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 Seventh Supplement (as defined herein) has been published shall have the right, exercisable within two working days after the publication of this Seventh 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 10 April 2015

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 "Seventh 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"), on 4 June 2014 (the "Second Supplement"), on 15 August 2014 (the "Third Supplement"), on 8 January 2015 (the "Fourth Supplement"), on 24 February 2015 (the "Fifth Supplement") and on 11 March 2015 (the "Sixth Supplement", the base prospectus dated 7 May 2014 together with the First Supplement, the Second Supplement, the Third Supplement, the Fourth Supplement, the Fifth Supplement and the Sixth 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 Seventh Supplement. As used herein, the term "Base Prospectus" means the Original Base Prospectus as supplemented by the Seventh 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 Seventh 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 Seventh Supplement has been drawn up in accordance with the German Securities Prospectus Act and with a copy of the Seventh Supplement.

This Seventh 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 Seventh Supplement and of the Original Base Prospectus.

This Seventh Supplement has been prepared following the publication of the consolidated financial information of the Issuer on 27 March 2015.

OVERALL AMENDMENTS

If reference is made in the Original Base Prospectus to "Base Prospectus", then the respective reference includes all changes made by the First Supplement, the Second Supplement, the Third Supplement, the Fourth Supplement, the Fifth Supplement, the Sixth Supplement and the Seventh 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 IV, which has been inserted by way of the Third Supplement:

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

On page 6 et seq. of the Original Base Prospectus 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" as amended by the Third Supplement, the Fifth Supplement and the Sixth Supplement, shall be deleted and replaced by the following information:

"

<table>
<tr>
<td>B.12</td>
<td>Selected historical key financial information regarding the Issuer, statement regarding trend information and significant changes in the financial or trading position of the Issuer</td>
<td>
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 2013 and 2014:
<table>
<tr><td></td><td></td><td>2014</td><td>2013*</td></tr>
<tr><td>Operating performance according to IFRS</td><td></td><td></td><td></td></tr>
<tr><td>Pre-tax profit/loss</td><td>In Euro million</td><td>54</td><td>165</td></tr>
<tr><td>Net income/loss</td><td>in Euro million</td><td>4</td><td>160</td></tr>
<tr><td>Balance sheet figures</td><td></td><td>31.12.2014</td><td>31.12.2013**</td></tr>
<tr><td>Total assets</td><td>in Euro billion</td><td>approx. 75.5</td><td>approx. 74.6</td></tr>
<tr><td>Equity (excluding revaluation reserve)</td><td>in Euro billion</td><td>3.4</td><td>3.4</td></tr>
<tr><td>Equity</td><td>in Euro billion</td><td>approx. 3.5</td><td>approx. 3.5</td></tr>
</table>
* Adjustment due to retrospective IFRS 10 first time adoption.
** Adjustment due to retrospective IFRS 10 first time adoption and adjusted due to IAS 8.42.
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 2014).
Together with the Stabilisation Fund (Sonderfonds Finanzmarktstabilisierung – the "SoFFin") and the German Financial Markets Stabilization Agency (Bundesanstalt für Finanzmarktstabilisierung – the "FMSA"), Hypo Real Estate Holding is currently evaluating the options for the Issuer's reprivatisation, which may have an impact on its current business model, in particular, but not limited to, if as a result of the potential reprivatisation new owner(s) will cause the Issuer to amend its business model or if the rating of the Issuer and/or the Notes changes. With respect to the announcement of Hypo Real Estate Holding's intention to sell its participation in the Issuer published on 17 February 2015 see under "Element B.19 – Information about Hypo Real Estate Group" in subsection "B.13 – Recent developments".
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 audited financial information has been published (31 December 2014).
</td>
</tr>
</table>

"

On page 7 of the Original Base Prospectus the following information shall be added at the end of "Section B – Issuer" under "Element B.13 – Recent developments" as amended by the Second Supplement and the Fifth Supplement:

"In connection with the implementation of its new bank rating methodology, Moody´s placed the ratings of the Issuer on review on 17 March 2015. Moody's has indicated that the long-term rating may be lowered by two notches, but also stated that this may change by the time the review is concluded."

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

On page 20 et seq. of the Original Base Prospectus the information in "Abschnitt B – Emittent" under "Punkt B.12 – Ausgewählte wesentliche historische Finanzinformationen über den Emittenten, Erklärung zu Trendinformationen sowie wesentliche Veränderungen der Finanzlage oder Handelsposition des Emittenten" as amended by the Third Supplement, the Fifth Supplement and the Sixth Supplement, 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 2013 und 2014 beendeten Geschäftsjahre:
<table>
<tr><td></td><td></td><td>2014</td><td>2013*</td></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>54</td><td>165</td></tr>
<tr><td>Ergebnis nach Steuern</td><td>in Mio. Euro</td><td>4</td><td>160</td></tr>
<tr><td>Bilanzzahlen</td><td></td><td>31.12.2014</td><td>31.12.2013**</td></tr>
<tr><td>Bilanzsumme</td><td>in Mrd. Euro</td><td>ca. 75,5</td><td>ca. 74,6</td></tr>
<tr><td>Bilanzielles Eigenkapital
(ohne Neubewertungsrücklage)</td><td>in Mrd. Euro</td><td>3,4</td><td>3,4</td></tr>
<tr><td>Bilanzielles Eigenkapital</td><td>in Mrd. Euro</td><td>ca. 3,5</td><td>ca. 3,5</td></tr>
</table>
* Anpassung Vorjahr aufgrund retrospektiver Erstanwendung des IFRS 10.
**Anpassung Vorjahr aufgrund retrospektiver Erstanwendung des IFRS 10 und Korrektur gemäß IAS 8.42.
Seit dem Datum der Veröffentlichung des letzten geprüften Jahresabschlusses (31. Dezember 2014) hat es keine wesentlichen negativen Veränderungen in den Aussichten der Emittentin gegeben.
Zusammen mit dem Sonderfonds Finanzmarktstabilisierung (der „SoFFin") und der Bundesanstalt für Finanzmarktstabilisierung (der „FMSA"), wertet die Hypo Real Estate Holding derzeit die Möglichkeiten für die Reprivatisierung der Emittentin aus. Die Reprivatisierung kann Auswirkungen auf das bestehende Geschäftsmodell haben, insbesondere dann, aber nicht auf diesen Fall beschränkt, wenn als Ergebnis der möglichen Reprivatisierung der bzw. die neuen Eigentümer die Emittentin zu einer Änderung ihres Geschäftsmodells veranlassen oder wenn sich das Rating der Emittentin und/oder der Schuldverschreibungen ändert. Betreffend die am 17. Februar 2015 veröffentlichte Ankündigung der Absicht der Hypo Real Estate Holding, ihre Anteile an der Emittentin zu verkaufen, siehe unter „Punkt B.19 – Informationen bezüglich der Hypo Real Estate Group" in dem Unterpunkt "B.13 – Aktuelle Entwicklungen".
Seit dem Ende des Stichtags, für den geprüfte Finanzinformationen veröffentlicht wurden (31. Dezember 2014), hat es keine wesentlichen Veränderungen in der Finanzlage der Emittentin und ihrer konsolidierten Tochtergesellschaften gegeben.
</td>
</tr>
</table>

"

On page 21 of the Original Base Prospectus the following information shall be added at the end of "Abschnitt B – Emittent" under "Punkt B.13 – Aktuelle Entwicklungen" as amended by the Second Supplement and the Fifth Supplement:

"Im Zusammenhang mit der Einführung einer neuen Methodik für das Rating von Banken hat Moody's die Ratings der Emittentin am 17. März 2015 auf Überprüfung (*Review*) gesetzt. Moody's hat dabei darauf hingewiesen, dass das Langfrist-Rating möglicherweise um zwei Stufen gesenkt werden könnte, aber auch angegeben, dass sich dies zum Zeitpunkt des Abschlusses der Überprüfung noch ändern kann."

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

1. SUPPLEMENTAL INFORMATION RELATING TO THE SECTION "2. INFORMATION ABOUT THE ISSUER"

On page 48 of the Original Base Prospectus, the following paragraph shall be added at the end of the Subsection "Recent Events" as amended by the Second Supplement and the Fifth Supplement:

"In connection with the implementation of its new bank rating methodology, Moody´s placed the ratings of the Issuer on review on 17 March 2015. Moody's has indicated that the long-term rating may be lowered by two notches, but also stated that this may change by the time the review is concluded (for further information see under XV.4 "Ratings")."

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

On page 50 of the Original Base Prospectus, the information in the first paragraph contained in the Section "5. Trend Information" as amended by the Third Supplement and the Fifth Supplement, shall be deleted and replaced as follows:

"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 2014).

Together with the Stabilisation Fund (*Sonderfonds Finanzmarktstabilisierung* – the "**SoFFin**") and the German Financial Markets Stabilization Agency (*Bundesanstalt für Finanzmarktstabilisierung* – the "**FMSA**"), Hypo Real Estate Holding is currently evaluating the options for the Issuer's reprivatisation, which may have an impact on its current business model, in particular, but not limited to, if as a result of the potential reprivatisation new owner(s) will cause the Issuer to amend its business model or if the rating of the Issuer and/or the Notes changes. With respect to the announcement of Hypo Real Estate Holding's intention to sell its participation in the Issuer published on 17 February 2015 see under Section V.2 "Information about Hypo Real Estate Group – Sale of Hypo Real Estate Holding's participation in the Issuer"."

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

On page 53 of the Original Base Prospectus, the following paragraphs shall be added at the end of the Subsection "Historical Financial Information":

"For the financial year ended 31 December 2014, the Issuer has published consolidated financial information including the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows, the notes and the auditor's report (together with the relevant management report the "Deutsche Pfandbriefbank Consolidated Financial Information 2014"). The Deutsche Pfandbriefbank Consolidated Financial Information 2014 are included in Appendix V to the Base Prospectus (pages J-1 to J-88).

The Deutsche Pfandbriefbank Consolidated Financial Information 2014 has been prepared on the basis of International Financial Reporting Standards ("IFRS") as applicable in the European Union."

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

"The statutory auditors of the Issuer (see Section IV.1 "Statutory Auditors") have audited the Deutsche Pfandbriefbank Consolidated Financial Information 2013, the Deutsche Pfandbriefbank Unconsolidated Financial Information 2013 and the Deutsche Pfandbriefbank Consolidated Financial Information 2014 and have issued an unqualified opinion (*uneingeschränkter Bestätigungsvermerk*) in each case."

On page 54 of the Original Base Prospectus, the information contained in the Subsection "Significant Change in

Issuer's Financial Position" as amended by the Third Supplement, the Fifth Supplement and the Sixth Supplement shall be deleted and replaced as follows:

"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 audited financial information has been published (31 December 2014)."

V. SUPPLEMENTAL INFORMATION
RELATING TO THE SECTION "XV. GENERAL DESCRIPTION OF THE PROGRAMME"

SUPPLEMENTAL INFORMATION RELATING TO THE SECTION "4. RATINGS"

On page 358 of the Original Base Prospectus the following paragraph shall be inserted after the third paragraph, as amended by the First Supplement, the Fourth Supplement and the Fifth Supplement:

"In connection with the implementation of its new bank rating methodology, Moody´s placed the ratings of the Issuer on review on 17 March 2015. Moody's has indicated that the long-term rating may be lowered by two notches, but also stated that this may change by the time the review is concluded. Inter alia due to the Bank Recovery and Resolution Directive (BRRD) and the expected decreasing probability of external support of banks by the state, Moody´s has placed the current long- and short-term ratings (Baa2/P-2) on "Review for Downgrade". Moody´s expects to close the rating review on the basis of the new methodology within the next few months. If, and to which extent, the future longterm ratings will include external support elements going forward, will essentially depend on the future ownership structure of the Issuer."

VI. SUPPLEMENTAL INFORMATION RELATING TO THE APPENDICES

After page I-40 of the Original Base Prospectus as amended by the Third Supplement the Deutsche Pfandbriefbank Consolidated Financial Information 2014 as laid out on the following pages J-1 to J-87 are newly inserted as J-pages into the Original Base Prospectus.

Appendix V

Deutsche Pfandbriefbank
Consolidated Financial Information 2014

Consolidated Financial Statements
Consolidated Income Statement

Consolidated income statement in € million	Notes	2014	2013[1]	Change
Operating income		326	482	−156
Net interest and similar income	32	421	319	102
Interest and similar income		2,333	2,487	−154
Interest and similar expenses		−1,912	−2,168	256
Net fee and commission income	33	1	9	−8
Fee and commission income		13	15	−2
Fee and commission expenses		−12	−6	−6
Net trading income	34	−30	−51	21
Net income from financial investments	35	−77	96	−173
Net income from hedging relationships	36	−3	9	−12
Net other operating income/expenses	37	14	100	−86
Loan loss provisions	38	−21	−8	−13
General and administrative expenses	39	−251	−312	61
Net miscellaneous income/expenses	40	–	3	−3
Profit or loss before tax		**54**	**165**	**−111**
Income taxes	41	−50	−5	−45
Net income/loss		**4**	**160**	**−156**
attributable to:				
Equity holders		4	160	−156

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

Consolidated Statement of Comprehensive Income

Consolidated statement of comprehensive income	2014			2013		
in € million	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Profit or loss	**54**	**−50**	**4**	**165**	**−5**	**160**
Items that will not be reclassified to income statement	−53	15	−38	7	−2	5
Profits/losses from pension commitments	−53	15	−38	7	−2	5
Items that may be reclassified to income statement	34	−9	25	45	−13	32
Foreign currency reserve	1	–	1	−1	–	−1
AfS reserve	166	−46	120	196	−56	140
Cash flow hedge reserve	−133	37	−96	−150	43	−107
Total other comprehensive income	**−19**	**6**	**−13**	**52**	**−15**	**37**
Total comprehensive income of the period	**35**	**−44**	**−9**	**217**	**−20**	**197**
attributable to:						
Equity holders	35	−44	−9	217	−20	197

Components of consolidated statement of comprehensive income		
in € million	2014	2013
Net income/loss	**4**	**160**
Profits/losses from pension commitments	−38	5
Unrealised gains/losses	−38	5
Foreign currency reserve	1	−1
Unrealised gains/losses	1	−1
AfS reserve	120	140
Unrealised gains/losses	120	137
Reclassification adjustments for gains/losses included in profit or loss	–	3
Cash flow hedge reserve	−96	−107
Unrealised gains/losses	60	−175
Reclassification adjustments for gains/losses included in profit or loss	−156	68
Total other comprehensive income	−13	37
Total unrealised gains/losses	143	−34
Total reclassification adjustments for gains/losses included in profit or loss	−156	71
Total comprehensive income of the period	**−9**	**197**

Consolidated Statement of Financial Position

Assets in € million	Notes	31.12.2014	31.12.2013[1)2)]	Change	1.1.2013[1)2)]
Cash reserve	9, 43	57	3,532	−3,475	1,929
Trading assets	10, 44	2,016	1,642	374	3,325
Loans and advances to other banks	11, 45	6,800	6,685	115	8,917
Loans and advances to customers	11, 46	38,964	36,242	2,722	49,590
Allowances for losses on loans and advances	12, 47	−138	−148	10	−325
Financial investments	13, 48	20,475	20,725	−250	25,326
Property and equipment	14, 49	8	1	7	2
Intangible assets	15, 50	23	31	−8	39
Other assets	16, 51	6,659	4,769	1,890	7,242
Income tax assets	25, 52	654	1,162	−508	1,701
Current tax assets		29	44	−15	53
Deferred tax assets		625	1,118	−493	1,648
Total assets		**75,518**	**74,641**	**877**	**97,746**

Equity and liabilities in € million	Notes	31.12.2014	31.12.2013[1)2)]	Change	1.1.2013[1)2)]
Liabilities to other banks	17, 56	3,187	3,522	−335	7,797
Liabilities to customers	17, 57	10,593	10,848	−255	11,895
Securitised liabilities	17, 58	47,827	46,858	969	52,296
Trading liabilities	18, 59	1,960	1,453	507	3,192
Provisions	19, 60	272	209	63	235
Other liabilities	20, 61	6,182	4,722	1,460	14,438
Income tax liabilities	25, 62	712	1,187	−475	1,695
Current tax liabilities		82	64	18	64
Deferred tax liabilities		630	1,123	−493	1,631
Subordinated capital	21, 63	1,279	2,357	−1,078	2,910
Liabilities		**72,012**	**71,156**	**856**	**94,458**
Equity attributable to equity holders		**3,506**	**3,485**	**21**	**3,288**
Subscribed capital	64	380	380	–	380
Silent partnership contribution	22, 64	999	999	–	999
Additional paid-in capital	64	3,265	5,036	−1,771	5,036
Retained earnings	64	−1,154	−3,115	1,961	−3,184
Profits/losses from pension commitments	19	−79	−41	−38	−46
Foreign currency reserve	24	2	1	1	2
Revaluation reserve	8	89	65	24	32
AfS reserve		−100	−220	120	−360
Cash flow hedge reserve		189	285	−96	392
Consolidated profit/loss 1.1.–31.12.		4	160	−156	69
Equity		**3,506**	**3,485**	**21**	**3,288**
Total equity and liabilities		**75,518**	**74,641**	**877**	**97,746**

[1)] Adjusted due to retrospective IFRS 10 first time adoption. Details are disclosed in Note «Principles».
[2)] Adjusted due to IAS 8.42. Details are disclosed in Note «Consistency».

Consolidated Statement of Changes in Equity

Consolidated statement of changes in equity										
	Equity attributable to equity holders									
							Revaluation reserve			
in € million	Subscribed capital	Silent participation	Additional paid-in capital	Retained earnings	Profits/losses from pension commitments	Foreign currency reserve	AfS reserve	Cash flow hedge reserve	Consolidated profit/loss	Equity
Equity at 31.12.2012[1]	**380**	**999**	**5,036**	**−3,166**	**–**	**−29**	**−360**	**400**	**69**	**3,329**
Changes due to retrospective first time adoption of IFRS 10 and IAS 19 (revised 2011)	–	–	–	5	−46	–	–	–	–	−41
Adjustments due to IAS 8.42[2]	–	–	–	−23	–	31	–	−8	–	–
Equity at 1.1.2013	**380**	**999**	**5,036**	**−3,184**	**−46**	**2**	**−360**	**392**	**69**	**3,288**
Capital increase	–	–	–	–	–	–	–	–	–	–
Transaction costs of capital measures	–	–	–	–	–	–	–	–	–	–
Treasury shares	–	–	–	–	–	–	–	–	–	–
Distribution	–	–	–	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	5	−1	140	−107	160	197
Transfer to retained earnings	–	–	–	69	–	–	–	–	−69	–
Changes in the group of consolidated companies	–	–	–	–	–	–	–	–	–	–
Equity at 31.12.2013	**380**	**999**	**5,036**	**−3,115**	**−41**	**1**	**−220**	**285**	**160**	**3,485**
Equity at 1.1.2014	**380**	**999**	**5,036**	**−3,115**	**−41**	**1**	**−220**	**285**	**160**	**3,485**
Capital increase	–	–	–	–	–	–	–	–	–	–
Transaction costs of capital measures	–	–	–	–	–	–	–	–	–	–
Equity transfer	–	–	−1,771	1,771	–	–	–	–	–	–
Treasury shares	–	–	–	–	–	–	–	–	–	–
Distribution	–	–	–	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	−38	1	120	−96	4	−9
Transfer to retained earnings	–	–	–	160	–	–	–	–	−160	–
Changes in the group of consolidated companies	–	–	–	–	–	–	–	–	–	–
Contribution from equity holder	–	–	–	30	–	–	–	–	–	30
Equity at 31.12.2014	**380**	**999**	**3,265**	**−1,154**	**−79**	**2**	**−100**	**189**	**4**	**3,506**

[1] As disclosed in consolidated financial statements 2012. Retrospective IAS 19 (revised 2011) first time adoption took effect in 2013.
[2] Details are disclosed in Note «Principles».

Consolidated Statement of Cash Flows

Consolidated statement of cash flows[1] in € million	2014	2013[2]
Net income/loss	**4**	**160**
Write-downs, provisions for losses on, and write-ups of, loans and advances and additions to provisions in lending business	27	13
Write-downs and depreciation less write-ups on non-current assets	98	15
Change in other non-cash positions	157	185
Result from the sale of non-current assets	−23	−97
Other adjustments	−371	−320
Subtotal	**−108**	**−44**
Change in assets and liabilities from operating activities after correction for non-cash components		
Increase in assets/decrease in liabilities (–)		
Decrease in assets/increase in liabilities (+)		
Trading portfolio	−8	−57
Loans and advances to other banks	−1,132	2,162
Loans and advances to customers	−1,331	4,892
Other assets from operating activities	4	119
Liabilities to other banks	−490	−3,992
Liabilities to customers	−251	−927
Liabilities evidenced by certificates	−1,229	−3,595
Other liabilities from operating activities	−290	−561
Interest income received	2,186	2,226
Interest expense paid	−1,661	−1,987
Taxes on income paid/refund	−10	11
Cash flow from operating activities	**−4,320**	**−1,753**
Proceeds from the sale of non-current assets	3,081	4,765
Payments for the acquisition of non-current assets	−2,134	−944
Proceeds from the sale of investments	6	81
Cash flow from investing activities	**953**	**3,902**
Contribution from equity holder	30	–
Payments of subordinated capital	−138	−546
Cash flow from financing activities	**−108**	**−546**
Cash and cash equivalents at the end of the previous period	3,532	1,929
+/– Cash flow from operating activities	−4,320	−1,753
+/– Cash flow from investing activities	953	3,902
+/– Cash flow from financing activities	−108	−546
+/– Effects of exchange rate changes and non-cash valuation changes	–	–
Cash and cash equivalents at the end of the period	**57**	**3,532**

[1] Explanations in Note «Notes to the Items in the Consolidated Statement of Cash Flows»
[2] Adjusted due to retrospective IFRS 10 first time adoption. Details are disclosed in Note «Principles».

Notes

1 General Information

The Group is headed by pbb which is registered in the commercial register of the Amtsgericht (local court) Munich (HRB 41054) and is a 100% subsidiary of Hypo Real Estate Holding AG (HRE Holding). HRE Holding is a 100% subsidiary of Finanzmarktstabilisierungsfonds-FMS. pbb Group combines the strategic assets and new business of Hypo Real Estate Group (HRE). New business is generated in real estate finance and public investment finance.

Accounting Policies

2 Principles

pbb has prepared its consolidated financial statements for the period ended 31 December 2014 in line with EC ordinance No. 1606/2002 of the European Parliament and Council of 19 July 2002 in accordance with International Financial Reporting Standards (IFRS). These financial statements are based on the IFRS rules, which have been adopted in European Law by the European Commission as part of the endorsement process; they are also based on the regulations of commercial law which are applicable in accordance with Section 315 a (1) HGB (German Commercial Code). With the exception of certain regulations on fair value hedge accounting for a portfolio hedge of interest rate risks in IAS 39 Financial Instruments: Recognition and Measurement, all the IFRS rules requiring to be applied in terms of the regulations specified by IFRS were fully recognised by the European Union (EU). Pbb Group does not use fair value hedge accounting for a portfolio hedge of interest rate risks. The consolidated financial statements therefore comply with IFRS as a whole as well as the IFRS as applicable in the EU.

The IFRS are standards and interpretations adopted by the International Accounting Standards Board (IASB). These are, in particular, the International Financial Reporting Standards (IFRS), the International Accounting Standards (IAS) and the interpretations of the IFRS Interpretations Committee (formerly IFRIC) or the former Standing Interpretations Committee (SIC). In addition, the German Accounting Standards (Deutsche Rechnungslegungs Standards – DRS) published by the Deutsche Rechnungslegungs Standards Committee (DRSC) have been taken into account provided they are not inconsistent with the IFRS.

The Management Board of pbb prepared these consolidated financial statements on 18 March 2015 under the going-concern assumption.

Initially Adopted Standards, Interpretations and Amendments Applied for the First Time The following standards, interpretations and amendments were applied for the first time in financial year 2014:

- > IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements (revised 2011)
- > IFRS 11 Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures (revised 2011)
- > 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 and IAS 27 (revised 2011) IFRS 10 replaces the guidance 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. IAS 27 was renamed Separate Financial Statements and now deals only with separate financial statements; SIC-12 was withdrawn.

Due to the retrospective first-time application of IFRS 10, the formerly consolidated company House of Europe Funding I Ltd., George Town, no longer requires consolidation. 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 investments (€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.

In addition, based on IFRS 10, the first-time consolidation of DEPFA Finance N.V., Amsterdam, resulted in an increase in retained earnings as a sub item of equity of €5 million as of 1 January 2014/31 December 2013 (2012: €5 million). In addition, the subordinated liabilities in the subordinated capital increased by €917 million as of 1 January 2014/31 December 2013 (2012: €917 million). On the assets side, other receivables as a sub item of loans and advances to banks increased by €922 million (2012: €922 million) as of 1 January 2014/31 December 2013. The initial consolidation did not affect the consolidated income statement. DEPFA Finance. N.V., was sold to DEPFA BANK plc, Dublin, on 18 July 2014 as part of the unbundling of pbb Group and its sister group DEPFA. Details are disclosed in the Note «Consolidation».

IFRS 11 and IAS 28 (revised 2011) IFRS 11 supersedes IAS 31 and removes the option to proportionately consolidate joint ventures. From now on, joint ventures will be accounted for using the equity method in accordance with IAS 28. As pbb Group has no shares in joint ventures, the first-time application of IFRS 11 and IAS 28 (revised 2011) had no impact.

IFRS 12 IFRS 12 combines the disclosure requirements for interests in subsidiaries, joint ventures, associates and unconsolidated special-purpose vehicles in a single standard. The new standard was initially effective for financial years beginning on or after 1 January 2013. However, it was endorsed by the European Union with an effective date of 1 January 2014. pbb Group has provided the information requiring to be disclosed in accordance with IFRS 12 in the Notes «Disclosures of interests in subsidiaries», «Disclosures of interests in associates» and «Holdings of pbb».

Amendments to IFRS 10, IFRS 11 and IFRS 12 The amendments clarify that decisions about whether or not investments are required to be consolidated in accordance with IFRS 10 should be made at the beginning of the period in which the standard is applied for the first time. pbb Group has adjusted its accounting processes to ensure that the decision about whether to consolidate is made on 1 January 2014.

Amendments to IFRS 10, IFRS 12 and IAS 27 The amendments pertain to specifically defined investment entities. As pbb Group is not classified as an investment entitiy due to its business model the first-time application had no impact.

Amendments to IAS 32 The amendments clarify the requirements for offsetting financial instruments. The first-time application had no significant impact on pbb Group.

Amendments to IAS 36 These relate to cash-generating units to which significant goodwill or significant intangible assets with an indefinite useful life have been allocated. The amendment had no effect on these consolidated statements as pbb Group has no intangible assets of this kind in its portfolio.

Amendments to IAS 39 By means of the amendments to IAS 39, the IASB has therefore added a exemption to the previous IAS 39, which provides relief from the requirement to cease hedge accounting if the novation of a hedging instrument with a central counterparty is the consequence of a regulatory or statutory directive. pbb Group made use of the exemption in order to structure its hedging relationships effectively.

Standards, Interpretations and Amendments Endorsed by the EU but Not Yet Effective

The following standards, interpretations and amendments were endorsed by the EU as of the balance sheet date but are not yet applicable and were not voluntarily applied early:

> IFRIC Interpretation 21 Levies
> Amendments to IAS 19 (revised 2011) Employee Benefits: Defined Benefit Plans – Employee Contributions
> Annual Improvements to IFRSs 2010–2012 Cycle
> Annual Improvements to IFRSs 2011–2013 Cycle

IFRIC Interpretation 21 IFRIC 21, an interpretation of IAS 37, clarifies when a present obligation exists and a provision or liability has to be recognised for levies imposed by governments. In particular, levies resulting from IAS 12 as well as fines and penalties are not within the scope of IFRIC 21. In the European Union, IFRIC 21 is effective for financial years beginning on or after 17 June 2014. For pbb Group, IFRIC 21 is not at present expected to have a significant impact on the levies currently payable.

Amendments to IAS 19 (revised 2011) The amendments to IAS 19 clarify the requirements regarding the attribution of employee contributions or contributions from third parties to periods of service when the contributions are linked to service. They also provide relief when contributions are independent of the number of years of service. The amendments are effective for financial years beginning on or after 1 July 2014. They are not expected to have a significant impact on pbb Group.

Annual Improvements Project Annual Improvements to IFRSs 2010–2012 relates to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 38 and IAS 24, and Improvements to IFRSs 2011–2013 to IFRS 1, IFRS 3, IFRS 13 and IAS 40. The amendments are to be applied for the first time to reporting periods beginning on or after 1 July 2014. All the amendments and adjustments are either not relevant or of minor importance for pbb Group. No significant effects are expected.

Standards, Interpretations and Amendments Issued but Not Yet Endorsed by the EU In addition, standards, interpretations and amendments were issued, but had not yet been endorsed by the European Union and not applied early by pbb Group as at the reporting date. The dates of the first application for the following standards are subject to endorsement by the European Union:
> IFRS 9 – Financial Instruments
> IFRS 14 Regulatory Deferral Account
> IFRS 15 Revenue from Contracts with Customers
> Amendments to IFRS 10, IFRS 12 and IFRS 28: Investment Entities – Applying the Consolidation Exception
> Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture
> Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
> Amendments to IAS 1: Disclosure Initiative
> Amendments to IAS 16 and IAS 41: Bearer Plants
> Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
> Amendments to IAS 27: Equity Method in Separate Financial Statements
> Annual Improvements to IFRSs 2012–2014 Cycle

IFRS 9 The IASB has a project to replace IAS 39 Financial Instruments: Recognition and Measurement was concluded with the publication of IFRS 9 in July 2014. In its final version, the standard contains fundamental revisions of Classification and Measurement, Impairment Methodology and Hedge Accounting. The latter, however, without regulations on macro hedging.

The Classification and Measurement phase provides the following measurement categories for the classification of financial instruments:
> at fair value through profit or loss
> at fair value through other comprehensive income
> at amortised cost

The classification of financial debt instruments on the assets side depends on the entity's business model for managing financial assets and the characteristics of the contractual cash flows of the financial asset. Equity instruments and assets at FVTPL, on the other hand, are generally required to be measured at fair value. On the liabilities side, non-derivative liabilities that are not held for trading or that the entity does not voluntarily measure at fair value must be measured at amortised cost. Changes in the value of liabilities at FVTPL that are attributable to changes in the entity's own credit risk are required to be recognised directly in equity.

With the Impairment Methodology phase, accounting for impairment losses was primarily changed so that expected losses are to be recognised in addition to only losses incurred (expected lost model).

With the new regulations in hedge accounting, accounting for hedging relationships will be more closely tied to the economic risk management of a company. In addition, the mandatory quantitative effectiveness tests for hedging relationships will no longer be required but the test can also be qualitative. As long as regulations on accounting for macro hedges have not yet been adopted, the IASB grants an accounting option according to which the former rules of IAS 39 can be applied.

IFRS 9 is to be applied for the first time to reporting periods beginning on or after 1 January 2018. The standard must be initially applied retrospectively, however, various simplification options are available. The standard may be applied earlier voluntarily. The initial application of IFRS 9 is expected to have an extensive impact on pbb's consolidated financial statements. It is likely that some assets and liabilities previously measured at amortised cost will have to be measured at fair value in future. In addition, the accounting processes relating to impairment losses will have to be substantially adjusted in accordance with the new rules, which may result in higher allowances. The exact quantitative effects on pbb Group cannot yet be reliably estimated at this point.

IFRS 14 With the new standard, companies applying IFRS for the first time will be able to retain certain regulatory provision items for price-regulated activities in the IFRS financial statements. IFRS 14 is to be applied for the first time to reporting periods beginning on or after 1 January 2016. As pbb Group is not applying IFRS for the first time, IFRS 14 will have no impact.

IFRS 15 The new standard replaces the previous standards on revenue realisation IAS 18 and IAS 11. Revenues are now realised when customers gain control over the agreed goods and services and are able to derive benefits therefrom. IFRS 15 is to be applied for the first time to reporting periods beginning on or after 1 January 2017. Due to its business model, pbb Group does not expect any significant impacts.

Amendments to IFRS 10, IFRS 12 and IAS 28 The amendments clarify exemptions from the duty to prepare consolidated financial statements pursuant to IFRS 10.4 (a) and now also prescribes that investment entities that measure their subsidiaries at fair value are included in the scope of IFRS 12. The amendments must be applied to financial years beginning on or after 1 January 2016. As pbb Group is not classified as an investment entity due to its business model, and is also not expected to qualify in the future, no impacts are expected from the amendments to IFRS 10, IFRS 12 and IAS 28.

Amendments to IFRS 10 and IAS 28 This amendment removes an inconsistency between IFRS 10 and IAS 28 and clarifies the recognition of unrealised gains from a disposal or addition of assets between an investor and an associate or a joint venture. The amendments are to be applied for the first time to reporting periods beginning on or after 1 January 2016. The effects on pbb Group will depend on whether such transactions will be conducted in the future. This was not the case in the financial year of 2014.

Amendments to IFRS 11 The amendments to IFRS 11 relate to a clarification that acquisitions of shares in joint ventures that represent a business within the meaning of IFRS 3 must also be accounted for in accordance with the principles of IFRS 3. The amendments are to be applied for the first time to reporting periods beginning on or after 1 January 2016. The effects on pbb Group will depend on whether shares in joint ventures within the meaning of IFRS 11 will be held in the future. This was not the case in the financial year of 2014.

Amendments to IAS 1 With the amendment to IAS 1, the concept of materiality is highlighted further with the aim of relieving IFRS financial statements of unimportant information thus promoting the provision of relevant information. For this purpose it is clarified that the concept of materiality must be applied to all components of the IFRS financial statements, which should prevent the shifting of irrelevant information from other parts of the financial statements to the Notes. Corresponding to this, it is clarified that unimportant information is also not separately recognised if its presentation in an IFRS standard is explicitly required. This also applies if certain minimum items are required. In addition, the following items continue to be regulated, clarified or suggested by the amendments to IAS 1:
> Presentation of subtotals
> Structure of the Notes, for instance depending on the relevance of the information for an understanding of the net assets, financial position and results of operations
> Disclosures regarding accounting methods
> Presentation of results of companies measured according to the equity method in the statement of comprehensive income as an independent item

The amendments must be applied to financial years beginning on or after 1 January 2016. pbb Group does not expect any material impacts on the consolidated financial statements.

Amendments to IAS 16 and IAS 41 The amendments govern the accounting for so-called producing plants and are to be applied for the first time to reporting periods beginning on or after 1 January 2016. The amendments had no effect on these consolidated statements as pbb Group has no assets within the meaning of IAS 41 in its portfolio.

Amendments to IAS 16 and IAS 38 The amendments to IAS 16 and IAS 38 clarify that depreciation of tangible and intangible assets with a limited useful life on the basis of revenues of goods produced by same is, in principle, not appropriate. The amendments are to be applied for the first time to reporting periods beginning on or after 1 January 2016. As pbb Group undertakes the depreciation on tangible and intangible assets on a straight-line basis using assumed useful lives, and will also continue to do so in the future, no impacts on its financial statements are expected.

Amendments to IAS 27 Interests in subsidiaries, joint ventures and associated companies can, in future, also be accounted for according to the equity method in the IFRS separate financial statements. The amendments are to be applied for the first time to reporting periods beginning on or after 1 January 2016. As the regulations relate exclusively to IFRS separate financial statements, no effects are expected to impact pbb's IFRS consolidated financial statements.

Annual Improvements Project Annual Improvements to IFRSs 2012–2014 amends the IFRS 5, IFRS 7, IAS 19 and IAS 34 standards. The amendments are to be applied for the first time to reporting periods beginning on or after 1 January 2016. All the amendments and adjustments are either not relevant or of minor importance for pbb Group. No significant effects are expected.

Statement of Compliance for the Public Corporate Governance Code of the Federation The Management Board of the Company, that is wholly owned indirectly by the Federal Republic of Germany, has resolved to use the Public Corporate Governance Code of the federal government, which is based on the «comply or explain» principle, subject to identical resolution by the Supervisory Board. The Management Board and the Supervisory Board published a statement of compliance for the public corporate governance code of the federation on pbb's website (www.pfandbriefbank.com) after the respective resolution is adopted by the Supervisory Board.

Group Management Report The Group management report meets the requirements of section 315 (1) and (2) HGB (German Civil Code) and DRS 20. It comprises fundamental information about the Group, a report on the economic position, a report on post-balance sheet date events, a risk and opportunity report and a report on expected developments. The risk and opportunity report contains information which, under IFRS 7, is required to be disclosed. Events after the balance sheet date are described in the report on post-balance sheet date events.

3 Consistency

pbb Group applies accounting policies consistently in accordance with the IFRS framework concept as well as IAS 1 and IAS 8.

pbb Group determined the hedge adjustments to the derivatives incorrectly when re-designating a derivative portfolio from cash flow hedge accounting to micro fair value hedge accounting and the stand-alone portfolio prior to the earliest period shown in these consolidated financial statements. This resulted in an overstatement of the cash flow hedge reserve. In these consolidated financial statements, pbb Group corrected the cash flow hedge reserve as of 31 December 2013 and as of 1 January 2013 pursuant to IAS 8.42 with retrospective effect with no effect on profit and loss (decrease of €−8 million respectively). Retained earnings were corrected commensurately as of 31 December 2013 and 1 January 2013 (increase of € 8 million respectively). The pro forma Basel III figures of the regulatory capital, CET1, were adjusted by € 8 million as of 31 December 2013 at the same time.

In the context of the de-consolidation of units accounted for in foreign currency prior to the period recognised as the earliest in these consolidated financial statements, pbb Group carried forward the foreign currency reserve attributable to the de-consolidated units in equity. In these consolidated financial statements, pbb Group adjusted these foreign currency reserves in the statement of financial position as of 31 December 2013 and as of 1 January 2013 as well as in the consolidated statement of changes in equity for 2013 against retained earnings pursuant to IAS 8.42 with retrospective effect with no effect on profit and loss. The foreign currency reserve was adjusted commensurately as of 31 December 2013 and 1 January 2013 by € 31 million respectively, and retained earnings were adjusted commensurately as of 31 December 2013 and 1 January 2013 by €−31 million respectively.

After adjustments, the cash flow hedge reserve amounted to € 285 million as of 31 December 2013 and € 392 million as of 1 January 2013. After the two adjustments, retained earnings amounted to €−3,115 million as of 31 December 2013 and €−3,184 million as of 1 January 2013. After the adjustment, the foreign currency reserve amounted to € 1 million as of 31 December 2013 and € 2 million as of 1 January 2013. These adjustments did not impact the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the total assets and the total equity.

A corporate tax rate of 27.67% was used during the reporting year compared with 15.83% in the previous year. Due to the absence of DEPFA, the corporate tax rate used in the higher level HRE was the actual domestic income tax rate of pbb, which was a significant component of the two consolidated financial statements. This rate was applied uniformly to both the consolidated financial statements of pbb as well as HRE Holding. The corporate tax rate of the previous year was adjusted to 27.78% in accordance with the reporting year.

Beyond as of 31 December 2014 pbb Group applied the same accounting and measurement principles as in the consolidated financial statements as of 31 December 2013.

4 Uniform Consolidated Accounting

The separate financial statements of the consolidated domestic and foreign companies are incorporated in the consolidated financial statements of pbb Group using uniform accounting and measurement principles.

5 Consolidation

Number of subsidiaries/entities[1]	Fully consolidated subsidiaries		Not fully consolidated subsidiaries[2]		Associated entities and other investments		
	Total	Thereof special-purpose entities	Total	Thereof special-purpose entities	Associated entities	Other investments	**Total**
1.1.2013[3]	**10**	**5**	**4**	–	**3**	**4**	**21**
Additions	1	1	–	–	–	–	1
Disposals	–1	–1	–	–	–	–	–1
Mergers	–	–	–1	–	–	–	–1
31.12.2013	**10**	**5**	**3**	–	**3**	**4**	**20**
1.1.2014	**10**	**5**	**3**	–	**3**	**4**	**20**
Additions	1	–	–	–	–	–	1
Disposals	–1	–1	–1	–	–	–1	–3
Mergers	–	–	–	–	–	–	–
31.12.2014	**10**	**4**	**2**	**–**	**3**	**3**	**18**

[1] pbb, subsidiaries, associated companies and other investments
[2] Not fully consolidated due to immateriality
[3] Adjusted due to retrospective IFRS 10 first time adoption. Details are disclosed in Note «Principles».

A subsidiary is a entity that is controlled by another entity. Control is deemed to exist if pbb has decision-making powers to manage relevant activities, has a right to significant returns from the subsidiary and can use its decision-making powers to influence the amount of the significant variable returns. Structured entities are entities in which voting rights or similar rights are not the dominant factors in determining control, such as if the voting rights relate merely to administrative duties and the relevant activities are governed by contractual agreements. As for subsidiaries, structured entities must be consolidated if the structured entity is controlled.

In the financial year of 2014, pbb Group applied the new IFRS 10 standard for the first time. The effects from the retrospective application are disclosed in the Note «Principles». The following changes arose in the scope of consolidation of pbb Group between 1 January and 31 December 2014:

> The company Immo Invest Real Estate GmbH in Munich was initially consolidated as of 1 January 2014. On 25 February 2014, the company took over all the shares in the company RPPSE Espacio Oviedo S.L.U., Madrid, which had already been consolidated in pbb Group in 2013. There were no significant impacts on the development in net assets, financial position and results of operations of pbb Group from the initial consolidation.

> DEPFA Finance. N.V., was sold to DEPFA BANK plc, Dublin, for €6 million on 18 July 2014 as part of the unbundling of pbb Group and DEPFA. The de-consolidation resulted in a gain of €21 million, which was recognised in pbb's consolidated financial statements under net income from financial investments. With the de-consolidation of the company, pbb's liabilities to DEPFA Finance N.V. became external relationships in respect of the Group. These liabilities no longer have to be eliminated. The first time measurement of liabilities at fair value resulted in earnings of €21 million. The €1 million loss generated by the company between 1 January and 18 July 2014, is included in pbb's consolidated financial statements. In accordance with the accounting regulations applicable to pbb Group, the balance sheet total amounted to €1,233 million and, on the asset side, was almost exclusively attributed to loans and advances to banks. The equity and liabilities side comprised €1,227 million in subordinated capital and €6 million in equity.

> A property financed in the Netherlands was consolidated for the first time on 12 November 2014. Based on contractual agreements with the owners, pbb obtained control within the meaning of IFRS 10 over the property on the same date. The rented office building was refinanced by pbb to an amount of €30 million. The individual valuation allowance on the receivable amounted to €13 million. The initial consolidation resulted in an asset change. The pbb Group recognises the property with a book value of €17 million under the item other assets instead of the loan impaired to this amount. The income from renting the property amounting to less than €1 million is recognised in the income statement under other operating income/expenses. The interest accrued on the loan receivable from the financing of the building to date has been eliminated on the basis of contractual agreements.

Consolidation Principles At the acquisition date the costs of a business combination are allocated by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria according to IFRS 3.10 at their fair values at that date. Any difference between the cost of the business combination and the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities so recognised are accounted as goodwill or as an excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities in accordance with IFRS 3.32–36. If the interest in net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the costs of business combination the acquirer shall reassess the identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination, and recognise immediately in profit or loss any excess remaining after reassessment.

Business relations within the group of consolidated companies are netted with respect to each other. Intercompany results attributable to internal transactions are eliminated.

There are no material interests in associated companies or joint ventures. The holdings are accounted as AfS financial instruments.

6 Disclosures of Interests in Subsidiaries

These consolidated financial statements set out a list of shareholdings in the Note «Holdings of pbb». In this list, the subsidiaries are classified on the basis of whether or not they are consolidated. Other shareholdings are also listed. All fully consolidated companies have prepared their individual financial statements for the period ended 31 December 2014.

The effects of the contractual relations between the Group companies and the subsidiaries which are not consolidated are set out in the consolidated financial statements. Pbb Group was unable to reliably determine a fair value for two interests in subsidiaries (2013: three) that are not included as they are of minor importance to the Group. Interests in these companies in the legal form of a limited company (GmbH) are not traded in an active market and are therefore measured at cost and accounted for in the AfS financial investments.

The total amount of the book values of the company's interests in subsidiaries individually regarded as minor amounted to €0 million (2013: €0 million). The summarised balance sheet totals of the subsidiaries not included in the scope of consolidation comprised less than 0.1% of the consolidated balance sheet total, as in the previous year. The total of the Group's interests in the profit or loss of the interests in subsidiaries regarded as minor amounted to €0 million (2013: less than €1 million). In the financial year 2014, no financial investments whose fair value could not be reliably determined were derecognised (2013: €1 million).

One consolidated subsidiary and one subsidiary that was not consolidated due to it being of subordinate importance for pbb Group were in liquidation. The balance sheet totals of these companies amounted to €0 million in total (2013: €0 million). These liquidations are expected to be concluded in the financial year of 2015.

Significant restrictions with respect to the usability of assets within the Group Statutory, contractual or regulatory restrictions and protective rights of non-controlling interests may limit the Group in its ability to obtain access to the assets and to easily transfer same to another company or other companies and pay the Group's liabilities. As of the balance sheet date the Group had no significant interests over which it could exert control. 100% of the voting right is retained in all the companies controlled by pbb. Consequently, there are no significant restrictions due to third-party protective rights.

Due to the principle of burden sharing required by the EU Commission, a condition imposed by same in 2011 as a result of the state aid procedure, profits will be retained by pbb Group until privatisation, and used for repaying the silent participation of the Federal Republic of Germany. In particular, no repayments of other equity instruments (e.g. hybrid capital instruments, profit participation certificates) not required by law may be undertaken.

7 Disclosures of Interests in Associates

An associated company is of significance to the Group due to the book values of the company's interest and the share in the profits of the investment company. pbb Group has interests in three associated companies (2013: three). Pbb Group currently has no investments in associated companies to be included according to the at-equity method due to minor importance. Interests in these companies in the legal form of a partnership are measured at amortised cost and accounted for under the AfS financial investments.

The total amount of the book values of the company's interests in associated companies individually regarded as minor amounted to €0 million (2013: €0 million). In the financial years 2014 and 2013 the totals of the Group's interests in the profit or loss of the interests in associated companies individually regarded as minor amounted to less than €1 million each.

8 Financial Instruments

According to IAS 32, a financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Recognition and Derecognition pbb Group recognises a financial asset or a financial liability in its statement of financial position if a Group company becomes party to the contractual provisions of the financial instrument.

The purchases or sales of financial instruments are recognised on the trading date. Premiums and discounts are recognised in accordance with the accrual concept in the position net interest and similar income. In accordance with the primary derecognition concept of IAS 39, a financial asset has to be derecognised when all risks and rewards have substantially been transferred. If the main risks and rewards of ownership of the transferred financial asset are neither transferred nor retained, and if control over the transferred asset is retained, the Company has to recognise the asset to the extent of its continuing involvement. There are no transactions within pbb Group which result in partial derecognition due to a continuing involvement.

In case of pension agreements and synthetic securitisations the assets transferred do not qualify for derecognition because derecognition criteria of IAS 39 are not met.

Collateral with the same counterparty and same conditions (e.g. ISDA master agreement) must be netted according to IAS 32. Accordingly, only the net amount is disclosed.

Categories According to IAS 39 When a financial asset or financial liability is recognised initially, it is measured at its fair value.

For subsequent measurement purposes IAS 39 requires that all financial instruments have to be classified according to this standard, to be disclosed in the statement of financial position and to be measured according to its categorisation:

Held-for-Trading A financial asset or a financial liability is held for trading if it is:
> acquired or incurred principally for the purpose of selling or repurchasing it in the near term,
> part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or
> a derivative (except for a derivative that is a designated and effective hedging instrument).

Held-for-trading financial instruments are measured at fair value. Changes in fair value are recognised in profit or loss. Held-for-trading financial instruments are disclosed as trading assets and trading liabilities. Interest and dividend income as well as the refinancing costs for the held-for-trading instruments are recognised in net interest or similar income.

If there is a difference between transaction price and market value at the trading date and the difference results from unobservable data that have a significant impact on the measurement of a financial instrument, the difference (so-called day one profit) is not recognised immediately in profit or loss but is recognised over the life of the transaction. The remaining difference is recognised directly in profit or loss when the inputs become observable, when the transaction matures or is closed out. In the financial years 2014 and 2013 there were no material day one profits.

Designated at Fair Value through Profit or Loss (dFVTPL) If certain conditions are satisfied, financial assets or liabilities can be classified as a financial asset respectively a financial liability at fair value through profit or loss when they are initially recognised. A designation can be made if the use of the measurement category means that a recognition and measurement inconsistency is either avoided or considerably reduced, and management and performance measurement of a portfolio of financial instruments are based on the fair values or if the instrument contains a separable embedded derivative. dFVTPL financial instruments are measured at fair value. Changes in fair value are recognised in profit or loss.

As of 31 December 2014 and 31 December 2013, pbb Group had no financial assets and no financial liabilities in the category dFVTPL.

Held-to-Maturity (HtM) Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. HtM financial investments are measured at amortised cost. In financial years 2014 and 2013, no financial assets were classified as HtM at pbb Group.

Loans and Receivables (LaR) Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include bonded notes.

Loans and receivables are recognised in the positions loans and advances to banks, loans and advances to customers and financial investments, and are measured at amortised cost. Interest income from loans and receivables is recognised in net interest and similar income. Market price related net gains and net losses attributable to prepayment penalties and disposal of loans and advances to customers and of loans and advances to other banks are disclosed in net interest and similar income. Such net gains and net losses from financial investments are recognised in net income from financial investments. Impairments due to credit standing factors and which affecting profit or loss are recognised in loan loss provisions respectively, in the case of financial investments, in net income from financial investments.

Available-for-Sale (AfS) Available-for-sale assets are those non-derivative financial assets that are classified as available for sale and which are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. pbb Group only classifies securities as AfS but not loans and advances.

AfS financial assets are measured at fair value. Changes in fair value are recognised in a separate item of equity (AfS reserve) not affecting profit or loss until the asset is sold, withdrawn or otherwise disposed of or if an impairment is established for the financial asset in accordance with IAS 39.58 et seq., so that the cumulative loss previously recognised in equity is now recognised in profit or loss. If the objective evidence for the impairment of an AfS debt instrument drops out, the impairment has to be reversed through profit or loss. On the other hand, impairments of an AfS equity instrument which have been recognised in profit or loss are not permitted to be reversed through profit or loss.

AfS financial assets are disclosed as financial investments. Interest income from AfS assets is recognised in net interest and similar income. Net gains and net losses generated by the disposal of AfS financial instruments as well as by changes in value as a result of impairment or reversals to be recognised in profit or loss are recognised in net income from financial investments.

Financial Liabilities at Amortised Cost Financial liabilities at amortised cost are those non-derivative financial liabilities that are not classified at fair value through profit or loss.

Financial liabilities at amortised cost are measured at amortised cost. Financial liabilities at amortised cost that are not securitised are recognised in liabilities to other banks and liabilities to customers. If these financial liabilities are securitised and not subordinated, they are recognised in securitised liabilities. Subordinated liabilities are recognised in subordinated capital. Interest expenses from financial liabilities at amortised cost are recognised in net interest and similar income. In addition, the position net interest and similar income includes net gains and net losses attributable to repurchases or withdrawals before maturity as well as impairments and impairment reversals of financial liabilities at amortised cost.

Derivatives Derivatives are measured at fair value. Changes in fair value are recognised in profit or loss if the derivatives are not part of cash flow hedge accounting. The measurement gains and losses from stand-alone derivatives are recognised in net trading income and from hedging derivatives in net income from hedging relationships. In the statement of financial position, stand-alone derivatives are disclosed as trading assets and trading liabilities. Hedging derivatives are disclosed as other assets and other liabilities.

Outside the held-for-trading and dFVTPL category, embedded derivative financial instruments within a structured product and which are required to be separated are separated from the host contract and recognised as stand-alone derivative financial instruments. Thereafter, the host contract is measured in accordance with its classification. The change in value arising from the separated derivatives that are measured at fair value is recognised in profit or loss.

Classes IFRS 7 and IFRS 13 required disclosures according to classes of financial instruments. pbb Group mainly defined the IAS 39 measurement categories, irrevocable loan commitments, financial guarantees, hedging derivatives and cash reserve as classes.

Measurement Methods Financial instruments at fair value are measured on the basis of stock market prices or other market prices, if existent. If a price is not available from an active market, observable market prices from comparable financial instruments are used. If prices from comparable financial instruments are not available, valuation models are used that base on observable market parameters. If these parameters are not observable at the markets, the measurement of the financial assets is based on models with non-market-observable parameters. The used measurement models are market standard models. A description of these models and the products is given in the Note «Fair Values of Financial Instruments».

Impairment According to IAS 39.58 a financial asset must be tested for impairment. At each balance sheet date pbb Group assesses on a case-by-case basis whether there is objective evidence for impairment. The criteria used to determine if there is such objective evidence included:
> significant financial difficulties of the borrower
> overdue contractual payments of either principal or interest or other breaches of contract
> increased probability that the borrower will enter bankruptcy or other financial reorganisation
> renegotiations due to economic problems
> a decline in the fair value of a financial asset below its (amortised) cost

Receivables at risk of default are restructured by pbb Group if the borrower's financial position has deteriorated but a positive going-concern forecast for the loan exposure can still be carried out. This is carried out by changing the underlying terms and conditions or side agreements by means of a unilateral or mutual declaration of intent. Restructuring agreements should maximise opportunities for pbb Group to realise its outstanding receivables or at least minimise the risk of default of the loan exposure. These generally include inter alia standstill agreements, changed interest payment/repayment terms, interest/repayment reductions or the suspension of contractual agreements (e.g. financial covenants) so that the borrower is again able to meet their payment obligations. The credit risk associated with restructured loans is managed by the Group's Credit Risk Management units. The methods used to measure and manage risk are presented in the section of the risk and opportunity report entitled «Credit Risk». Further information is provided in the Note «Restructured Loans and Advances».

Two types of allowances are in place: specific allowances and portfolio-based allowances. Allowances for loans and advances are recognised in a separate account (allowances for losses on loans and advances) instead of directly reducing the carrying amount of the assets. The expense is recognised in provisions for losses on loans and advances through profit or loss. Specific allowances on AfS financial investments as well as specific allowances and portfolio-based allowances on LaR financial investments are deducted directly from the carrying amount of the asset. The expense is recognised in net income from financial investments through profit or loss. Where subsequent measurement of financial assets is based on fair value through profit or loss, impairment is implied in the fair value.

pbb Group impairs loans and advances as well as financial investments whose terms have been renegotiated if there is objective evidence for impairment.

To measure the impairment loss, the following factors are especially considered:
> pbb Group's aggregate exposure to the customer
> the amount and timing of expected interest and redemption payments
> the realisable value of collateral and likelihood and time of successful repossession
> the likely deduction of any costs involved in recovering amounts outstanding
> the market price of the asset if available

For the purpose of calculating portfolio-based allowances, financial assets measured at amortised cost for which no impairment has been identified on an individual basis are grouped in portfolios according to their credit risk. The portfolio-based allowances cover impairments which have been incurred but not yet been identified. The parameters used to determine portfolio-based allowances are checked regularly and adjusted if necessary. The allowances are determined after taking into account the following factors:
> historical loss experience in portfolios of similar credit risk characteristics
> a judgement whether current economic conditions and credit conditions improved or deteriorated compared to the past
> the estimated period between impairment occurring and the impairment being identified
> state of the current economic cycle

Hedge Accounting Hedging relationships between financial instruments are classified as a fair value hedge, a cash flow hedge or hedge of a net investment in a foreign operation in accordance with IAS 39. Hedging instruments used to hedge interest rate risks are mainly interest rate derivatives, for example interest rate swaps and options.

Fair Value Hedge Under IAS 39, with a fair value hedge, a recognised asset, a recognised liability, off-balance-sheet fixed obligation or a precisely designated part of such an asset, liability or obligation, is hedged against the risk of a change in fair value which is attributable to a specific risk and possibly has an effect on profit or loss for the period.

If the hedge of the fair value in the course of the reporting period meets the criteria of IAS 39.88, the hedge is accounted as follows:
> The profit or loss arising when the hedging instrument is remeasured at fair value (for a derivative hedging instrument) or the currency component of its carrying amount measured in accordance with IAS 21 (for non-derivative hedging instruments) is recognised in profit or loss for the period and
> The carrying amount of a hedged item is adjusted by the profit or loss arising from the hedged item and attributable to the hedged risks, and is recognised in profit or loss for the period. This is applicable if the hedged item is otherwise measured at cost. The profit or loss attributable to the hedged risk is recognised in profit or loss for the period if the hedged item is an available-for-sale (AfS) financial asset. The amortisation of the hedge adjustment is started on the date of the revoking of the hedge relationship.

pbb Group uses fair value hedge accounting for presenting micro-hedge relationships. Fair value hedge accounting is not used for a portfolio of interest risks. Ineffective portions within the range permitted under IAS 39 are recognised in net income from hedge relationships. For measuring effectiveness the regression analysis is used. The dollar offset method is applied for quantifying the ineffectiveness. If the hedge relationship is terminated for reasons other than the derecognition of the hedged item, the difference between the carrying amount of the hedged item at that point and the value at which it would have been carried, had the hedge never existed (the unamortised fair value adjustment), is amortised through profit or loss over the remaining term of the original hedge. If the hedged item is derecognised, e.g. due to disposal or repayment, the unamortised fair value adjustment is recognised immediately in profit or loss.

Cash Flow Hedge According to IAS 39, a cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with the recognised asset or liability (for instance some or all future interest payments on variable-interest debt) or a highly probable forecast transaction that could affect profit or loss. For instance, future variable interest payments on variable interest receivables and liabilities are swapped for fixed payments primarily by means of interest rate swaps.

Under cash flow hedge accounting, hedging instruments are measured at fair value. The measurement result has to be broken down into an effective and an ineffective portion of the hedge relationship.

The effective portion of the hedging instrument is recognised in a separate item of equity without any impact on profit or loss (cash flow hedge reserve). The inefficient portion of the hedging instrument is recognised in profit or loss in the net income from hedging relationships.

A hedging relationship is deemed to be effective if, at the beginning and throughout the entire duration of the transactions, variability in cash flows of the hedged item are compensated almost completely (range of 80% to 125%) by variability in cash flows of the hedging instruments. For the purpose of establishing whether a specific portion of the hedging instrument is effective, the future variable interest payments on the receivables and liabilities to be hedged are compared quarterly with the variable interest payments from the interest derivatives in detailed maturity bands. The dollar offset method is used to assess effectiveness.

If a cash flow hedge for a forecast transaction is deemed to be no longer effective, or if the hedge relationship is revoked, the cumulative gains or losses on the hedging instrument initially recognised in equity remain in equity until the agreed or forecast transaction occurs. At this point, the gains or losses are recognised in profit or loss. pbb Group uses a macro approach for cash flow hedge accounting.

Hedge of a Net Investment in a Foreign Operation A net investment hedge is a hedge of the foreign currency exposure on a net investment in a foreign operation. Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. pbb Group did not hedge a net investment in a foreign operation in the financial years 2014 and 2013.

9 Cash Reserve

Cash reserve contains balances with central banks which are measured at cost.

10 Trading Assets

Trading assets comprise positive market values of stand-alone derivatives of the bank book. pbb Group has no non-derivative trading instruments in its portfolio. Trading assets are measured at fair value. Gains and losses arising from the valuation and realisation of trading assets are recognised in net trading income in profit or loss.

11 Loans and Advances

Loans and advances to other banks and loans and advances to customers are measured in accordance with IAS 39 at amortised cost if they are not categorised dFVTPL or AfS or a hedged item of a fair value hedge. As of 31 December 2014, and as of 31 December 2013, pbb Group did not have loans and advances which are classified as AfS or dFVTPL.

Additions to allowances for losses on loans and advances are disclosed as a separate item provisions for losses in profit or loss. Value changes from hedge relationships are recognised under net income from hedging relationships. All other income and expenses from loans and advances, including net gains and net losses, are recognised in net interest and similar income.

12 Allowances for Losses on Loans and Advances and Provisions for Contingent Liabilities and Other Commitments (Risk Provisions)

Allowances for losses on loans and advances are recognised if there is objective evidence that it will not be possible for the entire amount which is due in accordance with the original contractual conditions to be recovered. Allowances for loans and advances are measured mainly on the basis of expectations with regard to loan defaults, the structure and quality of the loan portfolio as well as macroeconomic parameters on an specific and portfolio basis.

Specific Allowances For all recognisable default risks, the extent of the allowance for losses on loans and advances is calculated as the difference between the carrying amount of the asset and the present value of the expected future cash flows. The latter is calculated on the basis of the initial effective interest rate. Market interest rate changes do not have any effect in this respect. The increase in the present value of an adjusted receivable (so-called unwinding) which occurs over a period of time is recognised as an interest income.

Portfolio-based Allowances Under IAS 39.64, loans which were not specifically impaired are pooled in risk-inherent portfolios. Portfolio-based allowances are recognised for these portfolios; these allowances are measured in respect of current events and information with regard to significant changes with detrimental consequences which have occurred in the technology, market, economic or legal environment, as well as historical default rates.

Allowances for losses on loans and advances are broken down into allowances relating to loans and advances and provisions for contingent liabilities and other commitments like irrevocable loan commitments. An allowance relating to loans and advances is disclosed as a negative item on the assets side of the statement of financial position, whereas a provision for contingent liabilities and other commitments is disclosed on the liabilities side of the statement of financial position. In profit or loss, all effects are disclosed as loan loss provisions apart from time-related increases in the present value of impaired receivables which are disclosed in net interest and similar income.

13 Financial Investments

LaR and AfS securities are recognised and disclosed as financial investments. AfS financial assets are measured at fair value. Changes in fair value of AfS financial assets are disclosed as a separate item of equity (AfS reserve) not affecting profit or loss until the asset is sold, withdrawn, disposed of, or if impairment is established for the financial asset in accordance with IAS 39.58 et seq. Therefore, the cumulative profit or loss previously recognised in equity is now affecting profit or loss. Specific allowances on AfS financial assets are directly deducted from the carrying amount of the assets. Portfolio-based allowances on AfS financial assets shall not be created for AfS financial assets. AfS financial assets which are hedged effectively against market price risks are part of the hedge accounting. LaR financial investments are measured at amortised cost. Specific allowances and portfolio-based allowances on LaR financial investments are directly deducted from the carrying amount of the assets. In the financial years 2014 and 2013, pbb Group did not have any HtM and dFVTPL financial assets.

14 Property and Equipment

Property and equipment are generally measured at cost of purchase or cost of production. The carrying amounts of tangible assets (except land) are depreciated on a straight-line basis in accordance with the expected useful lives of the assets. In addition, property and equipment are tested at least annually for impairment. If the value of property and equipment has impaired, an impairment loss is recognised in profit or loss. If the reasons for the impairment no longer exist, an amount not exceeding amortised cost or cost of production is reversed through profit or loss. In the case of fittings in rented buildings, the contract duration taking account of extension options is used as the basis of this contract duration if it is shorter than the useful life.

Useful lives in years	
Fixture in rental buildings	5–15
IT equipment (broad sense)	3–5
Other plant and operating equipment	3–25

Subsequent cost of purchase or costs of conversion are capitalised if an additional economic benefit flows to the Company. Maintenance expenses of property and equipment are recognised in profit or loss of the financial year in which they arose.

15 Intangible Assets

Purchased and internally generated software are the main items recognised as intangible assets. Goodwill, brand names and customer relations are not capitalised.

Software is an intangible asset with a finite useful life. Purchased software is measured at the amortised purchase cost. pbb Group capitalises internally generated software if it is highly probable that future economic benefits will flow to the Group and the expenses can be measured reliably. Expenses eligible for the capitalisation of internally generated software include external, directly attributable costs of materials and services as well as personnel expenses for employees directly associated with the creation of software used by the Company. Software is amortised on a straight-line basis over expected useful lives of three to five years. In addition, intangible assets with a finite useful life are tested for impairment annually or whenever there is an indication that the intangible asset may be impaired.

16 Other Assets

Other assets mainly comprise positive fair values from derivative financial instruments (hedging derivatives) and salvage acquisitions. Salvage acquisitions are measured as inventories at the lower of cost of purchase and net realisable value in accordance with IAS 2.

17 Liabilities

Liabilities other than hedged items of an effective fair value hedge and which are not classified as dFVTPL are measured at amortised cost. Premiums and discounts are recognised on a pro rata basis. Interest-free liabilities are recognised with their present value. pbb Group has not designated any liabilities into the category dFVTPL. Changes in value resulting from hedge relationships are disclosed under net income from hedging relationships. All income and expenses from liabilities including net gains and net losses resulting from redemption of liabilities are recognised in net interest and similar income.

18 Trading Liabilities

Trading liabilities include negative market values of trading derivatives and of stand-alone derivatives of the bank book. Trading liabilities are measured at fair value. Unrealised and realised profits and losses attributable to trading liabilities are recognised in net trading income in profit or loss.

19 Provisions

A provision is a liability of uncertain timing or amount. A provision shall be recognized when an entity has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. According to IAS 37.15 in rare cases it is not clear whether there is a present obligation. In these cases a present event is deemed to give rise to a present obligation if, taking into account of all available evidence, it is more likely that not that a present obligation exists at the end of the reporting period. In rare cases, for example in a law suit, it may be disputed either whether certain events have occurred or whether those events result in a present obligation. In such a case, pbb determines whether a present obligation exists at the end of the reporting period by taking account of all available evidence, including, for example, the opinion of experts.

Under IAS 37.36 et seq., the best estimate is used for measuring provisions for contingent liabilities and contingent losses attributable to pending transactions. Long-term provisions are generally discounted with an interest rate that reflects the current assessments of the time value of money and the risks specific to the liability.

Provisions for defined benefit plan provisions are calculated on the basis of actuarial reports in accordance with IAS 19. They are measured using the projected unit credit method. The amount of the provision equals the so-called net defined benefit liability which is the difference between the present value of the defined benefit obligation and the fair value of plan assets. pbb closed plan assets in the form of a qualifying insurance policy to hedge parts of the risk from the defined benefit obligations. The reinsurance is pledged to the plan beneficiaries.

The determination of the net defined benefit liability is based on demographic and financial actuarial assumptions. A demographic assumption is for example the mortality for which pbb uses guidance tables. In financial actuarial assumptions the discount rate has the greatest effect on the amount of defined benefit liability. The rate used for the measurement is determined by reference to market yields at the end of the reporting period on high-quality, fixed-interest corporate bonds.

Net interest on the defined benefit liability is determined by multiplying the defined benefit liability by the discount rate. The determination is done at the beginning of the financial year taking account of any changes in the net defined benefit liability during the period as a result of contribution and benefit payments. Net interest on defined benefit liability are shown together with all other effects on income statement from the defined benefit obligations and the plan assets in the position pension expenses and related employee benefit costs in general and administrative expenses.

Remeasurements of the net defined benefit liability result from actuarial gains and losses and the return on plan assets excluding amounts included in net interest on the net defined benefit liability. Remeasurements of the net defined benefit liability are shown in equity in the position profit/losses from pension obligations. Changes of remeasurements of the net defined benefit liability within a period are shown as a component of the consolidated statement of comprehensive income. Actuarial gains and losses result from increases or decreases in the present value of the defined benefit obligation due to changes of actuarial assumptions and experience adjustments. Changes of the discount rate usually have the biggest effect on the actuarial gains and losses.

20 Other Liabilities

Besides negative fair values from derivatives recognised in hedge accounting, accrued liabilities are one of the items recognised in other liabilities. Accruals arise from liabilities for products or services which have been received or supplied and have not yet been paid for, invoiced by the supplier or formally agreed. This also includes short-term liabilities to employees, for instance flexitime credits and vacation entitlements. The accrued liabilities are recognised at the amount likely to be utilised.

If the obligations listed at this note cannot be quantified more precisely on the balance sheet date and if the criteria specified in IAS 37 for recognising provisions are satisfied, these items have to be disclosed as provisions.

21 Subordinated Capital

In the event of insolvency or liquidation subordinated capital may only be repaid after all non-subordinated creditors have been satisfied. Subordinated capital of pbb Group encompasses subordinated liabilities, participating certificates outstanding and hybrid capital instruments. For some instruments of subordinated capital the holders participate in any net loss or consolidated loss. In addition, the interest entitlement can be ceased or reduced under specific conditions. For other instruments the interest ceases only in case of a net loss which can be caught up depending on the structuring.

Pursuant to IAS 32 the subordinated capital instruments issued by companies of pbb Group were classified as financial liabilities or equity instruments in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument. Financial liabilities are measured at amortised cost. The amortised costs are the amount at which the financial liability is measured at initial recognition minus principal payments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount and minus any expected reduction of interest and/or principal payments.

22 Silent Partnership Contribution

Finanzmarktstabilisierungsfonds-FMS provided pbb with a silent partnership contribution of €1.0 billion deducted by transaction costs in 2009. The silent partnership contribution has an indefinite life. The silent shareholder participates in a cumulative loss to the extent of its silent deposit expressed as a percentage of the total carrying amount of all liability capital shares of the Bank which participate in a cumulative loss. The extent to which the silent shareholder participates in the cumulative loss is limited to its silent deposit. The cumulative loss attributable to the year 2008 is not taken into consideration for calculating the participation in the loss. The silent partnership contribution is classified as an equity instrument on initial recognition in accordance with the substance of the contractual arrangement and the definitions in IAS 32. The silent partnership contribution is measured initially at cost, with such cost being equivalent to the fair value of the consideration received.

23 Share-based Compensation

As of 31 December 2014 and as of 31 December 2013 no company of pbb Group has provided a commitment for share-based compensation.

24 Currency Translation

Currency translation is carried out in accordance with the regulations of IAS 21. On the balance sheet date, monetary items in a foreign currency are translated into the functional currency. The reporting currency is the euro. Non-monetary items which were stated in a foreign currency using historical cost of purchase are measured using the exchange rate applicable at date of purchase.

Income and expenses attributable to currency translation of the affiliated companies' single financial statements into the functional currency are generally recognised in profit or loss in balance of other operating income/expenses.

In this consolidated financial statement, balance sheet items of the subsidiaries, if they do not prepare financial statements in euros, are translated using the closing rates at the balance sheet date. For translating the expenses and income of these subsidiaries, the average rates are used. Differences resulting from the translation of the financial statements of the subsidiaries do not affect profit or loss and are disclosed in the consolidated statement of changes in equity. The group of consolidated companies does not include any companies from hyperinflationary countries.

25 Income Taxes

Income taxes are accounted for and measured in accordance with IAS 12. Apart from the exceptions defined in the standard, deferred taxes are calculated for all temporary differences between the IFRS values and the tax values as well as for the differences resulting from uniform Group measurement principles and differences from the consolidation (balance sheet method). Deferred tax assets arising from non-utilised losses carried forward, interest assets carried forward and tax credits are recognised if required in accordance with IAS 12.34 et seq. and not opposed by a change in tax status in accordance with SIC-25.

Deferred taxes are calculated using the national tax rates which are expected at the time the differences are balanced, as the concept of deferred taxes is based on the presentation of future tax assets or tax liabilities (liability method). Changes in tax rates have been taken into account. The corporate income tax claim which was capitalised on 31 December 2006 has been paid out since 1 January 2008 over a period of ten years independently of a dividend payment. The interest-free claim is measured at the present value. An unchanged rate of 3.7% p.a. was used for discounting purposes.

26 Non-current Assets Held for Sale

In accordance with IFRS 5, a non-current asset or disposal group must be classified as held for sale if the related carrying amount is primarily realised by a disposal transaction and not by continued use. To reclassify an asset as held for sale, certain conditions must be met on a cumulative basis. Above all, there must be a specific intention to sell, the asset must be immediately available and the disposal must be highly probable.

In accordance with IFRS 5, non-current assets or disposal groups held for sale must be measured as at the balance sheet date at the lower of carrying amount and fair value less costs to sell. The assets must be disclosed separately in the statement of financial position. As at 31 December 2014 and at 31 December 2013 pbb Group did not own any assets held for sale.

27 Accounting Estimates and Assumptions

When the financial statements are being prepared, pbb Group makes future-related assumptions as well as estimations, resulting in a considerable risk of a major change to the disclosed assets and liabilities becoming necessary during the next financial year. The assumptions and parameters underlying the estimates to be made are based on the exercise of appropriate judgement.

Going Concern The consolidated financial statements of pbb are based on the assumption of going concern. The conditions of going concern are described in the report on expected developments.

Allowances The portfolio of pbb Group is reviewed for impairments at least annually. It is necessary to assess whether the estimated future cash flows of a loan portfolio are lower than the actually agreed cash flows. For this purpose, it is necessary to make judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or economic factors that correlate with defaults on assets in the portfolio. The methods and assumptions concerning the estimates of the extent and timing of the payment streams are reviewed regularly to keep any differences between estimated and actual defaults as low as possible. In addition, the determination of portfolio-based allowances is based on a loss identification period as well as the expected loss based on statistical data.

Fair Values of Original and Derivative Financial Instruments The fair value of financial instruments that are not listed on active markets is measured using valuation models. In the cases in which valuation models are used, a check is performed regularly to assess whether the valuation models provide a comparable standard for current market prices. The valuation models can only take account of quantifiable factors (e.g. cash flows and discount rates) that also require estimates. Changes in assumptions relating to these factors might have an impact on the fair values of the financial instruments.

Embedded Derivatives In accordance with IAS 39.11, an embedded derivative must be separated from the host contract and measured separately if, in addition to other criteria, the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. In order to evaluate the existence of an obligation to separate, the economic risks of the host contracts and embedded derivatives are assessed.

Hedge Accounting Relations between hedged items and hedging instruments can be presented in hedge accounting. A relation only qualifies for hedge accounting when certain conditions specified under IAS 39.88 are satisfied. One of these conditions is that the hedge has to be very efficient with regard to achieving compensation for the risks resulting from changes in the fair value or the cash flow in relation to the hedged risk.

The determination of the effectiveness of the risk hedge depends on risk measuring methods, the parameters which are used and assumptions relating to the probability of occurrence. These methods and parameters are continuously developed in line with the risk management objectives and strategies.

Intangible Assets and Property and Equipment pbb Group's accounting for intangible assets and property and equipment is subject to estimating uncertainty, particularly in the determination of the useful life of assets and the associated amount of depreciation/amortisation recognised per period.

Provisions Estimates are used in the measurement of provisions at pbb Group. Estimating uncertainty arises in particular during assessment of the amount of the future cash outflows, the time horizon and the discount rate.

Income Taxes pbb Group is subject to a wide range of national tax regulations with regard to the calculation of income taxes. In order to measure the tax expenses, it is necessary to make estimates that are calculated with the knowledge existing as of the balance sheet date and closely related to the tax return prepared in the following financial year. In some countries, the current tax charges attributable to the current financial year can only be definitely finalised after the corresponding tax audit has been completed. The variances with regard to the estimated tax burden may have a positive or negative influence on the tax burden in future financial years.

With regard to the capitalisation of losses carried forward and other tax credits, the extent as well as the actual availability of such tax benefits are subject to estimation. Major losses carried forward are subject to national German tax law, and their availability also depends inter alia on the restrictions set out in Sections 10 d EStG, 8 c KStG as well as Section 10 a GewStG. Restrictions based on a change in the tax status (SIC-25) as a result of the planned privatisation did not occur as of the balance sheet date. Deferred tax assets arising from losses carried forward are therefore recognised to the extent as it is likely that future taxable income will be available to offset the non-utilised tax losses carried forward.

Consolidation Companies and structured entities must be consolidated if pbb has direct or indirect control over them. Control is deemed to exist if pbb has decision-making powers to manage relevant activities, has a right to significant returns from the subsidiary and can use its decision-making powers to influence the amount of the significant variable returns. The level of control is assessed on the basis of contractual and economic relationships to the company or the structured entity. In assessing whether pbb exerts control or substantial influence over the company, estimates or discretionary leeways are required.

Segment Reporting

28 Notes to Segment Reporting by Operating Segment

With effect from 1 January 2014, pbb Group reorganised the reporting structure of its internal reporting system in terms of two aspects:

- The segment report to be prepared and set up for internal control in compliance with the regulations set out in IFRS 8 now includes the three business segments of Real Estate Finance (REF), Public Investment Finance (PIF) and Value Portfolio (VP). The key change compared to the previous year is the dissolution of the former Public Sector Finance (PSF) segment and the creation of the new Public Investment Finance (PIF) segment. The non-strategic portfolio of existing business in non-earmarked financing to the public sector (budget financing) in the former PSF segment is now in principle 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 previous year's figures were adjusted as required by IAS 8.29.
- In order to increase transparency and significance, the accrued fees for net interest income were segmented for the first time since the beginning of the financial year of 2014 according to the principle of causation. The previous year's figures thus had to also be adjusted, which favoured the REF segment but was to the detriment of the PIF and VP segments. The previous year's figures were adjusted as required by IAS 8.29.

Real Estate Finance (REF) The REF operating segment comprises financing for professional real estate investors with a medium- to long-term orientation. These include professional national and international real estate companies, institutional investors, property funds as well as, in Germany, customers with a regional focus. Adequate batch sizes and loan-to-values commensurate for the level of risk involved are essential. Strategic partnerships are agreed with other institutions with the aim of permitting higher loan-to-values and larger volumes for customers by means of syndications and syndicated financing arrangements.

Public Investment Finance (PIF) The PIF operating segment comprises financing eligible for covered bonds for the provision of public infrastructure. The focus here is on public institutions, municipal and social housing construction, buildings for the utilities and waste disposal market, transport infrastructure as well as healthcare and nursing institutions. In addition, pbb Group is active in publicly guaranteed export financing. Financing is given to public sector debtors, companies with a public or private legal structure as well as special-purpose vehicles with a public service guarantee.

Value Portfolio (VP) The VP operating segment includes all 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 DEPFA. The IT services provided to DEPFA came to an end as of 31 December 2014.

The service provided for FMS Wertmanagement was discontinued to a large extent on 30 September 2013, as mandated by 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 shown in the VP operating segment.

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

29 Income Statement by Operating Segment

Income/expenses in € million		REF	PIF	VP	Consolidation & Adjustments	pbb Group
Operating income	2014	292	39	−21	16	326
	2013[1]	355	18	91	18	482
Net interest and similar income	2014	304	45	56	16	421
	2013[1]	261	29	12	17	319
Net fee and commission income	2014	2	–	−1	–	1
	2013[1]	10	1	−1	−1	9
Net trading income	2014	−13	−5	−12	–	−30
	2013[1]	−21	−8	−22	–	−51
Net income from financial investments	2014	14	4	−95	–	−77
	2013[1]	96	−2	2	–	96
Net income from hedging relationships	2014	−2	–	−1	–	−3
	2013[1]	4	–	5	–	9
Net other operating income/expenses	2014	−13	−5	32	–	14
	2013[1]	5	−2	95	2	100
Loan loss provisions	2014	−14	–	−7	–	−21
	2013[1]	−1	–	−7	–	−8
General and administrative expenses	2014	−160	−33	−58	–	−251
	2013[1]	−147	−31	−134	–	−312
Net miscellaneous income/expenses	2014	–	–	–	–	–
	2013[1]	2	–	1	–	3
Profit or loss before tax	2014	**118**	**6**	**−86**	**16**	**54**
	2013[1]	**209**	**−13**	**−49**	**18**	**165**

Cost-income ratio[2] in %		REF	PIF	VP	pbb Group
Cost-income ratio (based on operating income)	2014	54.8	84.6	>100.0	77.0
	2013[1]	41.4	>100.0	>100.0	64.7

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

30 Balance-sheet-related Measures by Operating Segment

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

Balance-sheet-related measures by operating segment in € billion		REF	PIF	VP	Consolidation & Adjustments	**pbb Group**
Equity[1]	31.12.2014	0.8	0.5	1.4	0.7	3.4
	31.12.2013[2]	0.8	0.4	1.2	1.0	3.4
Risk-weighted assets[3]	31.12.2014[4]	7.2	2.4	4.4	1.5	15.5
	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	31.12.2014	21.8	8.0	21.3	–	51.1
	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] Pro forma Basel III figure; consolidated in accordance with CRR
[6] Consolidated in accordance with section 10 a of the German Banking Act (KWG)

31 Breakdown of Operating Income

Operating Income by Products

Operating income by products in € million		Real estate financing	Public investment financing	Other products	**pbb Group**
Operating income	2014	292	39	−5	**326**
	2013[1]	355	18	109	**482**

[1] Adjusted in accordance with IFRS 8.29

Operating Revenues by Regions pbb Group differentiates between the regions Germany, Rest of Europe and America/Asia. Allocation of values to regions is based on the location of the registered offices of the Group companies or their branches.

Operating revenues by regions in € million		Germany	Rest of Europe	America/Asia	**pbb Group**
Operating revenues	2014	286	35	5	**326**
	2013	326	53	103	**482**

Operating Revenues by Customers There were no significant customers within the meaning of IFRS 8.34 in the financial year of 2014. In the previous year a balance of net other operating income/expenses of €60 million recognised in the Value Portfolio segment resulted from services for the portfolio of FMS Wertmanagement. Because this item accounted for more than 10% of all operating income of pbb Group, FMS Wertmanagement was a major client within the meaning of IFRS 8.34. The service provided for FMS Wertmanagement was largely discontinued on 30 September 2013, as mandated by the European Commission.

Notes to the Consolidated Income Statement

32 Net Interest and Similar Income

Net interest and similar income by categories of income/expenses in € million	2014	2013[1]
Interest and similar income	**2,333**	**2,487**
Lending and money-market business	1,336	1,341
Fixed-income securities and long-term equity	637	785
Current gains/losses from swap transactions (net interest income and expense)	360	361
Interest and similar expenses	**–1,912**	**–2,168**
Liabilities to other banks and customers	–409	–487
Securitised liabilities	–1,403	–1,570
Subordinated capital	–100	–111
Total	**421**	**319**

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

Total interest income for financial assets that are measured at amortised cost, amounted to € 2.0 billion (2013: € 2.1 billion). Total interest expenses for financial liabilities that are not measured at fair value through profit or loss amounted to €–1.9 billion (2013: €–2.2 billion).

33 Net Fee and Commission Income

Net fee and commission income in € million	2014	2013
Securities and custodial services	–2	–1
Lending operations and other service	3	10
Total	**1**	**9**

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

34 Net Trading Income

Net trading income in € million	2014	2013
From interest rate instruments and related derivatives	–31	–51
From credit risk instruments and related derivatives	1	–
Total	**–30**	**–51**

35 Net Income From Financial Investments

Net income from financial investments in € million	2014	2013
Income from financial investments	35	101
Expenses from financial investments	−112	−5
Total	**−77**	**96**

Net income from financial investments consists of income from the sale of securities of the measurement categories AfS and LaR together with changes in the value of such instruments that are to be recognised in profit or loss. HtM investments were not held in 2014 and 2013. Based on measurement categories, net income from financial investments is broken down as follows:

Net income from financial investments of financial instruments by IAS 39 categories in € million	2014	2013
AfS financial investments	7	4
LaR financial investments	−105	−2
No IAS 39 category attributable	21	94
Total	**−77**	**96**

Allowances on the securities issued by Heta reduced the net income from financial investments in the amount of €−109 million. In addition €21 million resulted from the sale of DEPFA Finance N.V. on 18 July 2014. With the de-consolidation of the subsidiary pbb's liabilities to DEPFA Finance N.V. transformed into Group external liabilities. These liabilities no longer have to be eliminated. The first time valuation of liabilities resulted in earnings of €21 million. In the prior year period an amount of €94 million could not be attributed to any measurement category in accordance with IAS 39. This related mainly to the income from the disposal of the subsidiary Little Britain Holdings (Jersey) Ltd.

36 Net Income from Hedging Relationships

Net income from hedging relationships in € million	2014	2013
Result from fair value hedge accounting	−4	8
Result from hedged items	−403	−344
Result from hedging instruments	399	352
Result from dFVTPL investments and related derivatives	–	–
Result from dFVTPL investments	–	−1
Result from derivatives related to dFVTPL investments	–	1
Ineffectiveness from cash flow hedge accounting recognised in net income	1	1
Total	**−3**	**9**

37 Net Other Operating Income/Expenses

Net other operating income/expenses in € million	2014	2013
Other operating income	87	245
Other operating expenses	–73	–145
net other operating income/expenses	**14**	**100**

The decrease in the balance of net other operating income/expenses is, among others, due to the far-reaching termination of the services for the FMS Wertmanagement portfolio in the third quarter of 2013. The net income arising from this amounted to only €1 million (2013: €60 million). IT services provided to DEPFA resulted in net income of €30 million (2013: €36 million). These services were largely discontinued on 31 December 2014. Further income was attributable to rental income generated from taken over real estate of €10 million (2013: €11 million), reversals of provisions in connection with follow-up liabilities for services to third parties (€4 million, 2013: €0 million) and income from currency translations (€4 million, 2013: less than €1 million). Write-downs of €–14 million (2013: €0 million) were undertaken on real estate taken over. An expense of €–5 million (2013: €0 million) resulted from the scrapping of IT assets.

38 Loan Loss Provisions

Loan loss provisions in € million	2014	2013
Allowances for losses on loans and advances	–27	–17
Additions	–48	–66
Reversals	21	49
Allowances for contingent liabilities and other commitments	–	1
Additions	–	–
Reversals	–	1
Recoveries from written-off loans and advances	6	8
Total	**–21**	**–8**

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

39 General and Administrative Expenses

General and administrative expenses in € million	2014	2013
Personnel expenses	−110	−121
Wages and salaries	−85	−94
Social security costs	−17	−18
Pension expenses and related employee benefit costs	−8	−9
Non-personnel expenses	−141	−191
Other general and administrative expenses	−130	−177
Consulting expenses	−18	−40
IT expenses	−77	−91
Office and operating expenses	−13	−14
Other non-personnel expenses	−22	−32
Depreciation, amortisation and impairment	−11	−14
of software and other intangible assets excluding goodwill	−11	−13
of property and equipment	–	−1
Total	**−251**	**−312**

Cost-income ratio in %	2014	2013
Cost-income ratio	77.0	64.7

40 Net Miscellaneous Income/Expenses

Net miscellaneous income/expenses in € million	2014	2013
Miscellaneous income	5	11
thereof: Reversals of restructuring provisions	4	11
Miscellaneous expenses	−5	−8
thereof: Additions to restructuring provisions	−4	−4
Other taxes	–	−4
Net miscellaneous income/expenses	**–**	**3**

41 Income Taxes

Breakdown in € million	2014	2013
Current taxes	−44	2
Deferred taxes	−6	−7
thereof: Deferred taxes on capitalised losses carried forward	−34	80
Total	**−50**	**−5**

Current taxes include a tax expense for prior years of €−18 million (2013: tax income of €6 million). In the prior year current tax income amounted to €2 million mainly due to the tax-free disposal of a participation as well as the realisation of tax losses due to the domestic disposal of derivatives.

The following overview shows the development of the deferred taxes recognised in the financial statements.

Development of deferred taxes in € million	2014	2013
Deferred taxes recognised in the statement of financial position	−5	−5
Difference to prior year	–	−22
thereof: Recognised in profit or loss	−6	−7
Recognised in profits/losses from pension commitments	15	−2
Recognised in AfS reserve	−46	−56
Recognised in cash flow hedge reserve	37	43

Reconciliation in € million	2014	2013[1]
Profit or loss before tax	54	165
Applicable (legal) tax rate in %	27.67	27.78
Expected (computed) tax expense	−15	−46
Tax effects		
arising from tax rate differences	−1	3
arising from tax-free income	–	21
arising from deductible and non-deductible items	−15	−26
arising from valuation adjustments and non-application of deferred taxes	−1	37
arising from prior years	−18	6
Reported income taxes	**−50**	**−5**
Group tax ratio in %	**92.59**	**3.03**

[1] Adjusted, details are disclosed in Note «Consistency»

The tax rate applicable for the financial year, including solidarity surcharge, is 27.67% (prior year: 27.78%) and is comprised of the 15.0% German corporate tax rate currently valid, the payable solidarity surcharge of 5.5% as well as the average trade tax rate of 11.843% (prior year: 11.954%).

The effect from tax rate differences is primarily a result of the different local tax rates for the foreign permanent establishments.

The effect attributable to tax deductible and non-deductible items primarily relate to expenses which are not deductible for tax purpose. Since these effects result in permanent differences they are excluded from the calculation of deferred taxes, yet reduce or increase the tax-base.

The effects attributable to deductible and non-deductible items relate primarily to non-deductible expenses, which do not have to be taken into account as deferred taxes as a result of permanent differences, but which have reduced or increased the basis of taxation.

The effects arising from valuation adjustments and non-application of deferred taxes, on the one hand, comprise effects from the write down of deferred tax assets on losses carried forward and, on the other hand, opposing effects from the use of tax losses carried forward previously not accounted for.

The effects from previous years include current taxes for previous years which have been incurred as a result of tax audits or a reassessment of the tax liability.

The Group tax ratio is the quotient of the stated income taxes (current and deferred taxes) and profit or loss before tax.

The deferred tax liabilities or deferred tax assets relate to the following items:

Deferred tax liabilities/assets in € million	**2014**	**2013[1]**
Loans and advances to other banks/customers (including loan loss allowances)	52	22
Financial investments	150	11
Trading assets	130	384
Other assets/liabilities	297	693
Others	1	13
Deferred tax liabilities	**630**	**1.123**
Loans and advances to other banks/customers (including loan loss allowances)	7	9
Financial investments	135	88
Provisions	40	38
Other assets/liabilities	222	483
Trading liabilities	42	284
Securitised liabilities	2	5
Losses carried forward	177	211
Deferred tax assets	**625**	**1.118**

[1] Adjusted due to IAS 8.42. Details are disclosed in Note «Consistency».

For domestic companies, the deferred taxes are calculated using the future uniform rate of corporation tax of 15.0% plus the corresponding 5.5% solidarity surcharge and the trade tax depending on the locally applicable assessment rate (the current basic rate is 3.5%). For pbb, the tax rate for the calculation of deferred taxes is 27.67% (2013: 27.78%).

On the reporting date, there are unused tax losses carried forward totalling €3,670 million (2013: €3,781 million) at corporate tax level and €3,800 million (2013: €3,844 million) at trade tax level. Deferred tax assets have been recognised on a portion of €607 million (2013: €738 million) at corporate tax level and €681 million (2013: €810 million) at trade tax level, because the criteria for recognition in accordance with IAS 12.34 et seq. were satisfied. The losses carried forward can be utilised for an unlimited period of time. No allowances were undertaken on deferred taxes from temporary differences in the financial year (2013: €1 million).

From the origination and reversal of temporary differences, deferred tax income arose of €28 million (2013: tax expense of €−86 million).

Tax rate changes did not result in major deferred tax expenses or income in the current year nor in the previous year.

The use of tax losses previously not recognised resulted in a reduction in the current income tax expense of €3 million (2013: €0 million). A deferred tax expense of €−3 million (2013: income of €39 million) resulted from the devaluation of previously recognised losses carried forward.

On differences associated with investments in subsidiaries, deferred tax liabilities in the amount of €160 million (2013: €140 million) have not been recognised because the Group has the ability and the intention to invest profits permanently in these subsidiaries.

42 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	**2014**	**2013**
Loans and receivables	−75	16
Available for sale	7	4
Held for trading	−30	−51
Designated at fair value through profit or loss	–	−1
Financial liabilities at amortised cost	−4	−14

Notes to the Consolidated Statement of Financial Position (Assets)

43 Cash Reserve

Cash reserve in € million	31.12.2014	31.12.2013
Balance with central banks	57	3,532
Total	**57**	**3,532**

Cash in hand as of 31 December 2014 amounts to less than € 1 million as was the case in the previous year.

44 Trading Assets

Trading assets in € million	31.12.2014	31.12.2013
Positive fair values of derivative financial instruments	2,016	1,642
Total	**2,016**	**1,642**

45 Loans and Advances to Other Banks

Loans and advances to other banks by type of business in € million	31.12.2014	31.12.2013[1]
Loans and advances	3,153	4,631
Public sector loans	1,136	1,978
Real estate loans	–	51
Other loans and advances	2,017	2,602
Investments	3,647	2,054
Total	**6,800**	**6,685**

Loans and advances to other banks by maturities in € million	31.12.2014	31.12.2013[1]
Repayable on demand	2,011	1,614
With agreed maturities	4,789	5,071
up to 3 months	3,689	2,143
3 months to 1 year	132	381
1 year to 5 years	404	646
5 years and over	564	1,901
Total	**6,800**	**6,685**

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

46 Loans and Advances to Customers

Loans and advances to customers by type of business in € million	31.12.2014	31.12.2013
Loans and advances	38,964	36,042
Public sector loans	17,125	15,464
Real estate loans	21,822	20,557
Other loans and advances	17	21
Investments	–	200
Total	**38,964**	**36,242**

Loans and advances to customers by maturities in € million	31.12.2014	31.12.2013
Unspecified terms	591	–
With agreed maturities	38,373	36,242
up to 3 months	1,102	2,087
3 months to 1 year	2,349	2,937
1 year to 5 years	16,933	15,122
5 years and over	17,989	16,096
Total	**38,964**	**36,242**

47 Allowances for Losses on Loans and Advances

Breakdown in € million	31.12.2014	31.12.2013
Specific allowances for losses on loans and advances to customers	–93	–97
Portfolio-based allowances	–45	–51
Total	**–138**	**–148**

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
Reversals	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 allowances	185	–	185
Balance at 31.12.2013	**–97**	**–51**	**–148**
Balance at 1.1.2014	**–97**	**–51**	**–148**
Changes affecting income	–24	5	–19
Gross additions	–43	–5	–48
Reversals	11	10	21
Increase of the present value due to passage of time (unwinding)	8	–	8
Changes not affecting income	28	1	29
Use of existing allowances	32	1	33
Effects of foreign currency translations and other changes	–4	–	–4
Balance at 31.12.2014	**–93**	**–45**	**–138**

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

48 Financial Investments

Breakdown in € million	**31.12.2014**	**31.12.2013[1]**
AfS financial investments	4,906	4,284
Debt securities and other fixed-income securities	4,903	4,282
Equity securities and other variable-yield securities	3	2
LaR financial investments	15,569	16,441
Debt securities and other fixed-income securities	15,569	16,441
Total	**20,475**	**20,725**

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

The carrying amounts of the LaR financial investments were reduced by portfolio-based allowances amounting to €–9 million (2013: €–14 million).

Financial investments by maturities in € million	31.12.2014	31.12.2013[1]
Unspecified terms	3	2
With agreed maturities	20,472	20,723
Up to 3 months	867	767
From 3 months to 1 year	3,067	1,567
From 1 year to 5 years	5,676	7,671
From 5 years and over	10,862	10,718
Total	**20,475**	**20,725**

[1] Adjustment due to retrospective IFRS 10 first time adoption. Details are disclosed in 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%.

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

Reclassifications in 2008 **Effects in 2014**	into: Financial investments (LaR)			
	31.12.2014		Effect in reporting period if no assets had been reclassified (1.1.–31.12.2014)	
	Carrying amount in € billion	Fair value in € billion	Income statement in € million	AfS reserve (after taxes) in € million
out of: Financial investments (AfS)	8.9	9.3	–	303

Reclassifications in 2008 **Effects in 2013**	into: Financial investments (LaR)			
	31.12.2013		Effect in reporting period if no assets had been reclassified (1.1.–31.12.2013)	
	Carrying amount in € billion	Fair value in € billion	Income statement in € million	AfS reserve (after taxes) in € million
out of: Financial investments (AfS)	9.5	9.4	–	226

49 Property and Equipment

Breakdown in € million	31.12.2014	31.12.2013
Operating equipment	8	1
Total	**8**	**1**

Development of property and equipment in € million	2014	2013
Operating equipment		
Acquisition/production costs		
Balance at 1.1.	**15**	**18**
Additions	7	–
Disposals	–1	–3
Balance at 31.12.	**21**	**15**
Depreciation and write-ups		
Balance at 1.1.	**–14**	**–16**
Depreciation	–	–1
Disposals	1	3
Balance at 31.12.	**–13**	**–14**
Carrying amounts		
Balance at 31.12.	**8**	**1**

50 Intangible Assets

Breakdown in € million	31.12.2014	31.12.2013
Purchased software	1	2
Internally developed software	18	27
Other intangible assets	4	2
Total	**23**	**31**

Development of intangible assets in € million	Software acquired	Internally developed software	Other intangible assets	2014 Total	2013 Total
Acquisition/production costs					
Balance at 1.1.	**77**	**51**	**2**	**130**	**128**
Additions	–	4	2	6	7
Disposals	−1	−13	–	−14	−5
Balance at 31.12.	**76**	**42**	**4**	**122**	**130**
Amortisation and write-ups					
Balance at 1.1.	**−75**	**−24**	**–**	**−99**	**−89**
Depreciation	−2	−9	–	−11	−13
Disposals	2	9	–	11	3
Balance at 31.12.	**−75**	**−24**	**–**	**−99**	**−99**
Carrying amounts					
Balance at 31.12.	**1**	**18**	**4**	**23**	**31**

51 Other Assets

Other assets in € million	31.12.2014	31.12.2013
Positive fair values from derivative financial instruments	6,449	4,601
Hedging derivatives	6,449	4,601
Fair value hedge	5,975	4,115
Cash flow hedge	474	486
Salvage acquisitions	120	97
Other assets	81	59
Reimbursements under insurance policies	9	12
Total	**6,659**	**4,769**

The portfolio of salvage acquisitions increased due to objects taken over and consolidated in Hungary and the Netherlands.

52 Income Tax Assets

Income tax assets in € million	31.12.2014	31.12.2013[1]
Current tax assets	29	44
Deferred tax assets	625	1,118
Total	**654**	**1,162**

[1] Adjusted due to IAS 8.42. Details are disclosed in Note «Consistency».

The income tax assets contain both reimbursement claims from current taxes as well as a considerable element of deferred tax assets. The latter are attributable to capitalised temporary tax claims in connection with tax losses carried forward in the amount of €177 million (2013: € 211 million) as well as other temporary tax claims. Pursuant to IAS 12.61, a significant amount of tax assets as a result of temporary differences were credited to the cash flow hedge reserve in the amount of € 190 million (2013: € 332 million), to the AfS reserve in the amount of € 38 million (2013: € 84 million) as well as to the actuarial gains/losses benefit plan in the amount of € 30 million (2013: € 15 million) as the underlying assets were also posted to these items. The significant reduction in deferred tax assets in comparison to the previous year was mainly a result of lower recognition differences of derivatives between IFRS and HGB (German Commercial Code).

The current tax assets also include the capitalised claim for a credit following the reduction in corporate income tax in the amount of € 26 million (2013: € 34 million).

53 Subordinated Assets

The balance sheet items do not contain subordinated assets.

54 Repurchase Agreements

As a pledgor of genuine repurchase agreements, pbb Group has pledged assets with a book value of € 0.7 billion (31 December 2013: € 1.3 billion). The securities are still recognised as assets. The considerations which have been received amount to € 0.6 billion (31 December 2013: € 1.3 billion) and are recognised solely as liabilities to other banks. Assets in repurchase agreements are the only transferable assets the acquirer can sell or repledge in the absence of default according to IAS 39.37 (a).

55 Securitisation

As of 31 December 2014 pbb Group had the synthetic securitisation Estate UK-3 with a transaction period of 15 years (maturity 2022) and a total volume of lending of € 323 million (31 December 2013: € 384 million) in the portfolio. The collateral-taker of the transaction with commercial mortgage loans is pbb. The credit linked notes were completely sold to the investors. Therefore, no risks remained at pbb Group. Overall a reduction of expected loss according to Basel III of € 147 million (31 December 2013: € 138 million according to Basel II) was achieved.

Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)

56 Liabilities to Other Banks

Liabilities to other banks by maturities in € million	31.12.2014	31.12.2013
Repayable on demand	1,693	1,269
With agreed maturities	1,494	2,253
Up to 3 months	529	1,015
3 months to 1 year	116	285
1 year to 5 years	305	478
5 years and over	544	475
Total	**3,187**	**3,522**

57 Liabilities to Customers

Liabilities to customers by maturities in € million	31.12.2014	31.12.2013
Repayable on demand	1,154	676
With agreed maturities	9,439	10,172
Up to 3 months	1,274	894
3 months to 1 year	1,328	1,821
1 year to 5 years	5,305	5,360
5 years and over	1,532	2,097
Total	**10,593**	**10,848**

58 Securitised Liabilities

Securitised liabilities by type of business in € million	31.12.2014	31.12.2013[1]
Debt securities issued	25,330	25,634
Mortgage bonds	10,135	8,719
Public sector bonds	10,026	12,103
Other debt securities	5,169	4,699
Money market securities	–	113
Registered notes issued	22,497	21,224
Mortgage bonds	5,912	5,907
Public sector bonds	14,715	13,719
Other debt securities	1,870	1,598
Total	**47,827**	**46,858**

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

Securitised liabilities by maturities in € million	31.12.2014	31.12.2013[1]
With agreed maturities		
Up to 3 months	2,258	2,883
3 months to 1 year	5,166	3,239
1 year to 5 years	20,137	19,886
5 years and over	20,266	20,850
Total	**47,827**	**46,858**

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

59 Trading Liabilities

Trading liabilities in € million	31.12.2014	31.12.2013
Negative fair values from derivative financial instruments	1,960	1,453
Total	**1,960**	**1,453**

60 Provisions

Breakdown in € million	31.12.2014	31.12.2013
Provisions for pensions and similar obligations	115	65
Restructuring provisions	42	48
Provisions for contingent liabilities and other commitments	11	13
Other provisions	104	83
thereof: Long-term liabilities to employees	2	2
Total	**272**	**209**

There are defined contribution and defined benefit plans for the employees of pbb Group. In the defined contribution plans pbb makes payments for commitments by industry-wide organisations, for instance the BVV in Germany. In almost all non-German entities, a defined percentage of fixed salary is paid into externally managed pension funds for employees as part of defined contribution pension schemes. Expenses in respect of defined contribution plans amounted to €–4 million (2013: €–5 million). The expense is expected to be similar in 2015. Expenses in respect of defined contribution plans for persons with a key function in the Group amounted to €–1 million (2013: €–1 million). The employer's contribution to the statutory pension insurance amounted to €–6 million in 2014 (2013: €–7 million).

There are defined benefit pension commitments for many employees in Germany. There are no defined benefit pension commitments in the non-German entities. For the defined benefit plans the employees receive a direct commitment from their respective company. The pension plan especially contains retirement pensions, disability pensions and surviving dependant's pensions. The receipt of retirement pensions or disability pensions starts after a vesting period is fulfilled, at the earliest after reaching a minimum age in the case of part or full incapacity for work, at the latest when going into retirement, usually after completion of the 65th year of life. In the case of active employees, there are predominantly modern modular pension plans. For the other eligible persons there are also final salary-based defined benefit plans. The annual pension module depends, among other things, on the gross annual salary paid and the member's length of service. The surviving dependant's pension usually amounts to 60% of the pension of the spouse respectively the entitlement on that. The pension plan is administered by pbb itself with the aid of an external service provider for the administration.

Pension provisions are recognised for obligations arising from direct commitments. The defined benefit plans have been principally closed for new entrants since 1 April 2004. There have been no plan amendments, curtailments and settlements in the years 2014 and 2013.

The risk of insolvency is covered within the framework of legal requirements by Pensionssicherungsverein a.G. in relation to the total amount of pension obligations.

The following actuarial assumptions were used to measure the defined benefit pension obligations:

Actuarial assumptions in %	**31.12.2014/ 1.1.2015**	**31.12.2013/ 1.1.2014**
Discount rate	2.00	3.50
Rate of increase in pension obligations	1.75	2.00
Rate of increase in future compensation and vested rights	2.50	2.50

The rate of increase in career for members of the Management Board amounts 0.0% (31 December 2013: 0.0%), for directors and non-pay-scale staff 1.5% (31 December 2013: 1.5%) and for pay-scale staff 0.5% (31 December 2013: 0.5%). The guidance tables 2005G from Klaus Heubeck were used as the biometric basis.

The defined benefit pension commitments of pbb do not contain any unusual or entity-specific risks. pbb is faced by the common demographic risks, for example from longevity or invalidity of the entitled employees, and common financial risks like for example a change of the discount rate. pbb took out reinsurance to protect itself against parts of these risks. The reinsurance is a qualifying insurance policy in accordance with IAS 19 and thus is a plan asset. The fair value of plan assets is a component of the net liability from defined benefit plans which is deducted from the present value of the defined benefit obligation. The reinsurance does not consist of any unusual or plan-specific risks.

Principally, the pension payments of the reinsured pension obligations are funded by the income from the plan assets. If the income does not cover the pension payments pbb has to pay the pensions out of its own funds. For the non-reinsured pension obligations the payments are also made out of own funds.

Balance sheet items (net defined benefit liability) in € million	**2014**	**2013**
Present value of defined benefit obligation	297	247
Fair value of plan assets	–182	–182
Total	**115**	**65**

Development of net defined benefit liability in € million	**2014**	**2013**
Balance at 1.1.	**65**	**71**
Transfer of staff	–	–
Pension expenses	3	4
Remeasurements	53	–7
Reclassifications in reimbursements	–	2
Direct payments to beneficiaries	–6	–5
Balance at 31.12.	**115**	**65**

Development of defined benefit obligation in € million	**2014**	**2013**
Balance at 1.1.	**247**	**261**
Transfer of staff	–	–4
Current service costs	1	2
Interest expenses	8	8
Remeasurements	55	–7
Actuarial gains/losses from demographic assumptions	–	–
Actuarial gains/losses from financial assumptions	51	–8
Actuarial gains/losses from experience assumptions	4	1
Settlements	–	–
Payments to beneficiaries	–14	–13
Balance at 31.12.	**297**	**247**

Plan assets consist exclusively of reinsurance pledged to plan beneficiaries. The plan assets accordingly do not contain any own financial instruments or any own used property and equipment. Additional contributions of € 10 million to the plan assets are expected in 2015 for retrospective insurance contributions. pbb does not use special asset-liability matching strategies to manage the pledged reinsurance.

Development of fair value of plan assets in € million	2014	2013
Balance at 1.1.	**182**	**190**
Transfer to staff	–	−4
Interest income	6	6
Remeasurements	2	–
Payments to beneficiaries	−8	−8
Reclassifications in/from reimbursements	–	−2
Balance at 31.12.	**182**	**182**

Development of pension expenses in € million	2014	2013
Service costs	**1**	**2**
Current service costs	1	2
Past service costs	–	–
Curtailments	–	–
Gains/losses on settlements	–	–
Net interest expenses	2	2
Interest expenses on defined benefit obligation	8	8
Interest income on plan assets	−6	−6
Total	**3**	**4**

Compared to 2014 a slight increase in the pension expense is expected for 2015 due to individual new commitments. Pension expenses are part of general and administrative expenses.

Remeasurements of the net defined benefit liability result from actuarial gains and losses and the return on plan assets excluding amounts included in net interest on the net defined benefit liability.

Remeasurement recognised in other comprehensive income (equity) in € million	2014	2013
Actuarial gains/losses from demographic assumptions	–	–
Actuarial gains/losses from financial assumptions	−51	8
Actuarial gains/losses from experience assumptions	−4	−1
Remeasurements from plan assets	2	–
Total	**−53**	**7**

Delevopment of reimbursement in € million	2014	2013
Balance at 1.1.	**9**	**7**
Additions	–	2
Balance at 31.12.	**9**	**9**

As at 31 December 2014, the quantitative sensitivity analysis – which uses the same measurement methods as the obligation recognised in the statement of financial position – for the material actuarial assumptions is as follows:

Actuarial assumptions in € million	Change of sensitivity level (+ increase / – decrease)		Gross obligation	
Discount rate	in percentage points	+0.5	in € million	276
	in percentage points	–0.5	in € million	321
Rate of increase in pension obligations	in percentage points	+0.5	in € million	315
	in percentage points	–0.5	in € million	281
Rate of increase in future compensation and vested rights	in percentage points	+0.5	in € million	298
	in percentage points	–0.5	in € million	297

The assumption of mortality only has an immaterial effect because the risk of longevity is mainly covered by the plan assets.

The weighted average duration of the defined benefit obligations amounted to 15 years at 31 December 2014 (31 December 2013: 14 years).

Development of provisions (without provisions for pension and similar obligations) in € million	Restructuring provisions	Provisions for contingent liabilities and other commitments	Other provisions
Balance at 1.1.2013	**71**	**17**	**76**
Additions	4	–	74
Reversals	–11	–4	–18
Increase of the present value due to passage of time (unwinding)	1	–	–
Amounts used	–17	–	–49
Reclassifications	–	–	–
Balance at 31.12.2013	**48**	**13**	**83**
Balance at 1.1.2014	**48**	**13**	**83**
Additions	4	–	81
Reversals	–4	–	–11
Increase of the present value due to passage of time (unwinding)	1	–	–
Amounts used	–7	–	–44
Reclassifications	–	–2	–5
Balance at 31.12.2014	**42**	**11**	**104**

On 19 December 2008 the Management Board and Supervisory Board of pbb Group decided upon the strategic realignment and restructuring of the Group. A restructuring provision amounting to € 120 million was created for obligations relating to the strategic realignment and restructuring in the fourth quarter 2008. In the financial year 2014 €–7 million (2013: €–17 million) were used of this provision. The restructuring provision will probably be completely utilised by the year 2024.

The provisions for contingent liabilities and other commitments mainly comprise provisions for guarantee risks, letters of credit, irrevocable loan commitments and litigation risks in the lending business.

The other provisions comprise provisions for legal risks of € 77 million (31 December 2013: € 29 million). They also include among others provisions for other taxes and long-term liabilities with regard to employees.

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. The court dismissed the action in full on 7 October 2014. The plaintiff appealed against this dismissal.

In appraisal proceedings 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 potential subsequent payment claims amount up to € 9.4 million plus interest as from 2001.

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 pbb's net accumulated losses since this time. The redemption amounts have reduced and interest paymant has been suspended. Individual investors therefore initiated legal proceedings, contesting in particular various individual clauses relating to loss participation and replenishment following loss participation. The key questions in this connection are which balance sheet items must be taken into account to calculate loss participation and whether replenishment is required if pbb records a net income, unappropriate retained earnings or a other income. Courts have decided against the legal view of pbb especially in view of the individual decisions regarding profit participation certificates. The bank has lodged appeals in these cases. The contested profit participation certificates had a notional amount of € 221 million (of which proceedings involving a principal amount of € 15.4 million were pending in which the plaintiff is demanding a repayment of € 6.3 million). These claims may ultimately result in a full or partial increase in the repayment claims and, if applicable, result in interest claims by the plaintiff.

Since the decisions of the Federal Court of Justice in 2014 on the inadmissibility of a credit processing fee in credit agreements with private customers, the Bank sees itself facing queries from previous private customers for the repayment of alleged credit processing fees. These demands have not yet proven to be justified. Since the end of last year, individual commercial customers have requested the repayment of the credit processing fees.

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.

61 Other Liabilities

Other liabilities in € million	**31.12.2014**	**31.12.2013**
Negative fair values from derivative financial instruments	6,083	4,441
Hedging derivatives	6,083	4,441
Fair value hedge	5,649	3,969
Cash flow hedge	434	472
Other liabilities	99	281
Total	**6,182**	**4,722**

Other liabilities include, amongst others, accruals pursuant to IAS 37 including accounts payable in respect of invoices still outstanding, short-term liabilities to employees and other accruals in respect of commission, interest, non-personnel expenses and similar expenses.

62 Income Tax Liabilities

Income tax liabilities in € million	31.12.2014	31.12.2013[1]
Current tax liabilities	82	64
Deferred tax liabilities	630	1,123
Total	**712**	**1,187**

[1] Adjusted due to IAS 8.42. Details are disclosed in Note «Consistency».

Income tax liabilities include both provisions and liabilities from current taxes as well as deferred tax liabilities. A significant proportion of deferred tax liabilities were netted against the cash flow hedge reserve of € 263 million (2013: € 442 million). Additional deferred tax liabilities of € 367 million (2013: € 681 million) are a result of temporary differences recognised in profit or loss. The significant reduction in deferred tax assets in comparison to the previous year was mainly a result of lower recognition differences of derivatives between IFRS and HGB (German Commercial Code).

63 Subordinated Capital

Breakdown in € million	31.12.2014	31.12.2013[1]
Subordinated liabilities	939	2,036
Hybrid capital instruments	340	321
Total	**1,279**	**2,357**

Early repayment obligation on the part of the issuer cannot occur for any subordinated liabilities. In the event of bankruptcy or liquidation, such liabilities may only be repaid after all non-subordinated creditors have been satisfied.

Subordinated capital by maturities in € million	31.12.2014	31.12.2013[1]
With agreed maturities		
Up to 3 months	45	41
3 months to 1 year	150	10
1 year to 5 years	890	874
5 years and over	194	1,432
Total	**1,279**	**2,357**

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

The unwinding of value adjusted instruments of subordinated capital led to an expense of €−19 million (2013: €−18 million).

Participating Certificates Outstanding As at 31 December 2014 no participating certificates outstanding were issued (31 December 2013: one issue with a carrying amount of €0 million).

Hybrid Capital Instruments Hybrid capital instruments in particular include issues in the form of preferred securities placed by specifically established special-purpose entities. These instruments differ from conventional supplementary capital as they are subject to more stringent conditions in terms of maturity. In addition, hybrid capital instruments are not repaid until after supplementary capital (subordinated liabilities and participating certificates outstanding) in the event of bankruptcy. In contrast to traditional components of core capital, the claim to a share of profit, which depends on the existence of profit, takes the form of a fixed or variable interest payment in the case of hybrid capital instruments. Moreover, hybrid capital can be issued both with unlimited maturity and repayable in the long term.

64 Equity

Subscribed capital equals the maximum liability of the shareholder for the liabilities of the corporation to its creditors. The subscribed capital as of 31 December 2014 and during the entire financial year 2014 amounted to €380,376,059.67 which is divided into 134,475,308 ordinary bearer shares in the form of no-par-value shares representing a theoretical interest in the share capital of €2.83 per share. HRE Holding holds 100% of the share capital of pbb. Finanzmarktstabilisierungsfonds-FMS is the only shareholder of HRE Holding. At 31 December 2014 and 31 December 2013 there was neither authorised capital nor conditional capital.

Additional paid-in capital includes premiums from the issue of shares and the contribution to the reserves of Finanzmarktstabilisierungsfonds-FMS. Retained earnings were generally created only from net income of the current financial year or previous periods. This includes legal reserves to be created from net income and other retained earnings. In addition, retained earnings increased by €30 million due to a payment by HRE Holding to compensate for payment obligations already accrued for in prior years in connection with the transfer of positions to FMS Wertmanagement in 2010. A withdrawal was made from the additional paid-in capital pursuant to section 272(2) nos. 1–3 HGB of €1,771 million to partially balance out the balance sheet loss in accordance with the German Commercial Code. In the IFRS consolidated financial statements, there was a reduction of €–1,771 million in additional paid-in capital with an increase of the same amount in retained earnings.

In the year 2009 Finanzmarktstabilisierungsfonds-FMS provided pbb with a silent participation of €1.0 billion. The silent participation participates in the cumulative loss calculated in accordance with the regulations of commercial law to the same extent that the silent participation is related to the total carrying amount of all liable capital shares which participate in the cumulative loss. The total loss of the silent partner in relation to the cumulative loss under commercial law is limited to its silent contribution. The cumulative loss which is attributable to the year 2008 is not used for calculating the loss participation. At €92 million the silent participation was unchanged to the prior-year balance sheet date in pbb's separate financial statements pursuant to HGB as of 31 December 2014. pbb has a replenishment obligation.

65 Trust Business

The following tables show the volume of fiduciary business not shown in the consolidated balance sheet.

Trust assets in € million	31.12.2014	31.12.2013
Loans and advances to customers	–	3
Total	**–**	**3**

Trust liabilities in € million	31.12.2014	31.12.2013
Liabilities to customers	–	3
Total	**–**	**3**

Notes to the Consolidated Statement of Cash Flows

66 Notes to the Items in the Consolidated Statement of Cash Flows

The consolidated statement of cash flows shows the cash flows of the financial year broken down by operating activities, investing activities and financing activities. Cash and cash equivalents correspond to the balance sheet item cash reserve, and include cash in hand and credit balances at central banks.

Operating activities are defined broadly, and correspond to operating result. Cash flow from operating activities includes payments (inflows and outflows) attributable to loans and advances to other banks and customers as well as securities attributable to trading assets and other assets. Inflows and outflows attributable to liabilities to other banks and customers, securitised liabilities and other liabilities are also included under operating activities. The interest and dividend payments resulting from operating activities are shown under cash flow from operating activities.

Cash flow from investing activities comprises payments for investment and security holdings as well as for property and equipment.

Cash flow from financing activities comprises inflows from capital increases, payments into reserves and silent participations as well as inflows and outflows for subordinated capital.

DEPFA Finance N.V. was sold in the financial year 2014. The selling price of €6 million was recognised in the cash flow from investing activities.

Notes to the Financial Instruments

67 Derivative Transactions

In order to minimise (reduce) both the economic and the regulatory credit risk, bilateral netting agreements have been concluded. By means of such netting agreements, the positive and negative fair values of the derivatives contracts included under the master agreement can be offset against one another, and the future regulatory risk add-ons for these products can be reduced. Through this netting process, the credit risk is limited to a single net claim on the party to the contract.

For both regulatory reports and the internal measurement and monitoring of the credit commitments, such risk-reducing techniques are utilised only if they are considered to be enforceable under the respective legal system in the event that the business associate becomes insolvent. Legal advice is taken in order to check enforceability.

Similar to the master agreements, pbb Group concludes collateral agreements with its business associates to collateralise the net claim or liability remaining after netting (obtained or pledged collateral). Usually, this collateral management reduces credit risk by means of prompt measurement and adjustment of the exposure to customers.

Volume of derivatives at 31 December 2014	Notional amount				Fair value	
	Remaining maturities					
in € million	Less than 1 year	1 to 5 years	More than 5 years	**Total**	positive	negative
Interest-based transactions						
OTC products	11,880	42,817	37,248	91,945	8,411	7,939
Interest rate swaps	10,464	38,001	37,190	85,655	8,407	7,934
Interest rate options	1,416	4,816	58	6,290	4	5
Call options	677	2,408	29	3,114	4	–
Put options	739	2,408	29	3,176	–	5
Total	**11,880**	**42,817**	**37,248**	**91,945**	**8,411**	**7,939**
Foreign-currency-based transactions						
OTC products	4,355	1,284	344	5,983	54	104
Spot and forward currency transactions	4,194	–	–	4,194	19	55
Interest rate/currency swaps	161	1,284	344	1,789	35	49
Total	**4,355**	**1,284**	**344**	**5,983**	**54**	**104**
Total	**16,235**	**44,101**	**37,592**	**97,928**	**8,465**	**8,043**

Use made of derivative transactions at 31 December 2014 in € million	Notional amount	Fair value positive	Fair value negative
Interest-based transactions			
Fair value hedge accounting	52,880	5,975	5,649
Cash flow hedge accounting	4,462	450	401
Stand-alone derivatives	34,603	1,986	1,889
Total	**91,945**	**8,411**	**7,939**
Foreign-currency-based transactions			
Cash flow hedge accounting	391	24	33
Stand-alone derivatives	5,592	30	71
Total	**5,983**	**54**	**104**
Total	**97,928**	**8,465**	**8,043**

Volume of derivatives at 31 December 2013 in € million	Notional amount – Remaining maturities – Less than 1 year	1 to 5 years	More than 5 years	Total	Fair value positive	Fair value negative
Interest-based transactions						
OTC products	13,027	41,587	41,893	96,507	6,176	5,830
Interest rate swaps	11,931	38,223	41,871	92,025	6,165	5,815
Interest rate options	1,096	3,364	22	4,482	11	15
Call options	543	1,634	16	2,193	11	–
Put options	553	1,730	6	2,289	–	15
Total	**13,027**	**41,587**	**41,893**	**96,507**	**6,176**	**5,830**
Foreign-currency-based transactions						
OTC products	3,971	835	336	5,142	67	64
Spot and forward currency transactions	3,818	37	–	3,855	17	38
Interest rate/currency swaps	153	798	336	1,287	50	26
Total	**3,971**	**835**	**336**	**5,142**	**67**	**64**
Total	**16,998**	**42,422**	**42,229**	**101,649**	**6,243**	**5,894**

Use made of derivative transactions at 31 December 2013 in € million	Notional amount	Fair value positive	Fair value negative
Interest-based transactions			
Fair value hedge accounting	56,749	4,115	3,969
Cash flow hedge accounting	6,332	443	455
Derivatives hedging dFVTPL financial instruments	–	–	–
Stand-alone derivatives	33,426	1,618	1,406
Total	**96,507**	**6,176**	**5,830**
Foreign-currency-based transactions			
Cash flow hedge accounting	452	43	17
Stand-alone derivatives	4,690	24	47
Total	**5,142**	**67**	**64**
Total	**101,649**	**6,243**	**5,894**

Counterparties	**31.12.2014**		**31.12.2013**	
	Fair value		Fair value	
in € million	positive	negative	positive	negative
OECD banks	7,516	7,967	5,474	5,788
OECD financial institutions	209	25	205	42
Other companies and private individuals	740	51	564	64
Total	**8,465**	**8,043**	**6,243**	**5,894**

68 Cash Flow Hedge Accounting

The cash flows of the hedging items shown in cash flow hedge accounting are expected to occur in the following periods:

Cash flow hedge: periods of hedging items when cash flows are expected to occur in € million	**31.12.2014**	**31.12.2013**
Up to 1 month	–1	–1
1 month to 3 months	–3	–3
3 months to 1 year	–2	–3
1 year to 2 years	–1	–10
2 years to 5 years	–8	–15
5 years and over	–53	–74
Total	**–68**	**–106**

It is expected that the cash flows will affect the income statement in the period of occurrence.

The development of the cash flow hedge reserve is shown in the consolidated statement of changes in equity.

69 Undiscounted Cash Flows of Financial Liabilities

Contractually agreed undiscounted cash flows of the financial liabilities according to IFRS 7.39 in € billion	31.12.2014	31.12.2013
Up to 3 months	4	3
From derivative financial instruments	–	1
From non-derivative financial instruments	4	2
3 months to 1 year	9	7
From derivative financial instruments	1	–
From non-derivative financial instruments	8	7
1 year to 5 years	32	33
From derivative financial instruments	2	2
From non-derivative financial instruments	30	31
5 years and over	31	35
From derivative financial instruments	3	2
From non-derivative financial instruments	28	33

In conformity with the requirements, the contractually agreed undiscounted cash flow maturities are presented in accordance with the worst-case scenario, meaning that if there are options or terminations rights involved the most unfavourable case from a liquidity perspective will be assumed. This presentation does not reflect the economic management which is based on expected cash flows. The liquidity risk strategy and management of pbb Group is described in the risk and opportunity report.

70 Assets Assigned or Pledged as Collateral

Assets have been pledged as collateral for the following assets and received collaterals:

Liabilities in € million	31.12.2014	31.12.2013
Liabilities to other banks	845	1,479
Total	**845**	**1,479**

The following assets were pledged as collateral for the above liabilities:

Assets pledged in € million	31.12.2014	31.12.2013
Loans and advances to customers	278	200
Financial investments	695	1,294
Total	**973**	**1,494**

The assets pledged mainly resulted from repurchase agreements. The transactions were carried out at the normal standard terms for repurchase transactions and concluded on an arm's-length basis.

In financial year 2014, two properties in Hungary and one property in the Netherlands were taken over with a total carrying amount of €32 million. In the prior year, a Spanish property was taken over in the amount of €27 million.

71 Collaterals Permitted to Resell or Repledge

As of 31 December 2014 and as of 31 December 2013 there were no collaterals that may be resold or repledged in the absence of default.

72 Transfer of Financial Assets

Transferred financial assets shall be derecognised if the derecognition criteria of IAS 39 are met. The derecognition concept of IAS 39 requires to derecognise financial assets, if risks and rewards are almost completely transferred.

However, the transferring party could retain a continuing involvement in derecognised assets. Normal confirmations and warranties in connection with the transfer, e.g. relating to fraud, good faith and fair dealings, do not represent a continuing involvement. pbb Group has no continuing involvement in transferred and derecognised financial assets.

73 Fair Values of Financial Instruments

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

All financial assets and liabilities that are measured at fair value are grouped into the three fair value hierarchies by pbb Group. Reclassifications within the fair value hierarchy are made at the end of the reporting period. The three-level hierarchy is based on the degree to which the input for the fair value measurement is observable:
> Level 1 – quoted priced (unadjusted) in active markets for identical financial assets or financial liabilities.
> 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 in € million	Carrying amounts	Fair value	Level 1	Level 2	31.12.2014 Level 3
Financial assets	**74,623**	**76,959**	**13,345**	**31,390**	**32,224**
at fair value through profit or loss	7,991	7,991	–	7,916	75
at fair value not affecting profit or loss	5,380	5,380	4,906	474	–
in balance sheet not measured at fair value	61,252	63,588	8,439	23,000	32,149
Cash reserve	57	57	57	–	–
Trading assets (HfT)	2,016	2,016	–	2,016	–
Loans and advances to other banks	6,800	6,846	1,955	3,907	984
Category LaR	6,800	6,846	1,955	3,907	984
Loans and advances to customers[1)]	38,826	41,063	–	13,193	27,870
Category LaR	38,826	41,063	–	13,193	27,870
Real Estate Finance	21,664	22,858	–	–	22,858
Public Investment Finance	5,367	5,731	–	3,560	2,171
Value Portfolio	10,024	10,550	–	7,694	2,856
Consolidation & Adjustments	1,816	1,969	–	1,939	30
Portfolio-based allowances	−45	−45	–	–	−45
Financial investments	20,475	20,528	11,333	5,900	3,295
Category AfS	4,906	4,906	4,906	–	–
Category LaR	15,569	15,622	6,427	5,900	3,295
Other assets	6,449	6,449	–	6,374	75
Fair value hedge derivatives	5,975	5,975	–	5,900	75
Cash flow hedge derivatives	474	474	–	474	–
Financial liabilities	**70,954**	**73,105**	**17,778**	**13,715**	**41,612**
thereof: at fair value through profit or loss	7,609	7,609	–	7,601	8
thereof: at fair value not affecting profit or loss	434	434	–	434	–
in balance sheet not measured at fair value	62,911	65,062	17,778	5,680	41,604
Liabilities to other banks	3,187	3,322	1,690	317	1,315
Liabilities to customers	10,593	11,035	1,192	–	9,843
Securitised liabilities	47,827	49,388	14,884	5,363	29,141
Covered	40,967	42,541	12,194	5,168	25,179
Uncovered	6,860	6,847	2,690	195	3,962
Trading liabilities (HfT)	1,960	1,960	–	1,958	2
Other liabilities	6,108	6,108	12	6,077	19
Fair value hedge derivatives	5,649	5,649	–	5,643	6
Cash flow hedge derivatives	434	434	–	434	–
Other financial liabilities	25	25	12	–	13
Subordinated capital	1,279	1,292	–	–	1,292
Other items	**2,322**	**2,342**	–	–	2,342
Contingent liabilities	84	84	–	–	84
Irrevocable loan commitments	2,238	2,258	–	–	2,258

1) Reduced by allowances for losses on loans and advances

Fair values of financial instruments and fair value hierarchy in € million	Carrying amounts	Fair value	Level 1	Level 2	Level 3
					31.12.2013
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	20,084	21,069	–	–	21,069
Public Investment Finance	4,189	4,413	–	3,229	1,184
Value Portfolio	9,513	9,848	–	8,591	1,257
Consolidation & Adjustments	2,359	2,479	2	2,270	207
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
Securitised liabilities	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] Adjusted due to retrospective IFRS 10 first time adoption. Details are disclosed in 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 2014. As a result, assets recognised at fair value in the amount of € 8 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 3 to level 2 assets recognised at fair value in the amount € 17 million (2013: € 0 million) and financial liabilities in the amount of € 3 million (2013: € 0 million) were reclassified because inputs were observable on the market again.

Disclosures to the Measurement Methods and Input Parameters

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

- identification data, such as business identification numbers or International Securities Identification Numbers (ISINs)
- static data such as notional amounts, name and country of the counterparty and (remaining) terms
- accounting data such as carrying amounts, accruals and the effects of hedge accounting

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

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

Level 2 instruments measured at fair value as of 31 December 2014

in € million	Measurement methods	Observable parameters
Trading assets/liabilities	DCF methods	Cap volatilities
		Euro zone inflations rates
		Reference interest rates
		Saisonalities of Euro zone inflations rates
		Swaption volatilities
		Volatilities of Euro zone inflation caps
		Spot market exchange rates
		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	Cap volatilities
		Reference interest rates
		Swaption volatilities
		Yield curves
	Option pricing models	Cap volatilities
		CMS Spread Options (strike price)
		CMS Spread Options (option price)
		Euro zone inflations rates
		Reference interest rates
		Saisonalities of Euro zone inflations rates
		Swaption volatilities
		Volatilities of Euro zone inflation caps
		Spot market exchange rates
		Exchange rates volatilities
		Yield curves
Cash flow hedge derivatives	DCF methods	Reference interest rates
		Yield curves
	Option pricing models	Cap volatilities
		CMS Spread Options (strike price)
		CMS Spread Options (option price)
		Reference interest rates
		Swaption volatilities
		Spot market exchange rates
		Exchange rates volatilities
		Yield curves

Level 3 instruments measured at fair value as of 31 December 2014

in € million	Measurement methods	Non-observable parameters	Parameter range (weighted average)
Trading assets/liabilities	Option pricing models	Forward/exchange rate correlations	0.00% (0.00%)
		Asset swap spreads (volatilities)	+0.34% (+0.34%)
Fair value hedge derivatives	Option pricing models	EUR-EONIA beyond 2.10.2064	+1.41% (+1.41%)
		EUR-EO6M beyond 2.10.2064	+1.53% (+1.53%)
		Historical index/index correlations	−0.94 to +71.19% (+30.97%)
		Historical index/exchange rate correlations	−10.82% to +20.49% (+4.11%)

Financial instruments not measured at fair value as of 31 December 2014	Level 2		Level 3		
in € million	Measurement methods	Observable parameters	Measurement methods	Observable parameters	Non-observable parameters
Financial assets					
Loans and receivables (LaR)	DCF models	Credit spreads	DCF models	Credit spreads	Internal rating classes
		Reference interest rates		Reference interest rates	Recovery rates
		Risk-free interest rate		Risk-free interest rate	Expected maturities
		Observable future cash flows		Observable future cash flows	Estimated future cash flows
	Quoted prices in non-active markets	Quoted prices for proxy trades	–	–	–
Financial liabilities					
Financial liabilities at amortised cost	DCF models	Observable future cash flows	DCF models	Observable future cash flows	Estimated future cash flows
		(Own) credit spreads		(Own) credit spreads	(Own) credit spreads (secondary market grid)
		Benchmark interest rates		Benchmark interest rates	–
	Quoted prices in non-active markets	Quoted prices for proxy trades	–	–	–

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 31 December 2014 and as of 31 December 2013 which have been quantified on the basis of the specified valuation parameters taking account usual market scenarios:

Sensitivities of level 3 instruments measured at fair value		**31.12.2014**		**31.12.2013**
in € million	Positive changes	Negative changes	Positive changes	Negative changes
Assets				
Financial assets at fair value through profit or loss				
Fair value hedge derivatives	–	–	0.7	–0.7
Total	**–**	**–**	**0.7**	**–0.7**
Liabilities				
Financial liabilities at fair value through profit or loss				
Trading liabilities	0.7	–0.7	–	–
Fair value hedge derivatives	0.5	–0.5	–	–
Total	**1.2**	**–1.2**	**–**	**–**

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 Instruments measured at Fair Value

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	–	–	–	–
Transfers into Level 3	–	18	–	18
Transfers out of Level 3	–	–	–	–
Balance at 31.12.2013	**–**	**79**	**4**	**83**
Balance at 1.1.2014	**–**	**79**	**4**	**83**
Comprehensive income				
Income statement	–	2	–1	1
Revaluation reserve	–	–	–	–
Purchases	–	19	–	19
Sales	–	–19	–	–19
Issues	–	–	–	–
Settlements	–	–	–	–
Reclassification into Level 3	–	8	–	8
Reclassification out of Level 3	–	–14	–3	–17
Balance at 31.12.2014	**–**	**75**	**–**	**75**

Changes in level 3 financial liabilities	Financial liabilities at fair value through profit or loss		Financial liabilities at fair value not affecting profit or loss	
in € million	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	–	–	–	–
Transfers into Level 3	–	3	–	3
Transfers out of Level 3	–	–	–	–
Balance at 31.12.2013	**2**	**10**	**–**	**12**
Balance at 1.1.2014	**2**	**10**	**–**	**12**
Comprehensive income				
Income statement	–	−1	–	−1
Revaluation reserve	–	–	–	–
Purchases	–	–	–	–
Sales	–	–	–	–
Issues	–	–	–	–
Settlements	–	–	–	–
Reclassification into Level 3	–	–	–	–
Reclassification out of Level 3	–	−3	–	−3
Balance at 31.12.2014	**2**	**6**	**–**	**8**

The earnings contributions made by trading assets and trading liabilities are presented under net trading income, whereas the effects of hedge relationships recognised in profit or loss are reported under net income from hedging relationships.

Assets and Liabilities According to Measurement Categories and Classes

The carrying amounts reflect the maximum on balance sheet exposure to credit default risk of the assets respectively the maximum exposure of the other items according to IFRS 7.

Asset and liabilities according to measurement categories and classes in accordance with IAS 39 in € million	31.12.2014	31.12.2013[1)]
Assets	**74,623**	**73,279**
Loans and receivables (LaR)	61,195	59,220
Available for sale (AfS)	4,906	4,284
Held for trading (HfT)	2,016	1,642
Cash reserve	57	3,532
Positive fair values from hedging derivatives	6,449	4,601
Liabilities	**70,954**	**69,669**
Held for trading (HfT)	1,960	1,453
Financial liabilities at amortised cost	62,911	63,775
Negative fair values from hedging derivatives	6,083	4,441

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

74 Exposure to Selected European Countries

Exposure to selected European countries as of 31 December 2014 in € million	Counterparty	IAS 39 measurement category	Up to 3 months	3 months to 1 year	year to 5 years	5 years and over	Total	Notional amount	Fair value
Italy	Sovereign	LaR	85	–	293	373	751	675	714
		AfS	–	41	–	1,565	1,606	1,100	1,606
	Sub-sovereign	LaR	–	–	19	951	970	927	837
	State-guaranteed	LaR	–	–	43	–	43	39	43
Portugal	Sovereign	LaR	–	–	49	136	185	165	185
		AfS	–	–	130	200	330	330	271
	Sub-sovereign	LaR	–	–	100	329	429	405	367
	State-guaranteed	LaR	–	–	–	10	10	10	10
Spain	Sovereign	AfS	103	792	–	–	895	865	895
	Sub-sovereign	LaR	11	308	889	677	1,885	1,710	1,853
		HfT	–	–	–	5	5	35	5
	State-guaranteed	LaR	–	–	63	149	212	193	214

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	**Total**	Notional amount	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 31 December 2014 and as of 31 December 2013 pbb Group did not have any exposure to sovereign counterparties of Greece, Cyprus and Ireland. The same applies for sub-sovereign or state-guaranteed counterparties of those states.

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 31 December 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 31 December 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 through profit or loss changes in value are directly included in the book value. pbb Group tests financial assets which are not measured at fair value through profit or loss for impairments. Allowances for loans and advance or impairments for securities are created if there is objective evidence that it is not possible to recover the entire amount which is due according with the original contractual conditions. As per 31 December 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».

75 Past Due but Not Impaired Assets

The following table shows the total portfolio of the partly or completely past due but not impaired loans and advances as of 31 December 2014 and as of 31 December 2013. However, no specific allowances were made for these assets respectively the underlying collaterals as pbb Group does not consider that there is any issue regarding their recoverability. Such timing issues in receipts of payments due occur regularly (up to three months) in the normal course of business and are not considered to be an evidence for impairment.

LaR Assets

Carrying amounts of past due but not impaired LaR assets in € million	31.12.2014	31.12.2013
Up to 3 months	32	274
From 3 months to 6 months	10	40
From 6 months to 1 year	7	81
From 1 year and over	10	47
Total	**59**	**442**

Carrying amounts LaR assets in € billion	31.12.2014	31.12.2013[1]
Carrying amount of LaR assets that are neither impaired nor past due	60.5	58.3
Carrying amount of LaR assets that are past due but not impaired (total investment)	0.1	0.4
Carrying amount of individually assessed impaired LaR assets (net)	0.6	0.4
Balance of specific allowances	0.1	0.1
Balance of portfolio-based allowances	0.1	0.1
Total	**61.4**	**59.3**
thereof: Loans and advances to other banks (including investments)	6.8	6.7
Loans and advances to customers (including investments)	39.0	36.2
Financial investments (gross)	15.6	16.4

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

The carrying amount of assets that would otherwise be past due or impaired and whose terms have been renegotiated amounted to €88 million (2013: €91 million).

The fair value of collaterals for the impaired financial assets amounted to approximately €0.6 billion (2013: €0.4 billion). The collaterals mainly consist of land charges.

AfS Assets As of 31 December 2014 and as of 31 December 2013 pbb Group had neither past due and not impaired nor impaired AfS financial investments in the portfolio.

76 Restructured Loans and Advances

In the financial years 2014 and 2013, restructuring agreements mainly related to standstill agreements and to the discontinuation of contractual arrangements.

Restructured loans and advances in € million	31.12.2014	31.12.2013
Carrying amount of loans and advances that are neither impaired nor past due	1,048	1,128
Carrying amount of loans that are past due but not impaired (gross)	12	28
Carrying amount of individually assessed impaired loans and advances (gross)	241	352
Total	**1,301**	**1,508**

Development of restructured loans and advances in € million	2014	2013
Balance at 1.1.	**1,508**	**1,818**
Additions	592	213
Disposals	−633	−462
Reclassifications after expiry of good conduct period	−135	–
Changes in the basis of consolidation	−31	−61
Balance at 31.12.	**1,301**	**1,508**

Proportion of restructured loans and advances in the total portfolio in %	31.12.2014	31.12.2013[1]
Proportion of restructured loans and advances in the total portfolio	2.8	3.5

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

Allowances for losses on restructured loans and advances in € million	31.12.2014	31.12.2013
Specific allowances	73	62
Portfolio-based allowances	4	7
Total	**77**	**69**

Proportion of allowances for losses in the restructured loans and advances portfolio in %	31.12.2014	31.12.2013
Proportion of allowances for losses in the restructured loans and advances portfolio	6.0	4.6

77 Netting of Financial Instruments

The following tables show the gross carrying amounts of recognised financial assets respectively liabilities, the gross carrying amounts of the items offset in the statement of financial position and the net amounts of the financial assets and liabilities recognised in the statement of financial position. They also show the rights of set-off that did not lead to an offsetting in the statement of financial position, the collateral received for financial assets, the collateral pledged for financial liabilities and the net amounts of financial assets and liabilities remaining following the application of the netting agreements and deduction of the collateral.

Netting agreements pbb Group routinely enters into standardised bilateral netting agreements in the derivatives business to minimise the legal risk as well as the economic and regulatory counterparty default risk. The national respectively international agreements used are the German Master Agreement for Financial Futures and the ISDA Master Agreement issued by the International Swaps and Derivatives Association. The derivatives cannot be offset in the statement of financial position since their conditions are not identical (e.g. different terms or currency underlyings).

Collateral In addition, pbb Group also enters into collateral agreements to hedge the net receivables and net liabilities arising following offsetting according to the netting agreements (collateral received or pledged). The collateral used is primarily cash collateral; however, securities are sometimes also used by way of title transfer. The collateral agreements likewise cannot be offset against the derivatives.

Netting of financial instruments as of 31 December 2014 in € billion	Gross carrying amounts of recognised financial assets/liabilities	Gross carrying amounts of the items offset in the statement of financial position	Net amounts presented in the statement of financial position	Rights of set-off that did not lead to an offsetting in the statement of financial position	Received respectively pledged collaterals	Remaining net amount
Financial assets	**8.5**	**–**	**8.5**	**6.0**	**1.8**	**0.7**
Positive fair values of derivatives	8.5	–	8.5	6.0	1.8	0.7
Financial liabilities	**8.0**	**–**	**8.0**	**6.0**	**1.9**	**0.1**
Negative fair values of derivatives	8.0	–	8.0	6.0	1.9	0.1

Netting of financial instruments as of 31 December 2013 in € billion	Gross carrying amounts of recognised financial assets/liabilities	Gross carrying amounts of the items offset in the statement of financial position	Net amounts presented in the statement of financial position	Rights of set-off that did not lead to an offsetting in the statement of financial position	Received respectively pledged collaterals	Remaining net amount
Financial assets	**6.2**	**–**	**6.2**	**4.4**	**1.4**	**0.4**
Positive fair values of derivatives	6.2	–	6.2	4.4	1.4	0.4
Financial liabilities	**5.9**	**–**	**5.9**	**4.4**	**1.4**	**0.1**
Negative fair values of derivatives	5.9	–	5.9	4.4	1.4	0.1

Other Notes

78 Contingent Liabilities and Other Commitments

Contingent liabilities and other commitments in € million	31.12.2014	31.12.2013
Contingent liabilities	**84**	**25**
Guarantees and warranties	84	25
Loan guarantees	–	4
Performance guarantees and warranties	84	21
Other commitments	**2,238**	**2,569**
Irrevocable loan commitments	2,238	2,569
Guarantees	6	30
Mortgage and public sector loans	2,232	2,539
Total	**2,322**	**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 should 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 8 a 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 feasibility or charge 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 2015 and 2016 is € 13 million.

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 participation of Finanzmarktstabilisierungsfonds-FMS.

pbb Group is a lessee in the context of operating lease agreements. Non-terminable operating lease agreements for land and buildings as well as for operating and business equipment existed as of 31 December 2014. The minimum obligations arising from non-terminable leasing arrangements will result in expenses of €–12 million in 2015, €–37 million in total in the years 2016 to 2019 and €–27 million in total for 2020 and beyond. In the previous year the minimum obligations from non-terminable operating lease agreements were as follows: for the financial year 2014: €–11 million, in financial years 2015 to 2018 €–36 million in total and for 2019 and beyond €–31 million in total. Operating lease agreements concluded by pbb Group were made on an arm's-length basis and are mainly related to the rental of land and buildings. The agreements include partial renewal options that the lease can be extended for several periods, and price escalation clauses in the form of stepped rents or indexation clauses as well as release clauses.

For pbb Group irrevocable loan commitments form the largest part of other commitments. Irrevocable loan commitments comprise all commitments of a creditor which can grant a loan and advance at a later date and which can cause a credit risk. These are mainly credit commitments which are not fully drawn.

79 Key Regulatory Capital Ratios

In accordance with the waiver regulation set out in 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. 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 regulations (CRR/CRD IV) form the basis for determining the regulatory capitalisation.

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 regulatory key 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) of the German Banking Act (Kreditwesengesetz [KWG]) and the CRR-based introduction of an additional CVA charge results in a significant increase in risk-weighted assets in relation to the figures as at the end of 2013.

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 4.0%, 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 8.0% in 2014.

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

With its «Guidelines for common procedures and methodologies for the supervisory review and evaluation process» (SREP Guidelines) in December 2014, the EBA proposed a uniform procedure to be used by the ECB in reviewing and assessing institutions. The primary areas of focus are credit, market price and operational risks, interest rate fluctuation risks in the investment book, risks of excessive indebtedness, liquidity risks and their management. As part of the monitoring, minimum ratios including the CET1 ratio and the own funds ratio were prescribed for HRE on 12 March 2015. These ratios were met as of 31 December 2014.

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	31.12.2014	31.12.2014 Basel III fully phased-in[1]	31.12.2013 Pro forma Basel III figure[2][3]	31.12.2013 Pro forma Basel III figure fully phased-in[1][2]	31.12.2013[4]
CET1	3,364	2,090	3,336	1,993	2,475
Additional Tier 1	195	999	216	999	350
Tier 1	3,559	3,089	3,552	2,992	2,825
Tier 2	483	334	632	454	835
Own Funds	**4,042**	**3,423**	**4,184**	**3,446**	**3,660**

[1] After expiry of all Basel III transitional regulations
[2] Consolidated in accordance with CRR (following the appropriation of net profit 2013)
[3] Adjusted due to IAS 8.42. Details are disclosed in Note «Consistency».
[4] Consolidated in accordance with section 10 a of German Banking Act (KWG) (following the appropriation of net profit 2013)

Risk-weighted assets (RWA)[1] in € million	31.12.2014	31.12.2014 Basel III fully phased-in[2]	31.12.2013 Pro forma Basel III figure[3]	31.12.2013 Pro forma Basel III figure fully phased-in[2][3]	31.12.2013[4]
Market risks	217	217	158	158	75
thereof interest rate risks	–	–	–	–	–
thereof foreign exchange risks	217	217	158	158	75
Operational risks	1,010	1,010	923	923	923
Credit risks	14,261	14,261	16,979	16,979	13,087
thereof CVA charge	445	445	531	531	–
Other RWA	1	1	3	3	–
RWA total	**15,489**	**15,489**	**18,063**	**18,063**	**14,085**

[1] Including weighted credit risk positions and capital charges for market risk positions and operational risk, using a scaling factor of 12.5
[2] After expiry of all Basel III transitional regulations
[3] Consolidated in accordance with CRR
[4] Consolidated in accordance with section 10 a of the German Banking Act (KWG)

Capital ratios in %	31.12.2014	31.12.2014 Basel III fully phased-in[1]	31.12.2013 Pro forma Basel III figure[2][3]	31.12.2013 Pro forma Basel III figure fully phased-in[1][2]	31.12.2013[4]
CET1 ratio	21.7	13.5	18.5	11.0	17.6
Tier 1 ratio	23.0	19.9	19.7	16.6	20.1
Own funds ratio	26.1	22.1	23.2	19.1	26.0

[1] After expiry of all Basel III transitional regulations
[2] Consolidated in accordance with CRR (following the appropriation of net profit 2013)
[3] Adjusted due to IAS 8.42. Details are disclosed in Note «Consistency».
[4] Consolidated in accordance with section 10 a of German Banking Act (KWG) (following the appropriation of net profit 2013)

80 Group Auditors' Fee

Group auditors' fee in €thousand	2014	2013
Audit	2,280	2,584
Other assurance services	486	632
Tax advisory services	–	2
Other non-audit services	1,164	3,193
Total	**3,930**	**6,411**

The table shows fees to the group auditor KPMG AG Wirtschaftsprüfungsgesellschaft.

81 Relationship with Related Parties

According to IAS 24 (Related-Party Disclosures), a party is related to an entity if, directly or indirectly through one or more intermediaries, the party controls or is controlled by the reporting entity, has an interest in the entity that gives it significant influence over the entity or has joint control over the entity as well as associates and joint ventures. In addition, retirement benefit schemes for post-employment benefits for employees are also included under related parties.

Transactions with related entities or persons were performed on an arm's-length basis under consideration of the characteristics of section 311 et seq. AktG (German Stock Corporation Act). In accordance with Section 7d FMStBG, the regulations of the Aktiengesetz (Stock Corporation Act) regarding controlling entities are not applicable to Finanzmarktstabilisierungsfonds-FMS, central government and the corporations, institutions and special funds established by central government as well as related persons or other companies which are directly or indirectly dependent on them. This is not applicable for the application of regulations regarding the representation of employees in the supervisory board of a company controlled by Finanzmarktstabilisierungsfonds-FMS. According to IAS 24.25, pbb Group is exempted from the requirement of reporting on events, receivables and liabilities including obligations with related parties in accordance with IAS 24.18 if these parties are also controlled by the Federal Republic of Germany or if the Federal Republic of Germany is involved in the joint management of such related parties or if it has a material influence over such parties.

Related Entities 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 addition to the parent entity HRE Holding FMS Wertmanagement and its affiliated company DEPFA are also controlled by the Federal Republic of Germany and is thus a related party of pbb Group. In the year 2014, pbb Group reimbursed Finanzmarktstabilisierungsfonds-FMS no expenses (excluding bank levy) (2013: €0 million).

pbb Group had a net liability of €0.3 billion (31 December 2013: €0.0 billion) to its parent company HRE Holding as of 31 December 2014. As of 31 December 2014, HRE Holding held financial investments of pbb Group amounting to €0.8 billion (2013: €0.8 billion). Net interest income of pbb Group to HRE Holding amounted to €–12 million (2013: €–12 million). Net other operating income/expenses of €4 million (2013: €5 million) resulted from the transfer of employees to HRE Holding, the passing on of Management Board salaries to HRE Holding resulted in the amount of €2 million (2013: €0 million) and €1 million (2013: €1 million) is attributable to IT services rendered to HRE Holding. Retained earnings increased by €30 million due to a payment by HRE Holding to compensate for payment obligations in connection with the transfer of positions to FMS Wertmanagement in 2010.

Net income from services for the FMS Wertmanagement portfolio amounted to only €1 million (2013: €60 million). As at 31 December 2014 and as 31 December 2013 there were no material transactions which would have affected the development of assets, financial position or earnings of pbb Group.

pbb Group had loans and advances (netted by liabilities) to DEPFA which was sold to FMS Wertmanagement on 19 December 2014 of €0.1 billion as of 31 December 2014 (2013: €0.2 billion) and subordinated liabilities of €0.2 billion (2013: €0.3 billion). In the financial year 2014 pbb Group realised a net interest income of €–16 million (2013: €–38 million) and a net fee and commission income of €0 million (2013: €0 million) to DEPFA. The net income from IT services provided to DEPFA was €30 million (2013: €36 million). These services were largely discontinued on 31 December 2014.

DEPFA Finance. N.V., was sold to DEPFA Bank plc, Dublin, for €6 million on 18 July 2014 as part of the unbundling of pbb Group and DEPFA. With the de-consolidation of the company, pbb's liabilities to DEPFA Finance N.V. became external relationships in respect of the Group. These liabilities no longer have to be eliminated. The first time measurement of liabilities resulted in earnings of €21 million, which is recognised in net income from financial investments.

There were no business relationships with the fellow subsidiary Hypo Real Estate Finance B.V. i.L., Amsterdam in the years 2014 and 2013. Besides, assets and liabilities did not exist.

As at 31 December 2014, loans and advances to non-consolidated companies amounted to €0 million (2013: €0 million); the liabilties amounted to €0 million (2013: €0 million). Loans and advances to associated companies which were not measured with the equity method amounted to €39 million (2013: €41 million), whereas the liabilities were at €0 million (2013: €0 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.

On 31 December 2014 liabilities to defined contribution plans amounted to €2 million (2013: €2 million).

Related Persons pbb Group defines related persons as the Management Board, the Supervisory Board, employees in the second tier of management at pbb as well as members of management of the subsidiaries of pbb as well as their respective close relatives. pbb paid neither fixed remuneration nor severance payments to the Management Board during the financial years 2014 and 2013. Although employment contracts between the members of the Management Board and pbb have been closed in preparation of the privatization in 2014, the renumeration, however, has been charged in full to HRE Holding. For 2014, the total remuneration paid to former members of the Management Board and their surviving dependants amounted to € 5,136 thousand (2013: € 5,173 thousand). The Supervisory Board remuneration for the reporting period amounted to € 96 thousand (2013: € 100 thousand). This figure was composed exclusively of fixed remuneration. There were no receivables to related persons from loans or advanves at balance sheet date.

Vested remuneration paid to persons with key function in the Group (Senior Management)[1]			2014	2013
in € thousand	Remuneration[2]	Severance payments	Total	Total
Total	6,579	–	**6,579**	**6,858**

[1] Members of the second tier of management of pbb and managing directors of subsidiaries of pbb
[2] Reporting follows the so-called vested principle. The components of compensation which were vested in the relevant period 2014 are reported.

Pension obligations to persons with key function in pbb Group (Senior Management) in € thousand	31.12.2014	31.12.2013
Total[1]	85,650	73,963

[1] Thereof € 71,154 thousand (2013: € 63,404 thousand) for pensioners and surviving dependants

Statement according to section 15 a WpHG During the complete financial years 2014 and 2013 HRE Holding held all shares of pbb. Hence, members of the Management Board and the Supervisory Board did not hold shares of the Company as at 31 December 2014 and as at 31 December 2013. In the years 2014 and 2013 no shares or share derivatives of pbb were purchased or sold by members of the Management Board and the Supervisory Board.

82 Employees

Average number of employees	2014	2013
Employees (excluding apprentices)	838	960
thereof: senior staff in Germany	17	17
Total	**838**	**960**

83 Members of the Supervisory Board and of the Management Board

Supervisory Board of pbb
in fiscal 2014

Name, place of residence Function in the Supervisory Board	**Principal activity** Function in the Committees of the Supervisory Board
Dr. Günther Bräunig, Frankfurt am Main, Germany Chairman (from 26.8.2014)	**Member of the Management Board of KfW** Chairman of the Presidential- and Nominations Committee and of the Remuneration Control Committee, Member of the Audit Committee and of the Risk Management and Liquidity Strategy Committee
Dr. Bernd Thiemann, Münster, Germany Chairman (until 26.8.2014)	**Former Chairman of the Management Board of DG Bank AG** Chairman of the Presidential- and Nominations Committee and of the Remuneration Control Committee, Member of the Audit Committee and of the Risk Management and Liquidity Strategy Committee
Dagmar Kollmann, Vienna, Austria Deputy Chairperson	**Entrepreneur** Chairperson of the Audit Committee and Member of the Presidential- and Nominations Committee, of the Risk Management and Liquidity Strategy Committee and of the Remuneration Control Committee
Dr. Christian Gebauer-Rochholz, Hochheim, Germany Workers' Council Representative	**Bank employee**
Dr. Alexander Groß, Teltow, Germany Member (until 25.2.2014)	**Head of the Economic Policy department in the Bundesministerium für Wirtschaft und Energie**
Georg Kordick, Poing, Germany Workers' Council Representative	**Bank employee**
Joachim Plesser, Ratingen, Germany Member (from 26.8.2014)	**Former member of the Management Board of Eurohypo AG** Chairman of the Risk Management and Liquidity Strategy Committee, Member of the Presidential- and Nominations Committee, of the Audit Committee and of the Remuneration Control Committee
Dr. Ludger Schuknecht, Frankfurt am Main, Germany Member	**Director General for economic and fiscal policy strategy; international economy and finance in the Bundesministerium der Finanzen**
Heike Theißing, Munich, Germany Workers' Council Representative	**Bank employee** Member of the Remuneration Control Committee
Dr. Hedda von Wedel, Andernach, Germany Member	**President of the Bundesrechnungshof, retired** Member of the Audit Committee
Dr. Jeromin Zettelmeyer, Berlin, Germany Member (from 15.4.2014)	**Head of the Economic Policy department in the Bundesministerium für Wirtschaft und Energie**

Management Board of pbb
in fiscal 2014

Name and place of residence	Function in the Management Board	Mandates held in Supervisory Bodies under the Respective Law for Major Corporations
Andreas Arndt Munich, Germany	Co-CEO (from 1.10.2014) CFO (from 15.4.2014 until 30.9.2014)	
Manuela Better Munich, Germany	CEO (until 3.6.2014)/CRO (until 1.3.2014)	> Non-executive Director of DEPFA BANK plc (until 5.6.2014) > Non-executive Director of DEPFA ACS Bank (until 5.6.2014) > Non-executive Director of Hypo Public Finance Bank (until 5.6.2014) > AXA Konzern AG (from 27.5.2014)
Thomes Köntgen Frankfurt am Main, Germany	Co-CEO (from 1.10.2014)	
Wolfgang Groth Tawern, Germany	Treasury/Asset Management	> Non-executive Director of DEPFA BANK plc > Chairman and Non-executive Director of DEPFA ACS Bank (from 24.7.2014) > Chairman und Non-executive Director of Hypo Public Finance Bank
Andreas Schenk Dreieich, Germany	CRO (from 1.3.2014)	
Dr. Bernhard Scholz Regensburg, Germany	Real Estate Finance/Public Investment Finance	
Alexander von Uslar Grünwald, Germany	CFO/COO (until 16.5.2014)	> Non-executive Director of DEPFA BANK plc (until 16.5.2014) > Non-executive Director of DEPFA ACS Bank (until 16.5.2014)

84 Holdings of pbb

Holdings of pbb as of 31 December 2014
Additional statement according to HGB

Name, place of business	Purpose of business	Interest in % Total Sec 16 (4) Aktiengesetz	Interest in % of which held indirectly	Differing voting rights in %	Currency	Equity in thousands	Net income/loss in thousands
Consolidated companies							
Hayabusa Godo Kaisha, Tokyo, Japan	Salvage acquisition	100.00	100.00	–	JPY	–252,896	–9,050
Hypo Real Estate Capital India Corp. Private Ltd. i.L., Mumbai, India	in liquidation	100.00	–	–	INR	18,652	–980
Hypo Real Estate Capital Japan Corp., Tokyo, Japan	Credit intermediary	100.00	–	–	JPY	30,486,256	117,223
Hypo Real Estate International LLC I[1], Wilmington, USA	Refinancing	100.00	–	–	EUR	114,182	346,936
Hypo Real Estate International Trust I[1], Wilmington, USA	Refinancing	100.00	–	–	EUR	–113,700	119,000
IMMO Immobilien Management GmbH & Co. KG, Munich, Germany	Real estate company	100.00	–	–	EUR	1,223	–11
IMMO Invest Real Estate GmbH[2], Munich, Germany	Salvage acquisition	100.00	–	–	EUR	3,028	–
Ragnarök Vermögensverwaltung AG & Co. KG[3], Munich, Germany	Real estate company	100.00	–	–	EUR	1,158	–65
RPPSE Espacio Oviedo S.L.U., Madrid, Spain	Salvage acquisition	100.00	100.00	–	EUR	–2,543	–13,693
Non-consolidated companies due to minor significance							
GfI-Gesellschaft für Immobilienentwicklung und -verwaltung mbH i.L., Stuttgart, Germany	in liquidation	100.00	–	–	EUR	10	–
Immo Immobilien Management Beteiligungsgesellschaft mbH, Munich, Germany	Real estate company	100.00	–	–	EUR	20	–8
Associated companies due to minor significance not measured at equity							
SANO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dresden KG[1], Düsseldorf, Germany	Model of bank holding	33.33	–	25.00	EUR	–3,331	546
SOMA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Darmstadt KG[1], Düsseldorf, Germany	Model of bank holding	33.33	–	25.00	EUR	–10,170	60
WISUS Beteiligungs GmbH & Co. Zweite Vermietungs-KG[1][4], Munich, Germany	Model of bank holding	33.00	–	24.44	EUR	–1,959	308

[1] Financial figures from the financial year 2013
[2] Profit transfer by shareholders on the basis of profit and loss transfer agreement
[3] General partner liability (Komplementärhaftung) of pbb
[4] In accordance with section 264 b HGB the annual financial statement was not published

Exchange rates		
€1 corresponds to		**31.12.2014**
India	INR	76.7190
Japan	JPY	145.2300

Munich, 18 March 2015

Deutsche Pfandbriefbank Aktiengesellschaft
The Management Board

Andreas Arndt **Thomas Köntgen**

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

Review Report

We have audited the consolidated financial statements prepared by the Deutsche Pfandbriefbank AG, Munich, comprising consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes, together with the group management report for the business year from 1 January to 31 December 2014. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315 a Abs. 1 HGB [Handelsgesetzbuch «German Commercial Code»] are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB [Handelsgesetzbuch «German Commercial Code»] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315 a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, 18 March 2015

KPMG AG
Wirtschaftsprüfungsgesellschaft
[original German version signed by:]

Wiechens
Wirtschaftsprüfer
[German Public Auditor]

Schmidt
Wirtschaftsprüferin
[German Public Auditor]

Signatories on behalf of Deutsche Pfandbriefbank AG

Eschborn, as of 10 April 2015

signed by Götz Michl Managing Director	signed by Martina Horn Director