Interim Report
H1 2014

PUBLIC SECTOR FINANCE
REAL ESTATE FINANCE

pbb

DEUTSCHE
PFANDBRIEFBANK

Financial Highlights
Ratings

Financial Highlights			
Operating performance according to IFRS		**1.1.–30.6.2014**	**1.1.–30.6.2013**
Profit or loss before tax	in € million	83	60
Net income/loss	in € million	74	41
Key ratios		**1.1.–30.6.2014**	**1.1.–30.6.2013**
Return on equity before taxes	in %	4.9	3.6
Return on equity after taxes	in %	4.3	2.5
Cost/income ratio[1]	in %	61.1	72.9
Balance sheet figures		**30.6.2014**	**31.12.2013**
Total assets	in € billion	77.8	74.6
Equity (excluding revaluation reserve)	in € billion	3.5	3.4
Equity	in € billion	3.6	3.5
Key regulatory ratios[2]		**30.6.2014[3]**	**31.12.2013[4]**
CET1 ratio	in %	18.9	18.4
Own funds ratio	in %	23.1	23.1
Personnel		**30.6.2014**	**31.12.2013**
Employees		835	852

[1] The cost/income ratio is the ratio between general and administrative expenses and operating income.
[2] In accordance with the waiver regulation set out in Section 2a of the German Banking Act (KWG, up until 31 December 2013) and Section 7 of the Capital Requirements Regulation (CRR, from 1 January 2014), pbb is exempted from the requirement to establish the equity and core capital ratios at institution level. pbb Group voluntarily discloses these figures.
[3] Consolidated in accordance with CRR
[4] Consolidated in accordance with CRR (Basel III simulation, following the appropriation of net profit 2013)

Senior unsecured ratings and ratings for Pfandbriefe of pbb[1]	30.6.2014			31.12.2013		
	Fitch Ratings	Moody's	Standard & Poor's	Fitch Ratings	Moody's	Standard & Poor's
Long-term rating	A–	Baa2	BBB	A–	Baa2	BBB
Outlook	negative	negative	negative	stable	negative	stable
Short-term rating	F1	P–2	A–2	F1	P–2	A–2
Public sector Pfandbriefe	–	Aa1	AA+[2]	–	Aa1	AA+[3]
Mortgage Pfandbriefe	–	Aa2	AA+[2]	–	Aa2	AA+[3]

[1] Ratings from mandated rating agencies
[2] Negative outlook
[3] Stable outlook

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

Contents

2 Foreword of the Management Board

3 Group Interim Management Report

4 Report on Economic Position
18 Report on Post-balance Sheet Date Events
19 Risk and Opportunity Report
51 Report on Expected Developments

55 Consolidated Interim Financial Statements

56 Consolidated Income Statement
57 Consolidated Statement of Comprehensive Income
58 Consolidated Statement of Financial Position
59 Consolidated Statement of Changes in Equity
59 Consolidated Statement of Cash Flows (condensed)
60 Notes (condensed)
96 Responsibility Statement
97 Review Report
98 Summary of Quarterly Financial Data

101 Additional Information

102 Financial Calendar
102 Future-oriented Statements
102 Internet Service
103 Imprint

Foreword of the Management Board

In the first half of 2014, the Deutsche Pfandbriefbank Group (pbb Group) not only built on its success in the previous periods, but also improved further in important key figures. This development clearly shows that the reinforced sales capacity and the optimisations made to the organisational structure and processes in 2013 support the profitable growth of the Bank.

In the first half of the year, pbb Group increased its new business volume to € 4.3 billion, by more than 25% compared to the same period in the previous year, thereby achieving the highest new business volume so far for a first half-year. The second quarter, with a volume of € 2.7 billion, is at the level of the traditionally strong final quarters of previous years. The strategic portfolio is growing and, as planned, new business margins remain clearly above the margins of the existing business portfolio.

In particular, the portfolio growth and the higher margins in the first half year bring about a significant increase in net interest income to € 195 million. This increase in earning power and consistent cost reductions results in a profit before tax of € 83 million, for the first half of 2014, which supports the forecast for profit before tax of more than € 140 million in 2014 as a whole.

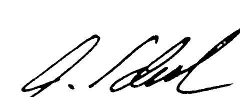
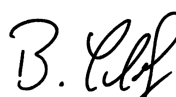
We have established ourselves as an industry leader in lending business and on the capital markets. We intend to retain this position and develop it where possible. Our success factors in the customer business include the excellent penetration of the relevant markets with a strong sales team and an integrated approach to credit risk management, which encompasses both the new and existing business portfolio equally. After the successful benchmark issues and private placements in the first half of the year, we are planning further issues. We will adapt the scope of these issues to pbb Group's comfortable liquidity situation.

In addition, we intend to further increase efficiency. After upgrading our IT system and, especially in the last year, optimising the organisational structure and key business processes, we have now turned our focus to continuously developing these processes and systems. In addition, we intend to strengthen our revenue base by further expanding the range of products and services we have to offer.

A significant part of pbb Group's excellent performance in recent years was contributed by Manuela Better, our former CEO who left in June. We wish to extend our special thanks to her. We would also like to thank our former CFO, Alexander von Uslar, who left in May.

Our thoughts and actions are focused on the stable, risk-aware development of our customer business and the further expansion of our operating profitability as a basis and prerequisite for the privatisation of pbb Group. At the start of the second half of 2014, we took specific steps towards a privatisation process, which we intend to successfully complete in 2015.

Yours sincerely,

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

4 Report on Economic Position
5 Development in Earnings
12 Development in Assets
13 Development in the Financial Position
17 Summary

18 Report on Post-balance Sheet Date Events

19 Risk and Opportunity Report
19 Organisation and Principles of Risk and Capital Management
22 Risk Types
23 Credit Risk
37 Market Risk
39 Liquidity Risk
42 Operational Risk
44 Result of the Risk-bearing Capacity Analyses

51 Report on Expected Developments

Group Interim Management Report

Group Interim Management Report
Report on Economic Position

The first half of 2014 saw changes to the composition of the Management Board. Alexander von Uslar, who had already announced in December 2013 that he would not continue with his Board mandate when his contract expired, left the Management Board with effect from 16 May 2014. The Supervisory Board appointed Andreas Arndt as the new Chief Financial Officer on 15 April 2014. Andreas Schenk was already appointed as the new Chief Risk Officer as of 1 March 2014, taking over this department from Manuela Better, which she had led in addition to her role as Chief Executive Officer. On 3 June 2014, Manuela Better ended her activities on the Management Board in agreement with the Supervisory Board. Andreas Arndt was subsequently appointed to coordinate the work in the Management Board until further notice.

In the first half of 2014, the internal management system of the Deutsche Pfandbriefbank Group (pbb Group) was changed due to the implementation of Basel III (as advised in the Annual Report 2013). The CET1 ratio replaces the Tier 1 ratio as a financial performance indicator. The calculation of the CET1 ratio is described in the note on regulatory indicators. All other performance indicators remained unchanged compared to the Annual Report 2013.

Development in Earnings

pbb Group

In the first half of 2014, pbb Group realised a further increase in profitability compared to the previous periods. Profit or loss before tax improved significantly year-over-year (€83 million; 2013: €60 million). This was possible due to increases in profitabilty; here, in particular net interest and similar income, consistent cost reductions and a low loan loss provision. The volume of new business increased from €3.4 billion to €4.3 billion year-over-year. As the new business and the payment of credit commitments exceeded the repayments, the volume of strategic financing increased. Due to the positive performance, pbb Group is creating favourable conditions for the intended privatisation. The following sets out in detail the results achieved in the first half of 2014 and the first half of 2013:

Key financials pbb Group		1.1.–30.6. 2014	1.1.–30.6. 2013	Change
Operating performance				
Operating income	in € million	203	214	–11
Net interest and similar income	in € million	195	153	42
Net fee and commission income	in € million	–	2	–2
Net trading income	in € million	–18	–2	–16
Net income from financial investments	in € million	1	1	–
Net income from hedging relationships	in € million	–6	4	–10
Net other operating income/expenses	in € million	31	56	–25
Loan loss provisions	in € million	–2	1	–3
General and administrative expenses	in € million	–124	–156	32
Net miscellaneous income/expenses	in € million	6	1	5
Profit or loss before tax	in € million	83	60	23
Income taxes	in € million	–9	–19	10
Net income/loss	in € million	74	41	33
Key ratios				
Cost/income ratio	in %	61.1	72.9	
Return on equity before taxes	in %	4.9	3.6	
Return on equity after taxes	in %	4.3	2.5	

Operating Income Operating income amounted to €203 million (2013: €214 million). Whilst net interest and similar income increased significantly, the net other operating income/expenses decreased due to the termination of the services for the FMS Wertmanagement portfolio. Without taking into account the effects from the services for the FMS Wertmanagement portfolio, an increase in operating income of €30 million, or 17%, would have been realised.

Net interest and similar income amounted to €195 million, and was substantially higher than the corresponding previous year figure (2013: €153 million). The significant drivers of this development were the new business margins, which exceeded those of the existing business portfolio. In addition, income from early termination fees (€20 million; 2013: €2 million) had a positive effect on the development of net interest and similar income. Furthermore, pbb Group benefited from favourable refinancing sources and the alternative investment of freed-up liquidity.

Net fee and commission income generally arises from non-accruable fees from the lending and other service business. In the first half of 2014, this had no major significance (2013: €2 million).

In the reporting year, net trading income amounted to €–18 million after €–2 million in the same period of the previous year. The subsequent valuation of derivatives, taking into account the bilateral credit value adjustment, i.e. the default risk of the respective counterparties and of pbb Group, resulted in an effect of €–5 million (2013: € 4 million). In addition, further expenses arose from the optimisation of the derivatives portfolio as well as from the lower long-term market interest rates, which had a negative impact on the performance of derivatives not included in hedge accounting. pbb Group again did not hold any portfolios with the intention of generating short-term profits (trading book).

In net income from financial investments of €1 million (2013: €1 million), the gains on disposal of securities (€3 million; 2013: € 1 million) and the addition to portfolio-based allowances (€–2 million; 2013: € 0 million) largely cancelled each other out. The reason for the addition to the portfolio-based allowances was mainly a change to the risk assessment for securities of the measurement category LaR in certain European regions.

Net income from hedge relationships of €–6 million (2013: € 4 million) resulted mainly from hedge inefficiencies of micro fair value hedge relationships, which are admissible according to IFRS.

The decrease in the net other operating income/expenses from € 56 million to € 31 million year-over-year follows driven by the far-reaching termination of the services for the FMS Wertmanagement portfolio on 30 September 2013 as mandated by the European Commission. The net income arising from this event in the first half of 2014 amounted to € 1 million (2013: € 42 million). IT services provided to the fellow company DEPFA resulted in net income of € 18 million (2013: € 21 million). Further income was attributable to currency translation (€7 million; 2013: € 1 million) and rental income generated from acquired real estate of € 5 million (2013: €6 million). An expense of less than €–1 million (2013: €–5 million) resulted from the bank levy.

Loan Loss Provisions Due to successful portfolio management and the continuing positive situation on the markets, the loan loss provisions in the first half of 2014 were at a low level with a net addition of €–2 million (2013: net reversal of € 1 million). These positive developments were also reflected in the decline in non-performing loans, which fell from € 0.9 billion as of 31 December 2013 to € 0.8 billion as of 30 June 2014.

A net amount of €–13 million was added to specific allowances (2013: €–7 million), which was due to a few individual cases. As in the previous year, no specific provisions had to be created for commitments to the focus countries. Portfolio-based allowances are only established for loans and advances for which no identification of an individual impairment has been determined. In the first half of 2014, a net amount of €6 million (2013: €7 million) was released, among others, as a result of repayments and the positive performance of the portfolio. Recovery payments of € 5 million (2013: € 0 million) were recognised in profit or loss on loans and advances previously written off.

General and Administrative Expenses Due to the successful restructuring measures undertaken in the past, the general and administrative expenses decreased significantly to €–124 million (2013: €–156 million) in the first half of 2014. The decrease in personell arising from the transfer of pbb Group employees to FMS Wertmanagement Service GmbH as from the fourth quarter of 2013, as well as the size adjustment to a specialised European Pfandbriefbank contributed to this positive development. In total, the personnel expense decreased by € 10 million to €–54 million (2013: €–64 million). The non-personell expenses dropped to €–70 million (2013: €–92 million) primarily due to lower consulting and IT expenses. In this regard, the projects to harmonise the processes and IT systems completed in recent years had a positive impact. As the general and administrative expenses decreased more sharply than operating income, the cost/income ratio improved to 61.1 % (2013: 72.9 %).

Net Miscellaneous Income/Expenses The net miscellaneous income/expenses amounting to €6 million (2013: €1 million) resulted from changes to the restructuring provisions, which arose from adjustments as a result of the validations of the parameters included in the calculation.

Profit or Loss before Tax Profit or loss before tax amounted to €83 million (2013: €60 million). Return on equity before tax amounted to 4.9% (2013: 3.6%).

Income Taxes Expenses of €−19 million for current taxes (2013: €−11 million) and an income of €10 million for deferred taxes (2013: expense of €−8 million) resulted in total income tax expense of €−9 million (2013: €−19 million).

Net Income/Loss The net income/loss of pbb Group amounted to €74 million (2013: €41 million). Return on equity after taxes amounted to 4.3% (2013: 2.5%).

Operating Segments

With effect from 1 January 2014, pbb Group reorganised the reporting structure of the internal reporting system. The segment report based on internal controls is set up in compliance with the regulations set out in IFRS 8. It now includes the three operating segments Real Estate Finance (REF), Public Investment Finance (PIF) and Value Portfolio (VP). The key amendment compared to the previous year is the dissolution of the former Public Sector Finance (PSF) segment and the creation of the new PIF segment. The non-strategic portfolio of not specifically earmarked public sector financing (budget finance), which used to be reported under PSF, has been allocated to the VP segment. The new PIF segment includes the strategic public sector investment financing of pbb Group. The REF and PIF segments thus comprise the strategic activities, and the VP segment the non-strategic activities of pbb Group's customer business. In order to increase transparency and validity, the accrued fees for net interest income have been segmented for the first time since the first half of 2014 according to the principle of causation. The previous year's figures thus had to be adjusted, which favoured the REF segment but was to the detriment of the PIF and VP segments.

Operating Segment Real Estate Finance (REF)

Key financials Real Estate Finance		1.1.–30.6. 2014	1.1.–30.6. 2013[1]	Change
Operating performance				
Operating income	in € million	150	133	17
Net interest and similar income	in € million	151	127	24
Net fee and commission income	in € million	–	3	−3
Net trading income	in € million	−8	−1	−7
Net income from financial investments	in € million	2	1	1
Net income from hedging relationships	in € million	−2	2	−4
Net other operating income/expenses	in € million	7	1	6
Loan loss provisions	in € million	−2	–	−2
General and administrative expenses	in € million	−77	−66	−11
Net miscellaneous income/expenses	in € million	4	1	3
Profit or loss before tax	in € million	75	68	7
Key ratio				
Cost/income ratio	in %	51.3	49.6	
Balance-sheet-related measures		**30.6.2014**	**31.12.2013**	
Financing volumes	in € billion	21.6	20.4	
Risik-weighted assets[2]	in € billion	7.5	7.4	

[1] Adjusted in accordance with IFRS 8.29
[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; consolidated in accordance with CRR; 31 December 2013 Basel III simulation

The REF operating segment comprises all commercial real estate financing arrangements of pbb Group. Profit or loss before tax for the segment amounted to €75 million and exceeded the corresponding previous year figure (2013: €68 million) due to an increase in net interest and similar income. This was partly caused by the higher margins realised in the new business, which lay above the margins of the existing business portfolio. The new business volume, including extensions with terms of more than one year, exceeded the figure of the first half of 2013 (€2.8 billion) by €3.7 billion and supported the positive development. Due to the positive development in new business, the financing volume of the REF portfolio increased to €21.6 billion (31 December 2013: €20.4 billion).

Operating Income Operating income rose to €150 million (2013: €133 million). Net interest and similar income of €151 million (2013: €127 million) benefited from the high new business margins, which increased the profitability of the entire portfolio. Furthermore, the more favourable funding, income from freed-up liquidity and higher amounts from prepayment penalties had a positive effect. Net fee and commission income was no longer significant and was attributed to the credit and other service business in the same period of the previous year (2013: €3 million). Net trading income amounted to €−8 million (2013: €−1 million) due to the subsequent valuation of derivatives, taking account of the bilateral credit value adjustment and negative market value changes in derivatives as a result of the lower interest rates in the long-term ranges. Net income from financial investments amounted to €2 million (2013: €1 million) includes gains on disposal from securities. Net income from hedging relationships of €−2 million (2013: €2 million) was caused by hedging inefficiencies to the extent admissible according to IAS 39. The net other operating income/expenses of €7 million (2013: €1 million) was higher than the previous year's figure in the first half of 2013 and, among others, was attributable to rental income as well as income from currency translation.

Loan Loss Provisions A net amount of €–2 million was added to the loan loss provisions (2013: €0 million). In the specific allowances, net additions of €–13 million (2013: €–7 million) arose and a net amount of €6 million was reversed in portfolio-based allowances (2013: €7 million). Recovery payments of €5 million (2013: €0 million) were recognised in profit or loss on loans and advances previously written off.

General and Administrative Expenses General and administrative expenses of €–77 million were higher than the corresponding previous year's level (2013: €–66 million). The higher personnel expenses due to the increased number of sales employees was only partly offset by lower consultancy and IT expenses as well as by efficiency improvements. The cost/income ratio improved to 51.3% (2013: 49.6%).

Operating Segment Public Investment Finance (PIF)

Key financials Public Investments Finance		1.1.–30.6. 2014	1.1.–30.6. 2013[1]	Change
Operating performance				
Operating income	in € million	18	11	7
Net interest and similar income	in € million	20	14	6
Net fee and commission income	in € million	–	–	–
Net trading income	in € million	–2	–1	–1
Net income from financial investments	in € million	–	–	–
Net income from hedging relationships	in € million	–2	–	–2
Net other operating income/expenses	in € million	2	–2	4
Loan loss provisions	in € million	–	–	–
General and administrative expenses	in € million	–15	–14	–1
Net miscellaneous income/expenses	in € million	1	–	1
Profit or loss before tax	in € million	4	–3	7
Key ratio				
Cost/income ratio	in %	83.3	>100.0	
Balance-sheet-related measures		**30.6.2014**	**31.12.2013**	
Financing volumes	in € billion	7.7	7.2	
Risik-weighted assets[2]	in € billion	2.8	3.1	

[1] Adjusted in accordance with IFRS 8.29
[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; consolidated in accordance with CRR; 31 December 2013 Basel III simulation

The PIF operating segment comprises covered-bonds-eligible financing of public infrastructure. Profit/loss before tax for the segment increased to €4 million year-over-year (2013: €–3 million). Higher new business margins in particular resulted in an increase in net interest income here. The new business volume in public investment financing of €0.6 billion was slightly below the level of the first half of year 2013 (€0.7 billion); the financing volume increased to €7.7 billion (31 December 2013: €7.2 billion).

Operating Income Operating income of €18 million was above the corresponding previous year's figure (2013: €11 million). Net interest and similar income rose from €14 million in the same period of the previous year to €20 million as the new business margins of recent periods performed positively, favourable funding options were utilised and income from the investment of freed-up liquidity was

generated. Net fee and commission income and net income from financial investments were balanced, as in the same period of the previous year. Net trading income of €–2 million (2013: €–1 million) was mainly negatively affected by changes in the market value of derivatives. Net income from hedging relationships of €–2 million (2013: € 0 million) resulted from hedging inefficiencies admissible in accordance with IFRS. The net other operating income/expenses of € 2 million (2013: €–2 million) were mainly attributable to income from currency translation.

Loan Loss Provisions As in the previous year, no additions to specific allowances were required in respect of public issuers as there were no objective indications of impairment as defined in IAS 39.59.

General and Administrative Expenses General and administrative expenses of €–15 million were almost at the corresponding prior year's level (2013: €–14 million). The cost/income ratio declined to 83.3 % (2013: >100.0 %) as a result of the higher operating income.

Operating Segment Value Portfolio (VP)

Key financials Value Portfolio		1.1.–30.6. 2014	1.1.–30.6. 2013[1]	Change
Operating performance				
Operating income	in € million	30	63	–33
Net interest and similar income	in € million	18	5	13
Net fee and commission income	in € million	–	–	–
Net trading income	in € million	–8	–	–8
Net income from financial investments	in € million	–1	–	–1
Net income from hedging relationships	in € million	–2	2	–4
Net other operating income/expenses	in € million	23	56	–33
Loan loss provisions	in € million	–	1	–1
General and administrative expenses	in € million	–32	–76	44
Net miscellaneous income/expenses	in € million	1	–	1
Profit or loss before tax	in € million	–1	–12	11
Key ratio				
Cost/income ratio	in %	>100.0	>100.0	
Balance-sheet-related measures		**30.6.2014**	**31.12.2013**	
Financing volumes	in € billion	22.8	23.6	
Risik-weighted assets[2]	in € billion	6.1	6.0	

[1] Adjusted in accordance with IFRS 8.29
[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; consolidated in accordance with CRR; 31 December 2013 Basel III simulation

The VP operating segment includes all non-strategic portfolios and activities of pbb Group. It also includes the budget financing formerly reflected in the PSF segment. As in the same period of the previous year, profit or loss before tax was slightly negative at €–1 million (2013: €–12 million). The net other operating income/expenses and general and administrative expenses decreased due to the termination of the services for the FMS Wertmanagement portfolio. The financing volume amounted to € 22.8 billion (31 December 2013: € 23.6 billion).

Operating Income Operating income dropped to €30 million compared with €63 million in the first half of 2013. Net interest and similar income increased to €18 million (2013: €5 million) as pbb Group succeeded in decreasing its funding costs. Furthermore, higher amounts from prepayment penalties had a positive effect. Net fee and commission income was balanced, as in the same period of the previous year. Net trading income amounted to €–8 million (2013: €0 million) due to negative changes in the market value of derivatives. The addition of portfolio-based allowances resulted in net income from financial investments of €–1 million (2013: €0 million). Net income from hedging relationships of €–2 million (2013: €2 million) was due to hedging inefficiencies. The net other operating income/expenses decreased to €23 million (2013: €56 million) due to the largely terminated services for the FMS Wertmanagement portfolio in the fourth quarter of 2013; the income from this amounted to €1 million (2013: €42 million). IT services provided to DEPFA generated income of €18 million (2013: €21 million).

Loan Loss Provisions Additions to or reversals of loan loss provisions were not necessary in the reporting period (2013: net reversals of €1 million).

General and Administrative Expenses General and administrative expenses of €–32 million were significantly lower than the corresponding previous year's level (2013: €–76 million). The reason for this was the termination of the services for the FMS Wertmanagement portfolio at the end of September 2013, which was also associated with a transfer of pbb Group employees to FMS Wertmanagement Service GmbH. As the general and administrative expenses continued to exceed the operating income, the cost/income ratio remained to be greater than 100.0%.

Consolidation & Adjustments

Key financials Consolidation & Adjustments		1.1.–30.6. 2014	1.1.–30.6. 2013	Change
Operating performance				
Operating income	in € million	5	7	–2
Net interest and similar income	in € million	6	7	–1
Net fee and commission income	in € million	–	–1	1
Net trading income	in € million	–	–	–
Net income from financial investments	in € million	–	–	–
Net income from hedging relationships	in € million	–	–	–
Net other operating income/expenses	in € million	–1	1	–2
Loan loss provisions	in € million	–	–	–
General and administrative expenses	in € million	–	–	–
Net miscellaneous income/expenses	in € million	–	–	–
Profit or loss before tax	in € million	5	7	–2

Consolidation & Adjustments reconciles the aggregated segment results with the consolidated result. Alongside consolidation adjustments, it contains certain expenses and income that do not fall within the operating segments' areas of responsibility.

Pre-tax profit in the Consolidation & Adjustments segment was positive at €5 million (2013: €7 million). Net interest and similar income arose predominantly from the investment of equity not allocated to the segments.

Development in Assets

Assets in € million	30.6.2014	31.12.2013[1]	Change
Cash reserve	187	3,532	−3,345
Trading assets	1,889	1,642	247
Loans and advances to other banks	9,728	6,685	3,043
Loans and advances to customers	37,809	36,242	1,567
Allowances for losses on loans and advances	−142	−148	6
Financial investments	21,122	20,725	397
Property and equipment	2	1	1
Intangible assets	30	31	−1
Other assets	5,685	4,769	916
Income tax assets	582	1,165	−583
Current tax assets	44	44	–
Deferred tax assets	538	1,121	−583
Disposal group	927	–	927
Total assets	**77,819**	**74,644**	3,175

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

General Development in Assets

Total assets of pbb Group amounted to € 77.8 billion as of the balance sheet date, and was thus € 3.2 billion higher than the corresponding figure at the end of the previous year (31 December 2013: € 74.6 billion). The increase was partially a result of the development of the strategic portfolio and market-induced effects. In the strategic portfolio, the new business and the payment of credit commitments exceeded the repayments. The nominal volume of the strategic portfolio thus increased to € 29.3 billion (31 December 2013: € 27.6 billion). The fair values of the derivatives in trading assets and other assets mainly increased due to the changes in the market interest rate level. The non-strategic portfolio, which primarily includes budget financing, declined to a nominal value of € 22.8 billion (31 December 2013: € 23.6 billion) due to repayments and sales. In addition, total assets increased by € 2.1 billion due to concluded but not yet settled repo transactions.

The high level of the cash reserve from a bond repayment at the end of 2013 was invested in the first half of 2014. The cash reserve decreased by € 3.2 billion and the loans and advances to other banks increased accordingly.

The assets of DEPFA Finance N.V., initially consolidated at the beginning of 2014, were classified as a disposal group pursuant to IFRS 5 on the balance sheet date, as the disposal of the company was highly probable on 30 June 2014.

Total Assets Covenants

As at the balance sheet date, pbb Group complied with all total assets covenants that were imposed by the European Commission in connection with the approval of state aid. Because certain offsetting effects attributable to the transfer of selected positions to FMS Wertmanagement no longer existed, the adjusted total assets of € 77.8 billion (31 December 2013: € 74.6 billion) corresponded to total assets

in accordance with IFRSs and were thus lower than the mandatory upper limit for 31 December 2014 of €103.0 billion (31 December 2013: €105.0 billion). At € 55.5 billion (31 December 2013: € 51.6 billion), strategic total assets – which have been additionally adjusted by the non-strategic public sector financing portfolio – also did not exceed the mandatory upper limit for 31 December 2014 of € 79.0 billion (31 December 2013: € 75.0 billion).

Development in Financial Position

Equity and liabilities in € million	**30.6.2014**	**31.12.2013**[1]	Change
Liabilities to other banks	5,506	3,522	1,984
Liabilities to customers	11,334	10,848	486
Securitised liabilities	47,389	46,858	531
Trading liabilities	1,742	1,453	289
Provisions	217	209	8
Other liabilities	5,087	4,722	365
Income tax liabilities	610	1,190	−580
Current tax liabilities	67	64	3
Deferred tax liabilities	543	1,126	−583
Subordinated capital	1,120	2,357	−1,237
Disposal group	1,227	–	1,227
Financial liabilities	**74,232**	**71,159**	3,073
Financial equity	**3,587**	**3,485**	102
Total equity and liabilities	**77,819**	**74,644**	3,175

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

Liabilities

Total liabilities of the Group amounted to € 74.2 billion as of 30 June 2014, compared with € 71.2 billion as of the prior-year reporting date.

The increase in total equity and liabilities was among others a result of the higher funding requirement for the increase in the volume of the strategic portfolio and market-induced effects, which, among others, resulted in higher market values for derivatives in trading liabilities and other liabilities. In addition, total equity and liabilities increased due to concluded or not yet settled repo transactions, just as it did on the assets side.

The liabilities of DEPFA Finance N.V., initially consolidated at the beginning of 2014, were classified as a disposal group pursuant to IFRS 5 on the balance sheet date, as the disposal of the company was highly probable on 30 June 2014.

The ratio of secured liabilities to total liabilities was 62.3% (31 December 2013: 63.6%); it represents the ratio of the carrying amounts of the Pfandbriefe to the liabilities to other banks/customers, securitised liabilities and the subordinated capital.

Capital

Development of Financial Equity The equity attributable to equity holders changed as follows:

Financial position equity in accordance with IFRS in € million	30.6.2014	31.12.2013[1]	Change
Equity attributable to equity holders	**3,587**	**3,485**	102
Subscribed capital	380	380	–
Silent partnership contribution	999	999	–
Additional paid-in capital	5,036	5,036	–
Retained earnings	−2,932	−3,092	160
Profits/losses from pension commitments	−53	−41	−12
Foreign currency reserve	−29	−30	1
Revaluation reserve	112	73	39
AfS reserve	−141	−220	79
Cash flow hedge reserve	253	293	−40
Consolidated profit/loss 1.1.–30.6./31.12.	74	160	−86
Total financial position equity	**3,587**	**3,485**	102

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

Capital Measures pbb's subscribed capital amounted to € 380,376,059.67 at 30 June 2014 and at 31 December 2013, and is composed of 134,475,308 registered ordinary no-par-value shares with a notional interest in the subscribed capital of € 2.83 per no-par-value share. Hypo Real Estate Holding was the sole shareholder of pbb. There was no authorised or contingent capital as at 30 June 2014 and as at 31 December 2013. The silent partnership contribution was contributed by Finanzmarktstabilisierungsfonds-FMS.

Financial position equity amounted to € 3.6 billion as at the balance sheet date (31 December 2013: € 3.5 billion). No capital increases or reductions were implemented in the first half 2014 and in financial year 2013. The increase in the revaluation reserve is a result of the spread improvements in southern European bonds, which are assigned to the IFRS category AfS.

Gains are used for strengthening equity or to repay capital not attributable to HRE Holding. As part of the approval procedure granting state funds, the European Commission specified that pbb must be privatised by the end of 2015.

Key Regulatory Capital Ratios In accordance with the waiver regulation set out in Section 2a of the German Banking Act (KWG, up until 31 December 2013) and Section 7 of the Capital Requirements Regulation (CRR, from 1 January 2014), pbb is exempted from the requirement to establish the equity and core capital ratios at institution level. pbb Group voluntarily discloses these figures. The CET1 ratio amounted to 18.9 % as of 30 June 2014 (31 December 2013: 18.4 % pursuant to a Basel III simulation). Please refer to the Risk and Opportunity Report for further information regarding the key regulatory capital ratios.

Liquidity

Principles and Objectives of the Liquidity and Financial Management The primary objective of pbb Group's financial management is to secure and manage the liquidity of pbb and its subsidiaries in such a way that their financing and funding capabilities are assured at all times. Central liquidity management is done by raising and investing liquidity on the money and capital markets and on the interbank money market, as well as with central banks and other sources of liquidity. By contrast, the liquidity risk strategy, like the waiver rule, is part of HRE's risk strategy.

Maturities Asset/liability management for pbb Group is performed by HRE's Group Asset and Liability Committee (ALCO), which also acts on behalf of pbb Group. The following table compares the remaining terms of the assets and liabilities:

Maturity structure of financial position	30.6.2014		31.12.2013[1]	
in € million	Assets	Equity and liabilities	Assets	Equity and liabilities
Total	**77,819**	**77,819**	**74,644**	**74,644**
up to 3 months	9,861	7,635	10,145	6,778
3 months to 1 year	5,752	7,680	4,885	5,355
1 year to 5 years	24,640	25,683	23,439	26,598
5 years and over	28,593	24,351	28,715	24,854
Other assets[2]/equity and liabilities[3]	8,973	12,470	7,460	11,059

[1] Adjustment due to retrospective IFRS 10 first time adoption. Details are disclosed in Note «Principles».
[2] Trading assets, allowances for losses on loans and advances, property and equipment, intangible assets, other assets, income tax assets, disposal group
[3] Trading liabilities, provisions, other liabilities, income tax liabilities, disposal group, equity

Liquidity Management Liquidity management within pbb Group is performed centrally by pbb's Treasury division. The sales units are refinanced internally on a one-to-one basis when entering into new business. This means that risks are bundled and centrally managed. The liquidity ratio is calculated at the level of the individual institution at pbb in accordance with the Liquiditätsverordnung (LiqV – German Liquidity Regulation), and amounted to 5.29 at the balance sheet date (2013: 3.03). This was significantly higher than the statutory minimum of 1.0. The Monitoring of complying with liquidity ratios within foreign regulations of permanent establishments is also ensured, if this is demanded by local regulatory authorities.

Funding In the first half of 2014, pbb Group realised a long-term funding volume of € 3.0 billion (1 January – 30 June 2013: € 5.0 billion). Of this figure, €1.4 billion (1 January – 30 June 2013: € 2.9 billion) was attributable to benchmark new issues as well as increase in funds of existing public transactions. The funding success in the previous year allowed for lower funding volumes in the first half of 2014. Approximately two thirds of the long-term funding is carried out via Pfandbrief issues, whilst unsecured issues accounted for one third. Fixed-income issues predominated. By contrast, new business on the assets side was entered into primarily on a floating rate basis in the reporting period, with the borrowers' interest rate risk generally being hedged with a customer derivative. pbb Group's open interest rate positions are usually hedged by swapping fixed interest rates for floating rates. Overall, securitised liabilities amounted to € 47.4 billion at the balance sheet date (31 December 2013: € 46.9 billion).

In addition to capital market funding, pbb Group offers overnight and time deposit investments for private investors to expand the unsecured funding base; the deposit volume of «pbb direkt» amounted to more than €1.4 billion as of 30 June 2014 (31 December 2013: €0.6 billion). In this segment, pbb Group added FestgeldPLUS to its product range in the first half of 2014. Investors receive a fixed interest rate but have access to 20% of their original amount invested at any time.

Benchmark issues

ISIN	Announce-ment	Settlement	Maturity	Coupon	Volume	Issue price	Currency
DE000A1X3LT7 (mortgage pfandbrief)	14.1.2014	21.1.2014	21.1.2022	1.875%	500 million	99.362%	EUR
DE000A1MLUW0 (2nd tap)[1]	13.2.2014	20.2.2014	3.6.2019	2.125%	50 million	104.988%	EUR
DE000A11QAP6 (mortgage pfandbrief)	18.3.2014	25.3.2014	25.3.2019	1.000%	500 million	99.400%	EUR
DE000A1X26E7 (1st tap)[2]	3.6.2014	10.6.2014	11.9.2017	2.250%	150 million	103.278%	EUR
DE000A1RFBY7 (2nd tap)[3]	23.6.2014	30.6.2014	30.1.2017	0.875%	150 million	101.466%	EUR

[1] Tap of a mortgage pfandbrief in the original amount of €500 million on 24 May 2012
[2] Tap of an unsecured benchmark issue in the original amount of €500 million on 2 September 2013
[3] Tap of a mortgage pfandbrief in the original amount of €500 million on 23 January 2013

Ratings The following table shows the senior unsecured ratings and ratings for pbb's Pfandbriefe:

Senior unsecured ratings and ratings for Pfandbriefe of pbb[1]	30.6.2014			31.12.2013		
	Fitch Ratings	Moody's	Standard & Poor's	Fitch Ratings	Moody's	Standard & Poor's
Long-term rating	A–	Baa2	BBB	A–	Baa2	BBB
Outlook	negative	negative	negative	stable	negative	stable
Short-term rating	F1	P–2	A–2	F1	P–2	A–2
Public sector Pfandbriefe	–	Aa1	AA+[2]	–	Aa1	AA+[3]
Mortgage Pfandbriefe	–	Aa2	AA+[2]	–	Aa2	AA+[3]

[1] Ratings from mandated rating agencies
[2] Negative outlook
[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 which are to be considered. Ratings should not serve as a substitute for personal analysis. They do not constitute a recommendation to purchase, sell or hold securities issued by pbb.

The development of ratings continues to be heavily influenced by external factors, such as legislative changes and, in this context, changes to rating methodologies. In April 2014, the European Parliament voted to adopt the European Bank Recovery and Resolution mechanism for banks. In light of these statutory changes, rating agencies are reviewing assumptions with respect to support components incorporated in senior unsecured ratings. In particular, future restrictions on systemic support for banks and heightened risks of bail-in of senior unsecured creditors in a crisis, generally have negative implications for banks' senior unsecured ratings. As covered bond ratings are linked to the senior unsecured rating of the issuer, this may also have rating implications for covered bonds.

Following the confirmation of the senior unsecured ratings with a stable outlook by Fitch Ratings in February 2014, Fitch Ratings changed the outlook on the long-term rating of pbb and 17 other banks within the EU to negative in March 2014 in the context of the aforementioned background. After the Public Sector Pfandbriefe ratings were confirmed with a stable outlook in February 2014, Standard & Poor's followed by assigning a negative outlook on the long-term rating of the Bank in April 2014 and consequently on the Pfandbrief programmes in May 2014. Apart from the above mentioned changes, pbb's senior unsecured ratings and the ratings of the Pfandbrief programmes remained unchanged during the first half of 2014.

Further rating drivers and the impact of potential changes in ratings are described in the «Report on Expected Developments».

Off-balance-sheet Obligations Irrevocable loan commitments accounted for the majority of off-balance sheet obligations with € 2,203 million (31 December 2013: €2,569 million). Contingent liabilities amounting to €55 million as of 30 June 2014 (31 December 2013: €25 million) resulted from guarantees and warranty agreements.

Summary

In the first half of 2014, pbb Group continued with the successes of previous years and realised a positive profit or loss before tax in the amount of €83 million. This result was significantly above the figure achieved during the same period in the previous year and is, in particular, based on higher net interest and similar income and simultaneously lower general and administrative expenses. The loan loss provisions continued to be at a low level. pbb Group has thus realised sustainable profits for four years.

The requirements regarding the regulatory capital ratios in accordance with the CRR and the liquidity ratio were complied with throughout the first half of 2014. These are voluntarily disclosed by pbb Group.

Report on Post-balance Sheet Date Events

During the course of the unbundling of pbb Group from its fellow group, DEPFA, the formerly fully consolidated subsidiary, DEPFA Finance N.V., Amsterdam, was sold to DEPFA Bank plc, Dublin, on 18 July 2014. pbb Group expects to see a significant, positive contribution to profits from the transactions.

On 31 July 2014, the Munich Regional Court made decisions to the detriment of the Bank regarding the replenishment of profit-participating certificates. The reasons for the decisions were not yet available to the Bank at the time of preparing the interim financial statements. Appeals may be instituted against the decisions. The Bank will analyse the chances of success after receiving the reasons for the decisions. According to knowledge received thus far, and taking into account the opinions of external consultants, pbb is assuming with a significant degree of probability that it will succeed in the next instance.

There were no other significant events after 30 June 2014.

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 report on expected developments.

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 Article 7 VO (EU) 575/2013. All tasks with regard to risk evaluation, risk measurement and risk control as well as risk management in accordance with Section 25a KWG are defined centrally by HRE. Operational implementation is the responsibility of the respective subsidiary and thus also of pbb. 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 2013 of pbb Group.

There were no major changes to the committees. The position of Chief Credit Officer (CCO) was adjusted in line with the strategic business segments, so there are now the roles of CCO REF and CCO PIF. Both CCOs therefore now take part in the Group Risk Committee (RC) and the Group Credit Committee.

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 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 February 2014, adopted by the Management Board of pbb and presented to the Risk Management and Liquidity Strategy Committee of the Supervisory Board of pbb and afterwards to the Supervisory Board plenum to be noted.

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 also 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 2013 of pbb Group.

Risk Quantification and Risk Management

As part of the risk bearing capacity analysis, the credit risk, market risk, business risk, property risk and operational risk are quantified, aggregated to an overall risk and compared with the available covering potential appropriate to the risk bearing capacity approach. 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».

Other risk types that are considered material by the regular internal risk inventory, such as regulatory risk and risks that are not considered material are not quantified using risk models. These risks are managed and limited using regular, detailed reports and clear instructions, such as compliance and corporate governance rules.

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 by comparing economic capital and the risk cover amount under the risk-bearing capacity approach. In addition, the risk-bearing capacity is managed in detail by using a limit system for risk cover potential and economic capital for different risk types or segments.
2. Monitoring and analysis 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 CET1 ratio does not fall below 9%.
3. Operational risk management via
   - the use of regulatory risk parameters in lending business of pbb Group. This 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 25a(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 CRR, CRDIV. The Bank's own risk-bearing capacity calculation is the subject of regulatory reviews («Supervisory Review and Evaluation Process», SREP).

pbb Group has implemented a risk-bearing capacity analysis based on the Internal Capital Adequacy Assessment Process (ICAAP). The Internal Capital Adequacy Assessment rests upon 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. In the first half of 2014, the methodology for quantifying the credit default risk for transactions undertaken during the year was developed further.

Alongside the classic risk types – market, credit and counterparty, business and operational risk – the risk inventory identified real estate risk as material and quantifiable in 2013. As a result, five separate risk types have been included in the ICAAP and are backed by capital. In particular in terms of the credit risk, additional risks from the unexpected losses of commitments already in default and extensions to existing business were included in the risk assessment in the second quarter and backed with capital via additional buffers.

To verify the risk bearing capacity of pbb Group, a going-concern approach is used as a primary management approach that is fully integrated in the ICAAP. This management approach is explicitly based on the assumption that business will continue and that the regulatory minimum capital ratios will be complied with; it is calculated to a confidence level of 95%. To ensure that the regulatory minimum capitalisation is complied with, pbb Group has installed a comprehensive early warning system, which indicates relevant warning signals at an early stage before the minimum capital ratios are reached.

The gone-concern approach supplements the main going-concern approach and shows the liquidation perspective based on the premise of a hypothetical liquidation and the immediate sale of all the Bank's assets and liabilities, including the securities in the banking book. According to this assumption and in addition to the above-mentioned major risks of the gone-concern approach also credit spread risks arising from securities in the banking book for calculating the economic capital are taken into account and the hidden losses attributable to these securities for determining the risk covering potential are deducted. A confidence level of 99.91% is used for the gone-concern approach. 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 A–/A3 at Fitch Ratings and Moody's, and is consistent with the fundamentally conservative parameters in the risk models. In 2013, the Group took into account a second gone-concern approach, the so-called strategic gone-concern approach, which was limited to the strategic part of the pbb portfolio. At the beginning of 2014, a new assignment of the portfolio to the segments of pbb Group was introduced. The transactions from budget financing (that pbb Group had earmarked for winding up according to the conditions of the European Commission) were migrated into the «Value Portfolio» segment to the transactions previously defined as a cutback portfolio. This new assignment makes it possible to clearly separate and manage transactions in the cutback portfolio and the strategic portfolio at the segment level. The strategic gone-concern approach will not be continued as a management approach.

The methods of calculating the economic capital for the individual risk types as well as current key figures are described in greater detail in the chapter «Result of Risk Bearing Capacity Analysis». No economic capital is calculated for the liquidity risk. This type of risk is the subject matter of an independent management approach and is limited there.

In order to assess the adequate capitalisation of pbb Group, the amount of economic capital is compared with the respective risk covering potential in each management approach. In the main going-concern perspective, for instance, the available risk covering potential primarily comprise the CET1 available for a period of at least one year less the capital that needs to be held in fulfilment of the minimum regulatory capital ratios taking into account adverse RWA developments. The remaining CET1 is suitable for absorbing potential losses and for maintaining a corresponding risk buffer. For determining the risk covering potential, the gone-concern approach takes account of IFRS equity as well as subordinated positions with a maturity of more than one year, however deducting the hidden losses of securities in the banking book. In order to verify the risk bearing capacity, the economic capital must be completely covered by the available risk covering potential in both approaches.

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.

Risk Types

pbb Group distinguishes the following major risk types for its business activities:
> Credit risk (Counterparty 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, Credit Risk Reports

With regard to definitions, credit risk strategy and principles as well as credit risk reports, please refer to the Risk and Opportunity Report in the Annual Report 2013 of pbb Group.

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

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 CET1 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 III pbb Group has received the supervisory approval to apply the so-called Advanced Internal Rating-Based Approach (Advanced IRBA) for determining the regulatory capital backing.

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 2013 of pbb Group.

Hedging and Minimising Risk by Collateral

In the Real Estate Finance segment, financing arrangements are normally 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) is 14% for real estate financing arrangements which have not defaulted (31 December 2013: 15%). For the entire real estate finance portfolio, the LGD average is 15% (31 December 2013: 16%). These improvements in the average ratios are attributable to portfolio disposals with partially higher LGDs, among other things.

In addition to the property charge, the financing security also generally comprises 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 more selected securities are considered to be of value in the credit assessment process, and in particular this is applicable for cash security, bank guarantees as well as guarantees of public-sector institutions.

With regard to the valuation of the properties please refer to the Risk and Opportunity Report in the Annual Report 2013 of pbb Group.

In the Public Investment Finance field also guarantees are accepted as collateral (e.g. credit insurances, contractual guarantees/collateral from public authorities, export credit guarantees, etc.). Additionally, in Public Sector Finance there exist legal framework requirements, such as the maintenance obligation, which allow recourse on a public sector entity for borrowers organised under public law.

In Treasury, deposits and securities are made available or accepted as collateral when trading with other banks. The collateralisation is based on standard agreements, which can be amended in individual cases if required.

Credit Portfolio

The entire credit portfolio of pbb Group was calculated by using a standard method in line with the Basel-III-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 €66.1 billion as of 30 June 2014 (EaD 31 December 2013: €69.3 billion)[a]. This figure included assets which were not considered to be part of the core exposure of the pbb Group with an EaD of €0.6 billion (EaD 31 December 2013: €0.6 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 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 €65.5 billion as of 30 June 2014 (31 December 2013: €68.7 billion)[b].

[a] The figure stated in the text is a pro forma Basel III figure based on IFRS carrying amounts.
The corresponding Basel II EaD as of 31 December 2013 amounted to €67.5 billion.

[b] The figure stated in the text is a pro forma Basel III figure based on IFRS carrying amounts.
The corresponding Basel II EaD as of 31 December 2013 amounted to €66.9 billion.

Overview of the Total Exposure of pbb Group: € 65.5 billion EaD The credit portfolio is broken down into the following segments:
> Real Estate Finance (REF)
> Public Investment Finance (PIF)
> 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 2014, 50% of the EaD in «Consolidation & Adjustments» was attributed to the rating classes AAA to AA– and 16% of the EaD was attributed to the rating classes A+ to A–. 34% of the EaD was in the rating classes BBB+ and worse. Nearly 100% of the exposures in the ratings categories BBB+ and worse were classified as investment grade.

Total portfolio: EaD according to business segments

in € billion	30.6.2014[1]	31.12.2013[2][3]	Change	31.12.2013[4]
Real Estate Finance	23.5	22.2	1.3	22.5
Public Investment Finance/Public Sector Finance	8.7	8.4	0.3	32.9
Value Portfolio	24.9	25.0	−0.1	0.1
Consolidation & Adjustments	8.4	13.0	−4.6	11.4
Total	**65.5**	**68.6**	−3.1	**66.9**

[1] In addition € 0.6 billion EaD with regard to the counterparty FMS Wertmanagement including guaranteed positions of € 0.6 billion (C&A: € 0.01 billion; VP: € 0.6 billion)
[2] In addition € 0.6 billion EaD with regard to the counterparty FMS Wertmanagement including guaranteed positions of € 0.6 billion (C&A: € 0.01 billion; VP: € 0.6 billion)
[3] Pro forma Basel III figure based on IFRS carrying amounts
[4] EaD according to Basel II analogous to the Annual Report as of 31 December 2013 (prior to re-segmentation)

Public Sector Finance was re-segmented at the beginning of 2014. The strategic Public Investment Finance is now managed as an independent segment, whilst the non-strategic portfolio in non-earmarked financing to the public sector (budget financing) allocated to the former Public Sector Finance segment is now in principle allocated to the Value Portfolio segment. The Real Estate Finance segment and also Consolidation & Adjustments remained largely unaffected by the re-segmentation. A detailed explanation of the re-segmentation can be found in the individual segment descriptions.

An additional change to the figures in comparison with the Annual Report 2013 is due to the implementation of Basel III and the conversion of the regulatory reporting system to IFRS at the beginning of 2014. Due to the effects associated therewith, the EaD increased from € 66.9 billion to € 68.6 billion as of the reporting date 31 December 2013. To allow for comparison of the figures, the Basel II figures are therefore included in the last column of the tables for information purposes. The first two columns and the indicated change relate to Basel III figures respectively.

As of 30 June 2014 the total exposure at default (EaD) of pbb Group decreased compared to year-end 2013 by € 3.1 billion to € 65.5 billion. Overall, the relative percentage of the EaD in the strategic segments of Real Estate Finance (36%; end of previous year: 32%) and Public Sector Finance (13%; end of previous year: 12%) increased. Although the percentage share in the non-strategic Value Portfolio segment increased slightly (38%; end of previous year: 36%), it decreased in absolute terms by € −0.1 billion. The percentage attributable to EaD in «Consolidation & Adjustments» decreased significantly (13%; end of the previous year: 19%).

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), is stated as € 125.3 million as of 30 June 2014 using the regulatory parameters (31 December 2013: € 170.6 million). The decrease in the expected loss is primarily attributable to the recovery of a larger refinancing arrangement in the Real Estate Finance segment.

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	**30.6.2014**	**31.12.2013[1]**	Change	**31.12.2013[2]**
Real Estate Finance	91.1	137.3	−46.2	136.4
Public Investment Finance	3.6	3.9	−0.3	31.4
Value Portfolio	29.9	28.6	1.3	0.1
Consolidation & Adjustments	0.7	0.8	−0.1	0.8
Total	**125.3**	**170.6**	−45.3	**168.7**

[1] Pro forma Basel III figure based on IFRS carrying amounts
[2] EaD according to Basel II analogous to the Annual Report as of 31 December 2013 (prior to re-segmentation)

Economic Credit Risk Capital The economic capital for credit risk is calculated with the credit portfolio model. It amounted to € 262 million (31 December 2013: € 237 million) in the going-concern approach thus considering a confidence level of 95% and a period of one year, 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 43% (€28.5 billion). The main items in the category «Other Europe», which accounted for approximately 17% (€10.8 billion) of the overall portfolio, were Austria (€6.7 billion; 31 December 2013: €6.5 billion) and Sweden (€1.3 billion; 31 December 2013: €1.2 billion) followed by Belgium (€0.5 billion; 31 December 2013: €0.6 billion).

The decline of the portfolio in Germany (€–4.8 billion) is due to mature bonds and the repayment of loans, borrowers' note loans and a short-term investment with Deutsche Bundesbank.

In France new business exceeded the maturing positions and therefore resulted in a net increase of €0.6 billion. The percentage of the category «Emerging Markets» in accordance with the IMF definition increased 1% due to new busines positions and mainly comprised Poland with €2.1 billion (31 December 2013: €2.0 billion) and Hungary with €0.8 billion (31 December 2013: €0.8 billion).

Total portfolio: EaD according to regions

in € billion	30.6.2014[1]	31.12.2013[2][3]	Change	31.12.2013[4]
Germany	28.5	33.3	–4.8	32.8
Other Europe[5]	10.8	10.4	0.4	9.9
France	5.5	4.9	0.6	5.3
Spain	5.3	5.1	0.2	4.9
Great Britain	4.8	4.4	0.4	4.2
Italy	3.5	3.4	0.1	3.1
Emerging Markets[6]	3.1	3.0	0.1	2.9
Other	2.0	1.7	0.3	1.7
Portugal	1.4	1.4	–	1.4
Japan	0.4	0.4	–	0.3
USA	0.2	0.5	–0.3	0.4
Ireland[7]	–	0.1	–0.1	0.1
Total	**65.5**	**68.6**	–3.1	**66.9**

[1] In addition €0.6 billion EaD with regard to the counterparty FMS Wertmanagement including guaranteed positions of €0.6 billion. The figures without guaranteed positions were fully attributable to Germany (€0.01 billion), the guaranteed positions related to Germany (56%, €0.3 billion) and Italy (44%, €0.3 billion).
[2] In addition €0.6 billion EaD with regard to the counterparty FMS Wertmanagement including guaranteed positions of €0.6 billion. The figures without guaranteed positions were fully attributable to Germany (€0.01 billion), the guaranteed positions related to Germany (55%, €0.3 billion) and Italy (45%, €0.3 billion).
[3] Pro forma Basel III figure based on IFRS carrying amounts
[4] EaD according to Basel II analogous to the Annual Report as of 31 December 2013 (prior to re-segmentation)
[5] Comprises among others Austria, Belgium, Switzerland, Sweden, Denmark, Finland and the Netherlands
[6] Emerging Markets in accordance with the IMF definition
[7] As of 30 June 2014 the EaD in Ireland amounted to €0.006 billion

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 €38.7 billion as of 30 June 2014, and was thus higher than the corresponding figure at the end of 2013 (€38.0 billion). Western Europe accounted for most of the exposure, whereby Germany accounted for the highest figure (€14.2 billion; 31 December 2013: €14.8 billion).

The main country under «Other Europe» was Austria (€6.6 billion; 31 December 2013: €6.4 billion), followed by Belgium with €0.5 billion (31 December 2013: €0.5 billion).

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 (€−0.6 billion). The year-over-year increase to €2.8 billion (31 December 2013: €2.4 billion) in the exposure in France is mainly due to new business in the Public Investment Finance segment. The expansion of the exposure in «Other» is largely based on the purchase of bonds of supranational institutions for the purpose of investing in liquid assets.

With regard to the breakdown of issuer risk according to segments, the Value Portfolio accounted for 64% (December 2013: 65%) of the EaD as of 30 June 2014, Public Investment Finance segment accounted for 22% (December 2013: 21%) and Consolidation & Adjustments accounted for 14% (December 2013: 14%).

Total portfolio: issuer risk according to regions

in € billion	**30.6.2014[1]**	**31.12.2013[2][3]**	Change	**31.12.2013[4]**
Germany	14.2	14.8	−0.6	14.2
Other Europe[5]	8.0	7.9	0.1	7.2
Spain	4.8	4.6	0.2	4.4
Italy	3.3	3.2	0.1	2.9
France	2.8	2.4	0.4	2.7
Other	2.0	1.6	0.4	1.6
Portugal	1.4	1.4	–	1.4
Emerging Markets[6]	1.2	1.2	–	1.1
Great Britain	0.7	0.6	0.1	0.3
Japan	0.3	0.3	–	0.2
Total	**38.7**	**38.0**	0.7	**36.0**

[1] In addition €0.3 billion EaD with regard to the counterparty FMS Wertmanagement representing guaranteed positions which were fully attributable to Germany
[2] In addition €0.3 billion EaD with regard to the counterparty FMS Wertmanagement representing guaranteed positions which were fully attributable to Germany
[3] Pro forma Basel III figure based on IFRS carrying amounts
[4] EaD according to Basel II analogous to the Annual Report as of 31 December 2013 (prior to re-segmentation)
[5] Comprises among others Austria, Belgium, Switzerland, Sweden, Denmark, Finland and the Netherlands
[6] Emerging Markets in accordance with the IMF definition

Real Estate Finance: € 23.5 billion EaD Portfolio Development and Structure The EaD of the Real Estate Finance portfolio of the pbb Group increased by € 1.3 billion compared with 31 December 2013. The customer derivatives included in the portfolio reported an EaD of € 0.5 billion as of 30 June 2014 compared with an EaD of € 0.4 billion at the end of 2013.

The exposure in France, Germany and in Great Britain increased due to new busines and also «Other Europe» and «Emerging Markets» rose slightly. The increase in «Other Europe» is mainly due to the Czech Republic and in «Emerging Markets» mainly due to Poland. There were no changes in the remaining countries with regard to the sum of exposure.

Real Estate Finance: EaD according to regions[1)] in € billion	**30.6.2014[2)]**	**31.12.2013[3)]**	Change	**31.12.2013[4)]**
Germany	12.3	12.0	0.3	12.1
Great Britain	3.8	3.5	0.3	3.6
Other Europe[5)]	2.5	2.4	0.1	2.4
France	2.2	1.8	0.4	1.8
Emerging Markets[6)]	2.0	1.8	0.2	1.8
Spain	0.5	0.5	–	0.5
Italy	0.1	0.1	–	0.2
Japan	0.1	0.1	–	0.1
Portugal[7)]	–	–	–	–
Total	**23.5**	**22.2**	1.3	**22.5**

[1)] In the Real Estate Finance segment, there was no exposure to the counterparty FMS Wertmanagement.
[2)] Breakdown including custumer derivatives of approx. € 0.5 billion
[3)] Pro forma Basel III figure based on IFRS carrying amounts
[4)] EaD according to Basel II analogous to the Annual Report as of 31 December 2013 (prior to re-segmentation)
[5)] Comprises among others Austria, Switzerland, Sweden, Finland and the Netherlands
[6)] Emerging Markets in accordance with the IMF definition
[7)] The EaD in Portugal amounted to € 0.03 billion as of 30 June 2014 and as of 31 December 2013

The breakdown of the portfolio by property type as at 30 June 2014 changed only slightly as against year-end 2013. The main items were the property types «Office buildings» with €7.2 billion EaD or 31% of the overall REF portfolio (31 December 2013: €6.9 billion or 31%) and «Retail» with €6.7 billion EaD or 29% of the REF portfolio (31 December 2013: €6.2 billion or 28%). The percentage of properties with residential use remained more or less stable at 20% compared to the end of 2013 (22%). Worth mentioning is also the percentage of 8% of the property type «Logistics/Storage» (31 December 2013: 8%).

Real Estate Finance: EaD according to property type[1] in € billion	30.6.2014	31.12.2013[2]	Change	31.12.2013[3]
Office buildings	7.2	6.9	0.3	7.0
Retail	6.7	6.2	0.5	6.2
Housing construction	4.6	4.9	−0.3	4.9
Logistics/storage	1.8	1.7	0.1	1.8
Mixed use	1.4	1.0	0.4	1.0
Other	1.3	1.2	0.1	1.2
Hotel/leisure	0.5	0.3	0.2	0.4
Total	**23.5**	**22.2**	1.3	**22.5**

[1] In the Real Estate Finance segment, there was no exposure to the counterparty FMS Wertmanagement.
[2] Pro forma Basel III figure based on IFRS carrying amounts
[3] EaD according to Basel II analogous to the Annual Report as of 31 December 2013 (prior to re-segmentation)

At 30 June 2014 the portfolio was still dominated by investment financing (91%; 31 December 2013: 92%). Higher risk construction projects in the building phase (construction financing) only accounted for 6% of the EaD (31 December 2013: 5%). 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	30.6.2014	31.12.2013[2]	Change	31.12.2013[3][4]
Investment financing	21.4	20.4	1.0	20.6
Construction financing	1.5	1.2	0.3	1.2
Customer derivatives	0.5	0.4	0.1	0.4
Other	0.1	0.2	−0.1	0.2
Total	**23.5**	**22.2**	1.3	**22.5**

[1] In the Real Estate Finance segment, there was no exposure to the counterparty FMS Wertmanagement.
[2] Pro forma Basel III figure based on IFRS carrying amounts
[3] EaD according to Basel II analogous to the Annual Report as of 31 December 2013 (prior to re-segmentation)
[4] Rounding difference

Risk Parameters Using the parameters defined under Basel III, the expected loss for the Real Estate Finance portfolio was €91,1 million as of 30 June 2014 (31 December 2013: €137.3 million). The decrease in the expected loss is primarily attributable to the recovery of a larger loan.

Public Investment Finance: € 8.7 billion EaD Portfolio Development and Structure The portfolio of the former Public Sector Finance (PSF) operating segment was reorganised in the context of the re-segmentation process. The strategic part of the former PSF segment is now recognised in the Public Investment Finance (PIF) segment and amounted to € 8.7 billion as of 30 June 2014 (31 December 2013: € 8.4 billion). The non-strategic and cutback portfolio in the context of budget financing was transferred to the Value Portfolio segment.

The EaD in the Public Investment Finance segment increased in the first half of 2014 because of new business in Germany and France by € 0.3 billion.

Most of the exposure was reported for Western Europe with an emphasis on Germany and Spain. With some smaller exceptions, the percentage country shares were stable. As in the previous year, the major share in «Other Europe» was represented by Austria with € 0.3 billion (31 December 2013: € 0.3 billion) and Belgium with € 0.3 billion (31 December 2013: € 0.3 billion). In Portugal, Emerging Markets, Japan, the US and Ireland, there was no exposure in Public Investment Finance. The figures provided in the last column, which show the EaD according to Basel II up until 31 December 2013, still represent the structure of the former Public Sector Finance segment.

Public Investment Finance: EaD according to regions				
in € billion	**30.6.2014**[1]	**31.12.2013**[1][2]	Change	**31.12.2013**[3][4][5]
Germany	2.2	2.0	0.2	12.0
Spain	2.1	2.1	–	3.7
France	1.8	1.7	0.1	2.9
Italy	1.6	1.6	–	2.9
Other Europe[6]	0.8	0.8	–	7.1
Other	0.1	0.1	–	1.1
Great Britain	0.1	0.1	–	0.2
Emerging Markets[7]	–	–	–	1.1
Ireland	–	–	–	–
Japan	–	–	–	0.3
Portugal	–	–	–	1.4
USA	–	–	–	0.2
Total	**8.7**	**8.4**	0.3	**32.9**

[1] In the Public Investment Finance segment, there was no exposure to the counterparty FMS Wertmanagement.
[2] Pro forma Basel III figure based on IFRS carrying amounts
[3] In addition € 0.03 billion EaD with regard to the counterparty FMS Wertmanagement which were fully attributable to Germany, including guaranteed positions of € 0.01 billion.
[4] EaD according to Basel II analogous to the Annual Report as of 31 December 2013 (prior to re-segmentation)
[5] The EaD in Ireland amounted to € 0.02 billion as of 31 December 2013
[6] Comprises among others Austria, Belgium, Sweden, Finland and the Netherlands
[7] Emerging Markets in accordance with the IMF definition

The position «Public sector borrowers» included receivables due from sovereigns (13%), public sector enterprises (26%) and municipalities (61%).

Also in the representation of EaD by counterparty, the figures in the last column show EaD according to Basel II as of 31 December 2013, thereby still following the structure of the former Public Sector Finance segment.

Public Investment Finance: EaD according to counterparty structure in € billion	**30.6.2014**[1]	**31.12.2013**[1)2)]	Change	**31.12.2013**[3)4)]
Public sector borrowers	7.0	6.7	0.3	23.4
State-regulated companies[5)]	1.7	1.7	–	2.9
Financial institutions[6)]/insurance companies	–	–	–	6.6
Total	**8.7**	**8.4**	0.3	**32.9**

1) In the Public Sector Finance segment, there was no exposure to the counterparty FMS Wertmanagement.
2) Pro forma Basel III figure based on IFRS carrying amounts
3) In addition € 0.03 billion EaD with regard to the counterparty FMS Wertmanagement which were fully attributable to Germany, including guaranteed positions of € 0.01 billion
4) EaD according to Basel II analogous to the Annual Report as of 31 December 2013 (prior to re-segmentation)
5) Water utilities, power supply utilities, etc.
6) Financial institutions with a state background or state guarantee

The portfolio comprises the following financing:
(I) Financing concluded directly with a public sector debtor, eligible according to the German Pfandbrief Act, on the basis of a specific earmarking according to a defined product catalogue;
(II) Financing of companies, which have a public sector or private legal structure and organisation, which are collateralised with a public sector guarantee within the meaning of the German Pfandbrief Act (transport and utility companies, municipal utilities, special-purpose associations, management companies, non-profit organisations, associations); and
(III) Financing of special-purpose vehicles, which are collateralised with a public sector guarantee within the meaning of the German Pfandbrief Act.

The public sector customer structure in the PIF segment was principally reflected in the ratings as of the reporting date. 33% (31 December 2013: 31%) of the EaD was attributable to the rating classes AAA to AA–. The rating classes A+ to A– accounted for 23% of the EaD (31 December 2013: 23%). The share in BBB+ and lower rated positions decreased in percentage terms from 44% in December 2013 to 43% in June 2014. The majority of the positions in the rating classes BBB+ and lower was, however, assigned to the investment grade (approx. 90%).

Public Investment Finance: EaD according to internal ratings in € billion	**30.6.2014**[1]	**31.12.2013**[1)2)]	Change	**31.12.2013**[3)4)]
AAA to AA–	2.9	2.6	0.3	16.4
A+ to A–	2.0	2.0	–	6.1
BBB+ to BBB–	3.4	3.5	–0.1	6.8
BB+ and worse	0.4	0.3	0.1	3.6
Total	**8.7**	**8.4**	0.3	**32.9**

1) In the Public Sector Finance segment, there was no exposure to the counterparty FMS Wertmanagement.
2) Pro forma Basel III figure based on IFRS carrying amounts
3) In addition € 0.03 billion EaD to the counterparty FMS Wertmanagement, which was fully attributable to the rating classes AAA to AA–
4) EaD according to Basel II analogous to the Annual Report as of 31 December 2013 (prior to re-segmentation)

Risk Parameters The expected loss for the Public Investment Finance segment, using the regulatory parameters, amounted to € 3.6 million as of 30 June 2014 (31 December 2013: € 3.9 million).

Value Portfolio: € 24.9 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. At the beginning of 2014, the portfolio was re-segmented in the context of which the non-strategic part of the former Public Sector Finance segment was transferred to the Value Portfolio in order to clearly separate the segments existing at the time into strategic and non-strategic segments. Accordingly, the increase in the Value Portfolio is due to the change in segment.

In conformity with this strategy, the further decrease in the exposure as of 30 June 2014 compared with 31 December 2013 is mainly due to reductions in Germany, with Germany remaining the focus in the portfolio.

The marginal increase of EaD in France, Italy and «Other Europe» is due to currency effects, among other things. No new positions were purchased in the Value Portfolio segment. The major share in the exposure in «Other Europe» was represented by Austria with € 6.1 billion (31 December 2013: € 6.0 billion), followed by Slovenia with € 0.3 billion (31 December 2013: € 0.3 billion) and Belgium with € 0.2 billion (31 December 2013: € 0.2 billion).

Value Portfolio: EaD according to regions

in € billion	30.6.2014[1]	31.12.2013[2][3]	Change	31.12.2013[4]
Germany	9.7	10.1	−0.4	0.12
Other Europe[5]	6.9	6.8	0.1	0.01
Spain	1.8	1.8	–	–
Italy	1.6	1.5	0.1	–
Portugal	1.4	1.4	–	–
Emerging Markets	1.2	1.2	–	–
Other	1.1	1.1	–	0.01
France	0.9	0.8	0.1	–
Japan	0.3	0.3	–	–
Great Britain[6]	–	–	–	–
Ireland[7]	–	–	–	–
USA[8]	–	–	–	–
Total	**24.9**	**25.0**	−0.1	**0.14**

[1] In addition € 0.6 billion EaD with regard to the counterparty FMS Wertmanagement, which were fully guaranteed; the guaranteed positions related to Germany (56 %) and Italy (44 %)
[2] In addition € 0.6 billion EaD with regard to the counterparty FMS Wertmanagement, which were fully guaranteed; the guaranteed positions related to Germany (55 %) and Italy (45 %)
[3] Pro forma Basel III figure based on IFRS carrying amounts
[4] EaD according to Basel II analogous to the Annual Report as of 31 December 2013 (prior to re-segmentation)
[5] Comprises among others Austria, Slovenia, Belgium, Switzerland and the Netherlands
[6] As of 31 December 2013 the EaD in Great Britain amounted to € 0.0004 billion EaD according to Basel II and Basel III
[7] As of 31 December 2013 the EaD in Ireland amounted to € 0.004 billion EaD according to Basel II and Basel III
[8] As of 31 December 2013 the EaD in the USA amounted to € 0.002 billion EaD according to Basel II and Basel III

Value Portfolio: EaD according to counterparty structure in € billion	30.6.2014[1]	31.12.2013[2][3]	Change	31.12.2013[4]
Public sector borrowers	17.7	17.7	–	0.04
Financial institutions/insurance companies	5.9	6.0	−0.1	0.05
Companies/Project Financing	1.3	1.3	–	0.05
Total	**24.9**	**25.0**	−0.1	**0.14**

[1] In addition € 0.6 billion EaD with regard to the counterparty FMS Wertmanagement, which were fully guaranteed; the guaranteed positions related to Germany (56%) and Italy (44%)
[2] In addition € 0.6 billion EaD with regard to the counterparty FMS Wertmanagement, which were fully guaranteed; the guaranteed positions related to Germany (55%) and Italy (45%)
[3] Pro forma Basel III figure based on IFRS carrying amounts
[4] EaD according to Basel II analogous to the Annual Report as of 31 December 2013 (prior to re-segmentation)

Risk Parameters The expected loss for the Value Portfolio amounted to € 29.9 million as of 30 June 2014 using the parameters defined under Basel III (31 December 2013: € 28.6 million).

Structured Products

pbb Group's residual holdings in fully state-guaranteed collateralised debt obligations had a notional value of € 0.7 billion as of 30 June 2014 (31 December 2013: € 0.7 billion) and an actual fair value of € 0.7 billion (31 December 2013: € 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 2013 with a notional value of € 0.1 billion. The fair value of these almost fully amortised securities, which securitise credit risks, amounted to € 3 million as of 30 June 2014 (31 December 2013: € 4 million).

The valuation of assets was essentially based on market values.

Consolidated Special-purpose Vehicle without Capital Share in pbb Group[a]

As of the reporting date 30 June 2014, there were no consolidated special-purpose vehicles without capital share which require consolidation in accordance with IFRS 10 (31 December 2013: none).

[a] Adjustment due to retrospective first-time adoption of IFRS 10. Details are provided in the note «Principles».

Watchlist and Non-performing Loans

With regard to the early warning system please refer to the Risk and Opportunity Report in the Annual Report 2013 of pbb Group.

Development of Watchlist and Non-performing Loans of pbb Group

Watchlist and non-performing loans of pbb Group				**30.6.2014[1)]**				**31.12.2013[2)3)]**		**31.12.2013[2)4)]**
EaD in € million	REF	PIF	VP	**Total**	REF	PIF	VP	**Total**	Change	**Total**
Workout loans	4	–	–	4	6	–	–	6	–2	6
Restructuring loans	834	–	2	836	933	–	2	935	–99	934
Non-performing loans	**838**	**–**	**2**	**840**	**939**	**–**	**2**	**941**	**–101**	**940**
Watchlist loans	**190**	**–**	**244**	**434**	**141**	**–**	**475**	**616**	**–182**	**596**
Total	**1,028**	**–**	**246**	**1,274**	**1,080**	**–**	**477**	**1,557**	**–283**	**1,536**

1) In addition €1 million EaD as of 30 June 2014 in the segment «Consolidations & Adjustments»
2) In addition €6 million EaD as of 31 December 2013 in the segment «Consolidations & Adjustments»
3) Pro forma Basel III figure based on IFRS carrying amounts
4) EaD according to Basel II analogous to the Annual Report as of 31 December 2013 (prior to re-segmentation)

The watchlist and non-performing loans decreased by a total of €283 million.

Watchlist loans declined by €260 million gross[a)] or €182 million net. The gross amount relates almost exclusively to re-transfers to normal support. This includes a case from the Value Portfolio segment in the amount of €231 million and two loans from the REF segment totalling €29 million. The new additions – essentially two cases from the REF segment – amount to €78 million.

Problem loans declined by €202 million gross[a)] or €101 million net. Successful restructurings and repayments totalled €168 million; a further €34 million were taken over to the Bank's own holdings. In non-performing loans support, positions with a volume totalling €101 million had to be transferred; this includes a case with €63 million.

Impairments and Provisions

With regard to Impairments and Provisions, please refer to the Risk and Opportunity Report in the Annual Report 2013 of pbb Group.

Risk Provisioning of pbb Group An overview of the development in allowances for losses on loans and advances and provisions is set out in the note Allowances for Losses on Loans and Advances.

a) Excluding opposite effects

Coverage Ratio 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 32%[a] as of 30 June 2014 (31 December 2012: 32%[a]).

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 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.

According to the given structure of maturities of the existing portfolio in the Value Portfolio segment for the upcoming twelve months a decline in EaD of €0.2 billion can be expected with regard to Slovenia, Portugal and Italy. This reduction in exposure means that there is an opportunity of being less affected by potential further rating downgrades in the above-mentioned countries.

[a] The computational logic of the coverage ratio was changed so that synthetic securitisation is no longer included.
The comparison figure as of 31 December 2013 was adjusted accordingly.

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 2013 of pbb Group.

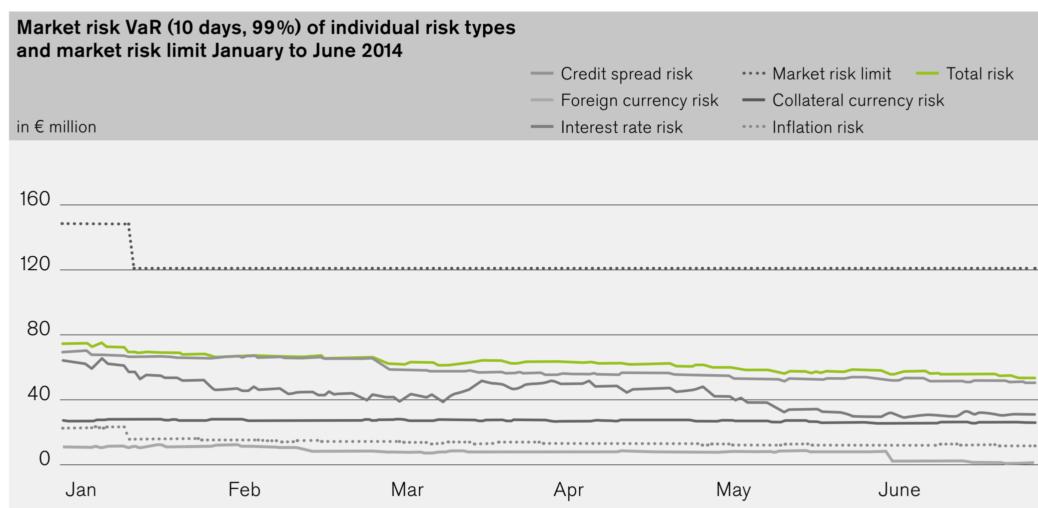
Methods and Assumptions with regard to Market Risk VaR Measurement

With regard to measurement and limiting of market risk, please refer to the Risk and Opportunity Report in the Annual Report 2013 of pbb Group.

On 30 June 2014 the market risk VaR amounted to € 54 million. The comparison figure as of 31 December 2013 was € 74 million. The decrease of the market risk VaR in the first half of 2014 was mainly due to declined credit spread volatilities. The market risk limit of pbb had been reduced from € 150 million to € 120 million by mid of January 2014. In the period under review there were no limit violations.

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.

Market risk VaR (10 days, 99%) of individual risk types and market risk limit January to June 2014



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 to the respective credit spreads. The major part of the credit spread risk is attributable to eligible assets for covered bonds. Risk measurement systems to determine credit spread risks are in place for all the relevant positions. The VaR limit relates only to the credit spread risks of the AfS and FVtPL holdings, and is not applicable to the LaR positions.

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 major key risk drivers. 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 investments) would have resulted in a loss of approximately € 407 million as of 30 June 2014. The analogue market value loss as of year end 2013 was € 452 million. An opposite parallel shift of 200 basis points downwards in the interest rate curve would have resulted in a market value gain of € 348 million (31 December 2013: 307 million).

The Management Board and the corresponding executive bodies are regularly notified of the results of the scenario analyses.

Economic Market Risk Capital To calculate the economic capital from market risks, a Value at Risk for a period of one year at a confidence level of 95% is calculated in the going-concern approach. The economic capital for market risks of pbb Group, disregarding diversification effects for other risk types, amounted to € 205 million as of 30 June 2014 (31 December 2013: € 185 million). This development is in contrast to the development of the 10-day market risk VaR and, in the first instance, is due to the fact that, for the calculation of the economic capital, the movements in the market risk factors of the last seven years are included in the calculation of the economic capital. Contrary to the 10-day market risk VaR, the economic capital in the market risk thus does not benefit from the recent lower volatility of the credit spreads.

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 2013 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, as described above for instance, result in high negative credit spread sensitivities which pose a risk. In the event of a reduction of the relevant credit spreads, these credit spread sensitivities result in economic profits, which again constitute an opportunity. Within the framework of the hypothetical stress scenarios of pbb Group an opposite parallel shift of 200 basis points downwards in the interest rate curve would comprise the opportunity for a market value gain of € 348 million.

Liquidity Risk

For general information with regard to the measurement and control of liquidity risk of pbb Group (amongst others risk strategie and risk limitation), please refer to the Risk and Opportunity Report in the Annual Report 2013 of pbb Group.

Development of the Risk Position of pbb Group

The development of the liquidity position in the first half of 2014 exceeded the liquidity outlook which had been generated 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 2014 amounted to €7.3 billion for a 12-month horizon in the base scenario. Compared to the end of the previous year, there was an increase of €0.9 billion year-over-year. Due to higher medium and long-term unsecured funding, this increase exceeded the expected change in liquidity due to the contribution from new funding sources (deposit business) as well as lower requirements for the excess capital to be held in the cover pools.

The liquidity ratio in accordance with the Liquidity Ordinance amounted to 5.29 at pbb as of 30 June 2014; it was thus higher than the statutory minimum of 1.0.

Funding

In the first half of 2014, the capital markets were characterised by the low interest environment and the expansive monetary policy of the central banks. For funding purposes, covered and unsecured issues are available to pbb Group. Pfandbriefe are the Bank's main funding instrument. Because of their high quality and acceptance on the international capital markets, Pfandbriefe are comparatively less affected by market fluctuations than many other funding sources. As the first German issuer, pbb instituted a program for unsecured issues on the Pro-Bond market of the Tokyo Stock Exchange in June 2014 to diversify unsecured funding. Other issuers from Europe have already issued bonds in Japanese yen in this program. In addition, since March 2013 the Bank has been represented on the market with pbb direkt, the private customer offering.

Driven by the monetary policy measures introduced by the central banks, in the first half of the year the capital markets continued to be caught between the poles of excessive liquidity in the search for investment options and a low interest level. From investors' point of view, the situation with the decline in the 10-year yield of approx. 60 basis points was significantly exacerbated resulting in the focus shifting towards longer terms and increased credit risk. Pfandbrief issues were placed on tight spread levels. Capital transactions and unsecured issues, however, generated particularly high demand. Geo-political risks, such as the distortions in the emerging markets and the tensions in the Ukraine, only affected the markets in the short term.

In this market environment, pbb went to the market twice with benchmark new issues in the form of mortgage-backed Pfandbriefe and successfully topped up two further issues. In unsecured funding, a serial benchmark issue was topped up until September 2017. pbb Group was able to cover a considerable share of the funding needs via private placements. In addition to public transactions, private placements are a significant funding vehicle for the Bank and, due to their generally smaller amounts, they help to improve the granularity of the funding structure. In the funding at matching maturities, pbb Group issued the first unsecured issues in Swedish krona, thus successfully expanding its investor base. In contrast, issues in British pound sterling were not attractive in the current market environment.

The volume of overnight investments and time deposit offerings for private customers «pbb direkt» performed very positively in the first half of the year, reaching more than €1.4 billion.

Forecast Liquidity Requirement

Due to the balanced asset and liability structure in terms of cash flows 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 the 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 notes. 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.

Risks

The adjustments of the ECB's interest rate policy in the light of the European financial crisis and the resulting decline in overall interest rates entail the risk that investors underweight the bond market when allocating funds. This could lead to a general increase in funding spreads.

Opportunities

The cumulative liquidity position of € 7.3 billion in the base scenario over a horizon of twelve months which is detailed in the section «Development of the Risk Position of the pbb Group» as of 30 June 2014 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.

Operational Risk

Definition, Strategy for Operational Risks and Organisation of Operational Risk Management

With regard to definition, strategy for operational risks and organisation of operational risk management, please refer to the Risk and Opportunity Report in the Annual Report 2013 of pbb Group.

Risk Reports, Monitoring and Management of Operational Risks

Operational risks are monitored by means of a network of controls, procedures, reports and responsibilities. Within pbb Group, each individual business area and management level takes on responsibility for its own operational risks, and provides appropriate resources and processes for limiting such risks. The focus of the operational risk department is the proactive identification, management and mitigation of risks rather than on just risk monitoring, measurement and reaction to risk.

Consolidated information is used in order to determine the operational risk profile of pbb Group and any required measures in relation to mitigation of identified risks. Operational risk scenario analyses, which are conducted annually, are also used in this context.

Regular reports are prepared for the Chief Risk Officer (CRO) and the Group Risk Committee. The monthly Group Risk Report includes details concerning operational risk events and losses and key risk issues affecting pbb Group. In addition, a quarterly risk report regarding key risk indicators notifies the Management Board of potential risk sources. On an annual basis an annual operational risk report is produced which includes a summary of important events during the year and also the results of the operational risk self-assessment process. This report is circulated to the board of pbb and presented to the Group Risk Committee.

Risk Measurement

The economic capital for operational risk in the going-concern perspective amounted to € 37 million as of 30 June 2014 (31 December 2013: € 37 million). Details of the calculation are set out in the chapter «Result of Risk-bearing Capacity Analysis».

In line with the regulatory approach, the regulatory capital backing for operational risks, which is calculated at the end of each year, was € 74 million as of 30 June 2014 (31 December 2013: € 74 million).

Operational Risks Profile of pbb

In the first half of 2014 financial impact for pbb Group arose from operational risk events in the amount of €10.3 million (2013: €1.2 million).

The event type «Execution, Delivery & Process Management» was the category with the highest number of events (70%) and nearly all financial impact was allocated to this category (99.8%) in the first half of 2014.

In addition, the separation of pbb and DEPFA is well underway. To date, this ongoing change has not given rise to any additional issues with respect to operational risk.

Opportunities

With regard to Oportunities, please refer to the Risk and Opportunity Report in the Annual Report 2013 of pbb Group.

Result of Risk-bearing Capacity Analysis

Going-concern

Going-concern in € million	30.6.2014	31.12.2013	Change
Credit risk	262	237	25
Market risk	205	185	20
Operational risk	37	37	–
Business risk	1	–	1
Property risk	13	9	4
Total before diversification effects	**518**	**468**	50
Total after diversification effects	**471**	**421**	50
Available financial resources (free capital)	1,321	1,946	–625
Excess capital (+)/capital shortfall (–)	850	1,525	–675

The going-concern perspective explicitly focuses on the protection of regulatory minimum capitalisation and thus the continuation of pbb Group business activities in periods of difficult economic downturn. 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 and funding risk as part of the business risk and property risk.

Excluding the diversification effects between the individual risk types, the economic capital of pbb Group in the going-concern approach amounted to € 518 million (31 December 2013: € 468 million). If these effects are taken into account, it was € 471 million (31 December 2013: € 421 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 51% of the undiversified economic capital. The increase in economic capital after diversification effects of € 50 million is largely due to the increase in the credit risk (€+25 million) as well as the increase in the market risk (€+20 million). The increase in the credit risk is mainly due to the adjustment of various model parameters of the credit portfolio model, which were carried out during the annual parameter validation in the first half of the year. The increase in the market risk was due to increased sensitivity of the positions valued at fair value compared with changes in the credit spread.

This is opposed by the so-called free capital as risk covering potential, comprising available CET1 capital less the CET1 capital necessary for covering the regulatory minimum ratios and a buffer for immaterial risks which are either not 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 CET1 capital necessary for covering the regulatory minimum ratios. The free capital is calculated both on the current figures for CET1 and the risk-weighted assets, as well as on the planned values of these two figures in one year. The lower free capital arising from these calculations is used as risk covering potential in the going-concern approach. The amount of free capital as of the reporting date was € 1.3 billion (31 December 2013: € 1.9 billion) and is based on the budgeted figures as the repayment of the silent partnership contribution as of the end of June 2015 has already been taken into account here and the planned CET1 is thus lower. The planned repayment of the silent partnership contribution is thus also the principal reason for the reduction in the currently deducted

free capital of €625 million since 31 December 2013. A smaller part of the decrease is due to the increase of the buffer for immaterial and non-quantifiable or only partially quantifiable risks of €20 million. It now also covers the credit risk from potential extensions and unexpected changes in value from transactions in default.

Accordingly, the resulting excess capital as of 30 June 2014 amounted to €850 million for the given period of one year (31 December 2013: €1.5 billion); it is further proof of the risk-bearing capacity of pbb Group in the going-concern perspective.

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

Economic capital according to segments in € million	**30.6.2014**	**31.12.2013**	Change
Real Estate Finance	124	137	−13
Public Investment Finance[1]	26	268	−242
Value Portfolio	316	12	304
Consolidation & Adjustments	105	56	49
Total	**471**	**421**	50

[1] Comparison to the figures of Public Sector Finance as of 31 December 2013 (prior to re-segmentation)

The decline in economic capital in the Public Investment Finance segment (€−242 million) is mainly due to the re-segmentation of the budget financing business in the Value Portfolio segment. Therefore the economic capital in the Value Portfolio segment increased accordingly. The remaining increase in the Value Portfolio segment is largely due to the updating of model parameters in the credit risk model. The €49 million increase in economic capital in the Consolidation & Adjustment segment was mainly driven by the transfer of netting positions from OTC transactions from other segments to Consolidation & Adjustments.

Gone-concern

In supplement to the going-concern approach, pbb uses a gone-concern approach (liquidation perspective) as an additional, parallel management approach. The purpose of the gone-concern approach is to guarantee protection of the senior lender in a theoretical liquidation scenario with a very high probability. pbb 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, A–/A3 from Fitch Ratings and Moody's. However, this liquidation scenario does not assume an opportunistic winding up of portfolios as postulated by the German Pfandbrief Act, and instead also assumes an immediate sale of assets recognised at fair value and securities in the investment book. According to this assumption the gone-concern approach besides the already mentioned major risks 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 in € million	30.6.2014	31.12.2013	Change
Credit risk	1,620	1,447	173
Market risk	1,171	1,083	88
Operational risk	78	78	–
Business risk	46	53	–7
Property risk	26	20	6
Total before diversification effects	**2,941**	**2,681**	260
Total after diversification effects	**2,660**	**2,436**	224
Available financial resources before hidden losses	4,050	4,285	–235
Hidden losses	202	546	–344
Available financial resources	**3,848**	**3,739**	109
Excess capital (+)/capital shortfall (–)	1,188	1,303	–115

In the gone-concern approach, the economic capital without diversification effects amounted to €2.9 billion as of 30 June 2014 (31 December 2013: €2.7 billion); if these effects are taken into consideration, it amounted to €2.7 billion (31 December 2013: €2.4 billion). The main drivers in this respect are the credit risk (€1.6 billion) and the market risk (€1.2 billion).

The available financial resources in the gone-concern approach initially amounted to €4.1 billion (31 December 2013: €4.3 billion); this figure was reduced to €3.8 billion (31 December 2013: €3.7 billion) after the net hidden losses attributable to the securities in the investment portfolio were deducted. As in the going-concern approach, the risk covering potential decrease here results from an increase in the buffer for immaterial and non-quantifiable or only partially quantifiable risks due to the consideration of both unexpected losses from the portfolio of default commitments and the credit risk of potential extensions totalling €30 million.

The distribution of the economic capital by segments in the gone-concern perspective is as follows:

Economic capital according to segments in € million	30.6.2014	31.12.2013	Change
Real Estate Finance	422	515	–93
Public Investment Finance[1]	571	1,869	–1,298
Value Portfolio	1,586	27	1,559
Consolidation & Adjustments	349	188	161
Total	**2,660**	**2,436**	224

[1] Comparison to the figures of Public Sector Finance as of 31 December 2013 (prior to re-segmentation)

The significant shifts between the segments are identical in both the gone-concern approach and the going-concern approach and are explained as follows:

a) Transfer of the budget financing from the Public Sector Finance segment to the Value Portfolio; and
b) Transfer of netting positions from OTC derivatives towards Consolidation & Adjustments; and
c) Updated parameters for the credit risk model.

Opportunities

The results of the risk-bearing capacity analysis in the gone-concern approach 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 spread 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.

Although it is still clearly too soon to speak of a turnaround in the European sovereign debt crisis in 2014, pbb Group observes a stabilisation of the European bond markets as a result of the crisis management of ECB. Overall, the ICAAP-relevant hidden losses of pbb for securities in the investment book for example have declined by approximately € 344 million since the end of 2013. A continuation would result in a further expansion of the excess capital in the gone-concern approach of pbb Group in the second half of 2014.

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

Method Used for the Individual Risk Types

The economic capital for each risk type 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 material risk types for 2014 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 migrations 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. This 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 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.

In the second quarter of 2014, the credit risk from extension assumptions in accordance with the planning for hypothetical, additional transactions was included in the calculation for the credit risk. The increase in the credit risk due to these hypothetical deals form the basis for increasing the buffer for non-quantifiable or only partially quantifiable risks. It is therefore unnecessary to directly recognise this in the credit risk.

In addition, the risk of changes of allowances for already defaulted positions was modelled in the second quarter of 2014. For the valuation adjustments of defaulted positions, the model assumes a stochastic process, which assumes differing loss distributions of the current valuation adjustment and migration to different business partner circumstances (recovery, continuation or migration to various default classes). The distribution of the overall loss from the portfolio is calculated by means of a simulation process. This analysis has shown that the additional credit risk from the portfolio of defaulted transactions is material and has led to an additional increase in the buffer for non-quantifiable or only partially quantifiable risks.

Market Risk The purpose of calculating the economic capital for the market risk is to identify potential financial losses resulting from changes in the prices of items in the investment book and trading book. In this process, the potential non-systematic losses are derived from an analysis of historical time series of specific factors of influence (risk factors), e.g. interest rates, exchange rates and credit spreads over the previous seven years. The relatively long period of seven years ensures that economic phases which are not favourable for the Bank are also taken into account in the model. The annual loss distribution of the portfolio market value is then determined by means of a simulation procedure and using the linear sensitivities of the financial instruments; this can then be used to determine the economic capital in relation to a confidence level of 95% and 99.91%.

Operational Risk Both the result of the calculation in accordance with the standard approach pursuant to Basel II/Basel III and the result of a mathematical model using internal data as parameters for calculating losses from operational risks are included in the calculation of the economic capital for operational risks. In addition, the past-related standard approach according to Basel II is enhanced by means of taking into account forward-looking budget figures over three years. For the purposes of the capital adequacy procedure, in the going-concern approach the regulatory capital requirement is scaled to the corresponding 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 In pbb Group, the business risk is generally defined as the risk of reductions in profit due to changes in the external business environment which affect the economic conditions of the Bank. Alongside non-quantifiable risks such as regulatory risk, reputational risk and strategic risk, these include risks arising from increased funding costs and higher funding requirements, as well as earnings risk. Economic capital for business risk is calculated using a scenario-based increase in financing costs due to higher funding requirements and a simultaneous increase in the unsecured funding rate. Earnings risk is taken into account by not including planned income from new business in the risk cover amount.

Property Risk The property risk of pbb Group is calculated by means of a mathematical – statistical model, which allows probability statements to be made with regard to potential losses in the value of the properties in the Bank's own holdings. The parameterisation of the model is essentially based on data of representative real estate indices for the portfolio.

Liquidity Risk Liquidity risk in the narrower sense cannot be absorbed by own funds. Liquidity risks in the broader sense of higher funding costs for potential funding gaps are recognised in the economic capital for the business risk.

Stress Tests

Stress tests have become increasingly important in the recent past, both from a supervisory perspective and for internal bank management, not least as a result of the European sovereign debt crisis. All activities, developments and decisions relating to stress tests are bundled within the Stress Test Committee, which reports directly to the Group Risk Committee. As part of an integrated approach, the impact of macroeconomic stress scenarios on all material risks and on risk-taking potential under stressed market parameters was calculated for a multi-year time horizon in the period under review. These scenarios focus on the continuation and/or intensification of the current sovereign debt crisis.

Furthermore, stress tests relating to economic risk capital and risk cover funds are used to obtain a deeper understanding of the sensitivity of risk-bearing capacity to adverse changes in economic factors. In addition, inverse stress tests are conducted regularly. These describe specific constellations of parameters under which capital adequacy is still assured.

Key Regulatory Capital Ratios

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

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

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

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

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

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

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

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

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

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

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

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

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

Report on Expected Developments

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

Future Developments in Assets, Financial Position and Earnings

For the second half of 2014, pbb Group is not expecting to see any major deviation from the forecast development of the framework conditions detailed in the Group management report 2013. pbb Group is assuming that it will meet the targets for the financial performance indicators as originally forecasted in the Annual Report 2013. For the full year 2014, pbb Group expects to generate profit before tax of at least €140 million, return on equity after taxes of at least 3.7%, a slight improvement in the cost/income ratio compared with 2013 (64.7%), a significant increase in the new business volume compared with the previous year (€8.2 billion), a slight decline in the tier-1 capital ratio compared with 2013 (20.1%) and slight decline in the CET1 ratio compared with 2013 (17.6%). It is also assumed that the risk cover funds 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 reserves.

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

Opportunities pbb Group has continuosly reported positive pre-tax profits for the last four years. This illustrates the positive trend at pbb Group, which offers the following opportunities on development in assets, financial position and earnings for the future:

> In recent years, pbb Group has developed a strong market position, which has also been evident by the increase in the new business volume in the first half of 2014 as against the first half of 2013.This successful reorientation has made it possible for pbb Group to continue its positive development and increase the profitability of its core business areas of real estate finance and public investment finance, with the aim of achieving growth.

> After the discontinuation of the operating services provided to FMS Wertmanagement in September 2013 the focus on the relevant customer markets in the areas of real estate finance and public investment finance has been further increased. This should have a positive impact on new business volumes and new business margins, and hence also on the development in assets and earnings.

> There is strong demand for financing on the markets which are relevant for pbb Group. In view of this, pbb Group considers that the market climate for real estate finance and public investment finance will remain attractive over the long term. This is considered to have a positive impact on new business volumes and new business margins, and hence also on development in assets and earnings.

> Pfandbriefe have remained a sound investment with a proven market infrastructure; this is also reflected by the high demand from investors. pbb Group has extensive experience in the Pfandbrief market and is able to build on its existing customer relationships. As a result, it was possible to successfully place several mortgage and public sector Pfandbriefe on the market in recent years. pbb Group therefore utilises on a capital market instrument that is still in demand – which has a positive effect on its development in financial position.

> pbb Group also places unsecured issues, which emphasizes the investors' confidence. This important source of raising funds has a positive impact on pbb Group's liquidity and development in financial position.

- > pbb Group takes out overnight deposits and term deposits with terms of up to ten years via pbb direkt. pbb direkt's deposit volumes have increased continuously in recent months. Therefore, pbb Group has an additional source of funding and is able to react flexibly to market opportunities. This has a positive impact on pbb Group's liquidity and development in financial position.
- > pbb Group (which is part of HRE) and its fellow group, DEPFA, have already been largely separated from one other. This separation is increasing the chances of successfully privatising pbb Group.
- > pbb Group's strong focus on costs represents a further opportunity. The general and administrative expenses, which have been continuously decreasing in recent years, are an indicator of the successes already achieved. The status of the various processes will continue to be assessed on an ongoing basis to identify appropriate measures for improvement. pbb Group will use these measures to significantly reduce its cost base and become leaner and more efficient, so as to increase its profitability.
- > pbb Group has also made significant progress on harmonising its IT systems, which further improved efficiency.
- > pbb Group is an attractive employer. Capable and highly qualified employees and executives can be retained who support pbb Group achieve its ambitious targets.

Risks However, the possibility of future negative effects on pbb Group's development in assets, financial position and earnings cannot be ruled out. The level of exposure is influenced through the occurrence or non-occurence of the following risks, or the extend to which the following risks might materialise:

- > Several European countries were only able to obtain funding with the support of international aid programmes in recent years. If the debt crisis in certain countries worsens and it becomes necessary for creditors to take a haircut on other countries' bonds, or if public sector debtors become insolvent, pbb Group could also suffer substantial impairment losses on receivables and securities. These impairment losses could increase if due to market turbulences the crises of individual countries has a negative effect on spread to debtors that are currently considered to be solvent.
- > Allowances were only required for a small number of individual exposures in recent years thanks, among other things, to pbb Group's effective portfolio management. However, it cannot be ruled out that loans and advances may have to be significantly written down in future. The requirement to recognise allowances primarily depends on the economic situation of the financed objects. Although it could also be the result of a general crisis in individual markets, such as the real estate markets of various countries.
- > The funding markets improved in the first half 2014. Nevertheless, the funding markets remain susceptible to disruption. For example, the debt crisis in some European countries could result in a major loss of confidence and sharply reduced revenues on the issuing markets or the interbank market. Interest rate movements could also affect market liquidity. If the funding markets were to be disrupted by such events, pbb Group's liquidity situation could be negatively impacted, despite the existence of an existing buffer. A further consequence might be a systematic reduction in the volume of new business.
- > pbb Group's funding options may deteriorate or grind to a halt due to the credit standing deteriorating or a pbb credit rating downgrade. This might have a negative impact on the Group's liquidity situation and the development of assets, financial position and earnings.
- > In 2014, the European Central Bank is conducting a comprehensive assessment of banks before the Single Supervisory Mechanism (SSM) starts. The comprehensive assessment is consisting of a risk assessment and a balance sheet assessment; it concludes with a stress test. HRE and therefore pbb Group have been designated to participate in this bank assessment, amongst other financial institutions in the euro zone. Depending on the results, the European Central Bank could require HRE and probably also pbb Group to increase the level of own funds held. In addition, market uncertainty could increase before the results are published, which might make it more difficult to obtain funding. The comprehensive assessment could therefore impact the devepolment in assets, financial position and earnings of pbb Group.

- Enhanced national and international regulatory requirements might affect the structure of assets and liabilities, and thus also the development in earnings. For instance, profitability could be reduced by the future development of the liquidity requirements announced by the Basel Committee on Banking Supervision and meanwhile adopted by the EU as Capital Requirements Regulation (CRR) («Basel III» framework), or by more stringent capital requirements. In addition, existing regulatory and economic parameters could be impacted, which require a change in capitalisation.
- As part of its approval decision in the state aid proceedings, the European Commission specified that pbb must be privatised as soon as possible and no later than 31 December 2015. If privatisation has not taken place by 31 December 2015, a divestiture trustee will sell pbb without a minimum price being specified, provided that the Commission has approved the purchaser and the final binding purchase agreement. The sale or alternative solutions agreed with the European Commission could have a positive or negative impact on the development in assets, financial position and earnings of pbb Group.
- The methods to revalue financial instruments are constantly developed in the market. For example, the market conventions for valuing derivatives have changed, as demonstrated by the application of overnight interest rate curves to value derivatives. Similar changes could have a negative impact on pbb Group's development in earnings in the future.
- 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 include the new European legislative initiatives to centralise supervision of large banks and to support bank restructuring and resolution as well as bail-in of senior unsecured creditors. These measures alongside the specific rating drivers for pbb and its Pfandbriefe could lead to rating changes. Ratings could also be impacted by a change in ownership structure due to the Bank's planned privatisation. Downgrades to pbb and/or Pfandbrief ratings could have a negative impact, particularly on the Bank's funding conditions, on triggers and termination rights within derivatives and other contracts and on access to suitable hedge counterparties and hence on its development in financial position and earnings.
- The risk-bearing capacity concept is enhanced on a continuous basis. These enhancements and new regulatory requirements could have an impact on the risk-bearing capacity assessment using both the going-concern approach and the gone-concern approach. Under the gone-concern approach, changes in the fair value of assets and liabilities also influence risk-bearing capacity. If hidden reserves increase due to changes in fair values, the free capital could fall below the economic capital requirement.
- pbb Group's image has been stressed by its affiliation to the HRE Group in recent years. Although it has already successfully re-entered the markets, negative consequences for the achievement of pbb Group's objectives cannot be ruled out.
- Due to the nature of its business and the international expansion as well as the high number of relevant laws and regulations, pbb Group is involved in litigation, arbitration and regulatory proceedings in some countries. Legal disputes which are currently pending (especially relating to participation certificates issued, described under note «Provisions») or could become pending in the future could have a material adverse effect on pbb Group's results and equity base.
- pbb Group is exposed to operational risks, resulting, for example, from the technology risks associated with the large number of accounting systems. Although pbb Group has already successfully completed a number of projects to optimise processes and IT infrastructure, it is exposed to operational risks that could result in significant losses.

> A further operational risk results from reliance on employees who hold risk-taking positions. Resignation of employees in key positions cannot be ruled out. This could impact the development in assets, financial position and earnings.
> Additional bank levies are planned or under discussion in most EU countries. Examples include the introduction of a European restructuring fund or a financial transaction tax. Such taxes could have a negative impact on pbb Group's results and render certain transactions unprofitable.

Summary

pbb Group's positive development in recent years is resulting in numerous opportunities to increase profitability in future. However, this assessment is based on the assumption that risks resulting e.g. from factors beyond pbb's control, such as the sovereign debt crisis, do not materialise. Overall, giving due consideration to the opportunities and risks, pbb Group is expecting to realise a profit before tax of at least € 140 million for 2014.

56 Consolidated Income Statement

57 Consolidated Statement of Comprehensive Income

58 Consolidated Statement of Financial Position

59 Consolidated Statement of Changes in Equity

59 Consolidated Statement of Cash Flows (condensed)

60 Notes (condensed)
67 Notes to the Consolidated Income Statement
71 Notes to the Consolidated Statement of Financial Position
80 Notes to the Financial Instruments
92 Other Notes

96 Responsibility Statement

97 Review Report

98 Summary of Quarterly Financial Data

Consolidated Interim Financial Statements

Consolidated Interim Financial Statements
Consolidated Income Statement

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

Consolidated Statement of Comprehensive Income

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

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

Consolidated Statement of Financial Position

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

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

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

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

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

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

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

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

Notes (condensed)

Page	Note
61	1 Principles
63	2 Consolidation
64	3 Notes to Segment Reporting by Operating Segment
65	4 Income Statement and Balance-sheet-related Measures, Broken Down by Operating Segment
66	5 Breakdown of Operating Income
67	**Notes to the Consolidated Income Statement**
67	6 Net Interest and Similar Income
67	7 Net Fee and Commission Income
67	8 Net Trading Income
68	9 Net Income from Financial Investments
68	10 Net Income from Hedge Relationships
68	11 Net Other Operating Income/Expenses
69	12 Loan Loss Provisions
69	13 General and Administrative Expenses
70	14 Net Miscellaneous Income/Expenses
70	15 Income Taxes
70	16 Net Gains/Net Losses
71	**Notes to the Consolidated Statement of Financial Position**
71	17 Trading Assets
71	18 Loans and Advances to Other Banks
72	19 Loans and Advances to Customers
73	20 Allowances for Losses on Loans and Advances
73	21 Financial Investments
75	22 Other Assets
75	23 Income Tax Assets
75	24 Liabilities to Other Banks
76	25 Liabilities to Customers
76	26 Securitised Liabilities
77	27 Trading Liabilities
77	28 Provisions
78	29 Other Liabilities
79	30 Income Tax Liabilities
79	31 Subordinated Capital
79	32 Disposal Group

Page	Note
80	**Notes to the Financial Instruments**
80	33 Fair Values of Financial Instruments
90	34 Exposure to Selected European Countries
91	35 Past Due but Not Impaired Assets
92	**Other Notes**
92	36 Contingent Liabilities and Other Commitments
93	37 Key Regulatory Capital Ratios
94	38 Relationship with Related Parties
95	39 Employees

1 Principles

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

The IFRS are standards and interpretations adopted by the International Accounting Standards Board (IASB). These are the International Financial Reporting Standards (IFRS), the International Accounting Standards (IAS) and the interpretations of the IFRS Interpretations Committee (formerly IFRIC) respectively the former Standing Interpretations Committee (SIC). Furthermore the German Accounting Standards (Deutsche Rechnungslegungs Standards – DRS) published by the Deutsche Rechnungslegungs Standards Committee (DRSC) have been taken into account provided that they are not contrary to IFRS.

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

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

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

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

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

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

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

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

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

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

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

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

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

2 Consolidation

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

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

3 Notes to Segment Reporting by Operating Segment

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

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

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

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

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

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

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

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

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

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

Cost/income ratio[2] in %		REF	PIF	VP	**pbb Group**
Cost/income ratio (based on operating revenues)	1.1.–30.6.2014	51.3	83.3	>100.0	61.1
	1.1.–30.6.2013[1]	49.6	>100.0	>100.0	72.9

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

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

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

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

5 Breakdown of Operating Income

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

[1] Adjusted in accordance with IFRS 8.29

Notes to the Consolidated Income Statement

6 Net Interest and Similar Income

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

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

7 Net Fee and Commission Income

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

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

8 Net Trading Income

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

9 Net Income from Financial Investments

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

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

10 Net Income from Hedge Relationships

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

11 Net Other Operating Income/Expenses

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

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

12 Loan Loss Provisions

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

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

13 General and Administrative Expenses

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

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

14 Net Miscellaneous Income/Expenses

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

15 Income Taxes

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

16 Net Gains/Net Losses

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

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

Notes to the Consolidated Statement of Financial Position

17 Trading Assets

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

18 Loans and Advances to Other Banks

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

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

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

19 Loans and Advances to Customers

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

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

20 Allowances for Losses on Loans and Advances

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

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

21 Financial Investments

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

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

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

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

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

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

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

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

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

22 Other Assets

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

23 Income Tax Assets

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

24 Liabilities to Other Banks

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

25 Liabilities to Customers

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

26 Securitised Liabilities

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

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

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

27 Trading Liabilities

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

28 Provisions

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

pbb closed a reinsurance in the form of a qualifying insurance policy according to IAS 19 to hedge parts of the risk from the defined benefit obligations. A discount rate of 3.0% (31 December 2013: 3.5%) was used for the measurement of the defined benefit pension obligations. The other actuarial assumption were unchanged compared to the consolidated financial statements 2013.

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

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

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

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

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

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

29 Other Liabilities

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

30 Income Tax Liabilities

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

31 Subordinated Capital

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

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

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

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

32 Disposal Group

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

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

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

Notes to the Financial Instruments

33 Fair Values of Financial Instruments

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

All financial assets and liabilities that are measured at fair value recurring and non-recurring are grouped into the three fair value hierarchies by pbb Group. Reclassifications within the fair value hierarchy are made at the end of the reporting period. The three-level hierarchy is based on the degree to which the input for the fair value measurement is observable:
- Level 1 – quoted priced (unadjusted) in active markets for identical financial assets or financial liabilities (exchange quotations)
- Level 2 – inputs that are observable either directly or indirectly, other than quoted prices included within level 1
- Level 3 – valuation techniques that include inputs that are not based on observable market data (unobservable inputs)

Fair values of financial instruments and fair value hierarchy					30 June 2014
in € million	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets	**77,066**	**78,786**	**13,875**	**34,639**	**30,272**
at fair value through profit or loss	6,968	6,968	–	6,893	75
at fair value not affecting profit or loss	5,500	5,500	5,033	467	–
in balance sheet not measured at fair value	64,598	66,318	8,842	27,279	30,197
Cash reserve	187	187	187	–	–
Trading assets (HfT)	1,889	1,889	–	1,889	–
Loans and advances to other banks	9,728	9,748	1,658	6,543	1,547
Category LaR	9,728	9,748	1,658	6,543	1,547
Loans and advances to customers[1]	37,667	39,691	–	14,478	25,213
Category LaR	37,667	39,691	–	14,478	25,213
Real Estate Finance	21,770	22,944	–	–	22,944
Public Investment Finance	15,903	16,753	–	14,478	2,275
Other	39	39	–	–	39
Portfolio-based allowances	−45	−45	–	–	−45
Financial investments	21,122	20,934	12,030	6,258	2,646
Category AfS	5,033	5,033	5,033	–	–
Category LaR	16,089	15,901	6,997	6,258	2,646
Other assets	5,546	5,546	–	5,471	75
Fair value hedge derivatives	5,079	5,079	–	5,004	75
Cash flow hedge derivatives	467	467	–	467	–
Disposal group	927	791	–	–	791
Financial liabilities	**73,332**	**74,859**	**22,426**	**8,311**	**44,122**
at fair value through profit or loss	6,332	6,332	–	6,330	2
at fair value not affecting profit or loss	374	374	–	374	–
in balance sheet not measured at fair value	66,626	68,153	22,426	1,607	44,120
Liabilities to other banks	5,506	5,567	1,540	386	3,641
Liabilities to customers	11,334	11,757	1,888	–	9,869
Liabilities evidenced by certificates	47,389	48,619	18,977	1,221	28,421
covered	40,810	42,036	17,153	527	24,356
uncovered	6,579	6,583	1,824	694	4,065
Trading liabilities (HfT)	1,742	1,742	–	1,740	2
Other liabilities	5,014	5,014	21	4,964	29
Fair value hedge derivatives	4,590	4,590	–	4,590	–
Cash flow hedge derivatives	374	374	–	374	–
Other financial liabilities	50	50	21	–	29
Subordinated capital	1,120	1,137	–	–	1,137
Disposal group	1,227	1,023	–	–	1,023
Other items	**2,258**	**2,330**	**–**	**–**	**2,330**
Contingent liabilities	55	55	–	–	55
Irrevocable loan commitments	2,203	2,275	–	–	2,275

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

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

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

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

Disclosures to the Measurement Methods and Input Parameters

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

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

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

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

Measurement of level 2 instruments as of 30 June 2014

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

Measurement of level 3 instruments as of 30 June 2014

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

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

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

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

Changes in Level 3 Financial Assets and Financial Liabilities

Changes in level 3 financial assets

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

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

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

Assets and Liabilities According to Measurement Categories and Classes

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

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

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

34 Exposure to Selected European Countries

Exposure to selected European countries as of 30 June 2014

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

Exposure to selected European countries as of 31 December 2013

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

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

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

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

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

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

35 Past Due but Not Impaired Assets

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

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

Other Notes

36 Contingent Liabilities and Other Commitments

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

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

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

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

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

37 Key Regulatory Capital Ratios

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

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

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

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

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

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

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

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

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

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

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

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

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

38 Relationship with Related Parties

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

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

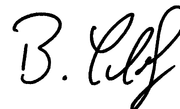
All further transactions carried out in the current financial year and in the previous period with companies, which were controlled, jointly controlled or significantly influenced by the Federal Republic of Germany, related to operational business, and overall were immaterial for pbb Group.

39 Employees

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

Munich, 4 August 2014

Deutsche Pfandbriefbank Aktiengesellschaft
The Management Board



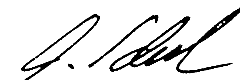
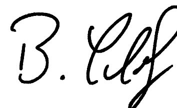
Andreas Arndt **Wolfgang Groth** **Andreas Schenk** **Dr. Bernhard Scholz**

Responsibility Statement

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

Munich, 4 August 2014

Deutsche Pfandbriefbank Aktiengesellschaft
The Management Board

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

Review Report

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

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

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

Munich, 5 August 2014

KPMG AG
Wirtschaftsprüfungsgesellschaft
[original German version signed by:]

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

Summary of Quarterly Financial Data

pbb Group			2013		2014
in € million	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter
Operating performance					
Operating income	113	155	113	89	114
Net interest and similar income	74	79	87	89	106
Net fee and commission income	1	3	4	–	–
Net trading income	10	–51	2	–9	–9
Net income from financial investments	–	97	–2	–1	2
Net income from hedging relationships	4	3	2	–3	–3
Net other operating income/expenses	24	24	20	13	18
Loan loss provisions	–3	–9	–	5	–7
General and administrative expenses	–80	–84	–72	–62	–62
Net miscellaneous income/expenses	1	–	2	6	–
Profit or loss before tax	31	62	43	38	45

Real Estate Finance			2013[1]		2014
in € million	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter
Operating performance					
Operating income	70	145	77	72	78
Net interest and similar income	62	65	69	72	79
Net fee and commission income	2	3	4	–	–
Net trading income	4	–19	–1	–4	–4
Net income from financial investments	1	93	2	1	1
Net income from hedging relationships	2	1	1	–1	–1
Net other operating income/expenses	–1	2	2	4	3
Loan loss provisions	–4	–9	8	5	–7
General and administrative expenses	–32	–39	–42	–39	–38
Net miscellaneous income/expenses	1	–	1	4	–
Profit or loss before tax	35	97	44	42	33

[1] Adjusted in accordance with IFRS 8.29

Public Investment Finance					
			2013[1]		2014
in € million	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter
Operating performance					
Operating income	5	2	5	8	10
Net interest and similar income	7	7	8	9	11
Net fee and commission income	–	–	1	–	–
Net trading income	1	−7	–	−1	−1
Net income from financial investments	−1	2	−4	–	–
Net income from hedging relationships	–	–	–	−1	−1
Net other operating income/expenses	−2	–	–	1	1
Loan loss provisions	–	–	–	–	–
General and administrative expenses	−7	−8	−9	−8	−7
Net miscellaneous income/expenses	–	–	–	1	–
Profit or loss before tax	−2	−6	−4	1	3

[1] Adjusted in accordance with IFRS 8.29

Value Portfolio					
			2013[1]		2014
in € million	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter
Operating performance					
Operating income	35	1	27	6	24
Net interest and similar income	2	2	5	4	14
Net fee and commission income	–	–	−1	–	–
Net trading income	5	−25	3	−4	−4
Net income from financial investments	–	2	–	−2	1
Net income from hedging relationships	2	2	1	−1	−1
Net other operating income/expenses	26	20	19	9	14
Loan loss provisions	1	–	−8	–	–
General and administrative expenses	−41	−37	−21	−15	−17
Net miscellaneous income/expenses	–	–	1	1	–
Profit or loss before tax	−5	−36	−1	−8	7

[1] Adjusted in accordance with IFRS 8.29

Consolidation & Adjustments			2013[1]		2014
in € million	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter
Operating performance					
Operating income	3	7	4	3	2
Net interest and similar income	3	5	5	4	2
Net fee and commission income	–1	–	–	–	–
Net trading income	–	–	–	–	–
Net income from financial investments	–	–	–	–	–
Net income from hedging relationships	–	–	–	–	–
Net other operating income/expenses	1	2	–1	–1	–
Loan loss provisions	–	–	–	–	–
General and administrative expenses	–	–	–	–	–
Net miscellaneous income/expenses	–	–	–	–	–
Profit or loss before tax	3	7	4	3	2

[1] Adjusted in accordance with IFRS 8.29

102 Financial Calendar
102 Future-oriented Statements
102 Internet Service
103 Imprint

Additional Information

Financial Calendar
Future-oriented Statements
Internet Service

Financial calendar	
14 August 2014	Results for the second quarter of 2014/Interim Report H1 2014
14 November 2014	Results for the third quarter of 2014

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.

Internet-Service

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