Pursuant to article 16 para. 3 of the German Securities Prospectus Act investors who have already agreed to purchase or subscribe for Notes issued under the Programme (as defined herein) before this Third Supplement (as defined herein) has been published shall have the right, exercisable within two working days after the publication of this Third Supplement, to withdraw their purchase or subscription orders, provided that the new factor arose before the final closing of the offer to the public and the delivery of the securities. A withdrawal, if any, is to be addressed to Deutsche Pfandbriefbank AG, Freisinger Straße 5, 85716 Unterschleißheim, Germany provided that the relevant agreement to purchase or subscribe has been entered into with Deutsche Pfandbriefbank AG or to the relevant bank or savings bank or any other distributor with whom the relevant agreement to purchase or subscribe has been entered into.

Supplement pursuant to article 16 para. 1 of the German Securities Prospectus Act
dated 15 August 2014

to the base prospectus dated
7 May 2014
relating to

Deutsche Pfandbriefbank AG

Munich, Federal Republic of Germany

as Issuer

Euro 50,000,000,000
Debt Issuance Programme (the "Programme")

This supplement (the "Third Supplement") to the base prospectus dated 7 May 2014 is prepared in connection with the Euro 50,000,000,000 Debt Issuance Programme (the "Programme") of Deutsche Pfandbriefbank AG (the "Issuer") and is supplemental to, and should be read in conjunction with, the base prospectus dated 7 May 2014 as supplemented on 22 May 2014 (the "First Supplement") and on 4 June 2014 (the "Second Supplement", the base prospectus dated 7 May 2014 together with the First Supplement and the Second Supplement the "Original Base Prospectus") in respect of the Programme. Unless otherwise stated or the context otherwise requires, terms defined in the Original Base Prospectus shall have the same meaning when used in the Third Supplement. As used herein, the term "Base Prospectus" means the Original Base Prospectus as supplemented by the Third Supplement.

The Issuer accepts responsibility for the information contained in or incorporated by reference into this Base Prospectus. The Issuer hereby declares that all information contained in this Base Prospectus is true and accurate to the knowledge of the Issuer and that no material circumstances have been omitted.

The Third Supplement has been approved by the *Bundesanstalt für Finanzdienstleistungsaufsicht* of the Federal Republic of Germany in its capacity as competent authority (the "Competent Authority") under the German Securities Prospectus Act (*Wertpapierprospektgesetz*) which implements Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003, as amended, into German law. Please note that the approval of the Base Prospectus by the Competent Authority is based on the scrutiny of the completeness of the Base Prospectus including the consistency and the comprehensibility only. Application will be made to the Competent Authority to provide the *Commission de Surveillance du Secteur Financier* (the "CSSF") of the Grand Duchy of Luxembourg, the *Autoriteit Financiële Markten* of the Netherlands, the *Financial Conduct Authority* of the United Kingdom, the *Irish Financial Services Regulatory Authority* of Ireland, the *Finanzmarktaufsicht* of Austria, the *Kredittilsynet / Oslo Børs* of Norway and the *Commissione Nazionale per le Società e la Borsa* of Italy with a certificate of approval attesting that the Third Supplement has been drawn up in accordance with the German Securities Prospectus Act and with a copy of the Third Supplement.

This Third Supplement has been filed with the Competent Authority and has been published together with the Original Base Prospectus on the website of the Issuer (www.pfandbriefbank.com). Upon request (to be addressed to Deutsche Pfandbriefbank AG, Freisinger Straße 5, 85716 Unterschleißheim, Germany), the Issuer will provide, free of charge, a copy of the Third Supplement and of the Original Base Prospectus.

This Third Supplement has been prepared following the publication of the consolidated interim financial statements of the Issuer for the first six months of the financial year 2014 on 14 August 2014.

OVERALL AMENDMENTS

If reference is made in the Original Base Prospectus to “Base Prospectus”, then the respective reference includes all changes made by this Third Supplement.

I. SUPPLEMENTAL INFORMATION RELATING TO THE TABLE OF CONTENTS

On page 4 of the Original Base Prospectus, the following information shall be added in the “Table of Contents” after the information relating to Appendix III:

“APPENDIX IV: DEUTSCHE PFANDBRIEFBANK CONSOLIDATED INTERIM FINANCIAL INFORMATION FIRST HALF 2014

II. SUPPLEMENTAL INFORMATION
RELATING TO THE SECTION "I. SUMMARY"

On page 6 et seq. the information in "Section B – Issuer" under "Element B.12 – Selected historical key financial information regarding the Issuer, statement regarding trend information and significant changes in the financial or trading position of the Issuer", shall be deleted and replaced by the following information:

"

B.12	Selected historical key financial information regarding the Issuer, statement regarding trend information and significant changes in the financial or trading position of the Issuer	The following table sets forth selected financial information of Deutsche Pfandbriefbank extracted from the audited consolidated financial statements for the financial years ended 31 December 2012 and 2013:

		2013	**2012**
Operating performance according to IFRS			
Pre-tax profit/loss	In Euro million	165	124
Net income/loss	in Euro million	160	69
Balance sheet figures		**31.12.2013**	**31.12.2012**
Total assets	in Euro billion	74.6	97.1
Equity (excluding revaluation reserve)	in Euro billion	3.4	3.3
Equity	in Euro billion	3.5	3.3

The following table sets forth selected financial information of Deutsche Pfandbriefbank extracted from the unaudited consolidated interim financial statements for the first half of the financial year 2014:

		First Half 2014	**First Half 2013**
Operating performance according to IFRS			
Pre-tax profit/loss	In Euro million	83	60
Net income/loss	in Euro million	74	41
Balance sheet figures		**30.06.2014**	**31.12.2013**
Total assets	in Euro billion	77.8	74.6
Equity (excluding revaluation reserve)	in Euro billion	3.5	3.4
Equity	in Euro billion	3.6	3.5

There has been no material adverse change in the prospects of the Issuer since the date of its last published audited financial statements (31 December 2013).

Following the approval of the European Commission of the state aid provided to Hypo Real Estate Group, the business model of the Issuer has been reviewed by the Stabilisation Fund (*Sonderfonds Finanzmarktstabilisierung* – the "SoFFin"), the German Financial Markets Stabilization Agency (*Bundesanstalt für Finanzmarktstabilisierung*) and the German Ministry of Finance (*Bundesfinanzministerium*). Together with these stakeholders, the Issuer is currently evaluating the options for its reprivatisation, which may have an impact on its current business model.

There has been no significant change in the financial position of the Issuer and its consolidated subsidiaries since the end of the last financial period for which interim financial information has been published (30 June 2014).

"

III. SUPPLEMENTAL INFORMATION
RELATING TO THE SECTION "II. DEUTSCHE ÜBERSETZUNG DER ZUSAMMENFASSUNG"

On page 20 et seq. the information in "Abschnitt B – Emittent" under "Element B.12 – Ausgewählte wesentliche historische Finanzinformationen über den Emittenten, Erklärung zu Trendinformationen sowie wesentliche Veränderungen der Finanzlage oder Handelsposition des Emittenten ", shall be deleted and replaced by the following information:

"

<table>
<tr>
<td>B.12</td>
<td>Ausgewählte wesentliche historische Finanzinformationen über den Emittenten, Erklärung zu Trendinformationen sowie wesentliche Veränderungen der Finanzlage oder Handelsposition des Emittenten</td>
<td>
Die folgende Tabelle enthält ausgewählte Finanzinformationen zur Deutsche Pfandbriefbank aus dem geprüften konsolidierten Jahresabschluss für die zum 31. Dezember 2012 und 2013 beendeten Geschäftsjahre:
<table>
<tr><th></th><th></th><th>2013</th><th>2012</th></tr>
<tr><td>Ergebniszahlen gemäß IFRS</td><td></td><td></td><td></td></tr>
<tr><td>Ergebnis vor Steuern</td><td>in Mio. Euro</td><td>165</td><td>124</td></tr>
<tr><td>Ergebnis nach Steuern</td><td>in Mio. Euro</td><td>160</td><td>69</td></tr>
<tr><td>Bilanzzahlen</td><td></td><td>31.12.2013</td><td>31.12.2012</td></tr>
<tr><td>Bilanzsumme</td><td>in Mrd. Euro</td><td>74,6</td><td>97,1</td></tr>
<tr><td>Bilanzielles Eigenkapital (ohne Neubewertungsrücklage)</td><td>in Mrd. Euro</td><td>3,4</td><td>3,3</td></tr>
<tr><td>Bilanzielles Eigenkapital</td><td>in Mrd. Euro</td><td>3,5</td><td>3,3</td></tr>
</table>
Die folgende Tabelle enthält ausgewählte Finanzinformationen zur Deutschen Pfandbriefbank, welche dem ungeprüften Konzernzwischenabschluss für das erste Halbjahr des Finanzjahres 2014 entnommen wurden:
<table>
<tr><th></th><th></th><th>Erstes Halbjahr 2014</th><th>Erstes Halbjahr 2013</th></tr>
<tr><td>Ergebniszahlen gemäß IFRS</td><td></td><td></td><td></td></tr>
<tr><td>Ergebnis vor Steuern</td><td>in Mio. Euro</td><td>83</td><td>60</td></tr>
<tr><td>Ergebnis nach Steuern</td><td>in Mio. Euro</td><td>74</td><td>41</td></tr>
<tr><td>Bilanzzahlen</td><td></td><td>30.06.2014</td><td>31.12.2013</td></tr>
<tr><td>Bilanzsumme</td><td>in Mrd. Euro</td><td>77,8</td><td>74,6</td></tr>
<tr><td>Bilanzielles Eigenkapital (ohne Neubewertungsrücklage)</td><td>in Mrd. Euro</td><td>3,5</td><td>3,4</td></tr>
<tr><td>Bilanzielles Eigenkapital</td><td>in Mrd. Euro</td><td>3,6</td><td>3,5</td></tr>
</table>
Seit dem Datum der Veröffentlichung des letzten geprüften Jahresabschlusses (31. Dezember 2013) hat es keine wesentlichen negativen Veränderungen in den Aussichten der Emittentin gegeben.
Nach der Genehmigung der an die Hypo Real Estate Group gewährten Beihilfen durch die Europäische Kommission, wurde das Geschäftsmodell der Emittentin einer Überprüfung durch den SoFFin, die Bundesanstalt für Finanzmarktstabilisierung und das Bundesfinanzministerium unterzogen. Mit diesen Stakeholdern prüft die Emittentin die Optionen für ihre Reprivatisierung; dies kann einen Einfluss auf ihr aktuelles Geschäftsmodell haben.
Seit dem Ende des Stichtags, für den Zwischenfinanzinformationen veröffentlicht wurden (30. Juni 2014), hat es keine wesentlichen Veränderungen in der Finanzlage der Emittentin und ihrer konsolidierten Tochtergesellschaften gegeben.
</td>
</tr>
</table>

"

IV. SUPPLEMENTAL INFORMATION
RELATING TO THE SECTION "IV. DEUTSCHE PFANDBRIEFBANK AG"

1. SUPPLEMENTAL INFORMATION RELATING TO THE SECTION "5. TREND INFORMATION"

On page 50 of the Original Base Prospectus, the second paragraph shall be deleted and replaced as follows:

"Following the approval of the European Commission of the state aid provided to Hypo Real Estate Group, the business model of the Issuer has been reviewed by the Stabilisation Fund (*Sonderfonds Finanzmarktstabilisierung* – the "SoFFin"), the German Financial Markets Stabilization Agency (*Bundesanstalt für Finanzmarktstabilisierung* – the "FMSA") and the German Ministry of Finance (*Bundesfinanzministerium*). Together with these stakeholders, the Issuer is currently evaluating the options for its reprivatisation, which may have an impact on its current business model."

2. SUPPLEMENTAL INFORMATION RELATING TO THE SECTION "6. ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES"

On page 51 of the Original Base Prospectus the information in the subsection "The Management Board" shall be deleted and replaced by the following information:

"In accordance with the Articles of Association, the Management Board consists of two or more members. The Supervisory Board determines the number of the members of the Management Board and appoints the members of the Management Board. The Management Board represents the Issuer and is responsible for its management.

As at the date of this third Supplement, members of the Management Board of the Issuer are:

Name and Position	Other Mandates
Andreas Arndt Member of the Management Board (Chief Financial Officer)	Member of the Management Board of Hypo Real Estate Holding AG, Munich, Germany
Wolfgang Groth Member of the Management Board (Group Treasurer)	Member of the Management Board of Hypo Real Estate Holding AG, Munich, Germany Non-Executive Director of DEPFA BANK plc., Dublin, Ireland Non-Executive Director of DEPFA ACS Bank, Dublin, Ireland Non-Executive Director of Hypo Public Finance Bank puc, Dublin, Ireland
Andreas Schenk Member of the Management Board (Chief Risk Officer)	Member of the Management Board of Hypo Real Estate Holding AG, Munich, Germany
Dr. Bernhard Scholz Member of the Management Board (Real Estate Finance and Public Sector Finance)	Member of the Management Board of Hypo Real Estate Holding AG, Munich, Germany

The business address of the Management Board of the Issuer is Freisinger Str. 5, 85716 Unterschleissheim, Germany."

On page 51 et seq. of the Original Base Prospectus the information in the subsection "The Supervisory Board" shall be deleted and replaced by the following information:

"In accordance with the Articles of Association, the Supervisory Board consists of nine members of whom six are elected by the General Meeting of Shareholders and three are elected by the employees in accordance with the German One Third-Participation Act (*Drittelbeteiligungsgesetz*).

As at the date of the Third Supplement, members of the Supervisory Board of the Issuer are:

Name and Position	Other Mandates
Dr. Bernd Thiemann[*)] Chairman of the Supervisory Board (Former Chairman of the Management Board of DG Bank AG)	Hypo Real Estate Holding AG, Munich, Germany, Chairman of the Supervisory Board Deutsche EuroShop AG, Hamburg, Germany , Member of the Supervisory Board VHV Lebensversicherung AG, Hannover, Germany, Member of the Supervisory Board VHV Vereinigte Hannoversche Versicherung a.G., Hannover, Germany, Member of the Supervisory Board Hannoversche Direktversicherung AG, Hannover, Germany, Member of the Supervisory Board WAVE Management AG, Hamburg, Germany, Deputy Chairman of the Supervisory Board IVG Immobilien AG, Bonn, Germany, Member of the Supervisory Board Würth Finance International B.V., Amsterdam, The Netherlands, Member of the Supervisory Board M.M. Warburg & Co KGaA, Hamburg, Germany, Deputy Chairman of the Supervisory Board
Dagmar P. Kollmann Deputy Chairperson of the Supervisory Board (Entrepreneur)	Hypo Real Estate Holding AG, Munich, Germany, Deputy Chairperson of the Supervisory Board Bank Gutmann Aktiengesellschaft, Vienna, Austria, Member of the Supervisory Board Landeskreditbank Baden-Württemberg – Förderbank (L-Bank), Karlsruhe/Stuttgart, Germany, Member of the Advisory Board KfW IPEX-Bank GmbH, Frankfurt, Germany, Member of the Supervisory Board Deutsche Telekom AG, Bonn, Germany, Member of the Supervisory Board Unibail-Rodamco SE, Paris, France, Member of the Supervisory Board, (since 23.04.2014)
Dr. Günther Bräunig (Member of the Management Board of KfW)	Hypo Real Estate Holding AG, Munich, Germany, Member of the Supervisory Board AFT – Agence France Trésor, Paris, France, Member of the Strategic Committee True Sale International GmbH, Frankfurt/Main, Germany, Chairman of the Advisory Council
Dr. Christian Gebauer Rochholz[**)] (Employee Representative)	None

Georg Kordick[**)] (Employee Representative)	None
Dr. Ludger Schuknecht (Head of the Department responsible for Fundamental Issues of Finance Policy and Economics (*Abteilung Finanzpolitische und volkswirtschaftliche Grundsatzfragen*) at the Federal Ministry of Finance, Berlin)	Hypo Real Estate Holding AG, Munich, Germany, Member of the Supervisory Board Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, Bonn/Eschborn, Germany, Member of the Supervisory Board
Heike Theißing[**)] (Employee Representative)	None
Dr. Hedda von Wedel (Retired President of the Bundesrechnungshof)	Hypo Real Estate Holding AG, Munich, Germany, Member of the Supervisory Board
Dr. Jeromin Zettelmeyer (Head of the Economic Policy Department (*Abteilung Wirtschaftspolitik*) at the Federal Ministry for Economic Affairs and Energy)	Hypo Real Estate Holding AG, Munich, Germany, Member of the Supervisory Board

[*)] Dr. Bernd Thiemann will resign as member of the Supervisory Board after the conclusion of the Annual General Meeting of Shareholders which is planned in August.
[**)] Employee representative according to the One Third-Participation Act (*Drittelbeteiligungsgesetz*).

The business address of the Supervisory Board of the Issuer is Freisinger Str. 5, 85716 Unterschleissheim, Germany."

3. SUPPLEMENTAL INFORMATION RELATING TO THE SECTION "8. HISTORICAL FINANCIAL INFORMATION"

On page 54 of the Original Base Prospectus, the information contained in the Subsection "Interim and other Financial Information" shall be deleted and replaced as follows:

"As of 30 June 2014, the Issuer has published consolidated interim financial statements including the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity (condensed), the statement of cash flows (condensed), the notes (condensed) and the review report (the "Deutsche Pfandbriefbank Consolidated Interim Financial Information First Half 2014"). The Deutsche Pfandbriefbank Consolidated Interim Financial Information First Half 2014 is included in Appendix IV to the Base Prospectus (pages I-1 to I-39). The Deutsche Pfandbriefbank Consolidated Interim Financial Information First Half 2014 has been prepared on the basis of IFRS.

The Deutsche Pfandbriefbank Consolidated Interim Financial Information First Half 2014 is unaudited and has been subject to a review by the statutory auditors (*prüferische Durchsicht*) only. The statutory auditors of the Issuer have issued an unqualified review report (*Bescheinigung nach prüferischer Durchsicht*)."

On page 54 of the Original Base Prospectus, the information contained in the Subsection "Legal and Arbitration Proceedings" shall be supplemented by replacing the third paragraph as follows:

"The profit participation certificates issued by the predecessor institutions participated in significant losses due to the net losses for the period incurred since 2008, and to the Issuer´s net accumulated losses since this time. These reduced the amounts repaid and, as a result, no interest was paid. Individual plaintiffs 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 capital components must be used to calculate loss participation and whether replenishment is required if the Issuer records a net gain for the period or a net retained profit. The contested profit participation certificates had an aggregate principal amount of Euro 260 million (of which proceedings involving a principal amount of Euro 12.5 million were pending). The plaintiffs' repayment claims may increase up to the full amount or in part as a result of these actions. On 31 July 2014, the Munich District Court (*Landgericht*) took an adverse decision from the perspective of the Issuer by confirming these claims. The decision is not final and legally binding yet."

On page 54 of the Original Base Prospectus, the information contained in the Subsection "Significant Change in Issuer's Financial Position" shall be deleted and replaced as follows:

"There has been no significant change in the financial position of the Issuer since the end of the last financial period for which interim financial information has been published (30 June 2014)."

V. SUPPLEMENTAL INFORMATION RELATING TO SECTION "V. HYPO REAL ESTATE GROUP"

1. SUPPLEMENTAL INFORMATION RELATING TO THE SECTION "2. INFORMATION ABOUT HYPO REAL ESTATE GROUP"

On page 58 of the Original Base Prospectus, the information in the subsection "Strategic Reorganisation and Corporate Strategy of Hypo Real Estate Group" as supplemented by the First Supplement shall further supplemented by deleting and replacing the last paragraph:

"In connection with the planned transfer of DEPFA Group to FMS Wertmanagement, the Issuer has transferred its subsidiary DEPFA Finance N.V, Amsterdam, to DEPFA with effect as of 18 July 2014. Subsequent to this, the Issuer will partially repay a loan which was provided to it by DEPFA Finance N.V. for an amount below par and reduce a corresponding hedging swap entered into between the Issuer and DEPFA at market value. The repayment of the loan and the reduction of the swap will result in a total book profit of the Issuer."

2. SUPPLEMENTAL INFORMATION RELATING TO THE SECTION "5. ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES OF HYPO REAL ESTATE HOLDING"

On page 59 et seq. of the Original Base Prospectus, the information in the subsection "The Supervisory Board" shall be deleted and replaced by the following information:

"According to the Articles of Association, the Supervisory Board consists of six members. As at the date of the Third Supplement, members of the Supervisory Board of Hypo Real Estate Holding are:

Name and Position	Other Mandates
Dr. Bernd Thiemann[*)]	
Chairman of the Supervisory Board (Former Chairman of the Management Board of DG Bank AG)	Deutsche Pfandbriefbank AG, Munich, Germany, Chairman of the Supervisory Board Deutsche EuroShop AG, Hamburg, Germany, Member of the Supervisory Board VHV Leben AG, Hannover, Germany, Member of the Supervisory Board VHV Vereinigte Hannoversche Versicherung a.G., Hannover, Germany, Member of the Supervisory Board WAVE Management AG, Hamburg, Germany, Deputy Chairman of the Supervisory Board IVG Immobilien AG, Bonn, Germany, Member of the Supervisory Board Adolf Würth GmbH & Co KG, Künzelsau, Germany, Deputy Chaiman of the Advisory Board M.M. Warburg & Co KGaA, Hamburg, Germany, Member of the Shareholder's Committee Odewald & Compagnie Gesellschaft für Beteiligungen mbH, Berlin, Germany, Deputy Chairman of the Advisory Board
Dagmar P. Kollmann	
Deputy Chairperson of the Supervisory Board (Chairman of the Partners Committee of Kollmann GmbH)	Deutsche Pfandbriefbank AG, Munich, Deputy Chairperson of the Supervisory Board Bank Gutmann Aktiengesellschaft, Vienna, Austria, Member of the Supervisory Board Landeskreditbank Baden-Württemberg – Förderbank (L-Bank), Karlsruhe/Stuttgart, Germany, Member of the Advisory Board KfW IPEX-Bank GmbH, Frankfurt, Germany, Member of the Supervisory Board Deutsche Telekom AG, Bonn, Germany, Member of the Supervisory Board Unibail-Rodamco SE, Paris, France, Member of the Supervisory Board, (since 23.04.2014)

Dr. Günther Bräunig (Member of the Management Board of KfW)	Deutsche Pfandbriefbank AG, Munich, Germany, Member of the Supervisory Board OSEO, Paris, France, Member of the Conseil d'Orientation True Sale International GmbH, Frankfurt/Main, Germany, Chairman of the Advisory Council
Dr. Ludger Schuknecht (Head of the Department responsible for Fundamental Issues of Finance Policy and Economics (*Abteilung Finanzpolitische und volkswirtschaftliche Grundsatzfragen*) at the Federal Ministry of Finance, Berlin)	Deutsche Pfandbriefbank AG, Munich, Germany, Member of the Supervisory Board Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, Bonn/Eschborn, Germany, Member of the Supervisory Board
Dr. Hedda von Wedel (Retired President of the Bundesrechnungshof)	Deutsche Pfandbriefbank AG, Munich, Germany, Member of the Supervisory Board
Dr. Jeromin Zettelmeyer (Head of the Economic Policy Department (*Abteilung Wirtschaftspolitik*) at the Federal Ministry for Economic Affairs and Energy)	Deutsche Pfandbriefbank AG, Munich, Germany, Member of the Supervisory Board

*) The mandate of all members of the Supervisory Board will expire after the conclusion of the Annual General Meeting of Shareholders which is planned in August. Dr. Bernd Thiemann will not seek re-election.

The business address of the Supervisory Board of Hypo Real Estate Holding is Freisinger Str. 5, 85716 Unterschleissheim, Germany."

VI. SUPPLEMENTAL INFORMATION RELATING TO THE APPENDICES

After page H-20 of the Original Base Prospectus the Deutsche Pfandbriefbank Consolidated Interim Financial Information First Half 2014 as laid out on the following pages I-1 to I-39 is newly inserted as I-pages into the Original Base Prospectus.

Appendix IV

Deutsche Pfandbriefbank
Consolidated Interim Financial Statements First Half 2014

Consolidated Interim Financial Statements
Consolidated Income Statement

Consolidated income statement in € million	Notes	1.1.–30.6. 2014	1.1.–30.6. 2013	Change
Operating income		203	214	–11
Net interest and similar income	6	195	153	42
Interest and similar income		1,178	1,249	–71
Interest and similar expenses		–983	–1,096	113
Net fee and commission income	7	–	2	–2
Fee and commission income		6	6	–
Fee ans commission expenses		–6	–4	–2
Net trading income	8	–18	–2	–16
Net income from financial investments	9	1	1	–
Net income from hedging relationships	10	–6	4	–10
Net other operating income/expenses	11	31	56	–25
Loan loss provisions	12	–2	1	–3
General and administrative expenses	13	–124	–156	32
Net miscellaneous income/expenses	14	6	1	5
Profit or loss before tax		**83**	**60**	23
Income taxes	15	–9	–19	10
Net income/loss		**74**	**41**	33
attributable to: Equity holders (consolidated profit/loss of the parent company)		74	41	33

Consolidated Statement of Comprehensive Income

Consolidated statement of comprehensive income in € million	1.1.–30.6.2014 Before tax	Tax	Net of tax	1.1.–30.6.2013 Before tax	Tax	Net of tax
Profit or loss	**83**	**–9**	**74**	**60**	**19**	**41**
Items that will not be reclassified to income statement	–17	5	–12	–	–	–
Additional paid-in capital	–	–	–	–	–	–
Retained earnings	–	–	–	–	–	–
Profits/losses from pension commitments	–17	5	–12	–	–	–
Items that may be reclassified to income statement	55	–15	40	12	3	9
Foreign currency reserve	1	–	1	–	–	–
AfS reserve	109	–30	79	95	27	68
Cash flow hedge reserve	–55	15	–40	–83	–24	–59
Total other comprehensive income for the period	**38**	**–10**	**28**	**12**	**3**	**9**
Total comprehensive income for the period	**121**	**–19**	**102**	**72**	**22**	**50**
attributable to: Equity holders (consolidated profit/loss of the parent company)	121	–19	102	72	22	50

Components of consolidated statement of comprehensive income in € million	1.1.–30.6. 2014	1.1.–30.6. 2013
Net income/loss	**74**	**41**
Additional paid-in capital	–	–
Unrealised gains/losses	–	–
Retained earnings	–	–
Unrealised gains/losses	–	–
Profits/losses from pension commitments	–12	–
Unrealised gains/losses	–12	–
Foreign currency reserve	1	–
Unrealised gains/losses	1	–
AfS reserve	79	68
Unrealised gains/losses	79	67
Reclassification adjustments for gains/losses transferred to profit or loss	–	1
Cash flow hedge reserve	–40	–59
Unrealised gains/losses	86	–23
Reclassification adjustments for gains/losses transferred to in profit or loss	–126	–36
Total other comprehensive income for the period	28	9
Total unrealised gains/losses	154	44
Total reclassification adjustments for gains/losses transferred to profit or loss	–126	–35
Total comprehensive income for the period	**102**	**50**

Consolidated Statement of Financial Position

Assets in € million	Notes	30.6.2014	31.12.2013[1]	Change	1.1.2013[1)2)]
Cash reserve		187	3,532	−3,345	1,929
Trading assets	17	1,889	1,642	247	3,325
Loans and advances to other banks	18	9,728	6,685	3,043	8,917
Loans and advances to customers	19	37,809	36,242	1,567	49,590
Allowances for losses on loans and advances	20	−142	−148	6	−325
Financial investments	21	21,122	20,725	397	25,326
Property and equipment		2	1	1	2
Intangible assets		30	31	−1	39
Other assets	22	5,685	4,769	916	7,242
Income tax assets	23	582	1,165	−583	1,704
Current tax assets		44	44	–	53
Deferred tax assets		538	1,121	−583	1,651
Disposal group	32	927	–	927	–
Total assets		**77,819**	**74,644**	3,175	**97,749**

Equity and liabilities in € million	Notes	30.6.2014	31.12.2013[1]	Change	1.1.2013[1)2)]
Liabilities to other banks	24	5,506	3,522	1,984	7,797
Liabilities to customers	25	11,334	10,848	486	11,895
Securitised liabilities	26	47,389	46,858	531	52,296
Trading liabilities	27	1,742	1,453	289	3,192
Provisions	28	217	209	8	235
Other liabilities	29	5,087	4,722	365	14,438
Income tax liabilities	30	610	1,190	−580	1,698
Current tax liabilities		67	64	3	64
Deferred tax liabilities		543	1,126	−583	1,634
Subordinated capital	31	1,120	2,357	−1,237	2,910
Disposal group	32	1,227	–	1,227	–
Liabilities		**74,232**	**71,159**	3,073	**94,461**
Equity attributable to equity holders		**3,587**	**3,485**	102	**3,288**
Subscribed capital		380	380	–	380
Silent partnership contribution		999	999	–	999
Additional paid-in capital		5,036	5,036	–	5,036
Retained earnings		−2,932	−3,092	160	−3,161
Profits/losses from pension commitments		−53	−41	−12	−46
Foreign currency reserve		−29	−30	1	−29
Revaluation reserve		112	73	39	40
AfS reserve		−141	−220	79	−360
Cash flow hedge reserve		253	293	−40	400
Consolidated profit/loss 1.1.–30.6./31.12.		74	160	−86	69
Equity		**3,587**	**3,485**	102	**3,288**
Total equity and liabilities		**77,819**	**74,644**	3,175	**97,749**

[1] Adjustment due to retrospective IFRS 10 first time adoption. Details are disclosed in Note «Principles».
[2] Adjustment due to retrospective IAS 19 (revised) first time adoption

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

Consolidated statement of changes in equity in € million	Subscribed capital	Silent partnership contribution	Additional paid-in capital	Retained earnings[1]	Profits/losses from pension commitments	Foreign currency reserve	Equity attributable to equity holders – Revaluation reserve – AfS reserve	Equity attributable to equity holders – Revaluation reserve – Cash flow hedge reserve	Consolidated profit/loss	**Equity**
Equity at 1.1.2013	**380**	**999**	**5,036**	**−3,161**	**−46**	**−29**	**−360**	**400**	**69**	**3,288**
Capital increase	–	–	–	–	–	–	–	–	–	–
Costs of equity transactions	–	–	–	–	–	–	–	–	–	–
Treasury shares	–	–	–	–	–	–	–	–	–	–
Distribution	–	–	–	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	–	–	68	−59	41	50
Transfer to retained earnings	–	–	–	69	–	–	–	–	−69	–
Changes in the basis of consolidation	–	–	–	–	–	–	–	–	–	–
Equity at 30.6.2013	**380**	**999**	**5,036**	**−3,092**	**−46**	**−29**	**−292**	**341**	**41**	**3,338**
Equity at 1.1.2014	**380**	**999**	**5,036**	**−3,092**	**−41**	**−30**	**−220**	**293**	**160**	**3,485**
Capital increase	–	–	–	–	–	–	–	–	–	–
Costs of equity transactions	–	–	–	–	–	–	–	–	–	–
Treasury shares	–	–	–	–	–	–	–	–	–	–
Distribution	–	–	–	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	−12	1	79	−40	74	102
Transfer to retained earnings	–	–	–	160	–	–	–	–	−160	–
Changes in the basis of consolidation	–	–	–	–	–	–	–	–	–	–
Equity at 30.6.2014	**380**	**999**	**5,036**	**−2,932**	**−53**	**−29**	**−141**	**253**	**74**	**3,587**

[1] Adjustment due to retrospective IFRS 10 first time adoption. Details are disclosed in Note «Principles».

Consolidated statement of cash flows (condensed) in € million	**2014**	**2013**[1]
Cash and cash equivalents at 1.1.	**3,532**	**1,929**
+/− Cash flow from operating activities	−3,388	−3,649
+/− Cash flow from investing activities	53	2,972
+/− Cash flow from financing activities	−10	−45
+/− Effects of exchange rate changes and non-cash valuation changes	–	–
Cash and cash equivalents at 30.6.	**187**	**1,207**

[1] Adjustment due to retrospective IFRS 10 first time adoption. Details are disclosed in Note «Principles».

1 Principles

pbb Group has prepared the condensed consolidated interim financial statements for the period ended 30 June 2014 in line with EC regulation No. 1606/2002 of the European Parliament and of the Council from 19 July 2002 in accordance withe International Financial Reporting Standards (IFRS). The condensed consolidated interim financial statements are based on the IFRS rules, which have been adopted into European Law by the European Commission as part of the endorsement process; it is also based on the regulations of the Commercial Law which are applicable in accordance with section 315a (1) HGB (German Commercial Code). In particular, requirements of IAS 34 were considered. With the exception of specific regulations relating to fair value hedge accounting for a portfolio hedge of interest risks in IAS 39 Financial Instruments: Recognition and Measurement all mandatory IFRS rules have been completely endorsed by the European Union (EU). pbb Group does not apply fair value hedge accounting for a portfolio hedge of interest risks. Therefore, the financial statements are accordingly consistent with the entire IFRS as well as with the IFRS as applicable in the EU.

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

On 4 August 2014, the management board of pbb prepared these consolidated interim financial statements under the going-concern assumption.

Initially Adopted Standards and Interpretations The following standards, interpretations and amendments were initially applied in the first half of 2014:
> IFRS 10 Consolidated Financial Statements and Amendments to IAS 27 Separate Financial Statements
> IFRS 11 Joint Arrangements and Amendmends to IAS 28 Investments in Associates and Joint Ventures
> IFRS 12 Disclosure of Interests in Other Entities
> Amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities: Transition Guidance
> Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements: Investment Entities
> Amendments to IAS 32: Offsetting Financial Assets and Financial Liabilities
> Amendments to IAS 36: Recoverable Amount Disclosures for Non Financial Assets
> Amendments to IAS 39: Novation of Derivatives and Continuation of Hedge Accounting

IFRS 10 replaces the guidelines on control and consolidation previously contained in IAS 27 and SIC-12. IFRS 10 introduces the concept of control as the basis for consolidation. Under this model, parent-subsidiary relationships can arise not only from voting power, but from other contractual arrangements as well. First time adoption of IFRS 10 lead to two changes in the group of consolidated companies. As IFRS 10 has been adopted retrospectively for the first time, the prior year figures were adjusted.
> The formerly consolidated company House of Europe Funding I Ltd., George Town, no longer requires consolidation as, pursuant to IFRS 10, pbb Group no longer exercises control over the company. The deconsolidation resulted in a reduction in the balance sheet total of € 202 million as of 31 December 2013 (2012: € 254 million), which affected the cash reserve (€ 0 million, 2012: € 8 million), financial assets (€ 167 million; 2012: € 246 million) and loans and advances to other banks (€ 35 million; 2012: € 0 million) on the assets side, and securitised liabilities (€ 202 million; 2012: € 254 million) on the liabilities side. The deconsolidation did not affect the consolidated income statement.

> DEPFA Finance N.V., Amsterdam, which did not require inclusion in the consolidated financial statements in accordance with the previous regulations, must be consolidated as, pursuant to IFRS 10, pbb Group now exercises control over the company. The initial consolidation resulted in an increase in retained earnings as a sub item of equity of €5 million as of 31 December 2013 (2012: €5 million). In addition, the subordinated liabilities within the subordinated capital increased by €917 million as of 31 December 2013 (2012: €917 million). On the assets side, other loans and advances as a sub item of loans and advances to other banks increased by €922 million (2012: €922 million). The initial consolidation did not affect the consolidated income statement.

DEPFA Finance N.V. was classified as a disposal group as of 30 June 2014 pursuant to IFRS 5, as a disposal of the company was highly probable on 30 June 2014. The relevant details are disclosed in the Note «Disposal Group».

IFRS 11 supersedes IAS 31 and removes the option to proportionately consolidate joint ventures. This did not affect the condensed consolidated interim financial statements as there were no joint ventures or investments to be included according to the equity method did not exist in the first half of 2014 and in 2013 in pbb Group.

IFRS 12 combines the disclosure requirements for interests in subsidiaries, joint ventures, associated companies and unconsolidated structured entities in a single standard. Pursuant to IAS 34.15B, these notes are not required in these condensed consolidated interim financial statements.

The amendments to IFRS 10, IFRS 11 and IFRS 12: The Transition Guidance regulates the time of decision on consolidation. Accordingly, the consolidation decision should be taken at the beginning of the period in which the standard is first applied. The time of the decision by pbb Group was therefore 1 January 2014. pbb Group has thus determined the scope of consolidation as of 1 January 2014.

The amendments to IFRS 10, IFRS 12 and IAS 27: Investment Entities exempts specifically defined investment companies from the requirement to consolidate controlled subsidiaries. The respective investments must instead be measured at fair value through profit or loss. IFRS 12 also contains specific disclosure requirements for investment entities. As pbb Group is not an investment entity within the meaning of the IFRS definition, this will have no impact on these consolidated interim financial statements.

The amendments to IAS 32 clarify the requirements for offsetting financial instruments. They also explain the relevance of the currently enforceable legal right to set off and clarify which gross settlement methods may be considered equivalent to net settlement within the meaning of the standard. The clarification of IAS 32 has no significant effects on these condensed consolidated interim financial statements.

The amendments to IAS 36 relate to the disclosure regulations for cash-generating units to which a significant goodwill or intangible assets with an indefinite useful life have been allocated. First-time adoption is to be made retrospectively, however, only to reporting periods in which IFRS 13 is already applied. The amendment had no effect on these consolidated interim financial statements as pbb Group has no intangible assets of this kind in its portfolio.

Lawmakers have made far-reaching legal changes designed to improve transparency and for the purpose of regulatory oversight of over-the-counter derivatives. For example, companies are required to novate derivatives to central counterparties subject to certain conditions. The amendments to IAS 39 take account of these changes, as the previous IAS 39 required the dedesignation of the hedge relationship if the original derivative no longer exists. For hedge accounting purposes, the derivative entered into with the central counterparty would have to be redesignated as a hedging instrument, which may result in more ineffectiveness compared to the previous hedging relationship. The IASB has therefore added a exemption option to the previous IAS 39 providing relief from the requirement to terminate the hedge relationship if the novation of a hedging instrument with a central counterparty meets certain criteria. In particular, one prerequisition of the relief is the novation to be the result of a regulatory or legal obligation. pbb Group makes use of the relief in order to maximise the effectiveness of its hedging relationships.

With the exception of the described changes due to initially adopted or changed standards the accounting policies applied in the preparation of the condensed consolidated interim financial statements as at 30 June 2014 were the same as in the consolidated financial statements as at 31 December 2013.

2 Consolidation

On page 181, the Annual Report 2013 of pbb Group contains a list of all consolidated and non-consolidated investments of pbb.

Besides the effects from the first-time adoption of IFRS 10 Consolidated Financial Statements described in the Note «Principles», there was a change in the consolidated companies of pbb Group: The company Immo Invest Real Estate GmbH, Munich, was initially consolidated as of 1 January 2014. On 25 February 2014, the company took over all the shares in the company Espacio Oviedo S.L.U., Madrid, which had already been consolidated in pbb Group in 2013. This had no significant impact on the development in assets, financial position and earnings of pbb Group.

3 Notes to Segment Reporting by Operating Segment

With effect from 1 January 2014, pbb Group reorganised the reporting structure of the internal reporting system. The segment report based on internal controls is set up in compliance with the regulations set out in IFRS 8. It now includes the three operating segments Real Estate Finance (REF), Public Investment Finance (PIF) and Value Portfolio (VP). The key amendment compared to the previous year is the dissolution of the former Public Sector Finance (PSF) segment and the creation of the new PIF segment. The non-strategic portfolio of not specifically earmarked public sector financing (budget finance), which used to be reported under PSF, has been allocated to the VP segment. The new PIF segment includes the strategic public sector investment financing of pbb Group.

The REF and PIF segments thus comprise the strategic activities, and the VP segment the non-strategic activities of pbb Group's customer business.

The assignment of income and expenses to the business segments is undertaken in accordance with the responsibilities or imputed for the external net interest and similar income. In order to increase transparency and validity, the accrued fees for net interest and similar income have been segmented for the first time since the first half of 2014 according to the principle of causation. The previous year's figures thus had to be adjusted, which favoured the REF segment but was to the detriment of the PIF and VP segments.

Real Estate Finance (REF) The REF operating segment comprises all real estate financing arrangements of pbb Group. New business focuses on financing existing properties with a conservative refinancing strategy; the customers are professional investors. In this connection adequate batch sizes and loen-to-values commensurate for the level of risk involved are essential. Strategic partnerships are agreed with other institutions with the aim of permitting higher loan-to-values and larger volumes for customers by means of syndications and syndicated financing arrangements.

Public Investment Finance (PIF) The PIF operating segment comprises covered-bonds-eligible financing of public infrastructure. The focus here lies on public institutions, municipal housing construction, infrastructure of public utilities and waste disposal, health, nursing and child care properties as well as educational institutions. In addition, pbb Group is active in publicly guaranteed export financing. Financing is provided to public sector debtors, companies with a public or private legal structure as well as special-purpose vehicles with a public guarantee.

Value Portfolio (VP) The VP operating segment includes all the non-strategic portfolios and activities of pbb Group. In particular, the segment comprises budget financing and selected structured products as well as income and expenses from IT services provided to the fellow company DEPFA.

The servicing of FMS Wertmanagement was largely discontinued as of 30 September 2013 according to the conditions of the European Commission. The remaining income and expenses, in particular from the provision of information, the granting of powers of attorney, as well as the provision of services required by the regulatory authorities, are not material and not disclosed in the VP operating segment.

Consolidation & Adjustments is used for reconciling the sum of operating segments results with the consolidated result. It includes equity which is not allocated to the operating segments.

4 Income Statement and Balance-sheet-related Measures, Broken Down by Operating Segment

Income/expenses

in € million		REF	PIF	VP	Consolidation & Adjustments	**pbb Group**
Operating income	1.1.–30.6.2014	150	18	30	5	203
	1.1.–30.6.2013[1]	133	11	63	7	214
Net interest and similar income	1.1.–30.6.2014	151	20	18	6	195
	1.1.–30.6.2013[1]	127	14	5	7	153
Net fee and commission income	1.1.–30.6.2014	–	–	–	–	–
	1.1.–30.6.2013[1]	3	–	–	–1	2
Net trading income	1.1.–30.6.2014	–8	–2	–8	–	–18
	1.1.–30.6.2013[1]	–1	–1	–	–	–2
Net income from financial investments	1.1.–30.6.2014	2	–	–1	–	1
	1.1.–30.6.2013[1]	1	–	–	–	1
Net income from hedging relationships	1.1.–30.6.2014	–2	–2	–2	–	–6
	1.1.–30.6.2013[1]	2	–	2	–	4
Net other operating income/expenses	1.1.–30.6.2014	7	2	23	–1	31
	1.1.–30.6.2013[1]	1	–2	56	1	56
Loan loss provisions	1.1.–30.6.2014	–2	–	–	–	–2
	1.1.–30.6.2013[1]	–	–	1	–	1
General and administrative expenses	1.1.–30.6.2014	–77	–15	–32	–	–124
	1.1.–30.6.2013[1]	–66	–14	–76	–	–156
Net miscellaneous income/expenses	1.1.–30.6.2014	4	1	1	–	6
	1.1.–30.6.2013[1]	1	–	–	–	1
Profit or loss before tax	1.1.–30.6.2014	**75**	**4**	**–1**	**5**	**83**
	1.1.–30.6.2013[1]	**68**	**–3**	**–12**	**7**	**60**

Cost/income ratio[2]

in %		REF	PIF	VP	**pbb Group**
Cost/income ratio (based on operating revenues)	1.1.–30.6.2014	51.3	83.3	>100.0	61.1
	1.1.–30.6.2013[1]	49.6	>100.0	>100.0	72.9

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

The Management Board controls balance-sheet-related measures by operating segments based on equity, risk-weighted assets and on financing volumes. Financing volumes are the notional amounts of the drawn parts of granted loans and parts of the securities portfolio.

Balance-sheet-related measures, broken down by operating segments in € billion		REF	PIF	VP	Consolidation & Adjustments	**pbb Group**
Equity[1]	30.6.2014	0.8	0.5	1.4	0.8	3.5
	31.12.2013[2]	0.8	0.4	1.2	1.0	3.4
Risk-weighted assets[3]	30.6.2014[4]	7.5	2.8	6.1	1.3	17.7
	31.12.2013[2)5]	7.4	3.1	6.0	1.6	18.1
	31.12.2013[2)6]	8.1	2.1	3.2	0.7	14.1
Financing volumes	30.6.2014	21.6	7.7	22.8	–	52.1
	31.12.2013[2]	20.4	7.2	23.6	–	51.2

[1] Excluding revaluation reserve
[2] Adjusted in accordance with IFRS 8.29
[3] Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5
[4] Consolidated in accordance with CRR
[5] Basel III simulation; consolidated in accordance with CRR
[6] Consolidated in accordance with section 10a of the German Banking Act (KWG)

5 Breakdown of Operating Income

Operating income by products in € million		Real estate financing	Public investment financing	Other products	**pbb Group**
Operating income	1.1.–30.6.2014	150	18	35	203
	1.1.–30.6.2013[1]	133	11	70	214

[1] Adjusted in accordance with IFRS 8.29

Notes to the Consolidated Income Statement

6 Net Interest and Similar Income

Net interest and similar income by categories of income/expenses in € million	1.1.–30.6. 2014	1.1.–30.6. 2013
Interest and similar income	**1.178**	**1.249**
Lending and money-market business	675	649
Fixed-income securities and long-term equity	321	362
Current gains/losses from swap transactions (net interest income and expense)	182	238
Interest and similar expenses	**–983**	**–1.096**
Liabilities to other banks and customers	–217	–249
Securitised liabilities	–709	–809
Subordinated capital	–57	–38
Total	**195**	**153**

Total interest income for financial assets that are measured at amortised cost, amount to € 1.0 billion (2013: € 1.0 billion). Total interest expenses for financial liabilities that are not measured at fair value through profit or loss amount to € –1.0 billion (2013: € –1.1 billion).

7 Net Fee and Commission Income

Net fee and commission income in € million	1.1.–30.6. 2014	1.1.–30.6. 2013
Securities and custodial services	–	–
Lending operations and other service	–	2
Total	**–**	**2**

Net fee and commission income is attributable exclusively to financial assets and financial liabilities which are not designated at fair value through profit or loss.

8 Net Trading Income

Net trading income in € million	1.1.–30.6. 2014	1.1.–30.6. 2013
From interest rate instruments and related derivatives	–18	–3
From foreign currency instruments and related derivatives	–	1
Total	**–18**	**–2**

9 Net Income from Financial Investments

Net income from financial investments in € million	1.1.–30.6. 2014	1.1.–30.6. 2013
Income from financial investments	3	2
Expenses from financial investments	–2	–1
Total	**1**	**1**

Net income from financial investments by IAS 39 categories in € million	1.1.–30.6. 2014	1.1.–30.6. 2013
AfS financial investments	3	1
LaR financial investments	–2	–
Total	**1**	**1**

10 Net Income from Hedge Relationships

Net income from hedge relationships in € million	1.1.–30.6. 2014	1.1.–30.6. 2013
Gains/losses from fair value hedge accounting	–7	4
Gains/losses from hedged items	–426	267
Gains/losses from hedging instruments	419	–263
Gains/losses from dFVTPL assets and related derivatives	–	–
Gains/losses from dFVTPL assets	–	–1
Gains/losses from derivatives related to dFVTPL assets	–	1
Ineffectiveness from cash flow hedge accounting recognised in profit or loss	1	–
Total	**–6**	**4**

11 Net Other Operating Income/Expenses

Net other operating income/expenses in € million	1.1.–30.6. 2014	1.1.–30.6. 2013
Other operating income	40	138
Other operating expenses	–9	–82
Net other operating income/expenses	**31**	**56**

Net other operating income/expenses include net income from IT services provided to the fellow company DEPFA amounting to €18 million (2013: €21 million). Income from currency translations amounted to €7 million (2013: €1 million) and rental income generated from real estate amounted to €5 million (2013: €6 million). Net income from services for the FMS Wertmanagement portfolio amounted to €1 million (2013: €42 million). An expense of less than €–1 million (2013: €–5 million) resulted from the bank levy.

12 Loan Loss Provisions

Loan loss provisions in € million	**1.1.–30.6. 2014**	**1.1.–30.6. 2013**
Allowances for losses on loans and advances	–7	–
Additions	–19	–11
Reversals	12	11
Provisions for contingent liabilities and other commitments	–	1
Additions	–	–
Reversals	–	1
Recoveries from written-off loans and advances	5	–
Total	**–2**	**1**

The development of individual allowances on loans and advances as well as portfolio-based allowances is disclosed in the note «Allowances for Losses on Loans and Advances».

13 General and Administrative Expenses

General and administrative expenses in € million	**1.1.–30.6. 2014**	**1.1.–30.6. 2013**
Personnel expenses	–54	–64
Wages and salaries	–42	–51
Social security costs	–8	–9
Pension expenses and related employee benefit costs	–4	–4
Non-personnel expenses	–70	–92
Other general and administrative expenses	–65	–85
Consulting expenses	–9	–18
IT expenses	–36	–45
Office and operating expenses	–6	–7
Other non-personnel expenses	–14	–15
Depreciation, amortisation and impairment	–5	–7
of software and other intangible assets excluding goodwill	–5	–7
Total	**–124**	**–156**

Cost/income ratio in %	**1.1.–30.6. 2014**	**1.1.–30.6. 2013**
Cost/income ratio	61.1	72.9

14 Net Miscellaneous Income/Expenses

Net miscellaneous income/expenses in € million	**1.1.–30.6. 2014**	**1.1.–30.6. 2013**
Miscellaneous income	6	5
thereof: Reversals of restructuring provisions	5	5
Miscellaneous expenses	–	–4
thereof: Additions to restructuring provisions	–	–4
Net miscellaneous income/expenses	**6**	**1**

15 Income Taxes

Breakdown in € million	**1.1.–30.6. 2014**	**1.1.–30.6. 2013**
Current taxes	–19	–11
Deferred taxes	10	–8
thereof: Deferred taxes on capitalised losses carried forward	–52	–21
Total	**–9**	**–19**

16 Net Gains/Net Losses

The income statement contains the following net gains/net losses recognised in profit or loss according to IFRS 7.20(a):

Net gains/net losses in € million	**1.1.–30.6. 2014**	**1.1.–30.6. 2013**
Loans and receivables	16	12
Available for sale	3	1
Held for trading	–18	–2
Designated at fair value through profit or loss	–	–1
Financial liabilities at amortised cost	–9	–6

Notes to the Consolidated Statement of Financial Position

17 Trading Assets

Trading assets in € million	**30.6.2014**	**31.12.2013**
Positive fair values of derivative financial instruments	1,889	1,642
Total	**1,889**	**1,642**

18 Loans and Advances to Other Banks

Loans and advances to other banks by type of business in € million	**30.6.2014**	**31.12.2013**[1]
Loans and advances	3,737	4,631
Public sector loans	2,016	1,978
Real estate loans	–	51
Other loans and advances	1,721	2,602
Investments	5,991	2,054
Total	**9,728**	**6,685**

Loans and advances to other banks by maturities in € million	**30.6.2014**	**31.12.2013**[1]
Repayable on demand	1,718	1,614
With agreed maturities	8,010	5,071
Up to 3 months	5,645	2,143
3 months to 1 year	904	381
1 year to 5 years	446	646
5 years and over	1,015	1,901
Total	**9,728**	**6,685**

[1] Adjustment according to the retrospective initial adoption of IFRS 10. For details see Note «Principles».

19 Loans and Advances to Customers

Loans and advances to customers by type of business in € million	30.6.2014	31.12.2013
Loans and advances	37,809	36,042
Public sector loans	15,880	15,464
Real estate loans	21,906	20,557
Other loans and advances	23	21
Investments	–	200
Total	**37,809**	**36,242**

Loans and advances to customers by maturities in € million	30.6.2014	31.12.2013
Unspecified terms	57	–
With agreed maturities	37,752	36,242
Up to 3 months	1,621	2,087
3 months to 1 year	2,329	2,937
1 year to 5 years	16,941	15,122
5 years and over	16,861	16,096
Total	**37,809**	**36,242**

20 Allowances for Losses on Loans and Advances

Development

in € million	Specific allowances	Portfolio-based allowances	**Total**
Balance at 1.1.2013	**–283**	**–42**	**–325**
Changes affecting income	1	–9	–8
Gross additions	–50	–16	–66
Releases	42	7	49
Increase of the present value due to passage of time (unwinding)	9	–	9
Changes not affecting income	185	–	185
Use of existing loan-loss allowances	185	–	185
Balance at 31.12.2013	**–97**	**–51**	**–148**
Balance at 1.1.2014	**–97**	**–51**	**–148**
Changes affecting income	–9	6	–3
Gross additions	–18	–1	–19
Releases	5	7	12
Increase of the present value due to passage of time (unwinding)	4	–	4
Changes not affecting income	9	–	9
Use of existing loan-loss allowances	11	–	11
Effects of foreign currency translations and other changes	–2	–	–2
Balance at 30.6.2014	**–97**	**–45**	**–142**

The allowances for losses on loans and advances were exclusively created for the measurement category loans and receivables.

21 Financial Investments

Breakdown

in € million	**30.6.2014**	**31.12.2013**[1]
AfS financial investments	5,033	4,284
Debt securities and other fixed-income securities	5,031	4,282
Equity securities and other variable-yield securities	2	2
LaR financial investments	16,089	16,441
Debt securities and other fixed-income securities	16,089	16,441
Total	**21,122**	**20,725**

[1] Adjustment according to the retrospective initial adoption of IFRS 10. For details see Note «Principles».

The carrying amounts of the LaR financial investments were reduced by portfolio-based allowances amounting to €–16 million (2013: €–14 million).

Financial investments by maturities in € million	30.6.2014	31.12.2013[1]
Unspecified terms	2	2
With agreed maturities	21,120	20,723
Up to 3 months	631	767
3 months to 1 year	2,519	1,567
1 year to 5 years	7,253	7,671
5 years and over	10,717	10,718
Total	**21,122**	**20,725**

[1] Adjustment according to the retrospective initial adoption of IFRS 10. For details see Note «Principles».

pbb Group has made use of the IASB amendments to IAS 39 and IFRS 7, published on 13 October 2008, and reclassified retrospectively as of 1 July 2008 financial investments out of the measurement category AfS of €30.2 billion. At the date of reclassification the effective interest rate for the AfS securities was between 0.25% and 34.4%. Since the date of reclassification, financial assets with a (reclassified) carrying amount of around €10.6 billion (2013: €10.3 billion) became due.

The following tables summarise the carrying amounts and fair values as of 30 June 2014 and 31 December 2013 as well as fair value gains and losses that would have been recognised in the first half of 2014 and in the financial year 2013 if the financial assets had not been reclassified.

Reclassifications in 2008 **Effects as of 30 June 2014**	into: Financial investment loans and receivables (LaR)			Effects in reporting period if no assets had been reclassified (1.1.–30.6.2014)	
			30.6.2014		
	Date	Carrying amount in € billion	Fair value in € billion	Income statement in € million	AfS reserve (after taxes) in € million
out of: Financial investments available for sale (AfS)	1.7.2008	9.2	9.3	–	158

Reclassifications in 2008 **Effects as of 31 Decmeber 2013**	into: Financial investment loans and receivables (LaR)			Effects in reporting period if no assets had been reclassified (1.1.–31.12.2013)	
			31.12.2013		
	Date	Carrying amount in € billion	Fair value in € billion	Income statement in € million	AfS reserve (after taxes) in € million
out of: Financial investments available for sale (AfS)	1.7.2008	9.5	9.4	–	226

22 Other Assets

Other assets in € million	30.6.2014	31.12.2013
Positive fair values from derivative financial instruments	5,546	4,601
Hedging derivatives	5,546	4,601
Fair value hedge	5,079	4,115
Cash flow hedge	467	486
Salvage acquisitions	117	97
Other assets	13	59
Capitalised excess cover of qualified insurance for pension provisions	9	12
Total	**5,685**	**4,769**

23 Income Tax Assets

Income tax assets in € million	30.6.2014	31.12.2013
Current tax assets	44	44
Deferred tax assets	538	1,121
Total	**582**	**1,165**

24 Liabilities to Other Banks

Liabilities to other banks by maturities in € million	30.6.2014	31.12.2013
Repayable on demand	1,542	1,269
With agreed maturities	3,964	2,253
Up to 3 months	2,051	1,015
3 months to 1 year	1,102	285
1 year to 5 years	308	478
5 years and over	503	475
Total	**5,506**	**3,522**

25 Liabilities to Customers

Liabilities to customers by maturities in € million	30.6.2014	31.12.2013
Repayable on demand	800	676
With agreed maturities	10,534	10,172
Up to 3 months	991	894
3 months to 1 year	2,291	1,821
1 year to 5 years	5,308	5,360
5 years and over	1,944	2,097
Total	**11,334**	**10,848**

26 Securitised Liabilities

Securitised liabilities by type of business in € million	30.6.2014	31.12.2013[1]
Debt securities issued	25,538	25,634
Mortgage bonds	10,120	8,719
Public sector bonds	10,451	12,103
Other debt securities	4,913	4,699
Money market securities	54	113
Registered notes issued	21,851	21,224
Mortgage bonds	5,885	5,907
Public sector bonds	14,258	13,719
Other debt securities	1,708	1,598
Total	**47,389**	**46,858**

Securitised liabilities by maturities in € million	30.6.2014	31.12.2013[1]
With agreed maturities		
Up to 3 months	2,232	2,883
3 months to 1 year	4,217	3,239
1 year to 5 years	19,168	19,886
5 years and over	21,772	20,850
Total	**47,389**	**46,858**

[1] Adjustment according to the retrospective initial adoption of IFRS 10. For details see Note «Principles».

27 Trading Liabilities

Trading liabilities in € million	**30.6.2014**	**31.12.2013**
Negative fair values from derivative financial instruments	1,742	1,453
Total	**1,742**	**1,453**

28 Provisions

Breakdown in € million	**30.6.2014**	**31.12.2013**
Provisions for pensions and similar obligations	81	65
Restructuring provisions	38	48
Provisions for contingent liabilities and other commitments	13	13
Other provisions	85	83
thereof: Long-term liabilities to employees	2	2
Total	**217**	**209**

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 3.0% (31 December 2013: 3.5%) was used for the measurement of the defined benefit pension obligations. The other actuarial assumption were unchanged compared to the consolidated financial statements 2013.

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

pbb received contractually agreed compensation of €6 million for a former French financing arrangement, which has since been repaid in full. The customer has brought an action before the Paris commercial court for repayment of the fee, which it believes to be unreasonable.

In appraisal proceedings (Spruchverfahren) relating to the merger of three predecessor mortgage banks to form pbb in 2001, the new appraisal ordered by the court has resulted in an additional payment averaging € 1.00 per share.

The profit participation certificates issued by the predecessor institutions participated in significant losses due to the net losses for the period incurred since 2008 respectively pbb's net accumulated losses since this time. The redemption amounts have reduced and interest payment has been suspended. Individual plaintiffs therefore initiated legal proceedings, contesting in particular various individual clauses relating to loss participation and replenishment following loss participation. The key questions are which capital components must be used to calculate loss participation and whether replenishment is required if pbb records a net gain for the period or a net retained profit. The contested profit participation certificates had an aggregate notional amount of €260 million (of which proceedings involving a notional amount of €12.5 million are pending). The plaintiffs' repayment claims may increase up to the full amount or in part as a result of these actions. On 31 July 2014, the Munich Regional Court made decisions to the detriment of the Bank regarding the replenishment of profit-participating certificates. The reasons for the decisions were not yet available to the Bank at the time of preparing the half-year financial statements. Appeals may be instituted against the decisions. The Bank will analyse the chances of success after receiving the reasons for the decisions. Based on currently available information and taking into account the opinions of external consultants, pbb is assuming with a significant degree of probability that it will succeed in the next instance.

In February 2014, pbb applied to the Federal Central Tax Office (Bundeszentralamt für Steuern) for the initiation of a mutual agreement procedure in accordance with the regulations set out in the EU Arbitration Convention for the years 2006 to 2012. The subject matter of this mutual agreement procedure will be the attribution of tax income to the branch in Paris, France. This application was made as an agreement regarding the allocation of taxable profit could not be reached between the German and French fiscal authorities in the context of negotiations regarding an «Advanced Pricing Agreement» and, therefore, double taxation of income may be possible. Depending on the outcome of the mutual agreement procedure, this could result in a tax expense or a tax income for pbb Group.

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

29 Other Liabilities

Other liabilities in € million	**30.6.2014**	**31.12.2013**
Negative fair values from derivative financial instruments	4,964	4,441
Hedging derivatives	4,964	4,441
Fair value hedge	4,590	3,969
Cash flow hedge	374	472
Other liabilities	123	281
Total	**5,087**	**4,722**

30 Income Tax Liabilities

Income tax liabilities in € million	**30.6.2014**	**31.12.2013**
Current tax liabilities	67	64
Deferred tax liabilities	543	1,126
Total	**610**	**1,190**

31 Subordinated Capital

Breakdown in € million	**30.6.2014**	**31.12.2013[1]**
Subordinated liabilities	790	2,036
Hybrid capital instruments	330	321
Total	**1,120**	**2,357**

Subordinated capital, broken down by maturities in € million	**30.6.2014**	**31.12.2013[1]**
With agreed maturities		
Up to 3 months	19	41
3 months to 1 year	70	10
1 year to 5 years	899	874
5 years and over	132	1,432
Total	**1,120**	**2,357**

[1] Adjustment according to the retrospective initial adoption of IFRS 10. For details see Note «Principles».

The unwinding of some instruments of subordinated capital led to an expense of €–9 million (2013: €–9 million).

32 Disposal Group

The disposal group shown on the balance sheet are exclusively attributed to DEPFA Finance N.V., Amsterdam, which was sold to DEPFA Bank plc, Dublin, on 18 July 2014 for € 6 million as part of the unbundling of pbb Group and its fellow group DEPFA.

The disposal group listed under assets amounting to € 927 million are exclusively attributable to loans and advances to other banks, while the disposal group of € 1,227 million recognised as liabilities are exclusively attributable to the subordinated capital.

No income or expenses relating to DEPFA Finance N.V. are included in other comprehensive income (equity).

Notes to the Financial Instruments

33 Fair Values of Financial Instruments

The fair value of financial instruments, in the opinion of pbb Group, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price). The fair values were determined as of the balance sheet date based on the market information available and on valuation methods described here.

All financial assets and liabilities that are measured at fair value recurring and non-recurring are grouped into the three fair value hierarchies by pbb Group. Reclassifications within the fair value hierarchy are made at the end of the reporting period. The three-level hierarchy is based on the degree to which the input for the fair value measurement is observable:

> Level 1 – quoted priced (unadjusted) in active markets for identical financial assets or financial liabilities (exchange quotations)

> Level 2 – inputs that are observable either directly or indirectly, other than quoted prices included within level 1

> Level 3 – valuation techniques that include inputs that are not based on observable market data (unobservable inputs)

Fair values of financial instruments and fair value hierarchy — 30 June 2014

in € million	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets	**77,066**	**78,786**	**13,875**	**34,639**	**30,272**
at fair value through profit or loss	6,968	6,968	–	6,893	75
at fair value not affecting profit or loss	5,500	5,500	5,033	467	–
in balance sheet not measured at fair value	64,598	66,318	8,842	27,279	30,197
Cash reserve	187	187	187	–	–
Trading assets (HfT)	1,889	1,889	–	1,889	–
Loans and advances to other banks	9,728	9,748	1,658	6,543	1,547
Category LaR	9,728	9,748	1,658	6,543	1,547
Loans and advances to customers[1]	37,667	39,691	–	14,478	25,213
Category LaR	37,667	39,691	–	14,478	25,213
Real Estate Finance	21,770	22,944	–	–	22,944
Public Investment Finance	15,903	16,753	–	14,478	2,275
Other	39	39	–	–	39
Portfolio-based allowances	−45	−45	–	–	−45
Financial investments	21,122	20,934	12,030	6,258	2,646
Category AfS	5,033	5,033	5,033	–	–
Category LaR	16,089	15,901	6,997	6,258	2,646
Other assets	5,546	5,546	–	5,471	75
Fair value hedge derivatives	5,079	5,079	–	5,004	75
Cash flow hedge derivatives	467	467	–	467	–
Disposal group	927	791	–	–	791
Financial liabilities	**73,332**	**74,859**	**22,426**	**8,311**	**44,122**
at fair value through profit or loss	6,332	6,332	–	6,330	2
at fair value not affecting profit or loss	374	374	–	374	–
in balance sheet not measured at fair value	66,626	68,153	22,426	1,607	44,120
Liabilities to other banks	5,506	5,567	1,540	386	3,641
Liabilities to customers	11,334	11,757	1,888	–	9,869
Liabilities evidenced by certificates	47,389	48,619	18,977	1,221	28,421
covered	40,810	42,036	17,153	527	24,356
uncovered	6,579	6,583	1,824	694	4,065
Trading liabilities (HfT)	1,742	1,742	–	1,740	2
Other liabilities	5,014	5,014	21	4,964	29
Fair value hedge derivatives	4,590	4,590	–	4,590	–
Cash flow hedge derivatives	374	374	–	374	–
Other financial liabilities	50	50	21	–	29
Subordinated capital	1,120	1,137	–	–	1,137
Disposal group	1,227	1,023	–	–	1,023
Other items	**2,258**	**2,330**	**–**	**–**	**2,330**
Contingent liabilities	55	55	–	–	55
Irrevocable loan commitments	2,203	2,275	–	–	2,275

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

Fair values of financial instruments and fair value hierarchy					31 December 2013
in € million	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets	**73,279**	**74,219**	**16,801**	**25,900**	**31,518**
at fair value through profit or loss	5,757	5,757	–	5,678	79
at fair value not affecting profit or loss	4,770	4,770	4,284	482	4
in balance sheet not measured at fair value	62,752	63,692	12,517	19,740	31,435
Cash reserve	3,532	3,532	3,532	–	–
Trading assets (HfT)	1,642	1,642	–	1,642	–
Loans and advances to other banks	6,685	6,589	1,693	1,222	3,674
Category LaR[1]	6,685	6,589	1,693	1,222	3,674
Loans and advances to customers[2]	36,094	37,758	2	14,090	23,666
Category LaR	36,094	37,758	2	14,090	23,666
Real Estate Finance	20,501	21,350	–	–	21,350
Public Investment Finance	15,423	16,238	2	14,090	2,146
Other	221	221	–	–	221
Portfolio-based allowances	−51	−51	–	–	−51
Financial investments	20,725	20,097	11,574	4,428	4,095
Category AfS	4,284	4,284	4,284	–	–
Category LaR[1]	16,441	15,813	7,290	4,428	4,095
Other assets	4,601	4,601	–	4,518	83
Fair value hedge derivatives	4,115	4,115	–	4,036	79
Cash flow hedge derivatives	486	486	–	482	4
Financial liabilities	**69,669**	**71,227**	**20,762**	**8,341**	**42,124**
at fair value through profit or loss	5,422	5,422	–	5,410	12
at fair value not affecting profit or loss	472	472	–	472	–
in balance sheet not measured at fair value	63,775	65,333	20,762	2,459	42,112
Liabilities to other banks	3,522	3,551	1,330	906	1,315
Liabilities to customers	10,848	11,277	1,329	–	9,948
Liabilities evidenced by certificates	46,858	48,254	18,059	1,553	28,642
covered	40,810	42,169	15,798	1,499	24,872
uncovered[1]	6,048	6,085	2,261	54	3,770
Trading liabilities (HfT)	1,453	1,453	–	1,451	2
Other liabilities	4,631	4,631	44	4,431	156
Fair value hedge derivatives	3,969	3,969	–	3,959	10
Cash flow hedge derivatives	472	472	–	472	–
Other financial liabilities	190	190	44	–	146
Subordinated capital[1]	2,357	2,061	–	–	2,061
Other items	**2,594**	**2,675**	**–**	**–**	**2,675**
Contingent liabilities	25	25	–	–	25
Irrevocable loan commitments	2,569	2,650	–	–	2,650

[1] Adjustment according to the retrospective initial adoption of IFRS 10. For details see Note «Principles».
[2] Reduced by allowances for losses on loans and advances

As in the previous year, no financial instruments measured at fair value were reclassified from level 1 to level 2 and vice versa. Not all inputs for certain assets that were previously allocated to level 2 and measured at fair value were observable on the market in the first falf of 2014. As a result, assets recognised at fair value in the amount of € 3 million (2013: €18 million) and financial liabilities in the amount of € 0 million (2013: € 3 million) were reclassified from level 2 to level 3. From level 3 to level 2 assets recognised at fair value in the amount of € 18 million (2013: € 0 million) and financial liabilities in the amount of € 10 million (2013: € 0 million) were reclassified.

Disclosures to the Measurement Methods and Input Parameters

Measurement Process Both the Finance and the Risk Management & Control divisions play a role in the measurement process. The Finance division supplies accounting data. This includes:

- identification data, such as business identification numbers or International Securities Identification Numbers (ISINs)
- static data such as nominal amounts, counterparties, (remaining) terms and counterparty/issuer risk
- accounting data such as carrying amounts, accruals and the effects of hedge accounting

Risk Management & Control calculates additional data used to measure fair value such as interest rates, credit spreads and market prices, as well as internal ratings and LGDs for certain financial instruments.

Finance compiles the data and checks it for completeness. The division then calculates the fair values of the financial instruments using measurement methods determined by Risk Management & Control. Once measurement is complete, Finance performs quality assurance on the data and then approves it for further use.

Measurement of level 2 instruments as of 30 June 2014	Measurement methods	Observable parameters
Trading assets/liabilities	DCF methods	Inflation rates
		Reference interest rates
		Swaption volatilities
		Spot market exchange rates
		Inflation rates volatilities
		Yield curves
	Option pricing models	Cap volatilities
		Reference interest rates
		Swaption volatilities
		Spot market exchange rates
		Exchange rates volatilities
		Yield curves
Fair value hedge derivatives	DCF methods	Reference interest rates
		Swaption volatilities
		Yield curves
	Option pricing models	Cap volatilities
		Inflation rates
		Reference interest rates
		Fixings on EUROSTOXX50
		Swaption volatilities
		Inflation rates volatilities
		Spot market exchange rates
		Exchange rates volatilities
		Yield curves
Cash flow hedge derivatives	DCF methods	Reference interest rates
		Yield curves
	Option pricing models	Cap volatilities
		Reference interest rates
		Swaption volatilities
		Spot market exchange rates
		Exchange rates volatilities
		Yield curves

Measurement of level 3 instruments as of 30 June 2014

	Measurement methods	Observable parameters	Non-observable parameters	Parameter range (weighted average)
Trading assets/liabilities	Option pricing models	Asset swap spreads	Forward/exchange rate correlations	0.00% (0.00%)
		Cap volatilities	Spread volatilities	0.45% (0.45%)
		Reference interest rates		
		Spot market exchange rates		
		Exchange rates volatilities		
		Yield curves		
Fair value hedge derivatives	Option pricing models	Cap volatilities	EUR-EONIA (beyond 02/04/2064)	2.12% to 2.22% (2.17%)
		Dividends in EUROSTOXX50	EUROSTOXX50 dividends (volatilities)	3.62% (3.62%)
		Reference interest rates	Historical index/index correlations	−10.11% to 73.10% (36.38%)
		Fixings on EUROSTOXX50	Historical index/exchange rate correlations	−15.26% to 4.78% (−4.84%)
		Swaption volatilities	Volatility of EUROSTOXX50	17.00% (17.00%)
		Volatility of EUROSTOXX50		
		Spot market exchange rates		
		Exchange rates volatilities		
		Yield curves		

Sensitivities Although pbb Group believes that its estimates of fair values are appropriate, using reasonably possible alternative input factors will significantly impact the fair value. The following table shows the fair value sensitivity of level 3 instruments as of 30 June 2014 and as of 31 December 2013 which have been quantified on the basis of the specified valuation parameters taking account of usual market scenarios:

Sensitivities of level 3 instruments recognised at fair value	**30 June 2014**		**31 December 2013**	
in € million	Positive changes	Negative changes	Positive changes	Negative changes
Assets				
Financial assets at fair value through profit or loss				
Fair value hedge derivatives	0.5	−0.5	0.7	−0.7
Total	**0.5**	**−0.5**	**0.7**	**−0.7**
Liabilities				
Financial liabilities at fair value through profit or loss				
Trading liabilities	0.7	−0.7	–	–
Total	**0.7**	**−0.7**	**–**	**–**

The disclosed favourable and unfavourable changes are calculated independently from each other. Offsetting effects due to compensating derivatives and hedge relationships attenuate both favourable and unfavourable changes.

Changes in Level 3 Financial Assets and Financial Liabilities

Changes in level 3 financial assets	Financial assets at fair value through profit or loss		Financial assets at fair value not affecting profit or loss	
in € million	Trading assets	Fair value hedge derivatives	Cash flow hedge derivatives	**Total**
Balance at 1.1.2013	**1**	**78**	**4**	**83**
Comprehensive income				
Income statement	–1	–17	–	–18
Revaluation reserve	–	–	–	–
Purchases	–	8	–	8
Sales	–	–8	–	–8
Issues	–	–	–	–
Settlements	–	–	–	–
Reclassification into level 3	–	18	–	18
Reclassification out of level 3	–	–	–	–
Balance at 31.12.2013	**–**	**79**	**4**	**83**
Balance at 1.1.2014	**–**	**79**	**4**	**83**
Comprehensive income				
Income statement	–	5	–	5
Revaluation reserve	–	–	–	–
Purchases	–	17	–	17
Sales	–	–15	–	–15
Issues	–	–	–	–
Settlements	–	–	–	–
Reclassification into level 3	–	3	–	3
Reclassification out of level 3	–	–14	–4	–18
Balance at 30.6.2014	**–**	**75**	**–**	**75**

Changes in level 3 financial liabilities

in € million	Financial liabilities at fair value through profit or loss		Financial liabilities at fair value not affecting profit or loss	
	Trading liabilities	Fair value hedge derivatives	Cash flow hedge derivatives	**Total**
Balance at 1.1.2013	**2**	**2**	**–**	**4**
Comprehensive income				
Income statement	–	−2	–	−2
Revaluation reserve	–	–	–	–
Purchases	–	9	–	9
Sales	–	−2	–	−2
Issues	–	–	–	–
Settlements	–	–	–	–
Reclassification into level 3	–	3	–	3
Reclassification out of level 3	–	–	–	–
Balance at 31.12.2013	**2**	**10**	**–**	**12**
Balance at 1.1.2014	**2**	**10**	**–**	**12**
Comprehensive income				
Income statement	–	–	–	–
Revaluation reserve	–	–	–	–
Purchases	–	–	–	–
Sales	–	–	–	–
Issues	–	–	–	–
Settlements	–	–	–	–
Reclassification into level 3	–	–	–	–
Reclassification out of level 3	–	−10	–	−10
Balance at 30.6.2014	**2**	**–**	**–**	**2**

Level 3 financial assets and liabilities measured at fair value through profit or loss generated a result of €5 million in 2013 (2013: €−16 million) in the first half of 2014. The earnings contributions made by trading assets and trading liabilities are presented under net trading income, whereas the effects of hedge relationships recognised in profit or loss are reported under net income from hedge relationships.

Assets and Liabilities According to Measurement Categories and Classes

The carrying amounts reflect the maximum on balance sheet exposure to credit risk of the assets respectively the maximum amount the entity could have to pay of the other items according to IFRS 7.

Assets and liabilities according to measurement categories and classes in accordance with IAS 39 in € million	**30.6.2014**	**31.12.2013[1]**
Assets	77,066	73,279
Loans and receivables (LaR)	64,411	59,220
Available for sale (AfS)	5,033	4,284
Held for trading (HfT)	1,889	1,642
Cash reserve	187	3,532
Positive fair values from hedging derivatives	5,546	4,601
Liabilities	73,332	69,669
Held for trading (HfT)	1,742	1,453
Financial liabilities at amortised cost	66,626	63,775
Negative fair values from hedging derivatives	4,964	4,441

[1] Adjustment according to the retrospective initial adoption of IFRS 10. For details see Note «Principles».

34 Exposure to Selected European Countries

Exposure to selected European countries as of 30 June 2014

in € million	Counterparty	IAS 39 measurement category	Up to 3 months	3 months to 1 year	1 year to 5 years	5 years and over	**Carrying amount**	Notional value	Fair value
Italy	Sovereign	LaR	–	84	174	534	**792**	714	749
		AfS	–	51	–	1,454	**1,505**	1,110	1,505
	Sub-sovereign	LaR	–	1	21	990	**1,012**	971	862
	State guaranteed	LaR	–	–	–	–	**–**	–	–
Portugal	Sovereign	LaR	–	–	43	–	**43**	38	43
		AfS	–	–	49	127	**176**	165	176
	Sub-sovereign	LaR	–	–	130	200	**330**	330	270
	State guaranteed	LaR	–	62	100	331	**493**	465	413
Spain	Sovereign	AfS	105	794	–	–	**899**	870	899
	Sub-sovereign	LaR	–	37	1,128	803	**1,968**	1,798	1,931
		HfT	–	–	–	4	**4**	35	4
	State guaranteed	LaR	–	–	62	153	**215**	200	225

Exposure to selected European countries as of 31 December 2013

in € million	Counterparty	IAS 39 measurement category	Up to 3 months	3 months to 1 year	1 year to 5 years	5 years and over	**Carrying amount**	Notional value	Fair value
Italy	Sovereign	LaR	–	–	107	149	**256**	253	227
		AfS	–	–	–	1,300	**1,300**	1,060	1,300
	Sub-sovereign	LaR	–	–	8	1,028	**1,036**	1,002	863
	State guaranteed	LaR	–	–	176	404	**580**	505	521
Portugal	Sovereign	LaR	–	–	43	–	**43**	36	41
		AfS	–	–	46	109	**155**	165	155
	Sub-sovereign	LaR	–	–	130	200	**330**	330	254
	State guaranteed	LaR	–	62	100	323	**485**	465	364
Spain	Sovereign	AfS	–	667	–	–	**667**	650	667
	Sub-sovereign	LaR	–	29	1,116	785	**1,930**	1,783	1,803
		HfT	–	–	–	3	**3**	35	3
	State guaranteed	LaR	21	–	74	155	**250**	237	259

As of 30 June 2014 and as of 31 December 2013 pbb Group did not have any exposure to sovereign counterparties of Greece, Cyprus, Ukraine and Ireland. The same applies for sub-sovereign or state-guaranteed counterparties.

The exposure to selected countries shown in the table contains loans and advances and securities. In addition, it shows interest rate derivatives to sovereign and sub-sovereign counterparties. The interest rate derivatives are netted with collaterals. Time lags in providing the collaterals and haircuts are not taken into account. State-guaranteed exposure contains for example loans and advances to banks and corporations which are guaranteed by sovereigns or sub-sovereigns. As of 30 June 2014 and as of 31 December 2013 pbb Group did not have any credit default swaps whose underlyings are linked to sovereigns, sub-sovereigns and state-guaranteed exposures of the countries shown above.

For the total exposure as of 30 June 2014 and as of 31 December 2013 the exposure at default according to regions is disclosed in the risk and opportunity report.

For financial assets which are measured at fair value affecting income changes in value are directly included in the book value. pbb Group tests financial assets which are not measured at fair value affecting income for impairments. Allowances for loans and advance or impairments for securities are created if there is objective evidence that it will not be possible for the entire amount which is due according with the original contractual conditions to be recovered. As of 30 June 2014 and as of 31 December 2013 there was no such objective evidence.

The fair values of the exposure to selected European countries were determined by applying the measurement methods disclosed in the Note «Fair Values of Financial Instruments».

35 Past Due but Not Impaired Assets

LaR assets: past due but not impaired (total investment) in € million	**30.6.2014**	**31.12.2013**
Up to 3 months	174	274
3 months to 6 months	13	40
6 months to 1 year	152	81
1 year and over	73	47
Total	**412**	**442**

Carrying amounts LaR assets in € billion	**30.6.2014**	**31.12.2013**
Carrying amount of LaR assets that are neither impaired nor past due	62.5	57.6
Carrying amount of LaR assets that are past due but not impaired (total investment)	0.4	0.4
Carrying amount of individually assessed impaired LaR assets (net)	0.4	0.4
Balance of specific allowances	0.1	0.1
Balance of portfolio-based allowances	0.1	0.1
Total	**63.5**	**58.6**
thereof: Loans and advances to other banks (including investments)	9.6	5.8
Loans and advances to customers (including investments)	37.8	36.2
Financial investments (gross)	16.1	16.6

Other Notes

36 Contingent Liabilities and Other Commitments

Contingent liabilities and other commitments in € million	30.6.2014	31.12.2013
Contingent liabilities	**55**	**25**
Guarantees and indemnity agreements	55	25
Loan guarantees	1	4
Performance guarantees and indemnities	54	21
Other commitments	**2,203**	**2,569**
Irrevocable loan commitments	2,203	2,569
Guarantees	35	30
Mortgage and public sector loans	2,168	2,539
Total	**2,258**	**2,594**

pbb, Munich, as a legal successor of Hypo Real Estate Bank International AG, has taken over with the announcement as of 2 January 2006 irrevocable and unconditional guarantees to fulfil all liabilities of Hypo Public Finance Bank puc, Dublin. By the fact that all shares of Hypo Public Finance Bank puc, Dublin, were sold, the commitment was limited according to the guarantee contract to all liabilities, which existed until the date of sale. Due to the current development in earnings, assets and financial position as well as the expected future development, pbb does not rule out the default of Hypo Public Finance Bank puc, Dublin, but a default is considered to be rather unlikely.

In accordance with the framework agreement for transferring risk positions and non-strategic operations to a deconsolidated environment constituted under federal law in accordance with Section 8a of Finanzmarktstabilisierungsfondsgesetz pbb assumes joint and several liability for all payment obligations of its subsidiaries resulting from the transaction agreements which have been transferred as part of the process of transferring assets to FMS Wertmanagement.

The Restructuring Fund Ordinance specifies an additional charge for the so-called bank levy. The difference between the actually determined bank levy and the calculated standard amount for the years 2011 to 2019 can be subsequently charged in the following two years in each case. However, the obligation to pay the additional amount arises only if corresponding profits are generated in subsequent financial years; the amount of this payment is capped by the reasonableness or charge limit specified in the ordinance. Whether the additional payment becomes due, and also the extent of such an additional payment, accordingly depend on profits being generated in subsequent years. The additional payment which pbb can be charged in 2014 and 2015 is € 3 million. An additional payment of € 10 million can be charged in the contribution years 2015 and 2016.

Due to a requirement in line with the principle of burden sharing required by the EU Commission, profits will be retained at pbb Group until privatisation, and will be used for repaying the silent partnership contribution of the Finanzmarktstabilisierungsfonds-FMS.

37 Key Regulatory Capital Ratios

In accordance with the waiver regulation set out in Section 2a of the German Banking Act (KWG, up until 31 December 2013) and Section 7 of the Capital Requirements Regulation (CRR, from 1 January 2014), pbb is exempted from the requirement to establish the equity and core capital ratios at institution level. pbb Group voluntarily discloses these figures.

(EU) Directive no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms applies with effect from 1 January 2014. These new regulations (CRR/Capital Requirements Directive, CRD IV) form the basis for determining the regulatory capital resources.

Besides the minimum capital ratios, the changes also affect the requirements for the eligibility of capital instruments as well as the mandatory determination of the regulatory capital similarly to the accounting standard used. For this reason, the key regulatory figures have been determined based on IFRS since 1 January 2014 (up until the end of 2013 they were based on the German Commercial Code (HGB)). In addition, the abolition of the former preference for certain risk items pursuant to Section 64 (h) KWG and the CRR-based introduction of an additional CVA charge results in a significant increase in risk-weighted assets.

The Management Board manages the capital based on the CRR. According to the CRR, the CET1 ratio (Common Equity Tier 1/risk-weighted assets) may not fall below 4%, the Tier 1 ratio (Tier 1/risk-weighted assets) may not fall below 5.5% and the own funds ratio (own funds/risk-weighted assets) may not fall below 8% in 2014.

These requirements with respect to the regulatory capital ratios were satisfied throughout the first half of 2014.

For the past financial year 2013, capital was managed on the basis of the German Solvency Regulation (SolvV) and the requirements set out in Section 10 KWG. The required equity ratio (equity/risk-weighted assets) of 8.0% was maintained. In addition, the core capital ratio in equity amounted to at least 50% with the result that a core capital ratio of at least 4.0% was maintained at all times.

For ease of comparison, the figures are additionally stated as of 31 December 2013, calculated according to the regulations applicable from 1 January 2014.

Own Funds in € million	30.6.2014[1]	Basel III simulation 31.12.2013[2]	31.12.2013[3]
CET1	3,350	3,327	2,475
Additional Tier 1	197	212	350
Tier 1	3,547	3,539	2,825
Tier 2	551	628	835
Own Funds	**4,098**	**4,167**	**3,660**

[1] Consolidated in accordance with CRR
[2] Consolidated in accordance with CRR (simulation, following the appropriation of net profit 2013)
[3] Consolidated in accordance with section 10a of German Banking Act (KWG) (following the appropriation of net profit 2013)

Risk-weighted assets (RWA)[1] in € million	**30.6.2014**[2]	**Basel III simulation 31.12.2013**[2]	**31.12.2013**[3]
Market risks	17	158	75
thereof interest rate risks	–	–	–
thereof foreign exchange risks	17	158	75
Operational risks	923	923	923
Credit risks	16,789	16,979	13,087
thereof CVA charge	485	531	–
Other RWA	2	3	–
RWA total	**17,731**	**18,063**	**14,085**

[1] Including weighted credit risk positions and capital charges for market risk positions and operationel risk, using a scaling factor of 12.5
[2] Consolidated in accordance with CRR
[3] Consolidated in accordance with section 10a of the German Banking Act (KWG)

Capital ratios[1] in %	**30.6.2014**[2]	**Basel III Simulation 31.12.2013**[2]	**31.12.2013**[3]
CET1 ratio	18.9	18.4	17.6
Tier 1 ratio	20.0	19.6	20.1
Own funds ratio	23.1	23.1	26.0

[1] In accordance with the prepared annual financial statements and following the appropriation of net profit
[2] Consolidated in accordance with CRR
[3] Consolidated in accordance with section 10a of the German Banking Act (KWG)

38 Relationship with Related Parties

Finanzmarktstabilisierungsfonds-FMS, a special fund of the federal government in accordance with Section 2 (2) FMStFG, represents the ultimate parent entity of HRE Holding and thus also of pbb. Accordingly, pbb is a government-related entity and a related party to other companies which are controlled, jointly controlled or significantly influenced by the Federal Republic of Germany.

In the income statement, the single significant effect with related companies arose from IT services provided to the fellow company DEPFA. From this, pbb Group generated net income amounting to €18 million (2013: €63 million). Net income from services for the FMS Wertmanagement portfolio amounted to €1 million (2013: €42 million).

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

39 Employees

Average number of employees	1.1.–30.6. 2014	1.1.–31.12. 2013
Employees (excluding apprentices)	831	960
thereof: senior staff in Germany	17	17
Total	**831**	**960**

Munich, 4 August 2014

Deutsche Pfandbriefbank Aktiengesellschaft
The Management Board

Andreas Arndt **Wolfgang Groth** **Andreas Schenk** **Dr. Bernhard Scholz**

Review Report

We have reviewed the consolidated interim financial statements of 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 group interim management report of Deutsche Pfandbriefbank AG, Munich, for the period from 1 January to 30 June 2014 that are part of the semi annual financial report according to § 37w WpHG [«Wertpapierhandelsgesetz»: «German Securities Trading Act»]. The preparation of the consolidated interim financial statements in accordance with those IFRS applicable to interim financial reporting as adopted by the EU, and of the group interim management report in accordance with the requirements of the WpHG applicable to group interim management reports is the responsibility of the Company's management. Our responsibility is to issue a report on the consolidated interim financial statements and on the interim group management report based on our review.

We performed our review of the consolidated interim financial statements and the group interim 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 conduct the review so that we can preclude through critical evaluation, with a certain level of assurance, that the consolidated interim financial statements have not been prepared, in material respects, in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, and that the group interim management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to group interim 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 causes us to presume that the consolidated interim financial statements have not been prepared in all material respects in accordance with the IFRS applicable to interim financial reporting as adopted by the EU, or that the group interim management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to group interim management reports.

Munich, 5 August 2014

KPMG AG
Wirtschaftsprüfungsgesellschaft
[original German version signed by:]

Wiechens	Schmidt
Wirtschaftsprüfer	Wirtschaftsprüferin
[German Public Auditor]	[German Public Auditor]

Signatories on behalf of Deutsche Pfandbriefbank AG

Eschborn, as of 15 August 2014

signed by Stefan Krick
Managing Director

signed by Martina Horn
Director