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

Supplement pursuant to article 16 para. 1 of the German Securities Prospectus Act
dated 20 August 2013

to the base prospectus dated
7 May 2013
relating to

Deutsche Pfandbriefbank AG

Munich, Federal Republic of Germany

as Issuer

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

This supplement (the "First Supplement") to the base prospectus dated 7 May 2013 is prepared in connection with the Euro 50,000,000,000 Debt Issuance Programme (the "Programme") of Deutsche Pfandbriefbank AG (the "Issuer") and is supplemental to, and should be read in conjunction with, the base prospectus dated 7 May 2013 (the "Original Base Prospectus") in respect of the Programme. Unless otherwise stated or the context otherwise requires, terms defined in the Original Base Prospectus shall have the same meaning when used in the First Supplement. As used herein, the term "Base Prospectus" means the Original Base Prospectus as supplemented by the First Supplement.

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

The First Supplement has been approved by the *Bundesanstalt für Finanzdienstleistungsaufsicht* of the Federal Republic of Germany in its capacity as competent authority (the "Competent Authority") under the German Securities Prospectus Act (*Wertpapierprospektgesetz*) which implements Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003, as lastly amended by Directive 2010/73/EU and Directive 2010/78/EU of the European Parliament and of the Council of 24 November 2010. Please note that the approval of the Base Prospectus by the Competent Authority is based on the scrutiny of the completeness of the Base Prospectus including the consistency and the comprehensibility only. Application has been made to the Competent Authority to provide the *Commission de Surveillance du Secteur Financier* (the "CSSF") of the Grand Duchy of Luxembourg, the *Autoriteit Financiële Markten* of the Netherlands, the *Financial Services Authority* of the United Kingdom, the *Irish Financial Services Regulatory Authority* of Ireland, the *Finanzmarktaufsicht* of Austria, the *Kredittilsynet / Oslo Børs* of Norway and the *Commissione Nazionale per le Società e la Borsa* of Italy with a certificate of approval attesting that the First Supplement has been drawn up in accordance with the German Securities Prospectus Act and with a copy of the First Supplement.

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

This First Supplement has been prepared following the publication of the consolidated interim financial statements of the Issuer for the first six months of the financial year 2013 on 13 August 2013.

OVERALL AMENDMENTS

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

I. SUPPLEMENTAL INFORMATION RELATING TO THE TABLE OF CONTENTS

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

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

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

"

B.12	Selected historical key financial information regarding the Issuer, statement regarding trend information and significant changes in the financial or trading position of the Issuer	The following table sets forth selected financial information of Deutsche Pfandbriefbank extracted from the audited consolidated financial statements for the financial years ended 31 December 2011 and 2012:

		2012	**2011**
Operating performance according to IFRS			
Pre-tax profit/loss	In Euro million	124	188
Net income/loss	in Euro million	69	117
Balance sheet figures		**31.12.2012[1)]**	**31.12.2011**
Total assets	in Euro billion	approx. 97.1	approx. 108.8
Equity (excluding revaluation reserve)	in Euro billion	3.2	3.2
Equity	in Euro billion	approx. 3.3	approx. 3.1

1) Adjustment due to the retrospective IAS 19 (revised) first time adoption.

The following table sets forth selected financial information of Deutsche Pfandbriefbank extracted from the consolidated Interim Financial Information First Half 2013:

		First Half 2013	**First Half 2012**
Operating performance according to IFRS			
Pre-tax profit/loss	In Euro million	60	51
Net income/loss	in Euro million	41	35
Balance sheet figures		**30.06.2013**	**31.12.2012[1)]**
Total assets	in Euro billion	approx. 83.8	approx. 97.1
Equity (excluding revaluation reserve)	in Euro billion	3.3	3.2
Equity	in Euro billion	approx. 3.3	approx. 3.3

1) Adjustment due to the retrospective IAS 19 (revised) first time adoption.

There has been no material adverse change in the prospects of the Issuer since the date of its last published audited financial statements (31 December 2012).

Following the approval of the European Commission of the state aid provided to Hypo Real Estate Group, the business model of the Issuer has been reviewed by the Stabilisation Fund (*Sonderfonds Finanzmarktstabilisierung* – the "SoFFin"), the German Financial Markets Stabilization Agency (*Bundesanstalt für Finanzmarktstabilisierung*) and the German Ministry of Finance (*Bundesfinanzministerium*). As at the date of the First Supplement, the Issuer has no reason to believe that after possible further reviews these stakeholders disapprove, or further restrict, the Issuer's business model as defined by the European Commission.

There has been no significant change in the financial position of the Issuer and its consolidated subsidiaries since the end of the last financial period for which interim financial information has been published (30 June 2013).

"

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

On page 18 et seq. the information in "Abschnitt B – Emittent" under "Element B.12 – Ausgewählte wesentliche historische Finanzinformationen über den Emittenten, Erklärung zu Trendinformationen sowie wesentliche Veränderungen der Finanzlage oder Handelsposition des Emittenten ", shall be deleted and replaced by the following information:

"

<table>
<tr>
<td>B.12</td>
<td>Ausgewählte wesentliche historische Finanzinformationen über den Emittenten, Erklärung zu Trendinformationen sowie wesentliche Veränderungen der Finanzlage oder Handelsposition des Emittenten</td>
<td>
Die folgende Tabelle enthält ausgewählte Finanzinformationen zur Deutsche Pfandbriefbank aus dem geprüften konsolidierten Jahresabschluss für die zum 31. Dezember 2011 und 2012 beendeten Geschäftsjahre:
<table>
<tr><td></td><td></td><td>2012</td><td>2011</td></tr>
<tr><td>Ergebniszahlen gemäß IFRS</td><td></td><td></td><td></td></tr>
<tr><td>Ergebnis vor Steuern</td><td>in Mio. Euro</td><td>124</td><td>188</td></tr>
<tr><td>Ergebnis nach Steuern</td><td>in Mio. Euro</td><td>69</td><td>117</td></tr>
<tr><td>Bilanzzahlen</td><td></td><td>31.12.2012[1)]</td><td>31.12.2011</td></tr>
<tr><td>Bilanzsumme</td><td>in Mrd. Euro</td><td>ca. 97,1</td><td>ca. 108,8</td></tr>
<tr><td>Bilanzielles Eigenkapital
(ohne Neubewertungsrücklage)</td><td>in Mrd. Euro</td><td>3,2</td><td>3,2</td></tr>
<tr><td>Bilanzielles Eigenkapital</td><td>in Mrd. Euro</td><td>ca. 3,3</td><td>ca. 3,1</td></tr>
</table>
1) Anpassungen aufgrund der rückwirkenden Erstanwendung der geänderten IAS 19.

Die folgende Tabelle enthält ausgewählte Finanzinformationen zur Deutsche Pfandbriefbank, welche dem ungeprüften Konzernzwischenabschluss entnommen wurden:
<table>
<tr><td></td><td></td><td>Erstes Halbjahr 2013</td><td>Erstes Halbjahr 2012</td></tr>
<tr><td>Ergebniszahlen gemäß IFRS</td><td></td><td></td><td></td></tr>
<tr><td>Ergebnis vor Steuern</td><td>in Mio. Euro</td><td>60</td><td>51</td></tr>
<tr><td>Ergebnis nach Steuern</td><td>in Mio. Euro</td><td>41</td><td>35</td></tr>
<tr><td>Bilanzzahlen</td><td></td><td>30.06.2013</td><td>31.12.2012[1)]</td></tr>
<tr><td>Bilanzsumme</td><td>in Mrd. Euro</td><td>ca. 83,8</td><td>ca. 97,1</td></tr>
<tr><td>Bilanzielles Eigenkapital
(ohne Neubewertungsrücklage)</td><td>in Mrd. Euro</td><td>3,3</td><td>3,2</td></tr>
<tr><td>Bilanzielles Eigenkapital</td><td>in Mrd. Euro</td><td>ca. 3,3</td><td>ca. 3,3</td></tr>
</table>
1) Anpassungen aufgrund der rückwirkenden Erstanwendung der geänderten IAS 19.

Seit dem Datum der Veröffentlichung des letzten geprüften Jahresabschlusses (31. Dezember 2012) hat es keine wesentlichen negativen Veränderungen in den Aussichten der Emittentin gegeben.

Nach der Genehmigung der an die Hypo Real Estate Group gewährten Beihilfen durch die Europäische Kommission, wurde das Geschäftsmodell der Emittentin einer Überprüfung durch den SoFFin, die Bundesanstalt für Finanzmarktstabilisierung und das Bundesfinanzministerium unterzogen. Zum Datum des Ersten Nachtrags gibt es aus Sicht der Emittentin keine Gründe, dass, nach etwaigen weiteren Überprüfungen, diese Entscheidungsträger das Geschäftsmodell der Emittentin, welches von der Europäischen Kommission vorgegeben wurde, ablehnen oder weiter beschränken.

Seit dem Ende des Stichtags, für den Zwischenfinanzinformationen veröffentlicht wurden (30. Juni 2013), hat es keine wesentlichen Veränderungen in der Finanzlage der Emittentin und ihrer konsolidierten Tochtergesellschaften gegeben.
</td>
</tr>
</table>

"

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

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

On page 44 of the Original Base Prospectus, the second paragraph shall be deleted and replaced as follows:

"Following the approval of the European Commission of the state aid provided to Hypo Real Estate Group, the business model of the Issuer has been reviewed by the Stabilisation Fund (*Sonderfonds Finanzmarktstabilisierung* – the "SoFFin"), the German Financial Markets Stabilization Agency (*Bundesanstalt für Finanzmarktstabilisierung*) and the German Ministry of Finance (*Bundesfinanzministerium*). As at the date of the First Supplement, the Issuer has no reason to believe that after possible further reviews these stakeholders disapprove, or further restrict, the Issuer's business model as defined by the European Commission."

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

On page 48 of the Original Base Prospectus, the information contained in the Subsection "Interim and other Financial Information" shall be deleted and replaced as follows:

"As of 30 June 2013, the Issuer has published consolidated interim financial statements including the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity (condensed), the statement of cash flows (condensed), the notes (condensed) and the review report (the "Deutsche Pfandbriefbank Consolidated Interim Financial Information First Half 2013"). The Deutsche Pfandbriefbank Consolidated Interim Financial Information First Half 2013 is included in Appendix III to the Base Prospectus (pages H-1 to H-39). The Deutsche Pfandbriefbank Consolidated Interim Financial Information First Half 2013 has been prepared on the basis of IFRS.

The Deutsche Pfandbriefbank Consolidated Interim Financial Information First Half 2013 is unaudited and has been subject to a review by the statutory auditors (*prüferische Durchsicht*) only. The statutory auditors of the Issuer have issued a review report (*Bescheinigung nach prüferischer Durchsicht*)."

On page 48 of the Original Base Prospectus, the information contained in the Subsection "Significant Change in Issuer's Financial Position" shall be deleted and replaced as follows:

"There has been no significant change in the financial position of the Issuer since the end of the last financial period for which interim financial information has been published (30 June 2013)."

V. SUPPLEMENTAL INFORMATION RELATING TO THE APPENDICES

After page G-71 of the Original Base Prospectus the Deutsche Pfandbriefbank Consolidated Interim Financial Information First Half 2013 as laid out on the following pages H-1 to H-39 is newly inserted as H-pages into the Original Base Prospectus.

Appendix III

Deutsche Pfandbriefbank
Consolidated Interim Financial Statements First Half 2013

Consolidated Interim Financial Statements
Consolidated Income Statement

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

Consolidated Statement of Comprehensive Income

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

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

Consolidated Statement of Financial Position

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

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

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

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

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

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

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

1 Principles

pbb Group has prepared the condensed consolidated interim financial statements for the period ended 30 June 2013 in line with EC ordinance No. 1606/2002 of the European Parliament and Council of 19 July 2002 in accordance with International Financial Reporting Standards (IFRS). The condensed consolidated interim financial statements are based on the IFRS rules, which have been adopted in European Law by the EU commission as part of the endorsement process; it is also based on the regulations of commercial law which are applicable in accordance with section 315 a (1) HGB (German Commercial Code). In particular, requirements of IAS 34 were considered. The consolidated financial review 2012 met the requirements of DRS 20 on a voluntary basis already. Hence, DRS 16 (2012) was initially adopted preparing the consolidated review of pbb Group for the reporting period.

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

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

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

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

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

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

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

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

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

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

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

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

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

2 Consolidation

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

3 Transfer of Positions to FMS Wertmanagement

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

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

4 Notes to Segment Reporting by Operating Segment

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

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

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

Public Sector Finance (PSF) The operating segment Public Sector Finance comprises the financing arrangements for the public sector which are eligible as cover funds in accordance with German law. pbb Group will generate new business in public investment finance. No new business will be realised by pbb Group in public sector finance as pure budget financing. Concentrating on public investment finance is the aim. The target group for these activities are profitable customer segments with a commensurate risk level: regions, cities and municipalities as well as state-guaranteed public corporations and guaranteed public-private partnerships.

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

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

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

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

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

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

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

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

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

6 Breakdown of Operating Revenues

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

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

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

Notes to the Consolidated Income Statement

7 Net Interest Income and Similar Income

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

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

8 Net Commission Income

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

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

9 Net Trading Income

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

10 Net Income from Financial Investments

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

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

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

11 Net Income from Hedge Relationships

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

12 Balance of Other Operating Income/Expenses

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

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

13 Provisions for Losses on Loans and Advances

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

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

14 General Administrative Expenses

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

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

15 Balance of Other Income/Expenses

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

16 Taxes on Income

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

17 Net Gains/Net Losses

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

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

Notes to the Consolidated Statement of Financial Position

18 Trading Assets

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

19 Loans and Advances to Other Banks

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

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

20 Loans and Advances to Customers

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

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

21 Allowances for Losses on Loans and Advances

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

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

22 Financial Investments

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

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

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

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

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

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

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

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

23 Other Assets

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

24 Income Tax Assets

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

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

25 Liabilities to Other Banks

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

26 Liabilities to Customers

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

27 Liabilities Evidenced by Certificates

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

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

28 Trading Liabilities

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

29 Provisions

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

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

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

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

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

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

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

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

30 Other Liabilities

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

31 Income Tax Liabilities

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

32 Subordinated Capital

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

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

Notes to the Financial Instruments

33 Fair Values of Financial Instruments

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

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

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

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

Fair Value Hierarchy All financial assets and liabilities that are measured at fair value are grouped into the three fair value hierarchies by pbb Group. The three-level hierarchy is based on the degree to which the input for the fair value measurement is observable:

- Level 1 – quoted priced (unadjusted) in active markets for identical financial assets or financial liabilities.
- Level 2 – inputs that are observable either directly or indirectly, other than quoted prices included within Level 1.
- Level 3 – valuation techniques that include inputs that are not based on observable market data (unobservable inputs).

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

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

[1] Excluding shares in non-consolidated subsidiaries

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

[1] Excluding shares in non-consolidated subsidiaries

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

Disclosures to the Measurement Methods and Input Parameters

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

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

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

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

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

Changes in Level 3 Financial Assets and Financial Liabilities

Changes in level 3 financial assets in € million	Trading assets	Financial assets at fair value through profit or loss Fair value hedge derivatives	Financial assets at fair value not affecting profit or loss Cash flow hedge derivatives	Total
Balance at 1.1.2012	**–**	**49**	**2**	**51**
Comprehensive income				
Income statement	–	30	–	30
Revaluation reserve	–	–	2	2
Purchases	1	–	–	1
Sales	–	–2	–	–2
Changes due to transfer to FMS Wertmanagement	–	–	–	–
Issues	–	–	–	–
Settlements	–	–	–	–
Reclassification into Level 3	–	1	–	1
Reclassification out of Level 3	–	–	–	–
Balance at 31.12.2012	**1**	**78**	**4**	**83**
Balance at 1.1.2013	**1**	**78**	**4**	**83**
Comprehensive income				
Income statement	–	–8	–	–8
Revaluation reserve	–	–	–	–
Purchases	–	–	–	–
Sales	–	–	–	–
Changes due to transfer to FMS Wertmanagement	–	–	–	–
Issues	–	–	–	–
Settlements	–	–	–	–
Reclassification into Level 3	–	–	–	–
Reclassification out of Level 3	–	–	–	–
Balance at 30.6.2013	**1**	**70**	**4**	**75**

Changes in level 3 financial liabilities	Financial liabilities at fair value through profit or loss		Financial liabilities at fair value not affecting profit or loss	
in € million	Trading liabilities	Fair value hedge derivatives	Cash flow hedge derivatives	**Total**
Balance at 1.1.2012	**–1**	**–18**	**–**	**–19**
Comprehensive income				
Income statement	–	9	–	9
Revaluation reserve	–	–	–	–
Purchases	–	7	–	7
Sales	–1	–	–	–1
Issues	–	–	–	–
Settlements	–	–	–	–
Reclassification into Level 3	–	–	–	–
Reclassification out of Level 3	–	–	–	–
Balance at 31.12.2012	**–2**	**–2**	**–**	**–4**
Balance at 1.1.2013	**–2**	**–2**	**–**	**–4**
Comprehensive income				
Income statement	–	–	–	–
Revaluation reserve	–	–	–	–
Purchases	–	–	–	–
Sales	–	2	–	2
Issues	–	–	–	–
Settlements	–	–	–	–
Reclassification into Level 3	–	–	–	–
Reclassification out of Level 3	–	–	–	–
Balance at 30.6.2013	**–2**	**–**	**–**	**–2**

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

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

34 Assets and Liabilities According to Measurement Categories and Classes

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

35 Exposure to Selected European Countries

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

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

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

The exposure to selected countries shown in the table contains loans and advances and securities. In addition, it shows interest rate derivatives to sovereign and sub-sovereign counterparties. The interest rate derivatives are netted with collaterals. Time lags in providing the collaterals and haircuts are not taken into account. State-guaranteed exposure contains for example loans and advances to banks and corporations which are guaranteed by sovereigns or sub-sovereigns. As of 30 June 2013 and as of 31 December 2012 pbb Group did not have any credit default swaps whose underlyings are linked to sovereigns, sub-sovereigns and state-guaranteed exposures of the countries shown above.

For financial assets which are measured at fair value affecting income changes in value are directly included in the book value. pbb Group tests financial assets which are not measured at fair value affecting income for impairments. Allowances for loans and advance or impairments for securities are created if there is objective evidence that it will not be possible for the entire amount which is due according with the original contractual conditions to be recovered. As per 30 June 2013 and as of 31 December 2012 there was no such objective evidence.

36 Past Due but Not Impaired Assets

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

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

Other Notes

37 Contingent Liabilities and Other Commitments

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

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

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

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

Due to a requirement in line with the principle of burden sharing required by the EU Commission, profits will be retained at pbb Group until reprivatisation, and will be used for repaying the dormant contribution of the Federal Republic of Germany.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

39 Relationship with Related Parties

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

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

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

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

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

40 Employees

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

Munich, 6 August 2013

Deutsche Pfandbriefbank Aktiengesellschaft
The Management Board

Manuela Better

Wolfgang Groth

Dr. Bernhard Scholz

Alexander von Uslar

Review Report

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

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

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

Munich, 7 August 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft
[original German version signed by:]

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

Signatories on behalf of Deutsche Pfandbriefbank AG

Eschborn, as of 20 August 2013

signed by Götz Michl Head of Funding	signed by Martina Horn Legal Counsel