b>          | <b>53</b>    | <b>19.3</b>  |

<sup>1)</sup> No exposure in C&A.

Watchlist and non-performing loans declined by a net €13 million between 31 December 2016 and 30 June 2017.

Watchlist loans increased by a total of €53 million. The increase was largely due to the transfer of an exposure to intensified handling: specifically, this concerns loans to a French borrower in the PIF segment, which are ultimately guaranteed by the City of Paris. The volume of REF segment exposures requiring intensified handling was reduced by a further €20 million. The slight decline in the VP segment was attributable to a more favourable measurement of claims, due to improved borrower ratings.

Non-performing loans were reduced by €66 million during the first half of 2017. A lower volume of new additions (€5 million) was offset by €66 million in successful workouts or restructurings, whereby loans were ultimately repaid, partially utilising loan loss provisions recognised previously. Currency-induced measurement effects led to a further €5 million reduction in claims.

## Market Risk

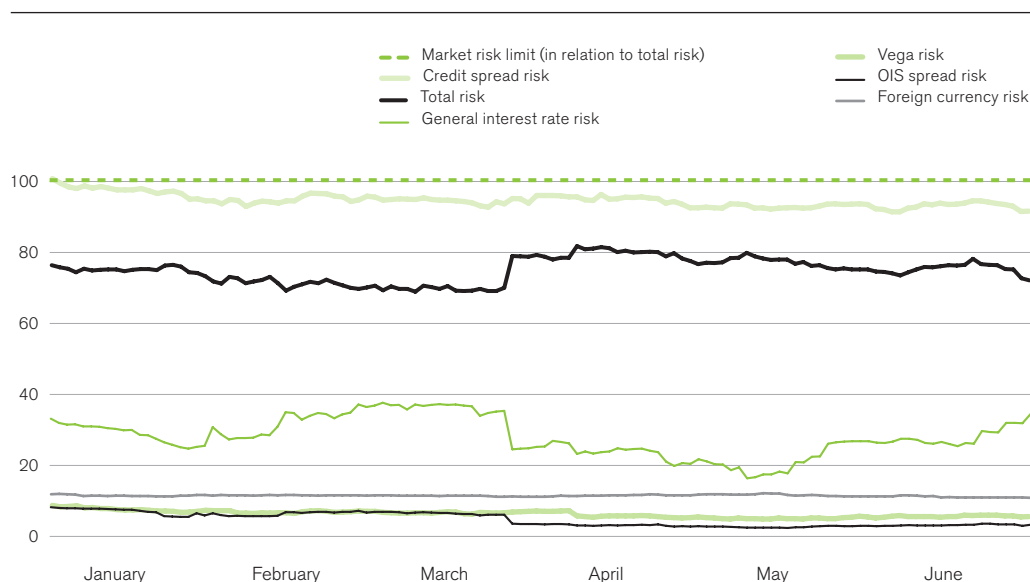
### Market Risk Measurement and Limits

**Market Risk Value at Risk** Market risk VaR as at 30 June 2017 amounted to €72 million, taking diversification effects between the individual market risk types into consideration (year-end 2016: €74 million). There were no breaches of market risk VaR limits at pbb Group level during the period under review. The market risk limit amounted to €100 million throughout.

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

## Market risk VaR (10 days, 99%) of individual risk types and market risk limit January to June 2017

in € million



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

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

The +/- 200 basis point parallel shift of the yield curve – as required by regulatory authorities – would have resulted in a maximum market value loss of €50 million as at 30 June 2017 (31 December 2016: €60 million market value loss).

An extreme widening of relevant credit spreads – given the scenarios applied by pbb internally – would have resulted in a market value loss of €243 million as at 30 June 2017.

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

**Back Testing** The quality of the risk measurement methods in use is checked on an ongoing basis by comparing one-day VaR figures to the actual changes occurring in the portfolio's present value on a daily basis. pbb Group has adopted the Basel Capital Accord's traffic light system for the qualitative analysis of its risk model. For this purpose, the number of outliers detected in backtesting within a period of 250 trading days at a confidence level of 99% are counted. As at 30 June 2017, based on a data history of 250 trading days, no outliers were observed. The risk model employed by pbb Group therefore has green status, as defined in the traffic light system of the Basel Capital Accord.

**General Interest Rate Risk** General interest rate risk was at €35 million as at 30 June 2017 and therefore nearly at the same level compared to €33 million as at end of 2016.

**Volatility Risks** Volatility risks declined during the first half of 2017, amounting to €6 million as at 30 June 2017 (year-end 2016: €9 million).

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

The credit spread VaR for the AfS portfolios was at €91 million as at 30 June 2017 and therefore under the level as at year-end 2016 (€100 million).

**Other Market Risks** The present value of foreign currency risk was €11 million as at 30 June 2017, and thus virtually in line with the 2016 year-end level (€12 million).

Basis risks include OIS, cross-currency spread and tenor spread basis risks (including Libor/Euribor basis risks); these are quantified and recognised within the framework of the VaR model. All basis risks are included in aggregate VaR and are therefore subject to market risk limitation. The bank reported overnight index risks (€3 million), tenor spread risks (€0.2 million), and cross-currency spread risks (€3 million) on the reporting date. The bank is not exposed to share price or commodity risks. Financial derivatives are mainly used for hedging purposes.

### Opportunities

As detailed above, the sensitivities result in value at risk: a possible future (economic) loss in the event of an unfavourable market development. The very same sensitivities may also result in economic gains, in the event of a positive market development. For instance, as described above, high negative credit spread sensitivities represent a risk. In the event of a narrowing of the relevant credit spreads, however, these credit spread sensitivities will yield economic profits, constituting an opportunity.

### Liquidity Risk

#### Development of pbb Group's Risk Position

The cumulative liquidity position (liquid assets plus projected net cash flows) determined as part of the liquidity risk measurement process as at 30 June 2017 amounted to €7.0 billion for a twelve-month horizon in the base scenario – an €0.2 billion increase from the end of the previous year (based on the same projection horizon). As at 30 June 2017, the cumulative liquidity position for a six-month horizon amounted to €4.5 billion in the risk scenario (31 December 2016: €3.5 billion).

pbb's liquidity indicator pursuant to the German Liquidity Regulation (Liquiditätsverordnung – "LiqV"), on a stand-alone level, was 3.0 as at 30 June 2017, thus exceeding the legally required minimum of 1.0.

#### Regulatory Liquidity Coverage Requirements (LCR)

A minimum Liquidity Coverage Ratio (LCR) of 80% has applied to regulatory liquidity reports since 1 January 2017. This value will rise to 100% by 1 January 2018.

The figures determined for pbb Group for the first half of 2017 were clearly above 100%.

### Funding Markets

As in previous years, financial markets are shaped by regulatory requirements and persistently low interest rates. Within the scope of its bond purchasing programme, the European Central Bank (ECB) will be buying bonds worth €60 billion per month, at least until the end of 2017. Whilst no statement has been made regarding the approach to be taken in future, a reduction in the size of the bond-buying programme is expected to be announced in September or October. Furthermore, the ECB affirmed its main refinancing rate at 0.0%, and the rate for its deposit facility at –0.4%. The expected repayment of bond purchases, as well as the fact that no indication of any further interest rate cuts was given at the meeting of the ECB's Governing Council in June 2017, are seen as initial steps in a directional change to the ECB's more expansive monetary policy.

Both covered bonds – especially Pfandbriefe – and senior bonds continue to be traded at narrow spread levels. One of the main reasons for this has been low issuance during the first half of 2017, which was due – amongst other factors – to banks' active participation in the ECB's Targeted Longer-Term Refinancing Operations (TLTRO).

On 23 March 2017, the ECB provided a total of €233.5 billion for a maximum term of four years to banks within the euro area, within the scope of a TLTRO. Under this TLTRO, pbb Group was allocated a €1.9 billion, four-year tranche, at an interest rate of 0.0% (the interest rate for the ECB's main refinancing facility at the time of drawing the tranche). The interest rate applicable for this tranche may be reduced further, under certain conditions, and may thus turn negative. pbb Group expects these conditions to be fulfilled, and therefore amortises the interest rate benefit over the term. The allocated TLTRO tranche was reported under liabilities to banks as at 30 June 2017.

During the first half of 2017, pbb Group raised long-term funding of €4.5 billion, of which €2.6 billion was placed in the form of benchmark transactions. Secured and unsecured issues (including subordinated issues) each accounted for roughly half of long-term funding. Most issues were placed as fixed-rate bonds.

In addition to capital markets funding, pbb Group has extended its unsecured funding base through overnight and term deposits from retail investors. As of 30 June 2017, the related funding volume via "pbb direkt" totalled €3.4 billion (31 December 2016: €3.5 billion).

### Operational Risk (including Legal Risk)

#### Risk Measurement

Please refer to the chapter "Result of Risk-bearing Capacity Analysis" for further details on the quantification of operational risk including legal risks as well as the calculation results of the economic capital for operational risk.

In line with the Standardised Approach according to article 317 et seq. of Regulation 575/2013/EU (CRR), the own funds requirement for operational risks, which is calculated at the end of each year, was € 69 million as at 31 December 2016 (31 December 2015: € 64 million).

#### Operational Risk Profile of pbb Group

pbb Group suffered financial losses of €0.6 million from operational risks (excluding legal risks) during the first half of 2017 (6m 2016: €0.1 million). Furthermore, pbb disclosed financial losses of €10.4 million from legal risks resulting mainly from net additions to provisions (6m 2016: €0.6 million). pbb suffered losses from operational risks incurred mainly in the event categories "Execution, Delivery & Process Management" and "Clients, Products and Business Practices".

## RESULT OF RISK-BEARING CAPACITY ANALYSIS

### Going-Concern

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

#### Going-concern: Economic capital

| in € million                                 | 30.6.2017  | 31.12.2016 | Change     |
|--|------------|------------|------------|
| Credit risk                                  | 178        | 188        | -10        |
| Market risk                                  | 157        | 177        | -20        |
| Operational risk                             | 21         | 21         | -          |
| Business risk                                | -          | -          | -          |
| Property risk                                | -          | 1          | -1         |
| <b>Total before diversification effects</b>  | <b>357</b> | <b>387</b> | <b>-31</b> |
| <b>Total after diversification effects</b>   | <b>329</b> | <b>357</b> | <b>-28</b> |
| Available financial resources (free capital) | 1,195      | 955        | 240        |
| Excess capital (+)/capital shortfall (-)     | 866        | 598        | 268        |

Diversified risk declined, compared to 31 December 2016, mainly due to lower market and credit risk. Within market risk, the reduction of economic capital was due to lower credit spread risk, whereas credit risk was reduced mainly due to maturity effects in the Value Portfolio. Lower property risk was largely due to the sale of a property in Hungary and one in Germany.

Diversified risk is opposed by available financial resources in the form of so-called free capital, largely comprising available CET1 capital, plus accrued profits, less the CET1 capital necessary for covering the regulatory minimum ratios according to SREP and additional adjustment items. In accordance with the principle of prudence, an additional charge in relation to risk-weighted assets is taken into account, in order to determine the CET1 capital necessary for covering the regulatory minimum ratios. Calculation of free capital has been modified with effect from the beginning of 2017. At the year-end 2016, free capital was calculated both as at the reporting date as well as 12 months forward, with the lower of the two used as free capital. (At the reporting date of 31 December 2016, this was the 12-month projection.) At the beginning of 2017, this minimum-value analysis was replaced; since then, free capital has been calculated as at the reporting date, backed up by an extensive early warning system, which closely monitors planned changes or trends in regulatory capitalisation and risk-weighted assets, over a 12-month forward period. The results of this forward-looking monitoring are incorporated into the overall risk-bearing capacity status, thus enabling the early identification of potentially adverse developments, and the timely adoption of measures.

The changeover from projections to actual figures as at the reporting date was the main reason for the €240 million increase in free capital. To enhance comparability, pro-forma figures were calculated for the 31 December 2016 reporting date, based on actual figures from that date: this indicated free capital of €1,220 million. Accordingly, free capital (based on the pro-forma calculation) decreased by €25 million during the first half of 2017 – mainly reflecting consideration of the Bank's specific SREP ratios which have been applicable since 2017. On the reporting date, this had the effect of increasing CET1 coverage requirements for regulatory purposes; as a result, there was less CET1 capital available for covering economic risk. Offsetting effects from accumulated profits only partially neutralised the pro-forma decrease.

The reduction in economic capital (after diversification effects) and the simultaneous increase in available financial resources together led to higher excess coverage. The forward-looking monitoring of free capital also did not indicate any critical developments; accordingly, the Bank's risk-bearing capacity was evidenced under this approach, at the reporting date.

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

#### Going-concern: Economic capital according to segments

| in € million                | 30.6.2017  | 31.12.2016 | Change     |
|-----------------------------|------------|------------|------------|
| Real Estate Finance         | 95         | 96         | -1         |
| Public Investment Finance   | 14         | 14         | -1         |
| Value Portfolio             | 156        | 177        | -21        |
| Consolidation & Adjustments | 74         | 79         | -5         |
| <b>Total<sup>1)</sup></b>   | <b>329</b> | <b>357</b> | <b>-28</b> |

<sup>1)</sup> Due to diversification effects the total of economic capital of pbb Group does not equal the sum of economic capital of the individual segments.

The largest change on a segment level during the first half of 2017 took place in the Value Portfolio, where maturity effects were evident both in market and credit risk. In Real Estate Finance, scheduled and early repayments were almost fully compensated by new business, leading to a slight net reduction. Economic capital in Consolidation & Adjustments declined, mainly due to lower market risk.

#### Gone-Concern

Supplementing the going-concern approach, pbb Group uses a gone-concern approach (liquidation perspective) as an additional, parallel management approach. The objective of the gone-concern approach is to guarantee protection of senior lenders in a hypothetical liquidation scenario, with a very high probability. pbb Group has selected a confidence level of 99.91% that is harmonised with the generally conservative parametrisation of the models. However, this liquidation scenario does not assume an opportunistic winding up of portfolios as postulated by the German Pfandbrief Act, and instead assumes an immediate sale of assets recognised at fair value and of securities in the investment book. In line with this assumption, over and above the material risks from the going-concern approach (as mentioned above), credit spread risks arising from securities in the banking book are additionally taken into account when calculating economic capital for market risk, whilst net hidden losses attributable to these securities is deducted when determining available financial resources. Furthermore, rating migration risks are included (as part of credit risk) for all positions of the credit portfolio.

## Gone-concern: Economic capital

| in € million   | 30.6.2017    | 31.12.2016   | Change     |
|--|--------------|--------------|------------|
| Credit risk  | 1,083        | 1,140        | -56        |
| Market risk  | 907          | 916          | -9         |
| Operational risk                                       | 85           | 85           | -          |
| Business risk  | 2            | 15           | -13        |
| Property risk  | 1            | 2            | -1         |
| <b>Total before diversification effects</b>            | <b>2,078</b> | <b>2,158</b> | <b>-80</b> |
| <b>Total after diversification effects</b>             | <b>1,869</b> | <b>1,951</b> | <b>-82</b> |
| Available financial resources before net hidden losses | 3,184        | 3,267        | -83        |
| Net hidden losses                                      | -            | -            | -          |
| <b>Available financial resources</b>                   | <b>3,184</b> | <b>3,267</b> | <b>-83</b> |
| Excess capital (+)/capital shortfall (-)               | 1,315        | 1,316        | -1         |

As in the going-concern approach, the decline in credit risk was mainly due to maturities in the Value Portfolio, which could not be compensated by new business in other (strategic) segments. Market risk was slightly lower, also due to declining credit spread risk.

Business risk – which largely represents funding risk – declined compared to 31 December 2016, mainly due to long-term unsecured funding as well as the timely inclusion of new loans in the cover assets pool for Mortgage Pfandbriefe.

As in the going-concern approach, lower property risk was largely due to the sale of a property in Hungary and one in Germany.

Given the changes outlined above, overall economic capital after diversification effects also declined.

In contrast, available financial resources declined by €83 million, mainly due to lower equity, which was largely attributable to dividends disbursed, and which was partially offset by accumulated profits. Furthermore, subordinated bonds included in available financial resources declined due to maturities and one termination. This reduction was largely offset through capital measures during the first half of 2017, including a tier 2 bond issued in syndicated benchmark format.

Hence, excess coverage remained virtually unchanged during the first half of 2017, compared to the 2016 year-end, thus providing unrestricted evidence of the risk-bearing capacity in the gone-concern approach as at the reporting date as well.

Should the European sovereign debt crisis escalate again, with credit spreads widening and credit ratings of numerous European debtors worsening as a consequence, both a corresponding increase in counterparty credit risk as well as a reduction in available financial resources (given an increase in net hidden encumbrances and lower equity) is to be expected, notwithstanding any countermeasures taken.



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

**Gone-concern: Economic capital according to segments**

| in € million                | 30.6.2017    | 31.12.2016   | Change     |
|-----------------------------|--------------|--------------|------------|
| Real Estate Finance         | 422          | 437          | -15        |
| Public Investment Finance   | 193          | 198          | -6         |
| Value Portfolio             | 1,026        | 1,087        | -61        |
| Consolidation & Adjustments | 261          | 264          | -3         |
| <b>Total<sup>1)</sup></b>   | <b>1,869</b> | <b>1,951</b> | <b>-82</b> |

<sup>1)</sup> Due to diversification effects the total of economic capital of pbb Group does not equal the sum of economic capital of the individual segments.

The reduction in the Value Portfolio exposure during the first half of the year, caused by maturity effects, led to a corresponding reduction in economic capital during the reporting period. In Real Estate Finance, reductions in economic capital due to scheduled and early repayments were almost fully offset by new business, leading to only a slight reduction in economic capital overall. In Consolidation & Adjustments, the favourable development of funding risk led to slightly lower economic capital.

**SREP**

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

Based on the results of the analysis as well as using benchmark comparison, the ECB may impose minimum capitalisation or liquidity requirements, over and above existing regulatory requirements. As a key result of SREP, pbb Group has been required to maintain a minimum CET1 ratio of 9.0% for 2017 (excluding the countercyclical capital buffer, which varies according to country, and hence, for specific portfolios– as at 30 June 2017, it stood approximately at 0.11%). This capital requirement is based on the Basel III transitional rules and comprises a Pillar 1 minimum capital requirement (4.5%), a Pillar 2 capital requirement (P2R: 3.25%) and the capital conservation buffer (CCB:1.25% phased-in for 2017). The minimum, fully phased-in CET1 ratio (valid from 2019 onwards, following expiration of transitional provisions) will be 10.25%, assuming a constant Pillar 2 capital requirement and excluding the countercyclical capital buffer. The CET1 minimum capital requirement that applies for 2017 also represents the threshold for mandatory calculation of a so-called maximum distributable amount (MDA). This generally limits distributions to the CET1 capital, new performance-based remuneration, and interest payments on additional Tier 1 capital. Furthermore, pbb Group has to fulfil an Overall Capital Requirement (OCR) of 12.50% which was newly introduced compared to 2016 (excluding the countercyclical capital buffer, which varies according to country, and hence, for specific portfolios). It is based on the Basel III transitional rules and comprises a Pillar 1 minimum own funds requirement (8%), a Pillar 2 capital requirement (3.25%) and the capital conservation buffer (1.25% phased-in for 2017). The minimum fully phased-in own funds ratio (valid from 2019 onwards, following expiration of transitional provisions) will be 13.75%, assuming a constant Pillar 2 capital requirement and excluding the countercyclical capital buffer.

## Key Regulatory Capital Ratios

The requirements for regulatory capital ratios were satisfied throughout the first half of 2017.

### Own Funds

| in € million      | 30.6.2017    | 30.6.2017<br>Basel III<br>fully phased-in <sup>1)</sup> | 31.12.2016<br>Basel III <sup>2)</sup> | 31.12.2016<br>Basel III<br>fully phased-in <sup>1)2)</sup> |
|-------------------|--------------|---|---------------------------------------|--|
| CET1              | 2,528        | 2,510   | 2,553                                 | 2,492  |
| Additional Tier 1 | –            | –   | 186                                   | –  |
| Tier 1            | 2,528        | 2,510   | 2,739                                 | 2,492  |
| Tier 2            | 697          | 702   | 366                                   | 216  |
| <b>Own Funds</b>  | <b>3,225</b> | <b>3,212</b>  | <b>3,105</b>                          | <b>2,708</b>   |

<sup>1)</sup> After expiry of all Basel III transitional regulations.

<sup>2)</sup> After confirmation of the 2016 financial statements and appropriation of profits.

### Risk-weighted assets (RWA)

| in € million                   | 30.6.2017     | 30.6.2017<br>Basel III<br>fully phased-in <sup>1)</sup> | 31.12.2016<br>Basel III | 31.12.2016<br>Basel III<br>fully phased-in <sup>1)</sup> |
|--------------------------------|---------------|---|-------------------------|--|
| Market risks                   | 393           | 393   | 346                     | 346  |
| thereof interest rate risks    | –             | –   | –                       | –  |
| thereof foreign exchange risks | 393           | 393   | 346                     | 346  |
| Operational risks              | 866           | 866   | 866                     | 866  |
| Credit risks                   | 11,547        | 11,547  | 11,760                  | 11,760   |
| thereof CVA charge             | 324           | 324   | 312                     | 312  |
| Other RWA                      | 121           | 121   | 141                     | 141  |
| <b>RWA total</b>               | <b>12,927</b> | <b>12,927</b>   | <b>13,113</b>           | <b>13,113</b>  |

<sup>1)</sup> After expiry of all Basel III transitional regulations.

### Capital ratios

| in %            | 30.6.2017 | 30.6.2017<br>Basel III<br>fully phased-in <sup>1)</sup> | 31.12.2016<br>Basel III <sup>2)</sup> | 31.12.2016<br>Basel III<br>fully phased-in <sup>1)2)</sup> |
|-----------------|-----------|---|---------------------------------------|--|
| CET1 Ratio      | 19.6      | 19.4  | 19.5                                  | 19.0   |
| Tier 1 Ratio    | 19.6      | 19.4  | 20.9                                  | 19.0   |
| Own Funds Ratio | 24.9      | 24.8  | 23.7                                  | 20.7   |

<sup>1)</sup> After expiry of all Basel III transitional regulations.

<sup>2)</sup> After confirmation of the 2016 financial statements and appropriation of profits.

# Report on Expected Developments

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

Regarding the potential development of individual performance indicators during the 2017 financial year, pbb Group made the following forecasts in its Annual Report 2016:

- > A new business volume of between €10.5 billion and €12.5 billion is aimed.
- > A significant increase in the strategic financing volume is targeted (31 December 2016: €31.5 billion).
- > A profit before tax of between €150 million and €170 million is aimed.
- > The cost-income ratio should be significantly higher than in 2016, as this year was favoured by the non-recurring income related to Heta (2016: 39.0%).
- > With nearly unchanged average equity (excluding revaluation reserve), return on equity after tax should be materially below the figure recorded in 2016 (7.3%), which had benefited from the non-recurring Heta effect.
- > For 2017, pbb aims to achieve a CET1 ratio significantly above the SREP ratio of 9.00% that banks have to comply with since the beginning of 2017 in addition to the country-specific (and thus portfolio-specific) varying counter-cyclical capital buffer which, as at 31 December 2016, amounted to 0.08% (30 June 2017: 0.11%).
- > For pbb to meet its earnings and profitability targets, its risk bearing capacity must be ensured: From a going-concern perspective, it is aimed to comply with the regulatory minimum capital ratios even under an adverse economic scenario. From a gone-concern perspective, pbb Group aims for the available capital to exceed the required economic capital. This goal remains within reach as long as spreads in the European countries in focus do not widen significantly, increasing the hidden losses.

Overall, pbb Group generally affirms these forecasts. However, this does not apply to the strategic financing volume, which is now not expected to show a significant increase compared to the value disclosed as at 31 December 2016 (€31.5 billion). pbb Group now forecasts moderate portfolio growth, against the background of repayments running above planned levels and paid-out loan commitments below planned levels, during the first half of 2017. Factors contributing to this trend were the still risk-conservative new business approach, the intensely competitive environment, and the demanding credit markets.

Individual opportunities and risks which may have a (positive or negative) effect upon the Group's future development in assets, financial position and earnings are set out in detail on pages 101 to 107 of the 2016 Annual Report.

The final evaluation of the judgement of the German Federal Court of Justice (Bundesgerichtshof, "BGH"), dated 4 July 2017, on the inadmissibility of processing fees for corporate loans agreed upon by way of a standard form, can only be delivered once the reasons for the judgement have been published, and then analysed by pbb. At present, pbb still believes that the financing parameters used for complex financing structures in the lending business are generally subject to individual negotiations. If pbb is not able to provide sufficient evidence in individual cases, pbb Group's development in earnings may suffer from the resulting customer repayment claims.

pbb Group assumes that even before potential future RWA burdens resulting from "Basel IV", individual risk premiums may result in RWA increases in connection with the statutory revision of the IRBA models and the TRIM process.

# CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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# Consolidated Income Statement

## Consolidated income statement

| in € million                          | Note | 1.1.–30.6.<br>2017 | 1.1.–30.6.<br>2016 |
|---------------------------------------|------|--------------------|--------------------|
| Operating income                      |      | 203                | 181                |
| Net interest income                   | 5    | 206                | 195                |
| Interest income                       |      | 840                | 926                |
| Interest expenses                     |      | –634               | –731               |
| Net fee and commission income         | 6    | 5                  | 3                  |
| Fee and commission income             |      | 6                  | 4                  |
| Fee and commission expenses           |      | –1                 | –1                 |
| Net trading income                    | 7    | –                  | –7                 |
| Net income from financial investments | 8    | 1                  | 5                  |
| Net income from hedging relationships | 9    | 1                  | –                  |
| Net other operating income/expenses   | 10   | –10                | –15                |
| Loan loss provisions                  | 11   | –                  | –                  |
| General and administrative expenses   | 12   | –102               | –94                |
| Net miscellaneous income/expenses     | 13   | 2                  | –                  |
| <b>Profit or loss before tax</b>      |      | <b>103</b>         | <b>87</b>          |
| Income taxes                          | 14   | –18                | –21                |
| <b>Net income/loss</b>                |      | <b>85</b>          | <b>66</b>          |
| <b>attributable to:</b>               |      |                    |                    |
| Equity holders                        |      | 85                 | 66                 |

## Earnings per share

| in €                       | Note | 1.1.–30.6.<br>2017 | 1.1.–30.6.<br>2016 |
|----------------------------|------|--------------------|--------------------|
| Basic earnings per share   | 15   | 0.63               | 0.49               |
| Diluted earnings per share | 15   | 0.63               | 0.49               |

# Consolidated Statement of Comprehensive Income

## Consolidated statement of comprehensive income

in € million

|  | 1.1.–30.6.<br>2017 | 1.1.–30.6.<br>2016 |
|--|--------------------|--------------------|
| <b>Net income/loss</b>   | <b>85</b>          | <b>66</b>          |
| Other comprehensive income for the period, net of tax                                  | -3                 | -67                |
| Items that will not be reclassified subsequently to profit or loss                     | 8                  | -24                |
| Gains/losses on pension commitments, before taxes                                      | 11                 | -33                |
| Income taxes relating to items that will not be reclassified to profit or loss         | -3                 | 9                  |
| Items that may be reclassified subsequently to profit or loss                          | -11                | -43                |
| Gains/losses on translating foreign currency, before taxes                             | -                  | 1                  |
| unrealised gains/losses  | -                  | 1                  |
| gains/losses reclassified to profit or loss  | -                  | -                  |
| Gains/losses on AfS assets, before taxes   | 2                  | -25                |
| unrealised gains/losses  | -1                 | -26                |
| gains/losses reclassified to profit or loss  | 3                  | 1                  |
| Gains/losses on cash flow hedge accounting, before taxes                               | -17                | -35                |
| unrealised gains/losses  | 1                  | -                  |
| gains/losses reclassified to profit or loss  | -18                | -35                |
| Income taxes relating to items that may be reclassified subsequently to profit or loss | 4                  | 16                 |
| <b>Total comprehensive income for the period</b>                                       | <b>82</b>          | <b>-1</b>          |
| <b>attributable to:</b>  |                    |                    |
| Equity holders   | 82                 | -1                 |

# Consolidated Statement of Financial Position

## Assets

| in € million   | Note | 30.6.2017     | 31.12.2016    | 1.1.2016      |
|--|------|---------------|---------------|---------------|
| Cash reserve   |      | 1,902         | 1,136         | 1,265         |
| Trading assets                                       | 16   | 1,069         | 1,089         | 1,600         |
| Loans and advances to other banks                    | 17   | 2,615         | 2,841         | 2,742         |
| Loans and advances to customers                      | 18   | 40,419        | 41,146        | 41,226        |
| Allowances for losses on loans and advances          | 19   | -120          | -130          | -149          |
| Valuation adjustment from portfolio hedge accounting |      | -1            | 2             | 1             |
| Financial investments                                | 20   | 11,686        | 12,845        | 14,927        |
| Property and equipment                               |      | 7             | 8             | 10            |
| Intangible assets                                    |      | 26            | 24            | 21            |
| Other assets   | 21   | 2,951         | 3,550         | 5,013         |
| Income tax assets                                    |      | 104           | 118           | 105           |
| Current tax assets                                   |      | 29            | 47            | 21            |
| Deferred tax assets                                  |      | 75            | 71            | 84            |
| <b>Total assets</b>                                  |      | <b>60,658</b> | <b>62,629</b> | <b>66,761</b> |

## Equity and liabilities

| in € million   | Note | 30.6.2017     | 31.12.2016    | 1.1.2016      |
|--|------|---------------|---------------|---------------|
| Liabilities to other banks                           | 22   | 3,625         | 3,179         | 2,514         |
| Liabilities to customers                             | 23   | 8,952         | 9,949         | 10,824        |
| Securitised liabilities                              | 24   | 39,778        | 40,381        | 42,648        |
| Valuation adjustment from portfolio hedge accounting |      | -2            | 1             | 1             |
| Trading liabilities                                  | 25   | 1,059         | 1,355         | 1,643         |
| Provisions   | 26   | 239           | 242           | 229           |
| Other liabilities                                    | 27   | 3,224         | 3,778         | 4,918         |
| Income tax liabilities                               |      | 57            | 59            | 113           |
| Current tax liabilities                              |      | 57            | 59            | 113           |
| Deferred tax liabilities                             |      | -             | -             | -             |
| Subordinated capital                                 | 28   | 986           | 886           | 1,125         |
| <b>Liabilities</b>                                   |      | <b>57,918</b> | <b>59,830</b> | <b>64,015</b> |
| <b>Equity attributable to equity holders</b>         |      | <b>2,740</b>  | <b>2,799</b>  | <b>2,746</b>  |
| Subscribed capital                                   |      | 380           | 380           | 380           |
| Additional paid-in capital                           |      | 1,637         | 1,637         | 1,637         |
| Retained earnings                                    |      | 712           | 656           | 483           |
| Profits/losses on pension commitments                |      | -74           | -82           | -71           |
| Foreign currency reserve                             |      | 3             | 3             | 4             |
| Revaluation reserve                                  |      | -3            | 8             | 83            |
| AfS reserve  |      | -35           | -36           | -4            |
| Cash flow hedge reserve                              |      | 32            | 44            | 87            |
| Consolidated profit                                  |      | 85            | 197           | 230           |
| <b>Equity</b>  |      | <b>2,740</b>  | <b>2,799</b>  | <b>2,746</b>  |
| <b>Total equity and liabilities</b>                  |      | <b>60,658</b> | <b>62,629</b> | <b>66,761</b> |

# Consolidated Statement of Changes in Equity

## Consolidated statement of changes in equity

|   | Equity attributable to equity holders |                            |                   |  |                          |                     |                         |                     |        |
|---|---------------------------------------|----------------------------|-------------------|--|--------------------------|---------------------|-------------------------|---------------------|--------|
|   |                                       |                            |                   |  |                          | Revaluation reserve |                         |                     |        |
| in € million  | Subscribed capital                    | Additional paid-in capital | Retained earnings | Profits/ losses on pension commitments | Foreign currency reserve | AfS reserve         | Cash flow hedge reserve | Consolidated profit | Equity |
| Equity at 1.1.2016                                    | 380                                   | 1,637                      | 483               | -71                                    | 4                        | -4                  | 87                      | 230                 | 2,746  |
| Disbursement  | -                                     | -                          | -                 | -                                      | -                        | -                   | -                       | -58                 | -58    |
| Total comprehensive income for the period             | -                                     | -                          | -                 | -24                                    | 1                        | -18                 | -26                     | 66                  | -1     |
| Net income/loss                                       | -                                     | -                          | -                 | -                                      | -                        | -                   | -                       | 66                  | 66     |
| Other comprehensive income for the period, net of tax | -                                     | -                          | -                 | -24                                    | 1                        | -18                 | -26                     | -                   | -67    |
| Transfer to retained earnings                         | -                                     | -                          | 172               | -                                      | -                        | -                   | -                       | -172                | -      |
| Equity at 30.6.2016                                   | 380                                   | 1,637                      | 655               | -95                                    | 5                        | -22                 | 61                      | 66                  | 2,687  |
| Equity at 1.1.2017                                    | 380                                   | 1,637                      | 656               | -82                                    | 3                        | -36                 | 44                      | 197                 | 2,799  |
| Disbursement  | -                                     | -                          | -                 | -                                      | -                        | -                   | -                       | -141                | -141   |
| Total comprehensive income for the period             | -                                     | -                          | -                 | 8                                      | -                        | 1                   | -12                     | 85                  | 82     |
| Net income/loss                                       | -                                     | -                          | -                 | -                                      | -                        | -                   | -                       | 85                  | 85     |
| Other comprehensive income for the period, net of tax | -                                     | -                          | -                 | 8                                      | -                        | 1                   | -12                     | -                   | -3     |
| Transfer to retained earnings                         | -                                     | -                          | 56                | -                                      | -                        | -                   | -                       | -56                 | -      |
| Equity at 30.6.2017                                   | 380                                   | 1,637                      | 712               | -74                                    | 3                        | -35                 | 32                      | 85                  | 2,740  |

# Consolidated Statement of Cash Flows (condensed)

## Consolidated statement of cash flows (condensed)

| in € million  | 2017         | 2016         |
|---|--------------|--------------|
| <b>Cash reserve at 1.1.</b>   | <b>1,136</b> | <b>1,265</b> |
| +/- Cash flow from operating activities                               | -25          | -1,131       |
| +/- Cash flow from investing activities                               | 806          | 1,259        |
| +/- Cash flow from financing activities                               | -15          | -253         |
| +/- Effects of exchange rate changes and non-cash measurement changes | -            | -1           |
| <b>Cash reserve at 30.6.</b>  | <b>1,902</b> | <b>1,139</b> |



# Notes (condensed)

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## 1 Principles

Deutsche Pfandbriefbank AG (pbb) has prepared the condensed consolidated interim financial statements for the period ended 30 June 2017 in line with EC regulation No. 1606/2002 of the European Parliament and of the Council from 19 July 2002 in accordance with International Financial Reporting Standards (IFRS). The IFRS are standards and interpretations adopted by the International Accounting Standards Board (IASB). These are the International Financial Reporting Standards (IFRS), the International Accounting Standards (IAS) and the interpretations of the IFRS Interpretations Committee (formerly IFRIC) respectively the former Standing Interpretations Committee (SIC).

The condensed consolidated interim financial statements are based on IFRS as adopted in European law by the European Commission as part of its endorsement process. In particular, requirements of IAS 34 have been considered. With the exception of certain regulations on fair value hedge accounting for a portfolio hedge of interest rate risks in IAS 39 Financial Instruments: Recognition and Measurement, all the IFRS published by the IASB and required to be applied were fully recognised by the European Union (EU). Within the framework of fair value hedge accounting for a portfolio hedge of interest rate risks, pbb Group applies a part of the exemptions permitted under European law. Moreover, Amendments to IAS 7: Disclosure Initiative and IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses, as well as parts of Annual Improvements to IFRS Standards 2014–2016 Cycle (which, according to the IASB's publications, must be applied to financial years commencing on or after 1 January 2017), had not yet been adopted into European law on the reporting date. Hence, no new or amended standards or interpretations were applied for the first time during the reporting period. Therefore, the present condensed consolidated interim financial statements comply with IFRS applicable in the EU, but not with IFRS as a whole as promulgated by the IASB.

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

The Management Board of pbb prepared these condensed consolidated interim financial statements on 1 August 2017 under the going-concern assumption.

### IFRS 9 Financial Statements

In July 2014, the IASB published IFRS 9, the new IFRS for financial instruments accounting. This standard will supersede the current regulations of IAS 39. Financial instruments mainly comprise loans and advances, securities, financial liabilities and derivatives, which collectively represent more than 95% of pbb Group's total assets. In its final version, the standard contains fundamental revisions regarding classification and measurement, impairment methodology and hedge accounting – however, without any specific regulations on so-called macro hedges.

Please refer to the 2016 Annual Report for general descriptions regarding the new standard.

In 2011, pbb Group started a project for the implementation of IFRS 9. This project was suspended in 2012 since the finalisation of the IFRS 9 regulations was delayed, leading to legal uncertainty. After the finalisation of the standard, pbb Group's implementation project was resumed in 2014. The IFRS 9 project is divided into sub-projects concerning classification and measurement, determination of allowances of stage 1 and 2 as well as determination of allowances of stage 3. The IFRS 9 project is closely tied to the implementation of other requirements, such as new regulatory reporting requirements.

In order to implement the new classification and measurement rules, the portfolio of loans and advances and securities was classified based on contractual cash flow criterion. Moreover, contractual cash flow criterion tests have been integrated into the new business and new product processes. In addition, the analysis of the portfolios was made on the basis of the current business model. pbb Group's portfolios were allocated to the measurement categories as part of the analysis. The technical implementation for the sub-ledgers comprising the majority of loans and advances and securities was completed and put into operation. The fair value accounting was provided in a new sub-ledger in the first half of 2017. As regards the implementation of the new allowance rules, pbb Group has developed a system for determining the amount of impairment for stages 1 and 2. Adjustments to the general ledger have been largely completed. In addition, pbb plans to reflect the information provided in the notes in the data repository during the second half of 2017. pbb Group has made the necessary preparations to apply IFRS 9 for the first time as at 1 January 2018; in addition, pbb Group plans to produce a technical sample report during the third quarter of 2017.

Since pbb Group's statement of financial position largely consists of financial instruments, first-time application of IFRS 9 will have significant effects on the consolidated financial statements. Given the new classification and measurement regulations for the disclosure of financial assets, some of the assets currently measured at amortised cost will presumably be measured at their fair value, going forward. For instance, financial assets which do not pass the contractual cash flow criterions test due to contractual stipulations have to be disclosed at fair value through profit or loss. Another example is the liquidity portfolio, at least a part of which has to be measured at fair value through other comprehensive income. In turn, some securities recognised as part of the available-for-sale portfolio in accordance with IAS 39 will be measured at amortised cost, pursuant to IFRS 9. Moreover, pbb will have to make considerable adjustments to the accounting of impairment losses according to the new regulations, eventually resulting in elevated loss allowances. The reason for this is the requirement to recognise loss allowances in the amount of the credit losses expected within twelve months following the reporting date, including instruments for which credit risk has not increased since initial recognition - and also in the amount of the lifetime expected credit losses for financial assets for which credit risk has significantly increased. Regarding hedge accounting, pbb Group will presumably use the option provided under IFRS 9 according to which the former rules pursuant to IAS 39 still apply.

pbb plans the first-time application of IFRS 9 as from 1 January 2018 with retrospective effect. First-time application effects are recognised directly in equity. Both the new regulations on the classification and measurement of financial instruments as well as the amendments regarding the determination and accounting of impairment losses will incur first-time application effects at pbb Group. The amount of such first-time application effects depends on several factors, which are beyond, or partly beyond, pbb Group's sphere of influence. For instance, the changeover effects largely depend on the fair values to be disclosed as at 1 January 2018 for the financial assets measured at fair value. The fair value of financial assets vary with current interest rates and the borrowers' credit rating, for example. Regarding impairment losses, borrowers' default probabilities as at the date of first-time application as well as future expectations are among the crucial factors in the determination of first-time application effects. The first-time application effects from the classification and measurement of financial assets will depend, among other things, on the portfolios' business models as at the date of IFRS 9 first-time application. Furthermore, IFRS 9 is a principle-based standard, which provides for interpretations where appropriate, depending on the specific circumstances.

While pbb Group has drafted working hypotheses for key definitions and interpretations, they are subject to further amendments and/or developments based on the latest views provided by banking and auditor experts before the date of first-time application.

Against this background, and at the time these consolidated interim financial statements were prepared, pbb is not able to provide a reliable quantification of the expected first-time application effects to be incurred as at 1 January 2018. Nevertheless, pbb Group simulated the first-time application effects in 2017 based on the following factors: parameters then applicable to the measurement of financial instruments, impairment losses, portfolio composition pursuant to the contractual cash flow criterion and the business model criterion as well as the existing working hypotheses for the interpretation of IFRS 9. The classification and measurement of financial assets carried out as part of the simulation resulted in positive effects in the upper double-digit euro million range. These positive effects were almost completely compensated by impairment losses in the upper double-digit euro million range. Overall, pbb Group does not expect any material impacts on equity.

Regarding subsequent reporting periods, the application of IFRS 9 regulations will result in more volatile results of operations compared to the current regulations under IAS 39, due to the higher number of financial instruments to be measured at fair value through profit or loss and the new regulations regarding loss allowances pursuant to IFRS 9. This volatility may result in multi-million euro fluctuations, and may thus be considered substantial regarding pbb Group's recent net income levels.

## 2 Consistency

pbb Group applies accounting policies consistently in accordance with the IFRS framework concept as well as IAS 1 and IAS 8. In condensed consolidated interim financial statements as of 30 June 2017 the same accounting policies were applied than in the consolidated financial statements as of 31 December 2016.

## 3 Consolidation

Please refer to page 200 of pbb Group's Annual Report 2016 for a full list of all consolidated and non-consolidated investments. Hypo Real Estate Capital Japan Corp. i.L., Tokyo, was deconsolidated in the first half of 2017 following liquidation. pbb's consolidated income statement and consolidated statement of financial position were not affected.

#### 4 Segment Reporting

##### Income/expenses

| in € million                          |                       | REF       | PIF      | VP        | C&A      | pbb Group  |
|---------------------------------------|-----------------------|-----------|----------|-----------|----------|------------|
| Operating income                      | 1.1.–30.6.2017        | 159       | 14       | 28        | 2        | 203        |
|                                       | 1.1.–30.6.2016        | 142       | 18       | 19        | 2        | 181        |
| Net interest income                   | 1.1.–30.6.2017        | 167       | 18       | 19        | 2        | 206        |
|                                       | 1.1.–30.6.2016        | 152       | 18       | 22        | 3        | 195        |
| Net fee and commission income         | 1.1.–30.6.2017        | 5         | –        | –         | –        | 5          |
|                                       | 1.1.–30.6.2016        | 3         | –        | –         | –        | 3          |
| Net trading income                    | 1.1.–30.6.2017        | 2         | –1       | –1        | –        | –          |
|                                       | 1.1.–30.6.2016        | –7        | –        | –         | –        | –7         |
| Net income from financial investments | 1.1.–30.6.2017        | –         | 1        | –         | –        | 1          |
|                                       | 1.1.–30.6.2016        | 3         | 1        | 1         | –        | 5          |
| Net income from hedging relationships | 1.1.–30.6.2017        | 1         | –        | –         | –        | 1          |
|                                       | 1.1.–30.6.2016        | –         | –        | –         | –        | –          |
| Net other operating income/expenses   | 1.1.–30.6.2017        | –16       | –4       | 10        | –        | –10        |
|                                       | 1.1.–30.6.2016        | –9        | –1       | –4        | –1       | –15        |
| Loan loss provisions                  | 1.1.–30.6.2017        | –1        | –        | 1         | –        | –          |
|                                       | 1.1.–30.6.2016        | –         | –        | –         | –        | –          |
| General and administrative expenses   | 1.1.–30.6.2017        | –81       | –14      | –7        | –        | –102       |
|                                       | 1.1.–30.6.2016        | –73       | –13      | –8        | –        | –94        |
| Net miscellaneous income/expenses     | 1.1.–30.6.2017        | 2         | –        | –         | –        | 2          |
|                                       | 1.1.–30.6.2016        | –         | –        | –         | –        | –          |
| <b>Profit or loss before tax</b>      | <b>1.1.–30.6.2017</b> | <b>79</b> | <b>–</b> | <b>22</b> | <b>2</b> | <b>103</b> |
|                                       | <b>1.1.–30.6.2016</b> | <b>69</b> | <b>5</b> | <b>11</b> | <b>2</b> | <b>87</b>  |

##### Cost-income ratio<sup>1)</sup>

| in %              |                | REF  | PIF   | VP   | pbb Group |
|-------------------|----------------|------|-------|------|-----------|
| Cost-income ratio | 1.1.–30.6.2017 | 50.9 | 100.0 | 25.0 | 50.2      |
|                   | 1.1.–30.6.2016 | 51.4 | 72.2  | 42.1 | 51.9      |

<sup>1)</sup> The cost-income ratio is the ratio of general and administrative expenses and operating income.

##### Balance-sheet-related measures

| in € billion                       |            | REF  | PIF | VP   | C&A | pbb Group |
|------------------------------------|------------|------|-----|------|-----|-----------|
| Financing volumes <sup>1)</sup>    | 30.6.2017  | 24.4 | 7.6 | 14.6 | –   | 46.6      |
|                                    | 31.12.2016 | 24.1 | 7.4 | 15.8 | –   | 47.3      |
| Risk-weighted assets <sup>2)</sup> | 30.6.2017  | 6.5  | 1.4 | 3.7  | 1.3 | 12.9      |
|                                    | 31.12.2016 | 6.4  | 1.4 | 4.1  | 1.2 | 13.1      |
| Equity <sup>3)</sup>               | 30.6.2017  | 0.6  | 0.3 | 1.5  | 0.3 | 2.7       |
|                                    | 31.12.2016 | 0.6  | 0.3 | 1.5  | 0.4 | 2.8       |

<sup>1)</sup> Notional amounts of the drawn parts of granted loans and parts of the securities portfolio.

<sup>2)</sup> Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5.

<sup>3)</sup> Excluding revaluation reserve.

## NOTES TO THE CONSOLIDATED INCOME STATEMENT

### 5 Net Interest Income

#### Net interest income by categories of income/expenses

| in € million   | 1.1.–30.6.<br>2017 | 1.1.–30.6.<br>2016 |
|--|--------------------|--------------------|
| <b>Interest income</b>   | <b>840</b>         | <b>926</b>         |
| Lending and money-market business  | 557                | 590                |
| Fixed-income securities and government-inscribed debt                            | 192                | 215                |
| Current gains/losses from swap transactions<br>(net interest income and expense) | 89                 | 119                |
| Other  | 2                  | 2                  |
| <b>Interest expenses</b>   | <b>- 634</b>       | <b>- 731</b>       |
| Liabilities to other banks and customers   | - 118              | - 152              |
| Securitised liabilities  | - 488              | - 550              |
| Subordinated capital   | - 28               | - 29               |
| <b>Total</b>   | <b>206</b>         | <b>195</b>         |

Interest income for financial assets measured at amortised cost amounted to €702 million (6m2016: €751 million). Interest income for AfS assets amounted to €47 million (6m2016: €54 million). Hence, total net interest income for assets not measured at fair value through profit or loss amounted to €749 million (6m2016: €805 million). Interest expenses incurred in the first half of 2017 and in the first half of 2016 financial years were entirely attributable to liabilities not measured at fair value through profit or loss.

Negative interest income amounted to €8 million (6m2016: €7 million) and positive interest expenses to €9 million (6m2016: €7 million); the predominant part was respectively disclosed in current gains/losses from swap transactions (net interest income and expense).

### 6 Net Fee And Commission Income

#### Net fee and commission income

| in € million                         | 1.1.–30.6.<br>2017 | 1.1.–30.6.<br>2016 |
|--------------------------------------|--------------------|--------------------|
| Securities and custodial services    | - 1                | - 1                |
| Lending operations and other service | 6                  | 4                  |
| <b>Total</b>                         | <b>5</b>           | <b>3</b>           |

### 7 Net Trading Income

#### Net trading income

| in € million  | 1.1.–30.6.<br>2017 | 1.1.–30.6.<br>2016 |
|---|--------------------|--------------------|
| From interest rate instruments and related derivatives    | 2                  | - 8                |
| From foreign currency instruments and related derivatives | - 2                | 1                  |
| <b>Total</b>  | <b>-</b>           | <b>- 7</b>         |

## 8 Net Income from Financial Investments

### Net income from financial investments by IAS 39 categories

| in € million                | 1.1.–30.6.<br>2017 | 1.1.–30.6.<br>2016 |
|-----------------------------|--------------------|--------------------|
| Available for sale (AfS)    | 1                  | 4                  |
| Loans and receivables (LaR) | –                  | 1                  |
| <b>Total</b>                | <b>1</b>           | <b>5</b>           |

## 9 Net Income from Hedging Relationships

### Net income from hedging relationships

| in € million                            | 1.1.–30.6.<br>2017 | 1.1.–30.6.<br>2016 |
|---|--------------------|--------------------|
| Result from fair value hedge accounting | 1                  | –                  |
| Result from hedged items                | 41                 | 131                |
| Result from hedging instruments         | –40                | –131               |
| Result from portfolio hedge accounting  | –                  | –                  |
| Result from hedged items                | –                  | 5                  |
| Result from hedging instruments         | –                  | –5                 |
| <b>Total</b>                            | <b>1</b>           | <b>–</b>           |

## 10 Net Other Operating Income/Expenses

### Net other operating income/expenses

| in € million             | 1.1.–30.6.<br>2017 | 1.1.–30.6.<br>2016 |
|--------------------------|--------------------|--------------------|
| Other operating income   | 40                 | 16                 |
| Other operating expenses | –50                | –31                |
| <b>Total</b>             | <b>–10</b>         | <b>–15</b>         |

## 11 Loan Loss Provisions

### Loan loss provisions

| in € million  | 1.1.–30.6.<br>2017 | 1.1.–30.6.<br>2016 |
|---|--------------------|--------------------|
| Allowances for losses on loans and advances                 | –                  | –1                 |
| Allowances for contingent liabilities and other commitments | –                  | 1                  |
| <b>Total</b>  | <b>–</b>           | <b>–</b>           |

## 12 General and Administrative Expenses

### General and administrative expenses

| in € million  | 1.1.–30.6.<br>2017 | 1.1.–30.6.<br>2016 |
|---|--------------------|--------------------|
| Personnel expenses                                  | –56                | –51                |
| Wages and salaries                                  | –43                | –39                |
| Social security costs                               | –8                 | –8                 |
| Pension expenses and related employee benefit costs | –5                 | –4                 |
| Non-personnel expenses                              | –46                | –43                |
| Other general and administrative expenses           | –41                | –38                |
| Consulting expenses                                 | –7                 | –6                 |
| IT expenses   | –14                | –13                |
| Office and operating expenses                       | –5                 | –4                 |
| Other non-personnel expenses                        | –15                | –15                |
| Depreciation, amortisation and impairment           | –5                 | –5                 |
| of software and other intangible assets             | –4                 | –4                 |
| of property and equipment                           | –1                 | –1                 |
| <b>Total</b>  | <b>–102</b>        | <b>–94</b>         |



### 13 Net Miscellaneous Income/Expenses

#### Net miscellaneous income/expenses

| in € million                                      | 1.1.–30.6.<br>2017 | 1.1.–30.6.<br>2016 |
|---|--------------------|--------------------|
| Miscellaneous income                              | 2                  | –                  |
| Thereof:<br>Reversals of restructuring provisions | 2                  | –                  |
| Miscellaneous expenses                            | –                  | –                  |
| <b>Total</b>                                      | <b>2</b>           | <b>–</b>           |

### 14 Income Taxes

#### Income taxes

| in € million   | 1.1.–30.6.<br>2017 | 1.1.–30.6.<br>2016 |
|--|--------------------|--------------------|
| Current taxes  | –22                | –12                |
| Deferred taxes   | 4                  | –9                 |
| Thereof:<br>Deferred taxes on capitalised losses carried forward | –                  | –                  |
| <b>Total</b>   | <b>–18</b>         | <b>–21</b>         |

### 15 Earnings Per Share

#### Earnings per share<sup>1)</sup>

|   |              | 1.1.–30.6.<br>2017 | 1.1.–30.6.<br>2016 |
|---|--------------|--------------------|--------------------|
| Net income/loss                                   | in € million | 85                 | 66                 |
| Average number of ordinary shares issued          | pieces       | 134,475,308        | 134,475,308        |
| Adjusted average number of ordinary shares issued | pieces       | 134,475,308        | 134,475,308        |
| <b>Basic earnings per share</b>                   | in €         | <b>0.63</b>        | <b>0.49</b>        |
| <b>Diluted earnings per share</b>                 | in €         | <b>0.63</b>        | <b>0.49</b>        |

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

## NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### 16 Trading Assets

#### Trading assets

| in € million   | 30.6.2017    | 31.12.2016   |
|--|--------------|--------------|
| Positive fair values of derivative financial instruments | 1,069        | 1,089        |
| <b>Total</b>   | <b>1,069</b> | <b>1,089</b> |

### 17 Loans and Advances to Other Banks

#### Loans and advances to other banks by type of business

| in € million             | 30.6.2017    | 31.12.2016   |
|--------------------------|--------------|--------------|
| Loans and advances       | 2,615        | 2,841        |
| Public sector loans      | 733          | 780          |
| Other loans and advances | 1,882        | 2,061        |
| <b>Total</b>             | <b>2,615</b> | <b>2,841</b> |

#### Loans and advances to other banks by maturities

| in € million                 | 30.6.2017    | 31.12.2016   |
|------------------------------|--------------|--------------|
| Repayable on demand          | 1,829        | 2,059        |
| With agreed maturities       | 786          | 782          |
| up to 3 months               | 72           | 18           |
| more than 3 months to 1 year | 103          | 45           |
| more than 1 year to 5 years  | 62           | 164          |
| more than 5 years            | 549          | 555          |
| <b>Total</b>                 | <b>2,615</b> | <b>2,841</b> |

### 18 Loans and Advances to Customers

#### Loans and advances to customers by type of business

| in € million                         | 30.6.2017     | 31.12.2016    |
|--------------------------------------|---------------|---------------|
| Loans and advances                   | 40,194        | 40,913        |
| Public sector loans                  | 15,805        | 16,813        |
| Real estate loans                    | 24,380        | 24,081        |
| Other loans and advances             | 9             | 19            |
| Claims from finance lease agreements | 225           | 233           |
| <b>Total</b>                         | <b>40,419</b> | <b>41,146</b> |

## Loans and advances to customers by maturities

| in € million                 | 30.6.2017     | 31.12.2016    |
|------------------------------|---------------|---------------|
| Repayable on demand          | 1,141         | 1,023         |
| With agreed maturities       | 39,278        | 40,123        |
| up to 3 months               | 972           | 1,167         |
| more than 3 months to 1 year | 2,767         | 2,860         |
| more than 1 year to 5 years  | 17,919        | 18,067        |
| more than 5 years            | 17,620        | 18,029        |
| <b>Total</b>                 | <b>40,419</b> | <b>41,146</b> |

## 19 Allowances for Losses on Loans and Advances

### Development

| in € million   | Specific allowances | Portfolio-based allowances | Total       |
|--|---------------------|----------------------------|-------------|
| <b>Balance at 1.1.2016</b>                                 | <b>-117</b>         | <b>-32</b>                 | <b>-149</b> |
| Changes through profit or loss                             | 8                   | -12                        | -4          |
| Changes not affecting profit or loss                       | 23                  | -                          | 23          |
| Use of existing allowances                                 | 16                  | -                          | 16          |
| Effects of foreign currency translations and other changes | 7                   | -                          | 7           |
| <b>Balance at 31.12.2016</b>                               | <b>-86</b>          | <b>-44</b>                 | <b>-130</b> |
| <b>Balance at 1.1.2017</b>                                 | <b>-86</b>          | <b>-44</b>                 | <b>-130</b> |
| Changes through profit or loss                             | -3                  | 4                          | 1           |
| Changes not affecting profit or loss                       | 9                   | -                          | 9           |
| Use of existing allowances                                 | 9                   | -                          | 9           |
| Effects of foreign currency translations and other changes | -                   | -                          | -           |
| <b>Balance at 30.6.2017</b>                                | <b>-80</b>          | <b>-40</b>                 | <b>-120</b> |

Regarding the changes in specific allowances recognised through profit or loss, an amount of €1 million (2016: €2 million) was due to the increase in the present value of an adjusted receivable (so-called unwinding), which occurs over a period of time.

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

## 20 Financial Investments

### Breakdown

| in € million                                      | 30.6.2017     | 31.12.2016    |
|---|---------------|---------------|
| AfS financial investments                         | 2,824         | 3,311         |
| Debt securities and other fixed-income securities | 2,821         | 3,308         |
| Shares and other non-fixed-income securities      | 3             | 3             |
| LaR financial investments                         | 8,862         | 9,534         |
| Debt securities and other fixed-income securities | 8,862         | 9,534         |
| <b>Total</b>                                      | <b>11,686</b> | <b>12,845</b> |

The carrying amounts of the LaR financial investments were reduced by portfolio-based allowances amounting to €10 million (31 December 2016: €10 million).

### Financial investments by maturities

| in € million                 | 30.6.2017     | 31.12.2016    |
|------------------------------|---------------|---------------|
| Unspecified terms            | 3             | 3             |
| With agreed maturities       | 11,683        | 12,842        |
| up to 3 months               | 365           | 765           |
| more than 3 months to 1 year | 1,033         | 1,690         |
| more than 1 year to 5 years  | 3,007         | 2,542         |
| more than 5 years            | 7,278         | 7,845         |
| <b>Total</b>                 | <b>11,686</b> | <b>12,845</b> |

## 21 Other Assets

### Other assets

| in € million                                  | 30.6.2017    | 31.12.2016   |
|---|--------------|--------------|
| Positive fair values from hedging derivatives | 2,915        | 3,492        |
| Micro fair value hedge                        | 2,915        | 3,492        |
| Portfolio hedge                               | –            | –            |
| Salvage acquisitions                          | –            | 9            |
| Other assets                                  | 34           | 47           |
| Reimbursements under insurance policies       | 2            | 2            |
| <b>Total</b>                                  | <b>2,951</b> | <b>3,550</b> |

## 22 Liabilities to Other Banks

### Liabilities to other banks by maturities

| in € million                 | 30.6.2017    | 31.12.2016   |
|------------------------------|--------------|--------------|
| Repayable on demand          | 1,088        | 924          |
| With agreed maturities       | 2,537        | 2,255        |
| up to 3 months               | 22           | 1,583        |
| more than 3 months to 1 year | 28           | 56           |
| more than 1 year to 5 years  | 1,948        | 73           |
| more than 5 years            | 539          | 543          |
| <b>Total</b>                 | <b>3,625</b> | <b>3,179</b> |

## 23 Liabilities to Customers

### Liabilities to customers by maturities

| in € million                 | 30.6.2017    | 31.12.2016   |
|------------------------------|--------------|--------------|
| Repayable on demand          | 1,522        | 1,560        |
| With agreed maturities       | 7,430        | 8,389        |
| up to 3 months               | 623          | 1,381        |
| more than 3 months to 1 year | 1,572        | 1,654        |
| more than 1 year to 5 years  | 3,977        | 4,083        |
| more than 5 years            | 1,258        | 1,271        |
| <b>Total</b>                 | <b>8,952</b> | <b>9,949</b> |

## 24 Securitised Liabilities

### Securitised liabilities by type of business

| in € million              | 30.6.2017     | 31.12.2016    |
|---------------------------|---------------|---------------|
| Debt securities issued    | 20,547        | 20,752        |
| Mortgage Pfandbriefe      | 10,067        | 9,551         |
| Public sector Pfandbriefe | 5,809         | 6,962         |
| Other debt securities     | 4,641         | 4,209         |
| Money market securities   | 30            | 30            |
| Registered notes issued   | 19,231        | 19,629        |
| Mortgage Pfandbriefe      | 5,418         | 5,346         |
| Public sector Pfandbriefe | 11,572        | 12,208        |
| Other debt securities     | 2,241         | 2,075         |
| <b>Total</b>              | <b>39,778</b> | <b>40,381</b> |

## Securitised liabilities by maturities

| in € million                 | 30.6.2017     | 31.12.2016    |
|------------------------------|---------------|---------------|
| With agreed maturities       |               |               |
| up to 3 months               | 2,986         | 3,259         |
| more than 3 months to 1 year | 2,686         | 3,129         |
| more than 1 year to 5 years  | 16,445        | 14,829        |
| more than 5 years            | 17,661        | 19,164        |
| <b>Total</b>                 | <b>39,778</b> | <b>40,381</b> |

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

## 25 Trading Liabilities

### Trading liabilities

| in € million   | 30.6.2017    | 31.12.2016   |
|--|--------------|--------------|
| Negative fair values from derivative financial instruments | 1,059        | 1,355        |
| <b>Total</b>   | <b>1,059</b> | <b>1,355</b> |

## 26 Provisions

### Breakdown

| in € million  | 30.6.2017  | 31.12.2016 |
|---|------------|------------|
| Provisions for pensions and similar obligations             | 85         | 95         |
| Restructuring provisions                                    | 7          | 14         |
| Provisions for contingent liabilities and other commitments | –          | –          |
| Other provisions  | 147        | 133        |
| Thereof:  |            |            |
| Provisions for legal risks                                  | 78         | 75         |
| Long-term liabilities to employees                          | 1          | 1          |
| <b>Total</b>  | <b>239</b> | <b>242</b> |

pbb closed a reinsurance in the form of a qualifying insurance policy according to IAS 19 to hedge parts of the risk from the defined benefit obligations. A discount rate of 2.00% (31 December 2016: 1.75%) was used for the measurement of the defined benefit pension obligations. The other actuarial assumption are unchanged compared to the consolidated financial statements 2016.

### Legal risks (litigation risks)

pbb Group is obliged, in all jurisdictions in which it conducts its business, to comply with a large number of statutory and supervisory requirements and regulations such as certain rules of conduct to 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 Group is involved in litigation, arbitration and administrative proceedings in some countries. These also include criminal proceedings as well as the assertion of claims in an amount not specified by the party asserting the claim.

pbb Group recognises provisions for the uncertain obligations arising from these proceedings if the potential outflow of resources is sufficiently likely and the amount of the obligation can be estimated. The probability of the outflow of resources, which often cannot be estimated with certainty, is highly dependent on the outcome of the proceedings. The assessment of this probability and the quantification of the obligation are largely based on estimates. The actual liability can vary considerably from this estimate. Accounting for the individual legal procedure, pbb Group analyses developments of the individual cases and comparable cases, drawing on its own expertise or opinions by external consultants, and in particular by legal advisors, depending on the significance and complexity of the respective case. The provisions recognised for the proceedings are not reported separately as pbb Group believes that the outcome of the proceedings would be seriously compromised by their disclosure.

In appraisal proceedings relating to the merger of three predecessor mortgage banks to form pbb in 2001, the new appraisal ordered by the Munich Regional Court I has resulted in an additional payment averaging €1.00 per share. The potential subsequent payment claims amount to approximately €5 million plus interest since 2001. However, the Munich Regional Court I has rejected requests of claimants to increase compensation payments. Individual applicants have lodged complaints against the court's decision. As the Munich Regional Court I did not rectify these complaints, complaint proceedings have been initiated at the Munich Higher Regional Court since mid-2015.

The profit participation certificates issued by the predecessor institutions participated in significant losses due to the net losses for the period incurred in the years 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 €39 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 the Bank endeavours to solve legal disputes by way of out-of-court settlements, it exploits the legal remedies at its disposal when needed.

pbb Group recognised sufficient provisions for legal costs of first and second instance proceedings at the German fiscal court (Finanzgericht) regarding fiscal authority audit findings affecting one of pbb's 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. The final evaluation of the judgement can only be delivered once the reasons for the judgement have been published, and then analysed by pbb. At present, pbb still believes that the financing parameters used for complex financing structures in the lending business are generally subject to individual negotiations. pbb Group 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 Group 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.

## 27 Other Liabilities

### Other liabilities

| in € million                                  | 30.6.2017    | 31.12.2016   |
|---|--------------|--------------|
| Negative fair values from hedging derivatives | 3,172        | 3,719        |
| Micro fair value hedge                        | 3,169        | 3,715        |
| Portfolio hedge                               | 3            | 4            |
| Other liabilities                             | 52           | 59           |
| <b>Total</b>                                  | <b>3,224</b> | <b>3,778</b> |

## 28 Subordinated Capital

### Breakdown

| in € million               | 30.6.2017  | 31.12.2016 |
|----------------------------|------------|------------|
| Subordinated liabilities   | 986        | 525        |
| Hybrid capital instruments | –          | 361        |
| <b>Total</b>               | <b>986</b> | <b>886</b> |

### Subordinated capital by maturities

| in € million                 | 30.6.2017  | 31.12.2016 |
|------------------------------|------------|------------|
| With agreed maturities       |            |            |
| up to 3 months               | 8          | 54         |
| more than 3 months to 1 year | 194        | 361        |
| more than 1 year to 5 years  | 71         | 246        |
| more than 5 years            | 713        | 225        |
| <b>Total</b>                 | <b>986</b> | <b>886</b> |



## NOTES TO THE FINANCIAL INSTRUMENTS

### 29 Fair Values of Financial Instruments

#### Fair values and fair value hierarchy

in € million

#### Financial assets

at fair value through profit or loss  
at fair value not affecting profit or loss  
not measured at fair value in the statement of financial position

Cash reserve

Trading assets (HfT)

Loans and advances to other banks

Category LaR

Loans and advances to customers <sup>1)</sup>

Category LaR

Real Estate Finance

Public Investment Finance

Value Portfolio

Consolidation & Adjustments

Valuation adjustment from portfolio hedge accounting

Financial investments

Category AfS

Category LaR

Other assets

Hedging derivatives

#### Financial liabilities

at fair value through profit or loss

not measured at fair value in the statement of financial position

Liabilities to other banks

Liabilities to customers

Securitised liabilities

covered

uncovered

Valuation adjustment from portfolio hedge accounting

Trading liabilities (HfT)

Other liabilities

Hedging derivatives

Other financial liabilities

Subordinated capital

#### Other items

Contingent liabilities

Irrevocable loan commitments

| 30.6.2017       |               |               |               |               |
|-----------------|---------------|---------------|---------------|---------------|
| Carrying amount | Fair value    | Level 1       | Level 2       | Level 3       |
| <b>60,260</b>   | <b>62,363</b> | <b>10,915</b> | <b>22,649</b> | <b>28,799</b> |
| 3,984           | 3,984         | –             | 3,952         | 32            |
| 2,824           | 2,824         | 2,824         | –             | –             |
| 53,452          | 55,555        | 8,091         | 18,697        | 28,767        |
| 1,902           | 1,902         | 1,902         | –             | –             |
| 1,069           | 1,069         | –             | 1,069         | –             |
| 2,615           | 2,637         | 1,827         | 756           | 54            |
| 2,615           | 2,637         | 1,827         | 756           | 54            |
| 40,074          | 42,044        | –             | 14,888        | 27,156        |
| 40,074          | 42,044        | –             | 14,888        | 27,156        |
| 24,291          | 25,626        | –             | –             | 25,626        |
| 6,297           | 6,582         | –             | 5,299         | 1,283         |
| 8,327           | 8,613         | –             | 8,366         | 247           |
| 1,159           | 1,223         | –             | 1,223         | –             |
| –1              | –             | –             | –             | –             |
| 11,686          | 11,796        | 7,186         | 3,053         | 1,557         |
| 2,824           | 2,824         | 2,824         | –             | –             |
| 8,862           | 8,972         | 4,362         | 3,053         | 1,557         |
| 2,915           | 2,915         | –             | 2,883         | 32            |
| 2,915           | 2,915         | –             | 2,883         | 32            |
| <b>57,582</b>   | <b>58,972</b> | <b>18,866</b> | <b>4,397</b>  | <b>35,709</b> |
| 4,231           | 4,231         | –             | 4,220         | 11            |
| 53,351          | 54,741        | 18,866        | 177           | 35,698        |
| 3,625           | 3,681         | 1,087         | –             | 2,594         |
| 8,952           | 9,203         | 253           | –             | 8,950         |
| 39,778          | 40,838        | 17,169        | 11            | 23,658        |
| 32,907          | 33,800        | 13,600        | 11            | 20,189        |
| 6,871           | 7,038         | 3,569         | –             | 3,469         |
| –2              | –             | –             | –             | –             |
| 1,059           | 1,059         | –             | 1,059         | –             |
| 3,184           | 3,184         | –             | 3,161         | 23            |
| 3,172           | 3,172         | –             | 3,161         | 11            |
| 12              | 12            | –             | –             | 12            |
| 986             | 1,007         | 357           | 166           | 484           |
| <b>3,956</b>    | <b>3,987</b>  | <b>–</b>      | <b>–</b>      | <b>3,987</b>  |
| 128             | 128           | –             | –             | 128           |
| 3,828           | 3,859         | –             | –             | 3,859         |

<sup>1)</sup> Reduced by allowances for losses on loans and advances and claims from finance lease agreements. Since 30 June 2017, portfolio-based allowances are not disclosed separately anymore, but they were allocated to the individual segments.

## Fair values and fair value hierarchy

31.12.2016

| in € million  | Carrying amount | Fair value    | Level 1       | Level 2       | Level 3       |
|---|-----------------|---------------|---------------|---------------|---------------|
| <b>Financial assets</b>   | <b>62,188</b>   | <b>64,429</b> | <b>10,137</b> | <b>24,678</b> | <b>29,614</b> |
| at fair value through profit or loss                              | 4,581           | 4,581         | –             | 4,541         | 40            |
| at fair value not affecting profit or loss                        | 3,311           | 3,311         | 3,311         | –             | –             |
| not measured at fair value in the statement of financial position | 54,296          | 56,537        | 6,826         | 20,137        | 29,574        |
| Cash reserve  | 1,136           | 1,136         | 1,136         | –             | –             |
| Trading assets (HfT)  | 1,089           | 1,089         | –             | 1,089         | –             |
| Loans and advances to other banks                                 | 2,841           | 2,872         | 2,018         | 812           | 42            |
| Category LaR  | 2,841           | 2,872         | 2,018         | 812           | 42            |
| Loans and advances to customers <sup>1)</sup>                     | 40,783          | 42,906        | –             | 15,837        | 27,069        |
| Category LaR  | 40,783          | 42,906        | –             | 15,837        | 27,069        |
| Real Estate Finance   | 23,969          | 25,377        | –             | –             | 25,377        |
| Public Investment Finance   | 6,226           | 6,542         | –             | 5,155         | 1,387         |
| Value Portfolio   | 9,046           | 9,365         | –             | 9,016         | 349           |
| Consolidation & Adjustments                                       | 1,586           | 1,666         | –             | 1,666         | –             |
| Portfolio-based allowances  | – 44            | – 44          | –             | –             | – 44          |
| Valuation adjustment from portfolio hedge accounting              | 2               | –             | –             | –             | –             |
| Financial investments   | 12,845          | 12,934        | 6,983         | 3,488         | 2,463         |
| Category AfS  | 3,311           | 3,311         | 3,311         | –             | –             |
| Category LaR  | 9,534           | 9,623         | 3,672         | 3,488         | 2,463         |
| Other assets  | 3,492           | 3,492         | –             | 3,452         | 40            |
| Hedging derivatives   | 3,492           | 3,492         | –             | 3,452         | 40            |
| <b>Financial liabilities</b>                                      | <b>59,491</b>   | <b>61,018</b> | <b>21,437</b> | <b>5,463</b>  | <b>34,118</b> |
| at fair value through profit or loss                              | 5,074           | 5,074         | –             | 5,053         | 21            |
| not measured at fair value in the statement of financial position | 54,417          | 55,944        | 21,437        | 410           | 34,097        |
| Liabilities to other banks  | 3,179           | 3,300         | 2,430         | –             | 870           |
| Liabilities to customers  | 9,949           | 10,235        | 1,371         | –             | 8,864         |
| Securitised liabilities   | 40,381          | 41,480        | 17,636        | 410           | 23,434        |
| covered   | 34,097          | 35,014        | 14,375        | 277           | 20,362        |
| uncovered   | 6,284           | 6,466         | 3,261         | 133           | 3,072         |
| Valuation adjustment from portfolio hedge accounting              | 1               | –             | –             | –             | –             |
| Trading liabilities (HfT)   | 1,355           | 1,355         | –             | 1,355         | –             |
| Other liabilities   | 3,740           | 3,740         | –             | 3,698         | 42            |
| Hedging derivatives   | 3,719           | 3,719         | –             | 3,698         | 21            |
| Other financial liabilities                                       | 21              | 21            | –             | –             | 21            |
| Subordinated capital  | 886             | 908           | –             | –             | 908           |
| <b>Other items</b>  | <b>3,973</b>    | <b>4,005</b>  | <b>–</b>      | <b>–</b>      | <b>4,005</b>  |
| Contingent liabilities  | 171             | 171           | –             | –             | 171           |
| Irrevocable loan commitments                                      | 3,802           | 3,834         | –             | –             | 3,834         |

<sup>1)</sup> Reduced by allowances for losses on loans and advances and claims from finance lease agreements.

As was the case in 2016, no financial instruments measured at fair value were reclassified from Level 1 to Level 2 and vice versa in the period from 1 January to 30 June 2017. Furthermore, no financial instruments measured at fair value were reclassified from Level 2 to Level 3 and vice versa in the current reporting period and in 2016. In the first half of 2017 financial liabilities in the amount of €6 million (2016: €0 million) were reclassified from Level 3 to Level 2 since inputs were observable on the market again.

#### Level 2 instruments measured at fair value as of 30.6.2017

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

#### Level 3 instruments measured at fair value as of 30.6.2017

| Measurement methods   | Non-observable parameters                   | Range (weighted average)     |
|-----------------------|---|------------------------------|
| Option pricing models | Historical index/index correlations         | 77.18% (77.18%)              |
|                       | Historical index/exchange rate correlations | –23.63% to –67.54% (–45.59%) |

#### Changes in level 3 instruments measured at fair value through profit or loss

| in € million                    | Financial assets    | Financial liabilities |
|---------------------------------|---------------------|-----------------------|
|                                 | Hedging derivatives | Hedging derivatives   |
| <b>Balance at 1.1.2016</b>      | <b>44</b>           | <b>16</b>             |
| Profit or loss                  | –4                  | 5                     |
| <b>Balance at 31.12.2016</b>    | <b>40</b>           | <b>21</b>             |
| <b>Balance at 1.1.2017</b>      | <b>40</b>           | <b>21</b>             |
| Profit or loss                  | –8                  | –4                    |
| Reclassification out of Level 3 | –                   | –6                    |
| <b>Balance at 30.6.2017</b>     | <b>32</b>           | <b>11</b>             |

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

### Sensitivities

As at 30 June 2017, financial assets and liabilities measured at fair value were subject to positive and negative changes of less than €1 million each. The calculation of the sensitivity for the three relevant derivatives, which are used in hedge accounting, is based on shock scenarios for correlations and volatilities pursuant to the level 3 measurement methods table. There are interactions between the input parameters used, except for spread volatilities. If the scenario effects are taken into account on an aggregate basis, the maximum change for assets and liabilities is less than €1 million each. As at 31 December 2016, the sensitivity analysis resulted in positive and negative changes in financial assets and liabilities of less than €1 million each. If the scenario effects are taken into account on an aggregate basis, the maximum change for assets was less than €1 million and for liabilities of €1 million as of 31 December 2016. These amounts were calculated independently from each other. Offsetting effects due to compensating derivatives and hedge relationships reduce both positive and negative changes. There were no methodological changes compared to the previous year.

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

| in € million                                  | 30.6.2017 | 31.12.2016 |
|---|-----------|------------|
| <b>Assets</b>                                 |           |            |
| Loans and receivables (LaR)                   | 51,550    | 53,160     |
| Available for sale (AfS)                      | 2,824     | 3,311      |
| Held for trading (HfT)                        | 1,069     | 1,089      |
| Cash reserve                                  | 1,902     | 1,136      |
| Claims from finance lease agreements          | 225       | 233        |
| Positive fair values from hedging derivatives | 2,915     | 3,492      |
| <b>Liabilities</b>                            |           |            |
| Held for trading (HfT)                        | 1,059     | 1,355      |
| Financial liabilities at amortised cost       | 53,351    | 54,417     |
| Negative fair values from hedging derivatives | 3,172     | 3,719      |

On-balance sheet netting of derivatives which are settled through Eurex Clearing led to a reduction in total assets of €1.6 billion as at 30 June 2017 (31 December 2016: €1.8 billion).

### 30 Past Due but Not Impaired Assets

In the following total portfolio of the partly or completely past due but not impaired loans and advances as of 30 June 2017 and as of 31 December 2016 is disclosed. However, no specific allowances were made for these assets respectively the underlying collaterals as pbb Group does not consider that there is any issue regarding their recoverability. Such timing issues in receipts of payments due occur regularly (up to three months) in the normal course of business and are not considered to be an evidence for impairment.

As of 30 June 2017 and as of 31 December 2016 pbb Group had neither past due and not impaired nor impaired AfS financial investments in the portfolio.

#### Carrying amounts of past due but not impaired LaR assets

| in € million                   | 30.6.2017 | 31.12.2016 |
|--------------------------------|-----------|------------|
| up to 3 months                 | 1         | 1          |
| more than 3 months to 6 months | –         | –          |
| more than 6 months to 1 year   | –         | 1          |
| more than 1 year               | 2         | 5          |
| <b>Total</b>                   | <b>3</b>  | <b>7</b>   |

#### Carrying amounts LaR assets

| in € billion  | 30.6.2017   | 31.12.2016  |
|---|-------------|-------------|
| Carrying amount of LaR assets that are neither impaired nor past due                | 51.4        | 52.7        |
| Carrying amount of LaR assets that are past due but not impaired (total investment) | –           | –           |
| Carrying amount of individually assessed impaired LaR assets (net)                  | 0.2         | 0.3         |
| Balance of specific allowances  | 0.1         | 0.1         |
| Balance of portfolio-based allowances   | –           | 0.1         |
| <b>Total</b>  | <b>51.7</b> | <b>53.2</b> |
| Thereof:  |             |             |
| Loans and advances to other banks (including investments)                           | 2.6         | 2.8         |
| Loans and advances to customers (including investments)                             | 40.2        | 40.9        |
| Financial investments (gross)   | 8.9         | 9.5         |

### 31 Restructured Loans and Advances

As of 30 June 2017 and as of 31 December 2016, restructured loans and advances mainly related to standstill agreements and to the discontinuation of contractual arrangements.

#### Restructured loans and advances

| in € million   | 30.6.2017  | 31.12.2016 |
|--|------------|------------|
| Carrying amount of loans and advances that are neither impaired nor past due | 30         | 27         |
| Carrying amount of loans that are past due but not impaired (gross)          | –          | 4          |
| Carrying amount of impaired loans and advances (gross)                       | 243        | 310        |
| <b>Total</b>   | <b>273</b> | <b>341</b> |

## OTHER NOTES

### 32 Contingent Liabilities and Other Commitments

#### Contingent liabilities and other commitments

| in € million                        | 30.6.2017    | 31.12.2016   |
|-------------------------------------|--------------|--------------|
| <b>Contingent liabilities</b>       | <b>128</b>   | <b>171</b>   |
| Guarantees and warranties           | 128          | 171          |
| <b>Other commitments</b>            | <b>3,828</b> | <b>3,802</b> |
| Irrevocable loan commitments        | 3,828        | 3,802        |
| <b>Commitments from bank levies</b> | <b>15</b>    | <b>11</b>    |
| Collateral pledged                  | 15           | 11           |
| <b>Total</b>                        | <b>3,971</b> | <b>3,984</b> |

### 33 Relationship with Related Parties

Hypo Real Estate Holding GmbH's (HRE Holding's) share in pbb stood at 20.0% as at 30 June 2017 (31 December 2016: 20.0%). pbb Group considers HRE Holding, as well as all other entities that were subject to the control, joint control or significant influence of the Federal Republic of Germany, as related parties within the meaning of IAS 24.

No material transactions with related parties were entered into during the first half of 2017.

### 34 Report on Post-balance Sheet Date Events

There were no significant events after 30 June 2017.

Munich, 1 August 2017

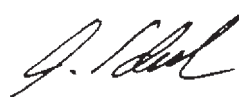
Deutsche Pfandbriefbank AG  
The Management Board



Andreas Arndt



Thomas Köntgen



Andreas Schenk

# Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the consolidated interim financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group in accordance with German accepted accounting principles, and the Group interim management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group for the remaining months of the fiscal year.

Munich, 1 August 2017

Deutsche Pfandbriefbank AG  
The Management Board



Andreas Arndt



Thomas Köntgen



Andreas Schenk

# Review Report

## To Deutsche Pfandbriefbank AG, Munich

We have reviewed the condensed interim consolidated financial statements of the Deutsche Pfandbriefbank AG, Munich – comprising consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows (condensed) and notes (condensed) – together with the interim group management report of the Deutsche Pfandbriefbank AG, Munich, for the period from 1 January to 30 June, 2017 that are part of the semi annual according to § 37w WpHG [“Wertpapierhandelsgesetz”: “German Securities Trading Act”]. The preparation of the condensed interim consolidated financial statements in accordance with International Accounting Standard IAS 34 “Interim Financial Reporting” as adopted by the EU, and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports, is the responsibility of the Company's management. Our responsibility is to issue a report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

We performed our review of the condensed interim consolidated financial statements and the interim group management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with IAS 34, “Interim Financial Reporting” as adopted by the EU, and that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditor's report.

Based on our review, no matters have come to our attention that cause us to presume that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with IAS 34, “Interim Financial Reporting” as adopted by the EU, or that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports.

Munich, 2 August 2017

KPMG AG  
Wirtschaftsprüfungsgesellschaft  
[original German version signed by:]

|                         |                         |
|-------------------------|-------------------------|
| <b>Dielehner</b>        | <b>Winner</b>           |
| [German Public Auditor] | [German Public Auditor] |



# ADDITIONAL INFORMATION

## Future-oriented Statements

This report contains future-oriented statements in the form of intentions, assumptions, expectations or forecasts. These statements are based on the plans, estimates and predictions currently available to the management of pbb. Future-oriented statements therefore only apply on the day on which they are made. pbb Group does 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.

## Imprint

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### **CONCEPT, DESIGN AND REALISATION**

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