Interim Report
H1 2013

PUBLIC SECTOR FINANCE
REAL ESTATE FINANCE

pbb

DEUTSCHE
PFANDBRIEFBANK

Financial Highlights
Ratings

Financial Highlights			
Operating performance according to IFRS		**1.1.–30.6.2013**	**1.1.–30.6.2012**
Pre-tax profit/loss	in € million	60	51
Net income/loss	in € million	41	35
Key ratios		**1.1.–30.6.2013**	**1.1.–30.6.2012**
Return on equity before taxes	in %	3.6	3.2
Return on equity after taxes	in %	2.5	2.2
Cost-income ratio[1]	in %	72.9	73.5
Balance sheet figures		**30.6.2013**	**31.12.2012**
Total assets	in € billion	83.8	97.1
Equity (excluding revaluation reserve)	in € billion	3.3	3.2
Equity	in € billion	3.3	3.3
Personnel		**30.6.2013**	**31.12.2012**
Employees		996	1,044

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

Senior unsecured ratings and ratings for Pfandbriefe of pbb[1] as of 30 June 2013		**Fitch Ratings**	**Moody's**	**Standard & Poor's**
pbb	Long-term rating	A–	Baa2	BBB
	Outlook	Stable	Negative	Stable
	Short-term rating	F1	P–2	A–2
Mortgage Pfandbrief		–	Aa1	AA+[2]
Public sector covered bonds		–	Aa2	AA+[2]

[1] Ratings of mandated rating agencies
[2] Stable outlook

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

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Preface of the CEO

In the first half of the financial year 2013, pbb Group has continued the dynamic performance it showed in the second half of 2012. We have more than doubled new business, including the prolongation by more than one year, at € 3.4 billion compared with the corresponding previous year period, and a funding volume for the first six months of € 5 billion accounts for almost 80 percent of the figure reported for the whole of the previous year. We have considerably boosted pre-tax profit to € 60 million compared with € 51 million in the same previous year period. Following the restructuring and realignment, pbb Deutsche Pfandbriefbank is successfully operating on the lending markets and capital markets and has now been profitable for three years. During this period, the Group has generated a cumulative pre-tax profit of € 589 million.

In the first six months of the current year, we have further strengthened our sales activities and boosted our market penetration. With the opening of an office in Düsseldorf, we have completed the process of expanding our sales locations in real estate finance, which we started in 2012 with new offices in Stockholm, Hamburg and Berlin. The future development of new business will depend on the further development of the real estate markets, which reflect the macro-economic situation. In Public Investment Finance, we have expanded our business to cover the Nordic countries from our new location in Stockholm. The first two transactions in Finland together had a volume of approximately € 125 million.

We have also expanded our positioning in the field of funding. For the first time since 2003, pbb Deutsche Pfandbriefbank has issued a public benchmark Pfandbrief with a term of 15 years, and succeeded in placing a very high percentage of this issue with international investors. We have also issued considerable volumes in sterling and Swedish krona. And finally, in March, we started deposit business with private investors in Germany, which is designed to complement our uncovered refinancing.

Whereas we have expanded our lending and funding operations, we are now leaner in terms of structure and size. We are bringing pbb Deutsche Pfandbriefbank into line with the target model of a specialised Pfandbrief bank, and are simultaneously optimising our processes. These changes have been carried out to a large extent in the first half of the year, and most of the changes are expected to be completed in 2013. In this way, we are creating the structural conditions for reprivatisation in the year 2015, and implementing the set-up for a successful future beyond that date.

This development is supported by the termination of servicing for the portfolio of FMS Wertmanagement which we will transfer to the service company of the deconsolidated environment at the end of September. Employees of pbb Deutsche Pfandbriefbank will then move to the service company, and their knowledge of the portfolio will ensure continuity in management of the portfolio. The service company will offer them opportunities of further employment which we are not able to offer. Following the transfer of servicing, pbb Deutsche Pfandbriefbank will focus entirely on its core business.

We consider that we are very much on course for attaining our business objectives in 2013.

Kind regards

Manuela Better
CEO

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Group Interim Management Report

Financial Report

In the first half of 2013, there have not been any changes to the management system (as detailed in the Annual Report 2012) of Deutsche Pfandbriefbank Group (referred to in the following as pbb Group), including the performance indicators.

Development in Earnings

pbb Group

In the first half of 2013 pbb Group reported an increase in pre-tax profit (€60 million) compared with the corresponding previous year figure (€51 million). This was mainly due to strict cost discipline, which was reflected in lower general administrative expenses, and a further positive development in provisions for losses on loans and advances, which was due to various factors, including successful restructuring. The following table sets out in detail the development in results in the first half of 2013 compared with the previous year period (1 January 2012 to 30 June 2012):

pbb Group		1.1.– 30.6.2013	1.1.– 30.6.2012	Δ in € million
Operating performance				
Operating revenues	in € million	214	223	−9
Net interest income and similar income	in € million	153	150	3
Net commission income	in € million	2	6	−4
Net trading income	in € million	−2	−2	–
Net income from financial investments	in € million	1	5	−4
Net income from hedge relationships	in € million	4	−3	7
Balance of other operating income/expenses	in € million	56	67	−11
Provisions for losses on loans and advances	in € million	−1	9	−10
General administrative expenses	in € million	156	164	−8
Balance of other income/expenses	in € million	1	1	–
Pre-tax profit/loss	in € million	60	51	9
Taxes on income	in € million	19	16	3
Net profit/loss	in € million	41	35	6
Key ratios				
Cost-income ratio	in %	72.9	73.5	
Return on equity before taxes	in %	3.6	3.2	
Return on equity after taxes	in %	2.5	2.2	

Operating Revenues Operating revenues amounted to €214 million (2012: €223 million). The change compared with the previous year is mainly attributable to the lower balance of other operating income/ expenses. This is due to the lower income from servicing of FMS Wertmanagement, which declined in line with the lower volume to be supported.

Net interest income in the first half of 2013 amounted to €153 million, and was somewhat higher than the corresponding figure for the previous year period (2012: €150 million). Higher one-off effects as well as higher margins of new business compared with existing business margins had a positive impact in this respect. One-off effects (€15 million; 2012: €6 million) are attributable particularly to repayments of receivables and redemptions of liabilities before maturity. These transactions were carried out at the request of customers and can only be influenced to a limited extent by pbb Group. The lower

average holdings of interest-bearing assets and the further decline of market interest rates had a negative impact. The lower average interest-bearing assets are attributable to various factors, including repayments of loans relating to countries which are currently the focus of attention, such as Italy and Portugal. In the period under review, the level of market interest rates was lower than the corresponding figure seen in the first half of 2012. For instance, the average three-month Euribor of 87 basis points in the first half of 2012 declined to 21 basis points in the first half of 2013. This decline has had a negative impact on net interest income, as there were only very few attractive low-risk investment opportunities available for funds to be invested.

Net commission income amounted to € 2 million (2012: € 6 million), and was mainly attributable to lower fees from lending and other service business (2013: € 2 million; 2012: € 7 million). Overall, commissions are now only of minor significance for the results of operations of pbb Group.

Net trading income amounted to € –2 million (2012: € – 2 million). It was affected by interest-related changes in the market value of derivatives which cannot be recognised in hedge accounting. The valuation of the derivatives taking account of the credit risk of the counterparty and the Bank's own default risk (so-called bilateral credit value adjustment) resulted in an effect of € 4 million (2012: € 0 million). pbb Group again did not have any portfolios with the intention of generating short-term profits (trading book).

Net income from financial investments amounted to € 1 million (2012: € 5 million). Only a small number of security positions was sold in the first half of 2013 ; this meant that the sales effects were virtually offset (namely € 1 million; 2012: € 11 million). Portfolio-based allowances of € – 5 million were created in the previous year period for securities classified in the IFRS valuation category LaR.

Net income from hedge relationships amounted to € 4 million, and was higher than the corresponding previous year figure (2012: € – 3 million); it was attributable to hedge inefficiencies of micro fair value hedge relationships. The last dFVTPL financial instrument matured in the first half of 2013, which meant that pbb Group no longer had any dFVTPL holdings as of the balance sheet date.

Balance of other operating income/expenses declined to € 56 million in the period under review (2012: € 67 million). This decline is mainly attributable to lower net income from services for the ongoing operation of FMS Wertmanagement (€ 42 million; 2012: € 53 million). Because the portfolio transferred to FMS Wertmanagement declined further, the volume of necessary services has declined accordingly. At the same time, there was also a decline in the corresponding general administrative expenses. IT services provided to the affiliated company DEPFA resulted in net income of € 21million (2012: € 17 million). Further income was attributable to rental income generated from transferred real estate of € 6 million (2012: € 2 million). The bank levy reduced the result of the pbb Group by € – 5 million (2012: € – 12 million).

Provisions for Losses on Loans and Advances The improved economic situation of individual financing arrangements and successful restructuring resulted in a net reversal of provisions for losses on loans and advances of € –1 million in the year under review (2012: net addition of € 9 million). This positive development is also reflected in the decline in non-performing loans, which fell further from € 1.1 billion to € 0.9 billion.

A total of € 7 million (net) was added to the individual allowances in relation to a small number of exposures (2012: reversals of € – 4 million); this was attributable to individual reasons without an impact on the overall portfolio. On the other hand, a figure of € – 7 million (net) was released in relation to portfolio-based allowances (2012: additions of € 14 million). These releases were mainly attributable to the successful restructuring of financing arrangements and the consequent improvement in valuation parameters. In addition, in the period under review, a net figure of € –1 million (2012: € –1 million) was released for provisions for contingent liabilities and other commitments as a result of payments relating to commitments for which allowances had been recognised.

In the first half of 2013, the government debt crisis continued to affect the markets of pbb Group. However, this did not provide any objective indications of any impairment affecting the holdings of pbb Group. The development in Cyprus did not affect pbb Group. As of 30 June 2013, pbb Group did not have any exposure to Cypriot counterparties.

General Administrative Expenses In the reporting period, general administrative expenses declined to € 156 million (2012: € 164 million), mainly due to lower non-personnal expenses of € 92 million (2012: € 98 million). These declined mainly as a result of lower consulting expenses of € 18 million (2012: € 25 million) as well as lower IT expenses of € 45 million (2012: € 48 million). These expenses items were reduced because projects had been successfully completed in 2012 and in previous years. Personnel expenses also declined slightly to € 64 million compared with the first half of 2012 as a result of the lower average headcount (2012: € 66 million). This reflects the impact of adjusting the structure and size of pbb Group to the target of a special Pfandbrief bank. General administrative expenses included lower expenses, which corresponded to the balance of other operating income/expenses from the services for ongoing operation of FMS Wertmanagement. Cost-income ratio improved slightly to 72.9 % (2012: 73.5 %).

Balance of Other Income/Expenses Balance of other income/expenses included additions to and reversals from the restructuring provisions, and amounted to € 1 million (2012: € 1 million).

Pre-tax Profit/Loss Profit before tax amounted to € 60 million (2012: € 51 million). Return on equity before taxes amounted to 3.6 % (2012: 3.2 %).

Taxes on Income Expenses of € 11 million for current taxes (2012: income of € – 7 million), and the expenses of € 8 million for deferred taxes (2012: € 23 million) resulted in a total expense for taxes on income of € 19 million (2012: € 16 million).

Net Profit/Loss Net profit/loss of pbb Group amounted to € 41 million (2012: € 35 million). Return on equity after taxes amounted to 2.5 % (2012: 2.2 %).

Operating Segment Real Estate Finance (REF)

Real Estate Finance		1.1.–30.6.2013	1.1.–30.6.2012	Δ in € million
Operating performance				
Operating revenues	in € million	123	120	3
Net interest income and similar income	in € million	117	109	8
Net commission income	in € million	3	7	–4
Net trading income	in € million	–1	–1	–
Net income from financial investments	in € million	1	8	–7
Net income from hedge relationships	in € million	2	–2	4
Balance of other operating income/expenses	in € million	1	–1	2
Provisions for losses on loans and advances	in € million	–	8	–8
General administrative expenses	in € million	66	69	–3
Balance of other income/expenses	in € million	1	1	–
Pre-tax profit/loss	in € million	58	44	14
Key ratio				
Cost-income ratio	in %	53.7	57.5	

The Real Estate Finance segment comprises all commercial real estate financing arrangements of pbb Group. Pre-tax profit for the segment amounted to € 58 million, and was considerably higher than the corresponding previous year figure (2012: € 44 million).

The transaction volume was high particularly on the markets of Germany, France and Great Britain which are relevant for pbb Group. As was the case in previous years, prime properties in prime locations were in demand. There was stronger competition for financing these properties due to various factors, including the fact that insurers as well as pension funds entered the market. In addition, particularly in Germany, real estate transactions were increasingly financed exclusively with equity or very low LTVs. Despite the more competitive situation, pbb Group was able to more than double the volume of new business in the first half of 2013 compared with the corresponding previous year period (2013: € 2.8 billion; 2012: € 1.2 billion). Business was concluded in Germany, France, Central and Eastern Europe, Great Britain and Scandinavia.

Operating Revenues In the period under review, operating revenues increased to € 123 million (2012: € 120 million). Net interest income amounted to € 117 million, and was higher than the corresponding previous year figure (2012: € 109 million). Whereas higher one-off effects attributable to early termination fees and new business margins made a higher contribution to earnings, the lower average holdings of interest-bearing assets and also the lower return attributable to allocated own funds had a negative impact on net interest income. Net commission income of € 3 million was lower than the corresponding previous year figure of € 7 million due to lower fees in lending business. Net trading income of € –1 million (2012: € –1 million) was affected by interest-rate-related changes in the market value of derivatives as well as the bilateral credit value adjustment. Net income from financial investments was affected by the allocated profits of sales of securities (€ 1 million; 2012: € 8 million). Net income from hedge relationships of € 2 million (2012: € –2 million) was due to hedge inefficiencies. The balance of other operating income/expenses amounted to € 1 million (2012: € –1 million), and benefited from higher rental income from a transferred property. The allocation of the expenses of the bank levy had a less negative impact on the operating segment (€ –2 million; 2012: € –9 million).

Provisions for Losses on Loans and Advances Provisions for losses on loans and advances were balanced out (2012: additions of € 8 million). A total of € 7 million (net) was added to the individual allowances in relation to a small number of items (2012: releases of € –4 million); this was attributable to individual reasons without an impact on the overall portfolio. A figure of € –7 million was released from portfolio-based allowances (2012: additions of € 13 million). This was due to the improved economic situation applicable for some financing arrangements as well as successful restructurings, which also resulted in a decline in the non-performing loans.

General Administrative Expenses General administrative expenses of € 66 million were slightly lower than the corresponding previous year level (2012: € 69 million). The reduction in the headcount had a positive impact in this respect. The number of sales employees was increased in order to achieve greater market penetration. Reductions in the central areas more than compensated for this increase. Non-personnel expenses declined as a result of lower IT and consulting expenses. The cost-income ratio improved to 53.7 % (2012: 57.5 %).

Operating Segment Public Sector Finance (PSF)

Public Sector Finance		1.1.–30.6.2013	1.1.–30.6.2012	Δ in € million
Operating performance				
Operating revenues	in € million	20	19	1
Net interest income and similar income	in € million	29	31	–2
Net commission income	in € million	–	–1	1
Net trading income	in € million	–1	–1	–
Net income from financial investments	in € million	–	–3	3
Net income from hedge relationships	in € million	2	–1	3
Balance of other operating income/expenses	in € million	–10	–6	–4
Provisions for losses on loans and advances	in € million	–1	1	–2
General administrative expenses	in € million	24	26	–2
Balance of other income/expenses	in € million	–	–	–
Pre-tax profit/loss	in € million	–3	–8	5
Key ratio				
Cost-income ratio	in %	>100.0	>100.0	

The Public Sector Finance segment comprises the financing arrangements of the public sector. The segment comprises public-sector investment finance arrangements, in which pbb Group operates new business, as well as expiring budget financing. The result for the segment was higher than the corresponding previous year figure (2013: € –3 million; 2012: € –8 million).

In the field of Public Sector Finance, the markets in which the pbb Group primarily generates new business became more competitive. For instance, credit institutions from the public sector became more active in Germany. The pressure on margins increased as a result of this stronger competition. Nevertheless, the pbb Group was able to double its volume of new business compared with the previous year (2013: € 0.6 billion, 2012: € 0.3 billion). Of this figure, Germany accounted for 53 %, France accounted for 25 % and Finland accounted for 22 %. The budget financing portfolio still reflected the uncertainty attributable to the government debt crisis. The economies in some Southern European countries continued to be in recession. Government debt was still running at a high level. However, there were no defaults relating to the holdings of pbb Group in the first half of 2013. pbb Group has not identified any objective indications of an impairment.

Operating Revenues Operating revenues in the Public Sector Finance operating segment amounted to € 20 million, and were roughly in line with the corresponding previous year figure (2012: € 19 million). Net interest income benefited from repayments of receivables and redemptions of liabilities. Compared with the first half of 2012, the reduced average holdings of interest-bearing assets of budget financing and public investment finance had a negative impact on net interest income. Net commission income was balanced outin the period under review (2012: € –1 million). Net trading income of € –1 million (2012: € –1 million) was affected by interest-rate-related changes in the market value of derivatives as well as the bilateral credit value adjustment. Net income from financial investments was balanced out (2012: € –3 million). The net income from hedge relationships allocated to the PSF operating segment amounted to € 2 million, and was higher than the corresponding previous year figure (2012: € –1 million). Balance of other operating income/expenses amounted to € –10 million (2012: € –6 million), and included allocated expenses for the bank levy of € –3 million (2012: € –8 million).

Provisions for Losses on Loans and Advances In the first half of 2013 provisions for losses on loans and advances amounted to € –1 million (2012: € 1 million) and resulted from a release of portfolio-based allowances.

General Administrative Expenses General administrative expenses of € 24 million were slightly lower than the corresponding previous year level due to the lower average headcount (2012: € 26 million). The cost-income ratio continued to be higher than 100.0 %.

Operating Segment Value Portfolio (VP)

Value Portfolio		1.1.–30.6.2013	1.1.–30.6.2012	Δ in € million
Operating performance				
Operating revenues	in € million	64	79	–15
Net interest income and similar income	in € million	–	5	–5
Net commission income	in € million	–	–	–
Net trading income	in € million	–	–	–
Net income from financial investments	in € million	–	–	–
Net income from hedge relationships	in € million	–	–	–
Balance of other operating income/expenses	in € million	64	74	–10
Provisions for losses on loans and advances	in € million	–	–	–
General administrative expenses	in € million	66	69	–3
Balance of other income/expenses	in € million	–	–	–
Pre-tax profit/loss	in € million	–2	10	–12
Key ratio				
Cost-income ratio	in %	>100.0	87.3	

The Value Portfolio segment mainly comprises the income and expenses attributable to the services of pbb Group for the ongoing operation of FMS Wertmanagement as well as IT services provided to the affiliated company DEPFA. The segment also comprises non-strategic portfolios, for instance selected structured products. Lower income for the servicing of FMS Wertmanagement was the reason for the decline in the result compared with the corresponding previous year. Because the transferred portfolio declined further in the year under review, the volume of necessary services also declined accordingly.

Operating Revenues In the period under review, operating revenues in the Value Portfolio segment declined to € 64 million (2012: € 79 million). Balance of other operating income/expenses declined to € 64 million (2012: € 74 million). Balance of other operating income/expenses which is attributable to services for the ongoing operation of FMS Wertmanagement and which corresponded to general administrative expenses amounted to € 42 million, and was thus lower than the corresponding previous year figure (2012: € 53 million). The income generated by IT services provided to the affiliated company DEPFA amounted to € 21 million, and was higher than the corresponding figure for the previous year period (2012: € 17 million).

General Administrative Expenses General administrative expenses amounted to € 66 million, and were lower than the corresponding figure for the first half of 2012 (2012: € 69 million), because the portfolio managed by FMS Wertmanagement was reduced further, which meant that there was a decline in the expenses of the corresponding servicing. In addition, this item includes expenses of IT services and projects which were charged on to the affiliated company DEPFA. The income generated by the onward charging of these services is shown in the balance of other operating income/expenses. Because operating revenues declined to a greater extent than general administrative expenses, the cost-income ratio increased to more than 100.0 % (2012: 87.3 %).

Consolidation & Adjustments

Consolidation & Adjustments		1.1.– 30.6.2013	1.1.– 30.6.2012	△ in € million
Operating performance				
Operating revenues	in € million	7	5	2
Net interest income and similar income	in € million	7	5	2
Net commission income	in € million	−1	–	−1
Net trading income	in € million	–	–	–
Net income from financial investments	in € million	–	–	–
Net income from hedge relationships	in € million	–	–	–
Balance of other operating income/expenses	in € million	1	–	1
Provisions for losses on loans and advances	in € million	–	–	–
General administrative expenses	in € million	–	–	–
Balance of other income/expenses	in € million	–	–	–
Pre-tax profit/loss	in € million	7	5	2

In Consolidation & Adjustments, the sum of the segment results is reconciled with the consolidated results. This column contains consolidations as well as certain expenses and income which do not fall under the scope of the various operating segments.

Pre-tax profit in Consolidation & Adjustments was positive (€ 7 million; 2012: € 5 million). The net interest income was generated primarily as a result of the equity which was not allocated to the segments.

Development in Assets

Assets in € million	**30.6.2013**	**31.12.2012**[1]	in € million
Cash reserve	1,213	1,937	−724
Trading assets	2,288	3,325	−1,037
Loans and advances to other banks	5,402	7,995	−2,593
Loans and advances to customers	46,630	49,590	-2,960
Allowances for losses on loans and advances	−286	−325	39
Financial investments	21,740	25,572	−3,832
Property, plant and equipment	2	2	–
Intangible assets	36	39	−3
Other assets	5,462	7,242	−1,780
Income tax assets	1,362	1,704	−342
Current tax assets	53	53	–
Deferred tax assets	1,309	1,651	−342
Total assets	**83,849**	**97,081**	−13,232

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

General Development in Assets Total assets of pbb Group amounted to € 83.8 billion as of the balance sheet date, and was thus € 13.2 billion lower than the corresponding figure at the end of the previous year (2012: € 97.1 billion). However, the nominal volume of the strategic portfolios of the disbursed real estate financing arrangements and the disbursed public investment financing arrangements was virtually unchanged in the first half of the year (2013: € 29.1 billion; 2012: € 29.8 billion). New business almost completely compensated for the early and scheduled repayments.

Most of the decline in the balance sheet total is attributable to the repayment of the three-year tender, the reduction in line with overall strategy of the non-strategic portfolios, market-related factors and the further reduction of the effects which had arisen as a result of the transfer of positions to FMS Wertmanagement. The liquidity of € 4.0 billion which was raised in December 2011 and February 2012 within the framework of the three-year tender was completely repaid at the first possible dates in January and in February 2013. The decline in the non-strategic portfolios is reflected mainly in budget financing, in which the nominal volume declined by € 1.4 billion in the first half of 2013 (2013: € 26.3 billion; 2012: € 27.7 billion). As a result of changes in the level of interest rates and also the scheduled reduction, the market value of the derivatives on the assets side of the balance sheet, excluding the back-to-back transactions with FMS Wertmanagement, declined by € 1.9 billion to € 7.2 billion as of 30 June 2013. The fair value hedge adjustments in relation to the underlyings declined by € 0.8 billion to € 3.5 billion as a result of interest rate factors. The effects resulting from the transfer to FMS Wertmanagement declined further in the first half of 2013. For instance, holdings of back-to-back derivatives were reduced as a result of novations by € 0.7 billion to € 0.3 billion as of 30 June 2013. The volume of the synthetically transferred mortgage cover fund portfolio declined by € 0.9 billion to € 6.6 billion. Total assets declined by a further € 2.2 billion as a result of maturities of securities which had been issued by FMS Wertmanagement.

Overall, there was a reduction in the exposure to Italy, Portugal and Spain in the first half of 2013. This exposure comprised receivables and securities relating to central governments, states and local authorities and state-backed counterparties as well as interest derivatives relating to central governments, states and local authorities. As of 30 June 2013, pbb Group did not have any exposure to Greece, Ireland and Cyprus. The creditworthiness premiums of the countries which are currently the focus of attention were volatile in the first half of 2013.

EU-Covenants Relating to the Total Assets As at 30 June 2013, pbb Group complied with all covenants relating to the total assets which had been imposed by the European Commission in connection with the approval of state aid. Accordingly, the total assets adjusted by certain opposite effects attributable to the transfer of positions transferred to FMS Wertmanagement amounted to € 83.5 billion as of balance sheet date (2012: € 95.4 billion), and were thus lower than the prescribed maximum limit of € 105.0 billion as of 31 December 2012 and as of 31 December 2013. The strategic total assets adjusted by the holdings of synthetically transferred mortgage cover funds and the holdings of pure budget financing amounted to € 50.2 billion (2012: € 59.8 billion), and were also lower than the prescribed maximum limit of € 71.0 billion as of 31 December 2012 respectively € 75.0 billion as of 31 December 2013.

Development in the Financial Position

Equity and liabilities in € million	30.6.2013	31.12.2012[1]	Δ in € million
Liabilities to other banks	2,945	7,797	−4,852
Liabilities to customers	12,102	11,895	207
Liabilities evidenced by certificates	47,832	52,550	−4,718
Trading liabilities	2,154	3,192	−1,038
Provisions	259	235	24
Other liabilities	11,926	14,438	−2,512
Income tax liabilities	1,376	1,698	−322
Current tax liabilities	72	64	8
Deferred tax liabilities	1,304	1,634	−330
Subordinated capital	1,922	1,993	−71
Financial liabilities	**80,516**	**93,798**	−13,282
Financial equity	**3,333**	**3,283**	50
Total equity and liabilities	**83,849**	**97,081**	−13,232

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

Liabilities

Total equity and liabilities of the Group amounted to € 80.5 billion as of 30 June 2013, compared with € 93.8 billion as of the previous year reference date. As was the case on the assets side of the balance sheet, the decline was mainly attributable to the repayment of the three-year tender totalling € 4.0 billion. The securitised liabilities declined as a result of expiring issues, which were only partially replaced by new issues. The reduction on the equity and liabilities side of the balance sheet was also attributable to the further decline in the effects which occurred in connection with the process of transferring positions to FMS Wertmanagement. The negative market values of the back-to-back derivatives with FMS Wertmanagement and the corresponding derivatives with external third parties were reduced from € 1.0 billion last year to € 0.3 billion as of the balance sheet date by way of novations.

In addition to the reducing effects attributable to the transfer of positions to FMS Wertmanagement, the lower refinancing requirement due to the process of streamlining some portfolios on the assets side of the balance sheet in line with overall strategy also resulted in a reduction in the volume of liabilities shown on the balance sheet.

The fact that excess liquidity was invested with the central bank for FMS Wertmanagement resulted in an increase of € 0.6 billion in liabilities to customers (30 June 2013: € 1.1 billion; 2012: € 0.5 billion).

Market-related factors had the effect of increasing the total assets, because the market values of the derivatives and the underlyings measured at fair value increased primarily in fair value hedge accounting as a result of the lower level of long-term interest rates.

Capital

Development of Financial Equity The equity attributable to shareholders has developed as follows:

Financial position equity in accordance with IFRS			
in € million	30.6.2013	31.12.2012[1]	△ in € million
Equity attributable to equity holders	**3,333**	**3,283**	50
Subscribed capital	380	380	–
Silent participation	999	999	–
Additional paid-in capital	5,036	5,036	–
Retained earnings	–3,097	–3,166	69
Profits/losses from pension commitments	–46	–46	–
Foreign currency reserve	–29	–29	–
Revaluation reserve	49	40	9
AfS reserve	–292	–360	68
Cash flow hedge reserve	341	400	–59
Consolidated profit/loss 1.1.–30.6./31.12.	41	69	–28
Total financial position equity	**3,333**	**3,283**	50

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

Capital Measures The subscribed capital of Deutsche Pfandbriefbank AG (referred in the following as pbb) amounted to € 380,376,059.67 as of 30 June 2013, and also as of 31 December 2012, and comprised 134,475,308 no-par-value bearer shares each with a theoretical interest of € 2.83 in the subscribed capital. Hypo Real Estate Holding AG was the sole shareholder of pbb. There was no contingent or authorised capital as of the balance sheet date.

Equity disclosed on the balance sheet amounted to € 3.3 million as of the balance sheet date (2012: € 3.3 million). No capital increases or capital reductions were carried out in the first half of 2013 and in the fiscal year 2012. The new equity position «Profits/losses from pension commitments» resulted from the mandatory first adoption of IAS 19 (revised). This item comprises actuarial gains/losses from defined benefit pension commitments. Actuarial gains/losses relate to the effects from the differences between actuarial assumptions and the actual results (so-called experienced-based adjustments) and the effects arising from changes in the actuarial assumptions. The negative equity item of € – 46 million (2012: € – 46 million) was mainly attributable to the fact that the rate which has to be used for discounting defined-benefit pension obligations has fallen considerably in recent years.

No specific capital measures are planned at present. However, within the framework of the approval decision in the aid proceedings, the European Commission has specified that pbb will have to be reprivatised as quickly as possible, and by not later than at the end of 2015.

Regulatory Indicators According to German Solvency Regulation In accordance with the waiver rule set out in Section 2 a KWG, pbb is exempted from the requirement to establish the equity and core capital ratios at the level of the institution. pbb Group voluntarily discloses these figures on a pro forma basis.

The regulatory capital of pbb Group in accordance with the Solvency Regulation (Solvabilitätsverordnung; SolvV) on a pro forma basis is as follows:

Own funds[1] in € million	30.6.2013	31.12.2012
Core capital (Tier I)	2,896	2,898
Supplementary capital (Tier II)	1,129	1,179
Equity capital	**4,025**	**4,077**
Tier III capital	–	–
Total	**4,025**	**4,077**

[1] Consolidated pursuant to section 10 a German Banking Act (KWG); pro forma as per prepared annual financial statements and after result distribution

The capital ratios have been determined on the basis of the definition of shareholders' equity in accordance with SolvV and also using risk-weighted assets in accordance with Basel II. On a pro forma basis, the capital ratios are as follows:

Key capital ratios[1] in %	30.6.2013	31.12.2012
Core capital ratio[2]	20.1	18.9
Equity capital ratio[3]	28.2	26.7
Own funds ratio (overall indicator)[2]	27.9	26.6

[1] Pro forma as per prepared annual financial statements and after result distribution
[2] Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5
[3] Including risk-weighted credit risk positions as well as the capital requirements for operational risks scaled with the factor 12.5

Capital is managed on the basis of the Solvency Regulation (Solvabilitätsverordnung; SolvV) and the requirements of section 10 of the German Banking Act (Kreditwesengesetz; KWG). Accordingly, the equity capital ratio (equity/risk-weighted assets) is not permitted to fall below 8.0%; in addition, the percentage of core capital in relation to shareholders' equity must be at least 50%, which means that the core capital ratio must be at least 4.0%. At the same time, it is necessary to comply with the own-fund ratio of min. 8.0% calculated on the basis of the ratio between the own funds and the total of risk-weighted assets and the multiple of 12.5 times the amounts recognised for market risk positions. These requirements were satisfied throughout the whole of the first half of 2013 and the fiscal year 2012.

Liquidity

Principles and Objectives of the Liquidity and Financial Management The primary objective of financial management of pbb Group is to assure and manage liquidity of pbb and its subsidiaries in such a way that their financing and funding capability is guaranteed at all times. In pbb Group, Treasury is responsible for central liquidity management by way of raising and investing liquidity on the money and capital markets and the interbank money market as well as with central banks and other liquidity sources. On the other hand, the liquidity risk strategy forms part of the risk strategy of Hypo Real Estate Group (referred in the following as HRE).

Maturities Management of the balance sheet structure of pbb Group is the responsibility of the Group Asset and Liability Committee (ALCO) of HRE, which simultaneously operates for pbb Group. The ALCO is chaired by the member of the Management Board responsible for Treasury and Asset Management and comprises the CRO, the CFO and the heads of Treasury and Asset Management, Finance, Risk Management and Control. It meets on a monthly basis. The remaining terms of the assets and liabilities are compared in the following:

Maturity structure of financial position	30.6.2013		31.12.2012	
in € million	Assets	Equity and liabilities	Assets	Equity and liabilities
Total	**83,849**	**83,849**	**97,081**	**97,081**
up to 3 months	8,340	6,567	14,831	10,425
3 months to 1 year	6,719	5,121	6,702	6,278
1 year to 5 years	28,550	27,415	30,607	28,786
5 years and over	31,376	25,698	32,954	28,746
Other assets[1)2)]/equity and liabilities[1)3)]	8,864	19,048	11,987	22,846

1) Adjustment due to retrospective IAS 19 (revised) first time adoption. Details are disclosed in Note Principles
2) Trading assets, allowances for losses on loans and advances, property, plant and equipment, intangible assets, other assets, income tax assets
3) Trading liabilities, provisions, other liabilities, income tax liabilities, equity

Liquidity Management Within pbb Group, liquidity management is the central responsibility of the Treasury function of pbb. The sales entities receive internal one-to-one funding when new business is concluded. This means that the interest, currency and loan default risks are pooled and managed centrally. At pbb, the liquidity ratio is calculated at the level of the individual bank in accordance with the Liquidity Regulations, and amounted to 2.28 as of the balance sheet date (2012: 2.28). It was thus considerably higher than the legal minimum limit of 1.0. The requirement of monitoring international regulations for operating facilities in relation to the liquidity ratio is also complied with, if this is demanded by local regulatory authorities.

Funding The monetary policy of central banks and the fact that interest rates are currently at an all-time low have boosted investor demand for investment opportunities with an enhanced yield. Uncovered issues benefited from the increase in risk propensity at the beginning of 2013. Due to the increasing volatility of the market resulting from the bailout in Cyprus and concerns regarding the possibility of abandoning quantitative easing, the Pfandbrief has become even more attractive for investors.

pbb Group has taken advantage of the favourable market conditions and has further increased its issuing activity. Pfandbriefe are the main refinancing means of pbb Group. Unsecured refinancing arrangements are also used. Most issues are carried out on a fixed-income basis. On the other hand, new business on the assets side of the balance sheet is currently concluded mainly on a floating interest basis, whereby the interest rate risk of the borrower is generally hedged with a customer derivative. Open interest positions of the Group are generally hedged by swapping fixed interest rates for variable interest

rates. In the first half of 2013, pbb Group underlined its activity on the refinancing markets by issuing a public Pfandbrief with a maturity of 15 years and also by issuing an uncovered bond. The issue volume in the first half of 2013 almost matched the corresponding figure for the whole of the fiscal year 2012. In addition, the end of maturity of the issues was after 2015, i.e. after the reprivatisation time prescribed by the EU Commission. This has reflected the confidence of investors in pbb Group. The issues and the increases were used to replace expiring paper if necessary for refinancing lending business. Overall, the securitised liabilities amounted to € 47.8 billion as of the balance sheet date (2012: € 52.6 billion). The covered liabilities accounted for 63.6 % of the total liabilities (2012: 63.8 %). In addition, since March 2013 pbb Group has been offering overnight investments and time deposit investments for private investors. In this way, pbb Group has opened up a further source of refinancing.

Benchmark issues

ISIN	Announcement	Settlement	Maturity	Coupon	Volume	Issue price	Currency
DE000A1RFBU5 (unsecured benchmark issue)	17.1.2013	24.1.2013	19.7.2016	2.000 %	500 million	99.587 %	EUR
DE000A1RFBY7 (mortgage Pfandbrief)	23.1.2013	30.1.2013	30.1.2017	0.875 %	500 million	99.785 %	EUR
DE000A1RFBU5 (1st tap)	14.2.2013	21.2.2013	19.7.2016	2.000 %	360 million	100.382 %	EUR
DE000A1R0527 (mortgage Pfandbrief)	11.3.2013	18.3.2013	18.3.2020	1.500 %	500 million	99.487 %	EUR
DE000A1R0584 (mortgage Pfandbrief)	8.5.2013	16.5.2013	16.5.2016	variable[1]	200 million	99.852 %	GBP
DE000A1R06C5 (public Pfandbrief)	22.5.2013	29.5.2013	29.5.2028	2.375 %	500 million	99.612 %	EUR
DE000A1R0527 (1st tap)	28.5.2013	4.6.2013	18.3.2020	1.500 %	250 million	100.835 %	EUR
DE000A1PG3M8 (1st tap)[2]	28.5.2013	4.6.2013	20.12.2019	1.875 %	75 million	99.589 %	GBP

[1] three-months Libor plus 45 basis points
[2] Tap of a mortgage Pfandbrief of originally GBP 250 million of 6 November 2012

Ratings The following table summarises pbb's senior unsecured ratings and Pfandbrief ratings:

Senior unsecured ratings and ratings for Pfandbriefe of pbb[1]		30.6.2013			31.12.2012		
		Fitch Ratings	Moody's	Standard & Poor's	Fitch Ratings	Moody's	Standard & Poor's
pbb	Long-term rating	A–	Baa2	BBB	A–	Baa2	BBB
	Outlook	Stable	Negative	Stable	Stable	Negative	Stable
	Short-term rating	F1	P–2	A–2	F1	P–2	A–2
Public sector Pfandbriefe		–	Aa1	AA+[3]	–	Aa1	AA+[2]
Mortgage Pfandbriefe		–	Aa2	AA+[3]	–	Aa1[2]	AA+[2]

[1] Ratings from mandated rating agencies
[2] Review for downgrade
[3] Stable outlook

The rating agencies may alter or withdraw their ratings at any time. For the evaluation and usage of ratings, please refer to the rating agencies' pertinent criteria and explanations and the relevant terms of use are to be considered. Ratings should not substitute individual analysis. Ratings do not constitute any recommendation to purchase, hold or sell securities issued by pbb.

pbb's senior unsecured ratings assigned by Fitch Ratings, Moody's and Standard & Poor's remained unchanged during the first half of 2013. Fitch affirmed pbb's ratings in March 2013 in the context of a review of ratings assigned to German commercial real estate banks.

At the beginning of January 2013 Standard & Poor's affirmed the ratings of pbb's covered bond programmes. The outlook for the long-term ratings of both programmes is stable. Moody's lowered the rating for the mortgage Pfandbriefe in April 2013 to Aa2 from Aa1.

Off-balance-sheet Obligations The irrevocable loan commitments represent most of the off-balance-sheet obligations, and increased from €1,035 million as of 31 December 2012 to € 1,758 million as of 30 June 2013 as a result of new business which has not yet been completely disbursed. The contingent liabilities arising from guarantees and warranty agreements amounted to € 58 million as of the balance sheet date (2012: € 75 million).

Summary

pbb Group closed the first half of 2013 with positive pre-tax profit of € 60 million, and has thus been continuously profitable for three years. In this three-year period, the pbb Group has generated a cumulative pre-tax profit of € 589 million.

In the first half of 2013, pre-tax profit was higher than the corresponding figure for the previous year period. As was the case last year, general administrative expenses declined further. The decline in assets and liabilities was mainly attributable to the repayment of the three-year tender. The requirements regarding the regulatory capital ratios in accordance with the Solvency Regulations were satisfied throughout the period under review.

Events after 30 June 2013

After 30 June 2013 there were no material events.

Risk and Opportunity Report

The risk and opportunity report shows the risks and also the opportunities identified for the individual risk types within the framework of the implemented risk management and risk controlling system. With regard to risks and opportunities relating to all areas of the Company and also general Company-specific risks and opportunities, please refer to the details in the forecast report of the Annual Report 2012.

Organisation and Principles of Risk and Capital Management

HRE has set up a Group-wide risk management and risk controlling system which represents as well an important precondition for the application of the so-called waiver according to Section 2 a KWG. All tasks in accordance with Section 25 a KWG for uniform risk identification, measurement and limiting as well as risk management are defined centrally by HRE. Operational implementation is the responsibility of the respective subsidiary and thus also of pbb which is relevant for pbb Group. This risk and opportunity report also covers opportunities within the framework of a quality assessment.

Organisation and Committees

With regard to Organisation and Committees, please refer to the Risk and Opportunity Report in the Annual Report 2012 of pbb Group.

Risk Strategy and Policies

The risk strategy of pbb Group is based on the business strategy, risk inventory and the results of the Group-wide financial planning process. It is applicable for the operating segments and all legal entities of pbb Group. The risk strategy reflects the strategic focus of pbb Group as a specialist for real estate finance and public investment finance in Germany and selected countries in Europe with Pfandbrief-oriented refinancing. It is reviewed at least annually and updated if applicable. The risk strategy was revised in March 2013, adopted by the Management Board of pbb and presented to the Supervisory Board of pbb to be noted. The revision of the risk strategy mainly took account of the updated business strategy and thus in particular the new business planning for the year 2013.

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

Risk Reporting

With regard to Risk Reporting, please refer to the Risk and Opportunity Report in the Annual Report 2012 of pbb Group.

Risk Quantification and Risk Management

The credit risk, market risk, business risk, property risk and operational risk in particular are quantified and backed with available financial resources as part of the risk-bearing capacity analysis. The liquidity risk is quantified on the basis of the liquidity position. The individual calculation methods are described in detail in the risk and opportunity report in the chapters «Result of Risk-bearing Capacity Analysis» respectively «Liquidity Risk».

Further risk types which are considered to be major as part of the regular internal risk inventory, such as regulatory risks as well as risks which are considered to be immaterial, are not measured quantitatively; instead, they are managed and limited by way of regular detailed reports, clear specifications, e.g. the regulations concerning compliance and corporate governance.

At the portfolio level and at the level of individual transactions, risk in pbb Group is managed by:

1. Monitoring the risk-bearing capacity of pbb Group on the basis of comparing economic capital and available financial resources.
2. Monitoring of the risk-weighted assets (RWA) of pbb Group at the portfolio level by means of stress tests which are intended to ensure that the core Tier 1 ratio does not fall below 9%.
3. Operational risk management via the following:
    - The use of Basel-II-compliant risk parameters in lending business of pbb Group. The Basel-II-compliant management approach shows the average expected loss at the borrower level, and is therefore a major component for the early recognition of risks and ongoing profitability monitoring. The parameters are reviewed and recalibrated annually.
    - A limit system for counterparty and issuer risks on the basis of a standard application which has been tested in the market with a risk measurement method that is uniform throughout the Group.
    - Intensive monitoring and management of individual exposures.
    - Monitoring the risk of losses by way of appropriate impairment triggers in accordance with IAS 39.
4. Daily monitoring of market risk.
5. Daily monitoring of liquidity risk.
6. Monitoring of operational risk.

Economic Capital and Monitoring the Risk-bearing Capacity

In accordance with Section 25 a (1) KWG, credit institutions are obliged to set up appropriate and effective procedures in order to ensure that their risk-bearing capacity can be determined and assured in the long term. These procedures complement the regulatory procedures defined in the Solvency Regulation. The Bank's own risk-bearing capacity calculation is the subject of regulatory reviews («Supervisory Review and Evaluation Process», SREP).

pbb Group has implemented an Internal Capital Adequacy Assessment Process (ICAAP). The proof of the internal capital adequacy is based on the concept of economic capital.

Economic capital is defined as the quantity of capital required by a bank in order to cover the largest potential total loss with a defined probability (the confidence level) over a time horizon of one year.

The risk-bearing capacity of the pbb Group is detailed in two different management approaches (namely the going-concern approach and the gone-concern approach). The going-concern approach is based on the assumption that business will be continued and that the regulatory minimum capital ratios will be complied with in a severe economic downturn. This approach ensures that the pbb Group will comply with the minimum capital ratios specified by the regulator even after losses have been recognized in such a scenario. In addition, this management approach features an extensive early warning system which generates relevant early warning signals considerably before the minimum ratios are attained.

The gone-concern approach instead deals with the theoretical liquidation of the institution under two complementary perspectives. Firstly, there is the so-called instantaneous liquidation perspective which, in a theoretical liquidation case, does not assume opportunistic winding up of the portfolios unlike that demanded by the German Pfandbrief Act and instead is based on the assumption of the immediate sale of major assets, inter alia, the securities of the banking book. According to this assumption and in addition to the above-mentioned major risks the instantaneous liquidation perspective also takes account of credit spread risks arising from securities in the banking book for calculating the economic capital and deducts the hidden losses attributable to these securities for determining the available financial resources. Secondly, pbb Group has developed a strategic gone-concern perspective which focuses on strategic business for calculating the economic capital. Risks from the Budget Finance portfolio and the Value Portfolio which are earmarked for being streamlined are covered by way of a buffer.

For these two perspectives, the confidence level is 99.91%. It is based in the average probability of default of companies which have been awarded good long-term credit ratings by external rating agencies, namely A– at Standard & Poor's and Fitch Ratings and A–/A3 at Moody's, and is consistent with the fundamentally conservative parameters in the risk models. The methods of calculating the economic capital for the individual risk types as well as current results are described in greater detail in the chapter «Result of Risk-bearing Capacity Analysis».

In order to assess the adequate capitalisation of pbb Group and for the proof of the risk-bearing capacity in the relevant approach, the amount of economic capital is compared with the respective available financial resources. For instance in the leading going-concern perspective, the available financial resources essentially comprise the core capital in accordance with HGB less the capital which is maintained for assuring the regulatory minimum ratios. The remaining core Tier 1 capital is suitable for absorbing potential losses and for maintaining a corresponding risk buffer. For determining the available financial resources, the gone-concern approach takes account of IFRS equity as well as subordinate positions with a maturity of more than one year and of hidden losses of bonds. In order to verify the risk-bearing capacity, the economic capital must be completely covered by the available financial resources.

The results of the risk-bearing capacity analysis and of the stress tests are regularly presented to the central Management Board and the Group Risk Committee. The results are discussed there and if necessary management measures are defined.

Major Risk Types

pbb Group distinguishes the following major risk types for its business activities:
> Credit risk
> Market risk
> Liquidity risk
> Operational risk
> Business risk (partial consideration within the scope of the risk-bearing capacity analysis)
> Property risk (consideration within the scope of the risk-bearing capacity analysis)

The following are major risk types of pbb Group which are not quantified but which are limited by means of suitable reports, guidelines and policies:
> Strategic risks
> Reputational risks
> Regulatory risks

Credit Risk

Definitions, Credit Risk Strategy and Principles

With regard to Definitions, Credit Risk Strategy and Principles, please refer to the Risk and Opportunity Report in the Annual Report 2012 of pbb Group.

Credit Risk Reports

The credit risk reports provide information about the following main components:
> The HRE Group Risk Report contains the development in volumes as well as relevant credit risk management indicators such as the development of the expected loss as well as the unexpected loss via value at risk (VaR). The report shows the credit risk at HRE Group level and also at the level of pbb Group in the context of the overall bank risk and the risk-bearing capacity, it reports limit utilisations and violations of existing limits, and also identifies risk concentrations. Key indicators, such as the development of the exposure at default (EaD), the expected loss (EL) and the credit value at risk (credit VaR) are integrated in this report and are discussed by the Management Board; the report is also submitted to the Risk Management and Liquidity Strategy Committee (RLA) of the Supervisory Board to be noted.
> For decisions relating to new business and adjustments of terms, major parameters, contents and analyses are presented to the Credit Committee and discussed.
> In the active business, further regular reports support operational management with regard to the management and timely recognition of risks at the sub-portfolio level.
> Unusual developments which might result in a major deterioration in the risk position of an individual exposure are reported to a wider group by way of so-called «Credit Issue Notes».

Credit Risk Quantification via Economic Capital and Risk-weighted Assets under Basel II

Credit Portfolio Model For calculating the economic credit risk capital (credit risk VaR) pbb Group uses a credit portfolio model which is described in greater detail in the section «Result of Risk-bearing Capacity Analysis».

Stress Tests The stress tests for economic capital in credit risk are described in greater detail in the section «Result of Risk-bearing Capacity Analysis».

In addition to the stress tests for economic capital, there are also RWA reverse stress tests. They investigate the extent to which a certain risk parameter (e.g. rating, loss-given default (LGD), currency) can change before the minimum core Tier 1 ratio of 9 % is no longer met. Tolerance change levels have been defined for all tested risk parameters; these levels must not be violated if the test of pbb Group is to be successfully completed.

Credit Risk Quantification According to Basel II pbb Group – apart from the portfolio of the former DEPFA Deutsche Pfandbriefbank AG – has already received regulatory approval to apply the so-called Advanced Internal Rating-Based Approach (Advanced IRBA) for determining the regulatory capital backing. The final result of the regulatory audit for the introduction of the Advanced IRBA at former DEPFA Deutsche Pfandbriefbank AG is expected in the second half of 2013.

Credit Risk Management and Monitoring

Credit Risk Management With regard to Credit Risk Management, please refer to the Risk and Opportunity Report in the Annual Report 2012 of pbb Group.

Credit Risk Management and Monitoring With regard to Credit Risk Management and Monitoring, please refer to the Risk and Opportunity Report in the Annual Report 2012 of pbb Group.

Hedging and Minimising Risk by Collateral

In the Real Estate Finance segment, financing arrangements are backed by property charges. On the occasion of the regular credit reports for existing financing arrangements or as part of the decision-making process in the case of new financing, the LTVs (loan-to-value) as well as the property (micro and macro location, rental situation, condition of property) and market circumstances are regularly discussed and are also taken into consideration as part of the assessment process for individual loans. On average, the loss-given default (LGD) was 16 % for commercial real estate financing arrangements which have not defaulted (December 2012: 17 %). For the entire real estate finance portfolio, the LGD average was 18 % (December 2012: 18 %).

In addition to the property charges, the financing securites in the Real Estate Finance segment generally comprise rent assignation and the assignation of insurance claims (in the respective form of the various jurisdictions), accompanied by extensive notification and consultation obligations of the borrowers. Apart from the property charges, only a few selected securities are considered to be of value in the credit assessment process, and in particular this is applicable for cash security as well as guarantees of public-sector institutions. Corresponding haircuts are recognised in relation to foreign currency security in order to take account of potential exchange rate risks.

With regard to the valuation of real estate in the Real Estate Finance segment, please refer to the Risk and Opportunity Report in the Annual Report 2012 of pbb Group.

In the Public Sector Finance field and especially in Public Investment Finance other financial securities and guarantees are also accepted as collateral (e.g. credit insurances, contractual guarantees from public authorities, fixed-income securities, purchase of receivables, etc.). Additionally, in Public Investment Finance there exist legal framework requirements as the maintenance obligation, which allow recourse on a public sector entity.

Credit Portfolio

The entire credit portfolio of pbb Group was calculated by using a standard method on the basis of the Basel-II-compliant exposure at default (EaD).

The EaD recognises the current utilisation as well as pro rata credit interest in relation to which a borrower may default before an exposure is defined as having defaulted (max. default of 90 days), as well as those credit commitments which a borrower will still be able to utilise in future despite a major deterioration in creditworthiness. In the case of derivatives, the EaD is defined as the sum of the current market value and the regulatory add-on, which constitutes a cushion for future potential increases of the market value.

The Group-wide EaD of the credit portfolio amounted to € 67.9 billion as of 30 June 2013 (EaD 31 December 2012: € 76.2 billion). This figure includes the EaD with respect to FMS Wertmanagement which is not considered to be part of the core exposure of the pbb Group, and which declined from € 0.2 billion as of the end of 2012 to € 0.1 billion. This amount is attributable to so-called back-to-back transactions. Background is that 2010 for most of the derivatives earmarked to be transferred to FMS Wertmanagement, it was not possible initially to arrange the transfer of beneficial ownership, which meant that the market price risks of the derivatives were transferred to FMS Wertmanagement by way of concluding derivatives with identical conditions between pbb Group and FMS Wertmanagement.

In addition, the credit portfolio EaD of € 67.9 billion also included assets with an EaD of € 0.6 billion (31 December 2012: € 0.7 billion) which have been selected to be transferred to FMS Wertmanagement but which were not able to be transferred via the originally envisaged method as a result of various considerations, including considerations of tax law. In 2010, the credit risks of these assets was transferred by means of guarantees provided by FMS Wertmanagement, so that pbb Group ultimately retains a counterparty risk with regard to FMS Wertmanagement in connection with these positions.

To properly reflect the actual economic risk in pbb Group, the above-mentioned EaDs which are not considered as core exposure and which are attributable to back-to-back transactions with FMS Wertmanagement as well as the positions guaranteed by FMS Wertmanagement have been detailed merely for information purposes in the following overviews of the portfolio development and structure by means of footnotes.

Considering the above-mentioned restrictions the EaD for the total exposure of pbb Group amounted to € 67.2 billion as of 30 June 2013 (31 December 2012: € 75.3 billion).

Overview of the Total Exposure of pbb Group: € 67.2 billion EaD The credit portfolio is broken down into the following segments:
> Real Estate Finance (REF)
> Public Sector Finance (PSF)
> as well as the non-strategic segment Value Portfolio (VP) which is earmarked for being wound down.

In addition to the internal reconciliation and consolidation positions, «Consolidation & Adjustments» shows the EaD for transactions which are not directly attributable to the operating segments. These are basically asset positions for asset and liability management.

As of 30 June 2013, 75 % of the EaD in «Consolidation & Adjustments» was attributed to the rating classes AAA to AA– (31 December 2012: 88 %) and 19 % of the EaD was attributed to the rating classes A+ to A– (31 December 2012: 11%). 6 % of the EaD was in the rating classes BBB+ and worse (31 December 2012: 1 %).

Total portfolio: EaD according to business segments

in € billion	30.6.2013[1]	31.12.2012[2]	△ in € billion
Real Estate Finance	23.1	23.7	−0.6
Public Sector Finance	37.3	38.9	−1.6
Value Portfolio	0.2	0.3	−0.1
Consolidation & Adjustments	6.6	12.4	−5.8
Total	**67.2**	**75.3**	−8.1

[1] In addition € 0.8 billion EaD with regard to the counterparty FMS Wertmanagement including guaranteed positions of € 0.7 billion (C&A: € 0.0 billion; PSF: € 0.1 billion; VP: € 0.7 billion)
[2] In addition € 0.9 billion EaD with regard to the counterparty FMS Wertmanagement including guaranteed positions of € 0.7 billion (C&A: € 0.0 billion; PSF: € 0.2 billion; VP: € 0.7 billion)

As of 30 June 2013 the total exposure at default (EaD) of pbb Group decreased compared to year-end 2012 by € 8.1 billion to € 67.2 billion. Overall, the percentage in the Real Estate Finance segment (34 %; previous year: 31%) and in the Public Sector Finance segment (55 %; previous year: 52 %) increased whereas there were slight percentage decreases in the Value Portfolio (0.3 %; previous year: 0.4 %). The percentage attributable to Consolidation & Adjustments decreased from 17 % to 10 %.

In absolute terms, the content in Public Sector Finance has declined in line with the overall strategy (€ −1.6 billion) mainly as a result of the repayment or maturity of bonds and borrowers' note loans in the non-strategic budget financing portfolio which is earmarked for winding-up.

The considerable reduction in Consolidation & Adjustments is due to various factors, including the expiry of two bonds issued by FMS Wertmanagement (€ − 2.2 billion) which had been provided by FMS Wertmanagement in connection with the pro-rata settlement claim of the pbb Group for the transferred assets and liabilities.

Risk Parameters **Expected Loss** The expected loss (EL), which is calculated on the basis of the annual probability of default (PD), the loss-given default (LGD) and the exposure at default (EaD), was stated as €95 million as of 30 June 2013 using the parameters defined under Basel II (31 December 2012: €125 million). The decline in EL was mainly due to the recovery of a major financing agreement in the Real Estate Finance segment. There was a further reduction in the EL as a result of the creation of a new individual allowance, also in the Real Estate Finance segment, as the EL is no longer calculated for the corresponding position when an individual allowance has been created.

The expected loss for a time period of one year is calculated for the entire exposure, with the exception of trading book positions and non-performing loans for which an individual allowance has already been recognised. The figure was split to the segments as follows:

Total exposure: expected loss according to business segments			
in € million	**30.6.2013**	**31.12.2012**	Δ in € million
Real Estate Finance	76	103	−27
Public Sector Finance	18	21	−3
Value Portfolio	0	0	–
Consolidation & Adjustments	1	1	–
Total	**95**	**125**	−30

It has to be stated that future changes, for instance in the economy, may result in changes in the EL figures stated above. This is a further reason why realised losses can differ from the expected losses.

Economic Credit Risk Capital The economic capital for credit risk in the going-concern approach, that is for a confidence level of 95% and a period of one year, amounted to €224 million as of June 2013 (31 December 2012: €226 million) disregarding diversification effects to other risk types. Details regarding the calculation are set out in the section «Result of Risk-bearing Capacity Analysis».

Regional Breakdown of the Portfolio At the reporting date, the main focus of the exposure of pbb Group was unchanged on Western Europe. Germany continued to account for most of the overall exposure, with 45 % (€ 30.0 billion). At the end of 2012, Austria and Sweden were still shown under the category «Other Europe»; as of 30 June 2013, they were shown separately for the first time. The main items remaining in the category «Other Europe», which accounted for approximately 4% (€ 2.9 billion; 31 December 2012: € 2.6 billion) of the overall portfolio, were the Netherlands (€ 0.5 billion; 31 December 2012: € 0.5 billion), Belgium (€ 0.5 billion; 31 December 2012: € 0.5 billion) and Switzerland (€ 0.5 billion; 31 December 2012: € 0.5 billion) followed by Finland (€ 0.4 billion; 31 December 2012: € 0.1 billion). The increase in the category «Other Europe» by € 0.3 billion is almost entirely attributable to the expansion of the exposure in Finland.

After Germany, France accounted for the second highest figure, namely € 7.8 billion as of 30 June 2013 (31 December 2012: € 7.6 billion). The increase of € 0.2 billion in France is mainly due to the extending of loans and the purchasing of borrowers' note loans. Compared with the end of 2012, the exposure in Italy, Spain and Portugal declined as a result of the final maturity of securities and the repayment of borrowers' note loans. Compared with the previous year the percentage of the category «Emerging Markets» in accordance with the IMF definition remained stable and mainly comprised Poland with € 2.0 billion (31 December 2012: € 2.0 billion) and Hungary with € 0.7 billion (31 December 2012: € 0.7 billion).

Total portfolio: EaD according to regions in € billion	30.6.2013[1]	31.12.2012[2]	Δ in € billion	31.12.2012[2][3]
Germany	30.0	36.6	−6.6	36.6
France	7.8	7.6	+0.2	7.6
Austria	6.1	6.3	−0.2	–
Spain	4.3	4.6	−0.3	4.6
Great Britain	3.7	3.9	−0.2	3.9
Italy	3.3	3.4	−0.1	3.4
Emerging markets[4]	2.9	3.0	−0.1	3.0
Other Europe[5]	2.9	2.6	+0.3	10.5
Other	1.8	2.2	−0.4	2.2
Portugal	1.5	1.6	−0.1	1.6
Sweden	1.4	1.6	−0.2	–
Japan	0.9	1.1	−0.2	1.1
USA	0.5	0.7	−0.2	0.7
Ireland	0.1	0.1	–	0.1
Total	**67.2**	**75.3**	−8.1	**75.3**

[1] In addition € 0.8 billion EaD with regard to the counterparty FMS Wertmanagement including guaranteed positions of € 0.7 billion, the figures without guaranteed positions were fully attributable to Germany (€ 0.1 billion), the guaranteed positions related to Germany (55 %, € 0.4 billion) and Italy (45 %, € 0.3 billion)
[2] In addition € 0.8 billion EaD with regard to the counterparty FMS Wertmanagement including guaranteed positions of € 0.7 billion, the figures without guaranteed positions were fully attributable to Germany (€ 0.2 billion), the guaranteed positions related to Germany (54 %, € 0.4 billion) and Italy (46 %, € 0.3 billion)
[3] Figures as of Annual Report 2012
[4] Emerging markets in accordance with the IMF definition
[5] Comprises among others Belgium, Switzerland, Denmark, Finland and the Netherlands

Depending on the results of the internal rating process, maximum limits in certain rating ranges are defined for each individual country or groups of countries; these limit the business operations of pbb Group. All country ratings and country limits are reviewed at least once every year by Risk Management & Control.

Issuer Risk The bonds, borrowers' note loans and structured loans in the portfolio are broken down according to region for the purpose of classifying the EaD according to issuer risk. The EaD is attributed on the basis of the domicile of the issuer. The EaD according to issuer risk amounted to € 39.5 billion as of 30 June 2013, and was thus lower than the corresponding figure at the end of 2012 (€ 43.5 billion). Western Europe accounted for most of the exposure, whereby Germany accounted for the highest figure (namely € 15.0 billion; 31 December 2012: € 18.3 billion).

At the end of 2012, Austria and Sweden were still shown under the category «Other Europe»; as of 30 June 2013, they were shown separately for the first time. Sweden accounted for € 0.04 billion (31 December 2012: € 0.04 billion). Belgium accounted for most of the remaining exposure in the category «Other Europe» with € 0.5 billion (31 December 2012: € 0.5 billion). The increase of € 0.1 billion in the category «Other Europe» was almost entirely attributable to the expansion of exposure in Finland.

Total portfolio: issuer risk according to regions in € million	30.6.2013[1]	31.12.2012[2]	Δ in € billion	31.12.2012[2][3]
Germany	15.0	18.3	−3.3	18.3
Austria	6.0	6.1	−0.1	–
France	5.1	5.0	+0.1	5.0
Spain	3.8	4.0	−0.2	4.0
Italy	3.0	3.1	−0.1	3.1
Other	1.7	2.0	−0.3	2.0
Other Europe[4]	1.5	1.4	+0.1	7.5
Portugal	1.5	1.6	−0.1	1.6
Emerging markets[5]	1.1	1.2	−0.1	1.2
Japan	0.5	0.5	–	0.5
Great Britain	0.3	0.3	–	0.3
Sweden	0.0	0.0	–	0.0
Total	**39.5**	**43.5**	−4.0	**43.5**

[1] In addition € 0.4 billion EaD with regard to the counterparty FMS Wertmanagement representing guaranteed positions which were fully attributable to Germany
[2] In addition € 0.4 billion EaD with regard to the counterparty FMS Wertmanagement representing guaranteed positions which were fully attributable to Germany
[3] Figures as of Annual Report 2012
[4] Comprises among others Belgium, Switzerland, Denmark, Finland and the Netherlands
[5] Emerging markets in accordance with the IMF definition

The largest decline in the portfolio in terms of the issuer risk broken down according to regions was seen in Germany, and is due to the repayment of borrowers' note loans and bonds which fell due (€ – 3.3 billion). The decrease in the portfolio of Italy, Spain and Portugal was due the maturity of bonds and the repayment of borrowers' note loans.

With regard to the breakdown of issuer risk according to segments, the Public Sector Finance segment accounted for 90 % of the EaD as of 30 June 2013 (December 2012: 85 %) and Consolidation & Adjustments accounted for 10 % (December 2012: 15 %).

Real Estate Finance: € 23.1 billion EaD Portfolio Development and Structure The EaD of the Real Estate Finance portfolio of the pbb Group declined by € 0.6 billion compared with 31 December 2012. The customer derivatives included in the portfolio reported an EaD of € 0.5 billion as of 30 June 2013 compared with an EaD of € 0.7 billion at the end of 2012.

At the end of 2012, Austria and Sweden were still shown under the category «Other Europe»; as of 30 June 2013, they were shown separately for the first time. The increase of € 0.1 billion in the category «Other Europe» is almost entirely attributable to the expansion of exposure in Finland.

Whereas the absolute figure for France increased slightly compared with the previous year reference date, the absolute figure for Germany remained stable.

Real Estate Finance: EaD according to regions[1)]

in € billion	30.6.2013[2)]	31.12.2012[3)]	△ in € billion	31.12.2012[3) 4)]
Germany	12.1	12.1	–	12.1
Great Britain	3.3	3.4	−0.1	3.4
France	2.2	2.2	–	2.2
Emerging markets[5)]	1.8	1.9	−0.1	1.9
Sweden	1.3	1.6	−0.3	2.8
Other Europe[6)]	1.2	1.1	+0.1	2.8
Spain	0.5	0.5	–	0.5
Japan	0.4	0.6	−0.2	0.6
Italy	0.2	0.2	–	0.2
Austria	0.1	0.1	–	–
Portugal	0.0	0.0	–	0.1
Total	**23.1**	**23.7**	−0.6	**23.7**

1) In the Real Estate Finance segment, there was no exposure to the counterparty FMS Wertmanagement
2) Breakdown including customer derivatives of approx. € 0.6 billion
3) Breakdown including customer derivatives of approx. € 0.7 billion
4) Figures as of Annual Report 2012
5) Emerging markets in accordance with the IMF definition
6) Comprises among others Belgium, Switzerland, Denmark, Finland and the Netherlands

The breakdown of the portfolio based on property types as of 30 June 2013 has changed compared with the end of 2012 as a result of the migration of data to a new database system. The main shifts have occurred between the categories «Office buildings», «Retail» and «Mixed use». The category «Mixed use», which reflects the mixed use of a property, has been shown separately for the first time.

The main items were still the property types «Office buildings» with € 7.9 billion EaD or 34 % of the overall REF portfolio (31 December 2012: 36 %) and «Retail» with € 6.1 billion EaD or 26 % of the REF portfolio (31 December 2012: 26 %). The percentage of properties with residential use remained nearly stable at 22 % compared to the end of 2012 (21 %). Worth mentioning is also the percentage of 7 % (31 December 2012: 7 %) of the property type «Logistics/Storage» of the overall REF portfolio.

The reductions in the categories «Office buildings» and «Retail» were due to the introduction of the category «Mixed use» and also to the amortization or repayment of loans.

Real Estate Finance: EaD according to property type[1] in € billion	30.6.2013	31.12.2012	Δ in € billion	31.12.2012[2]
Office buildings	7.9	8.5	−0.6	7.5
Retail	6.1	6.1	–	6.9
Housing construction	5.0	5.0	–	5.0
Logistics/storage	1.7	1.7	–	2.8
Other	0.9	1.1	−0.2	1.2
Mixed use	1.2	1.0	+0.2	–
Hotel/leisure	0.3	0.3	–	0.3
Total	**23.1**	**23.7**	−0.6	**23.7**

[1] In the Real Estate Finance segment there was no exposure to the counterparty FMS Wertmanagement
[2] Figures as of Annual Report 2012

As of 30 June 2013 the portfolio was still dominated by investment financing (93 %; 31 December 2012: 94 %). Higher risk construction projects in the building phase (building finance) only accounted for 4 % of the EaD (31 December 2012: 3 %). Real Estate Finance for which the capital is serviced mainly out of the current property cash flow is shown under investment financing.

Real Estate Finance: EaD according to loan type[1] in € billion	30.6.2013	31.12.2012	Δ in € billion
Investment financing	21.5	22.3	−0.8
Construction financing	0.9	0.6	+0.3
Customer derivatives	0.5	0.7	−0.2
Other	0.2	0.1	+0.1
Total	**23.1**	**23.7**	−0.6

[1] In the Real Estate Finance segment there is no exposure to the counterparty FMS Wertmanagement

Risk Parameters Using the parameters defined under Basel II, the expected loss for the Real Estate Finance portfolio was € 76 million as of 30 June 2013 (31 December 2012: € 103 million). The decline in EL was mainly due to the recovery of a major financing agreement. There was a further reduction in the EL as a result of the creation of a new individual allowance as the EL is no longer calculated for the corresponding position when an individual allowance has been created.

Public Sector Finance: € 37.3 billion EaD Portfolio Development and Structure The portfolio of the Public Sector Finance segment (PSF) had an EaD of € 37.3 billion as of 30 June 2013 (31 December 2012: € 38.9 billion); of this figure, € 8.6 billion (31 December 2012: € 8.4 billion) were attributable to the strategic portfolio of Public Investment Finance. From the remaining portfolio an EaD of € 27.2 billion was related to the non-strategic portfolio of budget financing earmarked for streamlining (31 December 2012: € 28.6 billion). The residual amount was attributable to netting positions with financial institutions.

Most of the exposure was reported for Western Europe with an emphasis on Germany. The percentage of the countries in this segment remained stable.

At the end of 2012, Austria and Sweden were still shown under the category «Other Europe»; as of 30 June 2013, they were shown separately for the first time. Sweden accounted for € 0.04 billion (31 December 2012: € 0.04 billion). Belgium accounted for most of the remaining exposure in the category »Other Europe« with € 0.5 billion (31 December 2012: € 0.5 billion). The increase of € 0.1 billion in the category »Other Europe« was almost entirely attributable to the expansion of exposure in Finland.

The EaD of Italy, Portugal and Spain further decreased due to the maturity of loans respectively the repayment of borrowers' note loans. The exposure in the USA related almost entirely to financial institutions located in the USA.

Public Sector Finance: EaD according to regions

in € billion	30.06.2013[1]	31.12.2012[2]	Δ in € billion	31.12.2012[2][3]
Germany	13.1	13.8	−0.7	13.8
Austria	5.9	5.9	–	–
France	5.1	5.0	+0.1	5.0
Spain	3.8	4.1	−0.3	4.1
Italy	3.0	3.1	−0.1	3.1
Portugal	1.5	1.6	−0.1	1.6
Other Europe[4]	1.4	1.2	+0.2	7.2
Other	1.2	1.5	−0.3	1.5
Emerging markets[5]	1.1	1.1	–	1.1
Japan	0.5	0.5	–	0.4
Great Britain	0.4	0.5	−0.1	0.5
USA	0.3	0.5	−0.2	0.5
Sweden	0.0	0.0	–	0.0
Ireland	0.0	0.1	−0.1	0.1
Total	**37.3**	**38.9**	−1.6	**38.9**

[1] In addition € 0.1 billion EaD with regard to the counterparty FMS Wertmanagement, which was fully attributable to Germany; including guaranteed positions of € 0.02 billion
[2] In addition € 0.2 billion EaD with regard to the counterparty FMS Wertmanagement, which was fully attributable to Germany; including guaranteed positions of € 0.01 billion
[3] Figures as of Annual Report 2012
[4] Comprises among others Belgium, Switzerland, Denmark, Finland and the Netherlands
[5] Emerging markets in accordance with the IMF definition

The position «Public Sector Borrowers» included receivables due from sovereigns (30%), public sector enterprises (30%) and municipalities (40%).

Public Sector Finance: EaD according to counterparty structure in € billion	30.6.2013[1]	31.12.2012[2]	Δ in € billion
Public sector borrowers	26.8	27.3	−0.5
Financial institutions[3]/insurance companies	7.2	8.2	−1.0
State-regulated companies[4]	3.3	3.4	−0.1
Total	**37.3**	**38.9**	−1.6

[1] In addition € 0.1 billion EaD with regard to the counterparty FMS Wertmanagement, which was fully attributable to Germany; including guaranteed positions of € 0.02 billion
[2] In addition € 0.2 billion EaD with regard to the counterparty FMS Wertmanagement, which was fully attributable to Germany; including guaranteed positions of € 0.01 billion
[3] Financial institutions with a state background or state guarantee
[4] E.g. water utilities, power supply utilities, etc.

As of the reporting date, the PSF segment again included a high proportion of public sector borrowers, which was reflected in the rating. 56% (31 December 2012: 58%) of the EaD was attributable to the rating classes AAA to AA–. The rating classes A+ to A– accounted for 15% of the EaD (31 December 2012: 14%). The amount of BBB+ positions and positions with worse ratings remained stable.

Public Sector Finance: EaD according to internal ratings in € billion	30.6.2013[1]	31.12.2012[2]	Δ in € billion
AAA to AA–	20.9	22.5	−1.6
A+ to A–	5.7	5.5	+0.2
BBB+ and worse	10.7	10.9	−0.2
Total	**37.3**	**38.9**	−1.6

[1] In addition € 0.1 billion EaD to the counterparty FMS Wertmanagement, which was fully attributable to the rating classes AAA to AA–
[2] In addition € 0.2 billion EaD to the counterparty FMS Wertmanagement, which was fully attributable to the rating classes AAA to AA–

Risk Parameters The expected loss for the portfolio of the Public Sector Finance segment was € 18 million in the first half of the year (31 December 2012: € 21 million). The decrease of the expected loss was mainly due to the rating upgrades of Spanish banks and the repayment of a Portuguese bond.

Value Portfolio: € 0.2 billion EaD Portfolio Development and Structure The Value Portfolio comprises non-strategic portfolios of pbb Group as well as a part of the transactions which exist with the counterparty FMS Wertmanagement. The portfolio structure is inter alia affected by derivative business with financial institutions. In the Value Portfolio, emphasis is placed on the reduction of existing assets in a manner which poses minimum strain on capital and which is designed to maintain value.

The strategic decline of € 0.1 billion in the exposure as of 30 June 2013 compared with 31 December 2012 was mainly attributable to the decrease of the exposure of almost all countries – especially of Germany and the USA. In the remaining portfolio as of 30 June 2013 the regional focus was also on these two countries. The exposure against Ireland in the Value Portfolio has completely been reduced.

Value Portfolio: EaD according to regions in € billion	**30.6.2013**[1]	**31.12.2012**[2]	Δ in € billion
Germany	0.14	0.16	−0.02
USA	0.04	0.11	−0.07
Great Britain	0.00	0.01	−0.01
Other	0.01	–	+0.01
Other Europe[3]	0.01	0.01	–
France	0.00	0.00	0.00
Ireland	–	0.01	−0.01
Total	**0.20**	**0.30**	−0.10

[1] In addition €0.7 billion EaD to the counterparty FMS Wertmanagement, which was fully guaranteed; the guaranteed positions related to Germany (54%) and Italy (46%)
[2] In addition €0.7 billion EaD to the counterparty FMS Wertmanagement, which was fully guaranteed; the guaranteed positions related to Germany (54%) and Italy (46%)
[3] Comprises Switzerland and the Netherlands

Value Portfolio: EaD according to counterparty structure in € billion	**31.12.2012**[1]	**31.12.2011**[2]	Δ in € billion
Financial institutions/insurance companies	0.09	0.18	−0.09
Companies	0.06	0.07	−0.01
Public sector borrowers	0.05	0.05	–
Total	**0.20**	**0.30**	−0.10

[1] In addition €0.7 billion EaD to the counterparty FMS Wertmanagement, which was fully guaranteed; the guaranteed positions related to Germany (54%) and Italy (46%)
[2] In addition €0.7 billion EaD to the counterparty FMS Wertmanagement, which was fully guaranteed; the guaranteed positions related to Germany (54%) and Italy (46%)

Risk Parameters The expected loss for the Value Portfolio amounted to €0.1 million as of 30 June 2013 using the parameters defined under Basel II (31 December 2012: €0.2 million).

Structured Products

pbb Group's residual holdings in fully state-guaranteed collateralised debt obligations had a notional value of €0.8 billion as of 30 June 2013 (31 December 2012: €0.8 billion) and an actual fair value of €0.7 billion (31 December 2012: €0.7 billion).

The residual holdings of pbb Group of non-state-guaranteed structured securities, namely credit-linked investments in the form of collateralised debt obligations (CDOs in the narrower sense of the term), remained stable in comparison with the end of the year 2012 with a notional value of €0.1 billion. The fair value of these securities which securitise credit risks amounted to €6 million as of 30 June 2013 (31 December 2012: €8 million).

The valuation of assets was essentially based on market values.

Consolidated Special-purpose Vehicle without Capital Share in pbb Group

The special-purpose vehicle is an ABS structure which has been completely written down so that no further risks can result for pbb Group from this special-purpose vehicle (30 June 2013: nominal € 0.4 billion, 31 December 2012: nominal € 0.4 billion). The consolidation of the special-purpose vehicle had resulted in particular in a balance sheet extension of € 0.3 billion (31 December 2012: € 0.4 billion). However, from the risk point of view, there had not been an increase in the volume. Accordingly, the volume exposed to risk was € 0.3 billion lower (31 December 2012: € 0.4 billion).

Watchlist and Non-performing Loans: € 2.0 billion

With regard to the early warning system please refer to the Risk and Opportunity Report in the Annual Report 2012 of pbb Group.

Development of Watchlist and Non-performing Loans of pbb Group

Watchlist and non-performing loans of pbb Group				**30.6.2013**				**31.12.2012**	
EaD in € million	REF	PSF	VP	**Total**	REF	PSF	VP	**Total**	Δ in € million
Workout loans	9	–	–	9	11	–	–	11	–2
Restructuring loans[1]	924	–	3	927	1,076	–	3	1,079	–152
Non-performing loans[1]	**933**	–	**3**	**936**	**1,087**	**–**	**3**	**1,090**	–154
Watchlist loans	602	454	–	1,056	857	641	–	1,498	–442
Total	**1,535**	**454**	**3**	**1,992**	**1,944**	**641**	**3**	**2,588**	–596

[1] In addition € 6 million EaD as of 31 December 2012 and 30 June 2013 in the segment «Consolidation & Adjustments»

The watchlist and non-performing loans decreased by a total of € 596 million.

The watchlist loans decreased by € 647 million (gross) or € 442 million (net). New additions of € 204 million were opposed by upgrades of € 507 million resulting from the improvement in economic circumstances, transfers of € 39 million to non-performing loan monitoring and also the scheduled repayment of a Spanish bond of € 100 million.

The non-performing loans declined by € 154 million (net). New additions in the amount of € 89 million were opposed by reductions of € 243 million because of restructurings and repayments.

Impairments and Provisions

With regard to Impairments and Provisions, please refer to the Risk and Opportunity Report in the Annual Report 2012 of pbb Group.

Risk Provisioning of pbb Group

An overview of the development in provisions for losses on loans and advances and provisions is set out in the notes.

Coverage for Non-performing Loans

The coverage ratio is defined as the ratio between the provisions created in relation to the non-performing exposures (including the residual volume of structured products as part of the value portfolio) and the EaD or, with regard to the structured products, the nominal amount.

The non-performing loans of pbb Group were covered by 37 % as of 30 June 2013 (31 December 2012: 35 %).

The non-performing loans in the Real Estate Finance segment were covered by 31% (31 December 2012: 30 %). There were no non-performing loans in the Public Sector Finance segment as of 30 June 2013. In the Value Portfolio the non-performing loans were covered by 94 % (31 December 2012: 92 %).

Opportunities

The parameters for the risk dimensions for the credit risk are defined using statistical methods on the basis of numerous historical observations. The risk measures also depend on assumptions relating to future developments of micro-economic factors as well as developments on the credit markets. It is in the nature of things and is also in line with historical experience that there is a certain probability that such economic conditions perform more positively than originally assumed and that the potential losses arising from the credit risk therefore tend to be less than originally quantified by the risk measures. Such potentially positive developments then represent opportunities for pbb Group which can be utilised for reducing risk.

In specific terms, there are opportunities if fewer loans in future are affected by a default in performance than had originally been assumed as part of the risk quantification process.

There are also opportunities if there are in future fewer migrations to less positive rating categories than originally assumed.

There are also opportunities if the loss ratios of non-performing loans in future are lower than was originally assumed as part of the risk quantification process. Lower loss ratios may be triggered by various positive developments. Firstly, it is possible that the process of disposing of securities might generate higher proceeds than was originally assumed in the risk quantification process. Secondly, it is possible that a higher percentage of non-performing loans subsequently become performing loans again without any losses than had perhaps been the case in the past.

In addition to positive developments in terms of default rates and loss ratios, there are also opportunities in the context of the credit risk if the exposure values decline in the portfolio. This can for instance be the case if borrowers redeem or repay their loans more quickly than would have been expected on the basis of contractual agreements or on the basis of past experience. Exposure values can decline in the derivative portfolio if changes in certain market parameters, such as interest rates or exchange rates, mean that there is a decline in the market values of those positions which are associated with a replacement risk.

Market Risk

Definition, Market Risk Strategy, Organisation of Market Risk Management, Market Risk Reports

With regard to Definition, Market Risk Strategy, Organisation of Market Risk Management and Market Risk Reports, please refer to the Risk and Opportunity Report in the Annual Report 2012 of pbb Group.

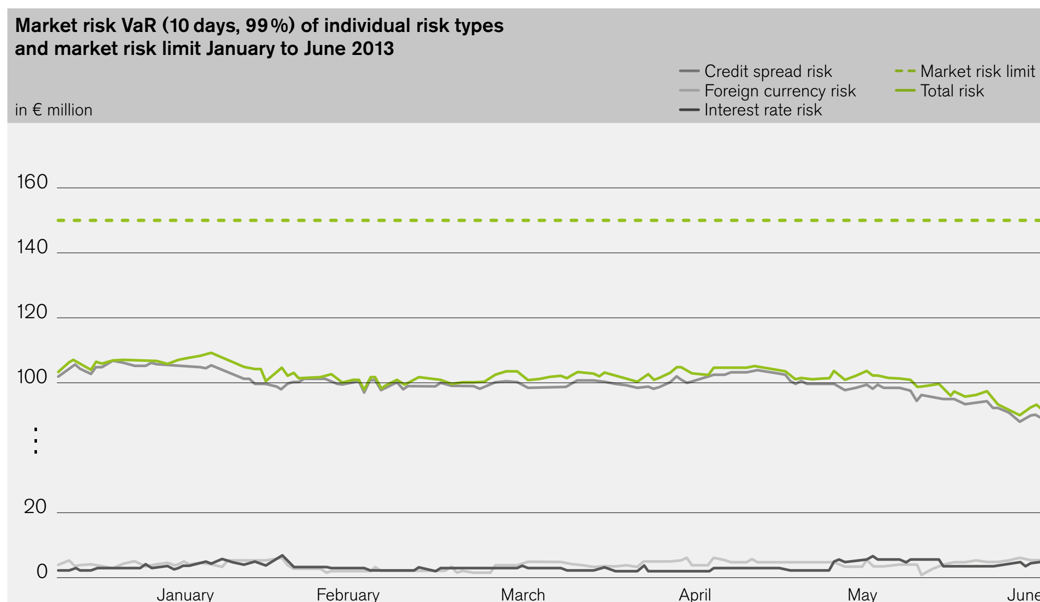
Methods and Assumptions with regard to Market Risk VaR Measurement

With regard to the above mentioned topics, please refer also to the Risk and Opportunity Report in the Annual Report 2012 of pbb Group.

On 30 June 2013 the market risk VaR amounted to € 91million. The comparison figure as of 31 December 2012 was € 104 million. In the period under review there were no limit violations.

The decrease of the market risk VaR in the first half of 2013 was mainly due to lower credit spread volatilities.

The following diagram illustrates the development of the market risk VaR as well as the VaR for the individual risk types compared with the market risk limit during the first half of the year:



The credit spread risk represents the dominant risk type within market risks. It reflects the potential change of the net present value of positions because of changes of the respective credit spreads. The major part of the credit spread risk is attributable to eligible assets for covered bonds. The VaR limit relates only to the credit spread risks of the AfS and FVtPL holdings, and is not applicable for the LaR positions.

In the second quarter of 2013, the VaR measurement was further developed so that cross-currency basis risks are now also measured and limited. For the third quarter, there are plans for tenor spread basis risks to be also measured and limited. However, both risk types have a very minor impact on the market risk VaR.

Stress Testing Whereas the VaR measurement simulates the market risk under «normal» market conditions and cannot be used as a measure for a potentially maximum loss stress scenarios show the market risk under extreme conditions. At pbb Group hypothetical stress scenarios are calculated on a monthly basis for all major key risk drivers such as credit spreads, interest rates and exchange rates. In addition historical stress scenarios are simulated. For example, a parallel shift of 200 basis points upwards in the interest rate curve for all positions of pbb Group (including equity books) would have resulted in a loss of approximately €188 million as of 30 June 2013. The corresponding market value loss for the end of 2012 was € 208 million. An opposite parallel shift of 200 basis points downwards in the interest rate curve would have resulted in a market value gain of € 98 million (31 December 2012: € 87 million). The Management Board and the corresponding executive bodies are regularly notified of the results of the scenario analyses.

Economic Market Risk Capital For calculating the economic capital of market risk, regarding the going-concern approach a confidence level of 95 % is calculated for a period of one year. The economic capital for market risks of pbb Group, disregarding diversification effects for other risk types, amounted to € 182 million as of 30 June 2013 (31 December 2012: € 171 million).

Reflection and Recognition of Economic Hedges as On-balance-sheet Hedges

Hedge accounting is defined as the special accounting regulations for hedges of IAS 39, the aim of which is to ensure that the changes in value of the hedged underlyings and hedging instruments cancel each other out to a large extent. The criteria of IAS 39 must be satisfied for the on-balance-sheet recognition of hedges. These criteria, such as the requirements relating to the effectiveness of a hedge, are to a certain extent not consistent with the methods used in bank management. There may therefore be differences between the economic hedges and the on-balance-sheet hedges.

Market Risk Management, Monitoring and Reduction

With regard to Market Risk Management, Monitoring and Reduction, please refer to the Risk and Opportunity Report in the Annual Report 2012 of pbb Group.

Opportunities

As detailed above, the sensitivities result in a VaR, i.e. a possible future (economic) loss in the event of an unfavourable market development. It has to be mentioned that these sensitivities may also result in economic gains in the event of a positive market development.

Accordingly, the assets of the cover pools for instance result in high negative credit spread sensitivities which pose a risk and in case of an increase of credit spreads result in economic losses. In the event of a reduction of the relevant credit spreads, these credit spread sensitivities instead result in economic profits, which again constitute an opportunity. Similarly, in the case of interest rate and foreign currency risks, a market movement in one direction results in economic losses, whereas a market movement in the other direction results in economic profits.

Within the framework of the hypothetical stress scenarios a parallel shift of 200 basis points downwards in the interest rate curve would comprise the opportunity for a market value gain of € 98 million.

Liquidity Risk

With regard to general information regarding the measurement and management of liquidity risk of pbb Group (e.g. Liquidity risk strategy, Liquidity risk monitoring and management), please refer to the Risk and Opportunity Report in the Annual Report 2012 of pbb Group.

Development of the Risk Position of pbb Group

The development of the liquidity position in the first half of 2013 was in line with the liquidity forecast which had been established at the beginning of the year.

The cumulative liquidity position (liquid assets as well as expected net cash flows) calculated as part of the liquidity risk measurement as of 30 June 2013 amounted to €5.9 billion for a 12-month horizon in the base scenario. There was an increase by €0.4 billion in comparison with the end of 2012. This increase was due to a higher unsecured funding. The liquidity ratio in accordance with the Liquidity Ordinance amounted to 2.28 at pbb as of 30 June 2013; it was thus higher than the statutory minimum of 1.0.

Funding

For funding purposes covered and unsecured issues are available to pbb Group.

Pfandbriefe are the main funding instruments. Because of their high quality and acceptance on international capital markets, Pfandbriefe are comparatively less affected by market fluctuations than many other funding sources.

Supported by the quantitative-easing programmes of the central banks, the positive sentiment on the capital markets continued at the beginning of the year. The fact that interest rates are currently at an all-time low has strengthened investor demand for investment opportunities with an enhanced yield. pbb has utilised these positive conditions for its second unsecured benchmark issue after September 2012. The transaction, with a maturity after the date of reprivatisation, was placed with much narrower spreads and was topped up shortly afterwards.

With increasing market volatility in connection with the bailout of Cyprus towards the end of the first quarter of 2013 and initial fears of an early exit from quantitative easing, investors again focused on the Pfandbrief as a safe haven in Q2. The German Pfandbrief market reported a new-issue volume of approx. €11 billion in the first six months of the year. In this segment, pbb has established itself as the largest active issuer with four Pfandbrief benchmarks. Apart from two mortgage Pfandbrief issues and a top-up issue in euros, pbb issued its second mortgage Pfandbrief denominated in GBP, and successfully topped up the first issue from last year. pbb has also returned to the market in the public Pfandbrief segment and, with its 15-year transaction, was able to issue its longest Pfandbrief since 2003.

Again, pbb Group was able to cover a considerable share of the funding needs via private placements. In addition to public transactions private placements were a significant funding vehicle for the Bank and due to their usually smaller amounts they help to improve the granularity of the funding structure.

Forecast Liquidity Requirement

Due to the balanced asset and liability structure there are no significant liquidity mismatches.

In addition to the forecast liquidity requirement for new business activities, the extent of the future liquidity requirement further depends on numerous external factors:

- Further development of the European financial crisis and possible effects on the real economy
- The future development of haircuts for securities for repo refinancing on the market and with the central banks
- Possible additional collateral demands as a result of changing market parameters (such as interest rates and foreign currency rates)
- The development in collateral demands for hedges
- Changed requirements of the rating agencies regarding the necessary overcollateralisation in the cover pools

Funding Risk

With regard to Funding Risk, please refer to the presentation of the business risk in the section «Result of Risk-bearing Capacity Analysis».

Market Liquidity Risk

With regard to financial instruments which are measured at fair value, quantitative details for a better assessment of the market liquidity risk can be obtained from the presentation of the three levels of the fair value hierarchy in the note «Fair Values of Financial Instruments». Generally there is no intention to sell LaR holdings for liquidity management purposes, as liquidity for these holdings can mainly be generated by way of including them in the cover pool, refinancing opportunities of the central bank or repo transactions.

Opportunities

The cumulative liquidity position of € 5.9 billion in the base scenario over a horizon of 12 months which is detailed in the section «Development of the Risk Position of the pbb Group» as of 30 June 2013 opens up the opportunity of being able to provide a flexible response particularly with regard to possible new business.

If there was an overall positive development for pbb Group in the external factors specified in the section «Forecast Liquidity Requirement», this would per se result in a lower future liquidity requirement.

The still high demand of German Pfandbriefe offered the issuers and thus also pbb the opportunity of covered funding at lower levels.

Operational Risk

Definition

With regard to Definition, please refer to the Risk and Opportunity Report in the Annual Report 2012 of pbb Group.

Strategy for Operational Risks

With regard to Strategy for Operational Risks, please refer to the Risk and Opportunity Report in the Annual Report 2012 of pbb Group.

Organisation of Operational Risk Management

With regard to Organisation of Operational Risk Measurement, please refer to the Risk and Opportunity Report in the Annual Report 2012 of pbb Group.

Risk Reports, Monitoring and Management of Operational Risks

With regard to Risk Reports, Monitoring and Management of Operational Risks, please refer to the Risk and Opportunity Report in the Annual Report 2012 of pbb Group.

Risk Measurement

The economic capital for operational risk in the going-concern approach amounted to € 29 million as of 30 June 2013 (31 December 2012: € 14 million). Details of the calculation are set out in the chapter «Result of Risk-bearing Capacity Analysis».

In line with the standard approach in accordance with Basel II, the regulatory capital backing for operational risks, which is calculated once a year, was € 82 million at the reporting date (31 December 2012: € 82 million).

Major Operational Risks of pbb Group

Major operational risks mainly result from the provision of services to FMS-WM, which are governed by service level agreements. This risk does not only include the inherent insourcing risk but also the effort which is currently in progress to transfer the knowledge of both the servicing and systems to the new servicing company and its new IT provider. However, the risk still remains that if certain requirements are not met, this might result in claims for damages by FMS Wertmanagement against pbb group. This risk will cease on 1 October 2013. For the sake of completeness it is pointed out that after this date for pbb Group there might be a theoretical risk to be engaged within the framework of the so-called extended liability.

Still there is also a significant reliance on key personnel who on the one hand are dealing with the continuing enhancements and, on the other, dealing with operating daily business including the servicing of FMS Wertmanagement.

pbb Group suffered financial losses of €1.07 million in relation to Operational Risks during the first half of 2013. The operational loss was distributed to the Real Estate Finance segment with 98% and to the Public Sector Finance segment with 2%.

Opportunities

The number of loss events and therefore the operational risk profile of pbb Group has continued to improve over the past couple of years due to the successful implementation of various IT projects. However, operational risk still exists due to key man risk and the ceasing of the servicing of FMS Wertmanagement in October 2013. Once these changes have been implemented, it is possible that the operational risk profile of pbb Group will continue to improve in regard to key man risk.

Result of Risk-bearing Capacity Analysis

Going-Concern

Going-concern in € million	**30.6.2013**	**31.12.2012**	Δ in € million
Credit risk	224	226	−2
Market risk	182	171	+11
Operational risk	29	14	+15
Business risk	0	0	0
Property risk	12	11	+1
Total before diversification effects	**447**	**422**	+25
Total after diversification effects	**397**	**375**	+22
Available financial resources (free capital)	1,837	1,660	+177
Excess capital/capital shortfall	1,440	1,285	+155

The going-concern perspective explicitly focuses on the protection of regulatory minimum capitalisation, and thus focuses on the continuation of business activities of pbb Group in periods of difficult economic downturns. In order to prove the risk-bearing capacity the first step is to calculate the economic capital at a confidence level of 95%. This includes the risk types which we define to be of a material nature, namely credit risk, market risk, operational risk, funding risk as part of the business risk and property risk. This is opposed by the so-called free capital as available financial resources, comprising core Tier 1 capital less the Tier 1 capital necessary for covering the regulatory minimum ratios and a buffer for risks which are minor and are not quantifiable or only partially quantifiable. In accordance with the principle of prudence, an additional charge in relation to the risk-weighted assets is taken into account in order to determine the Tier 1 capital necessary for covering the regulatory minimum ratios. The amount of free capital as of the reference date was €1.8 billion (31 December 2012: €1.7 billion).

Excluding the diversification effects between the individual risk types, the economic capital of pbb Group in the going-concern approach amounted to € 447 million (31 December 2012: € 422 million). If these effects are taken into account, it was € 397 million (31 December 2012: € 375 million). The most significant risk type on the basis of the ICAAP (measured in terms of the economic capital) was the credit risk, which accounted for approximately 50 % of the undiversified economic capital.

Considering the available financial resources in the amount of € 1.8 billion, the resulting excess capital as of 30 June 2013 amounted to € 1.4 billion for the given period of one year (31 December 2012: € 1.3 billion); it is further proof of the risk-bearing capacity of pbb Group in the leading going-concern perspective.

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

Economic capital according to segments **(after diversification effects)** in € million	**30.6.2013**	**31.12.2012**	Δ in € million
Real Estate Finance	151	127	+25
Public Sector Finance	244	250	−7
Value Portfolio	10	3	+7
Consolidation & Adjustments	25	29	−5
Total	**397**	**375**	+22

On 7 December 2011, BaFin detailed key aspects of the regulatory appraisal in its letter «Regulatory appraisal of bank-internal risk-bearing capacity concepts». The going-concern approach used by pbb Group satisfies the requirements of this regulatory assessment for a going-concern approach.

Gone-Concern (Instantaneous Liquidation Perspective)

The purpose of the so-called instantaneous liquidation perspective is to guarantee protection of the senior lender in a theoretical liquidation scenario with a very high probability.

pbb Group has selected a confidence level of 99.91% which is based on the average probability of default of companies which have been awarded good long-term credit ratings by external rating agencies, namely A− from Standard & Poor's and Fitch Ratings, respectively A−/A3 from Moody's. However, this liquidation scenario does not assume an opportunistic winding up of portfolios as postulated by the German Pfandbrief Act, and instead assumes an immediate sale of the assets and securities in the investment book recognised at fair value at market values, which are currently affected by the european sovereign debt crisis.

According to this assumption the instantaneous liquidation perspective besides the already mentioned major risks within the framework of the going-concern approach takes account of credit spread risks arising from securities in the investment book for calculating the economic capital, and deducts simultaneously the hidden losses attributable to these securities for determining the available financial resources.

Gone-Concern (instantaneous liquidation perspective)			
in € million	**30.6.2013**	**31.12.2012**	△ in € million
Credit risk	1,368	1,446	−78
Market risk	1,135	1,143	−8
Operational risk	86	86	0
Business risk	98	42	+56
Property risk	24	20	+4
Total before diversification effects	**2,711**	**2,737**	−26
Total after diversification effects	**2,356**	**2,383**	−27
Available financial resources before hidden losses	4,060	3,953	+107
Hidden losses	852	1,394	−542
Available financial resources	**3,208**	**2,559**	**+649**
Excess capital/capital shortfall	852	176	+676

In the instantaneous liquidation perspective, the economic capital without diversification effects amounted to € 2.7 billion as of 30 June 2013 (31 December 2012: € 2.7 billion); if these effects are taken into consideration, it amounted to € 2.4 billion (31 December 2012: € 2.4 billion). The main drivers in this respect are the credit risk (€ 1.4 billion) and the market risk (€ 1.1 billion). Most of the market risk is attributable to the sub-portfolios of budget financing and the Value Portfolio – both are non-strategic and earmarked for being streamlined – due to the fact that the volatility of credit spreads is still increased for certain areas of the European Economic Area. This effect can also be seen in the following table of economic capital according to segments where an increase in the segments Public Sector Finance and Value Portfolio is shown.

The available financial resources in the instantaneous liquidation perspective initially amounted to € 4.1 billion (31 December 2012: € 4.0 billion); this figure was reduced to € 3.2 billion (31 December 2012: € 2.6 billion) after the hidden losses attributable to the securities in the investment portfolio were deducted.

The distribution of the economic capital according to segments in the instantaneous liquidation perspective is as follows:

Economic capital according to segments (after diversification effects) in € million	30.6.2013	31.12.2012	△ in € million
Real Estate Finance	490	633	−143
Public Sector Finance	1,751	1,702	+49
Value Portfolio	30	10	+20
Consolidation & Adjustments	158	134	+24
Total	**2,356**	**2,383**	−27

Strategic Gone-Concern (Strategic Liquidation Perspective)

In addition to the instantaneous liquidation perspective described above, pbb Group has also developed a so-called strategic gone-concern perspective. In this perspective, the risk calculation is adjusted by the budget finance portfolio which has been earmarked for streamlining and the Value Portfolio in order to focus on the management of the strategic core business of real estate finance and public investment finance.

All risk types which have been defined as being significant, including the credit spread risk for securities in the investment book, are taken into consideration for the strategic portfolio, are aggregated to form an economic capital and then limited.

In the strategic gone-concern perspective, the economic capital after diversification effects amounted to €1.2 billion (31 December 2012: €1.2 billion) and the hidden losses of the strategic portfolio amounted to €0.5 billion (31 December 2012: €0.7 billion).

Opportunities

The results of the risk-bearing capacity analysis in the instantaneous liquidation view are still very much affected by the relatively high volume of hidden losses of the securities in the investment book which has to be considered as a deduction from the available financial resources. This is due to a considerable extent to the credit spreads of some Southern European countries, regions and municipalities which still had been widened as of the reference date as a result of the European sovereign debt crisis. The volatility of credit spreads of some European countries is also still higher compared with the period before the crisis, and puts a strain on the result of the risk-bearing capacity statement as a result of a correspondingly higher market risk. The downgrades observed in 2012 have resulted in an increased credit risk.

Although it is still clearly too soon to speak of a turnaround in the European sovereign debt crisis in 2013, we have observed a stabilisation of the European bond markets as a result of the crisis management of the ECB. Overall, the ICAAP-relevant hidden losses of pbb Group for securities in the investment book have declined by approximately €0.5 billion since December 2012. A continuation of this trend would result in a further expansion of the excess capital in the ICAAP liquidation approach of pbb Group in 2013.

If there is a comprehensive recovery of trust in the European public finances, systematic rating improvements of public sector issuers could lead to a significant reduction of risk and therefore as well to a further increase of the excess capital in the ICAAP.

Method Used for the Individual Risk Types

The economic capital for each risk type, which has been classified as major, is determined using a quantitative approach and is aggregated to form an overall bank risk with due consideration being given to specific correlations. In line with the common market standard, the risk types are calculated for a period of one year and in relation to a defined confidence level (99.91% in the gone-concern, 95% in the going-concern). For the gone-concern confidence level, the Bank uses the average figure for long-term default rates of companies with very good external ratings (A– at Standard & Poor's and Fitch Ratings, A3 at Moody's).

The method of calculating the economic capital for the individual major risk types for 2013 is explained in the following.

Credit Risk For calculating the credit risk at the portfolio level, pbb Group uses a credit portfolio model which follows the approach of a so-called asset value model. The fundamental idea of this approach is that the repeated simulation of correlated rating changes and borrower defaults as well as a calculation of resultant value changes via a corresponding revaluation of the portfolio mean that probability statements can be made with regard to potential losses from lending business. The loss distribution calculated in this way can then be used to calculate the economic credit risk capital as an unexpected loss. The economic capital defines the maximum unexpected loss calculated for a defined confidence level which will result within one year due to rating migrations and defaults in lending business. In addition to the loss distribution of the credit portfolio, a significant result is the risk-commensurate allocation of the credit risk capital allocated in this way to the individual borrower units using the so-called expected shortfall principle. This ensures fair causation-based allocation to the borrowers, and thus constitutes a major module in the risk-oriented management of the credit portfolio.

Market Risk With regard to the calculation of the economic capital for market risk, please refer to the Risk and Opportunity Report in the Annual Report 2012 of pbb Group.

Operational Risk The calculation of economic capital for operational risks includes the result of the calculation using the standard approach in accordance with Basel II. This past-related approach is enhanced by the recognition of forward-looking budget figures for three years as well as the calculation of a loss distribution based on the analysis of the Bank's own loss database. For the purposes of the capital adequacy procedure, the regulatory capital requirement in the going-concern approach is scaled to the corresponding lower confidence level (from 99.9% to 95%). In the gone-concern approach it is scaled to the higher confidence level of 99.91%.

Business Risk With regard to Business Risk, please refer to the Risk and Opportunity Report in the Annual Report 2012 of pbb Group.

Property Risk The risk of a loss in value of the real estate portfolio of the pbb Group is derived from a loss distribution relating to the respective confidence levels. The distribution model is based on data of representative real estate indices for the portfolio.

Liquidity Risk With regard to the capitalisation of Liquidity Risks, please refer to the Risk and Opportunity Report in the Annual Report 2012 of pbb Group.

Stress Tests

In the recent past stress tests have successively gained greater importance in the regulatory view as well as in the context of internal bank management which is inter alia due to the European sovereign debt crisis. Within the Stress Test Committee, which directly reports to the Group Risk Committee, all activities, developments and decisions with reference to stress testing are concentrated.

In the period under review, and as part of an integrated approach, the impact of macro-economic stress scenarios on all major risks and the risk cover potential is established under stressed market parameters over an horizon of several years. These scenarios are based on the assumption that the current government debt crisis will continue or become even more severe.

Stress tests in relation to the economic capital and to the available financial resources are further used in order to obtain a better understanding of the sensitivity of the risk-bearing capacity calculation with regard to adverse movements of the economically influencing factors. Moreover, so-called inverse stress tests are calculated on a regular basis which describe as a result certain parameter constellations where the capitalisation is still sufficient. In addition to institutionalised stress tests, ad hoc queries on behalf of the Management Board have played an important role throughout the reporting period.

Regulatory Indicators According to German Solvency Regulation

In accordance with the waiver regulation set out in Section 2a KWG, pbb is exempted from the requirement to establish the equity and core capital ratios at the level of the institution.

The waiver regulation set out in Section 2a KWG states that a credit institution or financial services institution which has its registered offices within Germany and which is part of a regulated group of institutions or financial holding group does not have to comply with the following regulations if these regulations are complied with at the level of the ultimate parent company:
> Regulations regarding solvency (equity in relation to risk-weighted assets)
> Regulations regarding large loans (equity in relation to loans extended to individual borrower units)
> Regulations set out in Section 25a (1) Clause 3 No. 1 KWG for establishing and assuring risk-bearing capacity, defining strategies, setting up processes for identifying, assessing, managing, monitoring and communicating risks.

pbb Group voluntarily discloses these figures on a pro forma basis.

The regulatory capital of pbb Group in accordance with the Solvency Regulation (SolvV) on a pro forma basis is as follows:

Own funds[1] in € million	30.6.2013	31.12.2012
Core capital (Tier I)	2,896	2,898
Supplementary capital (Tier II)	1,129	1,179
Equity capital	**4,025**	**4,077**
Tier III capital	–	–
Total	**4,025**	**4,077**

[1] Consolidated pursuant to Section 10a German Banking Act (KWG); pro forma as per prepared annual financial statements and after result distribution

The risk-weighted assets, the operational risks and the market risk positions on a pro forma basis are as follows:

Risk-weighted assets[1] in € billion	30.6.2013	31.12.2012
Risk-weighted assets	14.4	15.3

[1] 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; according to Basel II advanced IRB approach for authorised portfolios, otherwise Basel II standardised approach; pro forma as as per prepared annual financial statements and after result distribution

Operational risks in € million	30.6.2013	31.12.2012
Total	82	86

Market risk positions in € million	30.6.2013	31.12.2012
Currency risks	11	6
Interest rate risks	–	–
Total	**11**	**6**

The capital ratios have been determined on the basis of the definition of shareholders' equity in accordance with SolvV and also using risk-weighted assets in accordance with Basel II. On a pro forma basis, the capital ratios are as follows:

Key capital ratios[1] in %	30.6.2013	31.12.2012
Core capital ratio[2]	20.1	18.9
Equity capital ratio[3]	28.2	26.7
Own funds ratio (overall indicator)[2]	27.9	26.6

[1] Pro forma as per prepared annual financial statements and after result distribution
[2] Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5
[3] Including risk-weighted credit risk positions as well as the capital requirements for operational risks scaled with the factor 12.5

Forecast Report

The forecasts regarding the future development of pbb Group constitute estimates which have been taken on the basis of the information available at present. If the assumptions underlying these forecasts fail to materialise, or if risks and opportunities occur to an extent which has not been calculated, the actual results may differ considerably from the results which are currently expected.

For the second half of 2013, pbb Group does not expect to see any major variance from the forecast development of the conditions detailed in the consolidated financial statements 2012. pbb Group is assuming that it will meet the targets for the main performance indicators as originally planned. For the full 12-month period in 2013, the pbb Group expects to generate pre-tax profit of at least €100 million, return on equity after taxes in line with the corresponding previous year figure (2.1%), a slight improvement in the cost-income ratio compared with 2012 (73.0%), a strong increase in the volume of new business compared with the previous year (€5.6 billion) and a slight decline in the tier-1 capital ratio compared with 2012 (18.9%). It is also assumed that the risk covering potential will exceed the economic risk capital in the going-concern perspective. In the gone-concern perspective, it is still expected that the Group will comply with the risk-bearing capacity requirements. This is based on the assumption that there will not be a considerable increase in the hidden charges.

The following opportunities and risks may affect the future development in assets, financial position and earnings:

Opportunities pbb Group has reported positive pre-tax profit for the last three years, from which the following future opportunities can be derived:

- In the first half of 2013, pbb Group more than doubled the volume of new business compared with the first half of 2012. The margins of new business were considerably higher than the margins of the existing portfolio. This development illustrates the sales strength of pbb Group, with the aim of expanding in real estate finance and public investment finance.
- pbb Group will only continue to provide services for operating FMS Wertmanagement until September 2013. The discontinuation of these activities which no longer form part of core business will open up a further opportunity of focusing to an even greater extent on the relevant customer markets in the field of commercial real estate finance and public investment finance; this would have a positive impact on the volume of new business and the new business margins, and would thus also have a positive impact on development in assets and results of operations.
- A further important milestone in the direction of the new target model of pbb Group was attained with the implementation of the optimised organisation structure in the first half of 2013. Implementation of the target model in turn is a key element of the aim of reprivatisation. With the new organisation structure, pbb Group will be much leaner and more efficient in all areas, so that it will be able primarily to focus to an even greater extent on customers and the market in future.
- There is strong demand for financing on the markets which are relevant for pbb Group. In this context, pbb Group considers that the market climate in commercial real estate finance and public investment finance will be attractive in the long term; this would have a positive impact on the volume of new business and the new business margins, and would thus also have a positive impact on development in assets and results of operations.
- Even in recent years which have been affected by market uncertainty, the Pfandbrief has continued to be a sound investment with a tried-and-tested market infrastructure; this was also reflected by the strong demand of investors in the reporting period. pbb Group has established a wide range of experience in the Pfandbrief market, and is able to utilise existing customer relations. This enabled pbb to successfully sell several issues in the first half year. pbb Group will therefore use a capital market instrument which is still in demand, which had a positive effect on development of financial position.

- In May 2013, pbb Group succeeded again for the first time placing a public sector Pfandbrief with a long maturity of 15 years. An uncovered issue with a term of three and a half years was also issued in January 2013. These issues reflect the resurgent investor confidence, and are having a positive impact on liquidity and the financial position.
- Depending on the developments of the markets, there may be further opportunities to reduce risk in future in the Public Sector Finance segment and in the other segments, which will mean that the volatility of earnings and equity will decline.
- Further progress was achieved with regard to separating the two Groups pbb and DEPFA which are part of HRE. This process increases the chances of a successful reprivatisation of pbb Group.
- pbb Group has become much more attractive on the labour market, supported by several personnel development measures. These encourage the loyalty of efficient and highly qualified staff and senior executives who are able to support pbb Group in its aim of meeting its ambitious targets.
- A further opportunity is provided by the strict cost focus of pbb Group. The reduced general administrative expenses in the first half of 2013 demonstrate the success already achieved. The respective status of processes will be continuously questioned and analysed in future in order to enable appropriate improvement measures to be identified. This also involves a project for defining the target model of pbb Group after the disposal of Servicing of FMS Wertmanagement. Following these transactions, pbb Group will considerably reduce its cost base and will become more lean and more efficient so that profitability will increase.
- The already achieved success in harmonising its IT systems will result in additional efficiency gains. Due to the harmonisation, the process optimisation and the establishment of specialist teams, it will be possible for customer needs to be met more rapidly and for customer satisfaction to be boosted accordingly; this would have a positive impact on the volume of new business and the new business margins and would thus also have a positive impact on development in assets and results of operations.

Risks However, there is also the possibility of future problems facing development in assets, financial position and results of operations. The extent of potential problems is influenced particularly by the occurrence or non-occurrence of the following risks, or the extent to which such risks might occur:

- Some European countries in the reporting period were only able to fund their operations with the support of international aid programmes. Holders of Greek government bonds have had to waive their entitlement to some of their claims. If the debt crisis facing some countries becomes more serious and if it becomes necessary to waive claims to the bonds of other countries, or if public sector debtors become insolvent, pbb Group would also be facing considerable impairments in relation to receivables and securities. These impairments might increase if, due to the interconnected nature of markets or turmoil affecting markets, the crisis affecting some countries spreads to other countries which are currently considered to be solvent.
- In the first half of 2013, as well as in 2011 and 2012, write-downs were necessary only for a small number of individual exposures as a result of various factors, including the successful portfolio management of pbb Group. Nevertheless, it is still possible in future that significant write-downs will have to be recognised in relation to receivables. These write-downs depend primarily on the economic situation of the financed properties. However, this might also depend on a general crisis of individual markets such as the real estate markets in various countries.
- pbb Group has taken advantage of the more favourable refinancing markets, in particular the Pfandbrief markets, by way of increasing its issuing activities. Nevertheless, the funding markets are still sensitive for failures. The debt crisis facing some European countries may for instance result in a major loss of confidence and significantly lower sales on the issuing markets or the interbank market. If the funding markets are affected by such problems, there might be a negative impact on the liquidity situation of pbb Group despite the existence of a cushion. A further consequence might be a specific reduction in the volume of new business.

- Within the framework of the approval decision in the aid proceedings, the EU Commission specified that pbb would have to be reprivatised as quickly as possible, and by no later than 31 December 2015. If the reprivatisation process has not been completed by 31 December 2015, an appointed disposal trustee will sell pbb to a purchaser, without a minimum price being specified, if the Commission has approved the purchaser and the final binding purchase agreement. The sale or alternative considerations of the shareholder with the approval of the EU Commission may have a positive and also a negative impact on development in assets, financial position and result of operations of pbb Group.
- The methods for measuring financial instruments are constantly being improved on the market. For instance, the market conventions for valuing derivatives are changing, in that overnight interest rate curves in particular are used. Such adjustments may have a negative impact on development in results of operations for pbb Group in the further course of the year 2013.
- The rating agencies continue to adapt their methodologies and models in order to assess, amongst other factors, the changing macro-economic environment and the potential impact of the European sovereign debt crisis. These measures and the specific rating drivers for the bank and its covered bonds may result in rating changes. Any changes to the ownership structure could also lead to rating changes. Downgrades to bank and/or covered bond ratings could have a negative impact particularly on the Bank's funding capacity and hence on development in financial position and result of operations.
- The risk-bearing capacity concept is being constantly improved. The further development might have an impact on the risk-bearing capacity analysis in the going-concern approach and also in the gone-concern approach. The development in the market values of the assets as well as equity and liabilities is a further factor which has an impact on the risk-bearing capacity in the gone-concern approach. If the hidden liabilities increase as a result of changes in market values, the cover capital might fall below the necessary economic capital.
- Membership in the HRE Group has had a negative impact on the image of pbb Group in recent years. Even if success has already been achieved in terms of re-entering the markets, it is possible that there may be negative consequences for achieving the objectives of pbb Group.
- Litigation which is currently pending and which might become pending in future might have a considerably negative impact on the results of pbb Group.
- As part of the conclusion of EU aid proceedings, complete termination of servicing provided by pbb Group for FMS Wertmanagement as of 30 September 2013 was imposed as a requirement. When the cooperation agreement is terminated, the activities in the field of servicing will be handled by FMS Wertmanagement itself or FMS Wertmanagement Service GmbH. As a result of the contractual agreements, FMS Wertmanagement may also enforce claims which might have an impact on the net assets, financial position and result of operations of pbb Group even after servicing has been terminated.
- pbb Group is exposed to operational risks, resulting for instance from technology risks due to the large number of accounting systems. Although pbb Group has already successfully completed some projects for optimising processes and the IT infrastructure, the operational risks may result in significant losses. The risks can also become relevant for the ongoing operation of FMS Wertmanagement for the service obligations taken on from pbb Group.
- A further operational risk results from the reliance on employees who are owners of positions which are exposed to risk. As a result of the restructuring process and the planned transfer of employees to FMS Wertmanagement Service GmbH, some members of staff in key positions might leave. This might have an impact on net assets, financial position and result of operations.

- The ongoing development of national and international regulatory requirements may have an impact on the structure of assets and liabilities, and may thus also affect result of operations. For instance, the modified obligations presented by the Basel Committee on Banking Supervision (Basel III) regarding more stringent liquidity requirements might have a negative impact on profitability, or profitability might be reduced by more stringent capital requirements. In addition, there might also be an impact on existing regulatory and economic parameters, requiring for instance a change in capital backing.
- The possibility of introducing a tax on financial-market transactions is planned in several countries in the European Union. The aim is to introduce a tax on purchases and sales of transferable securities or options and other financial instruments. Such a tax might have a negative impact on the result of pbb Group and might mean that some business might be unprofitable.

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Consolidated Interim Financial Statements

Consolidated Interim Financial Statements
Consolidated Income Statement

Consolidated income statement in € million	Notes	1.1.– 30.6.2013	1.1.– 30.6.2012	Δ in € million
Operating revenues		214	223	–9
Net interest income and similar income	7	153	150	3
Interest income and similar income		1,249	1,494	–245
Interest expenses and similar expenses		1,096	1,344	–248
Net commission income	8	2	6	–4
Commission income		6	8	–2
Commission expenses		4	2	2
Net trading income	9	–2	–2	–
Net income from financial investments	10	1	5	–4
Net income from hedge relationships	11	4	–3	7
Balance of other operating income/expenses	12	56	67	–11
Provision for losses on loans and advances	13	–1	9	–10
General administrative expenses	14	156	164	–8
Balance of other income/expenses	15	1	1	–
Pre-tax profit/loss		**60**	**51**	9
Taxes on income	16	19	16	3
Net income/loss		**41**	**35**	6
attributable to: Equity holders (consolidated profit/loss from the parent company)		41	35	6

Consolidated Statement of Comprehensive Income

Consolidated statement of comprehensive income	1.1.–30.6.2013			1.1.–30.6.2012		
in € million	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Net income/loss	**60**	**19**	**41**	**51**	**16**	**35**
Items that will not be reclassified to income statement	–	–	–	–35	–10	–25
Additional paid-in capital	–	–	–	–	–	–
Retained earnings	–	–	–	–	–	–
Profits/losses from pension commitments	–	–	–	–35	–10	–25
Items that may be reclassified to income statement	12	3	9	54	16	38
Foreign currency reserve	–	–	–	–1	–	–1
AfS reserve	95	27	68	76	21	55
Cash flow hedge reserve	–83	–24	–59	–21	–5	–16
Total other comprehensive income of the period	**12**	**3**	**9**	**19**	**6**	**13**
Total comprehensive income of the period	**72**	**22**	**50**	**70**	**22**	**48**
attributable to:						
Equity holders (consolidated profit/loss from the parent company)	72	22	50	70	22	48

Components of consolidated statement of comprehensive income in € million	1.1.–30.6.2013	1.1.–30.6.2012
Net income/loss	**41**	**35**
Additional paid-in capital	–	–
Unrealised gains/losses	–	–
Retained earnings	–	–
Unrealised gains/losses	–	–
Profits/losses from pension commitments	–	–25
Unrealised gains/losses	–	–25
Foreign currency reserve	–	–1
Unrealised gains/losses	–	–1
AfS reserve	68	55
Unrealised gains/losses	67	55
Reclassification adjustments for gains/losses included in profit or loss	1	–
Cash flow hedge reserve	–59	–16
Unrealised gains/losses	–23	–16
Reclassification adjustments for gains/losses included in profit or loss	–36	–
Total other comprehensive income of the period	9	13
Total unrealised gains/losses	44	13
Total reclassification adjustments for gains/losses included in profit or loss	–35	–
Total comprehensive income of the period	**50**	**48**

Consolidated Statement of Financial Position

Assets in € million	Notes	30.6.2013	31.12.2012[1]	Δ in € million	1.1.2012[1]
Cash reserve		1,213	1,937	−724	323
Trading assets	18	2,288	3,325	−1,037	9,818
Loans and advances to other banks	19	5,402	7,995	−2,593	7,632
Loans and advances to customers	20	46,630	49,590	−2,960	55,236
Allowances for losses on loans and advances	21	−286	−325	39	−477
Financial investments	22	21,740	25,572	−3,832	28,677
Property, plant and equipment		2	2	–	3
Intangible assets		36	39	−3	35
Other assets	23	5,462	7,242	−1,780	6,065
Income tax assets	24	1,362	1,704	−342	1,478
Current tax assets		53	53	–	55
Deferred tax assets		1,309	1,651	−342	1,423
Total assets		**83,849**	**97,081**	−13,232	**108,790**

Equity and liabilities in € million	Notes	30.6.2013	31.12.2012[1]	Δ in € million	1.1.2012[1]
Liabilities to other banks	25	2,945	7,797	−4,852	8,223
Liabilities to customers	26	12,102	11,895	207	12,363
Liabilities evidenced by certificates	27	47,832	52,550	−4,718	55,038
Trading liabilities	28	2,154	3,192	−1,038	9,903
Provisions	29	259	235	24	184
Other liabilities	30	11,926	14,438	−2,512	16,123
Income tax liabilities	31	1,376	1,698	−322	1,373
Current tax liabilities		72	64	8	82
Deferred tax liabilities		1,304	1,634	−330	1,291
Subordinated capital	32	1,922	1,993	−71	2,501
Liabilities		**80,516**	**93,798**	−13,282	**105,708**
Equity attributable to equity holders		3,333	3,283	50	3,082
Subscribed capital		380	380	–	380
Silent participation		999	999	–	999
Additional paid-in capital		5,036	5,036	–	5,036
Retained earnings		−3,097	−3,166	69	−3,277
Profits/losses from pension commitments		−46	−46	–	−10
Foreign currency reserve		−29	−29	–	−34
Revaluation reserve		49	40	9	−129
AfS reserve		−292	−360	68	−549
Cash flow hedge reserve		341	400	−59	420
Consolidated profit/loss 1.1.–30.6./31.12.		41	69	−28	117
Equity		**3,333**	**3,283**	50	**3,082**
Total equity and liabilities		**83,849**	**97,081**	−13,232	**108,790**

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

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

Consolidated statement of changes in equity (condensed)	Equity attributable to equity holders									
							Revaluation reserve			
in € million	Subscribed capital	Silent participation	Additional paid-in capital	Retained earnings	Profits/losses from pension commitments[1]	Foreign currency reserve	AfS reserve	Cash flow hedge reserve	Consolidated profit/loss	Equity
Equity at 1.1.2012	**380**	**999**	**5,036**	**–3,277**	**–10**	**–34**	**–549**	**420**	**117**	**3,082**
Capital increase	–	–	–	–	–	–	–	–	–	–
Transaction costs of capital measures	–	–	–	–	–	–	–	–	–	–
Treasury shares	–	–	–	–	–	–	–	–	–	–
Distribution	–	–	–	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	–25	–1	55	–16	35	48
Transfer to retained earnings	–	–	–	117	–	–	–	–	–117	–
Changes in the group of consolidated companies	–	–	–	–	–	–	–	–	–	–
Equity at 30.6.2012	**380**	**999**	**5,036**	**–3,160**	**–35**	**–35**	**–494**	**404**	**35**	**3,130**
Equity at 1.1.2013	**380**	**999**	**5.036**	**–3,166**	**–46**	**–29**	**–360**	**400**	**69**	**3,283**
Capital increase	–	–	–	–	–	–	–	–	–	–
Transaction costs of capital measures	–	–	–	–	–	–	–	–	–	–
Treasury shares	–	–	–	–	–	–	–	–	–	–
Distribution	–	–	–	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	–	–	68	–59	41	50
Transfer to retained earnings	–	–	–	69	–	–	–	–	–69	–
Changes in the group of consolidated companies	–	–	–	–	–	–	–	–	–	–
Equity at 30.6.2013	**380**	**999**	**5,036**	**–3,097**	**–46**	**–29**	**–292**	**341**	**41**	**3,333**

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

Consolidated statement of cash flows (condensed)		
in € million	2013	2012
Cash and cash equivalents at 1.1.	**1,937**	**323**
+/– Cash flow from operating activities	–3,667	–2,358
+/– Cash flow from investing activities	2,988	2,179
+/– Cash flow from financing activities	–45	–92
+/– Effects of exchange rate changes and non-cash valuation changes	–	–
Cash and cash equivalents at 30.6.	**1,213**	**52**

Notes (condensed)

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1 Principles

pbb Group has prepared the condensed consolidated interim financial statements for the period ended 30 June 2013 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). The condensed consolidated interim financial statements are based on the IFRS rules, which have been adopted in European Law by the EU commission as part of the endorsement process; it is also based on the regulations of commercial law which are applicable in accordance with section 315 a (1) HGB (German Commercial Code). In particular, requirements of IAS 34 were considered. The consolidated financial review 2012 met the requirements of DRS 20 on a voluntary basis already. Hence, DRS 16 (2012) was initially adopted preparing the consolidated review of pbb Group for the reporting period.

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). If they are not inconsistent with the IFRS, the German Accounting Standards (GAS) published by the Deutsche Rechnungslegungs Standards Committee (DRSC) have also been taken into account.

On 6 August 2013, the Management Board of pbb prepared these condensed consolidated interim financial statements under the going-concern assumption.

Initially Adopted Standards and Interpretations The following standards, interpretations and amendments were initially adopted in the first half of 2013:
> Amendments to IAS 1 Presentation of Items of Other Comprehensive Income
> Amendments to IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets
> Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters as well as Amendments to IFRS 1 – Government Loans
> Amendments to IFRS 7 Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities
> IAS 19 (revised 2011) Employee Benefits
> IFRIC Interpretation 20: Stripping Costs in the Production Phase of a Surface Mining
> IFRS 13 Fair Value Measurement

According to Amendments to IAS 1, positions of other comprehensive income (OCI) have to be grouped and disclosed whether or not they could be recycled into the income statement. The disclosure requirements of Amendments to IAS 1 were considered in these condensed consolidated interim financial statements.

Amendments to IAS 12 repeal the interpretations of SIC-12 and regulate the nature of realisation of specific assets in conjunction with deferred tax measurement for investment properties, property, plant and equipment measured at fair value. There were no impacts on these condensed consolidated interim financial statements because pbb Group did not own such assets.

Both Amendments to IFRS 1 concern solely IFRS first-time adopters. There were no impacts on these condensed consolidated interim financial statements because pbb Group is not an IFRS first-time adopter.

Amendments to IFRS 7 require extended disclosures concerning offsetting of financial assets and financial liabilities. Besides a qualitative description, comprehensive quantitative disclosures become necessary, e.g. the gross amount before offsetting, the net amount after offsetting and the fair value of financial instruments, which have been received or granted as collaterals. Referring to the materiality criterion of IAS 34, the extended disclosures will be provided exclusively in the consolidated financial statements 2013.

Due to IAS 19 (revised 2011) the corridor approach of recognising actuarial gains or losses is prohibited. Instead, such effects have to be recognised directly in equity. Past service costs have to be recognised in the period of the plan changes instead of allocating the expenses over the period until the claims become vested. According to IAS 19 (revised 2011), the interest rate for discounting the defined benefit obligation is now also used for the expected return on plan assets. Furthermore, an amendment of the accounting of bonus feature elements («Aufstockungsbeträge») in connection with semi-retirement contracts results from IAS 19 (revised 2011). According to IAS 19.173 the changes arising from IAS 19 (revised 2011) have to be applied retrospectively. As of 31 December 2012 (prior year balance sheet date) the amended recognition of actuarial gains or losses decreased equity by € 46 million (31 December 2011: decrease of € 10 million). The actuarial gains or losses from defined benefit obligations are disclosed in equity under a separate item. Provisions for pensions and similar obligations increased simultaneously by € 71 million. Deferred tax assets increased by €18 million as of 31 December 2012 (31 December 2011: increase of € 4 million). Due to the immateriality of the effects from the amended interest rate reconciliation of the expected return on plan assets as well as from the amended recognition of past service cost and the bonus feature elements in connection with semi-retirement contracts, there were no impacts on the income statement of the prior year period (1 January to 30 June 2012). The prior year period's comprehensive income, which also comprises changes in equity not affecting profit or loss, decreased by € 25 million due to the changes in actuarial gains or losses from defined benefit obligations.

IFRIC 20 includes requirements concerning stripping costs of a surface mine. Due to the business model of pbb Group, these consolidated interim financial statements were not impacted by the interpretation IFRIC 20.

The regulations for all assets and liabilities concerning fair value measurement were summarised in IFRS 13. Material new requirements of IFRS 13 concern, for example, the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent market participants (exit price). In addition IFRS 13 extends the disclosures especially due to the fair value hierarchy. In the current consolidated interim financial statements the initial application of IFRS 13 resulted in effects on the determination of fair values of financial instruments to be measured at amortised costs which are disclosed in the note fair values of financial instruments. According to IAS 13.24 the fair value 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 under current market conditions (exit price). pbb Group takes into account the necessity of measuring with exit prices by principally using secondary market spreads or using them for validation. This has effects mainly on the fair values of the financial liabilities of pbb Group. Referring to IFRS 13 in connection with IAS 34.16 A (j) the extended disclosures are described in the Note Fair Values of Financial Instruments.

According to the EU endorsement the new respectively amended standards IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures are initially applicable for financial years beginning on or after 1 January 2014 (originally on or after 1 January 2013). These standards were not applied earlier by pbb Group.

Exceptionally the described changes due to initially adopted or changed standards the accounting policies applied in the preparation of the condensed consolidated interim financial statements as at 30 June 2013 were the same as in the financial statements 2012.

According to IAS 8.34 an accounting estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. In the first half of 2013 pbb Group changed the estimate of Credit Value Adjustments (CVA) which are part of the measurement of derivatives. The changes lead to a use of more accurate market-based parameters for determining the default risk of pbb Group and of the counterparties without credit specific default swaps (CDS).

2 Consolidation

On pages 176 and 177, the Annual Report 2012 of pbb Group contains a list of all consolidated and non-consolidated investments of pbb. Compared to the group of consolidated companies described in the Annual Report 2012 there were no changes.

3 Transfer of Positions to FMS Wertmanagement

With economic effect from 1 October 2010, pbb Group transferred positions to FMS Wertmanagement (established on 8 July 2010), an organisationally and economically independent public law institution with partial legal capacities. The positions had been transferred at the respective carrying amount of the transferred company in line with the accounting principles which were applicable for the separate financial statements of the respective company. The amount of the compensation claims which pbb Group received from FMS Wertmanagement was calculated as the difference between the carrying amount of the assets transferred by the respective companies and the transferred equity and liabilities.

The transfer has resulted in the derecognition of non-derivative assets with an IFRS balance sheet value of € 41.3 billion, provisions for losses on loans and advances of € –2.5 billion, derivatives of € 9.8 billion and (previously HRE-internal) refinancing of € 76.1 billion. For pbb Group there were no gains or losses resulting from the transfer of positions to FMS Wertmanagement. The effects which reduced total assets were partially compensated for by opposite effects and are disclosed in the note relationship with Related Parties. pbb Group fulfils the servicing for FMS Wertmanagement and receives compensation on an arm's-length basis.

4 Notes to Segment Reporting by Operating Segment

pbb Group operates in the three operating segments Real Estate Finance, Public Sector Finance and Value Portfolio, which are used for managing the Group.

The presentation of the segments of pbb Group is based on internal reporting which is prepared in accordance with IFRS. Income and expenses are allocated to the segments in line with the principle of causation. The external net interest income of the Group is calculatively allocated to the segments.

Real Estate Finance (REF) The operating segment Real Estate Finance comprises all commercial real estate financing arrangements of the Group. New business focuses on financing existing properties with a conservative refinancing strategy. The customers are professional investors. Adequate batch sizes and loan-to-values commensurate for the level of risk involved are essential for independent operations. 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 Sector Finance (PSF) The operating segment Public Sector Finance comprises the financing arrangements for the public sector which are eligible as cover funds in accordance with German law. pbb Group will generate new business in public investment finance. No new business will be realised by pbb Group in public sector finance as pure budget financing. Concentrating on public investment finance is the aim. The target group for these activities are profitable customer segments with a commensurate risk level: regions, cities and municipalities as well as state-guaranteed public corporations and guaranteed public-private partnerships.

Value Portfolio (VP) The operating segment Value Portfolio mainly presents income and expenses from services of pbb Group to ongoing operation of FMS Wertmanagement as well as for IT services to its sister company DEPFA. Furthermore, the segment comprises non-strategic portfolios, e.g. selected structured products.

The **Consolidation & Adjustments** column 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.

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

Income/expenses

in € million		REF	PSF	VP	Consolidation & Adjustments	**pbb Group**
Operating revenues	1.1.–30.6.2013	123	20	64	7	214
	1.1.–30.6.2012	120	19	79	5	223
Net interest income and similar income	1.1.–30.6.2013	117	29	–	7	153
	1.1.–30.6.2012	109	31	5	5	150
Net commission income	1.1.–30.6.2013	3	–	–	–1	2
	1.1.–30.6.2012	7	–1	–	–	6
Net trading income	1.1.–30.6.2013	–1	–1	–	–	–2
	1.1.–30.6.2012	–1	–1	–	–	–2
Net income from financial investments	1.1.–30.6.2013	1	–	–	–	1
	1.1.–30.6.2012	8	–3	–	–	5
Net income from hedge relationships	1.1.–30.6.2013	2	2	–	–	4
	1.1.–30.6.2012	–2	–1	–	–	–3
Balance of other operating income/expenses	1.1.–30.6.2013	1	–10	64	1	56
	1.1.–30.6.2012	–1	–6	74	–	67
Provisions for losses on loans and advances	1.1.–30.6.2013	–	–1	–	–	–1
	1.1.–30.6.2012	8	1	–	–	9
General administrative expenses	1.1.–30.6.2013	66	24	66	–	156
	1.1.–30.6.2012	69	26	69	–	164
Balance of other income/expenses	1.1.–30.6.2013	1	–	–	–	1
	1.1.–30.6.2012	1	–	–	–	1
Pre-tax result	1.1.–30.6.2013	**58**	**–3**	**–2**	**7**	**60**
	1.1.–30.6.2012	**44**	**–8**	**10**	**5**	**51**

Key ratio

in %		REF	PSF	VP	**pbb Group**
Cost-income-ratio[1]	1.1.–30.6.2013	53.7	>100.0	>100.0	72.9
	1.1.–30.6.2012	57.5	>100.0	87.3	73.5

[1] The cost-income ratio is the ratio between general administrative expenses and operating revenues

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

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

in € billion		REF	PSF	VP	Consolidation & Adjustments	**pbb Group**
Equity[1]	30.6.2013	0.9	1.5	–	0.9	3.3
	31.12.2012	1.0	1.4	–	0.9	3.3
Risk-weighted assets[2]	30.6.2013	8.8	4.8	0.1	0.7	14.4
	31.12.2012	9.6	5.0	0.2	0.5	15.3
Finance volume[2]	30.6.2013	21.2	34.2	0.9	–	56.3
	31.12.2012	22.1	35.4	0.9	–	58.4

[1] Excluding revaluation reserve
[2] Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5; according to Basel II advanced IRB approach for authorised portfolios, otherwise Basel II standardised approach; pro forma as per prepared annual financial statements and after result distribution

6 Breakdown of Operating Revenues

Operating Revenues by Products Operating revenues from other products mainly contained a balance of other operating income/expenses for the servicing for the ongoing operation of FMS Wertmanagement and for IT services to the sister company DEPFA totalling €63 million (2012: €70 million).

Operating revenues by products					
in € million		Real estate financing	Public sector financing	Other products	**pbb Group**
Operating revenues	1.1.–30.6.2013	123	20	71	214
	1.1.–30.6.2012	120	19	84	223

Operating Revenues by Customers A balance of other operating income/expenses of €42 million (2012: €53 million) recognised in the Value Portfolio segment resulted from services for the ongoing operation of FMS Wertmanagement. Because the net income accounts for more than 10% of all operating revenues of pbb Group, FMS Wertmanagement is a major client in accordance with IFRS 8.34. The balance of other operating income/expenses compensates for the expenses of pbb Group incurred in connection with servicing.

Notes to the Consolidated Income Statement

7 Net Interest Income and Similar Income

Net interest income and similar income, broken down by categories of income/expenses in € million	1.1.–30.6.2013	1.1.–30.6.2012
Interest income and similar income	**1,249**	**1,494**
Lending and money-market business	649	832
Fixed-income securities and government-inscribed debt	362	463
Current result from swap transactions (balance of interest income and interest expenses)	238	199
Interest expenses and similar expenses	**1,096**	**1,344**
Liabilities to other banks and customers	249	321
Liabilities evidenced by certificates	809	967
Subordinated capital	38	56
Total	**153**	**150**

Total interest income for financial assets that are measured at amortised cost, amounted to € 1.0 billion (2012: € 1.3 billion). Total interest expenses for financial liabilities that are not measured at fair value through profit or loss amounted to € 1.1 billion (2012: € 1.3 billion).

8 Net Commission Income

Net commission income in € million	1.1.–30.6.2013	1.1.–30.6.2012
Securities and custodial services	–	–1
Lending operations and other service operations	2	7
Total	**2**	**6**

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

9 Net Trading Income

Net trading income in € million	1.1.–30.6.2013	1.1.–30.6.2012
From interest rate instruments and related derivatives	–3	–4
From foreign currency instruments and related derivatives	1	2
Total	**–2**	**–2**

10 Net Income from Financial Investments

Net income from financial investments in € million	1.1.– 30.6.2013	1.1.– 30.6.2012
Income from financial investments	2	11
Expenses from financial investments	1	6
Total	**1**	**5**

Based on measurement categories, net income from financial investments is broken down as follows:

Net income from financial investments by IAS 39 categories in € million	1.1.– 30.6.2013	1.1.– 30.6.2012
Available-for-sale financial investments	1	5
Loans-and-receivables financial investments	–	–
Total	**1**	**5**

11 Net Income from Hedge Relationships

Net income from hedge relationships in € million	1.1.– 30.6.2013	1.1.– 30.6.2012
Result from fair value hedge accounting	4	–5
Result from hedged items	267	–127
Result from hedging instruments	–263	122
Result from dFVTPL investments and related derivatives	–	2
Result from dFVTPL investments	–1	2
Result from derivatives related to dFVTPL investments	1	–
Ineffectiveness from cash flow hedge accounting affecting income	–	–
Total	**4**	**–3**

12 Balance of Other Operating Income/Expenses

Balance of other operating income/expenses in € million	1.1.– 30.6.2013	1.1.– 30.6.2012
Other operating income	138	135
Other operating expenses	82	68
Balance of other operating income/expenses	**56**	**67**

Balance of other operating income/expenses from services for the ongoing operation of FMS Wertmanagement amounted to € 42 million (2012: € 53 million) and income from IT services to the sister company DEPFA amounted to € 21 million (2012: € 17 million). The services for ongoing operation of FMS Wertmanagement compensate the corresponding general administrative expenses. Rental income generated from real estate amounted to € 6 million (2012: € 2 million). The bank levy expenses amounted to € 5 million (2012: € 12 million). A net income of € 1 million (2012: € 1 million) resulted from foreign currency translation.

13 Provisions for Losses on Loans and Advances

Provisions for losses on loans and advances in € million	**1.1.–30.6.2013**	**1.1.–30.6.2012**
Provisions for losses on loans and advances	–	10
Additions	11	25
Releases	–11	–15
Provisions for contingent liabilities and other commitments	–1	–1
Additions	–	1
Releases	–1	–2
Recoveries from write-offs of loans and advances	–	–
Total	**–1**	**9**

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

14 General Administrative Expenses

General administrative expenses in € million	**1.1.–30.6.2013**	**1.1.–30.6.2012**
Personnel expenses	64	66
Wages and salaries	51	53
Social security costs	9	9
Pension expenses and related employee benefit costs	4	4
Administrative expenses	92	98
Other general administrative expenses	85	92
Consulting expenses	18	25
IT expenses	45	48
Office and operating expenses	7	6
Other administrative expenses	15	13
Depreciation/amortisation	7	6
on software and other intangible assets excluding goodwill	7	5
on property, plant and equipment	–	1
Total	**156**	**164**

Cost-income ratio in %	1.1.– 30.6.2013	1.1.– 30.6.2012
Cost-income ratio	72.9	73.5

15 Balance of Other Income/Expenses

Balance of other income/expenses in € million	1.1.– 30.6.2013	1.1.– 30.6.2012
Other income	5	3
thereof: Releases of restructuring provisions	5	3
Other expenses	4	2
thereof: Additions to restructuring provisions	4	2
Balance of other income/expenses	**1**	**1**

16 Taxes on Income

Breakdown in € million	1.1.– 30.6.2013	1.1.– 30.6.2012
Current taxes	11	–7
Deferred taxes	8	23
thereof: Deferred taxes on capitalised losses carried forward	21	19
Total	**19**	**16**

17 Net Gains/Net Losses

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

Net gains/net losses in € million	1.1.– 30.6.2013	1.1.– 30.6.2012
Loans and receivables	12	–7
Available for sale	1	5
Held for trading	–2	–2
Designated at fair value through P&L	–1	2
Financial liabilities at amortised cost	3	3

Notes to the Consolidated Statement of Financial Position

18 Trading Assets

Trading assets in € million	30.6.2013	31.12.2012
Positive fair values from derivative financial instruments	2,288	3,325
Total	**2,288**	**3,325**

19 Loans and Advances to Other Banks

Loans and advances to other banks, broken down by type of business in € million	30.6.2013	31.12.2012
Loans and advances	4,402	5,092
Public sector loans	2,051	2,231
Real estate loans	49	52
Other loans and advances	2,302	2,809
Investments	1,000	2,903
Total	**5,402**	**7,995**

Loans and advances to other banks, broken down by maturities in € million	30.6.2013	31.12.2012
Repayable on demand	2,220	2,736
With agreed maturities	3,182	5,259
Up to 3 months	1,165	3,016
From 3 months to 1 year	4	222
From 1 year to 5 years	985	891
From 5 years and over	1,028	1,130
Total	**5,402**	**7,995**

20 Loans and Advances to Customers

Loans and advances to customers, broken down by type of business in € million	30.6.2013	31.12.2012
Loans and advances	46,630	49,090
Public sector loans	18,490	19,139
Real estate loans	28,116	29,919
Other loans and advances	24	32
Investments	–	500
Total	**46,630**	**49,590**

Loans and advances to customers, broken down by maturities in € million	30.6.2013	31.12.2012
With agreed maturities	46,630	49,590
Up to 3 months	3,286	4,008
From 3 months to 1 year	5,075	4,973
From 1 year to 5 years	19,680	21,595
From 5 years and over	18,589	19,014
Total	**46,630**	**49,590**

21 Allowances for Losses on Loans and Advances

Development in € million	Individual allowances on loans and advances	Portfolio-based allowances	**Total**
Balance at 1.1.2012	**413**	**64**	**477**
Changes affecting income	15	−22	−7
Gross additions	48	18	66
Releases	−25	−40	−65
Increase of the present value due to passage of time (unwinding)	−8	–	−8
Changes not affecting income	−145	–	−145
Use of existing loan-loss allowances	−145	–	−145
Effects of currency translations and other changes not affecting income	–	–	–
Balance at 31.12.2012	**283**	**42**	**325**
Balance at 1.1.2013	**283**	**42**	**325**
Changes affecting income	3	−7	−4
Gross additions	11	–	11
Releases	−4	−7	−11
Increase of the present value due to passage of time (unwinding)	−4	–	−4
Changes not affecting income	−35	–	−35
Use of existing loan-loss allowances	−34	–	−34
Effects of currency translations and other changes not affecting income	−1	–	−1
Balance at 30.6.2013	**251**	**35**	**286**

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

22 Financial Investments

Breakdown in € million	**30.6.2013**	**31.12.2012**
AfS financial investments	3,739	3,920
Shares in non-consolidated subsidiaries	1	1
Debt securities and other fixed-income securities	3,736	3,917
Equity securities and other variable-yield securities	2	2
dFVTPL financial investments	–	83
Debt securities and other fixed-income securities	–	83
LaR financial investments	18,001	21,569
Debt securities and other fixed-income securities	18,001	21,569
Total	**21,740**	**25,572**

The carrying amounts of the LaR financial investments were reduced by portfolio-based allowances amounting to € − 12 million (2012: € − 12 million).

Financial investments, broken down by maturities in € million	**30.6.2013**	**31.12.2012**
Unspecified terms	3	3
With agreed maturities	21,737	25,569
Up to 3 months	453	3,131
From 3 months to 1 year	1,640	1,507
From 1 year to 5 years	7,885	8,121
From 5 years and over	11,759	12,810
Total	**21,740**	**25,572**

pbb Group has made use of the IASB amendments to IAS 39 and IFRS 7, published on 13 October 2008, and reclassified financial assets. pbb Group identified assets, eligible under the amendments, for which at the reclassification date it had a clear change of intent to hold for the foreseeable future rather than to exit or trade in the short term and fulfil the requirements of the measurement category loans and receivables according to IAS 39 (amongst others not quoted in an active market). The reclassified portfolios are disclosed under financial investments.

pbb Group reclassified retrospectively as of 1 July 2008 financial investments out of the measurement category available-for-sale of total €30.2 billion. At the date of reclassification the effective interest rate for the AfS assets was between 0.25% and 34.4%. Since the date of reclassification, financial assets with a (reclassified) carrying amount of around €10.0 billion (2012: €9.5 billion) became due. In the first half of 2013 no securities were sold. In the financial year 2012 securities with a reclassified carrying amount of €0.1 billion were sold. Thereby a net income of €6 million was realised. The reclassification of AfS assets did not cause a disclosure change of current interest income. Current interest income is still disclosed in net interest income.

The following tables summarise the carrying amounts and fair values as of 30 June 2013 and 31 December 2012 as well as fair value gains and losses that would have been recognised in the first half of 2013 and in 2012 if the financial assets had not been reclassified.

Reclassifications 2013	into: Financial investment loans and receivables (LaR)			Effect in reporting period if no assets would have been reclassified in 2008 (1.1.–30.6.2013)	
			30.6.2013		
	Date	Carrying amount in € billion	Fair value in € billion	Income statement in € million	AfS reserve (after taxes) in € million
out of:					
Financial investments available for sale (AfS)	1.7.2008	10.2	10.0	0	136

Reclassifications 2012	into: Financial investment loans and receivables (LaR)			Effect in reporting period if no assets would have been reclassified in 2008 (1.1.–31.12.2012)	
			31.12.2012		
	Date	Carrying amount in € billion	Fair value in € billion	Income statement in € million	AfS reserve (after taxes) in € million
out of:					
Financial investments available for sale (AfS)	1.7.2008	10.9	10.5	5	187

23 Other Assets

Other assets in € million	30.6.2013	31.12.2012
Positive fair values from derivative financial instruments	5,182	6,821
Hedging derivatives	5,182	6,821
Fair value hedge	4,567	5,819
Cash flow hedge	615	1,002
Salvage acquisitions	161	176
Other assets	112	238
Capitalised excess cover of qualified insurance for pension provisions	7	7
Total	**5,462**	**7,242**

24 Income Tax Assets

Income tax assets in € million	30.6.2013	31.12.2012[1]
Current tax assets	53	53
Deferred tax assets	1,309	1,651
Total	**1,362**	**1,704**

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

25 Liabilities to Other Banks

Liabilities to other banks, broken down by maturities in € million	30.6.2013	31.12.2012
Repayable on demand	1,347	2,058
With agreed maturities	1,598	5,739
Up to 3 months	461	378
From 3 months to 1 year	144	311
From 1 year to 5 years	536	4,572
From 5 years and over	457	478
Total	**2,945**	**7,797**

26 Liabilities to Customers

Liabilities to customers, broken down by maturities in € million	30.6.2013	31.12.2012
Repayable on demand	1,722	962
With agreed maturities	10,380	10,933
Up to 3 months	577	736
From 3 months to 1 year	1,465	1,340
From 1 year to 5 years	5,848	5,910
From 5 years and over	2,490	2,947
Total	**12,102**	**11,895**

27 Liabilities Evidenced by Certificates

Liabilities evidenced by certificates, broken down by type of business in € million	30.6.2013	31.12.2012
Debt securities issued	25,426	28,761
Mortgage bonds	8,116	7,681
Public sector bonds	12,106	17,160
Other debt securities	4,776	3,414
Money market securities	428	506
Registered notes issued	22,406	23,789
Mortgage bonds	6,298	6,783
Public sector bonds	14,687	15,711
Other debt securities	1,421	1,295
Total	**47,832**	**52,550**

Liabilities evidenced by certificates, broken down by maturities in € million	30.6.2013	31.12.2012
With agreed maturities		
Up to 3 months	1,933	6,202
From 3 months to 1 year	3,500	4,125
From 1 year to 5 years	20,422	17,874
From 5 years and over	21,977	24,349
Total	**47,832**	**52,550**

28 Trading Liabilities

Trading liabilities in € million	**30.6.2013**	**31.12.2012**
Negative fair values from derivative financial instruments	2,154	3,192
Total	**2,154**	**3,192**

29 Provisions

Breakdown in € million	**30.6.2013**	**31.12.2012**[1]
Provisions for pensions and similar obligations	69	71
Restructuring provisions	67	71
Provisions for contingent liabilities and other commitments	13	17
Other provisions	110	76
thereof: Long-term liabilities to employees	4	3
Total	**259**	**235**

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

As of 1 January 2005, pbb took out reinsurance which is classified as a qualifying insurance policy under IAS 19 to protect itself against parts of the risks arising from the defined-benefit pension commitments.

Legal and Arbitration Proceedings In all jurisdictions in which it carries out its operations, pbb Group is obliged to comply with numerous legal and regulatory requirements and regulations, including regulations regarding compliance with certain codes of conduct, for avoiding conflicts of interest, for combating money laundering, for preventing the financing of terrorism, for preventing criminal actions to the detriment of the financial sector, for regulating foreign trade and for safeguarding banking, business and data secrecy. In view of the nature and international scope of its business operations and the wide range of relevant requirements and regulations, pbb Group is involved in court, arbitration and regulatory proceedings in several countries. These cases also include criminal and administrative proceedings as well as the enforcing of claims in which the amount of the claims which have been enforced is not quantified. pbb Group creates provisions for the uncertain obligations arising from these proceedings if the potential outflow of resources is sufficiently probable and if the extent of the obligation can be estimated. The probability of the outflow of resources, which however generally cannot be estimated with certainty, very much depends considerably on the outcome of the proceedings. The assessment of the probability and quantification of the uncertain liability mainly depend on assessments. The actual liability may differ considerably from this original assessment. With regard to recognising the individual cases, and depending on the significance and severity of the specific case, pbb Group relies on its own expertise, appraisals prepared by external consultants and in particular legal advisors, and also takes account of the developments of individual proceedings, the developments of comparable proceedings as well as experience of third parties in comparable cases. The losses estimated for the proceedings are not shown individually, as pbb Group assumes that disclosure of such information would have a severely negative impact on the outcome of the proceedings.

The cumulative losses shown in the balance sheet since 2008 and also the annual net losses which have occurred at pbb have meant that the profit-sharing certificates issued by the predecessor institutions of pbb have suffered considerable shares in losses. No interest has accordingly been paid out. Legal proceedings are pending with regard to the various different clauses relating to the participation in losses and the reinstatement of previous distributions which had not been made. In consequence, this may result in an increase and also a further reduction of the repayment claims of the former holders of the profit-participating certificates.

As contractually agreed, pbb has received compensation of € 6.3 million for a French financing arrangement which has since been completely repaid. The customer had instituted legal proceedings before the Commercial Court of Paris for repayment of the fee, which is alleged to be unreasonable.

In mediation proceedings, relating to the merger of the three mortgage banks in 2001, an additional payment of € 1.04 per share would be applicable on the basis of a new appraisal which has been instructed by the court.

Otherwise, no proceedings in relation to which the possibility of an outflow if the criteria are satisfied is not unlikely in the opinion of the Management Board or which are of material significance for pbb Group for other reasons, have a quantified value in dispute of more than € 5 million.

30 Other Liabilities

Other liabilities in € million	**30.6.2013**	**31.12.2012**
Negative fair values from derivative financial instruments	5,103	6,230
Hedging derivatives	5,103	6,227
Fair value hedge	4,563	5,515
Cash flow hedge	540	712
Derivatives hedging dFVTPL financial instruments	–	3
Other liabilities	6,823	8,208
Total	**11,926**	**14,438**

31 Income Tax Liabilities

Income tax liabilities in € million	**30.6.2013**	**31.12.2012**
Current tax liabilities	72	64
Deferred tax liabilities	1,304	1,634
Total	**1,376**	**1,698**

32 Subordinated Capital

Breakdown in € million	**30.6.2013**	**31.12.2012**
Subordinated liabilities	1,610	1,689
Hybrid capital instruments	312	304
Total	**1,922**	**1,993**

Subordinated capital, broken down by maturities in € million	**30.6.2013**	**31.12.2012**
With agreed maturities		
Up to 3 months	527	89
From 3 months to 1 year	12	502
From 1 year to 5 years	609	430
From 5 years and over	774	972
Total	**1,922**	**1,993**

Notes to the Financial Instruments

33 Fair Values of Financial Instruments

The fair value of financial instruments, in the opinion of pbb Group, is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participations at the measurement date. The fair values were determined as of the balance sheet date based on the market information available and on valuation methods described here.

Fair values of financial instruments	30.6.2013		31.12.2012	
in € million	Carrying amounts	Fair value	Carrying amounts	Fair value
Assets	**82,169**	**82,649**	**94,915**	**94,221**
Cash reserve	1,213	1,213	1,937	1,937
Trading assets (HfT)	2,288	2,288	3,325	3,325
Loans and advances to other banks[1]	5,402	5,284	7,995	7,817
Category LaR	5,402	5,284	7,995	7,817
Loans and advances to customers[1]	46,344	47,796	49,265	50,143
Category LaR	46,344	47,796	49,265	50,143
Financial investments	21,740	20,886	25,572	24,178
Category AfS	3,739	3,739	3,920	3,920
Category dFVTPL	–	–	83	83
Category LaR	18,001	17,147	21,569	20,175
Other assets	5,182	5,182	6,821	6,821
thereof: Hedging derivatives	5,182	5,182	6,821	6,821
Liabilities	**78,783**	**79,801**	**91,615**	**91,688**
Liabilities to other banks	2,945	2,968	7,797	7,809
Liabilities to customers	12,102	12,520	11,895	12,159
Liabilities evidenced by certificates	47,832	48,525	52,550	52,487
Trading liabilities (HfT)	2,154	2,154	3,192	3,192
Other liabilities	11,828	11,879	14,188	14,194
thereof: Hedging derivatives	5,103	5,103	6,227	6,227
Derivatives hedging dFVTPL financial instruments	–	–	3	3
Subordinated capital	1,922	1,755	1,993	1,847
Other items	**1,816**	**1,585**	**1,110**	**1,004**
Contingent liabilities	58	58	75	75
Irrevocable loan commitments	1,758	1,527	1,035	929

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

The fair values of the liabilities in relation to cover pool assets which were synthetically transferred to FMS Wertmanagement were € 51 million (2012: € 6 million) higher than the carrying amounts.

Fair Value Hierarchy All financial assets and liabilities that are measured at fair value are grouped into the three fair value hierarchies by pbb Group. 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).

The following tables show financial assets and financial liabilities measured at fair value grouped into the fair value hierarchy:

Fair value hierarchy at 30 June 2013				
in € million	**Total**	Level 1	Level 2	Level 3
Assets				
Financial assets at fair value through profit or loss	6,855	–	6,784	71
Trading assets	2,288	–	2,287	1
dFVTPL financial investments	–	–	–	–
Fair value hedge derivatives	4,567	–	4,497	70
Financial assets at fair value not affecting profit or loss	4,353	3,738	611	4
AfS financial investments[1]	3,738	3,738	–	–
Cash flow hedge derivatives	615	–	611	4
Total	**11,208**	**3,738**	**7,395**	**75**
Liabilities				
Financial liabilities at fair value through profit or loss	6,717	–	6,715	2
Trading liabilities	2,154	–	2,152	2
Fair value hedge derivatives	4,563	–	4,563	–
Derivatives hedging dFVTPL financial instruments	–	–	–	–
Financial liabilities at fair value not affecting profit or loss	540	–	540	–
Cash flow hedge derivatives	540	–	540	–
Total	**7,257**	**–**	**7,255**	**2**

[1] Excluding shares in non-consolidated subsidiaries

Fair value hierarchy at 31 December 2012 in € million	Total	Level 1	Level 2	Level 3
Assets				
Financial assets at fair value through profit or loss	9,227	83	9,065	79
Trading assets	3,325	–	3,324	1
dFVTPL financial investments	83	83	–	–
Fair value hedge derivatives	5,819	–	5,741	78
Financial assets at fair value not affecting profit or loss	4,921	3,919	998	4
AfS financial investments[1]	3,919	3,919	–	–
Cash flow hedge derivatives	1,002	–	998	4
Total	**14,148**	**4,002**	**10,063**	**83**
Liabilities				
Financial liabilities at fair value through profit or loss	8,710	–	8,706	4
Trading liabilities	3,192	–	3,190	2
Fair value hedge derivatives	5,515	–	5,513	2
Derivatives hedging dFVTPL financial instruments	3	–	3	–
Financial liabilities at fair value not affecting profit or loss	712	–	712	–
Cash flow hedge derivatives	712	–	712	–
Total	**9,422**	**–**	**9,418**	**4**

[1] Excluding shares in non-consolidated subsidiaries

In the first half of 2013 there were no reclassifications between the different levels.

Disclosures to the Measurement Methods and Input Parameters

Measurement of level 2 instruments as of 30 June 2013	Fair value			
in € million	Assets	Liabilities	Measurement methods	Observable parameters
Financial assets/liabilities at fair value through profit or loss				
Trading assets/liabilities	2,287	2,152	DCF methods	Reference interest rates
				Yield curves
				Spot market exchange rates
				Cap volatilities
				Swaption volatilities
				Inflation rates
				Swap curves
			Option pricing models	Reference interest rates
				Swaption volatilities
				Cap volatilities
Fair value hedge derivatives	4,497	4,563	DCF methods	Reference interest rates
				Yield curves
				Inflation rates
				Cap volatilities
				Swaption volatilities
			Option pricing models	Reference interest rates
				Yield curves
				Cap volatilities
				Swaption volatilities
				Spot market exchange rates
				Exchange rate volatilities
Financial assets/liabilities at fair value not affecting profit or loss				
Cash flow hedge derivatives	611	540	DCF methods	Reference interest rates
				Yield curves
			Option pricing models	Reference interest rates
				Yield curves
				Cap volatilities
				Swaption volatilities

Measurement of level 3 instruments as of 30 June 2013 in € million	Fair value Assets	Liabilities	Measurement methods	Observable parameters	Non-observable parameters	Parameter range (weighted average)
Financial assets/liabilities at fair value through profit or loss						
Trading assets/liabilities	1	2	DCF methods	Reference interest rates	Exchange/interest rate correlations	+0.01 to +1 (+0.42)
				Yield curves		
				Spot market exchange rates		
				Cap volatilities		
				Exchange rate volatilities		
				Asset swap spreads		
Fair value hedge derivatives	70	–	Option pricing models	Closing prices EUROSTOXX 50	Historical index/ index correlations	0.03 to 0.75 (0.27)
				Dividends EUROSTOXX 50	Historical index/ exchange rate correlations	−0.27 to +0.03 (−0.16)
				Reference interest rates	Volatility of fixings on EUROSTOXX50	0.23 (0.23)
				Yield curves		
				Cap volatilities		
				Swaption volatilities		
				Spot market exchange rates		
				Exchange rate volatilities		
Financial assets/liabilities at fair value not affecting profit or loss						
Cash flow hedge derivatives	4	–	Option pricing models	Reference interest rates	Historical index/ index correlations	0.03 to 0.75 (0.27)
				Cap volatilities	Historical index/ exchange rate correlations	−0.27 to +0.03 (−0.16)
				Swaption volatilities		
				Spot market exchange rates		
				Exchange rate volatilities		

Although pbb Group believes that its estimates of fair values are appropriate, using reasonably possible alternative input factors will significantly impact the fair value. The following table shows the fair value sensitivity of level 3 instruments as of 30 June 2013 and as of 31 December 2012 which have been quantified on the basis of the specified valuation parameters taking account of usual market scenarios:

Sensitivities of level 3 instruments	**30.6.2013**		**31.12.2012**	
in € million	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Assets				
Financial assets at fair value through profit or loss				
Hedging derivatives	8.0	−6.6	5.2	−4.5
Total	**8.0**	**−6.6**	**5.2**	**−4.5**
Liabilities				
Financial liabilities at fair value through profit or loss				
Trading liabilities	–	–	0.1	−0.1
Hedging derivatives	–	–	0.1	−0.1
Total	**–**	**–**	**0.2**	**−0.2**

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 Assets and Financial Liabilities

Changes in level 3 financial assets		Financial assets at fair value through profit or loss	Financial assets at fair value not affecting profit or loss	
in € million	Trading assets	Fair value hedge derivatives	Cash flow hedge derivatives	**Total**
Balance at 1.1.2012	**–**	**49**	**2**	**51**
Comprehensive income				
Income statement	–	30	–	30
Revaluation reserve	–	–	2	2
Purchases	1	–	–	1
Sales	–	–2	–	–2
Changes due to transfer to FMS Wertmanagement	–	–	–	–
Issues	–	–	–	–
Settlements	–	–	–	–
Reclassification into Level 3	–	1	–	1
Reclassification out of Level 3	–	–	–	–
Balance at 31.12.2012	**1**	**78**	**4**	**83**
Balance at 1.1.2013	**1**	**78**	**4**	**83**
Comprehensive income				
Income statement	–	–8	–	–8
Revaluation reserve	–	–	–	–
Purchases	–	–	–	–
Sales	–	–	–	–
Changes due to transfer to FMS Wertmanagement	–	–	–	–
Issues	–	–	–	–
Settlements	–	–	–	–
Reclassification into Level 3	–	–	–	–
Reclassification out of Level 3	–	–	–	–
Balance at 30.6.2013	**1**	**70**	**4**	**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 1.1.2012	**–1**	**–18**	**–**	**–19**
Comprehensive income				
Income statement	–	9	–	9
Revaluation reserve	–	–	–	–
Purchases	–	7	–	7
Sales	–1	–	–	–1
Issues	–	–	–	–
Settlements	–	–	–	–
Reclassification into Level 3	–	–	–	–
Reclassification out of Level 3	–	–	–	–
Balance at 31.12.2012	**–2**	**–2**	**–**	**–4**
Balance at 1.1.2013	**–2**	**–2**	**–**	**–4**
Comprehensive income				
Income statement	–	–	–	–
Revaluation reserve	–	–	–	–
Purchases	–	–	–	–
Sales	–	2	–	2
Issues	–	–	–	–
Settlements	–	–	–	–
Reclassification into Level 3	–	–	–	–
Reclassification out of Level 3	–	–	–	–
Balance at 30.6.2013	**–2**	**–**	**–**	**–2**

In the first half of 2013, the assets measured at fair value resulted in losses of € –8 million, which were recognised entirely in net income from hedge relationships. The liabilities measured at fair value did not have any effects in the first half of 2013.

In the previous year, assets and liabilities measured at fair value resulted in profits totalling € 41 million. This figure included profits of € 30 million recognised in the income statement in relation to the assets measured at fair value (recognised in net income from hedge relationships) as well as profits of € 2 million recognised in equity (recognised in the cash flow hedge reserve). The liabilities measured at fair value accounted for profits of € 9 million in the previous year; these were recognised entirely in the income statement under the net income from hedge relationships.

34 Assets and Liabilities According to Measurement Categories and Classes

Assets and liabilities according to measurement categories and classes in accordance with IAS 39 in € million	30.6.2013	31.12.2012
Assets	**82,169**	**94,915**
Loans and receivables (LaR)	69,747	78,829
Available for sale (AfS)	3,739	3,920
Held for trading (HfT)	2,288	3,325
dFVTPL assets (dFVTPL)	–	83
Cash reserve	1,213	1,937
Positive fair values from hedging derivatives	5,182	6,821
Liabilities	**78,783**	**91,615**
Held for trading (HfT)	2,154	3,192
Financial liabilities at amortised cost	71,526	82,193
Negative fair values from hedging derivatives	5,103	6,230

35 Exposure to Selected European Countries

Exposure to selected European countries as of 30 June 2013 in € million	Counterparty	IAS 39 measurement category	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	From 5 years and over	Carrying amount	Notional value	Fair value
Italy	Sovereign	LaR	–	–	93	148	**241**	239	200
		AfS	–	–	–	1,255	**1,255**	1,060	1,255
	Sub-sovereign	LaR	–	11	5	1,087	**1,103**	1,061	875
	State guaranteed	LaR	–	–	23	620	**643**	557	560
Portugal	Sovereign	LaR	–	–	43	–	**43**	35	39
		AfS	–	–	45	103	**148**	165	148
	Sub-sovereign	LaR	–	–	86	244	**330**	330	245
	State guaranteed	LaR	–	–	202	371	**573**	547	415
Spain	Sub-sovereign	LaR	–	4	1,082	947	**2,033**	1,862	1,746
		HfT	–	–	–	3	**3**	35	3
	State guaranteed	LaR	–	21	73	163	**257**	243	159

Exposure to selected European countries as of 31 December 2012 in € million	Counterparty	IAS 39 measurement category	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	From 5 years and over	Carrying amount	Notional value	Fair value
Italy	Sovereign	LaR	–	–	98	150	**248**	242	197
		AfS	–	–	–	1,250	**1,250**	1,060	1,250
	Sub-sovereign	LaR	–	22	10	1,134	**1,166**	1,112	869
	State guaranteed	LaR	–	–	26	674	**700**	595	581
Portugal	Sovereign	LaR	–	–	46	–	**46**	37	42
		AfS	–	–	44	101	**145**	165	145
	Sub-sovereign	LaR	100	–	86	244	**430**	430	301
	State guaranteed	LaR	–	–	202	374	**576**	547	389
Spain	Sub-sovereign	LaR	–	6	832	1,282	**2,120**	1,888	1,554
		HfT	–	–	–	5	**5**	35	5
	State guaranteed	LaR	42	100	106	174	**422**	399	375

As of 30 June 2013 pbb Group did not have any exposure to sovereign, sub-sovereign and state-guaranteed counterparties of Greece, Cyprus and Ireland.

The exposure to selected countries shown in the table contains loans and advances and securities. In addition, it shows interest rate derivatives to sovereign and sub-sovereign counterparties. The interest rate derivatives are netted with collaterals. Time lags in providing the collaterals and haircuts are not taken into account. State-guaranteed exposure contains for example loans and advances to banks and corporations which are guaranteed by sovereigns or sub-sovereigns. As of 30 June 2013 and as of 31 December 2012 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 financial assets which are measured at fair value affecting income changes in value are directly included in the book value. pbb Group tests financial assets which are not measured at fair value affecting income for impairments. Allowances for loans and advance or impairments for securities are created if there is objective evidence that it will not be possible for the entire amount which is due according with the original contractual conditions to be recovered. As per 30 June 2013 and as of 31 December 2012 there was no such objective evidence.

36 Past Due but Not Impaired Assets

LaR assets: past due but not impaired (total investment) in € million	**30.6.2013**	**31.12.2012**
Up to 3 months	182	665
From 3 months to 6 months	119	71
From 6 months to 1 year	385	67
From 1 year and over	77	75
Total	**763**	**878**

Carrying amounts LaR assets in € billion	**30.6.2013**	**31.12.2012**
Carrying amount of LaR assets that are neither impaired nor past due	68.7	77.6
Carrying amount of LaR assets that are past due but not impaired (total investment)	0.8	0.9
Carrying amount of individually assessed impaired LaR assets (net)	0.5	0.6
Balance of portfolio-based allowances	–	0.1
Total	**70.0**	**79.2**
thereof: Loans and advances to other banks (including investments)	5.4	8.0
Loans and advances to customers (including investments)	46.6	49.6
Financial investments (gross)	18.0	21.6

Other Notes

37 Contingent Liabilities and Other Commitments

Contingent liabilities and other commitments in € million	30.6.2013	31.12.2012
Contingent liabilities	**58**	**75**
Guarantees and indemnity agreements	58	75
Loan guarantees	4	4
Performance guarantees and indemnities	54	71
Other commitments	**1,758**	**1,035**
Irrevocable loan commitments	1,758	1,035
Book credits	117	102
Guarantees	46	31
Mortgage and public sector loans	1,595	902
Total	**1,816**	**1,110**

The former Hypo Real Estate Bank International AG, a predecessor institute of pbb, Munich, has overtaken 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 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 8a of Finanzmarktstabilisierungsfondsgesetz pbb assumes joint and several liability for all payment obligations of its subsidiaries resulting from the transaction agreements which have been transferred as part of the process of transferring assets to FMS Wertmanagement.

The Restructuring Fund Ordinance specifies an additional charge for the so-called bank levy. The difference between the actually determined bank levy and the calculated standard amount for the years 2011 to 2019 can be subsequently charged in the following two years in each case. However, the obligation to pay the additional amount arises only if corresponding profits are generated in subsequent financial years; the amount of this payment is capped by the 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 2014 and 2015 is €3 million. The additional payment of €32 million from previous years cannot be charged anymore according to transitional regulations to the Restructuring Fund Ordinance.

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 reprivatisation, and will be used for repaying the dormant contribution of the Federal Republic of Germany.

38 Key Regulatory Capital Ratios (Based on German Commercial Code)

In accordance with the waiver regulation set out in Section 2a KWG, pbb is exempted from the requirement to establish the equity and core capital ratios at the level of the institution.

The waiver regulation set out in Section 2a KWG states that a credit institution or financial services institution which has its registered offices within Germany and which is part of a regulated group of institutions or financial holding group does not have to comply with the following regulations if these regulations are complied with at the level of the ultimate parent company:
> Regulations regarding solvency (equity in relation to risk-weighted assets)
> Regulations regarding large loans (equity in relation to loans extended to individual borrower units)
> Regulations set out in Section 25a (1) Clause 3 No. 1 KWG for establishing and assuring risk-bearing capacity, defining strategies, setting up processes for identifying, assessing, managing, monitoring and communicating risks.

pbb Group voluntarily discloses these figures on a pro forma basis.

The regulatory capital of pbb Group in accordance with the Solvency Regulation (SolvV) on a pro forma basis is as follows:

Own funds[1] in € million	**30.6.2013**	**31.12.2012**
Core capital (Tier I)	2,896	2,898
Supplementary capital (Tier II)	1,129	1,179
Equity capital	**4,025**	**4,077**
Tier III capital	–	–
Total	**4,025**	**4,077**

[1] Consolidated pursuant to Section 10a German Banking Act (KWG); pro forma as per prepared annual financial statements and after result distribution

The risk-weighted assets, the operational risks and the market risk positions on a pro forma basis are as follows:

Risk-weighted assets[1] in € billion	**30.6.2013**	**31.12.2012**
Risk-weighted assets	14.4	15.3

[1] 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; according to Basel II advanced IRB approach for authorised portfolios, otherwise Basel II standardised approach; pro forma as as per prepared annual financial statements and after result distribution

Operational risks in € million	**30.6.2013**	**31.12.2012**
Total	82	86

Market risk positions in € million	30. 6. 2013	31. 12. 2012
Currency risks	11	6
Interest rate risks	–	–
Total	**11**	**6**

The capital ratios have been determined on the basis of the definition of shareholders' equity in accordance with SolvV and also using risk-weighted assets in accordance with Basel II. On a pro forma basis, the capital ratios are as follows:

Key capital ratios[1)] in %	30. 6. 2013	31. 12. 2012
Core capital ratio[2)]	20.1	18.9
Equity capital ratio[3)]	28.2	26.7
Own funds ratio (overall indicator)[2)]	27.9	26.6

[1)] Pro forma as per prepared annual financial statements and after result distribution
[2)] Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5
[3)] Including risk-weighted credit risk positions as well as the capital requirements for operational risks scaled with the factor 12.5

39 Relationship with Related Parties

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

The following major transactions with FMS Wertmanagement affected the development in assets of pbb Group:

> pbb Group has transferred market risks to FMS Wertmanagement by means of back-to-back derivatives. Overall, the transfer has had the effect of boosting the balance sheet by €0.3 billion in trading assets (2012: €1.0 billion). Of this figure, €0.2 billion (2012: €0.7 billion) was attributable to business with FMS Wertmanagement. The positive market values of original business which was not transferred directly amounted to €0.1 billion as of 30 June 2013 (2012: €0.3 billion). These are opposed by negative market values of the corresponding back-to-back derivatives with external third parties; these are reflected in the same amount in the development in financial position.
> The carrying amount of securities which were issued by FMS Wertmanagement declined from €2.2 billion as of 31 December 2012 to €0.0 billion as of 30 June 2013. These securities are disclosed as financial investments.
> The deposition of unneeded liquidity of FMS Wertmanagement in the central bank amounting to €1.1 billion (2012: €0.5 billion) in loans and advances to other banks resulted in a slight reduction of total assets in receivables to other banks, respectively liabilities to customers.

The financial position of pbb Group was influenced by the transfer of original business to FMS Wertmanagement by means of back-to-back derivatives; this had the effect of increasing the balance sheet total by €0.3 billion in the position trading liabilities (2012: €1.0 billion). Of this figure, €0.1 billion (2012: €0.3 billion) was attributable to business with FMS Wertmanagement. The negative market values of original business which was not directly transferred amounted to €0.2 billion as of the balance sheet date (2012: €0.7 billion). This was opposed by positive market values of original business which was not directly transferred; this was reflected in the same amount in the development in assets.

The development in assets and liabilities resulted in the following effects which were recognised in profit or loss. However, because these effects were almost completely cancelled out by the corresponding market transactions, they had only an immaterial impact on profit or loss. The only material effect in the income statement resulted from servicing for the ongoing operations of FMS Wertmanagement. The balance of other operating income/expenses of €42 million (2012: €53 million) compensated for the expenses which were incurred by pbb Group for servicing. According to conditions of the European Commission, the servicing will end in September 2013.

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.

40 Employees

Average number of employees	1.1.– 30.6.2013	1.1.– 31.12.2012
Employees (excluding apprentices)	1,006	1,042
thereof: senior staff in Germany	18	20
Total	**1,006**	**1,042**

Munich, 6 August 2013

Deutsche Pfandbriefbank Aktiengesellschaft
The Management Board

Manuela Better

Wolfgang Groth

Dr. Bernhard Scholz

Alexander von Uslar

Responsibility Statement

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

Munich, 6 August 2013

Deutsche Pfandbriefbank Aktiengesellschaft
The Management Board

Manuela Better

Wolfgang Groth

Dr. Bernhard Scholz

Alexander von Uslar

Review Report

We have reviewed the consolidated interim financial statements of Deutsche Pfandbriefbank AG, Munich, comprising consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity (condensed), consolidated statement of cash flows (condensed) and notes (condensed) together with the group interim management report of Deutsche Pfandbriefbank AG, Munich, for the period from 1 January to 30 June 2013 that are part of the semi annual financial report according to § 37w WpHG [«Wertpapierhandelsgesetz»: «German Securities Trading Act»]. The preparation of the consolidated interim financial statements in accordance with those IFRS applicable to interim financial reporting as adopted by the EU, and of the group interim management report in accordance with the requirements of the WpHG applicable to group interim management reports is the responsibility of the Company's management. Our responsibility is to issue a report on the consolidated interim financial statements and on the group interim management report based on our review.

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

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

Munich, 7 August 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft
[original German version signed by:]

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

Summary of Quarterly Financial Data

pbb Group			2012		2013
in € million	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter
Operating performance					
Operating revenues	120	130	114	101	113
Net interest income and similar income	74	72	74	79	74
Net commission income	3	14	3	1	1
Net trading income	–2	1	11	–12	10
Net income from financial investments	9	6	2	1	–
Net income from hedge relationships	–1	3	–6	–	4
Balance of other operating income/expenses	37	34	30	32	24
Provisions for losses on loans and advances	5	–7	–6	–4	3
General administrative expenses	86	89	88	76	80
Balance of other income/expenses	1	1	–8	–	1
Pre-tax profit	30	49	24	29	31

Real Estate Finance			2012		2013
in € million	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter
Operating performance					
Operating revenues	65	76	68	57	66
Net interest income and similar income	55	56	62	59	58
Net commission income	3	15	3	1	2
Net trading income	–1	–	3	–5	4
Net income from financial investments	8	4	4	–	1
Net income from hedge relationships	–	1	–2	–	2
Balance of other operating income/expenses	–	–	–2	2	–1
Provisions for losses on loans and advances	5	–7	–6	–4	4
General administrative expenses	37	34	36	34	32
Balance of other income/expenses	1	–	–4	–	1
Pre-tax profit	24	49	34	27	31

Public Sector Finance			2012		2013
in € million	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter
Operating performance					
Operating revenues	12	13	15	8	12
Net interest income and similar income	14	12	15	16	13
Net commission income	–	–1	1	–	–
Net trading income	–1	1	8	–7	6
Net income from financial investments	1	2	–1	1	–1
Net income from hedge relationships	–1	2	–4	–	2
Balance of other operating income/expenses	–1	–3	–4	–2	–8
Provisions for losses on loans and advances	–	1	2	–	–1
General administrative expenses	14	13	14	12	12
Balance of other income/expenses	–	–	–1	–	–
Pre-tax profit	–2	–1	–2	–4	1

Value Portfolio

in € million	2nd quarter 2012	3rd quarter 2012	4th quarter 2012	1st quarter 2013	2nd quarter 2013
Operating performance					
Operating revenues	41	40	28	32	32
Net interest income and similar income	3	2	−6	–	–
Net commission income	–	–	−1	–	–
Net trading income	–	–	–	–	–
Net income from financial investments	–	–	−1	–	–
Net income from hedge relationships	–	–	–	–	–
Balance of other operating income/expenses	38	38	36	32	32
Provisions for losses on loans and advances	–	−1	−2	–	–
General administrative expenses	36	41	38	30	36
Balance of other income/expenses	–	1	−3	–	–
Pre-tax profit	5	1	−11	2	−4

Consolidation & Adjustments

in € million	2nd quarter 2012	3rd quarter 2012	4th quarter 2012	1st quarter 2013	2nd quarter 2013
Operating performance					
Operating revenues	2	1	3	4	3
Net interest income and similar income	2	2	3	4	3
Net commission income	–	–	–	–	−1
Net trading income	–	–	–	–	–
Net income from financial investments	–	–	–	–	–
Net income from hedge relationships	–	–	–	–	–
Balance of other operating income/expenses	–	−1	–	–	1
Provisions for losses on loans and advances	–	–	–	–	–
General administrative expenses	−1	1	–	–	–
Balance of other income/expenses	–	–	–	–	–
Pre-tax profit	3	–	3	4	3

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Service Chapter

Financial Calendar
Future-oriented Statements
Internet Service

Financial calendar	
13 August 2013	Publication of the results for the second quarter of 2013
12 November 2013	Publication of the results for the third quarter of 2013

Future-oriented Statements

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

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