Prospectus
for the public offering

of

100,990,956 existing ordinary bearer shares with no par value (*Stückaktien*)
from the holdings of the Selling Shareholder

and of

6,589,289 existing ordinary bearer shares with no par value (*Stückaktien*)
from the holdings of the Selling Shareholder, to cover a potential over-allotment

and at the same time

for the admission to trading on the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange

of

134,475,308 ordinary bearer shares with no par value (*Stückaktien*) (existing share capital)
each such share with a notional par value of €2.83 in the share capital
and with full dividend rights as from January 1, 2015

of

Deutsche Pfandbriefbank AG
Munich

Price Range: €10.75 - €12.75

International Securities Identification Number (ISIN): DE0008019001
German Securities Code (*Wertpapier-Kenn-Nummer*) (WKN): 801 900

Common Code: 001118463

Trading Symbol: PBB

Joint Global Coordinators and Joint Bookrunners

Citigroup **Deutsche Bank**

Joint Bookrunners

J.P. Morgan **Berenberg** **COMMERZBANK**

The date of this prospectus is July 7, 2015

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1 SUMMARY OF THE PROSPECTUS

Summaries are made up of disclosure requirements known as 'Elements'. These Elements are numbered in Sections A – E (A.1 – E.7). This summary contains all the Elements required to be included in a summary for this type of security and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the summary because of the type of security and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention "not applicable".

1.1 Section A – Introduction and Warnings

A.1	**Warnings.**	This summary should be read as an introduction to this prospectus (the "**Prospectus**"). Any decision to invest in the shares of Deutsche Pfandbriefbank AG, Munich, Germany, should be based on consideration of the Prospectus as a whole by the investor. Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States of the European Economic Area, have to bear the costs of translating the Prospectus before the legal proceedings are initiated. Those persons who are responsible for the summary, including the translation thereof, or for the issuing (*Erlass*), can be held liable but only if this summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or if it does not provide, when read together with the other parts of the Prospectus, all necessary key information. Deutsche Pfandbriefbank AG, Munich, Germany (hereinafter also "**pbb AG**" or the "**Company**" and, together with its direct and indirect subsidiaries, the "**pbb Group**", the "**Group**" or "**pbb**"), together with Citigroup Global Markets Limited, London, United Kingdom ("**Citigroup**") and Deutsche Bank Aktiengesellschaft, Frankfurt am Main, Germany ("**Deutsche Bank**" and, together with Citigroup, the "**Joint Global Coordinators**"), J.P. Morgan Securities plc, London, United Kingdom ("**J.P. Morgan**"), Joh. Berenberg, Gossler & Co. KG, Hamburg, Germany ("**Berenberg**") and COMMERZBANK Aktiengesellschaft, Frankfurt am Main, Germany ("**Commerzbank**", together with J.P. Morgan, Berenberg and the Joint Global Coordinators, the "**Joint Bookrunners**" and the "**Underwriters**") assume responsibility for this summary including its German translation pursuant to Section 5(2b) No. 4 German Securities Prospectus Act (*Wertpapierprospektgesetz*).
A.2	**Consent regarding subsequent use of the Prospectus.**	Not applicable. Consent of the Company regarding the use of the Prospectus for a subsequent resale or final placement of securities by financial intermediaries has not been granted.

1.2 Section B – The Issuer

B.1	**Legal and commercial name.**	As of the date of the Prospectus, the Company's legal name is Deutsche Pfandbriefbank AG. The Company's commercial name is "pbb Deutsche Pfandbriefbank" or "pbb".
B.2	**Domicile, legal form, legislation, country of incorporation.**	The Company has its registered seat in Munich, Germany, and is registered with the commercial register maintained by the local court (*Amtsgericht*) of Munich under HRB 41054. Its business address is located at Freisinger Str. 5, 85716 Unterschleißheim, Germany. The Company is a German stock corporation incorporated in Germany and governed by German law.

B.3	**Description of, and key factors relating to, the nature of the issuer's current operations and principal activities, stating the main categories of products sold and/ or services performed and identification of the principal markets in which the issuer competes.**	**Business Overview** pbb Group's core business is commercial real estate finance ("**REF**"), and public investment finance ("**PIF**"), where it funds public sector investments such as infrastructure projects and provides government-backed export finance. pbb Group believes it is one of the leading specialist banks in Europe for REF and PIF with a strong local presence and expertise across the entire financing process in these segments in its core European markets Germany, the United Kingdom and France. pbb Group is also active in the Nordic countries (particularly Sweden), in selected countries in Central and Eastern Europe (particularly Poland, the Czech Republic, Slovakia and Hungary), Spain, the Benelux and other European countries. pbb Group will carefully evaluate re-establishing a market presence outside of the markets where it operates at the date of the Prospectus. In its REF segment, pbb Group concentrates generally on medium to large financing transactions of €10 million to €120 million per ticket (final hold (i.e. the tranche of the loan pbb Group holds on its own books)), and in select cases also with higher transaction sizes, for professional real estate investors, with a focus on office, retail/shopping, residential, logistics/warehousing and hotel properties. According to its own assessment, data and information from the Association of German Pfandbrief Banks (*Verband deutscher Pfandbriefbanken*, "**VdP**") ("**VdP Information**") and public company reports of competitors, pbb Group was the third largest REF lender in Germany and among the most active REF lenders in Europe in 2013 and 2014, in each case measured by new business volume. In its PIF segment, pbb Group finances public sector investments in areas such as facilities for municipalities, infrastructure projects and government-backed export. In both segments, pbb Group provides finance either as a sole lender or together with financing partners including other banks (in syndications), insurers and private equity investors. pbb Group also sells derivatives to hedge market risks (mainly interest rate risks and less frequently conversion risks) in conjunction with its lending activities. In addition to its REF- and PIF-related activities, pbb Group has a non-strategic value portfolio ("**Value Portfolio**" or "**VP**"), which mainly includes certain public budget finance assets (i.e. general budget finance, which are non-investment based financings mainly in the form of bonds and promissory notes), as well as certain real estate and public finance assets (including Italian assets that were transferred from its PIF portfolio as of January 1, 2015 following the closure of the Rome branch). The VP has been in run-down for several years. pbb Group also has a consolidation and adjustments segment ("**C&A**") which primarily consists of treasury activities and pbb Group's equity investments. pbb Group's lending activities are primarily refinanced through the Pfandbrief market, supplemented by senior unsecured securities, retail deposits, money market instruments as well as subordinated and hybrid capital instruments, among others. pbb Group aims to match the maturities of its funding instruments with the financing granted within its lending activities. In recent financial years, pbb Group's REF business has generated stable returns, and pbb Group expects a positive profit contribution from its REF and PIF business lines in the future. pbb Group plans to structurally improve its profitability in the short to medium term by reallocating capital released through the run-down of its VP segment to business in its strategic REF and PIF segments. pbb Group pursues a conservative and integrated risk management approach tailored to its REF, PIF, VP and C&A segments. Since the financial crisis, and following a significant portfolio transfer to FMS Wertmanagement, a special public-law liquidation agency (*Abwicklungsanstalt*) ("**FMS-WM**"),

pbb Group has considerably reduced its legacy assets. pbb Group (as part of the group headed by Hypo Real Estate Holding AG, Munich (also "**HRE Holding**" or the "**Selling Shareholder**"; HRE Holding together with its subsidiaries and affiliates, but excluding pbb Group, the "**HRE Group**", and including pbb Group the "**Entire HRE Group**")) successfully passed the latest asset quality review ("**AQR**") and stress tests of the European Central Bank ("**ECB**") carried out on the level, and in consideration of (additional) capital positions, of HRE Holding and the Entire HRE Group.

As of March 31, 2015, pbb Group had 842 employees operating in ten locations in six countries (Germany, the United Kingdom, France, Spain, Sweden and Japan), the vast majority of which were located in Germany.

Competitive Strengths

pbb Group believes that its business is characterized by the following competitive strengths:

- A leading specialist in European REF and PIF with a stable and sustainable business model

  pbb Group pursues a profitable, stable and sustainable business model based on a two-segment strategy with its REF and PIF activities. The two business lines complement each other as they enable the efficient use of regulatory and economic capital (concerning Common Equity Tier 1 ("**CET 1**") and leverage considerations). The two segment strategy also diversifies pbb Group's earnings, while enabling pbb Group to benefit from economies of scale and economies of scope.

  Measured by new business volume in 2013 and 2014 (based on commitments), pbb Group was among the most active REF and PIF lenders in Germany and Europe (according to its own assessment). pbb Group believes it is one of the few finance providers in Europe with experience in both REF and PIF, and a strong European origination platform with presence and expertise in European core and other strategic markets.

- Strong European presence, local know-how and broad in-house expertise across the entire financing process

  pbb Group considers itself to be one of the few European finance providers with know-how, experience and client relationship in both REF and PIF areas. It sees its particular competitive strengths in its broad asset class coverage, structuring competency, project know-how and distribution capacity leveraging its strong European origination platform with product and sectorial expertise in its strategic European markets.

  With a significant "on-the-ground" presence through its nine offices across Europe with highly experienced and skilled teams, pbb Group has in-depth local expertise in its strategic markets where it operates its REF and PIF business. The in-house expertise also means pbb Group can provide tailored solutions for complex, high-value and multi-jurisdictional transactions.

- Track-record of generating profitable new business thereby increasing overall group profitability

  pbb Group has a track-record of generating profits in its REF and PIF business lines. Its average gross margins in new REF business were in a range of >225 basis points per year in 2012 and >200 basis points per year in 2014. Its new PIF business achieved average gross margins in a range of >140 and >75 basis points per year during the same period. The adjusted return on equity ("**RoE**") before taxes (based on average monthly IFRS equity excluding revaluation reserve, excluding the silent

participation with a nominal value of €1.0 billion (the "**SoFFin Silent Participation**") held by the German Financial Market Stabilization Fund (*Finanzmarktstabilisierungsfonds*) ("**FMS**" or also "**SoFFin**")) amounted to 55.8% in the first quarter of the financial year 2015, 20.0% in the financial year 2014 and 40.0% in the financial year 2013 (including one-off effects resulting from the sale of a restructured property) in pbb Group's REF business and 13.7% in the first quarter of the financial year 2015 and 1.2% in the financial year 2014 (<0% in the financial year 2013) in pbb Group's PIF business.

pbb Group's run-down of the VP is expected to have a positive impact on pbb Group's gross margins. The VP's rundown relieves capital, which can be used for the potential origination of assets in the higher-margin REF and PIF segments without requiring additional regulatory capital.

- Front-to-back integrated risk management and conservative underwriting framework leading to sustained strong asset quality

  Close client relationship, early senior management involvement in the entire underwriting process and diligent portfolio management provide pbb Group with an efficient risk management framework.

  pbb Group has a highly selective underwriting process and framework based on a tight review of internal expected loss class ratings, collateral assessments, conservative loan to value ("**LTV**") ratios in the REF segment and diversified assets. This is supported by a "state-of-the-art" IT infrastructure, which enables the analysis of existing exposures and the pricing of risk through in-house information sharing. pbb Group's Property Analysis and Valuation ("**PAV**") division is directly involved in the underwriting process, delivers guidance on property-related risk and manages the property valuation process. This approach has led to a strong asset quality.

  pbb Group (as part of the Entire HRE Group) has demonstrated its resilience and good asset quality in the ECB's AQR and stress tests in 2014 with capital ratios satisfying those required in 2016.

- Adequate liquidity buffers and stable, diversified funding base with the Pfandbrief as the major funding instrument

  pbb Group maintains a conservative balance sheet with a diversified funding profile. The Pfandbrief, pbb Group's primary funding instrument, is a relatively inexpensive source of funding with low spreads. pbb Group has a well-established presence in the capital markets as the largest Pfandbrief issuer in Germany as of March 31, 2015 based on outstanding volume (source: VdP Information). The funding through Pfandbriefe is supplemented with senior unsecured securities, retail deposits, money market instruments as well as subordinated and hybrid capital instruments, among others.

  As of March 31, 2015, pbb Group had liquidity buffers with a liquidity coverage ratio ("**LCR**") of over 200% (over 150% when excluding SoFFin Silent Participation) and a net stable funding ratio ("**NSFR**") of over 100% (in both cases, based on the currently applicable Capital Requirements Regulation ("**CRR**") rules).

Strategy

The key strategic objectives for pbb Group are:

- Specialist provider of structured finance for commercial real estate and public investments with a clear focus

  pbb Group will continue to concentrate on professional national and international real estate investors as well as public and publicly-backed clients and public private partnerships ("**PPP**"). Its core products will

remain Pfandbrief-eligible investment finance, low risk development finance and Export Credit Agency (ECA) guaranteed export finance with a ticket size of €10 million to €120 million. In select cases, the Company underwrites financings also with higher ticket sizes. pbb Group will also continue to concentrate on financing office, retail/shopping, residential and logistics/warehousing assets with a conservative LTV in its REF business and on infrastructure, municipal facilities, health and elderly care, and utility assets in its PIF business.

- Capitalize on strong foothold in its core and other strategic European markets, particularly Germany

  pbb Group intends to remain focused on its core and other strategic European markets. It has recently established new offices in Berlin, Düsseldorf, Hamburg and Stockholm and hired further originators and underwriters in Germany, the United Kingdom and France. The sales offices also host dedicated local sales, credit, legal, market and property experts. This will enable pbb Group to leverage its origination capabilities and local market knowledge to effectively compete in its core markets. At the same time, pbb Group will carefully evaluate re-establishing a market presence outside of the markets where it operates at the date of the Prospectus.

- Increase overall group profitability

  pbb Group will continue to concentrate on the bottom-line and attractive profitable new business, instead of pursuing market share driven credit underwriting. Its underwriting process will remain highly selective with a stringent review and asset analysis and a strict focus on profit hurdle rates.

  pbb Group aims to use capital relieved from the run-down of the low-yielding VP and invest it in higher-yielding new REF and PIF business, thereby improving the overall portfolio's gross margins. pbb Group will explore possibilities to accelerate the VP run-down before contractual asset maturities.

  pbb Group intends to further improve its profitability by optimizing its sales productivity and improving its cost income ratio ("**CIR**") after the successful completion of its operational restructuring, targeting a mid-term CIR of <45% (from 57% for the financial year 2014, adjusted for €120 million effects from value adjustments on the HETA Asset Resolution AG ("**HETA**") exposure).

  As a result, pbb Group is targeting high single-digit post-tax RoE on a group level in the medium term.

- Maintain diversified refinancing strategy centered on the Pfandbrief and well-matched asset liability management profile

  By offering high security to creditors, the Pfandbrief attracts a liquid investor base providing favorable refinancing conditions to pbb Group; the Pfandbrief will remain pbb Group's instrument of choice for the majority of its funding needs. In addition, senior unsecured securities, retail deposits, money market instruments as well as subordinated and hybrid capital instruments, among others, will be used to complement the Pfandbrief. pbb Group aims to maintain its funding flexibility and diversification with a retail deposit base focusing on term deposits.

  When raising funds, pbb Group pursues a well matched asset liability management ("**ALM**") profile.

- Aim for sustainable regular dividend payments

  pbb Group aims to leverage its strong earnings generation, adequate capitalization well above regulatory requirements and reserves

distributable pursuant to German GAAP as a basis for steady and constant dividend payments as capital position, returns, reserves and regulatory requirements permit. Subject to regulatory changes and restrictions, pbb Group is targeting a mid-term CET 1 ratio (fully loaded, i.e. calculated on the basis of the rules applicable upon the expiry of the grandfathering under the transitional rules of the CRR) of more than 12.5%, a Tier 1 capital ratio (fully loaded) of more than 16%, a total capital ratio (fully loaded) of between 16 and 18%, and a leverage ratio (fully loaded) of more than 3.5% to support these dividend payments. pbb Group intends to supplement the regular dividends with special dividends when excess capital (e.g. from the run-down of the VP) cannot be attractively deployed.

Following the re-privatization (including the repayment of the SoFFin Silent Participation), the corresponding restrictions under the EU state aid decision (C 15/09 (ex N 196/2009) dated July 18, 2011, published in the Official Journal of the European Union on March 1, 2012 ("**EU State Aid Decision**")) preventing pbb Group from paying dividends will cease to apply.

B.4a **Description of the most significant recent trends affecting the issuer and the industries in which it operates.**

Developments in the Commercial Real Estate Market

In its REF segment, pbb Group targets medium to large financing transactions of €10 to €120 million, and in select cases also with higher transaction sizes, for professional real estate investors with a focus on office, retail, residential, multi-family, logistics and hotel properties. Its key markets are Germany, the United Kingdom, France, the Nordic region (in particular Sweden and Finland) and selected other countries in Central and Eastern Europe. pbb Group's financial results and business development therefore depend on the German and the broader European real estate markets. On a macroeconomic level, these markets are influenced significantly by the global economy. Since the global financial crisis in 2008/2009, the investment volume in real estate has increased annually. This increase was due to, among other things, the low interest rates, which have remained at historic lows for several years. In the Eurozone, the ECB reduced the relevant interest rate for main refinancing operations in various steps as set forth below from 1.00% *per annum* as from December 14, 2011 to a record low of 0.05% *per annum* as from September 4, 2014.

Since 2012, demand for high-quality properties in central locations in Central and Northern European countries outpaced the supply, which significantly increased purchase prices. In Germany, the investments in retail property reached €3.756 billion in the three-month period ended March 31, 2015, the highest quarterly value for the last three years (source: "Investment Market Update Germany, Q1 2015" by DTZ Research). In France, the investment volume increased significantly, up 7% over one year and well above the 10-year average of €4.2 billion per calendar quarter and the share in the Ile-de-France region (including the metropolitan area of Paris) amounted to approximately 83% of the French transaction volume of €4.6 billion in the first calendar quarter of 2015 (source: "Investment in France, Q1 2015" by BNP Real Estate). In the United Kingdom, the demand for property also developed positively and supply of high-quality properties and in central locations has become scarce. In Spain, which had to deal with a significant economic slowdown in 2013, investments in commercial property increased significantly in the course of 2014 (source: "European Real Estate Lending Market, February 2015" by Cushman & Wakefield) and continued in the three-month period ended March 31, 2015. While yields in Spain are now frequently aggressive, growth potential is favorable given supply shortages in some areas and the seeming success of the reform program, which will benefit all sectors. Transaction volumes consequently increased since 2012.

While investors have previously preferred real estate in the top segment ('core real estate') (i.e. prime real estate and location, highly marketable and excellent tenant quality), the investment volume in non-core assets and second-tier locations has recently increased (source: "Global Capital Markets Research, Q4 2014" by JLL). According to the Company's own assessment, this shift could be observed since the second half year of 2013 with this trend continuing in 2014 and the three-month period ended March 31, 2015. The demand for property had a positive effect on the business of financing banks and non-bank investors. Against this backdrop, pbb Group increased its new business volume in the REF segment from €4.9 billion in the financial year 2012 to €7.0 billion in the financial year 2013 and to €9.0 billion in the financial year 2014. The new business volume in the REF segment for the three-month period ended March 31, 2015 amounted to €2.7 billion (three-month period ended March 31, 2014: €1.3 billion). These new business volumes have been determined in relation to the relevant period on the basis of commitments and include extensions with maturities of more than one year.

Developments in the Public Investment Finance Market

In its PIF segment, pbb Group finances public sector investments such as infrastructures, public housing, utilities and waste disposal, health care and nursing care properties, as well as child care and educational facilities and ECA guaranteed export finance transactions. pbb Group is therefore dependent on the development in the public investment finance market. Its key markets are Germany, France, the United Kingdom, Spain, Finland and Sweden.

Since the European sovereign debt crisis in 2012 and 2013, the situation in all segments of the public sector financing market has largely normalized. The ECB's announcement of a plan to purchase bonds issued by Eurozone member-states in secondary, sovereign bond markets (an outright monetary transactions program) in September 2013, which significantly reduced volatility in the Eurozone financial markets, is primarily responsible for this. In addition, countries whose public finances had been affected significantly and negatively by the crisis, such as Ireland, Spain and Portugal, saw promising developments. In particular, they have successfully completed and exited any bailout programs and are, according to the European Commission, expected to benefit from structural reforms. The public sector financing provided by retail banks and development banks was sufficient to fund the majority of relevant investment projects, particularly in the countries less affected by the sovereign debt crisis. Nevertheless, financing banks and investors continue to closely monitor developments in countries such as Spain and Ireland, including in relation to the credit quality of municipalities and other sub-sovereign debtors.

In Germany, while sufficient market demand for public investment finance existed, long-term loans remained popular and were granted at low margins by local competitors (primarily banks from the public sector, including development banks). The traditional public investment finance market was thus highly challenging for other financiers since 2012. Competition intensified again in the French market resulting in lower margins during 2014. In the Northern European countries, the markets offered opportunities to execute transactions with attractive risk-return profiles in 2014. This was mainly due to the withdrawal of, or discontinuation of, business activities by other international competitors as well as certain local banks.

Due to these market and competitive dynamics, pbb Group's new public investment finance business within the PIF segment remained flat in the financial year 2014 compared to the financial year 2013, at €1.2 billion. However, this significantly exceeded the new business of the financial year 2012 (€0.7 billion). In the financial year 2013, the new business margins were higher than the average margins in the existing portfolio, increasing the profitability of the portfolio. In the financial year 2014, however, a more

intense competitive environment prevented an increase of the profitability by putting downward pressure on the margins, while pbb Group decided not to increase the volume of loans with greater risk in pursuit of higher returns. Rather, pbb Group was selective with its new business in the financial year 2014 and achieved, as in the financial year 2013, an increase in the profitability of the new business as compared to the existing PIF portfolio. In the three-month period ended March 31, 2015, pbb Group's new public investment finance business within the PIF segment amounted to €0.2 billion (financial year 2014: €1.2 billion; 2013: €1.2 billion), with the profitability being further increased in comparison to the financial year 2014. These new business volumes have been determined in relation to the relevant period on the basis of commitments and include extensions with maturities of more than one year. However, the financing volume declined from €8.0 billion (including Italian assets in the amount of €1.3 billion) as of December 31, 2014 to €6.8 billion (after transfer of the Italian assets) as of March 31, 2015.

Funding Markets

Since 2012, the capital markets were dominated by low interest rates, expansionary monetary policy (source: ECB Monthly Bulletin) and uncertainty as to how the central banks planned to proceed.

As a result, since 2012, pbb Group has been able to lower its funding costs for covered as well as senior unsecured funding. The average issuance spread for pbb Group's Mortgage Pfandbriefe has decreased from 64 basis points (over 3 months EURIBOR) in 2012 to 31 basis points in 2013 to 24 basis points in 2014. The average issuance spread for pbb Group's Public Sector Pfandbriefe has decreased from 37 basis points (over 3 months EURIBOR) in 2012 to 36 basis points in 2013 to 29 basis points in 2014. The average spread of pbb Group's senior unsecured funding decreased from 156 basis points above 3 months EURIBOR in 2012 to 86 basis points in 2014 (in 2013: 116 basis points above 3 months EURIBOR). In 2012, pbb Group issued €2.3 billion in senior unsecured financing instruments and €4.2 billion in Pfandbriefe (€4.0 billion Mortgage Pfandbriefe and €0.2 billion Public Sector Pfandbriefe).

At the beginning of 2013, the positive sentiment seen in the previous year continued. Many investors changed their investment focus due to the historically low interest rates, resulting in increasing allocations to higher-risk investments in order to achieve desired yields. This has led to an increased demand for unsecured bonds and securities from the periphery of Europe. In the summer of 2013, concerns about the sovereign debt crisis have gained prominence, partly due to the financial difficulties observed in Cyprus, contributing to the increasing market volatility. Pfandbriefe remained attractive for investors and the risk premiums for securities placed on the primary market improved again when evaluated from an issuer's perspective. Because of the low yield environment, investors showed increasing demand for longer-term debt instruments which pay a higher rate of interest. For the first time since the financial and sovereign debt crises, a Pfandbrief in benchmark format with a maturity of 15 years was initially issued by pbb Group and subsequently by Munich Hypo. In the financial year 2014, the capital markets continued to be driven by excess liquidity and low returns driven by the monetary policy measures introduced by the major central banks. From an investor's point of view, the decline in the 10-year yield for German sovereign bonds by approximately 140 basis points in 2014 (source: "Germany Generic Govt 10Y Yield (Ticker: GDBR10 Index)" by Bloomberg) resulted in the focus shifting towards longer maturities and higher-risk investments. This was evidenced by the greater interest shown by investors in unsecured issues and equity transactions in general.

While the United States Federal Reserve System ("**Fed**") contemplated an option to exit from the liquidity assistance activities at the end of 2013, the ECB expanded its measures by further interest rate decreases and Targeted

Longer-Term Refinancing Operations (TLTRO) (source: "ECB Main Refinancing Operations Announcement Rate (Ticker: EURR002W Index) and BI LTRO function" by Bloomberg). Since the beginning of the fourth quarter of 2014, investors in the Eurozone have faced the challenge of a new purchase program for covered bonds (Covered Bond Purchase Program 3 – CBPP3). The increasing demand resulted in a further narrowing of spreads on the Pfandbrief market. The placing of Pfandbriefe at low spread levels was predominantly driven by the demand from central banks.

This liquidity situation improved the funding backdrop for credit institutions and led to a significant decline in risk premiums for Pfandbriefe and unsecured bonds. Smaller private placements of promissory notes were also well received by German investors since 2012. pbb Group consequently increased its issuing activities, with a total volume of €7.7 billion in the financial year 2013 (financial year 2012: €6.5 billion). €4.4 billion (financial year 2012: €3.0 billion) thereof was raised through benchmark issues of Pfandbriefe and senior unsecured bonds. In total, pbb Group issued in the financial year 2013 €3.2 billion in senior unsecured financing instruments and €4.5 billion in Pfandbriefe (€3.2 billion Mortgage Pfandbriefe and €1.2 billion Public Sector Pfandbriefe).

In the financial year 2014, the new long-term funding volume amounted to €6.0 billion (financial year 2013: €7.7 billion). Early repayments on loans granted by pbb Group together with the adequate liquidity position permitted pbb Group to reduce its funding activities in the capital markets. pbb Group raised €2.6 billion (financial year 2013: €4.4 billion) through new benchmark issues as well as tap issuances, i.e. increases of existing benchmark bonds. Pfandbriefe issuances represented approximately two thirds of the total new long-term funding in the financial year 2014 with unsecured bond issuances accounting for the remaining one third (€2.1 billion in senior unsecured financing instruments and €3.9 billion in Pfandbriefe, thereof €3.6 billion Mortgage Pfandbriefe and €0.3 billion Public Sector Pfandbriefe).

In the first quarter of 2015, the total long-term funding volume amounted to €1.35 billion. As the focus of the long-term funding in the first quarter of 2015 was on senior unsecured funding, pbb Group issued €1.0 billion in senior unsecured financing instruments and €324 million in Pfandbriefe (€72 million Mortgage Pfandbriefe and €252 million Public Sector Pfandbriefe).

In March 2013, pbb Group launched its retail deposits business under the brand name "pbb direkt" with an initial product range of call deposits (*Tagesgeld*) and term deposits (*Festgeld*) of 6 months, 1 year, 2 years, and 3 years in order to further diversify its unsecured funding mix. To secure reliable and stable deposits, the focus is on term deposit. The platform is addressed to retail depositors who reside in Germany. After having proven operational stability, interest rates on call deposits were raised from 0.8% to 1.2% in June 2013. 5 year- and 10-year term deposits were added in December 2013. By the end of 2013 "pbb direkt" had reached a deposit volume of €0.62 billion, stemming from approximately 7,000 customers. In the first and second quarter of 2014, deposit volumes continuously increased to €1.43 billion from approximately 17,300 customers despite two interest rate reductions in March and June 2014. In June 2014, "pbb direkt" further expanded its product range and introduced partly callable term deposits (FestgeldPLUS), a term deposit where up to 20% of the original amount can be withdrawn by the customer without notice period. "pbb direkt" reached its 2014 year-end retail customer deposit target of €1.5 billion with a total deposit volume of €1.53 billion from 18,800 customers. At the end of the first quarter of 2015, client deposit volumes had risen to €1.79 billion from approximately 21,300 customers. 74% of this amount is in term deposits and 33% of all term deposits are 5-year and 10-year term deposits. This success allowed pbb Group to decrease its 5-year and 10-year term deposit interest rates in April 2015.

Changes in the Regulatory Environment

pbb Group operates in an environment that continues to be strongly influenced by competent regulatory authorities. Banks had to face new challenges such as the CRR and the comprehensive assessment by the ECB, which have a significant impact on offerings of securities by the European banking sector in the future. The ongoing development of regulatory requirements has had and will likely continue to have an impact on the structure of assets and liabilities affecting the development in earnings and leading to an additional cost burden for pbb Group.

For example, the set of comprehensive changes to the capital adequacy framework published by the Basel Committee (known as "**Basel 3**" or as "**Basel III**") which had been proposed by the Basel Committee on Banking Supervision in 2010, has been implemented into European Union law by a legislative package referred to as "**CRR/CRD 4**". CRR/CRD 4 contains, among other things, detailed rules on regulatory banking capital, increased capital requirements and the introduction of additional capital buffers, tightened liquidity standards and a non-risk based leverage ratio. Most of the new rules came into effect on January 1, 2014, with capital requirements being gradually phased in until 2019. Due to the application of CRR/CRD 4, risk-weighted assets ("**RWA**") of pbb Group increased significantly in the financial year 2014, primarily as a result of (i) the abolition of the former preference for certain risk items pursuant to Section 64 (h) of the German Banking Act (*Kreditwesengesetz* ("**KWG**")) and (ii) the introduction of the additional charge for the credit valuation adjustment (CVA) of derivatives which added an additional RWA component. pbb Group's CET 1 capital increased due to the application of IFRS accounting standards (formerly German GAAP) as of January 1, 2014. This positive effect more than offset the negative effect from the phase-in of CET 1 deductions. The grandfathering rules under CRR/CRD 4 allow for the transitional treatment of certain capital instruments such as Additional Tier 1 (AT 1) capital and Tier 2 capital, that are not compliant with the new rules, and permit for a gradual reduction in recognition as regulatory capital. This had a negative impact on the Tier 1 (comprising CET 1 and AT 1) and own funds ratios as of January 1, 2014, while the CET 1 ratio increased. Also, the final guideline on the regulatory review and evaluation process (SREP – Supervisory Review and Evaluation Process) which has been published by the European Banking Authority ("**EBA**") on December 19, 2014, and which is aligned to the supervisory authorities of the member states of the European Union should be implemented by the supervisory authorities in 2015 and applied beginning in 2016. In the guideline, EBA takes a holistic SREP approach that comprises assessing selected key indicators, the business model, governance as well as capital and liquidity risks. Based on the consultations in 2014, pbb Group has already initiated a project that aims to fully implement SREP. As part of the ECB's implementation of the EBA Guidelines, minimum capital ratios including the CET 1 ratio and the own funds ratio were prescribed for HRE on March 12, 2015. These ratios were met as of December 31, 2014. It remains to be seen how the ECB will handle the SREP topic further in the transition year 2015.

Competition in the Banking Sector

Since 2012, the banking industry was affected by intense competition in both, REF and PIF, which resulted in continued pressure on margins.

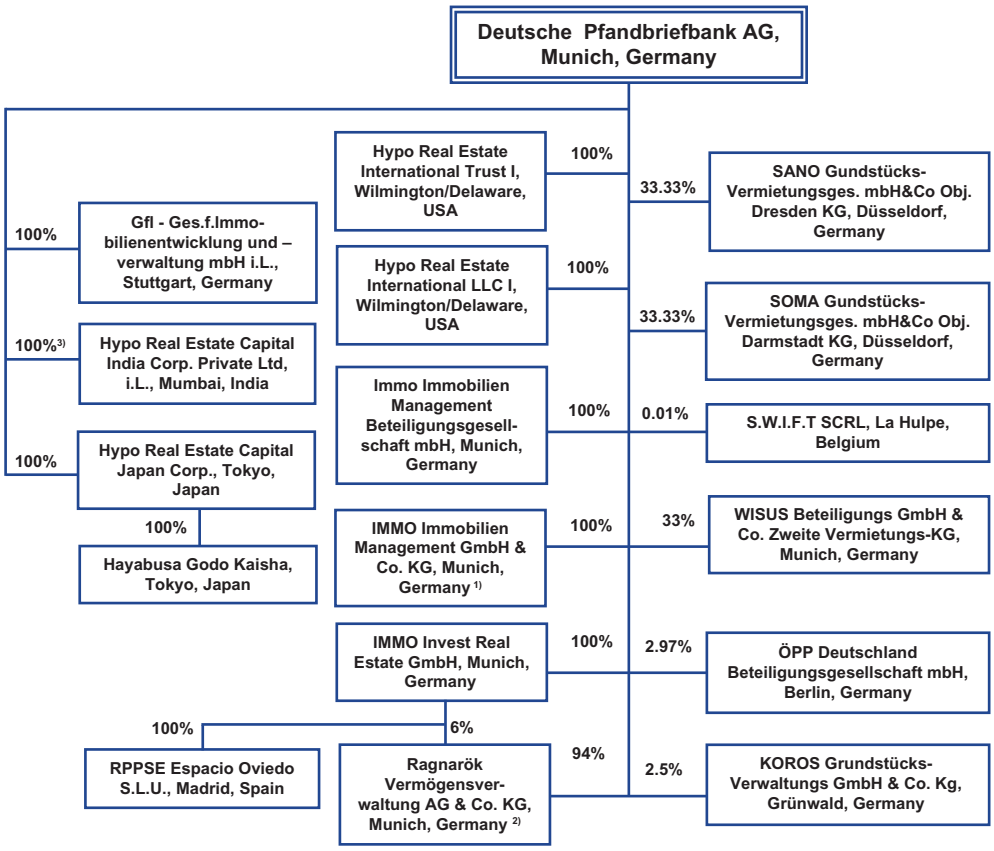
Several banks have expanded or intensified their reach into the REF market. In addition, an increasingly diverse mix of lenders is participating in the REF market – besides the traditional bank lenders, non-bank financial institutions (in particular insurers but also debt funds and private equity funds) have increased their REF activities. The growing competition in the lending market has increased pressure on margins. This resulted in an increasing

willingness of banks to provide finance for secondary assets in core locations, or prime assets in secondary locations. There has also been an increase in the amount of capital lent against commercial real estate (higher LTV percentages) and a growing willingness to lend to new customers without previous relationships. Additionally, the range of transaction sizes in the market has grown since 2012. The average transaction size of new business in the REF segment in the financial year 2014 was €56 million increasing to €80 million in the three-month period ended March 31, 2015.

Due to the public backing of PIF loans, PIF enjoys a comparably low risk profile. Certain institutional investors (direct or through debt funds) have therefore entered the PIF market and public sector banks have increased their lending activities. While generating smaller margins, PIF is complementary to REF, predominantly due to counter cyclicalities, capital synergies and economies of scale, which may cause further REF providers to commence PIF activities. In addition, the ECB is providing increasing public sector funding through its expanded asset purchase program. These factors may exert further pressure on margins as price is frequently a key driver for public institutions making business decisions.

B.5 Description of the group and the issuer's position within the group.

pbb Group is headed by the Company as parent entity. The following chart provides an overview of the direct and indirect shareholdings of the Company as of the date of the Prospectus:



1) General partner liability (*Komplementärhaftung*) of Immo Immobilien Management Beteiligungsgesellschaft mbH.
2) General partner liability (*Komplementärhaftung*) of Deutsche Pfandbriefbank AG.
3) 33,797,499 shares held by Deutsche Pfandbriefbank AG, 1 share held by Hypo Real Estate Holding AG.

B.6	**Persons who, directly or indirectly, have an interest in the issuer's capital or voting rights or have control over the issuer.**	Immediately prior to the completion of this offering, the Selling Shareholder holds 100% of the ordinary bearer shares with no par value (*Stückaktien*) currently issued by the Company. The Selling Shareholder is wholly owned by the FMS which is managed by the Federal Financial Market Stabilization Agency (*Bundesanstalt für Finanzmarktstabilisierung*, "**FMSA**"), a public-law agency with legal personality under the legal and technical supervision of the German Federal Ministry of Finance (*Bundesministerium der Finanzen*). Upon completion of the offering, the Selling Shareholder will continue to hold at least 20% of the Company's share capital (assuming the full placement of the Existing Shares and a full exercise of the Greenshoe Option, in each case as defined below in E.3).
	Different voting rights.	Not applicable. All shares have identical voting rights.
	Whether the issuer is directly or indirectly owned or controlled and by whom and description of the nature of control.	The Company is directly controlled by the Selling Shareholder which holds 100% of the shares and voting rights in the Company and, resulting therefrom, has the power to govern the financial and operating policies of the Company. Upon completion of the offering, the Selling Shareholder will hold 20% to 24.9% of the Company's share capital and will be subject to an agreement providing for the avoidance of control, and therefore will no longer control the Company.
B.7	**Selected historical key financial information.**	The audited consolidated financial statements of the Company as of and for the financial years ended December 31, 2014, 2013 and 2012 ("**Audited Consolidated Financial Statements**") were prepared in accordance with the International Financial Reporting Standards as adopted by the European Union ("**IFRS**"). The audited unconsolidated financial statements of the Company as of and for the financial year ended December 31, 2014 (the "**Audited Unconsolidated Financial Statements**") were prepared in accordance with the German Commercial Code (*Handelsgesetzbuch*, "**HGB**"). They have been audited in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements, which are promulgated by the Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer*), by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin (Munich office, Ganghoferstr. 29, 80339 Munich), Germany ("**KPMG**"), who issued an unqualified audit opinion on each of the Audited Consolidated Financial Statements and the Audited Unconsolidated Financial Statements. The unaudited interim condensed consolidated financial statements of the Company as of and for the three-month period ended March 31, 2015 were prepared in accordance with IFRS for interim financial reporting (IAS 34) ("**Unaudited Interim Condensed Financial Statements**"). In the Prospectus, where financial information regarding pbb Group is labeled "audited", it means that this information was taken from the Audited Consolidated Financial Statements or the Audited Unconsolidated Financial Statements. Where financial information regarding pbb Group is labeled "unaudited" in the Prospectus, it means that such information was not taken from the Audited Consolidated Financial Statements or the Audited Unconsolidated Financial Statements, but was rather taken either from the Unaudited Interim Condensed Financial Statements or from pbb Group's accounting or controlling records, or is based on calculations of these figures.

Selected Financial Information from the Consolidated Income Statement

The following table shows selected consolidated income statement data of pbb Group for the three-month periods ended March 31, 2015 and 2014 and for the financial years ended December 31, 2014, 2013 and 2012:

	For the Three-Month Period ended March 31,		For the Financial Year ended December 31,		
	2015	2014	2014	2013[1)]	2012
	(unaudited)			(audited)	
	(in € million)				
Operating income	**93**	**89**	**326**	**482**	**467**
Net interest and similar income	113	89	421	319	296
Interest and similar income	540	583	2,333	2,487	2,879
Interest and similar expenses	-427	-494	-1,912	-2,168	-2,583
Net fee and commission income	7	–	1	9	23
Fee and commission income	8	3	13	15	27
Fee and commission expenses	-1	-3	-12	-6	-4
Net trading income	5	-9	-30	-51	10
Net income from financial investments	-20	-1	-77	96	13
Net income from hedging relationships	-1	-3	-3	9	-6
Net other operating income/expenses	-11	13	14	100	131
Loan loss provisions	4	5	-21	-8	4
General and administrative expenses	-48	-62	-251	-312	-341
Net miscellaneous income/expenses	2	6	–	3	-6
Profit or loss before tax	**51**	**38**	**54**	**165**	**124**
Income tax	-12	5	-50	-5	-55
Net income/loss	**39**	**43**	**4**	**160**	**69**

1) Numbers for the financial year 2013 have been adjusted in the Audited Financial Statements for the financial year 2014 due to retrospective IFRS 10 first time adoption. Numbers are derived from the Audited Financial Statements for the financial year 2014.

Selected Financial Information from the Consolidated Statement of Financial Position

The following table shows selected consolidated statement of financial position data of pbb Group as of March 31, 2015 and as of December 31, 2014, 2013 and 2012 (i.e. prior to the repayment of the SoFFin Silent Participation of €1.0 billion which has occurred on July 6, 2015):

	As of March 31,	As of December 31,			
	2015	2014	2013[2)]	2013[3)]	2012[4)]
	(unaudited) (in € million)	(audited unless otherwise indicated) (in € million)			
Assets					
Cash reserve	1,554	57	3,532	3,532	1,937
Trading assets	2,110	2,016	1,642	1,642	3,325
Loans and advances to other banks	4,162	6,800	6,685	5,798	7,995
Loans and advances to customers	40,962	38,964	36,242	36,242	49,590
Allowances for losses on loans and advances	-134	-138	-148	-148	-325
Financial investments	19,676	20,475	20,725	20,892	25,572
Property and equipment	12	8	1	1	2
Intangible assets	22	23	31	31	39
Other assets	6,992	6,659	4,769	4,769	7,242
Income tax assets	30	30[1)]	1,162	1,165	1,704
Current tax assets	28	29	44	44	53
Deferred tax assets	2	1[1)]	1,118	1,121	1,651
Total assets	**75,386**	**74,894**[1)]	**74,641**	**73,924**	**97,081**
Equity and liabilities					
Liabilities to other banks	2,871	3,187	3,522	3,522	7,797
Liabilities to customers	10,367	10,593	10,848	10,848	11,895
Securitized liabilities	47,871	47,827	46,858	47,060	52,550
Trading liabilities	2,083	1,960	1,453	1,453	3,192
Provisions	261	272	209	209	235
Other liabilities	6,966	6,182	4,722	4,722	14,438
Income tax liabilities	114	88[1)]	1,187	1,190	1,698
Current lax liabilities	108	82	64	64	64
Deferred tax liabilities	6	6[1)]	1,123	1,126	1,634
Subordinated capital	1,265	1,279	2,357	1,440	1,993
Liabilities	**71,798**	**71,388**[1)]	**71,156**	**70,444**	**93,798**
Equity attributable to equity holders	**3,588**	**3,506**	**3,485**	**3,480**	**3,283**
Total Equity and Liabilities	**75,386**	**74,894**[1)]	**74,641**	**73,924**	**97,081**
Equity	**3,588**	**3,506**	**3,485**	**3,480**	**3,283**

1) Figures have been adjusted in the Unaudited Interim Condensed Financial Statements as of and for the three-month period ended March 31, 2015 due to IAS 8.14 et seq. and are unaudited. In the Audited Consolidated Financial Statements for the financial year 2014, the unadjusted figures (audited) were as follows: total assets €75,518 million, income tax assets €654 million, deferred tax assets €625 million, income tax liabilities €712 million, deferred tax liabilities €630 million, liabilities €72,012 million and total equity and liabilities €75,518 million.

2) Numbers for the financial year 2013 have been adjusted in the Audited Financial Statements for the financial year 2014 due to retrospective IFRS 10 first time adoption and due to IAS 8.42. Numbers are derived from the Audited Financial Statements for the financial year 2014.

3) Numbers are derived from the Audited Financial Statements for the financial year 2013 and are unadjusted.

4) Numbers for the financial year 2012 have been adjusted in the Audited Financial Statements for the financial year 2013 due to retrospective IAS 19 (revised) first time adoption. Numbers are derived from the Audited Financial Statements for the financial year 2013.

Selected Financial Information from the Consolidated Statement of Cash Flows

The following table shows selected consolidated statement of cash flows data of pbb Group for the three-month periods ended March 31, 2015 and 2014 and for the financial years ended December 31, 2014, 2013 and 2012.

	For the Three-Month Period ended March 31,		For the Financial Year ended December 31		
	2015	2014	2014	2013[1)]	2012
	(unaudited) (in € million)		(audited) (in € million)		
Cash flow from operating activities	207	-3,651	-4,320	-1,753	-1,593
Cash flow from investing activities	1,300	448	953	3,902	3,757
Cash flow from financing activities	-10	0	-108	-546	-550
Cash and cash equivalents at the end of the previous period	57	3,532	3,532	1,929	323
Cash and cash equivalents at the end of the period	1,554	329	57	3,532	1,937

1) Numbers for the financial year 2013 have been adjusted in the Audited Financial Statements for the financial year 2014 due to retrospective IFRS 10 first time adoption. Numbers are derived from the Audited Financial Statements for the financial year 2014.

Selected Other Financial Data

Monitoring and steering at pbb Group are based on a consistent and integrated key performance indicator system (KPI system), which assists executives in the management of the Group. The KPI system comprises the dimensions of profitability, growth in the strategic real estate finance and public investment finance portfolios, risk limitation and capital. As is customary in pbb Group's industry, some of these figures are based on IFRS, whereas others are used in addition to the IFRS financial measures and are not recognized terms under IFRS or under the German Commercial Code ("**non-GAAP measures**"), in order to evaluate, monitor and manage the business. Key performance indicators, which are not measures of financial performance under IFRS, have not been reviewed by an outside consultant, expert or auditor and are, unless otherwise noted, derived from pbb Group's accounting system and management estimates. These non-GAAP measures are defined by pbb Group's management and may not be comparable to similar measures used by other companies. Non-GAAP measures used should not be considered as an alternative to net income (loss), revenues or any other performance measures derived in accordance with IFRS or the German GAAP as measures of operating performance. Neither should they be considered as an alternative to cash flows from operating activities as measures of liquidity. The non-GAAP measures have limitations as analytical tools and should not be considered in isolation or as substitutes for analysis of the Company's results as reported under IFRS or under the German Commercial Code.

The financial key performance indicators pbb Group uses to track the financial performance of its business and to guide its management are *inter alia* return on equity after tax, profit or loss before tax, cost income ratio, the notional amount of the funding in the strategic Real Estate Finance (REF) and Public Investment Finance (PIF) segments, volume of new business and the CET 1 ratio.

Selected Other Financial Data of pbb Group

The key performance indicators for pbb Group can be summarized as follows:

	As of and for the Three-Month Period ended March 31,	As of and for the Financial Year ended December 31,			
	2015	2014 (adjusted)†	2014	2013	2012
	(unaudited)	(unaudited unless otherwise indicated)			
Profit before tax (in € million)	51[1)]	174[2)]	54*	165*	124*
Net income/loss (in € million)	39[3)]	116[2)]	4*	160*	69*
Return on equity before tax (in %)[4)]	8.3[5)]	7.1[2),6)]	2.2	7.2	5.5
Return on equity after tax (in %)[4)]	6.3[7)]	4.7[2),6)]	0.2	7.0	3.1
Cost income ratio (in %)	51.6	57.3[2)]	77.0*	64.7*	73.0*
Total assets (in € billion)	75.4		74.9[8)]	74.6*[9)]	97.7*[9)]
Shareholder's equity (in € billion)[10)]	3.6		3.5*	3.5*	3.3*
thereof: SoFFin Silent Participation (in € billion)	*1.0**		*1.0**	*1.0**	*1.0**
Risk weighted assets (in € billion)[11)]	14.8	15.5	15.5*	18.1*	15.3*
CET 1 ratio (fully loaded) (in %)[12),13)]	14.8	13.5	13.5*	11.0*	–
Tier 1 ratio (fully loaded) (in %)[13)]	14.8[14)]	13.5[15)]	19.9*	16.6*	18.9*[16)]
Own funds ratio (fully loaded) (in %)[13),17)]	16.9[18)]	15.6[19)]	22.1*	19.1*	26.6*[16)]
New business volume (in € billion)[20)]	2.8		10.2	8.2	5.6
Leverage ratio (fully loaded) (in %)[13)]	3.2[21)]	3.1[22)]	3.1[22)]	2.8[23)]	

† The figures were adjusted as specified in the respective footnotes below. The adjustments were made either (i) for the significant effects resulting from the value adjustments on the HETA exposure (thus showing figures as if there had been no negative impact from these value adjustments) or (ii) for the repayment of the SoFFin Silent Participation of €1.0 billion which has occurred on July 6, 2015.

* Audited.

1) Profit before tax would amount to €133 million if adjusted for €82 million effects (for cost income ratio calculation €76 million) from value adjustments on HETA exposure (nominal: €395 million) in the first quarter of the financial year 2015.
2) Adjusted for €120 million effects (for cost income ratio calculation €112 million) from value adjustments on HETA exposure (nominal: €395 million) in the fourth quarter of the financial year 2014.
3) Net income/loss would amount to €112 million if adjusted for €82 million effects (for cost income ratio calculation €76 million) from value adjustments on HETA exposure (nominal: €395 million) in the first quarter of the financial year 2015.
4) Return on equity calculation is based on average monthly IFRS equity excluding revaluation reserve; shareholder's equity for return on equity calculation is calculated using ordinary shareholder's equity (i.e. reported shareholder's equity excluding €1.0 billion SoFFin Silent Participation, which has been repaid on July 6, 2015).
5) Return on equity before tax would amount to 21.6% based on pre-tax profit of €51 million plus adjustment for HETA provisions of €82 million (net income of €39 million plus adjustment for HETA €73 million) divided by average monthly IFRS equity for the first quarter of the financial year 2015 (€3,465 million) excluding the revaluation reserve (€149 million) adjusted by the SoFFin Silent Participation (minus €999 million).
6) Return on equity before tax (post tax) calculation based on pre-tax profit of €54 million plus adjustment for HETA provisions of €120 million (net income of €4 million plus adjustment for HETA €112 million) divided by average monthly IFRS equity for the year excluding the revaluation reserve (€3,451 million) adjusted by the SoFFin Silent Participation (minus €999 million).
7) Return on equity after tax would amount to 18.2% based on pre-tax profit of €51 million plus adjustment for HETA provisions of €82 million (net income of €39 million plus adjustment for HETA €73 million) divided by average monthly IFRS equity for the first quarter of the financial year 2015 (€3,465 million) excluding the revaluation reserve adjusted by the SoFFin Silent Participation (minus €999 million).
8) Figure has been adjusted in the Unaudited Interim Condensed Financial Statements as of and for the three-month period ended March 31, 2015 due to IAS 8.14 et seq. and is unaudited. Total assets in the Audited Consolidated Financial Statements for the financial year 2014: €75.5 billion (audited).
9) Figure for the financial year 2013 is adjusted due to retrospective first time adoption of IFRS 10 first time adoption and due to IAS 8.42. Figure for the financial year 2012 is adjusted due to the retrospective first time adoption of IAS 19 (revised).
10) Figure for the financial year 2012 is adjusted due to the retrospective initial application of IAS 19 (revised). Figure for the financial year 2013 is adjusted due to retrospective IFRS 10 first time adoption and due to IAS 8.42.
11) Figures for the financial years 2014 and 2013 and the three-month period ended March 31, 2015 are simulated Basel 3 figures (as implemented by CRR) consolidated in accordance with CRR. Figure for the financial year 2012 is consolidated in accordance with Section 10a of the German Banking Act (*KWG*).
12) The CET 1 ratio is calculated by dividing the CET 1 by the risk-weighted assets (RWA).
13) The regulatory capital ratios stated are calculated on a simulated basis. According to the 'Waiver Rule' under Article 7 CRR, pbb, being a subsidiary of HRE, is, as at the date of the Prospectus, exempted from calculating the CET 1 capital ratio and the other relevant regulatory capital ratios on a sub-group level.
14) Tier 1 capital of €2.2 billion fully loaded (excluding SoFFin Silent Participation of €1.0 billion which has been repaid on July 6, 2015) in percentage of RWA of €14.8 billion.

15) Tier 1 capital of €2.1 billion fully loaded (excluding SoFFin Silent Participation of €1.0 billion which has been repaid on July 6, 2015) in percentage of RWA of €15.5 billion.
16) Figure for the financial year 2012 is calculated on a non-fully loaded basis.
17) Figures for the financial years 2014 (unadjusted) and 2013 are shown after expiry of all Basel 3 transitional regulations (as implemented by CRR) (fully loaded). Figures for the financial year 2013 are consolidated in accordance with CRR (following the appropriation of net profit 2013) and adjusted due to IAS 8.42.
18) Own funds of €2.5 billion fully loaded (excluding SoFFin Silent Participation of €1.0 billion which has been repaid on July 6, 2015) in percentage of RWA of €14.8 billion.
19) Own funds of €2.4 billion fully loaded (excluding SoFFin Silent Participation of €1.0 billion which has been repaid on July 6, 2015) in percentage of RWA of €15.5 billion.
20) New business volumes have been determined in relation to the relevant period on the basis of commitments and include extensions with maturities of more than one year.
21) Tier 1 capital of €2.2 billion fully loaded (excluding SoFFin Silent Participation of €1.0 billion which has been repaid on July 6, 2015) in percentage of leverage exposure of €69.1 billion.
22) Tier 1 capital of €2.1 billion fully loaded (excluding SoFFin Silent Participation of €1.0 billion which has been repaid on July 6, 2015) in percentage of leverage exposure of €67.2 billion.
23) Tier 1 capital of €2.0 billion fully loaded (excluding SoFFin Silent Participation of €1.0 billion which has been repaid on July 6, 2015) in percentage of leverage exposure of €69.9 billion.

Significant changes to the issuer's financial condition and operating results.

Recent developments

Between March 31, 2015 and the date of the Prospectus, the following significant developments with respect to the financial condition and operating results of pbb Group have occurred.

pbb Group's REF new business volumes in the second quarter of 2015 were almost on the same level as in the first quarter of 2015, but higher than in the second quarter of 2014, and contributed to a better than expected REF new business volume in the first six months of 2015 (based on commitments and extensions of more than one year). The REF new business margins continued to be subject to pressure from increasing competition in the market. pbb Group's PIF new business volumes (based on commitments and extensions of more than one year) in the second quarter of 2015 were higher than in the first quarter of 2015 and higher than in the second quarter of 2014. The overall PIF new business volume in the first six months of 2015 (based on commitments and extensions of more than one year) is below expectations, also due to low PIF market activity in France with moderate investment spending by local authorities.

Following the announcement of Moody's on June 19, 2015 to downgrade the long-term senior unsecured ratings of the Company to 'Ba1' (stable outlook), the spreads for unsecured securities issued by pbb Group increased significantly. On June 29, 2015, Moody's announced the withdrawal of the unsecured ratings. Standard & Poor's has announced the application of revised rating criteria for Pfandbriefe to become effective as from mid July 2015 (expected). pbb Group expects these to result in an increase of the over-collateralization requirements for Pfandbriefe. pbb Group is considering to meet the new requirements, should they be implemented, with regard to its Mortgage Pfandbriefe. It may consider, however, to keep or reduce the current over-collateralization level for its Public Sector Pfandbriefe and accept their potential downgrade (expected to 'AA-').

pbb Group realized a material gain from the sale of an office building in Japan in April 2015. The office building was owned by pbb Group consolidated company Hayabusa Godo Kaisha, Japan, which had been acquired as a result of a rescue acquisition. With the sale price exceeding the book value of the property, pbb Group realized an extraordinary profit of €39 million before tax. pbb Group realized €12 million in net interest income from the release of a cash flow hedge reserve. As the cash flow hedge became partly ineffective, derivatives had to be redesignated from the cash flow hedge accounting and released to the profit and loss accounts. These two positive one-off effects were partly off-set by a further increase in the provisions made for certain legal proceedings initiated by former holders of participation certificates.

Additionally, pbb Group sold bonds in an aggregate nominal amount of €944 million plus JPY 2 billion (€14.6 million based on the currency exchange rate as of June 30, 2015) since April 1, 2015 until June 30, 2015. The Company expects that the profit and loss account for the second quarter of 2015 will be negatively affected by such sale. Total assets decreased after March 31, 2015. As of May 31, 2015, total assets amounted to €71.2 billion compared to €75.4 billion as of March 31, 2015. This decrease was primarily due to the repayment of a debt security, by using existing liquidity in the cash reserve, the sale of bonds of the Value Portfolio and lower market values of derivatives. On the liability side, the decrease was reflected in lower securitized liabilities and lower market values of derivatives.

The SoFFin Silent Participation has been repaid at par on July 6, 2015 based on a repayment agreement between the Company and FMS dated July 3, 2015. In pbb Group's consolidated statement of financial position according to IFRS, equity decreased by €1.0 billion due to the repayment agreement. Within equity, the silent partnership contribution, after the repayment, amounts to €0 compared to €999 million prior to the repayment agreement. Retained earnings (*Gewinnrücklagen*) decreased by €1 million. Under the accounting principles of the HGB and other applicable German law ("**German GAAP**"), the SoFFin Silent Participation had been subject to write-downs to absorb losses in the previous financial years. Prior to the repayment agreement, it had a book value of €92 million according to German GAAP. Therefore, the repayment agreement has used up capital of the Company in the amount of €908 million according to German GAAP. The capital needed has been taken from the additional paid-in capital (*Kapitalrücklage*) pursuant to Section 272(2) no. 4 HGB. To align the equity disclosure in the IFRS consolidated financial statements with German GAAP, the capital use resulted, in the consolidated statement of financial position according to IFRS, in a reduction of €908 million in additional paid-in capital (*Kapitalrücklage*) and an increase of retained earnings (*Gewinnrücklagen*) in the same amount.

The following changes in the Company's financial condition and operating results, as defined by revenues and the results from operations, occurred in the three-month periods ended March 31, 2015 and 2014 and in the financial years ended December 31, 2014, 2013 and 2012:

Discontinuation of Portfolio Management for FMS-WM in 2013

On September 30, 2013, and in response to the EU State Aid Decision, the portfolio management services pbb Group had provided to FMS-WM, were discontinued. The activities were transferred to FMS-WM's service company, FMS Wertmanagement Service GmbH ("**FMS-WM Service GmbH**"), and to other external service providers. pbb Group and FMS-WM have been implementing the transfer of the services in a joint project since autumn 2011.

An exception to this transfer were the services provided by Hypo Real Estate Japan Corporation, Tokyo, a subsidiary of the Company, to FMS-WM for its Japanese Real Estate Finance portfolio until June 29, 2015. pbb Group and FMS-WM have also continued to provide each other with services after September 30, 2013 that cannot be otherwise obtained on the basis of what is currently a cost-plus agreement. These services primarily relate to the provision of information, the granting of powers of attorney and the provision of services required under supervisory laws.

In addition, in the fourth quarter of 2013, pbb Group and FMS-WM entered into a settlement agreement. Under the agreement, all potential claims by FMS-WM for damages related to: (1) services provided, (2) all past, present and future claims for the reimbursement of costs for the legal transfer of assets (upgrades) that were previously transferred synthetically to FMS-WM, protected against certain risks or hedged (as the case may be) by means of (i) sub-participations, (ii) back-to-back derivatives, and (iii) financial

guarantees, and (3) payment obligations by pbb Group in connection with the transfer of employees to FMS-WM Service GmbH, are taken to have been settled. In the course of the discontinuation of the services, approximately 110 pbb Group employees were transferred to FMS-WM Service GmbH, where their knowledge of the portfolio will permit continuity in its future management.

As a result of the discontinuation, pbb Group's net other operating income/ expenses related to FMS-WM decreased from €60 million in the financial year 2013 by €59 million to €1 million in the financial year 2014. General and administrative expenses related to FMS-WM decreased commensurately as a result of the transfer of personnel to FMS-WM Service GmbH.

In the first quarter of the financial year 2014, pbb Group entered into an agreement with, among other things, FMS-WM in which the transfer of risk positions to FMS-WM in the course of the establishment of the resolution agency in 2010 was finally settled. Payment obligations of the Company to FMS-WM under this agreement were finally compensated by HRE Holding, leading to a €30 million increase in retained earnings in the financial year 2014 without affecting pbb Group's income statement as it was a transaction with HRE Holding in its capacity as owner.

Value Adjustments due to HETA Moratorium

On March 1, 2015, the Austrian financial markets supervisory authority ("**FMA**") issued a notice by which it deferred the maturity of debt securities (including interest payments) issued by HETA until May 31, 2016 (the "**HETA Moratorium**"). HETA is a wind-down entity (*Abwicklungsanstalt*) owned by the Republic of Austria. HETA's statutory task is to dispose of the non-performing portion of the Austrian bank Hypo Alpe Adria, nationalized in 2009, as effectively as possible whilst preserving its value. The total nominal exposure held by pbb Group which is affected by the HETA Moratorium amounted to €395 million on March 1, 2015. It comprises eight unsecured bonds and one promissory note issued between 2002 and 2006. pbb Group's claims against HETA under these debt instruments are covered by a letter of indemnity issued by the Austrian Federal State of Carinthia.

Due to the HETA Moratorium and statements made by the Austrian Finance Minister concerning the support for the Federal State of Carinthia, pbb Group recognized value adjustments for the bonds and the promissory note in the financial year 2014 as well as in the first quarter of the financial year 2015. In the financial year 2014, the value adjustment with respect to the eight unsecured bonds negatively impacted pbb Group's net income from financial investments by €109 million. The value adjustment with respect to the promissory note have been made on the basis of the loss rate expected at the time of finalizing the Unaudited Interim Financial Statements for the first quarter of 2015 (including discount effects) and increased loan loss provisions by €8 million. Net trading income for financial year 2014 decreased by €3 million resulting from interest hedge derivatives in connection with the HETA exposure as hedge accounting in respect of these interest hedging instruments was no longer permitted. To qualify for hedge accounting it is required under, *inter alia*, IAS 39 that the changes in the fair value or cash flows of the hedged item attributable to the hedged risk must be expected to be highly effective in offsetting the changes in the fair value or cash flows of the hedging instrument on a prospective basis, and on a retrospective basis where actual results are within a range of 80% to 125%. As this was no longer satisfied due to the HETA Moratorium, the hedging relationship between the exposure to HETA and the interest hedge derivatives was no longer effective. As a result of all aforementioned factors, pbb Group's pre-tax profit in the financial year 2014 decreased by €120 million. In addition, in accordance with local GAAP (*HGB*) the pre-tax profit decreased by €81 million. In accordance with the German tax rate of 27.67% (corporate tax, surcharge tax and trade tax) as well as the German minimum taxable amount (40% of the taxable income), current taxes for the financial

year 2014 decreased by €8 million, resulting in a net income effect from the HETA Moratorium of €112 million in the financial year 2014. The impairments of the bonds disclosed in net income from financial investments of €109 million and the impairments of €8 million of the promissory note disclosed in loan loss provisions affected the Company's VP segment; the effects of €3 million from the stand alone derivative in both 2013 and 2014 are shown in net trading income and are allocated to all operating segments, i.e. REF, PIF and VP, in proportion to the portfolio volume.

In the three-month period ended March 31, 2015 after approval of the financial statements for the financial year 2014, additional value adjustments in connection with the HETA exposure in light of recent market price developments and based on the general recommendation of the ECB to impair 50% of the nominal HETA exposure negatively affected the net income from financial investments by €73 million. A net amount of €6 million was added to provisions for losses on loans and advances due to specific allowances, which, *inter alia*, related to a loan evidenced by a certificate of indebtedness (*Schuldscheindarlehen*) to HETA. Net trading income was negatively affected by €3 million due to the HETA exposure.

The impairment taken by pbb Group on its outstanding exposure to HETA following the FMA's decision on HETA's debt securities and the general recommendation of the ECB resulted in an aggregate negative effect of €197.5 million until March 31, 2015.

pbb Group has initiated legal proceedings with respect to the HETA Moratorium.

Financing and Acquisition of RPPSE Espacio Oviedo S.L.U.

In 2007, the Company provided real estate financing to RPPSE Espacio Oviedo S.L.U., Madrid, Spain ("**RPPSE**") as part of a syndicate of banks financing a shopping center in the city of Oviedo, Spain. The loan had been subject to various impairments, resulting in a book value of €27 million as of December 31, 2013. Immo Invest Real Estate GmbH, Munich, a subsidiary of the Company, acquired all of the shares in RPPSE on February 25, 2014. RPPSE's primary asset, the shopping center in Oviedo, had a book value of €27 million at that time. Immo Invest Real Estate GmbH was initially consolidated by the Company in November 2013 when the Company committed to acquire the participation. RPPSE was also consolidated in pbb Group at the same time when the Company committed to acquire the participation in, and gained control over, RPPSE by means of a rescue acquisition. Neither of these consolidations had a material impact on pbb Group's assets, financial position or results of operations because the acquisition of RPPSE through the Company's subsidiary, Immo Invest Real Estate GmbH, resulted in the exchange of an asset for another as a result of consolidation. pbb Group recognized the shopping center as real estate property with a book value of €27 million as a rescue acquisition under the item "other assets" in the financial statements for the financial year 2013 instead of the loan to RPPSE with the same book value at that time as it had already been subject to a corresponding impairment. At the end of the financial year 2014, pbb Group recognized a further impairment in respect of the real property.

Separation from DEPFA in 2014

To comply with the European Commission's requirement to reprivatize DEPFA Group, HRE Holding prepared to sell 100% of the registered share capital of DEPFA Bank in August 2013 and engaged with potential purchasers. However, on May 13, 2014, the FMSA's inter-ministerial Steering Committee (which decides on measures related to FMS) and an extraordinary general shareholders' meeting of HRE Holding resolved to prepare the take-over and wind-down of DEPFA Group by FMS-WM rather than to sell the shares in DEPFA Bank to a private entity. Following the

consent of the Irish and the Luxembourg regulatory authorities, the transfer of DEPFA Group to FMS-WM was completed on December 19, 2014. The economic terms agreed in connection with the transfer were materially the same as the terms that HRE Holding had previously negotiated with an external bidder.

In connection with the signing of the share purchase agreement for the transfer of the share capital of DEPFA Bank to FMS-WM in July 2014, the Company transferred its subsidiary DEPFA Finance N.V, Amsterdam, to DEPFA Bank and, in September 2014, partially repaid €150 million of a loan prior to its maturity which was provided to the Company by DEPFA Finance N.V. In connection with this partial repayment, a corresponding hedging interest swap between the Company and DEPFA Bank was partially terminated. The partially terminated hedging swap was captured under fair value hedge accounting on a micro basis. This had been reflected as a hedge adjustment to the liabilities under the loan towards DEPFA Finance N.V. After the partial repayment of the loan and the partial termination of the hedging swap, the hedge adjustment was reversed and resulted in net interest income of €15 million.

Further effects in connection with DEPFA Finance N.V. are included in the €21 million net income from financial investments in the financial year 2014. This effect resulted from the sale of the subsidiary, on the basis of which the liabilities of pbb to DEPFA Finance N.V. were no longer to be eliminated and were valued at fair value for the first time.

Sale of Little Britain Holdings (Jersey) Ltd., Jersey

On September 20, 2013, pbb Group sold all of its shares in Little Britain Holdings (Jersey) Ltd., Jersey ("**Little Britain Holdings**"). This sale resulted in a gain of €92 million, which was recognized in the financial statements under net income from financial investments for the year ended December 31, 2013. The €1 million loss generated by Little Britain Holdings between January 1, 2013 and September 20, 2013 is included in pbb Group's financial statements for the financial year 2013. The total assets in accordance with the accounting policies applicable to pbb's consolidated financial statements amounted to €97 million. As of the time of deconsolidation, Little Britain Holdings' assets primarily comprised rescue acquisitions in the amount of €84 million, which were reported under other assets. Liability to the Company amounted to €108 million and equity was negative in the amount of €13 million.

B.8	**Selected key pro forma financial information.**	Not applicable. No pro forma financial information has been prepared by the Company.
B.9	**Profit forecast or estimate.**	Not applicable. No profit forecast or estimate has been prepared by the Company.
B.10	**Qualifications in the audit report on the historical financial information.**	Not applicable. The audit reports on the historical financial information included in the Prospectus have been issued without qualifications.
B.11	**Insufficiency of the issuer's working capital for its present requirements.**	Not applicable. The issuer's working capital is sufficient for its present requirements.

1.3 Section C – Securities

C.1	**A description of the type and the class of the securities being offered and/ or admitted to trading, including any security identification number.**	Ordinary bearer shares with no par value (*Stückaktien*), each with a notional value of €2.83 (rounded; mathematically correct: €2.82859) in the share capital of the Company and full dividend rights as from January 1, 2015. International Securities Identification Number (ISIN): DE0008019001 German Securities Code (*Wertpapierkennnummer*) (WKN): 801 900 Common Code: 001118463 Trading Symbol: PBB
C.2	**Currency of the securities issue.**	Euro.
C.3	**The number of shares issued and fully paid and issued but not fully paid.**	The share capital of the Company amounts to €380,376,059.67 and is divided into 134,475,308 ordinary bearer shares with no par value (*Stückaktien*) as of the date of the Prospectus. All shares of the Company issued as of the date of the Prospectus are fully paid up.
	The par value per share, or that the shares have no par value.	Notional value is €2.83 (rounded; mathematically correct: €2.82859) per share of the Company.
C.4	**A description of the rights attached to the securities.**	Each of the shares of the Company entitles the shareholder to one vote at the general shareholders' meeting of the Company and carries full dividend rights as from January 1, 2015. There are no restrictions on voting rights. Voting rights are the same for all of the Company's shareholders. In the event of the Company's liquidation, the Company's assets that remain after satisfaction of all liabilities of the Company will be distributed to the shareholders in proportion to their interest in the Company's share capital.
C.5	**A description of any restrictions on the free transferability of the securities.**	Not applicable. The Company's shares are freely transferable in accordance with the legal requirements for ordinary bearer shares. There are no restrictions on the transferability of the Company's shares other than the lock-up agreements described below under E.5.
C.6	**An indication as to whether the securities offered are or will be the object of an application for admission to trading on a regulated market and the identity of all the regulated markets where the securities are or are to be traded.**	The Company will apply for admission of its shares to trading on the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange and, simultaneously, on the sub-segment thereof with additional post-admission obligations (Prime Standard) on or about July 7, 2015. An admission decision regarding the shares of the Company is expected to be announced on or about July 15, 2015. Trading of the shares of the Company on the Frankfurt Stock Exchange is expected to commence on or about July 16, 2015.
C.7	**A description of dividend policy.**	The Company's ability and intention to pay dividends in the future will depend on its financial position, results of operations, capital requirements, investment alternatives and other factors that the Management Board and Supervisory Board may deem relevant, and any proposals by the Management Board and Supervisory Board regarding dividend payments will be subject to the approval at the general shareholders' meeting. The Company can provide no assurance that it will pay dividends in future years.

1.4 Section D – Risks

An investment in the Company's shares is subject to a number of risks. The following risks, alone or together with additional risks and uncertainties not currently known to the Company or that the Company might currently deem immaterial, could materially adversely affect the Company's business, financial position and results of operations. If any of these risks were to materialize, investors could lose all or part of their investments.

D.1 Key information on the key risks that are specific to the issuer or its industry.

Risks related to pbb Group's Business and the Industry in which it operates:

- pbb Group is exposed to risks arising from the general macro-economic conditions in the international financial markets and the global economy which may have a negative impact on their business conditions and opportunities.
- As a financial institution, the Company is exposed to the risk that actual or perceived liquidity problems of any institution or an actual or perceived default of such institution may negatively affect other financial institutions.
- Geopolitical conflicts may adversely impact the markets and any exacerbation or expansion in such conflicts could adversely affect the markets in which pbb Group is active.
- pbb Group has been and may continue to be directly affected by the European sovereign debt crisis, and it may be required to take impairments on its exposures to sovereign debt and on other financial instruments which benefit from public guarantees or similar instruments, such as its claims against HETA Asset Resolution AG.
- pbb Group is exposed to the risk of impairments and write-downs in relation to its loans and advances and to the risk that the relevant collateral may not be sufficient.
- pbb Group has a continuous demand for liquidity to fund its business activities and is exposed to liquidity risks which may negatively affect its ability to fulfill its obligations.
- pbb Group bears the risk that the ratings assigned to the Company, its Pfandbriefe and its other debt or hybrid instruments are downgraded which may have a negative effect on the funding opportunities, on triggers and termination rights within derivatives and other contracts and on access to suitable hedge counterparties and thus on its business, financial position and results of operation.
- pbb Group is exposed to market risks, in particular risks associated with volatility in credit spreads, interest rates and foreign currency exchange rates, which may have a negative effect on pbb Group's assets, financial position and results of operation.
- pbb Group is exposed to risks concerning customer and counterparty credit quality which may have a negative effect on pbb Group's assets, financial position and results of operation.
- The legal relationships between pbb Group and its customers are generally based on standard contracts and forms. Any errors in this documentation or unforeseen market developments or changes in the laws could have a significant negative effect for pbb Group.
- pbb Group is exposed to risks resulting from its cyclical and low-number high-value business model, which means that a failure to predict cyclical patterns or complete one or more large transactions could have a significant negative effect on pbb Group's business.

- pbb Group is exposed to risks resulting from full and partial principal repayments which, in particular, may lead to reinvestment pressure. pbb Group may also be exposed to risks where prepayment penalties have not been validly agreed.
- pbb Group is exposed to the risk of default in the cover pools for Pfandbriefe, which could result in breaches of the Pfandbrief Act and/or in downgrades of Pfandbrief ratings.
- Changes to the method of valuation of financial instruments may adversely affect pbb Group.
- pbb Group's risk management policies, procedures and methods leave it exposed to unidentified or unanticipated risks, which could lead to material losses.
- Coupon pusher on hybrid capital instruments that relate to dividend payments by HRE Holding may affect the recognition of these instruments as Additional Tier 1 capital instruments. Also dividend payments by HRE Holding may trigger coupon payments on these instruments even where pbb Group would not pay any dividends or other junior payments.
- pbb Group may have difficulty to issue new Additional Tier 1 capital instruments in the future which could materially harm pbb Group's business, financial situation and results of operations.
- pbb Group is exposed to operational risks related to systems and processes which may have a negative effect on pbb Group's assets, financial position and results. Operational risks may disrupt pbb Group's businesses.
- pbb Group's operational systems are subject to an increasing risk of cyber-attacks and other internet crime, which could result in material losses of client or customer information, damage pbb Group's reputation and lead to regulatory penalties and financial losses.
- pbb Group is exposed to operational risks related to failings of its key outsourcing suppliers, such as service interruptions.
- pbb Group may have difficulties selling assets, in particular of the Value Portfolio, at favorable prices or at all and may experience material losses from these assets and other investments irrespective of market developments.
- pbb Group might fail to retain or attract qualified management and employees essential for pbb Group's business.
- pbb Group is exposed to risks associated with its compensation system in the future, such as the risk of losing employees.
- pbb Group may be exposed to risks relating to its pension schemes such as funding deficits.
- Intense competition could materially adversely impact pbb Group's revenues and profitability, in particular in its home market Germany.
- Transactions with counterparties in countries designated by the U.S. State Department as state sponsors of terrorism or persons targeted by U.S. or EU economic sanctions may lead potential customers and investors to avoid doing business with pbb Group or investing in its securities, harm its reputation or result in regulatory action which could materially and adversely affect its business.
- pbb Group may be exposed to general reputational risks and reputational risks due to the (former) membership in the HRE Group.

- pbb Group may be exposed to third party challenges of pbb Group's compliance with the European State Aid Decision, which could result in an obligation to repay any State aid pbb Group received.
- pbb Group may fail to achieve its business and strategic objectives, and its historical results may not be representative of its future results while its interim results may not be an indicator of its full year results.
- It is impossible to determine or predict the outcome of litigation which pbb Group is facing or will be facing in the future, which may have a significant negative impact on pbb Group.
- The Company is a party to several proceedings before different German courts initiated by former holders of profit participation certificates (Genussscheine), and is likely to be exposed to further litigation in this respect, which could have a significant financial impact on pbb Group.
- pbb Group is exposed to the requests from commercial customers seeking compensation payments for loan handling fees (Kreditbearbeitungsentgelte) and may be exposed to further requests in the future, which could have a significant financial impact on pbb Group.
- pbb Group is exposed to payment claims resulting from appraisal proceedings relating to the merger of two mortgage banks with the Company in 2001.
- pbb Group may not have sufficient insurance coverage, which could have a significant financial impact on pbb Group.
- HRE Holding, FMS-WM and DEPFA Bank plc have agreed to indemnify pbb Group for certain liabilities. However, there can be no assurance that pbb Group will be able to enforce any claims under these indemnity agreements.

Risks Related to Regulatory, Legal and Tax Matters:

- Regulatory reforms relating to the financial sector together with increased regulatory scrutiny may create significant uncertainty for pbb Group and result in higher administrative expenses adversely affecting its ability to set up and execute its business and strategic plans.
- New legislation requires pbb Group to maintain a minimum level of capital and additional capital buffers, which may be increased over time and which may have a material adverse effect on pbb Group's business and profitability. Any capital shortage may lead to interventions by the supervisor.
- The change of the current group structure may lead to additional capital requirements or business activity limitations.
- pbb Group may continue to be required to maintain capital ratios in excess of own funds requirements (Pillar 1), in particular in respect of SREP Decisions and other Pillar 2 requirements.
- Regulatory constraints may negatively affect the ability of the Company to pay dividends.
- pbb Group is exposed to risks in relation to its AIRB modeling, which could reveal that RWAs have been understated and lead to regulatory interventions.
- Future Legislation could introduce a capital floor for risk weighted assets based on standardized, non-internal models, or other approaches. This could require pbb Group to maintain additional regulatory capital where risks are currently calculated based on internal ratings or an advanced measurement approach.

- pbb Group is subject to the risk of further stress tests which could lead to adverse effects on pbb Group and could lead to higher capital or liquidity needs.
- pbb Group is subject to risks attributable to periodic audits, inspections and similar proceedings conducted by regulators, such as findings of deficiencies.
- pbb Group is exposed to the risk that deposit guarantee schemes will lead to additional costs which may make it difficult to maintain the required capital.
- Changes to the risk-assessment concept may have an adverse impact on the capital ratio of pbb Group and may negatively affect pbb Group's business, financial position and earnings.
- The far reaching intervention rights under the Single Resolution Mechanism and the national law implementing the EU Bank Resolution and Recovery Directive may negatively affect pbb Group's assets, financial position and earnings. Proposed German legislation in connection with the recovery and resolution of banks and investment firms may result in regulatory consequences that could limit pbb Group's business operations and lead to higher refinancing costs.
- pbb Group may be exposed to increased regulations and measures in relation to the clearing of derivatives transactions which may lead to additional costs and may materially affect pbb Group's business and results of operation.
- The planned introduction of new bank levies and a financial transaction tax might make certain business activities of pbb Group unprofitable.
- pbb Group operates in an increasingly regulated environment. If pbb Group fails to comply with the wide range of laws and regulations applicable to its business, pbb Group or its representatives may become subject to regulatory investigations, regulatory restrictions, penalties, injunctive reliefs, litigation and criminal prosecution.
- pbb Group must comply with anti-money laundering and data protection regulations, which require pbb Group to monitor the compliance with such regulations and may lead to sensitive sanctions in the case of failure.
- pbb Group continues to bear risks related to FMS-WM despite the transfer of assets and liabilities and the termination of the servicing activities.
- pbb Group may be affected by increasingly rigorous scrutiny of transactions by tax authorities and could be subject to tax risks attributable to previous tax assessment periods.
- The preferential tax treatment in connection with the acquisition of the shares in HRE Holding by FMS in 2010 may be retroactively declared void which could result in a loss of deferred tax assets and could negatively affect the Company's ability to pay dividends.
- pbb Group is affected by the new accounting standard IFRS 9, which could negatively impact the Company's ability to distribute a dividend.

Risks Related to the Shareholder Structure:

- Even after completion of the Offering, HRE Holding and its shareholder will be able to exercise significant influence on the Company, and their interests could come into conflict with the interests of other investors.
- The withdrawal from the HRE Group and thus from being indirectly owned by the Federal Republic of Germany may lead to the loss of business opportunities and higher funding costs.

- The termination of the Comfort Letter issued by HRE Holding for the benefit of the Company may lead to higher costs to meet regulatory capital requirements, the loss of business opportunities and higher funding costs.
- The withdrawal from the HRE Group increases the likelihood of a downgrade of the ratings assigned to the Company and/or its debt or hybrid instruments which may have a negative effect on the Company's funding opportunities, triggers and termination rights within derivatives and other contracts and access to suitable hedge counterparties.
- pbb Group may lose tax losses and tax loss carry forwards in connection with the Offering, which would result in a higher effective tax rate and a loss of deferred tax assets, and could negatively affect the Company's ability to pay dividends.
- The Offering might not be completed and investors could lose security commissions paid and be exposed to risks from any short selling of the shares of the Company.

D.3 **Key information on the key risks that are specific to the securities.**

Risks Related to the Commencement of Trading of the Company's Shares:

- Future sales or market expectations of sales of a large number of shares by the Selling Shareholder could cause the share price to decline.
- The Company's shares have not yet been publicly traded, and there is no guarantee that a liquid market will develop or continue following the initial public offering.
- The price and trading volume of the Company's shares could fluctuate significantly, and investors could lose all or parts of their investments.
- Future capital increases could be dilutive and lead to substantial reductions in the value of the Company's shares.
- The Company may not pay dividends in future financial years, be it because it does not generate any balance sheet profit available for distribution, limitations under applicable law and regulations or for other reasons.

1.5 Section E – Offer

E.1 **The total net proceeds and an estimate of the total expenses of the issue/offer, including estimated expenses charged to the investor by the issuer or the offeror.**

The Company will not receive any proceeds from the offering which is described in the Prospectus. The total costs and expenses from the offering and listing are expected to be approximately €28 million (net) which will be borne by the Selling Shareholder.

The Selling Shareholder will receive the proceeds resulting from the sale of the Existing Shares (as defined below in E.3) and the proceeds resulting from a potential sale of Over-Allotment Shares (as defined below in E.3) to the extent the Greenshoe Option as defined below in E.3 is exercised.

The amount of the proceeds of this offering (the "**Offering**") as well as the costs related to the Offering, depend on the offer price, which also determines the Underwriters' commissions, and on the number of shares that will be placed in the Offering.

The Company estimates that at the low end, mid-point and high end of the price range set for the offering of the Offer Shares (as defined below in E.3) (the "**Price Range**"), gross proceeds to the Selling Shareholder (assuming placement of the maximum number of Existing Shares (as defined below in E.3) and assuming full exercise of the Greenshoe Option (as defined below in E.3)) would amount to approximately €1,156 million (low end), €1,264 million (mid-point) and €1,372 million (high end), respectively.

Assuming an offer price at the low end, mid-point and high end of the Price Range, and that the maximum number of Existing Shares (as defined below

		in E.3) is placed and the Greenshoe Option (as defined below in E.3) has been fully exercised, and assuming further payment in full of the discretionary fee of up to €2.9 million (low end), €3.2 million (mid-point) and €3.4 million (high end), respectively, the commission payable to the Underwriters will amount to €14.5 million, €15.8 million and €17.1 million, respectively. Assuming an offer price at the low end, mid-point and high end of the Price Range, and that the maximum number of Existing Shares (as defined below in E.3) is placed and the Greenshoe Option (as defined below in E.3) has been fully exercised, the Company estimates that at the low end, mid-point and high end of the Price Range, net proceeds for the Selling Shareholder would amount to approximately €1,114 million, €1,220 million and €1,327 million, respectively. Investors will not be charged with expenses by the Company or the Underwriters in connection with their role as underwriters.
E.2a	**Reasons for the offer, use of proceeds, estimated net amount of the proceeds.**	The German Government's financial support of the Entire HRE Group was deemed by the European Commission to have constituted state aid (the EU State Aid Decision). As a result of the European Commission's decision, the Company must be privatized by the end of 2015. A divestment by way of an initial public offering ("**IPO**") of the Company complies with the European Commission's decision. The Company also intends to achieve better access to the capital markets due to the planned listing of its shares on the regulated market segment of the Frankfurt Stock Exchange and, simultaneously, on the sub-segment thereof with additional post-admission obligations (Prime Standard). The Company will not receive any proceeds from the Offering. The Company estimates that at the low end, mid-point and high end of the Price Range, net proceeds for the Selling Shareholder (assuming placement of the maximum number of Existing Shares (as defined below in E.3) and assuming full exercise of the Greenshoe Option (as defined below in E.3)) would amount to approximately €1,114 million, €1,220 million and €1,327 million, respectively.
E.3	**A description of the terms and conditions of the offer.**	The Offering consists of a total of 107,580,245 ordinary bearer shares of the Company with no par value (*Stückaktien*), each such share with a notional value of €2.83 (rounded; mathematically correct: €2.82859) in the share capital and with full dividend rights as from January 1, 2015, comprising: • 100,990,956 existing ordinary bearer shares with no par value from the holdings of the Selling Shareholder (the "**Existing Shares**"); and • 6,589,289 existing ordinary bearer shares with no par value from the holdings of the Selling Shareholder to cover a potential over-allotment (the "**Over-Allotment Shares**", together with the Existing Shares, the "**Offer Shares**"). For the purposes of admission to trading on the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange, with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange, the Prospectus relates to a total of 134,475,308 ordinary bearer shares with no par value of the Company (existing share capital) each with a notional value of €2.83 (rounded; mathematically correct: €2.82859) in the share capital and full dividend rights as from January 1, 2015. The Offering consists of initial public offerings in the Federal Republic of Germany and the Grand Duchy of Luxembourg and private placements in certain jurisdictions outside the Federal Republic of Germany and the Grand Duchy of Luxembourg. In the United States of America (the "**United States**"), the Company's shares are being offered for sale to qualified institutional

buyers as defined in and in reliance on Rule 144A under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"). Outside the United States, the Company's shares are being offered in reliance on Regulation S under the Securities Act.

The Offer Shares have not been and will not be registered under the Securities Act, or the securities laws of any other jurisdiction of the United States and may not be offered, sold or otherwise transferred within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction in the United States.

Offer Period

The period during which investors may submit purchase orders for the Offer Shares will commence on July 8, 2015 and is expected to end on July 15, 2015, (i) at 12:00 (Central European Summer Time) for retail investors and (ii) at or at about 14:00 (Central European Summer Time) for institutional investors.

Price Range and Offer Price

The Price Range within which purchase offers may be submitted ranges from €10.75 to €12.75 per share. The Selling Shareholder expects to set the offer price jointly with the Joint Global Coordinators, on the basis of the purchase orders submitted by investors that have been collated in the order book prepared during a bookbuilding process, on or about July 15, 2015. The offer price is expected to be published in various media distributed across the entire European Economic Area ("*Medienbündel*") and on the Company's website (www.pfandbriefbank.com/investor-relations.html).

Amendments to the Terms of the Offering

The Selling Shareholder reserves the right, after consultation with the Joint Bookrunners, to reduce or increase the number of shares offered, to reduce or increase the upper/lower limits of the Price Range and/or to extend or curtail the offer period. The Selling Shareholder may increase the total number of shares offered in the Offering up to a maximum of the total number of shares for which the application for admission to the regulated market of the Frankfurt Stock Exchange is filed in accordance with the Prospectus or any supplement published.

The underwriting agreement between the Company, the Selling Shareholder and each of the Underwriters, dated on or about June 26, 2015 (the "**Underwriting Agreement**"), provides that the Underwriters may terminate the Underwriting Agreement under certain circumstances, even after the shares have been allotted and listed, up to delivery and settlement. If the Underwriting Agreement is terminated, the Offering will not take place. In this case, any allotments already made to investors will be invalidated, and investors will have no claim for delivery. Claims with respect to security commissions already paid and costs incurred by an investor in connection with the subscription will be governed solely by the legal relationship between the investor and the institution to which the investor submitted its purchase order. Investors who engage in short selling bear the risk of being unable to satisfy their delivery obligations.

Delivery and Payment

The delivery of the Offer Shares against payment of the offer price is expected to take place on or about July 20, 2015. The Offer Shares will be made available to shareholders as co-ownership interests in the global share certificate.

Stabilization Measures, Over-Allotment and Greenshoe Option

In connection with the placement of the Offer Shares, Deutsche Bank, or persons acting on its behalf, will act as stabilization manager on behalf of the

		Underwriters and after consultation with the other Joint Global Coordinator and may, acting in accordance with legal requirements, make over-allotments and take stabilization measures to support the market price of the shares of the Company and thereby counteract any selling pressure (the "**Stabilization Manager**"). The Stabilization Manager is under no obligation to take any stabilization measures. No assurance can therefore be provided that any stabilization measures will be taken. Where stabilization measures are taken, these may be terminated at any time without notice. Such measures may be taken from the date the Company's shares are listed on the regulated market of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and must be terminated no later than 30 calendar days after this date (the "**Stabilization Period**"). These measures may result in the market price of the Company's shares being higher than it would otherwise have been the case. Moreover, the market price may temporarily be at an unsustainable level. Under the possible stabilization measures, investors may, in addition to the Existing Shares, be allotted up to 6,589,289 additional shares (Over-Allotment Shares) in the Company from the holdings of the Selling Shareholder as part of the allotment of the shares to be placed. In order to cover a potential over-allotment, the Stabilization Manager will be provided for the account of the Underwriters in the form of a securities loan with up to 6,589,289 shares from the Selling Shareholder; this number of shares will not exceed 15% of the number of shares offered excluding any over-allotment. In addition, the Selling Shareholder has granted the Underwriters an option to acquire the borrowed shares at the offer price less agreed commissions ("**Greenshoe Option**"). The Greenshoe Option shall be exercisable by Deutsche Bank acting as stabilization manager on behalf of the Joint Global Coordinators or Underwriters, and in coordination/agreement with the Joint Global Coordinators, and will terminate 30 calendar days after commencement of the stock exchange trading of the shares. Once the Stabilization Period has ended, an announcement will be made within one week in various media distributed across the entire European Economic Area ("*Medienbündel*") as to whether stabilization measures were taken, when price stabilization started and finished, and the Price Range within which stabilization was taken; the latter will be made known for each occasion on which price stabilization measures were taken. Exercise of the Greenshoe Option, the timing of exercise and the number of shares concerned will also be announced promptly in the manner stated. **Allotment Criteria** The allotment of shares to retail investors and institutional investors will be decided jointly with the Joint Global Coordinators. The ultimate decision rests with the Selling Shareholder. Allotments will be made on the basis of the quality of the individual orders and other important allotment criteria to be determined after consultation with the Joint Global Coordinators. The allotment process will be in line with the EU State Aid Decision and, thus, open, transparent and non-discriminatory.
E.4	**A description of any interest that is material to the issue/offer including conflicting interests.**	In connection with the Offering and admission to trading of the Company's shares, the Underwriters have formed a contractual relationship with the Company and the Selling Shareholder. The Underwriters act for the Company and the Selling Shareholder on the Offering and coordinate the structuring and execution of the Offering. In addition, Citigroup and Deutsche Bank are acting as Joint Global Coordinators and Joint Bookrunners in the Offering. J.P. Morgan, Berenberg

		and Commerzbank have been appointed as additional Joint Bookrunners. In addition, Deutsche Bank has been appointed as designated sponsor for the shares. Deutsche Bank has been appointed as paying agent. The Underwriters will receive a commission and other payments upon successful completion of the Offering. The amount of the commission will depend on the size of the Offering and the offer price. The Underwriters therefore have an interest that as many shares as possible are placed at the highest price possible. Deutsche Bank will only receive fees as designated sponsor or paying agent, respectively, if the Offering is completed. The Joint Bookrunners and their affiliates have provided and may in the future, from time to time, provide services to companies of the Group and/or the Selling Shareholder in the ordinary course of business in their capacity as financial institutions, in particular advisory services in connection with M&A and financing transactions. They may at any time in the future act as principal or agent for one or more than one party, hold long or short positions, and may trade or otherwise effect transactions, for their own account or the accounts of customers, in debt or equity securities or loans of the Group. In the event of a successful Offering, the other Underwriters may also be selected as financial advisor in future transactions or act as lender or arranger of future financing transactions or trade for their own account or the accounts of customers, in debt or equity securities or loans of pbb Group. Furthermore, in connection with the Offering, each of the Underwriters and any of their respective affiliates, acting as an investor for their own account, may acquire shares in the Offering and in that capacity may retain, purchase or sell for its own account such shares or related investments and may offer or sell such shares or other investments otherwise than in connection with the Offering. In addition, certain of the Underwriters or their affiliates may enter into financing arrangements (including swaps or contracts for differences) with investors in connection with which Underwriters (or their affiliates) may from time to time acquire, hold or dispose of shares in the Company. HRE Holding is the direct shareholder of the Company and as such has an influence on the decisions which the Company will take with respect to the Offering. HRE Holding will receive the proceeds resulting from the Offering. Consequently, HRE Holding and its sole shareholder FMS have an interest in the success of the Offering on the best possible terms.
E.5	**Name of the person or entity offering to sell the security.** **Lock-up agreements: the parties involved; and indication of the period of the lock up.**	The Company's shares are being offered for sale by the Underwriters. In the Underwriting Agreement, the Company has committed to an obligation vis-à-vis the Underwriters in accordance with the relevant provisions of German securities law that it will refrain from certain measures regarding capital increases and measures with similar effect during the period commencing on the date of the Underwriting Agreement and ending 180 days after the date of the first day of trading of the shares of the Company on the Frankfurt Stock Exchange without the prior written consent of the Joint Global Coordinators, which may not be unreasonably withheld or delayed, and subject to certain exceptions. In the Underwriting Agreement, HRE Holding has committed, *inter alia*, to an obligation vis-à-vis the Underwriters that it will not enter into certain transactions regarding its shares or take part in certain measures regarding the Company's share capital during the period commencing on the date of the Underwriting Agreement and ending 180 days after the date of the first day of trading of the shares of the Company on the Frankfurt Stock Exchange without the prior written consent of the Joint Global Coordinators, which may not be unreasonably withheld or delayed, and subject to certain exceptions. In addition to the lock-up commitment of the Selling Shareholder in the Underwriting Agreement as outlined above, HRE Holding, the Company, FMS and FMSA entered into a lock-up agreement (the "**HRE Lock-up Agreement**")

		on or about June 22, 2015. The recitals to the HRE Lock-up Agreement state as the basis for HRE Holding's and FMS' willingness to enter into a lock-up commitment vis-à-vis the Company that prior to the re-privatization of the Company the indirect shareholding of the Federal Republic of Germany in the Company has been taken into account for the purpose of determining the Company's issuer credit rating, and that such indirect shareholding continues to be both sufficient and required for the Company to maintain the issuer credit rating at investment grade level. In the HRE Lock-up Agreement, HRE Holding undertakes (this undertaking referred to as the "**HRE Lock-up Commitment**") with the Company for a period commencing on the date of the HRE Lock-up Agreement and ending two years after the first day of trading of the shares of the Company on the Frankfurt Stock Exchange (the "**First Day of Trading**") (the "**HRE Lock-up Period**") not to enter into certain transactions regarding its shares in the Company or take part in certain measures regarding the Company's share capital. The Company expects that, upon the expiry of the HRE Lock-up Period, the Federal Republic of Germany will aim at reducing its (indirect) holding in the Company in a gradual manner. The HRE Lock-up Commitment is subject to certain exceptions. These exceptions include in particular the following transactions: (i) transactions that do not result in a direct or indirect holding by HRE Holding, FMS or the Federal Republic of Germany below a threshold of 24.9% (or, if the Greenshoe Option has been exercised, the percentage of HRE Holding's shareholding in the Company immediately after the exercise of the Greenshoe Option, but in any event a threshold of at least 20.0%) of the registered share capital of the Company from time to time (the "**HRE Lock-up Threshold**"); (ii) off-market transactions with FMS or controlled entities of HRE Holding or the Federal Republic of Germany, provided that the counterparties of HRE Holding in such transaction (each a "**HRE Transferee**") assume for the then-remaining part of the HRE Lock-Up Period the same obligation to the Company as HRE Holding with respect to the HRE Lock-up Commitment and certain other obligations under the HRE Lock-up Agreement; (iii) transactions resulting in a transfer of the direct shareholding of HRE Holding and/or the indirect shareholding of FMS or the Federal Republic of Germany in the Company (or part thereof) to one or more third parties if the relevant rating agency at that time has confirmed to the Company or HRE Holding (or any successor), prior to the respective transfer, that it will not downgrade the relevant issuer credit rating of the Company at such time below investment grade level; and (iv) transactions to which the Company has granted prior written consent to HRE Holding.
E.6	**The amount and percentage of immediate dilution resulting from the offer. In case of a subscription offer to the existing equity holders, the amount and percentage of immediate dilution if they do not subscribe to the new offer.**	Not applicable. The Offering comprises only existing shares of the Company and will not lead to any dilution. The net asset value of pbb Group according to IFRS amounted to €3,569 million as of May 31, 2015. This corresponds to €26.54 per share of the Company (calculated on the basis of the currently existing 134,475,308 shares of the Company). Assuming the repayment of the SoFFin Silent Participation at par had occurred prior to May 31, 2015, the net asset value of pbb Group according to IFRS would have amounted to €2,569 million as of May 31, 2015. This would correspond to €19.11 per share of the Company (calculated on the basis of the currently existing 134,475,308 shares of the Company).
E.7	**Estimated expenses charged to the investor by the issuer or the offeror.**	Not applicable. Investors will not be charged with expenses by the Company or the Underwriters in connection with their role as underwriters.

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2 ZUSAMMENFASSUNG DES PROSPEKTS (GERMAN TRANSLATION OF THE SUMMARY OF THE PROSPECTUS)

Zusammenfassungen bestehen aus erforderlichen Angaben, die als "Punkte" bezeichnet werden. Diese Punkte sind in den Abschnitten A – E (A.1 – E.7) fortlaufend nummeriert. Diese Zusammenfassung enthält alle Punkte, die für die vorliegende Art von Wertpapieren und Emittenten in eine Zusammenfassung aufzunehmen sind. Da einige Punkte nicht behandelt werden müssen, können in der Nummerierungsreihenfolge Lücken auftreten. Selbst wenn ein Punkt wegen der Art der Wertpapiere und des Emittenten in die Zusammenfassung aufgenommen werden muss, ist es möglich, dass in Bezug auf diesen Punkt keine relevanten Informationen gegeben werden können. In diesem Fall enthält die Zusammenfassung eine kurze Beschreibung des Punktes mit dem Hinweis "Entfällt".

2.1 Abschnitt A – Einleitung und Warnhinweise

A.1	**Warnhinweise.**	Diese Zusammenfassung sollte als Einführung zu diesem Prospekt (der "**Prospekt**") verstanden werden. Bei jeder Anlageentscheidung bezüglich der Aktien der Deutsche Pfandbriefbank AG, München, Deutschland, sollte sich der Anleger auf die Prüfung des gesamten Prospekts stützen. Für den Fall, dass vor einem Gericht Ansprüche auf Grund der in dem Prospekt enthaltenen Informationen geltend gemacht werden, könnte der klagende Anleger unter den einzelstaatlichen Rechtsvorschriften des entsprechenden Staats des Europäischen Wirtschaftsraums die Kosten für die Übersetzung des Prospekts vor Prozessbeginn zu tragen haben. Diejenigen Personen, die die Verantwortung für die Zusammenfassung einschließlich der Übersetzung hiervon übernommen haben oder von denen der Erlass ausgeht, können haftbar gemacht werden, jedoch nur für den Fall, dass die Zusammenfassung irreführend, unrichtig oder widersprüchlich ist, wenn sie zusammen mit den anderen Teilen des Prospekts gelesen wird, oder sie, wenn sie zusammen mit den anderen Teilen des Prospekts gelesen wird, nicht alle erforderlichen Schlüsselinformationen vermittelt. Die Deutsche Pfandbriefbank AG, München, Deutschland (im Folgenden auch "**pbb AG**" oder die "**Gesellschaft**" und, gemeinsam mit ihren direkten und indirekten Tochtergesellschaften, die "**pbb Gruppe**", die "**Gruppe**" oder "**pbb**") sowie Citigroup Global Markets Limited, London, Vereinigtes Königreich ("**Citigroup**") und Deutsche Bank Aktiengesellschaft, Frankfurt am Main, Deutschland ("**Deutsche Bank**" und, gemeinsam mit Citigroup, die "**Joint Global Coordinators**"), J.P. Morgan Securities plc, London, Vereinigtes Königreich ("**J.P. Morgan**"), Joh. Berenberg, Gossler & Co. KG, Hamburg, Deutschland ("**Berenberg**") und COMMERZBANK Aktiengesellschaft, Frankfurt am Main, Deutschland ("**Commerzbank**", gemeinsam mit J.P. Morgan, Berenberg und den Joint Global Coordinators, die "**Joint Bookrunners**" und die "**Konsortialbanken**") übernehmen gemäß § 5 Absatz 2b Nr. 4 Wertpapierprospektgesetz die Verantwortung für diese Zusammenfassung, einschließlich ihrer deutschen Übersetzung.
A.2	**Zustimmung zur späteren Verwendung des Prospekts.**	Entfällt. Eine Zustimmung der Gesellschaft zur Verwendung des Prospekts für einen späteren Weiterverkauf oder eine endgültige Platzierung der Aktien durch Finanzintermediäre ist nicht erteilt worden.

2.2 Abschnitt B – Emittent

B.1	**Juristische und kommerzielle Bezeichnung.**	Die juristische Bezeichnung der Gesellschaft zum Datum des Prospekts ist Deutsche Pfandbriefbank AG. Die kommerzielle Bezeichnung der Gesellschaft lautet "pbb Deutsche Pfandbriefbank" oder "pbb".

B.2	**Sitz, Rechtsform, geltendes Recht, Land der Gründung.**	Die Gesellschaft hat ihren Sitz in München, Deutschland, und ist im Handelsregister des Amtsgerichts München, Deutschland, unter HRB 41054 eingetragen. Ihre Geschäftsadresse lautet: Freisinger Str. 5, 85716 Unterschleißheim, Deutschland. Die Gesellschaft ist eine deutsche Aktiengesellschaft, die in Deutschland gegründet wurde und deutschem Recht unterliegt.
B.3	**Art der derzeitigen Geschäftstätigkeit und Haupttätigkeiten des Emittenten samt der hierfür wesentlichen Faktoren unter Angabe der Hauptprodukt- und/oder -dienstleistungskategorien sowie Hauptmärkte, auf denen der Emittent vertreten ist.**	**Übersicht der Geschäftstätigkeit** Das Kerngeschäft der pbb Gruppe ist die gewerbliche Immobilienfinanzierung (sog. Real Estate Finance, "**REF**"), und die Unterstützung der öffentlichen Hand bei der Finanzierung von Projekten zur öffentlichen Infrastruktur sowie die öffentlich garantierte Exportfinanzierung (zusammen sog. Public Investment Finance, "**PIF**"). Die pbb Gruppe sieht sich als eine der führenden Spezialbanken für die gewerbliche Immobilienfinanzierung (REF) und die Öffentliche Investitionsfinanzierung (PIF) in Europa. Sie verfügt über eine starke lokale Präsenz und Know-how über den gesamten Finanzierungsprozess in diesen Segmenten in ihren Kernmärkten Deutschland, Großbritannien und Frankreich. Die pbb Gruppe ist ebenfalls in den nordischen Ländern (insbesondere Schweden), einzelnen Ländern in Mittel- und Osteuropa (insbesondere Polen, der Tschechischen Republik, Slowakei und Ungarn), Spanien, den Benelux-Staaten und anderen europäischen Ländern vertreten. Die pbb Gruppe wird sorgfältig die Möglichkeit prüfen, eine Marktpräsenz außerhalb der Märkte wieder aufzubauen, in denen sie zum Datum des Prospekts bereits operiert. Im Segment REF konzentriert die pbb Gruppe sich hauptsächlich auf mittlere und größere Finanzierungen zwischen €10 Millionen und €120 Millionen pro Projekt (Final Hold (also der Anteil eines Kredits, der in den Büchern der pbb Gruppe verbleibt)), in ausgewählten Fällen auch mit größeren Transaktionsvolumina, für professionelle Immobilieninvestoren, insbesondere in den Immobilienarten Büro, Einzelhandel, Wohnungen, Logistik und Hotels. Nach eigener Einschätzung und aufgrund von Daten und Informationen des Verbands deutscher Pfandbriefbanken ("**VdP**") ("**VdP Informationen**") sowie öffentlicher Unternehmenszahlen der Mitbewerber war die pbb Gruppe 2013 und 2014 jeweils gemessen am Neugeschäftsvolumen die drittgrößte REF-Darlehensgeberin in Deutschland und gehörte zu den aktivsten REF-Darlehensgebern in Europa. Im Segment PIF finanziert die pbb Gruppe Investitionen der öffentlichen Hand für Projekte, wie z.B. in den Bereichen kommunaler Wohnungsbau, Infrastruktur und öffentlich garantierte Exporte. In beiden Segmenten tritt die pbb Gruppe entweder als alleinige Darlehensgeberin oder mit Finanzierungspartnern, einschließlich anderen Banken, Versicherern und Private Equity Investoren auf. Die pbb Gruppe verkauft ebenfalls Derivate zur Absicherung von Marktrisiken (hauptsächlich Zinsänderungsrisiko und seltener Währungsrisiko) in Zusammenhang mit dem Darlehensgeschäft. Neben den Geschäftsfeldern REF und PIF verfügt die pbb Gruppe über ein nicht-strategisches Portfolio ("**Value Portfolio**" bzw. "**VP**"); es beinhaltet hauptsächlich bestimmte öffentliche Finanzierungsaktiva (d.h. Budgetfinanzierungen, die nicht dem Zweck der Investition dienen, hauptsächlich in der Form von Anleihen und Schuldscheindarlehen), sowie einzelne Immobilien und Aktiva der öffentlichen Hand (inklusive italienischer Aktiva, die nach Schließung der Niederlassung in Rom zum 1. Januar 2015 aus dem PIF-Portfolio übertragen wurden). Das Segment VP ist seit mehreren Jahren zum Abbau bestimmt. Die pbb Gruppe verfügt ferner über ein Segment 'Consolidation and Adjustments' ("**C&A**"), welches sich hauptsächlich auf Vermögensverwaltungstätigkeiten und die Kapitalbeteiligungen der pbb Gruppe konzentriert.

Die Darlehensgeschäfte der pbb Gruppe werden hauptsächlich über den Pfandbriefmarkt refinanziert, ergänzt u.a. durch ungedeckte Refinanzierungen, Privatkundeneinlagen, Geldmarktinstrumente sowie Nachrangkapital und hybride Kapitalinstrumente. Das Ziel der pbb Gruppe ist es, die Fälligkeitsdaten ihrer Refinanzierungsinstrumente mit den bewilligten Finanzierungen innerhalb ihres Darlehensgeschäfts zusammenfallen zu lassen. In den vergangenen Geschäftsjahren hat das REF-Geschäft der pbb Gruppe für stabile Renditen gesorgt und die pbb Gruppe erwartet auch weiterhin einen positiven Deckungsbeitrag aus ihrer Tätigkeit in den Segmenten REF und PIF. Die pbb Gruppe plant kurz- bis mittelfristig eine strukturelle Verbesserung ihrer Rentabilität durch eine Umverteilung des Kapitals aus dem Abbau des Segments VP auf ihre strategischen Geschäftsfelder REF und PIF.

Die pbb Gruppe verfolgt einen konservativen und integrierten, auf die Segmente REF, PIF, VP und C&A zugeschnittenen Risikomanagementansatz. Seit der Finanzkrise und im Zuge eines beträchtlichen Portfoliotransfers zur FMS Wertmanagement, einer öffentlich-rechtlichen Abwicklungsanstalt ("**FMS-WM**"), hat die pbb Gruppe einen deutlichen Abbau ihrer Altbestände von Aktiva betrieben. Die pbb Gruppe (als Teil der Gruppe unter der Leitung der Hypo Real Estate Holding AG, München (auch "**HRE Holding**" oder der "**Verkaufende Aktionär**"; die HRE Holding gemeinsam mit ihren Tochtergesellschaften und verbundenen Unternehmen, aber ohne die pbb Gruppe, die "**HRE Gruppe**", und gemeinsam mit der pbb Gruppe die "**Gesamte HRE Gruppe**")) hat die jüngste Prüfung der Aktiva-Qualität ("**AQR**") der Banken und den Stresstest der Europäischen Zentralbank ("**EZB**"), die auf der Ebene der HRE Holding und der Gesamten HRE Gruppe unter Berücksichtigung von deren (zusätzlichen) Kapitalpositionen durchgeführt wurden, bestanden.

Zum 31. März 2015 hatte die pbb Gruppe 842 Mitarbeiter an zehn Standorten in sechs Ländern (Deutschland, Großbritannien, Frankreich, Spanien, Schweden und Japan), wobei der Großteil der Mitarbeiter in Deutschland beschäftigt war.

Wettbewerbsstärken

Nach Einschätzung der pbb Gruppe verfügt ihr Geschäft über die folgenden Wettbewerbsstärken:

- Eine führende Spezialbank für die gewerbliche Immobilienfinanzierung (REF) und die öffentliche Investitionsfinanzierung (PIF) in Europa

  Die pbb Gruppe verfolgt ein rentables, stabiles und nachhaltiges Geschäftsmodell auf der Basis einer zwei-Segmente-Strategie mit ihren Geschäftsfeldern REF und PIF. Die beiden Geschäftsfelder ergänzen sich dadurch, dass sie den effizienten Einsatz von regulatorischem und ökonomischem Kapital ermöglichen (mit Rücksicht auf Common Equity Tier 1 ("**CET 1**") und Verschuldung). Durch die zwei-Segmente-Strategie erzielt die pbb Gruppe eine Diversifizierung ihrer Gewinne, während der pbb Gruppe gleichzeitig ermöglicht wird, Skaleneffekte sowie Verbundvorteile zu erzielen.

  Aufgrund des Neugeschäftsvolumens 2013 und 2014 (basierend auf Kreditzusagen) zählte die pbb Gruppe zu den aktivsten Darlehensgebern in den Segmenten REF und PIF in Deutschland und Europa (nach eigener Einschätzung). Die pbb Gruppe ist der Meinung, dass sie zu den wenigen Finanzdienstleistern in Europa mit Erfahrung in den Segmenten REF und PIF zählt sowie über eine solide Akquisitionsplattform mit Präsenz und Know-how in den europäischen Kernmärkten und anderen strategischen Märkten verfügt.

- Starke Präsenz in Europa, lokales Know-how und weitreichende interne Erfahrung über den gesamten Finanzierungsprozess hinweg

  Die pbb Gruppe sieht sich selbst als einer der wenigen europäischen Finanzierer mit Kenntnissen, Erfahrungen und Kundenbeziehungen sowohl im REF als auch PIF Bereich. Sie sieht ihre Stärken insbesondere in der breiten Abdeckung von verschiedenen Immobilienklassen, der Strukturierungskompetenz, Projektkenntnissen und der Vertriebskraft durch Unterstützung ihrer starken Vertriebsplattform mit Produkt- und Sektorenexpertise in den strategischen europäischen Märkten.

  Dank ihrer bedeutenden Vertretung vor Ort durch neun Niederlassungen in Europa mit sehr erfahrenen und leistungsfähigen Mitarbeitern verfügt die pbb Gruppe über fundiertes Wissen in ihren strategischen Märkten, in denen sie ihre Geschäftsfelder REF und PIF betreibt. Das interne Wissen erlaubt es der pbb Gruppe, maßgeschneiderte Lösungen für komplexe, aufwendige Transaktionen, die mehrere Rechtsräume umfassen, anzubieten.

- Erfolgsbilanz im rentablen Neugeschäft und dadurch erhöhte Rentabilität auf Gruppenebene

  Die pbb Gruppe weist eine Erfolgsbilanz in der Rentabilität ihrer Geschäftsfelder REF und PIF auf. Die durchschnittlichen Bruttomargen im REF-Neugeschäft betrugen zwischen >225 Basispunkten im Jahr 2012 und >200 Basispunkten im Jahr 2014. Im PIF-Neugeschäft lagen die durchschnittlichen Bruttomargen zwischen >140 und >75 Basispunkten pro Jahr für den gleichen Zeitraum. Die angepasste Eigenkapitalrendite (auch "**RoE**") vor Steuern (berechnet auf Grundlage des durchschnittlichen monatlichen IFRS-Eigenkapitals unter Ausschluss der Neubewertungsrücklage, ohne Berücksichtigung der vom Finanzmarktstabilisierungsfonds ("**FMS**" oder auch "**SoFFin**") gehaltenen stillen Einlage mit Nominalwert von €1,0 Milliarde (die "**Stille Einlage des SoFFin**")) betrug 55,8% im ersten Quartal des Geschäftsjahres 2015, 20,0% im Geschäftsjahr 2014 und 40,0% im Geschäftsjahr 2013 (einschließlich einmaliger Effekte aus dem Verkauf einer restrukturierten Immobilie) im Segment REF der pbb Gruppe und 13,7% im ersten Quartal des Geschäftsjahres 2015 und 1,2% im Geschäftsjahr 2014 (<0% im Geschäftsjahr 2013) im Segment PIF der pbb Gruppe.

  Der Abbau des Segments VP der pbb Gruppe wird voraussichtlich eine positive Auswirkung auf die Bruttomargen der pbb Gruppe haben. Der Abbau des Segments VP setzt Kapital frei, das für den möglichen Aufbau von Aktiva mit höheren Margen in den Segmenten REF und PIF eingesetzt werden kann, ohne dass weiteres aufsichtsrechtliches Kapital erforderlich wird.

- Umfassend integriertes Risikomanagement (front-to-back) und konservative Zeichnungsbedingungen führen zu anhaltend hoher Aktiva-Qualität

  Enge Kundenbeziehungen, frühzeitige Einbindung der Geschäftsleitung in den Zeichnungsprozess und sorgfältiges Portfoliomanagement bilden einen effizienten Risikomanagementrahmen für die pbb Gruppe.

  Der Zeichnungsprozess und die Zeichnungsrahmenbedingungen der pbb Gruppe sind äußerst selektiv und basieren auf einer strengen Prüfung des internen voraussichtlichen Verlustklassen-Ratings, der Bewertung von Sicherheiten, konservativen Beleihungsverhältnissen (loan to value, "**LTV**") im Segment REF sowie diversifizierten Aktiva. Dies wird durch eine hochmoderne IT-Infrastruktur ergänzt, die eine Analyse der bestehenden

Exposures und der Risikokalkulation durch internen Informationsaustausch ermöglicht. Der Property Analysis and Valuation ("**PAV**") Bereich der pbb Gruppe ist unmittelbar in den Zeichnungsprozess einbezogen, berät zu immobilienbezogenen Risiken und leitet den Bewertungsprozess der Immobilien. Dieser Ansatz hat zu einer hohen Qualität der Aktiva geführt.

Die pbb Gruppe (als Teil der Gesamten HRE Gruppe) hat ihre Widerstandsfähigkeit und gute Aktiva-Qualität im AQR und Stresstests der EZB im Jahr 2014 mit Kapitalquoten, die die Bedingungen für 2016 erfüllen, unter Beweis gestellt.

- Adäquate Liquiditätsreserven und eine stabile, diversifizierte Finanzierungsbasis mit dem Pfandbrief als Hauptrefinanzierungsinstrument

  Die pbb Gruppe unterhält eine konservative Bilanz mit einem diversifizierten Finanzierungsprofil. Der Pfandbrief als das Hauptrefinanzierungsinstrument der pbb Gruppe ist eine vergleichsweise günstige Refinanzierungsquelle mit niedrigen Spannen. Gemessen am ausstehenden Volumen ist die pbb Gruppe als größter Pfandbrief-Emittent in Deutschland (Quelle: VdP Informationen) am Kapitalmarkt gut aufgestellt. Die Refinanzierung durch Pfandbriefe wird u.a. ergänzt durch ungedeckte Refinanzierungen, Privatkundeneinlagen, Geldmarktinstrumente sowie Nachrangkapital und hybride Kapitalinstrumente.

  Zum 31. März 2015 verfügte die pbb Gruppe über Liquiditätsreserven mit einer Liquidity Coverage Ratio (Liquiditätsdeckungskennziffer) ("**LCR**") von über 200% (über 150% ohne die Stille Beteiligung des SoFFin) und einer Net Stable Funding Ratio (Stabile Finanzierungskennziffer) ("**NSFR**") von über 100% (in beiden Fällen basierend auf derzeitigen Vorschriften der Kapitaladäquanzverordnung (Capital Requirements Regulation, "**CRR**").

Strategie

Die strategischen Hauptziele der pbb Gruppe sind:

- Spezialanbieterin strukturierter Finanzierungen gewerblicher Immobilien und Investitionen der öffentlichen Hand mit klarem Schwerpunkt

  Die pbb Gruppe wird sich weiterhin auf in- und ausländische gewerbliche Immobilieninvestoren sowie Kunden der öffentlichen Hand und öffentlich-private Partnerschaften (sog. *public private partnerships*, "**PPP**") konzentrieren. Ihre Kernprodukte bleiben Investitionen über Pfandbrieffinanzierungen, Entwicklungsfinanzierungen mit geringem Risiko sowie durch Export Credit Agencies (ECA) garantierte Exportfinanzierungen für Einzelprojekte zwischen €10 Millionen bis €120 Millionen. In ausgewählten Fällen zeichnet die Gesellschaft auch Finanzierungen mit größeren Volumen. Die pbb Gruppe konzentriert sich auch weiterhin auf die Finanzierung der Immobilienarten Büro, Einzelhandel, Wohnungen und Logistik mit einem konservativen LTV im REF Geschäft; im PIF Geschäft liegt der Schwerpunkt auf Infrastruktur, sozialem Wohnungsbau, Gesundheitswesen, Altenpflege und Versorgungsunternehmen.

- Nutzung des festen Standbeins in den Kernmärkten und anderen strategischen europäischen Märkten, insbesondere Deutschland

  Die pbb Gruppe beabsichtigt, sich auch weiterhin auf die Kernmärkte und andere strategische europäische Märkte zu konzentrieren. Sie hat kürzlich neue Büros in Berlin, Düsseldorf, Hamburg und Stockholm eröffnet und weitere Vertriebsmitarbeiter und Finanzierungspartner in Deutschland, Großbritannien und Frankreich eingebunden. In diesen

Verkaufsniederlassungen sind engagierte, lokale Verkaufs-, Kredit-, Rechts-, Markt- und Immobilienspezialisten. Das ermöglicht es der pbb Gruppe, ihre Beschaffungsfähigkeiten und ihre lokale Marktkenntnis wirkungsvoll auszunutzen, um effektiv in den Kernmärkten zu konkurrieren. Gleichzeitig wird die pbb Gruppe sorgfältig die Möglichkeit prüfen, eine Marktpräsenz außerhalb der Märkte wieder aufzubauen, in denen sie zum Datum des Prospekts operiert.

- Steigerung der Gesamtrentabilität der Gruppe

  Die pbb Gruppe wird sich auch weiterhin auf gewinnorientiertes und attraktives, rentables Neugeschäft anstatt auf marktanteilorientiertes Kreditgeschäft konzentrieren. Ihr Zeichnungsprozess bleibt weiterhin äußerst selektiv mit strikten Prüfungen, Immobilienanalysen und einem strikten Fokus auf Ertragshürden.

  Die pbb Gruppe beabsichtigt Kapital, das durch den Abbau des Segments VP, das niedrige Renditen erwirtschaftet, freigesetzt wurde, in das Neugeschäft in den Segmenten REF und PIF mit höheren Renditen zu investieren und dabei die Portfoliobruttomargen zu verbessern. Die pbb Gruppe wird gleichzeitig die Möglichkeit eines beschleunigten Abbaus des VP vor vertraglicher Fälligkeit prüfen.

  Des Weiteren beabsichtigt die pbb Gruppe eine Steigerung ihrer Rentabilität durch die Optimierung der Vertriebsproduktivität und der Verbesserung der Aufwand-Ertrags-Relation ("**CIR**") nach erfolgreichem Abschluss der operativen Restrukturierung; Ziel ist dabei eine mittelfristige CIR von <45% (von 57% im Geschäftsjahr 2014, angepasst an Sondereffekte in Höhe von €120 Mio. aus Wertberichtigungen auf das Engagement mit der HETA Asset Resolution AG ("**HETA**")).

  Im Ergebnis hat die pbb Gruppe das Ziel, mittelfristig eine hohe einstellige Eigenkapitalrendite nach Steuern auf Gruppenebene zu erreichen.

- Beibehaltung einer diversifizierten Refinanzierungsstrategie mit Fokus auf den Pfandbrief und einem gut angepassten Bilanzstrukturmanagement (asset liability management, "**ALM**") -Profil

  Der Pfandbrief ist durch sein hohes Maß an Sicherheit für Kreditgeber für eine zahlungsfähige Investorenbasis attraktiv, was der pbb Gruppe vorteilhafte Refinanzierungsbedingungen verschafft. Der Pfandbrief bleibt nach wie vor das bevorzugte Refinanzierungsinstrument der pbb Gruppe. Außerdem ergänzen ungedeckte Refinanzierungen, Privatkundeneinlagen, Geldmarktinstrumente sowie Nachrangkapital und hybride Kapitalinstrumente den Pfandbrief. Die pbb Gruppe beabsichtigt, ihre Flexibilität und Diversifikation in der Finanzierung durch einen Stamm aus Privatkundeneinlagen mit Schwerpunkt auf Termineinlagen zu erhalten.

  Bei der Mittelaufbringung verfolgt die pbb Gruppe ein ausgewogenes Bilanzstrukturmanagement-Profil.

- Dauerhafte, regelmäßige Dividendenausschüttungen als Ziel

  Die pbb Gruppe beabsichtigt, ihre solide Ertragslage, ihre angemessene Kapitalisierung über die aufsichtsrechtlichen Anforderung hinaus und die ausschüttungsfähigen Rücklagen gemäß HGB als eine Basis für regelmäßige und konstante Dividendenausschüttungen zu nutzen, soweit Kapitallage, Renditen, Rückstellungen und aufsichtsrechtliche Anforderungen und Auflagen dies zulassen. Vorbehaltlich aufsichtsrechtlicher Änderungen und Beschränkungen peilt die pbb Gruppe mittelfristig eine CET 1-Quote (Vollumsetzung, d.h. berechnet auf Grundlage der Regeln, die nach Ablauf des Bestandsschutzes unter

den Übergangsvorschriften der CRR gelten) von mehr als 12,5%, eine Tier 1 Kapitalquote (Vollumsetzung) von mehr als 16%, eine Gesamtkapitalquote (Vollumsetzung) zwischen 16% und 18% sowie einen Verschuldungsgrad (Vollumsetzung) von mehr als 3,5% an, um diese Dividendenausschüttungspolitik zu ermöglichen. Die pbb Gruppe beabsichtigt, reguläre Dividendenausschüttungen durch Sonderdividenden zu ergänzen, falls Kapitalüberschüsse (etwa aus dem Abbau von VP) nicht zu attraktiven Konditionen angelegt werden können.

Im Anschluss an die Reprivatisierung der pbb Gruppe (einschließlich der Rückzahlung der Stillen Einlage des SoFFin) entfallen die entsprechenden Auflagen der EU Beihilfeentscheidung (C 15/09 (ex N 196/2009) vom 18. Juli 2011, veröffentlicht im Amtsblatt der Europäischen Union am 1. März 2012 ("**EU Beihilfeentscheidung**")), die die pbb Gruppe derzeit an der Zahlung von Dividenden hindern.

B.4a **Wichtigste jüngste Trends, die sich auf den Emittenten und die Branchen, in denen er tätig ist, auswirken.**

Entwicklungen im gewerblichen Immobilienmarkt

Im Segment REF legt die pbb Gruppe ihren Schwerpunkt auf mittlere und größere Finanzierungen zwischen €10 Millionen und €120 Millionen, sowie in ausgewählten Fällen auch mit höheren Transaktionsgrößen, für professionelle Immobilieninvestoren, insbesondere in den Immobilienarten Büro, Einzelhandel, Wohnungen, Mehrfamilien-Wohnungsbau, Logistik und Hotels. Ihre Kernmärkte sind Deutschland, Großbritannien, Frankreich, die nordischen Länder (insbesondere Schweden und Finnland) sowie weitere ausgewählte Länder in Zentral- und Osteuropa. Das Finanzergebnis und die Geschäftsentwicklung der pbb Gruppe hängen daher von den Immobilienmärkten in Deutschland und Europa ab. Die makroökonomischen Gegebenheiten dieser Märkte hängen stark von der globalen Wirtschaftslage ab. Seit der weltweiten Finanzkrise 2008/2009 nimmt das Investitionsvolumen in Immobilien jährlich zu. Diese Zunahme lag unter anderem an den niedrigen Zinssätzen, die sich seit Jahren auf einem historisch niedrigen Niveau bewegen. Im Euroraum senkte die EZB den Leitzins für Hauptrefinanzierungen in mehreren Schritten wie unten ausgeführt von 1,00% per annum zum 14. Dezember 2011 auf ein Rekordtief von 0,05% per annum zum 4. September 2014.

Seit 2012 überstieg die Nachfrage nach hochwertigen Immobilien in Zentrallage in Mittel- und Nordeuropa das Angebot, was einen erheblichen Preisanstieg zur Folge hatte. In Deutschland erreichten Investitionen in Einzelhandelsimmobilien mit €3,756 Milliarden im Quartal zum 31. März 2015 den höchsten Wert seit drei Jahren (Quelle: "Investment Market Update Germany, Q1 2015" von DTZ Research). In Frankreich stieg das Investitionsvolumen stark, mit über 7% über ein Jahr und weit über dem 10-Jahresdurchschnitt von €4,2 Milliarden pro Quartal und der Anteil der Region Ile-de-France (einschließlich Großraum Paris) machte ca. 83% des französischen Transaktionsvolumens von €4,6 Milliarden für das erste Quartal 2015 (Quelle: "Investment in France, Q1 2015" von BNP Real Estate) aus. In Großbritannien verlief die Nachfrage nach Immobilien ebenfalls positiv und das Angebot an hochwertigen Immobilien in zentraler Lage wurde knapp. In Spanien, das 2013 mit einem enormen Konjunkturabfall zu kämpfen hatte, nahmen die Investitionen in gewerbliche Immobilien in Lauf des Jahres 2014 drastisch zu (Quelle: "European Real Estate Lending Market, Februar 2015" von Cushman & Wakefield) und hielten im Quartal zum 31. März 2015 an. Trotz häufig geringer Spanne (Yield) in Spanien ist das Wachstumspotential gut angesichts des geringen Angebots in einigen Gebieten und des anscheinend erfolgreichen Reformprogramms, von dem alle Branchen profitieren. Dementsprechend nahmen auch die Transaktionsvolumina seit 2012 zu.

Während Investoren bisher Immobilien im Topsegment ('Kernimmobilien') (d.h. erstklassiges Grundstück und Lage, sehr marktfähig und hohe Mieterqualität) bevorzugt haben, ist das Investitionsvolumen in Nicht-Kernimmobilien und zweitrangige Lagen in letzter Zeit angestiegen (Quelle: "Global Capital Market Research, Q4 2014" von JLL). Den Einschätzungen der Gesellschaft zufolge konnte diese Veränderung bereits seit der zweiten Jahreshälfte von 2013 sowie eine Weiterentwicklung dieses Trends in 2014 und den drei Monaten bis zum 31. März 2015 beobachtet werden. Die Nachfrage nach Immobilien hat eine positive Auswirkung auf das Geschäft von Kreditbanken und Investoren, die keine Banken sind. Vor diesem Hintergrund steigerte die pbb Gruppe ihr Neugeschäftsvolumen im Segment REF von €4,9 Milliarden im Geschäftsjahr 2012 auf €7,0 Milliarden im Geschäftsjahr 2013 und auf €9,0 Milliarden im Geschäftsjahr 2014. Das Neugeschäftsvolumen im Segment REF zum Quartalsende 31. März 2015 belief sich auf €2,7 Milliarden (Dreimonatsperiode bis zum 31. März 2014: €1,3 Milliarden). Diese Neugeschäftsvolumina wurden für die einschlägigen Zeiträume auf Basis der Kreditzusagen ermittelt und beinhalten Verlängerungen mit Laufzeiten von mehr als einem Jahr.

Entwicklungen im Finanzmarkt der öffentlichen Hand

In ihrem Segment PIF finanziert die pbb Gruppe öffentliche Investitionsprojekte, wie Einrichtungen des sozialen Wohnungsbaus, Versorgungs- und Abfallwirtschaftsunternehmen, Gesundheits- und Pflegeeinrichtungen, Kinderbetreuungs- und Lehrbetriebe, sowie von einer ECA garantierte Exportfinanzierungen. Die pbb Gruppe ist daher von der Entwicklung auf dem öffentlichen Investitionsfinanzmarkt abhängig. Ihre Kernmärkte sind Deutschland, Frankreich, Großbritannien, Spanien, Finnland und Schweden.

Seit der Schuldenkrise der europäischen Staaten in den Jahren 2012 und 2013 hat sich die Situation in allen Segmenten des Finanzierungsmarkts des öffentlichen Sektors weitgehend normalisiert. Hauptsächlich verantwortlich dafür war die Ankündigung der EZB im September 2013, von Mitgliedstaaten der Eurozone emittierte Schuldscheine auf den Sekundärmärkten für Staatsanleihen zu kaufen (sog. "outright monetary transactions" Programm), was die Volatilität der Finanzmärkte im Euroraum erheblich reduziert hat. Hinzu kommt, dass Länder, deren öffentliche Finanzen erheblich negativ von der Krise betroffen waren, wie beispielsweise Irland, Spanien und Portugal, sich erfolgversprechend entwickelt haben. Diese drei Länder haben insbesondere sämtliche Rettungsprogramme erfolgreich absolviert und werden nach Ansicht der Europäischen Kommission voraussichtlich von strukturellen Reformen profitieren. Der Finanzierungsmarkt des öffentlichen Sektors der Retailbanken und Entwicklungsbanken war ausreichend zur Finanzierung der meisten wichtigen Investitionsprojekte, insbesondere in den Ländern, die nicht so stark von der staatlichen Schuldenkrise betroffen waren. Nichtsdestotrotz beobachten Finanzinstitute und Investoren die Entwicklungen in Ländern wie Spanien und Irland, einschließlich im Verhältnis zur Kreditqualität der Gemeinden und anderen nicht-staatlichen Schuldnern.

In Deutschland, wo die Marktnachfrage nach öffentlicher Investitionsfinanzierung ausreichend war, waren langfristige Darlehen nach wie vor gefragt und wurden von lokalen Wettbewerbern (hauptsächlich Banken des öffentlichen Sektors, einschließlich Entwicklungsbanken) mit geringen Margen gewährt. Der traditionelle öffentliche Investitionsmarkt stellte daher seit 2012 eine besondere Herausforderung für andere Kapitalgeber dar. Der Wettbewerb verschärfte sich erneut am französischen Markt, was zu niedrigeren Margen in 2014 führte. In den nordischen Ländern bot der Markt 2014 Chancen für Transaktionen mit attraktiven Risiko- und Ertragsprofilen. Das lag hauptsächlich am Rückzug aus bzw. der Einstellung von Geschäftstätigkeiten durch andere internationale Wettbewerber und bestimmte lokale Banken.

Aufgrund dieser Markt- und Wettbewerbsdynamik verblieb das Neugeschäft im öffentlichen Investitionsfinanzmarkt der pbb Gruppe im Segment PIF im Geschäftsjahr 2014 auf dem Vorjahresniveau von €1,2 Milliarden. Allerdings stellte dies eine erhebliche Steigerung des Neugeschäfts gegenüber 2012 (€0,7 Milliarden) dar. Im Geschäftsjahr 2013 lagen die Margen im Neugeschäft höher als die durchschnittlichen Margen im bestehenden Portfolio, wodurch sich die Rentabilität des Portfolios steigerte. Im Geschäftsjahr 2014 verhinderte eine verschärfte Wettbewerbssituation eine Rentabilitätssteigerung durch einen Abwärtsdruck auf die Margen, während die pbb Gruppe beschloss, das Kreditvolumen mit höherem Risiko und in Erwartung höherer Renditen nicht zu erhöhen. Stattdessen verhielt die pbb Gruppe sich im Geschäftsjahr 2014 selektiv beim Neugeschäft und erzielte, wie bereits im Geschäftsjahr 2013, eine Steigerung der Rentabilität im Neugeschäft verglichen mit dem bestehenden PIF-Portfolio. In dem am 31. März 2015 endenden Quartal betrug das Neugeschäft der pbb Gruppe im PIF Segment €0,2 Milliarden (Geschäftsjahr 2014: €1,2 Milliarden; 2013: €1,2 Milliarden), wobei hier die Rentabilität weiter gegenüber dem Geschäftsjahr 2014 gesteigert werden konnte. Diese Neugeschäftsvolumina wurden für die einschlägigen Zeiträume auf Basis der Kreditzusagen ermittelt und beinhalten Verlängerungen mit Laufzeiten von mehr als einem Jahr. Allerdings fiel das Finanzierungsvolumen von €8,0 Milliarden (inklusive der italienischen Vermögenswerte im Volumen von €1,3 Milliarden) zum 31. Dezember 2014 auf €6,8 Milliarden (nach der Übertragung von italienischen Vermögenswerten) zum 31. März 2015.

Refinanzierungsmärkte

Seit 2012 waren die Kapitalmärkte von Niedrigzinsen, einer expansiven Geldpolitik (Quelle: ECB Monthly Bulletin) und Unsicherheit im Hinblick auf das weitere Vorgehen der Zentralbanken geprägt.

Im Ergebnis gelang es der pbb Gruppe seit 2012, ihre Refinanzierungskosten für gedeckte und ungedeckte Refinanzierungen zu senken. Die durchschnittliche Spanne für Hypothekenpfandbriefe der pbb Gruppe verringerte sich von 64 Basispunkten (über dem 3-Monats EURIBOR) in 2012 über 31 Basispunkte in 2013 auf 24 Basispunkte in 2014. Die durchschnittliche Spanne für Öffentliche Pfandbriefe der pbb Gruppe verringerte sich von 37 Basispunkten (über dem 3-Monats EURIBOR) in 2012 über 36 Basispunkte in 2013 auf 29 Basispunkte in 2014. Die durchschnittliche Spanne bei den nicht-nachrangigen unbesicherten Refinanzierungen der pbb Gruppe sank von 156 Basispunkten über dem 3-Monats EURIBOR in 2012 auf 86 Basispunkte in 2014 (in 2013: 116 Basispunkte über dem 3-Monats EURIBOR). Die pbb Gruppe emittierte 2012 €2,3 Mrd. nicht nachrangige unbesicherte Finanzinstrumente und €4,2 Mrd. Pfandbriefe (€4,0 Mrd. Hypothekenpfandbriefe und €0,2 Mrd. Öffentliche Pfandbriefe).

Anfang 2013 setzte sich die positive Stimmungslage des Vorjahres fort. Viele Investoren verlagerten ihren Investitionsschwerpunkt aufgrund der historisch niedrigen Zinssätze, was zu vermehrten Zuteilungen in Investitionen mit höherem Risiko zur Erreichung der gewünschten Erträge führte. Dies führte zu einer Nachfragesteigerung bei unbesicherten Anleihen und Wertpapieren in den europäischen Peripherieländern. Im Sommer 2013 gewannen die Bedenken hinsichtlich der Schuldenkrise der Staaten an Bedeutung, teilweise aufgrund der Finanzschwierigkeiten in Zypern, was zur zunehmenden Marktvolatilität beitrug. Pfandbriefe blieben für Investoren weiterhin attraktiv und die Risikoprämien für am Primärmarkt platzierte Wertpapiere erholten sich aus der Sicht eines Emittenten. Aufgrund des niedrigen Renditeniveaus stieg bei den Investoren die Nachfrage nach längerfristigen Schuldtiteln mit einem höheren Zinssatz. Erstmalig seit der Finanz- und Schuldenkrise der Staaten wurde wieder ein Pfandbrief im Benchmark-Format mit einer Fälligkeit von 15 Jahren, zuerst von der pbb

Gruppe und danach von der Münchener Hypo, emittiert. Im Geschäftsjahr 2014 waren die Kapitalmärkte aufgrund der geldpolitischen Maßnahmen der großen Zentralbanken von Liquiditätsüberschüssen und niedrigen Renditen geprägt. Aus Sicht der Investoren führte der Rückgang um etwa 140 Basispunkte bei den Renditen der 10-Jahres-Bundesanleihen Deutschlands im Jahr 2014 (Quelle: "Germany Generic Govt 10Y Yield (Ticker: GDBR10 Index)" von Bloomberg) zu einer Verlagerung des Schwerpunkts auf Investitionen mit längeren Laufzeiten und höheren Risiken. Das zeigte sich in dem größeren Interesse der Investoren an unbesicherten Emissionen und Eigenkapitaltransaktionen im Allgemeinen.

Während die Zentrale Notenbank der Vereinigten Staaten ("**Fed**") einen Ausstieg aus dem Liquiditätshilfeprogramm Ende 2013 in Erwägung zog, hat die EZB ihre Maßnahmen durch weitere Senkungen des Zinssatzes und gezielte längerfristige Refinanzierungsgeschäfte (TLTRO) ausgeweitet (Quelle: "ECB Main Refinancing Operations Announcement Rate (Ticker: EURR002W Index) und BI LTRO Funktion" von Bloomberg). Seit Beginn des vierten Quartals 2014 müssen Investoren in der Eurozone sich den Herausforderungen des neuen Ankaufprogramms für gedeckte Schuldverschreibungen (Covered Bond Purchase Programme 3 - CBPP3) stellen. Die steigende Nachfrage führte zu einer weiteren Schmälerung der Spannen am Pfandbriefmarkt. Die Platzierung von Pfandbriefen mit geringeren Spreadlevels wurde hauptsächlich durch die Nachfrage der Zentralbanken gesteuert.

Diese Liquiditätslage verbesserte den Finanzhintergrund für Kreditinstitute und führte zu einer erheblichen Abnahme bei den Risikoprämien für Pfandbriefe und unbesicherte Anleihen. Kleinere Privatplatzierungen von Schuldscheinen wurden seit 2012 von deutschen Investoren begrüßt. Dementsprechend erhöhte die pbb Gruppe ihre Emissionstätigkeit mit einem Gesamtvolumen von €7,7 Milliarden im Geschäftsjahr 2013 (Geschäftsjahr 2012: €6,5 Milliarden). €4,4 Milliarden davon (2012: €3,0 Milliarden) wurden durch Benchmark-Emissionen von Pfandbriefen und vorrangigen, unbesicherten Anleihen (d.h. Emissionen mit einem Nennwert von €500 Millionen aufwärts) beschafft. Insgesamt emittierte die pbb Gruppe im Geschäftsjahr 2013 €3,2 Mrd. nicht nachrangiger unbesicherter Finanzinstrumente und €4,5 Mrd. Pfandbriefe (€3,2 Mrd. Hypothekenpfandbriefe und €1,2 Mrd. Öffentliche Pfandbriefe).

Im Geschäftsjahr 2014 betrug das neue langfristige Finanzierungsvolumen €6,0 Milliarden (Geschäftsjahr 2013: €7,7 Milliarden). Vorzeitige Rückzahlungen von durch die pbb Gruppe garantierten Darlehen in Kombination mit adäquater Liquidität ermöglichten es der pbb Gruppe, ihre Finanzierungtätigkeiten an den Kapitalmärkten zu reduzieren. Die pbb Gruppe beschaffte €2,6 Milliarden (2013: €4,4 Milliarden) durch Benchmark-Neuemissionen sowie Aufstockungen, d.h. Erhöhungen bestehender Benchmark-Anleihen. Pfandbriefemissionen machten rund zwei Drittel der gesamten neuen langfristigen Finanzierungen im Geschäftsjahr 2014 aus, wobei die unbesicherten Anleihen das letzte Drittel ausmachten (€2,1 Mrd. nicht nachrangige unbesicherte Finanzinstrumente und €3,9 Mrd. Pfandbriefe, davon €3,6 Mrd. Hypothekenpfandbriefe und €0,3 Mrd. Öffentliche Pfandbriefe).

Im ersten Quartal 2015 betrug das langfristige Finanzierungsvolumen €1,35 Milliarden. Da der Fokus der langfristigen Finanzierung im ersten Quartal 2015 auf den nicht-nachrangigen unbesicherten Refinanzierungen lag, emittierte die pbb Gruppe €1,0 Milliarde nicht-nachrangige unbesicherte Finanzierungsinstrumente und €324 Millionen Pfandbriefe (€72 Millionen Hypothekenpfandbriefe und €252 Millionen Öffentliche Pfandbriefe).

Im März 2013 startete die pbb Gruppe ihr Einlagengeschäft für Privatkunden unter dem Markennamen "pbb direkt", zunächst mit einer Produktpalette von Tagesgeldkonten und Festgeldkonten mit einer Laufzeit von 6 Monaten, 1 Jahr, 2 Jahren und 3 Jahren, um die Mischung ihrer unbesicherten Finanzierungen weiter zu diversifizieren. Um sich verlässliche und stabile

Einlagen zu sichern, liegt der Fokus auf Festgeld. Die Plattform ist für in Deutschland lebende Privatanleger ausgelegt. Nachdem die operative Stabilität unter Beweis gestellt war, wurden die Zinsen für Tagesgeld von 0,8% auf 1,2% im Juni 2013 angehoben. Im Dezember 2013 wurden Festgeldkonten mit einer Laufzeit von 5 und 10 Jahren ergänzt. Zum Ende des Jahres 2013 hat "pbb direkt" ein Einlagenvolumen von €0,62 Milliarden mit etwa 7.000 Kunden erreicht. Im ersten und zweiten Quartal 2014 stieg das Volumen der Kundendepots trotz zweier Zinssenkungen im März und Juni 2014 auf €1,43 Milliarden mit etwa 17.300 Kunden. Im Juni 2014 erweiterte "pbb direkt" ihre Produktpalette um teilweise kündbare Einlagenkonten (FestgeldPLUS), ein Festgeldkonto mit der Möglichkeit für den Kunden, bis zu 20% der ursprünglichen Einlagesumme ohne vorherige Kündigung abzuheben. "pbb direkt" hat das Jahresendziel für 2014 von €1,5 Milliarden Einlagen mit einem Einlagevolumen von insgesamt €1,53 Milliarden mit 18.800 Kunden erreicht. Zum Ende des ersten Quartals 2015 erreichte das Einlagevolumen €1,79 Milliarden mit etwa 21.300 Kunden. 74% dieses Betrags entfällt auf Festgeldkonten und 33% aller Festgeldkonten sind solche mit einer Laufzeit von 5 Jahren und 10 Jahren. Dieser Erfolg ermöglichte der pbb Gruppe eine Reduzierung ihrer 5-Jahres- und 10-Jahres-Festgeldzinssätze im April 2015.

Änderungen im regulatorischen Umfeld

Die pbb Gruppe agiert in einem Umfeld, das stark von zuständigen Aufsichtsbehörden beeinflusst wird. Banken wurden vor neue Herausforderungen gestellt, wie beispielsweise die CRR und das Comprehensive Assessment durch die EZB, die in Zukunft einen erheblichen Einfluss auf das Angebot von Wertpapieren durch den europäischen Bankensektor haben werden. Die kontinuierliche aufsichtsrechtliche Entwicklung hat und wird auch in Zukunft einen Einfluss auf die Struktur von Vermögenswerten und Verbindlichkeiten haben und somit die Ertragsentwicklung beeinflussen und zu zusätzlichen Kosten für die pbb Gruppe führen.

Beispielsweise wurde eine Reihe umfassender Änderungen zur Rahmenregelung, die der Basler Ausschuss veröffentlicht hat und die 2010 vom Basler Ausschuss für Bankenaufsicht (Basel Committee on Banking Supervision) vorgeschlagen wurden (auch "**Basel 3**" oder "**Basel III**" genannt), in der Europäischen Union umgesetzt, und zwar in Form eines Pakets, das als "**CRR/CRD 4**" bezeichnet wird. CRR/CRD 4 enthält unter anderem detaillierte Vorschriften zu aufsichtsrechtlichem Bankkapital, zu erhöhten Kapitalanforderungen, zu der Einführung von zusätzlichen Kapitalpuffern, zur strengeren Liquiditätsausstattung und zur risikounabhängigen Verschuldungskennziffer (Leverage Ratio). Die meisten der neuen Vorschriften traten am 1. Januar 2014 in Kraft, wobei die Kapitalanforderungen schrittweise bis 2019 eingeführt werden. Aufgrund der Anwendungen der Regelungen CRR/CRD 4 verzeichneten die risikogewichteten Aktiva (risk weighted assets, "**RWA**") der pbb Gruppe im Geschäftsjahr 2014 einen erheblichen Anstieg, insbesondere durch (i) den Wegfall der bisherigen Privilegierungen bestimmter Risikopositionen gemäß § 64(h) des Kreditwesengesetzes ("**KWG**")) sowie (ii) die Einführung einer zusätzlichen Gebühr für Bewertungsanpassung (CVA) für Derivative, was eine zusätzliche RWA Komponente darstellt. Das CET 1-Kapital der pbb Gruppe erhöhte sich durch die Anwendung der Internationalen Rechnungslegungsstandards (IFRS, vormals Deutsche GAAP) zum 1. Januar 2014. Die positive Auswirkung hob die negative Auswirkung der Einführung der CET 1-Abzüge mehr als auf. Die Übergangsregelungen unter CRR/CRD 4 bieten die Möglichkeit der temporären Behandlung bestimmter Kapitalinstrumente als Zusätzliches Kernkapital (AT 1) und Ergänzungskapital (Tier 2), die nicht den neuen Regelungen entsprechen, und erlauben eine schrittweise Reduzierung des Ansatzes als

aufsichtsrechtliches Kapital. Dies hatte eine negative Auswirkung auf die Kernkapitalquote (Tier-1-Quote) (Kernkapitel/Tier 1 bestehend aus CET 1 und AT 1) und die Eigenmittelquoten zum 1. Januar 2014, während die harte Kernkapitalquote (CET 1-Quote) anstieg. Die endgültige Richtlinie für die Überprüfung und Bewertung der Rechtsvorschriften (SREP – Supervisory Review and Evaluation Process), welche von der Europäischen Bankenaufsichtsbehörde ("**EBA**") am 19. Dezember 2014 veröffentlicht wurde und sich an die Aufsichtsbehörden der Mitgliedstaaten der Europäischen Union richtet, sollte durch die Aufsichtsbehörden in 2015 umgesetzt und ab Anfang 2016 angewendet werden. In dieser Richtlinie stellt die EBA einen ganzheitlichen Ansatz vor, der die Bewertung ausgewählter Kennzahlen, des Geschäftsmodells, der Governance sowie der Kapital- und Liquiditätsrisiken umfasst. Basierend auf den Beratungsgesprächen in 2014 hat die pbb Gruppe bereits ein Projekt mit dem Ziel eingeleitet, SREP komplett umzusetzen. Im Rahmen der Umsetzung der EBA-Richtlinien durch die EZB wurden zum 12. März 2015 Mindestkapitalquoten, einschließlich CET 1-Quoten und Eigenmittelquoten, für die HRE vorgeschrieben. Diese Quoten wurden zum 31. Dezember 2014 erfüllt. Es bleibt abzuwarten, wie die EZB das Thema SREP im Übergangsjahr 2015 behandeln wird.

Wettbewerb im Bankensektor

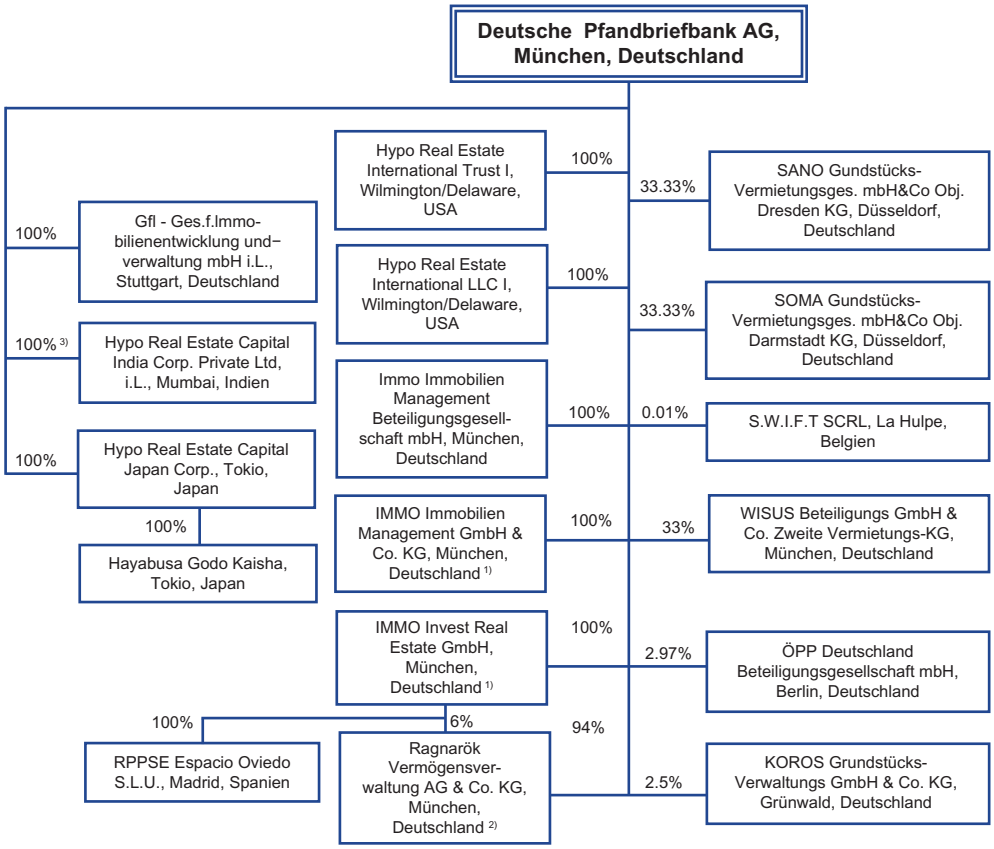
Seit 2012 war die Bankenbranche von intensivem Wettbewerb in den Segmenten REF und PIF betroffen, woraufhin die Margen stark unter Druck gerieten.

Mehrere Banken haben ihren Einflussbereich auf den REF-Markt ausgeweitet oder verstärkt. Des Weiteren nimmt eine Mischung der verschiedensten Darlehensgebern am REF-Markt teil – zusätzlich zu den traditionellen Kreditinstituten haben Finanzinstitute, die keine Banken sind (insbesondere Versicherer, jedoch auch Debt Fonds und Private-Equity-Fonds), ihre REF-Tätigkeiten intensiviert. Der zunehmende Wettbewerb am Kreditmarkt hat den Druck auf die Margen erhöht. Daraus resultiert eine zunehmende Bereitschaft der Banken, Finanzierungen für zweitrangige Immobilien in Kernlagen oder erstrangige Immobilien in zweitrangigen Lagen anzubieten. Zu beobachten sind auch ein Anstieg im Kapitalvolumen, welches auf gewerbliche Immobilien (höhere LTV Prozentsätze) entfällt, und eine zunehmende Bereitschaft, neuen Kunden ohne bisher bestehende Kundenbeziehung Darlehen zu gewähren. Des Weiteren hat die Bandbreite der Transaktionsgrößen am Markt seit 2012 zugenommen. Die durchschnittliche Transaktionsgröße von neuem Geschäft im REF-Markt im Geschäftsjahr 2014 lag bei €56 Millionen und stieg auf €80 Millionen im Quartal zum 31. März 2015 an.

Dank der öffentlichen Deckung der PIF-Darlehen genießt PIF ein verhältnismäßig niedriges Risikoprofil. Bestimmte institutionelle Investoren (entweder direkt oder durch Fonds für Kredite) sind in den PIF-Markt eingestiegen und Banken im öffentlichen Sektor haben ihr Darlehensgeschäft intensiviert. Trotz geringerer Margen ergänzt das PIF Segment das REF Segment, vorwiegend wegen antizyklischen Ausrichtungen, Kapital-Synergien und Größeneinsparungen, was dazu führen könnte, das weitere Anbieter von Immobilienfinanzierungen in das PIF-Geschäft einsteigen. Des Weiteren bietet die EZB zunehmend Finanzierungen für den öffentlichen Sektor durch ihr erweitertes Programm für den Anleihekauf. Diese Faktoren können den Druck auf die Margen weiter erhöhen, da der Preis oft die treibende Kraft in öffentlichen Institutionen ist, wenn es um Geschäftsentscheidungen geht.

B.5 **Beschreibung der Gruppe und der Stellung des Emittenten innerhalb dieser Gruppe.**

Die pbb Gruppe wird von der Gesellschaft als Konzernobergesellschaft geleitet. Die nachfolgende Darstellung gibt einen Überblick der direkten und indirekten Beteiligungen der Gesellschaft zum Datum des Prospekts:



1) Komplementärhaftung der Immo Immobilien Management Beteiligungsgesellschaft mbH.
2) Komplementärhaftung der Deutsche Pfandbriefbank AG
3) 33.797.499 Anteile gehalten von der Deutsche Pfandbriefbank AG, 1 Anteil gehalten von der Hypo Real Estate Holding AG.

B.6 **Personen, die eine direkte oder indirekte Beteiligung am Eigenkapital des Emittenten oder einen Teil der Stimmrechte halten sowie Beherrschungsverhältnisse.**

Unmittelbar vor Durchführung des Angebots hält der Verkaufende Aktionär 100% der derzeit von der Gesellschaft ausgegebenen Stückaktien. Der Verkaufende Aktionär befindet sich vollständig im Eigentum des FMS, der durch die Bundesanstalt für Finanzmarktstabilisierung ("**FMSA**"), eine rechtsfähige Anstalt des öffentlichen Rechts unter der Rechts- und Fachaufsicht des Bundesministeriums der Finanzen, verwaltet wird.

Nach Durchführung des Angebots wird der Verkaufende Aktionär weiterhin mindestens 20% des Grundkapitals der Gesellschaft halten (unter Annahme der vollständigen Platzierung der angebotenen Aktien und einer vollständigen Ausübung der Greenshoe-Option, wie unten unter E.3 definiert).

Unterschiedliche Stimmrechte

Entfällt. Alle Aktien haben identische Stimmrechte.

	Ob an dem Emittenten unmittelbare oder mittelbare Beteiligungen oder Beherrschungs-verhältnisse bestehen, wer diese Beteiligungen hält bzw. diese Beherrschung ausübt und welcher Art die Beherrschung ist.	Die Gesellschaft wird direkt von dem Verkaufenden Aktionär kontrolliert, der 100% der Aktien an der Gesellschaft hält, und damit ebenso viele Stimmrechte ausüben kann. Folglich kann der Verkaufende Aktionär die Finanz- und Geschäftspolitik der Gesellschaft bestimmen. Nach Durchführung des Angebots wird der Verkaufende Aktionär 20% bis 24,9% des Grundkapitals der Gesellschaft halten und einem Entherrschungsvertrag unterliegen. Er wird insofern keinen beherrschenden Einfluss mehr auf die Gesellschaft ausüben.
B.7	**Ausgewählte wesentliche historische Finanzinformationen.**	Die geprüften Konzernabschlüsse der Gesellschaft für die jeweils am 31. Dezember abgelaufenen Geschäftsjahre 2014, 2013 und 2012 (die "**Geprüften Konzernabschlüsse**") wurden in Übereinstimmung mit den IFRS, wie sie in der Europäischen Union anzuwenden sind, aufgestellt. Der geprüfte Jahresabschluss der Gesellschaft für das am 31. Dezember 2014 abgelaufene Geschäftsjahr (der "**Geprüfte Jahresabschluss**") wurde in Übereinstimmung mit dem Handelsgesetzbuch ("**HGB**") aufgestellt. Sie alle wurden in Übereinstimmung mit § 317 des Handelsgesetzbuchs (HGB) und den vom Institut der Wirtschaftsprüfer in Deutschland festgestellten deutschen Grundsätzen ordnungsmäßiger Abschlussprüfung durch die KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin (Büro München, Ganghoferstr. 29, 80339 München), Deutschland ("**KPMG**") geprüft, die einen uneingeschränkten Bestätigungsvermerk zu jedem der Konzernabschlüsse und dem Jahresabschluss erteilt hat. Der ungeprüfte Konzernzwischenabschluss der Gesellschaft für den Dreimonatszeitraum bis zum 31. März 2015 (der "**Ungeprüfte Konzernzwischenabschluss**") wurde in Übereinstimmung mit den IFRS für Zwischenberichterstattung (IAS 34) erstellt. Soweit in dem Prospekt Finanzinformationen als "geprüft" gekennzeichnet sind, sind die Information den Geprüften Konzernabschlüssen oder dem Geprüften Jahresabschluss entnommen worden. Soweit Finanzinformationen in dem Prospekt als "ungeprüft" gekennzeichnet sind, sind diese Informationen nicht den Geprüften Konzernabschlüssen oder dem Geprüften Jahresabschluss entnommen worden, sondern dem Ungeprüften Konzernzwischenabschluss oder den Buchhaltungs- oder Prüfungsberichten der pbb Gruppe oder sie basieren auf Berechnungen dieser Zahlen.

Ausgewählte Finanzinformationen der Konzern-Gewinn- und Verlust-Rechnung

Die folgende Tabelle zeigt ausgewählte Angaben aus der Konzern-Gewinn- und Verlust-Rechnung der pbb Gruppe für die am 31. März 2014 und 31. März 2015 endenden Dreimonatszeiträume sowie für die am 31. Dezember 2014, 2013 und 2012 endenden Geschäftsjahre:

	Dreimonatszeitraum zum 31. März		Geschäftsjahr zum 31. Dezember		
	2015	2014	2014	2013[1)]	2012
	(ungeprüft)		(in € Millionen)	(geprüft)	
Operative Erträge	**93**	**89**	**326**	**482**	**467**
Zinsüberschuss und ähnliche Erträge	113	89	421	319	296
Zinserträge und ähnliche Erträge	540	583	2.333	2.487	2.879
Zinsaufwendungen und ähnliche Aufwendungen	-427	-494	-1.912	-2.168	-2.583
Provisionsüberschuss	7	–	1	9	23
Provisionserträge	8	3	13	15	27
Provisionsaufwendungen	-1	-3	-12	-6	-4
Handelsergebnis	5	-9	-30	-51	10
Finanzanlageergebnis	-20	-1	-77	96	13
Ergebnis aus Sicherungszusammenhängen	-1	-3	-3	9	-6
Saldo sonstige betriebliche Erträge/Aufwendungen	-11	13	14	100	131
Kreditrisikovorsorge	4	5	-21	-8	4
Verwaltungsaufwand	-48	-62	-251	-312	-341
Saldo übrige Erträge/Aufwendungen	2	6	–	3	-6
Ergebnis vor Steuern	**51**	**38**	**54**	**165**	**124**
Ertragsteuer	-12	5	-50	-5	-55
Ergebnis nach Steuern	**39**	**43**	**4**	**160**	**69**

1) Die Zahlen für das Geschäftsjahr 2013 wurden im geprüften Jahresabschluss für das Geschäftsjahr 2014 aufgrund der retrospektiven Erstanwendung des IFRS 10 angepasst. Die Zahlen wurden dem geprüften Jahresabschluss für das Geschäftsjahr 2014 entnommen.

Ausgewählte Finanzinformationen aus der Konzern-Bilanz

Die folgende Tabelle zeigt ausgewählte Angaben aus der Konzern-Bilanz der pbb Gruppe zum 31. März 2015 sowie zum 31. Dezember 2014, 2013 und 2012 (d.h. vor Rückzahlung der Stillen Einlage des SoFFin von €1,0 Milliarden, die am 6. Juli 2015 erfolgte):

	Zum 31. März	Zum 31. Dezember			
	2015	2014	2013[2)]	2013[3)]	2012[4)]
	(ungeprüft) (in € Millionen)	(geprüft, soweit nicht abweichend angegeben) (in € Millionen)			
Aktiva					
Barreserve	1.554	57	3,532	3,532	1,937
Handelsaktiva	2.110	2.016	1.642	1.642	3.325
Forderungen an Kreditinstitute	4.162	6.800	6.685	5.798	7.995
Forderungen an Kunden	40.962	38.964	36.242	36.242	49.590
Wertberichtigungen auf Forderungen	-134	-138	-148	-148	-325
Finanzanlagen	19.676	20.475	20.725	20.892	25.572
Sachanlagen	12	8	1	1	2
Immaterielle Vermögenswerte	22	23	31	31	39
Sonstige Aktiva	6.992	6.659	4.769	4.769	7.242
Ertragsteueransprüche	30	30[1)]	1.162	1.165	1.704
Tatsächliche Steueransprüche	28	29	44	44	53
Latente Steueransprüche	2	1[1)]	1.118	1.121	1.651
Summe der Aktiva	**75.386**	**74.894**[1)]	**74.641**	**73.924**	**97.081**
Eigenkapital und Verbindlichkeiten					
Verbindlichkeiten gegenüber Kreditinstituten	2.871	3.187	3.522	3.522	7.797
Verbindlichkeiten gegenüber Kunden	10.367	10.593	10.848	10.848	11.895
Verbriefte Verbindlichkeiten	47.871	47.827	46.858	47.060	52.550
Handelspassiva	2.083	1.960	1.453	1.453	3.192
Rückstellungen	261	272	209	209	235
Sonstige Passiva	6.966	6.182	4.722	4.722	14.438
Ertragsteuerverpflichtungen	114	88[1)]	1.187	1.190	1.698
Tatsächliche Steuerverpflichtungen	108	82	64	64	64
Latente Steuerverpflichtungen	6	6[1)]	1.123	1.126	1.634
Nachrangkapital	1.265	1.279	2.357	1.440	1.993
Verbindlichkeiten	**71.798**	**71.388**[1)]	**71.156**	**70.444**	**93.798**
Anteilseignern zuzurechnendes Eigenkapital	**3.588**	**3.506**	**3.485**	**3.480**	**3.283**
Summe Eigenkapital und Verbindlichkeiten	**75.386**	**74.894**[1)]	**74.641**	**73.924**	**97.081**
Eigenkapital	**3.588**	**3.506**	**3.485**	**3.480**	**3.283**

1) Die Zahlen wurden im Ungeprüften Konzernzwischenabschluss für den Dreimonatszeitraum bis zum 31. März 2015 gemäß IAS 8.14 ff. angepasst und sind ungeprüft. Die unangepassten Zahlen im Geprüften Konzernabschluss für das Geschäftsjahr 2014 waren wie folgt (geprüft): die Summe der Aktiva €75.518 Mio., die Ertragsteueransprüche €654 Mio., die latenten Steueransprüche €625 Mio., die Ertragsteuerverpflichtungen €712 Mio., die latenten Steuerverpflichtungen €630 Mio., die Verbindlichkeiten €72.012 Mio. und die Summe Eigenkapital und Verbindlichkeiten €75.518.

2) Die Zahlen für das Geschäftsjahr 2013 wurden im geprüften Jahresabschluss für das Geschäftsjahr 2014 aufgrund der retrospektiven Erstanwendung des IFRS 10 und gemäß IAS 8.42 angepasst. Die Zahlen wurden dem geprüften Jahresabschluss für das Geschäftsjahr 2014 entnommen.

3) Die Zahlen wurden dem geprüften Jahresabschluss für das Geschäftsjahr 2013 entnommen und wurden nicht angepasst.

4) Die Zahl für das Geschäftsjahr 2012 wurde wegen der rückwirkenden erstmaligen Anwendung des (überarbeiteten) IAS 19 angepasst. Die Zahlen wurden dem geprüften Jahresabschluss für das Geschäftsjahr 2013 entnommen.

Ausgewählte Finanzinformationen aus der Konzern-Kapitalflussrechnung

Die folgende Tabelle zeigt ausgewählte Angaben aus der Konzern-Kapitalflussrechnung der pbb Gruppe für die am 31. März 2014 und 31. März 2015 endenden Dreimonatszeiträume sowie für die am 31. Dezember 2014, 2013 und 2012 endenden Geschäftsjahre:

	Dreimonatszeitraum zum 31. März		Geschäftsjahr zum 31. Dezember		
	2015	2014	2014	2013[1)]	2012
	(ungeprüft) (in € Millionen)		(geprüft) (in € Millionen)		
Cash flow aus operativer Geschäftstätigkeit	207	-3.651	-4.320	-1.753	-1.593
Cash flow aus Investitionstätigkeit	1.300	448	953	3.902	3.757
Cash flow aus Finanzierungstätigkeit	-10	0	-108	-546	-550
Zahlungsmittelbestand zum Ende der vorhergehenden Periode	57	3.532	3.532	1.929	323
Zahlungsmittelbestand zum Ende der Periode	1.554	329	57	3.532	1.937

1) Die Angaben für das Geschäftsjahr 2013 wurden im geprüften Jahresabschluss für das Geschäftsjahr 2014 aufgrund der retrospektiven Erstanwendung des IFRS 10 angepasst. Die Angaben wurden dem geprüften Jahresabschluss für das Geschäftsjahr 2014 entnommen.

Andere ausgewählte Finanzdaten

Die pbb Gruppe wird auf Basis eines konsistenten und integrierten Kennzahlensystems (KPI System) überwacht und gesteuert, das die Geschäftsführung bei der Steuerung der Gruppe unterstützt. Das Kennzahlensystem setzt sich aus den Dimensionen Profitabilität, Wachstum in den strategischen Portfolios der gewerblichen Immobilienfinanzierung und der öffentlichen Investitionsfinanzierung sowie Risikobegrenzungen und Kapital des Konzerns zusammen. Wie es in der Branche der pbb Gruppe üblich ist, basieren einige der Zahlen auf IFRS, wohingegen andere dieser Kennzahlen keine definierten Begriffe nach IFRS oder dem HGB sind ("**Non-GAAP-Kennzahlen**") und zusätzlich zu den IFRS Finanzdaten verwendet werden, um die Geschäftstätigkeit zu bewerten, zu überwachen und zu steuern. Diese Kennzahlen, die keine finanziellen Leistungskennzahlen unter IFRS sind, wurden nicht durch einen externen Berater, Gutachter oder Wirtschaftsprüfer geprüft und leiten sich, soweit nicht anders angegeben, vom Rechnungslegungssystem der pbb Gruppe und Einschätzungen der Geschäftsführung ab. Diese Non-GAAP-Kennzahlen wurden von der Geschäftsführung der pbb Gruppe definiert und sind gegebenenfalls nicht mit ähnlichen Kennzahlen von anderen Gesellschaften vergleichbar. Die Non-GAAP-Kennzahlen sollten nicht als Alternative zum Gewinn / (Verlust) nach Steuern, zum Umsatz oder zu irgendeiner anderen in Übereinstimmung mit den IFRS oder HGB als Maßstab für den Unternehmenserfolg definierten Kennzahl betrachtet werden. Ebenso wenig sollten sie als Alternative zum Mittelzufluss / (-abfluss) aus laufender Geschäftstätigkeit als Liquiditätskennzahlen betrachtet werden. Diese Non-GAAP-Kennzahlen sind nur mit Einschränkungen als Analyseinstrumente geeignet und sollten nicht isoliert betrachtet oder als Ersatz für die Analyse der nach IFRS oder HGB ausgewiesenen Ergebnisse verwendet werden.

Die Finanzkennzahlen, die die pbb Gruppe nutzt, um die finanzielle Entwicklung der Geschäftstätigkeit zu überwachen und die Geschäftsführung zu unterstützen, sind unter anderem die Eigenkapitalrendite nach Steuern, das Konzernergebnis vor Steuern, die Aufwand-Ertrag-Relation, das Nominalvolumen der Finanzierungen in den strategischen Segmenten Real Estate Finance (REF) und Public Investment Finance (PIF), Umfang der Neugeschäftshöhe und die CET 1-Quote.

Andere ausgewählte Finanzdaten der pbb Gruppe

Die Kennzahlen für die pbb Gruppe können wie folgt zusammengefasst werden:

	Für den Dreimonatszeitraum zum 31. März	Für das Geschäftsjahr zum 31. Dezember			
	2015	2014 (angepasst)†	2014	2013	2012
	(ungeprüft)	(ungeprüft, soweit nicht abweichend angegeben)			
Ergebnis vor Steuern (in € Millionen)	51[1)]	174[2)]	54*	165*	124*
Ergebnis nach Steuern (in € Millionen)	39[3)]	116[2)]	4*	160*	69*
Eigenkapitalrendite vor Steuern (in %)[4)]	8,3[5)]	7,1[2),6)]	2,2	7,2	5,5
Eigenkapitalrendite nach Steuern (in %)[4)]	6,3[7)]	4,7[2),6)]	0,2	7,0	3,1
Aufwand-Ertrag-Relation (in %)	51,6	57,3[2)]	77,0*	64,7*	73,0*
Summe der Aktiva (in € Milliarden)	75,4		74,9[8)]	74,6*[9)]	97,7*[9)]
Anteilseignern zuzurechnendes Eigenkapital (in € Milliarden)[10)]	3,6		3,5*	3,5*	3,3*
davon: Stille Einlage des SoFFin (in € Milliarden)	*1,0**		*1,0**	*1,0**	*1,0**
Risikogewichtete Aktiva (RWA) (in € Milliarden)[11)]	14,8	15,5	15,5*	18,1*	15,3*
CET 1-Quote (Vollumsetzung) (in %)[12),13)]	14,8	13,5	13,5*	11,0*	–
Tier 1 Kapitalquote (Vollumsetzung) (in %)[13)]	14,8[14)]	13,5[15)]	19,9*	16,6*	18,9*[16)]
Eigenmittelquote (Vollumsetzung) (in %)[13),17)]	16,9[18)]	15,6[19)]	22,1*	19,1*	26,6*[16)]
Neugeschäftshöhe (in € Milliarden)[20)]	2,8		10,2	8,2	5,6
Verschuldungsgrad (Vollumsetzung) (in %)[13)]	3,2[21)]	3,1[22)]	3,1[22)]	2,8[23)]	

† Die Zahlen wurden entsprechend den jeweils unten genannten Fußnoten angepasst. Die Anpassungen erfolgten entweder (i) im Hinblick auf die erheblichen Effekte der Wertberichtigung auf das HETA-Exposure (d.h. Zahlen werden so gezeigt, als ob die Wertberichtigung keine negativen Auswirkungen gehabt hätte) oder (ii) im Hinblick auf die Rückzahlung der Stillen Einlage des SoFFin von €1,0 Milliarden, die am 6. Juli 2015 zurückgezahlt wurde.

* Geprüft.

1) Das Ergebnis vor Steuern würde bei einer Anpassung um Sondereffekte in Höhe von €82 Mio. (für die Aufwand-Ertrags-Relation €76 Mio.) aus Wertberichtigungen auf das HETA-Exposure (nominal: €395 Mio.) im ersten Quartal des Geschäftsjahrs 2015 €133 Mio. betragen.

2) Angepasst im Hinblick auf Sondereffekte in Höhe von €120 Mio. (für die Aufwand-Ertrags-Relation €112 Mio.) aus Wertberichtigungen auf das HETA-Exposure (nominal: € 395 Mio.) im vierten Quartal des Geschäftsjahrs 2014.

3) Das Ergebnis vor Steuern würde bei einer Anpassung um Sondereffekte in Höhe von €82 Mio. (für die Aufwand-Ertrags-Relation €76 Mio.) aus Wertberichtigungen auf das HETA-Exposure (nominal: €395 Mio.) im ersten Quartal des Geschäftsjahrs 2015 €112 Mio. betragen.

4) Eigenkapitalrendite berechnet auf Grundlage des durchschnittlichen monatlichen IFRS-Eigenkapitals unter Ausschluss der Neubewertungsrücklage; Eigenkapital für die Berechnung der Eigenkapitalrendite definiert als Eigenkapital der Aktionäre (ausgewiesenes Eigenkapital der Aktionäre unter Ausschluss der Stillen Beteiligung des SoFFin in Höhe von €1,0 Mrd., die am 6. Juli 2015 zurückgezahlt wurde).

5) Die Eigenkapitalrendite vor Steuern würde 21,6% betragen basierend auf einem Ergebnis vor Steuern von € 51 Mio. zzgl. Bereinigung für die HETA-Wertkorrekturen von €82 Mio. (Nettoertrag von €39 Mio. plus Bereinigung für HETA €73 Mio.) geteilt durch das durchschnittliche monatliche IFRS-Eigenkapital für das erste Quartal des Geschäftsjahrs 2015 (€3.465 Mio.) unter Ausschluss der Neubewertungsrücklagen (€149 Mio.), angepasst im Hinblick auf die Stille Beteiligung des SoFFin (minus €999 Mio.).

6) Berechnung der Eigenkapitalrendite vor Steuern basierend auf einem Ergebnis vor Steuern von €54 Mio. zzgl. Bereinigung für die HETA-Wertkorrekturen von €120 Mio. (Nettoertrag von €4 Mio., Bereinigung für HETA €112 Mio.) geteilt durch das durchschnittliche monatliche IFRS-Eigenkapital für das Jahr unter Ausschluss der Neubewertungsrücklagen (€3.451 Mio.), angepasst im Hinblick auf die stille Beteiligung (minus €999 Mio.).

7) Die Eigenkapitalrendite nach Steuern würde 18,2% betragen basierend auf einem Ergebnis vor Steuern von € 51 Mio. zzgl. Bereinigung für die HETA-Wertkorrekturen von €82 Mio. (Nettoertrag von €39 Mio. plus Bereinigung für HETA €73 Mio.) geteilt durch das durchschnittliche monatliche IFRS-Eigenkapital für das erste Quartal des Geschäftsjahrs 2015 (€3.465 Mio.) unter Ausschluss der Neubewertungsrücklagen (€149 Mio.), angepasst im Hinblick auf die Stille Beteiligung des SoFFin (minus €999 Mio.).

8) Die Zahl wurde im Ungeprüften Konzernzwischenabschluss für den Dreimonatszeitraum bis zum 31. März 2015 gemäß IAS 8.14 ff. angepasst und ist ungeprüft. Die Summe der Aktiva im Geprüften Konzernabschluss 2014: €75,5 Milliarden (geprüft).

9) Die Zahl für das Geschäftsjahr 2013 wurde wegen der rückwirkenden erstmaligen Einführung der IFRS 10 angepasst. Die Zahl für das Geschäftsjahr 2012 wurde wegen der rückwirkenden erstmaligen Anwendung des (überarbeiteten) IAS 19 angepasst.

10) Die Zahl für das Geschäftsjahr 2012 wurde wegen der rückwirkenden erstmaligen Anwendung des (überarbeiteten) IAS 19 angepasst. Die Zahl für das Geschäftsjahr 2013 wurde wegen der rückwirkenden erstmaligen Einführung der IFRS 10 und gemäß IAS 8.42 angepasst.

11) Die Zahlen für die Geschäftsjahre 2014 und 2013 und für den Dreimonatszeitraum zum 31. März 2015 sind in Übereinstimmung mit der CRR konsolidierte simulierte Basel-3-Zahlen (in der Umsetzung durch die CRR). Die Zahlen für das Geschäftsjahr 2013 sind in Übereinstimmung mit § 10a KWG konsolidiert.
12) Bei der CET 1-Quote wird das CET 1 durch die risikogewichteten Aktiva (RWA) geteilt.
13) Die angegebenen aufsichtsrechtlichen Eigenkapitalquoten wurden auf einer simulierten Grundlage berechnet. Da die pbb eine Tochtergesellschaft der HRE ist, ist sie zum Datum des Prospekts gemäß der Ausnahmeregelung des Art. 7 CRR von der Berechnung der CET 1-Quote und der sonstigen aufsichtsrechtlich vorgeschriebenen Eigenkapitalquoten auf Teilkonzernebene ausgenommen.
14) Tier 1 Kapital von €2,2 Milliarden (Vollumsetzung) (ohne die Stille Einlage des SoFFin von €1,0 Milliarden, die am 6. Juli 2015 zurückgezahlt wurde) in Prozent des RWA von €14,8 Milliarden.
15) Tier 1 Kapital von €2,1 Milliarden (Vollumsetzung) (ohne die Stille Einlage des SoFFin von €1,0 Milliarden, die am 6. Juli 2015 zurückgezahlt wurde) in Prozent des RWA von €15,5 Milliarden.
16) Die Zahlen für das Geschäftsjahr 2012 wurden auf Basis der Nicht-Vollumsetzung kalkuliert.
17) Die Zahlen für die Geschäftsjahre 2014 (nicht angepasst) und 2013 werden nach Auslaufen aller Basel-3-Übergangsregelungen (in der Umsetzung durch die CRR) (Vollumsetzung) ausgewiesen. Die Zahlen für das Geschäftsjahr 2013 wurden in Übereinstimmung mit der CRR konsolidiert (nach Verwendung des Bilanzgewinns 2013) und gemäß IAS 8.42 angepasst.
18) Eigenmittel von €2,5 Milliarden (Vollumsetzung) (ohne die Stille Einlage des SoFFin von €1,0 Milliarden, die am 6. Juli 2015 zurückgezahlt wurde) in Prozent des RWA von €14,8 Milliarden.
19) Eigenmittel von €2,4 Milliarden (Vollumsetzung) (ohne die Stille Einlage des SoFFin von €1,0 Milliarden, die am 6. Juli 2015 zurückgezahlt wurde) in Prozent des RWA von €15,5 Milliarden.
20) Neugeschäftshöhe wurde im Verhältnis zum jeweiligen Zeitabschnitt auf Grundlage der Verpflichtungen bestimmt und schließt Verlängerungen mit Laufzeiten von mehr als einem Jahr ein.
21) Tier 1 Kapital mit €2,2 Milliarden (Vollumsetzung) (ohne die Stille Einlage des SoFFin von €1,0 Milliarden, die am 6. Juli 2015 zurückgezahlt wurde) in Prozent des Fremdkapital-Exposure von €69,1 Milliarden.
22) Tier 1 Kapital von €2,1 Milliarden (Vollumsetzung) (ohne die Stille Einlage von €1,0 Milliarden, die am 6. Juli 2015 zurückgezahlt wurde) in Prozent des Fremdkapital-Exposure von €67,2 Milliarden.
23) Tier 1 Kapital von €2,0 Milliarden (Vollumsetzung) (ohne die Stille Einlage von €1,0 Milliarden, die am 6. Juli 2015 zurückgezahlt wurde) in Prozent des Fremdkapital-Exposure von €69,9 Milliarden.

Wesentliche Änderungen der Finanzlage und des Betriebsergebnisses des Emittenten.

Jüngste Entwicklungen

Zwischen dem 31. März 2015 und dem Datum des Prospekts gab es die folgenden wesentlichen Entwicklungen im Hinblick auf die Finanzlage und das Betriebsergebnis der pbb Gruppe.

Die Neugeschäftsvolumina im Segment REF waren im zweiten Quartal 2015 beinahe auf dem gleichen Niveau wie im ersten Quartal 2015, allerdings höher als im zweiten Quartal 2014, und trugen zu einem über den Erwartungen liegenden Neugeschäftsvolumen im Segement REF in den ersten sechs Monaten 2015 bei (basierend auf Kreditzusagen und Verlängerungen von mehr als einem Jahr). Die Margen im Neugeschäft im Segment REF standen weiterhin unter dem Druck des steigenden Wettbewerbs am Markt. Die Neugeschäftsvolumina im Segment PIF der pbb Gruppe (basierend auf Kreditzusagen und Verlängerungen mit Laufzeiten von mehr als einem Jahr) im zweiten Quartal 2015 waren höher als im ersten Quartal 2015 und als im zweiten Quartal 2014. Das gesamte Neugeschäftsvolumen im Segment PIF ist in den ersten sechs Monaten des Jahres 2015 (basierend auf Kreditzusagen und Verlängerungen mit Laufzeiten von mehr als einem Jahr) hinter den Erwartungen zurückgeblieben, auch wegen der geringen Aktivitäten im PIF Markt in Frankreich, welche mit verhaltenen Kommunalinvestitionen einhergingen.

Nach der Ankündigung von Moody's am 19. Juni 2015, die Ratings für langfristige unbesicherte Verbindlichkeiten der Gesellschaft auf 'Ba1' (mit stabilem Ausblick) zu senken, sind die Spreads der von der pbb Gruppe emittierten ungesicherten Verbindlichkeiten deutlich angestiegen. Moody's kündigte am 29. Juni 2015 die Einstellung des Ratings der unbesicherten Verbindlichkeiten an. Standard & Poor's hat die Anwendung neuer Rating Kriterien für Pfandbriefe (voraussichtlich) ab Mitte Juli 2015 bekanntgegeben. Die pbb Gruppe erwartet, dass diese in höheren Übersicherungsanforderungen für Pfandbriefe resultieren werden. Die pbb Gruppe erwägt, die neuen Anforderungen, sollten sie eingeführt werden, in Bezug auf ihre Hypothekenpfandbriefe zu erfüllen. Sie erwägt jedoch, das derzeitige Niveau der Übersicherung bei ihren öffentlichen Pfandbriefen

beizubehalten oder abzusenken und ein mögliches Absinken von deren Rating (erwartet auf 'AA-') hinzunehmen.

Die pbb Gruppe erzielte einen substanziellen Gewinn durch den Verkauf eines Bürogebäudes in Japan im April 2015. Das Bürogebäude stand im Eigentum der in den Konsolidierungskreis der pbb Gruppe einbezogenen Gesellschaft Hayabusa Godo Kaisha, Japan, die im Rahmen eines Rettungserwerbs erworben worden war. Dadurch, dass der Verkaufspreis den Buchwert der Immobilie übertraf, konnte die pbb Gruppe einen zusätzlichen Gewinn von €39 Millionen vor Steuern realisieren. Die pbb Gruppe erzielte einen Nettozinsertrag von €12 Millionen durch die Auflösung einer Cashflow-Hedge-Rücklage (*cash flow hedge reserve*). Da der Cashflow-Hedge (*cash flow hedge*) teilweise ineffektiv wurde, mussten Derivate von Cashflow Hedge Accounting neu zugeordnet und in der Gewinn- und Verlustrechnung reflektiert werden. Diese beiden positiven Einmaleffekte wurden teilweise durch erhöhte Rückstellungen für bestimmte Gerichtsverfahren von ehemaligen Genussscheininhabern ausgeglichen.

Weiterhin hat die pbb Gruppe seit dem 1. April 2015 bis zum 30. Juni 2015 Anleihen in einem Gesamtnennbetrag von €944 Millionen zuzüglich JPY 2 Milliarden (€14,6 Millionen gemäß Umrechnungskurs vom 30. Juni 2015) verkauft. Die Gesellschaft erwartet, dass die Gewinn- und Verlustrechnung im zweiten Quartal von 2015 von diesem Verkauf negativ beeinflusst wird. Das Gesamtvermögen hat nach dem 31. März 2015 abgenommen. Zum 31. Mai 2015 betrug das Gesamtvermögen €71,2 Milliarden im Vergleich zu €75,4 Milliarden zum 31. März 2015. Dieser Rückgang ist primär auf die Rückzahlung eines Schuldtitels aus vorhandenen Liquiditätsreserven zurückzuführen, den Verkauf von Anleihen aus dem Segment VP und niedrigere Marktwerte von derivativen Finanzinstrumenten. Auf der Passivseite führte dieser Rückgang zu geringeren verbrieften Verbindlichkeiten und niedrigeren Marktwerten von derivativen Finanzinstrumenten.

Die Stille Einlage des SoFFin wurde am 6. Juli 2015 auf Grundlage einer Rückzahlungsvereinbarung zwischen der Gesellschaft und dem FMS vom 3. Juli 2015 zum Nennwert zurückgezahlt. In der Konzern-Bilanz der pbb Gruppe nach IFRS verringerte sich aufgrund der Rückzahlungsvereinbarung das Eigenkapital um €1,0 Milliarden. Innerhalb des Eigenkapitals beträgt der Posten stille Einlage nach Rückzahlung €0 verglichen mit €999 Millionen vor Rückzahlungsvereinbarung. Gewinnrücklagen sanken um €1 Millionen. Nach den Rechnungslegungsprinzipien des HGB und sonstiger Vorschriften deutschen Rechts ("**Deutscher GAAP**") war die Stille Einlage des SoFFin Gegenstand von Abschreibungen, um Verluste vorangegangener Geschäftsjahre auszugleichen. Vor Rückzahlungsvereinbarung betrug der Buchwert nach Deutschem GAAP €92 Millionen. Für die Rückzahlungsvereinbarung wurde daher Eigenkapital in Höhe von €908 Millionen nach Deutschem GAAP verwendet. Das erforderliche Kapital wurde der Kapitalrücklage gemäß § 272 Absatz 2 Nr. 4 HGB entnommen. Um in der Konzern-Bilanz nach IFRS die Eigenkapitaldarstellung nach Deutschem GAAP abzubilden, führte die Kapitalverwendung in der Konzernbilanz nach IFRS zu einer Reduzierung der Kapitalrücklage in Höhe von €908 Millionen und zu einer Erhöhung der Gewinnrücklagen in gleichem Umfang.

Die folgenden Änderungen der Finanzlage und des Betriebsergebnisses der Gesellschaft, ermittelt anhand des Umsatzes und der Ertragslage, sind in dem jeweils zum 31. März endenden Dreimonatszeitraum 2015 und 2014 und in dem am 31. Dezember 2014, 2013 und 2012 abgelaufenen Geschäftsjahr aufgetreten:

Beendigung der Portfolio-Verwaltung für die FMS-WM im Jahr 2013

Am 30. September 2013 wurden als Reaktion auf die Beihilfeentscheidung der Europäischen Kommission die Portfolio-Verwaltungsdienste, welche die

pbb-Gruppe für die FMS-WM, erbracht hatte, beendet. Die Aktivitäten wurden auf die Service-Gesellschaft der FMS-WM, die FMS Wertmanagement Service GmbH ("**FMS-WM Service GmbH**"), und auf andere externe Dienstleister übertragen. Die pbb-Gruppe und die FMS-WM haben die Übertragung der Dienste in einem gemeinsamen Projekt seit Herbst 2011 durchgeführt.

Ausgenommen von dieser Übertragung waren die Dienste, welche von der Hypo Real Estate Japan Corporation, Tokio, einem Tochterunternehmen der Gesellschaft, für die FMS-WM für deren japanisches Immobilienfinanzierungsportfolio bis zum 29. Juni 2015 erbracht wurden. Außerdem haben die pbb-Gruppe und die FMS-WM einander nach dem 30. September 2013 auf der derzeitigen Grundlage einer Selbstkostenerstattungsvereinbarung weiterhin Dienstleistungen zur Verfügung gestellt, die nicht anderweitig erlangt werden können. Diese Dienste beziehen sich in erster Linie auf die Beschaffung von Informationen, die Gewährung von Vollmachten und die Bereitstellung von aufsichtsrechtlich erforderlichen Diensten.

Zusätzlich haben die pbb-Gruppe und die FMS-WM im vierten Quartal 2013 einen Vergleich abgeschlossen. Gemäß dieser Vereinbarung gelten alle potenziellen Schadenersatzansprüche der FMS-WM in Bezug auf (1) erbrachte Dienstleistungen, (2) alle vergangenen, gegenwärtigen und zukünftigen Ansprüche auf Kostenerstattung für die rechtliche Übertragung von Vermögensgegenständen (Upgrades), die zuvor synthetisch auf die FMS-WM übertragen wurden, gegen bestimmte Risiken geschützt oder durch (i) Unterbeteiligungen, (ii) Back-to-back-Derivate bzw. (iii) Finanzgarantien abgesichert worden sind, und (3) Zahlungsverpflichtungen der pbb-Gruppe in Verbindung mit dem Übergang von Arbeitnehmern an die FMS-WM Service GmbH als beigelegt. Im Zuge der Beendigung der Dienste sind etwa 110 Arbeitnehmer der pbb-Gruppe auf die FMS-WM Service GmbH übertragen worden, wo ihre Kenntnis des Portfolios für Kontinuität bei seiner zukünftigen Verwaltung sorgen wird.

Infolge der Beendigung verringerten sich die sonstigen betrieblichen Nettoerträge/-aufwendungen in Bezug auf die FMS-WM von €60 Mio. im Geschäftsjahr 2013 um €59 Mio. auf €1 Mio. im Geschäftsjahr 2014. Entsprechend verringerten sich die allgemeinen Kosten und die Verwaltungskosten in Bezug auf die FMS-WM infolge des Übergangs von Mitarbeitern auf die FMS-WM Service GmbH. Im ersten Quartal des Geschäftsjahrs 2014 schloss die pbb Gruppe unter anderem eine Vereinbarung mit der FMS-WM ab, in der die Übertragung von Risikopositionen an die FMS-WM im Zuge der Einrichtung der Abbaugesellschaft im Jahr 2010 endgültig geregelt wurde. Die Zahlungsverpflichtungen der Gesellschaft gegenüber der FMS-WM gemäß dieser Vereinbarung wurden letztlich von der HRE Holding ausgeglichen, was zu einer Steigerung der Bilanzgewinne um €30 Mio. im Geschäftsjahr 2014 führte, ohne dass sich dies auf die Ertragsrechnung der pbb-Gruppe ausgewirkt hätte, da es sich um eine Transaktion mit der HRE Holding in ihrer Eigenschaft als Eigentümerin handelte.

Wertberichtigungen wegen des HETA-Moratoriums

Am 1. März 2015 gab die österreichische Finanzmarktaufsichtsbehörde ("**FMA**") eine Mitteilung heraus, mit der sie die Fälligkeit der von der HETA ausgegebenen Schuldtitel (einschließlich Zinszahlungen) auf den 31. Mai 2016 hinausschob (das "**HETA-Moratorium**"). HETA ist eine im Eigentum der Republik Österreich stehende Abwicklungsanstalt. Die gesetzliche Aufgabe der HETA besteht darin, den notleidenden Teil der 2009 verstaatlichten österreichischen Bank Hypo Alpe Adria so effektiv und werterhaltend wie möglich zu verwerten. Der nominale, von der pbb-Gruppe

gehaltene Gesamtbetrag, der von dem HETA-Moratorium betroffen ist, belief sich am 1. März 2015 auf €395 Mio. EUR. Es umfasst acht ungesicherte Anleihen und einen Schuldschein, die alle zwischen 2002 und 2006 ausgegeben wurden. Die Ansprüche der pbb-Gruppe gegen die HETA aus diesen Schuldtiteln sind durch eine vom österreichischen Bundesland Kärnten übernommene Ausfallbürgschaft gesichert.

Wegen des HETA-Moratoriums und aufgrund von Aussagen des österreichischen Finanzministers bezüglich der Haftung des Bundesstaats Kärnten nahm die pbb Gruppe Abschreibungen auf den Wert der Anleihen und der Schuldverschreibungen im Geschäftsjahr 2014 sowie im ersten Quartal des Geschäftsjahrs 2015 vor. Im Geschäftsjahr 2014 trug die Abschreibung auf die acht unbesicherten Anleihen zum Ertrag der pbb Gruppe aus Finanzanlagen negativ mit €109 Mio. bei. Die Abschreibung auf die Schuldverschreibung wurde auf der Grundlage der zu erwartenden Ausfallrate zum Zeitpunkt der Finalisierung des ungeprüften Zwischenabschlusses für das erste Quartal von 2015 (Abschlagseffekte eingerechnet) und erhöhter Aufwendungen für Darlehens- und Verlustvorsorge in Höhe von €8 Mio. vorgenommen. Der Nettoertrag für das Geschäftsjahr 2014 fiel um €3 Mio. aufgrund von Zinssicherungsderivaten im Zusammenhang mit dem HETA Risiko, weil eine Bilanzierung dieser Absicherungsgeschäfte bezüglich dieser Zinssicherungsderivate nicht länger erlaubt war. Um als Absicherungsgeschäft bilanziert werden zu können, müssen u.a. nach IAS 39 Veränderungen des Zeitwerts oder des Cashflow des besicherten Vermögensgegenstands, die dem abgesicherten Risiko zugerechnet werden können, geeignet sein, Veränderungen des Zeitwerts oder des Cashflow des Absicherungsinstruments auf der Grundlage einer Zukunftsprognose auszugleichen. Bei einer Vergangenheitsbetrachtung müssen sich die erzielten Ergebnisse dabei in einer Bandbreite von 80% bis 125% bewegen. Da diese Bedingungen aufgrund des HETA-Moratoriums nicht länger erfüllt waren, war der notwendige Absicherungszusammenhang zwischen dem HETA Risiko und den Zinssicherungsderivaten nicht länger gegeben. Nach alldem sank der Gewinn vor Steuern der pbb Gruppe im Geschäftsjahr 2014 um €120 Mio. Zudem sank der Gewinn vor Steuern nach deutschen Rechnungslegungsstandards (HGB) um €81 Mio. In Übereinstimmung mit dem deutschen Steuersatz von 27,67% (Körperschaftsteuer, Solidaritätszuschlag und Gewerbesteuer) sowie der deutschen Mindestbesteuerung (40% des steuerbaren Einkommens) fielen die Steuern für das Geschäftsjahr 2014 um €8 Mio, was eine Nettoauswirkung für das HETA-Moratorium von €112 Mio. im Geschäftsjahr 2014 hatte. Die Abschreibungen für die Anleihen in Höhe von €109 Mio., die im Nettoertrag aus Finanzanlagen ausgewiesen sind sowie die Abschreibungen für das Schuldscheindarlehen in Höhe von €8 Mio., die in Wertberichtigungen ausgewiesen sind, trafen das VP Segment der Gesellschaft. Die Effekte in Höhe von €3 Mio. aus dem stand alone Derivat sind für die Geschäftsjahre 2013 und 2014 im Nettohandelsertrag ausgewiesen und auf alle operativen Segmente verteilt, d.h. REF, PIF und VP, im Verhältnis zum Portfoliovolumen.

Nach Aufstellung des Abschlusses für das Geschäftsjahr 2014 verursachten weitere Abschreibungen auf das HETA Risiko angesichts der jüngsten Marktpreisentwicklungen in der am 31. März 2015 endenden Dreimonatsperiode einen negativen Effekt auf den Nettoertrag aus Finanzanlagen in Höhe von €73 Mio. Auslöser dieser Abschreibung war die allgemeine Empfehlung der EZB, 50% des Nominalwerts von HETA Risiken abzuschreiben. Eine weitere Nettosumme von €6 Mio. wurde der Kreditrisikovorsorge aufgrund von Einzelwertberichtigungen zugeführt, die sich unter anderem auf ein Schuldscheindarlehen von HETA beziehen. Das Handelsergebnis wurde durch das HETA Risiko mit €3 Mio. belastet.

Die von der pbb Gruppe vorgenommene Abschreibung auf ihre ausstehenden Forderungen gegen HETA im Anschluss an die FMA Entscheidung über HETAs Schuldtitel und der allgemeinen Empfehlung der EZB resultierte in einem negativen Gesamteffekt von €197,5 Millionen bis zum 31. März 2015.

Die Gesellschaft hat im Hinblick auf das HETA-Moratorium rechtliche Schritte eingeleitet.

Finanzierung und Übernahme der RPPSE Espacio Oviedo S.L.U.

Im Jahr 2007 gewährte die Gesellschaft der RPPSE Espacio Oviedo S.L.U., Madrid, Spanien ("**RPPSE**") ein Immobiliendarlehen, um als Teil eines Bankenkonsortiums ein Einkaufszentrum in Oviedo, Spanien zu finanzieren. Infolge mehrerer Abschreibungen, betrug der Buchwert des Darlehens zum 31. Dezember 2013 noch €27 Mio. Am 25. Februar 2014 erwarb die Immo Invest Real Estate GmbH, eine Tochtergesellschaft der Gesellschaft, alle Anteile an der RPPSE. Zu diesem Zeitpunkt wurde der wichtigste Vermögensgegenstand der RPPSE, das Einkaufszentrum in Oviedo, mit einem Buchwert von €27 Mio. bilanziert. Die Immo Invest Real Estate GmbH wurde durch die Gesellschaft erstmals im November 2013 in der Rechnungslegung konsolidiert, nachdem die Gesellschaft zugesichert hatte, diese Beteiligung übernehmen zu wollen. Auch die RPPSE wurde zur gleichen Zeit in der Rechnungslegung der pbb Gruppe konsolidiert, nachdem die Gesellschaft im Zuge einer Rettungsübernahme zugesichert hatte, die Beteiligung an der RPPSE erwerben zu wollen und sie einen beherrschenden Einfluss über diese erlangt hatte. Diese Konsolidierungen hatten keinen wesentlichen Einfluss auf das Vermögen, die Finanzlage oder das Betriebsergebnis der pbb Gruppe, da die Übernahme der RPPSE, vermittelt durch eine Tochtergesellschaft der Gesellschaft, die Immo Invest Real Estate GmbH, einen Tausch von Aktiva im Zuge der Konsolidierung bewirkte. Die pbb Gruppe bilanzierte das Einkaufszentrum im Jahresabschluss 2013 als Grundvermögen mit einem Buchwert von €27 Mio. als Rettungsübernahme unter dem Punkt "sonstige Vermögensgegenstände", anstelle des der RPPSE gewährten Darlehens, das zu diesem Zeitpunkt infolge einer korrespondierenden Abschreibung bereits denselben Buchwert hatte. Zum Abschluss des Geschäftsjahres 2014 nahm die pbb Gruppe eine weitere Abschreibung auf das Grundvermögen vor.

Trennung von der DEPFA im Jahr 2014

Im August 2013 bereitete die HRE Holding die Veräußerung von 100% des gezeichneten Kapitals der DEPFA Bank vor und nahm dazu Gespräche mit potentiellen Erwerbern auf. Dadurch wollte sie der Forderung der Europäischen Kommission nachkommen, die DEPFA Gruppe zu reprivatisieren. Stattdessen beschlossen der interministerielle Lenkungsausschuss der FMSA (der Entscheidungen bezüglich des FMS trifft) und eine außerordentliche Hauptversammlung der HRE Holding am 13. Mai 2014, die Übernahme und Abwicklung der DEPFA Gruppe durch die FMS-WM vorzubereiten, anstatt die Anteile an der DEPFA Bank an einen Privaten zu veräußern. Die Übertragung der DEPFA Gruppe an die FMS-WM wurde am 19. Dezember 2014 abgeschlossen, nachdem die irische und die luxemburgische Aufsichtsbehörde ihr zugestimmt hatten. Die für diese Übertragung vereinbarten wirtschaftlichen Konditionen entsprachen im Wesentlichen denen, welche die HRE Holding zuvor mit einem privaten Bieter ausgehandelt hatte.

Im Zusammenhang mit dem Abschluss des Kauf- und Übertragungsvertrags über die Anteile an der DEPFA Bank auf die FMS-WM im Juli 2014 übertrug die Gesellschaft ihre Tochtergesellschaft DEPFA Finance N.V., Amsterdam, auf die DEPFA Bank und sie zahlte im September 2014 ein Darlehen, das

		die DEPFA Finance N.V. der Gesellschaft gewährt hatte, anteilig in Höhe von €150 Mio. vor Fälligkeit zurück. Im Zusammenhang mit dieser anteiligen Rückzahlung wurde ein korrespondierender Zinsswap zwischen der DEPFA Bank und der Gesellschaft anteilig aufgehoben. Der anteilig aufgehobene Zinsswap wurde unter seinem Zeitwert als Absicherungsgeschäft auf Mikrobasis gebucht. Dies wurde dadurch zum Ausdruck gebracht, dass die Absicherung der verbleibenden Darlehensverbindlichkeiten gegenüber der DEPFA Finance N.V. berichtigt wurde. Nachdem das Darlehen anteilig zurückgezahlt und der Zinsswap anteilig aufgehoben wurde, wurde die Absicherungsanpassung umgekehrt, was zu einem Zinsertrag von €15 Mio. netto führte. Weitere Ergebniseffekte im Zusammenhang mit der DEPFA Finance N.V. sind in dem Nettoertrag in Höhe von €21 Mio. aus Finanzinvestitionen im Geschäftsjahr 2014 enthalten. Dieser Ertrag resultierte aus der Veräußerung der Tochtergesellschaft, weil auf dieser Grundlage die Verbindlichkeiten der Gesellschaft gegenüber der DEPFA Finance N.V. nicht mehr aufgelöst werden mussten, sondern erstmals zum Zeitwert bilanziert wurden. **Veräußerung der Little Britain Holdings (Jersey) Ltd., Jersey** Am 20. September 2013 veräußerte die pbb Gruppe alle ihre Anteile an der Little Britain Holdings (Jersey) Ltd., Jersey ("**Little Britain Holdings**"). Diese Veräußerung führte zu einem Gewinn von €92 Mio., der in der Rechnungslegung für das Geschäftsjahr, das am 31. Dezember 2013 endete, als Nettoertrag aus Finanzanlagen gebucht wurde. Der Verlust in Höhe von €1 Mio., der zwischen dem 1. Januar 2013 und dem 20. September 2013 durch Little Britain Holdings erwirtschaftet wurde, ist im Jahresabschluss der pbb Gruppe für das Geschäftsjahr 2013 enthalten. Das Gesamtvermögen betrug nach den Rechnungslegungsgrundsätzen, die auf den konsolidierten Jahresabschluss der Gesellschaft anzuwenden sind, €97 Mio. Im Zeitpunkt der Dekonsolidierung bestand das Vermögen von Little Britain Holdings vor allem aus Rettungserwerben in Höhe von €84 Mio., die als sonstige Vermögensgegenstände ausgewiesen wurden. Die Verbindlichkeiten gegenüber der Gesellschaft betrugen €108 Mio. und das Eigenkapital wies einen negativen Wert in Höhe von €13 Mio. auf.
B.8	**Ausgewählte wesentliche Pro-forma-Finanz-informationen.**	Entfällt. Die Gesellschaft hat keine Pro-forma-Finanzinformationen erstellt.
B.9	**Gewinnprognosen oder -schätzungen.**	Entfällt. Die Gesellschaft hat keine Gewinnprognosen oder -schätzungen erstellt.
B.10	**Beschränkungen im Bestätigungs-vermerk zu den historischen Finanzinforma-tionen.**	Entfällt. Die Bestätigungsvermerke zu den in dem Prospekt enthaltenen historischen Finanzinformationen wurden ohne Einschränkung erteilt.
B.11	**Nicht ausreichen des Geschäfts-kapitals des Emittenten zur Erfüllung bestehender Anforderungen.**	Entfällt. Das Geschäftskapital des Emittenten reicht aus, um die bestehenden Anforderungen zu erfüllen.

2.3 Abschnitt C – Wertpapiere

C.1	**Beschreibung von Art und Gattung der angebotenen und/oder zum Handel zuzulassenden Wertpapiere, einschließlich Wertpapierkennung.**	Auf den Inhaber lautende Stammaktien ohne Nennbetrag (Stückaktien), jeweils mit einem anteiligen Betrag des Grundkapitals von €2,83 (gerundet, rechnerisch korrekt: €2,82859) und voller Gewinnanteilsberechtigung ab dem 1. Januar 2015. International Securities Identification Number (ISIN): DE0008019001 Wertpapierkennnummer (WKN): 801 900 Common Code: 001118463 Trading Symbol: PBB
C.2	**Währung der Wertpapier-emmission.**	Euro.
C.3	**Zahl der ausgegebenen und voll eingezahlten und der ausgegebenen, aber nicht voll eingezahlten Aktien.**	Das Grundkapital der Gesellschaft ist zum Datum des Prospekts €380.376.059,67 und ist in 134.475.308 auf den Inhaber lautende Stammaktien ohne Nennbetrag (Stückaktien) eingeteilt. Alle Aktien, die zum Datum des Prospekts ausgegeben sind, sind vollständig eingezahlt.
	Nennwert pro Aktie, bzw. Angabe, dass Aktien keinen Nennwert haben.	Jede Aktie der Gesellschaft hat einen anteiligen Betrag des Grundkapitals von €2,83 (gerundet, rechnerisch korrekt: €2,82859).
C.4	**Beschreibung der mit den Wertpapieren verbundenen Rechte**	Jede Aktie der Gesellschaft gewährt eine Stimme in der Hauptversammlung der Gesellschaft. Die Aktien sind ab dem 1. Januar 2015 in voller Höhe gewinnberechtigt. Es bestehen keine Beschränkungen des Stimmrechts. Alle Gesellschafter der Gesellschaft haben die gleichen Stimmrechte. Im Falle einer Liquidation der Gesellschaft werden die Vermögensgegenstände der Gesellschaft, die nach der Befriedigung aller Verbindlichkeiten der Gesellschaft übrig bleiben, zwischen den Aktionären im Verhältnis ihrer Anteile an der Gesellschaft aufgeteilt.
C.5	**Beschreibung aller etwaigen Beschränkungen für die freie Übertragbarkeit der Wertpapiere.**	Nicht anwendbar. Die Aktien sind gemäß den gesetzlichen Regelungen, die für auf den Inhaber lautende Stammaktien gelten, frei übertragbar. Mit Ausnahme der unten unter E.5. beschriebenen Lock-up-Vereinbarungen bestehen keine Einschränkungen der Übertragbarkeit der Aktien der Gesellschaft.
C.6	**Angabe, ob für die angebotenen Wertpapiere die Zulassung zum Handel in einem geregelten Markt beantragt wurde bzw. werden soll, Nennung aller geregelten Märkte, in denen die Wertpapiere gehandelt werden oder werden sollen.**	Die Gesellschaft wird voraussichtlich am oder um den 7. Juli 2015 die Zulassung ihrer Aktien zum Handel im regulierten Markt an der Frankfurter Wertpapierbörse sowie gleichzeitig zum Teilbereich des regulierten Markts mit weiteren Zulassungsfolgepflichten (Prime Standard) beantragen. Es wird erwartet, dass der Beschluss über die Zulassung der Aktien der Gesellschaft zum Handel am oder um den 15. Juli 2015 ergeht. Der Handel der Aktien der Gesellschaft an der Frankfurter Wertpapierbörse wird voraussichtlich am oder um den 16. Juli 2015 aufgenommen werden.

C.7	**Beschreibung der Dividendenpolitik.**	Die Absicht und die Fähigkeit der Gesellschaft, in Zukunft Dividenden zu zahlen, hängt von der Finanzlage, den Betriebsergebnissen, dem Kapitalbedarf, Anlagealternativen und anderen, vom Vorstand und vom Aufsichtsrat der Gesellschaft für maßgeblich erachteten Faktoren ab. Jeder Vorschlag des Vorstands und des Aufsichtsrats zur Ausschüttung von Dividenden bedarf der Zustimmung der Hauptversammlung. Die Gesellschaft kann keine Aussage dazu treffen, ob in Zukunft Dividenden gezahlt werden.

2.4 Abschnitt D – Risiken

Eine Anlage in die Aktien der Gesellschaft unterliegt einer Reihe von Risiken. Die folgenden Risiken könnten allein oder zusammen mit weiteren Risiken und Unwägbarkeiten, die der Gesellschaft derzeit nicht bekannt sind oder die sie derzeit möglicherweise als unwesentlich erachtet, die Geschäfts-, Finanz- und Ertragslage der Gesellschaft erheblich beeinträchtigen. Wenn sich Risiken verwirklichen sollten, könnten Anleger ihre Investition ganz oder teilweise verlieren.

D.1 Zentrale Angaben zu den zentralen Risiken, die dem Emittenten oder seiner Branche eigen sind.

Risiken der Geschäftstätigkeit der pbb Gruppe und der Branche, in der sie tätig ist:

- Die pbb Gruppe ist Risiken aus den allgemeinen wirtschaftlichen Rahmenbedingungen der internationalen Finanzmärkte und der Weltwirtschaft ausgesetzt, die negativen Einfluss auf ihre Geschäftslage und Aussichten haben können.
- Als Finanzinstitut ist die Gesellschaft dem Risiko ausgesetzt, dass tatsächliche oder angenommene Liquiditätsprobleme eines Finanzinstituts oder der tatsächliche oder angenommene Ausfall eines Finanzinstituts andere Finanzinstitute negativ beeinflusst.
- Geopolitische Konflikte können negative Auswirkungen auf die Märkte haben und eine Verschärfung oder Ausweitung solcher Konflikte könnte die Märkte, in denen die pbb Gruppe aktiv ist, negativ beeinflussen.
- Die pbb Gruppe war, ist und könnte weiterhin direkt von der europäischen Staatsschuldenkrise betroffen sein. Es könnte für die Gesellschaft erforderlich werden, Wertberichtigungen für Engagements in staatliche Schuldtitel oder andere Finanzinstrumente vorzunehmen, die mit staatlichen Garantien oder ähnlichen Instrumenten hinterlegt sind, wie etwa Ansprüche gegen HETA Asset Resolution AG.
- Die pbb Gruppe ist dem Risiko von Wertberichtigung oder Abschreibungen bestehender Darlehensforderungen und dem Risiko ausgesetzt, dass die jeweiligen Sicherheiten nicht ausreichend sind.
- Die pbb Gruppe hat kontinuierlichen Liquiditätsbedarf für ihre Geschäftstätigkeit und ist einem Liquiditätsrisiko ausgesetzt, das sich negativ auf ihre Fähigkeit auswirken kann, bestehende Verbindlichkeiten zu erfüllen.
- Die pbb Gruppe trägt das Risiko, dass sich Ratings verschlechtern, die der Gesellschaft oder ihren Pfandbriefen sowie ihren anderen Verbindlichkeiten und hybriden Refinanzierungsmitteln zugewiesen wurden, was negative Auswirkungen auf die Refinanzierungsmöglichkeiten, auf Auslöseschwellen und Kündigungsrechte in Derivaten und anderen Verträgen und auf den Zugang zu geeigneten Gegenparteien für Absicherungsgeschäfte und damit auf die Geschäfts-, Finanz- und Ertragslage haben kann.
- Die pbb Gruppe ist Marktrisiken ausgesetzt, insbesondere Risiken aus der Volatilität von Credit Spreads (Kreditspannen), Zinssätzen und Wechselkursraten, die sich nachteilig auf die Vermögens-, Finanz- und Ertragslage der pbb Gruppe auswirken können.

- Die pbb Gruppe ist Bonitätsrisiken bezüglich der Kunden und Gegenparteien ausgesetzt, die sich nachteilig auf die Vermögens, Finanz- und Ertragslage der pbb Gruppe auswirken können.
- Die Geschäftsbeziehungen zwischen der pbb Gruppe und ihren Kunden basieren grundsätzlich auf Standardverträgen und Formularen. Jeder Fehler in der Dokumentation oder jede unvorhergesehene Marktentwicklung oder Änderung der Gesetze könnte sich erheblich nachteilig auf die pbb Gruppe auswirken.
- Die pbb Gruppe ist Risiken aus dem zyklischen Geschäftsmodell mit einer geringen Anzahl von häufig großvolumigen Transaktionen ausgesetzt, was bedeutet, dass sich das Nichterkennen von Zyklen oder die Nichtvollendung einer oder mehrerer großer Transaktionen erheblich nachteilig auf das Geschäft der pbb Gruppe auswirken kann.
- Die pbb Gruppe ist dem Risiko von vollständigen oder teilweisen Tilgungen ausgesetzt, was insbesondere den Reinvestitionsdruck erhöhen könnte. Die pbb Gruppe könnte ferner dem Risiko ausgesetzt sein, dass Vorfälligkeitsentschädigungen nicht wirksam vereinbart wurden.
- Die pbb Gruppe ist dem Risiko des Ausfalls der Deckungsmasse für Pfandbriefe ausgesetzt, was zu Verstößen gegen das Pfandbriefgesetz und/oder Verschlechterungen des Pfandbrief-Ratings führen kann.
- Änderungen in der Methode zur Bewertung von Finanzinstrumenten könnten sich nachteilig auf die pbb Gruppe auswirken.
- Nicht identifizierte oder unerwartete Risiken könnten von den Richtlinien, Verfahren und Methoden zum Risikomanagement der pbb Gruppe nicht erfasst sein, was zu wesentlichen Verlusten führen kann.
- Zinsauslösungsmechanismen (Coupon Pusher) in hybriden Finanzinstrumenten, die sich auf Dividendenzahlungen der HRE Holding beziehen, könnten die Anerkennung dieser Instrumente als Zusätzliches Kernkapital beeinträchtigen. Außerdem können Dividendenzahlungen der HRE Holding Zinszahlungen auf solche Instrumente auslösen, auch wenn die pbb Gruppe keine Dividenden oder andere Zinsen zahlt.
- Die pbb Gruppe könnte in Zukunft Schwierigkeiten bei der Begebung weiteren Zusätzlichen Kernkapitals haben, was die Geschäfts-, die Finanz- und Ertragslage der pbb Gruppe wesentlich beeinträchtigen könnte.
- Die pbb Gruppe ist operativen System- und Prozessrisiken ausgesetzt, die sich nachteilig auf die Vermögens-, Finanz- und Ertragslage der pbb Gruppe auswirken können. Operative Risiken können die Geschäftstätigkeit der pbb Gruppe stören.
- Die operativen Systeme der pbb Gruppe sind dem zunehmenden Risiko von Cyber-Attacken und anderer Internet-Straftaten ausgesetzt, die zum wesentlichen Verlust von Kundeninformationen, zu einem Reputationsschaden der pbb Gruppe und zu regulatorischen Sanktionen und damit finanziellen Verlusten führen können.
- Die pbb Gruppe ist operativen Risiken aus dem Ausfall von wesentlichen Auslagerungsdienstleistern ausgesetzt, wie etwa Betriebsunterbrechungen.
- Die pbb Gruppe könnte Schwierigkeiten beim Verkauf, zu angemessenen Preisen oder überhaupt von Vermögenswerten, insbesondere des Value Portfolio, haben und wesentliche Verluste aus diesen Vermögenswerten oder anderen Investments unabhängig von Marktentwicklungen erleiden.

- Der pbb Gruppe könnte es nicht gelingen, erfahrene Führungskräfte und anderes, für die pbb Gruppe wichtiges Personal einzustellen oder zu halten.
- Die pbb Gruppe ist zukünftig Risiken im Zusammenhang mit Vergütungsregelungen ausgesetzt, wie etwa dem Verlust von Mitarbeitern.
- Die pbb Gruppe könnte zukünftig Risiken aus Pensionsplänen ausgesetzt sein, wie etwa einer Finanzierungs-Unterdeckung.
- Intensiver Wettbewerb könnte wesentlich nachteilige Auswirkung auf die Umsätze und Profitabilität der pbb Gruppe haben, insbesondere im Heimatmarkt Deutschland.
- Geschäfte mit Gegenparteien aus Ländern, die vom U.S. State Department als staatliche Förderer des Terrorismus bezeichnet werden und Personen, die Zielgruppe von U.S oder EU Wirtschaftssanktionen sind, könnten potentielle Kunden oder Investoren davon abhalten, mit der pbb Gruppe Geschäfte zu tätigen oder in Wertpapiere der pbb Gruppe zu investieren. Dies könnte weiterhin zu einem Reputationsschaden für die pbb Gruppe und behördlichen Maßnahmen mit wesentlichem und nachteiligem Effekt auf die Geschäftstätigkeit führen.
- Die pbb Gruppe ist grundsätzlich Reputationsrisiken und Reputationsrisiken aus der (früheren) Zugehörigkeit zur HRE Gruppe ausgesetzt.
- Die pbb Gruppe könnte dem Risiko von Einsprüchen Dritter im Hinblick auf die Einhaltung der europäischen Beihilfeentscheidung durch die pbb Gruppe ausgesetzt sein, was zu einer Verpflichtung zur Rückzahlung etwaig erhaltener Beihilfen führen könnte.
- Der pbb Gruppe könnte es nicht gelingen, ihre Geschäftsziele und strategischen Ziele zu erreichen. Historische Ergebnisse könnten nicht repräsentativ für zukünftige Ergebnisse und Zwischenergebnisse könnten kein Indikator für Jahresergebnisse sein.
- Es ist unmöglich, den Ausgang von Rechtsstreitigkeiten, denen die pbb Gruppe ausgesetzt ist oder sein wird, zu bestimmen oder vorherzusagen, die erhebliche negative Auswirkungen auf die pbb Gruppe haben könnten.
- Die Gesellschaft ist Partei verschiedener Gerichtsverfahren vor verschiedenen deutschen Gerichten, die von Gläubigern von Genussscheinen eingeleitet wurden, und wird voraussichlich Partei weiterer derartiger Verfahren werden, die erhebliche finanzielle Auswirkungen auf die pbb Gruppe haben könnten.
- Die pbb Gruppe ist Forderungen früherer gewerblicher Kunden auf Ausgleichszahlungen für Kreditbearbeitungsentgelte ausgesetzt und könnte in Zukunft weiteren solcher Forderungen ausgesetzt sein, was erhebliche finanzielle Auswirkungen auf die pbb Gruppe haben könnte.
- Die pbb Gruppe ist Zahlungsforderungen durch ein Spruchverfahren im Zusammenhang mit der Verschmelzung von zwei Hypothekenbanken mit der Gesellschaft in 2001 ausgesetzt.
- Der Versicherungsschutz der pbb Gruppe könnte nicht ausreichend sein, was erhebliche finanzielle Auswirkungen auf die pbb Gruppe haben könnte.
- HRE Holding, FMS-WM und DEPFA Bank plc haben sich verpflichtet, die pbb Gruppe von bestimmten Verbindlichkeiten freizustellen. Dennoch gibt es keine Sicherheit, dass die pbb Gruppe Ansprüche nach diesen Freistellungsvereinbarungen durchsetzen kann.

Aufsichtsrechtliche, rechtliche und steuerliche Risiken

- Aufsichtsrechtliche Reformen des Finanzsektors zusammen mit der verschärften Überprüfung durch Aufsichtsbehörden können zu einer erheblichen Unsicherheit für die pbb Gruppe und höheren administrativen Ausgaben führen, die die Möglichkeit des Aufbaus und der Umsetzung von Geschäftszielen und strategischen Zielen nachteilig beeinträchtigen.
- Neue gesetzliche Regelungen erfordern von der pbb Gruppe, eine bestimmte Eigenkapitalausstattung und zusätzliche Eigenkapitalpolster aufrechtzuerhalten. Diese Anforderungen können im Laufe der Zeit verschärft werden und können wesentliche nachteilige Auswirkungen auf die Geschäftstätigkeit und Profitabilität der pbb Gruppe haben. Jede Kapitallücke kann zu einem Einschreiten der Aufsichtsbehörden führen.
- Veränderungen der bestehenden Gruppenstruktur können zu zusätzlichen Anforderungen an die Kapitalausstattung oder zur Einschränkungen der Geschäftstätigkeit führen.
- Die pbb Gruppe könnte weiterhin verpflichtet sein, Eigenmittelanforderungen (Säule 1) übersteigende Kapitalquoten einzuhalten, insbesondere im Hinblick auf SREP Entscheidungen und andere Säule 2 Anforderungen.
- Aufsichtsrechtliche Einschränkungen könnten die Möglichkeit der Gesellschaft, Dividenden zu zahlen, nachteilig beeinträchtigen.
- Die pbb Gruppe ist Risiken aus ihrem AIRB-Ansatz (fortgeschrittener interner Ansatz zur Ermittlung der Kreditrisiken) ausgesetzt, woraus sich ergeben könnte, dass die RWAs zu niedrig angesetzt wurden, was zu regulatorischen Eingriffen führen könnte.
- Zukünftige gesetzliche Regelungen könnten eine Untergrenze für Eigenkapitalerfordernisse anhand standardisierter, nicht intern berechneter oder anderer Ansätze festlegen. Die pbb Gruppe könnte daher verpflichtet sein, zusätzliche Kapitalerfordernisse für Risiken zu erfüllen, die derzeit anhand internen Ratings oder einem fortgeschrittenen Messansatz quantifiziert werden.
- Die pbb Gruppe könnte Risiken aus weiteren Stresstests ausgesetzt sein, die einen nachteiligen Effekt auf die pbb Gruppe haben und zu höheren Kapital- und Liquiditätsanforderungen führen können.
- Die pbb Gruppe ist Risiken aus periodischen Prüfungen, Inspektionen und ähnlichen Verfahren der Aufsichtsbehörden ausgesetzt, wie etwa Feststellungen von Defiziten.
- Die pbb Gruppe ist dem Risiko ausgesetzt, dass das Einlagensicherungssystem zu weiteren Kosten führen kann, die die Einhaltung der Eigenkapitelerfordernisse erschweren.
- Änderungen des Risikobewertungskonzepts können nachteilige Auswirkungen auf die Eigenkapitalquote der pbb Gruppe haben und die Geschäftstätigkeit sowie die Finanz- und Ertragslage der pbb Gruppe wesentlich beeinträchtigen.
- Die weitreichenden Eingriffsrechte unter dem einheitlichen Abwicklungsmechanismus und der nationalen Umsetzung der EU-Richtlinie zur Sanierung und Abwicklung von Finanzinstituten können die Vermögens-, Finanz- und Ertragslage der pbb Gruppe wesentlich beeinträchtigen. Deutsche Gesetzesvorhaben im Zusammenhang mit der Sanierung und Abwicklung von Finanzinstituten können aufsichtsrechtliche Konsequenzen haben, die die Geschäftstätigkeit der pbb Gruppe einschränken und zu höheren Refinanzierungskosten führen können.

- Die pbb Gruppe könnte verschärften Regelungen und Anforderungen im Bezug auf die Abwicklung von Derivatetransaktionen unterliegen, die zu erhöhten Kosten führen und die Geschäftstätigkeit und Ertragslage der pbb Gruppe wesentlich beeinträchtigen können.
- Die geplante Einführung einer neuen Bankenabgabe und einer Finanztransaktionssteuer könnte bestimmte Geschäftsaktivitäten der pbb Gruppe unprofitabel machen.
- Die pbb Gruppe operiert in einem Umfeld, das verschärfter Regulierung unterliegt. Sollte es der pbb Gruppe nicht gelingen, sämtliche der umfänglichen Regelungen, die auf ihre Geschäftstätigkeit anzuwenden sind, einzuhalten, könnten die pbb Gruppe oder ihre Organe Gegenstand aufsichtsrechtlicher Untersuchungen, aufsichtsrechtlicher Einschränkungen, Sanktionen, Unterlassungsansprüchen, Rechtsstreitigkeiten oder strafrechtlicher Verfolgung werden.
- Die pbb Gruppe muss Geldwäscheregelungen und datenschutzrechtliche Bestimmungen einhalten, deren Einhaltung die pbb Gruppe zu überwachen hat. Eine Verletzung dieser Vorschriften kann zu empfindlichen Sanktionen führen.
- Die pbb Gruppe ist trotz der Übertragung von Vermögensgegenständen und Verbindlichkeiten und der Beendigung von Dienstleistungstätigkeiten weiterhin Risiken in Verbindung mit FMS-WM ausgesetzt.
- Die pbb Gruppe könnte einer zunehmend strengeren Kontrolle von Transaktionen durch Steuerbehörden ausgesetzt sein und könnte steuerlichen Risiken aus früheren Veranlagungszeiträumen unterliegen.
- Die vorteilhafte Steuerbehandlung im Zusammenhang mit dem Erwerb der Anteile an der HRE Holding durch den FMS in 2010 könnten nachträglich für unwirksam erklärt werden, was zu dem Verlust von aktiven latenten Steuern führen und die Dividendenfähigkeit der Gesellschaft negativ beeinflussen könnte.
- Die pbb Gruppe ist vom neuen Rechnungslegungsgrundsatz IFRS 9 betroffen, wodurch die Dividendenfähigkeit der Gesellschaft negativ beeinflusst werden könnte.

Risiken bezüglich der Gesellschafterstruktur

- Auch nach Abschluss des Angebotes werden die HRE Holding und ihre Gesellschafter wesentlichen Einfluss auf die Gesellschaft ausüben können. Ihre Interessen könnten mit den Interessen der anderen Investoren in Konflikt geraten.
- Das Ausscheiden aus der HRE Gruppe und die Tatsache, dass die pbb Gruppe damit nicht mehr mittelbar im Eigentum der Bundesrepublik Deutschland steht, kann zum Verlust von Geschäftsmöglichkeiten und erhöhten Finanzierungskosten führen.
- Die Aufhebung der Patronatserklärung der HRE Holding zugunsten der Gesellschaft kann zu höheren Kosten für die Erfüllung der aufsichtsrechtlichen Eigenkapitalanforderungen, zum Verlust von Geschäftsmöglichkeiten und erhöhten Finanzierungskosten führen.
- Das Ausscheiden aus der HRE Gruppe erhöht die Wahrscheinlichkeit einer Herabstufung der Ratings der Gesellschaft und/oder des Ratings ihrer Fremdkapital- oder Hybridkapitalinstrumente, was negative Auswirkungen auf die Refinanzierungsmöglichkeiten, auf Auslöseschwellen und Kündigungsrechte in Derivaten und anderen Verträgen und auf den Zugang zu geeigneten Gegenparteien haben kann

- Verlustvorträge der pbb Gruppe könnten im Zuge des Angebots untergehen, was zu einem erhöhten effektiven Steuersatz und dem Verlust von aktiven latenten Steuern führen könnte, und die Dividendenfähigkeit der Gesellschaft negativ beeinflussen könnte.
- Das Angebot könnte nicht durchgeführt werden und Investoren können ihre bereits gezahlten Provisionen verlieren oder Risiken aus Leerverkäufen der Aktien der Gesellschaft ausgesetzt sein.

D.3	**Zentrale Angaben zu den zentralen Risiken, die den Wertpapieren eigen sind.**	Risiken im Zusammenhang mit der Aufnahme des Börsenhandels der Aktien der Gesellschaft • Zukünftige Verkäufe einer großen Anzahl von Aktien des Verkaufenden Aktionärs oder die Erwartung des Marktes hinsichtlich solcher Verkäufe können dazu führen, dass der Aktienkurs fällt. • Die Aktien der Gesellschaft wurden bisher nicht öffentlich gehandelt und es besteht keine Garantie, dass sich nach Börsenzulassung ein liquider Handel in den Aktien entwickelt oder bestehen bleibt. • Der Preis und das Handelsvolumen können stark schwanken und Investoren könnten ihre Anlage ganz oder teilweise verlieren. • Zukünftige Kapitalerhöhungen könnten die Beteiligung verwässern und zu einer erheblichen Abwertung der Aktien der Gesellschaft führen. • Die Gesellschaft könnte in zukünftigen Geschäftsjahren keine Dividenden zahlen, sei es, dass sie keinen ausschüttungsfähigen Bilanzgewinn erzielt, dass sich Beschränkungen aus anwendbaren Gesetzen und Vorschriften ergeben oder sei es aus anderen Gründen.

2.5 Abschnitt E – Angebot

E.1	**Gesamtnettoerlöse und geschätzte Gesamtkosten der Emission/ des Angebots, einschließlich der geschätzten Kosten, die dem Anleger vom Emittenten oder Anbieter in Rechnung gestellt werden.**	Die Gesellschaft erhält keine Erlöse aus dem in diesem Prospekt beschriebenen Angebot. Die Gesamtkosten und -ausgaben des Angebots und der Börsenzulassung werden voraussichtlich etwa €28 Millionen (netto) betragen und von dem Verkaufenden Aktionär getragen werden. Der Verkaufende Aktionär erhält die Erlöse aus dem Verkauf der Existierenden Aktien (wie unten in E.3 definiert) und die Erlöse aus dem möglichen Verkauf der Mehrzuteilungs-Aktien (wie unten in E.3 definiert) in dem Umfang, in dem die Greenshoe Option (wie unten in E.3 definiert) ausgeübt wird. Die Höhe der Erlöse aus diesem Angebot (das "**Angebot**") und die Kosten im Zusammenhang mit dem Angebot sind vom Platzierungspreis, der auch die Höhe der zu zahlenden Provisionen der Konsortialbanken bestimmt, und der Zahl der im Angebot platzierten Aktien abhängig. Die Gesellschaft schätzt, dass bei einer Platzierung am unteren Ende, in der Mitte und am oberen Ende der Preisspanne für das Angebot der Angebotenen Aktien (wie unten in E.3 definiert) (die "**Preisspanne**"), der Gesamtbruttoerlös des Verkaufenden Aktionärs (unter der Annahme der Platzierung der höchstmöglichen Zahl von Existierenden Aktien (wie unten in E.3 definiert) und der vollständigen Ausübung der Greenshoe Option (wie unten in E.3 definiert)) ca. €1.156 Millionen (unteres Ende), €1.264 Millionen (Mitte) bzw. €1.372 Millionen (oberes Ende) betragen würde. Unter der Annahme, dass der Angebotspreis am unteren Ende, in der Mitte und am oberen Ende der Preisspanne liegt, die höchstmögliche Zahl der Existierenden Aktien (wie unten in E.3 definiert) platziert wird und die Greenshoe Option (wie unten in E.3. definiert) vollständig ausgeübt wird und dass weiterhin die ermessensabhängige Provision von bis zu €2,9 Millionen (unteres Ende), €3,2 Millionen (Mitte) beziehungsweise €3,4 Millionen

		(oberes Ende) in voller Höhe gezahlt wird, wird die Provision der Konsortialbanken €14,5 Millionen (unteres Ende), €15,8 Millionen (Mitte) beziehungsweise €17,1 Millionen (oberes Ende) betragen. Unter der Annahme, dass der Angebotspreis am unteren Ende, in der Mitte und am oberen Ende der Preisspanne liegt, die höchstmögliche Zahl der Existierenden Aktien (wie unten in E.3 definiert) platziert wird und die Greenshoe Option (wie unten in E.3. definiert) vollständig ausgeübt wird, schätzt die Gesellschaft, dass die Nettoerlöse des Verkaufenden Aktionärs circa €1.114 Millionen (unteres Ende), €1.220 Millionen (Mitte) beziehungsweise €1.327 Millionen (oberes Ende) betragen würden. Anlegern werden keine Kosten von der Gesellschaft oder den Konsortialbanken im Zusammenhang mit ihrer Funktion als Konsortialbanken in Rechnung gestellt.
E.2a	**Gründe für das Angebot, Zweckbestimmung der Erlöse, geschätzte Nettoerlöse.**	Die finanzielle Unterstützung der Gesamten HRE Gruppe durch die Bundesregierung wurde von der Europäischen Kommission als staatliche Beihilfe aufgefasst (EU Beihilfeentscheidung). Nach diesem Beschluss der Europäischen Kommission muss die Gesellschaft bis Ende 2015 privatisiert werden. Eine Veräußerung im Rahmen eines Börsengangs der Gesellschaft entspricht dem Beschluss der Europäischen Kommission. Die Gesellschaft beabsichtigt ferner, durch die geplante Zulassung zum Handel im regulierten Markt an der Frankfurter Wertpapierbörse mit gleichzeitiger Zulassung zum Teilbereich des regulierten Markts mit weiteren Zulassungsfolgepflichten (Prime Standard) besseren Zugang zum Kapitalmarkt zu erreichen. Der aus dem Angebot resultierende Erlös fließt nicht der Gesellschaft zu. Die Gesellschaft nimmt an, dass am unteren Ende, in der Mitte und am oberen Ende der Preisspanne die Nettoerlöse des Verkaufenden Aktionärs (davon ausgehend, dass die höchstmögliche Zahl der Existierenden Aktien (wie unten in E.3 definiert) platziert wird und der vollständigen Ausübung der Greenshoe Option (wie unten in E.3. definiert)) circa €1.114 Millionen, €1.220 Millionen beziehungsweise €1.327 Millionen betragen.
E.3	**Beschreibung der Angebots-konditionen.**	Das Angebot besteht aus einer Gesamtzahl von 107.580.245 auf den Inhaber lautende Stammaktien ohne Nennbetrag (Stückaktien), jeweils mit einem anteiligen Betrag des Grundkapitals von €2,83 (gerundet, rechnerisch korrekt: €2,82859) und voller Gewinnanteilsberechtigung ab dem 1. Januar 2015, und beinhaltet: • 100.990.956 existierende auf den Inhaber lautende Stammaktien ohne Nennbetrag (Stückaktien) aus dem Aktienbesitz des Verkaufenden Aktionärs (die "**Existierenden Aktien**"); und • 6.589.289 existierende auf den Inhaber lautende Stammaktien ohne Nennbetrag (Stückaktien) aus dem Aktienbesitz des Verkaufenden Aktionärs, um eine mögliche Mehrzuteilung abzudecken ("**Mehrzuteilungs-Aktien**" und zusammen mit den Existierenden Aktien, die "**Angebotenen Aktien**"). Für Zwecke der Zulassung zum Handel im regulierten Markt an der Frankfurter Wertpapierbörse mit gleichzeitiger Zulassung zum Teilbereich des regulierten Markts mit weiteren Zulassungsfolgepflichten (Prime Standard) an der Frankfurter Wertpapierbörse bezieht sich der Prospekt auf eine Gesamtzahl von 134.475.308 auf den Inhaber lautende Stammaktien ohne Nennbetrag (Stückaktien) der Gesellschaft (bestehendes Grundkapital), jeweils mit einem anteiligen Betrag des Grundkapitals von €2,83 (gerundet, rechnerisch korrekt: €2,82859) und voller Gewinnanteilsberechtigung ab dem 1. Januar 2015.

Dieses Angebot besteht aus erstmaligen öffentlichen Angeboten in der Bundesrepublik Deutschland und im Großherzogtum Luxemburg und Privatplatzierungen in bestimmten anderen Rechtsordnungen außerhalb der Bundesrepublik Deutschlands und des Großherzogtums Luxemburg. In den Vereinigten Staaten von Amerika (die "**Vereinigten Staaten**") werden die Aktien zum Verkauf an qualifizierte institutionelle Anleger (*Qualified Institutional Buyers*) gemäß der Definition in Rule 144A nach dem U.S. Securities Act von 1933 in der derzeit gültigen Fassung ("**Securities Act**") angeboten. Außerhalb der Vereinigten Staaten werden die Aktien auf Grund von Regulation S nach dem Securities Act angeboten.

Die Angebotenen Aktien wurden und werden nicht gemäß dem Securities Act oder den Wertpapiergesetzen einer anderen Rechtsordnung der Vereinigten Staaten registriert und dürfen – außer aufgrund einer Befreiung von den Registrierungspflichten gemäß dem Securities Act oder in einer Transaktion, die diesen Registrierungspflichten nicht unterliegt, und im Einklang mit allen anwendbaren Wertpapiergesetzen eines Bundesstaats oder einer anderen Rechtsordnung der Vereinigten Staaten – nicht in den Vereinigten Staaten angeboten, verkauft oder in sonstiger Weise übertragen werden.

Angebotszeitraum

Der Zeitraum, in dem die Investoren Kaufangebote für die Angebotenen Aktien abgeben können, beginnt am 8. Juli 2015 und endet voraussichtlich am 15. Juli 2015, (i) um 12:00 Uhr (Mitteleuropäischer Sommerzeit) für Privatanleger und (ii) um oder um etwa 14:00 Uhr (Mitteleuropäischer Sommerzeit) für institutionelle Anleger.

Preisspanne und Platzierungspreis

Die Preisspanne, innerhalb derer Kaufangebote abgegeben werden können, beträgt €10,75 bis €12,75 je Aktie. Der Verkaufende Aktionär wird voraussichtlich den Platzierungspreis zusammen mit den Joint Global Coordinators auf der Grundlage des im Bookbuildingverfahren erstellten Orderbuchs am oder um den 15. Juli 2015 bestimmen. Der Platzierungspreis wird voraussichtlich durch verschiedene Medien mit Verbreitung im gesamten Europäischen Wirtschaftsraum ("*Medienbündel*") und unter der Internetadresse der Gesellschaft (www.pfandbriefbank.com/investor-relations.html) veröffentlicht werden.

Änderung der Angebotskonditionen

Der Verkaufende Aktionär behält sich das Recht vor, nach Beratung mit den Joint Bookrunners die Anzahl der angebotenen Aktien zu verringern oder zu erhöhen, die obere oder untere Begrenzung der Preisspanne zu senken oder zu erhöhen und/oder den Angebotszeitraum zu verlängern oder zu verkürzen. Der Verkaufende Aktionär kann die Gesamtzahl der angebotenen Aktien in diesem Angebot maximal bis zu der Gesamtzahl von Aktien erhöhen, für die eine Zulassung zum Handel im regulierten Markt an der Frankfurter Wertpapierbörse in Übereinstimmung mit dem Prospekt oder eventuell veröffentlichten Nachträgen beantragt wurde.

Der Übernahmevertrag, der zwischen der Gesellschaft, dem Verkaufenden Aktionär und jeder der Konsortialbanken am oder um den 26. Juni 2015 geschlossen wurde (der "**Übernahmevertrag**"), regelt, dass die Konsortialbanken unter bestimmten Umständen von dem Übernahmevertrag zurücktreten können und zwar auch noch nachdem die Aktien zugeteilt und börsennotiert wurden, bis zur Lieferung und Zahlung der Aktien. Sollte es zu einem Rücktritt vom Übernahmevertrag kommen, wird das Angebot nicht durchgeführt. In diesem Fall sind bereits erfolgte Zuteilungen an Anleger unwirksam. Ein Anspruch auf Lieferung besteht in diesem Fall nicht. Ansprüche in Bezug auf bereits erbrachte Erwerbsprovisionen und im Zusammenhang mit der Zeichnung entstandene Kosten eines Anlegers

richten sich allein nach dem Rechtsverhältnis zwischen dem Anleger und dem Finanzinstitut, bei dem er sein Kaufangebot abgegeben hat. Sollten Anleger sogenannte Leerverkäufe vorgenommen haben, so tragen sie das Risiko, ihre Lieferverpflichtungen nicht erfüllen zu können.

Lieferung und Abrechnung

Die Angebotenen Aktien werden voraussichtlich am oder um den 20. Juli 2015 gegen Zahlung des Angebotspreises geliefert. Die Angebotenen Aktien werden den Aktionären als Miteigentumsanteile an der Globalurkunde zur Verfügung gestellt.

Stabilisierungsmaßnahmen, Mehrzuteilungen und Greenshoe-Option

Im Zusammenhang mit der Platzierung der angebotenen Aktien wird die Deutsche Bank oder in ihrem Namen handelnde Personen für die Konsortialbanken und nach Beratung mit dem anderen Joint Global Coordinator als Stabilisierungsmanager auftreten; sie können im rechtlich zulässigen Rahmen Mehrzuteilungen vornehmen und Stabilisierungsmaßnahmen ergreifen, um den Marktpreis der Aktien der Gesellschaft zu stützen und dadurch einem etwaigen Verkaufsdruck entgegenzuwirken (der "**Stabilisierungsmanager**").

Der Stabilisierungsmanager ist nicht verpflichtet, Stabilisierungsmaßnahmen zu ergreifen. Es kann daher nicht zugesichert werden, dass Stabilisierungsmaßnahmen ergriffen werden. Sollten Stabilisierungsmaßnahmen ergriffen werden, können sie jederzeit ohne Ankündigung eingestellt werden. Solche Maßnahmen können ab dem Zeitpunkt der Notierungsaufnahme der Aktien im regulierten Markt an der Frankfurter Wertpapierbörse vorgenommen werden und müssen spätestens am 30. Kalendertag nach diesem Zeitpunkt eingestellt werden (der "**Stabilisierungszeitraum**").

Durch diese Maßnahmen könnte der Marktpreis der Aktien der Gesellschaft höher ausfallen, als es ohne diese Maßnahmen der Fall wäre.

Ferner könnte sich vorübergehend ein Marktpreis ergeben, der nicht von Dauer ist.

Im Rahmen möglicher Stabilisierungsmaßnahmen können Anlegern zusätzlich zu den Existierenden Aktien bis zu 6.589.289 zusätzliche Aktien (Mehrzuteilungs-Aktien) der Gesellschaft aus dem Aktienbesitz des Verkaufenden Aktionärs als Teil der Zuteilung der zu platzierenden Aktien zugeteilt werden.

Um eine mögliche Mehrzuteilung abzudecken, werden dem Stabilisierungsmanager für Rechnung der Konsortialbanken in Form eines Wertpapierdarlehens mit bis zu 6.589.289 Aktien von dem Verkaufenden Aktionär zur Verfügung gestellt werden; diese Anzahl der Aktien wird 15% der angebotenen Aktien (ohne die Mehrzuteilungsaktien) nicht übersteigen.

Darüber hinaus hat der Verkaufende Aktionär den Konsortialbanken eine Option zum Erwerb der geliehenen Aktien zum Platzierungspreis abzüglich vereinbarter Provisionen (die "**Greenshoe Option**") eingeräumt. Die Greenshoe Option kann durch Deutsche Bank als Stabilisierungsmanager für die Joint Global Coordinators oder die Konsortialbanken und in Abstimmung/ Übereinstimmung mit den Joint Global Coordinators ausgeübt werden und endet am 30. Kalendertage nach dem Tag der Handelsaufnahme der Aktien.

Nach dem Ende des Stabilisierungszeitraums wird innerhalb einer Woche durch verschiedene Medien mit Verbreitung im gesamten Europäischen Wirtschaftsraum ("*Medienbündel*") bekannt geben, ob Stabilisierungsmaßnahmen ergriffen wurden, wann die Kursstabilisierung begann und endete sowie innerhalb welcher Kursspanne die Stabilisierung erfolgte; letzteres wird für jeden Fall

		bekannt gegeben werden, in dem eine Kursstabilisierungsmaßnahme ergriffen wurde. Die Ausübung der Greenshoe Option, der Zeitpunkt der Ausübung sowie die Anzahl der betroffenen Aktien werden ebenfalls unverzüglich in der beschriebenen Art und Weise bekannt gemacht werden. **Zuteilungskriterien** Über die Zuteilung von Aktien an Privatanleger und institutionelle Anleger wird gemeinsam mit den Joint Global Coordinators entschieden. Die endgültige Entscheidung liegt bei dem Verkaufenden Aktionär. Zuteilungen erfolgen anhand der Qualität der einzelnen Aufträge und sonstiger wichtiger, nach Beratung mit den Joint Global Coordinators festzulegender Zuteilungskriterien. Das Zuteilungsverfahren wird im Einklang mit der EU Beihilfeentscheidung stehen und somit offen, transparent und diskriminierungsfrei sein.
E.4	**Beschreibung aller für die Emission/ das Angebot wesentlichen Interessen, einschließlich Interessenkonflikten.**	Im Zusammenhang mit dem Angebot und der Börsenzulassung der Aktien der Gesellschaft stehen die Konsortialbanken in einem vertraglichen Verhältnis mit der Gesellschaft und dem Verkaufenden Aktionär. Die Konsortialbanken handeln im Hinblick auf das Angebot für die Gesellschaft und dem Verkaufenden Aktionär und koordinieren die Strukturierung und Abwicklung des Angebots. Weiterhin handeln Citigroup und Deutsche Bank, als Joint Global Coordinators und Joint Bookrunners bei diesem Angebot. J.P. Morgan, Berenberg und Commerzbank sind als zusätzliche Joint Bookrunners ernannt worden. Darüber hinaus wurde die Deutsche Bank als designierter Börsenhändler (*Designated Sponsor*) für die Aktien beauftragt. Deutsche Bank wurde als Zahlstelle benannt. Die Konsortialbanken erhalten bei erfolgreichem Abschluss des Angebots eine Provision sowie weitere Zahlungen. Die Höhe der Provision hängt von der Größe des Angebots und der Höhe des Angebotspreises ab. Die Konsortialbanken haben daher ein Interesse daran, dass so viele Aktien wie möglich, zum höchstmöglichen Preis platziert werden. Die Deutsche Bank erhält nur dann Gebühren als designierte Börsenhändlerin und Zahlstelle, wenn das Angebot erfolgreich abgeschlossen wird. Die Joint Bookrunners und mit ihnen verbundene Unternehmen haben in der Vergangenheit und werden in der Zukunft, im Rahmen ihres üblichen Geschäftsbetriebs in ihrer Funktion als Finanzinstitute, Dienstleistungen für die Gruppe und/oder den Verkaufenden Aktionär erbringen. Dies umfasst insbesondere Beratungsleistungen bei M&A-Transaktionen sowie bei Finanztransaktionen. Es ist möglich, dass sie in der Zukunft als Eigen- oder Fremdgeschäft für eine oder mehr als eine Partei handelnd, Kauf- und Verkaufspositionen (Long- oder Shortpositionen) in Aktien oder anderen Wertpapieren der Gruppe halten und möglicherweise selbst Aktien oder andere Wertpapiere oder Darlehen der Gruppe für eigene oder fremde Rechnung handeln. Im Falle eines erfolgreichen Angebots ist es möglich, dass auch die anderen Konsortialbanken als Finanzberater für zukünftige Transaktionen ausgesucht werden oder als Darlehensgeber oder Konsortialführer für zukünftige Finanzierungstransaktionen oder im eigenen Namen oder im Namen ihrer Kunden Aktien oder andere Wertpapiere oder Darlehen der pbb Gruppe handeln. Außerdem können die Konsortialbanken und jedes mit ihnen verbundene Unternehmen für eigene Rechnung Aktien im Rahmen des Angebots erwerben und solche Aktien oder damit verbundene Rechte für eigene Rechnung behalten, kaufen oder verkaufen, und solche Aktien oder damit verbundene Rechte im anderen Zusammenhang als mit dem Angebot kaufen oder verkaufen. Zusätzlich können die Konsortialbanken und die mit ihnen verbundenen Unternehmen mit Investoren Finanzierungsvereinbarungen

		(einschließlich Swapgeschäfte oder Differenzkontrakte) vereinbaren wobei die Konsortialbanken (oder ihre verbundenen Unternehmen) jederzeit Aktien der Gesellschaft erwerben, besitzen oder veräußern können. Die HRE Holding ist unmittelbarer Gesellschafter der Gesellschaft und hat Einfluss auf Entscheidungen, die die Gesellschaft in Bezug auf das Angebot trifft. Der HRE Holding wird der Erlös aus dem Angebot zufließen. Daher haben die HRE Holding und ihr alleiniger Aktionär FMS ein Interesse am Erfolg des Angebots zu den bestmöglichen Konditionen.
E.5	**Name der Person/des Unternehmens, die/ das das Wertpapier zum Kauf anbietet. Lock-up-Vereinbarungen; die beteiligten Parteien und Lock-up-Frist.**	Die Aktien werden von den Konsortialbanken zum Kauf angeboten. Die Gesellschaft hat sich gegenüber den Konsortialbanken im Übernahmevertrag unter Beachtung der einschlägigen Regelungen des deutschen Wertpapierrechts verpflichtet, innerhalb eines Zeitraums von 180 Tagen nach dem ersten Tag des Börsenhandels der Aktien an der Frankfurter Wertpapierbörse ohne vorherige schriftliche Zustimmung der Joint Global Coordinators, die nicht unbillig verweigert oder hinausgezögert werden darf, von bestimmten Maßnahmen zur Kapitalerhöhung oder Maßnahmen mit ähnlichem Effekt abzusehen. Die HRE Holding hat sich im Übernahmevertrag gegenüber den Konsortialbanken unter anderem verpflichtet, in dem Zeitraum beginnend ab dem Datum des Übernahmevertrags bis 180 Tage nach dem ersten Tag des Börsenhandels der Aktien an der Frankfurter Wertpapierbörse ohne vorherige schriftliche Zustimmung der Joint Global Coordinators, die nicht unbillig verweigert oder hinausgezögert werden darf, von bestimmten Transaktionen in Bezug auf ihre Aktien abzusehen und sich nicht an bestimmten Maßnahmen in Bezug auf das Grundkapital der Gesellschaft zu beteiligen, vorbehaltlich von bestimmten Ausnahmen. Neben der oben beschriebenen Lock-up Vereinbarung des Verkaufenden Aktionärs im Übernahmevertrag haben die HRE Holding, die Gesellschaft, der FMS und die FMSA um den 22. Juni 2015 eine weitere Lock-up Vereinbarung (die "**HRE Lock-up Vereinbarung**") abgeschlossen. Die Präambel der HRE Lock-up Vereinbarung gibt als Grundlage für die Bereitschaft der HRE Holding und des FMS, eine Lock-up Verpflichtung gegenüber der Gesellschaft einzugehen, an, dass vor der Reprivatisierung der Gesellschaft die indirekte Aktionärsstellung der Bundesrepublik Deutschland an der Gesellschaft "government support" für die Zwecke der Ermittlung des Emittentenkreditratings der Gesellschaft berücksichtigt wurde und dass diese indirekte Aktionärsstellung sowohl ausreichend als auch notwendig sei, um das Emittentenkreditrating der Gesellschaft weiterhin auf Investment Grade-Niveau zu halten. In der HRE Lock-up Vereinbarung verpflichtet sich die HRE Holding (diese Verpflichtung "**HRE Lock-up Verpflichtung**") gegenüber der Gesellschaft, für einen Zeitraum bis zum Ablauf von zwei Jahren (die "**HRE Lock-up Frist**") nach dem ersten Tag des Börsenhandels der Aktien der Gesellschaft an der Frankfurter Wertpapierbörse (der "**Erste Handelstag**") von bestimmten Transaktionen in Bezug auf ihre Aktien an der Gesellschaft abzusehen und sich nicht an bestimmten Maßnahmen in Bezug auf das Grundkapital der Gesellschaft zu beteiligen. Die Gesellschaft erwartet, dass die Bundesrepublik Deutschland nach Ablauf der HRE Lock-up Frist eine schrittweise Reduzierung der (indirekten) Beteiligung an der Gesellschaft anstreben wird. Die HRE Lock-up Verpflichtung steht unter dem Vorbehalt bestimmter Ausnahmen. Diese Ausnahmen schließen insbesondere die folgenden Transaktionen ein: (i) Transaktionen, die nicht zu einem direkten oder indirekten Aktienbesitz der HRE Holding, des FMS oder der Bundesrepublik Deutschland unterhalb einer Schwelle von 24,9% (oder, wenn die Greenshoe Option ausgeübt wurde, Prozentsatz des

		Aktienbesitzes der HRE Holding an der Gesellschaft unmittelbar nach Ausübung der Greenshoe Option, in jedem Fall jedoch eine Schwelle von mindestens 20,0%) des jeweiligen Grundkapitals der Gesellschaft führen (die "**HRE Lock-up Schwelle**"); (ii) außerbörsliche Transaktionen mit dem FMS oder von der HRE Holding oder der Bundesrepublik Deutschland abhängigen Unternehmen, vorausgesetzt dass die Gegenpartei der HRE Holding bei einer solchen Transaktion für den dann verbleibenden Teil der HRE Lock-up Frist hinsichtlich der HRE Lock-up Verpflichtung und bestimmter weiterer Pflichten aus dem HRE Lock-up Agreement die gleiche Pflichtenstellung wie die HRE Holding gegenüber der Gesellschaft übernimmt; (iii) Transaktionen, die zu einer Übertragung der direkten Aktionärsstellung der HRE Holding und/oder der indirekten Aktionärsstellung des FMS oder der Bundesrepublik Deutschland (oder eines Teils davon) an der Gesellschaft an einen oder mehrere Dritte(n) führen, falls die betreffende Rating Agentur zu dieser Zeit gegenüber der Gesellschaft oder der HRE Holding (oder einem Nachfolger) vor der jeweiligen Übertragung bestätigt hat, dass sie das relevante Emittentenkreditrating der Gesellschaft zu diesem Zeitpunkt nicht allein aufgrund der Übertragung unter Investment Grade Niveau herabstufen wird; sowie (iv) Transaktionen, denen die Gesellschaft gegenüber der HRE Holding im Voraus schriftlich zugestimmt hat.
E.6	**Betrag und Prozentsatz der aus dem Angebot resultierenden unmittelbaren Verwässerung. Im Fall eines Zeichnungs-angebots an die existierenden Anteilseigner Betrag und Prozentsatz der unmittelbaren Verwässerung für den Fall, dass sie das Angebot nicht zeichnen.**	Entfällt. Das Angebot besteht lediglich aus existierenden Aktien der Gesellschaft und wird zu keiner Verwässerung führen. Der Netto-Buchwert der pbb Gruppe nach IFRS zum 31. Mai 2015 betrug €3.569 Millionen. Dies entspricht einem Anteil von €26,54 pro Aktie der Gesellschaft (berechnet auf Grundlage der derzeitigen Anzahl von 134.475.308 existierenden Aktien der Gesellschaft). Bei unterstellter Rückzahlung der Stillen Beteiligung des SoFFin zum Nennwert vor dem 31. Mai 2015 hätte der Netto-Buchwert der pbb Gruppe nach IFRS zum 31. Mai 2015 €2.569 Millionen betragen. Dies hätte einem Anteil von €19,11 pro Aktie der Gesellschaft (berechnet auf Grundlage der derzeitigen Anzahl von 134.475.308 existierenden Aktien der Gesellschaft) entsprochen.
E.7	**Schätzung der Ausgaben, die dem Anleger vom Emittenten oder Anbieter in Rechnung gestellt werden.**	Entfällt. Anlegern werden keine Kosten der Gesellschaft oder der Konsortialbanken im Zusammenhang mit ihrer Funktion als Konsortialbanken in Rechnung gestellt.

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3 RISK FACTORS

An investment in the Company's shares is subject to a number of risks. Prospective investors should carefully consider the risk factors set out below, together with the other information contained in the Prospectus, before making an investment decision with respect to investing in shares of Deutsche Pfandbriefbank AG, Munich, Germany ("pbb AG" or the "Company" and, together with its direct and indirect subsidiaries and equity interests, the "pbb Group", the "Group" or "pbb"). The occurrence of any of these risks, individually or together with other circumstances and uncertainties currently unknown to us, could have a material adverse effect on pbb Group's business, financial position and results of operations. The order in which the risk factors are presented is not an indication of the likelihood of said risks actually occurring, nor of the significance or degree of the risks or the scope of any potential impairment to pbb Group's business. The risks mentioned could materialize individually or cumulatively.

Various statements in the following risk factors are based on assumptions or judgments that could turn out to be incorrect, and they contain forward-looking statements. Furthermore, other risks, facts or circumstances not presently known to pbb Group or that pbb Group might currently deem immaterial, could prove to be important and could have a material adverse effect on the business, financial position and results of operations of the Company. The value of the shares of the Company could decrease as a result of the occurrence of any of these risks, and investors could lose all or part of their investment.

3.1 Risks related to pbb Group's Business and the Industry in which it operates

3.1.1 pbb Group is exposed to risks arising from the general macro-economic conditions in the international financial markets and the global economy which may have a negative impact on their business conditions and opportunities.

pbb Group is exposed to risks resulting from the general macro-economic conditions in the Eurozone and the state of the global financial markets, both generally and as they specifically affect financial institutions. Since 2007, international capital markets have been affected by ongoing turbulences which were accompanied by high market volatility and reduced liquidity. The disruptions have resulted in a significant reduction of available financing and have led to some financial institutions being subject to financial distress including Hypo Real Estate Holding AG ("**HRE Holding**" or the "**Selling Shareholder**", and together with its subsidiaries and affiliates, but excluding pbb Group, the "**HRE Group**", and including pbb Group the "**Entire HRE Group**"). This has led to recessions in numerous countries in Europe and around the world, weak economic growth and a considerable increase in insolvencies across different business sectors compared to pre-crisis levels. The ensuing sovereign debt crisis had an even greater impact on the banking sector in general and particularly affected banks that were active in public budget financing and public investment financing. The rating downgrades of many European countries, such as Greece, Portugal, Italy, Spain, Ireland and Cyprus, and the United States of America (the "**United States**") were reflected in higher volatility on the financial markets. Some European countries were and still are only able to obtain funds with the support of international aid programs. The on-going debt crisis of some countries, for instance Greece, could worsen and lead to requests for waivers on debts, cause public debtors to file for insolvency or cause (or motivate) public institutions, which had issued guarantees or similar instruments for certain debt instruments, to withdraw or contest such guarantees or similar instruments or to restructure or defer the payment obligations under the guaranteed debt securities. The latter could be seen in the case of the debt securities issued by Austrian HETA Asset Resolution AG that are covered by a letter of indemnity issued by the Austrian federal state of Carinthia. In any such event, pbb Group may have to recognize considerable impairments on loans, advances and securities.

Historically low interest rates across financial markets have, among other things, led to a noticeable euphoria among market participants giving rise to concerns that market participants underestimate the likelihood and severity of risks, such as a full or partial break-up of the Eurozone (e.g. following the exit of a Member State from the Eurozone), an escalation of geopolitical tension, severe disruptions of currency exchange rates, a decline in confidence in the ability of the European Central Bank ("**ECB**") to safeguard financial stability or a decline in confidence in the ability of the member states of the European Union (EU) to achieve the required rebalancing and adjustment of their economies. The low interest rates at which the ECB has been and currently still is providing liquidity to the market might lead to an inflation of asset values and/or an increase of currency depreciation. It could also lead to a

further tightening of spreads which could affect revenues and profitability, including real estate lenders. Furthermore, a sudden change in the ECB's policies could undermine market confidence and destabilize the financial markets. All these risks endanger the financial stability which, if they materialize, could have a material adverse effect on pbb Group's business, financial position and results of operations, including its ability to pay dividends.

3.1.2 As a financial institution, the Company is exposed to the risk that actual or perceived liquidity problems of any institution or an actual or perceived default of such institution may negatively affect other financial institutions.

Due to the high level of interdependence between financial institutions, liquidity problems or a default of one institution may negatively affect other financial institutions which are currently considered to be solvent. Even a suspected or perceived lack of creditworthiness of a counterparty may already lead to market-wide liquidity problems and losses or defaults by pbb Group or by other institutions. This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom pbb Group interacts. Such risks could have a material adverse effect on pbb Group's ability to raise new funding as well as on its business, financial position, results of operations (including its ability to pay dividends) and opportunities in general.

3.1.3 Geopolitical conflicts may adversely impact the markets and any exacerbation or expansion in such conflicts could adversely affect the markets in which pbb Group is active.

The number of world-wide geopolitical conflicts has increased significantly in the last few years, as the recent conflict in the Ukraine has demonstrated. These conflicts have a significant impact on the economies of countries directly or indirectly involved and on customers, investors and sponsors who are located, or who have assets, in such countries. Any future exacerbation or expansion in geopolitical conflicts could adversely affect the markets in which pbb Group is active and impact pbb Group's business, financial position, results of operations (including its ability to pay dividends) and opportunities in general.

3.1.4 pbb Group has been and may continue to be directly affected by the European sovereign debt crisis, and it may be required to take impairments on its exposures to sovereign debt and on other financial instruments which benefit from public guarantees or similar instruments, such as its claims against HETA Asset Resolution AG.

pbb Group is subject to risks arising from the European sovereign debt crisis. There is substantial uncertainty surrounding the creditworthiness of some European countries. Recent events in Greece and a continued weak economic recovery in the Eurozone outside of Germany, highlight the risk that the sovereign debt crisis may reignite. This risk has been further illustrated by the decision of the Austrian Financial Market Authority ("**FMA**") dated March 1, 2015 in relation to HETA Asset Resolution AG ("**HETA**") to place a moratorium on the payments under HETA's debt securities. These debt securities are subject to a letter of indemnity issued by the Austrian federal state of Carinthia. This may trigger doubts as to the reliability of public guarantees and similar instruments, such as the letter of indemnity issued by the Austrian federal state of Carinthia. Institutions like pbb Group which hold sovereign debt and/or debt guaranteed by sovereign, sub-sovereign or public sector entities are particularly exposed to the effects of the sovereign debt crisis as they might be required to take significant impairments on their instruments and could eventually be confronted with debtors' defaults. While pbb Group no longer provides budget financing to governments (other than as required in the liquidity portfolio for regulatory purposes), the legacy sovereign debt exposure in pbb Group's value portfolio ("**VP**" or "**Value Portfolio**") amounts to an aggregate nominal value of €22.2 billion as of March 31, 2015 and includes a portfolio of Italian assets which was transferred to the VP on January 1, 2015. In connection with its activities in public investment finance ("**PIF**"), pbb Group may be further exposed to risks relating to the creditworthiness of sovereigns, local governments and municipalities (with an exposure amounting to €6.8 billion as of March 31, 2015). Any restructuring of outstanding sovereign debt, other financial instruments which benefit from public guarantees and similar instruments may result in potential losses for pbb Group (for instance as a result of "haircuts" based on collective action clauses pursuant to Article 12(3) of the Treaty establishing the European Stability Mechanism). Following the FMA's decision on HETA's debt securities and the general recommendation

of the ECB to impair 50% of the nominal HETA exposure when these are guaranteed by the Austrian Federal State of Carinthia as well as in light of recent market price developments, pbb Group took a significant impairment on its outstanding exposure to HETA (which amounts to nominal €395 million) resulting in an aggregate negative effect of €197.5 million until March 31, 2015. In relation to this exposure and in general, it cannot be ruled out that further significant impairments may be required in the future in connection with decisions and/or actions by resolution agencies or supervisors.

These risks arising from the European sovereign debt crisis may have, should they materialize, a material adverse effect on pbb Group's business, financial position and results of operations, including its ability to pay dividends.

3.1.5 pbb Group is exposed to the risk of impairments and write-downs in relation to its loans and advances and to the risk that the relevant collateral may not be sufficient.

If the economic situation in relation to any of the assets financed by pbb Group and/or debtors of pbb Group changes, significant impairment losses may have to be recognized or individual claims against debtors may have to be written-down. As pbb Group is active in the lending business, it has been and still is required to write-down individual exposures, and it is possible that significant write-downs of receivables of current or future debtors will be necessary in the future. Due to the high principal amounts of individual loans often granted by pbb Group, a write-down of a single exposure may have a substantial effect on the Group's business, results of operations and financial position, including its ability to pay dividends.

The economic situation of any of the assets financed by pbb Group and/or debtors of pbb Group might be affected by factors beyond its control. In relation to its activities in real estate finance ("**REF**"), these factors may include a decline in local rent levels, overall competitive pressures, an increase in the number of tenant insolvencies following an economic downturn, a reduction in demand for the financed assets in the wake of an economic downturn (e.g. resulting from the financial market crisis), legislative changes which have a negative impact, or the bursting of real estate "bubbles". The latter may become particularly relevant in the current low interest rate environment as financing at low margins with tightening spreads may result in inflated real estate prices. Subsequent rises in interest rates could lead to a sharp increase in debtors becoming unable to service their debts and to sharp falls in property values which could negatively affect the collateral situation of lenders. A further factor could also be a general crisis affecting individual real estate markets, which could lead to overcapacity in the market and devaluation in pbb Group's portfolio.

In relation to its PIF activities and legacy assets in its Value Portfolio, further factors which could change the global economy or relevant local economies beyond pbb Group's control may include, in particular, a resurgence of the sovereign debt crisis (see "*3.1.4 pbb Group has been and may continue to be directly affected by the European sovereign debt crisis, and it may be required to take impairments on its exposures to sovereign debt and on other financial instruments which benefit from public guarantees or similar instruments, such as its claims against HETA Asset Resolution AG.*") and an increase of geopolitical conflicts (see "*3.1.3 Geopolitical conflicts may adversely impact the markets*"). In addition, pbb Group is exposed to the risk that the performance of infrastructure projects financed by it develops worse than expected, which could result in impairments on financings already granted. This could include scenarios where the performance of projects deteriorates due to political or legal changes, for example the regulatory requirements applicable to certain long-term energy projects could become more stringent or result in a reduction of the remuneration from the relevant consumers, or the required transmission system for an energy project could not be established in a timely manner.

pbb Group is also exposed to the risk that collateral granted to it as security is or could become insufficient to cover the full loan amount. Such risk could arise due to an overestimation of the value of the collateral when the loan was initially granted or as a result of a subsequent decreases in value (e.g. following a decline in local rent levels, a reduced demand for the financed assets, the bursting of real estate "bubbles", an increase in tenant insolvencies, a general crisis affecting individual real estate markets or due to the specific circumstances of the collateral realization (such as fire sales)). Furthermore, pbb Group may be, or become, unable to successfully enforce its collateral rights due to local laws, as has for instance been observed in Italy. This would complicate or even prevent the repossession or sale of collateral and could thus inhibit pbb Group's ability to recover any outstanding amounts.

If any of the above risks materialize, this could have a material adverse effect on pbb Group's business, financial condition and results of operations, including its ability to pay dividends.

3.1.6 pbb Group has a continuous demand for liquidity to fund its business activities and is exposed to liquidity risks which may negatively affect its ability to fulfill its obligations.

pbb Group's business has a high demand for liquidity, primarily with regard to its new business activities, and is exposed to liquidity risks (i.e. the risk of not being able to meet the extent and deadlines of existing or future payment obligations). Such a risk could materialize if external refinancing sources were insufficient to provide the required amount of capital.

External refinancing sources may become – possibly within a very short time period – insufficient and/or more expensive in the future. The on-going extraordinary liquidity provisioning and asset buying by the ECB may reflect continued structural problems in the refinancing markets. Furthermore, a change in the ECB's policies could undermine market confidence and liquidity in Europe and, therefore, destabilize the markets. In addition, a recession in Europe could endanger economic recovery and lead to a loss of trust in the stability of the financial markets. As a consequence, earnings on primary or interbank markets may decrease significantly. Furthermore, changes in the interest rates may impact the liquidity available for pbb Group through debt and hybrid instruments (secured and unsecured). pbb Group may particularly be affected by a lack of liquidity in the market for covered bonds issued in accordance with the German Pfandbrief Act (*Pfandbriefgesetz*) ("**Pfandbriefe**") – the most important source of funding for pbb Group. Such a lack could result from the loss of confidence following an insolvency of a Pfandbriefe issuer or an unexpected change in the legal framework (e.g. the abolishment of the special legal status of Pfandbriefe among covered bonds issued in Europe). Furthermore, the ECB's on-going intervention, which also includes the frequent purchase of Pfandbriefe, has contributed to a tightening of Pfandbriefe spreads. It cannot be ruled out that, in light of the ECB's intervention, the interest of other investors in Pfandbriefe will decline (crowding out) which may persist even after the ECB ceases its intervention. In addition, a lack of liquidity in the market for unsecured funding would also negatively affect pbb Group.

If the funding markets were to be subject to such disturbances, pbb Group's liquidity situation might be adversely affected which may have a material adverse effect on pbb Group's business, results of operations and financial position, including its ability to pay dividends.

3.1.7 pbb Group bears the risk that the ratings assigned to the Company, its Pfandbriefe and its other debt or hybrid instruments are downgraded which may have a negative effect on the funding opportunities, on triggers and termination rights within derivatives and other contracts and on access to suitable hedge counterparties and thus on its business, financial position and results of operation.

A rating, solicited or unsolicited, is not a recommendation to buy, sell or hold Offer Shares or other securities issued by the Company and may be subject to revision, suspension, reduction or withdrawal by the rating agency at any time as the relevant rating agency deems appropriate. Changes to specific rating drivers with regard to the Company or its Pfandbriefe as well as of other debt or hybrid instruments issued by pbb Group may effect a rating agency's assessment and may hence lead to rating downgrades or changes in rating outlooks. This may especially be the case if any of the risks described under "*3.1 Risks related to pbb Group's Business and the Industry in which it operates*", "*3.2 Risks Related to Regulatory, Legal and Tax Matters*" or "*3.3 Risks Related to the Shareholder Structure*" materialize and/or in view of the repayment of the SoFFin Silent Participation on July 6, 2015. In addition, a rating agency may change its methodology at any time which may have an impact on the ratings assigned to the Company or its Pfandbriefe or other debt or hybrid instruments. Ratings cannot serve as a substitute for personal analysis.

The Company has currently mandated Standard & Poor's Credit Market Services Europe Limited (Niederlassung Deutschland) ("**Standard & Poor's**") for both, the unsecured ratings and the Pfandbrief ratings. In addition to this mandate, on May 12, 2015, the Company mandated DBRS Ratings Limited ("**DBRS**") which has already been providing unsolicited unsecured ratings. DBRS has been providing solicited unsecured ratings to the Company since May 19, 2015. On May 12, 2015, the Company terminated the mandates for unsecured ratings with Fitch Ratings Limited ("**Fitch**") and Moody's Deutschland GmbH ("**Moody's**"). On May 19, 2015, following a downgrade of the long-term senior unsecured ratings of the Company to 'BBB' (rating watch negative) Fitch withdrew the unsecured ratings assigned to the Company for commercial reasons. On June 19, 2015, together with the publication of a downgrade of the long-term senior unsecured ratings of the Company to 'Ba1' (stable outlook), Moody's qualified the unsecured ratings assigned to the Company as unsolicited. On June 29, 2015, Moody's announced the withdrawal of the unsecured ratings. The Company is currently considering whether or not to continue the mandate with Moody's for its Pfandbrief ratings.

At the date of the Prospectus, the mandated long-term senior unsecured ratings as assigned by Standard & Poor's ('BBB' with developing outlook) and DBRS ('A (low)' under review negative), to the Company are at investment grade level, while the majority of ratings assigned to subordinated debt and hybrid instruments are at sub-investment grade level. At the date of the Prospectus, the Pfandbrief ratings assigned to it by Standard & Poor's ('AA+' with negative outlook and under criteria observation) and Moody's ('Aa1'/'Aa2') are also at investment grade level.

At present, rating agencies continue to adapt their methodologies and models in order to assess, amongst other factors, the changing macro-economic environment, external requirements on banks (including the new European legislative initiatives to centralize supervision of systemically important banks and to support bank resolution and the bail-in of senior unsecured creditors) and the potential impact of the European sovereign debt crisis. As of the date of the Prospectus, the methodological adjustments that had been announced in this context have not yet been completely implemented, but such implementations are expected in the course of the year.

The aforementioned changes particularly affect the senior unsecured ratings of the Company. While strong reductions or even elimination of systemic support uplift is conceivable for banks operating under bail-in regimes, the possible extent of rating downgrades of the Company depends on the respective degree of systemic support uplift taken into account in the Company's current senior unsecured ratings and the rating agencies' ultimate dealings with this topic.

In addition to the pressure to the rating resulting from the implementation of the bail-in regime in Europe, a potential change of ownership in the context with the planned reprivatization of the Company increases the risk of the occurrence of a rating downgrade (see also "*3.3.4 The withdrawal from the HRE Group increases the likelihood of a downgrade of the ratings assigned to the Company and/or its debt or hybrid instruments which may have a negative effect on the Company's funding opportunities, triggers and termination rights within derivatives and other contracts and access to suitable hedge counterparties.*").

Changes to the Company's ratings may have corresponding effects on Pfandbrief ratings and ratings for other debt or hybrid instruments of pbb Group. In addition, methodological adjustments to covered bond ratings were announced or implemented or are expected in the near future which may lead to increased over-collateralization requirements and, in case no such collateral is provided, have a negative impact on the current ratings of the Pfandbriefe issued by the Company (which could result in higher refinancing costs). With regards to the ratings of Pfandbriefe, rating agencies define, and regularly review, over-collateralization requirements in order to assign their ratings. For instance, Standard & Poor’s has announced the application of revised rating criteria for Pfandbriefe to become effective as from mid July 2015 (expected). pbb Group expects this to result in an increase of the over-collateralization requirements for Pfandbriefe; pbb Group is considering to meet the new requirements, should they be implemented, with regard to its mortgage Pfandbriefe, however it may consider to keep or reduce the current over-collateralization level for its public sector Pfandbriefe and accept their potential downgrade (expected to 'AA-'). If additional collateral was to be provided in order to meet new over-collateralization requirements, this would have to be refinanced by other means of funding (i.e. the issuance of unsecured debt) and an increase of such over-collateralization requirements could negatively impact the liquidity situation of the Company.

A rating downgrade of senior liabilities, especially below investment grade (also as the securities issued by the Company are then no longer eligible for collateral in return for liquidity offered by the ECB in its monetary policy operations), could have negative effects on the funding opportunities of pbb Group and could significantly increase the cost of refinancing. The likelihood of such consequence was illustrated when the spreads for unsecured securities issued by pbb Group increased significantly following Moody's announcement on March 17, 2015, to place debt and deposit ratings of the Company on review for downgrade, and the publication of a downgrade of the long-term senior unsecured ratings of the Company to 'Ba1' (stable outlook) by Moody's on June 19, 2015. Furthermore, a downgrade could have a negative impact on triggers and termination rights under derivatives and other contracts, and on the access to suitable hedge counterparties. A rating downgrade could also result in pbb Group being required to provide (additional) collateral due to contractual obligations (margin calls) and therefore lead to increased liquidity needs. Furthermore, a rating downgrade, especially below investment grade, could prohibit certain investors from investing in, or holding the securities issued by, pbb Group and thereby limit the basis of available and cost efficient funding and/or may lead to pressure on such securities and, thereby, negatively affect their price. Especially in the case of sub-investment grade ratings, the Company may be facing severe difficulties to write new business in the absence of sufficient or affordable funding. This would prohibit the Company from pursuing its business strategy. pbb Group's business model and strategy are

based on the assumption that the Company's senior unsecured liabilities remain rated at investment grade level. Thus, in particular if none of the mandated long-term senior unsecured ratings are at investment grade level, this would have a material adverse effect on pbb Group.

The negative effects described above could also be the result of a "split" rating (where a rating downgrade is not carried out simultaneously by all relevant rating agencies and one long-term rating remains at investment grade level while the other(s) are sub-investment grade, even if unsolicited) or in the event that the Company or its Pfandbriefe were assigned a rating by one rating agency only (where the other ratings have for example been withdrawn).

If any of these risks materialize, they could have a material adverse effect on pbb Group's liquidity, financial position, net assets and result of operations, including its ability to pay dividends.

3.1.8 pbb Group is exposed to market risks, in particular risks associated with volatility in credit spreads, interest rates and foreign currency exchange rates, which may have a negative effect on pbb Group's assets, financial position and results of operation.

pbb Group is exposed to market risks associated with volatility in credit spreads, interest rates, foreign currency exchange rates and other volatilities as well as correlation risks leading to changes in the present value of, and/or net income arising from, positions even though pbb Group does not have any significant trading book positions.

For example, it cannot be ruled out that the credit quality of a financial instrument held by pbb Group may decrease. In this case, the credit spread is likely to widen which would lead to a fall of such instrument's market price and have a negative effect on the assets of pbb Group.

Particular market risks also arise from the interest rate environment and potential changes to it. Historically low interest rates could have negative effects on some of the portfolios held by pbb Group, such as the liquidity reserves held in respect of the cover pools for its Pfandbrief business. Furthermore, low interest rates may also disincentivize customers from holding deposits with pbb group under its "pbb direkt" brand, which will reduce the effectiveness of this source of funding. pbb Group's margins may also be affected by a continued low interest rate environment which is putting pressure on deposit net interest margins throughout the industry. Furthermore, in the event of sudden large or frequent increases in interest rates, pbb Group may not be able to reprice its rates in time, which may negatively affect margins and overall revenue in the short term. This risk exists in particular if the maturities of pbb Group's assets on one hand and its liabilities on the other hand do not match.

Unpredictable currency exchange rate fluctuations also represent a notable market risk to pbb Group. For example, the recent discontinuation of the Swiss Franc cap versus the Euro had significant repercussions on the financial sector including pbb Group. Future unexpected fluctuations (be they associated with similar developments or other developments) may also have a negative effect on pbb Group, also indirectly by affecting the creditworthiness of its clients.

pbb Group strives toward limiting its exposure to market risks by way of hedging arrangements. However, pbb Group's hedging strategy may prove insufficient or ineffective and is also exposed to counterparty risks (see "*3.1.9 pbb Group is exposed to risks concerning customer and counterparty credit quality which may have a negative effect on pbb Group's assets, financial position and results of operation.*"). Furthermore, it cannot be excluded that pbb Group is exposed to correlation risks in its portfolios that have not been identified and/or are not sufficiently hedged.

If any of these risks materialize, they could have a material adverse effect on pbb Group's liquidity, financial position, net assets and result of operations, including its ability to pay dividends.

3.1.9 pbb Group is exposed to risks concerning customer and counterparty credit quality which may have a negative effect on pbb Group's assets, financial position and results of operation.

pbb Group is exposed to many financial products, counterparties and obligors whose credit quality can have a significant adverse impact on pbb Group's earnings and the value of assets on pbb Group's balance sheet. pbb Group is at risk that the economic situation of its counterparties deteriorates and that its counterparties are or become incapable to fulfill their financial obligations (including for other reasons than the deterioration of the economic situation of its counterparties such as an undesirable or unsuccessful change in strategy or key management) or such financial obligations become subject to a bail-in. Furthermore, pbb Group is exposed to secondary risk, such as tenant risk, which could adversely affect a counter-party's ability to fulfill its obligations to pbb Group. pbb Group is also exposed to the risk that it may have to provide involuntary credit extensions to counterparties who are

unable to attain refinancing elsewhere. As part of the ordinary course of its operations, pbb Group estimates and establishes provisions for credit risks and the potential credit losses inherent in these exposures, including assessments of security rights and value of collateral. This process involves complex judgments, including the effect of macro-economic conditions on the ability of customers to repay their loans and on the realization of security. pbb Group may fail to adequately identify factors which could adversely affect customer or counterparty credit quality, including those factors resulting from value changes of foreign commitments due to country-specific political and economic conditions (country risks) and from cluster formation with regards to risk factors or counterparties. The failure of customers or counterparties to meet their commitments as they fall due may result in higher impairments on the fair value of assets or hedging derivatives and/or have a negative impact on pbb Group's lending portfolio and income. This could have a material adverse effect on pbb Group's business, assets, financial position and results of operations, including its ability to pay dividends.

3.1.10 The legal relationships between pbb Group and its customers are generally based on standard contracts and forms. Any errors in this documentation or unforeseen market developments or changes in the laws could have a significant negative effect for pbb Group.

pbb Group maintains contractual relationships with a multitude of customers. The administration of these relationships requires the use of general terms and conditions, standard contracts and forms. The widespread use and importance of this standardized documentation means that ambiguities or errors in their formulation may cause a significant risk to pbb Group's contractual relationships. Furthermore, constantly changing laws and unforeseen developments in the market, such as negative interest rates, means that pbb Group's standardized documentation may become unfit for purpose. This may become particularly relevant in relation to consumer protection legislation, such as the French Consumer Code (*Code de la consommation*) and article L. 313-4 of the French Financial and Monetary code (*Code monétaire et financier*), which could override contractually agreed interest rates if the interest rate is not clearly indicated in the written documentation produced in the course of agreeing the loan. In the event of ambiguities, errors, changes in law or unforeseen market developments or in the event of individual provisions or entire documents becoming invalid, numerous customer relationships could be affected.

If any of these risks materialize, this could lead to significant negative legal consequences with a material adverse effect on pbb Group's business, assets, financial position and results of operations, including its ability to pay dividends.

3.1.11 pbb Group is exposed to risks resulting from its cyclical and low-number high-value business model, which means that a failure to predict cyclical patterns or complete one or more large transactions could have a significant negative effect on pbb Group's business.

The industry in which pbb Group operates has historically been cyclical, with significant fluctuations in operating results due to periodical changes in transaction volumes, changing levels of capacity and general economic and social conditions.

The cyclicality of the sectors and assets which pbb Group finances through its REF and PIF activities are driven by economic trends and have, in the past, often followed certain patterns over longer periods. However, cyclical patterns are increasingly difficult to predict and it cannot be ruled out that they may not prove to be true for the future and/or that pbb Group may wrongly assess or anticipate those cyclical patterns. In each case this may result in material adverse effects on pbb Group's business, financial position and results of operations. Furthermore, pbb Group has, in the past, originated more loans and other financings in the fourth quarter of its financial year, particularly in its real estate finance business. This seasonality makes comparing pbb Group's performance in different periods difficult, which may reduce investor's interest in the Company's shares and/or lead them to wrong conclusions pertaining to the value of the shares in case they are not properly reflecting this seasonality. Additionally, a below-average quarter, particularly in case of the fourth one, could have a material adverse effect on pbb Group's full year results and financial position, including its ability to pay dividends.

Besides, pbb Group's business is generally based on a low number of transactions (with only about 120 to 160 transactions per year) but high-value (with a transaction value for new REF business of about €50 million on average and some single exposures well above this average). A failure to complete one or more large transactions could have a material adverse effect on pbb Group's full year results and financial position, including its ability to pay dividends.

3.1.12 pbb Group is exposed to risks resulting from full and partial principal repayments which, in particular, may lead to reinvestment pressure. pbb Group may also be exposed to risks where prepayment penalties have not been validly agreed.

Average maturities of the loans originated in pbb Group's REF business usually are four to five years whereas financings granted in its PIF segment in general have a weighted average life ("**WAL**") of eight to ten years. Such maturities require pbb Group to constantly originate new business opportunities and re-invest repaid principal amounts in a significant volume only so as to keep the portfolio size stable. It cannot be guaranteed that pbb Group will be able to sustain an origination volume which would be necessary to re-invest the entire repayment amounts. The re-investment pressure may also cause pbb Group to enter into less favorable transactions with lower margins and/or higher risk profiles.

The reinvestment pressure can be intensified in times when borrowers increasingly opt for an early repayment of their loans as could be seen in the fiscal year ended December 31, 2014 when the sum of early repayments within the REF line of business was 20% higher than in previous fiscal years (€4.8 billion in the fiscal year ended 2014 and €4.0 billion in the fiscal year ended 2013). Early repayments do not only increase the re-investment pressure, they are often initiated by debtors who wish to benefit from better market conditions. This results usually in lower margins for the new business to be generated by pbb Group, which is not sufficiently compensated by prepayment penalties that may have to be paid by those debtors. In addition, contractual provisions on prepayment penalties in certain loan agreements may be legally invalid and unenforceable. This could also result in clawback claims of debtors. The invalidity would not only re-enforce the reinvestment pressure but could reduce income from interest under prepaid loans even further.

Thus, the general reinvestment pressure and in particular lower margins and different risk profiles associated with new business replacing repaid loans and other financings as well as the potential invalidity of prepayment penalties could negatively affect pbb Group's business, financial position and results of operation, including its ability to pay dividends.

3.1.13 pbb Group is exposed to the risk of default in the cover pools for Pfandbriefe which could result in breaches of the Pfandbrief Act and/or in downgrades of Pfandbrief ratings.

Assets in the cover pools relating to the different Pfandbriefe issued by pbb Group include loans and other financings which are exposed to the economic situation of the financed object and/or debtor which can deteriorate (see "*3.1.5 pbb Group is exposed to the risk of impairments and write-downs in relation to its loans and advances and to the risk that the relevant collateral may not be sufficient.*"). If the risk of default in relation to assets held by pbb Group materializes in any of the cover pools and if and to the extent pbb Group is unable to replace the respective assets in the cover pool with adequate new assets, this could also result in the cover assets being insufficient to meet the requirements under the Pfandbrief Act and/or result in a downgrading of its Pfandbrief ratings (see also "*3.1.7 pbb Group bears the risk that the ratings assigned to the Company, its Pfandbriefe and its other debt or hybrid instruments are downgraded which may have a negative effect on the funding opportunities, on triggers and termination rights within derivatives and other contracts and on access to suitable hedge counterparties and thus on its business, financial position and results of operation*."). Each of these consequences may have material negative effects on pbb Group's business, financial position and results of operation, including its ability to pay dividends.

3.1.14 Changes to the method of valuation of financial instruments may adversely affect pbb Group.

In light of regulatory and further changes, valuation methods of financial instruments are continuously developing which may adversely impact pbb Group. For instance, the growing use of funding valuation adjustments with respect to the valuation of uncollateralized derivatives may result in a change in the methods used to value derivatives. These adjustments and other comparable adjustments, such as bid-offer adjustments, may have a material adverse effect on pbb Group's business, assets, financial position and results of operations, including its ability to pay dividends.

3.1.15 pbb Group's risk management policies, procedures and methods leave it exposed to unidentified or unanticipated risks, which could lead to material losses.

pbb Group may be exposed to risks which are not sufficiently covered by its risk management policies. Although pbb Group has devoted significant resources to develop its risk management policies and

intends to continue to do so in the future, there can be no guarantee that the risk management policies are fully effective in mitigating pbb Group's risk exposure against all types of risk, including risks that it fails to identify or anticipate or that are generally unknown. Additionally, it should be noted that some of pbb Group's quantitative tools and metrics are based on historical market behavior and developments, which may limit their effectiveness at predicting future economic changes. The risk management tools used in the financial sector failed to predict a number of the losses experienced during the global financial crisis and it cannot be guaranteed that pbb Group's systems will be able to predict future risks accurately. If such risks materialize, this might have negative consequences on pbb Group's assets, financial position and results of operation, including its ability to pay dividends.

3.1.16 Coupon pusher on hybrid capital instruments that relate to dividend payments by HRE Holding may affect the recognition of these instruments as Additional Tier 1 capital instruments. Also dividend payments by HRE Holding may trigger coupon payments on these instruments even where pbb Group would not pay any dividends or other junior payments.

The Company's legal predecessor has issued subordinated debt securities in the amount of more than €350 million to its direct subsidiary Hypo Real Estate International LLC I ("**LLC**"). The LLC acquired those debt securities using proceeds from the issuance of certain securities to Hypo Real Estate International Trust I ("**Trust**"). The Trust, in turn, acquired these securities using the proceeds from the issuance of trust securities to investors. Based on this structure, the debt securities placed with the investors are deemed hybrid capital instruments that qualify as grandfathered Additional Tier 1 capital instruments of pbb Group on a consolidated basis.

Subject to the underlying documentation, any capital payments, dividends or other distributions made on shares issued by the Company or by HRE Holding may effectively trigger a payment obligation towards the investors holding the trust preferred securities issued by the Trust. It is unclear as to whether such a trigger concerning HRE Holding's capital payments, dividends or other distributions made on shares ceases to exist once HRE Holding is no longer a controlling shareholder in the Company (the "**HRE Exit**"). The repayment of the silent participation (the "**SoFFin Silent Participation**") with a nominal value of €1.0 billion and held by the German Financial Market Stabilization Fund (*Finanzmarktstabilisierungsfonds*) ("**FMS**" or also "**SoFFin**"), which has been repaid on July 6, 2015, will trigger coupon payments already for the period June 15, 2015 until June 14, 2016 in an amount of €20.5 million.

The recognition of these hybrid capital instruments as Additional Tier 1 capital instruments (subject to applicable limits) will cease the latest by June 2017 on the basis of transition rules under the CRR that provide for a grandfathering of these instruments. It cannot be ruled out, however, that their recognition as Additional Tier 1 capital instruments under the transition rules may cease already upon the HRE Exit on the basis that the coupon pusher may be triggered by dividend payments of HRE Holding. If the hybrid capital instruments were no longer recognized as Additional Tier 1 capital instruments upon the HRE Exit or thereafter prior to June 2017, this would have a significant negative effect on the Tier 1 capital ratio and the own funds ratio of pbb Group (based on CRR transitional rules) as well as the phase-in leverage ratio and negatively affect the Company's ability to pay dividends.

3.1.17 pbb Group may have difficulty to issue new Additional Tier 1 capital instruments in the future which could materially harm pbb Group's business, financial situation and results of operations.

Regulatory capital and leverage ratio requirements and/or expectations of the capital markets may make it desirable for pbb Group to consider issuing hybrid capital instruments that are recognized as Additional Tier 1 capital (belonging to the regulatory Tier 1 capital) in the future. The recognition of capital instruments as Additional Tier 1 instruments requires, among other things, that interest payments are at the discretion of the issuer and may only be made from distributable items. For that reason, investors in Additional Tier 1 instruments attach increasing importance to the dividend history of an issuer as this may support the expectation that future interest payments on the Additional Tier 1 instrument will actually be permitted and thus potentially made. Without a sufficient dividend history, it might be difficult or even impossible for pbb Group to successfully place Additional Tier 1 instruments in the market or at least result in higher margins and thus higher refinancing costs. In this regard it should be noted that the Company, also due to restrictions imposed by the European Commission and contractual agreements, has not paid any dividends for the financial years since 2008. It should further

be noted that, since 2009 (i.e. in respect of the financial year 2008), the Company has not made any coupon payments in relation to the existing hybrid capital instruments. It cannot be ruled out that this particular dividend and coupon payment history will significantly deter potential investors and make it difficult, more expensive or even impossible for pbb Group to place any Additional Tier 1 instruments in the future. This could result in capital shortages of pbb Group and also limit the generation of new business (for which for example an increase of Additional Tier 1 capital may be required where future leverage ratio requirements might not be met by pbb Group). Each of the aforementioned risks could have a material adverse effect on pbb Group's business, financial situation and results of operations, including its ability to pay dividends.

3.1.18 pbb Group is exposed to operational risks related to systems and processes which may have a negative effect on pbb Group's assets, financial position and results. Operational risks may disrupt pbb Group's businesses.

pbb Group's business is exposed to operational risks related to systems, processes and people. pbb Group's business is dependent on processing and reporting accurately and efficiently numerous complex transactions across numerous and diverse products and services. pbb Group places heavy reliance on its technology infrastructure for processing this data and, therefore, ensuring system security and availability is of outmost importance. Any weakness in these systems or processes, whether caused by technology failure, human error or external events, could have an adverse effect on pbb Group's revenue generating activities and lead to financial loss. pbb Group's reputation could be adversely affected by fraud and/or violations of anti-bribery or embargo legislation committed by employees, customers or outsiders, or by its perceived inability to properly manage compliance-related risks. pbb Group's inability or perceived inability to manage these risks could lead to enhanced regulatory oversight and scrutiny.

As pbb Group has undertaken a number of recent restructurings, there may be an increased susceptibility to faults due to the historically high number of different processing and monitoring systems. Additionally, this may expose pbb Group to a heightened risk of incompatible software, loss of data and other problems arising from data migration. Risks may also arise due to manually recorded transactions as well as the manual processes and controls which are carried out for ensuring data consistency and data integrity. Such manual processes require the know-how of key personnel which may not be retained. It cannot be guaranteed that any reducing measures that pbb Group implements will prove effective in all circumstances. If any of the above risks materialize, this could have a material adverse effect on pbb Group's business, financial position and results of operations, including its ability to pay dividends.

As far as risks arising from the dependence on external service providers are concerned, see "*3.1.20 pbb Group is exposed to operational risks related to failings of its key outsourcing suppliers, such as service interruptions*.".

Should any of these risks materialize, this may have a material adverse effect on pbb Group's businesses, financial position and results of operations, including its ability to pay dividends.

3.1.19 pbb Group's operational systems are subject to an increasing risk of cyber-attacks and other internet crime, which could result in material losses of client or customer information, damage pbb Group's reputation and lead to regulatory penalties and financial losses.

pbb Group is exposed to the risk of breaches of the security of its computer systems due to unauthorized access to network resources or other forms of cyber-attack or internet crime including the use of viruses and trojans. Such breaches could disrupt pbb Group's business, result in the disclosure of confidential information and create significant financial and/or legal exposure and could damage the reputation of pbb Group. Although the Group devotes significant resources towards the protection of its systems against such breaches, it cannot be guaranteed that the protection measures pbb Group has taken will be effective against all threats, particularly against unknown future threats. Should one of the aforementioned risks materialize, pbb Group's reputation as well as assets, financial position and results of operation, including its ability to pay dividends, may be negatively affected.

3.1.20 pbb Group is exposed to operational risks related to failings of its key outsourcing suppliers, such as service interruptions.

pbb Group outsources significant parts of its business to third party suppliers. Five outsourcing arrangements have been defined as significant by pbb Group. These include (1) the outsourcing of payroll and travel expense services, (2) the management of the SFS LGD Rating Tool (which might be insourced until year end), (3) a SWIFT provider, (4) the outsourcing of pbb Group's IT operations and (5) the outsourcing of the back office operations of the retail deposit business "pbb direkt". However, the following risks may arise from any business outsourced to a third party supplier. The outsourced functions are crucial to the efficient operation of pbb Group. Risks may arise from the dependence on third party service providers. Such risks include legal risks, performance risks, the suitability of the service provider, loss of know-how, service interruptions, lack of service quality, leaking of confidential information, sudden terminations of service contracts and insolvency of the provider or similarly disruptive events. Additionally, pbb Group may not be able to exercise the same level of control over third party service providers as with its own employees, which could limit pbb Group's ability to ensure the quality of the service provided. pbb Group, as at the date of the Prospectus, does not have access to the source code used to run "pbb direkt's" back office and IT operations. While this code needs to be made available to pbb Group if, for example, the provider enters insolvency, it is unlikely that pbb Group would have the infrastructure to ensure the seamless continuation of the back office functions in such an event. These risks, if they materialize, may harm pbb Group's reputation and could have a material adverse effect on pbb Group's business, financial condition and results of operations, including its ability to pay dividends.

3.1.21 pbb Group may have difficulties selling assets, in particular of the Value Portfolio, at favorable prices or at all and may experience material losses from these assets and other investments irrespective of market developments.

As part of pbb Group's strategy, pbb Group may seek to sell assets to run-down its non-core assets in an expedited manner. This particularly applies to its Value Portfolio. However, the current book value of an asset may not necessarily reflect its market price. The sale of assets may also be difficult in a market environment where other banks are seeking to dispose of assets as well. Furthermore, some of the assets, in particular those of the Value Portfolio (e.g. in light of sovereign debt risks), could become significantly less attractive in the future which would reduce the number of potential buyers or the achievable sale proceeds. Therefore, pbb Group may not be able to sell the assets at all or at favorable prices, which could also mean selling them significantly below their book value and without the availability of a counter-effect through (not yet due) hedging derivatives. This could also have negative implications on the funding side, such as the need to replace cover pools. Furthermore, pbb Group may not be able to manage properties it cannot sell efficiently. The sale of assets could also trigger negative consequences under hedging positions which may not be closed simultaneously. This could have a material adverse effect on pbb Group's assets, financial position and results of operations, including its ability to pay dividends.

3.1.22 pbb Group might fail to retain or attract qualified management and employees essential for pbb Group's business.

pbb Group's success depends on the continued service and performance of its key employees, and its ability to attract, retain and develop its staff. Some of pbb Group's employees carry out functions that require a high level of responsibility, qualification and know-how. Those employees (key and otherwise) are essential for pbb Group's business and significantly affect the overall risk profile of the institution. Although pbb Group takes steps to retain such personnel, it cannot be guaranteed that pbb Group will be able to retain them in the future. Furthermore, notwithstanding pbb Group's efforts to attract new talented employees, it might not be able to replace employees with or hire new adequate, equally talented and qualified persons, In particular, the current compensation structure and the envisaged variable remuneration and bonus payments may be not sufficiently attractive to keep and/or attract talented and qualified employees due to regulatory and contractually agreed requirements (including a salary cap) applicable to the compensation structure resulting from financial stabilization measures under the Financial Market Stabilization Fund Act (*Finanzmarktstabilisierungsfondsgesetz*, "**FMStFG**"). However, the salary cap and the restriction on variable payments will cease to apply upon a redemption of at least half of the capitalization measures originally granted by FMS to the Company ("**Capitalization Measures**"), which is expected to occur upon receipt of the proceeds from the

repayment of the SoFFin Silent Participation and the Offering by FMS and HRE Holding, respectively. Such loss and the inability to attract new personnel could have a material adverse effect on pbb Group's business, financial position and results of operations, including its ability to pay dividends.

3.1.23 pbb Group is exposed to risks associated with its compensation system in the future, such as the risk of losing employees.

The statutory framework applicable to pbb Group at the date of the Prospectus, in particular the FMStFG, prohibits bonus payments to board members and employees. Instead, pbb Group, as at the date of the Prospectus, pays a mere fixed remuneration to the members of the Management Board and, in addition to their respective fixed remuneration, a fixed functional allowance to its employees. However, pbb Group will introduce a new compensation system implementing performance based remuneration with a variable element which is intended to comply with the regulatory requirements under the German Remuneration Regulation for Institutions (*Institutsvergütungsverordnung* – "**InstitutsVergV**"), the salary cap pursuant to Section 10(2b) FMStFG (the salary cap and the prohibition of variable payments will lapse once at least half of the Capitalization Measures has been repaid, which is expected to occur upon receipt of the proceeds from the repayment of the SoFFin Silent Participation and the Offering by FMS and HRE Holding, respectively) and the requirements contractually agreed between the Company, FMS and the Federal Financial Market Stabilization Agency (*Bundesanstalt für Finanzmarktstabilisierung*) ("**FMSA**") with regard to the Capitalization Measures replacing the current system (including the current fixed functional allowances) after completion of the Offering. pbb Group has initiated consultations with the respective employee representative bodies which are required in order to implement such new compensation system for its employees. The new compensation system will, with regard to variable remuneration components, operate on the concept of performance-related reference values (i.e. 100% performance achievement). In connection with the contemplated re-introduction of variable remuneration components, there will be an increase of the total compensation (assuming 100% target achievement) due to an increase of the fixed remuneration resulting from a partial shift from (currently suspended) variable remuneration components to fixed remuneration. This increase in personnel costs has been reflected in the planned personnel costs budget (and is, currently, estimated with €4 million per year). Increases are to be expected with respect to the implementation of variable remuneration components to the compensation system for the members of the Management Board.

While pbb Group is obliged to implement a new compensation system in connection with the completion of the Offering in order to meet regulatory requirements deriving from the InstitutsVergV, it cannot be ruled out that those changes may be met with resistance which could potentially lead to individual employment and/or collective labor disputes. Therefore, the timing of the implementation is not clear. However, the implementation phase is envisaged for 2016. It may be difficult, in particular with respect to pbb Group's locations outside Germany at which functional allowances have not been implemented by collective arrangements but by individual agreements only, to replace the employees' functional allowances as employees may have come to expect such payments and may claim to have obtained a legal entitlement to them under the applicable labor law. Members of the Management Board and/or employees being identified as risk takers may also be unwilling to adopt to long-term deferral schemes for bonuses, which are provided for under then applicable regulatory requirements but offer less certainty for the employees (due to uncertainties such as malus factors or sustainability components), without higher base salaries. In particular in the implementation phase an operational risk of losing employees could arise should any of these risks materialize. This may have a material adverse effect on pbb Group's business, financial position and results of operations, including its ability to pay dividends.

3.1.24 pbb Group may be exposed to risks relating to its pension schemes such as funding deficits.

As of December 31, 2014, pbb Group's defined benefit pension plan obligations amounted to €297 million. pbb Group undertook to partly fund its obligations thereunder by reinsurance arrangements. As of December 31, 2014 reinsurance arrangements equal to €182 million have been pledged to the plan beneficiaries and, thus, qualify as plan assets under IAS 19 resulting in a net liability of pbb Group with respect to defined benefit pension plans of €115 million.

pbb Group may be required to increase its level of contributions to the pension schemes due to changes in market conditions, in particular changes of the discount rate and the pension progression rate affecting the present value of pension liabilities. Increases may also be necessary due to the

investment strategy and actuarial assumptions such as life expectancy. This could result in a significant expense for pbb Group which could have a material adverse effect on pbb Group's business, financial position and results of operations, including its ability to pay dividends.

A large number of pbb Group's German defined benefit pension plans have been closed for new entries and it cannot be excluded that disputes may arise challenging the validity of such closures. As at the date of the Prospectus, pbb Group is not aware that the closures have been challenged by the respective beneficiaries.

3.1.25 Intense competition could materially adversely impact pbb Group's revenues and profitability, in particular in its home market Germany.

The markets in which pbb Group operates are highly competitive. pbb Group faces competition from an increasingly diverse mix of lenders in the commercial real estate market with the entry of non-bank financial institutions, such as insurance companies, debt funds, sovereign wealth funds, private equity, high-net worth individuals and family offices. Other competitive challenges may include among others a reduction in the (average) transaction size or a reduction of the market for commercial real estate financing. If pbb Group is unable to respond to the competitive environment in these markets with attractive product and service offerings, it may lose market share and incur losses on some or all of its activities. Furthermore, the increased competition may increase pressure on margins and lead to a further spread tightening which could affect pbb Group's revenues and profitability in both, its REF and PIF activities. Increased competition may also require pbb Group to shift more of its lending into riskier assets, locations and markets.

The mentioned risks associated with intense competition are particularly relevant with regard to pbb Group's home market Germany where it generated 46% of its new REF and 43% of its new PIF business in the financial year 2014. In Germany, pbb Group faces competition from public sector banks (in particular the *Landesbanken*) and other banks that often benefit from more favorable refinancing conditions (based on better ratings) than pbb Group.

Any failure to manage the competitive dynamics to which it is exposed could have a material adverse impact on pbb Group's business, financial position and results of operations, including its ability to pay dividends.

3.1.26 Transactions with counterparties in countries designated by the U.S. State Department as state sponsors of terrorism or persons targeted by U.S. or EU economic sanctions may lead potential customers and investors to avoid doing business with pbb Group or investing in its securities, harm its reputation or result in regulatory action which could materially and adversely affect its business.

pbb Group engages in business with customers and counterparties from a diverse background. In light of recent U.S. and EU sanctions, particularly against Russian individuals, it cannot be ruled out that some of pbb Group's customers or counterparties are or may become subjected to sanctions. Such sanctions may result in pbb Group being unable to gain or retain such customers or counterparties or receive payments from them. In addition, the association with such individuals or countries may damage pbb Group's reputation or result in significant fines. This has happened, for example, in the case of at least one credit institution in Germany for its alleged breach of the Iran-Embargo. This could have a material adverse impact on pbb Group's business, financial position and results of operations, including its ability to pay dividends.

3.1.27 pbb Group may be exposed to general reputational risks and reputational risks due to the (former) membership in the HRE Group.

Reputational risk, or the risk to pbb Group's business, earnings and capital from negative publicity, is inherent in pbb Group's line of business and can have different sources including the history of the Company.

The financial services industry in general has been closely monitored as a result of the financial crisis and other matters affecting the industry. Negative public opinion about the financial services industry generally or pbb Group specifically could adversely affect pbb Group's ability to attract and retain new business and/or funding opportunities, and may expose it to litigation and regulatory action. Negative publicity can result from its actual or alleged conduct in any number of activities, including lending practices, compliance, corporate governance, misconduct by employees (e.g., fraud), operations,

mergers and acquisitions, disclosure, processing and/or inadequate protection of customer information, and actions taken by government regulators and community organizations in response to that conduct.

In addition to those general reputational risks, pbb Group's former (save for the shareholding retained by the Selling Shareholder) affiliation with the HRE Group and DEPFA Bank plc as well as the contractual relationship with FMS Wertmanagement, a special public-law liquidation agency (*Abwicklungsanstalt*) ("**FMS-WM**") in connection with the state aid measures, and the necessity of these measures has negatively impacted pbb Group's image in the past. It cannot be ruled out that such affiliation and relationship might continue to negatively impact pbb Group's image in the future even after the privatization of pbb Group.

3.1.28 pbb Group may be exposed to third party challenges of pbb Group's compliance with the European State Aid Decision, which could result in an obligation to repay any State aid pbb Group received.

On July 18, 2011, The European Commission issued a state aid decision (C 15/09) dated July 18, 2011, published in the Official Journal of the European Union on March 1, 2012 ("**EU State Aid Decision**") concerning aid granted to the Entire HRE Group (which comprised the pbb Group at the relevant time). It cannot be ruled out that third parties may seek to challenge the compliance with this decision (including by or in respect of pbb Group) and the commitments stipulated therein. If such challenge were successful, this could result in an obligation to repay any state aid pbb Group received. This could have a material adverse effect on pbb Group's business, financial position and results of operations, including its ability to pay dividends.

3.1.29 pbb Group may fail to achieve its business and strategic objectives, and its historical results may not be representative of its future results while its interim results may not be an indicator of its full year results.

pbb Group may not be able to achieve its business and strategic objectives in the future, which could lead to a decline in profits, affect dividend payments and the results of operations in general. This could result from developments or technological advances in the relevant markets, in particular the REF market in Europe on which pbb Group's business depends, to which pbb Group does not properly adapt. In particular the PIF market may be affected by political changes in the future, for example resulting in a less attractive regulatory framework along with a declining demand for certain infrastructure projects such as in the renewable energy sector or guiding public authorities to promote certain projects while others become less appealing, which could negatively affect the new business that can be originated by pbb Group for its PIF segment.

Furthermore, pbb Group's Audited Consolidated Financial Statements and the other historical financial information included in the Prospectus do not necessarily indicate what pbb Group's results of operations, financial position, cash flows or costs and expenses will be in the future. In addition, the results of operations for interim periods included in the Prospectus are not necessarily indicative of the results to be expected for the full year or any future period.

3.1.30 It is impossible to determine or predict the outcome of litigation which pbb Group is facing or will be facing in the future, which may have a significant negative impact on pbb Group.

As part of the ordinary course of business, pbb Group is involved in legal disputes and administrative proceedings and this will likely continue to be the case in the future or even increase as pbb Group may commence operating in more litigious environments and/or jurisdictions (for example if pbb Group were to commence operating in the United States). It is impossible to determine or predict the outcome of cases pending or threatened. Litigation which is or might become pending may have a considerably negative impact on pbb Group's business, financial situation and results of operations, including its ability to pay dividends.

3.1.31 The Company is a party to several proceedings before different German courts initiated by former holders of profit participation certificates (Genussscheine), and is likely to be exposed to further litigation in this respect, which could have a significant financial impact on pbb Group.

These profit participation certificates (*Genussscheine*) were originally issued by legal predecessors of the Company. Based on their terms, a holder of such profit participation certificates participates (i) in

profits of the issuer with priority over a shareholder's right to dividends but (ii) also in losses which reduce the investor's repayment claim upon termination or repayment of the certificates (unless losses are subsequently replenished (*wieder auffüllen*) in the event of subsequent profits). The profit participation certificates participated in the Company losses since 2008. The Company has therefore cancelled interest payment rates and the writing down of principal amounts on the basis of these losses has resulted in low repayments at maturity of the relevant participation certificates. Individual claimants contest the terms of the profit participation certificates relating to the loss participation in the form of the write down and the replenishment (*Wiederauffüllung*) and the cancelled interest payments. The claims may increase significantly up to the full amount of the cancelled interest payments and not-replenished loss participation as a result of these actions (in the amount of potentially up to €0.3 billion plus interest).

3.1.32 pbb Group is exposed to the requests from commercial customers seeking compensation payments for loan handling fees (Kreditbearbeitungsentgelte) and may be exposed to further requests in the future, which could have a significant financial impact on pbb Group.

Following decisions of the German Federal Supreme Court in 2014 relating to the prohibition of loan handling fees (*Kreditbearbeitungsentgelte*) in the general terms and conditions (*Allgemeine Geschäftsbedingungen*) of loan agreements with private customers, pbb Group is facing requests from commercial customers seeking compensation payments for such fees. pbb Group may also be exposed to further requests from other commercial customers in the future. Even though the German Federal Supreme Court has not yet dealt with loan handling fees agreed with commercial customers, it cannot be ruled out that courts apply the same standards as applicable to fees agreed with private customers. In this case commercial customers may be entitled to the repayment of loan handling fees from pbb Group where these have been agreed in standard terms and condition. This could have a material adverse impact on pbb Group's business, financial position and results of operations, in particular to the extent such risks are not adequately reflected by provisions made for this purpose.

3.1.33 pbb Group is exposed to payment claims resulting from appraisal proceedings relating to the merger of two mortgage banks with the Company in 2001.

In appraisal proceedings relating to the merger of two mortgage banks with the Company in 2001, the new appraisal ordered by the court at the request of the claimants has resulted in an additional payment averaging €1.00 per share. The potential subsequent payment claims amount up to €9.4 million plus interest as from 2001. This could have a material adverse impact on pbb Group's business, financial position and results of operations.

3.1.34 pbb Group may not have sufficient insurance coverage, which could have a significant financial impact on pbb Group.

Until the privatization of pbb Group, pbb Group has had insurance coverage through various insurance policies entered into by the Selling Shareholder, insuring general business risks as well as personal risks of employees including general liability, environmental liability (subject to customary exceptions, such as no coverage for remediation of incidents that were not sudden or accidental) and property and business interruption insurance. The same applies to a Directors' and Officers' (D&O) liability insurance policy for members of the Company's Management and Supervisory Board as well as directors of the Company's subsidiaries and an employment practices liability insurance. In connection with the Offering (i.e. at the time the insurance coverage by HRE Holding falls away), pbb Group Company will have established its own insurance policies with a comparable coverage. This insurance coverage will be regularly evaluated and adjusted in the future. However, it cannot be excluded that pbb Group could suffer damages that are not covered by such insurance policies or that exceed the coverage limits set in these policies. The latter may be particularly relevant with regard to the previous coverage through the insurance policies of the Selling Shareholder; in the event of an insurance case in which a coverage limit is exceeded, it cannot be ruled out that the Selling Shareholder and pbb Group dissent on the adequate allocation, among them, of the amount covered by the insurance and that, in such case, the Selling Shareholder could have its own claims settled taking priority over pbb Group's coverage. Furthermore, there is no guarantee that pbb Group will also be able to obtain adequate insurance cover at appropriate conditions in the future. If any of such risks materializes, pbb Group's business, financial position and results of operations, including its ability to pay dividends, could be negatively affected.

3.1.35 pbb Group may have difficulty in identifying and executing acquisitions, and both making acquisitions and avoiding them could materially harm pbb Group's results of operations and its share price.

pbb Group may consider business combinations from time to time. While these combinations are based on an assessment of the business that is being acquired, pbb Group may assume unanticipated liabilities or the acquisition may not yield the expected benefits. Furthermore, there can be no guarantee that any acquisitions will be successfully integrated in pbb Group's business or that they will not have a negative impact on the share price. In addition, pbb Group has not acquired businesses or parts thereof for many years now and it may therefore lack the required expertise in executing such transactions. Failed acquisitions could materially affect investor's perception of pbb Group's business prospects and management, which could lead to a fall in the share price. Furthermore, pbb Group's reputation as well as assets, financial position and results of operation, including its ability to pay dividends, may be negatively affected.

3.1.36 pbb Group is exposed to risks associated with the management of its real property.

The real properties owned by pbb Group companies require active management and capital expenditures to maintain their value and to generate cash flow. If the management of such real properties is inadequate and/or the capital expenditures invested into these real properties prove to be insufficient, pbb Group's assets, financial position and results of operation, including its ability to pay dividends, may be negatively affected.

3.1.37 HRE Holding, FMS-WM and DEPFA Bank plc have agreed to indemnify pbb Group for certain liabilities. However, there can be no assurance that pbb Group will be able to enforce any claims under these indemnity agreements.

The Company and HRE Holding entered into an after sales agreement prior to completion of the Offering ("**After Sales Agreement HRE**") regarding the exchange of information and the cooperation after the completion of the Offering. The Company entered into similar After Sales Agreements with DEPFA Bank plc and FMS-WM, respectively (together with the After Sales Agreement HRE, the "**After Sales Agreements**"). Among other things, each of the After Sales Agreements allows each party to issue certain binding instructions regarding duties to be performed by the other party, provided that the instructing party indemnifies the instructed party against liabilities towards third parties as the result of an instruction. Furthermore, the Company's legal predecessor (Hypo Real Estate Bank International AG) irrevocably and unconditionally guaranteed the due and punctual performance by its Irish subsidiary Hypo Public Finance Bank puc ("**HPFB**"), a public unlimited company under Irish law, of all its obligations ("**Universal Guarantee**"). The Universal Guarantee covers obligations that came into existence before Hypo Real Estate Bank International AG ceased to be a shareholder of HPFB which occurred on 31 December 2007. Based on a guarantee indemnity agreement dated October 28/30, 2014, DEPFA Bank plc agreed towards the Company to indemnify for any and all claims brought against the Company under or in connection with the Universal Guarantee. Regardless of these indemnity agreements, third parties could seek to hold pbb Group responsible for any of the liabilities that HRE Holding, FMS-WM or DEPFA Bank plc, respectively, agreed to retain, and there can be no assurance that pbb Group will be able to enforce the claims under the indemnity agreements. Moreover, even if pbb Group ultimately succeeds in recovering any amounts for which pbb Group is held liable from HRE Holding, FMS-WM or (as the case may be) DEPFA Bank plc, pbb Group may be required to bear these losses. Each of these risks could materially adversely affect pbb Group's financial position, results of operations, including its ability to pay dividends, and reputation.

3.2 Risks Related to Regulatory, Legal and Tax Matters

3.2.1 Regulatory reforms relating to the financial sector together with increased regulatory scrutiny may create significant uncertainty for pbb Group and result in higher administrative expenses adversely affecting its ability to set up and execute its business and strategic plans.

Regulatory authorities and the European Union, among others, have made and continue to make proposals to reform the regulatory framework of financial institutions, in particular in response to the financial crisis and sovereign debt crisis. Many of these proposals have already been implemented and further significant changes are likely. This creates uncertainty for pbb Group as well as for the financial

industry as a whole. The wide range of legislative proposals include provisions for more stringent regulatory capital, liquidity standards, restrictions on compensation practices as well as recovery and resolution powers. The likely effects of some of these laws and regulations, also regarding leverage ratios and capital requirements, as well as their execution by the competent authorities remain uncertain as the drafting and implementation of these laws and regulations are still on-going. Since most of the regulation adopted during the last years allows for and requires the drafting of further delegated acts, regulatory and implementing technical standards, guidelines and recommendations, the material effects of many of the new regulatory provisions is still under discussion, and it is likely that the regulatory framework for the financial industry will continue to be subject to fundamental changes and increasing complexity. Compliance with the regulatory framework which is continuously being under review and subject to further modifications and the initial implementation of the new rules as well as their ongoing internal and external supervision may increase the administrative expenses for pbb Group.

Regulatory authorities have substantial discretion in how to regulate banks. This discretion, and the regulators' powers, has been increasing in recent years. Since HRE Holding together with its subsidiaries, including pbb Group, was identified as a "significant institution", the ECB has recently taken over the direct supervision of pbb Group and will need to acquire know-how and expertise as to its new function. If and to what extent this change of prudential supervisor will result in significant changes in the application of the regulatory environment in which pbb Group operates remains uncertain. There are, however, some factors which allow for the conclusion that the administrative burden and costs connected with supervision will increase as a consequence of the establishment of the SSM.

The significant uncertainty created by the regulatory reforms and by the degree of discretion conferred to regulatory authorities, as well as the content of such reforms, may complicate pbb Group's ability to establish and execute its business and strategic plans. Such reforms could also impede certain of pbb Group's business activities and render them less attractive; for instance, the introduction of more stringent regulations on (the promotion of) real property investments and on their less beneficial tax treatments could result in a declining financing demand from affected real estate investors. All this, together with the increased administrative expenses, may negatively affect pbb Group's business, financial position and results of operations, including its ability to pay dividends.

3.2.2 New legislation requires pbb Group to maintain a minimum level of capital and additional capital buffers, which may be increased over time and which may have a material adverse effect on pbb Group's business and profitability. Any capital shortage may lead to interventions by the supervisor.

The legislative package on the capital adequacy framework within the European Union, which consists of the Capital Requirement Regulation ("**CRR**") and the Capital Requirement Directive ("**CRD 4**" or "**CRD IV**", together with CRR the "**CRD 4 Package**"), provides, among other things, for minimum capital requirements and additional capital buffers, expressed in a percentage to the total risk weighted assets. They have to consist of a certain quality of capital referred to as Tier 1, sub-divided into CET 1 and AT 1 (Additional Tier 1), and Tier 2 instruments depending on their ability to absorb losses. Furthermore, the CRD 4 Package introduced the leverage ratio requirement, which is a non-risk based measure designed to act as a supplement to risk based capital requirements. It is intended as a back stop measure. The leverage calculation determines a ratio based on the relationship between Tier 1 capital and the total of the exposure values of all assets and off-balance sheet items not deducted when determining the Tier 1 Capital. The Basel Committee on Banking Supervision of the Bank for International Settlement (BIS) suggested in its framework (known as "**Basel 3**") a minimum ratio of at least 3% to apply as of 2018; however this may be subject to changes and the minimum leverage ratio requirement may be increased over time. The further development of Basel 3 may also lead to higher liquidity and own fund requirements as well as a more stringent large exposure regime and additional risk management requirements. As a consequence of the regulatory requirements, pbb Group's capital calculation, funding activities and its ability to offer loans may be adversely affected. This may have a material adverse effect on pbb Group's business and profitability, including its ability to pay dividends. Additionally, currently valid economic and regulatory indicators may be impacted which may lead to changes regarding capital resources.

The Basel Committee on Banking Supervision of the Bank for International Settlement (BIS) is also reviewing the so-called zero-risk weighting rule pursuant to which financial institutions are not required

to hold substantial or any capital against sovereign debt of certain issuers. If the zero-risk-weighting rule were to be abolished, pbb Group would face additional capital requirements, particularly for its assets in the PIF and VP segments.

If any of these risks materialize, pbb Group could be confronted with an actual or perceived shortage of capital or liquidity which could lead to regulatory interventions, such as required changes to the strategy, restrictions on the pay-out of dividends, share buybacks and discretionary compensation payments. This may have adverse effects on pbb Group's business, financial situation and results of operations, including its ability to pay dividends.

3.2.3 The change of the current group structure may lead to additional capital requirements or business activity limitations.

Changes affecting pbb Group's current group structure may lead to additional capital requirements or business activity limitations. This may adversely affect pbb Group's assets, financial position and earnings. Under a waiver in accordance with Article 7 CRR, the Company is exempt from certain regulatory requirements on an individual basis as well as on a consolidated basis on the level of the Company. The regulatory requirements have to be complied with under this waiver solely on the level of the Entire HRE Group. However the waiver will cease to apply prior to the delivery against payment of those Offer Shares that have been allotted after completion of the bookbuilding process in the course of the Offering ("**Settlement**"), and the regulatory supervision then has to be conducted on an individual basis at the level of the Company as well as on a consolidated basis (i.e. in respect of pbb Group), in each case regardless of HRE Holding's and HRE Group's capital. This implies that the Company and pbb Group will have to comply with all requirements in respect of capital ratios, leverage ratio, large exposures and reporting on an individual basis as well as on a consolidated basis. Therefore, if additional requirements are imposed on an individual basis or on a consolidated basis, which are not already reflected (which may limit the business activities of pbb Group), or if reporting requirements cannot be satisfied in a manner as and when required by the Company on an individual basis or on a consolidated basis, this may adversely affect pbb Group's results of operations, financial position, including its ability to pay dividends, and reputation.

3.2.4 pbb Group may continue to be required to maintain capital ratios in excess of own funds requirements (Pillar 1), in particular in respect of SREP Decisions and other Pillar 2 requirements.

On March 10, 2015, the ECB issued a decision (an "**SREP Decision**") pursuant to which the Entire HRE Group is required, on the basis of the information as of December 31, 2013, to maintain certain capital ratios in excess of the requirements following from the CRD 4 Package under Pillar 1 (CET 1 capital ratio and a total capital ratio). These additional requirements have been set by the ECB on the basis of the Supervisory Review and Evaluation Process ("**SREP**") carried out in 2014. The ECB has issued or is expected to issue SREP Decisions for most of the directly supervised institutions. Further, it may be expected that the ECB will renew its SREP decisions and impose additional requirements in respect of directly supervised institutions on an annual basis to ensure that risks identified by the SREP are adequately covered by regulatory capital. In addition, the methodology applied in the SREP as basis for future SREP Decisions is currently being revised and is expected to be subject to further review and modifications in the future. These revisions and modifications may also lead to higher additional requirements, including in respect of regulatory capital.

The higher capital ratios flowing from the SREP Decision had to be complied with by the Entire HRE Group so far as the regulatory capital requirements had to be met under a waiver in accordance with Article 7 CRR only in respect of the Entire HRE Group and not on individual or sub-consolidated basis by the Company. However, the waiver will cease to apply prior to the Settlement. As a consequence, the regulatory capital requirements will have to be complied with by the Company on an individual basis and, in respect of pbb Group, on a consolidated basis.

As pbb Group represents the only substantial holding of HRE Holding, the Company expects that the ECB will issue an SREP Decision within the next weeks pursuant to which the Company and pbb Group will be required to maintain at least the same ratios (subject to the further development of the risk situation). Furthermore, any additional own funds requirement may be imposed on the Company and/or pbb Group by the ECB as a consequence of any SREP undertaken in the future which may also require the Company and/or pbb Group to hold capital levels similar to, or higher than, those required under the full application of CRD 4 Package under Pillar 1.

There can also be no assurance that the Company and pbb Group will be able to continue to maintain such capital ratios. Any failure to maintain any additional capital requirements pursuant to the Pillar 2 framework or any other capital requirements to which the Company and/or the Group is or becomes subject (including buffer requirements), may result in the imposition of restrictions on dividend payments by the Company. It could also result, among other things, in the imposition of further Pillar 2 requirements and early intervention by resolution authorities. This may adversely affect pbb Group's results of operations, financial position, including its ability to pay dividends, and reputation.

3.2.5 Regulatory constraints may negatively affect the ability of the Company to pay dividends.

As re-enforced by the ECB's recommendation of January 28, 2015 (which is also addressed to the Company), the ECB considers that a conservative distribution policy is an integral part of an adequate risk management and sound banking system. This implies that credit institutions need to establish dividend policies using conservative and prudent assumptions in order to satisfy the applicable capital requirements after any distribution. Under the Pillar 1 requirements, credit institutions, such as the Company, are required to satisfy the applicable minimum capital requirements at all times. This includes a CET 1 capital ratio of at least 4.5%, a Tier 1 capital ratio of at least 6% and a total capital ratio of at least 8% as provided for by the CRR. It also includes the countercyclical capital and systemic buffers referred to in the CRD 4, and all other buffers which have been or will be adopted by national competent and designated authorities. Moreover, credit institutions, such as the Company, are required to satisfy the capital requirements that are imposed as a result of SREP decisions, which go beyond the Pillar 1 requirements (i.e. the Pillar 2 requirements), at all times. See also above "*3.2.4 pbb Group may continue to be required to maintain capital ratios in excess of own funds requirements (Pillar 1), in particular in respect of SREP Decisions and other Pillar 2 requirements.*" Credit institutions, such as the Company, are also required to satisfy their "fully loaded" capital ratios (CET 1 capital ratio, Tier 1 capital ratio and total capital ratio) upon the expiry of the grandfathering under the transitional rules of the CRR. These capital requirements will have to be met both on a consolidated level and on an individual basis by the Company when the waiver under Article 7 CRR will cease to apply, i.e. prior to the Settlement.

Against this backdrop, the ECB has made several recommendations for the dividend policy of credit institutions (including the Company) and has established three categories for this purpose: (1) Credit institutions which satisfy the applicable Pillar 1 and Pillar 2 requirements and which have already reached their "fully loaded" capital ratios, should only distribute their net profits in dividends in a conservative manner to enable them to continue to fulfill all requirements, even in the case of deteriorated economic and financial conditions. (2) Credit institutions which satisfy the applicable Pillar 1 and Pillar 2 requirements but which have not reached their "fully loaded" capital ratios as at the end of the financial year 2014 should only distribute their net profits in dividends in a conservative manner to enable them to continue to fulfill all requirements, even in the case of deteriorated economic and financial conditions. Additionally, they should in principle only pay out dividends to the extent that, at a minimum, a linear path towards the required "fully loaded" capital ratios is secured. (3) Credit institutions which under the 2014 comprehensive assessment had a capital shortfall not covered by capital measures by the end of financial year 2014, or credit institutions in breach of the applicable Pillar 1 and Pillar 2 requirements, should in principle not distribute any dividend.

While these recommendations relate explicitly to the financial year 2014, the ECB may make these or similar recommendations in the future. Furthermore, while the recommendations are not strictly binding, it is to be expected that they will be complied with by the credit institutions. Depending on the category in which the Company or pbb Group will fall in the future, these constraints may thus adversely affect the Company's ability to pay dividends. In any event and notwithstanding these recommendations, any failure to maintain any applicable Pillar 1 or Pillar 2 capital requirements to which the Company and/or pbb Group is or becomes subject, would result in the imposition of restrictions on dividend payments by the Company and would thus negatively affect its ability to pay dividends. See also "*3.2.4 pbb Group may continue to be required to maintain capital ratios in excess of own funds requirements (Pillar 1), in particular in respect of SREP Decisions and other Pillar 2 requirements*."

3.2.6 pbb Group is exposed to risks in relation to its AIRB modeling, which could reveal that RWAs have been understated and lead to regulatory interventions.

With the approval of the German regulator, pbb Group applies its own empirical models based on an advanced internal ratings-based approach (AIRB) to quantify the required capital for its credit risks.

The models aim at the determination of certain parameters for calculating the risk-weighted assets including the probability of default (PD) and the exposure at default (EaD) (calculated for 2013 based on revised Basel 3 (simulated) and for 2014 and later based on Basel 3 ("**EaD**")). In the past, the AIRB models applied by pbb Group have been subject to high regulatory scrutiny, and BaFin has repeatedly asked for clarifications or amendments. It cannot be ruled out, however, that the risk-weighted assets have been understated for various reasons. This could lead to regulatory interventions and adversely affect pbb Group's business, financial situation and results of operations, including its ability to pay dividends. Additionally, pbb Group may also not have adequate funding to cover the resulting losses. Furthermore, such insufficiency of the model could be discovered in the course of a stress test which is meant to assess the resilience of a sample of banks under a common baseline and an adverse macro-economic scenario; in this case, adverse effects for the pbb Group's reputation might ensue as the results of the stress-tests are usually published. In addition, the Company has applied for the approval to change certain models used with the AIRB and there is a risk that these changes in capital/RWA calculations and methodology, which would result in lower own funds requirements, are not accepted by the regulator.

3.2.7 Future Legislation could introduce a capital floor for risk weighted assets based on standardized, non-internal models, or other approaches. This could require pbb Group to maintain additional regulatory capital where risks are currently calculated based on internal ratings or an advanced measurement approach.

In the context of revising the framework for risk measurement, the Bank for International Settlement (BIS) started a consultation on a capital floor framework based on standardized, non-internal modeled approaches in December 2014. Such future framework could set minimum average risk weights for institutions relying on internal ratings, an advanced measurement or other approaches. The BIS consultation proposes that the minimum average risk weights could be applied on each major risk category or the total risk weighted assets of pbb Group. As a result, pbb Group could be required to maintain additional regulatory capital. This could have a material adverse impact on pbb Group's business, financial position and results of operations, including its ability to pay dividends.

3.2.8 pbb Group is subject to the risk of further stress tests which could lead to adverse effects on pbb Group and could lead to higher capital or liquidity needs.

Stress tests analyzing the robustness of credit institutions are regularly carried out and published by supranational and national supervisory authorities. Any announcement by a supervisory authority that it will perform a stress test or market perception that any such test is not rigorous enough can increase uncertainty in the banking sector and lead to a loss of confidence in individual institutions, such as pbb Group, or in the banking sector as a whole. It cannot be ruled out that future stress test results for pbb Group may not meet certain legal requirements or expectations by supervisory authorities, market participants or rating agencies. This could result, for example, in higher capital requirements for pbb Group or require pbb Group to increase its liquidity. Such requirements may have a negative impact on pbb Group's results of operations, including its ability to pay dividends.

3.2.9 pbb Group is subject to risks attributable to periodic audits, inspections and similar proceedings conducted by regulators, such as findings of deficiencies.

pbb Group has been, and will remain, subject to periodic audits, inspections and similar proceedings conducted by regulators which focus on pbb Group's compliance with regulations applicable to the financial sector. It cannot be ruled out that any of those audits, inspections and similar proceedings will produce findings of deficiencies. Such findings may lead to (additional) requirements for pbb Group imposed by the regulator and/or adversely affect pbb Group's reputation should those findings be made public. The realization of any of these risks could have a material adverse effect on pbb Group's business, financial position and results of operations, including its ability to pay dividends.

3.2.10 pbb Group is exposed to the risk that deposit guarantee schemes will lead to additional costs which may make it difficult to maintain the required capital.

The EU Directive on Deposit Guarantee Schemes ("**DSGS**"), as implemented in Germany into national law with effect as of July 3, 2015, further harmonizes the regulation of deposit protection schemes in the EU. The DSGS obliges each credit institution to contribute to a statutory or legally recognized guarantee scheme. The overall minimum target level of the scheme is 0.8% of the covered deposits in

each Member State in the EU within the next ten years. To achieve this target and to finance any compensation to depositors if necessary, contributions of up to 0.5% of the covered deposits may be raised by the member banks.

In Germany, mandatory and voluntary deposit guarantee schemes were already in place prior to the DSGS. The legal framework for the mandatory deposit guarantee scheme was amended with effect as of July 3, 2015 to implement the DSGS and includes potentially higher special contributions that could be levied on participating banks. pbb Group has contributed to both mandatory and voluntary deposit guarantee schemes. It cannot be ruled out that pbb Group may be required to contribute more to the deposit guarantee schemes for the past and/or in the future. Any of these cases may reduce pbb Group's otherwise available capital and, hence, negatively affect its business, financial position and earnings, including its ability to pay dividends.

3.2.11 Changes to the risk-assessment concept may have an adverse impact on the capital ratio of pbb Group and may negatively affect pbb Group's business, financial position and earnings.

The risk-assessment concept is being developed continuously in cooperation with the competent supervisory authority. In the past, the BaFin paid specific high attention to this issue. It is likely that the regulatory focus on risk management will continue. This might have an impact on the risk-assessment analysis in the going-concern as well as gone-concern approach and influence the assessment of market values for assets and liabilities. A change in the risk-assessment concept may cause the regulatory capital to drop below the required capital ratio, e.g. if the amount of hidden liabilities increases, which may require pbb Group to take counter-measures and/or cause the regulator to intervene. This might negatively affect pbb Group's business, financial position and results or operations, including its ability to pay dividends.

3.2.12 The far reaching intervention rights under the Single Resolution Mechanism and the national law implementing the EU Bank Resolution and Recovery Directive may negatively affect pbb Group's assets, financial position and earnings. Proposed German legislation in connection with the recovery and resolution of banks and investment firms may result in regulatory consequences that could limit pbb Group's business operations and lead to higher refinancing costs.

pbb Group may become subject to intervention measures pursuant to the Single Resolution Mechanism and the national law implementing the EU Bank Resolution and Recovery Directive. The tools of the Single Resolution Board include the potential sale of businesses, a bridge institution tool, an asset separation tool, and a bail-in tool. Under the bail-in tool specifically, losses may be absorbed by writing down or converting capital instruments and such losses will be allocated to shareholders and creditors in accordance with a liability cascade. CET 1 capital, such as the share capital, is the first capital written down. This may result in a partial or complete loss or a significant dilution for the shareholders of the Company. Under the Single Resolution Mechanism, pbb Group is also subject to minimum requirements for own funds and eligible liabilities (MREL). This could require pbb Group to issue additional capital with sufficient loss absorbing quality. Should pbb Group not be able to raise the additional capital, it may be subject to regulatory measures and sanctions which could adversely affect pbb Group's net assets, financial position and results of operations, including its ability to pay dividends, and its reputation. Furthermore, in the context of resolution planning, resolution authorities may order pbb Group to remove any obstacle to its resolvability. Such orders may result in restrictions to businesses, changes to the group structure or to outsourcing arrangements. This may impose additional costs on pbb Group and/or limit its future business opportunities.

In addition, pbb Group holds exposures to other credit institutions that could become subject to intervention measures under a resolution regime, which, if taken or assumed possible to occur by market participants, may negatively affect pbb Group's net assets, financial position and results of operations, including its ability to pay dividends. Measures taken against credit institutions may also involve the risk that mandatory contributions of pbb Group to the German deposit protection scheme and the Single Resolution Fund could increase.

In the context of adjusting German regulation to the Single Resolution Mechanism and also with the objective to create sufficient MREL and total loss absorbing capacity for German credit institutions, it has been proposed by the Federal government of Germany to introduce a statutory subordination of certain senior unsecured debt instruments issued by credit institutions. To the extent such instruments

are issued by pbb Group, the statutory subordination applying to these instruments may result in higher refinancing costs and may make it more difficult to issue such instruments. Moreover, pbb Group holds exposures in such senior unsecured debt instruments of other issuers. If such instruments were to become subordinated under the proposed German legislation, this may limit the proceeds which pbb Group would be able to obtain in the case of the insolvency of such issuer. If any of these risks materialize, this could adversely affect pbb Group's net assets, financial position and results of operations, including its ability to pay dividends, and its reputation.

3.2.13 pbb Group may be exposed to increased regulations and measures in relation to the clearing of derivatives transactions which may lead to additional costs and may materially affect pbb Group's business and results of operation.

pbb Group is required to apply the European Market Infrastructure Regulation ("**EMIR**") and related implementing regulations. EMIR introduced requirements for standardized over-the-counter ("**OTC**") derivatives to be centrally cleared and derivative transactions to be notified to trade repositories. EMIR also includes capital and margin requirements for non-cleared trades. While a number of the compliance requirements introduced by EMIR have come into effect, the European Supervisory Authorities (mainly the European Securities and Markets Authority) are still in the process of finalizing certain of the implementing rules mandated by EMIR. To comply with EMIR, pbb Group is required to establish processes that allow the central clearing of OTC derivatives and posting of collateral as well as compliance with related capital requirements and reporting obligations. Even though many of these processes have already been implemented, any further changes to adjust the existing processes to meet the finalized requirements and additional processes that may be needed may materially increase pbb Group's operating costs and negatively impact pbb Group's business model, its assets, financial position and earnings. Any failure to comply with such obligations may lead to supervisory consequences and the exacerbation of such regulations may have a negative impact on pbb Group's results of operations, financial position, including its ability to pay dividends, and reputation.

3.2.14 The planned introduction of new bank levies and a financial transaction tax might make certain business activities of pbb Group unprofitable.

In several countries of the European Union additional fees and levies for banks are under discussion as of the date of the Prospectus. In addition to the Single Resolution Fund ("**SRF**") (which is financed by the banking sector as part of the Single Resolution Mechanism ("**SRM**") that is intended to provide for an effective management of bank resolutions) the introduction of a financial market transaction tax is being considered. According to the current proposal, the purchase and sale of fungible securities or options and other financial instruments are to be taxed. Such additional levies and taxes could adversely impact the profit of pbb Group and reduce the profitability of its business and, hence, negatively affect pbb Group's net assets, financial position and results of operations, including its ability to pay dividends.

3.2.15 pbb Group operates in an increasingly regulated environment. If pbb Group fails to comply with the wide range of laws and regulations applicable to its business, pbb Group or its representatives may become subject to regulatory investigations, regulatory restrictions, penalties, injunctive reliefs, litigation and criminal prosecution.

Due to the nature and extent of its international business activities, pbb Group has to comply with a wide range of laws and regulations. It cannot be guaranteed that pbb Group continuously complies with all laws and regulations all the time, in particular since legislation and jurisprudence is developing fast. In countries where pbb Group does not have a local presence compliance with local laws is more challenging. pbb Group or its representatives may become subject to regulatory investigations, regulatory restrictions, penalties, injunctive reliefs, litigations and criminal prosecution for any failures to comply with all laws and regulations. This could have negative effects on pbb Group's results of operations, financial position, including its ability to pay dividends, and reputation.

3.2.16 pbb Group must comply with anti-money laundering and data protection regulations, which require pbb Group to monitor the compliance with such regulations and may lead to sensitive sanctions in the case of failure.

pbb Group has to comply with laws on money laundering and the financing of terrorism. This includes the German Money Laundering Act (*Geldwäschegesetz*) which establishes, among other things, the

requirement for institutions to conduct a customer due diligence. The scope of this review includes, finding out about the background of business relationships, following up on suspicious transactions and continuously monitoring suspicious business relationships. Such duties require significant technical capabilities and may pose a serious burden on the obliged institutions. Furthermore, the laws may be amended or their interpretation or enforcement may change in future. Although pbb Group believes that its current policies and procedures are sufficient to comply with all applicable anti-money laundering rules and regulations, it cannot guarantee that its current policies and procedures completely prevent money laundering. It also cannot guarantee that all employees, advisors and service providers (including service providers for synthetically transferred portfolios), for which pbb Group may be held responsible, will abide by these policies. Any such failure to abide may result in sanctions, fines and reputational consequences which could have a material adverse effect on pbb Group's business, financial position, results of operations, including its ability to pay dividends, and reputation.

In addition, pbb Group is subject to regulation regarding the use of customer data as pbb Group processes sensitive customer data as part of its business. pbb Group seeks to ensure that procedures are in place that all employees, advisors and service providers, for which pbb Group may be held responsible, will comply with all relevant data protection requirements. However, it cannot be excluded that such data breaches occur. In such event, pbb Group's reputation and consequently its business, financial position and results of operations, including its ability to pay dividends, may be adversely affected. Furthermore, pbb Group faces the risk that customer data may be stolen or misappropriated which may lead to customers being discouraged from providing pbb Group with their data or to pbb Group's marketing efforts being negatively affected.

3.2.17 pbb Group continues to bear risks related to FMS-WM despite the transfer of assets and liabilities and the termination of the servicing activities.

pbb Group had transferred certain assets and liabilities to FMS-WM. pbb Group may be negatively affected by those items which have yet not been legally (*in rem*) transferred to FMS-WM, as FMS-WM may still claim legal (*in rem*) transfer of such assets to it, in connection with which pbb Group may have to bear significant costs (in particular transfer taxes, internal costs as well as out-of-pocket expenses). In addition, certain credit risks were only synthetically transferred by means of guarantees provided by FMS-WM. Those guaranteed assets are intended to be "upgraded" (i.e. legally and/or economically transferred to FMS-WM) in which case certain derivatives associated to such assets will be transferred to FMS-WM by way of back-to-back derivatives which will result in an increase of the total assets on the balance sheet of pbb and might negatively affect pbb Group's regulatory capital and capital ratios until those back-to-back derivatives have been "upgraded" and thus transferred to FMS-WM as well.

pbb Group's contractual commitments to provide services to FMS-WM regarding the transferred assets and liabilities have been terminated effective as of September 30, 2013 (except for portfolio management services provided by a Japanese subsidiary of the Company to FMS-WM until June 29, 2015). However, the Company agreed to provide to FMS-WM and its wholly owned service company after-sales support, in particular (but not limited to) for the not yet settled positions transferred to the FMS-WM. Such services may pertain to, *inter alia*, compliance issues, the mutual provision of information and support in areas where legal and/or regulatory provisions require the interaction of both parties. It cannot be excluded that the provision of such after-sales services requires considerable resources of pbb Group and may involve operational risks. In addition, given that both, FMS-WM and FMS-WM's wholly owned service company, not pbb Group, service the transferred positions, the client relationships and the reputation of pbb Group may be damaged if the servicing is conducted contrary to pbb Group's strategy and/or not in its interest. This may negatively affect pbb Group's business, assets, financial position and results of operations, including its ability to pay dividends. This risk may increase in the future as FMS-WM is considering a sale of the service company.

3.2.18 pbb Group may be affected by increasingly rigorous scrutiny of transactions by tax authorities and could be subject to tax risks attributable to previous tax assessment periods.

Tax authorities around the world are increasingly rigorous in their scrutiny of transactions and in the pursuit of gathering taxes which may lead to an increased overall effective tax burden of pbb Group as a whole.

The German companies of pbb Group are subject to tax audits on a regular basis. Comprehensive tax field audits of pbb Group's German companies (including former companies which have been merged into the current pbb Group's companies, such as DEPFA Deutsche Pfandbriefbank AG) have for the most part been completed for the periods up to and including 2004 but, at least with respect to the Company, not finally assessed yet; comprehensive tax field audits have started for periods from 2005 up to and including 2010, but for some pbb Group´s companies periods from 2005 onwards have not been audited yet.

The non-German subsidiaries and branches are subject to tax audits of the relevant national competent tax authorities. For the Paris Branch, the periods from 2010 up to and including 2012 have already been audited but not finally assessed yet. HREC Japan considers tax audits for periods up to 2013 as finished, although the tax authorities might re-examine this period. For RPPSE Espacio Oviedo S.L.U., the Madrid Branch, the Swedish Branch, HRECC India, Hayabusa GK and the US entities, no tax audits have yet been performed. The London Branch has not been subject to tax audits yet but the tax authorities reviewed the tax returns up to and including 2013.

Additional taxes could accrue in relation to previous tax assessment periods, which are still subject to pending tax audits, have not been subject to tax audits or have not been finally assessed yet. Tax laws and/or relevant facts could be interpreted by the tax authorities in a manner deviating from pbb Group's view of such laws or facts; this can, in particular, be relevant if the laws and/or their interpretation by the courts or the tax authorities change, possibly even with retroactive effect. As a result, the tax authorities could revise original tax assessments and substantially increase the tax burden (including interest and penalty payments) and/or reduce tax losses or tax loss carry forwards of the affected entities of pbb Group (for example, in connection with reorganizations, intercompany sales, transaction costs, the evaluation of claims and accruals as well as in the context of typical banking-related tax audit issues, such as the measurement of specific and general bad debt reserves (*Einzel- und Pauschalwertberichtigungen*) and/or the application of a particular input VAT quota). Although tax accruals covering possible risks resulting from the aforementioned fact patterns have been established as per December 31, 2014, these accruals might not be sufficient.

Furthermore, tax audit findings can have effects on tax periods for the years following the years under tax audit, such effects resulting for instance from a change of the amortization or depreciation basis and/or periods and/or the non-recognition of loss carry forwards. The realization of any of these risks could have a material adverse effect on pbb Group's business, financial position and results of operations, including its ability to pay dividends.

In particular, the main findings of the ongoing tax audits of pbb Group's companies are as follows: Former DEPFA Deutsche Pfandbriefbank AG (which merged into the Company in 2009) entered into several securities lending transactions. According to the tax authorities, the participation exemption is not applicable to dividends arising from these transactions. The ultimate denial of the application of the participation exemption would result in additional taxes (plus interest and penalty payments) and would also imply the risk of the revocation of a granted withholding tax credit. Insofar, only tax accruals covering part of the potential tax risks have been established as per December 31, 2014. In context with such securities lending transactions entered into as between former DEPFA Deutsche Pfandbriefbank AG and Sachsen LB during the years 2004 to 2006 criminal investigations regarding the evasion of corporate income tax are in progress since end of 2012. Such tax fraud investigations affect former and current employees or former board members (six individuals in total). Additionally, criminal investigations against a former employee of the Company concerning obstruction of justice regarding the aforementioned proceedings are in progress. Furthermore, the tax authorities refused to accept a tax credit for "fictitious" foreign withholding taxes arising from different transactions in the case of Portugal; this would result in additional taxes (plus interest and penalty payments). As per December 31, 2014, no corresponding tax accruals have been established.

The tax audits have further revealed that pbb Group is exposed to tax risks resulting from cross-border transactions, in particular with regard to transfer pricing rules that apply in, and the allocation of profits to, several jurisdictions. To the extent transfer pricing rules, including the arm's length principle and the principles regarding the allocation of profits applicable within the scope of such rules, were allegedly or demonstrably not complied with or, as the case may be, are not complied with in the future, additional tax payments (plus interest and penalty payments) may arise in the respective jurisdiction in which pbb Group is active; in this context, it needs to be noted that for instance in Spain currently no proper transfer pricing documentation exists. In the context of cross-border transactions, German and foreign tax authorities may disagree on the allocation of profits to a particular foreign branch compared to the

German head office in the context of loan transactions. The reason is that the risks resulting from loans originated and granted by a foreign branch are assumed by the German head office by way of credit default swaps. Consequently, the tax authorities of the foreign branch as well as the German tax authorities may both claim an entitlement to tax the profits generated by the relevant foreign loans. This may lead to a double taxation and, consequently, result in an additional tax burden. This risk has already materialized with respect to France, where the French and German tax authorities have expressly taken a different view as regards the profit allocation under loans granted by the French branch of the Company. In this regard, a mutual agreement procedure (*Verständigungsverfahren*) between the Republic of France and the Federal Republic of Germany has been applied for which may, ultimately, lead to a (at least partial) mitigation of the double taxation. Although tax accruals covering possible risks resulting from cross-border transactions have been established as per December 31, 2014, these accruals might not be sufficient.

In addition, pbb Group may be exposed to tax risks from facts or transactions which have not yet been subject to and/or addressed in a tax audit:

In 2007, HRE Holding as tenant entered into a lease agreement with respect to an office building in Munich (the Lehel-Carré). Notwithstanding the fact that HRE Holding signed the agreement, it was the unanimous intention and understanding of HRE Holding and the Company that Lehel-Carré shall become the group-wide premises and that, particularly, also the Company should move its office to Lehel-Carré. No respective written agreements had been entered into between the parties in this respect. Nevertheless, in the years 2012 to May 4, 2015, the Company made payments to HRE Holding in the amount of €15 million and treated them as deductible business expenses. Further, in order to disentangle its business relationships, in 2015, HRE Holding and the Company entered into a written settlement agreement ("**Lehel Settlement Agreement**") with respect to the lease of the office building. Pursuant to this Lehel Settlement Agreement, the Company agreed to pay a compensation of €24.5 million to HRE Holding for future losses which the Company also treated as deductible business expenses. The tax authorities might refuse to accept the tax deductibility of some or all of such payments. This would imply the risk of additional taxes. As per December 31, 2014, no tax accruals have been established as regards possible risks resulting from this fact pattern.

In 2007, the Company had entered into a financing agreement with its US subsidiary (LLC). Due to legal uncertainties regarding its payment obligations, the Company made an interest payment in 2013 which covered the years 2009 through 2013. As in the view of the Company the rules regarding controlled foreign corporations ("**CFC rules**") contained in the German Foreign Tax Act (*Außensteuergesetz*) would apply to its investment in LLC (such that the interest payments received by LLC would have to allocate to the Company anyway), the Company simply treated the corresponding accrued interest expenses as not tax deductible. The tax authorities might refuse to accept such treatment. This might increase the tax burden (including interest and penalty payments) of the Company. In addition, the application of the CFC rules could lead to the allocation of taxable interest income to the Company even in years where the Company has made no interest payment or the transaction has already been terminated. As per December 31, 2014, no tax accruals have been established as regards possible risks resulting from this fact pattern.

Certain German entities of the pbb Group have treated themselves as forming part of tax groups for corporate income tax, trade tax and VAT purposes (*Organschaften*). In this context, tax allocation payments (*Steuerumlagen*) for VAT purposes have been made although, in some years, no written agreements documenting an obligation to make such allocation payments existed. The tax authorities may refuse to accept the existence of a tax group and/or refuse to recognize the deductibility of the allocation payments in a given year. This might substantially increase the tax burden (including interest and penalty payments) of the affected entities of pbb Group. As per December 31, 2014, no tax accruals have been established as regards possible risks resulting from this fact pattern.

In the past, entities of the pbb Group applied for, and obtained, advance rulings (*verbindliche Auskunft*) with the competent tax office to confirm the tax treatment of certain transactions (e.g. in the context of restructuring measures). The advance rulings, however, will not have binding effect if the transaction, as executed, deviates significantly from the description of the transaction made in the binding ruling request submitted to the tax authorities. Moreover, no binding effect will attach to the advance ruling if the legal provisions that form the basis of the conclusions drawn in the advance ruling are subject to changes. In any of these circumstances, the tax burden (including interest and penalty payments) of the affected entities of pbb Group could substantially increase. As per December 31, 2014, no tax accruals have been established as regards possible risks resulting from this fact pattern.

3.2.19 The preferential tax treatment in connection with the acquisition of the shares in HRE Holding by FMS in 2010 may be retroactively declared void, which could result in a loss of deferred tax assets and could negatively affect the Company's ability to pay dividends.

In 2010, FMS had (ultimately) acquired 100% of the shares in HRE Holding. Usually, in this case net operating losses, if any, at the level of the German pbb Group entities would generally be eliminated completely pursuant to Section 8c of the German Corporate Income Tax Act (*Körperschaftsteuergesetz,* ("**KStG**")), and, in addition German Real Estate Transfer Tax would be triggered if and to the extent a pbb Group entity holds German-situs real estate. However, pbb Group did neither treat this transaction as leading to the forfeiture of losses nor as triggering German Real Estate Transfer Tax and, thereby, relied on the respective provisions contained in Section 14 FMStFG. It is currently discussed whether Section 14 FMStFG is a legally valid provision on the basis that it may not conform with EU law. It cannot be excluded that proceedings may be initiated as a result of which the respective beneficial tax provisions contained in Section 14 FMStFG are retroactively declared void. If this is the case, substantial net operating losses for corporate income tax purposes and for trade tax purposes (off-balance sheet) would have been forfeited and German Real Estate Transfer Tax would have been triggered as a consequence of the aforementioned transaction in 2010. This would result in a loss of deferred tax assets and could negatively affect the ability to pay dividends. As per December 31, 2014, no tax accruals have been established as regards possible risks resulting from this fact pattern.

3.2.20 pbb Group is affected by the new accounting standard IFRS 9, which could negatively impact the Company's ability to distribute a dividend.

The International Accounting Standards Board (IASB) published a new standard on financial instruments accounting (IFRS 9 Financial Instruments) in 2014. The new standard includes revised guidance on the classification and measurement, impairment and hedge accounting of financial instruments. The impact on banks and their accounting is expected to be substantial. The implementation of the new standard at pbb Group will lead to increased administrative expenses. Furthermore, the new standard could have a knock-on effect on the accounting of risk provisions pursuant to the German Commercial Code (*Handelsgesetzbuch*, "**HGB**") which could lead to the weakening or even exclusion of the Company's ability to distribute a dividend (which may only be distributed if and to the extent the Company has recognized a balance sheet profit available for distribution in its audited annual non-consolidated financial statements prepared under the HGB). This could have a material adverse impact on pbb Group's business, financial position and results of operations, including its ability to pay dividends. Furthermore, it is likely that due to the new classification and measurement rules, more financial assets will have to be measured at fair value (either in the profit and loss accounts or through other comprehensive income). As a result of this and of the new impairment rules, the volatility in the profit and loss accounts (IFRS) and in the equity is likely to increase.

3.3 Risks Related to the Shareholder Structure

3.3.1 Even after completion of the Offering, HRE Holding and its shareholder will be able to exercise significant influence on the Company, and their interests could come into conflict with the interests of other investors.

After the completion of the Offering, HRE Holding will hold at least 24.9% (or, if the Greenshoe Option has been exercised, the percentage of HRE Holding's shareholding in the Company immediately after the exercise of the Greenshoe Option, but in any event a shareholding of at least 20.0%) of the Company's share capital for a period of at least two years. Even though the Company expects that the Supervisory Board members of the Company that are also members of the supervisory board of HRE Holding will resign from office as members of the supervisory board of HRE Holding with effect as of a date falling on or about the Settlement, it cannot be excluded that, after completion of the Offering, Supervisory Board members of the Company (including the chairman of the Supervisory Board) will also remain members of the supervisory board of HRE Holding. HRE Holding's or its shareholder's interests could conflict with the interests of other shareholders. In this respect it should be noted that HRE Holding is wholly owned by the FMS which is managed by the FMSA, a public-law agency with legal personality under the legal and technical supervision of the German Federal Ministry of Finance (*Bundesministerium der Finanzen*). In addition, the FMSA will have the right, as long as the

shareholding of HRE Holding and indirectly of FMS in the Company is equal to or exceeds 10% of the voting rights in the Company and based on the understanding that the Supervisory Board of the Company continues to comprise at least six shareholder representatives, to nominate two candidates as members of the Supervisory Board of the Company, to be elected by the general shareholders' meeting, and at least one of the Supervisory Board members nominated by the FMSA (and elected by the general shareholders' meeting) will be represented on certain committees of the Supervisory Board (if so determined by the Supervisory Board). Such right of the FMSA to nominate members of the Supervisory Board shall be reduced to one member of the Company's Supervisory Board once the shareholding of HRE Holding and indirectly of FMS in the Company falls below 10% of the voting rights in the Company and such right shall lapse entirely once the aforementioned indirect shareholding of FMS falls below 3% of the voting rights in the Company. The state-controlled FMSA might, also in its capacity as the federal resolution agency of Germany, pursue economic, political, social and further interests that materially differ from the interests of other shareholders. Depending on the shareholder presence at the general shareholders' meeting of the Company, HRE Holding (controlled by FMS) may also prevent resolutions from being adopted at the general shareholders' meeting of the Company with its minority stake. This applies in particular to resolutions that, in order to be adopted, require a qualified majority of the votes cast or the represented share capital. This may include capital increases to finance acquisitions, investments, structural measures (e.g. approval of enterprise agreements or the approval of transformation measures such as mergers) or for other purposes. In case the presence of the other shareholders at the general shareholders' meeting of the Company is very low, HRE Holding might even be in a position to control the resolutions passed by the general shareholders' meeting of the Company with a simple majority (subject to an agreement on the avoidance of control (*Entherrschungsvertrag*) entered into between HRE Holding and the Company with regard to the election of Supervisory Board members and certain business decisions). These shareholder rights of HRE Holding are strengthened by comprehensive auditing, reporting and information rights of FMS *vis-à-vis* the Company agreed upon in context of the Offering. The potential for FMS, FMSA and HRE Holding to exercise influence, especially with regard to voting in the general shareholders' meeting and through members of the Supervisory Board of the Company nominated by FMSA if elected at the general shareholders' meeting, or exercising other influence that is in conflict with the interests of the other shareholders, may adversely affect the Company's share price and, if exercised, may have a material adverse effect on pbb Group's business, financial position and results of operations. In the event that HRE Holding does not participate in a capital increase proposed by the Company in the future, the Company's efforts to raise new capital could be undermined.

Furthermore, Section 20(1) of the Financial Market Stabilization Acceleration Act (*Finanzmarktstabilisierungsbeschleunigungsgesetz*, "**FMStBG**") requires the Company to take all reasonable measures requested by FMS that are useful with regard to a return, divesture, transfer or modification of the (indirect) shareholding of FMS in the Company. FMS may or may not use the comprehensive power granted by Section 20(1) FMStBG in a way that conflicts with the interests of the other shareholders. Also, it should be noted that the laws which regulate the powers and interests of FMS and the FMSA in respect of the Company may be amended in the future in a way that could have a detrimental effect on pbb Group and will not necessarily be aligned with the interests of the other shareholders of the Company.

If any of these risks materializes, this may have a material adverse effect on pbb Group's business, financial position and results of operations, including its ability to pay dividends.

3.3.2 The withdrawal from the HRE Group and thus from being indirectly owned by the Federal Republic of Germany may lead to the loss of business opportunities and higher funding costs.

In the past, pbb Group may have benefited from an indirect 100% ownership of the Federal Republic of Germany. It cannot be ruled out that following the reduction in HRE Holding's investment in the Company, pbb Group might lose business and funding opportunities (including the opportunity to obtain funding at favorable conditions) it previously enjoyed and might therefore be exposed to higher funding costs. This loss could arise because business partners took pbb Group's shareholder structure into consideration when they entered into contractual relations with pbb Group, potentially counting on extraordinary support for the Company from the German government if needed. The loss of business and funding opportunities based on pbb Group no longer being majority owned by the Federal Republic of Germany may have a material adverse impact on pbb Group's business, financial position and results of operations, including its ability to pay dividends.

3.3.3 The termination of the Comfort Letter issued by HRE Holding for the benefit of the Company may lead to higher costs to meet regulatory capital requirements, the loss of business opportunities and higher funding costs.

HRE Holding stated in its audited unconsolidated financial statements for the recent financial years that it, subject to political risks, would assume the obligation to ensure that the Company shall be able to meet its contractual obligations ("**Comfort Letter**"). The Comfort Letter will be terminated with effect as of Settlement.

As a consequence of the termination of the Comfort Letter, pbb Group may lose business and funding opportunities which it previously enjoyed and might therefore be exposed to higher funding costs. This loss could arise because pbb Group's business partners took the existence of the Comfort Letter into consideration, counting on support of the Company from HRE Holding and, hence, from its ultimate parent, the Federal Republic of Germany, if needed. The loss of business and funding opportunities (including the opportunity to obtain funding at favorable conditions) arising from pbb Group no longer benefitting from the Comfort Letter may have a material adverse effect on its business, financial position and results of operations, including its ability to pay dividends.

3.3.4 The withdrawal from the HRE Group increases the likelihood of a downgrade of the ratings assigned to the Company and/or its debt or hybrid instruments which may have a negative effect on the Company's funding opportunities, triggers and termination rights within derivatives and other contracts and access to suitable hedge counterparties.

Rating agencies have so far been taking the view that, *inter alia*, due to the Company's shareholding structure with an indirect 100% ownership of the Federal Republic of Germany, extraordinary support of the Company from the German government would be available if needed and that the Company's operations benefitted from the indirect state ownership. This justified, in the past, more favorable ratings.

Against this backdrop, HRE Holding, the Company, FMS and FMSA entered into a lock-up agreement (the "**HRE Lock-up Agreement**") on or about June 22, 2015. In the HRE Lock-up Agreement, HRE Holding committed itself to a lock-up in relation to its shares in the Company (save for transactions that do not result in a direct or indirect holding by HRE Holding, FMS or the Federal Republic of Germany below a threshold of 24.9% (or, if the Greenshoe Option has been exercised, the percentage of HRE Holding's shareholding in the Company immediately after the exercise of the Greenshoe Option, but in any event a threshold of at least 20.0%) of the registered share capital of the Company) for a period ending two years after the first day of trading of the shares of the Company on the Frankfurt Stock Exchange (the "**First Day of Trading**"). The Company expects that, upon the expiry of the HRE Lock-up Period, the Federal Republic of Germany will aim at reducing its (indirect) holding in the Company in a gradual manner. While the objective of the lock-up commitment is that the indirect shareholding of the Federal Republic of Germany continues to be both sufficient and required to maintain the Company's issuer credit rating at investment grade level, this cannot ensure that rating agencies acknowledge a rating uplift resulting from the indirect shareholding of the Federal Republic of Germany. Even if a rating agency acknowledges a rating uplift resulting from the indirect shareholding of the Federal Republic of Germany, this rating agency may change its view in the future. In addition, the rating uplift associated with the indirect shareholding of the Federal Republic of Germany may even not be sufficient to assign an investment grade rating. Furthermore, the parties to the HRE Lock-up Agreement may amend or terminate (including, potentially, in case the indirect shareholding of the Federal Republic of Germany is not sufficient anymore to maintain the Company's issuer credit rating at investment grade level) the agreement or shares could be sold or otherwise transferred in breach of the lock-up commitment. In any of these cases, and no later than upon the expiry of the lock-up commitment two years after the First Day of Trading, a rating uplift resulting from the indirect shareholding of the Federal Republic of Germany, if any, could fall away.

Any downgrade of the ratings of the Company could have a material adverse effect on pbb Group's liquidity, financial position, net assets and result of operations, including its ability to pay dividends. For further rating drivers and risks resulting from a potential rating downgrade, see "*3.1.7 pbb Group bears the risk that the ratings assigned to the Company, its Pfandbriefe and its other debt or hybrid instruments are downgraded which may have a negative effect on the funding opportunities, on triggers and termination rights within derivatives and other contracts and on access to suitable hedge counterparties and thus on its business, financial position and results of operation.*"

3.3.5 pbb Group may lose tax losses and tax loss carry forwards in connection with the Offering, which would result in a higher effective tax rate and a loss of deferred tax assets, and could negatively affect the Company's ability to pay dividends.

German and foreign entities or branches of pbb Group (including the Company) have significant current tax losses and tax loss carry forwards (together "**net operating losses**") and corresponding deferred tax assets which have, however, not been subject to any tax audit yet.

Subject to certain limitations, Section 8c KStG generally provides for a pro rata elimination of net operating losses in cases where more than 25% and up to 50% of the shares in a corporation have been acquired directly or indirectly while net operating losses are stated to be eliminated completely where more than 50% of the shares in a corporation have been acquired directly or indirectly within a five-year period by one individual shareholder or a group of shareholders acting in concert, or if a comparable event occurs. Depending on the ultimate change in the shareholder structure of the Company as a consequence of the Offering, substantial net operating losses for corporate income tax purposes and for trade tax purposes (off-balance sheet) may forfeit (including the increase of the net operating losses resulting from the repayment of the SoFFin Silent Participation on July 6, 2015), unless and to the extent parts of such net operating losses had already been forfeited as a consequence of the acquisition of 100% of the shares in HRE Holding by FMS in 2010 (for details, see *3.2.18 pbb Group may be affected by increasingly rigorous scrutiny of transactions by tax authorities and could be subject to tax risks attributable to previous tax assessment periods.*). Tax loss carry forwards may also forfeit (fully or partly) if FMS, in the future, transfers shares in the Company (through HRE Holding) and such transfer does not qualify as a privileged intra-group transfer within the meaning of Section 8c KStG. The forfeiture of net operating losses would result in a higher tax burden and a loss of deferred tax assets and could negatively affect the ability to pay dividends.

In addition and subject to certain limitations, net operating losses of entities or branches located in the United Kingdom, Spain or Japan may also forfeit provided that, *inter alia*, a change in ownership in the respective entity or branch occurs. Depending on the ultimate change in the shareholder structure of the Company as a consequence of the Offering, (partly substantial) net operating losses may be forfeited in the respective countries, which would result in a higher tax rate and a loss of deferred tax assets and could negatively affect the ability to pay dividends.

3.3.6 The Offering might not be completed and investors could lose security commissions paid and be exposed to risks from any short selling of the shares of the Company.

The underwriting agreement entered into among the Company and Citigroup Global Markets Limited, London, United Kingdom, Deutsche Bank Aktiengesellschaft, Frankfurt am Main, Germany, J.P. Morgan Securities plc, London, United Kingdom, Joh. Berenberg, Gossler & Co. KG, Hamburg, Germany and COMMERZBANK Aktiengesellschaft, Frankfurt am Main, Germany (the "**Underwriters**") on or about June 26, 2015 (the "**Underwriting Agreement**") provides that the Underwriters may terminate the Offering under certain circumstances in particular if a material adverse change in the economic position or the business of the Company or pbb Group has occurred or if an event occurs that has material adverse effects on the financial markets. If the Underwriters withdraw from the Underwriting Agreement, the Offering will not take place. Any allocations to investors that have already occurred will be invalid. In this case investors will not have a claim for delivery of the shares in the Company. Claims with regard to any subscription fees that have already been paid and costs incurred in connection with the subscription by an investor are governed solely by the legal relationship between the investor and the institution to which the investor has submitted its offer to purchase. Any investor that engages in short selling bears the risk of not being able to fulfill its delivery obligations.

3.4 Risks Related to the Commencement of Trading of the Company's Shares

3.4.1 Future sales or market expectations of sales of a large number of shares by the Selling Shareholder could cause the share price to decline.

Upon completion of the Offering, the Selling Shareholder will continue to hold at least 20% of the Company's share capital (assuming full placement of the shares including those meant to cover a potential over-allotment and a full exercise of the option granted by the Selling Shareholder to the Underwriters to acquire up to 6,589,289 borrowed shares against payment of the offer price less agreed commissions ("**Greenshoe Option**")). It cannot be ruled out that the Selling Shareholder will want to sell its shares as quickly as possible or may even be required to do so by the European

Commission based on state aid regulation. The Company's share price could fall substantially if (i) the Selling Shareholder starts selling its shares after the selling restrictions the Selling Shareholder is subjected to have expired, i.e. 180 days after the date of the first day of trading of the shares (or at an earlier date with the consent of the Joint Global Coordinators or in breach or the expiry of its lock-up undertaking vis-à-vis the Company under the HRE Lock-up Agreement ending two years after the first day of trading of the shares of the Company on the Frankfurt Stock Exchange), or (ii) such sales are anticipated by investors. This also applies if other significant shareholders sell shares or related equity linked instruments in the market or if such sales are expected. In addition, the sale or market expectation of a sale of a large number of shares on the part of the Selling Shareholder or other significant shareholders could make it difficult for the Company to issue new shares or sell related equity linked securities in the future on favorable terms. Furthermore, the sale or market expectation of a sale of a large number of shares on the part of the Selling Shareholder following the expiry of the lock-up obligations under the HRE Lock-up Agreement could lead to the materialization of the risks described in "*3.3.4 The withdrawal from the HRE Group increases the likelihood of a downgrade of the ratings assigned to the Company and/or its debt or hybrid instruments which may have a negative effect on the Company's funding opportunities, triggers and termination rights within derivatives and other contracts and access to suitable hedge counterparties.*" and "*3.1.7 pbb Group bears the risk that the ratings assigned to the Company, its Pfandbriefe and its other debt or hybrid instruments are downgraded which may have a negative effect on the funding opportunities, on triggers and termination rights within derivatives and other contracts and on access to suitable hedge counterparties and thus on its business, financial position and results of operation.*".

3.4.2 The Company's shares have not yet been publicly traded, and there is no guarantee that a liquid market will develop or continue following the initial public offering.

Prior to the Offering, there was no public trading of the Company's shares. The offer price will be set by the Selling Shareholder by way of a bookbuilding process jointly with the Joint Global Coordinators. There is no guarantee that the offer price will correspond to the price at which the shares are subsequently traded after the Offering, or that a liquid market in the shares will develop and become established after the Offering. The fact that the Selling Shareholder will continue to hold at least 20.0% of the Company's share capital (assuming full placement of the shares including those meant to cover a potential over-allotment and full exercise of the Greenshoe Option) limits the number of free float shares in the Company and could, therefore, adversely affect the development and maintenance of a liquid market in the shares. Investors may not be able to sell the shares at the offer price, at a higher price or at all under certain circumstances.

3.4.3 The price and trading volume of the Company's shares could fluctuate significantly, and investors could lose all or parts of their investments.

Following completion of the Offering, the price of the shares in the Company may be subject to substantial fluctuations and, as a result, investors in the Company's shares could lose all or part of their investments. Fluctuations may especially follow from changes in the actual or forecast operating results of pbb Group or its competitors, changes in the profit forecasts or failure to meet profit expectations of investors and securities analysts, assessments by investors with regard to the success and the effects of the Offering and the strategy described in the Prospectus as well as the assessment of the related risks, changes in the general economic conditions, changes in the shareholder structure, random events as well as other factors. Furthermore, external factors such as changing demand in the monetary or interest rate policy measures by central banks, regulatory changes or other external factors, seasonal influences or unique events can impact the revenues and the earnings of pbb Group and lead to fluctuations in the price of the shares of the Company. General fluctuations in share prices, especially the price of shares in other companies in the same industry pbb Group operates, or a general deterioration in capital markets, may lead to pressure on the price of the shares of the Company, and these fluctuations in share price may not necessarily be based on its business operations or earnings prospects.

3.4.4 Future capital increases could be dilutive and lead to substantial reductions in the value of the Company's shares.

In the case of any future capital increase of the Company by way of a rights issue, shareholders who have not exercised their subscription rights will no longer hold the same percentage of voting and dividend rights in the Company. Investors in certain jurisdictions (particularly in the United States)

could be precluded from participating in the rights offering altogether. If a shareholder fails to exercise its rights to subscribe for new shares or is precluded from participating in the rights offering, its percentage share in the Company would be diluted in proportion to the percentage by which the Company's capital is increased. Correspondingly, such a shareholder's portion of any dividend or other distribution or voting rights would decrease.

Pursuant to the German Stock Corporation Act (*Aktiengesetz*), the general shareholders' meeting of the Company may, in certain cases, adopt a resolution on a capital increase that excludes shareholders' subscription rights. In such case, shareholders who are not offered any of the shares to be issued could not prevent the dilution of their shares in the Company unless they purchased additional shares in the secondary market, for example on the stock exchange, possibly at a higher price.

A capital increase may also lead to a decline of the Company's share price, e.g. as a result of the market's dislike of the dilutive effect and/or a markdown of the subscription price.

3.4.5 The Company may not pay dividends in future financial years, be it because it does not generate any balance sheet profit available for distribution, limitations under applicable law and regulations or for other reasons.

A dividend may only be distributed if and to the extent the Company has recognized a balance sheet profit available for distribution in its audited annual non-consolidated financial statements prepared under the HGB. Accounting under these rules may differ materially from IFRS accounting. The balance sheet profit may be reduced for losses carried forward as well as for the formation or increase of reserves. While some reserves may be formed or increased (as the case may be) at the discretion of the Management Board, certain reserves must be formed or increased (as the case may be) by law.

The Company's earnings situation may not remain positive on a sustained basis or may even deteriorate, for instance because one or more of the risks mentioned above materialize. This may result in the Company being unable to distribute dividends in future financial years, or requiring the distributable profits to support its capital base and recognize them in the reserves rather than distributing them.

In addition, if the pbb Group fails to meet the regulatory capital adequacy requirements or liquidity requirements under the applicable banking regulations, the competent supervisory authority may suspend or limit the payment of dividends.

Furthermore, should pbb Group issue instruments, such as Additional Tier 1 instruments or profit participation certificates (*Genussscheine*) which provide for payments that are effectively preferential to dividend payments, the ability to pay dividends may be limited or even suspended.

3.4.6 pbb Group will face additional administrative requirements and incur higher on-going costs as a result of the Company's listing.

After the listing, the Company will be subject to the legal requirements for German stock corporations listed on a public exchange for the first time. These include requirements relating to corporate governance, periodic financial reporting and other public disclosures of information (including those required by the stock exchange listing authorities), regular calls with securities and industry analysts, and other required or common disclosures. There is no guarantee that pbb Group's accounting, controlling and legal or other corporate administrative functions will be capable of responding to these additional requirements without difficulties and inefficiencies that cause it to incur significant additional expenditures and/or expose it to legal, regulatory or civil costs or penalties. Furthermore, the preparation, convening and conduct of general shareholders' meetings and the Company's regular communications with shareholders and potential investors will entail substantially greater expenses and risks. The management of the Company will need to develop the expertise necessary and, hence, to devote time to these additional requirements that it could have otherwise devoted to other aspects of managing its operations. These additional requirements could also entail substantially increased time commitments and costs for accounting, controlling and legal departments and other administrative functions in pbb Group. Any inability of pbb Group's administration to handle the additional demands placed on it by becoming a company with listed shares, as well as any costs resulting therefrom, may have a material adverse effect on pbb Group's business, financial position and results of operations, including its ability to pay dividends.

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4 GENERAL INFORMATION

4.1 Responsibility for the Content of the Prospectus

Deutsche Pfandbriefbank AG, with its registered seat in Munich, Germany, its business address in Freisinger Str. 5, 85716 Unterschleißheim, Germany, and registered with the commercial register maintained by the local court (*Amtsgericht*) of Munich, Germany, under HRB 41054 (hereinafter also "**pbb AG**" or the "**Company**" and, together with its direct and indirect subsidiaries, the "**pbb Group**", the "**Group**" or "**pbb**"), together with Citigroup Global Markets Limited, London, United Kingdom ("**Citigroup**") and Deutsche Bank Aktiengesellschaft, Frankfurt am Main, Germany ("**Deutsche Bank**" and, together with Citigroup, the "**Joint Global Coordinators**"), J.P. Morgan Securities plc, London, United Kingdom ("**J.P. Morgan**"), Joh. Berenberg, Gossler & Co. KG, Hamburg, Germany ("**Berenberg**") and COMMERZBANK Aktiengesellschaft, Frankfurt am Main, Germany ("**Commerzbank**", together with J.P. Morgan, Berenberg and the Joint Global Coordinators, the "**Joint Bookrunners**" and the "**Underwriters**") assume responsibility for the contents of the Prospectus pursuant to Section 5(4) German Securities Prospectus Act (*Wertpapierprospektgesetz*) and hereby declare that, to the best of their knowledge, the information contained in the Prospectus is in accordance with the facts and that no material circumstances have been omitted. Notwithstanding Section 16 German Securities Prospectus Act, neither the Company nor the Underwriters are required by law to update the Prospectus.

Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the respective national legislation of the relevant Member State of the European Economic Area, have to bear the costs of translating the Prospectus before the legal proceedings are initiated.

4.2 Subject Matter of the Prospectus

For the purposes of the Offering, the Prospectus relates to a total of 107,580,245 ordinary bearer shares with no par value (*Stückaktien*), each such share with a notional value of €2.83 (rounded, mathematically correct: €2.82859) in the share capital and full dividend rights as from January 1, 2015, comprising:

- 100,990,956 existing ordinary bearer shares of the Company with no par value from the holdings of Hypo Real Estate Holding AG, Munich (also "**HRE Holding**" or the "**Selling Shareholder**", and together with its subsidiaries and affiliates, but excluding pbb Group, the "**HRE Group**", and including pbb Group the "**Entire HRE Group**") (the "**Existing Shares**"); and
- 6,589,289 existing ordinary bearer shares of the Company with no par value from the holdings of the Selling Shareholder to cover a potential over-allotment (the "**Over-Allotment Shares**", together with the Existing Shares, the "**Offer Shares**").

For purposes of admission to trading on the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange, with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange, the Prospectus relates to a total of 134,475,308 ordinary bearer shares with no par value of the Company (existing share capital), each with a notional value of €2.83 (rounded; mathematically correct: €2.82859) in the share capital and full dividend rights as from January 1, 2015.

The Offering consists of initial public offerings in the Federal Republic of Germany and the Grand Duchy of Luxembourg and private placements in certain jurisdictions outside the Federal Republic of Germany and the Grand Duchy of Luxembourg. In the United States, the Company's shares are being offered for sale to qualified institutional buyers as defined in and in reliance on Rule 144A under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"). Outside the United States, the Company's shares are being offered in reliance on Regulation S under the Securities Act.

The Offer Shares have not been and will not be registered under the Securities Act, or the securities laws of any other jurisdiction of the United States and may not be offered, sold or otherwise transferred within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction in the United States.

4.3 Forward-Looking Statements

The Prospectus contains certain forward-looking statements. A forward-looking statement is any statement that does not relate to historical facts or events or to facts or events as of the date of the Prospectus. This applies, in particular, to statements in the Prospectus containing information on future earnings capacity, plans and expectations regarding pbb Group's business, its growth and profitability, as well as the general economic and legal conditions and other factors to which pbb Group is exposed. Statements made using the following wording are forward-looking statements: "is likely", "expects", "assumes", "estimates", "plans" or "intends" and similar terms. They can be found in several sections in the Prospectus, for instance in the sections "*Risk Factors*", "*Markets and Competition*", "*Business*" and "*Recent Developments and Outlook*".

The forward-looking statements contained in the Prospectus are based on the Company's current estimates and assessments and made to the best of the Company's knowledge. These forward-looking statements are based on assumptions and are subject to risks, uncertainties and other factors, the occurrence or non-occurrence of which could cause actual circumstances – including with regard to the assets, business, financial position and results of operations as well as profitability of the Group – to differ materially from or fail to meet the expectations expressed or implied in the forward-looking statements. Even if future results of pbb Group meet the expectations expressed herein, they may not be indicative of the results of any succeeding periods.

pbb Group's business is also subject to a number of risks and uncertainties that could cause a forward-looking statement, estimate or prediction in the Prospectus to become inaccurate. Accordingly, investors are strongly advised to consider the Prospectus as a whole and particularly ensure that they have read the following sections of the Prospectus: "*Risk Factors*", "*Management's Discussion and Analysis of Net Assets, Financial Position and Results of Operations*", "*Market and Competitive Environment*", "*Business*" and "*Recent Developments and Outlook*", which include more detailed descriptions of factors that might influence pbb Group's business performance and the markets in which it operates.

In light of the assumptions as well as risks, uncertainties and other factors, it is also possible that the future events mentioned in the Prospectus may not occur or may differ materially from actual events. In addition, the forward-looking estimates and forecasts reproduced in the Prospectus from third-party sources could prove to be inaccurate (for more information on third-party sources see "*4.4 Information from Third Parties*"). These factors are not necessarily all of the important factors that could cause the Company's actual results to differ materially from those expressed in any forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on future results. The foregoing may prevent the Company from achieving its financial and strategic objectives.

The forward-looking statements contained in the Prospectus speak only as of the date of the Prospectus. Investors are advised that neither the Company nor the Underwriters assume any obligation and do not intend to, except as required by law, publicly release any updates or revisions to these forward-looking statements to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based or to adjust them in line with future events or developments.

4.4 Information from Third Parties

Unless otherwise indicated, statements in the Prospectus regarding the market environment, market developments, growth rates, market trends and the competitive situation in the markets and segments in which pbb Group operates are based on data, statistical information, sector reports and third-party studies, as well as pbb Group's own estimates. Management estimates – unless otherwise indicated – are based on internal market observations and/or studies by third parties

To the extent that information has been sourced from third parties, this information has been accurately reproduced by the Company in the Prospectus and, as far as the Company is aware and is able to ascertain from information published by these third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. However, market studies and analyses are frequently based on information and assumptions that may not be accurate or technically correct, and their methodology is, by nature, forward-looking and speculative.

Irrespective of the assumption of responsibility for the contents of the Prospectus by the Company and the Underwriters (see "*4.1 Responsibility for the Content of the Prospectus*"), neither the Company nor

the Underwriters have verified the figures, market data and other information used by third parties in their studies, publications and financial information, or the external sources on which the Company's estimates are based. The Company and the Underwriters therefore assume no liability for and offer no guarantee of the accuracy of the data from studies and third-party sources contained in the Prospectus and/or for the accuracy of data on which the Company's estimates are based.

The Prospectus also contains estimates of market and other data and information derived from such data that cannot be obtained from publications by market research institutes or from other independent sources. Such information is partly based on own market observations, the evaluation of industry information (from conferences, sector events, etc.) or internal assessments. The Company's management believes that its estimates of market and other data and the information it has derived from such data assists investors in gaining a better understanding of the industry in which companies of the Group operate in and pbb Group's position therein. The Company's own estimates have not been checked or verified externally. The Company nevertheless assumes that its own market observations are reliable. The Company and the Underwriters give no warranty for the accuracy of the Company's own estimates and the information derived therefrom. They may differ from estimates made by competitors of the Group or from future studies conducted by market research institutes or other independent sources.

Information contained on any website mentioned in the Prospectus, including the website of pbb Group, is not incorporated by reference in the Prospectus and is not part of the Prospectus.

4.5 Documents Available for Inspection

For as long as the Prospectus is valid, copies of the following documents are available for inspection during regular business hours at the Company's offices at Freisinger Str. 5, 85716 Unterschleißheim, Germany:

(i) the Company's articles of association (the "**Articles of Association**");

(ii) the unaudited interim condensed consolidated financial statements of the Company in accordance with the International Financial Reporting Standards as adopted by the European Union ("**IFRS**") for interim financial reporting (IAS 34), as of and for the three-month period ended March 31, 2015 (the "**Unaudited Interim Condensed Financial Statements**");

(iii) the audited consolidated financial statements of the Company prepared in accordance with IFRS and the additional requirements of German commercial law pursuant to Section 315a German Commercial Code (*Handelsgesetzbuch*) as of and for the financial year ended December 31, 2014, as of and for the financial year ended December 31, 2013 and as of and for the financial year ended December 31, 2012 (together, the "**Audited Consolidated Financial Statements**"); and

(iv) the audited unconsolidated financial statements of the Company prepared in accordance with the German Commercial Code (*Handelsgesetzbuch*, "**HGB**") as of and for the financial year ended December 31, 2014 (the "**Audited Unconsolidated Financial Statements**").

The above documents are also available on the Company's website at www.pfandbriefbank.com/investor-relations.html.

Future annual and interim financial reports of the Company will be available on the website of the Company (www.pfandbriefbank.com/investor-relations.html), from the German Company Register (*Unternehmensregister*) (www.unternehmensregister.de) and from the Company, Freisinger Str. 5, 85716 Unterschleißheim, Germany. Annual financial reports will also be published in the German Federal Gazette (*Bundesanzeiger*).

4.6 Note on Currency and Financial Information

The financial information contained in the Prospectus is mainly derived from the Audited Consolidated Financial Statements, the Unaudited Interim Condensed Financial Statements and the Audited Unconsolidated Financial Statements, which are included in the "*Financial Information*" section of the Prospectus. The financial years ended December 31, 2014, December 31, 2013 and December 31, 2012 are also referred to in the Prospectus as "financial year 2014" or "2014", "financial year 2013" or "2013" and "financial year 2012" or "2012", respectively. The three-month period ended March 31, 2015 is referred to in the Prospectus also as "Q1 2015".

The Audited Consolidated Financial Statements were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin (Munich office, Ganghoferstr. 29, 80339 Munich), Germany ("**KPMG**"), who issued in each case an unqualified auditor's report (*uneingeschränkter Bestätigungsvermerk*) thereon as included in the Prospectus. The Audited Unconsolidated Financial Statements were also audited by KPMG, who issued an unqualified auditor's report (*uneingeschränkter Bestätigungsvermerk*) included in the Prospectus. In each case, KPMG conducted its audits in accordance with Section 317 German Commercial Code (*Handelsgesetzbuch*) and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer*). For further details on the financial information see "*10 Selected Financial and Business Information*" and "*11 Management's Discussion and Analysis of Net Assets, Financial Position and Results of Operations*" in the Prospectus.

The amounts set forth in the Prospectus in "€", EUR or "Euro" refer to the single currency of the participating member states in the third state of the European Union pursuant to the Treaty Establishing the European Community.

The following table explains the denotation of currencies used in the Prospectus:

Amounts in	**refer to the legal currency of**
"$", "U.S. $" or "USD"	the United States
"£" and "GBP"	the United Kingdom
"Yen" or "JPY"	Japan
"SEK" or "Swedish Krona"	the Kingdom of Sweden
"CHF" or "Swiss Franc"	Switzerland

The functional currency of the Group is the Euro and financial statements are prepared in Euro.

4.7 Note Regarding Figures and Technical Terms

Some figures (including percentages) in the Prospectus have been rounded in accordance with standard commercial rounding. In some instances, such rounded figures and percentages may not add up to 100% or to the totals or subtotals contained in tables or stated elsewhere in the Prospectus. Furthermore, totals and subtotals in tables may differ slightly from unrounded figures stated elsewhere in the Prospectus due to rounding off in accordance with commercial rounding. In the financial statements included in the section bearing the heading "*Financial Information*" and in the main body of the Prospectus, a dash (" – ") is used where no data was reported for a specific line item in the relevant period, while a zero ("0") is used where the pertinent figure, after rounding, amounts to nil. Negative figures are presented either marked with a minus (" - ") or in brackets.

A list of defined terms used in the Prospectus is provided under the heading "*Defined Terms*".

4.8 Presentation of Financial Information

4.8.1 Financial Information

Unless otherwise indicated, the financial information contained in the Prospectus was mainly derived from the Audited Consolidated Financial Statements, the Audited Unconsolidated Financial Statements and the Unaudited Interim Condensed Financial Statements which are included in the "*Financial Information*" section of the Prospectus.

Where financial information in the Prospectus is labeled "audited", it means that this information was taken from the Audited Consolidated Financial Statements or the Audited Unconsolidated Financial Statements. The label "unaudited" is used in the Prospectus to indicate financial information that was not taken from the Audited Consolidated Financial Statements or the Audited Unconsolidated Financial Statements, but was taken either from the Unaudited Interim Condensed Consolidated Financial Statements or taken or derived from pbb Group's accounting records or internal management reporting systems.

Some tables in the Prospectus also present certain items which are not recognized terms under IFRS or under the HGB ("**non-GAAP measures**"). These non-GAAP measures are key figures used by the Company's management to monitor the performance of pbb Group. Non-GAAP measures not included in the Audited Consolidated Financial Statements are labeled as "unaudited" in the relevant tables, while non-GAAP measures included in the Audited Consolidated Financial Statements are labeled "audited" in the relevant tables. For more information, see "*4.8.3 Measures not Defined by IFRS or the German Commercial Code (Non-GAAP Measures)*".

4.8.2 Segmentation

As of the date of the Prospectus, pbb Group has two strategic operating segments, Real Estate Finance ("**REF**") and Public Investment Finance ("**PIF**"). In addition, in 2013, pbb Group started to report its non-strategic public budget finance portfolio as "**Value Portfolio**" or "**VP**". Furthermore, it has a "Consolidation and Adjustments" (or "**C&A**") segment, which consists primarily of treasury activities.

For further information on the segmentation, see "*11.1 Segmentation*".

4.8.3 Measures not Defined by IFRS or the German Commercial Code (Non-GAAP Measures)

Monitoring and steering at pbb Group are based on a consistent and integrated key performance indicator system (KPI system), which assists executives in the management of the Group. The KPI system comprises the dimensions of profitability, growth in the strategic real estate finance and public investment finance portfolios, risk limitation and capital. As is customary in pbb Group's industry, some of these figures are based on IFRS, whereas others are used in addition to the IFRS financial measures and are not recognized terms under IFRS or under the German Commercial Code ("**non-GAAP measures**"), in order to evaluate, monitor and manage the business. Key performance indicators, which are not measures of financial performance under IFRS, have not been reviewed by an outside consultant, expert or auditor and are, unless otherwise noted, derived from pbb Group's accounting system and management estimates. These non-GAAP measures are defined by pbb Group's management and may not be comparable to similar measures used by other companies. Non-GAAP measures used should not be considered as an alternative to net income (loss), revenues or any other performance measures derived in accordance with IFRS or the German GAAP as measures of operating performance. Neither should they be considered as an alternative to cash flows from operating activities as measures of liquidity. The non-GAAP measures have limitations as analytical tools and should not be considered in isolation or as substitutes for analysis of the Company's results as reported under IFRS or under the German Commercial Code.

The financial key performance indicators pbb Group uses to track the financial performance of its business and to guide its management are *inter alia* return on equity after tax, profit or loss before tax, cost income ratio, the notional amount of the funding in the strategic Real Estate Finance (REF) and Public Investment Finance (PIF) segments, volume of new business and the CET 1 ratio.

For definitions and further explanations of non-GAAP measures see also "*11 Management's Discussion and Analysis of Net Assets, Financial Position and Results of Operations*".

5 THE OFFERING

5.1 Subject Matter of the Offering

The offering (the "**Offering**") consists of a total of 107,580,245 ordinary bearer shares of the Company with no par value (*Stückaktien*), each such share with a notional value of €2.83 (rounded; mathematically correct: €2.82859) in the share capital and full dividend rights as from January 1, 2015, comprising:

- 100,990,956 existing ordinary bearer shares with no par value (*Stückaktien*) from the holdings of Selling Shareholder (the "**Existing Shares**"); and
- 6,589,289 existing ordinary bearer shares with no par value (*Stückaktien*) from the holdings of the Selling Shareholder to cover a potential over-allotment (the "**Over-Allotment Shares**", together with the Existing Shares, the "**Offer Shares**").

The Offering consists of initial public offerings in the Federal Republic of Germany and the Grand Duchy of Luxembourg and private placements in certain jurisdictions outside the Federal Republic of Germany and the Grand Duchy of Luxembourg. In the United States, the Company's shares will be offered for sale to qualified institutional buyers as defined in and in reliance on Rule 144A under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"). Outside the United States, the Company's shares are being offered in reliance on Regulation S under the Securities Act.

The Offer Shares have not been and will not be registered under the Securities Act, or the securities laws of any other jurisdiction of the United States and may not be offered, sold or otherwise transferred within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction in the United States.

As of the date of the Prospectus, the share capital of the Company amounts to €380,376,059.67, divided into 134,475,308 ordinary bearer shares with no par value. All shares issued as of the date of the Prospectus are fully paid up (see "*21.1 Share Capital and Shares*").

HRE Holding will make up to 6,589,289 Over-Allotment Shares available to Deutsche Bank ("**Stabilization Manager**") as stabilization manager (for the account of the Underwriters) by way of a share loan to cover potential over-allotments. HRE Holding has also granted the Underwriters the option to purchase up to 6,589,289 existing shares of the Company at the offer price; the final number of shares of the Company to be placed will be determined by the Selling Shareholder jointly with the Joint Global Coordinators on the basis of the purchase orders submitted by investors that have been collated in the order book prepared during the bookbuilding process and after the Offer Period (as defined below) has expired; it is anticipated that this will take place on or about July 15, 2015. See "*5.8 Stabilization Measures, Over-Allotment and Greenshoe Option*".

The Offer Shares carry the same rights as all other shares of the Company and confer no additional rights or benefits. All shares of the Company, including the Offer Shares, are subject to and governed by German corporate law.

The Selling Shareholder will receive the proceeds from the sale of the Existing Shares and the proceeds from a potential sale of Over-Allotment Shares to the extent the Greenshoe Option is exercised (but must pay commission in connection thereto).

5.2 Selling Shareholder

Prior to completion of the Offering, the Company is directly controlled by HRE Holding, which holds 100% of the shares and voting rights in the Company and, resulting therefrom, has the power to govern the financial and operating policies of the Company, including to influence the decisions which the Company will take with respect to the Offering. For an explanation of the shareholder structure of the Group see "*20 Shareholder Structure*". Upon completion of the Offering and assuming full placement of all offered Existing Shares and full exercise of the Greenshoe Option, HRE Holding will hold approximately 20% of the Company's share capital.

5.3 Price Range, Offer Period, Offer Price and Allotment

The price range within which offers to purchase may be submitted ranges from €10.75 to €12.75 per Offer Share ("**Price Range**").

The Offering allows investors to submit purchase offers for the shares of the Company during the offer period which will commence on July 8, 2015 and is expected to end on July 15, 2015 ("**Offer Period**"). On the last day of the Offer Period, purchase offers may be submitted (i) until 12:00 (Central European Summer Time) by retail investors and (ii) until or until about 14:00 (Central European Summer Time) by institutional investors. Purchase orders from retail investors must be expressed in full Euro amounts or increments of 25, 50 or 75 Eurocents. Retail investors may place orders with more than one bank.

The Selling Shareholder reserves the right, after consultation with the Joint Bookrunners, to reduce or increase the number of Offer Shares, to reduce or increase the upper/lower limits of the Price Range and/or to extend or shorten the Offer Period. To the extent that the terms of the Offering are changed, such change will be announced through electronic media, on the Company's website (www.pfandbriefbank.com) and published, if required by the German Securities Trading Act (*Wertpapierhandelsgesetz*) and/or the German Securities Prospectus Act (*Wertpapierprospektgesetz*), as an ad hoc announcement and as a supplement to the Prospectus. Investors who have submitted purchase orders will not, however, be informed individually. Changes to the number of Offer Shares or the Price Range or extension or shortening of the Offer Period will not invalidate purchase orders already submitted. Under the German Securities Prospectus Act (*Wertpapierprospektgesetz*), investors who have submitted a purchase order before a supplement is published are granted a period of two business days from publication of the supplement to withdraw their orders, provided that the new circumstance or material mistake that makes a supplement necessary occurred prior to the final expiration of the Offering and prior to the delivery of the shares. Instead of withdrawing the offers to purchase placed prior to the publication of the supplement, within two days of publication of the supplement, the investor may change such orders or submit new limited or unlimited orders. Under certain conditions the Joint Global Coordinators acting on behalf of the Underwriters may terminate the Underwriting Agreement even after commencement of trading (*Aufnahme des Handels*) of the Company's shares on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (see "*23.4 Termination/Indemnification*").

Once the Offer Period has expired, the final number of Offer Shares and the offer price will be determined jointly by the Selling Shareholder and the Joint Global Coordinators using the order book prepared during the bookbuilding process. This is expected to take place on or about July 15, 2015. The offer price will be set on the basis of the purchase orders submitted by investors during the Offer Period that have been collated in the order book. These orders will be evaluated according to the prices offered and the investment horizons of the respective investors. This method of setting the number of shares that will be placed at the offer price is generally intended to maximize proceeds. Consideration will also be given as to whether the offer price and the number of shares to be placed allows for the reasonable expectation that the share price will demonstrate steady performance in the secondary market given the demand for the Company's shares noted in the order book. Attention will be paid not only to the prices offered by investors and the number of investors wanting shares at a particular price but also to the composition of the group of shareholders in the Company that would result at a given price (so-called investor mix) as well as expected investor behavior. For further information regarding allotment criteria, see "*5.5 Allotment Criteria*". The Company and the Selling Shareholder will not charge investors any expense or taxes incurred in connection with the Offering.

The final number of Offer Shares and the offer price are expected to be published on or about July 15, 2015, by means of an ad hoc announcement in various media distributed across the entire European Economic Area ("*Medienbündel*") and on the Company's website (www.pfandbriefbank.com/investor-relations.html). Investors who have placed purchase orders with one of the Underwriters can obtain information from that Underwriter about the offer price and the number of Offer Shares allotted to them, at the earliest, on the first bank working day following the setting of the offer price. Trading in the Company's shares may commence before investors have received notice of the number of Offer Shares allotted to them. Book-entry delivery of the allotted Offer Shares against payment of the offer price is expected to occur on or about July 20, 2015. Particularly if the placement volume proves insufficient to satisfy all orders placed at the offer price, the Underwriters reserve the right to reject orders, or to accept them in part only.

5.4 Expected Timetable for the Offering

The anticipated timetable for the Offering, which is subject to extension or shortening, is as follows:

July 7, 2015	Approval of the Prospectus by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) ("**BaFin**").
	Notification of the approved Prospectus to the Luxembourg Commission for the Supervision of the Financial Sector (*Commission de Surveillance du Secteur Financier*) ("**CSSF**")
	Publication of the approved Prospectus on the Company's website (www.pfandbriefbank.com/investor-relations.html)
	Commencement of marketing (roadshow)
	Application for the admission to trading filed with the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*)
July 8, 2015	Commencement of the Offer Period
July 15, 2015	Close of the Offer Period for retail investors at 12:00 (Central European Summer Time) and for institutional investors at or at about 14:00 (Central European Summer Time)
	Listing approval issued by the Frankfurt Stock Exchange
	Determination of the offer price and final number of shares allocated; publication of offer price and number of shares placed as an ad hoc announcement in various media distributed across the entire European Economic Area ("*Medienbündel*") and on the Company's website (www.pfandbriefbank.com/investor-relations.html)
July 16, 2015	First day of trading of the Company's shares on the Frankfurt Stock Exchange
July 20, 2015	Book-entry delivery of the Offer Shares against payment of the offer price

The Prospectus and any supplement thereto will be published on the Company's website at www.pfandbriefbank.com/investor-relations.html. In addition, copies of the printed Prospectus and any supplements thereto will be available upon publication free of charge during regular business hours at the offices of the Company (Freisinger Str. 5, 85716 Unterschleißheim, Germany).

5.5 Allotment Criteria

The allotment of shares to retail investors and institutional investors will be decided jointly with the Joint Global Coordinators. The ultimate decision rests with the Selling Shareholder. Allotments will be made on the basis of the quality of the individual orders and – in the case of institutional investors – the quality of the individual investors, as well as other important allotment criteria, for example the timing of the order, to be determined after consultation with the Joint Global Coordinators. The Selling Shareholder and the Underwriters will adhere to the "Principles for the Allotment of Share Issues to Private Investors" (*Grundsätze für die Zuteilung von Aktienemissionen an Privatanleger*) issued on June 7, 2000 by the German Commission of Stock Exchange Experts (*Börsensachverständigenkommission*) of the German Federal Ministry of Finance (*Bundesministerium der Finanzen*). "Qualified investors" (*qualifizierte Anleger*) under the German Securities Prospectus Act (*Wertpapierprospektgesetz*), "professional clients" (*professionelle Kunden*) and "suitable counterparties" (*geeignete Gegenparteien*), in each case under the German Securities Trading Act (*Wertpapierhandelsgesetz*), are not viewed as "private investors" within the meaning of the allotment rules. The details of the allotment procedure will be stipulated after expiration of the Offer Period and published in accordance with the allotment principles. The allotment process will be in line with the EU State Aid Decision and, thus, open, transparent and non-discriminatory. For further information regarding the decision, see "*14.2.3 Approval of State Aid Measures by the European Commission; Conditions*".

5.6 Stock Exchange Admission and Commencement of Trading

The Company expects to apply for admission of its shares to trading on the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange and, simultaneously, on the sub-segment thereof with additional post-admission obligations (Prime Standard) on or about July 7, 2015.

The decision on the admission of the shares of the Company is expected to be announced on or about July 15, 2015. The decision on the admission of the Company's shares to trading will be made solely by the Frankfurt Stock Exchange at its discretion. Trading of the shares of the Company on the Frankfurt Stock Exchange is expected to commence on or about July 16, 2015.

5.7 Delivery and Payment

Delivery of the Offer Shares against payment of the offer price and customary security commissions (*Effektenprovision*) is expected to take place on the second bank working day after listing commences, i.e. on or about July 20, 2015. The shares will be made available to shareholders as co-ownership interests in the global share certificate.

At their discretion, investors may choose to have shares they acquire in the Offering credited to the securities account of a bank held for their account at Clearstream Banking Aktiengesellschaft, Mergenthalerallee 61, 65760 Eschborn, Germany, or to the securities account of a participant in Euroclear Bank S.A./N.V., 1, Boulevard Roi Albert II, 1120 Brussels, Belgium, as the operator of the Euroclear system, or to Clearstream Banking S.A., 42 Avenue JF Kennedy, 1855 Luxembourg, Luxembourg.

5.8 Stabilization Measures, Over-Allotment and Greenshoe Option

In connection with the placement of the Offer Shares, the Stabilization Manager or persons acting on its behalf will act on behalf of the Underwriters and after consultation with the other Joint Global Coordinator and may, acting in accordance with legal requirements (Section 20a(3) German Securities Trading Act (*Wertpapierhandelsgesetz*) in conjunction with EU Commission Regulation (EC) 2273/2003 of December 22, 2003), make over-allotments and take stabilization measures to support the market price of the shares of the Company and thereby counteract any selling pressure.

The Stabilization Manager is under no obligation to take any stabilization measures. Therefore, no assurance can be provided that any stabilization measures will be taken. Where stabilization measures are taken, these may be terminated at any time without notice. Such measures may be taken from the date the shares of the Company are listed on the regulated market of the Frankfurt Stock Exchange and must be terminated no later than 30 calendar days after this date (the "**Stabilization Period**").

These measures may result in a market price for shares of the Company that is higher than it would otherwise have been. Moreover, the market price may, temporarily, be at an unsustainable level.

Under the possible stabilization measures, investors may be allotted up to 6,589,289 additional shares in the Company (Over-Allotment Shares) as part of the allotment of the shares to be placed. In connection with a potential over-allotment, the Stabilization Manager will be provided for the account of the Underwriters in the form of a securities loan (*Wertpapierdarlehen*) with up to 6,589,289 shares of HRE Holding; this number of shares will not exceed 15% of the number of Offer Shares excluding any over-allotment. In connection with a potential over-allotment, HRE Holding has granted the Underwriters an option to acquire the borrowed shares against payment of the offer price less agreed commissions ("**Greenshoe Option**"). The Greenshoe Option may be exercised at maximum to the extent that shares of the Company have been placed by way of over-allotment; such amount of Company's shares is to be reduced by the number of Company's shares held by the Stabilization Manager as of the date on which the Greenshoe Option is exercised and that were acquired by the Stabilization Manager in the context of stabilization measures. The Greenshoe Option shall be exercisable by Deutsche Bank acting as stabilization manager on behalf of the Joint Global Coordinators or Underwriters and in coordination/agreement with the Joint Global Coordinators and will terminate 30 calendar days after commencement of the stock exchange trading of the shares.

Once the Stabilization Period has ended, an announcement will be made within one week in various media distributed across the entire European Economic Area ("*Medienbündel*") as to whether stabilization measures were taken, when price stabilization started and finished, and the Price Range

within which stabilization was taken; the latter will be made known for each occasion on which price stabilization measures were taken. Exercise of the Greenshoe Option, the timing of exercise and the number and type of shares concerned will also be announced promptly in the manner previously stated.

5.9 Lock-Up Agreements

5.9.1 Lock-Up of the Company

In the underwriting agreement between the Company, the Selling Shareholder and each of the Underwriters dated on or about June 26, 2015 (the "**Underwriting Agreement**"), the Company has committed to an obligation vis-à-vis the Underwriters in accordance with the relevant provisions of German securities law that it will not, without the prior written consent of the Joint Global Coordinators, during the period commencing on the date of the Underwriting Agreement and ending 180 days after the date of the first day of trading of the shares of the Company on the Frankfurt Stock Exchange:

a) announce or effect an increase of the share capital of the Company out of any authorized capital;

b) submit a proposal for a capital increase to any meeting of the shareholders for resolution;

c) announce, effect or propose the issue of securities with conversion of option rights on shares of the Company; and

d) enter into a transaction or perform any action economically similar to those described in (a) through (c) above.

The Company may, however, issue or sell shares or other securities to employees and members of executive bodies of the Company or its subsidiaries under management participation plans.

5.9.2 Lock-Up of the Selling Shareholder

In the Underwriting Agreement, HRE Holding has committed, *inter alia*, to an obligation vis-à-vis the Underwriters that it will not, and will not agree to, without the prior written consent of the Joint Global Coordinators, during the period commencing on the date of the Underwriting Agreement and ending 180 days after the date of the first day of trading of the shares of the Company on the Frankfurt Stock Exchange except for (i) transactions among the Selling Shareholder and any affiliate of the Selling Shareholder, such affiliate assuming towards the Underwriters the same obligation as the Selling Shareholder for the then remaining part of the lock-up period of the Selling Shareholder or (ii) in connection with the acceptance by the Selling Shareholder of a public takeover bid for the Company:

a) offer, pledge, allot, distribute, sell, contract to sell, sell any option or contract to purchase, purchase any option to sell, grant any option, right or warrant to purchase, transfer or otherwise dispose of, directly or indirectly, any shares of the Company;

b) cause or approve, directly or indirectly, the announcement, execution or proposal of any issuance of any securities convertible into or exercisable or exchangeable for shares of the Company,

c) enter into any swap or other arrangement that transfers to another, in whole or in part, the economic risk of ownership of shares of the Company,

whether any such transaction described in clause (a) to (c) above is to be settled by delivery of shares of the Company or such other securities, in cash or otherwise,

d) make any demand for or exercise any right with respect to, the registration under U.S. securities laws of any shares of the Company or any security convertible into or exercisable or exchangeable for shares of the Company,

e) cause or approve, directly or indirectly, the announcement, execution or implementation of any increase in the share capital of the Company or a direct or indirect placement of shares of the Company;

f) propose, directly or indirectly, any increase in the share capital of the Company to any meetings of the shareholders for resolution, vote in favor of such a proposed increase or vote in favor of any other capital increase proposed with respect to the Company; or

g) enter into a transaction or perform any action economically similar to those described in (a) through (f) above.

In addition to the lock-up commitment of the Selling Shareholder in the Underwriting Agreement as outlined above, HRE Holding, the Company, FMS and FMSA entered into a lock-up agreement (the "**HRE Lock-up Agreement**") on or about June 26, 2015. The HRE Lock-up Agreement contains a lock-up commitment, subject to certain exceptions, of HRE Holding vis-à-vis the Company in respect of shares in the Company with a lock-up period of two years after the first day of trading of the shares of the Company on the Frankfurt Stock Exchange and a lock-up threshold of 24.9% (or, if the Greenshoe Option has been exercised, the percentage of HRE's shareholding in the Company immediately after the exercise of the Greenshoe Option, but in any event a threshold of at least 20.0%) of the registered share capital of the Company from time to time (for details on this agreement see "*15.11.5 HRE Lock-up-Agreement*".

5.10 Designated Sponsor

Deutsche Bank has agreed to assume the function of a designated sponsor of the Company's shares traded on the Frankfurt Stock Exchange for a period of at least one year. Pursuant to the designated sponsor's agreement expected to be entered into by the Company and Deutsche Bank, the designated sponsor will, among other things, place limited buy and sell orders for shares in the electronic trading system of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) during regular trading hours. This is intended to achieve greater liquidity in the market for the shares. In accordance with Sections 76 and 77 Exchange Rules (*Börsenordnung*) for the Frankfurt Stock Exchange, the designated sponsor's agreement stipulates the duties and responsibilities of the designated sponsor. Among other things, the designated sponsor shall be available at all times during trading hours and, upon receipt of a request for a quote, shall promptly supply quotes and enter into transactions on such basis. In addition, the designated sponsor shall provide quotes throughout the auction.

5.11 Information on the Offer Shares

5.11.1 Voting Rights

Each of the Offer Shares entitles the shareholder to one vote at the general shareholders' meeting of the Company. There are no restrictions on voting rights. Voting rights are the same for all of the Company's shareholders.

5.11.2 Dividend Rights and Share in Liquidation Proceeds

The Offer Shares carry full dividend rights as from January 1, 2015. In the event of the Company's liquidation, the Company's assets remaining after satisfaction of all liabilities of the Company will be distributed to the shareholders in proportion to their interest in the Company's share capital.

5.11.3 Form and Representation of the Shares

The current Articles of Association of the Company provide for all shares in the Company to be issued as ordinary bearer shares with no par value (*Stückaktien*). The shares of the Company will initially be represented by one global share certificate without dividend coupons which will be issued and deposited with Clearstream Banking Aktiengesellschaft, Mergenthalerallee 61, 65760 Eschborn, Germany subsequently to the approval of the Prospectus.

Section 5(1) sentence 2 of the Articles of Association excludes shareholders' rights to individual share certificates, unless otherwise required by the rules of a stock exchange to which the shares are admitted. Pursuant to section 5(1) sentence 1 of the Articles of Association, certificates that represent multiple shares (global certificates) may be issued. The form of the share certificates, dividend coupons and renewal coupons (if any) is determined by the Company's Management Board.

5.11.4 ISIN, WKN, Common Code and Trading Symbol

International Securities Identification Number (ISIN)	DE0008019001
German Securities Code (*Wertpapier-Kenn-Nummer*) (WKN)	801 900
Common Code	001118463
Trading Symbol	PBB

5.11.5 Transferability of the Shares

The shares are freely transferable in accordance with the legal requirements for ordinary bearer shares. There are no restrictions on the transferability of the Company's shares other than the lock-up agreements (see "*5.9 Lock-Up Agreements*") and the Underwriters' selling restrictions (see "*23.5 Selling Restrictions*"). See also "*5.11.5 Transferability of the Shares*".

5.12 Interests of Parties Participating in the Offering

In connection with the Offering and admission to trading of the Company's shares, the Underwriters have entered into a contractual relationship with the Company and the Selling Shareholders. The Underwriters act for the Company and the Selling Shareholder on the Offering and coordinate the structuring and execution of the Offering.

In addition, Citigroup and Deutsche Bank are acting as Joint Global Coordinators and Joint Bookrunners in this Offering. J.P. Morgan, Berenberg and Commerzbank have been appointed as additional Joint Bookrunners. In addition, Deutsche Bank has been appointed as designated sponsor for the shares. Deutsche Bank has been appointed as paying agent. The Underwriters will receive a commission and other payments upon successful completion of the Offering. The amount of the commission will depend on the size of the Offering and the offer price. The Underwriters therefore have an interest that as many shares as possible are placed at the highest price possible. Deutsche Bank will only receive fees as designated sponsor or paying agent if the Offering is completed.

The Joint Bookrunners and their affiliates have provided and may in the future, from time to time, provide services to companies of the Group and/or the Selling Shareholder in the ordinary course of business in their capacity as financial institutions, in particular advisory services in connection with M&A and financing transactions. They may at any time in the future act as principal or agent for one or more than one party, hold long or short positions, and may trade or otherwise effect transactions, for their own account or the accounts of customers, in debt or equity securities or loans of the pbb Group.

In the event of a successful Offering the other Underwriters may also be selected as financial advisor in future transactions or act as lender or arranger of future financing transactions or trade for their own account or the accounts of customers, in debt or equity securities or loans of pbb Group.

Furthermore, in connection with the Offering, each of the Underwriters and any of their respective affiliates, acting as an investor for their own account, may acquire shares in the Offering and in that capacity may retain, purchase or sell for its own account such shares or related investments and may offer or sell such shares or other investments otherwise than in connection with the Offering. In addition, certain of the Underwriters or their affiliates may enter into financing arrangements (including swaps or contracts for differences) with investors in connection with which Underwriters (or their affiliates) may from time to time acquire, hold or dispose of shares in the Company.

As of the date of the Prospectus, HRE Holding is the direct shareholder of the Company and as such has an influence on the decisions which the Company will take with respect to the Offering. HRE Holding will receive the proceeds resulting from the Offering. Consequently, HRE Holding and its sole shareholder FMS have an interest in the success of the Offering on the best possible terms.

6 REASONS FOR THE OFFERING, USE OF PROCEEDS AND COSTS OF THE OFFERING

6.1 Proceeds and Costs of the Offering

The Company will not receive any proceeds from the Offering. The total costs and expenses from the Offering and listing are expected to be approximately €28 million (net) which will be borne by the Selling Shareholder.

The Selling Shareholder will receive the proceeds resulting from the sale of the Existing Shares and the proceeds resulting from a potential sale of Over-Allotment Shares to the extent the Greenshoe Option is exercised.

The amount of the proceeds of the Offering as well as the costs related to the Offering depend on the offer price, which also determines the Underwriters' commissions, and on the number of shares that will be placed in the Offering.

The Company estimates that at the low end, mid-point and high end of the Price Range , gross proceeds to the Selling Shareholder (assuming placement of the maximum number of Existing Shares and assuming full exercise of the Greenshoe Option) would amount to approximately €1,156 million (low end), €1,264 million (mid-point) and €1,372 million (high end), respectively.

Assuming an offer price at the low end, mid-point and high end of the Price Range, and that the maximum number of Existing Shares is placed (and the Greenshoe Option has been fully exercised), and assuming further payment in full of the discretionary fee of up to €2.9 million (low end), €3.2 million (mid-point) and €3.4 million (high end), respectively, the commission payable to the Underwriters will amount to €14.5 million, €15.8 million and €17.1 million, respectively.

Assuming an offer price at the low end, mid-point and high end of the Price Range, and that the maximum number of Existing Shares is placed (and the Greenshoe Option has been fully exercised), the Company estimates that at the low end, mid-point and high end of the Price Range, net proceeds for the Selling Shareholder would amount to approximately €1,114 million, €1,220 million and €1,327 million, respectively.

Investors will not be charged with expenses by the Company, the Selling Shareholder or the Underwriters in connection with their role as underwriters.

6.2 Reasons for the Offering and the Listing; Use of Proceeds

As of the date of the Prospectus, the Selling Shareholder, Hypo Real Estate Holding AG, holds directly 100% of the registered share capital of the Company. The Selling Shareholder intends to sell up to 80.00% of the share capital in the Company in the context of the Offering in an open, transparent and non-discriminatory process, in accordance with the EU State Aid Decision, which required the Federal Republic of Germany to reprivatize pbb Group by the end of 2015. For further information on the decision, see "*14.2.3 Approval of State Aid Measures by the European Commission; Conditions*".

The Company also intends to achieve better access to the capital markets due to the planned listing of its shares on the regulated market segment of the Frankfurt Stock Exchange and, simultaneously, on the sub-segment thereof with additional post-admission obligations (Prime Standard).

The Company will not receive any proceeds from the Offering.

7 DIVIDEND POLICY

7.1 General Rules on Allocation of Profits and Dividend Payments

Shareholders have a share in the Company's distributable profits determined in proportion to their interest in the Company's share capital. The participation of new shares in the profits may be determined in a different manner.

Distributions of dividends on shares for a given financial year are generally determined by a process in which the Management Board and the Supervisory Board submit a proposal for the distribution of dividends to the annual general shareholders' meeting held within the first eight months of the subsequent financial year. The general shareholders' meeting then adopts a resolution on such distribution with simple majority of the votes cast without being bound by the proposal of the Management Board and the Supervisory Board. Under German law, dividends can only be resolved upon and paid if the unconsolidated financial statements of the Company show distributable profits (*Bilanzgewinn*). The distributable profit is calculated based on the Company's annual unconsolidated financial statements prepared in accordance with HGB. In contrast to the Company's consolidated financial statements, which are prepared in accordance with IFRS as adopted by the European Union, the annual unconsolidated financial statements are prepared in accordance with the accounting principles of the HGB and other applicable German law ("**German GAAP**"). These accounting regulations differ from IFRS in material respects. The unconsolidated financial statements of the Company are approved by the Management Board and the Supervisory Board unless the Management Board and the Supervisory Board refer the approval to the general shareholders' meeting. In determining the distributable profits, the profit or loss for the financial year (*Jahresüberschuss/-fehlbetrag*) is adjusted for profits or losses carried forward (*Gewinn-/Verlustvorträge*) from previous financial years as well as for withdrawals from and transfers to reserves. Certain reserves are required to be set by law and amounts mandatorily allocated to these reserves in the given financial year must be deducted when calculating the distributable profit. Subject to certain statutory restrictions, the general shareholders' meeting is entitled to transfer additional amounts to the reserves or carry them forward. The Management Board must prepare unconsolidated financial statements (balance sheet, income statement and notes to the unconsolidated financial statements) and a management report for the previous fiscal year by the statutory deadline and present these to the Supervisory Board and the auditors immediately after preparation. At the same time, the Management Board must present to the Supervisory Board a proposal for the allocation of the Company's distributable profits pursuant to Section 170 German Stock Corporation Act (*Aktiengesetz*, "**AktG**"). The Supervisory Board must review the unconsolidated financial statements, the Management Board's management report and the proposal for the allocation of the distributable profit and report to the general shareholders' meeting in writing on the results. Pursuant to the Company's Articles of Association and subject to applicable statutory law, the general shareholders' meeting may resolve to pay dividends in kind (*Sachdividende*) in accordance with Section 58(5) German Stock Corporation Act (*Aktiengesetz*) in addition to or in lieu of a cash distribution. If the Management Board and the Supervisory Board approve the unconsolidated financial statements, they may, pursuant to Section 58(2) German Stock Corporation Act (*Aktiengesetz*), transfer (up to) 50% of the profit for the financial year remaining after deducting any transfers to statutory reserves and any losses carried forward to non-statutory reserves.

Dividends resolved by the general shareholders' meeting are due and payable immediately after the relevant general shareholders' meeting, unless otherwise provided in the dividend resolution, in compliance with the rules of the respective clearing system. Under German law, the right to dividend payments is generally time-barred after three years for the benefit of the Company.

The Offer Shares will be entitled to profit participation as of January 1, 2015, i.e. for the full financial year 2015 and for all subsequent financial years. The dividends will be paid out in accordance with the rules of the clearing system of Clearstream Banking Aktiengesellschaft, Mergenthalerallee 61, 65760 Eschborn, Germany. Details on dividend payments and the respective payment agent will be published in the German Federal Gazette (*Bundesanzeiger*) after the general shareholders' meeting. Neither German law nor the Company's Articles of Association provide for a special procedure for the exercise of dividend rights by shareholders not resident in Germany.

Generally, withholding tax (*Kapitalertragsteuer*) is withheld from dividends paid. For more information on the taxation of dividends see "*24.2.2 Taxation of Dividends*" and "*25.1 Taxation of Income Derived from, and Capital Gains Realized on, the Company's Shares by Luxembourg Resident Taxpayers*" *and* "*25.2 Taxation of Income Derived from, and Capital Gains Realized on, the Company's Shares by Luxembourg Non-Resident Taxpayers*".

7.2 Dividend Policy and Earnings per Share

The Company's ability and intention to pay dividends in the future will depend on its financial position, results of operations, capital requirements, investment alternatives and other factors that the Management Board and Supervisory Board may deem relevant, and any proposals by the Management Board and Supervisory Board regarding dividend payments will be subject to the approval at the general shareholders' meeting. The Company expects that the principal source of funds for the payment of dividends, if any, will be interest and similar income generated by it as well as dividends and other payments received from its current and future subsidiaries. The determination of each subsidiary's ability to pay dividends is made in accordance with applicable law. The Company's future dividend policy targets a distribution of between 40% and 50% of consolidated net income determined in accordance with IFRS in a given financial year as dividends assuming that the payment of such dividends is consistent with its long-term and sustainable business development and compliant with regulatory restrictions or proposals. For these purposes, the percentage calculation may take into account certain exceptional non-cash effects within income. However, being a stock corporation under German law, the Company's ability to pay dividends in future years will depend on the amount of distributable balance sheet profits pursuant to the German GAAP in a given financial year. The Company can provide no assurance regarding the amounts of future balance sheet profits, if any, and consequently, the Company can provide no assurance that it will pay dividends in future years. Moreover, the Company's results of operations set out in the consolidated financial statements and interim consolidated financial statements, respectively, may not be indicative of the amounts of future dividend payments. In the light of its operating performance as of the date of the Prospectus, the Company intends to propose a pro-rata dividend payment for the financial year 2015.

The table below sets forth the net income (loss) of the Company for the financial years 2012, 2013 and 2014 (according to the Audited Unconsolidated Financial Statements) as well as the earnings and dividends paid per share.

	2012	2013	2014
Net income (audited) (in € million)	28.637	-52.785	159.252
Earnings per share* (in €)	0.21	-0.39	1.18
Dividends paid per share (in €)	–	–	–

* Earnings per share are calculated by dividing the net income (loss) showed above by the total number of ordinary bearer shares (134,475,308).

7.3 EU Restrictions and Repayment of SoFFin Silent Participation

On July 18, 2011, the European Commission approved the EU State Aid Decision, for further details see "*14.2.3 Approval of State Aid Measures by the European Commission; Conditions*"). Pursuant to the EU State Aid Decision, the German state had to ensure that (i) the full amount of the relevant annual net profit after tax of the Company will be offset against the net loss, (ii) until re-privatization of the Company, no decision will be taken which offsets the net loss against the uncommitted reserves (*freie Rücklagen*), with the aim of establishing profit distribution capability, (iii) this profit distribution capability will be restored only in the context of a re-privatization, with the result that profits will be retained by appropriation (*Zuführung der thesaurierten Gewinne*) to the SoFFin Silent Participation with a nominal value of €1.0 billion and subsequent repayment of the SoFFin Silent Participation, and (iv) until full repayment of the SoFFin Silent Participation, no dividend payments and no coupon payments which are not required by law will be made.

These restrictions will fall away as a result of the repayment of the SoFFin Silent Participation and the re-privatization by completion of the Offering. As the SoFFin Silent Participation has been repaid on July 6, 2015 (see "*15.11.4 Agreement on the Repayment of the SoFFin Silent Participation*" for further details), the Company is no longer restricted in restoring its profit distribution capability and paying out dividends, subject to the general rules on allocation of profits and dividend payments and the dividend policy as set out above.

The repayment of the SoFFin Silent Participation has been made *at par* based on a repayment agreement between the Company and FMS dated July 3, 2015. As the SoFFin Silent Participation had been subject to write-downs to absorb losses in previous financial years, it had, prior to the repayment agreement, a book value of €92 million in accordance with German GAAP. Therefore, the repayment agreement has used up capital of the Company in the amount of €908 million. The capital needed has been taken from the additional paid-in capital (*Kapitalrücklage*) pursuant to Section 272(2) no. 4 HGB.

This appropriation of capital is in general possible at any time during the financial year. The write-up of the SoFFin Silent Participation to the nominal value of €1.0 billion due to the repayment agreement is not an expense under German GAAP but has used the additional paid-in capital (*Kapitalrücklagen*) pursuant to Section 272(2) no. 4 HGB in the amount of €908 million. Both the write-up of the SoFFin Silent Participation as well as the withdrawal of the additional paid-in capital are reflected in the reconciliation in accordance with Section 158(1) AktG and are off-set by these matching bookings. Consequently, the repayment agreement has reduced the equity of the Company (*Eigenkapital*) by €1.0 billion under German GAAP.

As already set out above, dividends can only be resolved upon and paid if the unconsolidated financial statements of the Company show distributable profits (*Bilanzgewinn*) (see "*7.1 General Rules on Allocation of Profits and Dividend Payments*"). In its unconsolidated financial statements for the financial year ended December 31, 2014, the Company used €1,771 million of additional paid-in capital in accordance with Section 272(2) nos. 1 through 3 HGB to reduce the unappropriated retained loss (*Bilanzverlust*). As of December 31, 2014, the additional paid-in capital (*Kapitalrücklage*) of the Company amounted to €3,267 million (of which €25 million are not distributable as part of the statutory reserve) and its retained earnings (*Gewinnrücklage*) amounted to €279 million (of which €13 million are not distributable as part of the statutory reserve). Dividends can only be resolved upon and paid after the unappropriated retained loss (*Bilanzverlust*) (as of December 31, 2014, €1,382 million) has been booked against the reserves. Assuming the repayment of the SoFFin Silent Participation at par had been effected prior to December 31, 2014, the Company's additional paid-in capital and retained earnings as of December 31, 2014 would have amounted to €2.6 billion, thus exceeding the unappropriated retained loss as of December 31, 2014 by €1.2 billion.

Subsequent to these bookings in connection with the repayment of the SoFFin Silent Participation, the remaining distributable reserves can in general be used following a withdrawal from the additional paid-in capital pursuant to Section 272(2) no. 4 HGB (*Entnahme aus der Kapitalrücklage*) for off-setting the unappropriate retained loss as of December 31, 2014 and for generating a balance sheet profit (*Bilanzgewinn*) which can be used for dividend payments, subject to the general rules on allocation of profits and dividend payments and the dividend policy as set out above as well as restrictions flowing from regulatory requirements (see also "*3.2.4 pbb Group may continue to be required to maintain capital ratios in excess of own funds requirements (Pillar 1), in particular in respect of SREP Decisions and other Pillar 2 requirements*.", "*3.2.5 Regulatory constraints may negatively affect the ability of the Company to pay dividends*." and "*3.4.5 The Company may not pay dividends in future financial years, be it because it does not generate any balance sheet profit available for distribution, limitations under applicable law and regulations or for other reasons*.".

The reduction of the equity of the Company (*Eigenkapital*) by €1.0 billion under German GAAP as a result of the repayment of the SoFFin Silent Participation at par has led to a decrease of the regulatory capital of the Company on an individual basis (solo). The Company will not be required to report and maintain regulatory capital ratios on a solo basis prior to completion of the Offering. Therefore, this decrease will be relevant only thereafter. The Company expects that the regulatory capital ratios of the Company on a solo basis, namely regarding CET 1 and own funds, would not fall below the required regulatory minimum ratios. This assessment is based on an internal calculation on a simulated basis, being based on figures as of March 31, 2015 and the applicable transitional rules under the CRR. For this simulation, own estimates of the Company on the basis of non-German GAAP figures combined with IFRS figures have been used. In particular, in deviation from the regulatory requirements applicable to the determination of capital ratios on a solo basis, the underlying risk weighted assets have been determined on the basis of IFRS (instead of German GAAP) for this purpose.

The repayment of the SoFFin Silent Participation will further affect the tax base as this is determined generally on the basis of German GAAP (subject to adjustments of tax purposes). For tax purposes, the SoFFin Silent Participation qualifies as a debt instrument. As it has been written-down to €92 million for loss-absorptions in previous financial years, the Company expects that, in the financial year 2015, the reinstatement (*Wiederauffüllung*) to the nominal value in connection with the repayment at par will lead to an extraordinary taxable loss in 2015. This tax loss is expected to lead to a negative tax base of the Company for 2015 and in addition to an increase of its tax loss carry forwards that may be used in the future. The tax base of the Company is in general subject to German corporate income tax and trade tax at a combined statutory tax rate which, as of December 31, 2014 amounted to 27.67%.The combined tax rate has also been used for calculations as of March 31, 2015. However, the combined tax rate as of December 31, 2015 may vary as the final calculation of the combined tax rate can only be performed as of December 31, 2015. When calculating the effective tax burden as of

March 31, 2015, the repayment of the SoFFin Silent Participation was not taken into account. Considering the repayment of the SoFFin Silent Participation, the current tax obligation for the year 2015 in Germany would be reduced to zero. Thus, the relevant provision so far booked for current tax payments in 2015 in Germany could then be released. However, if and to the extent tax loss carry forwards can be utilized in future financial years, only 40% of the relevant tax base would be subject to the respective current combined tax rate of 27.67% while 60% of the relevant tax base would be off-set against such tax loss carry forwards. The aforementioned utilization of tax loss carry forwards would translate into an effective tax burden at a rate of approximately 11% on the tax base of the relevant future financial year. See, however, "*3.3.5 pbb Group may lose tax losses and tax loss carry forwards in connection with the Offering, which would result in a higher effective tax rate and a loss of deferred tax assets, and could negatively affect the Company's ability to pay dividends.*".

Furthermore, the repayment of the SoFFin Silent Participation could potentially result in additional funding costs to the extent that a refinancing is required.

8 CAPITALIZATION AND INDEBTEDNESS

Investors should read the tables in this section in conjunction with "*10 Selected Financial and Business Information*", "*11 Management's Discussion and Analysis of Net Assets, Financial Position and Results of Operations*", the Unaudited Interim Condensed Consolidated Financial Statements and the Audited Consolidated Financial Statements, including the notes thereto, which are presented in the "*Financial Information*" section.

8.1 Capitalization

The Offering does not involve the issuance of new shares by the Company and the Company will not receive any cash proceeds from the Offering. The Offering will have no effect on the Company's capitalization as reflected below.

The following table sets forth an overview of pbb Group's capitalization as of May 31, 2015 derived from the Unaudited Interim Condensed Consolidated Financial Statements and the Company's accounting records prior to the implementation of the Offering and the repayment of the SoFFin Silent Participation of €1.0 billion (which has occurred on July 6, 2015). The table does not comprise contingent liabilities. Not included either are negative fair values of derivative financial instruments disclosed in trading liabilities and other liabilities, provisions, accruals and other non-financial liabilities disclosed in other liabilities as well as income tax liabilities.

	As of May 31, 2015 (unaudited) (in € million)
Total current debt	**13,033**
Guaranteed[1)]	–
Secured[2)]	5,828
Unguaranteed/Unsecured	7,205
Total non-current debt	**46,758**
Guaranteed[1)]	–
Secured[2)]	33,372
Unguaranteed/Unsecured	13,386
Shareholders' Equity	**3,569[3)]**
Share capital	380
Capital reserve	3,265
Retained earnings	-1,163
Consolidated profit/loss	79
Legal reserve	13
Other reserves	995
Total	**63,360[3)]**

1) No guaranteed debt existed.
2) Current debt secured comprises Pfandbriefe (€5,827 million) and repurchase agreements (€1 million); non-current debt secured comprises Pfandbriefe (€33,122 million) and repurchase agreements (€250 million).
3) Considering the repayment of the SoFFin Silent Participation (which has occurred on July 6, 2015), the shareholder's equity would amount to €2,569 million and the total equity and liabilities (capitalization) would amount to €62,360 million.

8.2 Net Financial Indebtedness

The following table shows an overview of pbb Group's net financial indebtedness as of May 31, 2015 derived from the Unaudited Interim Condensed Consolidated Financial Statements and the Company's accounting records prior to the implementation of the Offering and the repayment of the SoFFin Silent Participation of €1.0 billion (which has occurred on July 6, 2015).

	As of May 31, 2015 (unaudited) (in € million)
A. Cash[1)]	–
B. Cash equivalents[2)]	27
C. Trading securities[3)]	–
D. Total liquidity (A + B + C)	**27**
E. Current financial receivables[4)]	**11,661**
F. Current bank debt[5)]	1,805
G. Current portion of non-current debt[6)]	7,407
H. Other current financial debt[7)]	3,821
I. Current financial debt (F + G + H)	**13,033**
J. Net current financial indebtedness (I – E – D)	**1,345**
K. Non-current bank loans[8)]	-100
L. Bonds issued[9)]	24,243
M. Other non-current loans[10)]	-29,122
N. Non-current financial indebtedness (K + L + M)	**-4,979**
O. Net financial indebtedness (J + N)	**-3,634**

1) Cash recognized in cash reserve amounted to €6,475.
2) Balances with central banks disclosed in cash reserve.
3) No securities disclosed in cash reserve.
4) Total of (i) loans and advances to other banks with maturities up to one year excluding allowances for losses on loans and advances, (ii) loans and advances to customers with maturities up to one year excluding allowances for losses on loans and advances, and (iii) debt securities, disclosed in financial investments with maturities up to one year including portfolio-based allowances.
5) Liabilities to other banks with maturities up to one year.
6) Total of (i) securitized liabilities with maturities up to one year and (ii) subordinated liabilities and hybrid capital instruments disclosed in subordinated capital with maturities up to one year.
7) Total of (i) liabilities to customers with maturities up to one year and (ii) other financial liabilities recognized in other liabilities.
8) Balance of (i) liabilities to other banks with maturities of more than one year, deducted by (ii) loans and advances to other banks with maturities of more than one year.
9) Balance of (i) securitized liabilities with maturities of more than one year, deducted by (ii) debt securities recognized in financial investments with maturities of more than one year including portfolio-based allowances.
10) Total of (i) liabilities to customers with maturities of more than one year and (ii) subordinated liabilities and hybrid capital instruments disclosed in subordinated capital with maturities of more than one year, deducted by (iii) loans and advances to customers with maturities of more than one year.

8.2.1 Indirect and contingent indebtedness

As of March 31, 2015, indirect and contingent indebtedness amounted to a total of €2,446 million, comprising €239 million with maturities up to one year and €2,207 million with maturities of more than one year. Of the total indirect and contingent indebtedness, guarantees and indemnity agreements amounted to €142 million (comprising performance guarantees and indemnities) while irrevocable loan commitments amounted to €2,304 million (comprising guarantees amounting to €20 million and irrevocable loan commitments concerning mortgage and public sector loans amounting to €2,284 million).

8.2.2 Working capital statement

The Company believes that pbb Group has sufficient working capital to meet its present requirements. Furthermore, the Company believes that pbb Group is able to meet its payment obligations that become due within a minimum of twelve months following the date of the Prospectus.

8.2.3 No significant change

Between March 31, 2015 and the date of the Prospectus, there have been no significant changes in the Group's financial or trading position. For information on management's view on full year trends, see "*Recent Developments and Outlook*".

9 DILUTION

As the Offering comprises only existing shares of the Company, it will not lead to any dilution as is potentially the case in connection with a capital increase.

The net asset value of pbb Group according to IFRS amounted to €3,569 million as of May 31, 2015. The net asset value is the difference between total assets, which amounted to €71,215 million, and total current and non-current liabilities, which amounted to €67,646 million, in each case as of May 31, 2015. This corresponds to €26.54 per share of the Company (calculated on the basis of the currently existing 134,475,308 shares of the Company).

Assuming the repayment of the SoFFin Silent Participation with a nominal value of €1.0 billion at par had occurred prior to May 31, 2015, the net asset value of pbb Group according to IFRS would have amounted to €2,569 million as of May 31, 2015. This would correspond to €19.11 per share of the Company (calculated on the basis of the currently existing 134,475,308 shares of the Company).

10 SELECTED FINANCIAL AND BUSINESS INFORMATION

The following selected historical financial and business information of the Group for the financial years ended December 31, 2014, 2013 and 2012 is based on the Audited Consolidated Financial Statements, the Company's accounting records and its management reporting. The Audited Consolidated Financial Statements as of and for the financial years ended December 31, 2014, 2013, and 2012 were prepared in accordance with IFRS as adopted by the European Union. They have been audited in accordance with Section 317 of the German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements, which are promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer), by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, through its Munich branch (KPMG), who issued an unqualified audit opinion thereon.

The financial information as of and for the three-month periods ended March 31, 2015 and 2014 contained in this section and elsewhere in the Prospectus is based on the Unaudited Interim Condensed Financial Statements, the Company's accounting records and its management reporting. The Unaudited Interim Condensed Financial Statements were prepared in accordance with IFRS applicable to interim financial reporting (IAS 34) as adopted by the European Union.

The Company information shown here should be read in conjunction with the Audited Consolidated Financial Statements and the Unaudited Interim Condensed Financial Statements, contained in the financial section of the Prospectus including the explanatory notes thereto, and in conjunction with the sections "Risk Factors", "Management's Discussion and Analysis of Net Assets, Financial Position and Results of Operations" and "Business". See also "4.6 Note on Currency and Financial Information" for further information on the financial statements.

Due to the adoption of IFRS 10 for the first time in the financial year 2014, financial information for the financial year 2013 contained in the Audited Consolidated Financial Statements for the financial year 2014 have been adjusted retrospectively to IFRS 10. Financial information for the financial year 2013 therefore deviates in the Audited Consolidated Financial Statements for the financial year 2014 compared to the Audited Consolidated Financial Statements for the financial year 2013. In the Prospectus, financial information for the financial year 2013 was taken from the Audited Consolidated Financial Statements for the financial year 2014 unless indicated otherwise. Financial information for the financial year 2012 was taken from the Audited Consolidated Financial Statements for the financial year 2013 unless indicated otherwise.

In the Prospectus, where financial information for pbb Group is labeled "audited", this information was taken from the Audited Consolidated Financial Statements of the pbb Group, as of and for the financial years ended December 31, 2014, 2013 and 2012. The label "unaudited" is used in the Prospectus to indicate financial information that was taken or derived from the Unaudited Interim Condensed Financial Statements, or from pbb Group's accounting records or internal management reporting systems. Financial information on the segment level for the financial years ended December 31, 2014, 2013 and 2012 as well as for the three-month period ended March 31, 2015 (including comparative figures for the three-month period ended March 31, 2014) used in the Prospectus derives from the Unaudited Interim Condensed Financial Statements of the Company as of and for the three-month period ended March 31, 2015 (including comparative figures for the three-month period ended March 31, 2014).

10.1 Selected Financial Information from the Consolidated Income Statement

The following table shows selected consolidated income statement data of the Group for the three-month periods ended March 31, 2015 and 2014 and for the financial years ended December 31, 2014, 2013 and 2012:

	For the Three-Month Period ended March 31,		For the Financial Year ended December 31,		
	2015	2014	2014	2013[1)]	2012
	(unaudited)		(in € million)	(audited)	
Operating income	**93**	**89**	**326**	**482**	**467**
Net interest and similar income	113	89	421	319	296
Interest and similar income	540	583	2,333	2,487	2,879
Interest and similar expenses	-427	-494	-1,912	-2,168	-2,583
Net fee and commission income	7	–	1	9	23
Fee and commission income	8	3	13	15	27
Fee and commission expenses	-1	-3	-12	-6	-4
Net trading income	5	-9	-30	-51	10
Net income from financial investments	-20	-1	-77	96	13
Net income from hedging relationships	-1	-3	-3	9	-6
Net other operating income/expenses	-11	13	14	100	131
Loan loss provisions	4	5	-21	-8	4
General and administrative expenses	-48	-62	-251	-312	-341
Net miscellaneous income/expenses	2	6	–	3	-6
Profit or loss before tax	**51**	**38**	**54**	**165**	**124**
Income tax	-12	5	-50	-5	-55
Net income/loss	**39**	**43**	**4**	**160**	**69**

1) Numbers for the financial year 2013 have been adjusted in the Audited Financial Statements for the financial year 2014 due to retrospective IFRS 10 first time adoption. Numbers are derived from the Audited Financial Statements for the financial year 2014.

10.2 Selected Financial Information from the Consolidated Statement of Financial Position

The following table shows selected consolidated statement of financial position data of the Group as of March 31, 2015 and as of December 31, 2014, 2013 and 2012 (i.e. prior to the repayment of the SoFFin Silent Participation of €1.0 billion which has occurred on July 6, 2015):

	As of March 31,	As of December 31,			
	2015	2014	2013[2)]	2013[3)]	2012[4)]
	(unaudited) (in € million)	(audited unless otherwise indicated) (in € million)			
Assets					
Cash reserve	1,554	57	3,532	3,532	1,937
Trading assets	2,110	2,016	1,642	1,642	3,325
Loans and advances to other banks	4,162	6,800	6,685	5,798	7,995
Loans and advances to customers	40,962	38,964	36,242	36,242	49,590
Allowances for losses on loans and advances	-134	-138	-148	-148	-325
Financial investments	19,676	20,475	20,725	20,892	25,572
Property and equipment	12	8	1	1	2
Intangible assets	22	23	31	31	39
Other assets	6,992	6,659	4,769	4,769	7,242
Income tax assets	30	30[1)]	1,162	1,165	1,704
Current tax assets	28	29	44	44	53
Deferred tax assets	2	1[1)]	1,118	1,121	1,651
Total assets	**75,386**	**74,894**[1)]	**74,641**	**73,924**	**97,081**
Equity and liabilities					
Liabilities to other banks	2,871	3,187	3,522	3,522	7,797
Liabilities to customers	10,367	10,593	10,848	10,848	11,895
Securitized liabilities	47,871	47,827	46,858	47,060	52,550
Trading liabilities	2,083	1,960	1,453	1,453	3,192
Provisions	261	272	209	209	235
Other liabilities	6,966	6,182	4,722	4,722	14,438
Income tax liabilities	114	88[1)]	1,187	1,190	1,698
Current lax liabilities	108	82	64	64	64
Deferred tax liabilities	6	6[1)]	1,123	1,126	1,634
Subordinated capital	1,265	1,279	2,357	1,440	1,993
Liabilities	**71,798**	**71,388**[1)]	**71,156**	**70,444**	**93,798**
Equity attributable to equity holders	**3,588**	**3,506**	**3,485**	**3,480**	**3,283**
Total Equity and Liabilities	**75,386**	**74,894**[1)]	**74,641**	**73,924**	**97,081**
Equity	**3,588**	**3,506**	**3,485**	**3,480**	**3,283**

1) Figures have been adjusted in the Unaudited Interim Condensed Financial Statements as of and for the three-month period ended March 31, 2015 due to IAS 8.14 et seq. and are unaudited. In the Audited Consolidated Financial Statements for the financial year 2014, the unadjusted figures (audited) were as follows: total assets €75,518 million, income tax assets €654 million, deferred tax assets €625 million, income tax liabilities €712 million, deferred tax liabilities €630 million, liabilities €72,012 million and total equity and liabilities €75,518 million.

2) Numbers for the financial year 2013 have been adjusted in the Audited Financial Statements for the financial year 2014 due to retrospective IFRS 10 first time adoption and due to IAS 8.42. Numbers are derived from the Audited Financial Statements for the financial year 2014.

3) Numbers are derived from the Audited Financial Statements for the financial year 2013 and are unadjusted.

4) Numbers for the financial year 2012 have been adjusted in the Audited Financial Statements for the financial year 2013 due to retrospective IAS 19 (revised) first time adoption. Numbers are derived from the Audited Financial Statements for the financial year 2013.

10.3 Selected Financial Information from the Consolidated Statement of Cash Flows

The following table shows selected consolidated statement of cash flows data of the Group for the three-month periods ended March 31, 2015 and 2014 and for the financial years ended December 31, 2014, 2013 and 2012.

	For the Three-Month Period ended March 31,		For the Financial Year ended December 31		
	2015	2014	2014	2013[1)]	2012
	(unaudited) (in € million)			(audited) (in € million)	
Cash flow from operating activities	207	-3,651	-4,320	-1,753	-1,593
Cash flow from investing activities	1,300	448	953	3,902	3,757
Cash flow from financing activities	-10	0	-108	-546	-550
Cash and cash equivalents at the end of the previous period	57	3,532	3,532	1,929	323
Cash and cash equivalents at the end of the period	1,554	329	57	3,532	1,937

1) Numbers for the financial year 2013 have been adjusted in the Audited Financial Statements for the financial year 2014 due to retrospective IFRS 10 first time adoption. Numbers are derived from the Audited Financial Statements for the financial year 2014.

10.4 Selected Other Financial Data

Monitoring and steering at pbb Group are based on a consistent and integrated key performance indicator system (KPI system), which assists executives in the management of the Group. The KPI system comprises the dimensions of profitability, growth in the strategic real estate finance and public investment finance portfolios, risk limitation and capital. As is customary in pbb Group's industry, some of these figures are based on IFRS, whereas others are used in addition to the IFRS financial measures and are not recognized terms under IFRS or under the German Commercial Code (non-GAAP measures), in order to evaluate, monitor and manage the business. Key performance indicators, which are not measures of financial performance under IFRS, have not been reviewed by an outside consultant, expert or auditor and are, unless otherwise noted, derived from pbb Group's accounting system and management estimates. These non-GAAP measures are defined by pbb Group's management and may not be comparable to similar measures used by other companies. Non-GAAP measures used should not be considered as an alternative to net income (loss), revenues or any other performance measures derived in accordance with IFRS or the German GAAP as measures of operating performance. Neither should they be considered as an alternative to cash flows from operating activities as measures of liquidity. The non-GAAP measures have limitations as analytical tools and should not be considered in isolation or as substitutes for analysis of the Company's results as reported under IFRS or under the German Commercial Code.

The financial key performance indicators pbb Group uses to track the financial performance of its business and to guide its management are *inter alia* return on equity after tax, profit or loss before tax, cost income ratio, the notional amount of the funding in the strategic Real Estate Finance (REF) and Public Investment Finance (PIF) segments, volume of new business and the CET 1 ratio.

10.4.1 Selected Other Financial Data of pbb Group

The key performance indicators for pbb Group can be summarized as follows:

	As of and for the Three-Month Period ended March 31,	As of and for the Financial Year ended December 31,			
	2015	2014 (adjusted)†	2014	2013	2012
	(unaudited)	(unaudited unless otherwise indicated)			
Profit before tax (in € million)	51[1)]	174[2)]	54*	165*	124*
Net income/loss (in € million)	39[3)]	116[2)]	4*	160*	69*
Return on equity before tax (in %)[4)]	8.3[5)]	7.1[2),6)]	2.2	7.2	5.5
Return on equity after tax (in %)[4)]	6.3[7)]	4.7[2),6)]	0.2	7.0	3.1
Cost income ratio (in %)	51.6	57.3[2)]	77.0*	64.7*	73.0*
Total assets (in € billion)	75.4		74.9[8)]	74.6*[9)]	97.7*[9)]
Shareholder's equity (in € billion)[10)]	3.6		3.5*	3.5*	3.3*
thereof: SoFFin Silent Participation (in € billion)	*1.0**		*1.0**	*1.0**	*1.0**
Risk weighted assets (in € billion)[11)]	14.8	15.5	15.5*	18.1*	15.3*
CET 1 ratio (fully loaded) (in %)[12),13)]	14.8	13.5	13.5*	11.0*	–
Tier 1 ratio (fully loaded) (in %)[13)]	14.8[14)]	13.5[15)]	19.9*	16.6*	18.9*[16)]
Own funds ratio (fully loaded) (in %)[13),17)]	16.9[18)]	15.6[19)]	22.1*	19.1*	26.6*[16)]
New business volume (in € billion)[20)]	2.8		10.2	8.2	5.6
Leverage ratio (fully loaded) (in %)[13)]	3.2[21)]	3.1[22)]	3.1[22)]	2.8[23)]	

† The figures were adjusted as specified in the respective footnotes below. The adjustments were made either (i) for the significant effects resulting from the value adjustments on the HETA exposure (thus showing figures as if there had been no negative impact from these value adjustments) or (ii) for the repayment of the SoFFin Silent Participation of €1.0 billion which has occurred on July 6, 2015.

* Audited.

1) Profit before tax would amount to €133 million if adjusted for €82 million effects (for cost income ratio calculation €76 million) from value adjustments on HETA exposure (nominal: €395 million) in the first quarter of the financial year 2015.
2) Adjusted for €120 million effects (for cost income ratio calculation €112 million) from value adjustments on HETA exposure (nominal: €395 million) in the fourth quarter of the financial year 2014.
3) Net income/loss would amount to €112 million if adjusted for €82 million effects (for cost income ratio calculation €76 million) from value adjustments on HETA exposure (nominal: €395 million) in the first quarter of the financial year 2015.
4) Return on equity calculation is based on average monthly IFRS equity excluding revaluation reserve; shareholder's equity for return on equity calculation is calculated using ordinary shareholder's equity (i.e. reported shareholder's equity excluding €1.0 billion SoFFin Silent Participation, which has been repaid on July 6, 2015).
5) Return on equity before tax would amount to 21.6% based on pre-tax profit of €51 million plus adjustment for HETA provisions of €82 million (net income of €39 million plus adjustment for HETA €73 million) divided by average monthly IFRS equity for the first quarter of the financial year 2015 (€3,465 million) excluding the revaluation reserve (€149 million) adjusted by the SoFFin Silent Participation (minus €999 million).
6) Return on equity before tax (post tax) calculation based on pre-tax profit of €54 million plus adjustment for HETA provisions of €120 million (net income of €4 million plus adjustment for HETA €112 million) divided by average monthly IFRS equity for the year excluding the revaluation reserve (€3,451 million) adjusted by the SoFFin Silent Participation (minus €999 million).
7) Return on equity after tax would amount to 18.2% based on pre-tax profit of €51 million plus adjustment for HETA provisions of €82 million (net income of €39 million plus adjustment for HETA €73 million) divided by average monthly IFRS equity for the first quarter of the financial year 2015 (€3,465 million) excluding the revaluation reserve adjusted by the SoFFin Silent Participation (minus €999 million).
8) Figure has been adjusted in the Unaudited Interim Condensed Financial Statements as of and for the three-month period ended March 31, 2015 due to IAS 8.14 et seq. and is unaudited. Total assets in the Audited Consolidated Financial Statements for the financial year 2014: €75.5 billion (audited).
9) Figure for the financial year 2013 is adjusted due to retrospective first time adoption of IFRS 10 first time adoption and due to IAS 8.42. Figure for the financial year 2012 is adjusted due to the retrospective first time adoption of IAS 19 (revised). For further information, see "*11.2 Adoption of New and Revised Accounting Standards*".
10) Figure for the financial year 2012 is adjusted due to the retrospective initial application of IAS 19 (revised). Figure for the financial year 2013 is adjusted due to retrospective IFRS 10 first time adoption and due to IAS 8.42. For further information, see "*11.2 Adoption of New and Revised Accounting Standards*".
11) Figures for the financial years 2014 and 2013 and the three-month period ended March 31, 2015 are simulated Basel 3 figures (as implemented by CRR) consolidated in accordance with CRR. Figure for the financial year 2012 is consolidated in accordance with Section 10a of the German Banking Act (*KWG*).
12) The CET 1 ratio is calculated by dividing the CET 1 by the risk-weighted assets (RWA).
13) The regulatory capital ratios stated are calculated on a simulated basis. According to the 'Waiver Rule' under Article 7 CRR, pbb, being a subsidiary of HRE, is, as at the date of the Prospectus, exempted from calculating the CET 1 capital ratio and the other relevant regulatory capital ratios on a sub-group level.
14) Tier 1 capital of €2.2 billion fully loaded (excluding SoFFin Silent Participation of €1.0 billion which has been repaid on July 6, 2015) in percentage of RWA of €14.8 billion.
15) Tier 1 capital of €2.1 billion fully loaded (excluding SoFFin Silent Participation of €1.0 billion which has been repaid on July 6, 2015) in percentage of RWA of €15.5 billion.

16) Figure for the financial year 2012 is calculated on a non-fully loaded basis.
17) Figures for the financial years 2014 (unadjusted) and 2013 are shown after expiry of all Basel 3 transitional regulations (as implemented by CRR) (fully loaded). Figures for the financial year 2013 are consolidated in accordance with CRR (following the appropriation of net profit 2013) and adjusted due to IAS 8.42.
18) Own funds of €2.5 billion fully loaded (excluding SoFFin Silent Participation of €1.0 billion which has been repaid on July 6, 2015) in percentage of RWA of €14.8 billion.
19) Own funds of €2.4 billion fully loaded (excluding SoFFin Silent Participation of €1.0 billion which has been repaid on July 6, 2015) in percentage of RWA of €15.5 billion.
20) New business volumes have been determined in relation to the relevant period on the basis of commitments and include extensions with maturities of more than one year.
21) Tier 1 capital of €2.2 billion fully loaded (excluding SoFFin Silent Participation of €1.0 billion which has been repaid on July 6, 2015) in percentage of leverage exposure of €69.1 billion.
22) Tier 1 capital of €2.1 billion fully loaded (excluding SoFFin Silent Participation of €1.0 billion which has been repaid on July 6, 2015) in percentage of leverage exposure of €67.2 billion.
23) Tier 1 capital of €2.0 billion fully loaded (excluding SoFFin Silent Participation of €1.0 billion which has been repaid on July 6, 2015) in percentage of leverage exposure of €69.9 billion.

10.4.2 Selected Other Financial Data by Segment

The following tables show certain key financial information for the segments of pbb Group in the periods under review which were derived from the Unaudited Interim Condensed Financial Statements of the Company as of and for the three-month period ended March 31, 2015:

REF[1]	As of and for the Three-Month Period ended March 31, 2015	As of and for the Financial Year ended December 31, 2014	2013	2012
		(unaudited) (in € million unless otherwise indicated)		
Profit before tax	67	108	206	147
Return on equity before tax (in %)[2]	55.8	20.0	40.0[3]	29.3
Cost income ratio (in %)	40.2	56.7	41.8[3]	48.9
Allocated equity (in € billion)[4]	0.7	0.7	0.8	0.8
Financing volume (in € billion)	23.5	21.8	20.4	22.1
Risk weighted assets (in € billion)	6.8	7.2	7.4[5]	9.6[6]
New business volume (in € billion)[7]	2.7	9.0	7.0	4.9
Gross margin new business (bps)	>170	>200	>225	>225

1) Figures are taken from the Unaudited Interim Condensed Financial Statements of the Company as of and for the three-month period ended March 31, 2015. For further information, see "*11.1.1.2 Presentation of Financial Information on the segment level*". Figures for the financial years 2014, 2013 and 2012 have been revised in accordance with IFRS 8.29.
2) Excluding €1.0 billion SoFFin Silent Participation, which has been repaid on July 6, 2015.
3) Including €92 million one-off gain from the sale of a restructured property.
4) Excluding revaluation reserve.
5) Basel 3 simulation.
6) Figure for the financial year 2012 has been calculated in accordance with Section 10a German Banking Act (*Kreditwesengesetz*) on a consolidated basis (Basel 2).
7) New business volumes have been determined in relation to the relevant period on the basis of commitments and include extensions with maturities of more than one year.

PIF[1]	As of and for the Three-Month Period ended March 31,	As of and for the Financial Year ended December 31,		
	2015	2014	2013	2012
		(unaudited) (in € million unless otherwise indicated)		
Profit before tax	7	4	-11	-15
Return on equity before tax (in %)[2]	13.7	1.2	<0	<0
Allocated equity (in € billion)[3]	0.3	0.5	0.4	0.4
Cost income ratio (in %)	46.2	88.6	>100	>100
Financing volume (in € billion)	6.8	6.6	5.7	6.0
Risk weighted assets (in € billion)	1.3	1.3	1.4[4]	1.4[5]
New business volume (in € billion)[6]	0.2	1.2	1.2	0.7
Gross margin new business (bps)	>100	>75	>100	>140

1) Figures are taken from the Unaudited Interim Condensed Financial Statements of the Company as of and for the three-month period ended March 31, 2015. For further information, see "*11.1.1.2 Presentation of Financial Information on the segment level*". Figures for the financial years 2014, 2013 and 2012 have been revised in accordance with IFRS 8.29.
2) Excluding €1.0 billion SoFFin Silent Participation, which has been repaid on July 6, 2015.
3) Excluding revaluation reserve.
4) Basel 3 simulation.
5) Figure for the financial year 2012 has been calculated in accordance with Section 10a German Banking Act (*Kreditwesengesetz*) on a consolidated basis (Basel 2).
6) New business volumes have been determined in relation to the relevant period on the basis of commitments and include extensions with maturities of more than one year.

VP[1]	As of and for the Three-Month Period ended March 31,	As of and for the Financial Year ended December 31,		
	2015	2014	2013	2012
		(unaudited) (in € million unless otherwise indicated)		
Profit before tax	-25	-66	-37	-12
Return on equity before tax (in %)[2]	-6.8	<0	<0	<0
Allocated equity (in € billion)[3]	2.0	1.8	1.8	1.7
Cost income ratio (in %)	>100	>100	>100	>100
Financing volume (in € billion)	22.2	22.7	25.1	30.3
Risk weighted assets (in € billion)	5.5	5.5	7.7[4]	3.8[5]

1) Figures are taken from the Unaudited Interim Condensed Financial Statements of the Company as of and for the three-month period ended March 31, 2015. For further information, see "*11.1.1.2 Presentation of Financial Information on the segment level*". Figures for the financial years 2014, 2013 and 2012 have been revised in accordance with IFRS 8.29.
2) Excluding €1.0 billion SoFFin Silent Participation, which has been repaid on July 6, 2015.
3) Excluding revaluation reserve.
4) Basel 3 simulation.
5) Figure for the financial year 2012 has been calculated in accordance with Section 10a German Banking Act (*Kreditwesengesetz*) on a consolidated basis (Basel 2).

11 MANAGEMENT'S DISCUSSION AND ANALYSIS OF NET ASSETS, FINANCIAL POSITION AND RESULTS OF OPERATIONS

The following discussion and analysis of pbb Group's net assets, financial position and results of operations should be read in conjunction with the sections "Selected Financial and Business Information", "Risk Factors" and "Business", the Audited Consolidated Financial Statements of the Company as of and for the financial years ended December 31, 2014, 2013, and 2012, as well as the Unaudited Interim Condensed Financial Statements of the Company as of and for the three-month period ended March 31, 2015 (including comparative figures for the three-month period ended March 31, 2014) and the respective related notes included therein, which are contained in the Prospectus. For further information on the financial statements, see also "4.6 Note on Currency and Financial Information".

The Audited Consolidated Financial Statements as of and for the financial years ended December 31, 2014, 2013, and 2012 were prepared in accordance with IFRS as adopted by the European Union. They have been audited in accordance with Section 317 of the German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements, which are promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer), by KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, through its Munich branch (KPMG), who issued an unqualified audit opinion thereon. The Unaudited Interim Condensed Financial Statements as of and for the three-month period ended March 31, 2015 (including comparative figures for the three-month period ended March 31, 2014) were prepared in accordance with IFRS as adopted by the European Union.

Due to the adoption of IFRS 10 for the first time in the financial year 2014, financial information for the financial year 2013 contained in the Audited Consolidated Financial Statements for the financial year 2014 have been adjusted retrospectively to IFRS 10. Financial information for the financial year 2013 therefore deviates in the Audited Consolidated Financial Statements for the financial year 2014 compared to the Audited Consolidated Financial Statements for the financial year 2013. In the Prospectus, financial information for the financial year 2013 was taken from the Audited Consolidated Financial Statements for the financial year 2014 unless indicated otherwise. Financial information for the financial year 2012 was taken from the Audited Consolidated Financial Statements for the financial year 2013 unless indicated otherwise.

In the Prospectus, where financial information for pbb Group is labeled "audited", this information was taken from the Audited Consolidated Financial Statements of pbb Group, as of and for the financial years ended December 31, 2014, 2013 and 2012. The label "unaudited" is used in the Prospectus to indicate financial information that was taken or derived from the Unaudited Interim Condensed Financial Statements, or from pbb Group's accounting records or internal management reporting systems. Due to a change in the segmentation with effect as from January 1, 2015, financial information on the segment level for the financial years ended December 31, 2014, 2013 and 2012 as well as for the three-month period ended March 31, 2014 included in the Prospectus has been adjusted to the new segment structure in the Unaudited Interim Condensed Financial Statements of the Company as of and for the three-month period ended March 31, 2015. Financial information on the segment level for the financial years ended December 31, 2014, 2013 and 2012 as well as for the three-month period ended March 31, 2015 (including comparative figures for the three-month period ended March 31, 2014) used in the Prospectus was therefore taken from the Unaudited Interim Condensed Financial Statements of the Company as of and for the three-month period ended March 31, 2015 (including comparative figures for the three-month period ended March 31, 2014) unless indicated otherwise.

Some tables in this section also present non-GAAP measures (neither defined under IFRS nor under the German Commercial Code (HGB)). These non-GAAP measures are key figures used by pbb Group's management to monitor the performance of pbb Group. Non-GAAP measures not included in the Audited Consolidated Financial Statements are labeled as "unaudited" in the relevant tables, while non-GAAP measures included in the Audited Consolidated Financial Statements are labeled "audited" in the relevant tables. Unless indicated otherwise, all financial data in the text and tables in this section of the Prospectus is presented in millions and billions of Euros (€), and, if applicable, rounded to one decimal point or whole numbers. Unless expressly noted otherwise, percentage amounts in the text and tables have also been rounded to one decimal point. Because of this rounding, the figures shown in the tables may sometimes not add up exactly to the respective totals given.

11.1 Segmentation

11.1.1 Changes in Segmentation

11.1.1.1 Changes in Segmentation with Effect from January 1, 2014

With effect from January 1, 2014, pbb Group reorganized its business segments into three operating segments: commercial real estate finance (REF), public investment finance (PIF) and its non-strategic value portfolio (Value Portfolio or VP). The consolidation & adjustments segment (C&A) reconciles the aggregated segment results from these three operating segments to the consolidated results. Alongside consolidation adjustments, C&A contains certain expenses and income that do not fall within the operating segments. The segment report based on internal controls is set up in compliance with regulations set out in IFRS 8. As part of the reorganization process, pbb Group's Public Sector Finance (PSF) segment was dissolved: Non-strategic public sector financing (budget finance) from the PSF segment was allocated to the already existent VP, while the strategic public sector investment financing was reallocated to the newly created PIF segment.

The allocation of income and expenses to the operating segments is undertaken in accordance with responsibilities or imputed for the external net interest and similar income. Allocation to the operating segments therefore takes place based on the nature of the respective income or expense item and whether such item can be directly attributable to a particular segment. For example, interest income arising from the customer lending business would be allocated directly to the REF, PIF and VP segments based on the segment to which such income was generated, prepayment fees are generally allocated to our operating segments proportionally to portfolio volume and income from equity investments are allocated proportionally to the appropriated equity (*gebundenes Eigenkapital*). For transparency purposes, the accrued fees for net interest and similar income have been allocated to the relevant segments since the first half of 2014 on the basis of their actual origin and reason. Consequently, the financial information for 2013 included in our Audited Consolidated Financial Statements for financial year 2014 was adjusted to allocate upfront fees for net interest and similar income and the cost of liquidity on the same basis as that used in connection with preparing the financial information for 2014 and the new segmentation affected the allocation of capital. The adjustments made to reflect the new allocation of upfront fees positively impacted the REF segment, but negatively impacted the PIF and VP segments since upfront fees are now allocated to the respective transaction. Given the volume of transactions including upfront fees in the REF segment, the REF segment benefitted from this adjustment. For further information, see also "*16 Risk Management*".

11.1.1.2 Changes in Segmentation with Effect from January 1, 2015

With effect from January 1, 2015, public investment finance business attributable to Italy has been classified as non-strategic activities. For this reason, a portfolio with a notional amount of €1.3 billion was reclassified in accordance with IFRS 8 from the strategic PIF to the non-strategic VP.

In addition, the method of allocating the IFRS capital to the segments was changed at the beginning of the financial year 2015. Significant changes to the previous approach are as follows:

- IFRS equity is fully allocated to the operating segments and C&A, respectively, without disclosing the surplus equity as had been done under the previous approach; and
- IFRS equity is now allocated to the operating segments and C&A proportionally, along the allocation of the diversified economic capital according to the gone-concern approach for the purposes of the risk management. As a consequence, the Company expects to achieve a higher level of synchronization between risk and profit management.

While the Company's gone-concern economic capital is calculated by applying a confidence level of 99.9%, the allocation of diversified economic capital is based on the loss distribution across the segments in an expected shortfall approach with a confidence level of 99.0%. The selected confidence level allows for a balanced consideration of credit spread-induced market and cluster risks.

11.1.1.3 Presentation of Financial Information on the segment level

Due to the re-segmentation described above, financial information on the segment level for the financial years ended December 31, 2014, 2013 and 2012 as well as for the three-month period ended March 31, 2015 included in the Prospectus has been adjusted to the new segment structure in the

Unaudited Interim Condensed Financial Statements of the Company as of and for the three-month period ended March 31, 2015. Financial information on the segment level used in the Prospectus for the financial years ended December 31, 2014, 2013 and 2012 as well as for the three-month period ended March 31, 2015 (including comparative figures for the three-month period ended March 31, 2014) was therefore taken from the Unaudited Interim Condensed Financial Statements of the Company as of and for the three-month period ended March 31, 2015. For financial information on a segment level prior to re-segmentation, refer to the Audited Consolidated Financial Statements for financial years 2014 and 2013, which are contained in the section "*Financial Information*" in the Prospectus.

11.1.2 Overview of Segments

pbb Group's operating segments are strategic REF and PIF as well as the non-strategic VP.

Real Estate Finance (REF). In its REF segment, pbb Group generally targets medium to large financing transactions of €10 to €120 million, and in select cases also with higher transaction sizes, for professional national and international real estate companies, institutional investors, property funds as well as, in Germany, customers with a regional focus. The focus of these transactions is on office, retail, multi-family, logistics and hotel/leisure properties. It provides financing as a sole lender or together with financing partners, and/or acts as arranger and/or agent with regard to syndicated loans. Key markets of the REF segment are Germany, France, the United Kingdom, the Nordic countries as well as selected countries in central and Eastern Europe.

Public Investment Finance (PIF). In its PIF segment, pbb Group finances public sector investments such as infrastructures, public housing, utilities and waste disposal, health care and nursing care properties, as well as child care and educational facilities. pbb Group also provides government-backed export finance in its PIF segment. Financing is provided to local authorities, public sector entities, corporate clients acting in public private partnerships ("**PPP**") and sovereign backed clients. Key markets of the PIF segment are Germany, France, and the Nordic countries. In addition, the PIF segment is active in certain other specific European regions.

Value Portfolio (VP). The VP segment includes pbb Group's non-strategic portfolio and activities. In particular, the segment comprises public sector budget financing, the non-strategic Italian public investment finance bonds, selected structured products, and income and expenses from IT services provided to DEPFA Bank plc and its subsidiaries (together, the "**DEPFA Group**", see "*15.11.2.2 DEPFA Group*" for more details on the providing of IT services to DEPFA Group) as well as the servicing of FMS-WM which largely ceased in September 2013.

For further information on these three operating segments and on C&A, which primarily consists of treasury activities including the investment of pbb Group's equity, see "*15.4 Business Segments; Products and Services*".

11.2 Adoption of New and Revised Accounting Standards

In the Unaudited Interim Condensed Financial Statements as of and for the three-month period ended March 31, 2015, the accounting for deferred tax assets and liabilities was changed in the reporting period according to IAS 8 et seq. Due to the newly established procedural conditions for offsetting deferred taxes in compliance with IAS 12.74, deferred tax assets and liabilities were initially disclosed on a net basis as of March 31, 2015. Previous year figures were adjusted accordingly. As a consequence, in the financial position as of December 31, 2014 as presented in the Unaudited Interim Condensed Financial Statements as of and for the three-month period ended March 31, 2015, the positions as to deferred tax assets and deferred tax liabilities have been adjusted accordingly.

In the financial year 2014, pbb Group applied IFRS 10 for the first time and retrospectively adjusted its previous financial statements accordingly to the extent referred to in the Audited Consolidated Financial Statements for the financial year 2014. IFRS 10 introduces the concept of control as the basis for consolidation, where parent-subsidiary relationships can arise not only from voting power, but from other contractual arrangements as well. The adoption of IFRS 10 led to two changes in the Company's group of consolidated companies and a consequent adjustment of the prior year figures: (i) the formerly consolidated company, House of Europe Funding I Ltd., George Town, no longer required consolidation and was deconsolidated, leading to a total balance sheet reduction of €202 million in the financial year 2014; and (ii) DEPFA Finance N.V., Amsterdam, The Netherlands, which did not require inclusion in the consolidated financial statements in accordance with previous

regulations, had to be consolidated according to IFRS 10, leading to an increase in total assets by €922 million as of January 1, 2014/December 31, 2013. However, DEPFA Finance N.V. was sold to DEPFA Bank plc, Dublin, on July 18, 2014 as part of the unbundling of pbb Group from its sister DEPFA Group. For further information on this unbundling and sale, see "*11.3.4 Separation from DEPFA in 2014*" and "*14.2.4 Strategic Realignment of the Entire HRE Group*" and on the first time adoption of IFRS 10 see "*Accounting Policies*" (note 2) in the notes to the Audited Consolidated Financial Statements for the financial year 2014 contained in "*Financial Information*".

As a consequence of the adoption of IFRS 10, pbb Group adjusted its financial information for the financial year ended December 31, 2013. Due to this adjustment in the financial statements for the financial year 2014, the financial information for 2013 deviates in the Audited Consolidated Financial Statements for the financial year 2014 compared to the Audited Consolidated Financial Statements for the financial year 2013. In the Prospectus, financial information for the financial year 2013 was taken from the Audited Consolidated Financial Statements for the financial year 2014 unless indicated otherwise.

In the financial years 2010 through 2014, pbb Group made incorrect hedge adjustments to certain derivatives. This arose as a result of a re-designation of a derivative portfolio, which had previously been accounted for in accordance with cash flow hedge accounting, to micro fair value hedge accounting and to the stand-alone portfolio. This re-designation had been made prior to the earliest period shown in the consolidated financial statements for the financial year 2014. This resulted in an overstatement of the cash flow hedge reserve. In the Audited Consolidated Financial Statements for the financial year 2014, pbb Group retrospectively corrected the cash flow hedge reserve as of December 31, 2013 and as of January 1, 2013 pursuant to IAS 8.42. As a result, retained earnings were commensurately corrected as of December 31, 2013 and January 1, 2013 (increase of €8 million). The simulated Basel 3 figures of the regulatory capital (as implemented by Capital Requirements Regulation ("**CRR**")), CET 1, were adjusted upwards by €8 million as of December 31, 2013 at the same time.

In the context of the deconsolidation of subsidiaries accounted for in foreign currency in the financial year 2010, pbb Group carried forward the foreign currency reserve attributable to the deconsolidated units in equity. In these consolidated financial statements, pbb Group retrospectively adjusted the foreign currency reserves in the statement of financial position as of December 31, 2013, as of January 1, 2013 and in the consolidated statement of changes in equity for the financial year 2013 against retained earnings pursuant to IAS 8.42. This had no effect on the profit and loss statement. The foreign currency reserve was adjusted upwards as of December 31, 2013 and January 1, 2013 by €31 million, respectively, and retained earnings were adjusted downwards as of December 31, 2013 and January 1, 2013 by €31 million respectively.

For further information on adjustments pursuant to IAS 8.42, see the section "*Consistency*" (note 3) in the notes to the Audited Consolidated Financial Statements for the financial year 2014 contained in the section "*Financial Information*" in the Prospectus.

Furthermore, in the Audited Consolidated Financial Statements for the financial year 2013, the figures for the financial year 2012 have been adjusted due to the retrospective initial application of IAS 19 (revised 2011). IAS 19 (revised 2011) removes the option to use the corridor approach to recognize actuarial gains and losses related to employee benefits. Instead, these effects must be recognized in equity and included in other comprehensive income. Past service cost must be recognized in the period in which the underlying plan amendment occurs rather than allocated over the vesting period of the benefits, as was the case previously. Under IAS 19 (revised 2011), the interest rate determined for discounting pension obligations is now also used for expected returns on plan assets. In addition, IAS 19 (revised 2011) changes the accounting for bonus payments for partial retirement agreements. IAS 19.173 requires the changes under IAS 19 (revised 2011) to be applied retrospectively. Due to the resultant change in the presentation of actuarial gains/losses, equity declined by €46 million as at December 31, 2012 (prior-year reporting date) (December 31, 2011: €10 million). Actuarial gains/ losses arising from defined benefit obligations are presented in a separate line item in equity. At the same time, provisions for pensions and similar obligations increased by €71 million (December 31, 2011: €21 million). Deferred tax assets for these items increased by €18 million as at December 31, 2012 (December 31, 2011: €4 million) as well as other assets increased by €7 million (December 31, 2011: €7 million). As the effects of the change in the interest rate determined for expected returns on plan assets and the change in the recognition of past service cost and bonus payments for partial retirement agreements are not material for pbb Group, the consolidated income statement for the

financial year 2012 was unaffected. Due to the change in actuarial gains and losses arising from defined benefit obligations, total comprehensive income in the financial year 2012, which also includes changes in equity, declined by €36 million.

11.3 Key Events in the Periods under Review

11.3.1 Discontinuation of Portfolio Management for FMS-WM in 2013

On September 30, 2013, and in response to a mandate by the European Commission, the portfolio management services pbb Group had provided to FMS-WM, were discontinued. The activities were transferred to FMS-WM's service company, FMS Wertmanagement Service GmbH ("**FMS-WM Service GmbH**"), and to other external service providers. pbb Group and FMS-WM have been implementing the transfer of the services in a joint project since autumn 2011.

An exception to this transfer were the services provided by Hypo Real Estate Japan Corporation, Tokyo, a subsidiary of the Company, to FMS-WM for its Japanese Real Estate Finance portfolio until June 29, 2015. pbb Group and FMS-WM have also continued to provide each other with services after September 30, 2013 that cannot be otherwise obtained on the basis of what is currently a cost-plus agreement. These services primarily relate to the provision of information, the granting of powers of attorney and the provision of services required under supervisory laws. For further information, see also "*15.11.2.1 FMS-WM*".

In addition, in the fourth quarter of 2013, pbb Group and FMS-WM entered into a settlement agreement. Under the agreement, all potential claims by FMS-WM for damages related to: (1) services provided, (2) all past, present and future claims for the reimbursement of costs for the legal transfer of assets (upgrades) that were previously transferred synthetically to FMS-WM, protected against certain risks or hedged (as the case may be) by means of (i) sub-participations, (ii) back-to-back derivatives, and (iii) financial guarantees, and (3) payment obligations by pbb Group in connection with the transfer of employees to FMS-WM Service GmbH, are taken to have been settled (for further information, see also "*15.11.3 Settlement Agreements*"). In the course of the discontinuation of the services, approximately 110 pbb Group employees were transferred to FMS-WM Service GmbH, where their knowledge of the portfolio will permit continuity in its future management.

As a result of the discontinuation, pbb Group's net other operating income/expenses related to FMS-WM decreased from €60 million in the financial year 2013 by €59 million to €1 million in the financial year 2014. General and administrative expenses related to FMS-WM decreased commensurately as a result of the transfer of personnel to FMS-WM Service GmbH.

In the first quarter of the financial year 2014, the Company entered into an agreement with, among others, FMS-WM in which the transfer of risk positions to FMS-WM in the course of the establishment of the resolution agency in 2010 was finally settled (for further information, see also "*15.11.3 Settlement Agreements*"). Payment obligations of the Company to FMS-WM under this agreement were finally compensated by HRE Holding, leading to a €30 million increase in retained earnings in the financial year 2014 without affecting pbb Group's income statement as it was a transaction with HRE Holding in its capacity as owner.

11.3.2 Value Adjustments due to HETA Moratorium

On March 1, 2015, the Austrian financial markets supervisory authority ("**FMA**") issued a notice by which it deferred the maturity of debt securities (including interest payments) issued by HETA Asset Resolution AG ("**HETA**") until May 31, 2016 (the "**HETA Moratorium**"). HETA is a wind-down entity (*Abwicklungsanstalt*) owned by the Republic of Austria. HETA's statutory task is to dispose of the non-performing portion of the Austrian bank Hypo Alpe Adria, nationalized in 2009, as effectively as possible whilst preserving its value. The total nominal exposure held by pbb Group which is affected by the HETA Moratorium amounted to €395 million on March 1, 2015. It comprises eight unsecured bonds and one promissory note issued between 2002 and 2006. pbb Group's claims against HETA under these debt instruments are covered by a letter of indemnity issued by the Austrian Federal State of Carinthia.

Due to the HETA Moratorium and statements made by the Austrian Finance Minister concerning the support for the Federal State of Carinthia, pbb Group recognized value adjustments for the bonds and the promissory note in the financial year 2014 as well as in the first quarter of the financial year 2015.

In the financial year 2014, the value adjustment with respect to the eight unsecured bonds negatively impacted pbb Group's net income from financial investments by €109 million. The value adjustment with respect to the promissory note have been made on the basis of the loss rate expected at the time of finalizing the Unaudited Interim Financial Statements for the first quarter of 2015 (including discount effects) and increased loan loss provisions by €8 million. Net trading income for financial year 2014 decreased by €3 million resulting from interest hedge derivatives in connection with the HETA exposure as hedge accounting in respect of these interest hedging instruments was no longer permitted. To qualify for hedge accounting it is required under, *inter alia*, IAS 39 that the changes in the fair value or cash flows of the hedged item attributable to the hedged risk must be expected to be highly effective in offsetting the changes in the fair value or cash flows of the hedging instrument on a prospective basis, and on a retrospective basis where actual results are within a range of 80% to 125%. As this was no longer satisfied due to the HETA Moratorium, the hedging relationship between the exposure to HETA and the interest hedge derivatives was no longer effective. As a result of all of the aforementioned factors, pbb Group's pre-tax profit in the financial year 2014 decreased by €120 million. In addition, in accordance with local GAAP (*HGB*) the pre-tax profit decreased by €81 million. In accordance with the German tax rate of 27.67% (corporate tax, surcharge tax and trade tax) as well as the German minimum taxable amount (40% of taxable income), current taxes for the financial year 2014 decreased by €8 million, resulting in a net income effect from the HETA Moratorium of €112 million in the financial year 2014. The impairments of the bonds disclosed in net income from financial investments of €109 million and the impairments of €8 million of the promissory note disclosed in loan loss provisions affected the Company's VP segment; the effects of €3 million from the stand alone derivative in both 2013 and 2014 are shown in net trading income and are allocated to all operating segments, i.e. REF, PIF and VP, in proportion to the portfolio volume.

In the three-month period ended March 31, 2015 after approval of the Audited Consolidated Financial Statements for the financial year 2014, additional value adjustments in connection with the HETA exposure in light of recent market price developments and based on the general recommendation of the ECB to impair 50% of the nominal HETA exposure negatively affected the net income from financial investments by €73 million. A net amount of €6 million was added to provisions for losses on loans and advances due to specific allowances, which, *inter alia*, related to a loan evidenced by a certificate of indebtedness (*Schuldscheindarlehen*) to HETA. Net trading income was negatively affected by €3 million due to the HETA exposure.

The impairment taken by pbb Group on its outstanding exposure to HETA following the FMA's decision on HETA's debt securities and the general recommendation of the ECB resulted in an aggregate negative effect of €197.5 million on profit before tax until March 31, 2015.

The Company has filed a lawsuit before the regional court (*Landgericht*) Frankfurt am Main against HETA for failure to pay interest and has served a third party notice to the Austrian Federal State of Carinthia. Furthermore, the Company has filed an appeal against the HETA Moratorium with the FMA.

11.3.3 Financing and Acquisition of RPPSE Espacio Oviedo S.L.U.

In 2007, the Company provided real estate financing to RPPSE Espacio Oviedo S.L.U., Madrid, Spain ("**RPPSE**") as part of a syndicate of banks financing a shopping center in the city of Oviedo, Spain. The loan had been subject to various impairments, resulting in a book value of €27 million as of December 31, 2013. Immo Invest Real Estate GmbH, Munich, a subsidiary of the Company, acquired all of the shares in RPPSE on February 25, 2014. RPPSE's primary asset, the shopping center in Oviedo, had a book value of €27 million at that time. Immo Invest Real Estate GmbH was initially consolidated by the Company in November 2013 when the Company committed to acquire the participation. RPPSE was also consolidated in pbb Group at the same time when the Company committed to acquire the participation in, and gained control over, RPPSE by means of a rescue acquisition. Neither of these consolidations had a material impact on pbb Group's assets, financial position or results of operations because the acquisition of RPPSE through the Company's subsidiary, Immo Invest Real Estate GmbH, resulted in the exchange of an asset for another as a result of consolidation. pbb Group recognized the shopping center as real estate property with a book value of €27 million as a rescue acquisition under the item "other assets" in the financial statements for the financial year 2013 instead of the loan to RPPSE with the same book value at that time as it had already been subject to a corresponding impairment. At the end of the financial year 2014, pbb Group recognized an impairment of €10 million in respect of the real property (resulting in a book value of €17 million).

11.3.4 Separation from DEPFA in 2014

To comply with the European Commission's requirement to reprivatize DEPFA Group, HRE Holding prepared to sell 100% of the registered share capital of DEPFA Bank in August 2013 and engaged with potential purchasers. However, on May 13, 2014, the FMSA's inter-ministerial Steering Committee (which decides on measures related to FMS) and an extraordinary general shareholders' meeting of HRE Holding resolved to prepare the take-over and wind-down of DEPFA Group by FMS-WM rather than to sell the shares in DEPFA Bank to a private entity. Following the consent of the Irish and the Luxembourg regulatory authorities, the transfer of DEPFA Group to FMS-WM was completed on December 19, 2014. The economic terms agreed in connection with the transfer were materially the same as the terms that HRE Holding had previously negotiated with an external bidder.

In connection with the signing of the share purchase agreement for the transfer of the share capital of DEPFA Bank to FMS-WM in July 2014, the Company transferred its subsidiary DEPFA Finance N.V, Amsterdam, to DEPFA Bank and, in September 2014, partially repaid €150 million of a loan prior to its maturity which was provided to the Company by DEPFA Finance N.V. In connection with this partial repayment, a corresponding hedging interest swap between the Company and DEPFA Bank was partially terminated. The partially terminated hedging swap was captured under fair value hedge accounting on a micro basis. This had been reflected as a hedge adjustment to the liabilities under the loan towards DEPFA Finance N.V. After the partial repayment of the loan and the partial termination of the hedging swap, the hedge adjustment was reversed and resulted in net interest income of €15 million.

Further effects in connection with DEPFA Finance N.V. are included in the €21 million net income from financial investments in the financial year 2014. This effect resulted from the sale of the subsidiary, on the basis of which the liabilities of pbb to DEPFA Finance N.V. were no longer to be eliminated and were valued at fair value for the first time.

11.3.5 Sale of Little Britain Holdings (Jersey) Ltd., Jersey

On September 20, 2013, pbb Group sold all of its shares in Little Britain Holdings (Jersey) Ltd., Jersey ("**Little Britain Holdings**"). This sale resulted in a gain of €92 million, which was recognized in the financial statements under net income from financial investments for the year ended December 31, 2013. The €1 million loss generated by Little Britain Holdings between January 1, 2013 and September 20, 2013 is included in pbb Group's financial statements for the financial year 2013. The total assets in accordance with the accounting policies applicable to pbb's consolidated financial statements amounted to €97 million. As of the time of deconsolidation, Little Britain Holdings' assets primarily comprised rescue acquisitions in the amount of €84 million, which were reported under other assets. Liability to the Company amounted to €108 million and equity was negative in the amount of €13 million.

11.4 Key Factors Affecting pbb Group's Results of Operations

11.4.1 Developments in the Commercial Real Estate Market

In its REF segment, pbb Group targets medium to large financing transactions of €10 to €120 million, and in select cases also with higher transaction sizes, for professional real estate investors with a focus on office, retail, residential, multi-family, logistics and hotel properties. Its key markets are Germany, the United Kingdom, France, the Nordic region (in particular Sweden and Finland) and selected other European countries. pbb Group's financial results and business development therefore depends on the German and the broader European real estate markets. On a macroeconomic level, these markets are influenced significantly by the global economy. Since the global financial crisis in 2008/2009, the investment volume in real estate has increased annually. This increase was due to, among other things, the low interest rates, which have remained at historic lows for several years. In the Eurozone, the ECB reduced the relevant interest rate for main refinancing operations in various steps as set forth below from 1.00% *per annum* as from December 14, 2011 to a record low of 0.05% *per annum* as from September 4, 2014:

Interest rate levels for main refinancing operations (fixed rate tenders, fixed rate)[1)] as set by the Governing Council of the ECB and published on the website of the ECB[2)]	**With effect from:**
1.00% p.a.	December 14, 2011
0.75% p.a.	July 11, 2012
0.50% p.a.	May 8, 2013
0.25% p.a.	November 13, 2013
0.15% p.a.	June 11, 2014
0.05% p.a.	September 4, 2014

1) This is one of the three key interest rates set by the Governing Council of the ECB. As set forth in the Guideline of the ECB on monetary policy instruments and procedures of the Eurosystem, the main refinancing operations are the most important open market operations conducted by the Eurosystem, playing a pivotal role in pursuing the aims of steering interest rates, managing the liquidity situation in the market and signaling the stance of monetary policy. According to the ECB, the main refinancing operations provide the bulk of liquidity to the banking system

2) https://www.ecb.europa.eu/stats/monetary/rates/html/index.en.html.

Since 2012, demand for high-quality properties in central locations in Central and Northern European countries outpaced the supply, which significantly increased purchase prices. In Germany, the investments in retail property reached €3.756 billion in the three-month period ended March 31, 2015, the highest quarterly value for the last three years (source: "Investment Market Update Germany, Q1 2015" by DTZ Research). In France, the investment volume increased significantly, up 7% over one year and well above the 10-year average of €4.2 billion per calendar quarter and the share in the Ile-de-France region (including the metropolitan area of Paris) amounted to approximately 83% of the French transaction volume of €4.6 billion in the first calendar quarter of 2015 (Source: "Investment in France, Q1 2015" by BNP Real Estate). In the United Kingdom, the demand for property also developed positively and the supply of high-quality properties and in central locations has become scarce. In Spain, which had to deal with a significant economic slowdown in 2013, investments in commercial property increased significantly in 2014 (source: "European Real Estate Lending Market, February 2015" by Cushman & Wakefield) and continued in the three-month period ended March 31, 2015. While yields in Spain are now frequently aggressive, growth potential is favorable given supply shortages in some areas and the seeming success of the reform program, which will benefit all sectors. Transaction volumes consequently increased since 2012.

While investors have previously preferred real estate in the top segment ('core real estate') (i.e. prime real estate and location, highly marketable and excellent tenant quality), the investment volume in non-core assets and second-tier locations has recently increased (source: "Global Capital Markets Research, Q4 2014" by JLL). According to the Company's own assessment, this shift could be observed since the second half year of 2013 with this trend continuing in 2014 and the three-month period ended March 31, 2015. The demand for property had a positive effect on the business of financing banks and non-bank investors. Against this backdrop, pbb Group increased its new business volume in the REF segment from €4.9 billion in the financial year 2012 to €7.0 billion in the financial year 2013 and to €9.0 billion in the financial year 2014. The new business volume in the REF segment for the three-month period ended March 31, 2015 amounted to €2.7 billion (three-month period ended March 31, 2014: €1.3 billion). These new business volumes have been determined in relation to the relevant period on the basis of commitments and include extensions with maturities of more than one year.

11.4.2 Developments in the Public Investment Finance Market

In its PIF segment, pbb Group finances public sector investments such as infrastructures, public housing, utilities and waste disposal, health care and nursing care properties, as well as child care and educational facilities and ECA guaranteed export finance transactions. pbb Group is therefore dependent on the development in the public investment finance market. Its key markets are Germany, France, the United Kingdom, Spain, Finland and Sweden.

Since the European sovereign debt crisis in 2012 and 2013, the situation in all segments of the public sector financing market has largely normalized. The ECB's announcement of a plan to purchase bonds issued by Eurozone member-states in secondary, sovereign bond markets (an outright monetary transactions or ("**OMT**") program) September 2013, which significantly reduced volatility in the Eurozone financial markets, is primarily responsible for this. In addition, countries whose public finances had been affected significantly and negatively by the crisis, such as Ireland, Spain and Portugal saw promising developments. In particular, they have successfully completed and exited any bailout programs and are, according to the European Commission, expected to benefit from structural reforms. The public sector financing provided by retail banks and development banks was sufficient to fund the majority of relevant investment projects, particularly in the countries less affected by the sovereign debt crisis. Nevertheless, financing banks and investors continue to closely monitor developments in countries such as Spain and Ireland, including in relation to the credit quality of municipalities and other sub-sovereign debtors.

In Germany, while sufficient market demand for public investment finance existed, long-term loans remained popular and were granted at low margins by local competitors (primarily banks from the public sector, including development banks). The traditional public investment finance market was thus highly challenging for other financiers during the periods under review. Competition intensified again in the French market resulting in lower margins during 2014. In the Northern European countries, the markets offered opportunities to execute transactions with attractive risk-return profiles in 2014. This was mainly due to the withdrawal of, or discontinuation of, business activities by other international competitors as well as certain local banks.

Due to these market and competitive dynamics, pbb Group's new public investment finance business within the PIF segment remained flat in the financial year 2014 compared to the financial year 2013, at €1.2 billion. However, this significantly exceeded the new business of the financial year 2012 (€0.7 billion). In the financial year 2013, the new business margins were higher than the average margins in the existing portfolio, increasing the profitability of the portfolio. In the financial year 2014, however, a more intense competitive environment prevented an increase of the profitability by putting downward pressure on the margins, while pbb Group decided not to increase the volume of loans with greater risk in pursuit of higher returns. Rather, pbb Group was selective with its new business in the financial year 2014 and achieved, as in the financial year 2013, an increase in the profitability of the new business as compared to the existing PIF portfolio. In the three-month period ended March 31, 2015, pbb Group's new public investment finance business within the PIF segment amounted to €0.2 billion (financial year 2014: €1.2 billion; 2013: €1.2 billion), with the profitability being further increased in comparison to the financial year 2014. These new business volumes have been determined in relation to the relevant period on the basis of commitments and include extensions with maturities of more than one year. However, the financing volume declined from €8.0 billion (including Italian assets in the amount of €1.3 billion) as of December 31, 2014 to €6.8 billion (after transfer of the Italian assets) as of March 31, 2015.

11.4.3 Run-Down of the Non-Strategic Value Portfolio

The main asset of the Value Portfolio (VP) is the former budget finance portfolio. With effect from January 1, 2015, the Company transferred its Italian portfolio, which had a financing volume of €1.3 billion as of January 1, 2015 and was previously reported in its PIF segment, to its VP segment.

Following the European Commission's decision dated July 18, 2011, pbb is only allowed to run-down the budget finance portfolio and is not allowed to conclude new business in budget finance products. The VP has been in run-down since 2010 and as of March 31, 2015 its aggregate nominal amount equaled €22.2 billion (€30.3 billion as of December 31, 2012) and is expected, on the basis of contractual maturities and scheduled repayments (with zero-coupon bonds being taken into account with their nominal value at maturity and without considering arrears), to reduce by 42% by the end of 2019. The VP segment comprises non-strategic assets, including the budget finance portfolio. It has a

relatively low gross margin (average in the financial year 2014: less than 10 basis points) and requires a relatively high amount of regulatory capital on the basis of its risk-weighted assets. Thus, run-down of the VP releases regulatory capital, which can be used to engage in REF and PIF activities with comparatively higher margins. This may have a positive effect on the development of the overall portfolio margin.

Included in the results of the VP segment are income and expenses which mainly arose in the financial year 2013 and related to the services provided for the FMS-WM portfolio until the end of September 2013 and from IT services provided to DEPFA Group until the end of December 2014.

The VP segment recorded a loss of €37 million before taxes in the financial year 2013 (adjusted in accordance with IFRS 8.29). Due to the effects from the HETA exposure, the loss before taxes increased further to €66 million in the financial year 2014. Without taking the impact of the HETA exposure into account, the VP segment would have recorded a €52 million profit before taxes in the financial year 2014. Operating income of the VP segment decreased from €164 million in the financial year 2012 to €105 million in the financial year 2013 and further decreased to €1 million in the financial year 2014, reflecting the termination of services provided for the FMS-WM portfolio at the end of September 2013 and the negative effects from the HETA exposure in the financial year 2014. The RWA of the VP declined from €7.7 billion in the financial year 2013 to €5.5 billion in the financial year 2014.

11.4.4 Funding Markets

Throughout the periods under review, the capital markets were dominated by low interest rates, expansionary monetary policy (source: ECB Monthly Bulletin) and uncertainty as to how the central banks planned to proceed.

As a result, since 2012, pbb Group has been able to lower its funding costs for covered as well as senior unsecured funding. The average issuance spread for pbb Group's Mortgage Pfandbriefe has decreased from 64 basis points (over 3 months EURIBOR) in 2012 to 31 basis points in 2013 to 24 basis points in 2014. The average issuance spread for pbb Group's Public Sector Pfandbriefe has decreased from 37 basis points (over 3 months EURIBOR) in 2012 to 36 basis points in 2013 to 29 basis points in 2014. The average spread of pbb Group's senior unsecured funding decreased from 156 basis points above 3 months EURIBOR in 2012 (benchmark issues: 210 basis points; private placements (bearer): 115 basis points; private placements (registered): 133 basis points) to 116 basis points in 2013 (benchmark issues: 139 basis points; private placements (bearer): 85 basis points; private placements (registered): 105 basis points) and to 86 basis points in 2014 (benchmark issues: 84 basis points; private placements (bearer): 96 basis points; private placements (registered): 82 basis points). In 2012, pbb Group issued €2.3 billion in senior unsecured financing instruments and €4.2 billion in Pfandbriefe (€4.0 billion Mortgage Pfandbriefe and €0.2 billion Public Sector Pfandbriefe).

At the beginning of 2013, the positive sentiment seen in the previous year initially continued. Many investors changed their investment focus due to the historically low interest rates, resulting in increasing allocations to higher-risk investments in order to achieve desired yields. This has led to an increased demand for unsecured bonds and securities from the periphery of Europe. In the summer of 2013, concerns about the sovereign debt crisis have gained prominence, partly due to the financial difficulties observed in Cyprus, contributing to the increasing market volatility. Pfandbriefe remained attractive for investors and the risk premiums for securities placed on the primary market improved again when evaluated from an issuer's perspective. Because of the low yield environment, investors showed increasing demand for longer-term debt instruments which pay a higher rate of interest. For the first time since the financial and sovereign debt crises, a Pfandbrief in benchmark format with a maturity of 15 years was initially issued by pbb Group and subsequently by Munich Hypo. In the financial year 2014, the capital markets continued to be driven by excess liquidity and low returns driven by the monetary policy measures introduced by the major central banks. From an investor's point of view, the decline in the 10-year yield for German sovereign bonds by approximately 140 basis points in 2014 (source: "Germany Generic Govt 10Y Yield (Ticker GDBR10 Index)" by Bloomberg) resulted in the focus shifting towards longer maturities and higher-risk investments. This was evidenced by the greater interest shown by investors in unsecured issues and equity transactions in general.

While the United States Federal Reserve System ("**Fed**") contemplated an option to exit from the liquidity assistance activities at the end of 2013, the ECB expanded its measures by further interest

rate decreases and Targeted Longer-Term Refinancing Operations (TLTRO) (source: "ECB Main Refinancing Operations Announcement Rate (Ticker: EURR002W Index) and BI LTRO function" by Bloomberg). Since the beginning of the fourth quarter of 2014, investors in the Eurozone have faced the challenge of a new purchase program for covered bonds (Covered Bond Purchase Program 3 – CBPP3). The increasing demand resulted in a further narrowing of spreads on the Pfandbrief market. The placing of Pfandbriefe at low spread levels was predominantly driven by the demand from central banks.

This liquidity situation improved the funding backdrop for credit institutions and led to a significant decline in risk premiums for Pfandbriefe and unsecured bonds. Smaller private placements of promissory notes were also well received by German investors during the periods under review. pbb Group consequently increased its issuing activities, with a total volume of €7.7 billion in the financial year 2013 (financial year 2012: €6.5 billion). €4.4 billion (financial year 2012: €3.0 billion) thereof was raised through benchmark issues of Pfandbriefe and senior unsecured bonds. In total, pbb Group issued in the financial year 2013 €3.2 billion in senior unsecured financing instruments and €4.5 billion in Pfandbriefe (€3.2 billion Mortgage Pfandbriefe and €1.2 billion Public Sector Pfandbriefe).

In the financial year 2014, the new long-term funding volume amounted to €6.0 billion (financial year 2013: €7.7 billion). Early repayments on loans granted by pbb Group together with the adequate liquidity position permitted pbb Group to reduce its funding activities in the capital markets. pbb Group raised €2.6 billion (financial year 2013: €4.4 billion) through new benchmark issues as well as tap issuances, i.e. increases of existing benchmark bonds. Pfandbrief issuances represented approximately two thirds of the total new long-term funding in the financial year 2014 with unsecured bond issuances accounting for the remaining one third (€2.1 billion in senior unsecured financing instruments and €3.9 billion in Pfandbriefe, thereof €3.6 billion Mortgage Pfandbriefe and €0.3 billion Public Sector Pfandbriefe).

In the first quarter of 2015, the total long-term funding volume amounted to €1.35 billion. As the focus of the long-term funding in the first quarter of 2015 was on senior unsecured funding, pbb Group issued €1.0 billion in senior unsecured financing instruments and €324 million in Pfandbriefe (€72 million Mortgage Pfandbriefe and €252 million Public Sector Pfandbriefe).

In March 2013, pbb Group launched its retail deposits business under the brand name "pbb direkt" with an initial product range of call deposits (*Tagesgeld*) and term deposits (*Festgeld*) of 6 months, 1 year, 2 years, and 3 years in order to further diversify its unsecured funding mix. To secure reliable and stable deposits, the focus is on term deposits. The platform is addressed to retail depositors who reside in Germany. After having proven operational stability, interest rates on call deposits were raised from 0.8% to 1.2% in June 2013. 5-year and 10-year term deposits were added in December 2013. By the end of 2013 "pbb direkt" had reached a deposit volume of €0.62 billion, from approximately 7,000 customers. In the first and second quarter of 2014, client deposit volumes continuously increased to €1.43 billion from approximately 17,300 customers despite two interest rate reductions in March and June 2014. In June 2014, "pbb direkt" further expanded its product range and introduced partly callable term deposits (FestgeldPLUS), a term deposit where up to 20% of the original amount can be withdrawn by the customer without a notice period. "pbb direkt" reached its 2014 year-end retail customer deposit target of €1.5 billion with a total deposit volume of €1.53 billion from approximately 18,800 customers. At the end of the first quarter of 2015, client deposit volumes had increased to €1.79 billion from approximately 21,300 customers. 74% of this amount is in term deposits and 33% of all term deposits are 5-year and 10-year term deposits. This success allowed pbb Group to decrease its 5-year and 10-year term deposit interest rates in April 2015.

For further information, see also "*11.9.3 Funding*".

11.4.5 Changes in the Regulatory Environment

pbb Group operates in an environment that continues to be strongly influenced by competent regulatory authorities. Banks had to face new challenges such as the comprehensive assessment by the ECB and the Capital Requirements Regulation (CRR), which have a significant impact on offerings of securities by the European banking sector in the future. The ongoing development of regulatory requirements has had and will likely continue to have an impact on the structure of assets and liabilities affecting the development in earnings and leading to an additional cost burden for pbb Group.

For example, the set of comprehensive changes to the capital adequacy framework published by the Basel Committee, known as Basel 3, which had been proposed by the Basel Committee on Banking Supervision in 2010, has been implemented into European Union law by a legislative package referred

to as "**CRR/CRD 4**". CRR/CRD 4 contains, among other things, detailed rules on regulatory banking capital, increased capital requirements and the introduction of additional capital buffers, tightened liquidity standards and a non-risk based leverage ratio. Most of the new rules came into effect on January 1, 2014, with capital requirements being gradually phased in until 2019. Due to the application of CRR/CRD 4, risk-weighted assets (RWA) of pbb Group increased significantly in the financial year 2014, primarily as a result of (i) the abolition of the former preference for certain risk items pursuant to Section 64 (h) of the German Banking Act (*Kreditwesengesetz* ("**KWG**")) and (ii) the introduction of the additional charge for the credit valuation adjustment (CVA) of derivatives which added an additional RWA component. pbb Group's CET 1 capital increased due to the application of IFRS accounting standards (formerly German GAAP) as of January 1, 2014. This positive effect more than offset the negative effect from the phase-in of CET 1 deductions. The grandfathering rules under CRR/CRD 4 allow for the transitional treatment of certain capital instruments such as AT 1 (Additional Tier 1) capital and Tier 2 capital, that are not compliant with the new rules, and permit for a gradual reduction in recognition as regulatory capital. This had a negative impact on the Tier 1 and own funds ratios as of January 1, 2014, while the CET 1 ratio increased. For further information, see also "*11.9.5 Key Regulatory Capital Ratios*". Also, the final guideline on the regulatory review and evaluation process (SREP – Supervisory Review and Evaluation Process) which has been published by the European Banking Authority ("**EBA**") on December 19, 2014, and which is aligned to the supervisory authorities of the member states of the European Union should be implemented by the supervisory authorities in 2015 and applied beginning in 2016. In the guideline, EBA takes a holistic SREP approach that comprises assessing selected key indicators, the business model, governance as well as capital and liquidity risks. Based on the consultations in 2014, pbb Group has already initiated a project that aims to fully implement SREP. As part of the ECB's implementation of the EBA Guidelines, minimum ratios including the CET 1 ratio and the own funds ratio were prescribed for the entire HRE Group in March 2015. These ratios were met as of December 31, 2014. The Company expects that the ECB will issue a decision within the next weeks, pursuant to which the Company and pbb group will be required to maintain at least the same ratios.

11.4.6 Competition in the Banking Sector

During the periods under review, the banking industry was affected by intense competition in both, REF and PIF, which resulted in continued pressure on margins. See also "*13.3.3 Competitors and Market Position*".

Several banks have expanded or intensified their reach into the REF market. In addition, an increasingly diverse mix of lenders is participating in the REF market – besides the traditional bank lenders, non-bank financial institutions (in particular insurers but also debt funds and private equity funds) have increased their REF activities. The growing competition in the lending market has increased pressure on margins. This resulted in an increasing willingness of banks to provide finance for secondary assets in core locations, or prime assets in secondary locations. There has also been an increase in the amount of capital lent against commercial real estate (higher loan to value ("**LTV**") percentages) and a growing willingness to lend to new customers without previous relationships. Additionally, the range of transaction sizes in the market has grown during the periods under review. The average transaction size of new business in the REF segment in the financial year 2014 was €56 million increasing to €80 million in the three-month period ended March 31, 2015.

Due to the public backing of PIF loans, PIF enjoys a comparably low risk profile. Certain institutional investors (direct or through debt funds) have therefore entered the PIF market and public sector banks have increased their lending activities. While generating smaller margins, PIF is complementary to REF, predominantly due to counter cyclicalities, capital synergies and economies of scale, which may cause further REF providers to commence PIF activities. In addition, the ECB is providing increasing public sector funding through its expanded asset purchase program. These factors may exert further pressure on margins as price is frequently a key driver for public institutions making business decisions.

11.5 Key Financials and Key Performance Indicators

Monitoring and management at pbb Group are based on a consistent and integrated key performance indicator system (KPI system), which assists executives in the management of the Group. The KPI system comprises the dimensions of profitability, growth in the strategic real estate finance and public investment finance portfolios, risk limitation and capital. As is customary in pbb Group's industry, some of these figures are based on IFRS, whereas others are used in addition to the IFRS financial

measures and are not recognized terms under IFRS or under the German Commercial Code (non-GAAP measures), in order to evaluate, monitor and manage the business. Key performance indicators, which are not measures of financial performance under IFRS, have not been reviewed by an outside consultant, expert or auditor and are, unless otherwise noted, derived from pbb Group's accounting system and management estimates. These non-GAAP measures are defined by pbb Group's management and may not be comparable to similar measures used by other companies. The financial key performance indicators pbb Group uses to track the financial performance of its business and to guide its management are *inter alia* return on equity after tax, profit or loss before tax, cost income ratio, the notional amount of the funding in the strategic Real Estate Finance (REF) and Public Investment Finance (PIF) segments, volume of new business and the CET 1 ratio.

Certain key financial information for pbb Group in the periods under review can be summarized as follows:

	As of and for the Three-Month Period ended March 31,	As of and for the Financial Year ended December 31,			
	2015	2014 (adjusted)†	2014	2013	2012
	(unaudited)	(unaudited unless otherwise indicated)			
Profit before tax (in € million)	51[1)]	174[2)]	54*	165*	124*
Net income/loss (in € million)	39[3)]	116[2)]	4*	160*	69*
Return on equity before tax (in %)[4)]	8.3[5)]	7.1[2),6)]	2.2	7.2	5.5
Return on equity after tax (in %)[4)]	6.3[7)]	4.7[2),6)]	0.2	7.0	3.1
Cost income ratio (in %)	51.6	57.3[2)]	77.0*	64.7*	73.0*
Total assets (in € billion)	75.4		74.9[8)]	74.6*[9)]	97.7*[9)]
Shareholder's equity (in € billion)[10)]	3.6		3.5*	3.5*	3.3*
thereof: SoFFin Silent Participation (in € billion)	*1.0**		*1.0**	*1.0**	*1.0**
Risk weighted assets (in € billion)[11)]	14.8	15.5	15.5*	18.1*	15.3*
CET 1 ratio (fully loaded) (in %)[12),13)]	14.8	13.5	13.5*	11.0*	–
Tier 1 ratio (fully loaded) (in %)[13)]	14.8[14)]	13.5[15)]	19.9*	16.6*	18.9*[16)]
Own funds ratio (fully loaded) (in %)[13),17)]	16.9[18)]	15.6[19)]	22.1*	19.1*	26.6*[16)]
New business volume (in € billion)[20)]	2.8		10.2	8.2	5.6
Leverage ratio (fully loaded) (in %)[13)]	3.2[21)]	3.1[22)]	3.1[22)]	2.8[23)]	

† The figures were adjusted as specified in the respective footnotes below. The adjustments were made either (i) for the significant effects resulting from the value adjustments on the HETA exposure (thus showing figures as if there had been no negative impact from these value adjustments) or (ii) for the repayment of the SoFFin Silent Participation of €1.0 billion which has occurred on July 6, 2015.

* Audited.

1) Profit before tax would amount to €133 million if adjusted for €82 million effects (for cost income ratio calculation €76 million) from value adjustments on HETA exposure (nominal: €395 million) in the first quarter of the financial year 2015.

2) Adjusted for €120 million effects (for cost income ratio calculation €112 million) from value adjustments on HETA exposure (nominal: €395 million) in the fourth quarter of the financial year 2014.

3) Net income/loss would amount to €112 million if adjusted for €82 million effects (for cost income ratio calculation €76 million) from value adjustments on HETA exposure (nominal: €395 million) in the first quarter of the financial year 2015.

4) Return on equity calculation is based on average monthly IFRS equity excluding revaluation reserve; shareholder's equity for return on equity calculation is calculated using ordinary shareholder's equity (i.e. reported shareholder's equity excluding €1.0 billion SoFFin Silent Participation, which has been repaid on July 6, 2015).

5) Return on equity before tax would amount to 21.6% based on pre-tax profit of €51 million plus adjustment for HETA provisions of €82 million (net income of €39 million plus adjustment for HETA €73 million) divided by average monthly IFRS equity for the first quarter of the financial year 2015 (€3,465 million) excluding the revaluation reserve (€149 million) adjusted by the SoFFin Silent Participation (minus €999 million).

6) Return on equity before tax (post tax) calculation based on pre-tax profit of €54 million plus adjustment for HETA provisions of €120 million (net income of €4 million plus adjustment for HETA €112 million) divided by average monthly IFRS equity for the year excluding the revaluation reserve (€3,451 million) adjusted by the SoFFin Silent Participation (minus €999 million).

7) Return on equity after tax would amount to 18.2% based on pre-tax profit of €51 million plus adjustment for HETA provisions of €82 million (net income of €39 million plus adjustment for HETA €73 million) divided by average monthly IFRS equity for the first quarter of the financial year 2015 (€3,465 million) excluding the revaluation reserve adjusted by the SoFFin Silent Participation (minus €999 million).

8) Figure has been adjusted in the Unaudited Interim Condensed Financial Statements as of and for the three-month period ended March 31, 2015 due to IAS 8.14 et seq. and is unaudited. Total assets in the Audited Consolidated Financial Statements for the financial year 2014: €75.5 billion (audited).

9) Figure for the financial year 2013 is adjusted due to retrospective first time adoption of IFRS 10 first time adoption and due to IAS 8.42. Figure for the financial year 2012 is adjusted due to the retrospective first time adoption of IAS 19 (revised). For further information, see "*11.2 Adoption of New and Revised Accounting Standards*".

10) Figure for the financial year 2012 is adjusted due to the retrospective initial application of IAS 19 (revised). Figure for the financial year 2013 is adjusted due to retrospective IFRS 10 first time adoption and due to IAS 8.42. For further information, see "*11.2 Adoption of New and Revised Accounting Standards*".
11) Figures for the financial years 2014 and 2013 and the three-month period ended March 31, 2015 are simulated Basel 3 figures (as implemented by CRR) consolidated in accordance with CRR. Figure for the financial year 2012 is consolidated in accordance with Section 10a of the German Banking Act (*KWG*).
12) The CET 1 ratio is calculated by dividing the CET 1 by the risk-weighted assets (RWA).
13) The regulatory capital ratios stated are calculated on a simulated basis. According to the 'Waiver Rule' under Article 7 CRR, pbb, being a subsidiary of HRE, is, as at the date of the Prospectus, exempted from calculating the CET 1 capital ratio and the other relevant regulatory capital ratios on a sub-group level.
14) Tier 1 capital of €2.2 billion fully loaded (excluding SoFFin Silent Participation of €1.0 billion which has been repaid on July 6, 2015) in percentage of RWA of €14.8 billion.
15) Tier 1 capital of €2.1 billion fully loaded (excluding SoFFin Silent Participation of €1.0 billion which has been repaid on July 6, 2015) in percentage of RWA of €15.5 billion.
16) Figure for the financial year 2012 is calculated on a non-fully loaded basis.
17) Figures for the financial years 2014 (unadjusted) and 2013 are shown after expiry of all Basel 3 transitional regulations (as implemented by CRR) (fully loaded). Figures for the financial year 2013 are consolidated in accordance with CRR (following the appropriation of net profit 2013) and adjusted due to IAS 8.42.
18) Own funds of €2.5 billion fully loaded (excluding SoFFin Silent Participation of €1.0 billion which has been repaid on July 6, 2015) in percentage of RWA of €14.8 billion.
19) Own funds of €2.4 billion fully loaded (excluding SoFFin Silent Participation of €1.0 billion which has been repaid on July 6, 2015) in percentage of RWA of €15.5 billion.
20) New business volumes have been determined in relation to the relevant period on the basis of commitments and include extensions with maturities of more than one year.
21) Tier 1 capital of €2.2 billion fully loaded (excluding SoFFin Silent Participation of €1.0 billion which has been repaid on July 6, 2015) in percentage of leverage exposure of €69.1 billion.
22) Tier 1 capital of €2.1 billion fully loaded (excluding SoFFin Silent Participation of €1.0 billion which has been repaid on July 6, 2015) in percentage of leverage exposure of €67.2 billion.
23) Tier 1 capital of €2.0 billion fully loaded (excluding SoFFin Silent Participation of €1.0 billion which has been repaid on July 6, 2015) in percentage of leverage exposure of €69.9 billion.

For further information on key regulatory capital ratios, see also "*11.9.5 Key Regulatory Capital Ratios*".

The following tables show certain key financial information for the segments of pbb Group in the periods under review which were taken from the Unaudited Interim Condensed Financial Statements of the Company as of and for the three-month period ended March 31, 2015:

REF[1)]	As of and for the Three-Month Period ended March 31,	As of and for the Financial Year ended December 31,		
	2015	2014	2013	2012
		(unaudited)		
Profit before tax (in € million)	67	108	206	147
Return on equity before tax (in %)[2)]	55.8	20.0	40.0[3)]	29.3
Cost income ratio (in %)	40.2	56.7	41.8[3)]	48.9
Allocated equity (in € billion)[4)]	0.7	0.7	0.8	0.8
Financing volume (in € billion)	23.5	21.8	20.4	22.1
Risk weighted assets (in € billion)	6.8	7.2	7.4[5)]	9.6[6)]
New business volume (in € billion)[7)]	2.7	9.0	7.0	4.9
Gross interest margin new business (bps)	>170	>200	>225	>225

1) Figures for the periods under review are taken from the Unaudited Interim Condensed Financial Statements of the Company as of and for the three-month period ended March 31, 2015. For further information, see "*11.1.1.2 Presentation of Financial Information on the segment level*". Figures for the financial years 2014, 2013 and 2012 have been revised in accordance with IFRS 8.29.
2) Excluding €1.0 billion SoFFin Silent Participation, which has been repaid on July 6, 2015.
3) Including €92 million gain from the sale of a restructured property.
4) Excluding revaluation reserve.
5) Basel 3 simulation.
6) Figure for the financial year 2012 has been calculated in accordance with Section 10a German Banking Act (*Kreditwesengesetz*) on a consolidated basis (Basel 2).
7) New business volumes have been determined in relation to the relevant period on the basis of commitments and include extensions with maturities of more than one year.

PIF[1]	As of and for the Three-Month Period ended March 31,	As of and for the Financial Year ended December 31,		
	2015	2014	2013	2012
		(unaudited)		
Profit before tax (in € million)	7	4	-11	-15
Return on equity before tax (in %)[2]	13.7	1.2	<0	<0
Allocated equity (in € billion)[3]	0.3	0.5	0.4	0.4
Cost income ratio (in %)	46.2	88.6	>100	>100
Financing volume (in € billion)	6.8	6.6	5.7	6.0
Risk weighted assets (in € billion)	1.3	1.3	1.4[4]	1.4[5]
New business volume (in € billion)[6]	0.2	1.2	1.2	0.7
Gross interest margin new business (bps)	>100	>75	>100	>140

1) Figures for the periods under review are taken from the Unaudited Interim Condensed Financial Statements of the Company as of and for the three-month period ended March 31, 2015. For further information, see "*11.1.1.2 Presentation of Financial Information on the segment level*". Figures for the financial years 2014, 2013 and 2012 have been revised in accordance with IFRS 8.29.
2) Excluding €1.0 billion SoFFin Silent Participation, which has been repaid on July 6, 2015.
3) Excluding revaluation reserve.
4) Basel 3 simulation.
5) Figure for the financial year 2012 has been calculated in accordance with Section 10a German Banking Act (*Kreditwesengesetz*) on a consolidated basis (Basel 2).
6) New business volumes have been determined in relation to the relevant period on the basis of commitments and include extensions with maturities of more than one year.

VP[1]	As of and for the Three-Month Period ended March 31,	As of and for the Financial Year ended December 31,		
	2015	2014	2013	2012
		(unaudited)		
Profit before tax (in € million)	-25	-66	-37	-12
Return on equity before tax (in %)[2]	-6.8	<0	<0	<0
Allocated equity (in € billion)[3]	2.0	1.8	1.8	1.7
Cost income ratio (in %)	>100	>100	>100	>100
Financing volume (in € billion)	22.2	22.7	25.1	30.3
Risk weighted assets (in € billion)	5.5	5.5	7.7[4]	3.8[5]

1) Figures for the periods under review are taken from the Unaudited Interim Condensed Financial Statements of the Company as of and for the three-month period ended March 31, 2015. For further information, see "*11.1.1.2 Presentation of Financial Information on the segment level*". Figures for the financial years 2014, 2013 and 2012 have been revised in accordance with IFRS 8.29.
2) Excluding €1.0 billion SoFFin Silent Participation, which has been repaid on July 6, 2015.
3) Excluding revaluation reserve.
4) Basel 3 simulation.
5) Figure for the financial year 2012 has been calculated in accordance with Section 10a German Banking Act (*Kreditwesengesetz*) on a consolidated basis (Basel 2).

11.6 Explanation of Key Line Items

The following is an explanation of the key line items included in pbb Group's audited consolidated income statement.

11.6.1 Net interest and similar income

Net interest and similar income contains the following periodic items: interest income and expense of the interest-bearing financial assets and liabilities, amortization of the premium/discount of financial assets and liabilities, upfront fees to be amortized according to IAS 18, amortization of the cash flow hedge reserve, amortization of the hedge adjustments of hedged and hedging items (derivative), unwinding effects (increase of the present value due to passage of time) from allowances for losses on loans and advances as well as unwinding effects from reclassified financial investments.

In addition, the following non periodic items are included: prepayment penalty/repurchase penalty fees, repurchase/withdrawal from liabilities before maturity, amortization of the hedge adjustment of the hedged item at the moment of close out and default interest.

11.6.2 Net fee and commission income

Net fee and commission income contains income and expenses from lending business and guarantees and income and expenses from securities and custodial business. Net commission income is attributable exclusively to financial assets and financial liabilities which are not designated at fair value through profit or loss.

11.6.3 Net trading income

Net trading income includes valuation adjustments of stand-alone derivatives due to market price fluctuations, bilateral Credit Value Adjustment and pull to par effect (movement of the net present value of derivatives to nil on their maturity date).

11.6.4 Net income from financial investments

Net income from financial investments consists of income from the sale of securities of the measurement categories Available for Sale (AfS) and Loans and Receivables (LaR) together with changes in the value of such instruments that are to be recognized in profit or loss.

11.6.5 Net income from hedging relationships

Net income from hedging relationships includes the result from the fair value hedge accounting of the hedged item, hedging instrument and the ineffectiveness from cash flow hedge accounting recognized in profit or loss.

11.6.6 Net other operating income/expenses

Net other operating income/expenses include all operating income that cannot be attributed to the above categories. The main sources of income in recent years include: rental income, bank levies, income and expenses from currency translation, additions and reversals of provisions in non-lending operations (litigation cost, pending court decisions, VAT audits), gains and losses from the sale of rescue acquisitions, income and expenses from the write-up/depreciation of rescue acquisitions, income from FMS-WM related servicing, income from recharging of IT-services to DEPFA, income and expenses from recharging of intercompany services, and depreciation of current assets.

11.6.7 Loan loss provisions

Loan loss provisions include income and expenses from reversals of, and additions to, allowances for losses on loans and advances (lending business) as well as income from recoveries of written-off loans and advances.

11.6.8 General and administrative expenses

General and administrative expenses can be divided into personnel expenses and non-personnel expenses. Personnel expenses comprise wages and salaries, social security costs, and pension expenses and related employment benefit costs. Non-personnel expenses comprise consulting/audit fees, IT expenses, office equipment as well as depreciation, amortization and impairments of software and property/office equipment.

11.6.9 Net miscellaneous income/expenses

Net miscellaneous income/expenses include income and expenses from reversals of, and additions to, restructuring provisions, as well as income and expenses from taxes other than income related taxes.

11.6.10 Income taxes

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

11.7 Results of Operations

11.7.1 Comparison of the Three-Month Period Ended March 31, 2015 and the Three-Month Period Ended March 31, 2014

	For the Three-Month Period ended March 31,	
	2015	2014
	(unaudited) (in € million)	
Operating income	**93**	**89**
Net interest and similar income	113	89
Interest and similar income	540	583
Interest and similar expenses	-427	-494
Net fee and commission income	7	–
Fee and commission income	8	3
Fee and commission expenses	-1	-3
Net trading income	5	-9
Net income from financial investments	-20	-1
Net income from hedging relationships	-1	-3
Net other operating income/expenses	-11	13
Loan loss provisions	4	5
General and administrative expenses	-48	-62
Net miscellaneous income/expenses	2	6
Profit or loss before tax	**51**	**38**
Income taxes	-12	5
Net income/loss	**39**	**43**

11.7.1.1 Operating Income

Operating income increased to €93 million in the three-month period ended March 31, 2015, an increase of €4 million, or 4.5%, from €89 million in the three-month period ended March 31, 2014. This was mainly due to higher net interest and similar income and higher net commission income (see "*11.7.1.2 Net Interest and Similar Income*" and "*11.7.1.3 Net Fee and Commission Income*").

The volume of new business (on the basis of commitments and including extensions of more than 1 year) increased to €2.8 billion in the three-month period ended March 31, 2015, an increase of €1.2 billion, or 75.0%, from €1.6 billion in the three-month period ended March 31, 2014.

11.7.1.2 Net Interest and Similar Income

Net interest and similar income increased to €113 million in the three-month period ended March 31, 2015, an increase of €24 million, or 27.0%, from €89 million in the three-month period ended March 31, 2014. This was mainly due to income of €15 million from the disposal of a loan evidenced by a certificate of indebtedness (*Schuldscheindarlehen*). The net interest and similar income has also been impacted positively by the new business volume of €2.8 billion (on the basis of commitments and including extensions of more than 1 year) in the three-month period ended March 31, 2015 (three-month period ended March 31, 2014: €1.6 billion). The new business resulted in an increase of the average notional REF portfolio from €20.8 billion in the three-month period ended March 31, 2014 to €22.5 billion in the three-month period ended March 31, 2015 and of the average notional PIF portfolio from €5.9 billion in the three-month period ended March 31, 2014 to €6.7 billion in the three-month period ended March 31, 2015.

11.7.1.3 Net Fee and Commission Income

Net fee and commission income increased to €7 million in the three-month period ended March 31, 2015, an increase of €7 million from €0 million in the three-month period ended March 31, 2014. This was predominately due to the realization of penalty fees amounting to €5 million for a French financing, which has since been repaid in full.

11.7.1.4 Net Trading Income

Net trading income increased to €5 million in the three-month period ended March 31, 2015, an increase of €14 million from minus €9 million in the three-month period ended March 31, 2014. This increase was mainly due to positive valuation effects of currency and interest rate derivatives.

11.7.1.5 Net Income from Financial Investments

Net income from financial investments decreased to minus €20 million in the three-month period ended March 31, 2015, a decrease of €19 million from minus €1 million in the three-month period ended March 31, 2014. This was mainly the result of an expense of €73 million due to additional value adjustments of HETA debt securities which could be partly compensated by income amounting to €55 million from disposal of a security with a notional amount of £200 million (i.e. €257 million based on the closing exchange rate as of December 31, 2014).

11.7.1.6 Net Income from Hedging Relationships

Net income from hedging relationships increased to minus €1 million in the three-month period ended March 31, 2015, an increase of €2 million, or 66.7%, from minus €3 million in the three-month period ended March 31, 2014. This increase was mainly due to hedging inefficiencies of micro fair value hedges.

11.7.1.7 Net Other Operating Income/Expenses

Net other operating income/expenses decreased to minus €11 million in the three-month period ended March 31, 2015, a decrease of €24 million from €13 million in the three-month period ended March 31, 2014. This was mainly due to the bank levy amounting to €22 million, which comprised the theoretical annual contribution for 2015 of €9 million and the post-clearing contribution of €13 million.

11.7.1.8 Loan Loss Provision

In the three-month period ended March 31, 2015, loan loss provisions were released by net €4 million (three-month period ended March 31, 2014: net releases of €5 million). The net release consisted of net additions to single loan loss provisions of €5 million (three-month period ended March 31, 2014: net releases of €2 million), net releases of portfolio-based allowances of €8 million (three-month period March 31, 2014: net releases of €1 million) and recoveries from written off loans and advances of €1 million (three-month period ended March 31, 2014: €2 million). The net additions to single loan loss provisions mainly related to specific allowances of €6 million attributable to a loan evidenced by a certificate of indebtedness (*Schuldscheindarlehen*) to HETA.

11.7.1.9 General and Administrative Expenses

General and administrative expenses decreased to €48 million in three-month period ended March 31, 2015, a decrease of €14 million, or 22.6%, from €62 million in the three-month period ended March 31, 2014. This decrease primarily reflects the decline in non-personnel costs due to lower IT and consulting expenses.

11.7.1.10 Net Miscellaneous Income/Expenses

Net miscellaneous income/expenses amounted to €2 million in the three-month period ended March 31, 2015 (three-month period ended March 31, 2014: €6 million) resulting primarily from releases of restructuring provisions.

11.7.1.11 Profit or Loss Before Tax

Profit or loss before tax increased to €51 million in the three-month period ended March 31, 2015, an increase of €13 million, or 34.2%, from €38 million in the three-month period ended March 31, 2014. The increase was predominantly due to lower general and administrative expenses and higher operating income. However, the profit was burdened with €79 million due to a further value adjustment related to HETA. Without this effect, profit or loss before tax for the three-month period ended March 31, 2015 would have amounted to €133 million, of which €73 million were recognized as net

income from financial investments (allocated in full to the VP segment) and €6 million thereof were recognized as loan loss provisions (allocated in full to the VP segment). Further expenses amounting to €3 million resulted from derivatives which had been terminated in March 2015 (with €1 million being allocated to each operating segment). These derivatives originally formed part of a hedging relationship with HETA exposures (i.e. prior to the recognition of the value adjustment).

11.7.1.12 Income Taxes

Income taxes increased to €12 million in three-month period ended March 31, 2015, an increase of €17 million from minus €5 million in the three-month period ended March 31, 2014. This increase in income taxes resulted from current taxes of €29 million mainly from a reverse tax effect in the three-month period ended March 31, 2015 from the termination of swap transactions undertaken in 2013.

11.7.1.13 Net Income/Loss

Net income decreased to €39 million in three-month period ended March 31, 2015, a decrease of €4 million, or 9.3%, from €43 million in the three-month period ended March 31, 2014, which was caused by the higher income taxes.

11.7.1.14 Results of Operations by Segment

	For the Three-Month Period ended March 31,[1]									
	REF		PIF		VP		C&A		pbb Group	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
					(unaudited) (in € million)					
Operating income	92	72	13	6	-14	11	2	–	**93**	**89**
Net interest and similar income	75	72	8	7	28	9	2	1	**113**	**89**
Net fee and commission income	7	–	–	–	–	–	–	–	**7**	**–**
Net trading income	2	-4	1	-1	2	-4	–	–	**5**	**-9**
Net income from financial investments	13	1	6	–	-39	-2	–	–	**-20**	**-1**
Net income from hedging relationships	-1	-1	–	-1	–	-1	–	–	**-1**	**-3**
Net other operating income/ expenses	-4	4	-2	1	-5	9	–	-1	**-11**	**13**
Loan loss provisions	10	5	–	–	-6	–	–	–	**4**	**5**
General and administrative expenses	-37	-39	-6	-8	-5	-15	–	–	**-48**	**-62**
Net miscellaneous income/ expenses	2	4	–	1	–	1	–	–	**2**	**6**
Profit or loss before tax	**67**	**42**	**7**	**-1**	**-25**	**-3**	**2**	**–**	**51**	**38**

1) Due to the re-segmentation described above (see "*11.1 Segmentation*") financial information on the segment level for the three-month period ended March 31, 2014 has been adjusted to the new segment structure in the Unaudited Interim Condensed Financial Statements of the Company as of and for the three-month period ended March 31, 2015. Financial information on the segment level for the three-month period ended March 31, 2014 was therefore taken from the Unaudited Interim Condensed Financial Statements of the Company as of and for the three-month period ended March 31, 2015.

11.7.1.14.1 Real Estate Finance (REF)

11.7.1.14.1.1 Operating Income

Operating income in the REF segment increased from €72 million in the three-month period ended March 31, 2014, by €20 million or 27.8% to €92 million in the three-month period ended March 31, 2015. This increase primarily resulted from higher net income from financial investments due to a gain from a sale of a bond allocated to the REF segment and higher net fee and commission income.

The volume of new, and on average more profitable, business, on the basis of commitments and including extensions with maturities of more than one year, was €2.7 billion in the three month period ended March 31, 2015, which was twice the volume of the three-month period ended March 31, 2014 (€1.3 billion).

Net interest and similar income increased from €72 million in the three-month period ended March 31, 2014, by €3 million, or 4.2%, to €75 million in three-month period ended March 31, 2015. This increase was primarily due to the disposal of a loan evidenced by a certificate of indebtedness (*Schuldscheindarlehen*) partly allocated to the REF segment and from the increase in the average notional REF portfolio from €20.8 billion in the three-month period ended March 31, 2014 to €22.5 billion in the three-month period ended March 31, 2015.

Net fee and commission income amounted to €7 million in the three-month period ended March 31, 2015 compared to €0 million in the three-month period ended March 31, 2014. The increase was predominantly due to the realization of penalty fees amounting to €5 million for a French financing, which has since been repaid in full.

Net trading income improved from minus €4 million in the three-month period ended March 31, 2014, by €6 million to €2 million in the three-month period ended March 31, 2015. While positive effects resulted from changes in the valuation of derivatives benefiting from lower interest rates in the long-term, these were to a large extent compensated by negative effects from bilateral credit value adjustments and the pull to par effect of derivatives allocated to the REF segment.

Net income from financial investments increased from €1 million in the three-month period ended March 31, 2014, by €12 million to €13 million in the three-month period ended March 31, 2015. This increase was mainly due to income from the disposal of a security allocated to the REF segment.

Net income from hedging relationships amounted to minus €1 million in the three-month period ended March 31, 2015 and the three-month period ended March 31, 2014. The expenses resulted from hedging inefficiencies, to the extent admissible under IAS 39, which requires that the changes in the fair value or cash flows of the hedged item attributable to the hedged risk must be expected to be highly effective in offsetting the changes in the fair value or cash flows of the hedging instrument on a prospective basis, and on a retrospective basis where actual results are within a range of 80% to 125%.

Net other operating income/expenses decreased to minus €4 million in the three-month period ended March 31, 2015 from €4 million in the three-month period ended March 31, 2014. The decrease was primarily due to the bank levy allocated to the REF segment.

11.7.1.14.1.2 Loan Loss Provisions

A net amount of €10 million was released from provisions for losses on loans and advances in the three-month period ended March 31, 2015 (three-month period ended March 31, 2014: €5 million). Net additions to individual allowances amounted to €1 million in the three-month period ended March 31, 2015 compared to net releases of €2 million in the three-month period ended March 31, 2014. Portfolio-based allowances amounted to net releases of €8 million in the three-month period ended March 31, 2015 compared to net release of €1 million in the three-month period ended March 31, 2014. Recoveries from written-off loans and advances were €1 million in the three-month period ended March 31, 2015 (three-month period ended March 31, 2014: €2 million).

11.7.1.14.1.3 General and Administrative Expenses

In the three-month period ended March 31, 2015, general and administrative expenses amounted to €37 million, a decrease of €2 million, or 5.1%, compared to €39 million in the three-month period ended March 31, 2014. The decrease was primarily due to lower IT and consulting expenses. The cost income ratio of the REF segment improved to 40.2% in the three-month period ended March 31, 2015 compared to 54.2% in the three-month period ended March 31, 2014.

11.7.1.14.1.4 Net miscellaneous income/expenses

Net miscellaneous income/expenses amounted to €2 million in three-month period ended March 31, 2015 (three-month period ended March 31, 2014: €4 million) resulting from releases of restructuring provisions.

11.7.1.14.2 Public Investment Finance (PIF)

11.7.1.14.2.1 Operating Income

Operating income in the PIF segment increased from €6 million in the three-month period ended March 31, 2014, by €7 million or more than 100.0%, to €13 million in the three-month period ended March 31, 2015. The increase mainly resulted from higher net income from financial investments due to a gain from a sale of a bond allocated to the PIF segment.

The volume of new business, on the basis of commitments and including extension with maturities of more than one year, was €0.2 billion in the three-month period ended March 31, 2015, compared to €0.3 billion in the three-month period ended March 31, 2014.

Net interest and similar income increased from €7 million in three-month period ended March 31, 2014, by €1 million or 14.3% to €8 million in the three-month period ended March 31, 2015. This increase resulted from the disposal of a loan evidenced by a certificate of indebtedness (*Schuldscheindarlehen*) allocated to the PIF segment.

Net fee and commission income amounted to €0 million in the three-month periods ended March 31, 2015 and 2014 as there have been no significant fees received or paid.

Net trading income improved from minus €1 million in the three-month period ended March 31, 2014, to €1 million in the three-month period ended March 31, 2015. While positive effects resulted from changes in the valuation of derivatives benefiting from lower interest rates in the long-term, these were to a large extent compensated by negative effects from bilateral credit value adjustments and the pull to par effect of derivatives allocated to the PIF segment.

Net income from financial investments amounted to €6 million in the three-month period ended March 31, 2015, compared to €0 million in the three-month period ended March 31, 2014. This increase was mainly due to income from the disposal of a security allocated to the PIF segment.

There have been no material hedge inefficiencies in the three-month period ended March 31, 2015. Therefore net income from hedging relationships was €0 million compared to minus €1 million in the three-month period ended March 31, 2014.

Net other operating income/expenses decreased to minus €2 million in the three-month period ended March 31, 2015, from €1 million in the three-month period ended March 31, 2014. The decrease was caused by the bank levy allocated to the PIF segment.

11.7.1.14.2.2 Loan Loss Provisions

No additional loan loss provisions were required in the three-month period ended March 31, 2015 and the three-month period ended March 31, 2014.

11.7.1.14.2.3 General and Administrative Expenses

In the three-month period ended March 31, 2015 general and administrative expenses amounted to €6 million, a decrease of €2 million, or 25.0%, compared to €8 million in the three-month period ended March 31, 2014. The decrease was primarily due to lower IT and consulting expenses. The cost income ratio of the PIF segment improved to 46.2% in the three-month period ended March 31, 2015 (three-month period ended March 31, 2014: higher than 100.0%).

11.7.1.14.3 Value Portfolio (VP)

11.7.1.14.3.1 Operating Income

Operating income in the VP segment decreased from €11 million in the three-month period ended March 31, 2014, by €25 million to minus €14 million in the three-month period ended March 31, 2015. The decrease was caused by further impairments on the HETA exposure.

Net interest and similar income in the VP segment increased from €9 million in the three-month period ended March 31, 2014 to €28 million in the three-month period ended March 31, 2015. The increase mainly resulted from a gain from the sale of a bond allocated to the VP segment.

Net fee and commission income amounted to €0 million in the three-month periods ended March 31, 2015 and 2014 as there have been no significant fees received or paid.

Net trading income improved from minus €4 million in the three-month period ended March 31, 2014, to €2 million in three-month period ended March 31, 2015. This improvement was due to the valuation of derivatives, bilateral credit value adjustments, the pull to par effect of derivatives and the lower long-term interest rates allocated to the VP segment.

Net income from financial investments amounted to minus €39 million in the three-month period ended March 31, 2015 compared to minus €2 million in the three-month period ended March 31, 2014. The expense mainly resulted from a further impairment (€73 million) related to HETA. This impairment was partly offset by income from the disposal of a security allocated to the VP segment.

Net income from hedging relationships were €0 million in the three-month period ended March 31, 2015 (three-month period ended March 31, 2014: minus €1 million) as there have been no material hedge inefficiencies.

Net other operating income/expenses decreased to minus €5 million in the three-month period ended March 31, 2015, from €9 million in the three-month period ended March 31, 2014. The decrease was primarily due to the bank levy allocated to the VP segment. In addition, in the three-month period ended March 31, 2014, income from the IT servicing of DEPFA contributed to the net other operating income/expenses in that period.

11.7.1.14.3.2 Loan Loss Provisions

In the three-month period ended March 31, 2015, a net amount of €6 million was added to provisions for loans and advances (three-month period ended March 31, 2014: €0 million) in respect of a valuation allowance related to HETA.

11.7.1.14.3.3 General and Administrative Expenses

General and administrative expenses amounted to €5 million in the three-month period ended March 31, 2015 compared to €15 million in the three-month period ended March 31, 2014. The decrease was primarily due to the reduction of services provided for the IT of DEPFA which was largely terminated by the end of the financial year 2014. The cost income ratio remained higher than 100.0%.

11.7.2 Comparison of the Financial Years ended December 31, 2014 and December 31, 2013

	For the Financial Year ended December 31,			
	2014 (adjusted)[1]	2014	2013[2]	Change in %
(in € million)	(unaudited)	(audited)		
Operating income	**438**	**326**	**482**	**-32.4**
Net interest and similar income	421	421	319	31.9
Interest and similar income	2,333	2,333	2,487	-6.2
Interest and similar expenses	-1,912	-1,912	-2,168	11.8
Net fee and commission income	1	1	9	-88.9
Fee and commission income	13	13	15	-13.3
Fee and commission expenses	-12	-12	-6	-100.0
Net trading income	-27	-30	-51	41.2
Net income from financial investments	32	-77	96	–
Net income from hedging relationships	-3	-3	9	–
Net other operating income/expenses	14	14	100	-86.0
Loan loss provisions	-13	-21	-8	-162.5
General and administrative expenses	-251	-251	-312	19.6
Net miscellaneous income/expenses	–	–	3	-100.0
Profit or loss before tax	**174**	**54**	**165**	**-67.3**
Income taxes	-58	-50	-5	–
Net income/loss	**116**	**4**	**160**	**–**

1) Adjusted for €120 million effects from value adjustments on HETA exposure (nominal: €395 million) in the fourth quarter of the financial year 2014.

2) Numbers for the financial year 2013 have been adjusted in the Audited Financial Statements for the financial year 2014 due to retrospective IFRS 10 first time adoption. Numbers are taken from the Audited Financial Statements for the financial year 2014.

11.7.2.1 Operating Income

Operating income amounted to €326 million in the financial year 2014, a decrease of €156 million, or 32.4%, compared to €482 million in the financial year 2013. Of the €326 million, €282 million was generated in the REF segment (compared to €352 million in the prior year period), €35 million was generated in the PIF segment (compared to €17 million in the prior year period), and €1 million was generated in the VP segment (compared to €105 million in the prior year period). The overall decrease was mainly due to a negative value adjustment in the amount of €109 million related to the debt securities issued by HETA. This value adjustment led to a decrease in operating income of the VP segment. See also "*11.3.2 Value Adjustments due to HETA Moratorium*".

The volume of new business (on the basis of commitments and including extensions with maturities of more than one year) of pbb Group increased by 24.4% or €2.0 billion from €8.2 billion in the financial year 2013 to €10.2 billion in the financial year 2014. This increase resulted primarily from the stabilization of the global economy and the abatement of the financial crisis in the Eurozone. pbb Group's markets benefited from this development which among other things enabled pbb Group to originate more new business, particularly in the area of commercial real estate finance and public investment finance. This new business volume was partly offset by the volume of prepayments that increased from €4.0 billion in the financial year 2013 to €5.0 billion in the financial year 2014.

On a regional basis (based on the location of the registered offices of the pbb Group companies or their branches to which the operating income was booked), pbb Group generated €286 million of its operating income in the financial year 2014 in Germany (financial year 2013: €326 million) and €35 million in the rest of Europe (financial year 2013: €53 million). This decrease is primarily due to the impairment with respect to RPPSE with its seat in Spain in the financial year 2014 in the amount of €10 million (see also "*11.3.3 Financing and Acquisition of RPPSE Espacio Oviedo S.L.U.*"). In America/Asia, pbb Group generated €5 million of its operating income in the financial year 2014 (financial year 2013: €103 million). The sharp decrease in operating income in America/Asia was primarily due to a one-time €114 million interest payment that had to be paid in the financial year 2013. The interest payment was due from the Company to Hypo Real Estate International LLC I, a subsidiary of the Company, in respect of a subordinated intra-group financing in connection with hybrid capital instruments by pbb Group in the nominal amount of €350 million. While no interest payments were required to be made on the hybrid capital instruments, the Company determined in the financial year 2013 that interest payments on the subordinated intra-group financing had to be made. As a result, the Company paid in the financial year 2013 the interest amounts due and payable in respect of interest periods falling in financial years 2009 to 2013. While the interest payment is eliminated on a consolidated basis, it affects the regional allocation of the operating income and increased these for America/Asia in the financial year 2013 by €114 million (with a corresponding decrease for Germany) as Hypo Real Estate International LLC I is located in the United States.

11.7.2.2 Net Interest and Similar Income

Net interest and similar income increased to €421 million in the financial year 2014, an increase of €102 million, or 31.9%, from €319 million in the financial year 2013. This increase was due primarily to pbb Group's higher-margin new business, which replaced maturing exposures with lower margins, a €24 million increase in prepayment fees and €15 million in additional interest income from a repayment prior to maturity of €150 million in liabilities to DEPFA Finance N.V. Furthermore, pbb Group benefited from favorable refinancing sources and the alternative investment of freed-up liquidity, which partially compensated for the negative effects of the lower interest rates which affected the liquidity portfolio, a regulatory and internal liquidity buffer which forms part of the liquidity management of the C&A segment, and the investment of equity.

11.7.2.3 Net Fee and Commission Income

Net fee and commission income decreased to €1 million in the financial year 2014, a decrease of €8 million, or 88.9%, from €9 million in the financial year 2013. This was due to lower, non-accruable fees, as for example back-end fees, from the lending operations and other service business.

11.7.2.4 Net Trading Income

Net trading income amounted to minus €30 million in the financial year 2014, an improvement of €21 million, or 41.2%, compared to minus €51 million in the financial year 2013. The improvement

was primarily due to the €33 million charges in the financial year 2013 due to the first time use of overnight yield curves to value derivatives and the €22 million expense in that same year to optimize the derivatives portfolio, which charges and expenses did not occur in the financial year 2014. These improvements were partially offset in the financial year 2014 by the valuation of derivatives, taking account of the bilateral credit value adjustment (i.e. the default risk of the respective counterparties and of pbb Group), which resulted in an effect of minus €12 million (financial year 2013: €7 million). The movement of the net present value of derivatives to nil on their maturity date (pull to par effect) and the lower market interest rates in the long-term maturity bands also had a negative effect. Furthermore, slight losses in the amount of €3 million resulted from interest-hedge derivatives in connection with the HETA exposure, which are no longer in an effective hedging relationship.

11.7.2.5 Net Income from Financial Investments

Net income from financial investments decreased to minus €77 million in the financial year 2014, a decrease of €173 million, from €96 million in the financial year 2013. This decrease was mainly related to the minus €109 million value adjustment for debt securities issued by HETA and the sale of Little Britain Holdings in the financial year 2013, which resulted in €92 million in income in the financial year 2013 which was not realized in the financial year 2014.

The decrease resulting from the value adjustment of the HETA securities and from the absence of the income from the sale of Little Britain Holdings was partially offset by €21 million in income from the sale of DEPFA Finance N.V. to DEPFA Bank in July 2014. Due to the sale of the subsidiary, the Company's liabilities towards DEPFA Finance N.V. were no longer eliminated as part of pbb Group consolidation and were valued at fair value for the first time in accordance with IFRS 10 B98. The fair value of the liabilities of the Company towards DEPFA Finance N.V. at that time (€129 million) was lower than the nominal amount of the liabilities (€150 million) resulting in the net income of €21 million.

The net reversal of portfolio-based allowances amounted to €5 million (financial year 2013: net additions of minus €1 million) mainly due to a change to the risk assessment for securities in certain Portuguese regions and income of €6 million from the sale of securities (financial year 2013: €4 million).

11.7.2.6 Net Income from Hedging Relationships

Net income from hedging relationships amounted to minus €3 million in the financial year 2014, a decrease of €12 million, from €9 million in the financial year 2013. This decrease was mainly due to losses resulting from hedge inefficiencies of micro fair value hedge relationships. These hedge inefficiencies were still within the relevant range of 80% to 125% and thus admissible to qualify for hedge accounting under IAS 39. IAS 39 requires that the changes in the fair value or cash flows of the hedged item attributable to the hedged risk must be expected to be highly effective in offsetting the changes in the fair value or cash flows of the hedging instrument on a prospective basis, and on a retrospective basis where actual results are within a range of 80% to 125% to qualify for hedge accounting.

11.7.2.7 Net Other Operating Income/Expenses

Net other operating income/expenses decreased to €14 million in the financial year 2014, a decrease of €86 million, or 86.0%, from €100 million in the financial year 2013. This was mainly due to the discontinuation of the services provided to FMS-WM in the third quarter of 2013 (see also "*15.11.2 Agreements primarily relating to the Provision of Services*"). The remaining €1 million income for services (financial year 2013: €60 million) was generated by the Company's subsidiary, Hypo Real Estate Capital Japan Corp., Tokyo, Japan. Income for IT services for DEPFA resulted in net income of €30 million (financial year 2013: €36 million) but these services were terminated to a large extent at the end of 2014. Rental income generated from acquired real estate amounted to €10 million (financial year 2013: €11 million), income from currency translation amounted to €4 million (financial year 2013: less than €1 million). Write-downs of €14 million (financial year 2013: €0 million) were undertaken on real estate acquired. €5 million in expenses resulted from the scrapping of IT-assets (financial year 2013: €0 million). €1 million in expenses resulted from bank levies (financial year 2013: €11 million).

11.7.2.8 Loan Loss Provision

A net amount of €21 million was added to allowances for losses on loans and advances in the financial year 2014 (financial year 2013: €8 million). Net additions to specific allowances increased to €32 million in the financial year 2014 compared to €8 million in the financial year 2013. Specific allowances only related to a few commitments in the REF segment and a loan evidenced by a certificate of indebtedness (*Schuldscheindarlehen*) to HETA in the VP segment shown under loans and advances to customers. No specific allowances were necessary in the PIF segment. Portfolio-based allowances were released by a net €5 million in the financial year 2014 compared to a net addition of €9 million in the financial year 2013. The net reversals were undertaken inter-alia due to rating improvements of counterparties. Recovery payments of €6 million in the financial year 2014 (financial year 2013: €8 million) were recognized in profit or loss on loans and advances previously written off.

11.7.2.9 General and Administrative Expenses

General and administrative expenses decreased to €251 million in the financial year 2014, a decrease of €61 million, or 19.6%, from €312 million in the financial year 2013. This decrease was due to the restructuring measures implemented in 2008 in response to the financial crisis (see "*14.2 Financial Market Crisis and Countermeasures*") as well as the discontinuation of services provided to FMS-WM. Personnel expenses decreased from €121 million in the financial year 2013 by €11 million, or 9.1%, to €110 million in the financial year 2014 due to size adjustments to a specialized European Pfandbriefbank and a reduction in headcount due to the transfer of employees to FMS-WM Service GmbH in September 2013. Non-personnel expenses were reduced from €191 million in the financial year 2013 by €50 million, or 26.2%, to €141 million in the financial year 2014, mainly as a result of lower consultancy and IT expenses, related to fewer projects. Primarily due to the HETA exposure, the cost income ratio increased to 77.0% (financial year 2013: 64.7%). Without giving effect to the burden from the HETA exposure, the cost income ratio would have been 57.3%.

11.7.2.10 Net Miscellaneous Income/Expenses

The balance of net miscellaneous income/expenses was €0 million in the financial year 2014 (2013: €3 million).

11.7.2.11 Profit or Loss Before Tax

Profit or loss before tax decreased to €54 million in the financial year 2014, a decrease of €111 million, or 67.3%, from €165 million in the financial year 2013. This decrease was mainly due to the €120 million value adjustment related to HETA. Without this effect, pre-tax profit for the financial year 2014 would have amounted to €174 million. In addition, the previous year's figure of €165 million included the positive one-off effects of €37 million resulting from the sale of Little Britain Holdings, the first-time use of overnight yield curves for the valuation of derivatives due to a change of market conventions and the optimization of derivatives holdings.

11.7.2.12 Income Taxes

Income taxes were €50 million in the financial year 2014, an increase of €45 million compared to income taxes of €5 million in the financial year 2013. This increase in income taxes resulted from €44 million in expenses for current income taxes (financial year 2013: tax income of €2 million), as well as deferred income taxes of €6 million (financial year 2013: €7 million). Current income taxes include taxes of €18 million for previous years, i.e. risk provisioning for tax audits (financial year 2013: tax income of €6 million) and €26 million for German as well as foreign branches income taxes for 2014 (financial year 2013: tax expenses of €4 million). Current tax income in the financial year 2013 amounted to €2 million mainly due to the tax-free disposal of the participation in Little Britain Holdings as well as the realization of tax losses following the disposal of derivatives. The group tax rate under IAS 12 applicable for the financial year 2014, including solidarity surcharge, is 27.67%.

11.7.2.13 Net Income/Loss

Net income/loss decreased to €4 million in the financial year 2014, a decrease of €156 million from €160 million in the financial year 2013. Return on equity after tax was 0.1% (financial year 2013: 4.9%). Without giving effect to the burden from the HETA exposure, net income/loss would have

amounted to €116 million and return on equity after tax would have been 3.4%. All aforementioned Return on Equity figures are based on average monthly IFRS equity excluding revaluation reserve but including the SoFFin Silent Participation of €1.0 billion.

11.7.2.14 Results of Operations by Segment

The following table shows income statement data by segment of pbb Group for the financial years ended December 31, 2014 and 2013, which was taken from the Unaudited Interim Condensed Financial Statements of the Company as of and for the three-month period ended March 31, 2015.

	For the Financial Year ended December 31,[1]									
	REF		PIF		VP		C&A		pbb Group	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
					(unaudited) (in € million)					
Operating Income	282	352	35	17	1	105	8	8	**326**	**482**
Net interest and similar income	294	258	40	24	79	30	8	7	**421**	**319**
Net fee and commission income	2	10	–	1	-1	-1	–	-1	**1**	**9**
Net trading income	-13	-21	-4	-6	-13	-24	–	–	**-30**	**-51**
Net income from financial investments	14	96	3	-1	-94	1	–	–	**-77**	**96**
Net income from hedging relationships	-2	4	–	1	-1	4	–	–	**-3**	**9**
Net other operating income/ expenses	-13	5	-4	-2	31	95	–	2	**14**	**100**
Loan loss provisions	-14	-1	–	–	-7	-7	–	–	**-21**	**-8**
General and administrative expenses	-160	-147	-31	-28	-60	-136	–	-1	**-251**	**-312**
Net miscellaneous income/ expenses	–	2	–	–	–	1	–	–	**–**	**3**
Profit or loss before tax	**108**	**206**	**4**	**-11**	**-66**	**-37**	**8**	**7**	**54**	**165**

1) Due to the re-segmentation described above (see "*11.1 Segmentation*") financial information on the segment level for the financial years ended December 31, 2014 and 2013 has been adjusted to the new segment structure in the Unaudited Interim Condensed Financial Statements of the Company as of and for the three-month period ended March 31, 2015. Financial information on the segment level for the financial years ended December 31, 2014 and 2013 are therefore taken from the Unaudited Interim Condensed Financial Statements of the Company as of and for the three-month period ended March 31, 2015.

11.7.2.14.1 Real Estate Finance (REF)

11.7.2.14.1.1 Operating Income

Operating income in the REF segment decreased from €352 million in the financial year 2013 by €70 million, or 19.9%, to €282 million in the financial year 2014. This decrease primarily resulted from the sale of Little Britain Holdings, a vehicle for a restructured property, which was sold in September 2013 and resulted in income of €92 million in the financial year 2013. Without giving effect to the deconsolidation of the subsidiary resulting from its sale, operating income would have increased by 8%.

The volume of new business, on the basis of commitments and including prolongations with maturities of more than one year, was €9.0 billion in the financial year 2014, an increase of €2.0 billion compared to the €7.0 billion volume of new business in the financial year 2013. The weighted average gross new business interest margins (excluding any fees) in the financial year 2014 amounted to >200 basis points, leading to an increase in profitability.

Net interest and similar income increased from €258 million in the financial year 2013 by €36 million, or 14.0%, to €294 million in the financial year 2014. This increase resulted from higher-margin new business, allocated prepayment penalties due to early repayments and one-off factors arising from repayments of liabilities prior to maturity.

Net fee and commission income amounted to €2 million in the financial year 2014, a decrease of €8 million, or 80%, compared to €10 million in the financial year 2013. This decrease is due to a decline of non-accruable fees that were recognized in the lending and other service business.

Net trading income improved from minus €21 million in the financial year 2013 by €8 million to minus €13 million in the financial year 2014. This was due to the valuation of derivatives, bilateral credit value adjustments, the pull to par effect of derivatives and the lower interest rates in the long-term.

Net income from financial investments decreased from €96 million in the financial year 2013 by €82 million to €14 million in the financial year 2014. This decrease is mainly due to a one-off effect in the financial year 2013 related to the deconsolidation of Little Britain Holdings, a vehicle for a restructured property, which was sold in September 2013 and resulted in income of €92 million. This one-off effect from the deconsolidation was partially offset by a €9 million one-off fair value measurement of pbb's liability to DEPFA Finance N.V. as a result of the deconsolidation of this former subsidiary and the sale of securities from the liquidity portfolio, a regulatory and internal liquidity buffer which forms part of the liquidity management of the C&A segment.

A decrease in net income from hedge relationships from €4 million in the financial year 2013 by €6 million to minus €2 million in the financial year 2014 resulted from hedging inefficiencies, to the extent admissible under IAS 39, which requires that the changes in the fair value or cash flows of the hedged item attributable to the hedged risk must be expected to be highly effective in offsetting the changes in the fair value or cash flows of the hedging instrument on a prospective basis, and on a retrospective basis where actual results are within a range of 80% to 125%.

Net other operating income/expenses decreased to minus €13 million from €5 million in the financial year 2014 because rental income in the financial year 2014 could only partially off-set expenses from write-downs on real estate and the scrapping of IT-assets.

11.7.2.14.1.2 Loan Loss Provisions

In the financial year 2014, a net amount of €14 million was added to provisions for loans and advances compared to €1 million net in the financial year 2013. This net amount of €14 million resulted from (i) €24 million net additions to specific allowances (2013: €8 million) from a small number of individual cases for which specific allowances were made, (ii) a positive net amount of €4 million from reversals of portfolio-based allowances (2013: additions of €2 million to portfolio-based allowances), and (iii) recoveries from written-off loans and advances in the amount of €6 million (2013: €8 million).

11.7.2.14.1.3 General and Administrative Expenses

In the financial year 2014, general and administrative expenses amounted to €160 million, an increase of €13 million, or 8.8%, compared to €147 million in the financial year 2013. This increase was primarily due to additional personnel expenses arising due to the strengthening of the REF sales units. The cost income ratio of the REF segment increased to 56.7% in the financial year 2014 compared to 41.8% in the financial year 2013.

11.7.2.14.2 Public Investment Finance (PIF)

11.7.2.14.2.1 Operating Income

Operating income in the PIF segment increased from €17 million in the financial year 2013 by €18 million, or 105.9%, to €35 million in the financial year 2014.

The volume of new business (including prolongations with maturities of more than one year) remained stable at €1.2 billion in the financial year 2014 (financial year 2013: €1.2 billion). As pbb Group did not want to enter into transactions with weak margins or incur higher risk, only selective new business was concluded due to the intense competitive environment. As in the previous year, the new business margins were higher than the average margins in the existing portfolio, allowing pbb Group to increase the profitability of the portfolio.

The increase in operating income was mainly attributable to an increase in net interest and similar income from €24 million in the financial year 2013 by €16 million, or 66.7%, to €40 million in the financial year 2014. This is, among other things, due to the higher margins of the new business. In addition, higher revenues from pre-payment penalties favorably influenced net interest income.

Net fee and commission income amounted to €0 million, a decrease of €1 million, or 100%, compared to €1 million in the financial year 2013.

Net trading income improved from minus €6 million in the financial year 2013 by €2 million to minus €4 million in the financial year 2014. This was primarily due to negative changes in the market value of derivatives as a result of lower interest rates in the long-term, as well as the valuation of derivatives, taking into account the bilateral credit value adjustments.

Net income from financial investments increased to €3 million, an increase of €4 million compared to minus €1 million in the financial year 2013. This increase primarily resulted from a €3 million allocated non-recurring income, attributed to the measurement of pbb's liability to DEPFA Finance N.V. at fair value for the first time and gains on the disposal of securities in the liquidity portfolio.

Income from hedge relationships was almost balanced by hedge inefficiencies of micro fair value hedge relationships.

Net other operating income/expenses amounted to minus €4 million (financial year 2013: minus €2 million). Other operating income comprises only allocated, non-segment specific items.

11.7.2.14.2.2 Loan Loss Provisions

No additional loan loss provisions were required in the financial year 2014 (financial year 2013: €0 million).

11.7.2.14.2.3 General and Administrative Expenses

General and administrative expenses increased from €28 million in the financial year 2013 by €3 million, or 10.7%, to €31 million in the financial year 2013 reflecting additional expenses for the strengthening of the sales operations. The cost income ratio was 88.6% compared to more than 100% in the financial year 2013 since the growth rate in operating income in the PIF segment in the financial year 2014 exceeded the growth rate in general and administrative expenses in the financial year 2014.

11.7.2.14.3Value Portfolio (VP)

11.7.2.14.3.1 Operating Income

Operating income in the VP segment decreased from €105 million in the financial year 2013 by €104 million, to €1 million in the financial year 2014. This decrease was mainly due to the impact of the HETA exposure and the termination of the servicing of FMS-WM in September 2013.

Net interest and similar income in the VP segment increased from €30 million in the financial year 2013 by €49 million, or 163.3%, to €79 million in the financial year 2014 due to higher income from pre-payment penalties (44.0% of such penalties related to the VP) in connection with early repayments and redemptions of liabilities.

Net fee and commission income remained stable at minus €1 million.

Net trading income improved from minus €24 million in the financial year 2013 by €11 million, or 45.8%, to minus €13 million in the financial year 2014. The improvement was primarily due to net trading income in the financial year 2013 containing the expenses from the first time use of overnight yield curves to value derivatives and the optimization of the derivatives portfolio which did not impact net trading income in financial year 2014. This was partly offset by net trading income in the financial year 2014 being burdened primarily by the pull to par effect of derivatives and lower long-term market interest rates. In the financial year 2013 it contained the expenses from the first time use of overnight yield curves to value derivatives and the optimization of the derivatives portfolio.

Net income from financial investments was negatively impacted by the HETA exposure and decreased to minus €94 million, a decrease of €95 million compared to €1 million in the financial year 2013.

Income from hedge relationships amounted to minus €1 million, a decrease of €5 million compared to €4 million in the financial year 2013 resulting from hedging inefficiencies.

Net other operating income/expenses declined to €31 million in the financial year 2014, a decrease of €64 million, or 67.4%, compared to €95 million in the financial year 2013. This was mainly due to a reduction in income from services provided for FMS-WM.

11.7.2.14.3.2 Loan Loss Provisions

In the financial year 2014, a net amount of €7 million was added to provisions for loans and advances (financial year 2013: €7 million) relating to the valuation allowance on a borrower's note loan to HETA in the amount of minus €8 million.

11.7.2.14.3.3 General and Administrative Expenses

General and administrative expenses decreased from €136 million in the financial year 2013 by €76 million, or 55.9%, to €60 million in the financial year 2014 due primarily to the reduction of services provided for FMS-WM, which resulted in a transfer of employees to FMS-WM. The cost income ratio continued to be higher than 100%.

11.7.3 Comparison of the Financial Years ended December 31, 2013 and December 31, 2012

	For the Financial Year ended December 31,		Change in %
	2013[1)]	2012	
	(audited) (in € million)		
Operating income	**482**	**467**	**3.2**
Net interest and similar income	319	296	7.8
Interest and similar income	2,448[2)]	2,879	-15.0
Interest and similar expenses	-2,129[3)]	-2,583	-17.6
Net fee and commission income	9	23	-60.9
Fee and commission income	15	27	-44.4
Fee and commission expenses	-6	-4	-50.0
Net trading income	-51	10	–
Net income from financial investments	96	13	638.5
Net income from hedging relationships	9	-6	–
Net other operating income/expenses	100	131	-23.7
Loan loss provisions	-8	4	–
General and administrative expenses	-312	-341	8.5
Net miscellaneous income/expenses	3	-6	–
Profit or loss before tax	**165**	**124**	**33.1**
Income taxes	-5	-55	90.9
Net income/loss	**160**	**69**	**131.9**

1) Numbers are taken from the Audited Financial Statements for the financial year 2013.
2) Number has been adjusted retrospectively in accordance with IFRS 10 in the Audited Consolidated Financial Statements for the financial year 2014 and amounts to €2,487 million in the Audited Consolidated Financial Statements for the financial year 2014. For further information, see "*11.2 Adoption of New and Revised Accounting Standards*".
3) Number has been adjusted retrospectively in accordance with IFRS 10 in the Audited Consolidated Financial Statements for the financial year 2014 and amounts to minus €2,168 million in the Audited Consolidated Financial Statements for the financial year 2014. For further information, see "*11.2 Adoption of New and Revised Accounting Standards*".

11.7.3.1 Operating Income

Operating income increased to €482 million in the financial year 2013, an increase of €15 million, or 3.2%, from €467 million in the financial year 2012. This increase mainly related to the sale of Little Britain Holdings, a vehicle for a restructured property, which was sold in September 2013 and resulted in income of €92 million. By contrast, the first-time use of overnight yield curves to measure derivatives and the optimization of derivatives holdings had an aggregate negative effect of €55 million. The majority of the operating revenues were generated by the REF segment, which revenues amounted to €352 million in the financial year 2013 (compared to €284 million in the financial year 2012) followed by the VP segment with €105 million (compared to €164 million in the financial year 2012) and the PIF segment with €17 million (compared to €14 million in the financial year 2012).

The volume of new business (including prolongations with maturities of more than one year) amounted to €8.2 billion in the financial year 2013, an increase of €2.6 billion compared to €5.6 billion in the financial year 2012. This increase was primarily due to the repositioning of pbb Group as a specialist European Pfandbrief bank, which enhanced, among other things, pbb Group's ability to penetrate the relevant market.

On a regional basis (based on the location of the registered offices of the pbb Group companies or their branches to which the operating income was booked), in the financial year 2013, pbb Group generated operating income of €326 million in Germany (financial year 2012: €473 million), €53 million in the rest of Europe (financial year 2012: €17 million) and €103 million in America/Asia (financial year 2012: minus €23 million). Operating income in America/Asia in the financial year 2012 amounted to minus €23 million primarily due to interest expenses of Hypo Real Estate International Trust I resulting from the increase of the present value due to passage of time (unwinding) of the impaired financial instrument held in this company as well as agent fees to be recognized by Hypo Real Estate Capital Corp., Tokyo, Japan in the financial year 2012 related to a trust beneficiary transaction in Japan.

11.7.3.2 Net Interest and Similar Income

Net interest and similar income increased to €319 million in the financial year 2013, an increase of €23 million, or 7.8%, from €296 million in the financial year 2012. This was mainly due to new business with higher margins than in the existing portfolio. One-off factors primarily resulting from prepayment fees amounted to €27 million (financial year 2012: €17 million). However, declining market interest rates in the financial year 2013 reduced the earnings contributions to net interest income made by own funds not invested for a longer duration.

11.7.3.3 Net Fee and Commission Income

Net fee and commission income decreased to €9 million in the financial year 2013, a decrease of €14 million, or 60.9%, from €23 million in the financial year 2012. This was primarily due to a decrease in fees from lending and other service operations from €25 million in the financial year 2012 by €15 million, or 60%, to €10 million in the financial year 2013. This was due to a reduced number of back-end fees in the financial year 2013 compared to the financial year 2012. pbb Group generates commission income from, among other things, fees that are only recognized when transactions close

11.7.3.4 Net Trading Income

Net trading income decreased to minus €51 million in the financial year 2013, a decrease of €61 million, from €10 million in the financial year 2012. This decrease was mainly due to the first-time use of overnight yield curves (including tenor basis effects) to value derivatives in the financial year 2013 which resulted in a €33 million charge. This accounting-related change was made as a result of changes in market conventions. An additional €22 million expense was due to the optimization of the derivatives portfolio.

11.7.3.5 Net Income from Financial Investments

Net income from financial investments increased to €96 million in the financial year 2013, an increase of €83 million from €13 million in the financial year 2012. This increase was mainly due to the sale of Little Britain Holdings. Securities sold as part of the adjustment of the liquidity portfolio generated an additional €4 million in income (financial year 2012: €20 million). This income was partly offset by minus €1 million in net expenses (financial year 2012: minus €6 million) for the recognition of portfolio-based allowances for securities in the LaR measurement category.

11.7.3.6 Net Income from Hedging Relationships

Net income from hedging relationships increased to €9 million in the financial year 2013, an increase of €15 million, from minus €6 million in the financial year 2012. This increase was mainly due to an increase from fair value hedge accounting from minus €6 million in the financial year 2012 by €14 million to €8 million in the financial year 2013. This was the result of the first-time use of overnight yield curves in the financial year 2013 due to a change of market conventions according to IAS 8.32.

11.7.3.7 Net Other Operating Income/Expenses

Net other operating income/expenses decreased to €100 million in the financial year 2013, a decrease of €31 million, or 23.7%, from €131 million in the financial year 2012. This was mainly due to the discontinuation of the services provided for FMS-WM as mandated by the European Commission on September 30, 2013. These services resulted in income of €60 million in the financial year 2013 (financial year 2012: €106 million). Income from IT services to DEPFA, a sister company, amounted to €36 million (financial year 2012: €40 million). In the financial year 2013, bank levies resulted in

expenses of €11 million (financial year 2012: €24 million). Income of €11 million (financial year 2012: €7 million) was attributable to rental income generated from real estate taken over by pbb Group. Net income resulting from changes in foreign currency amounted to less than €1 million (financial year 2012: €3 million).

11.7.3.8 Loan Loss Provision

A net amount of €8 million was added to allowances for losses on loans in the financial year 2013 (financial year 2012: net reversal of €4 million). The low need for additional provisions reflected the stable market conditions and the successful restructuring of non-performing loans. Net additions to individual allowances decreased to €8 million in the financial year 2013 compared to €23 million in the financial year 2012. Additions to individual allowances were only necessary in a small number of individual cases and were largely offset by reductions of individual allowances. Portfolio-based allowances were only established for receivables for which no indication of an individual impairment has been determined. Due to changes in the risk assessment for individual countries, a net amount of €9 million was added to portfolio-based allowances (financial year 2012: net reversal of €22 million). In addition, €1 million provisions for contingent liabilities and other obligations in the financial year 2013 (financial year 2012: €4 million) were reduced due to the conclusion of legal proceedings. Recovery payments of €8 million in the financial year 2013 (financial year 2012: €1 million) were recognized in profit or loss on loans and advances previously written off.

11.7.3.9 General and Administrative Expenses

General and administrative expenses decreased to €312 million in the financial year 2013, a decrease of €29 million, or 8.5%, from €341 million in the financial year 2012. This decrease was primarily due to restructuring measures implemented in 2008. Non-personnel expenses were reduced from €210 million in the financial year 2012 by €19 million, or 9.0%, to €191 million in the financial year 2013, mainly as a result of lower consulting and IT expenses but have been partly off-set by higher other administrative expenses. Personnel expenses decreased by €10 million, or 7.6%, from €131 million in the financial year 2012 to €121 million in the financial year 2013 as headcount was reduced in connection with the discontinuation of the services provided for FMS-WM in the fourth quarter of 2013.

11.7.3.10 Net Miscellaneous Income/Expenses

Net miscellaneous income/expenses amounted to €3 million in the financial year 2013 (financial year 2012: minus €6 million) resulting from changes in restructuring provisions. The charges arose due to updates of the parameters included in the calculation of the provisions and from expenses for other taxes.

11.7.3.11 Profit or Loss Before Tax

Profit or loss before tax increased to €165 million in the financial year 2013, an increase of €41 million, or 33.1%, from €124 million in the financial year 2012. The main reason for this increase was the deconsolidation of Little Britain Holdings in the financial year 2013 which was partly offset by the first-time use of overnight yield curves to measure derivatives and the optimization of derivatives holdings.

11.7.3.12 Income Taxes

Income taxes amounted to €5 million in the financial year 2013, a decrease of €50 million, or 90.9%, from €55 million in the financial year 2012. This decrease in income tax was due primarily to a reduction of deferred taxes from €63 million in the financial year 2012 to €7 million in the financial year 2013. Deferred taxes on capitalized losses carried forward amounted to minus €7 million in the financial year 2012 compared to €80 million in the financial year 2013. The Group tax rate under IAS 12 applicable for the financial years 2013 and 2012, including solidarity surcharge, was 15.83%.

11.7.3.13 Net Income/Loss

Net income increased to €160 million in the financial year 2013, an increase of €91 million, or 131.9%, from €69 million in the financial year 2012 due primarily to the increase in profit before tax and the significantly lower income tax in the financial year 2013.

11.7.3.14 Results of Operations by Segment

The following table shows income statement data by segment of pbb Group for the financial years ended December 31, 2013 and 2012, which was taken from the Unaudited Interim Condensed Financial Statements of the Company as of and for the three-month period ended March 31, 2015.

	For the Financial Year ended December 31,[1]									
	REF		PIF		VP		C&A		pbb Group	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
					(unaudited) (in € million)					
Operating Income	352	284	17	14	105	164	8	5	**482**	**467**
Net interest and similar income	258	249	24	17	30	24	7	6	**319**	**296**
Net fee and commission income	10	25	1	-1	-1	-1	-1	–	**9**	**23**
Net trading income	-21	2	-6	1	-24	7	–	–	**-51**	**10**
Net income from financial investments	96	14	-1	–	1	-1	–	–	**96**	**13**
Net income from hedging relationships	4	-3	1	-1	4	-2	–	–	**9**	**-6**
Net other operating income/ expenses	5	-3	-2	-2	95	137	2	-1	**100**	**131**
Loan loss provisions	-1	5	–	-4	-7	3	–	–	**-8**	**4**
General and administrative expenses	-147	-139	-28	-25	-136	-176	-1	-1	**-312**	**-341**
Net miscellaneous income/ expenses	2	-3	–	–	1	-3	–	–	**3**	**-6**
Profit or loss before tax	**206**	**147**	**-11**	**-15**	**-37**	**-12**	**7**	**4**	**165**	**124**

1) Due to the re-segmentation described above (see "*11.1 Segmentation*") financial information on the segment level for the financial years ended December 31, 2013 and 2012 has been adjusted to the new segment structure in the Unaudited Interim Condensed Financial Statements of the Company as of and for the three-month period ended March 31, 2015. Financial information on the segment level for the financial years ended December 31, 2013 and 2012 was therefore taken from the Unaudited Interim Condensed Financial Statements of the Company as of and for the three-month period ended March 31, 2015.

11.7.3.14.1 Real Estate Finance (REF)

11.7.3.14.1.1 Operating Income

Operating income in the REF segment increased from €284 million in the financial year 2012 by €68 million, or 23.9%, to €352 million in the financial year 2013.

The volume of new business (including prolongations with maturities of more than one year) was €7.0 billion in the financial year 2013 and surpassed the €4.9 billion volume of new business in the financial year 2012 by €2.1 billion. As the new business margins were higher than the average margins in the existing portfolio, profitability increased.

The increase in operating income was mainly attributable to the sale of Little Britain Holdings in the financial year 2013. Net interest and similar income increased from €249 million in the financial year 2012 by €9 million, or 3.6%, to €258 million in the financial year 2013. This was primarily due to higher new business margins and receipt of greater prepayment fees and prepayment penalties.

Net fee and commission income decreased from €25 million in the financial year 2012 by €15 million, or 60%, to €10 million in the financial year 2013 primarily due to a decline of fees that are only recognized when transactions close.

The first-time use of overnight yield curves to measure derivatives and the optimization of derivatives led to a decrease in net trading income from €2 million in the financial year 2012 by €23 million to minus €21 million in the financial year 2013. Without the disposal of Little Britain Holdings and the negative market-related measurement effects in net trading income, operating income of the REF segment would have been only slightly lower than in the financial year 2012.

Net income from financial investments increased from €14 million in the financial year 2012 by €82 million to €96 million in the financial year 2013 due to the sale of Little Britain Holdings.

11.7.3.14.1.2 Loan Loss Provisions

In the financial year 2013, additions were made in the amount of €1 million net compared to a net reversal of €5 million in the financial year 2012. This resulted from €8 million net additional provisions to individual allowances (financial year 2012: reversal of €24 million) and €2 million additional provisions that were added to portfolio-based allowances (financial year 2012: net reversal of €26 million). These additional provisions were off-set by €8 million in recoveries from written-off loans and advances (financial year 2012: €1 million) and reversals of provisions for contingent liabilities and other commitments of €1 million (financial year 2012: €2 million).

11.7.3.14.1.3 General and Administrative Expenses

In the financial year 2013, general and administrative expenses amounted to €147 million, an increase by €8 million, or 5.8%, compared to €139 million in the financial year 2012. This increase was due to additional expenses incurred in connection with strengthening the REF sales units by hiring new staff. The cost income ratio decreased to 41.8% compared to 48.9% in the financial year 2012 driven by the increase in operating income which was only partly off-set by the parallel increase in costs.

11.7.3.14.2 Public Investment Finance (PIF)

11.7.3.14.2.1 Operating Income

In the financial year 2013, operating income amounted to €17 million, an increase of €3 million, or 21.4%, compared to €14 million in the financial year 2012.

New business volume (including prolongations with maturities of more than one year) increased from €0.7 billion in the financial year 2012 by €0.5 billion to €1.2 billion in the financial year 2013. As the new business margins were higher than the average margins in the existing portfolio, profitability increased.

The increase in operating income was mainly due to an increase of net interest and similar income. Net interest and similar income amounted to €24 million in the financial year 2013, an increase of €7 million, or 41.2%, compared to €17 million in the financial year 2012. This increase primarily resulted from the margins of new business which exceeded the margins of the repaid business. Furthermore, the income from the receipt of prepayment penalties and prepayment fees allocated to PIF increased in 2013 compared to 2012. Net fee and commission income increased in the financial year 2013 by €2 million to €1 million compared to minus €1 million in the financial year 2012. Net trading income decreased from €1 million in the financial year 2012 by €7 million to minus €6 million in the financial year 2013 due to the allocated effect from the expenses from the first time use of overnight yield curves to value derivatives and the optimization of the derivatives portfolio. Net income from financial investments was also largely unchanged in the financial year 2013, with minus €1 million in the financial year 2013 and €0 in the financial year 2012. The small decline in the financial year 2013 was primarily due to additions to portfolio based provisions on bonds. Net income from hedging relationships increased to €1 million, an increase of €2 million compared to minus €1 million in the financial year 2012 due to allocated effects from hedge inefficiencies. The balance of other operating income/expenses was stable at minus €2 million in the financial years 2013 and 2012. It contains the allocated bank levies and the effects from the foreign currency translation.

11.7.3.14.2.2 Loan Loss Provision

In the financial year 2013, there were only minor additions and releases of portfolio-based allowances which in total rounded to €0 million (financial year 2012: €4 million). No additional provisions to individual allowances were required in respect of public issuers.

11.7.3.14.2.3 General and Administrative Expenses

In the financial year 2013, general and administrative expenses amounted to €28 million, an increase of €3 million, or 12.0%, compared to €25 million in the financial year 2012. Since general and administrative expenses in the financial year 2013 exceeded operating income, as in the financial year 2012, the cost income ratio remained above 100%.

11.7.3.14.3 Value Portfolio (VP)

11.7.3.14.3.1 Operating Income

In the financial year 2013, operating income amounted to €105 million compared to €164 million in the financial year 2012, a decrease of €59 million, or 36.0%. Net interest and similar income amounted to €30 million in the financial year 2013, an increase of €6 million, or 25.0%, compared to €24 million in the financial year 2012. This increase resulted primarily from the income from the receipt of prepayment penalties and redemptions of liabilities prior to maturity allocated to VP which increased in the financial year 2013 compared to the financial year 2012. Net fee and commission income remained stable at minus €1 million in the financial years 2013 and 2012. Net trading income decreased from €7 million in the financial year 2012 by €31 million to minus €24 million in the financial year 2012 due primarily to the allocated effect from the expenses from the first time use of overnight yield curves to value derivatives and the optimization of the derivatives portfolio.

Net income from financial investments largely balanced each other out with €1 million in the financial year 2013 and minus €1 million in the financial year 2012, an increase by €2 million due to additions to portfolio based provisions on bonds. Net income from hedging relationships increased to €4 million, an increase of €6 million compared to minus €2 million in the financial year 2012 due to allocated effects from hedge inefficiencies. The balance of other operating income/expenses amounted to €95 million in the financial year 2013, a decrease of €42 million compared to €137 million in the financial year 2012. The decrease was primarily due to the termination of the servicing of FMS-WM in September 2013.

11.7.3.14.3.2 Loan Loss Provisions

In the financial year 2013, provision for losses on loans include a net amount of €7 million that was added to portfolio-based allowances as a result of changes in the risk assessment for individual focus countries (financial year 2012: net reversal of €3 million). No additional provisions to individual allowances were required in respect of public issuers.

11.7.3.14.3.3 General and Administrative Expenses

In the financial year 2013, general and administrative expenses amounted to €136 million, a decrease of €40 million, or 22.7%, compared to €176 million in the financial year 2012, which was due to the discontinuation of the services provided to FMS-WM at the end of September 2013, which also involved a transfer of pbb Group employees to FMS-WM. Since general and administrative expenses in the financial year 2013 exceeded operating revenues, as in the financial year 2012, the cost income ratio remained above 100%.

11.8 Financial Position*

	As of March 31,	As of December 31,			
	2015	2014	2013[2)]	2013[3)]	2012[4)]
	(unaudited) (in € million)	(audited unless otherwise indicated) (in € million)			
Assets					
Cash reserve	1,554	57	3,532	3,532	1,937
Trading assets	2,110	2,016	1,642	1,642	3,325
Loans and advances to other banks	4,162	6,800	6,685	5,798	7,995
Loans and advances to customers	40,962	38,964	36,242	36,242	49,590
Allowances for losses on loans and advances	-134	-138	-148	-148	-325
Financial investments	19,676	20,475	20,725	20,892	25,572
Property and equipment	12	8	1	1	2
Intangible assets	22	23	31	31	39
Other assets	6,992	6,659	4,769	4,769	7,242
Income tax assets	30	30[1)]	1,162	1,165	1,704
Current tax assets	28	29	44	44	53
Deferred tax assets	2	1[1)]	1,118	1,121	1,651
Total assets	**75,386**	**74,894**[1)]	**74,641**	**73,924**	**97,081**
Equity and liabilities					
Liabilities to other banks	2,871	3,187	3,522	3,522	7,797
Liabilities to customers	10,367	10,593	10,848	10,848	11,895
Securitized liabilities	47,871	47,827	46,858	47,060	52,550
Trading liabilities	2,083	1,960	1,453	1,453	3,192
Provisions	261	272	209	209	235
Other liabilities	6,966	6,182	4,722	4,722	14,438
Income tax liabilities	114	88[1)]	1,187	1,190	1,698
Current lax liabilities	108	82	64	64	64
Deferred tax liabilities	6	6[1)]	1,123	1,126	1,634
Subordinated capital	1,265	1,279	2,357	1,440	1,993
Liabilities	**71,798**	**71,388**[1)]	**71,156**	**70,444**	**93,798**
Equity attributable to equity holders	**3,588**	**3,506**	**3,485**	**3,480**	**3,283**
Total Equity and Liabilities	**75,386**	**74,894**[1)]	**74,641**	**73,924**	**97,081**
Equity	**3,588**	**3,506**	**3,485**	**3,480**	**3,283**

* Figures are shown prior to the repayment of the SoFFin Silent Participation of €1.0 billion which has occurred on July 6, 2015.

1) Figures have been adjusted in the Unaudited Interim Condensed Financial Statements as of and for the three-month period ended March 31, 2015 due to IAS 8.14 et seq. and are unaudited. In the Audited Consolidated Financial Statements for the financial year 2014, the unadjusted figures (audited) were as follows: total assets €75,518 million, income tax assets €654 million, deferred tax assets €625 million, income tax liabilities €712 million, deferred tax liabilities adjusted to €630 million, liabilities €72,012 million and total equity and liabilities €75,518 million.

2) Numbers for the financial year 2013 have been adjusted in the Audited Financial Statements for the financial year 2014 due to retrospective IFRS 10 first time adoption and due to IAS 8.42. Numbers are taken from the Audited Financial Statements for the financial year 2014.

3) Numbers are taken from the Audited Financial Statements for the financial year 2013 and are unadjusted.

4) Numbers for the financial year 2012 have been adjusted in the Audited Financial Statements for the financial year 2013 due to retrospective IAS 19 (revised) first time adoption. Numbers are taken from the Audited Financial Statements for the financial year 2013.

11.8.1 Assets

11.8.1.1 Comparison as of March 31, 2015 and December 31, 2014

As of March 31, 2015, pbb Group's total assets amounted to €75.4 billion, a decrease of €0.1 billion, or 0.1%, compared to €75.5 billion as of December 31, 2014 (as presented in the Audited Consolidated Financial Statements for the financial year 2014). In the Unaudited Interim Condensed Financial Statements as of and for the three-month period ended March 31, 2015, the figure for the total assets as of December 31, 2014 was adjusted to €74.9 billion (unaudited) due to IAS 8.14 *et seq*. Compared to the adjusted total assets as of December 31, 2014, pbb Group's total assets increased by €0.5 billion, or 0.7%, as of March 31, 2015. This increase was due to the higher notional volume of the real estate financing and due to fair value adjustments of derivatives as a result of lower interest rate levels. This was partly compensated by the decrease in financial investments.

pbb Group's cash reserve increased from €0.1 billion as of December 31, 2014 by €1.5 billion to €1.6 billion as of March 31, 2015. The cash reserve was higher due to financial investments which matured in the three-month period ended March 31, 2015. A portion of this liquidity was used to redeem a covered bond on April 1, 2015. Trading assets increased from €2.0 billion as of December 31, 2014 by €0.1 billion to €2.1 billion as of March 31, 2015 due to market-related factors such as the lower market interest rates increasing the fair value of the derivatives. Loans and advances to other banks decreased from €6.8 billion as of December 31, 2014 by €2.6 billion to €4.2 billion as of March 31, 2015 as a result of the reduction of short-term investments. Loans and advances to customers increased from €39.0 billion as of December 31, 2014 by €2.0 billion to €41.0 billion as of March 31, 2015 mainly due to the increased volume of the real estate financing. Allowances for losses on loans and advances improved slightly to minus €0.1 billion as of March 31, 2015 (minus €0.1 billion as of December 31, 2014) mainly due to net releases of allowances. Financial investments decreased from €20.5 billion as of December 31, 2014 by €0.8 billion to €19.7 billion as of March 31, 2015 primarily due to sales and maturing of bonds. Other assets increased from €6.7 billion as of December 31, 2014 by €0.3 billion to €7.0 billion as of March 31, 2015 resulting from market-related factors such as the lower market interest rates increasing the fair value of hedging derivatives.

11.8.1.2 Financial Year 2014 compared to Financial Year 2013

As of December 31, 2014, pbb Group had €75.5 billion in total assets (as presented in the Audited Consolidated Financial Statements for the financial year 2014), an increase of €0.9 billion, or 1.2%, compared to €74.6 billion as of December 31, 2013.

pbb Group's cash reserve decreased from €3.5 billion as of December 31, 2013 by €3.5 billion to €0.1 billion as of December 31, 2014. The large cash reserve at the end of the financial year 2013 resulted from the maturity of a security shortly before the end of 2013. It was largely re-invested in the financial year 2014 and led to a shift to loans and advances to customers. Trading assets increased from €1.6 billion as of December 31, 2013 by €0.4 billion to €2.0 billion as of December 31, 2014 due to lower interest rates which resulted in an increase in the fair value of pbb Groups derivatives. Loans and advances to other banks increased slightly from €6.7 billion as of December 31, 2013 by €0.1 billion to €6.8 billion as of December 31, 2014. Loans and advances to customers increased from €36.2 billion as of December 31, 2013 by €2.7 billion to €39.0 billion as of December 31, 2014. This was due primarily to the aforementioned deferral of cash into loans and advances to customers as well as from a decline in interest rates. This, in turn, led to higher value adjustments of underlying assets as part of a hedge package. Allowances for losses on loans and advances improved to a minus €0.1 billion as of December 31, 2014. This was mainly the result of the first time consolidation of a property financed in the Netherlands in November 2014, which resulted in an asset change since pbb Group recognized the property with a book value of €17 million under the item other assets instead of the loan impaired to this amount. Financial investments decreased from €20.7 billion as of December 31, 2013 by €0.3 billion to €20.5 billion as of December 31, 2014 due primarily to the maturity of non-strategic securities. Other assets increased from €4.8 billion as of December 31, 2013 by €1.9 billion to €6.7 billion as of December 31, 2014 resulting from an increase in the fair value hedge derivatives due to lower market interest rates. Income tax assets amounted to €1.2 billion as of December 31, 2013 compared to €0.7 billion as of December 31, 2014 (as presented in the Audited Consolidated Financial Statements for the financial year 2014). The decrease was primarily due to a reduction of deferred tax assets by €0.5 billion, mainly due to fewer differences in the on-balance recognition of derivative items between IFRS accounting and German GAAP. As presented in the Unaudited Interim Condensed Financial Statements as of and for the three-month period ended March 31, 2015, the income tax assets as at December 31, 2014, amounted to €30 million. This significant decrease resulted from the adjustments in accordance with IAS 8.14 et seq. For further information, see "*11.2 Adoption of New and Revised Accounting Standards*".

11.8.1.3 Financial Year 2013 compared to Financial Year 2012

As of December 31, 2013, pbb Group's total assets amounted to €73.9 billion, a decrease of €23.2 billion, or 23.9%, compared to €97.1 billion as of December 31, 2012. The decline in total assets was primarily due to the repayment of the three-year tender, granted by the ECB to pbb Group in the financial year 2011 and in the financial year 2012 in the amount of €2.0 billion each, the transfer of mortgage loans to FMS-WM and the strategic reduction of the non-strategic portfolio. pbb Group's cash reserve increased from €1.9 billion as of December 31, 2012 by €1.6 billion to €3.5 billion as of

December 31, 2013. The high level of the cash reserve at the end of the financial year 2013 resulted from the maturity of a security shortly before the end of 2013. Trading assets decreased from €3.3 billion as of December 31, 2012 by €1.7 billion to €1.6 billion as of December 31, 2013 due to the fact that holdings of positive fair values of back-to-back derivatives with FMS-WM were almost completely novated. Loans and advances to other banks decreased from €8.0 billion as of December 31, 2012 by €2.2 billion to €5.8 billion as of December 31, 2013. This decrease was partly due to a reduction in investments of excess liquidity of FMS-WM with the central bank since September 16, 2013. Loans and advances to customers decreased from €49.6 billion as of December 31, 2012 by €13.3 billion to €36.2 billion as of December 31, 2013. This decline was primarily due to the synthetic transfer of mortgage loans to FMS-WM with effect from October 1, 2010, which transferred the economic risk of the loans, but allowed the loans to remain in pbb's cover pool on its balance sheet. The obligation to transfer the resulting cash flows gave rise to a liability to FMS-WM in the same amount. These loans were transferred to FMS-WM and no longer appeared on the balance sheet beginning in August 2013, at which point they had a carrying amount of €6.4 billion (financial year 2012: €7.5 billion). Allowances for losses on loans and advances improved to minus €0.3 billion as of December 31, 2012 by €0.2 billion to €0.1 billion as of December 31, 2013 due to several smaller transactions as well as the consolidation of RPPSE Espacio Oviedo. Financial investments decreased from €25.6 billion as of December 31, 2012 by €4.7 billion to €20.9 billion as of December 31, 2013 as a result of repayments in the non-strategic budget financing portfolios. Other assets decreased from €7.2 billion as of December 31, 2012 by €2.5 billion to €4.8 billion as of December 31, 2013 due primarily to an increase in the fair value of hedge derivatives. Income tax assets decreased from €1.7 billion as of December 31, 2012 by €0.5 billion to €1.2 billion as of December 31, 2013 due primarily to a decrease in deferred taxes.

11.8.2 Equity and Liabilities

11.8.2.1 Comparison as of March 31, 2015 and December 31, 2014

As of March 31, 2015, pbb Group's liabilities amounted to €71.8 billion, a decrease of €0.2 billion compared to €72.0 billion as of December 31, 2014 (as presented in the Audited Consolidated Financial Statements for the financial year 2014). In the Unaudited Interim Condensed Financial Statements as of and for the three-month period ended March 31, 2015, the figure for liabilities as of December 31, 2014 was adjusted to €71.4 billion (unaudited) due to IAS 8.14 *et seq*. Compared to the adjusted liabilities as of December 31, 2014, pbb Group's liabilities increased by €0.4 billion, primarily due to the increase in other liabilities. pbb Group's equity as of March 31, 2015 amounted to €3.6 billion, an increase of €0.1 billion compared to €3.5 billion as of December 31, 2014, mainly due to the increase of the revaluation reserve by €60 million. The revaluation reserve increased as the market values of the assets categorized as available for sale improved.

pbb Group's liabilities to other banks decreased from €3.2 billion as of December 31, 2014 by €0.3 billion to €2.9 billion as of March 31, 2015 due to a reduction of repo transactions. Liabilities to customers decreased from €10.6 billion as of December 31, 2014 by €0.2 billion to €10.4 billion as of March 31, 2015. The decrease was mainly due to the maturity of a loan evidenced by a certificate of indebtedness (*Schuldscheindarlehen*). This decrease was partly offset by the increase in the deposit volume of 'pbb direkt'. Securitised liabilities increased from €47.8 billion as of December 31, 2014 to €47.9 billion as of March 31, 2015 due to new Pfandbrief issuances. Trading liabilities increased from €2.0 billion as of December 31, 2014 by €0.1 billion to €2.1 billion as of March 31, 2015 due to market-related factors such as the changed market interest rates increasing the fair value of the hedging derivatives. As of March 31, 2015, provisions remained at €0.3 billion. Other liabilities increased from €6.2 billion as of December 31, 2014 by €0.8 billion to €7.0 billion as of March 31, 2015 due primarily to an increase in the fair value of hedge derivatives mainly caused by the lower market interest rates. Subordinated capital remained at €1.3 billion as of March 31, 2015.

11.8.2.2 Financial Year 2014 compared to Financial Year 2013

Total pbb Group liabilities as of December 31, 2014 amounted to €72.0 billion (as presented in the Audited Consolidated Financial Statements for the financial year 2014), an increase of €0.8 billion compared to €71.2 billion as of December 31, 2013.

As on the assets side, the continued low interest rates resulted in higher derivative market values and fair value hedge adjustments. pbb Group's equity as of December 31, 2014 remained largely unchanged at €3.5 billion compared to December 31, 2013. The small €21 million increase was primarily due to an increase in retained earnings by €30 million due to a payment by HRE Holding in the financial year 2014 to compensate for payment obligations of the Company in connection with the transfer of positions to FMS-WM in 2010. This payment was intended to compensate the Company for the disadvantages that resulted from the transfer of positions to FMS-WM compared to the advantages HRE Holding obtained from the respective transaction. In addition, an increase in the revaluation reserve by €24 million further resulted in the increase in pbb Group's equity. These increases off-set the €38 million decrease in profits/losses from pension commitments in the financial year 2014 resulting from the discount rate to be used to discount the pension obligations (December 31, 2014: 2.0%; December 31, 2013: 3.5%).

pbb Group's liabilities to other banks decreased from €3.5 billion as of December 31, 2013 by €0.3 billion to €3.2 billion as of December 31, 2014 due to lower funding needs. Liabilities to customers decreased from €10.8 billion as of December 31, 2013 by €0.3 billion to €10.6 billion as of December 31, 2014 also due to lower funding needs. Securitized liabilities increased from €46.9 billion as of December 31, 2013 by €0.9 billion to €47.8 billion as of December 31, 2014 due to new Pfandbrief issues. Trading liabilities increased from €1.5 billion as of December 31, 2013 by €0.5 billion to €2.0 billion as of December 31, 2014 mainly as a result of the decline in market interest rates which increased the obligations on stand-alone derivatives, i.e. derivatives which are not accounted for in accordance with hedge accounting. Provisions increased from €0.2 billion as of December 31, 2013 by €0.1 billion to €0.3 billion as of December 31, 2014 due to higher pension obligations as a result of lower rates used for discounting purposes. Other liabilities increased from €4.7 billion as of December 31, 2013 by €1.5 billion to €6.2 billion as of December 31, 2014 due primarily to an increase in the fair value of hedge derivatives. Income tax liabilities amounted to €1.2 billion as of December 31, 2013 compared to €0.7 billion as of December 31, 2014 (as presented in the Audited Consolidated Financial Statements for the financial year 2014). The decrease was primarily due to a reduction of deferred tax liabilities by €0.5 billion, mainly due to fewer differences in the on-balance recognition of derivative items between IFRS accounting and German GAAP. As presented in the Unaudited Interim Condensed Financial Statements as of and for the three-month period ended March 31, 2015, the income tax liabilities as at December 31, 2014, amounted to €88 million. This significant decrease resulted from the adjustments in accordance with IAS 8.14 et seq. For further information, see "*11.2 Adoption of New and Revised Accounting Standards*". Subordinated capital decreased from €2.4 billion as of December 31, 2013 by €1.1 billion to €1.3 billion as of December 31, 2013. The subordinated capital decreased by €0.9 billion due to the sale of DEPFA Finance N.V. A further decrease of €0.2 billion was attributable to the partial repayment of liabilities to DEPFA Finance N.V. prior to maturity.

11.8.2.3 Financial Year 2013 compared to Financial Year 2012

Total pbb Group's liabilities as of December 31, 2013 amounted to €70.4 billion, a decrease of €23.4 billion compared to €93.8 billion as of December 31, 2012. In line with the decrease of assets, the decline in liabilities mainly resulted from the transfer of mortgage loans to FMS-WM that were removed from the balance sheet, and the repayment of the three-year tender granted by the ECB. The lower funding requirement resulted in decreased holdings of secured and unsecured funding due to the strategic reduction of certain portfolios on the assets side. Market-related effects increased total equity and liabilities, as the fair values of derivatives and of the hedged items measured at fair value rose in accordance with fair value hedge accounting, primarily due to lower long-term interest rates. By contrast, the rise in the euro against the U.S. dollar, sterling, the Japanese yen, the Swiss franc and the Swedish krona led to a reduction in total equity and liabilities. pbb Group's equity as of December 31, 2013 amounted to €3.5 billion, an increase of €0.2 billion compared to €3.3 billion as of December 31, 2012. This increase was primarily due to profit of €160 million in the financial year 2013, an increase in pbb Group's revaluation reserve in the amount of €33 million mainly following an increase in its AfS reserve, as well as reduced profit/losses from pension commitments in the amount of €41 million in the financial year 2014 compared to losses of €46 million in the financial year 2013.

pbb Group's liabilities to other banks decreased from €7.8 billion as of December 31, 2012 by €4.3 billion to €3.5 billion as of December 31, 2013 resulting from lower funding requirements as a consequence of decreased holdings of balance sheet liabilities due to the strategic reduction of certain portfolios on the assets side. For the same reason, pbb Group's liabilities to customers also decreased

from €11.9 billion as of December 31, 2012 by €1.0 billion to €10.8 billion as of December 31, 2013. Securitized liabilities decreased from €52.6 billion as of December 31, 2012 by €5.5 billion to €47.1 billion as of December 31, 2013 as a result of lower funding requirements which resulted in a decrease in liabilities. Trading liabilities decreased from €3.2 billion as of December 31, 2012 by €1.7 billion to €1.5 billion as of December 31, 2013 due to the fact that holdings of positive fair values of back-to-back derivatives with FMS-WM were almost completely liquidated through novations. Provisions decreased slightly from €0.2 billion as of December 31, 2012 as a result of the reversal of restructuring provisions as well as an increase in the rate used for discounting purposes in relation to pension obligations. Other liabilities decreased from €14.4 billion as of December 31, 2012 by €9.7 billion to €4.7 billion as of December 31, 2013. This decrease in other liabilities was primarily due to mortgage loans that were synthetically transferred to FMS-WM with effect from October 1, 2010 to transfer the economic risk, but remaining in pbb's cover pool on the balance sheet. The obligation to transfer the resulting cash flows gave rise to a liability to FMS-WM in the same amount. These loans were transferred to FMS-WM and derecognized from the balance sheet in August 2013. Income tax liabilities decreased from €1.7 billion as of December 31, 2012 by €0.5 billion to €1.2 billion as of December 31, 2013 due to a decrease in deferred tax liabilities. Subordinated capital decreased from €2.0 billion as of December 31, 2012 by €0.6 billion to €1.4 billion as of December 31, 2013 due to maturing of subordinated liabilities.

11.9 Liquidity and Capitalization

11.9.1 Overview

The primary objective of pbb Group's financial management is to secure and manage its and its subsidiaries' liquidity in such way that its financing and funding capabilities are assured at all times. The treasury division is responsible for central 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 in accordance with the waiver regulation set out in Section 7 of the CRR, is part of HRE's risk strategy.

See "*16 Risk Management*" for a detailed description of the financial and risk management policies of the Group.

11.9.2 Maturities

The remaining terms of pbb Group's assets and liabilities in the periods under review (i.e. prior to the repayment of the SoFFin Silent Participation of €1.0 billion which has occurred on July 6, 2015) were as follows:

	For the Three-Month Period ended March 31, 2015	
Maturity structure of financial position	**Assets**	**Equity and liabilities**
	(unaudited) (in € million)	
Total	**75,386**	**75,386**
Up to 3 months	7,204	6,438
3 months to 1 year	5,742	7,083
1 year to 5 years	23,321	26,947
5 years and over	30,087	21,906
Other assets[1)]/equity and liabilities[2)]	9,032	13,012

1) Trading assets, allowances for losses on loans and advances, property, plant and equipment, intangible assets, other assets, income tax assets.
2) Trading liabilities, provisions, other liabilities, income tax liabilities, equity.

	For the Financial Year ended December 31,					
	2014[1]		2013[2]		2012	
	Assets	Equity and liabilities	Assets	Equity and liabilities	Assets	Equity and liabilities
			(audited) (in € million)			
Total	**75,518**	**75,518**	**74,641**	**74,641**	**97,081**	**97,081**
Up to 3 months	8,320	6,953	10,145	6,778	14,831	10,425
3 months to 1 year	5,548	6,760	4,885	5,355	6,702	6,278
1 year to 5 years	23,013	26,637	23,439	26,598	30,607	28,786
5 years and over	29,415	22,536	28,715	24,854	32,954	28,746
Other assets[3]/equity and liabilities[4]	9,222	12,632	7,457	11,056	11,987[5]	22,846[5]

1) Figures taken from the Audited Consolidated Financial Statements for the financial year 2014. In the Unaudited Interim Condensed Financial Statements as of and for the three-month period ended March 31, 2015, certain figures were adjusted, including the total assets to €74,894 million (unaudited), due to IAS 8.14 et seq.
2) Numbers for the financial year 2013 have been adjusted in the Audited Financial Statements for the financial year 2014 due to retrospective IFRS 10 first time adoption. Numbers are taken from the Audited Financial Statements for the financial year 2014.
3) Trading assets, allowances for losses on loans and advances, property, plant and equipment, intangible assets, other assets, and income tax assets.
4) Trading liabilities, provisions, other liabilities, income tax liabilities, and equity.
5) Adjusted due to the retrospective initial application of IAS 19 (revised).

11.9.3 Funding

Investors' demand for high-yielding investment opportunities increased throughout the periods under review due to, among other things, the European Central Bank's (ECB) monetary policy and historically low interest rates. Increasing volatility of the European fixed income markets and concerns about the exit from the current expansionary monetary policy made Pfandbriefe even more attractive to investors.

In the three-month period ended March 31, 2015, pbb Group realized a long-term funding volume of €1.4 billion compared to €2.2 billion in the three-month period ended March 31, 2014.

In the beginning of the three-month period ended March 31, 2015 pbb Group experienced a strong capital market due to the monetary policy of the ECB with their purchase programs. More than two thirds of the long-term funding was carried out via unsecured issues whilst Pfandbrief issues accounted for less than one third. Fixed-income issues predominated. Overall, securitized liabilities amounted to €47.9 billion as of March 31, 2015 (March 31, 2014: €47.0 billion).

In the financial year 2014 pbb Group realized a long-term funding volume of €6.0 billion compared to €7.7 billion in the financial year 2013 and €6.5 billion in the financial year 2012.

In the financial year 2014, early repayments of assets and adequate liquidity allowed pbb Group to reduce its capital market activities. €2.6 billion (financial year 2013: €4.4 billion) was attributable to new benchmark issues as well as an increase of outstanding benchmark transactions. 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. pbb Group's open interest rate positions are usually hedged by swapping fixed interest rates for floating rates. Overall, securitized liabilities amounted to €47.8 billion as of December 31, 2014.

In the financial year 2013, €4.4 billion (financial year 2012: €3.0 billion) was attributable to benchmark issues. Fixed-income issues predominated. New business on the assets side was entered into primarily on a floating rate basis, 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. pbb Group's issuing activities accounted for approximately 10% of the issue volume on the German Pfandbrief market in 2013. pbb Group also underlined its activity on the funding markets by issuing a public sector Pfandbrief with a 15-year term as well as two unsecured benchmark bonds in the total amount of €1.4 billion. In addition, all of pbb Group's benchmark issues issued in the financial year 2014 mature after 2015, i.e. after the date prescribed by the European Commission for the privatization of pbb. Overall, securitized liabilities amounted to €47.1 billion as of December 31, 2013 (financial year 2012: €52.6 billion). Mortgage Pfandbriefe denominated in foreign currency were issued in the amount of GBP 0.4 billion.

In addition, pbb Group has offered overnight investments and time deposit investments to private investors since March 2013 through its "pbb direkt" brand in order to expand pbb Group's unsecured

funding base. The deposit volume at the end of the financial year 2014 was €1.5 billion compared to €0.6 billion at the end of the financial year 2013. By the end of the three-month period ended March 31, 2015, the retail deposit volume had grown to €1.8 billion.

11.9.4 Ratings

The Company has currently mandated Standard & Poor's for both its unsecured ratings and the Pfandbrief ratings. In addition, on May 12, 2015, the Company mandated DBRS which has already been providing unsolicited unsecured ratings. In a first step, the Company mandated DBRS to assign an unsecured rating to the Company. As a consequence, DBRS has now been providing solicited ratings to the Company since May 19, 2015. The Company may expand this mandate to Mortgage Pfandbrief ratings. On May 12, 2015, the Company terminated the mandate with Fitch and Moody's for unsecured ratings. On May 19, 2015, following a downgrade of the long-term senior unsecured ratings of the Company to 'BBB' (rating watch negative) from 'A-' Fitch withdrew the unsecured ratings assigned to the Company for commercial reasons. On June 19, 2015, together with the publication of a downgrade of the long-term senior unsecured ratings of the Company to 'Ba1' (stable outlook) Moody's qualified the unsecured ratings assigned to the Company as unsolicited. On June 29, 2015, Moody's announced the withdrawal of the unsecured ratings. The Company is currently considering whether or not to continue the mandate with Moody's for its Pfandbrief ratings.

For risks associated with the ratings assigned to the Company and its debt instruments see *"3.1.7 pbb Group bears the risk that the ratings assigned to the Company, its Pfandbriefe and its other debt or hybrid instruments are downgraded which may have a negative effect on the funding opportunities, on triggers and termination rights within derivatives and other contracts and on access to suitable hedge counterparties and thus on its business, financial position and results of operation.*" and "*3.3.4 The withdrawal from the HRE Group increases the likelihood of a downgrade of the ratings assigned to the Company and/or its debt or hybrid instruments which may have a negative effect on the Company's funding opportunities, triggers and termination rights within derivatives and other contracts and access to suitable hedge counterparties.*" For further information, see also "*19.7 Ratings*".

11.9.5 Key Regulatory Capital Ratios

In accordance with the waiver rule set out in Section 7 of the Capital Requirements Regulation ("**CRR**") (and for the financial years 2012 and 2013 in accordance with Section 2a of the then applicable German Banking Act (*Kreditwesengesetz* – KWG)), pbb Group is exempted from the regulatory capital requirements at the level of the Company and pbb Group, respectively, until the waiver will cease to apply, which will be the case prior to the Settlement. These regulatory capital requirements had to be met by HRE Holding on a consolidated basis. However, pbb Group publishes the following figures voluntarily.

Since January 1, 2014, CRD 4 is implemented and correspondingly HGB was replaced by IFRS as the relevant accounting standard for determining regulatory capital requirements. For the financial years 2013 and 2012, capital ratios were calculated on the basis of the German Solvency Regulation (Solvabilitätsverordnung – "**SolvV**").

pbb Group's simulated regulatory capital in accordance with the CRR (and for the financial years 2012 and 2013 in accordance with the SolvV) is set out below for the financial years 2014, 2013, 2012 and the three-month period ended March 31, 2015. For ease of comparison, the tables include additional figures for the financial year 2013, which are calculated according to the regulations applicable beginning January 1, 2014.

	March 31,		December 31[1],					
	2015		2014		2013			2012
Own Funds	CRR/ CRD 4[2]	CRR/CRD 4 fully loaded[2),3)]	CRR/ CRD 4[2]	CRR/CRD 4 fully loaded[2),3)]	CRR/CRD 4 simulation[2),4)]	CRR/CRD 4 fully loaded simulation[2),3),4)]	KWG/ SolvV[5]	KWG/ SolvV[5]
	(in € million)							
CET 1	3,319	2,191	3,364	2,090	3,336	1,993		
Additional Tier 1	189	999[6]	195	999[9]	216	999	350	–
Tier 1	3,508	3,190[7]	3,559	3,089[10]	3,552	2,992	2,825	2,898
Tier 2	451	304	483	334	632	454	835	1,179
Own Funds	**3,959**	3,494[8]	**4,042**	**3,423[11]**	**4,184**	**3,446**	**3,660**	**4,077**

1) Following the appropriation of net profit of the respective year.

2) Consolidated in accordance with the CRR.
3) Calculation of the Company without taking into account the Basel 3 transitional regulations (as implemented by CRR).
4) Adjusted in accordance with IAS 8.42.
5) Consolidated in accordance with Section 10a of the KWG.
6) Additional Tier 1 of €0 calculated on a basis excluding €1.0 billion SoFFin Silent Participation.
7) Tier 1 of €2.2 billion calculated on a basis excluding €1.0 billion SoFFin Silent Participation.
8) Own Funds of €2.5 billion calculated on a basis excluding €1.0 billion SoFFin Silent Participation.
9) Additional Tier 1 of €0 calculated on a basis excluding €1.0 billion SoFFin Silent Participation.
10) Tier 1 of €2.1 billion calculated on a basis excluding €1.0 billion SoFFin Silent Participation.
11) Own Funds of €2.4 billion calculated on a basis excluding €1.0 billion SoFFin Silent Participation.

	March 31,	December 31,			
	2015	2014	2013		2012
Risk-Weighted Assets (RWA)[1]	CRR/CRD 4[2]	CRR/CRD 4[2]	CRR/CRD 4[2] simulation	KWG/SolvV[3]	KWG/SolvV[3]
			(in € million)		
Market risks	56	217	158	75	75
thereof interest rate risks	–	–	–	–	–
thereof foreign exchange risks	56	217	158	75	75
Operational risks	1,010	1,010	923	923	1,074
Credit risks and other RWA	13,709	14,262	16,982	13,087	14,198
thereof CVA charge	420	445	531	–	–
RWA total	**14,775**	**15,489**	**18,063**	**14,085**	**15,347**

1) Including weighted credit risk positions and capital charges for market risk positions and operational risk, using a scaling factor of 12.5.
2) Consolidated in accordance with CRR.
3) Consolidated in accordance with Section 10a of the KWG.

	March 31,		December 31[1],						
	2015		2014			2013			2012
Capital Ratios[2]	CRR/ CRD 4[3]	CRR/CRD 4 fully loaded[3],[4]	CRR/ CRD 4[3]	CRR/CRD 4 fully loaded[3],[4]	CRR/CRD 4 fully loaded[4],[5]	CRR/ CRD 4[3],[6] simulation	CRR/CRD 4 fully loaded[3],[4],[6] simulation	KWG/ SolvV[7]	KWG/ SolvV[7]
				(in %)					
CET 1 ratio	22.5	14.8	21.7	13.5	13.5[8]	18.5	11.0		–
Tier 1 ratio	23.7	14.8[5]	23.0	19.9	13.5[9]	19.7	16.6	20.1	18.9
Own funds ratio	26.8	16.9[5],[10]	26.1	22.1	15.6[11]	23.2	19.1	26.0	26.6

1) Following the appropriation of net profit of the respective year.
2) The regulatory capital ratios and other figures stated are calculated on a simulated basis. According to the 'Waiver Rule' under Article 7 CRR, the Company, being a subsidiary of HRE Holding, is, as at the date of the Prospectus, exempted from calculating the CET 1 capital ratio and the other relevant regulatory capital ratios and figures on a sub-group level.
3) Consolidated in accordance with CRR.
4) Calculation of the Company without taking into account Basel 3 transitional regulations (as implemented by CRR).
5) Figures are calculated on a basis excluding €1.0 billion SoFFin Silent Participation, which has been repaid on July 6, 2015.
6) Adjusted in accordance with IAS 8.42.
7) Consolidated in accordance with Section 10a of the KWG.
8) CET 1 of €2.1 billion fully loaded excluding SoFFin Silent Participation of €1.0 billion in percentage of RWA of €15.5 billion.
9) Tier 1 of €2.1 billion fully loaded excluding SoFFin Silent Participation of €1.0 billion in percentage of RWA of €15.5 billion.
10) Own funds of €2.5 billion fully loaded excluding SoFFin Silent Participation of €1.0 billion in percentage of RWA of €14.8 billion.
11) Own funds of €2.4 billion fully loaded excluding SoFFin Silent Participation of €1.0 billion in percentage of RWA of €15.5 billion.

Through December 31, 2013, pbb Group was required to meet regulatory capital requirements on the basis of the SolvV and Section 10 KWG. In accordance with these requirements, the own funds ratio (equity/risk-weighted assets) was not permitted to fall below 8.0%. Additionally, Tier 1 capital had to amount to at least 50% of own funds, i.e. the Tier 1 capital ratio had to be at least equal to 4.0%. At the same time, the own funds ratio of at least 8.0%, which was calculated from the ratio of own funds to the sum of risk-weighted assets and the capital charges for market risk positions multiplied by 12.5 had to be complied with. pbb Group met these requirements throughout the financial years 2013 and 2012.

Beginning on January 1, 2014, the regulatory capital requirements have to be met on the basis of the CRD 4 Package and the respective implementing rules. According to these requirements, as at the date of the Prospectus, in general and subject to additional requirements imposed by the supervising

authorities, the CET 1 ratio must not fall below 4.5%, the Tier 1 ratio must not fall below 6% and the own funds ratio must not fall below 8%. pbb Group met these requirements throughout the financial year 2014 as well as the first quarter of the financial year 2015.

Besides the minimum capital ratio requirements, the regulatory changes also affected 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 beginning on January 1, 2014 (up until December 31, 2013 they were based on the German Commercial Code (HGB)). In addition, the abolition of the former preference for certain risk items pursuant to former Section 64h KWG and the CRR-based introduction of an additional CVA charge results in a significant increase in risk-weighted assets.

The following table illustrates how the Company derives the regulatory capital on a consolidated basis (as stated below) from equity under IFRS as of December 31, 2014 (all figures in € million and as of December 31, 2014, except as otherwise mentioned):

Equity under IFRS[1)]	3,506
deduction of SoFFin Silent Participation	*(999)*
Equity under IFRS without SoFFin Silent Participation	2,507
deduction of cash flow hedge reserve	*(189)*
other adjustments[2)]	*(228)*
CET 1 (CRR/CRD 4 fully loaded)[3),4),5)]	2,090
Tier 1 (CRR/CRD 4 fully loaded)[3),4),6)]	2,090
Tier 2 (CRR/CRD 4 fully loaded)[3),4)]	334
Own funds (CRR/CRD 4 fully loaded)[3),4),7)]	2,424

1) See "*11.8 Financial Position*" above.
2) Other adjustments include deduction of expected loss excess and other CET 1 adjustments.
3) Calculation of the Company without taking into account the Basel 3 transitional regulations (as implemented by CRR).
4) Consolidated in accordance with the CRR.
5) CET 1 ratio of 13.5% (CRR/CRD 4 fully loaded) (see footnote 3) above), based on RWA of €15.5 billion.
6) Tier 1 ratio of 13.5% (CRR/CRD 4 fully loaded) (see footnote 3) above), based on RWA of €15.5 billion.
7) Sum of Tier 1 and Tier 2. Own funds ratio of 15.6% (CRR/CRD 4 fully loaded) (see footnote 3) above), based on RWA of €15.5 billion.

The Basel 3 framework also proposes a non-risk based leverage ratio as a complement to the risk-based capital requirements. While the CRR does not require banks immediately to comply with a specific leverage ratio, banks are required to report their leverage ratios for a future assessment and calibration of the leverage ratio. The leverage ratio is calculated as the ratio of Tier 1 capital to the leverage exposure, expressed as a percentage rate.

The table below sets out the fully loaded leverage ratios of pbb Group in respect of the dates referred to therein, in each case as calculated on a simulated basis (i.e. as if the leverage ratio requirement were applicable to pbb Group and assuming the expiry of all Basel 3 transitional regulations (as implemented by CRR)):

	As of and for the Three-Month Period ended March 31,	As of and for the Financial Year ended December 31,	
	2015	2014	2013
	(in € billion unless otherwise indicated)		
Leverage exposure (fully loaded) (unaudited)[1)]	69.1	67.2	69.9
Leverage ratio (fully loaded) (in %) (unaudited)[2),3)]	3.2[4)]	3.1[5)]	2.8[6)]

1) Mainly due to the netting of derivatives, the amount of the leverage exposure as reflected in these leverage ratios has been lower than the total assets reported in the respective financial statements for these dates.
2) The regulatory capital ratios stated are calculated on a simulated basis. According to the 'Waiver Rule' under Article 7 CRR, pbb, being a subsidiary of HRE, is, as at the date of the Prospectus, exempted from calculating relevant regulatory capital ratios on a sub-group level.
3) Figures are calculated on a basis (excluding SoFFin Silent Participation of €1.0 billion), which has been repaid on July 6, 2015.
4) Tier 1 capital of €2.2 billion fully loaded (excluding SoFFin Silent Participation of €1.0 billion) in percentage of leverage exposure of €69.1 billion. On the basis of the Basel 3 transitional regulations (as implemented by CRR), the leverage ratio amounts to 3.6% (excluding SoFFin Silent Participation of €1.0 billion).

5) Tier 1 capital of €2.1 billion fully loaded (excluding SoFFin Silent Participation of €1.0 billion) in percentage of leverage exposure of €67.2 billion.
6) Tier 1 capital of €2.0 billion fully loaded (excluding SoFFin Silent Participation of €1.0 billion) in percentage of leverage exposure of €69.9 billion.

The following table illustrates how the Company derives its leverage exposure from the amount of total assets as shown in the Audited Consolidated Financial Statements for the financial year 2014 (all figures unaudited, in € billion and as of December 31, 2014, except as otherwise indicated):

Total assets	75.5[1)]
adjustments relating to:	
predominantly due to repo netting, derivative netting and exclusion of netted collateral	*(11)*
off-balance sheet items	*3*
regulatory deduction Tier 1	*(0.4)[2)]*
Leverage exposure	67.2[3)]

1) Audited. Total assets as shown in the Audited Consolidated Financial Statements for the financial year 2014. This figure has been adjusted to €74.9 billion (unaudited) in the Unaudited Interim Condensed Financial Statements as of and for the three-month period ended March 31, 2015 due to IAS 8.14 et seq. For further information see "*11.2 Adoption of New and Revised Accounting Standards*".
2) Difference between Tier 1 Capital (excluding SoFFin Silent Participation of €1.0 billion) and shareholder equity (excluding SoFFin Silent Participation of €1.0 billion).
3) The leverage exposure would amount to €66.5 billion if calculated on the basis of the adjusted amount of total assets of €74.9 billion as shown in the Unaudited Interim Condensed Financial Statements as of and for the three-month period ended March 31, 2015.

11.9.6 Cash Flows

The following table shows selected data from the consolidated statement of cash flows of pbb Group for the three-month periods ended March 31, 2015 and March 31, 2014 and for the financial years ended December 31, 2014, 2013 and 2012.

	For the Three-Month Period ended March 31,		For the Financial Year ended December 31		
	2015	2014	2014	2013[1)]	2012
	(unaudited) (in € million)			(audited) (in € million)	
Cash flow from operating activities	207	-3,651	-4,320	-1,753	-1,593
Cash flow from investing activities	1,300	448	953	3,902	3,757
Cash flow from financing activities	-10	0	-108	-546	-550
Cash and cash equivalents at the end of the previous period	57	3,532	3,532	1,929	323
Cash and cash equivalents at the end of the period	1,554	329	57	3,532	1,937

1) Numbers for the financial year 2013 have been adjusted in the Audited Financial Statements for the financial year 2014 due to retrospective IFRS 10 first time adoption. Numbers are taken from the Audited Financial Statements for the financial year 2014.

11.9.6.1 Cash and Cash Equivalents

As of March 31, 2015, pbb Group's cash and cash equivalents amounted to €1,554 million compared to €329 million as of March 31, 2014. As of December 31, 2014, cash and cash equivalents amounted to €57 million compared to €3,532 million as of December 31, 2013 and €1,937 million as of December 31, 2012. In the three-month period ended March 31, 2015, cash and cash equivalents were higher due to financial investments which matured in the first quarter of 2015. A portion of this liquidity was used to redeem a covered bond on April 1, 2015. The decrease in financial year 2014 was due to the re-investment of the cash reserve in loans and advances to customer and credit institutions as well as the prepayment of maturing securitized liabilities. The increase in cash and cash equivalents in the financial year 2013 was mainly attributable to the maturity of financial investments before the end of 2013.

11.9.6.2 Cash Flows from Operating Activities

Cash flow from operating activities includes payments (inflows and outflows) attributable to loans and advances to other banks and customers as well as securities attributable to trading assets and other

assets. Inflows and outflows attributable to liabilities to other banks and customers, liabilities evidenced by certificates and other liabilities are also included under operating activities. The interest and dividend payments resulting from operating activities are also shown under cash flow from operating activities.

In the three-month period ended March 31, 2015, pbb Group's cash flows from operating activities amounted to €207 million (three-month period ended March 31, 2014: minus €3,651 million). This included cash inflows from repos resulting from liquidity management as well as cash outflows from new business in loans and advances to customers.

In the financial year 2014, pbb Group's cash flows from operating activities amounted to minus €4,320 million (financial year 2013: minus €1,753 million). This was mainly attributable to the cash outflows from repayments of liabilities to other banks, liabilities to customers and maturing securitized liabilities and cash used to fund new business in the financial year 2014.

Cash flows from operating activities in the amount of minus €1,753 million in the financial year 2013, (financial year 2012: minus €1,593 million) were mainly driven by cash outflows due to repayments of liabilities to customers and maturing securitized liabilities as well as repayments of loans and advances by other banks and customers.

11.9.6.3 Cash Flows from Investing Activities

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

In the three-month period ended March 31, 2015, pbb Group's cash flows from investing activities amounted to €1,300 million (three-month period ended March 31, 2014: €448 million). This cash flow was primarily generated from the sale of, and maturing financial investments.

In the financial year 2014, pbb Group's cash flows from investing activities amounted to €953 million (financial year 2013: €3,902 million). This large decline in cash flows was primarily due to the large amount of financial investments, e.g. in the non-strategic budget finance portfolio which matured in the financial year 2013 which did not occur to the same level in financial year 2014.

Cash flows from investing activities in the amount of €3,902 million in the financial year 2013, (financial year 2012: €3,757 million) were primarily due to maturing financial investments, e.g. in the non-strategic budget finance portfolio.

11.9.6.4 Cash Flows from Financing Activities

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

In the three-month period ended March 31, 2015, pbb Group's cash flows from financing activities amounted to minus €10 million (three-month period ended March 31, 2014: €0 million). The cash outflow in the first quarter of 2015 was primarily due to the repayment of maturing subordinated capital.

In the financial year 2014, pbb Group's cash flows from financing activities amounted to minus €108 million (financial year 2013: minus €546 million). This was primarily due to a cash outflow resulting from a partial repayment of a loan prior to its maturity which was provided to the Company by DEPFA Finance N.V. in connection with the transfer of DEPFA Finance N.V, Amsterdam, to DEPFA Bank.

Cash flows from financing activities in the amount of minus €546 million in the financial year 2013, (financial year 2012: minus €550 million) were primarily due to maturing securities in the financial year 2013 which resulted in a cash outflow.

11.9.7 Investments

Capital expenditures on property and equipment and intangible assets are of minor significance for pbb Group due to its purpose of conducting banking business, particularly lending business. The following table shows the investments by pbb Group in property and equipment as well as in intangible assets for the three-month period ended March 31, 2015 and the financial years ended December 31, 2014, 2014 and 2012.

	For the Three-Month Period ended March 31,	For the Financial Year ended December 31,		
	2015	2014	2013	2012
	(unaudited) (in € million)		(audited) (in € million)	
Property and equipment	5	7	0	0
Intangible assets	1	6	7	18
thereof purchased software	*0*	*0*	*1*	*2*
thereof internally developed software	*0*	*4*	*4*	*16*
thereof other intangible assets	*1*	*2*	*2*	*0*

For the period from April 1, 2015 until the date of the Prospectus, the Company has not made significant capital expenditures, and, as at the date of the Prospectus, the Company has not resolved on any major investments.

11.9.7.1 Property and Equipment

In the three-month period ended March 31, 2015, investments in the amount of €5 million in property and equipment predominantly related to new hardware such as notebook computers, screens, printers and servers, in particular by the Company in Germany.

In the financial year 2014, investments of €7 million in property and equipment almost completely resulted from investments in IT hardware, especially server and IT infrastructure (€7 million), in particular by the Company in Germany.

In the financial years 2013 and 2012 there have not been any material investments in property and equipment.

11.9.7.2 Intangible Assets

In the three-month period ended March 31, 2015, investments in the amount of €1 million in intangible assets concerned other intangible assets. These investments were predominantly for a new portfolio hedge accounting tool and credit system improvements. These investments were mainly undertaken by the Company in Germany.

In the financial year 2014, investments in intangible assets amounted to €6 million, resulting from investments in internally generated software mainly attributable to the target reporting solution (SAP business warehouse), the introduction of a new general ledger, software for derivative dealing, a tool for the coverpool as well as investments in other intangible assets mainly related to a software for finance hedge accounting, licenses for a document storing system, a software for payments and licenses for regulatory reporting software. These investments were mainly undertaken by the Company in Germany.

In the financial year 2013, investments in intangible assets amounted to €7 million including investments in purchased as well as internally developed software comprising, amongst others, software for finance hedge accounting and software to apply Basel 3 regulatory reporting requirements, as implemented by CRR. Investments in other intangible assets amounted to €2 million and related to the introduction of a new general ledger and other smaller investments like the SAP business warehouse. These investments were mainly undertaken by the Company in Germany.

In the financial year 2012, investments in intangible assets amounted €18 million, comprising purchased software and SAP licenses. An amount of €16 million related to investments in internally developed software, in particular related to the New Evolution N4a project, a software for market risk topics, a software for the liquidity risk management and the introduction of SEPFA in payments. These investments mainly related to the Company in Germany.

11.10 Contractual Obligations

11.10.1 Contingent Liabilities and other Commitments

	As of March 31,	As of December 31,		
	2015	2014	2013[1)]	2012[2)]
	(unaudited) (in € million)		(audited) (in € million)	
Contingent Liabilities	**128**	**84**	**25**	**75**
Guarantees and warranties	128	84	25	75
thereof loan guarantees	–	–	*4*	*4*
thereof performance guarantees and warranties	*128*	*84*	*21*	*71*
Other commitments	**1,894**	**2,238**	**2,569**	**1,035**
Irrevocable loan commitments	1,894	2,238	2,569	1,035
thereof book credits	–	–	–	*102*
thereof guarantees	*18*	*6*	*30*	*31*
thereof mortgage and public sector loans	*1,876*	*2,232*	*2,539*	*902*
Total	**2,022**	**2,322**	**2,594**	**1,110**

Contingent liabilities decreased from €75 million as of December 31, 2012 by €50 million to €25 million as of December 31, 2013 and subsequently increased by €59 million to €84 million as of December 31, 2014. As of March 31, 2015, contingent liabilities amounted to €128 million.

The majority of contingent liabilities results from performance guarantees and warranties. Guarantees and warranties are mainly related to specific transactions and customers in our REF segment. For example, pbb Group has guarantees and warranties in the developer business which are used to collateralize the payment of the purchaser before the entry in the land register or to collateralize payment claims of property builders. The total amount of contingent liabilities depends on new transactions originated or deals which expired as well as the building progress and the entry in the land register. As a result of new transactions or drawings of existing commitments in the financial year 2014, contingent liabilities increased in the financial year 2014 compared to the financial year 2013. For the same reasons, contingent liabilities were higher as of March 31, 2015 than as of December 31, 2014. Repayment of loans also led to a decrease of guarantees and warranties which were granted in conjunction with such loans in the financial year 2013 compared to the financial year 2012.

The Company as the legal successor of Hypo Real Estate Bank International AG, has assumed the irrevocable and unconditional guarantees to fulfill all liabilities of Hypo Public Finance Bank puc, Dublin with effect as of January 2, 2006. As a result of the sale of all shares of Hypo Public Finance Bank puc, Dublin as of 2007, and pursuant to the terms of the guarantee, the Company's commitment is limited 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 of Hypo Public Finance Bank puc, Dublin, and although the Company cannot exclude the possibility that Hypo Public Finance Bank puc, Dublin, defaults on its obligations, the Company, as at the date of the Prospectus, believes such default is unlikely.

In accordance with the framework agreement for transferring risk positions and non-strategic operations to a deconsolidated environment constituted under German 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-WM.

The Restructuring Fund Ordinance specifies an additional charge for the so-called "bank levy". The difference between the actually determined bank levy and the amount calculated retrospectively for the years 2011 to 2019 can be subsequently charged in the following two years in each case. However, the obligation to pay the additional amount arises only if corresponding profits are generated in subsequent financial years; the amount of this payment is capped by the feasibility or charge specified in the ordinance. Whether the additional payment becomes due, and also the extent of such an additional payment, accordingly depend on profits being generated in subsequent years. The additional payment which pbb can be charged in 2015 is €13 million.

pbb Group is a lessee in the context of operating lease agreements. Non-terminable operating lease agreements for land and buildings as well as for operating and business equipment existed as of

December 31, 2014, December 31, 2013 and December 31, 2012. Throughout the periods under review leasing obligations mainly related to lease of buildings, in particular the buildings of pbb Group's business domiciles as well as Lehel Carré, Munich, Germany. Operating lease agreements concluded by pbb Group were made on an arm's-length basis and are mainly related to the rental of land and buildings.

Other commitments increased from €1,035 million as of December 31, 2012 by €1,534 million to €2,569 million as of December 31, 2013 and decreased by €331 million to €2,238 million as of December 31, 2014. As of March 31, 2015, other commitments amounted to €1,894 million.

For pbb Group, irrevocable loan commitments are the only components of other commitments, amounting to €1,035 million, €2,569 million and €2,238 million as of December 31, 2012, December 31, 2013 and December 31, 2014, respectively. Irrevocable loan commitments comprise all commitments of a creditor which can grant a loan and advance at a later date and which can cause a credit risk. These are mainly credit commitments which are not fully drawn. The major part of irrevocable loan commitments results from mortgage loans mainly of the REF segment.

11.10.2 Off-Balance-Sheet Obligations

The services provided to FMS-WM were largely discontinued as of September 30, 2013. Hypo Real Estate Japan Corporation, Tokyo, a subsidiary of pbb, was an exception; it provided services for FMS-WM's Japanese Real Estate Finance portfolio until June 29, 2015. pbb and FMS-WM also continued to provide each other with services that cannot be otherwise obtained after September 30, 2013 on the basis of what is currently a cost-plus agreement. These relate in particular to the provision of information, the granting of powers of attorney and the provision of services required under supervisory laws. In addition, HRE Holding and FMS-WM entered into a settlement agreement in the fourth quarter of 2013. Under this agreement, all potential claims by FMS-WM for damages related to services provided (except for intentional damages), all past, present and future claims for the reimbursement of costs for the legal transfer of assets (upgrades) that had previously only been transferred or hedged by means of sub-participations, back-to-back derivatives, or financial guarantees (in each case except for transfer taxes and pbb internal costs), as well as payment obligations by pbb Group in connection with the transfer of employees to FMS-WM Service GmbH, are deemed to have been settled.

11.10.3 Pension and other long-term Employee Benefit Obligations

pbb Group has defined contribution and defined benefit plans for its employees. In the defined contribution plans pbb makes payments for commitments by industry-wide organizations, for instance in Germany to BVV Versorgungskasse des Bankgewerbes e.V. In almost all non-German entities a defined percentage of fixed salary is paid into externally managed pension funds for employees as part of defined contribution pension plans. Expenses in respect of defined contribution plans amounted to €4 million in the financial year 2014, €5 million in the financial year 2013 and €5 million in the financial year 2012. In the financial year 2014, the expenses have been lower due to the reduced number of employees. Expenses in respect of contribution-based plans for persons with a key function in the Group amounted to €1 million in the financial year 2014, less than €1 million in the financial year 2013 and €1 million in the financial year 2012. The employer's contribution to the statutory pension insurance amounted to €6 million in the financial year 2014, €7 million in the financial year 2013 and €8 million in the financial year 2012.

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

Pension provisions are recognized for obligations arising from direct commitments. The defined benefit plans have been principally closed for new entrants since April 1, 2004.

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

11.11 Critical Accounting Estimates and Policies

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

11.11.1 Going Concern

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

11.11.2 Allowances

The portfolio of pbb Group is reviewed at least annually in order to identify any impairment losses on loans and advances. It is necessary to assess whether the estimated future cash flows of a loan portfolio are lower than the actual contractual ones. For this purpose, it is necessary to make judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or economic conditions that correlate with defaults on assets in the portfolio. The methods and assumptions concerning the assessments of the extent and timing of the payment streams are reviewed regularly to reduce any differences between estimated and actual defaults. In addition, the determination of portfolio-based provisions is based on a loss identification period as well as the expected loss based on statistical data.

11.11.3 Fair Values of Original and Derivative Financial Instruments

The fair value of financial instruments that are not listed on active markets is measured using valuation models. In the cases in which valuation models are used, a check is performed regularly to assess whether the valuation models provide a comparable standard for current market prices. For practical considerations, the valuation models can only take account of quantifiable factors (e.g. cash flows and discount rates) that also require estimates. Changes in assumptions relating to these factors might have an impact on the fair values of the financial instruments. In accordance with IAS 8.34, accounting estimates must be revised if changes occur in the circumstances on which the estimate was based or as a result of new information or experience gained. In the financial year 2013, pbb Group revised the credit value adjustment (CVA) estimates used to measure derivatives. As a result, market-based parameters are used to calculate credit risk for pbb Group and for counterparties that do not have specific credit default swaps (CDS). The accounting estimate changes led to income of €3 million, which was recognized in net trading income. In addition, overnight yield curves (including tenor basis effects) were used to measure derivatives for the first time as of December 31, 2013 due to changes in market conventions. This resulted in a transition effect of minus €33 million, which was recognized in the income statement under net trading income, and an effect of minus €4 million which was recognized in equity (other comprehensive income) under the cash flow hedge reserve in the financial year 2013.

11.11.4 Embedded Derivatives

According to IAS 39.11, an embedded derivative must be separated from the host contract and must be measured separately if, in addition to other criteria, the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. The economic risks of the host contracts and embedded derivatives are assessed on the basis of measuring methods to evaluate the existence of an obligation to separate.

11.11.5 Hedge Accounting

Relations between hedged items and hedging instruments can be presented in hedge accounting. A relation only qualifies for hedge accounting when certain conditions specified under IAS 39.88 are

satisfied. One of these conditions is that the hedge has to be very efficient with regard to achieving compensation for the risks resulting from changes in the fair value or the cash flow in relation to the hedged risk.

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

11.11.6 Intangible Assets and Property, Plant and Equipment

pbb Group's accounting for intangible assets and property, plant and equipment is subject to estimating uncertainty, particularly in the determination of the useful life of assets and the associated amount of depreciation/amortization recognized per period.

11.11.7 Provisions

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

11.11.8 Taxes on Income

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

With regard to the capitalization of losses carried forward and other tax credits, the extent as well as the availability of such tax benefits are subject to estimation. Major losses carried forward are subject to national German tax law, and their availability also depends on the restrictions set out in Section 10d EStG, 8c KStG as well as Section 10a GewStG. Deferred tax assets arising from losses carried forward are recognized as far as it is likely that taxable income will be available to offset the non-utilized tax loss carry forwards.

11.12 Information from the Audited Unconsolidated Financial Statements of Deutsche Pfandbriefbank AG Prepared in Accordance with the German Commercial Code for the Financial Year Ended December 31, 2014

The audited unconsolidated financial statements of Deutsche Pfandbriefbank AG for the financial year ended December 31, 2014 have been prepared in accordance with the provisions of the German Commercial Code (*Handelsgesetzbuch*). Deutsche Pfandbriefbank AG is the top holding company of the operational entities of pbb Group.

11.12.1 Income Statement Information

	For the Financial Year ended December 31,	
	2014	2013
	(audited) (in € million)	
Interest income and expenses	479	52
Interest income	4,282	4,892
Interest expenses	-3,802	-4,840
Current income	0	0
Income from profit agreements	–	–
Commission income	12	17
Commission expenses	-12	-5
Other operating income	89	241
General administrative expenses	-260	-311
Amortization/depreciation and write-downs on intangible and tangible assets	-8	-12
Other operating expenses	-20	-132
Write-downs and allowances for receivables and specific securities as well as additions to loan-loss provisions	-42	–
Income from write-ups to receivables and specific securities as well as from the release of loan-loss provisions	–	15
Write-downs and impairments to holdings, shares in associated companies and securities treated as long-term assets	-64	–
Income from write-ups on participating interests, shares in affiliated companies and investment securities	–	72
Additions to the fund for general banking risks	–	–
Expenses from loss adoption	-3	-0
Profit/loss on normal business operations	172	-64
Extraordinary income	31	8
Extraordinary expenses	–	–
Taxes on income	-43	3
Other tax not reported under item other operating expenses	-1	-0
Net income/loss	159	-53
Profit/loss brought forward from the previous year	-3,287	-3,266
Withdrawals from additional paid-in capital	1,771	–
Withdrawals from participation capital	–	5
Withdrawals from silent participation	–	37
Replenishment of participation capital	-25	-10
Unappropriate retained earnings/loss	-1,382	-3,287

In the financial year 2014, interest income and expenses amounted to €479 million, an increase of €427 million compared to €52 million in the financial year 2013. This increase was primarily due to a decrease in interest expenses from €4,840 million in the financial year 2013 by €1,038 million to €3,802 million in the financial year 2014, which more than offset a decline in interest income in the financial year 2014. Due to optimizing of the derivative portfolio in the financial year 2013, a part of the portfolio was novated or terminated before maturity. The resulting one-off effects affected the interest in income and expenses in the financial year 2013 in addition to an extraordinary interest payment to a subsidiary. In the financial year 2014, net interest income contained income from close out of derivatives, a repayment of a liability before maturity and a sale of a loan.

Other operating income decreased to €89 million in the financial year 2014, a decrease of €152 million from €241 million in the financial year 2013. This decline was mainly due to the discontinuation of services provided for FMS-WM in the third quarter of 2013. In addition, income from administration cost transfers decreased due to lower expenses of DEPFA.

Other operating expenses decreased from minus €132 million in the financial year 2013 to minus €20 million in the financial year 2014, a decrease of €112 million. This decline in expenses resulted from a decline in income of FMS-WM to be transferred by the Company to DEPFA as a compensation for services rendered by DEPFA.

Net income/loss of the Company amounted to €159 million in the financial year 2014, an increase of €212 million compared to minus €53 million in the financial year 2013. This increase was mainly due to an increase in interest income.

*11.12.2 Statement of Financial Position**

	As of December 31,	
	2014	2013
	(audited) (in € million)	
Assets		
Cash reserve	57	3,532
Loans and advances to other banks	7,514	6,659
Loans and advances to customers	36,399	34,900
Bonds and other fixed-interest securities	20,806	22,522
Shares and other non-fixed-income securities	2	2
Participating interests	0	0
Shares in affiliated companies	214	211
Special assets	0	3
Intangible assets	7	16
Tangible assets	8	2
Other assets	226	176
Deferred charges and prepaid expenses	392	402
Active difference resulting from asset offsetting	5	18
Total Assets	**65,631**	**68,443**
Liabilities and equity		
Accounts due to other banks	4,461	4,953
Accounts due to customer	28,753	29,776
Debts evidenced by certificates	27,321	28,531
Special liabilities	0	3
Sundry liabilities	79	178
Deferred income	672	640
Provisions	389	375
Subordinated liabilities	1,272	1,438
Participatory capital	–	–
Fund for general banking risks	47	47
Equity	2,637	2,502
Capital stock	472	472
Subscribed capital	380	380
Silent participation	92	92
Nominal amount	1,000	1,000
Loss allocation	-908	-908
Additional paid-in capital	3,267	5,038
Retained earnings	279	279
Statutory reserve	13	13
Reserve for shares in a controlling or majority shareholder company	–	–
Reserves as per Articles of Association	–	–
Other retained earnings	267	267
Unappropriated retained loss	-1,382	-3,287
Total equity and liabilities	**65,631**	**68,443**
Contingent liabilities	84	56
Other commitments	2,238	2,538

* Figures are shown prior to the repayment of the SoFFin Silent Participation of €1.0 billion which has occurred on July 6, 2015.

As of December 31, 2014, the Company's total assets amounted to €65.6 billion, a decrease of €2.8 billion compared to €68.4 billion as of December 31, 2013.

The Company's cash reserve decreased from €3.5 billion as of December 31, 2013 by €3.5 billion to €0.0 billion as of December 31, 2014. The high level of the cash reserve at the end of the financial year 2013 resulted from the maturity of a security shortly before the end of 2013. It was largely re-invested in the financial year 2014 and led to a shift to loans and advances. Loans and advances to

other banks slightly increased from €6.7 billion as of December 31, 2013 by €0.8 billion to €7.5 billion as of December 31, 2014. Loans and advances to customers increased from €34.9 billion as of December 31, 2013 by €1.5 billion to €36.4 billion as of December 31, 2014. This resulted from the increase in new business in the operating segments of pbb Group, which exceeded the repayments. Bonds and other fixed-interest securities decreased from €22.5 billion as of December 31, 2013 by €1.7 billion to €20.8 billion as of December 31, 2014. This was mainly the result of repayments in pbb Group's non-strategic budget finance business.

The Company's total equity and liabilities as of December 31, 2014 amounted to €65.6 billion, a decrease of €2.8 billion compared to €68.4 billion as of December 31, 2013. The Company's equity as of December 31, 2014 amounted to €2.6 billion, an increase of €0.1 billion compared to €2.5 billion as of December 31, 2013. The increase by €0.1 billion mainly resulted from a decrease of unappropriated retained loss from minus €3.3 billion as of December 31, 2013 by €1.9 billion to minus €1.4 billion as of December 31, 2014, which was mainly offset by a withdrawal of additional paid-in capital in the amount of €1.8 billion in order to partially offset the net loss in accordance with Section 272 (2) number 1-3 HGB.

The Company's accounts due to other banks decreased from €5.0 billion as of December 31, 2013 by €0.5 billion to €4.5 billion as of December 31, 2014 due to lower funding needs in particular for the non-strategic value portfolio. Accounts due to customers decreased from €29.8 billion as of December 31, 2013 by €1.0 billion to €28.8 billion as of December 31, 2014 also due to lower funding needs for the non-strategic value portfolio. Debts evidenced by certificates decreased from €28.5 billion as of December 31, 2013 by €1.2 billion to €27.3 billion as of December 31, 2014 due to lower funding needs in particular for the non-strategic value portfolio and the decrease in public finance Pfandbriefe.

As of December 31, 2014, the book value of the SoFFin Silent Participation amounted to €92 million in accordance with German GAAP. As no further losses had to be absorbed, there was no decrease as compared to December 31, 2013. The Company has repaid the SoFFin Silent Participation at par on July 6, 2015. For further information, see "*7.3 EU Restrictions and Repayment of SoFFin Silent Participation*".

12 SELECTED BANK STATISTICAL AND OTHER DATA

The tables below set forth selected statistical information of the pbb Group. The information has been derived from the pbb Group's Consolidated Financial Statements and is unaudited unless indicated otherwise. The following information should be read together with the pbb Group's Consolidated Financial Statements as well as the information included in the sections entitled "*Management's Discussion and Analysis of Net Assets, Financial Position and Results of Operations*" and "*Selected Financial and Business Information*".

12.1 Distribution of Assets, Liabilities and Stockholders' Equity; Interest Rates and Interest Differential

12.1.1 Average balance sheet and net interest income

The following table presents pbb Group's average balance sheet and net interest income and expenses for the periods specified. The average balances are calculated in general based upon quarter-end balances. The average yield rate (i.e. prior to the repayment of the SoFFin Silent Participation of €1.0 billion which has occurred on July 6, 2015) is the net interest income and expenses for the period weighted by the average balance.

	Financial year ended December 31,								
	2012			2013			2014		
in € million (except for %)	Average balance	Interest	Average yield/ rate (%)	Average balance	Interest	Average yield/ rate (%)	Average balance	Interest	Average yield/ rate (%)
ASSETS									
Loans and advances to other banks	9,088	28	0.31%	6,030	12	0.18%	7,845	9	0.11%
Loans and advances to customers	51,963	1,528	2.94%	43,872	1,290	2.94%	37,653	1,323	3.51%
Derivatives[1]	11,986	5,014	n.a.	7,899	2,536	n.a.	7,334	2,140	n.a.
Trading assets	–	–		–	–		–	–	–
Non-current assets held for sale	–	–		–	–		–	–	–
Non-trading assets	27,010	848	3.14%	22,421	767	3.42%	20,860	618	2.96%
Investments accounted for using the equity method	–	–		–	–		–	–	
Other interest bearing assets	929	1	0.11%	1,787	0	0.00%	824	3	0.36%
Total interest earning assets	**100,976**	**7,419**		**82,009**	**4,604**		**74,516**	**4,093**	
Non-interest earning assets	2,107	–		1,749	–		1,220	–	
TOTAL ASSETS	**103,083**	**–**		**83,758**	**–**		**75,736**	**–**	
LIABILITIES									
Liabilities to other banks and customers	21,256	577	2.71%	15,894	461	2.90%	14,887	385	2.59%
Securitized liabilities	53,581	1,884	3.52%	48,891	1,571	3.21%	47,432	1,403	2.96%
Thereof Mortgage Pfandbriefe	*13,730*	*463*	*3.37%*	*14,776*	*425*	*2.88%*	*15,688*	*382*	*2.43%*
Thereof Public Sector Pfandbriefe	*35,181*	*1,298*	*3.69%*	*27,870*	*990*	*3.55%*	*24,974*	*852*	*3.41%*
Thereof unsecured	*4,364*	*121*	*2.77%*	*5,933*	*148*	*2.49%*	*6,702*	*168*	*2.51%*
Thereof other money market	*306*	*2*	*0.65%*	*312*	*8*	*2.56%*	*68*	*1*	*1.47%*
Derivatives[2]	11,811	4,563	n.a.	7,561	2,175	n.a.	6,851	1,780	n.a.
Trading liabilities	–	–		–	–		–	–	
Subordinated debt	2,266	95	4.19%	1,744	72	4.13%	1,736	100	5.76%
Other interest bearing liabilities	454	4	0.88%	376	6	1.60%	306	4	1.31%
Total interest bearing liabilities	**89,368**	**7,123**		**74,466**	**4,285**		**71,212**	**3,672**	
Non-interest bearing liabilities	10,502	–		5,933	–		973	–	
Equity	3,213	–		3,360	–		3,550	–	
TOTAL LIABILITIES AND EQUITY	**103,083**	**–**		**83,759**	**–**		**75,735**	**–**	

1) Derivatives presented at average book value (market value); notional at year end derivatives (assets) are €100,771 for the financial year 2013 and €96,296 for the financial year 2014.

2) Derivatives presented at average book value (market value); notional at year end derivatives (liabilities) are €100,685 for the financial year 2013 and €96,168 for the financial year 2014.

12.1.2 Analysis of net interest income

The following table presents an analysis of the net interest income for the periods specified. Interest income as presented in the table includes, in addition to interest income earned from coupons, the amortization of the premium or discount as well as other accruing fees. The proportion of such fees varies among the interest earning assets. In 2014 the proportion of fee and amortization income in the total interest income amounted to 0.5% for Public Financing loans, 4% for Commercial Real Estate Financing and 8% for Financial Investments. The table also includes interest income from non-accruing loans derived from amortization of premium/discounts or other accruing fees as well as the unwinding (increase in the present value of an adjusted loan) of the special allowances. Not included are interest payments on non-accruing loans.

	Financial year ended December 31,								
	2012			2013			2014		
in € million (except for %)	**Average balance**	**Interest**	**Average yield/ rate (%)**	**Average balance**	**Interest**	**Average yield/ rate (%)**	**Average balance**	**Interest**	**Average yield/ rate (%)**
Interest earning assets									
Public Financing	22,704	750	3.30%	20,131	613	3.05%	17,962	577	3.21%
Commercial Real Estate Financing	31,724	749	2.36%	25,884	640	2.47%	21,506	657	3.05%
Financial Investments	27,010	849	3.14%	22,421	767	3.42%	20,860	618	2.96%
Other[1]	19,538	5,071	n.a.	13,573	2,584	n.a.	14,188	2,241	n.a.
Total interest bearing assets / average yield[2]	**100,976**	**7,419**	**2,88%**	**82,009**	**4,604**	**2.95%**	**74,516**	**4,093**	**3.07%**
Interest bearing liabilities									
Liabilities to other banks and Customers	21,256	577	2.71%	15,894	461	2.90%	14,887	385	2.59%
Securitized liabilities	53,581	1,884	3.52%	48,891	1,571	3.21%	47,432	1,403	2.96%
Thereof Mortgage Pfandbriefe	*13,730*	*463*	*3.37%*	*14,776*	*425*	*2.88%*	*15,688*	*382*	*2.43%*
Thereof Public Sector Pfandbriefe	*35,181*	*1,298*	*3.69%*	*27,870*	*990*	*3.55%*	*24,974*	*852*	*3.41%*
Thereof unsecured	*4,364*	*121*	*2.77%*	*5,933*	*148*	*2.49%*	*6,702*	*168*	*2.51%*
Thereof other money market	*306*	*2*	*0.65%*	*312*	*8*	*2.56%*	*68*	*1*	*1.47%*
Subordinated debt	2,266	95	4.19%	1,744	72	4.13%	1,736	100	5.76%
Other[3]	12,265	4,567	n.a.	7,937	2,181	n.a.	7,157	1,784	n.a.
Total interest bearing liabilities/average rate[2]	**89,368**	**7,123**	**3.32%**	**74,466**	**4,285**	**3.16%**	**71,212**	**3,672**	**2.95%**
Net yield on interest earning assets)[4]		**0.29%**			**0.39%**			**0.56%**	

1) Comprises derivatives at average book value (market value); position including derivatives' notional at year end (assets) is €106,445 for the financial year 2013 and €103,149 for the financial year 2014. The value can be derived by deducting the average balance of derivatives according to the table set out in section "*12.1.1 Average balance sheet and net interest income*" and adding back the derivative's notional at year end.

2) Total average yield/rate paid excluding position "other".

3) Comprises derivatives at average book value (market value); position including derivatives' notional at year end (liabilities) is €101,061 for the financial year 2013 and €96,474 for the financial year 2014. The value can be derived by deducting the average balance of derivatives according to the table set out in section "*12.1.1 Average balance sheet and net interest income*" and adding back the derivative's notional at year end.

4) Net interest income divided by total interest bearing assets.

12.1.3 Analysis of change of interest income and expenses

The following table presents an analysis of changes in interest and similar income as well as interest expenses between the periods specified. In the following table, the changes in net interest income between periods have been reflected as attributed either to average balance or rate changes; for purposes of this table, volume related changes correspond to the changes of the average balance sheet with rate changes representing the residual change in net interest income or expenses relating to interest rate changes. Hence, the volume related change is the result of multiplying the net change of interest income with the percentage movement of the average balance sheet.

	2013 over 2012			2014 over 2013		
in € million	Net change	Volume related change	Rate related change	Net change	Volume related change	Rate related change
Interest and similar income						
Public Sector Financing	-137	-85	-52	-35	-66	31
Real Estate Financing	-109	-138	29	17	-108	125
Financial Investments	-82	-144	62	-149	-53	-96
Interest expense						
Liabilities to other banks and customers	-116	-146	30	-77	-29	-48
Securitized liabilities	-314	-165	-149	-167	-47	-120
Thereof Mortgage Pfandbriefe	*-38*	*35*	*-73*	*-43*	*26*	*-69*
Thereof Public Sector Pfandbriefe	*-308*	*-270*	*-38*	*-138*	*-103*	*-35*
Thereof unsecured	*27*	*44*	*-17*	*21*	*19*	*2*
Thereof other money market	*6*	*0*	*6*	*-8*	*-7*	*-1*
Subordinated debt	-23	-22	-1	28	–	28[1)]
Net interest income	**125**	**-34**	**159**	**49**	**-151**	**200**

1) Rate related change for subordinated debt 2014 over 2013 results mainly from deconsolidation of DEPFA Finance N.V. in 2014. Interest expense from subordinated debt to DEPFA Finance N.V. is not included in the 2013 figure due to elimination of intercompany income/expenses (interest expense of €39 million in 2013 is attributable to subordinated debt to DEPFA Finance N.V.).

12.2 Investment Portfolio

12.2.1 Book value of investments by type

The book value of pbb Group's investment portfolio was as follows as of the dates specified.

	as of December 31,		
in € million	2012	2013	2014
Trading assets	**–**	**–**	**–**
Non-current assets held for sale (properties)	**–**	**–**	**–**
Non trading assets	**25,572***	**20,892***	**20,475***
Credit institutions	8,055	6,878	4,667
General governments	13,799	11,007	11,271
Thereof German general governments	*5,023*	*2,191*	*1,932*
Thereof Spanish general governments	*1,066*	*1,681*	*1,936*
Thereof Italian general governments	*3,338*	*3,152*	*3,313*
Thereof French general governments	*1,205*	*1,240*	*1,134*
Thereof Austrian general governments	*645*	*510*	*780*
Thereof other	*2,522*	*2,233*	*2,176*
Non-financial corporations	1,857	1,518	1,461
Other financial corporations	1,861	1,488	3,076
TOTAL SECURITIES[1)]	**25,572***	**20,892***	**20,475***

* Audited

1) Instruments included are bonds and shares in affiliated companies.

12.2.2 *Investments by maturity, book value and average yield*

The following tables show the book value per maturity range for each of the last full fiscal years and the book value and weighted average yield (excluding zero coupon bonds) per maturity range for the investment portfolio (broken down by sub categories):

	As of December 31,		
in € million (except for %) (audited)	**2012**	**2013**	**2014**
Without maturity	3	2	3
Up to three months	3,131	767	867
More than three months up to one year	1,507	1,567	3,067
More than one year up to five years	8,121	7,671	5,676
More than five years	12,810	10,885	10,862
Total	**25,572**	**20,892**	**20,475**

	as of December 31, 2014						
in € million (except for %)	**Without maturity**	**Up to three months**	**More than three months up to one year**	**More than one year up to five years**	**More than five years**	**Total**	**Weighted average yield[1] in %**
Credit institutions	–	52	924	1,653	2,038	4,667	2.43
General governments	–	775	2,111	2,926	5,461	11,271	3.38
Thereof German general governments	–	*376*	*399*	*894*	*263*	*1,932*	*3.71*
Thereof Spanish general governments	–	*129*	*1,055*	*409*	*342*	*1,936*	*2.68*
Thereof Italian general governments	–	*100*	*41*	*300*	*2,871*	*3,313*	*4.07*
Thereof French general governments	–	*6*	*102*	*332*	*693*	*1,134*	*2.09*
Thereof Austrian general governments	–	*13*	–	*413*	*355*	*780*	*3.55*
Thereof other		*150*	*513*	*574*	*939*	*2,176*	*3.35*
Non-financial corporations		11	–	100	1,351	1,461	2.89
Other financial corporations	3	29	33	1.002	2,010	3,076	2.39
Total	**3**	**867***	**3,067***	**5,676***	**10,862***	**20,475***	**2.98**

* Audited

1) Weighted average yield includes interest rate and the rate of premium/discount amortization but does not include risk-related information (such as credit spreads) and other fees. The average yield is weighted by the nominal amount of the asset.

12.2.3 *Details on asset exposures to issuers which account for more than 10% of stockholder's equity*

The following table presents the name of an issuer, the aggregate book value and the aggregate market value of the securities of such issuer, when the aggregate book value of such securities exceeds ten percent of stockholders' equity as of December 31, 2014.

(in € million) **Name of issuer**	**Aggregate book value**	**Aggregate market value**
Republic of Italy	2,346	2,308
Kingdom of Spain	895	895
European Investment Bank	860	889
Financial institution, securities guaranteed by the Federal Republic of Germany	832	825
Republic of Poland	814	820
Republic of France	750	952
Austrian issuer, securities guaranteed by the Austrian federal state of Lower Austria	692	669
Public sector company, securities guaranteed by the United Kingdom[1]	526	592
Republic of Austria (Österreichische Bundesfinanzagentur GmbH)	496	554
European Financial Stability Facility	445	445
Republic of Hungary	387	375
Bankia S.A.	372	356

1) Private placement

12.3 Loan Portfolio

12.3.1 Types of loans

The following table presents an analysis of the pbb Group's loan portfolio by "country of risk" (in–or outside Germany). The country of risk is the country to which the pbb Group, depending on the product category, allocates the contractual risk (e.g., in case of real estate financing, where the property is located):

(in € million) Loan category	Book value of loans as of December 31, 2012	 2013	 2014
DOMESTIC			
Central banks	2,600	1,300	–
Credit institutions	2,774	2,477	4,786
General governments	7,959	7,054	6,415
Households	197	165	101
Non-financial corporation	19,505	11,566	11,187
Other financial corporation	847	781	1,646
FOREIGN			
Central banks	–	–	–
Credit institutions	2,259	2,020	2,016
General governments	8,362	5,580	7,166
Households	6	28	46
Non-financial corporation	11,994	10,423	11,599
Other financial corporation	1,082	646	802
TOTAL	**57,585***	**42,040***	**45,764***

* Audited

(in € million) Breakdown of loans by category	Book value as of December 31, 2014
DOMESTIC	
Credit institutions	4,786
Thereof Repurchase agreements	*3,050*
Thereof Promissory notes	*695*
Thereof Collateral/Other Money Market	*1,033*
General governments	6,415
Thereof Promissory notes	*6,408*
Households	101
Thereof Mortgage loans	*99*
Non-financial corporation	11,187
Thereof Mortgage loans	*9,685*
Thereof Promissory notes/public sector financing	*1,497*
Other financial corporation	1,646
Thereof Mortgage loans	*937*
Thereof Promissory notes/public sector financing	*708*
FOREIGN	
Credit institutions	2,016
Thereof Repurchase agreements	–
Thereof Promissory notes	*442*
Thereof Collateral/Other Money Market	*1,508*
General governments	7,166
Thereof Promissory notes	*7,129*
Households	46
Thereof Mortgage loans	*1*
Non-financial corporation	11,599
Thereof Mortgage loans	*10,356*
Thereof Promissory notes/ public sector financing	*1,225*
Other financial corporation	802
Thereof Mortgage loans	*764*
Thereof Promissory notes/public sector financing	*26*
TOTAL	**45,764***

* Audited

12.3.2 Maturities and sensitivities of loans to changes in interest rates

The following table presents an analysis of maturities of the pbb Group's loan portfolio by "country of risk" (in–or outside Germany) as of December 31, 2014.

(in € million)	Due in one year or less	Due after one year through five years	Due after five years	Total	Thereof due after one year with predeter-mined interest rates	Thereof due after one year with floating or adjustable interest rates
DOMESTIC						
Credit institutions	4,261	260	266	4,787	277	249
Thereof Repurchase agreements	*3,050*	–	–	*3,050*	–	–
Thereof Promissory notes	*170*	*260*	*265*	*695*	*276*	*249*
Thereof Collateral/Other Money Market	*1,033*	–	–	*1,033*	–	–
General governments	405	2,037	3,973	6,415	4,996	1,014
Thereof Promissory notes	*405*	*2,030*	*3,973*	*6,408*	*4,989*	*1,014*
Households	3	10	88	101	98	–
Thereof Mortgage loans	*3*	*10*	*86*	*99*	*96*	–
Non-financial corporations	1,156	4,860	5,171	11,187	5,037	4,926
Thereof Mortgage loans	*1,110*	*4,119*	*4,457*	*9,685*	*3,733*	*4,775*
Thereof Promissory notes/ public sector financing	*42*	*741*	*714*	*1,497*	*1,304*	*152*
Other financial corporations	84	515	1,046	1,646	673	888
Thereof Mortgage loans	*83*	*515*	*339*	*937*	*321*	*533*
Thereof Promissory notes / public sector financing	*2*	–	*707*	*708*	*352*	*355*
Total Domestic	**5,909**	**7,682**	**10,544**	**24,135**	**11,082**	**7,077**
FOREIGN						
Credit institutions	1,575	142	300	2,016	–	442
Thereof Repurchase agreements	–	–	–	–	–	–
Thereof Promissory notes	–	*142*	*300*	*442*	–	*442*
Thereof Collateral/Other Money Market	*1,508*	–	–	*1,508*	–	–
General governments	249	749	6,167	7,166	5,831	1,085
Thereof Promissory notes	*223*	*738*	*6,167*	*7,129*	*5,821*	*1,085*
Households	0	0	46	46	1	45
Thereof Mortgage loans			*1*	*1*	*1*	
Non-financial corporations	1,303	7,944	2,352	11,599	1,460	8,836
Thereof Mortgage loans	*1,283*	*7,868*	*1,203*	*10,356*	*1,129*	*7,942*
Thereof Promissory notes / public sector financing	*1*	*76*	*1,148*	*1,225*	*331*	*893*
Other financial corporations	192	338	272	802	283	327
Thereof Mortgage loans	*183*	*338*	*246*	*764*	*283*	*301*
Thereof Promissory notes/ public sector financing	*0*	–	*26*	*26*	–	*26*
Total Foreign	**3,319**	**9,173**	**9,137**	**21,629**	**7,575**	**10,736**
TOTAL	**9,226**	**16,856**	**19,681**	**45,764***	**18,657**	**17,813**

* Audited

12.4 Risk Elements

The following section provides information about certain risk elements in pbb Group's portfolio intended to reflect the classifications most relevant to how pbb Group evaluates the credit quality of its loan portfolio. All potential problem loans, defined as defaulted loans according to Art. 178 of the Capital Requirements Regulation (CRR), are included in this disclosure of risk elements.

12.4.1 Non-accruals, past due and restructured loans

The following table presents the loans accounted for on a non-accrual basis and other non-performing loans by "country of risk" (in–or outside Germany) as of December 31, 2012, 2013, 2014. The country of risk is the country to which pbb Group, depending on the product category, allocates the contractual risk (e.g., in case of real estate financing, where the property is located):

	as of December 31,		
EaD in € million	2012	2013	2014
DOMESTIC			
Loans accounted for on a non-accrual basis	396	83	78
Accruing loans which are contractually past due 90 days or more as to principal or interest payments	18	27	9
Loans not included above which are non-performing[1)]	101	97	95
FOREIGN			
Loans accounted for on a non-accrual basis	535	489	492
Accruing loans which are contractually past due 90 days or more as to principal or interest payments	–	182	15
Loans not included above which are non-performing[1)]	–	38	130
TOTAL	**1,050**	**916**	**819**
Interest income not recognized in the period attributable to loans with specific allowances[2)]	13	6	7
Interest income recognized in the period attributable to loans with specific allowances[3)]	8*	9*	8*

* Audited

1) Loans (other than loans accounted for on a non-accrual basis and accruing loans which are contractually past due 90 days or more) with predictable economic difficulties which are not in arrears.

2) Interest income that would have been recorded in the period if the loans had not been classified as accounted for on a non-accrual basis (amount contains interest income that has not been recognized in the period (additions) as well as interest income that has been recognized in the period regarding loans on a non-accrual basis where interest income had not been recognized in previous periods (reversals)).

3) Interest income through unwinding (increase of the present value due to passage of time); amortization of premium/discount or other accruing fees not included.

pbb Group recognizes allowances for losses on loans accounted for on a non-accrual basis, for accruing loans which are contractually past due 90 days or more as to principal or interest payments and other non-performing loans. Please see "*12.5 Summary of loan loss experience*" for the amount of allowances recognized. For information on the decision making process of pbb Group for placing loans on a non-accrual status, please see "*11.11.2 Allowances*".

12.4.2 Potential problem loans

In the financial year ended on December 31, 2014, no potential problem loans other than disclosed above existed.

12.4.3 Foreign outstandings

The following table presents the cross-border outstandings to borrowers by "country of risk" where such outstandings exceed 1% of total assets. pbb Group defines "cross-border outstandings" as loans, interest-bearing deposits with other banks, other interest-bearing investments and any other monetary assets with the country of risk outside of Germany. Outstanding comprises nominal, accrued interest, unamortized premium/discount and arrears. As of December 31, 2014, there were no outstandings that exceeded 1% of total assets in any country facing debt restructuring or liquidity problems at that time that pbb Group expected would materially impact the country's ability to service its private or public sector obligations; for information on the HETA Asset Resolution AG's debt securities, guaranteed by the Austrian federal state of Carinthia, for which the Company announced in March and April 2015,

respectively, that it has made provisions as of December 31, 2014 and as of March 31, 2015 (resulting in a negative effect of €197.5 million in the aggregate), see "*11.3.2 Value Adjustments due to HETA Moratorium*".

	Aggregate amount of cross-border outstandings (if outstandings exceed 1% of total assets) (in € million) as of December 31,			*Percentage of total assets as of December 31,*
	2012	2013	2014	*2014*
Austria	**6,172**	**5,802**	**5,705**	**7.6%**
Credit institutions	979	979	581	0.8%
General governments	3,801	3,704	4,061	5.4%
Households	0	0	0	0.0%
Non-financial corporations	610	380	314	0.4%
Other financial corporations	782	739	749	1.0%
France	**6,790**	**4,242**	**5,458**	**7.2%**
Credit institutions	222	243	194	0.3%
General governments	4,053	1,757	1,973	2.6%
Households	5	27	45	0.1%
Non-financial corporations	2,046	1,773	2,807	3.7%
Other financial corporations	464	442	439	0.6%
Italy	**3,476**	**3,275**	**2,893**	**3.8%**
Credit institutions	2	0	1	0.0%
General governments	3,015	2,843	2,874	3.8%
Households	–	–	–	0.0%
Non-financial corporations	448	392	14	0.0%
Other financial corporations	11	40	4	0.0%
Poland	**1,996**	**1,850**	**2,122**	**2.8%**
Credit institutions	–	0	0	0.0%
General governments	799	790	769	1.0%
Households	–	–	–	0.0%
Non-financial corporations	1,197	1,060	1,131	1.5%
Other financial corporations	–	–	222	0.3%
Portugal	**1,555**	**1,371**	**1,313**	**1.7%**
Credit institutions	368	368	368	0.5%
General governments	401	299	302	0.4%
Households	–	–	–	0.0%
Non-financial corporations	786	704	643	0.9%
Other financial corporations	–	–	–	0.0%
Spain	**4,660**	**4,771**	**4,863**	**6.4%**
Credit institutions	1,897	1,686	1,724	2.3%
General governments	1,773	2,347	2,793	3.7%
Households	–	–	–	0.0%
Non-financial corporations	969	717	346	0.5%
Other financial corporations	21	21	0	0.0%
Sweden	**1,549**	**1,117**	**1,141**	**1.5%**
Credit institutions	8	–	0	0.0%
General governments	41	41	41	0.1%
Households	–	–	–	0.0%
Non-financial corporations	1,442	942	1,097	1.5%
Other financial corporations	58	134	3	0.0%
United Kingdom	**3,643**	**3,944**	**4,701**	**6.2%**
Credit institutions	84	410	406	0.5%
General governments	34	33	36	0.0%
Households	–	–	–	0.0%
Non-financial corporations	3,216	3,495	4,259	5.6%
Other financial corporations	309	6	0	0.0%
Total	**29,841**	**26,372**	**28,195**	**37.3%**

12.4.4 Loan concentrations

Loan concentrations occur when there are amounts loaned to a multiple of borrowers engaged in similar activities which would cause them to be similarly impacted by economic or other conditions. As of December 31, 2014 such loan concentrations in excess of 10% of pbb's total loans existed for loans granted to domestic credit institutions, domestic general governments and foreign general governments.

Loans exceeding 10% of total loans	Book value as of December 31, 2014 (in € million)	% of total loans
Domestic		
Credit Institutions	4,786	10.5%
Thereof loans to Eurex Clearing AG (maturity less than 1 month)[1)]	*3,050*	*6.7%*
Thereof loans to other banks	*1,736*	*3.8%*
Domestic		
General governments	6,415	14.0%
Thereof loans to German Federal States	*5,781*	*12.6%*
Baden-Württemberg	*1,565*	*3.4%*
Niedersachsen	*900*	*2.0%*
Nordrhein-Westfalen	*678*	*1.5%*
Berlin	*522*	*1.1%*
Hessen	*436*	*1.0%*
Bayern	*423*	*0.9%*
Saarland	*313*	*0.7%*
Hamburg	*293*	*0.6%*
Bremen	*258*	*0.6%*
Thüringen	*135*	*0.3%*
Schleswig-Holstein	*118*	*0.3%*
Brandenburg	*58*	*0.1%*
Sachsen	*42*	*0.1%*
Mecklenburg-Vorpommern	*25*	*0.1%*
Rheinland-Pfalz	*15*	*0.0%*
Thereof loans to other general governments	*634*	*1.4%*
Foreign		
General governments	7,166	15.7%
Thereof loans to Austria	*4,689*	*10.2%*
Thereof loans to other general governments	*2,477*	*5.4%*

1) Investment of short-term liquidity in "General Collateral Pooling" at Eurex Clearing AG which is a platform for highly liquid money market transactions collateralized with standardized baskets with a rating of higher than A-/A3

A loan concentration in excess of 10% of pbb's total loans did not exist in the categories domestic non-financial corporations and foreign non-financial corporations after breaking down the loans into property classes "Residential", "Office", "Retail", "Hotel/Leisure", "Industrial/Logistics", "Mixed use" and "other". Any other loan concentration in excess of 10% of pbb's total loans did not exist as of December 31, 2014.

12.4.5 Other interest bearing assets

The following table presents the nature and amounts of any interest bearing asset that would be disclosed above ("*12.4.1 Non-accruals, past due and restructured loans*" or "*12.4.2 Potential problem loans*") if such asset was a loan by "country of risk" (in- or outside Germany) as of December 31, 2012, 2013, 2014.

	As of December 31,		
EaD in € million	**2012**	**2013**	**2014**
Domestic			
Bonds	–	–	–
Derivatives	24	16	30
Foreign			
Bonds	3	2	287
Derivatives	19	11	7

12.5 Summary of loan loss experience

12.5.1 Analysis of the allowances for losses on loans and advances

The following table presents a breakdown of the movements in the pbb Group's allowances for losses on loans and advances for the periods specified. This information is audited.

	Financial year		
in € million (unless stated otherwise)	**2012**	**2013**	**2014**
Balance at the beginning of the period	**-477***	**-325***	**-148***
Additions	-66*	-66*	-48*
Reversals	65*	49*	21*
Direct write-offs	0*	0*	0*
Increase of the present value due to passage of time (unwinding)	8*	9*	8*
Use of existing loan-loss allowances not affecting income	145*	185*	33*
Effects of currency translations and other changes not affecting income	0*	0*	-4*
Balance at the end of the period	**-325***	**-148***	**-138***
Net charge offs (*Netto-Zuführungen*)	-1	-17	-27
Average loans outstanding (in € billion)[1)]	59.4	48.4	43.6
Ratio of net charge-offs during the period to average loans outstanding during the period	0.002%	0.035%	0.062%

* Audited

1) Average loans outstanding represents the average balance calculated based upon quarter-end balances of loans and advances to other banks and customers excluding fair value adjustments as well as unsettled trades.

12.5.2 Allocation of the allowance for losses on loans and advances

The following table presents pbb Group's allowance for losses on loans and advances by loan category and the proportion to its total loan portfolio by "country of risk" as of December 31, 2012, 2013 and 2014. The country of risk is the country to which pbb Group, depending on the product category, allocates the contractual risk (e.g., in case of real estate financing, where the property is located):

	As of December 31,					
	2012		2013		2014	
	Amount (in € million)	Percentage of loans in each category to total loans	Amount (in € million)	Percentage of loans in each category to total loans	Amount (in € million)	Percentage of loans in each category to total loans
DOMESTIC						
Credit institutions	–	0.0%	–	0.0%	–	0.0%
General governments	0	0.0%	0	0.0%	0	0.0%
Households	3	1.5%	2	1.2%	1	1.0%
Non-financial corporations	177	0.9%	33	0.3%	31	0.3%
Other financial corporations	35	4.1%	6	0.8%	11	0.7%
Total domestic	**215**	**0.6%**	**41**	**0.2%**	**43**	**0.2%**
FOREIGN						
Credit institutions	1	0.0%	1	0.0%	0	0.0%
General governments	1	0.0%	1	0.0%	9	0.1%
Households	–	0.0%	–	0.0%	–	0.0%
Non-financial corporations	102	0.9%	93	0.9%	86	0.7%
Other financial corporations	6	0.6%	12	1.9%	0	0.0%
Total foreign	**110**	**0.5%**	**107**	**0.6%**	**95**	**0.4%**
TOTAL	**325***	**0.6%**	**148***	**0.4%**	**138***	**0.3%**

* Audited

	Financial year 2014	
Breakdown of loans by category	Amount (in € million)	Percentage of loans in each category to total loans
DOMESTIC		
Credit institutions	0	0.0%
Thereof Repurchase agreements	–	*0.0%*
Thereof Promissory notes	*0*	*0.0%*
Thereof Collateral/Other Money Market	*0*	*0.0%*
General governments	0	0.0%
Thereof Promissory notes	*0*	*0.0%*
Households	1	1.0%
Thereof Mortgage loans	*1*	*1.0%*
Non-financial corporation	31	0.3%
Thereof Mortgage loans	*31*	*0.3%*
Thereof Promissory notes/public sector financing	*0*	*0.0%*
Other financial corporation	11	0.7%
Thereof Mortgage loans	*11*	*1.2%*
Thereof Promissory notes/public sector financing	–	*0.0%*
Total Domestic	**43**	**0.2%**
FOREIGN		
Credit institutions	0	0.0%
Thereof Repurchase agreements	–	*0.0%*
Thereof Promissory notes	*0*	*0.0%*
Thereof Collateral/Other Money Market	*0*	*0.0%*
General governments	9	0.1%
Thereof Promissory notes	*9*	*0.1%*
Households	0	0.0%
Thereof Mortgage loans	*0*	*0.0%*
Non-financial corporation	86	0.7%
Thereof Mortgage loans	*75*	*0.7%*
Thereof Promissory notes/ public sector financing	*11*	*0.9%*
Other financial corporation	0	0.0%
Thereof Mortgage loans	*0*	*0.0%*
Thereof Promissory notes/public sector financing	*0*	*0.0%*
Total Foreign	**95**	**0.4%**
TOTAL	**138***	**0.3%**

* Audited

For information on the decision making process of pbb Group for placing loans on a non-accrual status, please see "*11.11.2 Allowances*".

12.6 Deposit

12.6.1 Details on deposits

pbb Group partially funded itself through interest bearing deposits. The following table presents deposit categories in excess of 10% of pbb's total deposits as of December 31, 2014.

Deposits in excess of 10% of average total deposits	Book value as of December 31, 2014 (in € million)	% of total deposits
DOMESTIC		
Retail time deposits	1,159	43.7%
Retail demand deposits	371	14.0%
Demand deposit owed to HRE Holding AG	332	12.5%
Money market (maturity less than 1 year)	510	19.2%

12.7 Return on Equity and Assets

The following table presents the key indicators and data for return, dividends and earnings.

	Financial year			
in % (unless stated otherwise)	2012	2013	2014	2014[11)]
Indicators[1)]				
RoA pre tax (average IFRS assets)	0.1	0.2	0.1	
RoA post tax (average IFRS assets)	0.1	0.2	0.0	
RoE pre tax (average IFRS equity)	3.8*	5.0*	1.6*	5.0
RoE post tax (average IFRS equity)	2.1*	4.9*	0.1*	3.4
CIR[1)]	73.0*	64.7*	77.0*	
for information only				
RoE pre tax (average. IFRS equity) excl. SoFFin Silent Participation	*5.5*	*7.2*	*2.2*	*7.1*
RoE post tax (average IFRS equity) excl. SoFFin Silent Participation	*3.1*	*7.0*	*0.2*	*4.7*
Regulatory Indicators[2)]				
CET 1 ratio (phase-in)[3)]	–	18.5*	21.7*	
Tier 1 ratio (phase-in)[3)]	18.9*[9)]	19.7*	23.0*	
TC ratio (phase-in)[3)]	26.6*[9)]	23.2*	26.1*	
Leverage ratio (phase-in)[3)]		5.1	5.3	
CET 1 ratio (fully loaded)[4)]	–	11.0*	13.5*	
Tier 1 ratio (fully loaded)[4)]		16.6*	19.9*	
TC ratio (fully loaded)[4)]	–	19.1*	22.1*	
Leverage ratio (fully loaded)[4)]		4.3	4.6	
for information only				
CET 1 ratio (fully loaded) excl. SoFFin Silent Participation		*11.0*	*13.5*[5)]	
Tier 1 ratio (fully loaded) excl. SoFFin Silent Participation		*11.0*	*13.5*[6)]	
TC ratio (fully loaded) excl. SoFFin Silent Participation		*13.50*	*15.6*[7)]	
Leverage ratio (fully loaded) excl. SoFFin Silent Participation		*2.8*	*3.1*[8)]	
Key data and indicators of pbb shares[9)]				
Dividends per share (in €)	–	–	–	–
Earnings per share (in €)	0.51	1.19	0.03	0.86[12)]

* Audited

1) RoA: Return on assets is calculated as the profit or loss (before/after tax) divided by the average total assets of the financial year.
RoE: Return on equity is calculated as the profit or loss (before/after tax) divided by the average IFRS equity (excluding revaluation reserves) of the financial year.
CIR: The cost income ratio is the general and administrative expenses divided by operating income.

2) The regulatory capital ratios stated are calculated on a simulated basis. According to the 'Waiver Rule' under Article 7 CRR, pbb, being a subsidiary of HRE Holding, is, as at the date of the Prospectus, exempted from calculating the CET 1 capital ratio and the other relevant regulatory capital ratios on a sub-group level.
CET 1 ratio: CET 1 ratio is calculated by dividing the CET 1 by the risk-weighted assets (RWA).
TC ratio is calculated by dividing the total capital (Own Funds) by the risk-weighted assets (RWA) (which is also referred to as Own Funds Ratio).
Leverage Ratio: Leverage Ratio is calculated by dividing the Tier 1 capital by the total exposure (after regulatory adjustments).
3) Current regulations applied (Basel 3 transitional regulations) unless stated otherwise.
4) 2013 and 2014 figures after expiry of all Basel 3 transitional regulations
5) CET 1 of €2.1 billion fully loaded (after expiry of all Basel 3 transitional regulations) excluding SoFFin Silent Participation of €1.0 billion (which has been repaid on July 6, 2015) in percentage of RWA of €15.5 billion.
6) Tier 1 capital of €2.1 billion fully loaded (after expiry of all Basel 3 transitional regulations) excluding SoFFin Silent Participation of €1.0 billion (which has been repaid on July 6, 2015) in percentage of RWA of €15.5 billion.
7) Own Funds of €2.4 billion fully loaded (after expiry of all Basel 3 transitional regulations) excluding SoFFin Silent Participation of €1.0 billion (which has been repaid on July 6, 2015) in percentage of RWA of €15.5 billion.
8) Tier 1 capital of €2.1 billion fully loaded (after expiry of all Basel 3 transitional regulations) excluding SoFFin Silent Participation of €1.0 billion (which has been repaid on July 6, 2015) in percentage of leverage exposure of €69.1 billion.
9) Earnings per share is calculated by dividing the profit or loss after tax by the average number of ordinary bearer shares (134,475,308).
10) Tier 1 and TC ratios 2012 in accordance with Section 10a of German Banking Act (KWG) / Basel 2.
11) Adjusted for effect from EUR 120 million value adjustment on HETA exposure in Q4 2014.
12) Earnings per share calculation based on net income of €4 million plus adjustment for HETA €112 million divided by average number of ordinary bearer shares (134,475,308).

12.8 Short-Term Borrowings

There were no short-term borrowings from individual counter-parties for which the average balance outstanding during the period was of significant amount compared to stockholders' equity as of December 31, 2012, 2013 or 2014.

12.9 Funding sources

Loans are largely funded using matching maturities and primarily via the Pfandbrief market, supplemented by unsecured funding. Instruments are regularly placed on the international capital markets using the benchmark format or take the form of bilateral private placements. The pbb Group structures private placements as bearer or registered securities depending on investor requirements.

The following table sets forth, for the periods presented, certain information relating to the pbb Group's funding sources.

	Book value as of December 31,		
in € million	**2012**	**2013**	**2014**
Amounts owed to banks	**7,797***	**3,522***	**3,187***
Central banks	4,033	–	–
Due on a daily basis	2,058*	1,269*	1,693*
With agreed maturity / redeemable at notice	1,706	2,253*	1,494*
Thereof repurchase agreements	*420*	*1,159*	*567*
Amounts owed to customers	**11,895***	**10,848***	**10,593***
Current accounts / overnight deposits	962*	676*	1,154*
With agreed maturity / redeemable at notice	10,933*	10,172*	9,439*
Securitized liabilities	**52,550***	**47,060***	**47,827***
Mortgage Pfandbriefe	14,464	14,626	16,047
Public Sector Pfandbriefe	32,871	25,822	24,741
Other debt securities	4,709	6,499	7,039
Money market securities	506*	113*	0*
Subordinated capital	**1,993***	**1,440***	**1,279***
Total funding sources	**74,235**	**62,870**	**62,886**

* Audited

	As of December 31, 2014	
	Book value in € million	Weighted yield[1)]
Amounts owed to banks	3,187*	0.93%
Amounts owed to customers	10,593*	2.89%
Securitized liabilities	47,827*	3.01%
Mortgage Pfandbriefe	16,047	2.20%
Public Sector Pfandbriefe	24,741	3.77%
Other debt securities	7,039	2.51%
Money market securities	0*	0.00%
Subordinated capital	1,279*	5.74%
TOTAL FUNDING SOURCES	**62,886**	**2.93%**

* Audited

1) Yield includes interest rate and the rate of premium/discount amortization; not included are risk related information and other fees. Weighted by nominal.

12.10 Maturity structure of liabilities

The following table shows, for the periods presented, the maturity structure of the pbb Group's liabilities (broken down by sub categories). This information is audited.

in € million	Without maturity	Up to three months	More than three months up to one year	More than one year up to five years	More than five years	Total
as of December 31, 2012	**3,020**	**7,405**	**6,278**	**28,786**	**28,746**	**74,235**
Liabilities to other banks	2,058*	378*	311*	4,572*	478*	7,797*
Liabilities to customers	962*	736*	1,340*	5,910*	2,947*	11,895*
Securitized liabilities	–*	6,202*	4,125*	17,874*	24,349*	52,550*
Subordinated capital	–*	89*	502*	430*	972*	1,993*
as of December 31, 2013	**1,945**	**4,833**	**5,355**	**26,598**	**24,139**	**62,870**
Liabilities to other banks	1,269*	1,015*	285*	478*	475*	3,522*
Liabilities to customers	676*	894*	1,821*	5,360*	2,097*	10,848*
Securitized liabilities	–*	2,883*	3,239*	19,886*	21,052*	47,060*
Subordinated capital	–*	41*	10*	874*	515*	1,440*
as of December 31, 2014	**2,847**	**4,106**	**6,760**	**26,637**	**22,536**	**62,886**
Liabilities to other banks	1,693*	529*	116*	305*	544*	3,187*
Liabilities to customers	1,154*	1,274*	1,328*	5,305*	1,532*	10,593*
Securitized liabilities	–*	2,258*	5,166*	20,137*	20,266*	47,827*
Subordinated capital	–*	45*	150*	890*	194*	1,279*

* Audited

13 MARKET AND COMPETITIVE ENVIRONMENT

13.1 Overview

pbb Group writes its new business in real estate finance (REF) and public investment finance (PIF). pbb Group uses covered bonds issued in accordance with the German Pfandbrief Act (*Pfandbriefgesetz*) ("**Pfandbriefe**" and each a "**Pfandbrief**") as its major funding source for both of these business activities. The geographic focus for new business centers on Germany, the United Kingdom and France which are pbb Group's core markets. pbb Group is also pursuing new business in the Nordic region (particularly in Sweden), selected countries in Central and Eastern Europe (particularly in Poland but also in the Czech Republic, Slovakia and Hungary), in Spain, the Benelux and other European countries. For more information on pbb Group's business including its non-strategic value portfolio and its consolidation and adjustments segment, see "*15 Business*" below.

pbb Group considers the REF and PIF markets as well as the German Pfandbrief market to be particularly relevant for its business. This section will therefore focus on these markets. The information in this section relies on data provided by third parties or on pbb Group's own assessment. Sources have been referenced where required.

13.2 General Market Drivers

13.2.1 Macroeconomic development

Since the global financial crisis which began in 2007, international capital markets have been affected by high volatility and reduced liquidity. This led to recessions in many European countries and around the world, weak economic growth and a considerable increase in insolvencies across a diverse range of business sectors. The ensuing sovereign debt crisis in Europe had a significant economic impact on the entire banking sector. These developments negatively affected the property market and led to reduced demand for commercial property, a contraction of the rental market and a reduced activity in the property market measured by the number of transactions and transaction volumes.

A moderate economic rebound in major European economies since 2010, supported by government-backed programs and the intervention of the European Central Bank (ECB) in the financial markets, in particular with the announcement of the OMT program, low interest rates (managed through the ECB's refinancing rate adjustments) and the ECB's expanded asset purchase program, have laid the foundation for economic stabilization in Europe in recent years. The economic environment in many European countries has improved and there are signs that the European economy as a whole will continue to strengthen in 2015. According to the "European Economic Forecast Winter 2015" by the European Commission, economies in Europe are generally predicted to grow. This growth is supported by the ECB's monetary policy measures, a sharp drop in euro exchange rates compared to other major currencies and the fall in the oil price since mid-2014. Furthermore, the ECB's monetary policies support a re-anchoring of medium to long-term inflation expectations, dampening the rise of interest rates, while increasing confidence and supporting credit growth for domestic investment activity. The fall in oil prices is expected to increase disposable household incomes and reduce expenses for businesses. This facilitates economic growth and deleveraging for companies. In the long term, the EU Investment plan, which aims to mobilize investments of about €315 billion between 2015 and 2017 in areas such as infrastructure, is expected to support economic growth and investment. In relation to the lending market in which pbb Group is active, the ECB Bank Lending Survey of April 2015 reported rising net loan demand for corporates with net demand for housing loans stabilizing at elevated levels.

Although GDP is expected to grow in every EU country in 2015 for the first time since the start of the financial crisis, pbb Group expects only moderate global growth rates and only weak economic growth in many European countries which continue to face high levels of unemployment and structural debt. Furthermore, the economic recovery in the Eurozone is still fragile. As the effects of the financial crisis continue to fade, public opposition towards fiscal consolidation grows leading to the risk that previously announced plans to strengthen and solidify the currency union may be watered down or not implemented within the planned timeframe. This is illustrated by the growing popularity of the "anti-austerity" movement in some parts of Europe, particularly in Greece where an anti-austerity party came to power in January 2015. Additionally, the Russia-Ukraine crisis could re-escalate and spread beyond eastern Ukraine, which could threaten the stability of other countries in the region.

13.2.2 Regulatory reforms

Governments, regulatory authorities and the European Union, among others, have made and continue to make proposals to reform the regulatory framework applicable to financial institutions, particularly in the countries in which pbb Group is active. Many proposals have already been implemented, including the Capital Regulation Directive and the Capital Requirements Regulations, which provide, amongst other things, for yearly increases in additional capital buffers. Further significant changes are likely, including provisions for more stringent regulatory capital, liquidity standards, restrictions on compensation practices as well as recovery and resolution powers and conferral of supervisory and resolution powers on the European Union. The likely effects of some of these laws, regulations and requirements, as well as their execution by the competent authorities remain somewhat uncertain as they are still being drafted and implemented. However, compliance with the continuously changing regulatory landscape may continue to result in increasing administrative expenses. For more information on the regulatory framework applicable to pbb Group, see "*3.2 Risks Related to Regulatory, Legal and Tax Matters*" above and "*18 Regulation and Supervision*" below.

13.3 REF Market

13.3.1 Key Market Drivers and recent Industry Developments

13.3.1.1 Growing transaction volumes in the European CRE market

With transaction volumes of $277 billion (€228.7 billion, based on the closing exchange rate as of December 31, 2014), the year 2014 has seen a 25% increase in the European commercial real estate ("**CRE**") market compared to 2013 ($221 billion; €182.5 billion, based on the closing exchange rate as of December 31, 2014) (source: "Global Capital Markets Research, Q4 2014" by JLL). While volumes in the United Kingdom, France and Germany expanded by 25% in 2014, the smaller markets of the Nordic countries, Central and Eastern Europe, Southern Europe, Ireland and Benelux countries all experienced transactional volume growth in excess of the European average (source: "Global Market Perspective Q1 2015", by JLL). The REF market enjoyed even stronger growth, increasing by more than 55% due to increases in new investment, development and refinance lending in 2014 (source: "European Real Estate Lending Market 2015" by Cushman & Wakefield). Compared to the fourth quarter of 2009, the total direct investment in European CRE increased by more than 200% in the fourth quarter of 2014 (source: "Investment Market Update Europe Q4 2014" by DTZ).

Based on Emerging Trends in Real Estate Europe 2015 by the Urban Land Institute and PwC ("**Emerging Trends in Real Estate**"), growth in the transaction volumes in the CRE market is expected to continue, leading to a likely increase in the related financing activities. Key drivers for the current trend to invest in CRE are as follows:

(1) Positive economic trends for CRE in pbb Group's core markets and other strategic markets

There are continued positive trends in certain European CRE markets, in particular Germany, United Kingdom and France, but also in Spain, Sweden and Poland.

Based on the Economic Forecast of the European Commission (February 5, 2015), economic growth (measured by GDP) in Germany is expected to strengthen gradually with the support of a robust labor market and favorable financing conditions underpinning domestic demand and improving external demand (Economic Forecast of the European Commission). The German market for CRE saw above-average investments in 2014, driven by a low interest rate environment, the relatively sound German economy and strong in-bound investments (at around 50% of total investment) which underpinned the confidence of foreign investors in the German CRE market (source: "Investmentmarktüberblick Deutschland Q4 2014" by JLL). The German CRE market is expected to continue its strong upward trend having expanded to €39.8 billion in 2014 (2013: €30.7 billion) (source: "Germany: Office Leasing and Investment Market Report Q1 2015", by Colliers International).

According to Emerging Trends in Real Estate, the growth prospects (measured by GDP) for the United Kingdom have improved and this is likely to continue in the medium-term. The CRE market in the United Kingdom, especially in the greater London area, is likely to remain one of the most attractive locations in the world for foreign investors due to its size, professionalism and the ease of access to the capital market (source: Emerging Trends in Real Estate; "Europe's Most Dynamic Cities, 2015" by JLL). Many international investors view London as a safe harbor, due to its liberal property ownership

and taxation rules. However, high prices, low rental yields and intense competition have forced investors to expand their horizons beyond London, increasing the importance of regional markets such as Manchester and Birmingham.

France's GDP growth is expected to be moderate, but the CRE market in Paris in particular is seeing high demand from French and international investors due to its size, diversity and France's centralist structure (source: "Why invest in Paris? 2015" by JLL and EY). While this has made Paris the second most popular destination in Europe for international real estate investment, representing around 20% of all investment carried out by foreign investors in Europe, France's political uncertainty may dampen demand in the future (source: Emerging Trends in Real Estate).

The CRE markets in Central Europe are dominated by investments in Poland. According to the "European Economic Forecast Winter 2015" by the European Commission, Poland's real GDP growth (3.3%) was strong in 2014 and economic activity is set to remain robust on the back of solid domestic demand, improving labor market conditions and rising disposable incomes. Additionally, the impact of the Russia-Ukraine crisis has been more nuanced than expected (source: "European Economic Forecast Winter 2015", by the European Commission).

Due to its government's healthy finances and stable macroeconomic conditions, Sweden's economic output should lie above the European average and the CRE sector in Sweden ought to remain attractive for investors (source: Emerging Trends in Real Estate). In Spain, despite continued deleveraging, the residential real estate market is starting to rebound and economic growth is set to pick up (source: Emerging Trends in Real Estate). Recent transactions show that Spain is attractive for investors seeking higher returns.

(2) Moderate growth in rental revenues

Market participants expect a more active and profitable rental market in 2015 (source: Emerging Trends in Real Estate). Nevertheless, rental growth in the office sector is expected to be incremental and uneven. Projected growth rates of 5 to 10% are expected in London, up to 5% in Paris and Frankfurt am Main while increases in secondary cities are expected to be lower (source: "Global Market Perspective Q1 2015" by JLL). Prime logistics space continues to benefit from growth in e-commerce and vacancy rates remain at a historic low (source: "Global Market Perspective Q1 2015" by JLL). While rental growth rates in logistics have been low in the majority of European markets, growth prospects are brighter in 2015 (source: "Global Market Perspective Q1 2015" by JLL). With a projected growth rate of 4% in 2015, global rental growth is expected to be slightly higher than in 2014 (3.1%) and 2013 (1.7%) (source: "Global Market Perspective Q1 2015" by JLL). For information on the asset classes financed by pbb Group see "*15.4.2.3 Real Estate Asset Classes*".

(3) Favorable financing conditions

The current financing and refinancing conditions are favorable for CRE investments. Monetary measures implemented by the ECB, Federal Reserve Bank (US) and other central banks have considerably increased the volume of available capital. This has led to historically low interest rates, which, together with growing competition between lenders (see below), is driving down financing costs. This is illustrated by the "ECB Bank Lending Survey" of January 2015 which notes that the credit standards for all loan categories have continued to ease in net terms.

(4) Lack of alternative investment opportunities and inflation protection

The low interest rate environment has left investors seeking other stable long-term investment opportunities. Due to its predictable income and good value retention, real estate is often seen as a suitable alternative asset class (source: "The Role of Real Estate in Portfolios: A Global Perspective" by European Financial Review). Additionally, many investors attempt to use real estate to protect themselves against inflation. Historically, CRE has outpaced inflation over five-year holding periods, offering investors an effective hedge (source: "Is commercial real estate a hedge against inflation" by TIAA CREF Financial Services). However, there is some evidence that certain real estate markets, such as London, may be overheating, which could undermine the protection against inflation.

(5) Enhanced competition and pressure on margins in the REF market

The banking industry is experiencing intense competition. Banks have had to recalibrate their business models in order to strengthen capital levels, improve efficiency and resolve legacy issues while still generating returns. Several banks like German Landesbanks have expanded or intensified their reach into the REF market.

Furthermore, an increasingly diverse mix of lenders is participating in today's CRE market. pbb Group expects traditional bank lenders (including both commercial and investment banks) to remain the main constituents of the CRE lending landscape in Europe. However, their leading role has somewhat diminished following the entry of non-bank financial institutions, such as insurance companies, debt funds and private equity. Whilst bank lenders are not necessarily lending less, their market share has fallen to 53% due to the presence of these non-bank lenders which account for 47% of the market (source: "European Real Estate Lending Market 2015" by Cushman & Wakefield). In particular, insurance companies have become increasingly active in the CRE lending market by accelerating the redevelopment of their lending strategies and expanding their direct and indirect lending platforms. This trend may have been underpinned by a number of bank-specific regulatory burdens which do not apply to the alternative lending community in the same way as to banks.

In light of the growing competition in the REF market and increased pressure on margins, some lenders appear more willing to assume risk (source: Emerging Trends in Real Estate). There seems to be an increasing willingness to provide finance for secondary assets in core locations, or prime assets in secondary locations (source: Emerging Trends in Real Estate). There has also been an increase in the amount of capital lent against CRE and a growing willingness to lend to new customers without previous relationships. Additionally, the range of ticket sizes has grown, with the average upper range rising from about €50 million to the €65-70 million range in 2013 with the upper range rising from €80 million to €90 million (source: "European Real Estate Lending Review 2014" by Cushman & Wakefield). The availability of loans over €100 million has also steadily increased in the course of 2013, as risk tolerances and appetite to lend have grown and lenders have become more interested in creating syndicated positions (source: "European Real Estate Lending Review 2014" by Cushman & Wakefield).

13.3.1.2 Sector and geographic trends

Some recent trends in the REF market are noteworthy. For example, the amount of investment in the European office sector, which accounted for 44% of the total European CRE investment activity, increased by 25% in 2014 (source: "Investment Market Update Europe Q1-Q4 2014" by DTZ). The retail sector also showed an upward trend, with an increase of over 36% in the 12 months to September 30, 2014 (source: "Investment Market Update Europe Q3 2014" by DTZ). Shopping centers were the main driving force behind the growth in retail investment with volumes of €5bn in Q3 2014 (source: "Investment Market Update Europe Q1-Q4 2014" by DTZ). Furthermore, investment activity in mixed-use and other sectors (such as petrol stations and data centers) increased throughout 2014 (source: "Investment Market Update Europe Q1-Q4 2014" by DTZ).

Furthermore, the trend to invest in CRE has led to significant price increases in prime locations in the core markets, such as London where house prices rose by 12% on average in 2014 (source: "London house prices slip in January after stream of rises in 2014", by the Guardian). CRE investors and their lenders therefore seem to be shifting to real estate which promises higher returns, in particular secondary locations (B-cities) (source: "European Real Estate Lending Market 2015" by Cushman & Wakefield). This is accompanied by an increase in the LTV ratio and the appetite for riskier lending practices in light of an increased pressure on margins.

Approximately 45% of all CRE loans in Europe in 2014 were secured by assets in core markets in Western Europe – namely the United Kingdom, France and Germany. However, lenders are trying to diversify their lending outside these core markets with the number of active lenders increasingly turning towards countries like Spain and Italy (source: "European Real Estate Lending Market 2015" by Cushman & Wakefield).

13.3.2 Key Geographic Markets

In the financial year 2014, pbb Group wrote €9.0 billion of new REF business (including extensions with maturities of more than one year) across all markets in which it is active. Its core REF markets are Germany, United Kingdom and France. 46% of pbb Group's new business in the financial year 2014 was written in the German market and 34% in the United Kingdom and France. pbb Group is also

active in the Nordic countries, in particular in Sweden (7%), in selected countries in Central and Eastern Europe, in particular Poland but also the Czech Republic, Slovakia and Hungary (8%) and in other countries (5%). The outstanding REF exposure to other countries like Portugal, Romania, Italy and Slovenia has been reduced over time and accounted for less than 1% of pbb Group's REF portfolio as of March 31, 2015.

13.3.2.1 Germany

According to the "Investmentmarktüberblick Deutschland Q4 2014" by JLL, CRE transactions in Germany in 2014 had a total volume of €39.8 billion which is 30% higher compared to 2013. The top five German cities (Munich, Hamburg, Berlin, Frankfurt am Main and Düsseldorf) alone accounted for around €20 billion in turnover. Especially the development of transaction volumes in Munich (€5 billion), Frankfurt am Main (€5.5 billion) and Berlin (€4.4 billion) was highly dynamic (source: "Investmentmarktüberblick Deutschland Q4 2014" by JLL). Cross-border investments into Germany totaled around €20 billion (source: "Investmentmarktüberblick Deutschland Q4 2014" by JLL) which underlines the strong confidence of foreign investors in the German real estate market. The main drivers for this strong activity in Germany are the low interest rates, the relatively sound German economy and, particularly for non-German investors, the relatively low real estate prices compared to other European real estate markets. Investors are also increasingly seeking opportunities to invest in German secondary locations or to add secondary properties or locations to their portfolio. With regard to its office investment activities, pbb Group concentrates on the top eight largest metropolitan areas (Stuttgart, Cologne and Essen/Dortmund in addition to the top five cities listed above) which have been identified as areas with significant potential based on their GDP and population size and growth. Other asset classes (e.g. logistics, retail and multi-family) are also financed in other German regions. In 2014, pbb Group's new REF business volume (including extensions with maturities of more than one year) in Germany amounted to €4.2 billion (€3.7 billion in 2013).

13.3.2.2 United Kingdom

In the United Kingdom, CRE transactions reached a value of €70.5 billion in 2014, the highest level since 2007 (source: aggregated from "European Investment Quarterly Q1-Q4 2014" by CBRE). This is an increase of 12.4% compared to 2013. However, the supply of properties in central locations is becoming scarce, resulting in a decrease in yields. At the same time the supply of office properties in London continues to expand which is expected to put pressure on rents and office prices in secondary locations. To some extent, prices are expected to drift apart on other major regional conurbations over the medium term. pbb Group's REF activities with regard to office properties are centered on the London area and, to a degree, the Midlands (Manchester, Liverpool, Leeds), Edinburgh and Glasgow; with regard to retail and logistics properties, pbb Group is also active in other areas. In 2014, pbb Group's new REF business volume (including extensions with maturities of more than one year) in the UK amounted to €1.3 billion (€1.2 billion in 2013).

13.3.2.3 France

In 2014, France recorded the highest investment activity since 2007 with a CRE transaction volume of €21.6 billion, a 31.7% increase compared to 2013 (€16.4 billion) (source: aggregated from "European Investment Quarterly Q1-Q4 2014" by CBRE). However, the government's ability to perform further economic and labor market reforms in the next two years and the possible impact of a potential political standstill on France's overall economic performance may affect the CRE market in future. The current increase in vacancies in secondary office properties indicates uncertainty in the French market. pbb Group's REF activities are centered on Paris and to a certain degree on Lyon, Marseille and Bordeaux. In 2014, pbb Group's new REF business volume (including extensions with maturities of more than one year) in France amounted to €1.7 billion (€0.6 billion in 2013).

13.3.2.4 Nordic countries, in particular Sweden

The CRE investment volume in the Nordic countries, in particular in Sweden, saw dynamic growth in 2014. CRE transactions with a volume of around €14.5 billion were realized in Sweden, which is an increase of more than 50% compared to 2013 (€9.4 billion) (source: aggregated from "European Investment Quarterly Q1-Q4 2014" by CBRE). In 2013, the share of investments in the Stockholm region totaled about 40% of the investments in Sweden. The focus is on domestic investors; with a share of 7%, foreign investors play a subordinate role in the Swedish market (source: "Nordic City Report Spring 2015" by JLL). pbb Group's REF activities in the Nordic countries are primarily centered on the Stockholm area.

In 2014, pbb Group's new REF business volume (including extensions with maturities of more than one year) in the Nordic countries amounted to €0.6 billion (€0.4 billion in 2013).

13.3.2.5 Central and Eastern Europe, in particular Poland and the Czech Republic

CRE investments in Poland and the Czech Republic totaled around €4.7 billion in 2014, an increase of 3% as compared to 2013 (€4.5 billion) (source: aggregated from "European Investment Quarterly Q1-Q4 2014" by CBRE). In particular, Poland has a very expansive market and there is evidence of possible excess supply in the retail and office sectors. This requires a highly selective approach in the CRE market. In 2014, pbb Group's new REF business volumes (including extensions with maturities of more than one year) in Central and Eastern Europe amounted to €0.7 billion (€0.9 billion in 2013).

13.3.2.6 Other markets

In 2014, pbb Group's new REF business volumes (including extensions with maturities of more than one year) in the rest of Western Europe, predominantly Benelux and Spain, amounted to €0.5 billion (€0.1 billion in 2013).

pbb Group will also have the option to re-enter other markets following the expiry of the EU State Aid Decision restrictions on pbb Group post-privatization.

13.3.3 Competitors and Market Position

pbb Group's competitors in the European REF market include other banks (such as commercial banks, savings banks, cooperative banks, public sector banks, private and investment banks), insurers, alternative lenders and agency service providers.

According to its own assessment, data and information provided by the Association of German Pfandbrief Banks (*Verband deutscher Pfandbriefbanken*, "**VdP**") ("**VdP Information**") and public company reports of competitors, pbb Group was the third largest REF lender in Germany and among the most active REF lenders in Europe in the years 2013 and 2014, in each case measured by new business volume (based on exposure at default, calculated for 2013 based on revised Basel 3 (simulated) and for 2014 and later based on Basel 3 ("**EaD**"). pbb Group leverages the quality of its client relationships, its products and services like structuring expertise, innovation, reputation, covenant structure and price to compete. The growing competition in the lending market increases pressure on margins and fee levels.

Based on its own assessment, its main competitors in Europe are Aareal Bank AG and Landesbank Hessen-Thüringen while the major competitors in Germany are Deutsche Hypo, LBBW, DGHyp, BerlinHyp, HSH Nordbank, DekaBank and UniCredit; Barclays, HSBC and Investment as well as Debt Funds in the United Kingdom; Natixis, BNP Paribas, Crédit Agricole and Crédit Foncier in France; Erste Bank, UniCredit and local financing banks in Central and Eastern Europe; and SEB, Nordea and Handelsbanken in the Nordic Countries.

In pbb Group's German home market, the REF market remains fragmented and the competitive environment is influenced by the three pillar system of private banks, public banks and cooperative banks (plus the alternative lenders). In the financial year 2014, pbb Group wrote around 46% of its new business in the German market where it relies on its depth and reach through its five regional offices, its headquarters and local network. pbb Group's local approach in Germany is supported by its core business processes and regional knowledge teams. The ability to provide financing on bespoke terms is a key differentiator for pbb Group in the German market.

Internationally, the United Kingdom and France are also particularly relevant markets for pbb Group with about 34% of the new business originating in these two countries in the financial year 2014. Mirroring its approach in Germany, pbb Group has established centers of local expertise in the United Kingdom, France, Spain and Sweden, and a central unit in Munich to target markets where pbb Group does not have a local presence. All of its domestic and international locations are staffed with experienced originating, underwriting and support staff, as well as credit, property analysis and legal teams. This European network coupled with the local expertise of the regional knowledge teams allows pbb Group to undertake multi-jurisdictional transactions which some of its competitors cannot pursue. This gives it the opportunity to gain transaction volume with potentially higher margins.

Due to pbb Group's focus on capital market based funding, it faces fierce competition in smaller ticket sizes and/or plain vanilla deals against regional commercial banks, savings banks, cooperative banks or the Landesbanks which can offer lower margin levels based on their more favorable deposit-based

funding source. However, in medium- to large-volume transactions of €50 million or more per ticket, pbb Group's funding costs may be compensated through add-on services and specialist know-how that some competitors cannot provide (e.g. know-how in financially structuring complex projects, experience in underwriting multi-jurisdictional portfolios with international clients, experience in providing large-ticket development loans and the ability to offer Sharia compliant financing).

pbb Group has launched various strategic initiatives to expand its origination efforts. This included the recent establishment of new offices in Hamburg, Berlin, Düsseldorf and Stockholm and the hiring of new originators and underwriters. These initiatives are aimed at enhancing the competitive position of pbb Group by continuing to optimize the cost structure and service quality. Furthermore, with the EU State Aid Decision restrictions falling away post-privatization, pbb Group will be able to carefully evaluate the re-establishment of presences outside its current markets on the basis of existing experience.

13.4 PIF Market

13.4.1 Key Market Drivers and recent Industry Developments

13.4.1.1 State of public finances

Based on figures published by Statista ("European Union and euro area: public spending from 2010 to 2020"), government spending ratios in Europe remain high at 47.55% of gross domestic product (GDP) in 2014. The average public debt ratio in the European Union has increased over the last few years to 86.8% of GDP in 2014 (2013: 85.5%) (source: Eurostat) with Germany reaching 74.7% (2013: 77.1%), United Kingdom 89.4% (2013: 87.3%) and France 95.0% (2013: 92.3%) in 2014 (source: "General government gross debt as a percentage of GDP", by Eurostat). The public budget balance of Germany amounted to 0.4% in 2014, -4.3% for France and -5.3% for the United Kingdom (source: European Commission, Economies of the Member States, Overviews for each individual Member State). However, after 15 consecutive quarters of increases, the average public debt ratio in the Eurozone finally saw a marginal decrease in 2014 as budget deficits continue to fall (source: "Government debt fell to 92.1% of GDP in euro area", by Eurostat). However, the growing opposition towards fiscal consolidation, moderate growth prospects and the lack of specific medium-term adaptation plans in the systemic economies may mean that the public sector will continue to be confronted by major challenges.

13.4.1.2 Public finance requirements

The gross borrowing requirements of central governments continue to remain high with an average of about 14.4% of GDP in the Eurozone in 2014 (2013: 15.7%) (source: "Sovereign Borrowing Outlook 2014", by OECD) and an expected average of about the same for 2015. Firstly, this is due to the repayment obligations to service large budget deficits due to debt incurred in the past. Secondly, public goods and services need continuous and significant re-investment (especially in healthcare, care of the elderly, education, public services, culture and sport). Thirdly, an increasing amount of investment is required in infrastructure to cope with the demands of an ageing population, a growing need for public transport, environmental projects, a changing energy mix as well as water supply, waste management and communication infrastructure (e.g. broadband expansion). There has also been increased recognition in Europe that growth in government spending (such as public investment projects) may need to be maintained or even enhanced (source: "Roland Berger Study on planning and financing transportation infrastructures in the EU"). Accordingly, the European Commission has found that investment of more than €700 billion is necessary in order to establish an efficient trans-European transportation network by 2030 (European Commission "Infrastructure – Connecting Europe, Corridor Studies").

However, public budgets remain constrained. The limited availability of capital markets funding to local and regional governments in Western Europe means that their reliance on more traditional lending structures is expected to continue.

pbb Group believes new areas of public sector financing will grow in importance, in particular, PPPs (public private partnerships) which are used for the design, construction, renovation, management, maintenance and funding of public infrastructure. These projects enable the public sector to allocate specific income streams (e.g. tolls) to particular investments and to better allocate risks among the involved parties. PPP transactions in Europe reached an aggregate value of €18.7 billion in 2014, an increase of 15% compared to 2013 (€16.3 billion) (source: "Market Update: Review of the European

PPP Market in 2014", by EPEC). Germany has emerged as the third largest PPP market in Europe with €1.5 billion in transactions in 2014, including the €630 million university hospital of Schleswig-Holstein (source: "Market Update: Review of the European PPP Market in 2014", by EPEC). Additionally, export finance transactions guaranteed by export credit agencies ("**ECA**") are expected to continue to play a key role due to the continued growth in global trade. pbb Group provides investment related financing; the VP contains its legacy budget financing.

13.4.1.3 Export finance

The market for government-backed export finance generally corresponds to developments in export activities and the willingness of governments and ECA (e.g. Euler Hermes) to support the export industry. Since the outbreak of the financial market and sovereign debt crisis, such willingness has been strong to alleviate the effects of the crisis. According to the European Banking Federation, ECAs have been particularly useful in supporting medium and long term export finance for which commercially available finance would otherwise be limited.

13.4.1.4 Continued pressure on PIF margins

The margins in public finance are smaller than those in the REF segment. This correlates to the low risk profile of the PIF loans which benefit from a public backing. PIF is complimentary to REF, particularly in relation to the efficient use of regulatory capital, synergies, access to public sector real estate pools and the longer average life of the transactions which may increase the number of lenders who engage in PIF in the future. In addition, ECB is increasingly providing public sector funding through its expanded asset purchase program announced on January 22, 2015. This program consists of monthly purchases of up to €60 billion in certain marketable debt instruments issued by euro area central governments, certain agencies located in the euro area and certain international or supranational institutions ("**ECB's Purchase Program**"). This may exert further pressure on the already small margins as price is frequently a key driver for public institutions making business decisions. It is likely that margins will remain under pressure as long as market liquidity remains abundant.

13.4.2 Key Geographic Markets

In the financial year 2014, pbb Group wrote €1.2 billion of new PIF business (including extensions with maturities of more than one year) across all markets in which it is active. Geographically, its activities are carried out selectively by considering risk and rate of return. In light of macro-economic developments, pbb Group expects Germany to continue to perform better economically than other EU countries. In light of recent plans for economic reform, pbb Group continues to view France as the second most important PIF market in the Eurozone. Therefore, pbb Group's PIF new business efforts focus on assets in Germany (43% of the PIF originations in the financial year 2014) and France (44% in 2014), targeted through the Paris, Frankfurt am Main (Eschborn) and Munich (Unterschleißheim) offices.

Nevertheless, PIF business in other countries is considered selectively, especially in the Nordic countries (7% of its total PIF originations 2014) and Spain (4%), but competition in the Spanish PIF market is intense partly due to local banks increasing their public sector portfolios. The United Kingdom has also recently been targeted for new business (1% of pbb Group's total PIF originations 2014). In all these regions (Nordic countries, Spain, United Kingdom), pbb Group has smaller presences.

13.4.3 Competitors and Market Position

In the wake of the financial and sovereign debt crisis, several Europe-wide specialized financial institutions have considerably reduced or even ceased their public sector finance activities, such as DEPFA Bank plc, Dexia N.V./S.A, Hypothekenbank Frankfurt AG and Royal Bank of Scotland plc. However, public sector financing has generally been available as lenders have been able to fill any gaps. Today, the increasing number of state bond issuances, the market entry of certain institutional investors (direct or through credit funds) and the increased lending activity of public sector banks (including development banks, such as the European Investment Bank, Caisse des Dépôts (CD) and Kreditanstalt für Wiederaufbau (KfW)) has led to a high supply of liquidity, at least in countries with a good credit rating such as Germany, Scandinavia or France (source: Liquidity analysis of the European Central Bank). pbb Group expects the number of lenders who participate in the PIF market to grow unless events like the decision of the Austrian Financial Market Authority ("**FMA**") dated March 1, 2015

in relation to HETA to place a moratorium on the payments under HETA's debt securities (guaranteed by the Austrian federal state of Carinthia) cause doubts as to the reliability of public guarantees and similar instruments.

Its main competitors are certain Landesbanks, Kreditanstalt für Wiederaufbau (KfW) and local savings banks in Germany, La Banque Postale and Groupe BPCE in France, BBVA, Santander, bankinter, BS and liberbank and la Caixa in Spain and SEB, Handelsbanken and Nordea in the Nordic countries.

In comparison, pbb Group considers itself to be one of the few European finance providers with know-how, experience and client relationship in both REF and PIF areas (with significant parts of the PIF business being real estate related). It sees its competitive advantages in its broad asset class coverage, structuring competency, project know-how and distribution capacity leveraging its strong European origination platform with product and sectorial expertise in the relevant European markets. pbb Group is a multinational counterpart well positioned to offer consulting and financial services in the financing of public goods and infrastructure projects with a broad multinational deal experience and associated know-how.

The end of the EU State Aid Decision restrictions post-privatization will allow pbb Group to carefully evaluate an increased diversification and growth in European and international markets. pbb Group is also looking to expand its syndication activities and grow its agency fees, while strengthening its ECA and structured financing business in the future.

13.5 Funding Market

13.5.1 Key Market Drivers and recent Industry Developments

pbb Group's funding platform is centered on Pfandbriefe and is supplemented with senior unsecured securities, retail deposits, money market instruments as well as subordinated and hybrid capital instruments.

13.5.1.1 The Mortgage and Public Sector Pfandbriefe Market

Pfandbriefe used by pbb Group are issued on the basis of mortgages, land charges and comparable foreign security interests relating to real property ("**Mortgage Pfandbriefe**") or on the basis of claims against public sector bodies ("**Public Sector Pfandbriefe**"). Other Pfandbriefe can be issued on the basis of loans secured against aircraft and ships, but these are not issued by pbb Group and are, generally, quite rare. The key drivers for the Pfandbriefe market can be characterized as follows (for more information see "*18.2.4 The German Pfandbrief Act*").

(1) Strong investor protection

Pfandbriefe issued under German law are governed by the German Pfandbrief Act, which is designed to provide a high degree of investor protection. In case of Mortgage Pfandbriefe, cover pools may only comprise loans secured by real estate mortgages or land charges in the EU and EEA countries as well as Switzerland, the USA, Canada, Japan, Australia, New Zealand and Singapore. Additionally, only loans or loan portions with an LTV of up to 60% are eligible. The valuation of the property is based on the mortgage lending value (MLV), which is determined in accordance with the German Pfandbrief Act and is generally lower than the market value. In case of Public Sector Pfandbriefe, claims against the public sector as debtor are eligible as cover assets. The German Pfandbrief Act stipulates precisely which borrowers qualify in Germany and abroad. Furthermore, Pfandbrief issuers are subject to special BaFin supervision in addition to general banking supervision, which includes cover audits and adherence to the provisions of the German Pfandbrief Act. Pfandbriefe may not offer the same potential return as other cover bonds, but investors appreciate their stability, solid ratings, conservative legal framework and strong underlying assets (source: The German Pfandbrief Market 2014/2015, Deutsche Genossenschafts-Hypothekenbank Aktiengesellschaft ("**DGHyp**")).

(2) Strong investor base in Germany

Pfandbriefe benefit from a strong investor base in Germany ranging from small retail investors (to a lesser extent) to large institutional investors (to a greater extent). No other covered bond jurisdiction has an equally strong domestic investor base which is dominated by banks, pension funds and insurance companies (source: The German Pfandbrief Market 2014/2015, DGHyp). The rising share of bank investors (62% in 2014 (2013: 54%)) partly reflects bank investors' sensitivity to ratings (e.g. due to risk weighting of assets and LCR requirements) (source: The German Pfandbrief Market 2014/2015,

DGHyp). Insurance and pension funds are also driving demand, given the low risk weighting for Pfandbrief under Solvency II, as is the ECB following ECB's Purchase Program which includes Pfandbriefe. Other noteworthy investor bases include France/the Benelux countries (5% share of investors in 2014 (2013: 10%)), the UK/Ireland (4% share of investors in 2014 (2013: 7%)), Southern Europe (1% share of investors in 2014 (2013: 3%)) and the Nordic countries (4% share of investors in 2014 (2013: 3%)) (source: The German Pfandbrief Market 2014/2015, DGHyp).

(3) Rising number of issuers in Germany

According to VdP Information, since the German Pfandbrief Act replaced the Mortgage Banks Act in 2005 and abolished the specialist banks principle, the number of financial institutions with Pfandbriefe in circulation reached 72 as at the end of 2014. Although in absolute numbers, savings banks make up the biggest contingent of Pfandbriefe issuers in the market (35) (Source: The German Pfandbrief Market 2014/2015, DGHyp), they hold only 3% of the total issuance volume. Mortgage banks, specialized financial institutions, Landesbanks and larger commercial banks have also become active in the Pfandbrief market in recent years (source: The German Pfandbrief Market 2014/2015, DGHyp). In terms of the volume of Pfandbriefe in circulation, mortgage banks and specialized financial institutions account for more than 53% of the issuance volume, well ahead of the Landesbanks with a 31% market share. Commercial banks have a market share of 11% (Source: The German Pfandbrief Market 2014/2015, DGHyp). pbb Group believes that mortgage banks and Landesbanks will continue to dominate the Pfandbrief market while commercial banks will try to expand their share.

Although many Pfandbrief banks are licensed to issue both Mortgage Pfandbriefe and Public Sector Pfandbriefe, the majority have now limited themselves to issue only the former. Very few banks are currently issuing ship and aircraft Pfandbriefe (source: VdP Information).

(4) Shifting volume of issued Pfandbriefe in Germany

The Pfandbrief market has experienced, and continues to experience, structural changes with a shift away from Public Sector Pfandbriefe towards Mortgage Pfandbriefe, and a net fall in the total volume of Pfandbriefe in circulation from €525 billion in 2012 to €402 billion in 2014 (source: VdP Information). According to the bond market statistics published by the Deutsche Bundesbank (the "**Deutsche Bundesbank**"), the volume of Public Sector Pfandbriefe in circulation (€215 billion in 2014 (2013: €246 billion)) still marginally exceeds the aggregate volume of Mortgage, aircraft and ship Pfandbriefe in circulation (€213 billion in 2014 (2013: €206 billion). However, the volume of Public Sector Pfandbriefe outstanding has declined in recent years (€31 billion decline between 2013 and 2014) (source: "The German Pfandbrief Market 2014/2015" by DGHyp; VdP Information). One of the main reasons for this seems to be a structural change in public sector financing. Following the financial and sovereign debt crisis several banks specializing in public sector financing significantly downsized or completely exited the market (for instance DEPFA Bank plc, Dexia N.V./S.A. and Hypothekenbank Frankfurt AG). This may have resulted in the reduction of the cover pools backing Public Sector Pfandbriefe. In addition, the amount of bonds issued by Landesbanks backed by public sector loans that qualify as cover for Public Sector Pfandbriefe is declining (source: "The German Pfandbrief Market 2014/2015", by DGHyp). This type of bond used to benefit from public guarantees, due to grandfathering after the liability obligation was abolished in July 2005. The use of Public Sector Pfandbriefe to refinance (i) (state) guaranteed export finance facilities and (ii) portfolios of loans to small and midsize enterprises or property loans that qualify for use in cover pools through the mechanism of a default guarantee provided by a state agency or a state-guaranteed development bank is expected to increase (source: "The German Pfandbrief Market 2014/2015", by DGHyp). However, pbb Group does not expect this increase to completely offset the decreasing volume of outstanding Public Sector Pfandbriefe.

In contrast, Mortgage Pfandbriefe continue to gain importance. Their market share (relative to the aggregate volume of all outstanding Pfandbriefe) has climbed from 22% in 2000 to 47% in May 2014 (source: "The German Pfandbrief Market 2014/2015" by DGHyp; VdP Information). The gross new issue volumes of Mortgage Pfandbriefe have markedly exceeded the gross new issues of Public Sector Pfandbriefe since 2009. In 2014, the volume of newly-issued Public Sector Pfandbriefe accounted for 26% of total new issuance while Pfandbriefe of the other categories accounted for 74% (with ship and aircraft Pfandbriefe only being niche products). Larger commercial banks increasingly use Mortgage Pfandbriefe as new funding vehicles to take advantage of positive trends of the German property market. Against the backdrop of the forecast growth of the property markets, the importance of Mortgage Pfandbriefe is expected to grow further (source: "The German Pfandbrief Market 2014/2015", by DGHyp).

(5) Spreads and market liquidity in Germany

Spreads on German Pfandbriefe have exhibited a sideways trend over the past few months and continue to trade at lower levels vis-à-vis other European cover bonds. Spreads have been at very low levels for several months so they offer little potential to tighten further when compared with their international peers. As long as the ECB's Purchase Program continues, pbb Group does not expect the potential expansion in the supply of Mortgage Pfandbriefe to cause a widening in the spreads as there is still excess investor demand in the market. The cover pools for Mortgage Pfandbriefe normally consist of loans relating to the German property market. The quality of these cover pools benefits from the current positive trends in the German economy and the German property market.

Market liquidity depends on the stimulus provided by new issues. Euro-denominated new issues featuring a minimum original volume of either €500 million (benchmark bonds) or €1.0 billion (jumbo bonds) are attracting the most interest. These issue formats have recently proved very appealing to Pfandbrief issuers and their share of total new issuance was 44% in the first four months of 2014 (first four months of 2013: 46%); their share of the total volume of Pfandbriefe in circulation at the end of May 2014 was 26% (end of May 2013: 26%) (source: "The German Pfandbrief Market 2014/2015" and "The German Pfandbrief Market 2013/2014", by DGHyp).

13.5.1.2 Diversification of funding instruments

It appears that there are fewer exclusively Pfandbrief-based business models on the market. Instead, issuers are using a broader mix of funding. In this mix, Pfandbriefe remain a strategically important instrument that offers issuers reliable access to the capital markets, but other instruments to fund Pfandbrief-ineligible assets, support statutory and rating-driven over-collateralization requirements in relation to the Pfandbrief cover pools and liquidity buffers have already been and are increasingly used alongside. Those instruments often include unsecured securities, secured and unsecured money market instruments, cash collateral received from counterparties, subordinated capital and deposits through private or retail banking. As the capital markets are currently dominated by low interest rates and expansive monetary policy, credit institutions are benefitting from a favorable liquidity environment with easy access to funding at relatively low premiums.

With regard to Pfandbriefe, private placements appear to be gaining importance as investors' requirements and needs for tailored structures are growing. pbb Group generally offers tranches starting from €1 million and has used private placements for about 41% of its Pfandbrief funding in 2014 (and even for about 57% of its long-term funding).

13.5.2 Key Geographic Markets

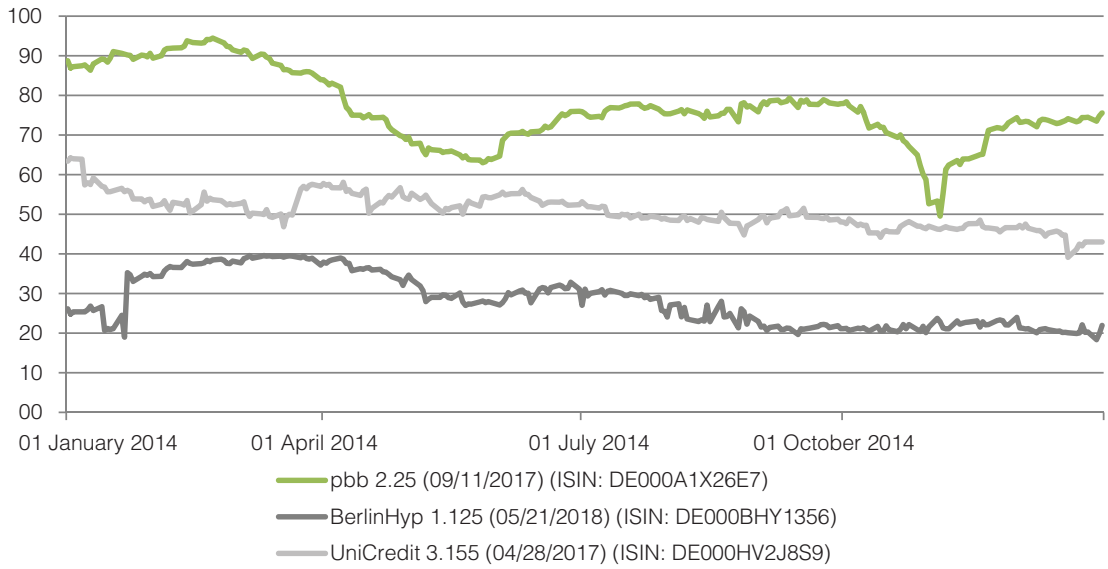
Germany is the key market for pbb Group's funding activities. The investor base for pbb Group's Pfandbriefe (providing approximately 60% of pbb Group's funding) is predominantly German, and pbb Group is the largest Pfandbrief issuer in Germany as of March 31, 2015 based on outstanding volume (€36 billion as of March 31, 2015) (source: VdP Information). After the market for public sector bonds, the Pfandbrief market is the second largest market for fixed income bonds in Germany. Germany is also the key market for the other two main sources of funding: unsecured debt and retail deposits. pbb Group does not expect any significant geographical changes to its funding markets in the foreseeable future.

13.5.3 Competitors and Market Position

With 16 outstanding "benchmark issues" (Pfandbriefe with a volume of at least €500 million) and a total outstanding amount of Pfandbriefe of €36 billion as of March 31, 2015, pbb Group is, in terms of the outstanding volume, the largest covered bond issuer in Germany (total of outstanding Pfandbrief volume was €402 billion as at December 31, 2014) and is one of the leading covered bond issuers in Europe. In addition to Euro-issues, pbb Group is the largest Pfandbrief issuer in both SEK and GBP which serves as a hedge against currency exchange risks from its lending activities in the United Kingdom and Sweden. As to SEK Pfandbriefe, pbb Group's outstanding volume as of December 31, 2014 (SEK 2.65 billion) corresponds to the entire SEK Pfandbrief market; as to GBP Pfandbriefe, pbb Group's outstanding volume as of December 31, 2014 (GBP 975 million) corresponds to roughly half of the volume of all outstanding GBP Pfandbriefe (GBP 1,930 million) as at December 31, 2014. In relation to Pfandbrief issuances, pbb Group's main competitors are, among others, Hypothekenbank Frankfurt AG, Helaba Landesbank Hessen-Thüringen Girozentrale, Deutsche Genossenschafts-Hypothekenbank AG and WL Bank AG.

In 2014, average spreads of pbb Group's newly issued Mortgage Pfandbriefe were 24 basis points above 3 months EURIBOR) (2013: 31 basis points) and the spreads of newly issued Public Sector Pfandbriefe were on average 29 basis points above 3 month EURIBOR (2013: 36 basis points). pbb Group believes this reflects its sound business model and its credit ratings (although the effects of ECB's policy to channel liquidity into the market and of the ECB's Purchase Program are also likely to have contributed to the tight spreads).

The average spread of senior unsecured funding decreased from 156 basis points above 3 months EURIBOR in 2012 (benchmark issues: 210 basis points; private placements (bearer): 115 basis points; private placements (registered): 133 basis points) to 116 basis points in 2013 (benchmark issues: 139 basis points; private placements (bearer): 85 basis points; private placements (registered): 105 basis points) and to 86 basis points in 2014 (benchmark issues: 84 basis points; private placements (bearer): 96 basis points; private placements (registered): 82 basis points). Based on the Company's own assessment, pbb Group's unsecured debt had been trading at wider spreads in 2014 than selected peers as can be illustrated by the following chart comparing the spread developments of unsecured securities issued by the Company, by BerlinHyp and UniCredit Bank AG:



pbb Group believes that the relative difference may primarily be due to uncertainty surrounding the outcome of the privatization (although it was able to issue unsecured debt with maturities past the envisaged privatization) and the effect of a (fading) legacy of crisis events on pbb Group's credit ratings. In addition, after the announcement dated March 17, 2015 by Moody's Investors Services, Inc. ("**Moody's**") to place debt and deposit ratings of the Company on review for downgrade, issuance spreads of pbb Group's unsecured securities were (on average) at 90 basis points above 3 month EURIBOR during the first quarter of the financial year 2015.

As a result of the size and the frequency at which pbb Group issues debt instruments, it is well known to the investor community (asset managers, insurance companies, pension funds and banks who are driven by "real money" accounts). pbb Group supports an effective dialogue with investors through a dedicated debt investor relations team. pbb Group is also responsive to investors' requirements and able to offer tailored structures, for instance by using private placements and offering innovative structures, such as club deals with floating rate Pfandbriefe.

In addition, pbb Group seeks to strengthen its access to funding sources (and thereby its competitive position) through its "pbb direkt" brand. "pbb direkt" is an internet-based platform for retail deposits starting at €5,000 from private clients with residence in Germany. The deposit volume at "pbb direkt" has increased significantly since 2013 to about €1.53 billion as of December 31, 2014 (December 31, 2013: €0.62 billion). The market size of private clients' retail deposits in Germany is approximately €1.9 trillion as of December 31, 2014 (Source: Bundesbank Monatsbericht).

Furthermore, pbb Group also benefits from good working relationships in the European banking sector with institutional investors and brokers as well as their counterparts at other banks by having a full range of money market products.

14 HISTORY

14.1 Formation of the Company and the Entire HRE Group

The Company was originally established in 1869 as Bayerische Handelsbank Aktiengesellschaft, Munich. The initial focus was on retail banking and real estate finance. Following a business combination agreement with two other banks in 1921 (which resulted in the Company transferring its retail banking business to Bayerische Vereinsbank AG), the Company focused on the real estate finance business.

The structure of the Company and pbb Group as of the date of the Prospectus is the result of a variety of structural measures implemented in the context of the restructuring of the Entire HRE Group. In November 2008, the Company and Hypo Real Estate Bank International were merged. In June 2009, DEPFA Deutsche Pfandbrief Bank AG was merged into the Company (then named Hypo Real Estate Bank AG) which was subsequently renamed into Deutsche Pfandbriefbank AG. For an overview of the material restructurings affecting the Company and pbb Group in the recent past see "*19.3 Structure of pbb Group*".

pbb Group belongs to the Entire HRE Group with HRE Holding as parent company. The Entire HRE Group is the result of a variety of structural measures. These include the merger of Bayerische Vereinsbank AG, the Company's parent company at that time, with Bayerische Hypotheken- und Wechsel-Bank AG in 1998 to form Bayerische Hypo- und Vereinsbank AG ("**HVB AG**"). HVB AG was the parent entity of a group that comprised, *inter alia*, the real estate finance banks Württembergische Hypothekenbank AG (later renamed to Hypo Real Estate Bank International AG), Westfälische Hypothekenbank AG, Nürnberger Hypothekenbank Aktiengesellschaft, Süddeutsche Bodencreditbank AG and Bayerische Handelsbank AG (the Company). Nürnberger Hypothekenbank Aktiengesellschaft and Süddeutsche Bodencreditbank AG were merged into the Company in 2001. In September 2003, HVB AG spun-off its shares in DIA Vermögensverwaltungs-GmbH, the sole shareholder of the Company, to newly established HRE Holding as parent company of the Entire HRE Group. In October 2007, HRE Holding acquired the Irish DEPFA Bank plc ("**DEPFA Bank**"), then the parent company of, among others, DEPFA Deutsche Pfandbriefbank AG (which merged into the Company in 2009). Following the acquisition of DEPFA Bank, the Entire HRE Group's main lines of business at that time were real estate financing (via the Company, Hypo Real Estate Bank International AG and their subsidiaries) as well as public financing (via DEPFA Bank and its subsidiaries (together "**DEPFA Group**"), including DEPFA Deutsche Pfandbriefbank AG).

14.2 Financial Market Crisis and Countermeasures

14.2.1 Liquidity Concerns for the Entire HRE Group

In the wake of the financial market crisis, several entities of the Entire HRE Group ran into liquidity problems due to difficulties in obtaining short-term funding in the markets at that time. Liquidity and, subsequently also solvency, became a major concern for the Entire HRE Group.

14.2.2 Overview of certain State Aid Measures for Stabilizing pbb Group as part of the Entire HRE Group

In order to remedy the liquidity concerns following the financial market crisis, the Entire HRE Group received state-funded support in the form of a variety of liquidity and recapitalization measures ("**State Aid Measures**"). The description below focuses on the State Aid Measures that are relevant to pbb Group.

14.2.2.1 Initial State Aid Measures

The German Financial Market Stabilization Fund (*Finanzmarktstabilisierungsfonds*, "**FMS**" or "**SoFFin**"), managed by the Federal Financial Market Stabilization Agency (*Bundesanstalt für Finanzmarktstabilisierung*, "**FMSA**"), a public-law agency with legal personality under the legal and technical supervision of, and thus controlled by, the German Federal Ministry of Finance (*Bundesministerium der Finanzen*), had acquired 100% of the shares in HRE Holding following the participation in two separate capital increases at HRE Holding, the completion of a public takeover offer for the shares in HRE Holding and the transfer of the shares of the remaining shareholders against compensation (squeeze-out). Thereafter, FMS made, directly and through HRE Holding, certain capital injections into the Company on the basis of Section 7 of the German Financial Market

Stabilization Fund Act (*Finanzmarktstabilisierungsfondsgesetz*, "**FMStFG**") in accordance with a framework agreement between the Company, HRE Holding and FMS on the grant of stabilization measures dated August 24, 2010 (as amended on April 10, 2012 the "**Sec. 7 Framework Agreement**") (for further information on the Sec. 7 Framework Agreement, see "*15.11.1.1 Framework Agreements*"). Such capital injections consisted of a contribution to the capital reserves of the Company within the meaning of Section 272 (2) no. 4 HGB in the amount of €1.3 billion and of the contribution of a silent participation (the "**SoFFin Silent Participation**") in the Company in the nominal amount of €1.0 billion (such capital injections the "**Capitalization Measures**").

On the basis of Section 6 FMStFG, FMS had also granted certain guarantees between 2008 and 2010 for the benefit of creditors of certain bonds issued by the Company. Such guarantees were released prior to their expiry date which was on June 30, 2011.

On March 28 and November 6, 2009, FMS had also issued declarations of intent to support HRE Holding and the Company with regard to the Capitalization Measures and the transfer of Risk Positions (as defined below) which expired on December 31, 2013.

14.2.2.2 Transfer of Risk Positions to FMS-WM

Pursuant to Section 8a FMStFG, pbb Group transferred, legally or economically, certain risk positions and non-strategic business units (together the "**Risk Positions**") to FMS-WM, with effect as of September 30/October 1, 2010. Such transfer was based on a framework agreement entered into by the Company, HRE Holding, FMS, FMSA and FMS-WM on September 29/30, 2010 (as amended on August 1/September 2, 2014 the "**Sec. 8a Framework Agreement**" and together with the Sec. 7 Framework Agreement the "**Framework Agreements**") (for further information on the Sec. 8a Framework Agreement, see "*15.11.1.1 Framework Agreements*"). The transfer was carried out by way of a German law governed split-off (*Abspaltung*) based on a split-off agreement between the Company and FMS-WM dated September 30, 2010 ("**Split-off Agreement**") as well as other transfer modes (such as (funded) sub-participations, contractual single asset transfers (direct transfer agreements) and a financial guarantee) set out in a concentration agreement between the Company and HRE Holding dated September 30, 2010 ("**Concentration Agreement**"). Such Concentration Agreement can be generally characterized as a sale and purchase agreement for the benefit of FMS-WM as a third party beneficiary (for further information on the Split-Off Agreement and the Concentration Agreement, see "*15.11.1.5 Split-off Agreement*" and "*15.11.1.6 Concentration Agreement*"). To implement FMS-WM's legal position as beneficiary, HRE Holding transferred its contractual positions in respect of the Concentration Agreement to FMS-WM by way of a German law governed split-off (*Abspaltung*).

Hypo Real Estate Capital Japan Corp., Tokyo/Japan ("**HREC Japan**"), a wholly owned subsidiary of the Company, also transferred certain Risk Positions to FMS-WM. HREC Japan was not a party to the Framework Agreements, so the Company, HRE Holding and HREC Japan entered into an agreement on September 30, 2010 to pass on the obligations under the Sec. 8a Framework Agreement that relate to HREC Japan and to the portfolio to be transferred by HREC Japan to FMS-WM (the "**HREC Japan Back-to-Back Agreement**") (for further information on the HREC Japan Back-to-Back Agreement, see "*15.11.1.4 HREC Japan Back-to-Back Agreement*"). In addition, other former members of the Entire HRE Group, in particular DEPFA Bank, a wholly owned subsidiary of HRE Holding until December 19, 2014, transferred certain Risk Positions to FMS-WM as well.

Following the transfer of the Risk Positions, FMS-WM had initially sourced out the servicing of the transferred Risk Positions to the Company which had partly passed on the servicing obligations to other (former) members of the Entire HRE Group. Such outsourced servicing has almost entirely ended in the meantime. For further information, also as to the ongoing contractual servicing relationships, see "*15.11.2 Agreements primarily relating to the Provision of Services*".

14.2.3 Approval of State Aid Measures by the European Commission; Conditions

On July 18, 2011, the European Commission approved the EU State Aid Decision. With its decision, the European Commission also accepted the viability of pbb Group's business model as a specialist bank for REF and PIF. The decision of the European Commission related to all aid elements granted to the Entire HRE Group since the autumn of 2008, i.e. liquidity measures, recapitalization measures, guarantee lines and the transfer of items to FMS-WM, and required appropriate compensation measures. In connection with its approval, the European Commission imposed a number of conditions:

The European Commission restricted the scope of business activities of the Entire HRE Group. The pbb Group was restricted to operating in the REF and PIF business segments (with PIF, at the time of the decision, being a sub-segment of pbb Group's public finance business) in Germany and other selected European countries. In addition, the European Commission restricted the growth of interest-bearing assets, and set certain conditions in order to secure profitability of new business, and in order to prevent competitive distortion.

The European Commission set further limits with regard to interest and profit-participation payments by the Entire HRE Group to third parties (i.e. parties outside the Entire HRE Group). In relation to profit-related instruments of pbb Group (other than those obtained from FMS), the European Commission set – among others – the condition that the capital contribution granted as a silent participation (*stille Einlage*) by FMS to the Company in the amount of €1.0 billion in 2009 (i.e. the SoFFin Silent Participation) had to be redeemed before the Company was allowed to make voluntary interest and profit participation payments for those instruments; such restriction applied to a series of equity-linked capital instruments which were in place as at September 30, 2010. The SoFFin Silent Participation granted by FMS carried a coupon of 10% p.a. the payment of which depended on the satisfaction of several conditions. The SoFFin Silent Participation also participated in the Company's balance sheet losses (*Bilanzverlust*) which effectively reduced the book value (as determined in accordance with the generally accepted accounting principles under the German GAAP and the terms and conditions of the SoFFin Silent Participation). As of December 31, 2014, the SoFFin Silent Participation had been written down to €92 million according to German GAAP. Had the Company generated profits, the (reduced) book value would have first been written up to its initial nominal value of €1.0 billion (*Wiederauffüllungsverpflichtung*) before the coupon of 10% p.a. would have been paid. Pursuant to the agreement regarding the SoFFin Silent Particiaption, dated November 16, 2009, the SoFFin Silent Participation had an indefinite term, but the Company could ordinarily or extraordinarily terminate the silent participation as described in the agreement. In case of termination of the silent participation, the Company would have had to repay the then outstanding nominal amount of the silent participation. The SoFFin Silent Participation has been repaid at par on July 6, 2015; for more information on the repayment see "*7.3 EU Restrictions and Repayment of SoFFin Silent Participation*" and on the risk that the repayment will trigger coupon payments under the €350 million hybrid instrument issued by pbb Group see "*3.1.16 Coupon pusher on hybrid capital instruments that relate to dividend payments by HRE Holding may affect the recognition of these instruments as Additional Tier 1 capital instruments. Also dividend payments by HRE Holding may trigger coupon payments on these instruments even where pbb Group would not pay any dividends or other junior payments.*"

Furthermore, the European Commission required the Federal Republic of Germany to reprivatize the DEPFA Group until the end of 2014 and pbb Group until the end of 2015.

As regards the servicing of the FMS-WM portfolio which the Company and other members of the Entire HRE Group jointly performed in the past, the Company was only allowed to render these services throughout the term of the cooperation contract which expired on September 30, 2013 (though it may provide follow-up assistance based on an after sales agreement). HREC Japan, the Company's Japanese subsidiary, continued servicing the Japanese real-estate portfolio of FMS-WM until June 29, 2015. For more information, see "*15.11.2.1 FMS-WM*". The Company also has contractual relations with DEPFA Group which is now wholly owned by FMS-WM. For more information on the contracts, see "*15.11.2.2 DEPFA Group*".

14.2.4 Strategic Realignment of the Entire HRE Group

On December 19, 2008, the management board and the supervisory board of HRE Holding (the Selling Shareholder) adopted a resolution regarding the strategic realignment of the Entire HRE Group. The objective of this strategic realignment was an adjustment of the Entire HRE Group's business model to changed conditions on the capital markets and the increasing challenges in the real estate and public finance business.

The key intention was to reposition the strategic core bank within the Entire HRE Group, pbb, with a simplified corporate structure as a specialist bank for real estate and public sector finance in Germany and Europe with a funding strategy focused on Pfandbrief issuance. New business was to mainly center on Pfandbrief-eligible loan transactions, selected in the context of a conservative refinancing strategy. Non-strategic assets of pbb not transferred to FMS-WM were to be put in run-down mode (as of 2013 transferred to the VP). This strategy was later confirmed by the decision of the European Commission dated July 18, 2011 and is still a key element of pbb Group's business today, see also

"*15.3 Strategy*". As a result, growth had to be limited in recent years in line with the approval of state aid by the European Commission, and new business, that no longer included public sector finance in the form of pure budget financing, had to generate a defined minimum return.

In line with the European Commission's demand to reprivatize DEPFA Group by the end of 2014, HRE Holding initiated the selling process for 100% of the registered share capital of DEPFA Bank in August 2013 and engaged with potential purchasers in the aftermath. However, on May 13, 2014, the FMSA's inter-ministerial Steering Committee (which decides on measures related to FMS) and an extraordinary general shareholders' meeting of HRE Holding resolved to prepare the take-over and wind-down of DEPFA Group by FMS-WM rather than to sell the shares in DEPFA Bank to a private bidder. Following consent of the Irish and the Luxembourg regulatory authorities, the transfer of DEPFA Group to FMS-WM was completed on December 19, 2014. It was conducted according to the (economic) terms and conditions that HRE Holding had previously negotiated with an external bidder. In connection with the signing of the share purchase agreement regarding the transfer of share capital of DEPFA Bank to FMS-WM, the Company also transferred its subsidiary DEPFA Finance N.V, Amsterdam, to DEPFA Bank, partially repaid a loan which was provided to it by DEPFA Finance N.V. and also reduced a corresponding hedging swap between the Company and DEPFA Bank.

In line with the European Commission's demand to reprivatize pbb Group by the end of 2015, HRE Holding also initiated a dual-track sales process for up to 100% of the share capital in the Company on February 17, 2015. HRE Holding therefore prepared an open, transparent and non-discriminatory bidding process and, in parallel thereto as an alternative means of sale, an initial public offering that is the basis of the Offering. The bidding process was later discontinued in order to proceed with the Offering.

15 BUSINESS

15.1 Overview

pbb Group's core business is real estate finance (REF), where it provides financing to the commercial real estate industry, and public investment finance (PIF), where it funds public sector investments such as infrastructure projects and provides government-backed export finance. pbb Group believes it is one of the leading specialist banks in Europe for REF and PIF with a strong local presence and expertise across the entire financing process in these segments in its core European markets Germany, the United Kingdom and France. pbb Group is also active in the Nordic countries (particularly Sweden), in selected countries in Central and Eastern Europe (particularly Poland, the Czech Republic, Slovakia and Hungary), Spain, the Benelux and other European countries. pbb Group's geographic reach* can be illustrated as follows:

o Headquarters • Branches / representative offices * There is a further Japanese subsidiary in Tokyo, without new business activities (currently)

pbb Group will carefully evaluate re-establishing a market presence outside of the markets where it operates at the date of the Prospectus.

In its REF segment, pbb Group concentrates generally on medium to large financing transactions of €10 million to €120 million per ticket (final hold, i.e. the tranche of the loan pbb Group holds on its own books), and in select cases also with higher transaction sizes, for professional real estate investors, with a focus on office, retail/shopping, residential, logistics/warehousing and hotel properties. According to its own assessment, VdP information and public company reports of competitors, pbb Group was the third largest REF lender in Germany and among the most active REF lenders in Europe in 2013 and 2014, in each case measured by new business volume. In its PIF segment, pbb Group finances public sector investments such as facilities for municipalities, infrastructure projects and government-backed export. In both segments, pbb Group provides finance either as a sole lender or together with financing partners including other banks (in syndications), insurers and private equity investors. pbb Group also sells derivatives to hedge market risks (mainly interest rate risks and less frequently conversion risks) in conjunction with its lending activities.

In addition to its REF- and PIF-related activities, pbb Group has a non-strategic value portfolio (Value Portfolio or VP), which mainly includes certain public budget finance assets (i.e. general budget finance, which are non-investment based financings mainly in the form of bonds and promissory notes), as well as certain real estate and public finance assets (including Italian assets that were transferred from its PIF portfolio as of January 1, 2015 following the closure of the Rome branch). The

VP has been in run-down for several years. With the C&A, pbb Group also has a consolidation and adjustments segment which primarily consists of treasury activities and pbb Group's equity investments.

pbb Group's lending activities are primarily refinanced through the Pfandbrief market, supplemented by senior unsecured securities, retail deposits, money market instruments as well as subordinated and hybrid capital instruments, among others. pbb Group aims to match the maturities of its funding instruments with the financing granted within its lending activities. In recent financial years, pbb Group's REF business has generated stable returns, and pbb Group expects a positive profit contribution from its REF and PIF business lines in the future. pbb Group plans to structurally improve its profitability in the short to medium term by reallocating capital released through the run-down of its VP segment to business in its strategic REF and PIF segments.

pbb Group's key performance indicators are as follows (for more information on these indicators and on other key financial indicators see "*11.5 Key Financials and Key Performance Indicators*"):

	As of and for the Three-Month Period ended March 31,	As of and for the Financial Year ended December 31,			
	2015	2014 (adjusted)†	2014	2013	2012
	(unaudited)	(unaudited unless otherwise indicated)			
Profit before tax (in € million)	51[1)]	174[2)]	54*	165*	124*
Net income/loss (in € million)	39[3)]	116[2)]	4*	160*	69*
Return on equity before tax (in %)[4)]	8.3[5)]	7.1[2),6)]	2.2	7.2	5.5
Return on equity after tax (in %)[4)]	6.3[7)]	4.7[2),6)]	0.2	7.0	3.1
Cost income ratio (in %)	51.6	57.3[2)]	77.0*	64.7*	73.0*
Total assets (in € billion)	75.4		74.9[8)]	74.6*[9)]	97.7*[9)]
Shareholder's equity (in € billion)[10)]	3.6		3.5*	3.5*	3.3*
thereof: SoFFin Silent Participation (in € billion)	*1.0**		*1.0**	*1.0**	*1.0**
Risk weighted assets (in € billion)[11)]	14.8	15.5	15.5*	18.1*	15.3*
CET 1 ratio (fully loaded) (in %)[12),13)]	14.8	13.5	13.5*	11.0*	–
Tier 1 ratio (fully loaded) (in %)[13)]	14.8[14)]	13.5[15)]	19.9*	16.6*	18.9*[16)]
Own funds ratio (fully loaded) (in %)[13),17)]	16.9[18)]	15.6[19)]	22.1*	19.1*	26.6*[16)]
New business volume (in € billion)[20)]	2.8		10.2	8.2	5.6
Leverage ratio (fully loaded) (in %)[13)]	3.2[21)]	3.1[22)]	3.1[22)]	2.8[23)]	

† The figures were adjusted as specified in the respective footnotes below. The adjustments were made either (i) for the significant effects resulting from the value adjustments on the HETA exposure (thus showing figures as if there had been no negative impact from these value adjustments) or (ii) for the repayment of the SoFFin Silent Participation of €1.0 billion which has occurred on July 6, 2015.

* Audited.

1) Profit before tax would amount to €133 million if adjusted for €82 million effects (for cost income ratio calculation €76 million) from value adjustments on HETA exposure (nominal: €395 million) in the first quarter of the financial year 2015.

2) Adjusted for €120 million effects (for cost income ratio calculation €112 million) from value adjustments on HETA exposure (nominal: €395 million) in the fourth quarter of the financial year 2014.

3) Net income/loss would amount to €112 million if adjusted for €82 million effects (for cost income ratio calculation €76 million) from value adjustments on HETA exposure (nominal: €395 million) in the first quarter of the financial year 2015.

4) Return on equity calculation is based on average monthly IFRS equity excluding revaluation reserve; shareholder's equity for return on equity calculation is calculated using ordinary shareholder's equity (i.e. reported shareholder's equity excluding €1.0 billion SoFFin Silent Participation, which has been repaid on July 6, 2015).

5) Return on equity before tax would amount to 21.6% based on pre-tax profit of €51 million plus adjustment for HETA provisions of €82 million (net income of €39 million plus adjustment for HETA €73 million) divided by average monthly IFRS equity for the first quarter of the financial year 2015 (€3,465 million) excluding the revaluation reserve (€149 million) adjusted by the SoFFin Silent Participation (minus €999 million).

6) Return on equity before tax (post tax) calculation based on pre-tax profit of €54 million plus adjustment for HETA provisions of €120 million (net income of €4 million plus adjustment for HETA €112 million) divided by average monthly IFRS equity for the year excluding the revaluation reserve (€3,451 million) adjusted by the SoFFin Silent Participation (minus €999 million).

7) Return on equity after tax would amount to 18.2% based on pre-tax profit of €51 million plus adjustment for HETA provisions of €82 million (net income of €39 million plus adjustment for HETA €73 million) divided by average monthly IFRS equity for the first quarter of the financial year 2015 (€3,465 million) excluding the revaluation reserve adjusted by the SoFFin Silent Participation (minus €999 million).

8) Figure has been adjusted in the Unaudited Interim Condensed Financial Statements as of and for the three-month period ended March 31, 2015 due to IAS 8.14 et seq. and is unaudited. Total assets in the Audited Consolidated Financial Statements for the financial year 2014: €75.5 billion (audited).

9) Figure for the financial year 2013 is adjusted due to retrospective first time adoption of IFRS 10 first time adoption and due to IAS 8.42. Figure for the financial year 2012 is adjusted due to the retrospective first time adoption of IAS 19 (revised). For further information, see "*11.2 Adoption of New and Revised Accounting Standards*".

10) Figure for the financial year 2012 is adjusted due to the retrospective initial application of IAS 19 (revised). Figure for the financial year 2013 is adjusted due to retrospective IFRS 10 first time adoption and due to IAS 8.42. For further information, see "*11.2 Adoption of New and Revised Accounting Standards*".

11) Figures for the financial years 2014 and 2013 and the three-month period ended March 31, 2015 are simulated Basel 3 figures (as implemented by CRR) consolidated in accordance with CRR. Figure for the financial year 2012 is consolidated in accordance with Section 10a of the German Banking Act (*KWG*).
12) The CET 1 ratio is calculated by dividing the CET 1 by the risk-weighted assets (RWA).
13) The regulatory capital ratios stated are calculated on a simulated basis. According to the 'Waiver Rule' under Article 7 CRR, pbb, being a subsidiary of HRE, is, as at the date of the Prospectus, exempted from calculating the CET 1 capital ratio and the other relevant regulatory capital ratios on a sub-group level.
14) Tier 1 capital of €2.2 billion fully loaded (excluding SoFFin Silent Participation of €1.0 billion which has been repaid on July 6, 2015) in percentage of RWA of €14.8 billion.
15) Tier 1 capital of €2.1 billion fully loaded (excluding SoFFin Silent Participation of €1.0 billion which has been repaid on July 6, 2015) in percentage of RWA of €15.5 billion.
16) Figure for the financial year 2012 is calculated on a non-fully loaded basis.
17) Figures for the financial years 2014 (unadjusted) and 2013 are shown after expiry of all Basel 3 transitional regulations (as implemented by CRR) (fully loaded). Figures for the financial year 2013 are consolidated in accordance with CRR (following the appropriation of net profit 2013) and adjusted due to IAS 8.42.
18) Own funds of €2.5 billion fully loaded (excluding SoFFin Silent Participation of €1.0 billion which has been repaid on July 6, 2015) in percentage of RWA of €14.8 billion.
19) Own funds of €2.4 billion fully loaded (excluding SoFFin Silent Participation of €1.0 billion which has been repaid on July 6, 2015) in percentage of RWA of €15.5 billion.
20) New business volumes have been determined in relation to the relevant period on the basis of commitments and include extensions with maturities of more than one year.
21) Tier 1 capital of €2.2 billion fully loaded (excluding SoFFin Silent Participation of €1.0 billion which has been repaid on July 6, 2015) in percentage of leverage exposure of €69.1 billion.
22) Tier 1 capital of €2.1 billion fully loaded (excluding SoFFin Silent Participation of €1.0 billion which has been repaid on July 6, 2015) in percentage of leverage exposure of €67.2 billion.
23) Tier 1 capital of €2.0 billion fully loaded (excluding SoFFin Silent Participation of €1.0 billion which has been repaid on July 6, 2015) in percentage of leverage exposure of €69.9 billion.

pbb Group pursues a conservative and integrated risk management approach tailored to its REF, PIF, VP and C&A segments. Since the financial crisis, and following a significant portfolio transfer to FMS-WM (see "*14.2.2.2 Transfer of Risk Positions to FMS-WM*"), pbb Group has considerably reduced its legacy assets. pbb Group (as part of the Entire HRE Group) successfully passed the latest asset quality review ("**AQR**") and stress tests of the European Central Bank (ECB) carried out on the level, and in consideration of (additional) capital positions, of HRE Holding and the Entire HRE Group.

As of March 31, 2015, pbb Group had 842 employees operating in ten locations in six countries (Germany, the United Kingdom, France, Spain, Sweden and Japan), the vast majority of which were located in Germany.

15.2 Competitive Strengths

pbb Group believes that its business is characterized by the following competitive strengths:

- A leading specialist in European REF and PIF with a stable and sustainable business model
- Strong European presence, local know-how and broad in-house expertise across the entire financing process
- Track-record of generating profitable new business
- Front-to-back integrated risk management and conservative underwriting framework leading to sustained strong asset quality
- Adequate liquidity buffers and stable, diversified funding base with the Pfandbrief as the major funding instrument

15.2.1 A leading specialist in European REF and PIF with a stable and sustainable business model

pbb Group pursues a profitable, stable and sustainable business model based on a two-segment strategy with its REF and PIF activities. The two business lines complement each other as they enable the efficient use of regulatory and economic capital (concerning CET 1 and leverage considerations). Combining REF and PIF leads to capital synergies as REF is constrained by Pillar 1 requirements while PIF is more affected by leverage and economic capital considerations. The two segment strategy also diversifies pbb Group's earnings with the potential to generate a steady stream of income and

strengthen pbb Group's resilience to business cycles. Furthermore, it enables pbb Group to benefit from economies of scale (in its Pfandbrief funding, IT and central functions) and economies of scope, with the public sector being a major user and provider of real estate (which creates asset overlaps, client commonality and access to public sector's real estate pools).

Measured by new business volume in 2013 and 2014 (based on commitments), pbb Group was among the most active REF and PIF lenders in Germany and Europe (according to its own assessment). pbb Group believes it is one of the few finance providers in Europe with experience in both REF and PIF, and a strong European origination platform with presence and expertise in European core and other strategic markets. pbb Group also benefits from established and reliable client relationships with major players and a proven track record in accessing the secondary market through syndication. As a result, pbb Group believes it is well-positioned to benefit from the expected growth of European REF and PIF volumes. For more information on the expected growth European REF and PIF volumes see *"13.3.1 Key Market Drivers and recent Industry Developments" and "13.4.1 Key Market Drivers and recent Industry Developments*".

15.2.2 Strong European presence, local know-how and broad in-house expertise across the entire financing process

pbb Group considers itself to be one of the few European finance providers with know-how, experience and client relationship in both REF and PIF areas. It sees its particular competitive strengths in its broad asset class coverage, structuring competency, project know-how and distribution capacity, leveraging its strong European origination platform with product and sectorial expertise in its strategic European markets.

With a significant "on-the-ground" presence through its nine offices across Europe with highly experienced and skilled teams, pbb Group has in-depth local expertise in its strategic markets where it operates its REF and PIF business. pbb Group's strong European presence, which (combined with strong client relationships) ensures a continuously high market penetration, is resourced with experienced in-house originators, underwriters and property analysts. This strong franchise enables pbb Group to cater to sophisticated investors across the entire financing process. The in-house expertise also means pbb Group can provide tailored solutions for complex, high-value and multi-jurisdictional transactions. Through well-defined and unified processes and standards, the early involvement of the risk functions and property analysis teams in new projects, pbb Group is able to provide clients timely responses and high deliverability.

15.2.3 Track-record of generating profitable new business thereby increasing overall group profitability

pbb Group has a track-record of generating profits in its REF and PIF business lines. Its average gross margins in new REF business were in a range of >225 basis points per year in 2012 and >200 basis points per year in 2014. Its new business in the PIF segment achieved average gross margins in a range of >140 and >75 basis points per year during the same period. The adjusted return on equity ("**RoE**") before taxes (based on average monthly IFRS equity excluding revaluation reserve, excluding the SoFFin Silent Participation) in pbb Group's REF business amounted to 55.8% in the first quarter of the financial year 2015, 20.0% in the financial year 2014 and 40.0% in the financial year 2013 (including one-off effects resulting from the sale of a restructured property). The adjusted RoE before taxes (based on average monthly IFRS equity excluding revaluation reserve, excluding the SoFFin Silent Participation) in pbb Group's PIF business was 13.7% in the first quarter of the financial year 2015 and 1.2% in the financial year 2014 (<0% in the financial year 2013). For more information regarding the adjustment of the RoE figures see "*10.4.2 Selected Other Financial Data by Segment*".

pbb Group's run-down of the VP is expected to have a positive impact on pbb Group's gross margins, subject to corresponding business opportunities. The VP has a relatively low gross margin (average in the financial year 2014: <10 basis points), which is likely to turn negative in the near future and is relatively RWA-consuming. The VP's run-down relieves capital, which can be used for the potential origination of assets in the higher-margin REF and PIF segments without requiring additional regulatory capital. pbb Group also aims to reduce downside risks of the VP in a value-conserving manner through selective sales, restructuring or early redemptions.

15.2.4 Front-to-back integrated risk management and conservative underwriting framework leading to sustained strong asset quality

Close client relationship, early senior management involvement in the entire underwriting process (including the ability to make swift business decisions) and diligent portfolio management provide pbb Group with an efficient risk management framework.

pbb Group has a highly selective underwriting process and framework based on a tight review of internal expected loss class ratings, collateral assessments, conservative LTV ratios of 64% in REF (average LTV for new REF commitments without extensions in the financial year 2014) and diversified assets (geographical spread and asset classes). pbb Group's Property Analysis and Valuation ("**PAV**") division is directly involved in the underwriting process, delivers guidance on property- related risk and manages the property valuation process. This approach has led to a strong asset quality. Based on internal rating models as of December 31, 2014, pbb Group assigned expected loss ("**EL**") classes of 1 to 8 to 90% of its REF portfolio, 99.99% of its PIF portfolio and 99% of its VP. According to its internal rating classes and based on the terminology of the rating agency Standard & Poor's, EL classes of 1 to 8 correspond to AAA+ to BBB- ratings and thus to an investment grade rating. In its REF portfolio, there were only 58 problem loans (counting only loans with a nominal amount in excess of €75,000) with an EaD of €827 million as of December 31, 2014, which translates into a problem loans ratio of 3.4% (1.8% excluding the two largest exposures). The selective underwriting process and asset analysis is supported by a "state-of-the-art" IT infrastructure introduced in 2013, which supports the analysis of existing exposures and the pricing of risk through in-house information sharing.

pbb Group (as part of the Entire HRE Group) has demonstrated its resilience and good asset quality in the ECB's AQR and stress tests in 2014 with capital ratios satisfying those required in 2016. The ECB's AQR and stress tests have been conducted on the level, and in consideration of (additional) capital positions, of HRE Holding and the Entire HRE Group and its results were published in October 2014.

15.2.5 Adequate liquidity buffers and stable, diversified funding base with the Pfandbrief as the major funding instrument

pbb Group maintains a conservative balance sheet with a diversified funding profile. The Pfandbrief, pbb Group's primary funding instrument, is a relatively inexpensive source of funding with low spreads. pbb Group has a well-established presence in the capital markets as the largest Pfandbrief issuer in Germany as of March 31, 2015 based on outstanding volume (€36 billion as of March 31, 2015) (source: VdP Information). The funding through Pfandbriefe is supplemented with senior unsecured securities, retail deposits, money market instruments as well as subordinated and hybrid capital instruments, among others.

As of March 31, 2015, pbb Group had liquidity buffers consisting of highly liquid assets with a liquidity coverage ratio (amount of liquidity buffers divided by the net liquidity outflows, i.e. amount of cash which could flow out under the CRR rules) ("**LCR**") of over 200% (over 150% considering the repayment of the SoFFin Silent Participation which would increase the amount of net liquidity outflows) and a net stable funding ratio (amount of the available stable funding divided by the amount of the required stable funding) ("**NSFR**") of over 100% (in both cases (LCR and NSFR), based on the currently applicable CRR rules; the delegated regulation on the liquidity coverage requirement as adopted by the European Commission on October 10, 2014 has been taken into account for the calculation of the LCR).

15.3 Strategy

The key strategic objectives for pbb Group are:

15.3.1 Specialist provider of structured finance for commercial real estate and public investments with a clear focus

pbb Group will continue to concentrate on professional national and international real estate investors as well as public and publicly-backed clients and PPPs. Its core products will remain Pfandbrief-eligible investment finance, low risk development finance and Export Credit Agency (ECA) guaranteed export finance with a ticket size of €10 million to €120 million. In select cases, the Company underwrites financings also with higher ticket sizes. In particular, syndication and club-deals will be used to arrange

larger deals. pbb Group will also continue to concentrate on financing office, retail/shopping, residential and logistics/warehousing assets with a conservative LTV in its REF business and on infrastructure, municipal facilities, health and elderly care, and utility assets in its PIF business.

15.3.2 Capitalize on strong foothold in its core and other strategic European markets, particularly Germany

pbb Group intends to remain focused on its core and other strategic European markets, in particular Germany, France, the United Kingdom, Central and Eastern Europe and the Nordic countries for REF, and Germany and France as well as Spain, the Nordic countries and the United Kingdom for PIF. pbb Group has recently established new offices in Berlin, Düsseldorf, Hamburg and Stockholm and hired further originators and underwriters in Germany, the United Kingdom and France. The sales offices also host dedicated local sales, credit, legal, market and property experts which are involved in the credit process from day one. This will enable pbb Group to leverage its origination capabilities and local market knowledge to effectively compete in its core markets. At the same time, pbb Group will carefully evaluate re-establishing a market presence outside of the markets where it operates at the date of the Prospectus.

15.3.3 Increase overall group profitability

pbb Group will continue to concentrate on the bottom-line and attractive profitable new business, instead of pursuing market share driven credit underwriting. It intends to increase the volume of screened new business opportunities to choose among the most profitable ones, albeit on the basis of its conservative underwriting framework. pbb Group does not pursue a market share driven policy. Its underwriting process will remain highly selective with a stringent review and asset analysis and a strict focus on profit hurdle rates.

pbb Group aims to use capital relieved from the run-down of the low-yielding VP (stock margin of <10 basis points in 2014) and invest it in higher-yielding new REF and PIF business, thereby improving the overall portfolio's gross margins. The financial volume of the VP has a contractual run-down (i.e. based on contractual maturities and scheduled repayments, with zero-coupon bonds being taken into account with their nominal value at maturity and without considering arrears) of 42% between 2014 and 2019 (including the Italian assets transferred to the VP effective January 1, 2015) which translates into a reduction in the VP's RWA consumption by 56% (including the Italian assets). pbb Group will explore possibilities to accelerate the VP run-down before contractual asset maturities, subject to the effect such an accelerated run-down could have on the pbb Group as a whole, in particular with regards to the impact on funding, capital and profit and loss.

pbb Group intends to further improve its profitability by optimizing its sales productivity and improving its cost income ratio ("**CIR**") after the successful completion of its operational restructuring, targeting a mid-term CIR of <45% (from 57% for the financial year 2014, adjusted for €120 million effects from value adjustments on HETA exposure). To this end, pbb Group will also leverage its modern banking platform which is based on a "state-of-the-art" IT infrastructure with no legacies. The banking platform can be scaled – as required and without material cost increases – for additional business volumes across geographies, further clients and products. Further cost savings potential of €30 million have been identified for 2015 due to the termination of certain servicing obligations and the optimization of the IT outsourcing agreement.

As a result, pbb Group is targeting high single-digit post-tax RoEs on a group level in the medium term.

15.3.4 Maintain diversified refinancing strategy centered on the Pfandbrief and well-matched ALM profile

By offering high security to creditors, the Pfandbrief attracts a liquid investor base providing favorable refinancing conditions to pbb Group, the Pfandbrief will remain pbb Group's instrument of choice for the majority of its funding needs, including benchmark issues and private placements. In addition, senior unsecured securities, retail deposits, money market instruments as well as subordinated and hybrid capital instruments, among others, will be used to complement the Pfandbrief. pbb Group aims to maintain its funding flexibility and diversification with a retail deposit base focusing on term deposits. pbb Group aims to leverage its position as established capital markets issuer with the objective to preserve a stable and diversified funding base.

When raising funds, pbb Group pursues a well matched asset liability management ("**ALM**") profile. As of March 31, 2015, it holds liquidity buffers sufficient to cover expected gaps in its ALM profile with an LCR of over 200% (over 150% excluding SoFFin Silent Participation) and an NSFR of over 100% (in both cases, based on the currently applicable CRR rules; the delegated regulation on the liquidity coverage requirement as adopted by the European Commission on October 10, 2014 has been taken into account for the calculation of the LCR).

15.3.5 Aim for sustainable regular dividend payments

pbb Group aims to leverage its strong earnings generation, adequate capitalization well above regulatory requirements and reserves distributable pursuant to German GAAP as a basis for steady and constant dividend payments as capital position, returns, reserves and regulatory requirements permit. Subject to regulatory changes and restrictions, pbb Group is targeting a mid-term CET 1 ratio (fully loaded) of more than 12.5%, a Tier 1 capital ratio (fully loaded) of more than 16%, a total capital ratio (fully loaded) of between 16 and 18%, and a leverage ratio (fully loaded) of more than 3.5% to support these dividend payments. pbb Group intends to supplement the regular dividends with special dividends when excess capital (e.g. from the run-down of the VP) cannot be attractively deployed.

Following the re-privatization, the corresponding restrictions under the EU State Aid Decision preventing pbb Group from paying dividends will cease to apply.

15.4 Business Segments; Products and Services

15.4.1 Introduction

pbb Group's strategic business segments are REF and PIF. It also has a VP and a C&A segment.

15.4.2 REF

15.4.2.1 Introduction

As of March 31, 2015, pbb Group's REF business accounted for €25.6 billion of its outstanding portfolio (in terms of EaD). In comparison, on an EaD basis, its REF portfolio amounted to €24.3 billion as of December 31, 2014 and to €22.2 billion as of December 31, 2013.

As of March 31, 2015, the most important markets in terms of EaD were Germany (50% of its outstanding REF portfolio (December 31, 2014: 51%)), the United Kingdom (19% (December 31, 2014: 17%)) and France (10% (December 31, 2014: 11%)). pbb Group's remaining REF exposures relate to other strategic European markets, i.e. countries in Central and Eastern Europe (in particular Poland but also the Czech Republic, Slovakia and Hungary) (9% (December 31, 2014: 10%)), the Nordic countries (in particular Sweden) (7% (December 31, 2014: 6%)) and other selected European countries (5% (December 31, 2014: 5%)). pbb Group will carefully evaluate re-establishing a market presence outside of the markets where it operates at the date of the Prospectus.

In the first quarter of 2015, pbb Group's REF activities generated an adjusted RoE before taxes (excluding the SoFFin Silent Participation) of 55.8%, in the financial year 2014 of 20.0% and in the financial year 2013 of 40.0% (for more information regarding the adjustment of the RoE figures see "*10.4.2 Selected Other Financial Data by Segment*") and a business volume of €9.0 billion (commitments, including €2.1 billion of extensions with maturities of more than one year) in the financial year 2014, which accounted for more than 88% of pbb Group's new business. REF is expected to continue to be essential for pbb Group's future performance.

15.4.2.2 Types of Financing Offered; Main Products

In its REF segment, pbb Group offers its clients investment finance and development finance products. pbb Group focuses on investment loans for real estate properties in core locations based on standard risk parameters and maturities of up to ten years, representing, as of March 31, 2015, 90% of its REF loan portfolio in terms of EaD (December 31, 2014: 89%). 7% of the REF loan portfolio (December 31, 2014: 8%) consist of development loans while 2% are customer derivatives (December 31, 2014: 2%) and other products (1%) (December 31, 2014: 1%).

The size of the financing granted typically varies between €10 million and 120 million (final hold, i.e. the tranche of the loan pbb Group holds on its own books), and in select cases also with higher transaction sizes, with an average ticket size for new business of about €56 million in the financial year 2014 (2013: €53 million; 2012: €62 million). The underwriting of higher volumes depends on the particular circumstances of the transaction (including syndication opportunities) and is assessed on a case-by-case basis. The average term of financing granted in the financial year 2014 was approximately 5.1 years (2013: approximately 4.4 years; 2012: approximately 4.5 years). The average term of financing granted in the first quarter of 2015 was approximately 5.6 years. pbb Group also selectively offers short- to medium-term loans (stretched senior loans, bridge facilities).

REF loans are generally secured by land charges or mortgages (including similar non-German law concepts) over the financed properties. The majority of the loans generate a steady cash-flow and are in compliance with the German Pfandbrief Act (for further information on the requirements of the Pfandbrief Act, see "*18.2.4 The German Pfandbrief Act*").

pbb Group offers investment loans in all REF markets where it is active, with a focus on the core locations of Germany, France and the United Kingdom. A variety of properties are financed using investment loans, ranging from offices to hotels, with maturities of up to ten years (longer maturities are possible).

Property developments are financed in selected markets only (e.g. residential condominium developments are limited to the top 7 cities in Germany with more than 50% of such existing transactions concentrated in Munich). Property developments of a more speculative nature, i.e. developments with no or only small pre-letting or pre-sale in place, are only financed within defined limits and subject to risk mitigating covenants reducing the credit risk and allowing for sufficient transparency and control over the projects. In pbb Group's new business, the share of development finance of the REF portfolio in the financial year 2014 was slightly higher than in the total portfolio reflecting shorter maturities of 2-3 years; however, the share of development loans is tightly monitored. In development financing, the financing is typically made available from the construction phase (i.e. including construction and ancillary costs).

To manage its balance sheet and to support large ticket origination, pbb Group also underwrites loans with the view of selling portions in a syndication and distribution process, leveraging its strong loan partner network across all types of loan investors (including junior, mezzanine and private equity partners). With its teams in Munich (Unterschleißheim), Frankfurt am Main (Eschborn), Paris and London, it arranges and implements large loans and structured finance solutions, including 'club deals' (i.e. financing with a limited number of lenders), where it is responsible for the coordination between the syndicate and the borrower. pbb Group underwrites, executes and manages (pipelines of) loan sales and acquisition measures across all lending platforms and business areas. It also acts as an agent and performs tasks relating to the administration and management of syndicated or structured facilities from closing to repayment, even in cases where pbb Group does not provide financing itself. These activities generate income through fees. pbb Group has many years of experience in the syndication of loans. Consequently, it is able to offer complete solutions including the arranging, structuring and underwriting of large volume financing. pbb Group is involved in complex, sophisticated financing structures offering added value to clients through structuring and tailoring the financings to the needs of the clients. Furthermore, pbb Group may resume to structure assets or asset pools with a view to sell securitization transactions and/or to place bonds via investment banks to investors with appetite in investing indirectly in loans.

pbb Group derives additional income from selling derivatives to its borrowers, enabling them to hedge interest rate and currency exchange rate risks. Derivatives are only sold in conjunction with pbb Group's lending activities and not on a standalone basis.

15.4.2.3 Real Estate Asset Classes

pbb Group finances a variety of real estate asset classes which it considers to have low volatility. These include offices, retail/shopping, residential, logistics/warehousing and hotel assets and mixed use/other, located in its core and other strategic markets: Germany, United Kingdom and France, Central and Eastern Europe (Poland, the Czech Republic, Slovakia and Hungary) ("**CEE**") as well as Nordic countries (particularly Sweden) and other selected European countries (e.g. Spain, Austria, Switzerland and Benelux).

The following table illustrates the most frequently financed asset classes:

Asset type	Split as of March 31, 2015	Split as of December 31, 2014	Countries (EaD, Basel 3, December 31, 2014, € billion) GER	UK	FRA	CEE	Scandi-navia	Rest of Europe
Office	28%	30%	2.9	1.1	1.6	0.6	0.7	0.3
Retail/shopping	28%	28%	2.5	2.0	0.3	0.9	0.3	0.7
Residential	19%	19%	4.3	<0.1	<0.1		0.3	<0.1
Logistics/warehousing	9%	9%	0.9	0.5	0.1	0.5	0.2	<0.1
Hotel	3%	3%	0.4	0.3				<0.1
Mixed use / other	12%	11%	1.5	0.2	0.7	0.3	<0.1	<0.1
Total portfolio	**100%**	**100%**	**12.5**	**4.2**	**2.7**	**2.3**	**1.5**	**1.1**

15.4.2.4 Clients

pbb Group's REF activities focus exclusively on professional national and international investors such as real estate companies, institutional investors, real estate funds, medium-sized enterprises, real estate developers, high net worth individuals and family offices. Dedicated sales teams serve this highly diversified client base with pbb Group acting as multi-jurisdictional counterpart leveraging its country-specific in house expertise.

The following table illustrates the client base of pbb Group in its REF business:

Client type	Primary focus Germany	International
Domestic and international real estate corporates	☑☑	☑☑
Real estate PE funds	☑☑	☑☑
Real estate long term investors	☑☑	☑☑
Real estate developers	☑☑	☑
High net worth individuals	☑☑	☑

15.4.2.5 Margins

There is substantial variation in REF margins across Europe, reflecting the dynamics of each market. The average gross margin for the new REF business was >170 basis points per quarter in the first quarter of the financial year 2015 and >200 basis points per year in the financial year 2014 (2013: >225 basis points; 2012: >225 basis points). pbb Group expects increasing pressure on its REF margins.

15.4.2.6 New Business

In the first quarter of the financial year 2015, pbb Group's new REF business amounted to €2.7 billion (commitments, including €0.7 billion of extensions with maturities of more than one year) spread over 33 deals with an average maturity of approximately 5.6 years, gross margin of >170 basis points per quarter (including fees) and a LTV of 61% based on commitments (without extensions).

pbb Group's new REF business in the financial year 2014 amounted to €9.0 billion (commitments, including €2.1 billion of extensions with maturities of more than one year) spread over 161 deals. In comparison, new REF business in the financial year 2013 amounted to €7.0 billion (commitments, including €1.7 billion of extensions with maturities of more than one year) spread over 131 deals, in the financial year 2012, new REF business amounted to €4.9 billion (commitments, including €2.0 billion of extensions with maturities of more than one year) spread over 79 deals. The average ticket size for new business was €56 million in the financial year 2014 (2013: €53 million; 2012: €62 million) with an average LTV based on commitments (without extensions) in the financial year 2014 of 64% (2013: 61%; 2012: 56%).

For an overview of the total new REF business since the beginning of 2013, see "*15.4.4.1 Overview of new REF and PIF business*".

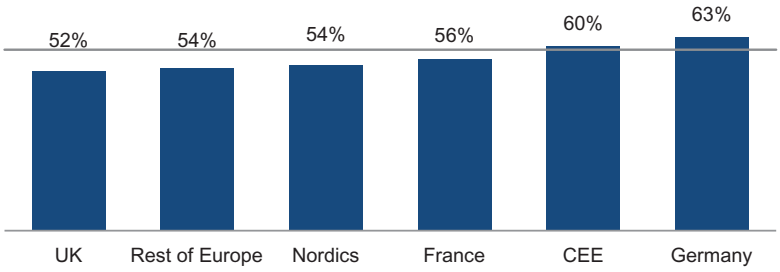
In the first quarter of 2015, the new REF business was written in Germany (46%), the Nordic countries (19%), the United Kingdom (14%), Spain (10%), Central and Eastern Europe (5%), the Netherlands (5%) and France (2%). In the financial year 2014, 46% of pbb Group's new REF business was generated in Germany (2013: 53%; 2012: 32%) with other important markets being France (about 19%; 2013: 9%; 2012: 15%) and the United Kingdom (about 15%; 2013: 17%; 2012: 17%). These

three countries accounted for about 80% of pbb Group's new REF business in 2014 (2013: 78%; 2012: 64%). The remaining new business in the financial year 2014 was written in Central and Eastern Europe (8%; 2013: 14%; 2012: 12%), the Nordic Countries (7%; 2013: 6%; 2012: 20%) and other (5%; 2013: 2%; 2012: 4%).

15.4.2.7 Portfolio

pbb Group's REF portfolio is characterized by a high asset quality. Based on internal rating models as of March 31, 2015, pbb Group assigned an EL class of 1 to 5 to 69% of its REF portfolio and an EL class of 6 to 8 to 23% of its REF portfolio. According to pbb Group's internal rating classes and based on the terminology of the rating agency Standard & Poor's, EL classes of 1 to 8 correspond to AAA+ to BBB- ratings and thus to an investment grade rating. The remaining 8% of the REF portfolio are assigned an EL class of 9 to 11 (5%), 12 to 14 (<1%) and 15 to 18 (3%). According to pbb Group's internal rating classes and based on the terminology of the rating agency Standard & Poor's, EL classes of 9 to 11 correspond to BB+ to BB-, EL classes of 12 to 14 correspond to B+ to B- and EL classes of 15 to 18 correspond to CCC+ and below, and thus to a non-investment grade rating.

The average LTV based on commitments (without extensions), excluding additional collateral and only considering performing loans, was 59% as of December 31, 2014 (December 31, 2013: 60%; December 31, 2012: 61%). The average LTV by region as of December 31, 2014, is as follows:



93% of the REF portfolio has a layered LTV (i.e. synthetically tranched LTV in 5% bucket steps) of up to 65% (loans with an LTV of >65% are included in the "up to 65%" LTV bucket to the extent that the outstanding amount of the loan would result in a 65% LTV, while the part of the outstanding amount of the loan resulting in an LTV of >65% is included in the respective other LTV buckets).

The following table gives an overview of the top 20 REF loans (measured by EaD as of December 31, 2014):

Top REF	Main country of Risk	Number of properties	Weighted Ø EL class[1)]	Weighted Ø LTV	Type of use	EaD (in € million)	EaD (in % of total)
1	Germany	300	7	62%	Industrial/logistic	340	1.4%
2	Sweden	63	5	55%	Office	279	1.2%
3	Switzerland	53	3	71%	Retail	265	1.1%
4	Germany	1	5	82%	Office	226	0.9%
5	Germany	52	5	78%	Residential	223	0.9%
6	Germany	2	2	49%	Retail	214	0.9%
7	Hungary	1	8	42%	Mixed use	214	0.9%
8	Germany	31	6	85%	Retail	202	0.8%
9	France	1	3	52%	Office	188	0.8%
10	Germany	10	1	62%	Office	186	0.8%
11	Poland	21	9	77%	Industrial/logistic	169	0.7%
12	France	1	2	50%	Office	166	0.7%
13[2)]	Germany	1	1	48%	Developer	164	0.7%
14[3)]	France[3)]	1	2	59%	Office	161	0.7%
15	Germany	33	6	77%	Office	157	0.6%
16	Sweden	20	3	53%	Residential	150	0.6%
17	Poland	28	6	61%	Retail	149	0.6%
18	Germany	35	1	62%	Office	148	0.6%
19	Sweden	1	7	71%	Office	148	0.6%
20	Germany	70	7	90%	Retail	142	0.6%
	Total Top 20					**3.899**	**16.0%**

1) According to internal ratings and based on the terminology of the rating agency Standard & Poor's: EL classes 1-5 would correspond to AAA+ to A-; 6-8 would correspond to BBB+ to BBB-; 9-11 would correspond to BB+ to BB-; 12-14 would correspond to B+ to B-; 15-18 would correspond to CCC+ and below.

2) Development loan.
3) Exposure fully repaid in 2015

The top 20 loans by EaD as of December 31, 2014, include 13 property portfolio transactions; seven of them represent single property transactions which relate to quality landmark buildings with an established tenant structure. Furthermore, the top 20 REF loans shown above are predominantly transactions with a diversified tenant structure, i.e. the performance of the respective loans for those transactions should by and large not depend on a single tenant's financial standing. This adds a risk diversification element reducing the concentration risk in respect of the Company's exposure for the top 20 REF loans. The average LTV on such transactions equals 58.9%. Typically, these financings enjoy an institutional or professional sponsor background with a sound financial basis and a long term industry experience, in particular in relation to the asset management. The involved sponsors often have broad access to means of financings beyond traditional bank financing. This type of investor runs a more conservative financial structure which creates an increased comfort to pbb Group. These clients enjoy high senior management attention. The senior management of pbb Group is regularly involved in high level client meetings. Overall, in these transactions, pbb Group is in a senior lender position combined with a first ranking collateral position. A substantial part of these loans is extended through syndicated financing.

The following table gives an overview of the top 10 REF problem loans (measured by EaD as of December 31, 2014):

Top REF	Country	PD class Basel 3 property class[1]	Status	EaD (in € million)	EaD net of provision (in € million)	Weighted Ø EL class[2]	Payment of interest
1	UK	29 Retail	Restructuring	316	273	18	Yes
2[3]	Nordics	28 Office	Restructuring	133	133	16	Yes
3	Germany	28 Office	Restructuring	76	76	15	Yes
4	Hungary	29 Office	Restructuring	62	59	18	Yes
5	Spain	29 Retail	Restructuring	38	28	18	Yes
6	Spain	29 Retail	Restructuring	30	29	18	No
7	Germany	28 Office	Restructuring	26	26	13	Yes
8	Germany	28 Retail	Restructuring	22	22	17	Yes
9	Germany	29 Retail	Restructuring	17	12	16	Yes
10	Germany	29 Retail	Restructuring	14	10	17	No
	Sum			734	668		
	Total REF problem loans (EaD)			827			

1) PD (probability of default) class 28 and 29: non-performing loans where the restructuring strategy should be carried out. PD class 30: impairment and foreclosure measures, default according to CRR Art. 178.
2) According to internal ratings and based on the terminology of the rating agency Standard & Poor's: EL (expected loss) classes classes 1-5 would correspond to AAA+ to A-; 6-8 would correspond to BBB+ to BBB-; 9-11 would correspond to BB+ to BB-; 12-14 would correspond to B+ to B-; 15-18 would correspond to CCC+ and below.
3) Restructuring has been completed at the end of the financial year 2014 and final exit took place in the first quarter of 2015.

The REF problem loan portfolio consists of 58 loans (counting only loans with a nominal amount in excess of €75,000) with an EaD of €827 million as of December 31, 2014:

Country of Risk	PD in %	EaD (in € million)
United Kingdom	100	328
Germany	100	213
Spain	100	81
Hungary	100	62
Sweden	100	59
Denmark	100	37
Finland	100	34
Netherlands	100	11
Norway	100	2
Total		827

Problem loans as of December 31,	2012	2013	2014
Workout (in € million)[1]	11	6	9
Restructuring (in € million)[2]	1076	933	818
Total	1087	939	827

1) No signs that the deal will recover soon, compulsory measures necessary.
2) Payments more than 90 days overdue or criteria according to respective policy apply.

Based on a total REF portfolio of €24.3 billion as of December 31, 2014 (measured in EaD), the REF problem loans ratio was at 3.4% (2013: 4.2%; 2012: 4.6%); the adjusted problem loans ratio excluding the two largest exposures was at 1.8%. The problem loans ratio of pbb Group's total portfolio was at 1.8% as of December 31, 2014 (excluding the HETA exposure: 1.3%) (2013: 1.4%; 2012: 1.4%). The largest loan with €316 million was originated prior to the financial crisis. Deliberately, this loan was not transferred to FMS-WM due to sufficient cover and its link to a securitization transaction of pbb. The second largest loan has been successfully restructured and returned to performing status as per the end of the first quarter of 2015.

The ECB asset quality review (AQR) broadly confirmed pbb Group's risk management approach. No performing loan was reclassified to non-performing, four non-performing loans where seen as performing. With respect to the single loan loss provision, AQR in general arrived at a correction of pbb Group's asset value of 0.05% of overall assets and therefore confirmed pbb Group's risk management and provisioning approach.

15.4.2.8 Origination platform

In Germany, pbb Group has an effective depth and reach through the decentralized organization of its business processes. With five regional offices (of which three were recently established in Hamburg, Düsseldorf and Berlin) and a corresponding number of local teams, pbb Group is able to foster local expertise. pbb Group has also established centers of local expertise in key European locations with strategic importance, staffed, *inter alia*, with experienced originators, underwriters and property analysts. This network coupled with its local knowledge enables pbb Group to cater to sophisticated investors. pbb Group is in a position to provide tailored funding structures and to undertake complex multi-jurisdictional transactions. In countries where pbb Group does not have a local presence, particularly in relation to CEE, it has central origination and risk teams with in-depth local knowledge and experience.

pbb Group intends to further expand its origination business by continuing to hire originators and underwriters in the future. Furthermore, pbb Group intends to leverage its growing origination capabilities by using a more proactive sales approach and enhancing sales productivity. Once the constraints on entering new markets fall away post-privatization, pbb Group will carefully evaluate re-establishing presences of the markets where it operates at the date of the Prospectus.

pbb Group's operating model follows a "Hub and Spoke" principle with central corporate functions and de-centralized sales functions (including market, property, credit and legal experts) in its core and other strategic markets. This model gives pbb Group the option to efficiently add new markets to its organizational structure in the future. The hubs in Munich (Unterschleißheim) and Frankfurt am Main (Eschborn) provide support functions and guidelines (e.g. relating to governance) to the regional markets. Large parts of the central functions are located in Munich (Unterschleißheim), whereas the treasury function is located in Frankfurt am Main (Eschborn). The sales operations follow a regional structure comprising origination teams in Germany, the United Kingdom, France, Sweden and Spain. pbb Group has five sales locations in the German market (Berlin, Hamburg and Düsseldorf in addition to Munich (Unterschleißheim) and Frankfurt am Main (Eschborn)). The regional sales teams (including market, property, credit and legal experts) are supported by the central sales support functions such as loan markets (syndication), agency desk, business management and corporate development/economic analysis. Recent hires in Germany, the United Kingdom and France, together with recently established offices in Berlin, Düsseldorf, Hamburg and Stockholm are expected to support the origination efforts. pbb Group has also maintained a presence in Tokyo with a full operational structure.

15.4.2.9 Lending Process

Although the REF market is displaying an increasing appetite for riskier lending (see also "*13.3.1 Key Market Drivers and recent Industry Developments*"), pbb Group remains focused on applying a conservative approach to new business. New lending opportunities are carefully analyzed, taking into account the quality of the assets serving as security and the business plans of the potential borrower. Of the volume of REF lending opportunities presented to pbb Group, the originators select a fraction for discussion in pbb Group's New Deal Committee. The committee screens potential transactions prior to the beginning of the full underwriting process, selecting only those with the most beneficial remuneration and risk profile. This ensures that pbb Group's risk parameters are applied early in the credit decision making process and an efficient use of in-house capacity. In the financial year 2014, opportunities amounting to approximately €48 billion were discussed in the committee of which it

approved €15 billion; €7.6 billion actually received credit approval, leading to an underwriting of €6.9 billion (commitments, excluding extensions). pbb Group intends to increase the volume of screened new business opportunities to choose among the most profitable ones while, at the same time, maintaining its strict focus on profit hurdle rates. The average LTV ratio in pbb Group's REF business in the financial year 2014 amounted to 64% for new business and 59% for the REF portfolio overall (as of December 31, 2014).

This conservative underwriting process is accompanied by pbb Group's PAV division, an independent in-house expertise team with long term experience and local presence in pbb Group's core markets, which is responsible for the analysis and uniform valuation of pbb Group's real estate collateral. The PAV division is directly involved in the deal teams, which are appointed after a positive New Deal Committee decision to arrange the underwriting and closing of a transaction, delivering guidance on property-related risk. It also manages the entire property valuation process and is responsible for the management and quality assurance of the annual property monitoring process for pbb Group's existing business. The PAV division also is responsible for ensuring that all valuation systems and processes are compliant with the requirements of MaRisk, CRR, the German Pfandbrief Act and other relevant regulations. In situations of distress, it assumes an advisory role in relation to the management of the asset. A special international team within PAV is responsible for monitoring projects and advising on building developments. Bank-wide expert teams are responsible for providing advice for special property types.

All analysts in the PAV team are property analysts either holding a certification from "HypZert", a leading German organization for valuers working in real estate valuation and analysis in the financial industry, or are members of the Royal Institute for Chartered Surveyors (United Kingdom). The PAV division is independent from all other divisions involved in financing (e.g. sales), and reports directly to the CRO. It advises in property market-related strategic matters, including the delivery of property market data as a basis for decisions. It is also responsible for the implementation of the international analysis and management system and for its integration within the bank. The main property data used for banking purposes is taken from this platform.

For more information on pbb Group's risk management see "*16 Risk Management*".

15.4.3 PIF

15.4.3.1 Introduction

As of March 31, 2015, pbb Group's PIF business accounted for €7.9 billion of its outstanding portfolio (based on EaD). In comparison, its PIF portfolio as of December 31, 2014 amounted to €7.8 billion and to €6.8 billion as of December 31, 2013 (excluding the Italian portfolio which was transferred to the Value Portfolio effective as of January 1, 2015).

pbb Group focuses its PIF activities on projects in countries with a working and improving infrastructure. As of March 31, 2015, the most important geographic regions in terms of EaD are Germany (33% of its outstanding PIF portfolio (December 31, 2014: 33%)), France (29% (December 31, 2014: 28%)) and Spain (26% (December 31, 2014: 27%)). pbb Group's other significant PIF exposure relates to the Benelux countries (4% (December 31, 2014: 4%)), Austria (4% (December 31, 2014: 4%)), the Nordic countries (3% (December 31, 2014: 3%)) and other (1% (December 31, 2014: 2%)).

In the first quarter of 2015, pbb Group's PIF activities generated an RoE before taxes of 9.7% (as retrospectively adjusted for the reallocation of the Italian assets on January 1, 2015 and excluding the SoFFin Silent Participation) and a new business volume of €0.2 billion (commitments). In the financial year 2014, pbb Group's PIF activities generated an RoE before taxes of 1.2% (as retrospectively adjusted for the reallocation of the Italian assets on January 1, 2015 and excluding the SoFFin Silent Participation) and a new business volume of €1.2 billion (commitments, including extensions with maturities of more than one year), which accounted for 12% of its total new business. The average loan size for new business in 2014 was about €28 million. The financing offered in the PIF segment is generally up to 15 years with an average maturity of approximately 6.7 years (as of December 31, 2014).

15.4.3.2 Types of Financing Offered; Main Products and Services

pbb Group's PIF business focuses on investment finance for the public sector (including PPPs), with a public sector entity as counterparty or guarantor, and on ECA guaranteed export finance transactions.

The PIF activities include lending against cashflow-based projects, i.e. projects that are expected to generate sufficient cash-flows to (also) satisfy financing liabilities. General public budget deficit financing is not part of this segment nor of pbb Group's new business in general.

The following chart provides an overview of the core products in the PIF business:

Product type	Strategic focus
Investment loans	• Pfandbrief-eligible loans for municipal investments (e.g. French metropolitan areas) • Focusing on municipal investment in France and on municipal real estate / utility providers in Germany • Launching business in the UK and rebuilding it in Spain
ECA	• Structured financing for airplanes and other export products • Highly-rated guarantees • Strengthening the specialist team and bundling staff in one organizational unit • Extending loans to non-aviation ECA markets (buyers' credit)
PPP	• Project financing for PPPs (e.g. hospitals) in co-operation with institutional investors and provision of associated advisory services • Upside potential to increase PPP since EU restriction to focus only on Pfandbrief eligible business will fall away • Typically higher margins and longer maturities

Investment loans are pbb Group's core PIF products, accounting for the major part of its new PIF business in the financial year 2014. It focuses on (Pfandbrief-eligible) investment loans for municipal investments (e.g. in France and Germany) and for municipal real estate or utility providers (e.g. in Germany), that are eligible for the cover pool underlying its Pfandbriefe. Most of the PIF investment loans are backed by direct or indirect guarantees from a sovereign or sub-sovereign entity.

ECA guaranteed financings with a focus on financing for airplanes and, in the future, other export products such as major technical components for power plants, are also important PIF products. The business benefits from highly-rated guarantees ('AAA'), and pbb Group intends to strengthen the specialist team, bundle staff in one organizational unit and extend lending to non-aviation ECA markets.

Project financing for PPPs (e.g. hospitals) and the provision of associated advisory services is offered in co-operation with institutional investors and generally characterized by higher margins and longer maturities. While project financing for PPPs played only an insignificant role for pbb Group's new PIF business in the financial year 2014, pbb Group sees a potential upside to increase its PPP-related activities after the EU restrictions under the EU State Aid Decision post privatization cease to apply.

In addition to the funding solutions mentioned above, pbb Group also offers customers advisory services and derivative products for (interest rate) risk-hedging. pbb Group also provides larger financing solutions as part of syndicate and "club deal" financing.

15.4.3.3 Public Investment Asset Classes

pbb Group finances a variety of public sector projects including:

- public sector facilities (administrative and special purpose facilities, educational and cultural establishments, and sport facilities);
- municipal and residential construction (council housing, student housing);
- utilities (energy, water, waste, recycling and environment);
- essential infrastructure (networks and buildings for streets, waterways, railways and air traffic, appliances and fleets in regional and long-distance traffic as well as facilities for intelligence and defense); and
- health & age (hospitals, medical and geriatric care facilities as well as administration and insurance facilities).

pbb Group focuses on Pfandbrief-eligible business in the PIF segment with direct recourse to public sector entities or entities benefitting from public sector support. The financing in the PIF segment is always related to specific assets and are often amortized fully during the loan term. pbb Group concentrates on projects in countries with an established, functioning and improving infrastructure in which the lending business can be funded by the issuance of Pfandbriefe (in particular Germany and France but also in the United Kingdom, selected Nordic countries (in particular Sweden) and Spain). Municipal facilities and infrastructure represent a key asset class of pbb Group's PIF business. pbb Group is one of the few providers of PIF services at sub-sovereign level with a strong European origination platform.

15.4.3.4 Clients

As of March 31, 2015 and measured on the basis of EaD and excluding the Italian assets (transferred to the VP effective as of January 1, 2015), pbb Group's borrowers in its PIF business consisted of the following:

- regional governments (44%) and related entities (14%)
- (Pfandbrief-eligible) public sector entities (e.g. hospitals) undertaking public investment activities (14%)
- sovereigns (7%) and sovereign-related entities (16%)
- corporate clients acting in PPPs, i.e. partnerships between public authorities and the private sector aimed at the funding, design, construction, renovation, management and maintenance of infrastructure associated with the provision of a public service (e.g. public schools and hospitals, etc.) (5%)
- supranationals (<1%).

15.4.3.5 New Business

pbb Group's new PIF business in the first quarter of the financial year 2015 amounted to €0.2 billion (first quarter of the financial year 2014: €0.3 billion) (commitments) spread over 7 deals, an average maturity of 8.0 years and an average gross margin of >100 basis points per year. In the financial year 2014, it amounted to €1.2 billion (commitments, including extensions with maturities of more than one year) (2013: €1.2 billion; 2012: €0.7 billion) spread over 42 deals (2013: 34; 2012: 42) with an average loan size of €28 million (2013: €36 million; 2012: €16 million), an average maturity of 6.7 years (2013: 8.1 years; 2012: 7.0 years) and an average gross margin of >75 basis points per year (2013: >100 basis points; 2012: >140 basis points).

In the first quarter of 2015, 95% of the new PIF business was written in France and 5% in Germany. In the financial year 2014, 87% of pbb Group's PIF new business was generated in Germany and France with 43% (€0.5 billion) and 44% (€0.5 billion) respectively, followed by the Nordic countries (7%) (€0.1 billion), Spain (4%) and the United Kingdom (1%). The regional focus was analogous in the financial year 2013, with Germany accounting for €0.5 billion of the new PIF business volume of €1.2 billion (2012: €0.1 billion), France for €0.6 billion (2012: €0.5 billion) and the Nordic countries for €0.1 billion (2012: €0).

For an overview of the total new PIF business since the beginning of 2013, see "*15.4.4.1 Overview of new REF and PIF business*".

The majority of pbb Group's new exposure is sourced through its own franchise base. Consequently, pbb Group is strengthening its operating capability which enables it to increasingly act as a syndicate/ club deal leader.

15.4.3.6 Margins

In the first quarter of 2015, pbb Group's new PIF business generated an average gross margin of >100 basis points per year, while in 2014 it was >75 basis points per year (2013: >100 basis points; 2012: >140 basis points). Since the PIF business is generally seen to have a lower risk profile, the average margins are smaller than in the REF business. The majority of the existing PIF portfolio is therefore low-margin. With a view to re-adjust its focus on profitability, pbb Group is now pursuing a strict selection process based on profit hurdle rates, and ceased to write new low-margin business. In line with this re-adjusted focus, pbb Group applies a "new deal pricing" approach by which it calculates

the economic profit as well as the return on economic capital. In any event, based on the expected profit on a full cost basis and the expected profitability compared to other deals and to pbb Group's cost of capital, a deal is being priced in line with strict MaRisk requirements.

The run-down of the current PIF loan book is expected to create sufficient leeway and underpins the focus on higher profitability in the future. By contractual maturities and scheduled repayments (with zero-coupon bonds being taken into account with their nominal value at maturity and without considering arrears), the loan book is expected to decrease from €6.7 billion as of December 31, 2014 (without considering the Italian portfolio that has been transferred to VP as of January 1, 2015) to €4.6 billion by 2017 and €3.4 billion by 2019.

PIF offers a complement to the REF segment (for further information, see "*15.4.4.2 Effects of combining REF and PIF businesses*"). In the financial years 2012 to 2014, the new PIF business generated gross margins in a range of >75 and >140 basis points per year on average. In the first quarter of the financial year 2015, the average margin of the new PIF business was >100 basis points. In the financial year 2014, the average gross margin amounted to >75 basis points per year, achieved through a different country and product mix (a significant relative increase in new French PIF business) and an increasing distribution of assets to institutional investors (2013: >100 basis points).

pbb Group generated the highest new business volume in aviation (USD-based ECA business), which is part of the infrastructure division. Since the financial year 2013, pbb Group's new PIF business mix has changed: ECA has seen an increased share in the total of pbb Group's PIF business, and so did its PIF business originating from Germany. However, the PIF business originating from Germany (including ECA guaranteed export finance) is subject to lower risk and lower margins. This, in combination with changed market environment (especially in France and Spain), explains to a certain extent the drop in the average gross margins in the financial year 2014 as compared to the previous financial years.

15.4.3.7 Portfolio

In terms of EaD, 76% of the portfolio related to loans, 24% to bonds and less than 1% to derivatives (as of December 31, 2014).

The PIF portfolio is characterized by a high asset quality. Based on internal rating models as of March 31, 2015, pbb Group assigned EL classes of 1 to 5 to 96% of its PIF Portfolio and EL classes of 6 to 8 to 4% of its PIF Portfolio. According to pbb Group's internal rating classes and based on the terminology of the rating agency Standard & Poor's, EL classes of 1 to 8 correspond to AAA+ to BBB- ratings and thus to an investment grade rating.

The following table gives an overview of the top 20 PIF loans (measured by EaD as of December 31, 2014, excluding the Italian portfolio transferred to the VP effective as of January 1, 2015):

Top PIF	Borrower classification	Country of Risk	Weighted Ø EL Class[1)]	Weighted Ø loan Maturity	EaD in EUR mn	EaD in % of total
1	Sovereign	Germany	1	9.4	369	4.8%
2	Regional Government	Spain	5	3.1	259	3.3%
3	Regional Government (related)	Germany	1	2.9	244	3.1%
4	Regional Government (related)	Belgium	1	10.1	229	2.9%
5	Regional Government	Spain	6	6.5	216	2.8%
6	Regional Government	Spain	4	2.6	214	2.8%
7	Regional Government	Spain	3	8.6	210	2.7%
8	Sovereign (related)	Austria	1	21.9	193	2.5%
9	Public Sector Enterprise	France	1	10.5	175	2.3%
10	Public Sector Enterprise	Spain	2	8.9	169	2.2%
11	Regional Government	Spain	3	16.6	158	2.0%
12	Regional Government	Spain	3	3.4	154	2.0%
13	Public Sector Enterprise	Finland	1	9.0	145	1.9%
14	Regional Government (related)	Germany	1	21.1	138	1.8%
15	Regional Government	Spain	3	3.3	118	1.5%
16	Public Sector Enterprise	Germany	1	3.1	111	1.4%
17	Sovereign (related)	Germany	1	11.0	109	1.4%
18	Regional Government	Spain	3	2.8	108	1.4%
19	Regional Government (related)	France	1	5.2	100	1.3%
20	Regional Government	France	2	2,6	94	1.3%
	Total Top 20				**3.513**	**45.3%**

1) According to internal ratings and based on the terminology of the rating agency Standard & Poor's: EL (expected loss) classes 1-5 would correspond to AAA+ to A-; 6-8 would correspond to BBB+ to BBB-; 9-11 would correspond to BB+ to BB-; 12-14 would correspond to B+ to B-; 15-18 would correspond to CCC+ and below.

All borrowers/issuers are either central, regional or local governments or supported by them. All listed receivables are cover pool eligible. All loans are performing and there are no overdue payments.

15.4.3.8 Origination platform

pbb Group has a strong origination platform for PIF business with regional presence, expertise and know-how in all of its core markets. pbb Group benefits from a centralized organization while maintaining a de-centralized regional operational structure with local teams maintaining close relationships with municipals and regional clients across senior level.

France and Germany (where PIF operations are carried out through pbb Group's offices in Paris, Frankfurt am Main (Eschborn) and Munich (Unterschleißheim)) accounted for the majority of PIF originations in the financial year 2014.

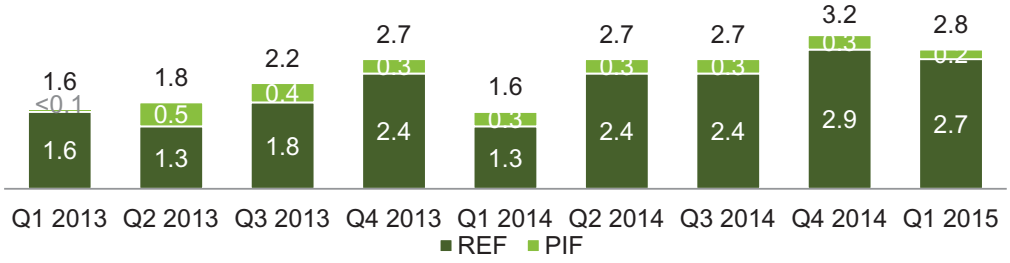
pbb Group has also expanded into geographies displaying promising growth opportunities, such as the United Kingdom (through its London office), Sweden and Finland (through its Stockholm office). In addition, pbb Group targets new business in Spain out of its Madrid office.

Furthermore, pbb Group is looking to expand its syndication activities and grow its agency fees, while strengthening its ECA and structured financing business in the future.

15.4.4 Combination of pbb Group's REF and PIF business

15.4.4.1 Overview of new REF and PIF business

The following table provides an overview of the total new REF and PIF business (commitments including extensions of more than one year) since the beginning of 2013 (in € billion):



15.4.4.2 Effects of combining REF and PIF businesses

While pbb Group refers to its REF segment as the cornerstone of its business model, its PIF segment provides a complementary business line in terms of capital and operational synergies as well as earnings diversification.

The two business lines complement each other as they enable the efficient use of regulatory and economic capital (concerning CET 1 and leverage considerations). While REF is comparatively less leverage-intensive, PIF has a lower risk weighting. In combining both segments, the regulatory leeway left by either segment can be used, to a certain extent, to meet constraints of the respective other. Thus, capital synergies are generated when both businesses are conducted by the same bank.

Combining the REF and PIF businesses also allows pbb Group to diversify its revenue streams and reduces the volatility of earnings. In the past, pbb Group has had a steady stream of income with different maturities (PIF with longer WAL typically ranging between 7 to 8 years compared to 4 to 5 years for REF) and, in the case of its PIF business, hardly any early repayments. This provided stability to pbb Group's portfolio development. Through such diversification, pbb Group's business model can be more balanced, resilient to business cycles and better equipped for weathering earnings volatility during an economic downturn.

The combination of both strategic businesses also enables pbb Group to realize economies of scale in its Pfandbrief funding (know-how, reporting, relationships), IT and central functions. For example, the macro-economic analyses and financial situation assessments which are performed for PIF are also

used to manage the REF business. Additionally, pbb Group benefits from economies of scope, because the public sector is a major user and provider of real estate. This creates asset overlaps (city and regional planning, health care, public supplies, education, public real estate, social housing) and some client commonality (e.g. social housing, construction companies) between both segments and grants pbb Group access to public sector's real estate pools. Other economies of scope include structuring experience in the REF segment, which may also be relevant to more complex, higher margin transactions in the PIF business.

Furthermore, the financing of infrastructure investments presents a suitable business diversification as infrastructure usually shows low correlations with other commonly held asset classes (including bonds, commodities, REITs, private equity and hedge funds) as they tend to be subject to different fluctuations.

15.4.5 Non-Strategic Value Portfolio

15.4.5.1 Portfolio

The VP consists of high quality assets which pbb Group has qualified as non-strategic following the EU State Aid Decision and as part of pbb Group's subsequent organizational restructuring. As of March 31, 2015, VP's EaD amounted to €25.9 billion (December 31, 2014: €26.2 billion (including Italy portfolio) with 403 single exposures, accounted for under loan and receivables (LaR). As of March 31, 2015, the most important geographic regions in terms of EaD are Germany (32% of its outstanding VP portfolio; December 31, 2014: 33%), Austria (26%; December 31, 2014: 26%), Italy (13%; December 31, 2014: 13%), Spain (7%; December 31, 2014: 7%), Central and Eastern Europe (6%; December 31, 2014: 6%), Portugal (5%; December 31, 2014: 5%) and other (11%; December 31, 2014: 10%).

As of March 31, 2015, the VP mainly consists of the following portfolios:

- predominantly a budget finance portfolio from pbb Group's former "Public Sector Finance" segment which mainly consists of bonds, promissory notes (*Schuldscheindarlehen*) and, to a lesser extent, loans (including Italian assets that were transferred from the PIF portfolio to the Value Portfolio as of January 1, 2015); and
- non-strategic real estate loans and certain other loans (which account for less than 1% of the VP portfolio) including the so called "Aareal Portfolio", which stems from the separation of DEPFA Deutsche Pfandbriefbank AG and DePfa Bank AG BauBoden (renamed Aareal Bank AG) in 2002. The credit risk of the Aareal Portfolio is covered by Aareal Bank AG (total €0.1 billion EaD).

The main types of borrowers in the VP are sovereign borrowers (38% as of March 31, 2015 based on EaD (December 31, 2014: 37%)), regional governments (27%; December 31, 2014: 28%), financial institutions (13%; December 31, 2014: 13%), sovereign related borrowers (8%; December 31, 2014: 8%) and regional government related borrowers (5%; December 31, 2014: 6%), public sector entities (i.e. entities with explicit or implicit financial support from a tax-raising authority) (4%; December 31, 2014: 4%) as well as supranationals (4%; December 31, 2014: 4%) and to a lesser extent, corporate borrowers.

The VP enhances pbb Group's flexibility on liquidity steering. Furthermore, it can be used as funding (e.g. as a repo instrument) and to support pbb Group's cover pool steering through the VP's sovereign and sub-sovereign exposure (to the extent assets are not already included in the cover pools for Public Sector Pfandbriefe). The VP also supports an active management of pbb Group's country risk diversification within the cover pools. This is because pbb Group uses the assets in the VP to flexibly address concentration risks in the cover pools.

Nearly all assets are backed by the public sector; the exposure to financial institutions consists of covered bonds or otherwise guaranteed exposures (e.g. through grandfathering). The VP therefore contains highly rated assets. Based on internal rating models as of March 31, 2015, only 1% of the portfolio has been assigned an EL class of 9 or less (corresponds to BB+ or less). Furthermore, asset and liability side are matched, accompanied by additional hedge relationships. However, pbb Group holds debt securities issued by HETA which are subject to a letter of indemnity issued by the Austrian federal state of Carinthia. The Austrian Financial Market Authority ("**FMA**") decided on March 1, 2015 to place a moratorium on the payments under HETA's debt securities. Following such decision, pbb Group was forced to take a significant impairment on its outstanding exposure to HETA. For more information see "*11.3.2 Value Adjustments due to HETA Moratorium*".

The following table gives an overview of the top 20 exposures in the VP (measured by EaD as of December 31, 2014, including the Italian portfolio transferred to the VP effective as of January 1, 2015):

Top VP	Borrower classification	Country of Risk	Weighted Ø EL Class[1)]	Weighted Ø loan Maturity	EaD in EUR mn	EaD in % of total
1	Sovereign	Austria	1	20.1	5,155	19.6%
2	Sovereign	Italy	5	11.3	2,317	8.8%
3	Regional Government	Germany	1	11.6	1,082	4.1%
4	Sovereign (related)	Germany	1	13.6	832	3.2%
5	Sovereign	Poland	1	2.2	816	3.1%
6	Regional Government	Germany	1	7.2	776	3.0%
7	Regional Government (related)	Austria	1	34.4	692	2.6%
8	Regional Government	Germany	1	7.1	691	2.6%
9	Regional Government	Germany	1	11.1	608	2.3%
10	Regional Government	Germany	1	9.7	563	2.1%
11	Sovereign	France	1	9.8	534	2.0%
12	Supranational	Supranational	1	4.2	485	1.8%
13	Regional Government	Germany	1	16.8	485	1.8%
14	Sovereign	Hungary	7	2.6	389	1.5%
15	Financial Institution	Spain	6	10.7	374	1.4%
16	Regional Government	Germany	1	8.7	331	1.3%
17	Financial Institution	Spain	4	12.3	323	1.2%
18	Sovereign (related)	Austria	1	14.7	322	1.2%
19	Regional Government (related)[2)]	Austria	2	2.8	314	1.2%
20	Regional Government	Italy	5	10.7	314	1.2%
	Total Top 20				**17.403**	**66.3%**

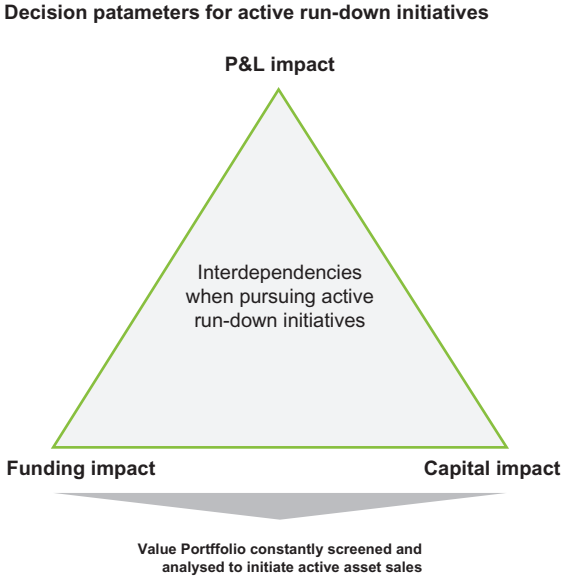
1) According to internal ratings and based on the terminology of the rating agency Standard & Poor's: EL (expected loss) classes 1-5 would correspond to AAA+ to A-; 6-8 would correspond to BBB+ to BBB-; 9-11 would correspond to BB+ to BB-; 12-14 would correspond to B+ to B-; 15-18 would correspond to CCC+ and below.

2) Exposure to HETA; weighted average EL class as of March 31, 2015: 3. As provisioned EaD on bonds is directly set off of overall EAD, stated amount and EL-class refers only to non provisioned (expected 'performing part') of HETA exposure.

15.4.5.2 Managed run-off strategy

pbb Group pursues a value preserving reduction strategy for the VP. The VP has a relatively low gross margin (average in the financial year 2014: <10 basis points per year), which is likely to turn negative in the near future and is relatively RWA-consuming. The VP's run-down relieves capital, which can be used for the potential origination of assets in the higher margin REF and PIF segments without requiring additional regulatory capital. By 2019, based on contractual maturities and scheduled repayments (with zero-coupon bonds being taken into account with their nominal value at maturity and without considering arrears), the financing volume is expected to decrease from €22.3 billion in 2014 (including Italian assets transferred to the VP effective January 1, 2015) to €14.9 billion in 2017 and €13.0 billion in 2019, i.e. by €9.3 billion (42%) in 2019. This translates into a reduction in the VP's RWA consumption from €5.5 billion (including the Italian assets) to €3.0 billion in 2017 and €2.4 billion in 2019, i.e. by €3.1 billion (56%) in 2019, as capital-intensive assets in Italy, Spain and Portugal will have matured by then. This redeployment of capital is expected to, *ceteris paribus*, increase pbb Group's overall margin, to the extent sufficiently profitable new business can be originated, while maintaining capital ratios.

pbb Group pursues active run-down initiatives and considers selective sales of asset packages if and to the extent the overall impact on funding, capital and profits and loss is at least neutral. The decision parameters may be illustrated as follows:



pbb Group continuously analyzes the VP for suitable asset packages. With regard to single assets, opportunistic sales, selective restructurings and early redemptions may also be pursued.

Furthermore, as at the date of the Prospectus, pbb Group reviews assumptions regarding loss given default ("**LGD**") which are more conservative than those of peers. Changes resulting from such review will be discussed with the regulator and could potentially provide significant room for improvement with regard to RWA and ICAAP requirements.

15.4.6 Consolidation & Adjustments (C&A)

The C&A segment primarily includes pbb Group's non-lending business exposure (e.g. assets for bank steering and asset-liability management purposes) and had an EaD of €7.0 billion as of March 31, 2015 (December 31, 2014: €6.9 billion). The C&A segment includes pbb Group's treasury activities (see also "*15.6.5 Treasury*") and its equity investments. Securities which are held solely to fulfill regulatory liquidity buffer requirements are also held within this segment.

The following tables contain an overview of the C&A segment:

Investment type	EaD (Basel 3) as of Dec. 31, 2014 (in € billion)	Split as of Dec. 31, 2014	Description
			Asset Liability Management
Capital investment book	2.4	34%	• Investment of pbb's equity • Mostly in promissory notes from local government authorities (mostly German Länder) and public sector entities in Germany
Interest rate derivatives	0.6	9%	• The OTC netting position from collateralized (apart from de minimis legacy trades) derivatives with financial institutions • Mostly interest rate swaps
			Liquidity Management
Liquidity portfolio	3.3	47%	• Highly liquid bonds • Mostly sovereign and public sector entities • Optimized for inter alia LCR, cover pool requirements and internal liquidity targets
Money market / repo	0.6	9%	• Eurex repo, bilateral repo trades with financial institutions • Money market trades and nostro accounts

The portfolio consists mostly of highly rated securities. Based on internal rating models as of December 31, 2014, only 1% of the portfolio has been assigned an EL class of 9 or less (corresponds to BB+ or less). Based on EaD as of December 31, 2014, 45% of the portfolio are bonds in liquidity buffer, coverpool and CIB, 26% are promissory notes, 11% are money market and Nostro instruments and 9% are collateralized swaps, 4% are triparty repo (Eurex) and 4% are bilateral repo.

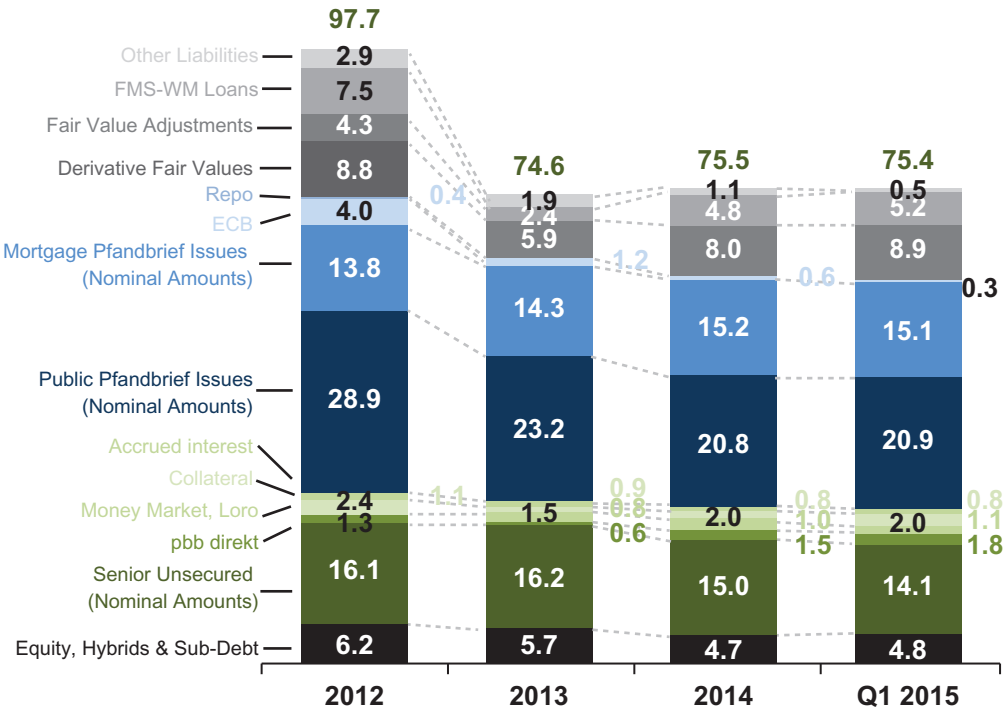
Measured by EaD, 50% of pbb Group's C&A portfolio as of December 31, 2014 relates to the German market, with other important markets including Spain (13%), the United Kingdom (10%) and France (6%). The counterparties comprise financial institutions (26%), regional governments (24%), sovereign (20%), supranational (12%), sovereign-related (11%) and public sector entities (6%).

The bank steering/asset liability management within the treasury department of C&A has been adapted to the negative central bank deposit rates. At the end of June 2014, pbb has established access to Eurex Repo as an alternative for placing cash on the central bank account.

15.5 Funding

pbb Group's funding platform is centered on Pfandbriefe and is supplemented with senior unsecured securities, retail deposits, money market instruments as well as subordinated and hybrid capital instruments. All of its funding tools are aimed at matching the maturities of its lending activities.

pbb Group's funding composition as of December 31, 2012, 2013, 2014 and March 31, 2015, can be illustrated as follows (in € billion):



15.5.1 The Pfandbrief

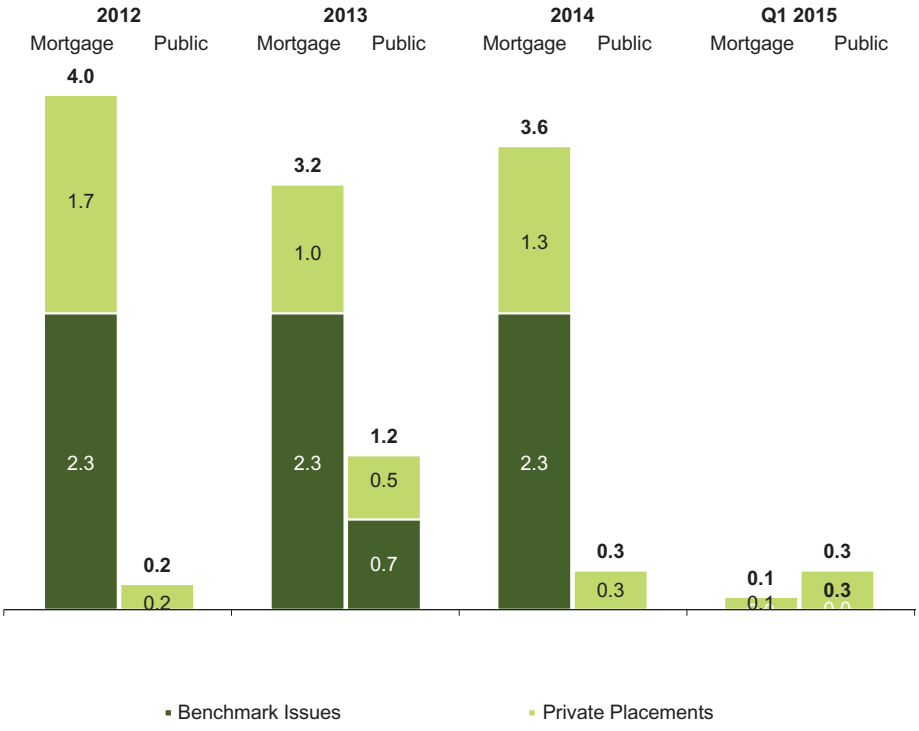
15.5.1.1 Relevance

The Pfandbrief is pbb Group's primary source of funding due to it cost-effectiveness. With an outstanding volume of around €36 billion as of March 31, 2015 (December 31, 2014: €36 billion), pbb Group is the largest issuer in the German market for Pfandbriefe and holds a leading position in Europe (source: VdP Information). The Pfandbrief market is the second largest market for fixed income bonds in Germany, after the market for public bonds (source: VdP Information). The Pfandbrief has a good investor reputation due to its low risk profile, excellent credit history and strict collateralization requirements.

pbb Group issues Pfandbriefe in the international capital markets, in benchmark format (Pfandbriefe with a volume of more than €500 million) and as private placements. pbb Group structures private placements, according to the requirements of its investors, as registered or bearer bonds. Additionally,

the maturity and interest rate structure can also be tailored to meet individual needs. In line with its credit business, pbb Group offers Pfandbriefe in various currencies, with a focus on the Euro, Pound Sterling, US Dollar and SEK.

The issuances of pbb Group's Pfandbriefe in Germany since 2012 are as follows (in € billion):



Source: Company information

In the first quarter of 2015, pbb Group issued Pfandbriefe in a volume of €324 million (€72 million Mortgage Pfandbriefe and €252 million Public Sector Pfandbriefe).

15.5.1.2 Types of Pfandbriefe

As a specialist bank for REF and PIF, pbb Group is an issuer of both Mortgage Pfandbriefe and Public Sector Pfandbriefe. Mortgage Pfandbriefe are issued for the funding of cover pool eligible real estate business (outstanding Mortgage Pfandbriefe as of March 31, 2015: €15.2 billion). PIF activities are refinanced by Public Sector Pfandbriefe (outstanding Public Sector Pfandbriefe as of March 31, 2015: €21.1 billion).

15.5.1.3 Legal Framework

The Pfandbrief is a covered bond governed by the German Pfandbrief Act which grants a high level of investor protection. If a Pfandbrief issuer becomes insolvent, the cover pools are first used to satisfy the claims of the Pfandbrief creditors as and when they fall due. This is primarily ensured through an uninterrupted servicing of the cover pool assets and the collections therefrom or through the disposal of the cover pool assets. For more information, see "*18.2.4 The German Pfandbrief Act*".

15.5.1.4 Spread, Tenor

The average issuance spread for pbb Group's Mortgage Pfandbriefe has decreased from 64 basis points (over 3 months EURIBOR) in 2012 via 31 basis points in 2013 to 24 basis points in 2014 and to 9 basis points in the first quarter of 2015. The average issuance spread for pbb Group's Public Sector Pfandbriefe has decreased from 37 basis points (over 3 months EURIBOR) in 2012 via 36 basis points in 2013 to 29 basis points in 2014 and to 12 basis points in the first quarter of 2015.

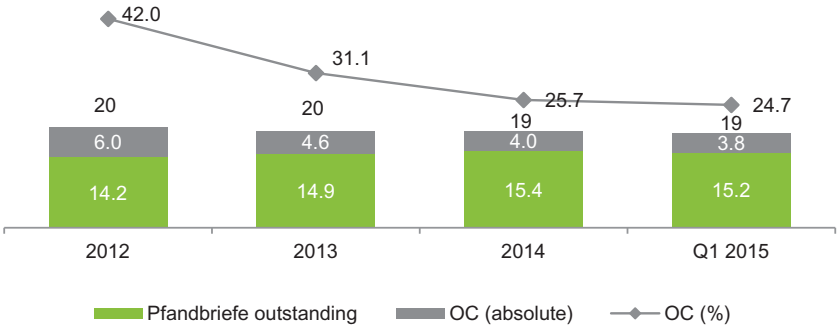
pbb Group believes this development of spreads reflects its sound business model and its credit ratings (although the effects of ECB's policy to channel liquidity into the market and of ECB's Purchase Program are also likely to have contributed to the tight spreads). Going forward, pbb Group expects a return to higher levels, in particular should ECB withdraw from the Pfandbrief market.

In 2014, the average tenor for pbb Group's newly issued Mortgage Pfandbriefe was 6.4 years (2013: 5.4 years; 2012: 7.4 years), for its newly issued Public Sector Pfandbriefe, the tenor was 20.7 years (2013: 10.6 years; 2012: 9.2 years). In the first quarter of 2015, the average tenor was 16.6 years (newly issued Mortgage Pfandbriefe) and 6.7 years (newly issued Public Sector Pfandbriefe).

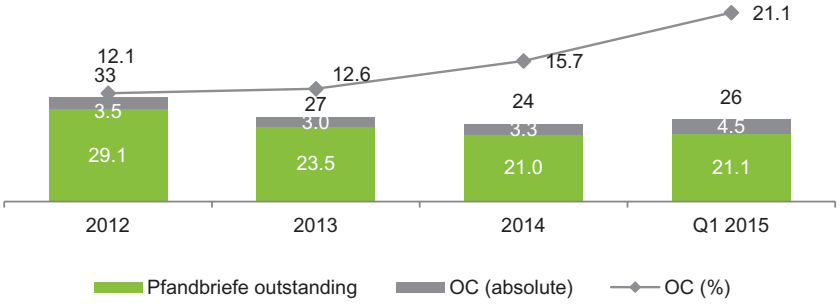
15.5.1.5 Over-Collateralization

Over-collateralization in the context of the Pfandbriefe is determined either on a nominal or Net Present Value ("**NPV**") basis. The Pfandbrief Act requires a minimum of 2% over-collateralization on an NPV basis. Different rating agencies use either nominal or NPV-derived over-collateralization levels in determining over-collateralization targets for a given credit rating threshold. Both on a nominal and NPV basis, pbb Group's over-collateralization levels were above S&P's and Moody's target level as of March 31, 2015. Apart from the rating agencies' over-collateralization targets, the fluctuations in its over-collateralization levels are driven by the build-up and subsequent liquidity release in connection with Pfandbriefe issuance and redemption. pbb Group has been able to reduce cover funds which provide over-collateralization for Mortgage Pfandbriefe (from 42.0% on December 31, 2012 to 31.1% on December 31, 2013 to 25.7% on December 31, 2014 and to 24.7% on March 31, 2015. With regard to Public Sector Pfandbriefe, the over-collateralization has increased from 12.1% in 2012 to 12.6% in 2013 to 15.7% in 2014 and to 21.1 on March 31, 2015 (in each case excluding HETA exposure which has been taken out).

The total cover funds for the Mortgage Pfandbriefe issued by pbb Group are as follows (in € billion or % as of December 31, 2012, 2013 and 2014 and March 31, 2015):



The total cover funds for the Public Sector Pfandbriefe issued by pbb Group are as follows (in € billion or % as of December 31, 2012, 2013 and 2014 and March 31, 2015; excluding HETA exposure which has been taken out):



15.5.1.6 Investors

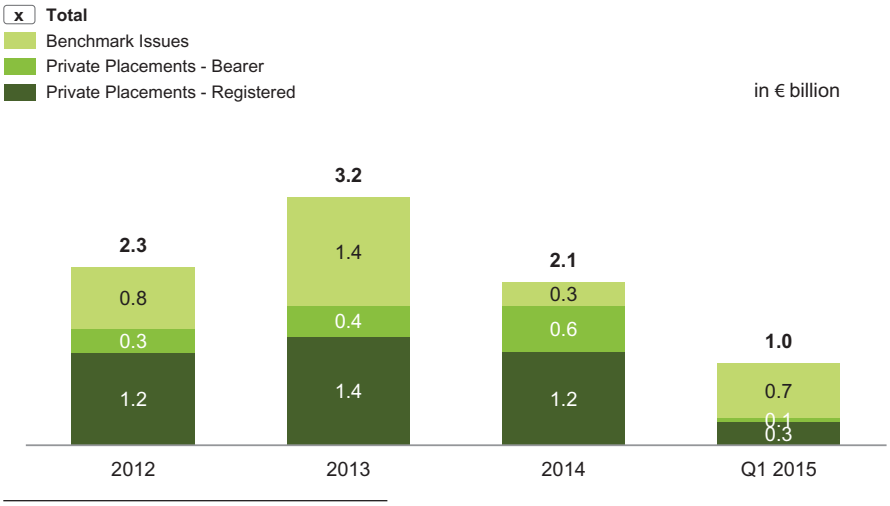
pbb Group's Pfandbriefe benefit from a strong investor base primarily in Germany, which is well diversified, broad and driven by "real money" accounts (asset managers, insurance companies, pension funds and banks).

15.5.2 Other Funding Instruments

pbb Group also uses non-Pfandbrief funding sources, including senior unsecured securities, retail deposits and, to a lesser degree, money market instruments. With its senior unsecured securities pbb Group (i) funds cover-pool ineligible assets, (ii) supports over-collateralization requirements, and (iii) funds liquidity buffers. Further diversification is achieved by a mix of secured and unsecured money market transactions, cash collateral received from counterparties, subordinated and hybrid capital instruments as well as deposits marketed through the "pbb direkt" brand.

15.5.2.1 Unsecured securities

In the financial year 2014, pbb Group has issued €2.1 billion senior unsecured securities compared to €3.2 billion in the financial year 2013 and €2.3 billion in the financial year 2012. In the first quarter of 2015, pbb Group has issued €1.0 billion senior unsecured securities:



Source: Company information

In the first quarter of 2015, pbb Group has issued €1.0 billion senior unsecured securities (benchmark issues: €0.7 billion; private placements (bearer): €50 million; private placements (registered): 0.3 billion).

The average ticket size was €125 million for benchmark issues in 2014 compared to €453 in 2013 and €375 million in 2012. Private placements had an average ticket size of €39 million (bearer) and €7 million (registered) in 2014, €25 million (bearer) and €5 million (registered) in 2013 and €15 million (bearer) and €6 million (registered) in 2012. The average ticket size for issuances of unsecured securities was €25.7 million in the first quarter of 2015.

The development of spreads for unsecured securities roughly developed in parallel to the development of spreads for Pfandbriefe during the last years. In 2014, the average spread at issuance for pbb Group's unsecured issues was 86 basis points over 3 months EURIBOR (benchmark issues: 84 basis points; private placements (bearer): 96 basis points; private placements (registered): 82 basis points), compared to 116 basis points in 2013 and 156 basis points in 2012 (benchmark issues: 139 (2013) and 210 basis points (2012); private placements (bearer): 85 and 115 basis points; private placements (registered): 105 and 133 basis points). However, after the announcement by Moody's on March 17, 2015, to place debt and deposit ratings of the Company on review for downgrade, spreads of pbb Group's unsecured securities have widened and were (on average) at 90 basis points above 3 months EURIBOR during the first quarter of the financial year 2015. For issuances in 2014, the average tenor for pbb Group's unsecured issues was 6.2 years (2013: 5.2 years; 2012: 4.5 years); in the first quarter of 2015, it was 4.6 years.

15.5.2.2 "pbb direkt"

The online platform "pbb direkt", which started operations in March 2013, had approximately 18,800 retail clients (only counting accounts with money inflow, excluding terminated accounts) with around 34,000 accounts as of December 31, 2014. The platform provides a diversification source for pbb Group's unsecured funding needs and has a positive effect on NSFR and LCR.

pbb Group offers private investors with a minimum deposit of €5,000 call money and term deposit accounts with various maturities. 74% of the deposit volume is term deposits with an average maturity of 3.0 years as at December 31, 2014. "pbb direkt" accepts only Euro deposits as at the date of the Prospectus.

The volume of "pbb direkt" deposits amounted to €1.5 billion as of December 31, 2014. The volumes highly depend on interest rates with "pbb direkt" being one of top 10 deposit providers without paying off-market interest rates.

Its back-office and IT operations are outsourced to optimize pbb Group's operational requirements in maintaining deposit-related systems and processes.

15.5.2.3 Money market products

With the full range of money market products, pbb Group considers itself to be a flexible and well-known participant in the European banking sector. pbb Group's money market funding can broadly be split into secured and unsecured categories. Secured money market instruments are collateralized, mainly by cash. pbb Group has also entered into bilateral repos (i.e. contracts in which the seller of securities agrees to buy them back at a specified time and price), with repurchase agreements with major banks in place, and a triparty repo (as a EUREX member since 2014) since 2014. pbb Group maintains access to ECB tender operations. With respect to unsecured money market instruments, pbb Group's treasury department has good working relationships with institutional investors and brokers as well as their counterparts at other banks. In managing liquidity and currency positions, pbb Group's treasury department has established an Euro Commercial Paper Program ("**ECP**"). On March 31, 2015 pbb Group had an outstanding ECP volume of €20 million.

15.6 Operations and Selected Other Main Functions

15.6.1 Outsourcing Strategy

pbb Group has outsourced specific functions, such as IT infrastructure, its client deposit business, special risk applications, payroll services and other administrative services in compliance with legal and regulatory requirements. The call money and fixed-term deposit taking from retail customers (operating under the "pbb direkt" brand since 2013) have been outsourced to XCOM AG (which is responsible for providing related IT services) and its subsidiary biw Bank für Investments- und Wertpapiere AG (which provides back office services). Certain processes such as infrastructure services, payroll services or SWIFT gateway, are outsourced to specialized service providers and are managed in compliance with legal and regulatory requirements, including section 25b of the German Banking Act (*Kreditwesengesetz*) and the requirements of MaRisk. For more information on material outsourcing agreements, see "*15.11.12 Material Outsourcing Agreements*" below).

15.6.2 Information Technology

The Information Technology department provides the entire spectrum of IT-services for all entities of pbb Group. Its tasks also encompass the Organization Department with tasks like project management and project governance, business continuity management, process modeling and optimization, data governance or NPP-coordination and Facility Management with its main tasks office and estate administration, office planning and workplace equipment, car pool administration and coordination of travel services.

Since 2009, pbb Group has significantly invested in its IT infrastructure in order to integrate the legacy systems (of the Company and the institutions that were merged into the Company) into one consolidated IT platform. The IT infrastructure, which is outsourced effective as of 2009 (except for hardware which is owned by pbb Group) (see "*15.6.1 Outsourcing Strategy*" "*15.11.13 IT Outsourcing Agreement*"), is flexible, with the ability to adjust to new regulatory or market requirements. For example, a switch from LIBOR to EONIA was implemented in 2014 with no major disruptions. pbb Group believes that its IT systems are well-prepared for the upcoming implementation of the principles for effective risk data aggregation and risk reporting issued by the Basel Committee on Banking Supervision in January 2013, which requires that all reports come from a single source. Through the extensive experience in using both integrated and separate IT systems, pbb's staff has in-depth knowledge in system transfers and in data-migrations.

The IT platform is primarily based on systems running on standard applications from established providers. This ensures a relatively low level of complexity and high scalability, leading to an efficient maintenance cost structure. The central core systems used for the main bank functionalities are based on SAP and Summit (application customization software); other standard software is provided by other well-established vendors. pbb Group now has integrated IT support for Risk Management, Operations and Enterprise functions, with nearly all applications running the latest software versions available, and manual processes have been significantly reduced.

The IT functions are largely centralized in Germany (Unterschleißheim and Eschborn). Although the IT infrastructure is outsourced (including data-center operations), it is supported by a team of approximately 79 internal IT experts with a strong knowledge of banking processes (as of March 31,

2015, on a full-time equivalent ("**FTE**") basis). The IT organization has direct reporting lines to the Management Board. The regulation-intensive retail deposit business ("pbb direkt") is outsourced to a third party.

As pbb Group already operates its IT systems on a stand-alone basis, it currently expects no significant cost increases after the completion of the Offering and the separation from the HRE Group. For risks relating to pbb Group's operations in general, see "*3.1.18 pbb Group is exposed to operational risks related to systems and processes which may have a negative effect on pbb Group's assets, financial position and results. Operational risks may disrupt pbb Group's businesses.*"

15.6.3 Finance

The Finance division is responsible for tax-related matters, operational and strategic controls, and compiling internal and external financial reports. It is also engaged in more strategic projects, such as measuring the profitability of new business and analyzing the development of costs. The Finance division focuses on the production of external financial reports, internal controlling (e.g. KPI setting), regulatory reporting as well as tax compliance to produce detailed, targeted, timely and consistent FRS compliant reports. For these purposes, pbb Group uses specific planning and controlling instruments as well as standard software. pbb Group's finance operations are carried out by a team of 86 employees as of March 31, 2015 (on an FTE basis).

15.6.4 Operations

The main responsibilities of pbb Group's Operations division include the bank-wide servicing and administration of its lending portfolio, the settlement of capital markets transactions, the administration of derivative and security positions and the processing of national and international payments transactions. The Operations division aims to effectively mitigate the operational risk and meet regulatory requirements. The team of operations specialists (72 FTEs as of March 31, 2015) covers all core processes, many of which are run in a highly standardized and automated manner.

15.6.5 Treasury

The Treasury division has a wide range of responsibilities, the core domains of which can be summarized in the following table:

Asset liability management

Capital investment book: generating a benefit to offset cost of capital on the basis of duration and low credit risk

Derivatives

- Client Derivatives structuring and execution
- Managing the interest rate risk in banking book
- Optimizing the bank's derivatives portfolio

Balance Sheet Management

- Asset Liability Committee
- Funding plans, managing the structural liquidity gap
- Execution of funds transfer pricing

Liquidity management

- Liquidity portfolio: regulatory and internal liquidity buffer
- Money Market and Repo: raising and placing liquidity <1Y
- Coverpool and collateral management
- Managing short-term interest rate risk (<1Y) and FX

Funding

Long-term debt (and capital) issuance

- Pfandbriefe
- Senior unsecured

"pbb direkt": retail deposit business

Debt Investor Relations

The Treasury division has a lean structure with flat hierarchies and has 25 employees on a FTE basis as of March 31, 2015. Treasury activities are centralized for efficiency purposes, with all derivatives, collateral and market risks having a single interface with the market, and internal and external clients.

15.6.6 Corporate Office and Compliance

pbb Group has an independent compliance team dedicated to upholding business ethics and ensuring legal and regulatory compliance, including compliance with the Securities Trading Act (implementing the Markets in Financial Instruments Directive 2004/39/EC) (known as "**MiFID**") as subsequently amended. The division's focus is on combating money laundering, financial crime, the financing of terrorism and fraudulent activities. Further key activities include ensuring compliance with the applicable minimum requirements for risk management currently laid down in BaFin Circular 10/2012 ("**MaRisk**"), the central coordination of the internal control systems, data protection and information security. The Compliance department (eight FTE, as of March 31, 2015) includes qualified lawyers to ensure compliance with existing and upcoming regulations and to generally oversee the day-to-day dealings of the pbb Group. The Corporate Office and Compliance division's (18 FTE, as of March 31, 2015) activities are organized into five distinct areas: Corporate Development, Strategy and Economic Analysis; Company Secretary; Compliance; Reprivatization Project; Information Security/Data Protection. The division also acts in an advisory capacity vis-á-vis the Management Board, the Supervisory Board and several divisions of the Company.

15.6.7 Internal Audit

Internal Audit covers all business activities including outsourced processes and major projects at pbb Group. It operates independently with a risk- and process-orientated approach and a high focus on internal controls ensuring compliance with audit standards and other applicable national and international regulations. The Head of Internal Audit reports directly to the Co-Chief Executive Officer and also to the Audit Committee. The Internal Audit team (12 FTEs as of March 31, 2015) has a background in various business functions, other banks as well as external audit companies. The team aims to improving the operations with a strong evaluation and follow-up process. While maintaining the required independence, the division also performs pre-implementation audits and consultations regarding business functions.

15.7 Intellectual Property Rights, Licenses, Domains

pbb Group has a trademark portfolio consisting of a number of service trademarks in Germany and in some foreign jurisdictions. pbb Group inter alia owns the trademarks "PBB", "pbb", "PBB Deutsche Pfandbriefbank", and respectively "pbb Deutsche Pfandbriefbank", "pbb direkt", and "pbb partnering". These trademarks are protected as German national word trademarks and/or word design trademarks. A few of these trademarks are also protected as foreign national trademarks and/or international registrations with protection inter alia in the EU, Australia, Japan, Russia, and the United States. This notably includes protection of the "PBB" word trademark, the "pbb" design trademark, and the "PBB Deutsche Pfandbriefbank" word trademark for France and the United Kingdom. pbb Group also registered several internet domain names, in particular "pfandbriefbank.de", "pfandbriefbank.com" "pbbdirekt.de" and "pbbdirekt.com". pbb Group believes that these domains enable pbb Group to operate an adequate presence for its online activities, in particular for e-commerce purposes.

pbb Group does not own patents, utility models or design rights but believes that patents and utility models as well as design rights only play a secondary role in its business.

pbb Group entered into certain agreements with regard to the provision of services which partly contain provisions for the sale and/or license of IP rights (see "*15.11.2 Agreements primarily relating to the Provision of Services*").

15.8 Real Estate and Leases

As of the date of the Prospectus, pbb Group has offices in ten locations, nine in Europe and one in Japan. pbb's office in Rome, Italy, was closed at the end of 2014. All of the premises are rented.

pbb Group's largest location is Unterschleißheim, within the Munich, Germany, administrative district, Germany, where the headquarters are; this site provides most of the central functions. In accordance with the restructuring plan approved for pbb Group by the European Commission, pbb Group maintains five sales locations in Germany (including the headquarters) and regional locations in its core markets. pbb Group closed its former offices in London, United Kingdom, in the fourth quarter of the 2014 financial year and leased new premises (certain costs run parallel for the former and the new location until mid-2015).

The following table provides an overview of pbb Group's sites:

Site	Approximate total rented space (m^2)	Lease term until/renewal options
Unterschleißheim, Germany	16,535 m^2	August 31, 2019; two renewal options for a three-year period each, with a thirteen-month' notice, plus a special right of notice, exercisable only by the tenant. Break option August 31, 2017, with a twelve-month notice, exercisable only by the tenant.
Eschborn, Germany	2,483 m^2	September 30, 2015; after signing of new lease contract, term expected to run until September 30, 2020 with a break option (March 31, 2018), exercisable only by the tenant, and a renewal option for a five-year period (with fifteen-month notice), exercisable only by the tenant.
Berlin, Germany	336 m^2	September 30, 2018; automatic extension for twelve further months unless twelve-month' notice to the end of the month is provided; extension for a five-year period (with twelve month' notice) at the option of the tenant.
Hamburg, Germany	220 m^2	Unlimited; after signing of the new lease contract, term expected to run until July 31, 2020 with a renewal option for a five-year period, exercisable only by the tenant.
Düsseldorf, Germany	193 m^2	July 31, 2019; renewal option for a five-year period with twelve-month' notice, exercisable only by the tenant.
London, United Kingdom	853 m^2	September 24, 2024; pbb may terminate the lease at the end of the fifth and seventh year (September 2019 and 2021, respectively, in each case with a nine-month' notice); the landlord may terminate the lease at the end of the seventh year (September 2021) with a twelve-month' notice; both parties have a rolling termination right at any time after the end of the eighth year (September 2022) with a twelve-month notice.
Paris, France	1,006 m^2	October 31, 2015; after signing of extension agreement, term runs from July 1, 2015 based on a standard 3/6/9 lease agreement.
Madrid, Spain	600 m^2	July 31, 2016; automatic extension for a twelve-month period unless a three-month notice is provided.
Stockholm, Sweden	248 m^2	October 31, 2017.
Tokyo, Japan	600 m^2	August 31, 2016; extension for a further two-year period possible with a six-month notice; termination – also during the extension period – with six-month' notice possible.

pbb Group owns the following real estate properties due to rescue acquisitions:

Owner[1)]	Location	Type	Approx. rentable space (m^2)	Book value (in € million) as of December 31, 2014
IMMO Invest Real Estate GmbH	Hungary	Shopping center	12,948	7.1
IMMO Invest Real Estate GmbH	Hungary	Shopping center	12,527	7.7
RPPSE Espacio Oviedo S.L.U.	Spain	Shopping center	30,561	16.6
Hayabusa Godo Kaisha[2)]	Japan	Office building	10,520	70.5
Ragnarök AG & Co KG	Germany	Land parcel	n.a.	0.4
IMMO Immobilien Management GmbH & Co KG	Germany	Land parcel	n.a.	–
IMMO Immobilien Management GmbH & Co KG	Germany	Land parcel	n.a.	–
IMMO Immobilien Management GmbH & Co KG	Germany	Land parcel	n.a.	–
				102.3

1) This list excludes a property financed in the Netherlands which was consolidated for the first time on November 12, 2014. Based on contractual agreements with the owners, the Company obtained control within the meaning of IFRS 10 over the property on the same date but is not the legal owner of the property. pbb Group recognizes the property with a book value of €17 million under the item "other assets" (instead of the loan impaired to this amount).

2) Sold in the second quarter of 2015.

There are no significant encumbrances (such as land charges or easements) on any real estate or other major property, plant and equipment assets for the benefit of third parties.

15.9 Employees

15.9.1 Overview

As of March 31, 2015, pbb Group employed 842 employees (804.79 full-time equivalents, FTEs) (employee figures/FTEs excluding trainees, apprentices, short-term employees (employees engaged for less than one year) as well as interns (*Praktikanten*), working students (*Werkstudenten*), temporary agency employees (*Leiharbeitnehmer*) and freelancers (*freie Mitarbeiter*). As of March 31, 2015, pbb Group employed one apprentice, five short-term employees, seven interns, eight working students and one temporary agency employee.). Between March 31, 2015 and the date of the Prospectus, there have been no significant changes in the number of FTEs.

The following table shows the number of FTEs of pbb Group as of March 31, 2015, December 31, 2014, 2013 and 2012, broken down by functions:

Business Area	2012	Business Area	2013	Business Area	2014	Business Area	Q1 2015
Agency Desk	8.00						
Portfolio- & Product Management	17.60	Loan Markets Real Estate & Public Finance	12.71	Loan Markets Real Estate & Public Finance	14.67	Loan Markets Real Estate & Public Finance	14.74
Secondary Markets	4.71						
Asset Management Americas	3.00						
Business Operations Office	8.80						
CRM PS/FI & Value Portfolio II	1.00						
CRM RE & Global Workout II	84.84	FMS-WM Servicing	2.00				
Business Management REF / PSF	8.60	Department: Business Management REF / PIF	7.60	Department: Business Management REF / PIF	8.00	Department: Business Management REF / PIF	7.00
Communications	13.00	Communications	11.60	Communications	11.10	Communications	11.10
Compliance / Corporate Governance	15.65						
Corporate Development	4.67	Board Office / Compliance	19.32	Corporate Office / Compliance	20.32	Corporate Office / Compliance	18.32
Credit Operations & Corporate Services	93.62						
Payments & Financial Markets Operations	45.21	Operations	79.65	Operations	76.62	Operations	71.62
CRM RE I & PS pbb	111.51			CRM PIF	14.85	CRM PIF	14.85
Underwriting	24.31	CRM	114.64	CRM REF	103.76	CRM REF	108.76
Finance	106.42						
Tax	7.23	Finance	90.26	Finance	86.88	Finance	86.15
Group Internal Audit	15.00	Group Internal Audit	13.80	Group Internal Audit	11.80	Group Internal Audit	12.00
HR others (Workers' Council, Apprentices, Trainees)	2.90						
Human Resources	35.75	Human Resources	37.09	Human Resources	27.62	Human Resources	27.12
Information Technology	72.02	Information Technology	90.63	Information Technology	98.38	Information Technology	98.25
Legal	29.67	Legal	30.94	Legal	31.27	Legal	29.27
Pfandbrief Collateral & Asset Reporting	11.90						
Strategic Portfolio Management	5.87	Portfolio Analysis	16.90	Portfolio Analysis	16.00	Portfolio Analysis	17.00
Property Analysis & Valuation	42.87	Property Analysis & Valuation	42.02	Property Analysis & Valuation	46.11	Property Analysis & Valuation	44.11
Public Investment Origination	23.37	Public Investment Finance	30.80	Public Investment Finance	28.30	Public Investment Finance	26.30
REF Continental Europe West	8.00	RE Finance Continental Europe West	17.00	RE Finance Continental Europe West	16.00	RE Finance Continental Europe West	16.00
REF Germany	27.29	RE Finance Germany	44.04	RE Finance Germany	54.04	RE Finance Germany	55.19
REF International UK & CEE	17.00	RE Finance International Clients, UK & CEE	29.00	RE Finance International Clients, UK & CEE	29.00	RE Finance International Clients, UK & CEE	31.00
Risk Management & Control	97.71	Risk Management & Control	77.11	Risk Management & Control	79.63	Risk Management & Control	79.58
Strategic CRO Projects	1.00						
Treasury	19.77	Treasury	27.57	Treasury	24.57	Treasury	24.57
Total*	968.30		794.68		798.92		792.93

* Excluding for Board Members & Support: 12.55 FTE (2012), 8.55 FTE (2013), 11.85 FTE (2014) and 11.85 FTE (Q1 2015).

The number of employees decreased by approximately 178 FTEs from December 2012 to December 2013, mainly due to the transfer of 110 employees (headcount) to FMS-WM's wholly owned service company, FMS-WM Service GmbH, and external service providers following the end of the servicing agreement between the Company and FMS-WM as at the end of September 30, 2013 (see "*15.11.2.1 FMS-WM*"). The staff transfer to FMS-WM Service GmbH was mainly implemented by way of a transfer of business in accordance with Section 613a of the German Civil Code in Germany, and on the basis of the comparable national provisions at relevant international locations.

The implementation of a top-down reorganization plan also decreased FTE numbers. In this context, organizational changes to allow pbb Group to operate as a specialized Pfandbrief bank, to enable the privatization and to facilitate the sale of DEPFA Group were implemented, leading to a further reduction in employees. While pbb Group was able to find new roles for most employees, it reached settlements with those employees who could not be offered a new position based on social plans (*Sozialpläne*) and supplementary shop agreements (*Betriebsvereinbarungen*) the Company entered into, along with HRE Holding, DEPFA Bank plc and the then pbb Services GmbH (which was later merged into the Company), with their respective employee representative bodies in connection with the reorganization measures. The employee reduction measures related to the reorganization were mostly completed in 2013. For the calendar years 2015 to 2018, the FTE number is, pursuant to the current personnel planning, contemplated to remain stable at slightly more than 800 FTEs. While all payments in connection with redundancies for which the social plans and supplementary shop agreements provided for (such as, *inter alia*, severance payments, outplacement/qualification benefits and qualification measures) have been settled, certain minor contingent liabilities exist. In particular, minor severance payment commitments exists vis-à-vis employees in Germany who continue their employment with a new employer upon pbb Group's initiative or by way of a transfer of business in accordance with Section 613a of the German Civil Code if such employment is terminated within 30 months following the change of employer. In addition, the current social plans would also apply to certain further personnel measures which the Company would implement during the term of the social plans, *i.e.* until December 31, 2018, unless, in case of a material restructuring, the works council requests the renegotiation of the social plans.

For executive staff employees executive staff agreements (*Sprecherausschussvereinbarungen*) apply according to which said employees are entitled to certain severance payments and outplacement/ qualification benefits in the event of *e.g.* terminations for operational reasons (*betriebsbedingte Kündigungen*) on or before December 31, 2018.

With regard to pbb Group's development, pbb Group considers the continuous professional development of its employees essential. In connection with "on-the-job" development measures which pbb Group strongly focuses on, pbb Group spent €0.8 million in the financial year 2014 (€0.9 million and €1.2 million in the financial years 2013 and 2012, respectively) on internal and external training.

Within pbb Group, there are several forms of employee representation. In Germany, there is a company works council (*Gesamtbetriebsrat*) and local works councils in Unterschleißheim (which also represents the smaller business entities (*Kleinstbetriebe*) in Hamburg, Berlin and Düsseldorf) and Eschborn. The members of the company works council also form the economic committee (*Wirtschaftsausschuss*), and there is also the representative body for executive staff and a representative body for severely disabled employees (*Schwerbehindertenvertretung*).

The Company is member of Arbeitgeberverband des privaten Bankgewerbes e.V. (AGV Banken), an employer's association. In other jurisdictions, pbb Group companies are also members of certain employer's associations and have different employee representation models:

- In France, pbb Group's branch is a member of the French Banking Association, the French Banking Federation and the National Association of Directors of Human Resources. The French subsidiary/Paris Branch has more than 50 but less than 200 employees, as per the conditions laid down in the French Labor Code, an employee representative body (so-called single staff delegation (*Delegation Unique du Personnel*)) has been established.
- In Japan, pbb Group's employees are not part of a labor union, but pbb Group's Japanese subsidiary is a member of the German Chambers of Commerce in Japan, which has an employee representative who is chosen among non-executive employees.

In addition, several collective bargaining agreements apply to pbb Group's business: In Germany, the collective bargaining agreements for the private and public banking sector apply, including a framework

collective bargaining agreement and further agreements relating, among others, to wages, performance-oriented variable compensation, protection for certain older employees in case of restructuring measures and early retirement. In addition, shop agreements, certain semi-formal shop agreements (*Regelungsabreden*) and executive staff agreements (*Sprecherausschussvereinbarungen*) apply (*e.g.*, regarding working hours (including flexible working schedules, recording of working time, work on Sunday and holidays), the harmonization of employment conditions and extended benefits (*Zusatzleistungen*) or IT applications).

In France, pbb Group is also subject to a framework collective bargaining agreement applicable to the banking sector and several individual agreements relating to, among others, the avoidance of uncivil behavior and violence occurring during customer contact, equal opportunities for female and male employees, an employee savings plan specific to the banking industry and security policies. Furthermore, a collective bargaining agreement also applies to pbb Group's Spanish branch.

15.9.2 Compensation

Employees are remunerated in accordance with regulatory and statutory requirements, in particular the FMStFG. The statutory framework prohibits bonus payments to employees of state-aided banks in which the FMS, directly or indirectly, holds at least 75% of the shares. In order to pay competitive salaries, pbb Group introduced a fixed "functional allowance" which replaced variable compensation from 2011 onwards. Furthermore, state aided banks are, to a certain extent, subject to a salary cap of €500,000 per year.

As at the date of the Prospectus, pbb Group is reviewing its compensation system to ensure a competitive approach in line with market conditions for the future which also addresses the regulatory requirements derived, *inter alia*, from the InstitutsVergV. These became effective on January 1, 2014, and, *inter alia*, prescribe certain requirements with respect to variable compensation components. Other relevant regulatory requirements include, for example, the long-term nature of remuneration, its sustainability and the need to have an appropriate management and incentive effect, as well as a cap on the variable compensation of members of the Management Board and employees equal to 100% (or, upon a respective resolution of the shareholders' meeting, 200%) of the fixed remuneration) for banks to which the act applies.

The application of the requirements under the InstitutsVergV with respect to variable remuneration / bonus payments are currently suspended as pbb Group is still subject to the FMStFG. pbb Group will introduce a new compensation system including variable components which can be implemented as soon as the Federal Government owns less than 75% of the Company's equity. Thus, the Company expects that as soon as possible after the completion of the Offering a compensation system (with variable payments) will be introduced to replace the current system (including the current fixed functional allowances). However, such new compensation system will continue to be subject to the salary cap of €500,000 per year pursuant to the FMStFG and the New Framework Agreement until at least half of the Capitalization Measures has been repaid by the Company, which is expected to occur upon receipt of the proceeds from the repayment of the SoFFin Silent Participation and the Offering by FMS and HRE Holding, respectively (see "*15.11.1.2 New Framework Agreement with regard to the Capitalization Measures*" for further details).

The Company has initiated consultations with its respective employee representative bodies which are, under German labor law, required in order to implement such new compensation system for pbb Group's employees in Germany. In other pbb Group locations/subsidiaries, the new compensation system is to be implemented by way of respective amendments to the individual employment agreements. The new compensation system is contemplated to be implemented in the course of 2016.

The new compensation system is intended to operate on the concept of performance-related reference values with a target of 100% performance achievement by the employees. In connection with the contemplated re-introduction of variable remuneration components, there will be an increase of the total compensation (assuming 100% target achievement) reflecting an increase of the fixed remuneration resulting from a partial shift from (currently suspended) variable remuneration components to fixed remuneration. This increase in personnel costs is respectively reflected in pbb Group's planned personnel costs budget (and currently estimated with €4 million per year). In addition, the new compensation system is intended to include long-term deferral schemes for bonuses (including, *inter alia*, malus factors, sustainability components and possibly clawback covenants) for employees identified as risk takers in accordance with the then applicable regulatory requirements, in particular the InstitutsVergV.

15.9.3 Pensions and Long-Term Employee Benefits

In Germany, both defined benefit and defined contribution plans exist. In all non-German entities (except for Japan) a defined percentage of fixed salary is paid into externally managed pension funds as part of the defined contribution plans.

The support fund (*Unterstützungskasse*) for banks and financial service companies (BVV Versorgungskasse des Bankgewerbes e.V.) is the general pension plan (accounted for under IFRS as a defined contribution plan) for pbb Group's active employees in Germany. This pension plan (which is used by a broad range of banks and financial service companies) is financed by employer and employee contributions. The contributions are used by the plan to buy reinsurance contracts through the insurance association for banks and financial service companies (BVV Versicherungsverein des Bankgewerbes a.G.). The benefits payable by the plan match the amount and timing of the proceeds from the reinsurance contracts.

In addition, there are two deferred compensation arrangements available for German pbb Group employees where such employees can waive parts of their salary in exchange for future pension benefits (subject to minimum amounts depending on the salary level); employees receive a guaranteed interest rate on the waived salary. As of December 31, 2014, 22 active employees, 36 former employees with vested pension entitlements and 3 pensioners are covered by German pbb Group deferred compensation plans.

The German pbb Group's defined benefit pension and deferred compensation plans are administered by pbb Group with the support of an external service provider.

The major share of pbb Group's various German defined benefit pension plans are closed for new entries. As of December 31, 2014, 294 active employees, 752 former employees with vested pension entitlements and 960 pensioners (including dependents) are covered by pbb Group's closed German defined benefit plans.

pbb Group has partly funded the defined benefit pension plans by reinsurance contracts which are pledged to the employees and which therefore count as qualifying insurance policies under IAS 19 (and subsequently can be netted as plan assets with the liability). In addition, there are further (non-pledged) re-insurance contracts which are used to pre-fund future pension payments. As of December 31, 2014, the overall liabilities of pbb Group with respect to defined benefit pension schemes amounted to €297 million of which €182 million were funded through reinsurance contracts which have been pledged to plan beneficiaries resulting in a net liability of pbb Group equal to €115 million. For more information, see "*Provisions*" (note 60) in the notes to the Audited Consolidated Financial Statements for the financial year 2014 contained in the "*Financial Information*" section of the Prospectus.

Besides pensions, pbb Group provides typical other long-term employee benefits, such as old-age part-time arrangements, jubilee benefits and early retirement. In addition, there is an employee support scheme ("*Beihilfeplan*"), which provides all employees (except for marginally employed individuals (*geringfügig Beschäftigte*) and employees during their probationary period) who have no full private health insurance coverage with additional private health insurance benefits.

15.10 Material Legal Disputes and Administrative Proceedings

Companies of pbb Group are occasionally involved in legal disputes and administrative proceedings as part of their ordinary business activities and this will likely continue to be the case in the future. It is impossible to determine or predict the outcome of cases pending or threatened. pbb Group believes that, other than the proceedings described below, during a period covering the previous twelve months, no governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Company is aware), may have or have had in the recent past significant effects on the Company's and the Group's financial position or profitability. For certain disputes, the Company has set up provisions in aggregate in an amount of €71 million as of March 31, 2015 (€77 million as of December 31, 2014) that the Company considers appropriate.

Material legal disputes in which companies of pbb Group have been involved during the past twelve months involve the following:

The Company is a party to several proceedings initiated against the Company as defendant by former holders of participation certificates (*Genussscheine*) that were originally issued by Westfälische Hypothekenbank AG, Württembergische Hypothekenbank Aktiengesellschaft (later renamed as Hypo

Real Estate Bank International AG) and Nürnberger Hypothekenbank Aktiengesellschaft (the "**Genussschein Issuers**"), of which the Company, in each case, is the legal successor following their mergers into the Company (see "*19.3 Structure of pbb Group*"). The proceedings are pending before different German courts. The Genussschein Issuers had, over several years, issued profit participation certificates in a significant amount. Based on their terms, a holder of such profit participation certificates participates (i) in profits of the issuer with priority over a shareholder's right to dividends but (ii) also in losses which reduce the investor's repayment claim upon termination of the certificates (unless losses are subsequently replenished (*wieder auffüllen*) in the event of subsequent profits of the issuer).

Since the financial year 2008, the profit participation certificates participated in the Company's losses to a significant extent. As a result, the Company cancelled interest payments and reduced repayments of the principal amounts at the expiry of the relevant participation certificates (which, with regard to the disputed profit participation certificates, was between June 1, 2009 and December 31, 2012). For that reason, individual claimants initiated legal proceedings with regard to certain of the profit participation certificates contesting, in particular, those terms relating to loss participation and replenishment (*Wiederauffüllung*) and for the supplementary payment of cancelled interest payments. Many of the claimants submit that the capital components used to calculate loss participations should be different to the ones used by the Company and that a replenishment would depend on the issuer generating net income (*Jahresüberschuss*) but not on it generating balance sheet profits (*Bilanzgewinn*) for the period in question. With regard to the latter argument it should be noted that in the financial years since 2011, the Company had positive net income (*Jahresüberschuss*) but, due to loss carry forwards, no balance sheet profits (*kein Bilanzgewinn*). As of March 31, 2015, the contested profit participation certificates belong to certain issuances with an aggregate principal amount of €221 million (in total). Of such amount, the profit participation certificates held by the claimants had an aggregate principal amount of €15.5 million of which the principal amount in dispute was €6.3 million (in each case, as of March 31, 2015). Until the date of the Prospectus, a binding judgment has already been rendered in favor of the claimants in three cases ordering the Company to pay around €1.1 million plus interest. Furthermore, the Higher Regional Court (*Oberlandesgericht*) Munich and the District Court (*Landgericht*) Cottbus have ruled in favor of claimants with a total amount in dispute of about €3.9 million with, in the latter case, an appeal pending before the Higher Regional Court (*Oberlandesgericht*) Brandenburg. Furthermore, investors who claim to hold profit participation certificates of the Company in the nominal amount of around €23.5 million have demanded a full or partial replenishment of their repayment claims, partly the supplementary payment of cancelled interest payments and payment of interest thereon. In addition, the Company has been informed that investors holding profit participation certificates of the Company in the nominal amount of around €30 million and demanding a full replenishment, supplementary payment of cancelled interest payments and payment of interest thereon are allegedly prepared to take legal actions. As a result of these claims being made and considering that further holders of profit participation certificates are likely to bring legal actions against the Company, the overall claim could in aggregate amount up to €0.3 billion plus interest.

The Company was also involved in litigation as defendant with a former client in a case originally brought before the Paris commercial court (*Tribunal de commerce de Paris)* in 2013. In connection with a French financing agreement, the Company received contractually agreed fee in the amount of €6 million. The claimant initiated the proceedings for repayment of the fee plus interest and costs. After the first instance ruling was favorable to the Company, the parties executed a settlement agreement on March 31, 2015 which provided for a one-off payment of €0.8 million by the Company to the claimant.

Furthermore, several claimants sued the Company claiming €3.98 million plus interest as damages for the alleged frustration of a purchase agreement due to the Company's refusal to release a land charge. The first instance ruling by the District Court (*Landgericht*) Munich I in March 2014 was favorable to the Company. An appeal brought by the plaintiffs before the Higher Regional Court (*Oberlandesgericht*) Munich was dismissed by the court in March 2015. The decision has become binding.

In addition, several individuals are claiming €946,784 against the Company under bank guarantees before the San Javier Court, Murcia. The court decided to terminate the proceedings, however, the claimants have filed an appeal.

Following the decisions of the German Federal Supreme Court in 2014 relating to the prohibition of loan documentation fees (*Kreditbearbeitungsentgelte*) in the general terms and conditions (*Allgemeine Geschäftsbedingungen*) of loan agreements with private customers, the Company is exposed to certain requests of commercial customers seeking compensation payments for such fees. As of the date of the Prospectus, several commercial customers have demanded compensation payments of loan documentation fees. In two cases notices to pay (*Mahnbescheide*) have been filed with local

courts by such customers and served to the Company until the date of the Prospectus. In one case, claims totaling more than €0.5 million have been lodged with courts and served to the Company until the date of the Prospectus.

The Company is also involved in a dispute with a former board member of its legal predecessor (Württembergische Hypothekenbank Aktiengesellschaft) who claims around €165,000 in relation to a company pension scheme.

Additionally, pbb Group is involved in disputes with employees in Germany, in France and in the United Kingdom. Until the date of the Prospectus, in two cases claims totaling €1 million have been lodged with courts and served to the Company while litigation has been threatened in the remaining cases. The majority of the disputes are not material, but pbb Group has set aside provisions for potential damages and legal fees in one of the French cases.

In addition, FMS-WM is involved in a significant number of litigations which relate to (former) assets and liabilities of pbb Group that were transferred to FMS-WM, including the Company's position as defendant or claimant. With regard to those litigations, pbb Group is no longer exposed to any economic risks arising from their outcome (except in the event of FMS-WM's insolvency), but may of course face reputational damages.

The Company has filed a lawsuit before the regional court (*Landgericht*) Frankfurt am Main against HETA for omitted coupon payments and has served a third party notice to the Austrian Federal State of Carinthia. Furthermore, the Company has filed an appeal against the HETA Moratorium with the FMA.

The Company is seeking €221 million in damages from three former members of the Management Board and one former member of the Supervisory Board of the Company. The Company has brought the claim before the District Court of Munich I. The basis of the claim is an alleged breach of duty regarding the lending decisions made for two different loans. As of the date of the Prospectus, the claim is at a preliminary hearing stage and a decision is not expected in the short-term.

In appraisal proceedings relating to the merger of two mortgage banks with the Company in 2001, the new appraisal ordered by the court has resulted in an additional payment averaging €1.00 per share. The potential subsequent payment claims amount up to €9.4 million plus interest as from 2001. However, the first instance ruling of the District Court (*Landgericht*) Munich I in April 2015 was in favor of the Company. The plaintiffs brought an appeal before the Higher Regional Court (*Oberlandesgericht*) Munich.

The Company has filed an action against the denial of losses for trade tax purposes in the amount of approximately €80 million resulting from a participation in a silent partnership. The local tax court of Munich suspended the proceedings with respect to a pending case at the Federal Fiscal Court.

As at the date of the Prospectus, the Company and FMS-WM are debating as to whether the Company is entitled to claim reimbursement of (i) certain costs and expenses during its provision of services to FMS-WM until 30 September 2013 as well as (ii) certain tax advantages in connection with the transfer of former subsidiaries of the Company to FMS-WM in the course of the transactions described in "*14.2.2.2 Transfer of Risk Positions to FMS-WM*".

Furthermore, IMMO Immobilien Management GmbH & Co. KG and Ragnarök Vermögensverwaltung AG & Co. KG two subsidiaries of the Company, are involved in litigations regarding the assessment of real estate transfer tax the amounts of which have already been paid or accrued for in the balance sheets.

RPPSE Espacio Oviedo S.L.U, a subsidiary located in Spain, appealed against the assessment of Large Commercial Establishment Tax before the High-Court. The tax amount assessed by the tax authorities in Spain of approximately €6 million has either been paid, will be paid shortly or has been guaranteed by a bank deposit.

With respect to several securities lending transactions entered into as between former DEPFA Deutsche Pfandbriefbank AG (which merged into the Company in 2009) and Sachsen LB during the years 2004 to 2006 criminal investigations regarding the evasion of corporate income tax are in progress since end of 2012, affecting former and current employees or former board members (six individuals in total). Additionally, criminal investigations against a former employee of the Company concerning obstruction of justice regarding the aforementioned tax fraud investigations are in progress.

15.11 Material Contracts

15.11.1 Agreements relating to the State Aid Measures

The following section describes the most material agreements relating to the State Aid Measures. For further information on these agreements, see also "*14.2.2 Overview of certain State Aid Measures for Stabilizing pbb Group as* part *of the Entire HRE Group*" and "*15.11.1 Agreements relating to the State Aid Measures*".

15.11.1.1 Framework Agreements

The Framework Agreements, which will be replaced between the Company on one side and the FMSA and FMS on the other side by the new framework agreement entered into between the Company and FMSA and FMS described below (see "*15.11.1.2 New Framework Agreement with regard to the Capitalization Measures*"), can be summarized as follows:

On the basis of the Sec. 7 Framework Agreement, FMS provided the Capitalization Measures to the Company consisting of a contribution to the capital reserves of the Company within the meaning of Section 272 (2) no. 4 HGB in the amount of €1.3 billion and the contribution of the SoFFin Silent Participation in the Company in the nominal amount of €1.0 billion. In turn, the Sec. 7 Framework Agreement also provided for certain limitations regarding the conduct of business of pbb Group as well as information undertakings *vis-à-vis* FMS, FMSA and other public bodies. The Sec. 7 Framework Agreement was originally agreed to have an indefinite term without any of the parties' right to terminate it without cause (§ 18.3 of the Sec. 7 Framework Agreement).

Based on the Sec. 8a Framework Agreement, in conjunction with implementation agreements such as the Split-off Agreement and the Concentration Agreement, pbb Group transferred the Risk Positions to FMS-WM with effect as of September 30/October 1, 2010. The Sec. 8a Framework Agreement further stipulates certain undertakings of the Company and HRE Holding regarding certain Risk Positions and their future conduct of business, the required level of own funds, as well as indemnities for the (asserted) transfer of employees, certain representations and warranties and certain penalty provisions for the not only slightly negligent breach of obligations (€5 million). The Sec. 8a Framework Agreement is agreed to terminate three years after the delivery of the final report on the dissolution of FMS-WM. The right to ordinarily terminate the Sec. 8a Framework Agreement beforehand (*ordentliche Kündigung*) is excluded (§ 20 of the Sec. 8a Framework Agreement).

The undertakings which the Company originally assumed under the Sec. 8a Framework Agreement towards the FMSA and FMS (in particular the obligations regarding its future conduct of business, the required level of own funds, certain representations and warranties and the aforementioned penalty provisions) will be replaced by the new framework agreement described below (see "*15.11.1.2 New Framework Agreement with regard to the Capitalization Measures*") upon completion of the Offering and thus, such undertakings will no longer apply. Moreover, HRE Holding will be released, on an interim basis, from certain of its obligations *vis-à-vis* the FMSA and FMS under the Sec. 8a Framework Agreement, also to the extent such obligations of HRE Holding relate to members of pbb Group, pursuant to the interim agreement described below (see "*15.11.1.3 Interim Agreement HRE-FMS/ FMSA*"). In contrast, the Company is still bound by its undertakings and certain representations and warranties towards FMS-WM under the Sec. 8a Framework Agreement. In particular, in relation to any transfer of pbb Group's employees to FMS-WM as a result of the transfer of Risk Positions (including the servicing of those Risk Positions), the Company could be required to take legal actions against, and to indemnify FMS-WM for all costs and expenses incurred by FMS-WM in connection with, such (asserted) transfer of employment relationships. No employee has asserted such transfer so far. Furthermore, the Company could be obliged or entitled to implement (and to cause any other members of pbb Group to implement) an upgrade transfer of legal title (*dingliche Rechtsinhaberschaft*) to those Risk Positions which have been transferred to FMS-WM only economically (by way of sub-participation) or by way of a mere assumption of risks (guarantee). Except for potential transfer taxes, which are to be borne by the Company, all (current or future) reimbursement claims of FMS-WM arising from or in connection with an upgrade transfer, irrespective of the legal basis, have been settled (see "*15.11.3 Settlement Agreements*").

The Framework Agreements contained additional rights and obligations between the Company and the FMSA and FMS: The Company was contractually bound towards FMS by certain limitations and obligations, in particular, regarding the conduct of business (e.g. lending policy), the required level of own

funds, the marketing and the remuneration of key employees. In addition, the Framework Agreements imposed several information and audit undertakings on the Company *vis-à-vis* FMS, the FMSA, the Federal Court of Auditors (*Bundesrechnungshof*) and other German governmental bodies. Had the Company violated an agreed ban on advertising, the Company would have been obliged to pay to the FMSA a contractual penalty (in the amount of €1.0 million). The Company and HRE Holding also undertook to jointly and severally (*gesamtschuldnerisch*) bear the costs incurred by FMSA in connection with the transfer of the Risk Positions and they were – also based on a cost coverage declaration dated August 6, 2009 and subject to certain restrictions – obliged to reimburse or indemnify and hold harmless FMSA with regard to any costs invoiced to FMSA by third parties in connection with such transfer.

15.11.1.2 New Framework Agreement with regard to the Capitalization Measures

FMS, represented by the FMSA, the FMSA and the Company entered into a new framework agreement on the granting of stabilization measures on or about June 22, 2015, in order to replace the Sec. 7 Framework Agreement and the Sec. 8a Framework Agreement between the Company on one side and the FMSA and FMS on the other side upon completion of the Offering ("**New Framework Agreement**"). The New Framework Agreement governs solely the future relationship between the Company and the FMSA and FMS. The Company, the FMSA and FMS have therefore agreed that the effectiveness of such agreement between the Company, the FMSA and FMS shall not require the consent of the other parties to the Framework Agreements, in particular the consent of FMS-WM. HRE Holding has granted its consent to the New Framework Agreement and the release of the Company from its obligations towards the FMSA and FMS under the Framework Agreements.

This New Framework Agreement is not the basis for granting new state aid measures but instead, the parties thereto agreed on the general conditions and requirements for the continued utilization of the Capitalization Measures already granted pursuant to the Sec. 7 Framework Agreement (and not repaid prior to completion of the Offering).

Pursuant to the conditions and requirements as set out in the New Framework Agreement, the Company is, in particular, required:

- to ensure that it will have on a consolidated basis own funds which exceed the minimum total capital ratio as set out in Art. 92 CRR by at least two percentage points;
- to take into account, within the scope of its lending policy, the financing needs of the domestic industry at market conditions;
- to ensure that its remuneration schemes for management team members, the members of the Management Board and other employees of the Company comply with the German Credit Institution Remuneration Regulation (*Institutsvergütungsverordnung*) and the remuneration principles of FMS applicable on the date of the New Framework Agreement;
- to ensure that its remuneration schemes for management team members (i) are aligned with the long-term and sustainable positive performance and profitability of the Company, (ii) are transparent and (iii) are appropriate as regards the overall remuneration and the individual remuneration components, in particular taking into account the respective tasks and individual performance of the relevant management team member as well as the economic situation, performance and future prospects of the Company compared to its peers and (iv) do not lead to taking inappropriate risks;
- to ensure that, based on the remuneration schemes for the members of the Management Board, no bonifications and other discretionary payments are made except to compensate for a low fixed remuneration, and further provided that the overall remuneration is adequate;
- to ensure that the service agreements entered into after the date of the New Framework Agreement with members of the Management Board do not provide for payments in case of a premature termination or a change of control and to prevent that the parameters of variable remuneration determined at the beginning of each calendar year are subsequently altered to the detriment of the Company;
- to ensure that the monetary remuneration of the current and future members of the Management Board does not exceed the remuneration cap of €500,000 (gross) per year and per member of its Management Board and that any benefits in kind are in line and do not exceed, as regards their nature and volume, any benefits in kind granted prior to the

date of the New Framework Agreement and that such benefits in kind are not out of proportion to the monetary remuneration, in each case, until at least half of the Capitalization Measures has been repaid pursuant to Section 10(2b) sentence 3 FMStFG (which is expected to occur upon receipt of the proceeds from the repayment of the SoFFin Silent Participation and the Offering by FMS and HRE Holding, respectively);

- to ensure that service agreements with management or other employees of the Company which may result in a monetary remuneration of more than €500,000 (gross) may only be entered into by the Company subject to the approval of the Supervisory Board, such requirement for approval shall lapse once at least half of the Capitalization Measures has been repaid pursuant to Section 10(2b) sentence 3 FMStFG (which is expected to occur upon receipt of the proceeds from the repayment of the SoFFin Silent Participation and the Offering by FMS and HRE Holding, respectively);
- as long as the shareholding of HRE Holding and indirectly of FMS in the Company is equal to or exceeds 10% of the voting rights in the Company, to take all actions necessary within the scope of what is legally possible to ensure that – based on the understanding that the Supervisory Board continues to comprise at least six shareholder representatives – the two candidates nominated by the FMSA are appointed members of the Company's Supervisory Board and that at least one of the Supervisory Board members nominated by the FMSA is represented on the Executive and Nomination Board Committee (*Präsidial- und Nominierungsausschuss*) and the Audit Committee (*Prüfungsausschuss*) (and on any other committees that may be set up). Once the shareholding of HRE Holding and indirectly of FMS in the Company falls below 10% of the voting rights in the Company , the Company will only be obliged to ensure that one candidate nominated by the FSMA is appointed as member of the Company's Supervisory Board and upon the aforementioned indirect shareholding of FMS falling below 3% of the voting rights in the Company such obligation shall lapse entirely. For the avoidance of doubt: FMSA's right to nominate members of the Supervisory Board described in the preceding sentences only exists *vis-à-vis* the Company and does neither curtail the right of the general shareholders' meeting of the Company to elect the shareholder representatives on the Supervisory Board nor the right of the Supervisory Board to elect the members of its committees;
- to ensure upon request of the FMSA and to the extent legally possible, that, if expedient, representatives of the FMSA are consulted as experts within the meaning of Section 109(1) sentence 2 AktG in respect of meetings of the Supervisory Board and its committees, such obligation turns into a right of the FMSA to participate in the event that the items discussed in such meetings might have an impact on the Capitalization Measures;
- to comply with agreed auditing, reporting and information undertakings *vis-à-vis* FMS as well as confidentiality undertakings *vis-à-vis* the other parties to the New Framework Agreement; and
- to comply with agreed information and audit rights of FMS and the Federal Court of Auditors (*Bundesrechnungshof*) (including, for the benefit of FMS, the information rights set out in Sections 51a and 51b of the German Limited Liability Companies Act (*Gesetz betreffend die Gesellschaften mit beschränkter Haftung*)) and to ensure that the Company's compliance with the material conditions set out in the New Framework Agreement is reviewed by the Company's auditors (except for the information undertakings of the Company which do not have to be reviewed by the auditors).

To underpin such conditions and requirements imposed on the Company by the New Framework Agreement, the Company is contractually obliged to issue a declaration of undertaking pursuant to Section 10(2) sentence 1 no. 9 FMStFG in conjunction with Section 2 FMStBG towards FMS, represented by the FMSA, which will be published on the Company's website and in the federal gazette and made available to the Company's shareholders in a suitable manner as of the Settlement ("**Declaration of Undertaking**"). In the Declaration of Undertaking the Company commits itself to the main conditions and requirements set out in the New Framework Agreement *vis-à-vis* FMS.

In the New Framework Agreement, the parties to the New Framework Agreement have confirmed their view that the New Framework Agreement is not intended to vest FMS or HRE Holding with control (*beherrschenden Einfluss*) over the Company.

In the event of a willful or grossly negligent breach by the Company or a subsidiary of the Company of the obligations under the New Framework Agreement, the Company will be subject to a contractual penalty in the amount of €5 million (as regards the remuneration requirements) or €1 million (as regards certain other requirements including in particular the auditing, reporting and information undertakings of the Company *vis-à-vis* FMS), as the case may be, for each such breach.

The general term of the New Framework Agreement lasts until the termination of the Capitalization Measures, i.e. the New Framework Agreement terminates automatically without any termination notice being required once FMS does no longer (indirectly) hold any shares of the Company. Moreover, certain obligations imposed on the Company under the New Framework Agreement shall lapse upon the earlier of the aforementioned termination of the Capitalization Measures or

- regarding the required level of own funds of the Company, after a period ending two years after the first day of trading of the shares of the Company on the Frankfurt Stock Exchange; and
- regarding the requirements for the remuneration schemes for management and the members of the Management Board of the Company as well as FMSA's right to nominate members of the Supervisory Board, once the shareholding of HRE Holding and indirectly of FMS in the Company falls below 3% of the voting rights in the Company.

Under certain circumstances, the FMSA may impose further conditions and requirements on the Company.

Moreover, FMS, the FMSA and the competent supervisory authorities are entitled to exchange any information relating to the New Framework Agreement with the competent supervisory authorities, the committee pursuant to Section 10a FMStFG, the German Federal Ministry of Finance (*Bundesministerium der Finanzen*) and the relevant parliamentary bodies.

The New Framework Agreement is, *inter alia*, subject to the condition precedent (*aufschiebende Bedingung*) of the repayment of the SoFFin Silent Participation to the FMS at par which has occurred on July 6, 2015.

Besides the New Framework Agreement, the Company continues to be bound by the FMStFG and the FMStBG as long as it uses stabilization measures pursuant to the FMStFG. This includes, *inter alia*, the mandatory remuneration cap of €500,000 gross per year and per member of the Company's Management Board as well as the restriction on variable remuneration according to Section 10(2b) FMStFG both of which shall cease to apply once half of the Capitalization Measures has been repaid pursuant to Section 10(2b) sentence 3 FMStFG (which is expected to occur upon receipt of the proceeds from the repayment of the SoFFin Silent Participation and the Offering by FMS and HRE Holding, respectively), and the obligation of the Company *vis-à-vis* the FMSA to grant representatives of the FMSA under certain conditions admission to the meetings of the Company's Supervisory Board in accordance with Section 10(2d) FMStFG.

Furthermore, FMS benefits from certain statutory privileges and intervention rights *vis-à-vis* the Company in connection with the State Aid Measures. Pursuant to Section 17 FMStBG, for example, the German antitrust law does not apply to FMS and Section 18(1) FMStBG excludes the rescission of any legal act relating to the State Aid Measures under German insolvency law. In addition, FMS is entitled in accordance with Section 20 FMStBG to instruct the Company to take all appropriate actions which are expedient for the repayment, disposal, transfer or amendment of the Capitalization Measures or any (indirect) shareholding of FMS in the Company and such actions are released from the capital maintenance requirements set out in Section 57 AktG.

15.11.1.3 Interim Agreement HRE-FMS/FMSA

In the context of the New Framework Agreement and the disentanglement of pbb Group from HRE Holding, the FMSA, FMS and HRE Holding agreed on or about June 22, 2015 to release HRE Holding, on an interim basis, from certain of its obligations towards FMS and the FMSA under the Framework Agreements after the completion of the Offering until a final agreement on the release and the scope of such release, of HRE Holding from its obligations under the Framework Agreements will be reached. Therefore, HRE Holding's obligations towards the FMSA and FMS under the Framework Agreements relating to the Company and the other members of pbb Group and/or the Risk Positions transferred by members of pbb Group to FMS-WM are suspended with effect as of the Settlement for an interim period until a final amendment to the Framework Agreements will have become effective between HRE Holding, the FMSA and FMS.

15.11.1.4 HREC Japan Back-to-Back Agreement

The Company, HRE Holding and HREC Japan entered into the HREC Japan Back-to-Back Agreement to back the obligations under the Sec. 8a Framework Agreement to the extent these relate to HREC Japan and to the portfolio transferred by HREC Japan to FMS-WM. In particular, HREC Japan undertook to take all actions necessary or desirable to enable the Company and HRE Holding to fulfill their obligations and to exercise their rights under the Framework Agreements and any related agreements. HREC Japan may also be required to modify the transfer modes initially agreed with regard to the relevant Risk Positions, to implement the transfer of legal title and to bear costs associated therewith. Furthermore, HREC Japan is obliged to indemnify the Company and/or HRE Holding against any losses in connection with (i) the (asserted) transfer of HREC Japan employees to FMS-WM, (ii) breaches of obligations or representations and warranties under the HREC Japan Back-to-Back Agreement, (iii) acts of HREC Japan that result in a liability of the Company and/or HRE Holding being liable towards FMS-WM under the Sec. 8a Framework Agreement and (iv) any misinformation during the preparation of the transfer of Risk Positions. HRE Holding and HREC Japan intend to enter into good faith negotiations about a termination or amendment to the HREC Japan Back-to-Back Agreement between them after the completion of the Offering provided that HRE is finally released in whole or in part from its obligations towards the FMSA, FMS and FMS-WM under the Framework Agreements to the extent they relate to HREC Japan and/or the Risk Positions transferred by HREC Japan to FMS-WM.

15.11.1.5 Split-off Agreement

The Split-off Agreement entered into by the Company and FMS-WM on September 30, 2010 provides for the transfer of Risk Positions to FMS-WM by way of a German law governed split-off (*Abspaltung*). With respect to Risk Positions the legal title of which has not yet been transferred to FMS-WM due to German or applicable foreign law restrictions, the Split-off Agreement allows for the establishment of an administrative trust (*Vereinbarungstreuhand*) and requires the parties to treat each other as if the transfer of legal title to the respective Risk Positions had already occurred (forward related income, reimburse expenses etc.); each party can also request to initiate a transfer *in rem* of the relevant Risk Position, unless the transfer would require a disproportionate amount of effort.

15.11.1.6 Concentration Agreement

The Concentration Agreement entered into by the Company and HRE Holding on September 30, 2010 provides for different modes of transfer for certain Risk Positions ("**Concentration Portfolio**") depending on their legal nature and possible transfer restrictions or negative transfer consequences. The agreement can be generally characterized as a sale and purchase agreement for the benefit of FMS-WM as a third party beneficiary. With regard to certain items of the Concentration Portfolio which were wholly or partly used as cover for Pfandbriefe issued by pbb Group, the Company and FMS-WM entered into a restricted funded sub-participation agreement which was later replaced by a so-called substitute cover solution; in this context, FMS-WM issued an acknowledgment of debt (*abstraktes Schuldversprechen*) pursuant to which it pledged irrevocably to pay up to a certain amount upon the Company's request while the Company undertook to indemnify FMS-WM against all payments, expenses and losses of FMS-WM in connection with such acknowledgment of debt. Furthermore, the Company committed to take such action as necessary to complete the transfer of legal title (*dingliche Übertragung*) to an item in the Concentration Portfolio or of the position as debtor or as party to a contract. In addition, the Company undertook to indemnify FMS-WM from and against certain liabilities resulting from the intentional tort *contra bonos mores* (*vorsätzliche sittenwidrige Schädigung*) within the meaning of Section 826 BGB, but limited to the amount of recourse the Company would receive from the tortfeasor. The Concentration Agreement terminates with respect to any item of the Concentration Portfolio as soon as legal title to such item has been transferred *in rem* to FMS-WM or the relevant item has been settled in full; a unilateral early termination of the Concentration Agreement is excluded to the extent legally permissible.

15.11.1.7 Further agreements

In order to transfer certain cover pool assets for pbb Group's Pfandbriefe to FMS-WM under the Split-off Agreement or under the Concentration Agreement (see below), the Company granted FMS-WM four promissory note loans on 29 September 2010. These are in the form of certificates of indebtedness (*Schuldscheindarlehen*) with an aggregate amount of EUR 4.7 billion. The certificates of indebtedness run until October 2017 or October 2019; they can be terminated by the Company at any time.

The Company and FMS-WM entered into an agreement on September 30, 2010 by which FMS-WM granted a guarantee to the Company for certain Risk Positions ("**Guarantee Portfolio**" and the agreement the "**Financial Guarantee Agreement**"). The guarantee is for the unconditional and irrevocable payment of any and all amounts due under certain secured assets in the Guarantee Portfolio. The Financial Guarantee Agreement does not contain a termination right and only expires when no further guarantee events specified in the agreement can occur and all obligations under the agreement are fully and irrevocably discharged.

The Company and FMS-WM entered into an agreement on September 30, 2010 concerning the provision of a liquidity facility with a total commitment of €1.2 billion by FMS-WM to the Company ("**Liquidity Agreement**"). The Liquidity Agreement was amended on July 29, 2014 to reduce the total commitment to €1.14 billion with effect as of October 17, 2014 and on November 19, 2014 to further reduce the total Commitment to €540 million with effect as of January 17, 2015. Drawdowns under the agreement may only be made in Euro and the interest rate applicable to any advance is equal to EURIBOR. The agreement expires on the earlier of October 13, 2056 or the interest payment date specified by the Company as the termination date by way of a notification to FMS-WM. However, the Company and FMS-WM are expected to cancel the Liquidity Agreement and to terminate the rights and obligations thereunder including the committed facility prior to completion of the Offering. As of the date of the Prospectus, the Company has not drawn on the committed facility and there are no outstanding claims of FMS-WM towards the Company or *vice versa* under the Liquidity Agreement.

15.11.2 Agreements primarily relating to the Provision of Services

15.11.2.1 FMS-WM

On September 30, 2010, FMS-WM and the Company concluded a cooperation agreement (the "**Cooperation Agreement**") regarding the Company's asset management of all Risk Positions transferred by the Entire HRE Group to FMS-WM. The Cooperation Agreement was terminated on September 30, 2013, in line with the conditions imposed by the EU State Aid Decision; potential claims of FMS-WM under the Cooperation Agreement have meanwhile been settled (see "*15.11.3 Settlement Agreements*"). Based on a separate framework agreement on IT, which was terminated on the same date as the Cooperation Agreement ("**Framework Agreement IT**"), the Company, pbb Services GmbH (which was later merged into the Company) and their subcontractors provided IT services to FMS-WM and agreed on certain projects (e.g. data migration). FMS-WM may use the name, logo, trademark or the designations "pbb" and "pbbS" incorporated in any work product of the Company provided to FMS-WM under such agreement until at least February 2017.

Following the termination of the Cooperation Agreement, FMS-WM and the Company agreed that the activities previously carried out by the Company for FMS-WM were to be carried out by FMS-WM Service GmbH and by external service providers, which were all staffed with former employees of pbb Group who were transferred there based on business transfer agreements within the meaning of Section 613a BGB or the equivalent provision under the laws at the relevant international locations with effect as of October 1, 2013. For the preparation and implementation of such business transfer, the Company, FMS-WM and the relevant service providers entered into several agreements, including three agreements relating to the transfer of different business units of the Company (the "**Personnel Transfer Agreements**"). The Company continues to be liable for all payment obligations resulting from the employment relationships of the transferred servicing employees prior to the date of the effective legal transfer.

To the extent that FMS-WM, the FMS-WM Service GmbH and its service providers require support that only the Company can deliver, the Company continues to deliver after-sales support, in particular (but not limited to) for the not yet settled Risk Positions transferred to the FMS-WM under an agreement dated October 30/November 7, 2013 ("**After Sales Agreement FMS-WM**") on a cost-plus basis (cost plus 6%, unless otherwise agreed). Such services may pertain to, *inter alia*, compliance issues, the mutual provision of information and support in areas where legal and/or regulatory provisions require the interaction of both parties. The initial term of the After Sales Agreement FMS-WM lasts until December 31, 2018, which shall be renewed automatically on a rolling basis for further one year periods, unless terminated by either party by giving six months' prior notice.

With regard to certain storage obligations concerning electronic data under the After Sales Agreement FMS-WM, the Company, FMS-WM and a law firm (as depository) entered into a deposit and safekeeping agreement ("**Deposit and Safekeeping Agreement**") in order to protect FMS-WM against a potential loss of relevant data with FMS-WM bearing the costs in connection therewith.

HREC Japan, a subsidiary of the Company, continued to provide services for the Japanese real estate finance portfolio transferred to FMS-WM on the basis of a service agreement dated July 12/18, 2013 ("**Portfolio Management Agreement HREC Japan**") until June 29, 2015. The Portfolio Management Agreement HREC Japan has been approved by the European Commission as an exception of the requirement of operational separation between pbb Group and FMS-WM after September 30, 2013.

15.11.2.2 DEPFA Group

On September 30, 2010, the Company entered into six sub-servicing agreements with HREC Japan, DEPFA Bank and four subsidiaries of DEPFA Bank (DEPFA ACS BANK, Hypo Pfandbrief Bank International S.A., Hypo Public Finance Bank and Hypo Public Finance USA, LLC) ("**Sub-Servicing Agreements**") by which the Company assigned individual management responsibilities regarding portfolios transferred to FMS-WM to the other parties as sub-servicers; the other parties basically assumed the same position *vis-à-vis* the Company as the Company *vis-à-vis* FMS-WM under the Cooperation Agreement. The Sub-Servicing Agreements were terminated on the same date as the Cooperation Agreement, i.e. as of September 30, 2013. Potential claims have been settled (see "*15.11.3 Settlement Agreements*").

In connection with the transfer of the share capital of DEPFA Bank to FMS-WM, the Company entered into an after sales agreement with DEPFA Bank in October 2014 ("**After Sales Agreements DEPFA**"), pursuant to which the Company provides certain after sales support to DEPFA Bank on a cost-plus basis (cost plus 6%, unless otherwise agreed). The provisions of the After Sales Agreement DEPFA are generally comparable to the ones of the After Sales Agreement FMS-WM. However, the initial term lasts until December 31, 2024 which shall be renewed automatically on a rolling basis for further one year periods, unless terminated by either party by giving six months' prior notice.

From January 1, 2015 until March 31, 2015, the Company provided IT services to entities of the DEPFA Group on a cost-plus basis (in general cost plus 6%) under a master agreement on IT operational services and related project work dated November 18/20, 2014 ("**Master Agreement IT Services**"). With regard to certain jointly developed IP, the Company and DEPFA Bank entered into an IP license agreement on August 4/September 5, 2014 by which they agreed to grant each other a mutual royalty-free license pertaining to the IP and know-how ("**IP License Agreement**"). For a period of one year starting on December 19, 2014, they also agreed to support each other with regard to questions and clarifications regarding the IP.

The Company and DEPFA Bank entered into an IP right purchase and assignment agreement on August 4/September 5, 2014 by which the Company sold and transferred IP rights generally related to the designations "DePfa", "EPfa" and "Europäische Pfandbriefbank" to DEPFA Bank which, in turn, undertook to respect the Company's use of the designation "Deutsche Pfandbriefbank" and/or "pbb" ("**IP-Right Purchase and Assignment Agreement**"). None of the assigned IP rights contained these designations.

15.11.2.3 HRE Group

In the past, pbb Group and HRE Group were providing to each other certain services relating to human resources, real estate, IT, IP, legal, compliance, procurement, export control and customs, treasury and other areas and were part of the cash management system and global insurance cover of the Entire HRE Group.

On or about June 22, 2015, the Company and HRE Holding entered into an after sales agreement ("**After Sales Agreement HRE**") regarding the exchange of information and cooperation following the completion of the Offering in order for both parties to be able to meet their respective statutory, regulatory, contractual and other obligations towards business partners, authorities and other third parties and, to a limited extent, other forms of support and cooperation. Each of the parties agrees that they will, to the extent reasonably feasible from a technical perspective, separate all information belonging to, or relevant for, the other party which is only stored within its own group companies (e.g. as electronic information, hard copies, documents, files, or emails) (the "**Files**") from its own files and to transfer all Files belonging to, or relevant for, the other party without undue delay after the Settlement to the respective other party. With respect to Files which will not be separated and transferred initially, each of the parties agrees to store such Files not only for its own purposes, but also for and on behalf of the other party and its subsidiaries, and make them available to the extent that such Files are required or beneficial in the course of litigation, or in order to comply with statutory

or contractual obligations, or otherwise required in the reasonable discretion of the requesting party. With regard to certain e-mail accounts and e-mail data, supplementary provisions apply pursuant to which the Company is required to provide HRE Holding with copies of certain e-mail accounts and e-mail data relating to former members of executive bodies and employees of HRE Holding which are stored within the Company. HRE Holding will use such copies only to the extent necessary and will limit the access to such copies to certain persons. Moreover, the Company is obliged to ensure that e-mail data belonging to HRE Holding but stored in the e-mail accounts of the Company are accessed only to the extent absolutely necessary. If and to the extent required by data protection law for the aforementioned separation, transfer and storage obligations, the Company and HRE Holding will enter into one or more agreements on the processing of personal data on behalf of another party (*Auftragsdatenverarbeitung*) pursuant to Section 11 German Federal Data Protection Act.

The parties to the After Sales Agreement HRE have also agreed on mutual information and disclosure rights and obligations regarding certain relevant information and other forms of cooperation, e.g., in connection with certain of HRE Holding's legal proceedings. In addition to such information undertakings, the After Sales Agreement HRE vests HRE Holding, for the initial term of the corresponding rights agreed in the New Framework Agreement with certain information rights and direct claims towards the Company with regard to the required level of own funds and the conduct of business of the Company which are similar to the corresponding rights of FMS and/or the FMSA towards the Company as agreed in the New Framework Agreement (see "*15.11.1.2 New Framework Agreement with regard to the Capitalization Measures*") and are closely linked to potential liability risks relating to the Comfort Letter issued by HRE Holding in favor of the Company (see "*15.11.8 Comfort Letter by HRE Holding*").

Regarding certain additional services, the parties shall, under certain conditions, cooperate and provide each other any and all services and, in addition, perform tasks required due to mandatory changes in applicable law. The parties may outline the scope of any additional services in more detail (e.g. including provisions regarding remuneration) in specific service level agreements, if necessary. Unless otherwise agreed for specific cases, the remuneration shall be based on the cost-plus method, as further detailed in the agreement. The After Sales Agreement HRE also governs the exchange of information with supervisory authorities. Furthermore, each party can issue binding instructions within the context of the After Sales Agreement HRE regarding duties to be performed by the other party, but must indemnify the instructed party against liabilities towards third parties as the result of an instruction. The parties are liable to each other under or in connection with the After Sales Agreement HRE for willful misconduct (*Vorsatz*), and the breach of the standard of care in their own affairs (*Sorgfalt in eigenen Angelegenheiten*). Other than for wilful misconduct, the liability of each party is subject to certain caps. The After Sales Agreement HRE has become effective on July 1, 2015. It may be terminated for the first time with effect as of December 31, 2025, and shall be renewed automatically for one further year, unless previously terminated by a party by giving six months' prior notice (whereby the termination right for cause remains unaffected). Thus, the main provisions of the After Sales Agreement HRE are comparable to those of the After Sales Agreement FMS-WM.

15.11.3 Settlement Agreements

On December 17, 2013, the Company, HRE Holding and FMS-WM executed a settlement agreement ("**Settlement Agreement**") according to which the Company, *inter alia*, agreed to make a one-off payment

- of a one-digit million Euro amount to FMS-WM in order to settle any and all (current or future) reimbursement claims of FMS-WM arising from or in connection with an upgrade transfer of Risk Positions, irrespective of the legal basis;
- of a one-digit million Euro amount to FMS-WM in order to settle any potential damage claims of FMS-WM under the Cooperation Agreement;
- of a one-digit million Euro amount to in order to settle a payment obligation of the Company in connection with the transfer of employees to FMS-WM Service GmbH.

The settlement payment under the Settlement Agreement was made at the beginning of the financial year 2014.

In addition, the Company, HRE Holding, DEPFA Bank and some other entities of DEPFA Group (DEPFA ACS Bank, Hypo Pfandbrief Bank International, S.A. and Hypo Public Finance Bank puc)

have entered into a group-internal settlement agreement in January and February 2014 by which DEPFA Bank agreed to pay to the Company a settlement amount and the Company and HRE Holding waived claims under the Sub-Servicing Agreements and for an upgrade transfer of Risk Positions ("**Group-Internal Settlement Agreement**").

Furthermore, in October/November 2014, HRE Holding and the Company on the one hand, and DEPFA Bank and some of its subsidiaries (DEPFA ACS Bank, Hypo Pfandbrief Bank International, S.A. and Hypo Public Finance Bank puc) on the other hand, entered into a mutual claim settlement agreement to mutually settle (potential) liability claims under or in connection with various old servicing agreements (including the Sub-Servicing Agreements) by way of waivers ("**Mutual Claim Settlement Agreement**").

15.11.4 Agreement on the Repayment of the SoFFin Silent Participation

On July 3, 2015, FMS and the Company entered into an agreement regarding the termination of the SoFFin Silent Participation. Such agreement provided for a termination of the SoFFin Silent Participation with immediate effect and required the Company to repay the SoFFin Silent Participation *at par*, i.e. in an amount of €1.0 billion, to FMS prior to completion of the Offering, which has occurred on July 6, 2015 ("**SoFFin Silent Participation Repayment Agreement**").

15.11.5 HRE Lock-up-Agreement

In addition to the lock-up commitment of the Selling Shareholder in the Underwriting Agreement, HRE Holding, the Company, FMS and FMSA entered into the HRE Lock-up Agreement on or about June 22, 2015. The recitals to the HRE Lock-up Agreement state as the basis for HRE Holding's and FMS' willingness to enter into a lock-up commitment vis-à-vis the Company that prior to the re-privatization of the Company the indirect shareholding of the Federal Republic of Germany in the Company has been taken into account for the purpose of determining the Company's issuer credit rating, and that such indirect shareholding continues to be both sufficient and required to maintain the Company's issuer credit rating at investment grade level.

In the HRE Lock-up Agreement, HRE Holding undertakes (this undertaking referred to as the "**HRE Lock-up Commitment**") with the Company for a period (the "**HRE Lock-up Period**") commencing on the date of the HRE Lock-up Agreement and ending two years after the First Day of Trading of the shares of the Company on the Frankfurt Stock Exchange not to (a) offer, allot, sell, contract to sell, or otherwise transfer or dispose of, directly or indirectly, any shares of the Company; (b) enter into any swap or other arrangement that transfers to another, in whole or in part, the economic risk of ownership of shares of the Company, whether any such transaction described in (a) or (b) is to be settled by delivery of shares of the Company or other securities, in cash or otherwise; (c) propose any increase in the share capital of the Company, vote in favor of such a proposed increase or otherwise support any proposal for the issuance of any securities convertible into shares of the Company, whether directly or indirectly; or (d) enter into a transaction or perform any action economically similar to those described in (a) through (c), in case of (a) other than for the purposes of the Offering (including any exercise of the Greenshoe Option) and in each case of (a) through (d) except for: (i) transactions that do not result in a direct or indirect holding by HRE Holding, FMS or the Federal Republic of Germany below a threshold of 24.9% (or, if the Greenshoe Option has been exercised, the percentage of HRE Holding's shareholding in the Company immediately after the exercise of the Greenshoe Option, but in any event a threshold of at least 20.0%) of the registered share capital of the Company from time to time (the "**HRE Lock-up Threshold**"); (ii) off-market transactions with FMS or controlled entities of HRE Holding or the Federal Republic of Germany, provided that the counterparties of HRE Holding in such transaction (each a "**HRE Transferee**") assume for the then-remaining part of the HRE Lock-Up Period the same obligation to the Company as HRE Holding with respect to the HRE Lock-up Commitment and certain other obligations under the HRE Lock-up Agreement; (iii) the issuance by the Company of shares against contributions in kind in connection with any acquisition, equity investment or joint venture directly to the partner in any such acquisition, equity investment or joint venture; (iv) the tender, sale and transfer of the Company's shares in a voluntary or mandatory takeover bid for the Company pursuant to Sections 29 or 35 of the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*); (v) transactions resulting in a transfer of the direct shareholding of HRE Holding and/or the indirect shareholding of FMS or the Federal Republic of Germany in the Company (or part thereof) to one or more third parties if the relevant rating agency at that time has confirmed to the Company or HRE Holding (or any successor),

prior to the respective transfer, that it will not downgrade the relevant issuer credit rating of the Company at such time below investment grade level solely because of such transfer (e.g., without limitation, because the group rating of a prospective transferee and a material stake of such prospective transferee or transferees in the Company are sufficient to compensate losing the government or sovereign support deduced from an indirect shareholding of the Federal Republic of Germany in the Company), provided that completion of such transfer shall only be permissible if the confirmation by the relevant rating agency remains valid at such time; and (vi) transactions to which the Company has granted prior written consent to HRE Holding. The Company expects that, upon the expiry of the HRE Lock-up Period, the Federal Republic of Germany will aim at reducing its (indirect) holding in the Company in a gradual manner.

The parties to the HRE Lock-up Agreement agree that the HRE Lock-Up Commitment of HRE Holding shall be independent and remain in effect irrespective of any lock-up commitment towards the Underwriters and its terms, expiry, waiver and cancellation.

The HRE Lock-up Agreement contains certain obligations of the parties to discuss potential measures, for example the subscription for new shares of the Company, if dilutions of the indirect shareholding of the Federal Republic of Germany in the Company become probable due to a capital increase of the Company, but expressly states that there shall be no obligation to implement or to agree to any such measures.

In the HRE Lock-up Agreement, FMS further agrees with HRE Holding and the Company that it will not, directly or indirectly, until the end of the HRE Lock-up Period, hold (legally or economically) less than 100% of the registered share capital of HRE Holding, except that FMS may (legally or economically) transfer any number of HRE Holding's shares to other entities controlled by the Federal Republic of Germany provided that, if such transfer leads (legally or economically) to a direct or indirect shareholding of FMS of less than 90%, the relevant transferee entity assumes towards HRE Holding and the Company, in each case as reasonably requested by the Company, the same obligations as FMS has assumed under the HRE Lock-up Agreement for the then remaining part of the HRE Lock-Up Period. Furthermore, FMS and FMSA commit to use, to the extent legally permissible, their reasonable best efforts to ensure that HRE Holding (and/or any HRE Transferee) complies with the HRE Lock-up Commitment and the HRE Lock-up Agreement and agree that they will not take any actions that could lead to HRE Holding (or any HRE Transferee) not being able to comply with the HRE Lock-up Commitment or the HRE Lock-up Agreement.

The HRE Lock-up Agreement expressly stipulates that it is neither an agreement for the benefit nor for the protection of third parties. It may be terminated (including, potentially, in case the indirect shareholding of the Federal Republic of Germany is not sufficient anymore to maintain the Company's issuer credit rating at investment grade level) or amended by mutual consent of all parties thereto at any time.

Furthermore, the HRE Lock-up Agreement contains certain obligations of the Company to engage in discussions with the relevant rating agency upon reasonable request of HRE Holding and to inform HRE Holding on the progress and outcome of any such discussion and the HRE Lock-up Agreement stipulates that HRE Holding, FMS, FMSA or the Federal Republic of Germany shall not be hindered to engage themselves into separate discussions with the relevant rating agencies provided that HRE Holding shall keep the Company informed of any such discussions to the extent legally permissible and possible without endangering HRE Holding's economic interests.

15.11.6 Agreement on Control Avoidance

HRE Holding and the Company entered into an agreement on the avoidance of control (*Entherrschungsvertrag*) (the "**Control Avoidance Agreement**") on or about June 22, 2015.

In the Control Avoidance Agreement, HRE Holding undertakes with the Company (i) in respect of the election and dismissal of supervisory board members and in respect of management matters (*Geschäftsführung*) pursuant to Sections 83, 111 (4) sentence 3 to 5, 119 (2) or 179a AktG, to exercise its voting rights deriving from shares which HRE Holding holds in the Company at the time of effectiveness of the Control Avoidance Agreement or in the future (including shares attributable to HRE Holding pursuant to Section 16 (4) AktG) only up to a maximum of 49% of those present and entitled to vote (*stimmberechtigte Präsenz*), (ii) not to submit any voting proposals, in particular on the election of Supervisory Board members, to the general meeting of the Company and (iii) not to vote for Supervisory Board members of the Company who are not independent of HRE Holding, FMS, FMSA and the Federal Republic of Germany (in case of (ii) and (iii) save for up to two members of the

Supervisory Board nominated by FMSA in accordance with the New Framework Agreement) (for further information on the New Framework Agreement, see "*15.11.1 Agreements relating to the State Aid Measures*").

The Control Avoidance Agreement will apply for the first time with respect to the ordinary general meeting of the Company taking place after completion of the Offering and will continue to apply until the end of the fifth ordinary general meeting, but in any event for a period of five years, thereafter, excluding the right for ordinary termination. The Control Avoidance Agreement is automatically extended until the end of the next ordinary general meeting unless terminated by either party by giving two months' prior notice. The right to terminate for serious cause (*Kündigung aus wichtigem Grund*) remains unaffected and a direct or indirect transfer of shares in HRE Holding which leads to HRE Holding no longer being a controlled entity of FMS, FMSA or otherwise the Federal Republic of Germany gives rise to a right of HRE Holding to terminate. If HRE Holding transfers shares in the Company corresponding to 2.5% of the registered share capital of the Company to one or more entities controlled by FMS, HRE Holding has to ensure that also the transferee, with respect to rights deriving from such shares, commits itself to the restrictions set out in the Control Avoidance Agreement. The Control Avoidance Agreement stipulates that the exercise of rights which FMS or the FMSA has vis-à-vis the Company under the New Framework Agreement outside the general meeting of the Company is not affected or limited by the Control Avoidance Agreement and that the obligations of HRE Holding towards the Company are not limited by the New Framework Agreement other than expressly stipulated in the Control Avoidance Agreement. For further information on the New Framework Agreement, see "*15.11.1 Agreements relating to the State Aid Measures*".

15.11.7 Funding provided by Related Entities

Based on an agreement dated November 16, 2009 (as amended the "**Silent Partnership Agreement**"), FMS held the SoFFin Silent Participation, a typical silent participation, in the Company in the nominal amount of €1.0 billion. The SoFFin Silent Participation was part of the capitalization measures by FMS for the benefit of HRE Holding and its subsidiaries. It carried an annual coupon of 10% which depended on the satisfaction of several conditions. The SoFFin Silent Participation also participated in the balance sheet losses (*Bilanzverlust*) which effectively reduced its book value as determined in accordance with the German GAAP (amounting to €92 million as per December 31, 2014). Had the Company generated profits, a (reduced) book value would have first been written up to its initial nominal value before the coupon would have been paid. The SoFFin Silent Participation had an indefinite term. It has been repaid, however, at par on July 6, 2015 (see "*15.11.4 Agreement on the Repayment of the SoFFin Silent Participation*" and "*7.3 EU Restrictions and Repayment of SoFFin Silent Participation*").

By global certificate dated February 20, 2013, the Company had issued a bearer bond (*Inhaberschuldverschreibung*) with a nominal value of €825.2 million to HRE Holding. The bearer bond carried interest of one month EURIBOR plus 1% ("**Bearer Bond**"). The bearer bond has matured and has been fully repaid in February 2015.

DEPFA Finance N.V., Amsterdam, The Netherlands ("**DEPFA Finance**"), a former subsidiary of the Company, has granted two loans to the Company based on loan agreements dated October 30, 2003 ("**Loan I**") and March 21, 2007 ("**Loan II**") (in each case as amended). Loan I (principal amount €60 million) matures on October 30, 2028 and carries interest of 6.55% per annum; Loan II (principal amount €240 million) matures on March 21, 2032 and carries interest of initially 5.099% per annum which, as of March 21, 2017, will become a floating interest rate (EURIBOR plus 1.94%). The Company may redeem the principal amounts of Loan I and Loan II each year as of October 30 (Loan I) or March 21 (Loan II, starting in 2017) or anytime upon the occurrence of certain tax events. In July 2014, the Company sold and transferred its shares in DEPFA Finance to DEPFA Bank. In this context, the Company, DEPFA Finance, HRE Holding and DEPFA Bank entered into an agreement on the partial redemption of Loan II dated July 10, 2014 ("**Partial Redemption Agreement**"), based on which the Company partially repaid, at market value, €150 million of the principal amount owed under Loan II (and thereby reducing its outstanding principal to €90 million). Furthermore, the Company and DEPFA Bank agreed to partially terminate a hedging swap with regard to Loan II and DEPFA Bank agreed to pay an amount equal to the fair value of such partially terminated swap (€15 million). The Partial Redemption Agreement also provides, as of January 1, 2018, for an option of the Company as well as DEPFA Finance pursuant to which the Company shall repay the remainder of Loan I and Loan II in full at the then prevailing market price for comparable Tier 2 instruments of banks with comparable

standing, rating and interest rates on such instrument, but in no event for more than 100% of the outstanding nominal amount. Such option may be exercised with 30 business days' notice. However, each party may object if the exercise was materially detrimental to it. Due to a delayed consent by the European Commission to the partial redemption (a condition precedent to the Partial Redemption Agreement), the parties confirmed to each other the terms of the Partial Redemption Agreement by agreement dated September 18, 2014.

15.11.8 Comfort Letter by HRE Holding

In its audited unconsolidated financial statements as of December 31, 2014, HRE Holding has issued a letter of comfort (*Patronatserklärung*) by which HRE Holding, subject to political risks, assumes the obligation to ensure that the Company shall be able to meet its contractual obligations ("**Comfort Letter**"). The Comfort Letter, which has been included in HRE Holding's audited unconsolidated financial statements since 2007 (for the financial year 2006), is not subject to a specified term, but it can be terminated by HRE Holding based on general principles of law. The Company expects that HRE Holding will terminate the Comfort Letter with effect as of the Settlement. The Comfort Letter is one core condition for the waiver pursuant to Article 7 Capital Requirements Regulation ((EU) No 575/2013) pursuant to which the Company has been exempt from certain regulatory requirements at the level of the Company (see also "*18.2.1 Basic Principles*"). The waiver will cease to apply prior to the Settlement.

15.11.9 Guarantees and Other Commitments

The Company is legal successor of Hypo Real Estate Bank International AG which was merged into the Company in 2008.

Hypo Real Estate Bank International AG announced on January 2, 2006 that it irrevocably and unconditionally guarantees the due and punctual performance by its subsidiary Hypo Public Finance Bank puc, Dublin, Ireland ("**HPFB**") of all its obligations ("**Universal Guarantee**"). The Universal Guarantee was granted in the context of HPFB's program for the issuance of debt instruments. It covers liabilities under this program as well as other liabilities of HPFB such as liabilities under guarantees (including a universal guarantee granted by HPFB with regard to liabilities of its former subsidiary Hypo Pfandbrief Bank International S.A., Luxembourg ("**HPBI**"), which today is a subsidiary of DEPFA Bank). The Universal Guarantee covers obligations that came into existence until Hypo Real Estate Bank International AG ceased to be a shareholder of HPFB which, following the conclusion of a share purchase agreement with DEPFA Bank dated December 20, 2007, occurred on December 31, 2007. Due to the Company's current knowledge of the development in the earnings, assets and financial position as well as the expected future development of HPFB a default of HPFB which could give rise to pbb Group's liability under the Universal Guarantee cannot completely be ruled out, although as of the date of the Prospectus, given the ownership of FMS-WM over DEPFA Bank and HPFB, a default of HPFB seems rather unlikely. Based on a guarantee indemnity agreement dated October 28/30, 2014, DEPFA Bank agreed towards the Company to indemnify for any and all claims brought against the Company under or in connection with the Universal Guarantee.

Following a prospectus dated June 12, 2007, Hypo Real Estate Bank International AG committed to ensure that its subsidiary Hypo Real Estate International LLC I, Wilmington, USA shall, at all times, be in a position to meet its obligations, including capital payments on certain securities it has issued to Hypo Real Estate International Trust I, a statutory trust under the laws of the state of Delaware, USA ("**Support Undertaking**").

15.11.10 Agreement on the Assumption of Offering-related Costs and Risks

On or about June 26, 2015, HRE Holding and the Company entered into an agreement providing for an indemnity by HRE Holding for the benefit of the Company against liability claims in connection with the Offering ("**Cost Coverage Agreement**"). Under the Cost Coverage Agreement, HRE Holding will further reimburse the Company for all costs incurred in connection with the preparation and the execution of the Offering and the attempted trade sale of the Company to one or more investors. The costs to be reimbursed include, *inter alia*, legal, auditor and other advisor fees and the cost of insuring against liability claims. The cost reimbursement obligation of HRE Holding remains unaffected if the Offering is postponed or cancelled. The Company has agreed, upon indemnification by HRE Holding and to the extent legally permissible, to assign recourse claims that the Company may have against third parties to HRE Holding. The Company also agreed to use its best efforts in obtaining insurance against potential liability claims in connection with the Offering which also covers HRE Holding.

15.11.11 Lehel Settlement Agreement

On March 31, 2015, HRE Holding and the Company entered into a settlement agreement relating to the "Lehel-Carré" in Munich ("**Lehel Settlement Agreement**"). The Lehel-Carré is an office building located in Munich which HRE Holding had leased in 2007 (with a term until February 29, 2024) in order for its joint use together with the Company. However, following the outbreak of the financial crisis, neither HRE Holding nor the Company had actually moved in but rather decided to sublet the Lehel-Carré until the expiry of the original lease agreement. In the Lehel Settlement Agreement, HRE Holding and the Company agreed to split among each other, in proportion to the initially planned use of the Lehel-Carré (i.e. 32% HRE Holding, 68% the Company), the balance between the expected expenditures under the original lease agreement and the expected payments under the sub-lease agreement. The Company therefore agreed to make a one-off payment of €24.5 million to HRE Holding by May 4, 2015 in order to settle any and all reciprocal claims among HRE Holding and the Company in relation to the Lehel-Carré (except for certain existing reimbursement claims).

15.11.12 Material Outsourcing Agreements

As of the date of the Prospectus, pbb Group has stand-alone operations and has outsourced selected functions to third-party providers, of which five outsourcing arrangements are assessed to be material according to the requirements laid down in BaFin's MaRisk circular. The outsourcing arrangements have been set-up and are also managed in compliance with legal and MaRisk requirements (including Section 25b of the German Banking Act (*Kreditwesengesetz*) and Section 9, General Part, of MaRisk as well as data protection considerations) and are subject to regular audits. The Management Board of the Company has established a Group Outsourcing Committee which is responsible for outsourcing governance and control.

15.11.12.1 Overview of material outsourcing agreements

Provider	Service
Fujitsu Services GmbH	IT Infrastructure Operations: Data Center, Mainframe, Managed Network, End User Computing
PROC-IT GmbH	Payroll and travel expenses based on SAP
Risk Integrated Services Limited	SFS LGD rating tool
Sterci	Swift provider
XCOM AG and biw Bank für Investments und Wertpapiere AG	Technical and operational platform of retail deposit business (online with call center).

The material outsourcing contracts of pbb Group are briefly described below:

15.11.12.2 IT Outsourcing Agreement

With effect as of November 1, 2009, the Company outsourced the operation of its entire worldwide IT infrastructure (including the transfer of 48 employees of pbb Group) to Fujitsu Services GmbH. The underlying agreement has been replaced with a new outsourcing contract with effect as of January 1, 2015. Under the new outsourcing contract, the relevant hardware is now owned (and no longer leased) by the Company and provided to Fujitsu Services GmbH for use as part of the services. The agreement covers the operation of the data centers, the servers, the networks and other services.

15.11.12.3 Outsourcing of Payroll-Related Services

Pursuant to an agreement entered into on March 26, 2014, the Company outsourced certain payroll-related services to PROC-IT GmbH, such as the handling of travel expenses and SAP human resources maintenance.

15.11.12.4 Outsourcing Relating to a Risk Management Tool

Pursuant to an agreement entered into on July 1, 2012 (subsequently amended) with a term until June 30, 2017, the Company outsourced the LCD rating system in connection with risk management and control to Risk Integrated Services Ltd.

15.11.12.5 SWIFT Outsourcing

Pursuant to an agreement entered into on March 23, 2012 with an annual automatic renewal, the Company outsourced its SWIFT operation to a specialized provider, STERCI. The name of the provider changed to Bottomline due to a merger in 2013.

15.11.12.6 Outsourcing Relating to the "pbb direkt" Platform

Pursuant to an agreement entered into on February 5/6, 2012, the Company outsourced the technical and operational platform of its customer deposit business (call money and fixed-term deposits from retail customers) under the brand "pbb direkt" to XCOM AG (which is responsible for providing related IT services) and its subsidiary biw Bank für Investments und Wertpapiere AG (which provides back office services).

15.11.13 Material Acquisitions and Divestitures

By German law governed agreement on the transfer of the shares in DEPFA Finance dated July 19, 2014 in conjunction with a Dutch law governed deed of transfer dated July 18, 2014, the Company sold and transferred its shares in DEPFA Finance to DEPFA Bank.

15.12 Insurance

Until its privatization, pbb Group has been covered by HRE Holding's insurance policies. Prior to the Offering, pbb Group has sought its own insurance cover. In connection with the Offering (i.e. at the time the insurance coverage by HRE Holding falls away), pbb Group will have established its own insurance coverage through various insurance policies, including general liability, environmental liability (subject to customary exceptions, such as no coverage for remediation of incidents that were not sudden or accidental), property and business interruption insurance. pbb Group will also have taken out a Directors' and Officers' (D&O) liability insurance policy for members of the Management and Supervisory Board and an employment practices liability insurance in connection with the completion of the Offering. pbb Group believes that it will have adequate insurance coverage against all material risks that are typically insured by similar companies with comparable risk exposure and that it pays appropriate premiums for this coverage.

The insurance coverage is regularly evaluated and adjusted. It cannot, however, be ruled out that the Company or one of the companies within pbb Group could suffer damages that are not covered by the existing insurance policies or that exceed the coverage limits set in these policies. Furthermore, there is no guarantee that pbb Group will also be able to obtain adequate insurance cover at appropriate conditions in the future.

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16 RISK MANAGEMENT

The risk management system is designed for the identification, analysis, valuation, management, documentation, monitoring and communication of all major risks within pbb Group.

16.1 Organization and Principles of Risk Management

pbb Group has a group-wide risk management and risk control system. All requirements for the uniform identification, measurement and limiting of risks as well as the risk management pursuant to:

- Section 25a KWG, in connection with the German Minimum Requirements for Risk Management ("**MaRisk**");
- Capital Requirement Regulation (CRR);
- Section 27 German Pfandbrief Act; and
- Section 91(2) AktG

are defined centrally by the Company. The responsibility for the operational implementation rests with the respective subsidiary (in accordance with Section 91(2) AktG).

16.1.1 Organization and Committees

16.1.1.1 Management Board

The principles, methods and processes of pbb Group's risk management system are determined centrally and applied throughout pbb Group.

The Management Board of the Company is responsible for the risk management system within pbb Group, in particular for taking decisions relating to the strategies and the main issues of risk management and risk organization of pbb Group.

More specifically, the Management Board is responsible for the following major components of the risk management system:

- Deciding on business and risk strategies as the basis of business activities and risk acceptance within pbb Group and the communication to the Supervisory Board
- defining and improving organizational structures within pbb Group, which ensure that all major identified risks are managed and monitored
- adopting credit authorities as a decision-making framework along the credit processes within pbb Group
- taking decisions regarding portfolio management measures outside the delegated competences
- taking credit decisions according to the credit authority levels.

16.1.1.2 Supervisory Board

The Company's Management Board has to notify the Company's Supervisory Board of significant changes in the business and risk strategies, as well as the risk profile of pbb Group. The Risk Management and Liquidity Strategy Committee ("**RLC**") of the Supervisory Board is mainly responsible for controlling the Company's overall risk profile and for monitoring, establishing and improving an efficient risk management system. It is also responsible for the liquidity management of pbb Group and resolves upon necessary credit approvals for credit decisions. The Management Board notifies the RLC of all increases to specific loan loss provisions ("**SLLP**") and the creation of new specific allowances in excess of €5 million. In addition, the RLC is taking credit decisions according to the respective credit authority levels.

16.1.1.3 Committees

Various decision making powers are delegated to the following committees (including the subcommittees) by the Management Board; however, the CRO has the right to veto and escalate a committee decision to the Management Board.

The Management Board of pbb Group has established the following risk committees:

- **Group Risk Committee ("Group RC")**. The committee comprises the Chief Risk Officer ("**CRO**") as **Chairman**, the Co-Chief Executive Officers of the Company, the Chief Credit Officers REF and PIF ("**CCOs**") and the Head of Risk Management & Control (RMC). The committee convenes on a monthly basis to discuss the risk development and to convey to the Management Board recommendations related to risk strategies, risk tolerance, economic capital limits and limit excesses. Furthermore, it adopts guidelines/policies and methods for risk measurement and the monitoring of all types of risks across pbb Group. It also monitors the development of the risk-bearing capacity, economic capital, the risk cover funds, the credit portfolio and the compliance with limits, i.e. economic capital (Ecap) limits; RWA limits and others. It may give approval to minor amendments to limits or strategies and is concerned with the introduction of new products.
- **Group Credit Committees**. The committees are sub-committees to the Group RC. Separate Group Credit Committees are established for the REF business and the non-REF business. The Group Credit Committees comprises the CRO as Chairman, the Co-Chief Executive Officers, the relevant CCO, the Senior Credit Executives and representatives from the front office. The front office representatives have a voting right as part of front office responsibility. The committee typically convenes at least once a week. If new business, extensions or material changes to existing business reach certain credit authority levels (dependent on size and expected loss class of the relevant group of connected clients) the Group Credit Committee will participate in the credit decision-making process. It also issues opinions on all credit decisions which fall within in the responsibility of the Company's Management Board or require the approval of the RLC. The committee's members are furthermore tasked with ensuring that the credit decisions are consistent with the prevailing business and risk strategy.
- **Group Watchlist Committee**. The committee is a sub-committee of the Group RC. It comprises the CRO, the Chief Credit Officers (Chairmen), the Senior Credit Executives and the respective Credit Risk Management ("**CRM**") team heads. It convenes on a monthly basis. It discusses all exposures of pbb Group that have been identified through the early warning system, including their re-classification into another risk status, and develops, if appropriate, individual measures for credit risk limitation. These measures have to be approved by the Group Credit Committee or other credit authority holders according to the respective credit authority grid and have subsequently to be implemented by the relevant departments. Where necessary, the committee also decides whether exposures have to be handed over to CRM Workout, which then takes any necessary restructuring and workout steps in line with the exposure strategy. All necessary credit decisions are taken by key personnel (voting members which have an individual credit authority, such as the CRO or the CCO) pursuant to the delegation of credit decision powers or in the Group Credit Committee.
- **Group Risk Provisioning Committee**. The committee is a sub-committee to the Group RC. It comprises the CRO as Chairman, the Chief Financial Officer (CFO), the CCOs and the Head of CRM REF Workout. If necessary, it convenes monthly and discusses the adequacy of any impairment which has been proposed for a distressed exposure. It takes decisions within the framework of a predefined set of allocated powers and in line with the IFRS and HGB regulations. Besides, it provides recommendations on the creation and reversal of provisions for losses on loans and advances, as well as for rescue acquisitions. In accordance with the applicable governance rules, the implementation of the recommendations of the committee requires the approval of the Company's Management Board.
- **Group New Product Process Committee**. The committee is a sub-committee to the Group RC. It comprises representatives from the key infrastructure and control departments. The following departments are required to approve all new product requests:
    - Finance
    - Board Office/Compliance
    - Operations
    - IT/Organization

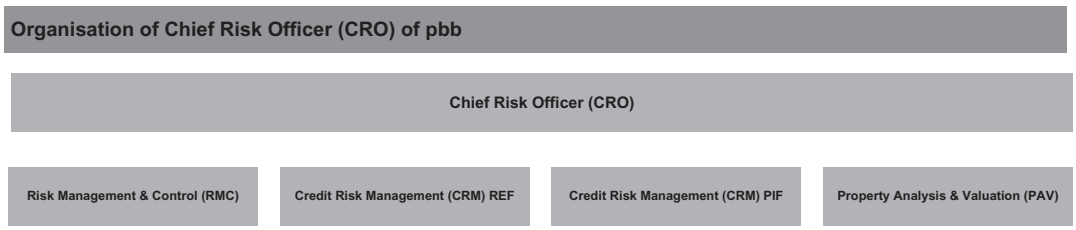
- Legal
- Planning & Corporate Management
- Risk Management & Control/Liquidity Risk
- Risk Management & Control/Risk Methods/Valuation
- Risk Management & Control/Group Market Data
- Risk Management & Control/Market & Liquidity Risk
- Risk Management & Control/Operational Risk
- Risk Management & Control/Credit Risk
- CRM
- Portfolio Analysis
- Tax
- Treasury

It has been established to systematically analyze and address the risks and impact on processes, controls and the infrastructure arising due to new products or business activities in new markets prior to their launch or commencement. A unanimous agreement of all members of the Group New Product Process Committee is required to approve a new product or business initiative.

- **Group Stress Test Committee**. The committee is a sub-committee to the Group RC. It comprises the CRO as Chairman, the Chief Financial Officer (CFO), the Head of Treasury/ Asset Management, the Head of Risk Management & Control (RMC), the CCOs for REF and PIF as well as the Head of Risk Methods and convenes twice a year. The Group Stress Test Committee is responsible for the methodology, performance and monitoring of the internal stress tests.
- **Group Asset and Liability Committee ("ALCO")**. The Group Asset and Liability Committee is chaired by the member of the Management Board responsible for Treasury and Asset Management and comprises the CRO, the Co-Chief Executive Officers and the Treasury, Finance and Risk Management & Control (RMC) departmental managers. The committee convenes on a monthly basis to discuss liquidity management and asset/ liability management for pbb Group and to define long-term financing strategies, capital management, management of regulatory capital ratios and market risk management. The ALCO is also responsible for preparing decision-making documents for liquidity and refinancing strategies which, following discussions in the Group RC, are adopted by the Company's Management Board
- **New Deal Committee**. In addition to the risk committees, pbb Group has established the New Deal Committee (NDC). The committee includes members of Origination, Underwriting, CRM, Property Analysis, Loan Markets and if required Legal Department. It convenes whenever necessary to screen potential new business. If required, the Management Board also becomes involved in the committee's decision making process. The committee evaluates potential transactions prior to the beginning of the full underwriting process, selecting on the basis of profitability and risk profile. Within the organization of pbb Group, the New Deal Committee belongs to origination and underwriting and does as such not form part of risk management.

16.1.1.4 Group Chief Risk Officer (CRO)

In addition to the committees outlined above the following organization units of the CRO form an integral part of pbb Group's risk management system:



The organization of the CRO function comprises the following monitoring and back-office entities on pbb Group level:

- The **Risk Management & Control** unit, which is responsible for the drafting of the risk strategy in the context of the business strategy and its implementation, and ongoing assessment of the regulatory environment. It is permanently monitoring and managing market, credit, operational and liquidity risks as well as the risk-bearing capacity of pbb Group and its compliance with regulatory, capital, liquidity and risk management requirements. It is also responsible for group-wide uniform risk measuring methods, risk reports, stress-testing, economic profit and loss (P&L) and RWA calculation.
- The **Credit Risk Management units for REF and PIF** take part in the analysis of new business including the execution of assigned credit authorities. They are also responsible for the management of the existing portfolio. In addition to the CRM REF portfolio management units a separate CRM REF workout unit is established, which is responsible for the recovery and workout of all non-performing exposures in the REF segment. In CRM PIF, no separate workout unit is established as internal and external legal advisors are involved if necessary. Additionally, in CRM REF the central team Credit Processes is embedded, which is primarily responsible for the organization of the Credit Committee and for updating credit processes for REF and PIF. CRM PIF is additionally responsible for the execution of assigned credit authorities related to the Value Portfolio and Consolidation & Adjustment.
- The Property Analysis & Valuation ("**PAV**") division is responsible for the analysis and uniform valuation of pbb Group's real estate collateral.

In addition to the CRO function, the corporate office/compliance and the Group internal audit divisions (independent) are also part of pbb Group's risk management system. The Group internal audit's responsibility comprises risk-oriented regular and event-driven audits of processes and systems. This also includes the revision of the risk management system. The audit reports are addressed to the entire Management Board of pbb Group. The Legal Department also supports pbb Group's risk management system in relation to legal issues.

16.1.2 Risk Strategy and Policies

With regard to risk management, pbb Group has defined the following internal strategies and guidelines:

- a comprehensive business strategy and, consistent with it, a risk strategy
- a risk inventory 2015
- a risk manual 2015
- a stress test manual
- a risk-bearing capacity methodology within the Internal Capital Adequacy Assessment Process ("I**CAAP**")

The risk strategy of pbb Group is based on the business strategy, risk inventory and the results of the financial planning process for pbb Group. It applies to the operating segments and legal entities of pbb

Group. The risk strategy was revised in February 2015, adopted by the Company's Management Board, presented to the RLC of the Company's Supervisory Board and then notified to the Supervisory Board.

The risk strategy considers the focus of pbb Group as a specialist for REF and PIF in Germany and selected countries in Europe with the Pfandbrief as the primary source of funding. It is reviewed at least once annually and updated where necessary.

The risk strategy is implemented and further specified via various 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 process of setting limits and the escalation process if a limit is exceeded. The policies are annually reviewed and updated where necessary.

16.1.3 Risk Reporting

Depending on the risk type, the Company's Management Board receives daily, monthly or quarterly risk reports which include detailed information concerning the risk situation for each risk type and each company, as well as other management-relevant information. During the regular Supervisory Board meetings the members are also notified of risk-relevant issues. In addition, special reports are prepared on an ad hoc basis or at the request of the Management Board or Supervisory Board; such special reports consider specific and acute risk issues, for instance in relation to critical markets, products or counterparties.

16.1.4 Risk Quantification and Risk Management

The risk-bearing capacity analysis quantifies credit risk, market risk, business risk, property risk and operational risk. It then aggregates these risks to produce an overall risk figure and compares it with the risk cover amount under the risk-bearing capacity approach. The liquidity risk is quantified on the basis of the liquidity position. For further details on the individual calculation methods see "*16.9.3 Method Used for the Individual Risk Types*".

Some risk types are considered material by the risk inventory, such as, *inter alia*, regulatory, reputational or outsourcing risk, but are not quantified using risk models. These risks are managed using regular, reports and guidelines, such as compliance and corporate governance rules. Other risks, such as, *inter alia*, commodity or securitization risks, are considered immaterial.

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

1. Monthly monitoring of 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. Monthly monitoring and analysis of the RWA of pbb Group at the portfolio level. In addition, quarterly stress tests are performed which are intended to ensure that the CET 1 ratio always remains at a sufficient level.
3. Risk management tools such as
   - the use of regulatory risk parameters for the lending business of pbb Group. This shows the average expected loss (EL) at the borrower level, and is therefore used for the early recognition of risks and ongoing profitability monitoring. The parameters are reviewed and recalibrated annually;
   - a system for daily monitoring counterparty and issuer risks by using a market-tested standard application with a risk measurement method that is uniform throughout pbb Group;
   - ongoing monitoring and management of individual exposures; and
   - 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. Ongoing monitoring of operational risk.

16.1.5 Economic Capital and Monitoring the Risk-bearing Capacity

16.1.5.1 Obligation to establish adequate risk-bearing capacity analysis procedure

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 pursuant to Section 25a(1) KWG.

pbb Group's risk-bearing capacity calculation is subject to regulatory reviews, such as the Supervisory Review and Evaluation Process ("**SREP**"), see "*18.2.6.7 Competence for the imposition of capital buffers*".

pbb Group has implemented a risk-bearing capacity analysis based on the ICAAP. The ICAAP is based on the concept of economic capital.

Economic capital is defined as the quantity of capital required by a bank as an appropriate buffer against the largest potential total loss with a defined probability (the confidence level) over a one year time horizon.

Alongside the classic risk types – market, credit, business and operational risk – the risk inventory identified property risk as material and quantifiable. As a result, these five risk types have been included in the ICAAP and are backed by capital. In terms of the credit risk, risks from unexpected losses of commitments already in default and extensions to existing business are included in the risk assessment and backed with capital via additional buffers. By contrast, no economic capital is calculated for the liquidity risk. This risk type is addressed by a separate management approach within liquidity risk steering.

16.1.5.2 Management approaches to verify risk-bearing capacity

To verify the risk-bearing capacity, pbb Group's primary management approach is a going-concern approach. 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 designed to ensure that pbb Group will comply with the required minimum capital ratios even after adverse economic scenarios and associated losses have been incurred. The calculation of the economic capital is based on a confidence level of 95%. To ensure that the risk-bearing capacity in the going-concern approach is complied with, pbb Group has implemented an early warning system, which highlights problems prior to the minimum ratios being reached.

In addition to the going-concern approach, pbb Group has implemented a gone-concern approach as an additional management approach. The objective of the gone-concern approach is to ensure protection of the preferential creditors in a hypothetical liquidation scenario after incurring extreme losses, when also assets from the non-trading portfolio are sold instantly. In addition to the above-mentioned major risks, the gone-concern approach also takes into account the credit spread risks arising from securities in the investment book for calculating the economic capital and deducts the hidden losses attributable to these securities for determining the risk covering potential. A confidence level of 99.91% is used for the gone-concern approach when calculating the economic capital. The concept of economic capital is also used to steer the bank in terms of risk adjusted profitability in the sense that the total economic capital is allocated to segments via the concept of expected shortfall. This concept is a well-known approach to allocate the economic capital of a portfolio to parts of the portfolio preserving the concentration effects.

For further details on the methods of calculating the economic capital for the various risk types see "*16.9.3 Method Used for the Individual Risk TypesTypes*". For details on the current parameters see "*16.9 Overall Risk Position*".

16.1.5.3 Assessment of capital adequacy

In order to assess the capital adequacy of pbb Group in the relevant steering approach, the amount of economic capital is compared with the available financial resources. For example, with regard to the leading going-concern scenario, the available risk cover amount largely comprises the CET 1 capital

available over a period of at least one year, less the capital required to meet the regulatory minimum capital ratios, after adjustment for potentially increasing RWA. The remaining CET 1 capital is adequate for absorbing potential losses and for maintaining a corresponding risk buffer. Under the gone-concern approach, both equity in accordance with IFRS and subordinate capital with a maturity of more than one year are used to determine the risk cover amount, less hidden liabilities relating to securities in the investment book. In order to verify the risk-bearing capacity under each approach, the economic capital must be completely covered by the available financial resources.

The results of the risk-bearing capacity analysis and of the stress tests are regularly presented to the Management Board and the Group Risk Committee where they are discussed and (if necessary) management measures are taken.

16.1.6 Stress Tests

Stress tests have become increasingly important, both from a supervisory perspective and for internal bank management, not least as a result of the European sovereign debt crisis. The framework for stress testing, including the definition of scenarios, methods and parameterization is developed by the Group Stress Test Committee, which reports directly to the Group RC. The Group Stress Test Committee also analyzes the results of the stress tests and draws emergency plans. On the operational level, stress testing is prepared and executed by the Risk Management & Control (RMC) function of pbb Group.

As part of an integrated approach, the effects of macroeconomic stress scenarios on all material risks and on risk-taking potential under stressed market parameters were calculated for a multi-year time horizon in 2014. These scenarios focused on the continuation and/or broadening of the current sovereign debt crisis.

Furthermore, stress tests relating to economic capital and risk cover funds are used to gain a better understanding of the risk-bearing capacity's sensitivity to adverse economic changes. In addition, inverse stress tests are conducted on a regular basis. These tests describe specific scenarios under which the risk-bearing capacity would be at risk. Alongside institutionalized stress tests, ad hoc requests by the Management Board played an important role in 2014.

16.1.7 Recovery Plan

In 2014, the Entire HRE Group developed the first group recovery plan in accordance with the then applicable legal requirements under Section 47 et seq. KWG and the Minimum Requirements for the Design of Recovery Plans ("**MaSan**"). The Section 47 et seq. KWG regulations were replaced by Section 12 seq. of the German Recovery and Resolution Act (*Sanierungs- und Abwicklungsgesetz*, "**SAG**") on January 1, 2015. This recovery plan is applicable to the Entire HRE Group, which includes pbb Group.

The objective of the recovery plan is to demonstrate how the Entire HRE Group would ensure or restore financial stability if a significant deterioration of its financial situation or in the market threatened its further existence. The recovery plan follows its relevant legal guidelines and covers, for example, necessary measures, application of such measures in defined crisis scenarios, their effects on selected indicators as well as the embedded process and reporting governance.

The recovery plan has been implemented on the organizational structure of the Entire HRE Group. This includes, but is not limited to the implementation of underlying processes, guidelines, governance, as well as the quarterly monitoring of indicators and their limits, as defined in the recovery plan. A quarterly status report is sent to the Board, the Supervisory Board and the regulator.

pbb Group will have to develop its own recovery plan within a time limit set by the ECB, in any event, however, not later than six months after the completion of the Offering.

16.1.8 Audits of the risk management

16.1.8.1 Internal Audits

In compliance with MaRisk section AT 4.4.3, 4.5 No. 6 and BT 2, pbb Group's internal audits examine and assess the effectiveness and appropriateness of the risk management in general and the internal control system in particular. The internal audits of all processes, including risk management such as credit and liquidity risk, are conducted based on a risk orientated approach – generally every three years.

In 2014, 14 internal audits were performed on Entire HRE Group level with relevance to pbb Group (2013: 22) and 34 specifically on a pbb Group level (2013: 33). The risk management areas "credit risk", "market risk", "liquidity risk" and "operational risk" were generally – at least to a large extent – audited on a yearly basis. Any issues identified in an internal audit have been classified according to their severity as "important", "significant" or "critical".

In 2013, the internal audits identified four critical issues with several mitigating measures. These issues dealt with the administration of credit files, compliance with internal product approval requirements in the REF business, compliance with internal regulations for property valuation processes and a backup data center at a service provider for "pbb direkt". In 2014, three critical issues relating to payment processes for "pbb direkt" and the calculation of a currency exchange position were identified. All issues have been closed by the responsible business areas and verified by Internal Audit. No critical issues were identified during internal audits in the first calendar quarter of 2015.

16.1.8.2 External Audits

The Entire HRE Group and pbb Group are frequently audited by supervisory authorities such as Deutsche Bundesbank. In 2013 and 2014 these audits covered, *inter alia*, the areas of credit processes, ICAAP, IRBA systems and cover pools. If deficiencies are found, Bundesbank rates its findings F1 (minor weight), F2 (medium weight), F3 (significant weight) or F4 (severe weight). Three audits directly related to risk management (one concerning ICAAP and two concerning IRBA rating systems) revealed 20 findings rated F3, 32 rated F2 and 15 rated F1. As of April 30, 2015, only three issues remained unresolved. Additionally, the statutory auditor's annual report 2014 listed 32 findings (which are not risk rated due to the regulation for statutory auditors), 17 of which have been resolved as of April 30, 2015. All open external issues are in the process of being addressed and are being followed up internally in line with agreed timeframes.

16.1.9 IT Systems used for Risk Management

Risk Management uses IT systems designed to meet the special requirements of pbb Group's business model and its corresponding risk processes. As at the date of the Prospectus, all systems used in pbb Group fulfill the relevant regulatory requirements given by MaRisk or Section 25a KWG and are audited on a regular basis by Internal and External Audit. The IT systems were implemented to support the core risk processes (e.g. Summit (Mysis) provides a unified system for all valuations in the risk area) focusing especially on market risk. All IT-systems are managed by internal IT-personnel and are, as of the date of this Prospectus, up-to-date. Adaptions to new regulatory requirements are planned and implemented whenever they arise.

16.2 Risk Types

pbb Group distinguishes the following major risk types for its business activities:

- credit risk (counterparty risk)
- market risk
- liquidity risk
- operational risk (including legal risk)
- business risk (partial consideration within the scope of the risk-bearing capacity analysis)
- property risk.

The following are major risk types of pbb Group which are not quantified but which are monitored by means of suitable reports, guidelines and policies. The residual risk for non-quantifiable or partly quantifiable risks is furthermore covered by means of a buffer:

- strategic risks
- reputational risks.

16.3 Credit Risk (Counterparty Risk)

16.3.1 Definitions

The counterparty risk is defined as the risk of an unexpected default or decline in the fair value of a receivable or a derivative, resulting from a deterioration in the creditworthiness or hedging situation of a country or counterparty.

The counterparty risk comprises the credit risk, counterparty default risk, issuer risk, country risk, concentration risk, settlement risk and tenant risk. These are defined in pbb Group's risk strategy as follows:

- Credit risk is the risk arising from loans and other credit products. A major factor determining the credit risk is the ability of the borrower to fulfill his financial obligations and the value of collateral in the case of a borrowers' default. Declines in the fair value as a result of rating changes are taken into consideration for calculating the credit risk.
- Counterparty default risk is the risk arising from the potential unexpected default or decline in the fair value of a claim or a derivative. This may be due to the deterioration in the creditworthiness of a counterparty or the deterioration of the hedging situation. The counterparty default risk includes the replacement risk and the repayment risk.
- Issuer risk is the risk arising from bonds and other securities. In particular, it refers to the ability of the issuer to meet his financial obligations and also relates to the value of collateral in the event of the default of an issuer. Declines in the fair value as a result of rating changes are taken into consideration for calculating the issuer risk.
- Country risk arises from changes in the values of international exposures due to country-specific political and economic conditions. It essentially comprises the risk that arises in connection with business activities in certain countries. The country risk includes the conversion risk, transfer risk and sovereign default risk.
- Concentration risk is the risk of cluster formation in relation to a risk factor or counterparties, or a strongly correlated group of risk factors or counterparties.
- Settlement risk is the risk that the pbb Group makes a payment or delivers an asset which has been sold to a counterparty but does not receive a payment or the purchased asset.
- Tenant risk is the risk that losses in rental income from properties will negatively influence the respective borrowers' debt service capacity. In addition, it includes the secondary concentration risk (tenant cluster risk), which arises when one and the same tenant is involved in multiple properties funded by the bank.

16.3.2 Credit Risk Principles

Within pbb Group, credit risks are identified and calculated on various levels:

- the individual counterparty, including affiliated entities
- the individual product
- the country
- the overall credit portfolio by consolidating all counterparties, including affiliated entities.

The credit risk is calculated according to the credit exposure (comprising Exposure at Default (EaD), Net Future Exposure (NFE) and Gross Future Exposure (GFE)), probability of default (PD), loss given default (LGD), the retention periods and the value of collaterals. When aggregating credit risks on a higher level, pbb Group takes potential netting, correlation, concentration and diversification effects into account.

The usual tools used by pbb Group in the assessment of credit risks are internal ratings, valuation of collaterals and calculation of exposures, whereby any specifications of capital market instruments, such as dependencies upon FX and interest rates are taken into account. A Country Analyst Team (CAT) supports the credit committees with the (at least annual) assessment of country risks.

16.3.3 Credit Risk Reports

There are various reporting processes for credit risk within pbb Group:

- The **Group Risk Report** contains the development in volumes and relevant credit risk management indicators, such as the development of the expected loss and the unexpected loss via value-at-risk (VaR). The report shows the credit risk at the level of pbb Group in the context of the overall bank risk and the risk-bearing capacity. It also reports limit utilizations, violations of existing limits and identifies risk concentrations. Key indicators, such as the development of the EaD, the expected loss (EL), the credit risk economic capital and problem loans are integrated in this report and are discussed by the Management Board. The report is also submitted to the RLC of the Supervisory Board.
- Decisions relating to new business and changes to existing transactions are presented to the Group Credit Committee (or delegated credit authorities) based on a detailed credit authority grid.
- In the active business, further regular reports support operational management in order to control and recognize risks at the sub-portfolio level in a timely manner.
- Unusual developments which might result in a major deterioration of the risk position of an individual exposure are identified via defined early warning triggers set for REF and PIF business and presented to the Group Watchlist Committee.

16.3.4 Credit Risk Quantification via Economic Capital and Risk-weighted Assets (RWA) according to the CRR

16.3.4.1 Credit Portfolio Model

pbb Group uses a credit portfolio model to calculate the credit risk economic capital. This credit portfolio model follows the approach of an asset value model. The fundamental idea of this approach is that the repeated simulation of correlated rating migrations, borrower defaults and 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 credit risk economic 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 part of the model is the risk-commensurate allocation of the credit risk capital to the individual borrower units using the expected shortfall principle. This ensures an appropriate causation-based allocation to the borrowers, and thus constitutes a major module in the risk-oriented management of the credit portfolio.

16.3.4.2 Stress Tests

For further details on stress tests for economic capital in credit risk see "*16.1.6 Stress Tests*".

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 a certain minimum CET 1 ratio is no longer met. Tolerance change levels have been defined for all tested risk parameters; these levels must not be violated if pbb Group is to successfully complete the test.

Credit Risk Quantification according to CRR

The Entire HRE Group has received the regulatory approval to apply the Advanced Internal Rating-Based approach ("**AIRB**") for determining the regulatory capital requirements for the relevant classes of assets.

As of December 31, 2014, the AIRB coverage ratio amounted to 99% with regard to RWA and 95% with regard to EaD.

The AIRB approval has been granted for the following probability of default (PD) loss given default (LGD) rating systems:

Probability of default (PD) rating process used for commercial REF:

- SPV investors
- SPV developers

- Commercial developer
- Commercial investor
- Private investor
- Building societies (housing associations)
- German civil law associations (*Gesellschaften bürgerlichen Rechts*)

Further probability of default (PD) rating systems:

- Sovereigns
- Local authorities
- Generic Corporates
- Financial institutions
- Public sector entities
- Project finance
- Asset-based finance (aircraft financing, leasing)
- Private customers
- Small- and medium-sized corporates

Loss given default (LGD) systems:

- LGD for REF
- Financial institution LGD model
- Corporate LGD model
- Sovereign LGD model
- Local authorities LGD model
- Project finance LGD model
- Asset-based finance LGD model (for aircraft financing).

Immaterial segments are kept in the standardized approach.

16.3.5 Credit Risk Management and Monitoring

16.3.5.1 Credit Risk Management

The intended portfolio structure is defined in the risk strategy. The limits (ICAAP, going- and gone-concern limits for the business segments, limits for regulatory equity, stress scenarios, risk and revenue concentrations) are also based on the available financial resources. Furthermore, the risk strategy contains the following limits and risk parameters:

- Country risk limits
- Additional concentration limits (i.e. large exposure limits according to Section 13 KWG/Article 395 CRR, granular exposure limits for each counterparty, EaD limits for the sum of the Top 10 borrowers; economic capital (Ecap) limits for the sum of the Top 10 economic capital (Ecap) consumers in the strategic gone-concern portfolio
- Definition of strategic risk parameters (e.g. regions, financing duration)

The following reports and measures are key elements for monitoring compliance with the defined limits and the intended risk and return parameters at the portfolio level and also at the level of individual transactions:

- analysis of portfolio developments of pbb Group in the Group RC
- determining the credit risk value-at-risk (VaR) at the portfolio level by way of a credit portfolio model and partly limiting at the segment level; analysis of concentration risks and various stress tests (a granular limit system is currently being developed)

- central group-wide monitoring of risk concentrations by way of special, regular and ad hoc evaluations, such as regional or product-specific evaluations
- continuous analysis of the portfolio and the relevant markets by the local CRM units
- regular evaluation of the collateral
- special reports for exposures which are potentially at risk
- determining a risk-adjusted margin using a defined risk adjusted return on capital (RaRoC) for new business
- daily limit overdraft reports, e.g. country limit, individual counterparty limits
- management of a tenant data base to ensure among other things transparency and a consistent analysis of key tenant risk
- periodical monitoring of contractually agreed financial covenants for the majority of the REF portfolio, in particular with respect to cash flow and property value

The Management Board of pbb Group has established separate credit authorities for its REF (including REF Workout) and PIF business segments, which include delegated credit authorities to the Group Credit Committee and to individual credit risk managers below Group Credit Committee level. Different and detailed credit authority levels apply to new business, extension/waivers and annual reviews. The respective credit authority level of a transaction is determined by the size of exposures and the expected loss class for each group of connected clients. Large loans, credit decisions pursuant to Section 13 KWG/Article 395 CRR, require the unanimous Management Board approval. Lending to related parties pursuant to Section 15 KWG requires the approval of the Management Board and the Supervisory Board. Individual credit authorities are delegated to respective CRM key personnel by the CRO on the basis of their experience and qualifications. Each credit authority can only be exercised within the organizational functions of the respective credit authority holder.

16.3.5.2 Credit Risk Management and Monitoring

For individual transactions, the credit process guidelines define the necessary steps of assessing risk for new business, management of existing transactions including potential changes and extensions at legal maturity, as well as the procedures for transferring exposures to watchlist or workout.

Core processes of credit risk management and monitoring as well as the relevant involved CRO functions are as follows:

The initial risk analysis for new business is performed by the Origination/Underwriting departments, which are as well participating in the New Deal Committee (NDC). The committee screens potential transactions prior to the beginning of the full underwriting process, selecting only those with the most beneficial remuneration and risk profile. This ensures that pbb Group's risk parameters are applied early in the credit decision making process as well as an efficient use of in-house capacity. In the financial year 2014 in the REF segment, opportunities amounting to approximately €48.4 billion were discussed in the committee of which it approved €15.0 billion to proceed to the full underwriting process. CRM participates also in the New Deal Committee and confirms the initial risk analysis as required by MaRisk for the approval of the full underwriting process. Regarding PIF transactions certain risks are fully assessed from the beginning on by CRM PIF. The Management Board is involved in the New Deal Committee (NDC) where required.

Once a proposed transaction has been approved by the New Deal Committee (NDC), the Deal Team, which comprises the Origination and Underwriting functions as well as CRM, PAV and the Legal Department begins the formal underwriting process. If substantial deviations from the initially approved parameters arise, the Deal Team can re-escalate the transaction to the New Deal Committee (NDC) or to CRM.

The CRM departments also carry out the annual risk analysis for existing business. Probability of default (PD) and loss given default (LGD) rating tools, which are developed by Risk Management & Control (RMC) and annually validated and calibrated, are used for evaluation purposes and for preparing the credit decision in new and extension business. PAV provides support for analyzing and valuing the securities, if the collateral refers to real estate property.

The Legal Department, together with external lawyers (where appropriate), is responsible for the contract and collateral organization.

pbb Group runs an elaborate and detailed critical facility process. Defined early warning indicators linked to, *inter alia*, changes in the cash flows of a transaction, in the value of the underlying collateral and sponsor's, borrower's or tenant's financial standings are constantly monitored by CRM. If substantial problems are identified, a test is performed on the credit default risk (including *inter alia* a review of the value of collateral) and potential strategies for risk mitigation are developed. Identified transactions are also subject to an at least quarterly monitoring cycle and presented in the Group Watchlist Committee.

If any objective evidence of a potential impairment arises, an impairment test is conducted and calculated according to the requirements of IAS 39. The results are discussed in the Group Risk Provisioning Committee (see "*16.1.1.3 Committees*") and (where necessary) decisions are taken with regard to creating or reversing impairments.

A restructuring or a workout strategy for each non-performing exposure is developed. The decision of what kind of strategy should be pursued, be it a restructuring approach or workout, takes into account the individual circumstances of the transaction, in particular but not limited to the potential future development of the borrower, the collateral and the relevant market. The strategy is presented and approved in the Group Credit Committee or the Group Risk Provisioning Committee.

Exposures in critical facility process are reported monthly on an aggregated basis in the Group Risk Report and in the Group RC. Upon request, they may also be reported in special analyses to the Management Board and Supervisory Board.

16.3.6 Collateral

In the REF segment, financing arrangements are backed by property charges like mortgages and their local law equivalents. The REF credit risk policy does not permit unsecured financing. The credit assessment for existing and new financing arrangements is *inter alia* based on the LTV, the property quality (e.g. micro and macro location, rental situation, physical condition of property) and the local market conditions. These are addressed and discussed during the new business process or in the annual review for already existing exposures. In combination with pbb Group's critical facility process, the annual review ensures that changed risk profiles are identified at an early stage. On average, the loss given default (LGD) as of March 31, 2015 was 12% for real estate financing arrangements which have not defaulted (December 31, 2014: 13%). For the entire REF portfolio, including defaulted loans, the loss given default (LGD) average as of March 31, 2015 was 13% (December 31, 2014: 15%). These changes are attributable, inter-alia, to changes at the individual transactions level (ongoing regular amortizations, extraordinary partial repayments), as well as the decrease in the volume of a non-performing loans, which tends to have a higher loss given default (LGD) than the performing portfolio.

In addition to the property charge, the collateral package also typically comprises the assignment of rent and insurance claims (in the respective form of the various jurisdictions), accompanied by extensive borrower information, notification and consultation obligations. Apart from the property charges, only a few other types of collateral are considered to be of value in the credit assessment process. These include cash security, bank guarantees as well as guarantees of public-sector institutions. Provisions are made in relation to foreign currency security in order to take account of potential exchange rate risks.

In the REF segment, the real estate is valued in consideration of the following quality aspects:

(a) When the loan is initially granted:

- For all real estate security, an internal report (property report) is prepared in the course of the loan decision-making process, and an external appraisal is typically obtained (this is always the case outside Germany) – before the loan is paid out. The procedures ensure that two evaluations of the property are taken into consideration in the decision-making process. The first is internal within the framework of the financing arrangement; it compares the property risks with the financing structure. The second is external and focuses solely on the property (as a complete market and lending value appraisal).
- All internal reports and appraisals are prepared by applying the principle of dual control. At least one senior property analyst who is a certified member of the Royal Institution of Chartered Surveyors ("**MRICS**") and/or who has passed the examination as a real estate valuer for financial purposes by the HypZert GmbH and obtained the respective certification ("**HypZert (F)**") is responsible for the report or the appraisal.

- In case of external appraisals all market values and mortgage lending values are calculated or at least reviewed by a senior property analyst who has passed the HypZert (F) examination, or outside of Germany, the examination as a real estate valuer for mortgage lending valuation ("**HypZert (MLV)**").
- When an order is placed for external appraisals, the MRICS and/or HypZert qualifications are also required as minimum standards. Other appraisals or comments are not recognized.
- In addition, the choice of external service providers in the field of real estate valuation is subject to defined selection criteria which are constantly monitored by pbb Group and which are reviewed every year.
- Every external appraisal, which has to be prepared in line with the principle of dual control, is again checked by an internal senior appraisal expert with the above qualifications before the data is entered into the pbb Group's internal system.

(b) On-going monitoring by the property analysis department:

- As part of the credit monitoring process, the value of the security is typically reviewed annually; this includes an assessment of the main factors which influence the real estate value (rental income, market changes, changes in the building condition). In Germany, the initial assessment is performed by CRM. A standardized catalogue of questions for covering individual property changes, indexed market values based on time series, which are designed to identify changes in the market, and a market volatility model that provides additional information on changes in regional real estate markets are available for monitoring purposes. If this initial assessment indicates a possible change in the market value, a PAV employee conducts a more detailed assessment. While the initial assessment only identifies factors which can have a negative influence on the value, the detailed assessment in PAV examines the identified parameters in more detail in order to determine whether they could have a serious impact on the value. PAV verifies whether any findings from the initial assessment are only due to statistical anomalies or due to a real change in the markets. In all other European countries, the PAV division directly performs the monitoring on an annual basis, applying the quality standards for the second level monitoring. The property analyst reviews the individual property characteristics on the basis of up-to-date documentation and takes into account any market changes since the last market value appraisal in his or her assessment. If necessary, the property is also physically inspected. This second stage of the assessment is used to confirm the previous market value. If the various factors indicate a change in market value, a revaluation is arranged immediately. Standard procedure is for the market values of properties with a market value of more than €5 million and loans more than €3 million to be reappraised at least every three years. Differences in the values or the security are recognized in the bank systems for risk assessment purposes.
- In the market value calculation process which takes place every three years, the quality standards which are applied are the same as those applied in the new business process. Again, the MRICS and/or HypZert qualifications are the minimum qualifications required for preparing appraisals or comments.

(c) General:

- The procedures for ensuring that the property analysts or external appraisal experts make assessments in line with the prevailing regulations (HypZert/MRICS) are carried out by the respective monitoring authorities independently of pbb Group; these processes are internationally recognized. Corresponding evidence is checked by pbb Group.
- In the event that the borrower/sponsor participates in the instruction of a valuer for market value or mortgage lending value (e.g. as the paying party) PAV is in charge of the entire outsourcing process (including the choice of the expert, the instruction and the settlement of fees). If this process is not followed, the report must be considered a borrower valuation which does not meet the minimum requirements of MaRisk and the German Mortgage Lending Value Act (*Beleihungswertermittlungsverordnung*). Such a report may only be used as assistance to the bank's own valuation process.

- All external appraisals are subject to a plausibility check, which aims at verifying that the external appraisal fulfills all common valuation standards (e.g. German Mortgage Lending Value Act, German Ordinance on the Valuation of Property/Real Estate (*ImmoWertV*), red book) and pbb Group specific requirements (e.g. property rating based on the standards of the European Group of Valuers' Associations).
- Development financing arrangements are constantly monitored by pbb Group's specialists (control of construction status and costs). Such monitoring is coordinated by specialists of PAV and can be performed internally for straightforward developments or externally for complex developments. The instruction and plausibility check process of external development monitoring is performed in accordance with the valuation process described above.

In the PIF segment guarantees are accepted as collateral (e.g. contractual guarantees from public authorities, export guarantees, etc.). Additionally, statutory guarantees (e.g. specific guarantee obligations (*Gewährträgerhaftung*)) and maintenance obligations of a public entity for a company in its ownership (e.g. *Anstaltslast*), exist in Public Sector Finance. Maintenance obligations of a public entity for a company in its ownership (e.g. *Anstaltslast*) are support mechanisms between the state as supporter and independent public entities based on general legislation which ensure fulfillment of the entities' tasks. The guarantees grant creditors direct recourse from a public sector entity in case of default of the borrower. Other support mechanisms such as maintenance obligations (e.g. *Anstaltslast*) assure that the borrower is kept in a financial position to serve its debt.

In Treasury, deposits and securities are made available or accepted as collateral when trading with other banks. The collateralization is based on standard agreements, which can be amended in individual cases if required or which can be subjected to individual review by the legal department.

16.3.7 Credit Portfolio

The entire credit portfolio of pbb Group is calculated by using the EaD.

The EaD is usually equal to the IFRS book value (including accrued interests). However, it also recognizes those credit commitments which a borrower will still be able to utilize in the 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.

As of March 31, 2015 the group-wide credit portfolio EaD amounted to €66.8 billion (December 31, 2014: €65.5 billion). It included assets not regarded as core exposures of pbb Group with an EaD of €0.3 billion (December 31, 2014: €0.3 billion). These assets were selected to be transferred to FMS-WM, but the transfer was delayed as the originally envisaged method of transferal was no longer viable due to various considerations, including tax law. In 2010, the credit risk of these assets was transferred by means of guarantees provided by FMS-WM, so that pbb Group ultimately retains a counterparty risk in relation to FMS-WM and thus indirectly in relation to the Federal Republic of Germany in connection with these positions.

To properly reflect the actual economic risk in pbb Group, the above-mentioned positions guaranteed by FMS-WM have been detailed merely for information purposes in the following overviews of the portfolio development and structure by means of footnotes.

In light of the above, the EaD for the total exposure of pbb Group amounted to €66.5 billion as of March 31, 2015 (December 31, 2014: €65.2 billion).

16.3.8 Overview of the Total Exposure of pbb Group: €66.5 billion exposure at default (EaD) as of March 31, 2015

The credit portfolio is broken down into the following segments

- Real Estate Finance (REF),
- Public Investment Finance (PIF),
- Value Portfolio (VP).

In addition to the internal reconciliation and consolidation positions, C&A shows the EaD for transactions which are not directly attributable to the operating segments or the VP. These are asset positions for asset and liability management.

The former segment of Public Sector Finance (until December 31, 2013) was re-allocated on January 1, 2014. The strategic PIF is now managed as an independent segment, whilst the non-strategic portfolio of the existing business of financings to the public sector (budget financing), formerly allocated to the former Public Sector Finance segment, was re-allocated to the VP segment. The REF segment and also C&A remained unaffected by the re-allocation. A detailed explanation of the re-allocation process can be found in the individual segment descriptions (for further information, see "*11.1 Segmentation*").

An additional change to the 2014 figures in comparison with the 2013 figures is due to the implementation of Basel 3 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 December 31, 2013. To allow for comparison of the figures, the Basel 2 figures as of December 31, 2013 are therefore included, taking the new segment structure into account, in the last column of the tables for information purposes. The first two columns and the indicated change relate to Basel 3 figures respectively.

Total portfolio: EaD according to business segments

	March 31, 2015[1)]	December 31, 2014[2)]	Change	December 31, 2013[3)4)]	December 31, 2013[5)]
			in € billion		
REF	25.6	24.3	1.3	22.2	22.5
PIF	7.9	7.8[6)]	0.1	6.8[6)]	6.8[6)]
VP	26	26.2[6)]	-0.2	26.6[6)]	25.2[6)]
C&A	7	6.9	0.1	13	12.4
Total	**66.5**	**65.2**	**1.3**	**68.6**	**66.9**

1) In addition €0.3 billion EaD with regard to the counterparty FMS-WM including guaranteed positions of €0.3 billion (VP: €0.3 billion)
2) In addition €0.3 billion EaD with regard to the counterparty FMS-WM including guaranteed positions of €0.3 billion (VP: €0.3 billion)
3) In addition €0.6 billion EaD with regard to the counterparty FMS-WM including guaranteed positions of €0.6 billion (C&A: €0.01 billion; VP: €0.6 billion)
4) Simulated Basel 3 figure based on IFRS carrying amounts
5) EaD according to Basel 2 after re-segmentation
6) Figures restated. Figures retrospectively adjusted for transfer of Italian PIF portfolio (€1.5 billion EaD) into VP (as of January 1, 2015)

As of March 31, 2015 the total EaD of pbb Group increased compared to December 31, 2014 by €1.3 billion to €66.5 billion. The main driver for the increase was new business in the strategic segments REF and PIF. The share of EaD in the REF segment increased (39% as of March 31, 2015; December 31, 2014: 37%). PIF remained almost stable (12% as of March 31, 2015; December 31, 2014: 12%) The percentage share in the non-strategic VP decreased slightly (39% as of March 31, 2015; December 31, 2014: 40%). The percentage attributable to EaDs in C&A leveled off at 11% as of March 31, 2015 compared to December 31, 2014.

16.3.9 Risk Parameters

16.3.9.1 Expected Loss

The expected loss (EL) for a time period of one year is calculated for the entire exposure, with the exception of non-performing loans for which a SLLP has already been booked. This is calculated from the annual probability of default (PD), the loss given default (LGD) and the EaD using the parameters defined under Basel 3.

The expected loss (EL) for pbb Group amounted to €112 million as of March 31, 2015 (December 31, 2014: €146 million). The decrease in the expected loss (EL) was due to the recovery of two larger financings in the REF segment. Future changes, for instance in the economy, may result in changes in the expected loss (EL) figures stated above. This is a further reason why realized losses can differ from the expected losses.

The figure was split to the segments as follows:

Total exposure: expected loss (EL) according to business segments

	March 31, 2015	December 31, 2014	Change	December 31, 2013[1)]	December 31, 2013[2)]
			in € million		
REF	87	120	-33	137	136
PIF	2	2[3)]	–	2[3)]	2[3)]
VP	22	23[3)]	-1	31[3)]	30[3)]
C&A	1	1	–	1	1
Total	**112**	**146**	**-34**	**171**	**169**

1) Simulated Basel 3 figure based on IFRS carrying amounts.
2) Expected loss (EL) according to Basel 2 after re-segmentation.
3) Figures restated. Figures retrospectively adjusted for transfer of Italian PIF portfolio into VP (as of January 1, 2015)

16.3.9.2 Economic Credit Risk Capital

The economic capital for credit risk is calculated with the credit portfolio model. It amounted to €187 million as of March 31, 2015 (December 31, 2014: €219 million) in the going-concern approach which uses a confidence level of 95% and a period of one year, disregarding diversification effects to other risk types. For further details regarding the calculation see "*16.3.4.1 Credit Portfolio Model*".

16.3.10 Regional Breakdown of the Portfolio

As of March 31, 2015, 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 42% (€28.2 billion). The significant increase of €0.9 billion in the EaD attributable to Germany resulted from new business in the strategic REF and PIF segments. The main items in the category "Other Europe", which accounted for approximately 17% (€11.5 billion) of the overall portfolio, were Austria (€7.2 billion; December 31, 2014: €7.2 billion), Sweden (€1.5 billion; December 31, 2014: €1.2 billion), Finland (€0.5 billion; December 31, 2014: €0.5 billion) and Switzerland (€0.4 billion; December 31, 2014: €0.4 billion).

The year-over-year increase to €6.1 billion as of December 31, 2014 (December 31, 2013: €4.9 billion) in the exposure in France is mainly due to new business. In the first quarter of 2015 the exposure in France decreased due to repayments. In 2014, new business in the United Kingdom exceeded the items due, resulting in a net increase of €0.5 billion. The increase by €0.1 billion in the United Kingdom and the USA in the first quarter of 2015 was caused by foreign exchange effects. In Spain, the EaD in the existing business increased in 2014 due to fair value-related changes in the IFRS affecting hedging relationships. As of March 31, 2015, the EaD in Spain remained stable compared to year-end 2014. In the "Other" category, consisting almost exclusively of bonds of supranational organizations, new bond purchases of supranational organizations in particular ensured an increase of €0.3 billion in 2014 and a further increase of €0.1 billion in the first quarter of 2015 to overall €2.1 billion in EaD as of March 31, 2015.

Compared with December 31, 2014 and December 31, 2013, the absolute figure of the category "Emerging Markets" remained stable and mainly comprised Poland with €2.2 billion as of March 31, 2015 (December 31, 2014: €2.2 billion) and Hungary with €0.6 billion as of March 31, 2015 (December 31, 2014: €0.8 billion).

Total portfolio: EaD according to regions

	March 31, 2015[1)]	December 31, 2014[2)]	Change	December 31, 2013[3)4)]	December 31, 2013[5)]
			in € billion		
Germany	28.2	27.3	0.9	33.3	32.8
Other Europe	11.5[6)]	11.3[7)]	0.2	10.4	9.9
France	6	6.1	-0.1	4.9	5.3
Spain	5.2	5.2	–	5.1	4.9
United Kingdom	5	4.9	0.1	4.4	4.2
Italy	3.4	3.4	–	3.4	3.1
Emerging Markets	3[8)]	3[9)]	–	3	2.9
Other	2.1	2	0.1	1.7	1.6
Portugal	1.4	1.4	–	1.4	1.4
Japan	0.4	0.4	–	0.4	0.3
USA	0.3	0.2	0.1	0.5	0.4
Ireland[10)]	–	–	–	0.1	0.1
Total	**66.5**	**65.2**	**1.3**	**68.6**	**66.9**

1) In addition €0.3 billion EaD with regard to the counterparty FMS-WM representing guaranteed positions which were fully attributable to Germany.
2) In addition €0.3 billion EaD with regard to the counterparty FMS-WM including guaranteed positions of €0.3 billion. The guaranteed positions related to Germany (42%, €0.1 billion) and Italy (58%, €0.2 billion).
3) In addition €0.6 billion EaD with regard to the counterparty FMS-WM 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).
4) Simulated Basel 3 figure based on IFRS carrying amounts.
5) EaD according to Basel 2 after re-segmentation.
6) Comprises Austria (€7.2 billion), Belgium (€0.4 billion), Switzerland (€0.4 billion), Sweden (€1.5 billion/Nordic Country), Denmark (€0.1 billion/Nordic Country), Finland (€0.5 billion/Nordic Country), the Netherlands (€0.4 billion), Czech Republic (€0.4 billion/CEE Country), Slovenia (€0.3 billion/CEE Country), Slovakia (€0.2 billion/CEE Country, Luxembourg (0.1 billion) and Norway (€0.002 billion/Nordic Country).
7) Comprises Austria (€7.2 billion), Belgium (€0.5 billion), Switzerland (€0.4 billion), Sweden (€1.2 billion/Nordic Country), Denmark (€0.2 billion/Nordic Country), Finland (€0.5 billion/Nordic Country), the Netherlands (€0.3 billion), Czech Republic (€0.4 billion/CEE-Country), Slovenia (€0.3 billion/CEE-Country), Slovakia (€0.2 billion/CEE-Country), Luxembourg (€0.1 billion) and Norway (€0.002 billion/Nordic Country).
8) Emerging Markets are Hungary (€0.6 billion), Poland (€2.2 billion) and Romania (€0.1 billion) - all CEE-Countries-.
9) Emerging Markets are Hungary (€0.8 billion), Poland (€2.2 billion) and Romania (€0.1 billion) - all CEE-Countries-.
10) As of March 31, 2015, the EaD in Ireland amounted to €0.002 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 (RMC).

16.3.11 Issuer Risk

For the purpose of classifying the EaD according to issuer risk, the bonds, borrowers' note loans and structured loans in the portfolio are broken down according to region. The EaD is attributed on the basis of the domicile of the issuer. The EaD according to issuer risk amounted to €37.6 billion as of March 31, 2015, slightly lower than the comparative figure as at December 31, 2014 (€38.5 billion).

Western Europe accounted for most of the exposure, with Germany accounting for the highest figure as of March 31, 2015 (€13.1 billion; December 31, 2014: €13.5 billion).

The main countries under "Other Europe" as of March 31, 2015 were Austria (€7.1 billion; December 31, 2014: €7.0 billion) and Belgium (€0.4 billion, December 31, 2014: €0.4 billion).

The largest decline as of March 31, 2015 compared to December 31, 2014 in the portfolio in terms of the issuer risk broken down according to regions was in the United Kingdom (-€0.5 billion) and in Germany (-€0.4 billion) due to repayments and the sale of securities. The increase in the exposure in France to €2.9 billion as of March 31, 2015 compared to December 31, 2013 (€2.4 billion) is mainly due to new business in the PIF segment. In the "Other" category, consisting almost exclusively of bonds of supranational organizations, new bond purchases of supranational organizations in particular ensured an increase in EaD.

With regard to the breakdown of issuer risk according to segments, the VP segment accounted for 69% of the EaD as at March 31, 2015 (December 31, 2014: 68%, as retrospectively adjusted for the transfer of the Italian PIF portfolio into the Value Portfolio as of January 1, 2015), the PIF segment accounted for 20% as of March 31, 2015 (December 31, 2014: 19%, as retrospectively adjusted for the transfer of the Italian PIF portfolio into the Value Portfolio as of January 1, 2015) and C&A for 11% as of March 31, 2015 (December 31, 2014: 13%).

Total portfolio: Issuer risk according to regions

	March 31, 2015[1)]	December 31, 2014[2)]	Change	December 31, 2013[3)4)]	December 31, 2013[5)]
			in € billion		
Germany	13.1	13.5	-0.4	14.8	14.2
Other Europe	8.4[6)]	8.5[7)]	-0.1	7.9	7.2
Spain	4.7	4.8	-0.1	4.6	4.4
Italy	3.3	3.3	–	3.2	2.9
France	2.9	2.9	–	2.4	2.7
Other	2.1	2.0	0.1	1.6	1.6
Portugal	1.4	1.4	–	1.4	1.4
Emerging Markets	1.2[8)]	1.2[9)]	–	1.2	1.1
United Kingdom	0.1	0.6	-0.5	0.6	0.3
Japan	0.4	0.3	0.1	0.3	0.2
Total	**37.6**	**38.5**	**-0.9**	**38.0**	**36.0**

1) In addition €0.3 billion EaD with regard to the counterparty FMS-WM representing guaranteed positions which were fully attributable to Germany.
2) In addition €0.3 billion EaD with regard to the counterparty FMS-WM representing guaranteed positions which related to Italy (58%) and Germany (42%).
3) In addition €0.3 billion EaD with regard to the counterparty FMS-WM representing guaranteed positions which were fully attributable to Germany.
4) Simulated Basel 3 figure based on IFRS carrying amounts.
5) EaD according to Basel 2 after re-segmentation.
6) Comprises Austria (€7.1 billion), Belgium (€0.4 billion), Switzerland (€0.1 billion), Sweden (€0.05 billion/Nordic Country), Denmark (€0.06 billion/Nordic Country), Finland (€0.2 billion/Nordic Country), the Netherlands (€0.1 billion), Czech Republic (€0.06 billion/CEE-Country), Slovenia (€0.3 billion/CEE-Country) and Slovakia (€0.04 billion/CEE-Country).
7) Comprises Austria (€7.0 billion), Belgium (€0.5 billion), Switzerland (€0.1 billion), Sweden (€0.05 billion/Nordic Country), Denmark (€0.05 billion/Nordic Country), Finland (€0.2 billion/Nordic Country), the Netherlands (€0.1 billion), Czech Republic (€0.06 billion/CEE-Country), Slovenia (€0.3 billion/CEE-Country) and Slovakia (€0.04 billion/CEE-Country).
8) Emerging Markets are Hungary (€0.3 billion) and Poland (€0.9 billion) (both CEE-Countries).
9) Emerging Markets are Hungary (€0.4 billion) and Poland (€0.8 billion) (both CEE-Countries).

16.3.12 Real Estate Finance (REF): €25.6 billion exposure at default (EaD) as of March 31, 2015

16.3.12.1 Portfolio Development and Structure

The EaD of the REF portfolio of pbb Group as of March 31, 2015 increased by €1.3 billion compared with December 31, 2014. The customer derivatives included in the portfolio reported an EaD of €0.6 billion as of March 31, 2015 compared with €0.5 billion as of December 31, 2014.

Whereas the absolute figures as of March 31, 2015 for the United Kingdom, "Other Europe" (here in particular Sweden, the Netherlands and Czech Republic), Germany and Spain increased compared with December 31, 2014, there was a decline in the absolute figure for France.

REF: EaD according to regions[1)]

	March 31, 2015[2)]	December 31, 2014[3)]	Change	December 31, 2013[4)5)]	December 31, 2013[6)]
			in € billion		
Germany	12.8	12.5	0.3	12	12.1
United Kingdom	4.8	4.2	0.6	3.5	3.6
France	2.6	2.7	-0.1	1.8	1.8
Other Europe	3.1[7)]	2.7[8)]	0.4	2.4	2.4
Emerging Markets	1.8[9)]	1.8[10)]	–	1.8	1.8
Spain	0.5	0.4	0.1	0.5	0.5
Italy[11)]	–	–	–	0.1	0.2
Japan[12)]	–	–	–	0.1	0.1
Portugal[13)]	–	–	–	–	–
Total	**25.6**	**24.3**	**1.3**	**22.2**	**22.5**

1) In the REF segment, there was no exposure to the counterparty FMS-WM.
2) Breakdown including customer derivatives of €0.6 billion
3) Breakdown including customer derivatives of €0.5 billion.
4) Simulated Basel 3 figure based on IFRS carrying amounts.
5) Breakdown including customer derivatives of €0.4 billion.
6) EaD according to Basel 2 after re-segmentation
7) Comprises Austria (€0.2 billion), Switzerland (€0.3 billion), Sweden (€1.4 billion/Nordic Country), Finland (€0.3 billion/ Nordic Country), the Netherlands (€0.2 billion), Denmark (€0.04 billion/Nordic Country), Czech Republic (€0.4 billion/CEE-Country), Luxembourg (€0.1 billion), Norway (€0.002 billion/Nordic Country), Slovakia (€0.1 billion/CEE-Country) and Slovenia (€0.05 billion/CEE-Country).
8) Comprises Austria (€0.2 billion), Switzerland (€0.3 billion), Sweden (€1.2 billion/Nordic Country), Finland (€0.3 billion/ Nordic Country), the Netherlands (€0.1 billion), Denmark (€0.04 billion/Nordic Country), Czech Republic (€0.3 billion/CEE-Country), Luxembourg (€0.1 billion), Norway (€0.002 billion/Nordic Country), Slovakia (€0.1 billion/CEE-Country) and Slovenia (€0.05 billion/CEE-Country).
9) Emerging Markets are Hungary (€0.4 billion), Poland (€1.4 billion) and Romania (€0.07 billion) - all CEE-Countries. The EaD in Italy in the REF segment amounted to €0.02 billion as of March 31, 2015.
10) Emerging Markets are Hungary (€0.4 billion), Poland (€1.4 billion) and Romania (€0.07 billion) - all CEE-Countries.
11) The EaD in Italy in the REF segment amounted to €0.02 billion as of March 31, 2015.
12) The EaD in Japan in the REF segment amounted to €0.04 billion as of March 31, 2015.
13) In Portugal, €0.03 billion EaD in the REF segment as of March 31, 2015 and also as of December 31, 2013 according to Basel 3 and Basel 2 and also as of December 31, 2014.

The breakdown of the portfolio by property type as of March 31, 2015 changed slightly as against December 31, 2014. As of March 31, 2015, "Office buildings" and "Retail/Shopping" were the main property types with each €7.3 billion EaD. The percentage as of March 31, 2015 of "Office buildings" accounted for 28% of the overall REF portfolio (December 31, 2014: €7.2 billion or 30%). "Retail/ Shopping" accounted also for 28% (December 31, 2014: €6.7 billion or 28%) of the overall REF portfolio as of March 31, 2015.The percentage of the financing of properties with residential use as of March 31, 2015, leveled off at 19% compared to December 31, 2014. "Warehouse/Logistics" remained also unchanged at 9% of the overall REF portfolio. The percentage of mixed-use properties in the "Mixed use" category decreased from 6% as of December 31, 2014 to 5% as of March 31, 2015.

REF: EaD according to property type[1)]

	March 31, 2015	December 31, 2014	Change	December 31, 2013[2)]	December 31, 2013[3)]
			in € billion		
Office buildings	7.3	7.2	0.1	6.9	7
Retail/Shopping	7.3	6.7	0.6	6.2	6.2
Residential	5	4.7	0.3	4.9	4.9
Warehouse/Logistics	2.3	2.3	–	1.7	1.8
Mixed use	1.2	1.6	-0.4	1.0	1
Other	1.7	1.2	0.5	1.2	1.2
Hotel/Leisure	0.8	0.6	0.2	0.3	0.4
Total	**25.6**	**24.3**	**1.3**	**22.2**	**22.5**

1) In the REF segment, there was no exposure to the counterparty FMS-WM.
2) Simulated Basel 3 figure based on IFRS carrying amounts
3) EaD according to Basel 2 after re-segmentation

As of March 31, 2015, the portfolio was still dominated by investment financing (90%; December 31, 2014: 89%). Development loans only accounted for 7% of the EaD as of March 31, 2015 (December 31, 2014: 8%). Investment financing comprises real estate finance where the capital is serviced mainly out of the current property cash flows.

REF: EaD according to loan type[1)]

	March 31, 2015	December 31, 2014	Change	December 31, 2013[2)]	December 31, 2013[3),4)]
			in € billion		
Investment financing	23	21.6	1.3	20.4	20.6
Development loans	1.9	2	-0.1	1.2	1.2
Customer derivatives	0.6	0.5	0.1	0.4	0.4
Other	0.1	0.1	0	0.2	0.2
Total	**25.6**	**24.3**	**1.3**	**22.2**	**22.5**

1) In the REF segment, there was no exposure to the counterparty FMS-WM.
2) Simulated Basel 3 figure based on IFRS carrying amounts.
3) EaD according to Basel 3 after re-segmentation.
4) Rounding difference.

16.3.12.2 Risk Parameters

Using the parameters defined under Basel 3, the expected loss (EL) for the REF portfolio was €87 million as of March 31, 2015 (December 31, 2014: €120 million). The decrease in the expected loss (EL) was due to the recovery of two larger financings in the REF segment.

As of December 31, 2014, the allocation of the EaD to expected loss (EL) classes shows that 90% of the REF exposure belongs to internal expected loss (EL) classes of 1 to 8. According to pbb Group's internal rating classes and based on the terminology of the rating agency Standard & Poor's, EL classes of 1 to 8 correspond to ratings of AAA+ to BBB- and thus to an investment grade rating.

REF: EaD according to internal rating[1),2)]

	March 31, 2015	December 31, 2014
	in %	
Expected loss (EL) classes 1-5	69	62
Expected loss (EL) classes 6-8	23	28
Expected loss (EL) classes 9-11	5	6
Expected loss (EL) classes 12-14	<1	<1
Expected loss (EL) classes 15-18	3	3
Investment Grade	**92**	**90**
Non-investment Grade	**8**	**10**

1) In the REF segment, there was no exposure to the counterparty FMS-WM.
2) According to internal ratings and based on the terminology of the rating agency Standard & Poor's: EL (expected loss) classes 1-5 would correspond to AAA+ to A-; 6-8 would correspond to BBB+ to BBB-; 9-11 would correspond to BB+ to BB-; 12-14 would correspond to B+ to B-; 15-18 would correspond to CCC+ and below.

The REF Top 20 loans comprise thirteen property portfolios and seven single property transactions as of December 31, 2014. The seven single property transactions, however, are mostly multi-tenanted landmark buildings with an established tenant structure. Furthermore, the top 20 REF loans shown below are predominantly transactions with a diversified tenant structure, i.e. the performance of the respective loans for those transactions should by and large not depend on a single tenant's financial standing. This adds a risk diversification element reducing the concentration risk in respect of the Company's exposure for the top 20 REF loans. The average LTV on those seven transactions amounted to 58.9% as of December 31, 2014, i.e. they have a slightly lower risk profile than pbb Group's overall REF portfolio. The Top 20 loans comprise institutional or professional sponsors with a proven financial standing and long term real estate experience with respect to, *inter alia*, asset management. These sponsors typically have broad access to instruments of debt financings beyond traditional bank loans. These clients enjoy high senior management attention, *inter alia* reflected in the applicable credit authority grid for annual review, new business or waivers. Senior Management is

regularly involved in high level client meetings. Overall, pbb Group is in senior lender position combined with first ranking collateral position. A part of these loans is granted from a syndicate of banks pbb Group is part of.

REF: Top 20 exposures as of December 31, 2014

Top	Main country of risk	Number of pro-perties	Weighted average expected loss (EL) class[1)]	Weighted average LTV	Type of use	EaD in € million	EaD in % of total
1	Germany	300	7	62%	Industrial /logistic	340	1.4
2	Sweden	63	5	55%	Office	279	1.2
3	Switzerland	53	3	71%	Retail	265	1.1
4	Germany	1	5	82%	Office	226	0.9
5	Germany	52	5	78%	Residential	223	0.9
6	Germany	2	2	49%	Retail	214	0.9
7	Hungary	1	8	42%	Mixed use	214	0.9
8	Germany	31	6	85%	Retail	202	0.8
9	France	1	3	52%	Office	188	0.8
10	Germany	10	1	62%	Office	186	0.8
11	Poland	21	9	77%	Industrial/logistic	169	0.7
12	France	1	2	50%	Office	166	0.7
13	Germany	1	1	48%	Developer	164	0.7
14	France[3)]	1	2	59%	Office	161	0.7
15	Germany	33	6	77%	Office	157	0.6
16	Sweden	20	3	53%	Residential	150	0.6
17	Poland	28	6	61%	Retail	149	0.6
18	Germany	35	1	62%	Office	148	0.6
19	Sweden	1	7	71%	Office	148	0.6
20	Germany	70	7	90%	Retail	142	0.6
	Total Top 20					**3.899**	**16.0**

1) According to internal ratings and based on the terminology of the rating agency Standard & Poor's: EL (expected loss) classes 1-5 would correspond to AAA+ to A-; 6-8 would correspond to BBB+ to BBB-; 9-11 would correspond to BB+ to BB-; 12-14 would correspond to B+ to B-; 15-18 would correspond to CCC+ and below.
2) Development loan.
3) Exposure fully repaid in 2015.

16.3.13 Public Investment Finance (PIF): €7.9 billion exposure at default (EaD) as of March 31, 2015

16.3.13.1 Portfolio Development and Structure

The portfolio of the former Public Sector Finance (PSF) operating segment was re-allocated at the beginning of 2014. Since January 1, 2014, the strategic part of the former PSF segment is recognized in the PIF segment. It amounted to €7.8 billion as of December 31, 2014 (December 31, 2013: €6.8 billion, both figures as retrospectively adjusted for the transfer of the Italian PIF portfolio into the Value Portfolio as of January 1, 2015). The non-strategic and wind-down portfolio in the context of budget financing was transferred to the VP segment. The Basel 2 figures as of December 31, 2013 are included in the last column of the tables for information purposes taking pro forma into account the new segment structure.

Most of the exposure as of March 31, 2015 was in Western Europe with an emphasis on Germany, France and Spain. The percentage of the countries in this segment portfolio remained largely stable in the first quarter of 2015. As in 2014, the major part of "Other Europe" was constituted by Belgium and Austria with €0.3 billion as of March 31, 2015 (December 31, 2014: €0.3 billion) each. The increase in Germany and France as of March 31, 2015 is due to new business. The "Other" category includes almost exclusively exposures to supranational organizations.

PIF: EaD according to regions[1)]

	March 31, 2015	December 31, 2014[2)]	Change	December 31, 2013[2),3)]	December 31, 2013[2),3)]
			in € billion		
Germany	2.6	2.5	0.1	2	2.2
France	2.3	2.2	0.1	1.7	1.7
Spain	2	2.1	-0.1	2.1	2
Other Europe	0.8[4)]	0.8[5)]	–	0.8	0.8
Other	0.1	0.1	–	0.1	0.1
United Kingdom	0.1	0.1	–	0.1	–
Total	**7.9**	**7.8**	**0.1**	**6.8**	**6.8**

1) In the PIF segment, there was no exposure to the counterparty FMS-WM.
2) Figures restated. Figures retrospectively adjusted for transfer of Italian PIF portfolio (€1.5 billion EaD) into VP (as of January 1, 2015).
3) Simulated Basel 3 figure based on IFRS carrying amounts.
4) EaD according to Basel 2 after re-segmentation.
5) Comprises Austria (€0.3 billion), Belgium (€0.3 billion), Finland (€0.2 billion/Nordic Country) and Sweden (€0.05 billion/ Nordic Country).
6) Comprises Austria (€0.3 billion), Belgium (€0.3 billion), Finland (€0.2 billion/Nordic Country) and Sweden (€0.05 billion/ Nordic Country).

PIF: EaD according to counterparty structure[1)]

	March 31, 2015	December 31, 2014
		in %
Regional Government[2)]	44	44
Sovereign (related)[3)]	16	15
Regional Government (related)[4)]	14	15
Public Sector Enterprises[5)]	14	14
Sovereign[6)]	7	7
Corporation[7)]	5	4
Supranational[8)]	1	1

1) Figures restated. Figures retrospectively adjusted for transfer of Italian PIF portfolio (€1.5 billion EaD) into VP (as of January 1, 2015).
2) Direct obligations of regional, provincial and municipal governments.
3) Indirect obligations of an entity with a guarantee by a central government of national debt agency.
4) Indirect obligations of an entity with an explicit guarantee by a regional government.
5) Direct obligations of administrative bodies (e.g. utility providers) and non commercial/non-profit undertakings.
6) Direct obligations of central governments, central banks and national debt agencies.
7) Direct obligations of enterprises, established under corporate law and operating in a for-profit or competitive environment.
8) Direct obligations to international organizations and international investment and development banks.

The portfolio comprises the following financings:

(i) Financing concluded directly with a public sector debtor, eligible according to the German Pfandbrief Act, on the basis of a specific project according to a defined product catalogue;

(ii) Financing of companies, which have a public sector or private legal structure and funding, which are collateralized with a public sector guarantee or other type of support within the meaning of the German Pfandbrief Act (transport and utility companies, municipal utilities, special-purpose associations, management companies, non-profits, associations); and

(iii) Financing of special-purpose vehicles, which are collateralized with a public sector guarantee within the meaning of the German Pfandbrief Act.

The allocation of the EaD to expected loss (EL) classes shows that 99.99% of the PIF exposure belongs to internal expected loss (EL) classes of 1 to 8. According to pbb Group's internal rating classes and based on the terminology of the rating agency Standard & Poor's, EL classes of 1 to 8 correspond to ratings of AAA+ to BBB- and thus to an investment grade rating.

PIF: EaD according to internal ratings[1),2)]

	March 31, 2015	December 31, 2014
	in %	
Expected loss (EL) classes 1-5	96	96
Expected loss (EL) classes 6-8	4	4
Expected loss (EL) classes 9-11	<1	<1
Expected loss (EL) classes 12-14	–	<1
Expected loss (EL) classes 15-18	–	0
Total investment Grade	99.99	99.99
Total non-investment Grade	0.01	0.01

1) Figures restated. Figures retrospectively adjusted for transfer of Italian PIF portfolio (€1.5 billion EaD) into VP (as of January 1, 2015).
2) According to internal ratings and based on the terminology of the rating agency Standard & Poor's: EL (expected loss) classes 1-5 would correspond to AAA+ to A-; 6-8 would correspond to BBB+ to BBB-; 9-11 would correspond to BB+ to BB-; 12-14 would correspond to B+ to B-; 15-18 would correspond to CCC+ and below.

The allocation of the EaD according to the product class shows that about three quarters of the PIF exposure belong to the product class "loans", whereas about one quarter belongs to the product class "bonds".

PIF: EaD according to product class[1),2)]

	March 31, 2015	December 31, 2014
	in %	
Bonds	24	24
Loans	76	76
Derivatives	<1	<1

1) Figures restated. Figures retrospectively adjusted for transfer of Italian PIF portfolio (€1.5 billion EaD into VP (as of January 1, 2015).
2) Vast majority of bonds issued in previous years; limited new business in bonds.

pbb Group's largest exposures in the PIF segment relate to sovereigns, including financings provided to a corporate and guaranteed by a sovereign, e.g. an (export credit agency) ECA covered transaction. All borrowers/issuers are either central, regional or local governments or supported by them; this applies also for public sector enterprises which are supported by either central or regional governments. All listed receivables are generally cover pool eligible with applicable exceptions for small portions of certain receivables (e.g. export credit guarantees covering only 95% of the total receivable). Furthermore, all borrowers are performing and there are no overdue payments.

Top 20 exposures[1), 2)] as of December 31, 2014

Top	Borrower classification	Country of Risk	Weighted Ø EL Class[3)]	Weighted Ø loan Maturity	EaD in € million	EaD in % of total
1	Sovereign	Germany	1	9.4	369	4.8%
2	Regional Government	Spain	5	3.1	259	3.3%
3	Regional Government (related)	Germany	1	2.9	244	3.1%
4	Regional Government (related)	Belgium	1	10.1	229	2.9%
5	Regional Government	Spain	6	6.5	216	2.8%
6	Regional Government	Spain	4	2.6	214	2.8%
7	Regional Government	Spain	3	8.6	210	2.7%
8	Sovereign (related)	Austria	1	21.9	193	2.5%
9	Public Sector Enterprise	France	1	10.5	175	2.3%
10	Public Sector Enterprise	Spain	2	8.9	169	2.2%
11	Regional Government	Spain	3	16.6	158	2.0%
12	Regional Government	Spain	3	3.4	154	2.0%
13	Public Sector Enterprise	Finland	1	9	145	1.9%
14	Regional Government (related)	Germany	1	21.1	138	1.8%
15	Regional Government	Spain	3	3.3	118	1.5%
16	Public Sector Enterprise	Germany	1	3.1	111	1.4%
17	Sovereign (related)	Germany	1	11	109	1.4%
18	Regional Government	Spain	3	2.8	108	1.4%
19	Regional Government (related)	France	1	5.2	100	1.3%
20	Regional Government	France	2	2,6	94	1.3%
	Total Top 20				**3.513**	**45.3%**

1) Figures restated. Figures retrospectively adjusted for transfer of Italian PIF portfolio (€1.5 billion EaD) into VP (as of January 1, 2015).
2) For definitions of the borrower classifications, see table "PIF EaD according to counterparty structure".
3) According to internal ratings and based on the terminology of the rating agency Standard & Poor's: EL (expected loss) classes 1-5 would correspond to AAA+ to A-; 6-8 would correspond to BBB+ to BBB-; 9-11 would correspond to BB+ to BB-; 12-14 would correspond to B+ to B-; 15-18 would correspond to CCC+ and below.

16.3.13.2 Risk Parameters

As of March 31, 2015, the expected loss (EL) for the portfolio of the PIF segment was €2 million (December 31, 2014: €2 million, as retrospectively adjusted for the transfer of the Italian PIF portfolio into the Value Portfolio as of January 1, 2015).

16.3.14 Value Portfolio (VP): €25.9 billion exposure at default (EaD) as of March 31, 2015

16.3.14.1 Portfolio Development and Structure

The VP comprises pbb Group's non-strategic portfolio. As of January 1, 2014, the portfolio was re-allocated by transferring the non-strategic part of the former Public Sector Finance (PSF) segment to the VP in order to clearly separate the strategic and non-strategic segments. The Basel 2 figures as of December 31, 2013 are included in the last column of the tables for information purposes taking pro forma into account the new segment structure.

In conformity with this strategy, the further decrease in the exposure as of December 31, 2014 compared with December 31, 2013 was mainly due to reductions in Germany, with Germany remaining the focus in the portfolio. The exposure increases observed, particularly in "Other Europe" and Italy as of December 31, 2014 compared with December 31, 2013, were due to fair value-related changes in the IFRS affecting the EaD of hedging relationships.

Austria was the largest item in the "Other Europe" category as of December 31, 2014 with €6.7 billion (December 31, 2013: €6.0 billion).

VP: EaD according to regions

	March 31, 2015[1)]	December 31, 2014[2)]	Change	December 31, 2013[3),4)]	December 31, 2013[5)]
			in € billion		
Germany	8.4	8.8	-0.4	10.1	9.5
Other Europe	7.4[6)]	7.4[7)]	–	6.8	6.2
Italy	3.3	3.3[8)]	–	3.2[8)]	2.9[8)]
Spain	1.9	1.9	–	1.8	1.7
Portugal	1.4	1.4	–	1.4	1.4
Emerging Markets[9)]	1.1[10)]	1.2[11)]	-0.1	1.2	1.1
Other	1.1	1.1	–	1.1	1
France	0.9	0.9	–	0.8	1.1
Japan	0.4	0.3	0.1	0.3	0.3
United Kingdom[12)]	–	–	–	–	–
Ireland[13)]	–	–	–	–	–
USA[14)]	–	–	–	–	–
Total	**25.9**	**26.2[8)]**	**-0.3[8)]**	**26.7[8)]**	**25.2[8)]**

1) In addition €0.3 billion EaD with regard to the counterparty FMS-WM representing guaranteed positions which were fully attributable to Germany.
2) In addition €0.3 billion EaD with regard to the counterparty FMS-WM, which were fully guaranteed; the guaranteed positions related to Germany (42%) and Italy (58%).
3) In addition €0.6 billion EaD with regard to the counterparty FMS-WM, which were fully guaranteed; the guaranteed positions related to Germany (55%) and Italy (45%)
4) Simulated Basel 3 figure based on IFRS carrying amounts.
5) EaD according to Basel 2 after re-segmentation.
6) Comprises Austria (€6.8 billion), Belgium (€0.1 billion), Switzerland (€0.1 billion), Denmark (€0.1 billion/Nordic Country), Finland (€0.01 billion/Nordic Country), Czech Republic (€0.1 billion/CEE-Country), Slovenia (€0.2 billion/CEE-Country) and the Netherlands (€0.002 billion).
7) Comprises Austria (€6.7 billion), Belgium (€0.2 billion), Switzerland (€0.1 billion), Denmark (€0.05 billion/Nordic Country), Finland (€0.01 billion/Nordic Country), Czech Republic (€0.1 billion/CEE-Country), Slovenia (€0.2 billion/CEE-Country) and the Netherlands (€0.002 billion).

8) Figures restated. Figures retrospectively adjusted for transfer of Italian PIF portfolio (€1.5 billion EaD) into VP (as of January 1, 2015).
9) Exposure to Poland with a contractual maturity in May 2015 in the amount of €600 million as of March 31, 2015.
10) Emerging Markets are Hungary (€0.3 billion) and Poland (€0.9 billion) –both CEE-Countries.
11) Emerging Markets are Hungary (€0.4 billion) and Poland (€0.8 billion) –both CEE-Countries.
12) As of December 31, 2013 the EaD in the United Kingdom amounted to €0.0004 billion EaD according to Basel 3.
13) As of December 31, 2013 the EaD in Ireland amounted to €0.004 billion EaD according to Basel 3.
14) As of December 31, 2013 the EaD in the USA amounted to €0.002 billion EaD according to Basel 3 and €0.003 billion exposure at default (EaD) according to Basel 2.

The EaD according to borrower classification shows a percentage share of 78% of "Sovereign/ Sovereign (related)" and "Regional Government/Regional Government (related)" exposure. The remaining exposure is towards "Financial Institution", "Supranationals" and "Public Sector Enterprises".

VP: EaD according to borrower classification[1),2)]

	March 31, 2015	December 31, 2014
	in %	
Sovereign	38	37
Regional Government	27	28
Financial Institution[3)]	13	13
Sovereign (related)	7	7
Regional Government (related)[4)]	6	7
Supranational[5)]	4	4
Public Sector Enterprises	4	4
Corporation	<1	<1

1) Figures restated. Figures retrospectively adjusted for transfer of Italian PIF portfolio (€1.5 billion EaD) into VP (as of January 1, 2015).
2) For definitions of the borrower classifications, see table "PIF EaD according to counterparty structure".
3) Direct and indirect obligations of universal banks, investment banks, mortgage institutions, brokerages and other banks or Basel regulated institutions.
4) HETA included (€314 million as of December 31, 2014 and €240 million as of March 31, 2015).
5) Direct obligations to international organizations and international investment and development banks.

The allocation of the EaD to expected loss (EL) classes shows that 99% of the VP exposure belongs to internal expected loss (EL) classes of 1 to 8. According to pbb Group's internal rating classes and based on the terminology of the rating agency Standard & Poor's, EL classes of 1 to 8 correspond to ratings of AAA to BBB-, and thus to an investment grade rating.

VP: EaD according to internal rating[1), 2)]

	March 31, 2015	December 31, 2014
	in %	
Expected loss (EL) classes 1-5	90	89
Expected loss (EL) classes 6-8	9	10
Expected loss (EL) classes 9-11	<1	<1
Expected loss (EL) classes 12-14	1	1
Expected loss (EL) classes 15-18	–	<1
Total investment Grade	**99**	**99**
Total non-investment Grade	**1**	**1**

1) Figures restated. Figures retrospectively adjusted for transfer of Italian PIF portfolio (€1.5 billion EaD) into VP (as of January 1, 2015).
2) According to internal ratings and based on the terminology of the rating agency Standard & Poor's: EL (expected loss) classes 1-5 would correspond to AAA+ to A-; 6-8 would correspond to BBB+ to BBB-; 9-11 would correspond to BB+ to BB-; 12-14 would correspond to B+ to B-; 15-18 would correspond to CCC+ and below.

The allocation of the product class shows that 59% of the VP exposure belong to the product class "bonds", whereas 41% belong to the product class "loans".

VP: EaD according to product class[1)]

	March 31, 2015	December 31, 2014
	in %	
Bonds	59	59
Loans	41	41
Derivatives	–	–

1) Figures restated. Figures retrospectively adjusted for transfer of Italian PIF portfolio (€1.5 billion EaD) into VP (as of January 1, 2015).

The two largest exposures in the VP, in total 28% of the VP, refer to sovereigns. Austria makes up 20% of the VP and is internally rated in expected loss (EL) class 1. Apart from a €197.5 million impairment taken by pbb Group on its outstanding exposure to HETA and a write-down in resepct of a structured finance transaction with a remaining book value of €2.5 million, all other borrowers/issuers are performing and there are no overdue payments.

Top 20 exposures[1),2)]
as of December 31, 2014

Top VP	Borrower classification	Country of Risk	Weighted Ø EL Class[3)]	Weighted Ø loan Maturity	EaD in € million	EaD in % of total
1	Sovereign	Austria	1	20.1	5,155	19.6%
2	Sovereign	Italy	5	11.3	2,317	8.8%
3	Regional Government[4)]	Germany	1	11.6	1,082	4.1%
4	Sovereign (related)	Germany	1	13.6	832	3.2%
5	Sovereign	Poland[5)]	1	2.2	816	3.1%
6	Regional Government[4)]	Germany	1	7.2	776	3.0%
7	Regional Government (related)	Austria	1	34.4	692	2.6%
8	Regional Government[4)]	Germany	1	7.1	691	2.6%
9	Regional Government[4)]	Germany	1	11.1	608	2.3%
10	Regional Government[4)]	Germany	1	9.7	563	2.1%
11	Sovereign	France	1	9.8	534	2.0%
12	Supranational	Supranational	1	4.2	485	1.8%
13	Regional Government[4)]	Germany	1	16.8	485	1.8%
14	Sovereign	Hungary	7	2.6	389	1.5%
15	Financial Institution	Spain[6)]	6	10.7	374	1.4%
16	Regional Government[4)]	Germany	1	8.7	331	1.3%
17	Financial Institution	Spain[6)]	4	12.3	323	1.2%
18	Sovereign (related)	Austria	1	14.7	322	1.2%
19	Regional Government (related)[7)]	Austria	2	2.8	314	1.2%
20	Regional Government	Italy	5	10.7	314	1.2%
	Total Top 20				**17,403**	**66.3%**

1) Figures restated. Figures retrospectively adjusted for transfer of Italian PIF portfolio (€1.5 billion EaD) into VP January 1, 2015.
2) For definitions of the borrower classifications, see table "PIF EaD according to counterparty structure".
3) According to internal ratings and based on the terminology of the rating agency Standard & Poor's: EL (expected loss) classes 1-5 would correspond to AAA+ to A-; 6-8 would correspond to BBB+ to BBB-; 9-11 would correspond to BB+ to BB-; 12-14 would correspond to B+ to B-; 15-18 would correspond to CCC+ and below.
4) The exposure to German regional governments refers fully to the German Bundesländer.
5) Exposure to Poland with a contractual maturity in May 2015 in the amount of €600 million as of March 31, 2015.
6) The exposure to Spanish financial institutions is collateralized by mortgage loans (covered bonds).
7) Exposure to HETA; EL Class as of March 31, 2015: 3. As provisioned EaD on bonds is directly set off of overall EaD, stated amount and EL-class refer only to non provisioned (expected 'performing part') of HETA exposure.

16.3.14.2 Risk Parameters

The expected loss (EL) for the value portfolio amounted to €22 million as of March 31, 2015 using the parameters defined pursuant to Basel 3 and decreased slightly compared to December 31, 2014 (€23 million).

16.3.15 Consolidation & Adjustment (C&A): €7.0 billion exposure at default (EaD) as of March 31, 2015 (December 31, 2014: €6.9 billion)

As of December 31, 2014, 47% of the C&A exposure belonged to the liquidity portfolio which consisted of highly liquid bonds (level 1 assets) from sovereigns and public sector entities. 34% of the exposure was attributable to the capital investment book which represents the investment of pbb Group's equity. In the majority of the cases, the investments are done in promissory notes form local government authorities (mostly German Länder) and public sector entities in Germany. The rest of the C&A exposure referred to money market and repo trades (9%) and interest rate derivatives (9%).

In the first quarter of 2015, the share of money market and repo trades increased as a buffer for a Public Sector covered bond issued by pbb Group which fell due as of April 1, 2015. The share of the capital investment book decreased in the first quarter of 2015 due to the sale of a bond.

C&A: EaD by category

	March 31, 2015	December 31, 2014
	in %	
Money market and repo	30	9
Liquidity portfolio	35	47
Interest rate derivatives	9	9
Capital investment book	26	34

The EaD distribution according to regions as of December 31, 2014 showed a clear focus on Germany with 50% of the overall EaD followed by Spain (13%) and the United Kingdom (10%). In addition, 12% of the EaD were to supranational debtors.

C&A: EaD according to regions

	March 31, 2015	December 31, 2014
	in %	
Germany	62	50
United Kingdom[1)]	2	10
USA[2)]	4	4
Spain[3)]	11	13
France	4	6
Supranational debtors	12	12
Switzerland	<1	<1
Benelux	2	2
Nordic countries[4)]	<1	1
CEE[5)]	1	<1
Ireland	<1	<1
Others[6)]	1	1
Total	**€7.0 billion**	**€6.9 billion**

1) After sale of inflation linked bond in Q1 2015.
2) Exposure due to legacy derivative hedging in 2015.
3) Exposure due to short-term sovereign bond held in liquidity.
4) Comprises Denmark and Sweden.
5) Comprises as of December 31, 2014 Austria, Czech Republic, Slovakia and Slovenia and as of March 31, 2015, Austria, Slovakia and Slovenia.
6) Comprises Australia, Canada, Cayman Islands, Hong Kong, Italy and Japan.

The allocation of the EaD to expected loss (EL) classes as of December 31, 2014, shows that the complete C&A exposure belongs to the expected loss (EL) classes 1 to 5.

C&A: EaD by internal rating[1)]

	March 31, 2015	December 31, 2014
	in %	
Expected loss (EL) classes 1-5	100	100
Expected loss (EL) classes 6-8	–	–
Expected loss (EL) classes 9-11	–	–
Expected loss (EL) classes 12-14	–	–
Expected loss (EL) classes 15-18	–	–
Investment Grade	100	100
Non-investment Grade	0	0

1) According to internal ratings and based on the terminology of the rating agency Standard & Poor's: EL (expected loss) classes 1-5 would correspond to AAA+ to A-; 6-8 would correspond to BBB+ to BBB-; 9-11 would correspond to BB+ to BB-; 12-14 would correspond to B+ to B-; 15-18 would correspond to CCC+ and below.

C&A: EaD according to product class

	March 31, 2015	December 31, 2014
	in %	
Bonds	35	45
Loans	56	46
Derivatives	9	9
Equity	<1	<1

16.3.16 Structured Products

pbb Group's residual holdings in state-guaranteed collateralized debt obligations had a notional value of €0.7 billion as of March 31, 2015 (December 31, 2014: €0.7 billion) and an actual fair value of €0.7 billion (December 31, 2014: €0.7 billion).

The pbb Group's residual holdings of non-state-guaranteed structured securities, namely credit linked investments in the form of collateralized debt obligations (CDOs in the narrower sense of the term), remained stable in comparison with December 31, 2014 with a notional value of €0.1 billion as of March 31, 2015. The fair value of these securities, which were almost completely written down, and securitized credit risks, amounted to €3 million as of March 31, 2015 (December 31, 2014: €3 million).

The valuation of most of the structured bond position (by volume) was based on market values.

16.3.17 Consolidated Special-purpose Vehicle without Capital Share in pbb Group

As of March 31, 2015, there were no consolidated special-purpose vehicles without capital share which require consolidation in accordance with IFRS 10 (December 31, 2014: none).

16.3.18 Watchlist and Non-performing Loans

16.3.18.1 Early Warning System as part of pbb Group's critical facility process

pbb Group's critical facility process comprises an early warning system which has defined triggers (i.e. criteria) for classifying loans as watchlist or non-performing loan (restructuring and workout). The triggers apply for loans and receivables (LaR) and available for sale (AfS) transactions and vary depending on the transaction/borrower type (e.g. real estate finance, public sector, financial institutions). The triggers mainly relate to events around the financed asset, the borrower, the (main) tenants, the sponsor, the covenant structure of a transaction as well as the payment situation. The main triggers are monitored in an IT supported way. If one or more triggers are activated, the responsible CRM Officer presents the counterparty in the next meeting of the Group Watchlist Committee. The committee discusses the situation and takes the decision on the classification of the counterparty and the further course of action. Where appropriate, the counterparty is transferred to restructuring or workout status. Triggers for watchlist, restructuring or workout status (the latter two being defined as non-performing) are *inter alia* defined as follows:

- Watchlist status: payments past due by more than 60 days and > 2.5% of the obligation and > €5.000 or another defined early warning signal is triggered (e.g. in the real estate

business: (1) breach of soft LTV covenant (cash sweep trigger) > 10%, (2) major tenant gives notice to vacate the financed asset, (3) insolvency of a major tenant.

- Restructuring status: payments past due by more than 90 days and > 2.5% of the obligation and > €100 or another defined early warning signal is triggered (e.g. in the real estate business: (1) LTV > 100%, based on "stabilized" or "fully let and income producing" value, (2) insolvency of the borrower or sponsor.
- Workout status: There are no indications that the loan can be restructured. Enforcement measures have been/will be introduced and SLLPs have been created or are planned.

If a transaction has been classified as restructuring or workout, i.e. non-performing, a mandatory impairment test in line with the relevant accounting regulations is carried out.

16.3.19 Development of Watchlist and Non-performing Loans of pbb Group

Watchlist and non-performing loans of pbb Group	March 31, 2015[1]				December 31, 2014[2]				December 31, 2013[3],[4] (simulated Basel 3 figure)				December 31, 2013[3],[5] (Basel 2)
	REF	PIF	VP	Total	REF	PIF	VP	Total	REF	PIF	VP	Total	Total
	EaD in € million												
Workout loans	10	–	–	**10**	9	–	–	**9**	6	–	–	**6**	**6**
Restructuring loans	675	–	243[6]	**918**	818	–	316[7]	**1,134**	933	–	2	**935**	**934**
Non-performing loans	**685**	**–**	**243**	**928**	**827**	**–**	**316**	**1,143**	**939**	**–**	**2**	**941**	**940**
Watchlist loans	**213**	**–**	**244**	**457**	**116**	**–**	**244**	**360**	**141**	**–**	**475**	**616**	**596**
Total	**898**	**–**	**487**	**1,385**	**943**	**–**	**560**	**1,503**	**1,080**	**–**	**477**	**1,557**	**1,536**

1) In addition €1 million EaD as of March 31, 2015 in C&A.
2) In addition €1 million EaD as of December 31, 2014 in C&A.
3) In addition €6 million EaD as of December 31, 2013 in C&A.
4) Simulated Basel 3 figure based on IFRS carrying amounts.
5) EaD according to Basel 2 after re-segmentation.
6) Thereof HETA: €240 million.
7) Thereof HETA: €314 million.

In 2014, the watchlist and non-performing loans decreased on balance by a total of €54 million net. In Q1 2015, the watchlist and non-performing loans decreased on balance by a total of €118 million net. In 2014, the watchlist loans decreased by €260 million (gross) (excluding counter-effects) or €256 million (net). The decrease was almost exclusively due to an improvement in the risk situation for these loans and the associated returns to performing loan status. The €231 million decline in the VP in 2014 was wholly due to the upgrade of a Spanish bank in the first quarter of 2014. In addition, two projects in REF amounting to a total of €29 million were transferred back to standard processing in 2014. The total volume of new additions in 2014 remained comparatively low at €4 million.

In Q1 2015, the watchlist loans increased by €162 million (gross) (excluding counter-effects) or €97 million (net). The reason for this increase was driven by the deterioration in creditworthiness of two counterparties in REF amounting to €161 million versus an improvement in the risk situation for the loans of one counterparty amounting to €65 million. The remaining increase *inter alia* was due to fluctuations in the exchange rate, amounting to €1 million.

Non-performing loans decreased by €315 million (gross) (excluding counter-effects) and increased by €202 million (net) in 2014. In REF, loans totaling €249 million were successfully restructured or repaid in 2014. Two property-financings with an attributable financing volume of €66 million were taken over by the Company's own holdings. In total €507 million had to be transferred to non-performing loans. The main driver for the increase was the HETA Asset Resolution AG (HETA) exposure in the VP amounting to an €314 million, which was transferred to restructuring (back-dated to December 31, 2014) in the course of the revaluations on March 6, 2015. A further €193 million came from the REF segment with 72% of the balances being due to two larger cases. The balance increases in portfolios, *inter alia* also due to fluctuations in the exchange rate, amounted to €11 million as of December 31, 2014.

Non-performing loans decreased by €245 million (gross) (excluding counter-effects) or €215 million (net) in Q1 2015. In REF, the non-performing loans declined by €142 million (net). Loans totaling €162 million were successfully restructured or repaid. For one rescue deal, the corresponding property value had to be reduced by €10 million by the end of 2014. In REF counterbalancing increasing effects

of €30 million were mainly due to fluctuations in the exchange rate. In the VP, the decrease of non-performing loans was due to an exposure reduction of HETA Asset Resolution AG (HETA) by €73 million caused by a further increase in provisioning following the recommendations made by the financial regulators.

The regional distribution of the non-performing loans (€928 million as of March 31, 2015 and €1,143 million as of December 31, 2014, in each case measured based on EaD) is as follows:

Regional distribution of non-performing loans

	March 31, 2015	December 31, 2014
	in %	
United Kingdom	37	29
Austria (HETA)	26	27
Germany	21	19
Others[1)]	16	24

1) Nordics (Denmark, Finland, Norway, Sweden), CEE, Benelux (Belgium, the Netherlands, Luxembourg), Italy, Japan and Spain.

The non-performing loan ratios declined as follows:

Low and declining non-performing loan ratios

	March 31, 2015	December 31, 2014	December 31, 2013
		in %	
Total portfolio	1.4[1)]	1.8[2)]	1.4
REF	2.7	3.4	4.2

1) Including HETA with an effect of 0.4% of the total portfolio. Without HETA the total portfolio non-performing loan ratio would have amounted to 1.0% as of March 31, 2015.
2) Including HETA with an effect of 0.5% of the total portfolio. Without HETA the total portfolio non-performing loan ratio would have amounted to 1.3% as of December 31, 2014.

The total REF portfolio contains 58 problem loans (counting only loans with a nominal amount in excess of €75,000) with an EaD of €827 million as of December 31, 2014. The ECB's asset quality review (AQR) did not lead to any reclassification of a performing facility to a non-performing facility. Besides, four non-performing facilities were seen as performing. With respect to SLLP, the asset quality review (AQR) in general came to a correction requirement of pbb Group's asset value of 0.05% of overall assets.

REF: Top 10 problem loans as of December 31, 2014

Top	Country	Probability of default (PD) class[3)] Basel 3 property class		Status	EaD (€ mn)	EaD (net of provisions)	Weighted average expected loss (EL) Class[4)]	Payment of interest
1	United Kingdom	29	Retail	Restructuring	316	273	18	Yes
2[1),2)]	Nordics	28	Office	Restructuring	133	133	16	Yes
3	Germany	28	Office	Restructuring	76	76	15	Yes
4	Hungary	29	Office	Restructuring	62	59	18	Yes
5	Spain	29	Retail	Restructuring	38	28	18	Yes
6	Spain	29	Retail	Restructuring	30	29	18	No
7	Germany	28	Office	Restructuring	26	26	13	Yes
8	Germany	28	Retail	Restructuring	22	22	17	Yes
9	Germany	29	Retail	Restructuring	17	12	16	Yes
10	Germany	29	Retail	Restructuring	14	10	17	No
	Sum				734	668		
	Total REF non-performing loans (EaD)				827			
	Total REF portfolio (EaD)				24,270			

1) Restructuring has been completed by December 31, 2014 and final exit took place in Q1 2015.
2) Denmark, Finland, Norway, Sweden.

3) As result of the internal rating process, pbb allocates every single borrower according to its individual probability of default (PD) to an internal PD class between 1 and 30. The PD classes 28 to 30 represent non-performing loans.
4) According to internal ratings and based on the terminology of the rating agency Standard & Poor's: EL (expected loss) classes 1-5 would correspond to AAA+ to A-; 6-8 would correspond to BBB+ to BBB-; 9-11 would correspond to BB+ to BB-; 12-14 would correspond to B+ to B-; 15-18 would correspond to CCC+ and below.

16.3.20 Impairments and Provisions

16.3.20.1 SLLPs and Portfolio-based Allowances

All financial assets which are not evaluated at fair value through profit or loss are subject to a regular impairment test. An assessment is first made to determine whether there is an objective indication for an impairment. The extent of any such impairment is then calculated as the difference between the carrying amount, at available for sale (AfS) assets plus available for sale (AfS) reserve, and the present value of the cash flows expected in future.

Portfolio-based allowances are calculated using risk parameters which are compliant with Basel 3, such as probability of default (PD) and loss given default (LGD). The resultant expected loss (EL) for a time horizon of one year is scaled using an IFRS-compliant conversion factor to the average period which is required for identifying the impairment event in the Company.

Differences arising as a result of the market environment in some portfolios of the operating segments between long-term average values for the probability of default (PD) and loss given default (LGD) on the one hand and the current figures on the other hand are taken into consideration accordingly.

SLLPs are subject to approval by the Group Risk Provisioning Committee.

16.3.21 Coverage for Non-performing Loans

The coverage ratio is defined as the ratio between the provisions created in relation to the non-performing exposures (in this case, non-performing exposure is defined as the EaDs for all defaulted receivables and customer derivatives, or the nominal amounts for securities and the residual volume of structured products as part of the VP). The amounts are recognized based on the prudential scope of consolidation. The amount includes a loan (as of November 26, 2013) to a subsidiary to be consolidated in accordance with IFRS, which is not included in the consolidation for banking supervisory purposes. The amount does not include synthetically securitized parts of a loan. Amounts as of December 31, 2013 were adjusted to the new computational logic.

As of March 31, 2015, the non-performing loans of pbb Group were covered at 42% (December 31, 2013: 32%; December 31, 2014: 30%). This change is primarily due to the relatively large increase in the volume of allowances compared to non-performing loans.

The non-performing loans in the REF segment were covered at 30% as of March 31, 2015 (December 31, 2014: 24%). The PIF segment had no non-performing loans as of March 31, 2015 and December 31, 2014. The coverage ratio in VP amounted to 53% as of March 31, 2015 (December 31, 2014: 37%). This improvement is attributable to further allowances in connection with the non-strategic exposure to HETA Asset Resolution AG (HETA).

The coverage ratios amounted to approximately 100% when taking provided collateral into account.

16.4 Market Risk

16.4.1 Definition

Market risk is defined as the risk of a loss of value resulting from moves in market risk factors. Transactions of pbb Group are exposed to the following material market risk types:

- Credit spread risk is the risk from changes in credit spreads.
- General interest rate risk is the risk from changes in interest rates.
- Foreign currency risk is the risk from changes in foreign currency exchange rates, overnight index swaps (OIS) spread basis risk is the risk from changes of currency-specific OIS curve in relation to standard (3 Months) curve of respective currency.
- Tenor spread risk is the risk due to changes of spreads between applied forward curve and standard (3 months) forward curve of respective currency.

- Cross-currency basis risk is the risk due to changes of cross currency basis spreads.
- Concentration risk is the risk of additional losses due to imbalanced portfolio composition.
- Market liquidity risk is the risk that assets cannot be liquidated in the market at the desired quantities and market prices due to market disruptions.

16.4.2 Market Risk Strategy

pbb Group uses a three-pillar approach for managing and monitoring the market risk:

- management of the position in Treasury based on risk figures delivered by Risk Management & Control (RMC);
- risk measurement and monitoring compliance with limits by Risk Management & Control (RMC); and
- escalation processes across all decision-making committees up to the Management Board.

pbb Group monitors the main indicators of market risk (e.g. credit spreads, interest rates and foreign currency), the compliance with all market risk limits and compliance with applicable guidelines.

pbb Group follows the following fundamental principles in relation to market risk:

- transactions may be conducted only in financial instruments which have successfully passed the new product approval process and which are measured independently via a model or for which market prices are observable.
- all positions entered into are subject to a daily economic performance measurement and risk monitoring by Risk Management & Control (RMC).
- market risk concentrations are observed on a daily basis.
- the interest rate risk of the banking book is widely hedged, except for equity investments.
- credit spread risks form an integral part of the business model (e.g. positions regarding liquidity management). Credit spread risk positions which qualify as loans and receivables (LaR), are not limited within the framework of market risk. The risk of market changes induced by rating migrations are calculated in the credit risk model. Credit spread risk of positions which do not qualify as loans and receivables (LaR) are managed by market risk limits.
- the foreign currency risk is hedged bank-wide on the basis of IFRS foreign currency positions. There is no active foreign currency risk positioning.

16.4.3 Organization of Market Risk Management

The market risk of transactions/positions is monitored by Risk Management & Control (RMC) (in particular its market and liquidity risk department), which is separated from front office over the entire organizational structure up to the Management Board.

16.4.4 Market Risk Reports

Risk Management & Control (RMC) prepares extensive daily market risk reports for various recipients:

- daily market risk report for the Company's Management Board. The report shows market risk value-at-risks (VaR), limit utilizations and economic performance figures on all levels of the portfolio structure; and
- daily sensitivity reports analyzing the main risk factors at various levels (also made available to the Management Board)

16.4.5 Measurement of Market Risk

16.4.5.1 Market Risk Value-at-Risk

Risk Management & Control (RMC) uses a variance-covariance approach to calculate the market risk value-at-risk (VaR) at the overall and sub-portfolio level on a daily basis. All positions are taken into

account, but the credit spread value-at-risk (VaR) from positions which are included in the IFRS category Loans & Receivables is taken into consideration within credit risk, not market risk.

- The correlations and volatilities which are used are based on the previous 250 trading days that are included in the calculation on an equally weighted basis.
- The historically observed correlations are used when the single market risk components are aggregated to an overall value-at-risk (VaR), which constitutes the basis for limit monitoring.
- For the daily risk management, the value-at-risk (VaR) relates to a holding period of ten days and a one-sided 99% confidence interval.

As of March 31, 2015, the market risk value-at-risk (VaR) amounted to €65 million, taking diversification effects between the individual types of market risk into account. The comparative figures as of December 31, 2014 and December 31, 2013 were €57 million and €74 million, respectively. In the first calendar quarter of 2015 and in the year 2014, there were no market risk value-at-risk (VaR) limit overdrafts at pbb Group level. The Company's market risk limit was reduced from €150 million to €120 million on January 15, 2014, and from €120 million to €90 million on January 2, 2015.

In the first calendar quarter of 2015 as well as in 2014, the development in the market risk value-at-risk (VaR) was mainly affected by the change in credit spread volatilities.

The value-at-risk (VaR) assessment is complemented by further instruments such as sensitivity analyses, back testing and stress testing.

Market risk VaR limits in pbb Group are determined in accordance with the MaRisk requirements for a market risk limit system (see e.g. MaRisk BTR 2.1). They are derived from and compliant with the ICAAP; the current overall pbb Group limits are defined in the risk strategy.

VaR limits are set on pbb Group level and along the portfolio structure, which comprises four levels (pbb Group, segment-, profit center-, portfolio-level).

Market risk VaR limits on the upper two levels (pbb Group- and segment-level) are proposed by Risk Management & Control (RMC) and approved by the Group RC and the Management Board. Third- and fourth-level limits are approved by the head of Risk Management & Control (RMC). In addition, the Group RC together with the CRO are informed in a timely manner about all market risk VaR limit changes.

16.4.5.2 Sensitivity Analyses

Overnight yield curves are used in the sensitivity analysis measurements. Sensitivity analysis is used to quantify the impact of a change in an isolated market parameter on the value of a position. For instance, the credit spread sensitivity provides an indication of the effect on the economic present value of an isolated change of one basis point in the credit spreads.

16.4.5.3 Stress Testing

Whereas the value-at-risk (VaR) measurement simulates the market risk under "normal" market conditions and cannot be used to measure a potential maximum loss, stress scenarios show the market risk under extreme conditions. At pbb Group, hypothetical stress scenarios are calculated on a monthly basis for key risk drivers. Here, the effects of extreme changes in yield curves, foreign exchange rates, credit spreads, inflation rates and volatilities on the economic present value of ppb Group's portfolio are determined. In addition, historical stress scenarios are simulated. A simultaneous increase of all interest rates by 200 basis points for all of pbb Group's positions would have resulted in a loss in market value of €509 million as of December 31, 2014 (December 31, 2013: €452 million). A simultaneous decrease in interest rates of 200 basis points would have resulted in an economic market value gain of €245 million as of December 31, 2014 (December 31, 2013: €307 million). The asymmetrical relationship between the potential economic market value gain and loss primarily reflects the fact that the downward shift of 200 basis points is only performed down to an interest rate of 0% (floor), whereas the upward shift is not limited. An extreme rating dependent rise of the relevant credit spreads would result in a loss in market value of €455 million as of December 31, 2014. The Management Board and the corresponding executive bodies are regularly notified of the results of the stress test scenarios.

16.4.5.4 Back Testing

The methods used to measure risk is continually reviewed and, where necessary, changed on the basis of the daily comparison between the value-at-risk (VaR) figures and the subsequent actual changes in the present value of the portfolio. pbb Group has adopted the Basel Capital Accord's traffic light system for the quantitative analysis of its risk model. This counts the number of statistical (negative) outliers detected in back testing in a period of 250 trading days. Overall, four outliers were observed in 2014, which were primarily attributable to unusually strong credit spread and exchange rate movements. The Company's risk model therefore achieved a traffic light rating of "green" under the Basel Capital Accord's traffic light system.

16.4.5.5 Economic Market Risk Capital

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. The calculation involves an analysis of historical changes of specific factors (risk factors), e.g. interest rates, exchanges rates and credit spreads over the previous seven years. This relatively long period of seven years ensures that historical unfavorable economic phases for pbb Group are taken into account in the model. Together with the linear sensitivities of the financial instruments, the risk factor changes are then used to simulate an annual loss distribution of the market value of pbb Group's portfolio based on linear sensitivities of the financial instruments, from which economic capital can then be determined.

In order to calculate the economic capital for market risks, the market risk value-at-risk (VaR) for the going-concern approach is calculated for a period of one year and for a confidence level of 95%. In the second half of 2014, the model used to calculate the market risk was adjusted. This resulted in a slight increase in the economic capital for market risks. The main change is due to new modeling of the credit spread risks. The economic going concern capital for market risks of pbb Group, disregarding diversification effects for other risk types, amounted to €253 million as of March 31, 2015 (€256 million as of December 31, 2014 and €185 million as of December 31, 2013).

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

Hedge accounting rules are defined in IAS 39. They aim to ensure that the changes in value of the hedged underlying assets 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. This is so because several conditions which have to be fulfilled for hedge accounting purposes are not always useful for hedging economic risk in banking practice. According to the accounting standards, the actual results of a hedge are within a range of 80 – 125% (IAS 39 AG 105 b). However, this range of 80–125% does not have to be applied in risk control hedging. Therefore, hedge accounting may differ in some instances from hedging in banking practice. Hence, the accounting results may differ from the economic result of a banking positioning.

16.4.7 Market Risk Management and Monitoring

For all positions market risk is monitored by a combination of value-at-risk (VaR) limits and the monitoring of sensitivities by the trade-independent Risk Management & Control (RMC).

16.4.7.1 General Interest Rate Risk

The general interest rate risk amounted to €8 million as of March 31, 2015 and was significantly below the figure as of December 31, 2014 (€36 million) due to sale of the Netrail bond position out of the capital investment book. The comparative figure as at December 31, 2013 was €65 million. The average interest rate risk in 2014 was €39 million (maximum €66 million, minimum €28 million). In 2013, the interest rate risk averaged €25 million (maximum €68 million, minimum €2 million). Excluding the capital investment book, the general interest rate risk remained low throughout Q1 2015 and 2014; as of December 31, 2014, the general interest rate risk was €4 million.

Non-linear interest rate risks from capital market transactions were negligible (March 31, 2015: €1.1 million, December 31, 2014: €0.049 million; December 31, 2013: €0.4 million).

16.4.7.2 Credit Spread Risk

The credit spread risk shows the potential change in the present value of exposures as a result of changes to the corresponding credit spread. Most of the credit spread risk was attributable to assets eligible for cover pools of Pfandbriefe. pbb Group has risk measurement systems for calculating credit spread risk for all relevant exposures. Only the credit spread risks of available for sale (AfS) and designated fair value through profit and loss (dFVTPL) positions are subject to value-at-risk (VaR) limitations, but not the credit spread risks of loans and receivables (LaR) positions.

The credit spread value-at-risk (VaR) for the available for sale (AfS) and designated fair value through profit and loss (dFVTPL) positions as of March 31, 2015 was at €65 million after €56 million as of December 31, 2014 (December 31, 2013: €69 million). The changes are mainly driven by market moves of interest rates and credit spreads.

16.4.7.3 Other Market Risks

The present value of the foreign currency risk was €1.4 million as at March 31, 2015 (€5 million as at December 31, 2014; reduction due to sale of Netrail bond position); inflation risks were not present any more as at March 31, 2015 (€16 million as at December 31, 2014; reduction due to sale of Netrail bond position). Overnight index swaps (OIS), tenor, cross-currency and Libor/Euribor basis risks were quantified and recognized as basis risks in the context of the value-at-risk (VaR) model. All basis risks are included in the total value-at-risk (VaR) and are therefore subject to market risk limitation. pbb Group is not exposed to share price or commodity risk. Financial derivatives are mainly used for hedging purposes.

16.5 Liquidity Risk

16.5.1 Definition

Liquidity risk is defined as

- the risk of being unable to meet payment obligations as they fall due.
- the risk that the Group will not be able to refinance maturing liabilities and the lack of unencumbered liquid assets in order to raise secured funding.

pbb Group considers the market liquidity risk as market risk and the funding cost risk as business risk.

16.5.2 Liquidity Risk Strategy

The liquidity risk strategy is a key component of the risk strategy of pbb Group and is broken down into distinct parts (base, risk and stress scenario). This ensures that the short- and mid-term funding of pbb Group is monitored and controlled by means of a limit system. The limits are defined as part of the annual business planning process.

16.5.3 Organization of Liquidity Risk Management

Risk Management & Control (RMC) (in particular its market and liquidity risk department) identifies, measures, reports and monitors the liquidity risk of pbb Group. Management of liquidity risk, including the responsibility for cash management and funding, is the responsibility of the Treasury department of pbb Group. Treasury is independent of Risk Management & Control (RMC). The processes and methods used are regularly reviewed by the Group RC and the ALCO on behalf of pbb Group. Contrary to other risk types liquidity risk cannot be calculated and reported by business segments.

16.5.4 Liquidity Risk Report

The liquidity management reports are prepared daily and submitted to the Company's Management Board, Deutsche Bundesbank and the BaFin. The reports contain the daily liquidity situation, projections on the basis of contractual cash flows and assumptions in relation to future events which will influence the probable liquidity development.

16.5.5 Measuring Liquidity Risk

A system for measuring and limiting short- and medium-term variances within the cash flows has been installed in order to manage liquidity risks.

16.5.5.1 Three Scenarios for the Calculation of the Liquidity Position

The liquidity position resulting from the liquidity reserve as well as contractual and optional cash flows is measured in different scenarios. Depending on the kind of scenario different assumptions are used as described in the liquidity risk methodology.

Different liquidity positions are calculated on a daily basis. The three liquidity positions assume:

- constant market and refinancing conditions (base scenario)
- risk scenario
- liquidity stress (historic stress scenario).

For example, in the risk and historic stress scenario, possible customer behavior is simulated in "stress situations". Historical time series are used to calculate 95% and 99% quartiles.

16.5.5.2 Limits to Liquidity Risk

For the base scenario, triggers over a period of 12 months and 24 months are used. The limits in the risk and historic stress scenarios apply for a period of six months. Triggers in base scenario are a kind of leading indicator whereas limits in risk & stress scenario have direct impact on liquidity management. Furthermore, different escalation procedures are initiated in case of trigger or limit breach.

The limit system comprises:

- limits of the liquidity stress profile for pbb Group (risk scenario and historic stress scenario) and
- triggers for the base scenario.

These limits are regularly subject to back testing.

16.5.5.3 Liquidity Stress Tests

pbb Group uses stress tests for investigating the effect of additional stress events on the liquidity position in addition to meeting its reporting requirements. These stress tests are conducted at regular intervals.

In the scenarios of these stress tests, the potential impact of macroeconomic developments, monetary policy and political crises on the liquidity situation is analyzed.

The scenarios are reported to the Company's Management Board and to external bodies, e.g. Deutsche Bundesbank.

16.5.6 Liquidity Risk Monitoring and Management

The monitoring of the liquidity risks is accompanied by the daily reporting of the liquidity situation and a clear escalation process. A liquidity emergency plan has also been adopted; this plan forms the specialist and organizational framework for addressing liquidity shortages.

Liquidity risk management is based on various interconnected components which are based on a "liquidity risk tolerance" defined by the Management Board and is designed to ensure that pbb Group has adequate liquidity reserves.

16.5.7 Liquidity Risk Steering

A risk tolerance system is used to limit the liquidity risk. Risk tolerance is integrated in the liquidity management process by means of triggers (limit system) in order to ensure a "survival period" for pbb Group during stress conditions.

The limits applicable for risk tolerance are determined in line with stress scenarios and are adjusted at regular intervals.

16.5.8 Development of pbb Group's Liquidity Risk Position

The cumulative liquidity position (liquid assets as well as expected net cash flows) calculated as part of the liquidity risk measurement as of March 31, 2015 amounted to €3.4 billion for a 12-month horizon (March 31, 2016) in the base scenario. Compared to December 31, 2014 (liquidity position forecast on March 31, 2016 was €4.1 billion), this would be a decrease of €0.7 billion. As of March 31, 2015, the cumulative liquidity position in the risk scenario in the six month forecast amounted to €1.4 billion.

The Company's liquidity ratio in accordance with the Liquidity Regulation amounted to 2.95 as of March 31, 2015; it was thus higher than the statutory minimum of 1.0.

16.5.9 Funding markets

For further details on the funding market and risks associated with it, see "*13.5 Funding Market*", "*15.5 Funding*" and "*3.1.6 pbb Group has a continuous demand for liquidity to fund its business activities and is exposed to liquidity risks which may negatively affect its ability to fulfill its obligations.*".

16.5.10 Forecast Liquidity Requirement

In addition to daily liquidity reporting, the liquidity gap profile supports pbb Group's asset liability management. Furthermore, the Group RC decided to set up a trigger system of up to 7 years.

The asset liability structure (as per March 31, 2015) of pbb Group's maturity profile shows that the difference between cumulative gap and cumulative trigger is at least €2.4 billion.

In addition to the forecasted liquidity requirements for new business activities, the extent of future liquidity requirements depends on numerous external factors:

- further development of the financial crisis and possible effects on the 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; and
- changing requirements of rating agencies regarding the necessary overcollateralization in cover pools

16.5.11 Funding Risk

The funding risk is associated with the business risk of pbb Group. Business risk is generally defined as the risk of a decrease in profits due to changes occurring in the external business environment which affects the applicable economic conditions. Besides non-quantifiable risk such as regulatory risks, reputational risk and strategic risks, these include risks arising from increased funding costs, higher funding requirements and earnings risks. Economic capital for business risks is calculated using a scenario-based increase in financing costs due to higher funding requirements and a simultaneous increase in the unsecured funding rate. One of the ways earnings risk is taken into account is by not including planned income from new business in the risk cover amount.

16.5.12 Market Liquidity Risk

Generally there is no intention to sell loan and receivables (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. In the internal management the market liquidity risk is taken into account in the context of market risk.

16.5.13 Other Liquidity Risks

The adjustments of the ECB's interest rate policy in the light of the financial crisis and the resulting decline in overall interest rates entails the risk that investors underweight the bond market when allocating funds. This could lead to a general increase in funding spreads. The renewed uncertainty on the future composition of the Eurozone could also influence the development of the funding spreads.

16.6 Operational Risk (including Legal Risks)

16.6.1 Definition

pbb Group defines the operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. The definition includes legal, model, conduct, reputational and outsourcing risks.

16.6.2 Strategy for Operational Risks

In the context of operational risk management, the top priority of pbb Group is to minimize financial losses from potential operational risk events. The overriding aims of this strategy are the early recognition, recording, assessment, monitoring and management of operational risks, as well as early and meaningful management reporting.

16.6.3 Organization of Operational Risk Management

Within Risk Management & Control (RMC), the operational risk team is responsible for the coordination of consistent policy, tools and practices throughout the pbb Group for the management, measurement, monitoring and reporting of relevant operational risks.

16.6.4 Special Developments in the Organization of Legal Risk Management

In accordance with the Minimum Requirements for Risk Management (MaRisk), significant risks in financial institutions must be evaluated by a unit independent to the front office and trading areas.

As the legal risk is regarded as significant, the Legal Department is responsible for managing legal risks and is therefore a permanent component of pbb Group's risk management.

The primary objective of the Legal Department in managing legal risks is to structure transactions so that they are legally enforceable. This includes protecting the integrity and reputation of pbb Group. Accordingly, the Legal Department supports the transactions of pbb Group by providing proactive and business-oriented consulting services.

The Legal Department also monitors developments in relevant legislation and case law and reviews its effects on new and existing business. The "Legal Policy" describes the roles and responsibilities of the Legal Department within pbb Group and serves as a guideline for employees.

The legal risk is captured by, and monitored in the context of, the existing Operational Risk (OpRisk) Framework. This includes the Key Risk Indicator Report, the Operational Risk Self-Assessment and an analysis of risk events.

pbb Group also aims to take into account the relevant legal risk for all important risk documents. Legal risk is partially included in the ICAAP and covered by capital via Operational Risk.

In addition to the management, follow-up and capitalization of legal risks, the Legal and Finance Departments meet quarterly to discuss open legal cases.

The Legal Department indicates the probability of successful conclusion per legal case.

Provisions for legal risks are created in accordance with IAS 37. A provision is a liability whose payment date or amount is uncertain. Provisions must be created if an obligation arises for a company from an event from which an outflow of resources with economic benefit for meeting this obligation is probable and the amount of the obligation can be reliably estimated. In accordance with IAS 37.15 there are isolated cases for which it is unclear whether a present obligation exists. In these cases, a past event leads to a present obligation if, taking into account all the available substantial indications for the existence of a present obligation as of the balance sheet date, there are more indications for than against the obligation. For exceptions, such as a legal dispute, the issue of whether certain events have occurred or whether these have led to a present obligation can be debated. In this case, the Company determines whether a present obligation exists as of the closing date taking into account all the available material indications, including the opinion of, for instance, experts.

16.6.5 Risk Reports, Monitoring and Management of Operational Risks

Operational risks are monitored through 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 merely risk monitoring, measurement and reaction to risk.

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

Regular reports are prepared for the CRO and the pbb Group RC. The monthly Group risk report includes details concerning operational risk events, losses and key risk issues affecting pbb Group. In addition, a quarterly risk report regarding key risk indicators notifies the Management Board of potential sources of risks. An annual operational risk report is also produced, which includes a summary of important events during the year and the results of the operational risk self-assessment process. This report is circulated to the Company's Management Board and presented to the pbb Group RC.

16.6.6 Risk Measurement

The economic capital for operational risk in the going-concern approach amounted to €39 million as of March 31, 2015 (December 31, 2014: €39 million). The calculation of economic capital for operational risk takes into account both the results of the calculation in accordance with the Standard Approach under Basel 2/Basel 3 and the results generated by a mathematical model used to calculate losses from operational risks using internal data as input. This backward-looking approach is enhanced by the recognition of forward-looking budget figures for the next three years. For the purposes of the capital adequacy procedure, the regulatory capital requirement is scaled to the corresponding lower confidence level (from 99.9% to 95%). In the gone-concern approach it is scaled to a higher confidence level of 99.91%.

In line with the standard approach, the regulatory capital backing for operational risks, which is calculated at the end of each year, was €81 million as of March 31, 2015 (December 31, 2014: €81 million).

16.6.7 Operational Risks Profile of pbb Group

The Company incurred financial losses of €1.7 million due to operational risks in the first calendar quarter of 2015 (overall 2014: €10.9 million).

In the first calendar quarter of 2015, the Basel 2 event type "Execution, Delivery & Process Management" was the category with the highest number of events (50%) and to which almost all related financial effects are attributable (99%). This event was also reflected in the operational risk self-assessment process, which is a bottom-up risk assessment performed by all of pbb Group's segments.

pbb Group's operational risk profile has improved continually over the past few years, *inter alia* thanks to the successful implementation of various IT projects and the consolidation of its core systems.

16.7 Business Risk

16.7.1 Definitions

Business risk is defined as the risk of profit impairments as a result of changes in the external business climate which affect the economic conditions of pbb Group. pbb Group further divides the business risk into the following sub-categories:

- Earnings risk is the risk of a deviation from planned net interest and provision income.
- Funding requirement risk is the risk of the increase of funding costs due to a significant rise in the funding requirement. The Company models this risk by liquidity stress tests for each steering approach.
- Funding spread risk is defined as an increase of funding costs due to a significant increase of the own funding spread for unsecured funding.

- Regulatory risk is defined as the risk that regulatory authorities modify existing regulations (or issue new regulations) in such a way that business is affected.
- Strategic risk is defined as the risk of management taking the wrong decisions or an incorrect response to a changed business climate.

16.7.2 Organization of Business Risk Management

While Risk Management & Control (RMC) identifies, measures, reports and monitors the business risk of pbb Group, the individual business area and management level is responsible for the management of its own business risk.

- Earnings risk is managed and closely monitored via the planning process, whereby on a monthly basis, the management reviews the deviations between planned and actual figures which are reported to the Management Board on a frequent basis.
- Both funding requirement risk and funding spread risk are managed by the ALCO whereby this committee receives information regarding pbb Group's liquidity and funding situation under both expected and stressed environments.
- Regulatory risk is the responsibility of senior management who must ensure that they are aware of any potential changes in regulation which will affect their department. In addition, a central body called the "Legal Regulatory Committee" has been set up, which is responsible for collecting up and coming or potential regulation and legislation which could materially affect pbb Group. The committee comprises of representatives from compliance, legal, finance and risk and works under the supervision of internal audit. It assesses any identified points and assigns them to the relevant departments for further action. If the action is significant enough, a project will be set up thereby; the relevant departments are responsible for the implementation of any changes, while the "Legal Regulatory Committee" is responsible for the monitoring of the projects.
- Strategic risk is managed by implementing processes which have been established to ensure that any strategic initiative undergoes a rigorous process before any decision is made, making sure that the relevant information is provided to any decision maker. Furthermore, pbb Group manages strategic risk by ensuring that there is a proper management of the implementation of any decision. The variance between planned and actual budget is tracked and any material discrepancy is investigated and reported.

16.7.3 Business Risk monitoring and reporting

With regard to the monitoring and reporting of business risk, the risk sub-categories are further categorized by the possibility to quantify. Therefore, they are managed by different approaches.

Earnings risk, funding requirement risk and funding spread risk are considered to be quantifiable, so they are monitored and reported via ICAAP (see "*16.7.4 Risk Measurement*").

Both regulatory risk and strategic risk are considered to be non-quantifiable, but pbb Group does maintain a capital buffer to cover them. In addition, they are monitored by means of suitable reports, guidelines and policies. The existing operational risk framework is used to monitor and report non quantifiable business risks. A report which includes the results of a business risk self-assessment process is produced on an annual basis. Any high risks identified during the process are monitored through the quarterly key risk indicator report. The annual report is circulated to the head of ICAAP and presented to the Group RC.

16.7.4 Risk Measurement

The economic capital for business risk in the going-concern approach amounted to €9 million as of March 31, 2015.

Earnings risk is measured as the planned profit of new business, which is planned to be contracted over the next 12 months. pbb Group subtracts this full amount from the planned risk bearing capacity in the going concern, which is a conservative approach as the probability of gaining profit from this new business is set to zero. In the gone concern approach the available financial reserves do not contain any future earnings at all.

The calculation of the funding requirement and funding spread requirement risk is approached in two steps. First, potential refinancing gaps are identified by applying two different stress scenarios on the calculation of the cumulative total liquidity position for the next 12 months. The two stress scenarios are developed to fit to the confidence levels used in the going and gone concern ICAAP approaches.

Second, the identified refinancing gaps are assumed to be closed by uncollateralized funding with a stressed funding rate. This stressed funding rate is driven by historic data of an appropriate credit spread index. Business risk is the additional cost for this uncollateralized funding.

Both regulatory risk and strategic risk which are considered to be non-quantifiable are capitalized under an ICAAP buffer.

16.8 Property Risk

Property risks are defined as potential negative changes in the value of a company's own property portfolio due to a deterioration of the general property situation or a negative change of the specific characteristics of the individual property caused by the property being vacant, changed usage options, building damages, investment requirements, etc.

The pbb Group's own property portfolio (almost exclusively rescue acquisitions) is limited to a few isolated properties. Rescue acquisitions are not regarded as a part of pbb Group's objective within the meaning of its business strategy but are subject to assessment in the individual case. The fundamental objective is to develop these properties using holistic, real estate criteria (e.g. cost/earning situation, increase of occupancy rates, optimization of usage options, further development of the location and to work out solutions in individual cases or sell the property subsequently with the best possible impact on value).

By calculating the economic capital at the level of total property portfolio, property risks are recognized as a whole and regularly monitored. Besides, a comprehensive IT coverage on property data allows the identification and analysis of regional, local and asset class concentrations on property risk.

The administration and active risk management of rescue acquisitions is carried out by pbb Group's rescue deal management that specializes in this business field.

16.9 Overall Risk Position

16.9.1 Going-Concern

Going-concern

	March 31, 2015	December 31, 2014	Change
		in € million	
Credit risk (economic capital)	187	219	-32
Market risk (economic capital)	253	256	-3
Operational risk (economic capital)	39	39	0
Business risk (economic capital)	9	3	6
Property risk (economic capital)	10	10	0
Total economic capital before diversification effects	**498**	**527**	-29
Total economic capital after diversification effects	**461**	**488**	-27
Free capital	1,257	1,464	-207
Excess capital (+)/capital shortfall (-)	796	976	-180

The going-concern perspective is designed to protect regulatory minimum capitalization levels, and thus focuses on the continuation of pbb Group's business activities during significant economic downturns. In order to determine the risk-bearing capacity, the total economic capital (calculated at a confidence level of 95%) is compared to the free capital available to cover the risk. This includes the risk types pbb Group considers to be material, namely credit risk, market risk, operational risk, 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 €498 million as of March 31, 2015 (December 31,

2014: €527 million). If these diversification effects are taken into account, the economic capital was €461 million as of March 31, 2015 (December 31, 2014: €488 million). The most significant risk type on the basis of the ICAAP (measured in terms of the economic capital) as of March 31, 2015, was market risk, which accounted for approximately 51% of the undiversified economic capital, followed by credit risk at 38%. The €32 million decline in the credit risk as of March 31, 2015 is mainly due to lower loss given defaults (LGDs) because of an update of the loss given default (LGD) model in the course of regular validation.

The rise in business risk is due to stressed funding costs for a higher liquidity requirement in an adverse liquidity stress scenario.

In contrast to that, the free capital as risk-bearing capacity, comprising mainly available CET 1 capital less the reserved CET 1 capital for covering the regulatory minimum ratios as well as a buffer for other risks. The latter includes buffers for immaterial risks and risks that are either not or only partially quantifiable as well as credit risk from prolongations and unforeseen losses in the non-performing portfolio. The free capital is calculated utilizing both the current figures, as well as the planned values over a one year time horizon. The lower value arising from these calculations is then taken into account for the risk-bearing capacity in the going-concern approach. The amount of free capital as of March 31, 2015 was based on the planned values one year ahead and amounted to €1.3 billion (December 31, 2014: €1.5 billion), taking into consideration the repayment of the SoFFin Silent Participation, which has been made on July 6, 2015. The decline in free capital of €0.2 billion in the first quarter was mainly due to increased regulatory capital ratios which led to an increase in the reserved CET 1 and additional value corrections.

Accordingly, the resulting excess capital amounted to €796 million as of March 31, 2015 for the given period of one year (December 31, 2014: €1.0 billion).

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

Economic capital according to segments

	March 31, 2015	December 31, 2014	Change
		in € million	
REF	125	136	-11
PIF	18	22	-4
VP	328	325	3
C&A	38	139	-101
Total	**461**	**488**	-27

The decline in economic capital in the PIF segment in 2014 (€–4 million) is mainly due to the re-allocation of the Italian PIF business (from PIF to the VP). A corresponding increase in economic capital is reported for the VP segment. The decrease in economic capital in the C&A segment was mainly due to the sale of a bond which closed open market risk positions including inflation risk and interest rate risk.

16.9.2 Gone-Concern

In addition to (and supplementing) the going-concern approach, pbb Group uses a gone-concern approach (liquidation perspective) as an additional, parallel management approach. The objective of the gone-concern approach is to guarantee the protection of senior creditors in a hypothetical liquidation. pbb Group applies a confidence level of 99.91% that integrates homogenously into the generally conservative parameterization of the models. However, this liquidation scenario does not assume an opportunistic winding up of portfolios as postulated by the German Pfandbrief Act, and instead assumes an immediate sale at fair values of assets and securities in the investment book. According to this assumption, besides the major risks already mentioned in the going-concern approach, it also takes credit spread risks arising from securities in the investment book for calculating the economic capital into account, and deducts the net hidden losses attributable to these securities for determining the risk covering potential.

Gone-concern

	March 31, 2015	December 31, 2014	Change
		in € million	
Credit risk (economic capital)	1,450	1,437	13
Market risk (economic capital)	1,405	1,356	49
Operational risk (economic capital)	84	84	0
Business risk (economic capital)	90	65	25
Property risk (economic capital)	24	23	1
Total economic capital before diversification effects	**3,053**	**2,965**	88
Total economic capital after diversification effects	**2,709**	**2,647**	62
Available financial resources before hidden losses	4,090	4,147	-57
Net hidden losses	–	–	0
Available financial resources	**4,090**	**4,147**	-57
Excess capital (+)/capital shortfall (–)	1,381	1,500	-119

In the gone-concern approach, the economic capital, excluding diversification effects, amounted to €3.1 billion as of March 31, 2015 (December 31, 2014: €3.0 billion) and €2.7 billion (December 31, 2014: €2.6 billion) with diversification effects. The main drivers as of March 31, 2015 were credit risk (€1.5 billion) and market risk (€1.4 billion). Market risk increased mainly due to narrowing credit spreads for European public debtors in the first quarter of 2015, which increased the exposure by higher fair values of the positions.

Similar to the effect in market risk, credit risk increased because of narrowing credit spreads, which led to higher fair values of exposures and higher economic capital in the credit portfolio model. The increase in business risk is due to stressed funding costs for higher liquidity requirements in an extremely adverse liquidity stress scenario.

Available financial resources amounted to €4.1 billion as of March 31, 2015 (December 31, 2014: €4.1 billion); the figure decreased by €57 million as of December 31, 2014 mainly due to an additional value correction for the HETA Asset Resolution AG deals (HETA).

If the European sovereign debt crisis should worsen and the credit spreads of many European debtors would increase again, a corresponding increase in both credit spread risks and hidden losses can be expected, irrespective of any counter-measures.

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

Economic capital according to segments

	March 31, 2015	December 31, 2014	Change
		in € million	
REF	578	417	161
PIF	257	548	-291
VP	1,812	1,600	212
C&A	168	388	-220
Total	**2,709**	**2,647**	62

In the gone-concern approach, the transfer of the Italian PIF business to the VP segment in combination with a newly implemented allocation method of total economic capital to the segments was mainly responsible for the changes in the economic capital development in Q1.

While these technical issues affected REF economic capital, the effect was dampened mainly by lower loss given defaults (LGDs) due to a newly validated loss given default (LGD) model for German real estate business. Together, both effects led to a total increase of €161 million. In the PIF segment, the decrease of €-291 million in economic capital was mainly driven by a technical issue. The VP was also affected by narrowed credit spreads which led to higher fair values and therefore to higher economic capital.

The decrease in the economic capital in C&A was mainly due to the sale of a bond which closed open market risk positions, including inflation risk and interest rate risk.

16.9.3 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 methods used to calculate the economic capital for individual material risk types please see in respect of the Credit Risk, the Market Risk, the Operational Risk and the Business Risk, respectively, above under "*16.3.4.1 Credit Portfolio Model*", "*16.4.5.5 Economic Market Risk Capital*", "*16.7.4 Risk Measurement*" and "*16.5.11 Funding Risk*". Regarding Property Risk (real estate risks), pbb Group's applies a mathematical-statistical model to assess the potential declines in the value of properties in its portfolio. The input data for the model is mainly based on time series of representative real estate indices for the single properties in the portfolio. A capitalizing of Liquidity Risks is not possible as such. Liquidity risks in the broader sense of higher funding costs for potential funding gaps are recognized in the economic capital for the business risk.

16.9.4 SREP

On December 19, 2014, the European Banking Authority (EBA) published the final guideline on the SREP after a consultation process lasting several months (EBA/GL/2014/13). The guideline is addressed to the supervisory authorities of the Member States of the European Union and should be implemented in 2015 and applied from 2016. In the guideline, the EBA applies a holistic SREP approach that comprises assessing selected key indicators, the business model, governance as well as capital and liquidity risks.

The SREP is thus based on a holistic evaluation of an institution and seeks to create an overall creditworthiness grading. It is therefore a bridge between the former pillar II in accordance with Articles 76–87, 97 of CRD 4 and the SRM/BRRD, which focuses more on winding up and reorganization.

Based on the consultations taking place in 2014, pbb Group has already initiated a project that aims to fully implement SREP.

As part of the ECB's implementation of the EBA Guidelines, minimum ratios including the CET 1 ratio and the own funds ratio were imposed on the Entire HRE Group in March 2015. These higher capital ratios had to be complied with by the Entire HRE Group so far as the regulatory capital requirements had to be met under a waiver in accordance with Article 7 CRR only in respect of the Entire HRE Group and not on individual or sub-consolidated basis by the Company. However, the waiver will cease to apply prior to the Settlement. As a consequence, the regulatory capital requirements will have to be complied with by the Company on an individual basis and, in respect of pbb Group, on a consolidated basis. As pbb Group represents the only substantial holding of HRE Holding, the Company expects that the ECB will issue an SREP Decision within the next weeks pursuant to which the Company and pbb Group will be required to maintain at least the same ratios (subject to the further development of the risk situation). It remains to be seen how the ECB will handle the SREP topic further in the 2015 transitional period and thereafter. Based on the SREP information gathered throughout the year the ECB will update its SREP capital decision on an annual basis.

16.10 Result of the "Comprehensive Assessment" of the ECB

The comprehensive assessment of the significant credit institutions domiciled within the EU Banking Union Member States (i.e. as of today, the Member States of the Eurozone) was conducted by the ECB in cooperation with the national competent authorities (NCAs) in 2014. 130 banks, financial holding companies or mixed financial holding companies were subject to this exercise, accounting for 81.6% of total banking assets in the SSM. The comprehensive assessment comprised two main pillars: an asset quality review (AQR)—to enhance the transparency of bank balance sheets by reviewing the quality of banks' assets, including the adequacy of asset and collateral valuation and related provisions—and a stress test—performed in close cooperation with EBA.

According to the methodology applied by the ECB, the Comprehensive Assessment in 2014, based on figures as of December 31, 2013, had to be carried out at the highest consolidated level in a corporate group. At that time, pbb Group was therefore included in the Comprehensive Assessment of the Entire HRE Group. Therefore, the results as reported below do not relate to pbb Group but to the Entire HRE Group.

The ECB audit guidelines in the asset quality review (AQR) yielded valuation adjustments in an aggregate amount of €37 million for the aggregate exposure of the Entire HRE Group. Since the review was based on a reporting date of December 31, 2013, it incorporated the full financial statements of the Company and DEPFA Bank as subsidiaries of the Entire HRE Group. The adjustments lowered the CET 1 ratio at the level of the Entire HRE Group by 0.15 percentage points to 16.54%.

Taking the results of the asset quality review (AQR) into account, the CET 1 ratio of the Entire HRE Group amounted to 10.78% at the end of the stress period (in the year 2016) in the adverse scenario (taking into account a stress test impact of 5.76%). The Entire HRE Group's stressed CET 1 ratio thus exceeded the ECB's minimum requirement of 5.5%. In the baseline scenario, the Entire HRE Group had a CET 1 ratio of 18.16%, compared with a minimum ratio of 8%.

In line with the approach taken by the ECB, DEPFA Bank was not included in the stress test results due to the pending sale which was affected by the end of 2014. This reduced the consolidated assets and equity. These stress test results also excluded the SoFFin Silent Participation.

Following the Comprehensive Assessment, pbb Group reviewed the valuation adjustments based on the asset quality review (AQR) in individual cases in the context of the financial reporting accounting rules. Taking discretion in the financial reporting into account, adjustments have been made to the accounting rules where appropriate.

17 TRANSACTIONS AND LEGAL RELATIONSHIPS WITH RELATED PARTIES

17.1 Overview

In accordance with IAS 24 (International Accounting Standards), a party (an entity or a person or a close family member of such person) is related to the Company if such party

- directly, or indirectly through one or more intermediaries or together with another party, controls or is controlled by the Company; control exists if the majority of the voting rights in the respective company are held or the party, by virtue of an agreement, has the power to govern the financial and operating policies of the company so as to obtain benefits from its activities;
- has an interest in the Company that gives it significant influence over the Company's financial and operational policies;
- is an associated company or a joint venture, including its subsidiaries;
- is a beneficiary of retirement benefit schemes for post-employment benefits.

Prior to completion of the Offering, the Company is a wholly owned subsidiary of HRE Holding, the Selling Shareholder. See also "*20 Shareholder Structure*". FMS is the sole shareholder of HRE Holding and, indirectly, of the Company. Accordingly, the Company 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. This includes, in particular, FMS-WM, a special public-law liquidation agency (*Abwicklungsanstalt*) also controlled by the Federal Republic of Germany, as well as DEPFA Bank (and its subsidiaries) which is now owned by FMS-WM.

Transactions with related entities or persons are to be performed on an arm's-length basis under consideration of the characteristics of section 311 et seq. AktG. However, in accordance with section 7d of the Financial Market Stabilization Acceleration Act (*Finanzmarktstabilisierungsbeschleunigungsgesetz*, "**FMStBG**"), the regulations of the German Stock Corporation Act on controlling entities are not applicable to the FMS, the Federal Government and the corporations, institutions and special funds established by the Federal Government as well as related persons or other companies which are directly or indirectly dependent on them.

Set forth below is a summary of transactions with related parties for the financial years 2014, 2013 and 2012 as well as for the financial year 2015 until the date of the Prospectus. Further information of related party transactions are contained in the notes (79 and 81, respectively) to the Audited Consolidated Financial Statements which are included in the "*Financial Section*" of the Prospectus. However, according to IAS 24.25, the Company is exempt from the requirement to report on events, receivables and liabilities (including obligations) with related parties pursuant to IAS 24.18 if these related parties are also controlled by the Federal Republic of Germany or if the Federal Republic of Germany is involved in the joint management of such related parties or if it has a material influence over such parties.

17.2 Relationships with Related Entities

The relationships with related entities predominantly represent material agreements for pbb Group and therefore have already been described in the chapter "*15.11 Material Contracts*".

17.2.1 Agreements relating to the State Aid Measures

The following section will describe the material agreements relating to the State Aid Measures to the extent they have been entered into with related parties. For further information on these agreements, see also "*14.2.2 Overview of certain State Aid Measures for Stabilizing pbb Group as part of the Entire HRE Group*" and "*15.11.1 Agreements relating to the State Aid Measures*".

- Sec. 7 Framework Agreement: FMS provided the Capitalization Measures to the Company. The agreement provided for certain further undertakings and was agreed to have an indefinite term. FMS had also granted certain guarantees between 2008 and 2010 for the benefit of creditors of certain bonds issued by the Company on the basis of Section 6 FMStFG (which were released prior to June 30, 2011).

- Sec. 8a Framework Agreement: The Company agreed to transfer the Risk Positions to FMS-WM, effective as of September 30/October 1, 2010. The Sec. 8a Framework Agreement further contains certain undertakings, indemnities, representations, warranties and penalty provisions. It was agreed to terminate three years after the delivery of the final report on the dissolution of FMS-WM. The Company could be obliged to implement an upgrade transfer of legal title to those Risk Positions which had been transferred to FMS-WM only economically or by a mere assumption of risks. In the Settlement Agreement, the Company agreed to settle any reimbursement claims of FMS-WM arising from or in connection with an upgrade transfer. Furthermore, the Framework Agreements contain provisions in relation to any unwanted transfer of pbb Group's employees to FMS-WM, certain obligations of the Company (including information undertakings) as well as provisions on the bearing of costs and indemnifications, in each case in connection with the transfer of Risk Positions and also in conjunction with a cost coverage declaration dated August 6, 2009.
- New Framework Agreement: Due to the continued shareholding of HRE Holding and, indirectly, of FMS in the Company, the Capitalization Measures will be deemed not fully repaid by the Company prior to completion of the Offering. The New Framework Agreement on the granting of stabilization measures was entered into to replace the Sec. 7 Framework Agreement and the Sec. 8a Framework Agreement between the Company on one side, and the FMSA and FMS on the other side upon completion of the Offering. In the New Framework Agreement, the parties thereto agreed on the general conditions and requirements for the continued utilization of the Capitalization Measures already granted pursuant to the Sec. 7 Framework Agreement (and not repaid prior to completion of the Offering).
- Declaration of Undertaking: By its Declaration of Undertaking towards FMS, the Company confirms and commits itself to the main conditions and requirements under the New Framework Agreement. The Declaration of Undertaking will be published on the Company's website and in the federal gazette and made available to the Company's shareholders in a suitable manner as of the Settlement.
- HREC Japan Back-to-Back Agreement: The Company, HRE Holding and HREC Japan agreed on an extension of the rights and obligations under the Sec. 8a Framework Agreement to HREC Japan and the Risk Positions transferred by HREC Japan to FMS-WM. The agreement contains further undertakings of HREC Japan towards the Company and/or HRE Holding.
- Split-off Agreement: By way of the German law governed split-off, the Company transferred certain Risk Positions to FMS-WM. The agreement also contains provisions that apply in the event that legal title to certain Risk Positions has not yet been transferred to FMS-WM due to German or applicable foreign law restrictions.
- Concentration Agreement: The agreement provides for different modes of transfer for the items of the Concentration Portfolio depending on their legal nature and possible transfer restrictions or negative transfer consequences. The Concentration Agreement also contains provisions in relation to assets which were wholly or partly used as cover for Pfandbriefe, undertakings regarding an upgrade transfer of the items of the Concentration Portfolio and indemnifications.

17.2.2 Agreements primarily relating to the Provision of Services

The following agreements refer to services in relation to FMS-WM (for further details see "*15.11.2.1 FMS-WM*"):

- Cooperation Agreement: The Company provided asset management of all Risk Positions transferred to FMS-WM. The Cooperation Agreement was terminated as of September 30, 2013. The activities previously carried out by the Company for FMS-WM are now carried out by FMS-WM Service GmbH and by other external service providers, staffed with former employees of pbb Group who were transferred to such servicers by way of business transfers and on the basis of the Personnel Transfer Agreements.

- Framework Agreement IT: The Company provided IT services to FMS-WM and agreed on the implementation of certain IT-related projects (e.g. data migration). The Framework Agreement IT was terminated on September 30, 2013.
- After Sales Agreement FMS-WM: The Company continues to deliver after-sales support to FMS-WM, in particular, but not exclusively, for not yet settled Risk Positions transferred to FMS-WM on a cost-plus basis.
- Agreement on Proprietary Developments: In December 2013/January 2014, the Company and FMS-WM entered into an agreement by which the Company agreed to transfer certain proprietary developments (*Eigenentwicklungen*) developed by it to FMS-WM and to grant corresponding rights of use ("**Agreement on Proprietary Developments**"). While the rights of use are currently limited to the administration of the Risk Positions transferred from HRE Group to FMS-WM, FMS-WM has the option to use the proprietary developments for any other purpose for a one-time payment of €2 million which FMS-WM may exercise until December 31, 2018.
- License Agreement EMIR: In February/March 2014, the Company and FMS-WM entered into a further agreement ("**License Agreement EMIR**") by which the Company granted rights of use with regard to a source code (*Quellcode*) the Company had developed for its IT system in order to implement EU Regulation (EU) No 648/2012 (European Market Infrastructure Regulation, "**EMIR**").
- Deposit and Safekeeping Agreement: The Company, FMS-WM and a law firm (as depository) agreed to protect FMS-WM against a potential loss of relevant data stored by the Company pursuant to the After Sales Agreement FMS-WM with FMS-WM bearing the costs in connection therewith.
- Portfolio Management Agreement HREC Japan: HREC Japan continued to provide services for the Japanese real estate portfolio transferred to FMS-WM until June 29, 2015.
- Project Agreement on the Target Operating Model: On November 13, 2012, the Company and FMS-WM entered into an agreement pursuant to which the Company supported FMS-WM during the preparation of the termination of the Cooperation Agreement and the transition of the servicing employees from the Company to FMS-WM Service GmbH.

The following agreements relate to the provision of services by the Company to entities of the DEPFA Group or *vice versa* (for further details see "*15.11.2.2 DEPFA Group*"):

- Sub-Servicing Agreements: The Company assigned individual management responsibilities regarding Risk Positions transferred to FMS-WM to HREC Japan, DEPFA Bank and four subsidiaries of DEPFA Bank. The Sub-Servicing Agreements were terminated as of September 30, 2013.
- Horizon IP Transfer Agreement: On September 30, 2013, the Company and DEPFA Bank entered into an agreement by which the Company transferred IP rights with regard to a certain software-tool named "Horizon" which is used for the servicing of certain Risk Positions transferred from DEPFA Bank to FMS-WM (the "**Horizon IP Transfer Agreement**") with the Company maintaining the option to request a royalty-free license on Horizon from DEPFA Bank, which the Company may exercise until December 31, 2020.
- After Sales Agreements DEPFA: In connection with the transfer of the share capital of DEPFA Bank to FMS-WM, the Company provides certain after sales support to DEPFA Bank on a cost-plus basis.
- Master Agreement IT Services: The Company provides IT services to entities of the DEPFA Group on a cost-plus basis.
- IP License Agreement: With regard to certain jointly developed IP, the Company and DEPFA Bank agreed to grant each other a mutual license and to support each other.
- IP Right Purchase and Assignment Agreement: The Company sold and transferred certain IP rights to DEPFA Bank which, in turn, respects the Company's use of the designation "Deutsche Pfandbriefbank" and/or "pbb".

In the past, pbb Group and HRE Group were providing to each other certain services relating to human resources, real estate, IT, IP, legal, compliance, procurement, export control and customs, treasury and other areas and were part of the cash management system and global insurance cover of the Entire HRE Group.

With regard to future relations between the two groups, the Company and HRE Holding entered into the After Sales Agreement HRE regarding the exchange of certain information and the cooperation after the completion of the Offering in order for both parties to be able to meet their respective statutory, regulatory, contractual and other obligations towards business partners, authorities and other third parties and, to a limited extent, other forms of support and cooperation. For further details see "*15.11.2.3 HRE Group*".

17.2.3 Settlement Agreements

In the Settlement Agreement, the Company agreed to settle any reimbursement claims of FMS-WM arising from or in connection with an upgrade transfer of Risk Positions. The Company, HRE Holding and FMS-WM also settled certain potential claims of FMS-WM, *inter alia*, under the Cooperation Agreement with a final settlement payment having been made at the beginning of the financial year 2014 (for further information, see also "*15.11.3 Settlement Agreements*").

In the Group-Internal Settlement Agreement, DEPFA Bank agreed to pay to the Company a settlement amount and the Company and HRE Holding waived claims under the Sub-Servicing Agreements and for an upgrade transfer of Risk Positions (for further information, see also "*15.11.3 Settlement Agreements*").

In the Mutual Claim Settlement Agreement, HRE Holding and the Company on the one hand, and DEPFA Bank and some of its subsidiaries (DEPFA ACS Bank, Hypo Pfandbrief Bank International, S.A. and Hypo Public Finance Bank puc) on the other hand settled (potential) liability claims under or in connection with various old servicing agreements (including the Sub-Servicing Agreements) (for further information, see also "*15.11.3 Settlement Agreements*").

17.2.4 Agreement on the Repayment of the SoFFin Silent Participation

On July 3, 2015, FMS and the Company entered into the SoFFin Silent Participation Repayment Agreement (for further information, see also "*15.11.4 Agreement on the Repayment of the SoFFin Silent Participation*").

17.2.5 HRE Lock-up-Agreement

HRE Holding, the Company, FMS and FMSA entered into the HRE Lock-up Agreement containing a lock-up commitment, subject to certain exceptions, of HRE Holding vis-à-vis the Company in respect of shares in the Company with a lock-up period of two years after the first day of trading of the shares of the Company on the Frankfurt Stock Exchange and a lock-up threshold of 24.9% (or, if the Greenshoe Option has been exercised, the percentage of HRE Holding's shareholding in the Company immediately after the exercise of the Greenshoe Option, but in any event a threshold of at least 20.0%) of the registered share capital of the Company from time to time (for details on this agreement see "*15.11.5 HRE Lock-up-Agreement*").

17.2.6 Agreement on Control Avoidance

HRE Holding and the Company entered into the Control Avoidance Agreement pursuant to which HRE Holding agrees with the Company to certain restrictions as regards HRE Holding's shareholder rights, in particular its voting rights (for details on this agreement see "*15.11.6 Agreement on Control Avoidance*").

17.2.7 Funding

Based on the Silent Partnership Agreement, FMS held the SoFFin Silent Participation in the Company in the nominal amount of €1.0 billion which has been repaid on July 6, 2015. For further details see "*15.11.4 Agreement on the Repayment of the SoFFin Silent Participation*" and "*15.11.7 Funding provided by Related Entities*".

The Company had issued the, meanwhile matured and repaid, Bearer Bond with a nominal value of €825.2 million to HRE Holding. For further details see "*15.11.7 Funding provided by Related Entities*".

DEPFA Finance granted Loan I and Loan II in the initial principal amount of €300 million to the Company. Based on the Partial Redemption Agreement, the Company partially repaid, at market value, €150 million of the principal amount owed under Loan II. Furthermore, the Company and DEPFA Bank agreed to partially terminate a hedging swap with regard to Loan II following which DEPFA Bank paid €15 million to the Company. The Partial Redemption Agreement provides for an option of the Company as well as DEPFA Finance to request repayment of the remainder of Loan I and Loan II as of January 2018. If this option is exercised the remaining swap shall be terminated accordingly. For further details see "*15.11.7 Funding provided by Related Entities*".

17.2.8 Comfort Letter

HRE Holding has issued the Comfort Letter in its audited unconsolidated financial statements as of December 31, 2014 based on which HRE Holding, subject to political risks, assumes the obligation to ensure that the Company shall be able to meet its contractual obligations. The Company expects that the Comfort Letter will be terminated with effect as of the Settlement. For further details see "*15.11.8 Comfort Letter by HRE Holding*".

17.2.9 Guarantees and Other Commitments

Hypo Real Estate Bank International AG (which was merged into the Company in 2008 and, thus, is its legal predecessor) assumed the Universal Guarantee with regard to certain liabilities of HPFB. However, DEPFA Bank agreed to indemnify the Company for any and all claims brought against the Company under or in connection with the Universal Guarantee. For further details see "*15.11.9 Guarantees and Other Commitments*".

Hypo Real Estate Bank International AG also committed to the Support Undertaking with regard to the obligation of its subsidiary Hypo Real Estate International LLC I, Wilmington, USA. For further details see "*15.11.9 Guarantees and Other Commitments*".

17.2.10 Agreement on the Assumption of Offering-related Costs and Risks

On or about June 26, 2015, HRE Holding and the Company entered into the Cost Coverage Agreement (for further information, see also "*15.11.10 Agreement on the Assumption of Offering-related Costs and Risks"*).

17.2.11 Lehel Settlement Agreement

By the Lehel Settlement Agreement dated March 31, 2015, HRE Holding and the Company agreed to split among each other the balance between the expected net expenditures regarding the Lehel-Carré office building. The Company therefore agreed to make a one-off payment of €24.5 million to HRE Holding in order to settle essentially all reciprocal claims among HRE Holding and the Company in relation to the Lehel-Carré. For further details see "*15.11.11 Lehel Settlement Agreement*".

17.2.12 Relationships with foundations

pbb Group has established two charitable foundations, pbb Stiftung Deutsche Pfandbriefbank and pbb Stiftung für Kunst und Wissenschaft. The foundations, based in Munich, are independently funded and solely used to fulfill the foundations' purposes, i.e. promoting art and culture. The Company provides, free of charge, office space and personnel to the foundations.

17.2.13 Further Agreements

Until March 31, 2015, HRE Holding and the Company were part of a tax group for VAT purposes. To apportion taxes within such tax group, HRE Holding and the Company entered into a tax allocation agreement. They also signed a tax allocation extension agreement in order to facilitate the exchange of information for the preparation of annual tax returns after the disentanglement of the tax group.

In relation to Loan I and Loan II granted by DEPFA Finance N.V., asset transfers to FMS-Wertmanagement and its ordinary banking business, pbb Group has entered into interest rate derivatives and money market trades with DEPFA Bank. As of March 31, 2015, the outstanding amount under these transactions was €430.5 million across four swaps, for which pbb Group posted €134.4 million collateral and €6.5 million notional across three money market trades.

At the date of the Prospectus, HRE Holding and pbb Group maintain ordinary banking business relations. HRE Holding has a bank account at pbb Group, which as of March 31, 2015, contained €152 million in deposits. When pbb Group fully repaid the Bearer Bond to HRE Holding, it subsequently reinvested the proceeds from the repayment of the Bearer Bond on behalf of HRE Holding in exchange for payment of commission.

Until June 30, 2015, pbb Group provided services to HRE Holding by using partial secondment agreements. Based on these agreements, pbb Group's employees provided operational services (back-office tasks such as finance and risk support) and services for certain projects, including the disentanglement of pbb Group from HRE Holding and the privatization. The partial secondment agreements have been terminated with effect from July 1, 2015 with the exception of a few employees working on the privatization. To the extent necessary after July 1, 2015, pbb Group will provide services through service level agreements (except for privatization support, which will be conducted through partial secondments) on the basis of the After Sales Agreement HRE. Furthermore, nine employees of pbb Group who had been seconded to HRE Holding have commenced or will commence an employment with HRE Holding as from July 1, 2015 or later. Their employment with pbb Group has concurrently ceased (with the exception of a few cases in which employees will, for a definite term, be simultaneously engaged by pbb Group and HRE Holding based on corresponding part-time employment arrangements). In connection with such transfer of previous pbb Group employees to HRE Holding, HRE Holding will provide to a limited extent HR support to pbb Group for a definite term based on a respective service-level agreement.

Any further transactions carried out in the financial years 2014, 2013 and 2012 with companies which were controlled, jointly controlled or significantly influenced by the Federal Republic of Germany, overall were not material for pbb Group.

17.3 Relationships with Related Persons

The Company defines related persons as the members of the Management Board and the Supervisory Board, employees in the second tier of management at the Company as well as members of management of the subsidiaries of the Company as well as their respective close relatives.

The Company paid neither fixed remuneration nor severance payments to the Management Board during the financial years 2014 and 2013 when the members of the Management Board were remunerated by HRE Holding. Although employment contracts between the members of the Management Board and the Company have been closed in preparation of the privatization, the remuneration, has been charged in full to HRE Holding. For the financial year 2014, the total remuneration paid to former members of the Management Board and their surviving dependents amounted to €5.14 million (financial year 2013: €5.17 million). The Supervisory Board remuneration for the financial year 2014 amounted to €96 thousand (2013: €100 thousand), which figure was composed exclusively of fixed remuneration. There were no loans or advances to related persons at balance sheet date.

For an overview regarding the compensation of the members of the Management Board and the Supervisory Board, see "*22.2.4 Compensation, Other Benefits, Share Ownership, Pension*" and *"22.3.4 Compensation, Other Benefits, Share Ownership, Pension*", as well as the notes to Audited Consolidated Financial Statements for the financial years 2014, 2013 and 2012 (Remuneration Report), which are included in the "*Financial Section*" of the Prospectus.

18 REGULATION AND SUPERVISION

18.1 Overview

pbb Group's operations in Germany and elsewhere in the world are regulated and supervised by the relevant authorities in each of the jurisdictions where it conducts business. Such regulation relates to licensing, capital adequacy, liquidity, risk concentration, conduct of business as well as organizational and reporting requirements. It affects the type and scope of the business pbb Group conducts in a country and how pbb Group structures specific operations. Currently and still in reaction to the crisis in the financial markets, the regulatory environment is undergoing significant changes.

Most notably, in December 2010 the Basel Committee on Banking Supervision proposed revised capital adequacy and liquidity standards that were significantly more stringent than the then-existing requirements. The set of comprehensive changes to the capital adequacy framework published by the Basel Committee, known as Basel 3, has now been implemented into European Union law by a legislative package referred to as CRR/CRD 4. The CRR/CRD 4 legislative package includes a European regulation (the Capital Requirements Regulation, the "**CRR**") which is directly enforceable law in every Member State, and a European Union directive (the Capital Requirements Directive, the "**CRD 4**"), which has been transposed into national law (in the case of the Company, German law). CRR/CRD 4 contains, among other things, detailed rules on regulatory banking capital, increased capital requirements and the introduction of additional capital buffers, tightened liquidity standards and a non-risk based leverage ratio. Most of the new rules came into effect on January 1, 2014, with capital requirements and buffers increasing from year to year. This legislative package comprises, together with further legislative texts setting out rules, among other things, for the protection of depositors and management of bank failures, the Single Rulebook of the EU. The Single Rulebook serves to harmonize regulation of banks in the European Banking Union.

As a further step of integration of the financial sector of the EU, the Banking Union was established. Its main pillars are the Single Supervisory Mechanism ("**SSM**") and the Single Resolution Mechanism ("**SRM**") for credit institutions domiciled in the Eurozone and in any other EU member state opting to participate in the SSM and SRM in the future. The SSM places the European Central Bank ("**ECB**") as the central prudential supervisor of financial institutions in an integrated system with the national supervisory authorities. The ECB directly supervises the 123 banking groups which are considered as significant and indirectly supervises all the less significant institutions in cooperation with the national supervisory authorities.

On August 19, 2014 the SRM Regulation entered into force setting out uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms and thereby establishing the SRM. Similarly to the SSM, the SRM is governed by a central authority, the Single Resolution Board ("**SRB**") in cooperation with national resolution authorities. In cases when banks fail despite stronger supervision, the mechanism will allow bank resolution to be managed effectively in a coordinated way. To provide any necessary funding to resolution measures, a Single Resolution Fund is established, which is financed by contributions from the banking industry.

Further changes continue to be under consideration in the jurisdictions in which pbb Group operates. While the extent and nature of these changes cannot be predicted now, they may include a further increase in regulatory oversight and enhanced prudential standards relating to capital, liquidity, employee compensation, limitations on activities and other aspects of its operations that may have a material effect on the businesses and the services and products that pbb Group will be able to offer.

The following sections present a description of the supervision of pbb Group's business by the ECB, the authorities in Germany, its home state, and in the Member States of the European Economic Area (the "**EEA**"), which pbb Group views as being the most significant for it.

18.2 Regulation and Supervision in Germany

18.2.1 Basic Principles

pbb Group is authorized to conduct banking business and to provide financial services as set forth in the German Banking Act (*Kreditwesengesetz*) and the CRR, including the Pfandbrief business (*Pfandbriefgeschäft*).

Since November 4, 2014 the ECB is the principal supervisor of "significant" credit institutions domiciled in the Member States participating in the SSM. The SSM aims at a harmonized approach to the

prudential supervision of credit institutions in Europe in order to enhance the robustness of the euro area banking system. HRE Holding had been identified as a significant financial holding company within the meaning of the SSM Regulation and has therefore been subject to direct supervision by the ECB since November 4, 2014. As the direct supervision extends to the entities forming part of the supervised group of the holding company, the Company is (together with its subsidiaries) also directly supervised by the ECB.

The characterization as "significant" credit institution is subject to an annual review. Pursuant to Article 6(4) of the SSM Regulation, the significance shall be assessed on the basis of (i) size, (ii) importance for the economy of the EU or any participating Member State, and (iii) significance of cross-border activities. As regards the size, a credit institution, financial holding company or mixed financial holding company shall in general be considered significant if (i) the total value of its assets exceeds €30 billion, (ii) the ratio of its total assets over the gross domestic product of the participating Member State of its establishment exceeds 20% (subject to a €5 billion threshold), or (iii) following a comprehensive assessment, such an institution is considered by the ECB as having significant relevance with regard to the domestic economy.

Since pbb Group's total value of assets amounts to €75.386 billion as of March 31, 2015 the disentanglement from the Entire HRE Group will from today's perspective not lead to a change regarding the direct supervision by the ECB.

Generally, the supervision by the ECB applies on a non-consolidated basis as well as on a consolidated basis (i.e. including the entities consolidated for prudential purposes). In respect of banks forming part of a consolidated group, the application of capital adequacy requirements, large exposure limits and certain organizational requirements may be waived on a non-consolidated basis if certain conditions are met. Under a waiver in accordance with Article 7 CRR (the "**Waiver**"), the Company has been exempt from regulatory capital requirements on an individual basis as well as on a consolidated basis on the level of the Company (i.e. at that time on a sub-consolidated level from the perspective of HRE Holding). The Waiver will cease to apply prior to the Settlement. As a consequence, the Company will have to meet these requirements on a non-consolidated basis as well as on a consolidated basis (i.e, in respect of pbb Group).

Even though the Company is subject to the direct supervision of the ECB, the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*, "**BaFin**") will continue to be its supervisor in several regulatory areas, for instance anti-money laundering and terrorist financing and the *Pfandbrief* business. BaFin (working in cooperation with Deutsche Bundesbank) also continues to play a role in the direct supervision of pbb Group by ECB, resulting from its representation in the joint supervisory team ("**JST**") which is responsible for the day-to-day supervision of the Company and its right to prepare draft decisions for adoption by ECB upon ECB's request or on BaFin's own initiative.

In order to fulfill its supervisory tasks, ECB receives quantitative and qualitative information through a reporting procedure between ECB and BaFin and Deutsche Bundesbank. It may further apply supervisory powers to address problems of significant institutions at an early stage and monitor the compliance with these supervisory measures for instance by conducting on-site inspections. ECB may also impose sanctions on credit institutions and/or their management to enforce the compliance with regulatory requirements.

pbb Group is in compliance with the German and European laws that are applicable to its business in all material respects.

18.2.2 The German Banking Act and the CRR

The German Banking Act and the CRR contain the principal rules for German banks, including the requirements for a banking license, and regulate the business activities of German banks. In particular, the German Banking Act requires that an enterprise that engages in one or more of the activities defined in the German Banking Act as "banking business" or "financial services" in Germany must be licensed as a "credit institution" (*Kreditinstitut*) or "financial services institution" (*Finanzdienstleistungsinstitut*), as the case may be. The Company is licensed as credit institution.

18.2.3 The German Securities Trading Act and further Securities Legislation

Under its banking license, the Company is also authorized to conduct financial services. Furthermore, it has issued securities that are traded on at least one stock exchange. Under the German Securities

Trading Act (*Wertpapierhandelsgesetz*), BaFin regulates and supervises securities trading in Germany. The German Securities Trading Act contains, among other things, disclosure and transparency rules for issuers of securities that are listed on a German exchange and prohibits insider trading with respect to certain listed securities. The German Securities Trading Act also contains rules of conduct. These rules of conduct apply to all businesses that provide securities services. Securities services include, in particular, the purchase and sale of securities or derivatives for others and the intermediation of transactions in securities or derivatives and certain types of investment advice. BaFin has broad powers to investigate businesses providing securities services to monitor their compliance with the rules of conduct and the reporting requirements. In addition, the German Securities Trading Act requires an independent auditor to perform an annual audit of the securities services provider's compliance with its obligations under the German Securities Trading Act.

The European Union has completed or brought forward several legislative proposals which result, or would result, if enacted, in further regulation of securities trading and the trading in derivatives in particular. Most notably, the European Union has adopted the European Regulation on OTC Derivatives, Central Counterparties and Trade Repositories (EMIR), which became effective on August 16, 2012. EMIR introduces requirements for standardized over-the-counter derivatives to be centrally cleared and derivative transactions to be notified to trade repositories. EMIR also includes capital and margin requirements for non-cleared trades. While a number of the compliance requirements introduced by EMIR have come into effect, the European Supervisory Authorities (mainly the European Securities and Markets Authority) are still in the process of finalizing several of the implementing rules mandated by EMIR.

On June 12, 2014, the new Market Abuse Regulation ("**MAR**") and a new Directive on criminal sanctions for insider dealing and market manipulation ("**CSMAD**", together referred to as "**MAD 2**") were published in the Official Journal of the EU. The new provisions will by and large apply as of July 2016. MAR will have direct effect without further implementation through national law in the EU Member States and extends the scope of the market abuse statutory framework to apply to any financial instruments admitted to trading on a multilateral trading facility or organized trading facility as well as to any related financial instruments traded over the counter which can have an effect on instruments which are traded on any trading venue within the scope of MAR. Furthermore, it extends the definition of inside information and of manipulative practices with regards to market manipulation and explicitly prohibits the manipulation of benchmarks. It contains extensive regulations on reporting and disclosure requirements, provides for whistleblower incentives and greater administrative sanctioning powers. The CSMAD complements MAR by introducing minimum rules on criminal offences and criminal sanctions for market abuse.

Furthermore, the amended Markets in Financial Instruments Directive ("**MiFID 2**") came into force on July 3, 2014. The EU Member States are required to transpose MiFID 2 into national law by July 3, 2016. Market participants will have to apply the new regulations as of January 2017. MiFID 2 is supplemented by the Markets in Financial Instruments Regulation ("**MiFIR**") which entered into force with immediate effect, but will not be applied before January 3, 2017. On June 30, 2015, the European Securities and Market Authority ("**ESMA**") proposed a first set of draft technical standards on MiFID 2 and MiFIR for endorsement by the European Commission. The remaining draft technical standards, which ESMA is mandated to develop under MiFID 2 and MiFIR, are expected to be published by ESMA by the end of 2015. MiFID 2/MiFIR introduce among other things an obligation for OTC derivatives which are subject to mandatory clearing and which are sufficiently liquid to be traded on a regulated market, multilateral trading facility, organized trading facility or appropriate third-country venue. They also introduce new investor protection rules.

18.2.4 The German Pfandbrief Act

As part of its banking license, the Company is licensed to conduct Pfandbrief business, specifically by issuing Mortgage Pfandbriefe and Public Sector Pfandbriefe. The Pfandbrief operations of pbb Group are subject to the German Pfandbrief Act (*Pfandbriefgesetz*).

The following description includes only a summary of the fundamental principles of the German law governing the Pfandbriefe. It does not purport itself to be conclusive and is qualified by the applicable German laws, rules and regulations. For the purpose of the overview below, banks authorized to issue Pfandbriefe will generally be referred to as "**Pfandbrief Banks**", which is also the term applied by the German Pfandbrief Act. The Pfandbrief instruments issued by the Company are further described in section "*15.5.1 The Pfandbrief*".

18.2.4.1 Rules Applicable to all Types of Pfandbriefe

Pfandbriefe issued by Pfandbrief Banks are debt securities issued under German law that must be secured ("covered") by mortgages or certain obligations of public sector debtors (or certain other qualifying assets) and the terms if which must comply with the requirements and limitations imposed by the German Pfandbrief Act. Such compliance is monitored by BaFin and not by the ECB.

Pfandbriefe are medium- to long-term bonds and have, as a general rule, a term of two to ten years, but may also have a shorter or longer term. Pfandbriefe are recourse obligations of the issuing bank, and no separate vehicle is created for their issuance, neither generally nor for the issuance of any specific series of Pfandbriefe. Traditionally, Pfandbriefe have borne interest at a fixed rate, but Pfandbrief Banks are also issuing zero-coupon and floating rate Pfandbriefe, in some cases with additional features such as step-up coupons, caps or floors. Most issues of Pfandbriefe are denominated in Euro and some in other currencies, subject to certain limitations. The terms of the Pfandbriefe may not provide for a right to redeem the Pfandbriefe at the option of the holders of the Pfandbriefe prior to their maturity.

Pfandbriefe may either be Mortgage Pfandbriefe, Public Sector Pfandbriefe, Ship Pfandbriefe or Aircraft Pfandbriefe. The aggregate principal amount of the outstanding Pfandbriefe issued by a Pfandbrief Bank must be covered by a separate pool of specified qualifying assets: a pool for Mortgage Pfandbriefe only, a pool for Public Sector Pfandbriefe only, a pool covering all outstanding Ship Pfandbriefe only and a pool covering all outstanding Aircraft Pfandbriefe (each a *Deckungsmasse*, "**Cover Pool**"). The aggregate principal amount of assets in each Cover Pool must at all times be at least equal to the aggregate principal amount of the outstanding Pfandbriefe covered by such Cover Pool. Moreover, the aggregate interest yield on any such Cover Pool must at all times be at least equal to the aggregate interest payable on all Pfandbriefe covered by such Cover Pool. In addition, the coverage of all outstanding Pfandbriefe with respect to principal and interest must also at all times be ensured on the basis of the net present value (*Barwert*). Finally, the net present value of the assets contained in the Cover Pool must exceed the total amount of liabilities from the corresponding Pfandbriefe and derivatives by at least 2% (*sichernde Überdeckung*). Such 2% excess cover must consist of highly liquid assets. The following assets qualify for inclusion in the excess cover:

(i) debt securities of the Federal Republic of Germany, a special fund of the Federal Republic of Germany, a German state (*Land*), the European Communities, another Member State of the European Union or the European Economic Area, the European Investment Bank, the IBRD-World Bank, the Council of Europe Development Bank, or the European Bank for Reconstruction and Development, as well as, provided certain rating requirements are met, debt securities of Switzerland, the United States of America, Canada or Japan;

(ii) debt securities guaranteed by any of the foregoing entities; and

(iii) credit balances maintained with the ECB, the central banks of the Member States of the European Union and/or under certain circumstances appropriate credit institutions based in one of the countries mentioned in (i) above.

BaFin may require any Pfandbrief Bank to meet excess cover requirements above 2% (individual cover add-ons). This may in particular be the case where deficiencies have been determined in the course of an audit.

Furthermore, a certain liquidity cushion must be established.

Any Pfandbrief Bank must establish an appropriate risk management system meeting the requirements specified in detail in the German Pfandbrief Act and must comply with extensive quarterly and annual disclosure requirements, as set out in the German Pfandbrief Act.

Under the German Pfandbrief Act, each Pfandbrief Bank must keep a separate cover register (*Deckungsregister*) for each of its Cover Pools (i.e. one cover register for the Mortgage Pfandbriefe, one cover register for the Public Sector Pfandbriefe, one cover register for the Ship Pfandbriefe and one cover register for the Aircraft Pfandbriefe) in which the assets included in each of the four Cover Pools are registered. In the case of the Company, in line with its business model that focuses on REF and PIF transactions, only Cover Pools and cover registers for Mortgage Pfandbriefe and Public Sector Pfandbriefe exist.

In order to ensure that the Cover Pools provide adequate coverage for the outstanding Pfandbriefe, the registration is supervised and controlled by a Cover Pool trustee (*Treuhänder*) who is appointed by

BaFin after consultation with the Pfandbrief Bank. The Cover Pool trustee also monitors the Pfandbrief Bank's compliance with other provisions of the German Pfandbrief Act. Any issuance of Pfandbriefe may take place only upon prior certification by the Cover Pool trustee that the relevant Cover Pool provides adequate coverage for the Pfandbriefe to be issued and that the assets which will be used as cover are listed in the relevant cover register. The Pfandbrief Bank may remove any assets from the Cover Pool only with the prior permission of the Cover Pool trustee. Such permission shall only be granted if and insofar as the remaining registered assets still cover the aggregate principal amount of the outstanding Pfandbriefe and the liabilities arising from derivatives as well as the 2% excess cover.

In addition to the monitoring conducted by the Cover Pool trustee, BaFin conducts audits of each Cover Pool every two years. BaFin also supervises the compliance of Pfandbrief Banks with the provisions of the German Pfandbrief Act, including the review of principal terms of the Pfandbrief and the resolution of disputes between the bank and the Cover Pool trustee. Furthermore, the Regulation on the Determination of the Mortgage Lending Value (*Beleihungswertermittlungsverordnung*) establishes a uniform method for determining the mortgage lending value for all German Pfandbrief Banks.

18.2.4.2 Cover Pool for Mortgage Pfandbriefe

In the case of Mortgage Pfandbriefe, the Cover Pool is secured by mortgages (or portions thereof) which may serve as cover up to the initial 60% of the value of their underlying property as assessed by experts of the Pfandbrief Bank different from those who take part in the credit decision. In addition, the mortgaged property must be adequately insured against relevant risks. The mortgaged properties must be located in a state of the European Economic Area, Switzerland, the United States of America, Canada, Japan, Australia, New Zealand or Singapore. Furthermore, the registered Cover Pool assets include all claims of the Pfandbrief Bank associated with the economic substance of the property. Other assets qualifying for inclusion in the Cover Pool for Mortgage Pfandbriefe include:

(i) certain equalization claims (*Ausgleichsforderungen*) converted into bonds,

(ii) subject to certain qualifications, such assets which may also be included in the 2% excess cover as described above, up to a total sum of 10% of the aggregate principal amount of outstanding Mortgage Pfandbriefe;

(iii) subject to certain thresholds, the assets which may also be included in the Cover Pool for Public Sector Pfandbriefe referred to below, up to a total share of 20% of the aggregate principal amount of outstanding Mortgage Pfandbriefe, whereby assets pursuant to (i) above will be deducted; and

(iv) claims arising under derivative transactions, i.e. derivatives summarized under a standardized master agreement including annexes regarding collateral (*Besicherungsanhänge*) and other agreements concluded under the master agreement, contracted with certain qualifying counterparties, provided that it is assured that the claims of the Pfandbrief Bank according to the master agreement will not be prejudiced in the event of the insolvency of the Pfandbrief Bank or any other Cover Pool maintained by it. The amount of the claims of the Pfandbrief Bank arising under derivatives which are included in the Cover Pool measured against the total amount of all assets forming part of the Cover Pool as well as the amount of the liabilities of the Pfandbrief Bank arising from such derivatives measured against the aggregate principal amount of the outstanding Mortgage Pfandbriefe plus the liabilities arising from derivatives may in either case not exceed 12%, calculated in each case on the basis of the net present values.

18.2.4.3 Cover Pool for Public Sector Pfandbriefe

Under the German Pfandbrief Act the assets qualifying for the Cover Pool for Public Sector Pfandbriefe include among others monetary claims under certain loans, bonds or similar transactions

(i) which are direct claims against

  (a) any domestic territorial authority (*inländische Gebietskörperschaft*) or other qualifying public body or institution which is covered by a state guarantee (or subject to a similar instrument) or is legally entitled to raise fees, rates and other levies,

  (b) other Member States of the European Union or the European Economic Area as well as their central banks (*Zentralnotenbanken*),

(c) regional administrations and territorial authorities of the countries mentioned in (b),

(d) under certain circumstances, the United States of America, Japan, Switzerland and Canada as well as their central banks,

(e) under certain circumstances regional administrations and territorial authorities of the countries mentioned in (d),

(f) the European Central Bank as well as certain multilateral development banks and international organizations,

(g) public sector entities of Member States of the European Union or the European Economic Area, and

(h) under certain circumstances public sector entities of certain countries mentioned in (d); or

(ii) which are guaranteed in a certain manner by an entity referred to or mentioned in (i)(a) through (i)(f) above or certain insurers for export credits domiciled in a state mentioned in (i)(b) or (i)(d), if the requirements under (i)(g) or (i)(h) are met; or

(iii) which are, subject to certain conditions, either due by (a) a central government, central bank, regional administration or local territorial authority of a country mentioned in (i)(d) above, (b) a public sector entity of a country mentioned in (i)(d) above, (c) a multilateral development bank, or (d) an international organization, or guaranteed by an institution mentioned in (a), (c) or (d) before.

In addition and subject to certain limitations and conditions, the Cover Pool for Public Sector Pfandbriefe may also include (i) certain equalization claims (*Ausgleichsforderungen*) converted into bonds, (ii) up to 10 percent of the total volume of Public Pfandbriefe outstanding, monetary claims against the ECB, central banks of the Member States of the European Union or qualifying credit institutions, and (iii) certain claims arising under certain derivative transactions as described in the section *18.2.4.2 Cover Pool for Mortgage Pfandbriefe*, sub (iv) above. The Cover Pool includes all claims of the Pfandbrief Bank associated with the economic substance of the Cover Pool assets.

18.2.4.4 Additional regulatory requirements

Under the German Pfandbrief Act, the supervision of Pfandbrief Banks by BaFin has gained significantly in importance, mainly the requirements concerning the transparency have increased, in particular, a time limit for publication of certain information pursuant to Section 28 of the German Pfandbrief Act has recently been introduced and the reporting obligations have been extended.

18.2.4.5 Status and protection of the holders of Pfandbriefe

The holders of outstanding Pfandbriefe rank *pari passu* among themselves and have preferential claims with respect to the assets registered in the relevant cover register. With respect to other assets of a Pfandbrief Bank, holders of Pfandbriefe rank *pari passu* with unsecured creditors of the Pfandbrief Bank.

18.2.4.6 Insolvency proceedings and measures under the Bank Restructuring Act

If insolvency proceedings against a Pfandbrief Bank are initiated, none of the Cover Pools will fall into the insolvency estate In this case, one or two administrators (*Sachwalter*, each a "**Cover Pool Administrator**") would be appointed by the competent court on request of BaFin. Both the court and BaFin would supervise the Cover Pool Administrator(s). The Cover Pool Administrator(s) administer(s) each Cover Pool for the sole benefit of the holders of Pfandbriefe. The Cover Pool Administrator(s) will be entitled to dispose of the Cover Pool's assets and receive all payments on these assets to ensure full satisfaction of the claims of the holders of the Pfandbriefe, including all interest claims. Subject to the consent of BaFin, the Cover Pool Administrator(s) may transfer all or part of the cover assets and the liabilities arising from the Pfandbriefe issued against such assets to another Pfandbrief Bank. To the extent that assets in a Cover Pool are obviously not necessary to satisfy such claims, the insolvency administrator of the Pfandbrief Bank is entitled to demand the transfer of such assets to the insolvency estate.

If simultaneously with or following the opening of insolvency proceedings over the estate of a Pfandbrief Bank, any of its Cover Pools becomes insolvent, insolvency proceedings will also be

instituted against such Cover Pool by court order on request of BaFin, and the assets contained in the Cover Pool would be sold off or liquidated. If the Cover Pool does not suffice to fully satisfy the claims of the holders of the Pfandbriefe, these holders would also have recourse to the other assets of the insolvent Pfandbrief Bank as an ordinary creditor, ranking equal with other unsecured and unsubordinated creditors of the Pfandbrief Bank.

18.2.5 Anti-Money Laundering Regulation

Pursuant to the Money Laundering Act (*Geldwäschegesetz*—GwG) and the German Banking Act, the Company has to monitor its client relationships and all transactions for risks of money laundering and terrorist financing, and to implement sufficient internal systems and controls against such risks. These efforts of the Company are supervised by BaFin as competent authority, and specifically its cross-sectoral anti-money laundering department. The duties of the Company comprise, inter alia, to identify any customer, to obtain information about the purpose of the business relationship and any beneficial owner of a customer and to monitor the business relationship on an ongoing basis. If the Company suspects that assets connected with a transaction or business relationship are connected with a money laundering offence or with terrorist financing, such suspicions must be notified to the Financial Intelligence Unit ("**FIU**") of the Federal Criminal Police Office (*Bundeskriminalamt*) and the responsible law enforcement agencies.

The Money Laundering Act provides—notwithstanding potential criminal sanctions—for administrative fines should the Company not comply with its regulations.

pbb Group is in compliance with applicable anti-money laundering provisions in all material respects.

18.2.6 Capital Adequacy Requirements

The CRR requires German banks to maintain an adequate level of regulatory capital in relation to their risk positions (commonly referred to as "risk-weighted assets"). The risks assessed in this context include credit risks, market risks and operational risks (including, among other things, risks related to certain external factors, as well as to technical errors and errors of employees).

18.2.6.1 Own Funds

Regulatory capital under the CRR comprises Tier 1 and Tier 2 capital (together, the "**own funds**"). Tier 1 capital is subdivided into CET 1 capital (formerly: Core Tier 1 capital) and additional Tier 1 capital.

18.2.6.2 CET 1 capital

In particular, the CRR tightened the definition of CET 1 capital, which is the most important type of capital for compliance with the capital requirements under the CRR (see below). CET 1 capital now primarily consists of share capital, retained earnings and other reserves, subject to certain regulatory adjustments, such as deductions for goodwill and other intangible assets.

18.2.6.3 Additional Tier 1 capital

Additional Tier 1 capital must be sufficiently loss-absorbent on a going-concern basis. Generally, all instruments recognized as Additional Tier 1 capital must be written down, or converted into, CET 1 capital when the CET 1 capital ratio of the financial institution falls below a minimum of 5.125%. Regulators may require an earlier conversion, e.g., for stress-testing purposes.

18.2.6.4 Tier 2 capital

Tier 2 capital is generally limited to certain long-term subordinated debt instruments.

18.2.6.5 Own funds requirements

Generally, own funds requirements are aimed at ensuring the ability to absorb losses on a "going concern" or "gone concern" basis. If a bank fails to build up the required own funds, it is subject to restrictions on the pay-out of dividends, share buybacks and discretionary compensation payments.

Under the CRR, banks are required, subject to certain transition periods, to maintain a minimum ratio of CET 1 capital to risk-weighted assets of 4.5%, a minimum ratio of Tier 1 capital to risk-weighted assets of 6% and a minimum ratio of own funds to risk-weighted assets of 8%. In addition to these own funds requirements, supervisory authorities may impose additional capital requirements to cover other risks. They would thereby increase the regulatory minimum required under CRD 4 (as implemented into national law, and referred to as "Pillar 1" capital). This may include any additional "Pillar 2" capital that potentially required to be maintained to address risks not considered to be fully captured by the minimum "own funds" requirements or to address macro-prudential considerations. Moreover, further capital requirements may relate, *inter alia*, to the minimum requirement for own funds and eligible liabilities (MREL) laid down in the Bank Recovery and Resolution Directive (EU) 2014/59/EU ("**BRRD**"). The Company may also decide to hold additional capital.

18.2.6.6 Additional capital buffers

In addition to the own funds requirements, the CRD 4 introduces requirements to hold capital buffers of CET 1 Capital. There are five new capital buffers: (i) the capital conservation buffer, (ii) the countercyclical buffer, (iii) the systemic risk buffer, (iv) the global systemically important institutions buffer and (iv) the other systemically important institutions buffer. Two of these buffers are mandatory: the capital conservation buffer and the global systemically important institutions buffer.

The German Banking Act requires German banks to build up the capital conservation buffer from CET 1 capital amounting to 2.5% of risk-weighted assets, and allows the supervisory authorities for the introduction of the additional counter-cyclical buffer (CET 1 capital of generally up to another 2.5% of risk-weighted assets) during periods of high credit growth.

In addition, banks may be required to build up the systemic risk buffer through CET 1 capital of 1% to 3% of risk-weighted assets for all exposures and—in exceptional cases—up to 5% for domestic and third-country exposures) to prevent and mitigate long term non-cyclical systemic or macro-prudential risks not otherwise covered by CRR/CRD 4.

Global systemically important banks ("**G-SIBs**") are subject to an additional capital buffer of between 1% and 3.5% of risk-weighted assets which is determined based on a scoring system measuring their systemic importance. As at today, the Company does not qualify as G-SIB.

If an institution is specified as an "Other systemically important institutions" ("**O-SII**"), it may be required to maintain an additional capital buffer of up to 2% of risk-weighted assets. Such specification shall be based on criteria such as the size of the institution, its importance for the economy, the interdependencies associated with the institution or group within the financial system and the significance of cross-border activities. So far, the Company has not been specified as an O-SII.

18.2.6.7 Competence for the imposition of capital buffers

Generally, the capital requirements applying as a consequence of the total ratio of own funds plus capital buffers mentioned above are specified by European or national law. Some buffer rations are determined by the national supervisory authorities, i.e. BaFin in the case of the Company. For directly supervised institutions ECB may require banks to maintain capital ratios in excess of the ratios imposed by the national regulator, for example as a consequence of the Supervisory Review and Evaluation Process (SREP). It may be expected that the ECB will exercise such right in respect of directly supervised institutions on an annual basis to ensure that risks identified by the SREP are adequately covered by regulatory capital. In March 2015, the ECB issued a decision (the "**SREP Decision**") pursuant to which the Entire HRE Group is required, on the basis of the information as of December 31, 2013, to maintain higher capital ratios than would be applicable under Pillar 1. These higher capital ratios have been complied with by the Entire HRE Group so far. The Waiver will cease to apply prior to the Settlement. As a consequence, the regulatory capital requirements will have to be complied with by the Company on an individual basis and, in respect of pbb Group, on a consolidated basis. As pbb Group represents the only substantial holding of HRE Holding, the Company expects that the ECB will issue an SREP Decision within the next weeks pursuant to which it may be assumed that the Company and pbb Group will be required to maintain at least the same ratios (subject to the further development of the risk situation).

Also, any additional own funds requirement that may be imposed on the Company and/or pbb Group by the ECB as a consequence of an SREP undertaken in the future may require the Company and/or pbb Group to hold capital levels similar to, or higher than, those required under the full application of CRD 4 (Pillar 1).

18.2.6.8 Leverage ratio

The Basel 3 framework also proposes a non-risk based leverage ratio as a complement to the risk-based capital requirements. While the CRR does not require banks immediately to comply with a specific leverage ratio, banks are required to report their leverage ratios for a future assessment and calibration of the leverage ratio. It is expected that banks will be required to fully comply with the leverage ratio starting in 2018.

18.2.7 Limitations on Large Exposures

The CRR also contains the primary restrictions on large exposures, which limit a bank's concentration of credit risks. The German Banking Act and the amended Large Exposure Regulation (*Großkredit- und Millionenkreditverordnung*) continue to supplement the CRR. For example, the Large Exposure Regulation continues to include exemptions (in addition to those contained in the CRR) from the applicability of limits to large exposures.

Under the CRR, the Company's and pbb Group's exposure to a customer (and any customers affiliated with it) is deemed to be a "large exposure" when the value of such exposure is equal to or exceeds 10% of the Company's or (as applicable) pbb Group's "eligible regulatory capital". All exposures to a single customer (and customers affiliated with it) are aggregated for these purposes. In general, no large exposure to a client or group of connected clients may exceed 25% of the Company's or (as applicable) pbb Group's eligible regulatory capital. "Eligible regulatory capital" for this purpose means the sum of Tier 1 capital and an amount of Tier 2 capital of up to one third of the Tier 1 capital. If the customer is a credit institution or investment firm or where a group of connected clients includes one or more such institutions, the exposure is generally limited to the higher of 25% of the eligible regulatory capital or €150 million. Competent authorities may set a lower limit than €150 million.

18.2.8 Consolidated Regulation and Supervision

The provisions of the German Banking Act and the CRR on consolidated supervision require that each group of institutions (*Institutsgruppe*) taken as a whole complies with the requirements on capital adequacy and the limitations on large exposures described above. Since January 1, 2014, the relevant provisions for consolidation are, to a large extent, set forth in the CRR. A group of institutions generally consists of a parent entity, also referred to as a "superordinate undertaking", and the subsidiaries of the superordinate undertaking which are consolidated in the group under the CRR (i.e. generally banks in which the superordinate bank holds more than 50% of the voting rights).

So far, the compliance with capital requirements and large exposure limits has been determined on the level of the Entire HRE Group. As a consequence of the disentanglement from HRE Group, these requirements will have to be met at the level of pbb Group as the parent entity. The ECB will be the direct supervisor on pbb Group level.

18.2.9 Liquidity Requirements

The CRR introduces a new liquidity regime that will gradually be phased in through January 1, 2019. By then, national liquidity requirements will remain in force. The German Banking Act generally requires German banks and certain financial services institutions to invest their funds so as to maintain adequate liquidity at all times. The German Liquidity Regulation (*Liquiditätsverordnung*) provides for minimum liquidity requirements based upon a comparison of the remaining terms of certain assets and liabilities. It requires maintenance of a ratio (*Liquiditätskennzahl* or "**liquidity ratio**") of liquid assets to liquidity reductions expected during the month following the date on which the ratio is determined of at least one. The Liquidity Regulation also allows banks and financial services institutions subject to it to use their own methodology and procedures to measure and manage liquidity risk if BaFin has approved such methodology and procedures. The liquidity ratio (and estimated liquidity ratios for the next eleven months) must be reported to the Deutsche Bundesbank on a monthly basis. Generally, the liquidity requirements do not apply on a consolidated basis. BaFin may impose on individual banks liquidity requirements which are more stringent than the general statutory requirements if such bank's continuous liquidity would otherwise not be ensured.

Under the CRR, more stringent liquidity standards apply since 2015. Subject to certain transition periods, banks will be required to observe a liquidity coverage ratio (LCR), i.e. the ratio of the bank's unencumbered high-quality liquid assets (HQLA) that can be liquidated easily and quickly in private markets in order to meet the bank's liquidity needs for a 30 calendar day liquidity stress scenario. While

Basel 3 also contains proposals regarding a net stable funding ratio (NSFR), i.e. the ratio of long-term assets to long-term, stable funding, the CRR does not immediately implement these proposals. The LCR will be phased in from 2015 through 2018. In respect of the NSFR, the European Banking Authority (EBA) must analyze and report on methodologies and definitions for implementing the NSFR. On this basis, the European Commission may, if appropriate, submit a legislative proposal to introduce the NSFR to the European Parliament and the Council of the European Union by December 31, 2016.

18.2.10 Basel Committee work on standardized approaches and capital floor framework

The Basel Committee on Banking Supervision of the Bank of International Settlement (BIS) is constantly revising its guidance on capital requirements for financial institutions. In this context, the BIS started consultations and published further standards for the calculation of its standardized approaches to credit risk, counterparty risk, market risk and operational risk.

As a complementary element to the leverage ratio introduced by Basel 3, the BIS also started in December 2014 a consultation on a capital floor framework based on standardized, non-internal modeled approaches. Such future framework could set minimum average risk weights for institutions relying on internal ratings or an advanced measurement approach. The objective of the capital floor is to reduce variation in capital ratios between banks. Specifically, it aims to ensure that the level of capital across the banking system does not fall below a certain level. The floor is also meant to mitigate model risk and measurement error stemming from internally-modeled approaches and to enhance the comparability of capital outcomes across banks. The BIS consultation proposes that the minimum average risk weights could be applied on each major risk category or the total risk weighted assets of a bank. The proposal also consults on adjustments for differences in the treatment of provisions and the choice of the standardized approach. The BIS has not yet proposed any minimum rates but will start the calibration of the floor following a quantitative impact study planned in 2015. In addition, the BIS will consider further work on its revised standardized approaches to credit risk, market risk and operational risk taking into account its ongoing review of the capital framework and its balance of simplicity, comparability and risk sensitivity. The BIS intends to publish the final standard, including its calibration and implementation arrangements, around the end of 2015.

18.2.11 Financial Statements and Audits

As required by the HGB, the Company prepares its non-consolidated financial statements in accordance with German GAAP. The consolidated financial statements of the Company are prepared in accordance with IFRS. After the Waiver will have ceased to apply (which will be the case prior to the Settlement), prudential requirements, such as capital ratios and large exposure limits will be determined on the basis of the non-consolidated financial statements as well as the consolidated financial statements of the Company.

The Company must be audited annually by a certified public accountant (*Wirtschaftsprüfer*). The accountant is appointed at the Company's shareholders' meeting. However, the Supervisory Board (Audit Committee) mandates the accountant and supervises the audit. BaFin must be informed of and may reject the accountant's appointment. The German Banking Act requires that a bank's auditor informs BaFin of any facts that come to the accountant's attention which would lead it to refuse or to limit its certification of the bank's annual financial statements or which would adversely affect the bank's financial position. The auditor is also required to notify BaFin in the event of a material breach by the management of the articles of association or applicable law. The auditor is required to prepare a detailed and comprehensive annual audit report (*Prüfungsbericht*) for submission to the bank's supervisory board, BaFin and the Deutsche Bundesbank.

18.2.12 ECB Regulation on reporting of supervisory financial information

On April 1, 2015, the Regulation (EU) 2015/534 of the European Central Bank of March 17, 2015 on reporting of supervisory financial information (ECB/2015/13) ("**ECB Reporting Regulation**") entered into force.

The ECB Reporting Regulation aims at ensuring that the supervised entities report a common minimum set of information to the national competent authorities, which then submit such information to the ECB. For this purpose, the ECB Reporting Regulation requires among other things significant supervised groups applying IFRS in accordance with Regulation (EC) No 1606/2002, such as pbb Group, to report supervisory financial information. Above that, the ECB Reporting Regulation extends

mandatory reporting of supervisory financial information to (i) significant supervised groups applying national accounting rules ("**national GAAP**"), (ii) significant supervised entities reporting on an individual basis under both IFRS and the national GAAP (including branches of credit institutions not supervised under the SSM but established in a participating Member State and subsidiaries of significant supervised groups in non-participating Member States or third countries), and (iii) less significant groups under national GAAP and less significant supervised entities. Consequently, reporting obligations apply not only to pbb Group, which prepares its consolidated financial statements in accordance with IFRS, but as well to the Company, which prepares its non-consolidated financial statements in accordance with German GAAP.

The supervisory financial information which have to be reported cover balance sheet items, such as financial assets and financial liabilities, income and expenses and other relevant supervisory financial data. Pursuant to the ECB Reporting Regulation, the information has to be remitted (i) for quarterly reporting on March 31, June 30, September 30, December 31, (ii) for semi-annual reporting, on June 30, and on December 31, and (iii) for annual reporting on December 31. For significant supervised entities which are part of a significant supervised group, such as the Company, the national competent authority remits the information to ECB on the 55th working day following the reference date to which it relates.

For significant supervised groups, such as pbb Group, the first reference date for reporting in accordance with the ECB Reporting Regulation will be December 31, 2015. Significant supervised entities, which are part of a supervised group, such as the Company, shall be required to report on June 30, 2016 for the first time.

18.2.13 Investigative, Enforcement and Restructuring Powers

18.2.13.1 Investigations and Official Audits

The ECB has a wide range of investigatory powers under the SSM Regulation, in particular the right to request information that is necessary in order to carry out the tasks conferred on it. The ECB may also conduct all necessary investigations and may in particular (a) require the submission of documents, (b) examine the books and records (including the taking of copies or extracts), (c) obtain written or oral explanations from the supervised legal person, certain related parties and their representatives or staff, (d) interview any other person who consents to be interviewed for the purpose of collecting information relating to the subject matter of an investigation.

Furthermore, the ECB may conduct all necessary on-site inspections at the business premises of the institutions supervised by it and, where the proper conduct and the efficiency of the inspections so require, ECB may carry out the on-site inspection without prior announcement. Inspections are usually performed by the Centralized On-site Inspections Division of the ECB.

In addition, the ECB has all the investigatory powers, which the competent or designated national authorities have under the relevant Union law (save for those investigatory powers associated with a task of supervision that is not subject to the direct supervision under the SSM, such as in respect of the Pfandbrief business where BaFin remains the direct supervisor also for credit institutions directly supervised by the ECB). The relevant Union law does not only consist of directly applicable EU Regulations such as the CRR, but also of provisions of national law which implement EU Directives, e.g. provisions of the German Banking Act which implement the CRD. Furthermore, if required for the performance of the supervisory tasks under the SSM Regulation, the ECB may require national authorities to make use of their powers under national law which have not been conferred on the ECB.

As pbb Group is directly supervised by the ECB, it may be subject to the investigatory powers set forth in the SSM Regulation. Investigatory powers under national law, specifically under the German Banking Act and the Pfandbrief Act continue to apply in those cases where ECB assumes the powers granted to BaFin under Union law or instructs BaFin accordingly.

BaFin, in cooperation with the Deutsche Bundesbank, is granted comparable investigatory powers under German law as provided for in the SSM Regulation to ECB, including the right to request documents and carry out on-site inspections. BaFin is entitled to send representatives to shareholders' meetings and supervisory board meetings, where such representatives may attend and speak. In those cases, where BaFin is the competent supervisory authority, BaFin may even convene a shareholders' meeting, schedule a supervisory board meeting and request that certain matters are made subject to a resolution in these meetings.

18.2.13.2 Approval of internal models

ECB's supervisory activities include the approval of internal models used for calculating capital requirements as well as the ongoing model supervision. For the purpose of the approval of internal calculating models, the JST is supported by the ECB's Internal Models Division. The process includes a range of tools, such as on-site and off-site evaluations. In the end the JST and the ECB's Internal Models Division prepare a proposal for a draft decision for approval by the ECB's Supervisory Board and the Governing Council. The proposal comprises the JST's views on the authorization or refusal for the use of internal models to calculate the capital requirements. Consequently, conditions such as additional reporting requirements as well as additional supervisory measures may be attached to the authorization. The ongoing model supervision comprises the analysis of risk capital or other reports on model aspects, the analysis of credit institutions' model validations and the assessment of model changes. Additionally, a full review of internal models with a special focus on appropriateness in the light of best practice and changes to business strategies takes place on a regular basis, at least every three years.

18.2.13.3 Enforcement Powers

In accordance with its supervisory powers, the ECB may address irregularities at an early stage. This includes the compliance with prudential requirements which are subject to the direct supervision of the ECB under the SSM, such as own funds requirements or large exposure limits. If the credit institution (i) does not meet such prudential requirements, (ii) is likely to breach the requirements of the relevant supervisory laws within the next 12 months, or (iii) a supervisory review reveals that the arrangements, strategies, processes and mechanisms implemented by the credit institution and the own funds and liquidity held by it do not ensure a sound management and coverage of its risk, supervisory measures may be taken.

The supervisory powers assigned to the ECB include the requirement to hold own funds in excess of the existing capital requirements, to reinforce arrangements, processes, mechanisms and strategies, to present a plan to restore compliance with supervisory requirements, to apply a specific provisioning policy or treatment of assets in terms of own funds requirements, to reduce the risk inherent in activities, products and systems of institutions, and to limit variable remuneration as a percentage of net revenues when it is inconsistent with the maintenance of a sound capital base. Furthermore, the ECB may restrict or limit the business, operations or network of institutions or request the divestment of activities that pose excessive risks to the soundness of an institution. It may as well restrict or prohibit distributions by the institution to shareholders, members or holders of Additional Tier 1 capital instruments where the prohibition does not constitute an event of default of the institution. The supervisory powers set forth in the SSM Regulation provide also for the power to impose additional or more frequent reporting requirements, including reporting on capital and liquidity positions and to impose specific liquidity requirement, including restrictions on maturity mismatches between assets and liabilities. Besides, ECB is entitled to require additional disclosure and to remove at any time members from the board of management of credit institutions who do not fulfill the applicable regulatory requirements.

In addition, ECB may instruct BaFin to make use of those powers under the national law that are not conferred on the ECB.

If a bank is in danger of defaulting on its obligations to creditors, the competent supervisor may take emergency measures to avert default. These emergency measures may include among other things:

- issuing instructions relating to the management of the bank;
- prohibiting payments and disposals of assets;
- closing the bank's customer services; and
- prohibiting the bank from accepting any payments other than payments of debts owed to the bank.

If measures that may be taken by the competent supervisor are inadequate, the competent supervisor may revoke the bank's license. In the case of a bank that is subject to direct supervision by the ECB, such as the Company, BaFin may submit a proposal for the withdrawal of the license in whole or in part in accordance with relevant Union law or national law to the ECB. The ECB shall then take a decision on the withdrawal without undue delay. In order to ensure compliance with applicable

supervisory law, BaFin may also appoint a special representative and delegate the responsibilities and powers of corporate bodies of a bank to such special representative if certain conditions are met.

Violations of banking regulation may result in criminal and administrative penalties. In particular, if a bank is intentionally or negligently in breach of directly applicable Union law (e.g. the CRR or an ECB decision) and Union law provides for a penalty in case of such breach, the ECB may impose administrative pecuniary penalties of up to twice the amount of the profits gained or losses avoided because of the breach, or up to 10% of the total annual turnover. In other cases, in particular when a bank has violated a legal provision of national law which is implementing an EU Directive (e.g. the CRD), the ECB can instruct the competent national authorities to initiate administrative proceedings against the bank or individuals.

In addition, national regulation and the administrative practice of BaFin remain relevant for the Company, since its Pfandbrief business continues to be supervised by BaFin.

18.2.13.4 Recovery and Resolution Planning, Restructuring Powers

The SRM Regulation establishes uniform rules and procedures for the resolution of credit institutions in the participating Member States. The SRM is governed by a Single Resolution Board, an EU agency comprising a full time Chair, a Vice-Chair and four full time members as well as representatives from each national resolution authority. A member appointed by each of the European Commission and the ECB may participate in meetings as permanent observers. The Single Resolution Board is responsible for the resolution of banks under direct ECB supervision and cross-border groups. The pbb Group falls within the scope of the SRM Regulation with the Single Resolution Board being the responsible resolution authority.

The tasks of the Single Resolution Board include among other things, drawing up resolution plans, assessing the resolvability of banks, including the determination of individual minimum requirements of own funds and eligible liabilities according to the SRM Regulation. Furthermore, it can resolve banks and administers the Single Resolution Fund for the support of the implementation of resolution tools.

The Single Resolution Board closely cooperates with the ECB as supervisory authority and with the national resolution authorities. In Germany the national resolution authority is the FMSA, which is expected to be integrated into BaFin in the future. The SRM Regulation provides for information sharing between the SRB and the ECB and reporting from the national resolution authorities to the SRB. The decisions of the Single Resolution Board are, subject to certain exemptions, directed to the national resolution authorities and then executed by them with effect to the respective bank, based on their powers under national law.

The Single Resolution Board has several resolution tools, which are established in the resolution scheme for an entity or group. The resolution tools are (i) sale of business, (ii) bridge institution tool, (iii) asset separation tool, (iv) bail-in tool. The bail-in tool requires as a first step the assessment of the total amount of funds necessary to absorb the cumulated losses. After that, the aggregate amount to be raised, including the amount to be raised by writing down or converting capital instruments will be allocated to shareholders and creditors in accordance with a liability cascade. According to this liability cascade, CET 1 capital is the first to be written down or converted, followed in this order by Additional Tier 1 capital, Tier 2 capital, subordinated liabilities and other eligible liabilities.

In order to assure sufficient funding for a bail-in, the SRM Regulation requires the Single Resolution Board to determine a minimum for own funds and eligible liabilities which the entities and groups will have to meet at all times. The SRM Regulation stipulates certain conditions which liabilities have to fulfill to qualify as eligible liabilities for the bail-in tool. The SRB will decide on their recognition as eligible liabilities.

The SRM Regulation further establishes the Single Resolution Fund, which will be administered by the Single Resolution Board. All credit institutions established in the SSM Member States will be obliged to pay contributions irrespective of whether they are directly supervised by the ECB or a national authority. The Single Resolution Fund will be used to support the efficient application of the resolution tools under special circumstances. It aims at a target funding level of 1% of the amount of covered deposits of all credit institutions that are subject to the SRM Regulation, which is to be built up within eight years from January 1, 2016. The Company as parent undertaking of the pbb Group will be obliged to make such contributions. National financing arrangements, such as the German Restructuring Fund, will be replaced by the Single Resolution Fund. The provisions regarding the

collection of information and co-operation with national resolution authorities have been applicable since January 1, 2015. All other provisions of the SRM Regulation apply from January 1, 2016.

On May 15, 2014, the BRRD was adopted and established a framework for the recovery and resolution of credit institutions and investment firms. It applies to all credit institutions and investment firms in the 28 EU Member States and aims at the harmonization of the recovery and resolution tools across the European Union but leaves their use to the national resolution authority. Germany implemented the BRRD mainly through the Act for the Recovery and Resolution of Institutions and Financial Groups (*Gesetz zur Sanierung und Abwicklung von Instituten und Finanzgruppen*—SAG).

As the SRM Regulation is based on the tools provided for in the BRRD (as transposed into German law by the SAG), the provisions of the SRM Regulation are to a large extent aligned with the provisions of the BRRD and SAG but, in case of any conflict, would prevail. pbb Group falls within the scope of the SRM Regulation and is subject to the Single Resolution Board. Thus, the provisions of the SAG apply to pbb Group directly only during the transition period until January 1, 2016. Thereafter, the provisions of the SAG will remain relevant for pbb Group because the execution of resolution decisions by the national resolution authority, even upon instruction by the Single Resolution Board, will be based upon them. The delegated acts, regulatory and implementing technical standards, guidelines and recommendations adopted by the EBA for application of the BRRD do also apply in the context of the SRM.

Since the recovery of credit institutions is not captured by the SRM Regulation, the SAG will be applicable in this context. HRE Group has submitted its first recovery plan per June 30, 2013 and sent an updated version as per June 30, 2014 to its supervising bodies on March 25, 2015. Going forward, as a German bank the Company would be required to draw up a recovery plan for pbb Group. The SAG provides the competent authority with powers to intervene at an early stage, including the right to request the implementation of measures set out in the recovery plan.

In addition, it should be noted that, in a resolution scenario, the Pfandbrief business could only be transferred on the basis of the separation principles and provisions as set forth in the German Pfandbrief Act aiming at the protection of the claims of the holders of Pfandbriefe.

18.2.13.5 Remuneration Rules

Under the German Banking Act and the German Credit Institution Remuneration Regulation (*Institutsvergütungsverordnung*), pbb Group is subject to certain restrictions on the remuneration it pays to statutorily designated "risk takers" and other affected employees. The remuneration rules have been revised on the basis of the CRR/CRD 4 framework, and since January 1, 2014, they impose a cap on bonuses. Pursuant to this cap, the variable remuneration for employees and executive directors (*Geschäftsleiter*) generally must not exceed that employee's or executive director's fixed remuneration. The variable remuneration may be increased to twice the employee's or director's compensation if expressly approved by the shareholders' meeting with the required majority. In addition, between 40% and 60% of the variable remuneration must be deferred. The deferral period must be at least three to five years. Also, at least 50% of the entire variable remuneration must be paid in the form of shares or instruments linked to shares. For those categories of staff whose professional activities have a material impact on its risk profile, pbb Group is required to disclose certain information and practices in its financial statements. As at the date of the Prospectus, pbb Group does not pay any variable remuneration. The Company expects that some time after the completion of the Offering a bonus system (with variable payments) will be introduced to replace the current one.

18.3 Deposit Protection in Germany

18.3.1 The Deposit Guarantee Act

Until the New European Directive on Deposit Guarantee Schemes was transposed into German law (see also "18.4 EU Directive on Deposit Guarantee Schemes"), the Law on Deposit Insurance and Investor Compensation (*Einlagensicherungs- und Anlegerentschädigungsgesetz*, the "**Deposit Guarantee Act**") established a statutory regime for a mandatory deposit protection system in Germany. It required each German bank's participation in one of the licensed government-controlled investor compensation institutions (*Entschädigungseinrichtungen*). Entschädigungseinrichtung deutscher Banken GmbH acted as the investor compensation institution for private sector banks such as the Company, collected and administered the contributions of the member banks, and settled the

compensation claims of investors in accordance with the Deposit Guarantee Act. Under the Deposit Guarantee Act investor compensation institutions were liable only for obligations resulting from deposits and securities transactions that were denominated in euro or the currency of a contracting state to the Agreement on the European Economic Area. They were not liable for obligations represented by instruments in bearer form or negotiable by endorsement. Claims of certain entities, such as banks, financial institutions (*Finanzinstitute*), insurance companies, investment funds, the Federal Republic of Germany, the German federal states, municipalities and medium-sized and large corporations, were not protected. The maximum liability of an investor compensation institution to any one creditor was limited to an amount of €100,000, and to 90% of any one creditor's aggregate claims arising from securities transactions up to an amount of €20,000. Banks were obliged to make annual contributions to the investor compensation institution in which they participated. Annual contributions payable to pbb Group's investor compensation institution were assessed based on a scoring system measuring the creditworthiness of the contributing banks. An investor compensation institution had to levy special contributions on the banks participating therein or take up loans, whenever it was necessary to settle compensation claims by such institution in accordance with the Deposit Guarantee Act. There was no absolute limit on such special contributions. The investor compensation institution could exempt a bank from special contributions in whole or in part if full payments of such contributions were likely to render such bank unable to repay its deposits or perform its obligations under securities transactions. The amount of such contribution was then added proportionately to the special contributions levied on the other participating banks.

18.3.2 Voluntary Deposit Protection System

To provide security for liabilities not covered under the statutory regime, pbb Group takes part in the voluntary Deposit Protection Fund of the Association of German Banks (*Einlagensicherungsfonds des Bundesverbandes deutscher Banken e. V.)* (the "**Deposit Protection Fund**"). The Deposit Protection Fund customarily covers liabilities to customers up to an amount equal to 20% of the bank's liable capital (*haftendes Eigenkapital*) per customer. This limit will be reduced to 15% from January 1, 2020 onwards and to 8.75% from January 1, 2025 onwards. The Deposit Protection Fund does not grant depositors a legally binding claim to receive its compensation. However, historically there has not been a single case in which the fund has denied compensation to a beneficiary of the protection scheme, or has been unable to provide the necessary means to compensate depositors. The Association of German Banks is strongly committed to adhere to this policy.

Liabilities to other banks and other specified institutions, obligations of banks represented by instruments in bearer form and covered bonds in registered form (*Namenspfandbriefe*) are not covered by the protection by the Deposit Protection Fund. To the extent the Deposit Protection Fund makes payments to creditors of a bank, it will be subrogated to their claims against the bank.

Banks that participate in the Deposit Protection Fund make annual contributions to the fund based on their liabilities to customers, and may be required to make special contributions up to an amount of 50% of their annual contributions to the extent requested by the Deposit Protection Fund to enable it to fulfill its purpose. If a German bank is in financial difficulties, pbb Group may therefore chose to voluntarily participate in its restructuring even where it has no business relationship or strategic interest with it, in order to avoid the imposition of special contributions to the Deposit Protection Fund in case of an insolvency of this bank, or it may be required to make such special contributions. Following financial difficulties of various German banks, the annual contributions to the Deposit Protection Fund were doubled from 2009 onwards.

18.4 EU Directive on Deposit Guarantee Schemes

On July 2, 2014 the new European Directive on Deposit Guarantee Schemes entered into force. It replaced the previous Deposit Guarantee Scheme Directive from 1994 and introduced significant changes. Most provisions had to be transposed into national law by July 3, 2015.

The recast directive aims at improving depositor protection in Europe and to avoid the need of Government aid. According to the recast directive, 0.8% of covered deposits will be collected from banks over a 10-year period to cover the funding of the deposit guarantee scheme. The European Commission may authorize a Member State to set a lower target level for its deposit guarantee schemes if the banking sector is "highly concentrated," meaning that the level of covered deposits exceeds 0.5%. The 10-year period may be extended by another four years if there is a substantial disbursement of deposit guarantee scheme funds during the phase-in period.

18.4.1 German Implementation Act

The legislative measure transposing the European Directive on Deposit Guarantee Schemes into German law entered into force by and large on July 3, 2015. Pursuant to this measure, deposit protection and investor compensation is governed by two separate legislative acts, the Law on Deposit Guarantees (*Einlagensicherungsgesetz*) and the Investor Compensation Act (*Anlegerentschädigungsgesetz*), formerly the Deposit Guarantee Act.

While the new Investor Compensation Act establishes the compensation of investors along the same lines as the Deposit Guarantee Act, the Law on Deposit Guarantees provides for several modifications to protection of deposits. In contrast to the provisions of the Deposit Guarantee Act, the Law on Deposit Guarantees requires every credit institution, which falls within the scope of the CRR (such as the Company), to be assigned to a deposit protection scheme (*Einlagensicherungssystem*). Pursuant to the Law on Deposit Guarantees, such deposit protection scheme may be either (i) as in the case of the Company, a statutory investor compensation institution (*gesetzliche Entschädigungseinrichtung*) or (ii) a bank-related protection system (*institutsbezogenes Sicherungssystem*). Notwithstanding the aforementioned, the existing system of deposit protection in Germany as described above will continue to exist within the legal framework of the Law on Deposit Guarantees. The Deposit Protection Fund as voluntary deposit protection system continues to supplement the statutory regime and remains unaffected by the new law (see above "*18.3.2 Voluntary Deposit Protection System*").

In order to reach the funding objective of 0.8% of the covered deposits as described above, the basic principles of the Deposit Guarantee Act, namely levying of risk-based, annual *ex ante* contributions and in some events also special contributions remains in substance unchanged. The law provides, however, for a potential higher amount of special contributions that may be levied on the participating credit institutions. Further, the Law on Deposit Guarantees introduces additional protective measures for customers holding deposits.

18.5 Further Regulation and Supervision in the European Economic Area

Since 1989 the European Union has enacted a number of regulations and directives to create a single European Union-wide market with almost no internal barriers on banking and financial services. The Agreement on the European Economic Area extends this single market to Iceland, Liechtenstein and Norway. Within this market the Company may generally provide cross-border activities and establish branches under the so-called "European Passport". Under the European Passport, the Company's cross-border activities and branches within the EU are subject to regulation and supervision primarily by the ECB as its direct supervisor. The authorities of the host country are responsible only for very limited supervisory tasks and the regulation as well as supervision of the financial markets of the host country.

19 GENERAL INFORMATION ON THE COMPANY

19.1 Incorporation, Entry in the Commercial Register, Name

The Company was originally established in 1869 as Bayerische Handelsbank Aktiengesellschaft in Munich and was renamed several times until 2009.

As of the date of the Prospectus, the Company is registered under the company name of Deutsche Pfandbriefbank AG with the commercial register of the local court (*Amtsgericht*) of Munich under HRB 41054.

19.2 Domicile, Legal Form, Legislation, Financial Year, Registered Office, Duration, Corporate Purpose

The Company is a German stock corporation (*Aktiengesellschaft*) domiciled in Germany. It was incorporated in Germany and is subject to the laws of Germany.

The financial year of the Company is the twelve-month period beginning on January 1 and ending on December 31 of each calendar year.

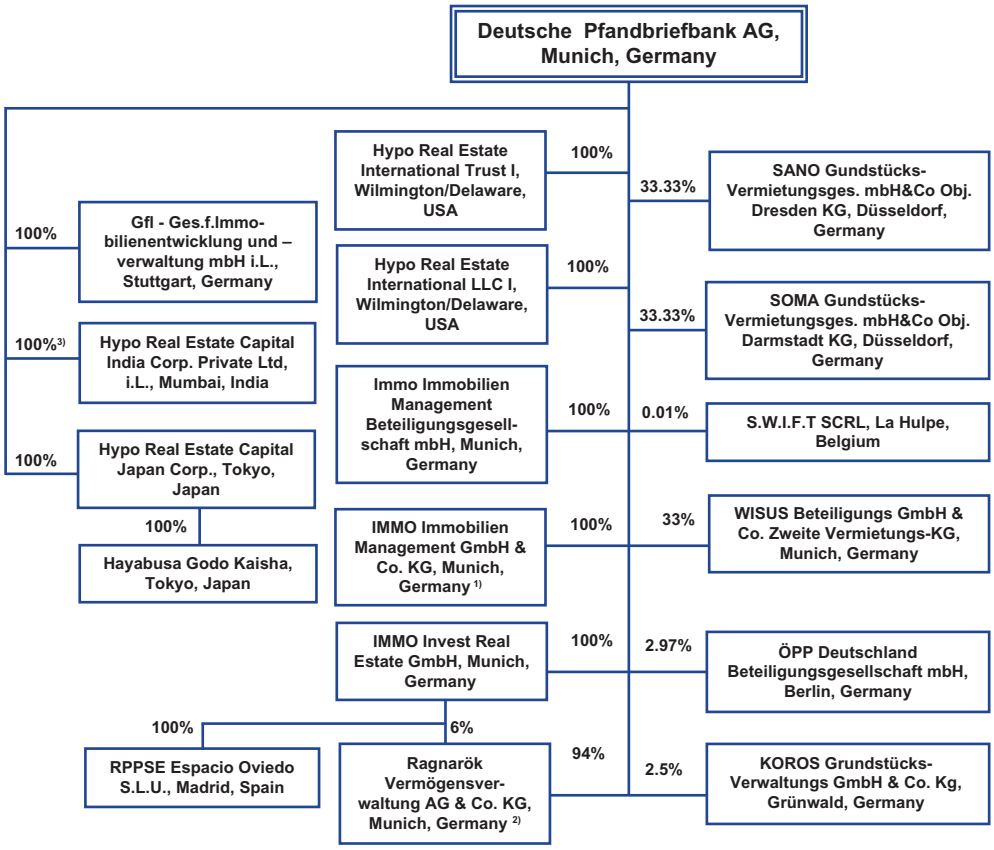
The registered seat of the Company is Munich, Germany. The business address is Freisinger Str. 5, 85716 Unterschleißheim, Germany; Telephone +49-89-2880-0, Internet address: www.pfandbriefbank.com.

The Company is established for an indefinite period of time.

According to Section 2(1) of the Company's Articles of Association, the purpose of the Company is to conduct banking business, except for acting as central counterparty (Section 1(1) sentence 2 no. 12 German Banking Act (*Kreditwesengesetz*)), as well as to provide financial and other services. This purpose can be achieved by the Company itself, subsidiaries or affiliated companies or by executing enterprise or cooperation agreements. The business operations include the Pfandbrief business (*Pfandbriefgeschäft*) pursuant to the German Pfandbrief Act (*Pfandbriefgesetz*, "**PfandBG**"). To the extent legally permissible, the Company is in accordance with Section 2(2) of the Company's Articles of Association entitled to conduct all business operations and measures which seem appropriate to serve the purpose of the Company. This in particular includes the acquisition or sale of real estate, the establishment of branches in Germany or abroad, the foundation, acquisition, management and sale of enterprises or parts thereof as well as the conclusion of enterprise agreements. Moreover, the Company may transfer its operations, in full or in part, to other enterprises, change the structure of enterprises it holds an interest in, combine such enterprises under uniform management or limit itself to the management of these enterprises. The Company may also limit its operations to some of the business areas listed in Section 2(1) of the Company's Articles of Association.

19.3 Structure of pbb Group

The following chart provides an overview of the direct and indirect shareholdings of the Company as of the date of the Prospectus:



1) General partner liability (*Komplementärhaftung*) of Immo Immobilien Management Beteiligungsgesellschaft mbH.
2) General partner liability (*Komplementärhaftung*) of Deutsche Pfandbriefbank AG.
3) 33,797,499 shares held by Deutsche Pfandbriefbank AG, 1 share held by Hypo Real Estate Holding AG.

The structure of pbb Group as of the date of the Prospectus is the result of a variety of structural measures implemented in the past. Material restructurings within pbb Group and/or affecting pbb Group occurred since 2001 and include the following measures:

- merger of Süddeutsche Bodencreditbank Aktiengesellschaft (commercial register of the local court Munich, HRB 41917) and Nürnberger Hypothekenbank Aktiengesellschaft (commercial register of the local court Nuremberg, HRB 770) with the Company which was renamed HVB Real Estate Bank Aktiengesellschaft (2001);
- transfer of the Company shares of all outstanding shareholders to the then principal shareholder of pbb, DIA Vermögensverwaltungs-GmbH (commercial register of the local court Munich, HRB 108125), a subsidiary of HVB, with the Company subsequently changing its name to Hypo Real Estate Bank Aktiengesellschaft (2003);
- merger of Westfälische Hypothekenbank AG (commercial register of the local court Dortmund, HRB 4152) with the Company (2003);
- split-off (*Abspaltung*) of the shares in DIA Vermögensverwaltungs-GmbH from HVB to newly established HRE Holding and subsequent merger of DIA Vermögensverwaltungs-GmbH with HRE Holding (2003, 2004);
- merger of Hugin Portfolio GmbH (commercial register of the local court Munich, HRB 162029) with the Company (2007, 2008);
- merger of Immo Invest Wohnwirtschaft GmbH (commercial register of the local court Munich, HRB 140106), Immo Invest Gewerbe GmbH (commercial register of the local court Munich, HRB 140193) and GGV Gesellschaft für Grundbesitzverwaltung und Immobilienmanagement GmbH (commercial register of the local court Munich, HRB 152351) with the Company (2008);

- merger of Hypo Real Estate Bank International AG (commercial register of the local court Munich, HRB 171456) into the Company accompanied by an increase of the Company's share capital to its current level of €380,376,059.67 (2008);
- merger of DEPFA Deutsche Pfandbriefbank AG (commercial register of the local court Frankfurt am Main, HRB 55655) with the Company which was renamed Deutsche Pfandbriefbank AG (2009);
- merger of DEPFA Erste GmbH (commercial register of the local court Frankfurt am Main, HRB 56020), Högni Portfolio GmbH (commercial register of the local court Munich, HRB 165785) and PBI-Beteiligungs GmbH i.L. (commercial register of the local court Munich, HRB 126659) with the Company (2009);
- split-off (*Abspaltung*) of portions of the Company's assets to FMS-WM (commercial register of the local court Munich, HRA 96076) (2010);
- merger of Frappant Altona GmbH (commercial register of the local court Munich, HRB 122912) with the Company (2011);
- merger of IMMO Trading GmbH (commercial register of the local court Munich, HRB 146381) with the Company (2011);
- merger of Meridies Grundbesitz- und Bebauungsgesellschaft mbH (commercial register of the local court Munich, HRB 46882) with the Company (2011);
- merger of pbb Services GmbH (commercial register of the local court Munich, HRB 181368) with the Company (2012);
- merger of WestHyp Immobilien Holding GmbH (commercial register of the local court Munich, HRB 161715) with the Company (2012);
- merger of Fundus Gesellschaft für Grundbesitz und Beteiligungen mbH (commercial register of the local court Munich, HRB 141521) with the Company (2013).

Besides the structural measures described above, the Company and some of its legal predecessors were also party to several hive-down agreements (*Ausgliederungsverträge*) between 2004 and 2008 by which certain assets and liabilities were transferred to other entities.

19.4 Information on Material Investments

19.4.1 Overview

The following direct and indirect shareholdings of Deutsche Pfandbriefbank AG had a book value equivalent to at least 10% of equity of the Group as of December 31, 2014 or contributed the equivalent of at least 10% of the net income/loss after tax of the Group in the financial year 2014 or are material for other reasons. All shares in affiliates have been fully paid in. Unless otherwise indicated, the figures stated for share capital (issued capital and reserves), book value of the shares, receivables and liabilities, as well as net income (loss), for the period have been taken from the respective financial statements and accounting systems of the relevant companies as of December 31, 2014, were prepared in accordance with the relevant domestic accounting provisions and are audited.

No.	Company name	Equity interest in %	Book value of the shares	Issued capital	Reserves	Receivables from pbb AG	Liabilities to pbb AG	Net income (loss) for the financial year 2014	Dividends distributed in the financial year 2014
		(in € thousand, except for percentages or unless otherwise indicated)							
1.	Hypo Real Estate International LLC I	100.0	26	26	134,746	484,808	–	20,591	–
2.	Hypo Real Estate International Trust I	100.0	50	50	(59,500)	–	–	54,250	–
3.	Hypo Real Estate Capital Japan Corp[a)]	100.0	30,210	30,000	486	27,975	13,003	(117)	–
4.	Hayabusa Godo Kaisha[a)]	100.0	70	70	(323)	–	–	(9)	–
5.	IMMO Invest Real Estate GmbH	100.0	3,025	25	3,003	3,491[b)]	18,663	–	–
6.	RPPSE Espacio Oviedo S.L.U.	100.0	0	321	(2,783)	–	17,217	(13,693)	–
7.	Immo Immobilien Management Beteiligungsgesell-schaft mbH	100.0	25	25	(5)	–	–	(8)	–
8.	IMMO Immobilien Management GmbH & Co. KG	100.0	1,200	45,724	(44,501)	2,952	–	(11)	–
9.	Ragnarök Vermögensverwal-tung AG & Co. KG	100.0[c)]	1,336	100	1,058	2,832	–	(65)	–
10.	SANO VGmbH & Co. KG[d)]	33.33	4	11	(3,331)	–	9,266	546	–
11.	SOMA VGmbH & Co. KG[d)]	33.33	4	11	(10,170)	–	27,948	60	–
12.	WISUS Beteiligungs-GmbH&Co.	33.0	8	26	(1,628)	–	3,723	357	–

a) Numbers are in JPY million, except for percentages.
b) Receivables under Profit and Loss Transfer Agreement. Loss of €3,491 thousand transferred to the Company.
c) 6.0% held directly by IMMO Invest Real Estate GmbH.
d) Financial figures from the financial year 2013.

19.4.2 Corporate name, registered seat and business purpose of the material investments

1. Hypo Real Estate International LLC I, Wilmington USA; the object of the company is to offer for sale EUR 350,050,000 non-cumulative Class B Preferred Securities, EUR 1,000 Class A Preferred Securities and EUR 25,000 Common Security.
2. Hypo Real Estate International Trust I, Wilmington, USA; the object of the trust is to offer for sale the securities mentioned in no. 1 above.
3. Hypo Real Estate Capital Japan Corp., Tokyo, Japan; the object of the company is specified in article 2 of the articles of incorporation and contains 14 areas of business activities.
4. Hayabusa Godo Kaisha; Tokyo, Japan; the object of the company is acquisition, holding, disposal, renting and management of real estate; acquisition, holding and disposal of real estate trust beneficiary rights; other businesses incidental to or related to the above businesses.
5. IMMO Invest Real Estate GmbH, Munich, Germany; the object of the company is the administration, acquisition and disposal of buildings and structures as well as other assets; the business includes all legal transactions, except for banking transactions.
6. RPPSE Espacio Oviedo S.L.U., Madrid, Spain; the object of the company is the promotion, purchase and disposition of rural and urban real estate; the construction of all kinds of properties; the promotion, management and development of urban development projects and the maintenance of real estate; the operation of properties for rent, sublease, timeshare, hotel and catering or tourism; the promotion, management and administration of property owners communities; conducting market research, assessments, projects, and opinion polls related to the aforementioned activities; these activities may also be carried out through participation in companies with a similar purpose.
7. Immo Immobilien Management Beteiligungsgesellschaft mbH, Munich, Germany; the object of the company is the administration, acquisition and disposal of buildings and structures as well as other assets. The business includes all legal transactions, except for banking transactions; a further object is the participation in Immo Immobilien Management GmbH & Co. KG as general partner.
8. IMMO Immobilien Management GmbH & Co. KG., Munich, Germany; the object of the company is the administration of its own assets, including acquisition, holding and disposal of shares, buildings and structures; transactions which require a governmental approval are excluded.

9. Ragnarök Vermögensverwaltung AG & Co. KG, Munich, Germany; the object of the company is the administration of own assets, including acquisition, holding and disposal of shares as well as buildings and structures; business dealings which require a governmental approval are excluded.
10. SANO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dresden KG, Düsseldorf, Germany; the object of the company is the acquisition, construction and renting of properties, buildings and structures as well as the implementation of all business transactions and measures necessary for this purpose to the extent they relate to the object Theißtalschule, Niedernhausen; activities which require a permission pursuant to Sec. 34 c German Trade Regulations (Gewerbeordnung) are excluded.
11. SOMA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Darmstadt KG, Düsseldorf, Germany; the object of the company is the acquisition, construction and renting of properties, buildings and structures as well as the implementation of all business transactions and measures necessary for this purpose to the extent they relate to the objects Nikolaus-August-Otto-Schule (Bad Schwalbach) and Schulzentrum Eltville; activities which require a permission pursuant to Sec. 34 c German Trade Regulations (Gewerbeordnung) are excluded.
12. WISUS Beteiligungs GmbH & Co. Zweite Vermietungs-KG, Munich, Germany; the object of the company is the administration and renting of its own property in Freiburg (Breisgau), Hans-Bunte-Straße 16.

19.5 Auditors

The Company has appointed KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin (Munich branch, Munich), Germany (KPMG), as its auditor of the Unconsolidated Financial Statements in accordance with the German Commercial Code (*Handelsgesetzbuch*) as of and for the financial year ended December 31, 2014 and of the Audited Consolidated Financial Statements prepared in accordance with IFRS as adopted by the European Union of and for the financial years ended December 31, 2014, 2013 and 2012. In each case, KPMG conducted its audits in accordance with Section 317 German Commercial Code and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer*). KPMG is a member of the German Chamber of Auditors (*deutsche Wirtschaftsprüferkammer*) and a member of the Institute of Public Auditors in Germany (*Institut der Wirtschaftsprüfer*). See further "*4.6 Note on Currency and Financial Information*").

19.6 Publications, Paying Agent

In accordance with its Articles of Association, announcements of the Company are published in the German Federal Gazette (*Bundesanzeiger*).

Announcements in connection with the approval of the Prospectus or any supplements thereto are to be made in accordance with the regulations of the German Securities Prospectus Act (*Wertpapierprospektgesetz*) and in the form of publication stipulated for the Prospectus, in particular through publication on the Company's website (www.pfandbriefbank.com). Printed copies of the Prospectus are available at the offices of the Company (Freisinger Str. 5, 85716 Unterschleißheim, Germany).

The paying agent is Deutsche Bank.

19.7 Ratings

The Company has mandated Standard & Poor's Credit Market Services Europe Limited (Niederlassung Deutschland) ("**Standard & Poor's**") and DBRS Ratings Limited ("**DBRS**") to assign ratings to the Company, including long-term senior unsecured ratings. DBRS has been providing solicited ratings to the Company since May 19, 2015. The mandates with Fitch Ratings Limited ("**Fitch**") and Moody's Deutschland GmbH ("**Moody's**") were terminated on May 12, 2015. On May 19, 2015, Fitch withdrew the ratings assigned to the Issuer for commercial reasons. On June 19, 2015, together with the publication of a downgrade of the long-term senior unsecured ratings of the Company to 'Ba1' (stable outlook) Moody's qualified the unsecured ratings assigned to the Company as unsolicited. On June 29, 2015, Moody's announced the withdrawal of the unsecured ratings. In respect of the Pfandbrief ratings, the Company has mandated Moody's and Standard & Poor's to assign ratings for both, the Public Sector Pfandbriefe and the Mortgage Pfandbriefe. The Company is currently reviewing whether to continue the mandate with Moody's for its Pfandbrief ratings and may expand the mandate of DBRS to assign also Mortgage Pfandbrief ratings.

Each of the mandated rating agencies is established in the European Union and has been registered or certified in accordance with Regulation (EC) No 1060/2009 of the European Parliament and of the Council of September 16, 2009, as amended, on credit rating agencies.

At the date of the Prospectus, the Company's mandated long-term senior unsecured ratings are as follows:

Standard & Poor's[1),2)]	BBB
DBRS[3),4)]	A (low)

1) Standard & Poor's defines the BBB rating as more subject to adverse economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitments is still adequate.
2) Developing outlook.
3) DBRS defines the A rating as good credit quality. The capacity for the payment of financial obligations is considered substantial, but of lesser credit quality than AA. The obligation may be vulnerable to future events, but qualifying negative factors are considered manageable. The subcategory (low) indicates that DBRS ranks the obligation in the lower range of the category.
4) Under review negative.

At the date of the Prospectus, the Company's mandated ratings for its Public Sector Pfandbriefe are as follows:

Moody's[1)]	Aa1
Standard & Poor's[2),3)]	AA+

1) Moody's defines obligations rated Aa1 as subject to very low credit risk. They are judged to be of high quality. The numerical modifier 1 indicates that Moody's ranks the obligation in the higher end of its generic rating category.
2) Standard & Poor's defines the AA+ rating as denoting that the capacity to meet financial commitments is considered very strong. The addition of a plus (+) or minus (-) sign is to show relative standing within the major rating categories.
3) Under criteria observation. Negative outlook. Standard & Poor's has announced the application of revised rating criteria for Pfandbriefe as from mid July 2015 (expected) which pbb Group expects to result in an increase of the over-collateralization requirements. pbb Group may consider to keep or reduce the current over-collateralization level for its Public Sector Pfandbriefe and accept their potential downgrade (expected to 'AA-').

At the date of the Prospectus, the Company's mandated ratings for its Mortgage Pfandbriefe are as follows:

Moody's[1)]	Aa2
Standard & Poor's[2),3)]	AA+

1) Moody's defines obligations rated Aa1 as subject to very low credit risk. They are judged to be of high quality. The numerical modifier 2 indicates that Moody's ranks the obligation in a mid-range ranking.
2) Standard & Poor's defines the AA+ rating as denoting that the capacity to meet financial commitments is considered very strong. The addition of a plus (+) or minus (-) sign is to show relative standing within the major rating categories.
3) Under criteria observation. Negative outlook. Standard & Poor's has announced the application of revised rating criteria for Pfandbriefe as from mid July 2015 (expected). pbb Group expects these to result in an increase of the over-collateralization requirements and would consider to meet them with regard to its Mortgage Pfandbriefe.

Each rating reflects the view of the rating agency at the time it gave the Company the rating. The rating agencies may change their ratings at any time if they believe that circumstances so warrant. Potential investors in the Company's shares should not view these long-term ratings as recommendations to buy, hold or sell such shares.

The major rating changes with regard to the Company's long-term senior unsecured rating during the financial year 2014 and until the date of the Prospectus are summarized below:

19.7.1 Standard & Poor's

On June 9, 2015, following the rating review resulting from the introduction of the BRRD and the application of its new criteria with regards to Additional Loss-Absorbing Capacity (ALAC), Standard & Poor's affirmed the counterparty credit ratings assigned to the Company. The outlook remained developing. Since then, these ratings have no longer been under criteria observation.

At the end of April 2015, Standard & Poor's placed the Company's ratings and certain of its individual issue ratings under criteria observation following the publication of its criteria on Additional Loss-Absorbing Capacity (ALAC). Ratings placed under criteria observation are under review following changes in the rating methodology.

Caused by uncertainties relating to the development of the Company's rating resulting from the planned privatization, Standard & Poor's changed the outlook assigned to the Company's senior unsecured ratings from negative to developing in early February 2015.

In April 2014, Standard & Poor's confirmed the senior unsecured ratings of the Company, which left the explicit support uplift included in the senior unsecured ratings unchanged at 1 notch. The agency then assigned, however, a negative outlook on the bank's long-term rating.

19.7.2 DBRS

On June 25, 2015, DBRS affirmed the long-term senior unsecured ratings assigned to the Company. The ratings remain under review negative. Since May 19, 2015, DBRS has been providing mandated (solicited) long-term senior unsecured ratings to the Company. On May 20, 2015, against the backdrop of the implementation of the BRRD and as part of an EU-wide rating action, DBRS placed the Company's senior unsecured long-term debt and deposit rating of 'A (low)' under review negative. The long-term senior unsecured ratings assigned by DBRS include 2 notches of systemic support uplift. With regard to the Company's unsolicited long-term senior unsecured ratings there were no rating changes during the financial year 2014.

19.7.3 Moody's

On June 19, 2015, together with the closing of the rating review initiated mid-March and the publication of a downgrade of the senior unsecured ratings of the Company from 'Baa2' to 'Ba1' (stable outlook) Moody's qualified the unsecured ratings assigned to the Company as unsolicited. At the same time, Moody's Baseline Credit Assessment, which reflects the creditworthiness excluding support elements, was upgraded by 2 notches from 'b2' to 'ba3'. Moody's newly introduced loss-given-failure (LGF) Analysis provided for further 2 notches of uplift, thereby resulting in the new senior unsecured rating level. On May 12, 2015 with effect as of June 11, 2015, the Company terminated the mandate for senior unsecured ratings with Moody's. On June 29, 2015, Moody's announced the withdrawal of the unsecured ratings.

Following the implementation of its new bank rating methodology and due to the BRRD and the expected decreasing probability of external state support for banks in mid-March 2015, Moody's placed the Company's senior unsecured long-term debt ratings ('Baa2') on review for downgrade and published indications for the future ratings under the new methodology.

In August 2014, Moody's confirmed the senior unsecured ratings and the negative outlook. At that time, the increase of the Baseline Credit Assessment by 1 notch to 'b2' was said to reflect the progress made by pbb Group. The 7-notch support uplift formerly included in the 'Baa2' senior unsecured ratings was reduced by 1 notch.

19.7.4 Fitch

Following the termination of Fitch's mandate for unsecured ratings, on May 12, 2015, Fitch withdrew the ratings assigned to the Company on May 19, 2015. Prior to the withdrawal and in connection with Fitch's global review of sovereign support, Fitch downgraded the Company's long-term issuer default rating and senior debt rating to 'BBB' from 'A-' and placed them on rating watch negative.

In February 2015, Fitch affirmed the Company's unsecured ratings and negative outlook as part of a review of ratings for German Pfandbrief banks.

In December 2014, Fitch affirmed the senior unsecured rating assigned to the Company with an unchanged negative outlook. At the same time, the Company's positive developments were appreciated by increasing its 'Viability Rating' by 1 notch to 'bb+' and thereby reducing the support uplift factored into the 'A-' senior unsecured ratings by 1 notch to 4 notches.

The outlook on the senior unsecured rating of the Company was changed to negative in March 2014 within the context of the introduction of the BRRD.

In February 2014, Fitch confirmed the senior unsecured rating of the Company with a stable outlook.

For risks associated with the ratings assigned to the Company and its debt instruments see "*3.1.7 pbb Group bears the risk that the ratings assigned to the Company, its Pfandbriefe and its other debt or hybrid instruments are downgraded which may have a negative effect on the funding opportunities, on*

triggers and termination rights within derivatives and other contracts and on access to suitable hedge counterparties and thus on its business, financial position and results of operation." and "*3.3.4 The withdrawal from the HRE Group increases the likelihood of a downgrade of the ratings assigned to the Company and/or its debt or hybrid instruments which may have a negative effect on the Company's funding opportunities, triggers and termination rights within derivatives and other contracts and access to suitable hedge counterparties.*"

20 SHAREHOLDER STRUCTURE

20.1 Shareholder Structure

20.1.1 Direct Shareholders

Immediately prior to the Offering, the shares in the Company are held by the Selling Shareholder (HRE Holding).

The following table shows the Company's shareholder structure immediately prior to the Offering as well as upon completion of the Offering:

	Shareholding					
Shareholder	Prior to the Offering		Upon completion of the Offering (without exercise of the Greenshoe Option)[1]		Upon completion of the Offering (assuming full exercise of the Greenshoe Option)[1]	
	Shares	In %	Shares	In %	Shares	In %
Hypo Real Estate Holding AG	134,475,308	100.0	33,484,352	24.90%	26,895,063	20.00%
Free Float	–	–	100,990,956	75.10%	107,580,245	80.00%
Total	**134,475,308**	**100.0**	**134,475,308**	**100.0**	**134,475,308**	**100.0**

1) Option granted by the Selling Shareholder to the Underwriters to acquire up to 6,589,289 shares against payment of the offer price less agreed commissions. For further information, see "*5.8 Stabilization Measures, Over-Allotment and Greenshoe Option*".

20.1.2 Indirect Shareholders

As of the date of the Prospectus, the Selling Shareholder is wholly owned by FMS which is managed by FMSA, a public-law agency with legal personality under the legal and technical supervision of the German Federal Ministry of Finance (*Bundesministerium der Finanzen*).

20.2 Participation Programs

As of the date of the Prospectus, pbb Group does not have any management or employee participation programs. However, as of the date of the Prospectus, pbb Group explores adequate structures to implement a program for a share-price-based sustainability component for the time after the completion of the Offering, however, no decision has yet been made (see also "*22.2.4.2 Envisaged New Remuneration System*" and "*15.9.2 Compensation*").

21 INFORMATION ON THE SHARE CAPITAL OF THE COMPANY AND APPLICABLE REGULATIONS

The following overview presents information regarding the Company's share capital as well as certain provisions of the Company's Articles of Association and of German law.

21.1 Share Capital and Shares

As of the date of the Prospectus, the registered share capital of the Company amounts to €380,376,059.67 and is divided into 134,475,308 ordinary bearer shares with no par value (*Stückaktien*) and a notional par value of €2.83 each (rounded; mathematically correct: €2.82859).

All shares are fully paid up.

21.1.1 Development of the Share Capital over the Last Three Years

Over the last three years prior to the date of the Prospectus, the share capital of the Company has not been changed.

21.1.2 Description of Shares

Each share entitles the shareholder to one vote at the general shareholders' meeting of the Company. There are no restrictions on voting rights. Voting rights are the same for all of the Company's shareholders, i.e. no shareholders have different voting rights. Voting rights, however, do not attach until the respective capital contribution has been fully paid up. The shares carry full dividend rights as from January 1, 2015. In the event of the Company's liquidation, the Company's assets remaining after satisfaction of all liabilities of the Company will be distributed to the shareholders in proportion to their interest in the Company's share capital.

As of the date of the Prospectus, the Company and its subsidiaries hold no shares in the Company. No shares in the Company are held on behalf of or for the account of the Company or any of its subsidiaries.

The shares are created under German law. The Company's share capital is fully paid up. In accordance with the Articles of Association, all of the Company's shares have been issued as ordinary bearer shares with no par value (*auf den Inhaber lautende Stückaktien*). All shares are represented by 2 global certificates that will be deposited in connection with the Offering with Clearstream Banking AG, Mergenthalerallee 61, 65760 Eschborn, Germany.

Section 5(1) sentence 2 of the Articles of Association excludes shareholders' rights to individual share certificates, unless otherwise required by the rules of a stock exchange to which the shares are admitted. Pursuant to section 5(1) sentence 1 of the Articles of Association, certificates that represent multiple shares (global certificates) may be issued.

The Company's shares are freely transferable in accordance with the legal requirements for ordinary bearer shares. There are no restrictions on the transferability of the Company's shares other than the lock-up agreements "*5.9 Lock-Up Agreements*".

21.2 Authorized Capital

On June 10, 2015 the general shareholders' meeting of the Company resolved to create authorized capital in an amount of €190,188,029.83. This authorized capital has become effective upon its registration with the commercial register of the Company, which occurred on June 18, 2015.

Pursuant to the resolution of the general shareholders' meeting of the Company dated June 10, 2015, the Management Board shall be authorized to increase the share capital on or before June 9, 2020, with the consent of the Supervisory Board, once or more than once, by up to a total of €190,188,029.83 through the issue of new shares with no par value against cash payments, and in some circumstances, against contributions in kind ("**Authorized Capital 2015**"). Subscription rights have to be granted to the Company's shareholders. The statutory shareholders' subscription rights may also be granted in such a way that the new shares are subscribed for by one or several banks specified by the Management Board with the obligation to offer them to the shareholders (indirect subscription right). The Management Board, with the consent of the Supervisory Board, shall be authorized to except fractional amounts from shareholders' subscription rights and to exclude

subscription rights insofar as is necessary to grant to the holders of convertible bonds and option rights issued or to be issued by the Company or its subsidiaries subscription rights to new shares to the extent that they would be entitled to such rights after exercising their conversion or option rights or after fulfillment of their respective obligations to convert or after the use of the Company's right to substitute. The Management Board is also authorized to exclude subscription rights in order to grant in the amount of up to €2,852,820.45 employee shares to employees of the Company and such subsidiaries in which the Company, directly or indirectly, holds any shares or over which the Company is in a position to exercise controlling influence. Moreover, the Management Board is authorized to exclude subscription rights in order to carry out scrip dividends pursuant to which the shareholders of the Company are granted the option to trade (all or parts of) their dividend rights for new shares out of the Authorized Capital 2015 by way of contribution in kind. In addition, the Management Board is authorized to exclude subscription rights in order to increase the share capital against contributions in kind. In case of capital increases against cash payments, the Management Board shall also be authorized to exclude the subscription rights if the issue price of the new shares is not significantly lower than the quoted price of the listed shares of the same kind at the time of the final determination of the issue price and the shares issued in accordance with Sections 203 (1), 186 (3) sentence 4 AktG do not exceed in total 10% of the share capital of the Company at the time the authorization becomes effective or—if the value is lower—at the time the authorization is utilized. This maximum limit of 10% of the share capital is reduced by the proportionate amount of the share capital attributable to those treasury shares of the Company that are sold and transferred by the Company during the term of the Authorized Capital 2015, while excluding the shareholders' subscription rights pursuant to Sections 71 (1) No. 8 sentence 5, 186 (3) sentence 4 AktG. In addition, the maximum limit is reduced by the proportionate amount of the share capital attributable to those shares which have to be granted to service convertible bonds, convertible profit participation rights, convertible hybrid bonds or warrants attached to warrant bonds or profit-sharing certificates with warrants, in each case, issued with conversion or option right or with obligation to convert or the Company's right to substitute, to the extent that such bonds or profit participation rights are issued during the term of the Authorized Capital 2015, while excluding the subscription rights subject to appropriate application of Section 186 (3) sentence 4 AktG. Management Board resolutions to utilize authorized capital and to exclude subscription rights require the Supervisory Board's approval. Furthermore, the Management Board shall be authorized, with the consent of the Supervisory board, to determine further details concerning the execution of capital increases out of the Authorized Capital 2015.

21.3 Authorization to Issue Convertible Bonds, Warrant Bonds, Profit Participation Rights and other Hybrid Bonds and Conditional Capital

On June 10, 2015 the general shareholders' meeting of the Company resolved to create conditional capital in an amount of €190,188,029.83. This conditional capital has become effective upon its registration with the commercial register of the Company, which occurred on June 18, 2015.

Pursuant to the resolution of the general shareholders' meeting of the Company dated June 10, 2015, the share capital of the Company shall be conditionally increased by up to €190,188,029.83 through the issuance of up to 67,237,654 new ordinary bearer shares with no par value ("**Conditional Capital 2015**"). This conditional capital increase shall serve to grant rights to holders or creditors of convertible bonds, convertible profit participation rights, convertible hybrid bonds or warrants attached to warrant bonds or profit-sharing certificates with warrants issued or guaranteed on or before June 9, 2020 by the Company or its subsidiaries, in accordance with the authorization summarized in the following paragraphs ("**Authorization 2015**"). The new shares are to be issued at the option and/or conversion prices calculated in each case in accordance with the Authorization 2015. The conditional capital increase can only be carried out to the extent to which the conversion or option rights of the aforementioned holders or creditors are exercised or holders or creditors with an obligation to convert fulfill their obligations to convert or the Company uses its right to substitute, and other forms of performance in satisfaction thereof are not chosen. The new shares shall be entitled to a dividend from the beginning of the financial year in which they are created by exercise of conversion and/or option rights or by fulfillment of respective obligations to convert or by use of the Company's right to substitute; to the extent legally permissible, the Management Board shall be authorized, with the consent of the Supervisory Board, to assign the profit participation of the new shares, in derogation from Section 60 (2) AktG, also for a financial year which has already expired. Furthermore, the Management Board shall be authorized, with the consent of the Supervisory Board, to determine further details concerning the execution of the conditional capital increase.

In the context of the Conditional Capital 2015, on June 10, 2015, the general shareholders' meeting of the Company resolved the Authorization 2015 authorizing the Management Board to issue convertible bonds, warrant bonds, profit participation rights and/or other hybrid bonds (together "**Financial Instruments**"), once or more than once, on or before June 9, 2020. The hybrid bonds must fulfill the requirements of banking regulatory law (CRD 4 Package) to be attributable to the Company's Additional Tier 1 capital but are possibly not classified by law as profit participation rights. All Financial Instruments may be issued with or without conversion or option rights or obligation to convert or the Company's right to substitute as well as with or without limitation of maturities against contributions in cash or in kind. The total nominal amount of all Financial Instruments to be issued under the Authorization 2015 shall not exceed a total value of €3,000,000,000.00. The Authorization 2015 comprises the issuance of bearer or registered Financial Instruments. As further set out in the conditions of the relevant Financial Instruments, the conversion and/or option rights and/or the respective obligations to convert granted to or imposed on the holders of the Financial Instruments (including, for the avoidance of doubt, profit participation rights and/or other hybrid bonds issued with such conversion and/or option rights and/or the respective obligations to convert) may only be issued in respect of shares of the Company in the total number of up to 67,237,654 shares and with a proportionate amount of share capital of up to a nominal sum of €190,188,029.83. The Company may abstain from granting conversion and/or option rights to the holders of the Financial Instruments if this is permitted pursuant to the German Stock Corporation Act at the time the Authorization 2015 is exercised. The respective maturity of the conversion and/or option rights and/or the obligations to convert may not exceed the maturity of the relevant Financial Instruments. Interest payable on the Financial Instruments may be variable; it may also be fully or partially dependent on key profit figures of the Company or the pbb Group. Moreover, the conditions of the Financial Instruments may provide for a subsequent payment for benefits not provided in previous years.

The Financial Instruments may, other than in Euros – and subject to a limit on the equivalent amount in Euros – also be issued in the currency of another OECD country. Furthermore, the Financial Instruments may be issued by subsidiaries of the Company. In this case, the Management Board shall be authorized to provide the guarantee for such Financial Instruments on behalf of the Company, to grant a right to substitute to the Company and to grant or guarantee to the holders of such Financial Instruments conversion and/or option rights or obligations to convert in respect of shares of the Company. The Financial Instruments may be structured to qualify as Additional Tier 1 capital instruments or otherwise as regulatory capital at the time of issue.

The convertible bonds (as well as any other Financial Instrument linked to a conversion right) entitle the holders of such Financial Instrument to convert their bonds into shares of the Company subject to the conditions of the respective Financial Instrument. The ratio of conversion is calculated by dividing the nominal amount or – if the price is lower – the issue price of the bond by the conversion price of the bond. Fractions of shares resulting from the ratio of conversion will be settled in cash; moreover, an additional cash adjustment may be determined as well as the combination or a compensation for fractional amounts which cannot be converted. The conditions of the Financial Instruments linked to a conversion right may provide for a variable ratio of conversion and a determination of the conversion price (subject to the minimum price specified in the Authorization 2015) within a predetermined range, depending on the performance of the share of the Company during the term of the respective Financial Instrument. The proportion of share capital attributed to each individual share to be issued upon conversion may not exceed the nominal amount or the issue price, as the case may be, of the Financial Instrument.

When issuing warrant bonds or any other Financial Instrument linked to an option right, one or more warrants are attached to each warrant bond which entitle the holder of such Financial Instrument, subject to the conditions of the respective Financial Instrument, to buy shares of the Company against contributions in cash or in kind. The conditions of the Financial Instrument linked to an option right may also provide that the option price can fully or partially be settled by the transfer of warrant bonds. In this case, the ratio of subscription is calculated by dividing the nominal amount or – if the price is lower – the issue price of the warrant bond by the option price of the warrant bond. Fractions of shares resulting from the ratio of subscription will be settled in cash; moreover, such fractions may be added together for the acquisition of whole shares, where appropriate against payment of an additional amount and in accordance with the conditions of the respective Financial Instrument. The conditions of the Financial Instruments linked to an option right may also provide for a variable determination of the option price (subject to the minimum price specified in the Authorization 2015) within a predetermined range, depending on the performance of the share of the Company during the term of the respective

Financial Instrument. The proportion of share capital attributed to each individual share to be issued upon exercise of the option right may not exceed the nominal amount or the issue price, as the case may be, of the Financial Instrument.

Over and above, the conditions of the Financial Instruments may create the unconditional or conditional obligation to exercise the conversion and/or option rights at the end of the term or at another time of final maturity of the respective Financial Instrument (including the final maturity depending on an uncertain future event and/or the exercise of a right of termination) or provide the obligation of the Company to grant shares of the Company instead of payment of a cash amount upon final maturity of the respective Financial Instrument. Moreover, the conditions of the Financial Instruments may give the right to the Company, upon final maturity of the respective Financial Instrument, to grant the holders of the Financial Instruments shares in the Company in full or in part instead of payment of the due cash amount. The proportion of share capital attributed to each individual share to be issued upon final maturity may once again not exceed the nominal amount or the issue price (if lower) of the Financial Instruments. For the determination of the number of shares to be issued upon final maturity of the Financial Instruments linked to a conversion or option obligation, the provisions described above for the ratio of conversion or the settlement of the option price by the transfer of warrant bonds, as the case may be, apply *mutatis mutandis* subject to the conditions of the respective Financial Instruments.

In all cases where the Company is obliged to grant shares of the Company, the Company is entitled at its free discretion to either grant new shares or already existing shares of the Company. In addition, the conditions of the Financial Instruments with conversion or option rights or obligations to convert may give the right to the Company, upon exercise of the conversion and/or option rights or fulfillment of the obligations to convert, to pay the equivalent value in cash instead of granting shares of the Company. In this regard, the value of the shares of the Company corresponds to the arithmetic mean of the volume-weighted average prices of the shares of the Company in XETRA trading on the Frankfurt Stock Exchange or in a successor system replacing XETRA trading on the last ten trading days prior to the decision of the Company to pay the equivalent value of the shares in cash.

The conversion or option price to be determined by the Management Board must correspond to at least 50% of the arithmetic mean of the volume-weighted average prices of the shares of the Company in XETRA trading on the Frankfurt Stock Exchange or in a successor system replacing XETRA trading on the last ten trading days prior to the resolution of the Management Board on the issuance of Financial Instruments with conversion or option right. In case a subscription right is granted, the conversion or option price must correspond to at least 50% of the aforementioned average stock price of the shares of the Company over the period commencing at the beginning of the subscription period up to and including the day prior to the announcement of the final terms and conditions established pursuant to Section 186 (2) AktG. In case of convertible bonds or warrants bonds issued to employees of the Company and such subsidiaries in which the Company, directly or indirectly, holds any shares or over which the Company is in a position to exercise controlling influence, against contribution of remuneration claims, the conversion or option price must correspond to the aforementioned average stock price of the shares of the Company on all trading days in Frankfurt am Main during the reference period from December of the financial year which has expired up to and including February of the following financial year in which the Management Board resolves, with the consent of the Supervisory Board, to issue the convertible bonds or warrants bonds. Except in case of employee bonds, the conversion or option price of Financial Instruments linked to a conversion or option obligation and/or to the Company's right to substitute may correspond to the aforementioned average stock price of the shares of the Company on the last ten trading days prior to or after the final maturity of the Financial Instruments even if such average stock price falls below the aforementioned minimum conversion or option price 50%.

If during the term of Financial Instruments linked to a conversion or option right or a conversion or option obligation, the economic value of the existing conversion or option rights or existing conversion or option obligations is diluted, the conversion or option prices may, notwithstanding Section 9 (1) AktG, may be adjusted to preserve value where such adjustment is not already required by mandatory legal provisions. Subject to the more specific conditions of the Financial Instruments, the conversion or option price may, in particular, be adjusted pursuant to Section 216 (3) AktG if, during the conversion or option period, the Company increases the nominal share capital from retained earnings by issuing new shares or increases the nominal share capital or sells treasury shares by granting an exclusive subscription right to the shareholders or while granting an exclusive subscription right to its shareholders, issues, grants or guarantees further Financial Instruments with conversion or option right

or a conversion or option obligation or the Company's right to substitute, and in each case the holders of already existing conversion or option rights or existing conversion or option obligations or Financial Instruments with the Company's right to substitute are not granted the subscription right they would have been entitled to by operation of law following the exercise of the conversion or option right or fulfillment of the conversion or option obligation or use of the Company's right to substitute.

Instead of the aforementioned adjustment of the conversion or option price the conditions of the Financial Instruments may provide for an adjustment of the conversion or option rights or conversion or option obligations or the Company's right to substitute with regard to all aforementioned cases and additionally, in the event that the share capital of the Company is decreased or other extraordinary courses of action or events occur, which lead to a dilution of the economic value of the existing conversion or option rights or existing conversion or option obligations (e.g. reorganizations, dividend payments or a change of control). Such adjustment may, subject to the conditions of the of Financial Instruments, include a corresponding cash payment by the Company upon exercise of the conversion or option rights or fulfillment of the conversion or option obligations or the granting of subscription rights to the holders of the Financial Instruments. To the extent necessary for the protection against dilution, the conditions of the Financial Instruments may also provide that the number of conversion or option rights or conversion or option obligations per bond gets adjusted. Sections 9 (1) and 199 (2) AktG remain unaffected.

Subscription rights with regard to Financial Instruments have to be granted to the Company's shareholders to the extent a statutory subscription right applies. An indirect subscription right as described in context of the Authorized Capital 2015 is sufficient. In case the Financial Instruments are issued by a subsidiary of the Company, the Company has to ensure the statutory subscription right of the shareholders of the Company. The Management Board shall be authorized to except fractional amounts from shareholders' subscription rights with regard to Financial Instruments and to exclude such shareholders' subscription rights insofar as is necessary to grant to the holders of Financial Instruments previously issued (with conversion and/or option rights or obligations to convert or the Company's right to substitute) subscription rights to the extent that they as shareholder would be entitled to such subscription rights after exercising their conversion and/or option rights or fulfillment of the obligations to convert or the use of the Company's right to substitute. Moreover, the Management Board shall also be authorized to exclude shareholders' subscription rights insofar as, in case of Financial Instruments against cash payments, the issue price is not substantially lower than the theoretical market value of the Financial Instruments established using recognized actuarial methods. However, the total number of shares to be issued on the basis of Financial Instruments with conversion and/or option rights or conversion and/or options obligations or the Company's right to substitute while excluding the shareholders' subscription right is limited to shares of the Company with a proportionate amount of the share capital of no more than 10% of the share capital at the time the Authorization 2015 becomes effective or – if the value is lower – at the time the Authorization 2015 is utilized. This maximum limit of 10% of the share capital is reduced by the proportionate amount of the share capital attributable to those shares that are sold and transferred or issued by the Company during the term of the Authorization 2015 on the basis of other authorizations for the sale and transfer or the issuance of shares of the Company or Financial Instruments with the right or the obligation to buy such shares of the Company, while excluding the shareholders' subscription rights pursuant to Section 186 (3) sentence 4 AktG. In addition, the Management Board is authorized to exclude subscription rights if the Financial Instruments are issued against contributions in kind. In case of profit participation rights or hybrid bonds without conversion or option rights or obligations to convert (or without the Company's right to substitute), the Management Board shall also be authorized to exclude the subscription rights, provided these are structured like straight bonds, i.e. do not confer any rights of membership in the Company or rights to liquidation proceeds from the Company and the interest paid on them is not linked to the size of the net profit for the year, the distributable profit or the dividend of the Company. Furthermore, the interest payable and the issue price of the profit participation rights or hybrid bonds must reflect current market conditions for similar fund-raising transactions at the time of issue. Management Board resolutions to exclude subscription rights require the Supervisory Board's approval.

Over and above, the Management Board shall be authorized to determine in accordance with the Authorization 2015 further details concerning the issuance and features of the Financial Instruments, in particular, time of issue, rate of interest, method of interest calculation, issue price, variable ratio of conversion or variable option price, term and denomination, provisions on protection against dilution as

well as the option or conversion period. In case of Financial Instruments issued by subsidiaries, such determination also requires the consent of the management board of the respective subsidiary.

As of the date of the Prospectus, the Authorization 2015 has not been utilized and there are no convertible bonds, warrant bonds, profit participation rights or other hybrid bonds of the Company or its subsidiaries outstanding.

21.4 Authorization to Acquire and Use Own Shares

By resolution of the general shareholders' meeting dated June 10, 2015, the Company is authorized to buy for other purposes than securities trading, on or before June 9, 2020, its own shares in a total volume of up to 10% of the share capital at the time the resolution of the general shareholders' meeting is taken or – if the value is lower – of the share capital at the time this authorization is exercised. Together with other own shares which are in the Company's possession or attributable to the Company pursuant to Sections 71d and 71e AktG, the own shares purchased on the basis of this authorization may not at any time exceed 10% of the Company's share capital. This authorization to acquire own shares may be exercised directly by the Company, downstream affiliated companies of the Company (within the meaning of Section 18 (1) AktG, *Konzernunternehmen*) or third parties acting on behalf of the Company or on behalf of downstream affiliated companies of the Company. This authorization may be exercised fully or partially and in case of a partial exercise more than once.

The own shares may at the discretion of the Management Board be bought through the stock exchange or by means of a public purchase offer or by means of a public invitation to all shareholders to submit tenders. The price for the purchase of shares (excluding ancillary purchase costs) through the stock exchange may not be more than 10% higher or lower than the arithmetic mean of the volume-weighted average prices of the shares of the Company in XETRA trading on the Frankfurt Stock Exchange or in a successor system replacing XETRA trading on the last three trading days prior to the acquisition of the shares.

In the case of a public purchase offer to all shareholders, the offered and paid purchase price per share (excluding ancillary purchase costs) may not be more than 10% higher or lower than the aforementioned average stock price of the shares of the Company on the last three trading days prior to the final decision of the Management Board on the formal purchase offer. In case of any adjustment to the purchase offer, which is permissible if after the publication of the offer the market price of the shares has deviated significantly from the relevant price, the relevant cutoff date is the date on which the Management Board finally formally decides on the adjustment of the offer. The buyback volume of a public purchase offer may be limited. If the volume of shares offered in a public purchase offer exceeds the planned buyback volume, acceptance must be in proportion to the shares offered in each case; in this regard, the right of the shareholders to offer their shares in proportion to their interest in the Company's share capital is excluded. Moreover, commercial rounding to avoid fractions of shares and the preferred acceptance of small quantities of up to 50 of the company's shares offered for purchase per shareholder may be provided for. In these cases, any further shareholders' rights to offer their shares are excluded.

In the case of a public invitation to all shareholders to submit tenders, the Management Board shall be authorized to determine a purchase price range per share within which offers may be submitted. The purchase price range may be adjusted if during the tender floating period if the market price of the shares deviates significantly from the relevant price at the time of the publication of the public invitation to submit tenders. The purchase price per share paid by the Company on the basis of the submitted tenders (excluding ancillary purchase costs) may not be more than 10% higher or lower than the aforementioned average stock price of the shares of the Company on the last three trading days prior to the final formal decision of the Management Board to accept the tenders. The buyback volume of a public invitation to submit tenders may be limited. If not all of several similar tenders can be accepted due to the volume restriction, the same provisions as described above for the oversubscription of a public purchase offer (i.e. the provisions on the proportion of shares tendered, commercial rounding and the preferred acceptance of small quantities of shares as well as the exclusion of any further shareholders' rights to offer their shares) apply.

The Management Board is authorized, with the consent of the Supervisory Board, to use, once or more than once, any shares purchased on the basis of this authorization – besides the disposal on the stock exchange or by an offer to all shareholders – for certain other purposes. These purposes in particular include any other form of disposal of the own shares against cash payment provided that the purchase price may not be substantially lower than the stock price of the shares of the Company of the same

kind at the time of sale in accordance with Section 186 (3) sentence 4 AktG. In this case, the total number of shares to be disposed, together with those new shares which during the term of this authorization have been issued by increasing the share capital of the Company while excluding the shareholders' subscription right pursuant to Section 186 (3) sentence 4 AktG, may not exceed 10% of the share capital at the time the resolution of the general shareholders' meeting is taken or – if the value is lower – of the share capital at the time this authorization is exercised. This maximum limit of 10% of the share capital is also reduced by the proportionate amount of the share capital attributable to those shares that are issued to service convertible bonds, convertible profit participation rights, convertible hybrid bonds or warrants attached to warrant bonds or profit-sharing certificates with warrants, in each case, issued with conversion or option right or conversion or option obligation to the extent that such bonds or profit participation rights are issued during the term of this authorization, while excluding the subscription rights subject to appropriate application of Section 186 (3) sentence 4 AktG. In addition, the Management Board is authorized to dispose of the purchased shares against contribution in kind, in particular for the purpose of acquiring companies, parts thereof or shareholdings in companies, including increasing existing shareholdings and the merger of companies. In aforementioned two cases (disposal against cash payment and disposal against contribution in kind), the Management Board is authorized to exclude the subscription rights of the shareholders. Furthermore, the Management Board is authorized to redeem all or some of the shares acquired on the basis of this authorization without the execution of this redemption process requiring a further resolution by the general shareholders' meeting. The redemption leads to a decrease of the share capital of the Company in the proportionate amount of the share capital attributable to such redeemed shares. The Supervisory Board shall be authorized to make amendments to the Articles of Association reflecting the decrease of the share capital of the Company. Alternatively, the Management Board shall be authorized, with the consent of the Supervisory Board, to decide that the share capital remains unaffected by the redemption process and that instead the proportion to the interest of the remaining shares in the Company's share capital increases due to the redemption pursuant to Section 8 (3) AktG. In this case, the Management Board may amend the number of shares of the Company in the Articles of Association. This authorization to redeem own shares may be exercised more than once.

Such authorization also comprises the use of own shares of the Company which are acquired pursuant to Section 71d sentence 5 AktG or by downstream affiliated companies of the Company (within the meaning of Section 18 (1) AktG, *Konzernunternehmen*) or third parties acting on behalf of the Company or on behalf of downstream affiliated companies of the Company.

In addition, the Management Board may, with the consent of the Supervisory Board, except fractional amounts from shareholders' subscription rights in case of a public purchase offer to all shareholders.

21.5 Authorization to Use Derivatives within the Framework of the Acquisition of Own Shares

The Company is also authorized to acquire own shares with the use of derivatives.

The purchase of shares, subject to the authorization to acquire own shares as set out above under "*21.4 Authorization to Acquire and Use Own Shares*", may be executed, apart from in the ways described in the paragraphs above, with the use of put and call options or forward purchase contracts. The Company may sell to third parties put options based on physical delivery and buy call options from third parties if the option conditions provide that these options or forward purchase contracts may be fulfilled only through the delivery of shares which themselves were acquired subject to compliance with the principle of equal treatment. All share purchases based on put or call options or forward purchase contracts are limited to shares in a maximum volume of 5% of the share capital at the time the resolution of the general shareholders' meeting is taken or – if the value is lower – of the share capital at the time this authorization is exercised. The term of the options or forward purchase contracts must be selected in such a way that the share purchase upon exercise of the option or pursuant to the forward purchase contract is carried out at the latest on June 9, 2020.

The purchase price to be paid per share upon exercise of the put options or upon the maturity of the forward purchase may not be more than 10% higher or more than 10% lower than the arithmetic mean of the volume-weighted average prices of the shares of the Company in XETRA trading on the Frankfurt Stock Exchange or in a successor system replacing XETRA trading on the last three trading days prior to the conclusion of the respective transaction, in each case excluding ancillary purchase costs but taking into account the option premium received. The call options may only be exercised if the purchase price to be paid is not more than 10% higher or more than 10% lower than the

aforementioned average stock price of the shares of the Company on the last three trading days prior to the acquisition of the shares, in each case excluding ancillary purchase costs but taking into account the option premium paid. The option premium paid by the Company with regard to call options and received by the Company with regard to put options may not exceed by more than 5% of the theoretical market value of the respective options established using recognized actuarial methods.

If own shares are acquired with the use of derivatives, the right of the shareholders to conclude such derivatives with the Company is excluded pursuant to appropriate application of Section 186 (3) sentence 4 AktG. Shareholders only have a right to offer their shares to the Company to the extent that the Company is obliged to purchase the relevant shares under the options or the forward purchase contracts. Any further shareholders' rights to offer their shares are excluded. With regard to the disposal and the redemption of own shares acquired with the use of derivatives, the corresponding provisions set forth in the authorization to acquire own shares apply *mutatis mutandis*.

21.6 General Rules on Allocation of Profits and Dividend Payments

Shareholders have a share in the Company's distributable profits determined in proportion to their interest in the Company's share capital. The participation of new shares in the profits may be determined in a deviating manner.

For detailed information on the allocation of profits and dividend payments, the requirements and limitations, see "7 *Dividend Policy*", in particular "*7.1 General Rules on Allocation of Profits and Dividend Payments*" and "*7.3 EU Restrictions and Repayment of SoFFin Silent Participation*".

21.7 General Provisions Governing a Liquidation of the Company

The Company may be liquidated by a resolution of the general shareholders' meeting to dissolve the Company followed by a liquidation procedure in addition to any liquidation arising as a result of insolvency proceedings. The resolution of the general shareholders' meeting requires a simple majority of the votes cast as well as a majority of at least three quarters of the share capital represented at the time the resolution is adopted. In the liquidation procedure, the assets remaining after all Company liabilities have been satisfied are divided among the shareholders in proportion to their interest in the Company's share capital. Certain restrictions, in particular restrictions for the benefit of creditors, must be observed.

21.8 General Provisions Governing Share Capital Increases and Decreases

The share capital of the Company may be increased against cash contributions or against contributions in kind by a resolution of the general shareholders' meeting. According to the German Stock Corporation Act (*Aktiengesetz*), such resolution requires a simple majority of the votes cast, as well as a majority of at least three quarters of the share capital represented at the time the resolution is adopted, unless the stock corporation's articles of association provide for a different majority. The current Articles of Association of the Company do not provide for a different majority in this regard.

In addition, the general shareholders' meeting may create authorized capital by a resolution requiring a simple majority of the votes cast as well as a majority of at least three quarters of the share capital represented at the time the resolution is adopted. The authorized capital gives the Management Board authority to issue shares up to a certain amount within a period of not more than five years after registration of the authorization with the commercial register with the consent of the Supervisory Board. The nominal value of the authorized capital may not exceed one-half of the share capital in existence at the time the authorization is registered with the commercial register. As of the date of the Prospectus, the Articles of Association of the Company provide for authorized capital in the aggregate amount of €190,188,029.83 which has not been issued, see "*21.2 Authorized Capital*".

Furthermore, the general shareholders' meeting may resolve to create conditional capital with a simple majority of the votes cast as well as a majority of at least three quarters of the share capital represented at the time the resolution is adopted. Conditional capital should only be created in order to grant exchange or subscription rights to holders of convertible bonds, to prepare for a business combination with one or more other companies or to grant subscription rights to employees and members of the management of the Group. In case conditional capital is created for the purpose of granting subscription rights to employees and members of the management, its nominal amount may not exceed 10% of the share capital in existence at the time the resolution is adopted, in all other

cases, the nominal amount must not exceed 50%, provided, however, in both cases that it does not exceed 50% in the aggregate. As of the date of the Prospectus, the Articles of Association of the Company provide for conditional capital in the aggregate amount of €190,188,029.83 which has not been issued, see "*21.3 Authorization to Issue Convertible Bonds, Warrant Bonds, Profit Participation Rights and other Hybrid Bonds and Conditional Capital*".

The general shareholders' meeting may also resolve to decrease the share capital of the Company. Again, such resolution requires a simple majority of the votes cast as well as a majority of at least three quarters of the share capital represented at the time the resolution is adopted. A decrease of the share capital is also possible upon cancellation of treasury shares if the authorization granted to the Management Board by the general shareholders' meeting to acquire treasury shares explicitly allows for such cancellation. Pursuant to a resolution of the general shareholders' meeting of the Company dated June 10, 2015, such authorization was granted to the Management Board, see "*21.4 Authorization to Acquire and Use Own Shares*".

21.9 General Provisions on Subscription Rights

According to the German Stock Corporation Act (*Aktiengesetz*), each shareholder is generally entitled to subscription rights to new shares to be issued in a capital increase (as well as convertible bonds, warrant bonds, profit participation rights and participating bonds). Subscription rights are freely transferrable. During a specified period prior to the expiration of the subscription period, subscription rights may be traded on German stock exchanges.

The general shareholders' meeting may exclude subscription rights in whole or in part when resolving upon a capital increase or authorized capital. In the case of authorized capital, the general shareholders' meeting may also authorize the management board to exclude the subscription rights. All such resolutions by the general shareholders' meeting require a simple majority of the votes cast, as well as a majority of at least three quarters of the share capital represented at the time the resolution is adopted. In addition, the exclusion of subscription rights requires a report by the management board demonstrating the reasons for such exclusion as well as the reasons for the proposed issue price. In particular, the exclusion of subscription rights for a new share issue is permissible if the Company is increasing its capital against cash contributions, the amount of the capital increase does not exceed 10% of the existing share capital, and the issue price of the new shares is not significantly lower than the stock exchange price.

21.10 Exclusion of Minority Shareholders

According to Sections 327a *et seq*. AktG, which govern the so-called "squeeze-out under stock corporation law", the general shareholders' meeting of a stock corporation is able, at the request of a shareholder holding at least 95% of the share capital ("**principal shareholder**"), to resolve to transfer the shares of the minority shareholders to the principal shareholder against payment of an adequate cash compensation. The amount of cash compensation to be granted to the minority shareholders has to take into account the situation of the company on the date of the resolution of the shareholders' meeting. The true value of the company determines the amount of cash compensation, which is generally calculated using the capitalized earnings method (*Ertragswertmethode*) or similar generally recognized valuation methods, provided, however, that, in the absence of certain circumstances, the compensation must not fall short of the weighted average stock price over the last three months prior to the publication of the intention to have a "squeeze-out" resolution be passed. The minority shareholders are entitled to initiate valuation proceedings (*Spruchverfahren*), in the course of which the adequateness of the cash payment is reviewed.

If the majority shareholder of the stock corporation is a stock corporation, a partnership limited by shares (*Kommanditgesellschaft auf Aktien*) or a *Societas Europaea* (European company), in each case having its seat in Germany, a squeeze-out in accordance with Sections 327a et seq. AktG can be effectuated, under certain circumstances, in order to facilitate an upstream merger of the stock corporation into the majority shareholder. Pursuant to Section 62 German Reorganization and Transformation Act (*Umwandlungsgesetz*), providing for this so-called "squeeze-out under transformation law", the majority shareholder holding at least 90% of the share capital is able to request the general shareholders' meeting to approve the squeeze-out within three months of the conclusion of the merger agreement.

In addition, according to Sections 39a and 39b German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*), providing for a so-called "squeeze-out under takeover

law", an offeror holding at least 95% of the voting share capital of the target company (as defined in the German Securities Acquisition and Takeover Act) after a takeover or mandatory public offer, may within three months of the expiry of the deadline for acceptance of the offer, request the transfer of the remaining voting shares to it by court order against payment of an adequate compensation. To this end, the compensation offered as part of the takeover or mandatory public tender offer is deemed adequate if, on the basis of the offer, the offeror has acquired shares amounting to at least 90% of the share capital affected by the offering.

Furthermore, according to Section 39c German Securities Acquisition and Takeover Act, the shareholders of a target company who have not accepted the offering can accept it within three months after the acceptance period of the takeover or mandatory public tender offer has expired, if the offeror has the right to file an application for the transfer of the outstanding voting shares in accordance with Section 39a German Securities Acquisition and Takeover Act.

The provisions for a squeeze-out under stock corporation law cease to apply once an offeror has petitioned for a squeeze-out under takeover law, and only apply again when these proceedings have been completed.

In addition to the legal provisions on the exclusion of minority shareholders, the German Stock Corporation Act also provides for what is called the integration of stock corporations (*Eingliederung*) in Sections 319 et seq. According to these provisions, the general shareholders' meeting of a stock corporation can approve the integration of a company if 95% of the shares of the company to be integrated are held by the future principal company. The former shareholders of the integrated company are entitled to an adequate compensation that generally must be granted in the form of shares of the principal company while, if the principal company is a controlled company, the former shareholders may also demand an adequate compensation in cash instead of a compensation in the form of shares. Such integration is, however, only possible if the future principal company is a stock corporation with its registered seat in Germany.

21.11 Mandatory Public Tender Offer

Pursuant to the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*), every person whose share of voting rights reaches or exceeds 30% of the voting shares of the Company (upon admission of the Company's shares to trading on the regulated market of the Frankfurt Stock Exchange) must publish this fact, including the percentage of its voting rights, within seven calendar days by publication on the Internet and through electronic media for disseminating financial information. Subsequently, such person must submit a mandatory public tender offer to all shareholders of the Company unless an exemption from this obligation has been granted. The German Securities Acquisition and Takeover Act contains several rules that provide for an attribution and aggregation of voting rights in order to ensure that the shares are attributed to the person actually controlling the voting rights attached thereto. If a person fails to give notice of reaching or exceeding the 30% threshold or fails to submit a mandatory public tender offer, shareholder rights (including voting rights and, in certain cases, the right to collect dividends and liquidation proceeds) are suspended for the duration of non-compliance under certain circumstances. In addition, a fine may be imposed.

21.12 Disclosure Requirements for Shareholdings

Upon admission of the Company's shares to trading on the regulated market segment of the Frankfurt Stock Exchange (or any other regulated market in Germany), the provisions of the German Securities Trading Act (*Wertpapierhandelsgesetz*) governing disclosure requirements for shareholdings apply.

Subject to certain exceptions, the German Securities Trading Act provides that every person who reaches, exceeds, or falls below 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75% of the voting rights of the Company must notify the Company of that fact immediately, at the latest within four trading days, in writing or by fax and must simultaneously notify BaFin. The notice must be in German or English and must include, among other details, the individual's or entity's address, the current level of voting rights and the date of reaching, exceeding or falling below the aforementioned thresholds. As a domestic issuer, the Company must publish the notice through various media distributed across the entire European Economic Area *(Medienbündel*) immediately and at the latest within three trading days and

must also transmit the notice to BaFin and the German Company Register *(Unternehmensregister*) for storage. The disclosure requirements also apply to a shareholder who already holds 3% or more of the voting rights in the Company at the time of the admission of the Company's shares to trading on a regulated market in Germany.

A person who reaches or exceeds the threshold of 10% or a higher of the above thresholds, must, within 20 trading days, disclose to the Company the source of the funds used for the acquisition of the voting rights as well as the objectives pursued with the acquisition. Changes in those objectives must also be reported within 20 trading days. The Articles of Association of the Company have not made use of the option to release shareholders from this disclosure obligation. In calculating the voting rights, rules on attribution and aggregation must be observed.

Any person who directly or indirectly holds financial instruments or other instruments, which entitle their holder to unilaterally acquire existing shares of the Company carrying voting rights under a binding legal agreement, must immediately notify the Company and simultaneously BaFin when reaching, exceeding or falling below the thresholds of 5%, 10%, 15%, 20%, 25%, 30%, 50% or 75%. In addition, any person who directly or indirectly reaches, exceeds or falls below the just mentioned thresholds by holding financial instruments or other instruments not covered by the foregoing but enabling the holder or a third party, based on their terms, to acquire existing shares carrying voting rights of the Company must also immediately notify the Company and simultaneously BaFin. In each case, rules on the aggregation of various positions in voting rights, financial instruments and other instruments have to be observed.

The German Securities Trading Act (*Wertpapierhandelsgesetz*) contains various rules that provide for an attribution and aggregation of voting rights of persons associated with each other or acting in concert. For example, shares belonging to a company are attributed to each person controlling the company, and shares held for the account of another person are attributed to such other person. Shares or financial instruments held for trading by a securities services company are not taken into account for determining the notification obligation if it is ensured that the voting rights held by them are not exercised and that they amount to no more than 5% of the voting of shares or do not grant the right to purchase more than 5% of the voting shares.

Since the entry into force of the German Risk Limitation Act (*Risikobegrenzungsgesetz*), any kind of cooperation among shareholders that is designed to effect a permanent and material change in the business strategy of the Company can result in an attribution of voting rights, that is, the cooperation does not necessarily have to concern the exercise of voting rights specifically; coordination in individual cases, however, will not trigger the attribution of voting rights.

In case the disclosure requirements are not met, shareholder rights (including voting rights and, in certain cases, the right to collect dividends and liquidation proceeds) are suspended for the duration of non-compliance under certain circumstances. If the failure to comply with the disclosure requirements specifically relates to the share of voting rights and is the result of a willful or grossly negligent conduct, the suspension period is extended by six months after the shareholder files the required notification. In addition, a fine may be imposed for failure to comply with the disclosure obligations, except for the disclosure obligation regarding the source of the funds used for the acquisition of the voting rights as well as the objectives pursued with the acquisition.

21.13 Disclosure of Transactions of Persons Holding Management Responsibilities

Under the German Securities Trading Act (*Wertpapierhandelsgesetz*) a Manager (as defined below) is required to notify the Company and BaFin within five working days regarding any of his or her transactions regarding shares of the Company or financial instruments linked to them, particularly derivatives. This obligation also applies to persons closely related to a Manager. The Company is obliged to immediately publish the information received in accordance with the foregoing and to simultaneously notify BaFin of the publication. Furthermore, the Company shall immediately transmit the information to the German Company Register (*Unternehmensregister*) for storage. Notification is not required if the sum of all transactions involving a Manager and persons closely related to him or her is less than €5,000 in a given calendar year.

A "**Manager**" is any member of the Company's management, of its administrative or supervisory bodies and any person who has regular access to insider information within the meaning of the German Securities Trading Act (*Wertpapierhandelsgesetz*) and is authorized to make important managerial decisions. Persons closely related to a Manager are spouses, registered civil partners,

dependent children as well as other relatives who have been living in the same household as the Manager for at least one year when the relevant transaction is made. Notification is also required for transactions by legal entities in which a Manager or any of the aforementioned parties holds management responsibilities, which are directly or indirectly controlled by a Manager or such a party, which were established for the benefit of a Manager or such a party or whose economic interests are substantially equivalent to those of a Manager or such party. Non-compliance with the notification requirements may result in a fine.

21.14 Post-Admission Disclosure Requirements

After the Offering, the Company will for the first time be subject to the legal disclosure requirements for German stock corporations listed on a public exchange. These disclosure requirements include, among others, periodic financial reporting (disclosure of annual, half-year and interim financial reports), regular calls with securities and industry analysts, and other required disclosures according to the German Securities Trading Act (*Wertpapierhandelsgesetz*).

One of the other disclosure requirements under the German Securities Trading Act provides that an issuer of financial instruments must, without undue delay, publish all inside information which directly concerns that issuer. Inside information is any specific information about circumstances which are not public knowledge relating to one or more issuers of insider securities, or to the insider securities themselves, which, if it became publicly known, would likely have a significant effect on the stock exchange or market price of the insider security. An issuer is exempt from the publication requirement pursuant to the preceding paragraph as long as necessary to protect his legitimate interests, provided there is no reason to expect a misleading of the public and the issuer is able to ensure that the inside information will remain confidential. Late publication must be effected without undue delay. The issuer is obliged to notify BaFin regarding the grounds for exemption, stating the time of the decision concerning the postponement of the publication.

22 GOVERNING BODIES

22.1 Overview

The governing bodies of the Company are the Management Board (*Vorstand*), the Supervisory Board (*Aufsichtsrat*) and the general shareholders' meeting (*Hauptversammlung*). The responsibilities and powers of these corporate bodies are determined by the German Stock Corporation Act (*Aktiengesetz*), the Articles of Association (*Satzung*) and the rules of procedure for the Management Board (*Geschäftsordnung für den Vorstand*) and the Supervisory Board (*Geschäftsordnung für den Aufsichtsrat*).

The Management Board conducts the business of the Company in accordance with the applicable laws, the Articles of Association of the Company and the rules of procedure for the Management Board including the schedule of responsibilities (*Geschäftsverteilungsplan*). The Management Board represents the Company when dealing with third parties. The Management Board must ensure that appropriate risk management and risk controlling mechanisms are established and maintained within the Company, its subsidiaries and associated companies. This is to ensure that any developments endangering the continuing existence of the Company can be identified at an early stage. The Management Board is also required to regularly report to the Supervisory Board, at least on a quarterly basis, on the status of pbb Group's business, in particular on new developments, turnover and earnings, and the condition of the Company, particularly in consideration of existing financing and other agreements. Furthermore, the Management Board reports to the Supervisory Board at least once a year on the intended business policy and other key issues relating to corporate planning and the future course of pbb Group's business (especially on finance, investment and human resources planning), as well as on the Company's risk position, risk management, remuneration schemes and strategies. This report must include a discussion of any deviations between actual developments and objectives previously reported on, including the reasons for such deviations. In addition, the Management Board must submit a budget for the following financial year. In the meeting of the Supervisory Board in which the annual financial statements are discussed, the Management Board also has to report on the profitability of the Company, especially in relation to the return on equity. The Management Board shall submit to the Supervisory Board in due course the various financial reports, including the annual financial statements and the management report as well as the consolidated annual financial statements and consolidated management report of the Company, the half-yearly and quarterly consolidated financial report of the Company and the monthly reporting package, including monthly management accounts of the Company. As a general rule, the Management Board is required to report events which could have a material effect on the Company, and transactions which could be of material importance, especially in relation to the Company's profitability or liquidity, and to do so in a timely manner. This is to ensure that the Supervisory Board is able to assess such transactions and to express its opinion thereon prior to any such action being taken. Moreover, the Management Board has to make sure that the units and functions of pbb Group prescribed by banking regulatory law directly report to the Management Board and the Supervisory Board. In addition, the chairman of the Supervisory Board shall be informed of any other significant developments, in particular those which include circumstances concerning the business of an undertaking affiliated with the Company which become known to the Management Board and which may have a material impact upon the condition of the Company. Furthermore, the chairman of the Supervisory Board may request information on the remuneration schemes for the employees of the Company. Finally, any member of the Supervisory Board may request a report regarding the affairs of the Company at any time. In addition, the Management Board and the Supervisory Board report annually in the annual report about the corporate governance of the Company and explain any deviations from the recommendations of the Public Corporate Governance Code (*Public Corporate Governance Kodex des Bundes*), which was adopted by the Federal German government on July 1, 2009 ("**Public Governance Code**"). Following the completion of the Offering, the Public Governance Code will cease to apply to the Company. Instead, the Management Board and the Supervisory Board will report annually in the annual report about the corporate governance of the Company and explain any deviations from the recommendations of the German Corporate Governance Code (*Deutscher Corporate Governance Kodex*), adopted by a governmental commission on the German Corporate Governance Code on February 26, 2002, as amended. The most current version is dated May 5, 2015 ("**Governance Code**").

Simultaneous membership on the Management Board and the Supervisory Board of a German stock corporation is not permitted under German law; however, simultaneous membership that results from a

member of the supervisory board taking a seat on the management board of the same German stock corporation for a maximum period of up to one year is permissible in exceptional cases. During this period, the board member may not perform any duties for the supervisory board.

The Supervisory Board appoints the members of the Management Board and is entitled to dismiss them for good cause. Under German Stock Corporation law, the Supervisory Board advises and oversees the Management Board on the management of the Company, but is not itself authorized to manage the Company. In addition to the statutory approval requirements (e.g. pursuant to the German Banking Act (*Kreditwesengesetz*)), the Articles of Association or the rules of procedure for the Supervisory Board or the rules of procedure for the committees of the Supervisory Board must, however, require that the management obtains the approval of the Supervisory Board before entering into certain transactions. Section 6(3) of the Company's Articles of Association provides that the Supervisory Board determines in its rules of procedure those transactions that require its approval. The rules of procedure for the Supervisory Board (Section 12) contain such set of actions and measures that are subject to the Supervisory Board's prior approval or, in case of the adoption of rules of procedure and the allocation of responsibilities of the Management Board, the Supervisory Board's subsequent approval. This includes, *inter alia*, increases of the share capital of the Company, to the extent the Management Board is responsible for the respective decision, and further details regarding the implementation of capital increases (including the conditions for the issuance of new shares), the establishment of the annual budget as well as of investment and finance plans on group level as well as of the principles of the business policy (including strategic corporate planning), the foundation, acquisition and sale of enterprises or parts thereof (unless immaterial), certain finance measures above a certain threshold, decisions concerning the existence of the Company as well as the conclusion, amendment and termination of enterprise agreements, the acquisition or sale of real estate and rights relating thereto (unless immaterial), the issuance of general powers of attorney (*Generalvollmachten*), the grant of credits to bodies within the meaning of Section 15 German Banking Act (*Kreditwesengesetz*), the determination of remuneration schemes for employees or the general policy for the salary structure of the Company and the adoption of rules of procedure and the allocation of responsibilities of the Management Board. Pursuant to Section 6(3) of the Company's Articles of Association, the Supervisory Board may at any time determine further transactions that require approval which are not already included in such set of actions and measures that are subject to the Supervisory Board's prior approval.

Members of the Management Board and Supervisory Board owe a duty of care and a duty of loyalty to the Company. Board members must consider a number of interests, including those of the Company and its shareholders, employees and creditors. The Management Board must also take into consideration shareholders' rights to equal treatment and equal access to information. Should members of the Management Board or Supervisory Board breach these duties, they will be jointly and severally liable to the Company for compensatory damages. Members of the Management Board and Supervisory Board are covered by directors' and officers' liability insurance for their activities as members of management up to a certain amount. The Company bears the cost of these insurance policies. However, it should be noted that applicable German law requires that each member of the Management Board remains personally responsible in the case of any finding of personal liability of such member, as the case may be, for 10% of the total amount of the damages, up to an amount that equals up to 150% of such member's total annual fixed remuneration.

Under German law, a shareholder generally cannot take direct legal action against a member of the Management Board or the Supervisory Board of a German stock corporation if the shareholder believes that such member or members have violated their duties towards the Company and this has caused damage to the Company. Claims for compensatory damages against members of the Management Board or the Supervisory Board may, as a rule, only be asserted by the Company itself, in which case the Company is represented by the Management Board when claims are made against members of the Supervisory Board and the Supervisory Board when claims are made against members of the Management Board. According to a ruling of the German Federal Court of Justice (*Bundesgerichtshof*), the Supervisory Board is obligated to assert claims for compensatory damages against the Management Board that are likely to be successful, unless important Company interests conflict with such an assertion of claims and such grounds outweigh, or are at least comparable to, the grounds in favor of asserting the claims. In the event that the relevant body with powers to represent the Company decides not to pursue such claims, then such claims by the Company for compensatory damages must nevertheless be asserted against members of the Management Board or the Supervisory Board if the general shareholders' meeting of the Company passes a resolution to this

effect by a simple majority vote. Such general shareholders' meeting of the Company may appoint a special representative (*besonderer Vertreter*) to assert such claims. Shareholders whose aggregate holdings amount to at least 10% or €1,000,000 of the Company's share capital may apply to the court to appoint a special representative to assert claims for compensatory damages. In the event of such an appointment, the special representative becomes solely responsible for asserting the claims of the Company for compensatory damages in lieu of the Company's management. In addition, if there are facts supporting the claim that the Company has been damaged by fraud or gross breaches of duty, shareholders whose aggregate holdings amount to at least 1% or €100,000 of the Company's share capital have the option, under certain circumstances, of being granted permission by the competent court to file a lawsuit on their own behalf, but for the Company, against members of the board for compensatory damages. Such a lawsuit will be dismissed if the Company itself files a lawsuit for compensatory damages.

The Company may only waive claims for compensation against members of the Management Board and the Supervisory Board, or settle such claims, three years after such a claim has arisen but only (a) if the shareholders resolve to do so in a shareholders' meeting by resolution with simple majority and (b) where a majority of the shareholders, together holding shares which represent at least 10% of the share capital, do not object to this in the minutes of the meeting.

Under Section 142 AktG, the general shareholders' meeting of the Company may appoint, by way of a simple majority, a special auditor (*Sonderprüfer*) to review procedure, in particular in relation to management. If the general shareholders' meeting of the Company rejects a motion to appoint a special auditor, the court must appoint a special auditor at the request of shareholders whose aggregate shareholding constitutes 1% of the share capital or whose shares have an aggregate value of €100,000 in case the facts justify the suspicion that irregularities or gross violations of the law or of the Articles of Association have been committed. If the general shareholders' meeting of the Company does appoint a special auditor, the court shall appoint a second special auditor if such appointment appears to be appropriate considering the qualifications of the first auditor and is requested by shareholders whose aggregate shareholding constitutes 1% of the share capital or whose shares have an aggregate value of €100,000.

In accordance with Section 127a AktG, shareholders and shareholder associations can use the shareholder forum (*Aktionärsforum*) of the German Federal Gazette (*Bundesanzeiger*), which is available through the Company Register's (*Unternehmensregister*) website, to call upon other shareholders to jointly, or through third party representation, request a special audit, appoint a special representative, demand that a general shareholders' meeting of the Company is convened or exercise their voting rights in a general shareholders' meeting of the Company.

Under German law, it is not permitted for shareholders or any other individuals to attempt to influence members of the Management Board or the Supervisory Board, authorized representatives (*Prokurist*) or other persons holding a commercial power of attorney to act in a way harmful to the Company. Shareholders with a controlling influence may not use such influence to cause the Company to act against its own best interests, unless there is a control agreement between the shareholders and the Company and the influence exerted is within the limits of certain statutory mandatory provisions or any damages are compensated. Any person who uses his or her influence to cause a member of the Company's Management Board or Supervisory Board, authorized representative or persons holding a commercial power of attorney to act in a manner harmful to the Company or its shareholders is obligated to compensate the Company and its shareholders for any resulting damage. In addition, members of the Management Board and Supervisory Boards may be jointly and severally liable for breach of their duties.

22.2 Management Board

22.2.1 General

Pursuant to Section 6(1) of the Company's Articles of Association, the Supervisory Board determines the number of members of the Management Board which must consist of at least two persons. As at the date of the Prospectus, the Management Board consists of four members with a dual chairmanship consisting of Andreas Arndt and Thomas Köntgen as Co-Chief Executive Officers.

The Supervisory Board appoints the members of the Management Board for a maximum term of five years. Reappointments or extensions of the term of office are permissible for up to five years each. The rules of procedure for the Supervisory Board contain a provision that members of the

Management Board should generally not be older than 60 years. Prior to the expiration of the term, the Supervisory Board may revoke the appointment of a Management Board member for good cause (*wichtiger Grund*), such as for gross breach of fiduciary duties, inability of proper management or if the general shareholders' meeting of the Company passes a vote of no-confidence with respect to such member, unless the no-confidence vote was clearly unreasonable. The Supervisory Board is also responsible for entering into, amending and terminating service agreements with the Management Board members and, in general, for representing the Company in and out of court against the Management Board. The Supervisory Board may assign some of these duties to a committee of the Supervisory Board.

The Management Board determines the business areas and operating segments within the scope of the corporate purpose defined by the Articles of Association. Management Board meetings shall have a quorum if all members were invited and at least half (1/2) of its members are present. In principle, resolutions of the Management Board are adopted with a simple majority of the votes cast; resolutions adopted outside meetings (in writing, via phone, telefax or electronic communication) require the simple majority of all members.

Each member of the Management Board is assigned specific business areas and operating segments. The rules of procedure for the Management Board also contain rules about composition, duties, overall responsibilities and responsibility for the departments as well as the internal arrangements of the Management Board.

Management Board members are subject to extensive non-competition obligations for the duration of their work for the Company and a certain period afterwards. They are required to disclose any conflict of interest to the Executive Board Committee (*Präsidial- und Nominierungsausschuss*) of the Supervisory Board and the other members of the Management Board without undue delay. Any business between any member of pbb Group and members of the Management Board or persons or ventures related to them must meet customary industry standards. To the extent the participation of the Supervisory Board is not already required pursuant to Section 112 AktG, such business requires approval of the Executive Board Committee (*Präsidial- und Nominierungsausschuss*) of the Supervisory Board if material. In addition, members of the Management Board may not take up (i) any side-line activities in the line of business of the Company or (ii) function in management boards or as managing director or personally liable partner in any other company or (iii) function in supervisory boards, advisory boards or similar functions in companies that are not affiliated with the Company, in each case, without prior approval of the Executive Board Committee (*Präsidial- und Nominierungsausschuss*) of the Supervisory Board. The number of appointments to the supervisory board of companies that are not affiliated with the Company may not exceed five mandates per member of the Management Board. Management Board members must comply with the restrictions on the number of mandates as set out in Section 25c(2) German Banking Act (*Kreditwesengesetz*) and may in general not take up the function as chairman of the supervisory board of companies that are not affiliated with the Company.

According to the Articles of Association, the Company is represented statutorily by two Management Board members or one Management Board member acting jointly with an authorized representative (*Prokurist*).

22.2.2 Current Members of the Management Board

The following table lists the current members of the Management Board, their age, the date on which they were first appointed, their term of appointment and their internal responsibilities:

Name	Age*	Member since	Appointed until	Responsibilities
Andreas Arndt.....	56	April 2014 (Co-CEO as from October 2014)	April 14, 2017	Co-Chief Executive Officer and Chief Financial Officer
Thomas Köntgen....	48	October 2014	September 30, 2017	Co-Chief Executive Officer
Andreas Schenk	43	March 2014	February 28, 2017	Chief Risk Officer
Dr. Bernhard Scholz	57	January 2010	April 30, 2017	Real Estate Finance and Public Sector Finance

* As of the date of the Prospectus.

The expiration dates of the service agreements for each individual member of the Management Board corresponds with their respective terms in office.

22.2.2.1 Andreas Arndt

Andreas Arndt was born in 1958 in Hildesheim, Germany. In 1985, he began his career when he joined Deutsche Bank AG in Hamburg, first as management trainee, then as interim branch manager and deputy branch manager. In 1990, Mr. Arndt joined George Werkzeuge und Werkzeugmaschinen as managing director, before returning to the Deutsche Bank group in 1994, where he spent the next sixteen years of his professional career. Within the Deutsche Bank group he held, among other positions, the position of deputy general manager (responsible for corporate banking, trade finance, controlling in finance) for Asia Pacific, based in Bangkok, Thailand (from May 1995 to September 1997); regional head of mid-cap corporates for Asia Pacific, based in Singapore (from October 1997 to April 1999), managing director for corporate & real estate in Germany and Chief Operating Officer (from April 1999 to August 2002), and member of the management board of Deutsche Bank Privat- und Geschäftskunden AG, a wholly-owned subsidiary of Deutsche Bank Aktiengesellschaft (from September 2002 to December 2009). From January 2010 to September 2010, he was senior advisor at Roland Berger Strategy Consultants, Munich, Germany, and from October 2010 to February 2014, a member of the management board and Chief Financial Officer of BAWAG P.S.K. AG, Vienna, Austria. In April 2014, Andreas Arndt joined the Company—and at the same time, Hypo Real Estate Holding AG, the Selling Shareholder—, in both cases as member of the Management Board and Chief Financial Officer. In October 2014, he was appointed as Co-Chairman of the Management Board and as Chief Financial Officer of the Company, as Co-Chairman of the management board and as chief financial officer of the Selling Shareholder which he remained until March 2015.

The following table shows the positions that Mr. Arndt has held as a member of a management, administrative or supervisory body in companies or as a partner in partnerships outside pbb Group in the last five years:

- BAWAG P.S.K. AG, Vienna, Austria: Member of the management board and Chief Financial Officer (October 2010 to February 2014)
- Hypo Real Estate Holding AG, Munich, Germany: Member of the management board and Chief Financial Officer (April 2014 to September 2014) and Co-Chairman of the management board and Chief Financial Officer (October 2014 to March 2015)

Positions he currently holds in material companies within pbb Group (other than the Company): None.

22.2.2.2 Thomas Köntgen

Thomas Köntgen was born in 1967 in Düsseldorf, Germany. He began his career in 1990, designing and selling closed-end property funds, first at Colonia-Nordstern Immobilien AG, Cologne, Germany (1990-1994), and later at IC Immobilien Consulting & Anlagegesellschaft mbH, Düsseldorf (1994-1995). After working as a trainee and analyst at AHB Allgemeine Hypothekenbank in Frankfurt am Main, he joined Deutsche Bank Aktiengesellschaft in October 1997, where he worked until August 2002 in the area of credit risk management for real estate finance—since 1999 as head of international risk management. In August 2002, Mr. Köntgen joined Eurohypo AG (later Hypothekenbank Frankfurt AG), a subsidiary of Commerzbank, based in Eschborn, where he held several positions until December 2013: Among other positions, Mr. Köntgen was head of credit risk management (for Europe and later group-wide), since 2008 a member of the management board, with responsibilities such as risk management, finance and internal audit, later real estate finance for Germany, human resources, interest rate and currencies management as well as resource management; as of July 2011, he was spokesman of the management board—initially responsible for global real estate finance, human resources, strategy, communications, business development and debt capital markets; later for commercial and consumer real estate finance for Germany, human resources and business development. From 2008 to 2013, Mr. Köntgen was also a divisional board member at Commerzbank, Frankfurt am Main, Germany. Thomas Köntgen joined the Company—and at the same time, Hypo Real Estate Holding AG, the Selling Shareholder—in October 2014. In October 2014, he was appointed as Co-Chairman of the Management Board, and at the same time, as Co-Chairman of the management board of the Selling Shareholder which he remained until March 2015.

The following table shows the positions that Mr. Köntgen has held as a member of a management, administrative or supervisory body in companies or as a partner in partnerships outside pbb Group in the last five years:

- Eurohypo AG (August 2008 until October 2013), Hypothekenbank Frankfurt AG, Eschborn, Germany: Member of the management board; Spokesman of the management board since September 2011 until October 2013
- Hypo Real Estate Holding AG, Munich, Germany: Co-Chairman of the management board (October 2014 to March 2015)

Positions he currently holds in material companies within pbb Group (other than the Company): None.

22.2.2.3 Andreas Schenk

Andreas Schenk was born in 1971 in Schramberg, Germany. He began his career in 1998 at Württembergische Hypothekenbank AG (renamed in December 2005 as Hypo Real Estate Bank International AG), Stuttgart, Germany, where he worked until March 2006 in several positions, including head of board office, head of syndication/securitization desk, deputy head of financial markets (from October 2002 to March 2004), head of capital markets (from March 2004 to December 2005) and head of securitization. As from March 2006, Mr. Schenk spent a year in New York working for Hypo Real Estate Capital Corp, before joining the Company (at that time, Hypo Real Estate Bank AG) in March 2007. Within the Company, Mr. Schenk held several positions, i.e. head of funding group functions and head of funding programs (March 2007 to October 2009), head of treasury (November 2009 to June 2012), head of strategic CRO projects (July 2012 to February 2013), head of credit risk management REF & PIF and Chief Credit Officer (March 2013 to February 2014) and Executive Vice President (*Generalbevollmächtigter*) (November 2013 to February 2014), before being appointed as member of the Management Board and as Chief Risk Officer of the Company and at the same time as member of the management board and as Chief Risk Officer of the Selling Shareholder (Hypo Real Estate Holding AG) which he remained until March 2015.

The following table shows the positions that Mr. Schenk has held as a member of a management, administrative or supervisory body in companies or as a partner in partnerships outside pbb Group in the last five years:

- Hypo Real Estate Holding AG, Munich, Germany: Member of the management board and Chief Risk Officer (March 2014 to March 2015)

Positions he currently holds in material companies within pbb Group (other than the Company): None.

22.2.2.4 Dr. Bernhard Scholz

Dr. Bernhard Scholz was born in 1958 in Munich, Germany. He began his professional career in 1985 as management consultant with a strong relationship to the former Bayerische Hypotheken- und Wechsel-Bank AG, Munich, Germany (1985-1990), before joining Bayerische Hypotheken- und Wechsel-Bank AG in 1990. Within Bayerische Hypotheken- und Wechsel-Bank AG, Dr. Bernhard Scholz was first officer, later head of internal rationalization and as from 1995 head of the Regensburg branch, with responsibility for real estate finance. In 1998, Dr. Scholz joined Bayerische Hypo- und Vereinsbank AG (later Hypo Real Estate Bank AG), Munich, where he worked first as senior risk manager for real estate investors and developer with supra-regional responsibility and as from 2001 as head of real estate finance, with regional responsibility for Berlin, Brandenburg, Saxony and Thuringia, before becoming—after the spin-off leading to the "new" Hypo Real Estate Bank AG—head of restructuring and winding-up (*Sanierung und Abwicklung*). In 2004, Dr. Scholz joined Münchener Hypothekenbank eG, Munich, where he first worked in the area of credit, back office processing & control as well as IT (2004-2006), and from 2007 to 2009 in the areas of sales & acquisitions and IT, with core responsibility for real estate finance. From 2004 to 2009, he was also a member of the management board of Münchener Hypothekenbank eG. Dr. Bernhard Scholz joined the Company in January 2010, and has since then held the position of head of Real Estate Finance and, sometime later, Public Sector Finance of the Company. At the same time, he took the equivalent office at the management board of the Selling Shareholder (Hypo Real Estate Holding AG) which he remained until June 2015.

The following table shows the positions that Dr. Scholz has held as a member of a management, administrative or supervisory body in companies or as a partner in partnerships outside pbb Group in the last five years:

- Hypo Real Estate Holding AG, Munich, Germany: Member of the management board and head of real estate finance and, sometime later, public sector finance (January 2010 to June 2015)

Positions he currently holds in material companies within pbb Group (other than the Company): None.

22.2.3 Contact

The members of the Management Board can be contacted at the Company's business address.

22.2.4 Compensation, Other Benefits, Share Ownership, Pension

22.2.4.1 Compensation based on current Service Agreements

22.2.4.1.1 Remuneration; Fringe Benefits

In accordance with the provisions of the FMStFG and the New Framework Agreement, the service agreements of the Management Board members provide for an annual monetary remuneration capped at a maximum of €500,000 per member for as long as more than half of the Capitalization Measures pursuant to the FMStFG are not repaid. During this period, no form of variable remuneration (short-term or long term incentives or share based compensation) is paid to any member.

In addition to the fixed remuneration, the company provides fringe benefits (benefits in kind) to Management Board members to the usual extent. These payments include, *inter alia*, the provision of a company car including payment of all the costs arising in connection with the car. The Management Board members also have a Group accident insurance policy. The taxes arising on these non-cash benefits are paid by the members of the Management Board.

The members of the Management Board also receive insurance coverage through D&O insurance taken out by the Company with a deductible of at least 10% of the loss up to at least the amount of one and a half times the fixed annual compensation of the Management Board member.

In addition, the members of the Management Board are, each, entitled to a transition allowance (*Übergangsgeld*) in compliance with FMSA and/or SoFFin compensation principles.

The following table contains an overview of the remuneration paid to the Management Board members:

	Financial year 2014			Financial year 2013		
Remuneration paid to members of the Management Board of the Company	**Monetary remuneration**	**Non-cash benefits[1)]**	**Total**	**Monetary remuneration**	**Non-cash benefits[1)]**	**Total**
			(in € thousand)			
Andreas Arndt[2)] (from April 15, 2014)	341	16	357	–	–	–
Manuela Better[2)] (until August 12, 2014)	308	12	320	500	17	517
Wolfgang Groth	500	17	517	500	18	518
Thomas Köntgen[2)] (from October 1, 2014)	120	9	129	–	–	–
Andreas Schenk (from March 1, 2014)	400	18	418	–	–	–
Dr. Bernhard Scholz[2)]	500	15	515	500	16	516
Alexander von Uslar[2)] (until September 30, 2014)	375	14	389	500	23	523
Total	**2,544**	**101**	**2,645**	**2,000**	**74**	**2,074**

1) Included: Administrative expenses for customary fringe benefits subject to taxation.
2) In addition, there are individual contractual commitments for retirement benefits comprising a percentage of the fixed annual remuneration.

22.2.4.1.2 Pension

Except for Andreas Schenk, the members of the Management Board have individual agreements relating to retirement pension commitments starting with their 62nd birthday and for cases in which they are unable to pursue their career and profession.

In the event that Mr. Schenk's term as member of the Management Board will be extended beyond February 28, 2017, Mr. Schenk shall be granted (pursuant to his current service agreement) a retirement pension commitment in accordance with the then customary conditions applying to a regular member of the Management Board.

Mr. Arndt and Mr. Köntgen receive a pension equivalent of 5.2% of their fixed remuneration (base amount) for each completed year of service as a member of the Management Board up to a maximum of 60%. At the end of their three years' service term, their pension commitment becomes contractually vested.

Due to the vested pension entitlement that Dr. Scholz obtained at HRE Holding, he receives a pension equivalent of 1% of his fixed remuneration (base amount) for each completed year of service up to a maximum of 15%. For the period from September 1, 2016 until the expiry of his contract on April 30, 2017 such percentage is calculated *pro rata temporis* and amounts to 0.67%.

Should a member of the Management Board decease, the surviving spouse shall receive 60% of the pension entitlement. In addition, an orphan's pension is payable to children up to their 18th birthday. If a child is still in professional training after its 18th birthday, the orphan's pension shall be paid until the child has completed such training (until the 25th birthday at the latest). If a surviving spouse receives a pension, the total payments to the half-orphans must not exceed 30% of the pension of the deceased; full-orphans receive together up to 60% of the pension of the deceased. If a marriage is entered into after retirement, neither surviving spouse nor orphans have any entitlement to pension payments.

22.2.4.1.3 Bonus Arrangements in connection with the IPO

The service agreements of the members of the Management Board include a clause pursuant to which the Company may pay a special bonus to the members of the Management Board once the Company's restructuring has been completed without there being a contractual obligation to do so.

22.2.4.2 Envisaged New Remuneration System

pbb Group is currently developing a new compensation system for the members of the Management Board including variable components to be implemented as soon as the Federal Government owns (directly or indirectly) less than 75% of the Company's equity, potentially resulting in an increase of compensation costs. Thus, the Company expects that as soon as possible after the completion of the Offering a new compensation system (with variable components) will be introduced to replace the current system in order to comply with the regulatory requirements under the InstitutsVergV. In this respect, the Company continues to be bound by the salary cap of €500,000 and the restriction on variable remuneration according to Section 10(2b) FMStFG until at least half of the Capitalization Measures has been repaid (which is expected to occur upon receipt of the proceeds from the repayment of the SoFFin Silent Participation and the Offering by FMS and HRE Holding, respectively). Such new compensation system will be in line with the requirements of the FMStFG and the New Framework Agreement and will also include long-term deferral schemes for bonuses (including, *inter alia*, malus factors, sustainability components and clawback covenants) in accordance with the then required applicable regulatory requirements, in particular the InstitutsVergV.

22.2.5 Term and Termination of Service Agreements, Commitments in connection with Termination of Management Board Membership

The Service Agreements provide that they will terminate with the end of the period for appointment of the relevant members of the Management Board (see "*22.2.2 Current Members of the Management Board*"). In case of early termination of the appointment, the Company may put the member of the Management Board on leave of absence but will be required to continue the payment of remuneration for the rest of the term of the service agreement.

If the Company does not renew the service agreement for reasons that are not inherent in the person of the Management Board member, the service contracts of the members of the Management Board provide for an interim payment in the amount of six months' annual base remuneration per five years of service completed as member of the Management Board for the Company. Dr. Bernhard Scholz will receive a transitional allowance in the amount of €500,000 in accordance with his original service agreement.

Payments upon early termination of the Management Board appointment will not exceed the value of two annual salaries, including fringe benefits, and compensate no more than the remaining period of the service agreement.

22.2.6 Shareholdings of Management Board Members

The members of the Management Board do not, directly or indirectly, hold any Shares or options on Shares of the Company as of the date of the Prospectus.

22.3 Supervisory Board

22.3.1 General

In accordance with the Articles of Association, Sections 95 and 96 AktG and the One-Third-Participation Act (*Drittelbeteiligungsgesetz*), the Supervisory Board of the Company consists of nine members. Six of these members are shareholder representatives, three are employee representatives.

Pursuant to Section 100 AktG, a person may not become a member of the Supervisory Board who (i) is already a member of the supervisory board in ten commercial enterprises which are required by law to form a supervisory board, (ii) is the legal representative of an enterprise controlled by the Company, (iii) is the legal representative of another company whose supervisory board includes a member of the Management Board or (iv) was a member of the Management Board during the past two years, unless he was elected upon nomination by shareholders holding more than 25% of the voting rights in the Company. Since the Company is a CRR institution which is significant within the meaning of Section 25d(3) sentence 7 German Banking Act (*Kreditwesengesetz*), Section 25d(3) German Banking Act further restricts the eligibility: a person may not become a member of the Supervisory Board who (i) is a member of the Management Board, (ii) is a former member of the Management Board if two former members of the Management Board are already members of the Supervisory Board, (iii) is a member of the management board of an enterprise and, at the same time, is a member of the supervisory board of more than two enterprises or (iv) is a member of the supervisory board of more than four enterprises. The Supervisory Board should not comprise more than two former members of the Management Board and former members of the Management Board shall not take the office as chairman of the Supervisory Board or any committee of the Supervisory Board.

The shareholder representatives on the Supervisory Board are elected by the shareholders in the general shareholders' meeting as set out by the Articles of Association and in conjunction with Sections 101 and 102 AktG. At the same time as appointing the members of the Supervisory Board, the general shareholders' meeting of the Company may appoint substitute members for each Supervisory Board member, who, in accordance with specific determinations by the general shareholders' meeting of the Company, may become members of the Supervisory Board if elected Supervisory Board members leave office before the end of their term and no successor has been appointed. The term of any substitute member expires at the end of the general shareholders' meeting of the Company during which a successor for the departing Supervisory Board member is appointed, but no later than the expiration of the departing Supervisory Board member's term. The election of a successor for a member leaving his or her office before the end of his or her term of office is valid for the remainder of the term of office of the departing member, provided that the general shareholders' meeting of the Company has not otherwise determined the term of office of the successor.

Unless the general shareholders' meeting has set a shorter term of office, the term of office of each shareholder representatives on the Supervisory Board, as well as the term of any substitute member, expires at the end of the annual general shareholders' meeting approving the activities of the Supervisory Board for the fourth financial year following the commencement of the member's term of office, not including the financial year in which the term commences. Members may be re-elected. The Articles of Association do not provide for an age limit of the Supervisory Board members. However, the rules of procedure for the Supervisory Board contain a provision that members of the Supervisory Board should generally not be older than 70 years.

Supervisory Board members elected by the general shareholders' meeting of the Company may be removed by a resolution of the general shareholders' meeting of the Company adopted with the simple majority of the votes cast. In addition, the Articles of Association provide that regular members and substitute members of the Supervisory Board may resign with one-month' notice also without good cause (*ohne wichtigen Grund*).

The terms of office of the chairman and the deputy chairman correspond to their appointments as members of the Supervisory Board unless a shorter term of office is set when they are elected. The election takes place in each case after the general shareholders' meeting in which the members of the Supervisory Board are elected. The Supervisory Board meeting does not have to be convened in any particular manner. If the chairman or the deputy chairman resign from their positions prior to the expiration of their term of office, the Supervisory Board must elect a replacement without undue delay.

Under mandatory statutory provisions and the Articles of Association, the Supervisory Board is authorized to establish internal rules of procedure and form committees from among its members. The internal rules of procedure for the Supervisory Board are dated June 18, 2015. In addition to the functions and tasks of the Supervisory Board described above (see "*22.3.1 General*"), the Supervisory Board is authorized to make amendments to the Articles of Association that only affect their wording (Section 9(3) of the Articles of Association).

German law provides that at least one member of the Supervisory Board of publicly traded companies has to be considered an independent expert with expertise in the fields of accounting or auditing. On the Supervisory Board, Ms. Dagmar Kollmann, Mr. Joachim Plesser and Dr. Günther Bräunig are considered to be such independent experts.

In addition, as long as the shareholding of HRE Holding and indirectly of FMS in the Company is equal to or exceeds 10% of the voting rights in the Company, the Company is required to take all actions necessary within the scope of what is legally possible to ensure that – based on the understanding that the Supervisory Board continues to comprise at least six shareholder representatives – the two candidates nominated by the FMSA are appointed members of the Company's Supervisory Board and that at least one of the Supervisory Board members nominated by the FMSA is represented on the Executive and Nomination Board Committee (*Präsidial- und Nominierungsausschuss*) and the Audit Committee (*Prüfungsausschuss*) (and on any other committees that may be set up). Once the shareholding of HRE Holding and indirectly of FMS in the Company falls below 10% of the voting rights in the Company, the Company will only be obliged to ensure that one candidate nominated by the FSMA is appointed as member of the Company's Supervisory Board and upon the aforementioned indirect shareholding of FMS falling below 3% of the voting rights in the Company such obligation shall lapse entirely. For purposes of the FMSA's nomination right, the current chairman of the Supervisory Board, Dr. Günter Bräunig, is deemed to have been nominated by the FMSA. For further information, see *"15.11.1 Agreements relating to the State Aid Measures*".

As a rule, the Supervisory Board is expected to hold at least one meeting per calendar quarter and must hold at least two meetings within each half calendar year which may in principle also take place via telephone or video conference; although such a telephone or video conference should not be the rule. A meeting of the Supervisory Board shall also be convened whenever this is requested by a member of the Supervisory Board or by the Management Board, stating the purpose and reasons for the meeting. Meetings of the Supervisory Board are called by its chairman in writing, by telefax or e-mail with 14 calendar days advance notice. In urgent cases, the chairman may adequately abbreviate the notice period to not less than what is required for members to submit written votes. The invitation needs to inform about date and place of the meeting as well as the agenda items. In urgent cases, in which the chairman has already abbreviated the notice period, the chairman may subsequently amend the agenda of the meeting. Documents that are relevant for resolutions to be adopted by the meeting are to be submitted to the Supervisory Board members with adequate notice, generally at least 14 calendar days in advance.

The chairman acts as chair of the meetings and determines the order in which the items on the agenda are discussed and the method and sequence of voting. The rules of procedure for the Supervisory Board provide that at least half of the members of the Supervisory Board including either the chairman or the deputy chairman must participate in voting on a resolution in order to constitute a quorum. For calculating the quorum, any member who is present but abstains from voting is deemed to have participated in the vote. Absent members may participate in the casting of votes by submitting written votes (including votes transmitted by telefax, provided that the original is signed or by any similar form provided that the issuer of the vote is clearly identifiable).

Unless otherwise required by law, resolutions of the Supervisory Board are passed by a simple majority of the votes cast. For the purposes of passing a resolution, abstentions do not count as votes cast. The rules of procedure for the Supervisory Board provide that on the chairman's instruction, resolutions may be passed without a meeting in writing, by telephone, telefax or by e-mail.

22.3.2 Current Members of the Supervisory Board

The following table shows the names of the members of the Supervisory Board of the Company as of the successful completion of the Offering:

Name	Age	Member since	Appointed until the end of the annual general shareholders' meeting resolving on the exoneration for the financial year
Dr. Günther Bräunig (Chairman)		2009	2015
Dagmar P. Kollmann (Deputy Chairman)		2009	2015
Joachim Plesser		2014	2015
Dr. Ludger Schuknecht		2012	2015
Dr. Hedda von Wedel		2009	2015
Dr. Jeromin Zettelmeyer		2014	2015
Christian Gebauer-Rochholz*		2012	2015
Georg Kordick*		1990	2015
Heike Theißing*		2011	2015

* Employee representative.

22.3.2.1 Dr. Günther Bräunig

Günther Bräunig was born in Wiesbaden, Germany, in 1955. He started his career at Commerzbank in Frankfurt am Main where he worked in the Investment Banking Division (later Group Head). From 1986 until 1987 Mr. Bräunig worked for Airbus Industrie in Toulouse, France (Sales Finance Director), before he moved to Airbus Industrie North America in Washington D.C., USA as Sales Finance Director from 1988 until 1989. In 1989, Mr. Bräunig joined KfW Bank in Frankfurt am Main, Germany, where he has held various positions: 1989- 1993 Head of International Capital Markets Division, 1993-1995 Head of Business Policy Division, 1995-1996 Head of Strategic Planning Division, 1996-2000 Head of Secretariat of Management Affairs, 2000-2006 Executive Vice President, Head of Secretariat Management Affairs. Mr. Bräunig has been member of the KfW Management Board since October 2006. From August 2007 until October 2008, Mr. Bräunig was chairman of the Management Board of the IKB AG and his appointment to the Management Board of KfW was dormant during this time.

Further positions currently held as a member of a management, administrative or supervisory body in companies or as a partner in partnerships:

- KfW Frankfurt am Main , Germany: Member of the management board
- Hypo Real Estate Holding AG, Munich, Germany: Chairman of the supervisory board
- AFT—Agence France Tresor, Paris, France: Member of the strategic committee
- True Sale International GmbH, Frankfurt am Main, Germany: Chairman of the advisory council

Positions held during the last five years in companies or partnerships outside the Group which are no longer current: None.

22.3.2.2 Dagmar P. Kollmann

Dagmar P. Kollmann was born in Vienna, Austria, in 1964. She started her career at UBS Phillips and Drew in London, UK where she worked from 1989 until 1994. Thereafter, she joined Morgan Stanley International Ltd. in London, UK from 1994 until 2001, before joining Morgan Stanley Bank AG in Frankfurt am Main, Germany from 2001 until 2008 (since 2002 member of the Management Board and since 2006 Chairman of the Management Board). From 2006 until 2008 Ms. Kollmann was a member of the Board of Directors of Morgan Stanley International Ltd. and Morgan Stanley & Co. International Ltd. in London, UK. Ms Kollmann, an entrepreneur, is a supervisory board member in a number of European companies and a Commissioner in the Monopolies Commission (*Monopolkommission*) in Germany.

Further positions currently held as a member of a management, administrative or supervisory body in companies or as a partner in partnerships:

- Hypo Real Estate Holding AG, Munich, Germany: Deputy Chairman of the supervisory board

- Deutsche Telekom AG, Bonn, Germany: Member of the supervisory board
- KfW IPEX-Bank GmbH, Frankfurt am Main, Germany: Member of the supervisory board
- Bank Gutmann AG, Vienna, Austria: Member of the supervisory board
- Unibail-Rodamco SE, Paris, France: Member of the supervisory board
- Landeskreditbank Baden-Württemberg—Förderbank—(L-Bank), Stuttgart, Germany: Member of the advisory board

Positions held during the last five years in companies or partnerships outside the Group which are no longer current: None.

22.3.2.3 Joachim Plesser

Joachim Plesser was born in Arnsberg, Germany, in 1947. He started his career at Deutsche Bank AG in Düsseldorf, Germany where he held various positions in Private and Corporate Banking from 1968 until 1986 (since 1975 on executive level), focusing on mortgaging. From 1986 until 1989, Mr. Plesser worked for the Deutsche Kreditbank für Baufinanzierung AG in Cologne, Germany (first a subsidiary company and, from 1988, a branch of Deutsche Bank AG) where he served as member of the Management Board. From 1989 until 1990 he was Head of Real Estate Finance at Deutsche Bank AG in Frankfurt am Main, Germany, followed by an appointment as member of the Management Board at Deutsche Centralbodenkredit AG in Cologne, Germany from 1990 until 1995. From 1996 until 2002, Mr. Plesser was a member of the Management Board of Eurohypo Aktiengesellschaft—Europäische Hypothekenbank der Deutschen Bank in Frankfurt am Main, Germany. Thereafter, Mr. Plesser was member of the Management Board of Eurohypo Aktiengesellschaft in Eschborn, Germany from 2002 to 2009.

Further positions currently held as a member of a management, administrative or supervisory body in companies or as a partner in partnerships:

- Hypo Real Estate Holding AG, Munich, Germany: Member of the supervisory board
- Commerz Real Investmentgesellschaft mbH, Wiesbaden, Germany: Member of the supervisory board
- DIC Beteiligungs AG, Frankfurt am Main, Germany: Member of the supervisory board
- GEG German Estate Group AG, Frankfurt am Main, Germany: Member of the supervisory board
- Pandion AG, Cologne, Germany: Chairman of the supervisory board
- Accumulata Immobilien AG, Munich, Germany: Member of the advisory board

Positions held during the last five years in companies or partnerships outside the Group which are no longer current: None.

22.3.2.4 Dr. Ludger Schuknecht

Ludger Schuknecht was born in Gelsenkirchen, Germany, in 1962. From April 1992 until December 1996, he worked as an economist for the International Monetary Fund (IMF) in Washington D.C., USA. From January 1997 until August 1999 Dr. Schuknecht was an economist in the research department of the World Trade Organization (WTO) in Geneva, Switzerland. In September 1999, he then joined the European Central Bank (ECB) in Frankfurt am Main, Germany, where he held various positions: from September 1999 until December 2003 Head of Department "Principal economist" Fiscal Analysis, from January 2004 until February 2007 Head of Department Fiscal Monitoring, from March 2007 until August 2011 Economics (Directorate General) Senior Advisor, September 2011 until October 2011 Economics (Directorate General) Head of Department Fiscal Policies. In October 2011, Dr. Schuknecht joined the Federal Ministry of Finance in Berlin, Germany, as Director General, Head of Directorate General I: Fiscal Policy and macroeconomic affairs, International financial and monetary policy.

Further positions currently held as a member of a management, administrative or supervisory body in companies or as a partner in partnerships:

- Hypo Real Estate Holding AG, Munich, Germany: Member of the supervisory board
- Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, Bonn and Eschborn, Germany: Member of the supervisory board

- IFO Institut—Leibnitz-Institut für Wirtschaftsforschung an der Universität München e.V., Munich, Germany: Member of the advisory board
- Stiftung Wissenschaft und Politik (SWP), Berlin, Germany, German Institute for International and Security Affairs: Member of the Council

Positions held during the last five years in companies or partnerships outside the Group which are no longer current: None.

22.3.2.5 Dr. Hedda von Wedel

Hedda von Wedel was born in Quedlinburg, Germany, in 1942. From 1981 until 1983, Dr. Wedel was District Vice President of the District Government Weser-Ems, followed by an appointment as State Secretary at the Department of Food, Agriculture and Forestry of Lower Saxony in Hannover, Germany. From 1990 until 1993, she was a member of the German Federal Parliament (*Deutscher Bundestag*) and then became President of the Federal Court of Auditors (*Bundesrechnungshof*) in Bonn, Germany. From 1995 until 2005, she was Chairwoman of the party financing commission appointed by Federal President Dr. Roman Herzog and Federal President Dr. Johannes Rau. In January 2002 Dr. Wedel became a member of the European Court of Auditors in Luxemburg where she remained until December 2007. Since November 2007 Dr. Wedel is Deputy Chairwoman of Transparency International – Deutschland e.V. in Berlin, Germany.

Further positions currently held as a member of a management, administrative or supervisory body in companies or as a partner in partnerships:

- Hypo Real Estate Holding AG, Munich, Germany: Member of the supervisory board

Positions held during the last five years in companies or partnerships outside the Group which are no longer current: None.

22.3.2.6 Dr. Jeromin Zettelmeyer

Jeromin Zettelmeyer was born in Madrid, Spain, in 1964. He started his career in 1991 as Summer Associate at My Kinsey & Co. Inc. in Vienna, Austria. From 1992 until 1994 he was Assistant Professor to the professors Oliver Blanchard, Rüdiger Dornbusch and Stanley Fischer at the Massachusetts Institute of Technology in Cambridge, USA. Dr. Zettelmeyer joined the International Monetary Fund (IMF) in Washington, USA from 1994 until 2008, where he held various positions: 1994 until 1995 Economist, Research Center for Economic Systems, Department Europa II, 1995 until 2001 Economist, Sub-department for Research on Developing Countries, Research Department, 2001 until 2004 Senior Economist, Sub-department for Strategic Research, Research Department, 2004 until 2006 Assistant to the Head of the Research Department, 2006 until 2007 Assistant to the Head of the Western Hemisphere Department, 2008 Analyst in the Research Department. In 2008, Dr. Zettelmeyer joined the European Bank for Reconstruction and Development (EBRD) in London, UK where he held various positions: 2008 until 2010 Head of Economic Research in the Office of the Chief Economist, 2010 until 2014 Deputy Chief Economist and Head of Economic Research in the Office of the Chief Economist. In April 2014, Dr. Zettelmeyer joined the Federal Ministry for Economic Affairs and Energy in Berlin, Germany as Head of Department I, Economic Policy.

Further positions currently held as a member of a management, administrative or supervisory body in companies or as a partner in partnerships:

- Hypo Real Estate Holding AG, Munich, Germany: Member of the supervisory board

Positions held during the last five years in companies or partnerships outside the Group which are no longer current:

- DB Netz AG, Frankfurt am Main, Germany: Member of the supervisory board (until June 2015)

22.3.2.7 Christian Gebauer-Rochholz

Christian Gebauer-Rochholz was born in 1965 in Bad Nauheim, Germany. Following his studies in Chemistry at Giessen University he was a Research Fellow at the Institute for Physical Chemistry, Justus-Liebig-University of Giessen between 1993 and 1996, where he also earned a PhD in

Chemistry. From 1996 to 1999 he did Research Projects in Okazaki/Japan and in Kaiserslautern. In November 1999 he began his career when he joined DEPFA Deutsche Pfandbriefbank AG in Wiesbaden, first as IT-Developer, then as Business Analyst, System Analyst and Team Head, at DEPFA Bank plc., Frankfurt am Main (from January 2005 to August 2012). Since September 2012 Dr. Gebauer-Rochholz holds the position of Application Expert and Team Head with the Company in Eschborn.

Further positions as a member of a management, administrative or supervisory body in companies or as a partner in partnerships during the last five years: None.

22.3.2.8 Georg Kordick

Georg Kordick was born in 1960 in Munich, Germany. He joined Bayerische Handelsbank AG in Munich (legal predecessor of Hypo Real Estate Bank and Deutsche Pfandbriefbank AG) in 1978. Following his Apprenticeship as Banker (from September 1978 to June 1980) he worked for the Finance Department in participating at the half-year financial statement until September 1980. Then Mr. Kordick fulfilled his military service (from October 1980 to December 1981) before returning to Bayerische Handelsbank AG in January 1982. For 14 years he worked as Loan Officer. From 1996 to April 2002 he was a Loan Specialist. From May 2002 until April 2010 Mr. Kordick was an exempt member of the banks' works council. He was chairman of the Joint and Group Works Council from February 2007 to April 2010 of Hypo Real Estate Bank AG (later Deutsche Pfandbriefbank AG). Since May 2010 he is working in the Operations Credit Portfolio Processing department as Specialist Operations Credit & Payments/Reconciliation.

Further positions as a member of a management, administrative or supervisory body in companies or as a partner in partnerships during the last five years: None.

22.3.2.9 Heike Theißing

Heike Theißing was born in 1960 in Berlin, Germany. She passed the 1st and 2nd state examination in law in Berlin and started her career with WEKA Verlag in Kissing as product manager for technical law (from April 1987 to December 1988). She joined Bayerische Vereinsbank AG (later Bayerische Hypo- und Vereinsbank AG) in 1989 as Trainee in the Credit Department in Munich (January 1989 to May 1990). From June 1990 to November 1990 she was branch manager, Berlin-Alexanderplatz. Between December 1990 and June 1994 she was relief person for branch managers in Munich and Deputy Branch Manager Munich-Rotkreuzplatz, followed by a position as real estate specialist in Munich (June 1994 to October 1997). From November 1997 to June 1999 Ms. Theißing did Project Management in a Real Estate Service Centre and simplified procedures for loan re-engineering, Process Management in Real Estate Finance. After that she worked for the Real Estate Finance Department (Staff Function: inter alia complaint management including ombudsman-proceedings, policy issues in real estate law, lobbying, preparation of the merger of the real estate subsidiaries). In June 2001 Ms. Theißing joined Hypo Real Estate Bank AG (later Deutsche Pfandbriefbank AG) working in the Board Office and was responsible inter alia for implementation of the merger, lobbying, preparation and conduct of Annual General Meetings', implementation of the Pfandbrief Act. Since November 2005 Heike Theißing is Data Protection Officer of Hypo Real Estate Holding AG, since August 2008 she is in addition Data Protection Officer of the Company.

Further positions as a member of a management, administrative or supervisory body in companies or as a partner in partnerships during the last five years: None.

22.3.3 Future Composition of the Supervisory Board

The composition of the Supervisory Board will change in the near future. The Company expects that Dr. Ludger Schuknecht and Dr. Jeromin Zettelmeyer will both resign from the Supervisory Board with effect as of the date that falls on or about the Settlement. They will be replaced as follows:

22.3.3.1 Dr. Thomas Duhnkrack

The general shareholders' meeting of the Company appointed Dr. Thomas Duhnkrack as substitute member of the Supervisory Board for Dr. Ludger Schuknecht on July 3, 2015. He will become member of the Supervisory Board upon Dr. Ludger Schuknecht’s resignation taking effect.

Dr. Thomas Duhnkrack was born in Hamburg, Germany, in 1954. He started his career with Deutsche Bank AG in 1984 where he held various managerial positions over a period of 20 years. As country manager Japan, he was responsible for the Tokyo branch and member of the Asia-Pacific-Board. In 1996, he became regional head in Hamburg and supervised the corporate clients segment in Northern Germany. In 1998, he became divisional board member (*Bereichsvorstand*) in Frankfurt responsible for the Germany-wide corporate clients segment and the world-wide sales financing. Between 2003 and 2009, Dr. Thomas Duhnkrack was member of the board of management of DZ Bank AG overseeing the international and corporate clients business and chairman of the supervisory boards of DVB Bank SE, Deutsche Genossenschafts-Hypothekenbank AG, DZ Equity Partner GmbH and VR Leasing AG. Since 2010, he is active as an entrepreneur and consultant and accepted supervisory positions at different entities.

Further positions currently held as a member of an administrative or supervisory body in companies or as a partner in partnerships:

- Hauck & Aufhäuser Privatbankiers KGaA, member of the supervisory board
- Lloyd Fonds AG, deputy chairman of the supervisory board
- PREMIUM Equity Partners GmbH, partner and shareholder
- WWF Deutschland, member of the board of trustees.

Positions held during the last five years in companies or partnerships outside the Group which are no longer current:

- BCG Baden-Baden Cosmetics Group AG, member of the supervisory board (until April 2015).
- Advent International GmbH, operating partner (until December 2013).

22.3.3.2 Court appointed replacement

Upon the resignation of Dr. Ludger Schuknecht and Dr. Jeromin Zettelmeyer taking effect and after Dr. Thomas Duhnkrack joining the Supervisory Board in substitution for Dr. Ludger Schuknecht, the number of members of the Supervisory Board will be eight instead of nine as provided for in the Articles of Association. If the number of members of a supervisory board of a German stock corporation has been less than the number required by law or the articles of association for a period of more than three months, the management board, a member of the supervisory board, a shareholder or certain employee representations may, pursuant to Section 104(2) AktG, apply to the competent court to appoint one or more new members of the supervisory board to meet the number required. In urgent cases, the court will appoint the relevant number of new members even before the three-month period has expired. It is intended that an application will be filed with the local court (*Amtsgericht*) of Munich to appoint a new member of the Supervisory Board in due course after the resignation of Dr. Jeromin Zettelmeyer taking effect. As at the date of the Prospectus, it has not yet been decided which candidate will be suggested to the court as new member of the Supervisory Board.

22.3.4 Contact

The members of the Supervisory Board can be contacted under the Company's address.

22.3.5 Compensation, Other Benefits, Share Ownership, Pension

According to Section 11(1) of the Articles of Association, the Supervisory Board members receive a fixed annual compensation of €30,000 for each member of the Supervisory Board, €75,000 for the chairman of the Supervisory Board and €45,000 for the deputy chairmen, in each case plus VAT, after the end of a financial year. Each member of the committee receives an additional annual compensation of €10,000 per membership in a Supervisory Board committee and the respective chairman of the committee receives an additional annual compensation of €20,000 per chairmanship in a Supervisory Board committee, in each case plus VAT. Moreover, the members of the Supervisory Board are entitled to an attendance fee of €500 plus VAT for each attendance at a meeting of the Supervisory Board or a Supervisory Board committee excluding meetings via telephone or video conference. The Supervisory Board members are also entitled to the reimbursement of their

reasonable expenses. Members of the Supervisory Board who have belonged to the Supervisory Board or a Supervisory Board committee for only part of a financial year receive a correspondingly smaller remuneration on a pro rata basis.

Cost increases would occur if and to the extent that a new compensation scheme for the members of the Supervisory Board is implemented in the future.

The aforementioned current and future members of the Supervisory Board, respectively, do not hold any Shares or options on Shares of the Company as of the date of the Prospectus.

The members of the Supervisory Board are included in D&O liability insurance being maintained by the Company with an adequate insured sum in its own interests. The premiums for this insurance will be borne by the Company.

There are no service agreements between the Company, its subsidiaries, and any of its Supervisory Board members under which a Supervisory Board member would receive benefits from the Company or its subsidiaries on termination of his or her activity. Also, there are no other service agreements between the Company and any of the Supervisory Board members as member of the Supervisory Board. The members of the Company's Supervisory Board receive no pension payments or retirement benefits in their capacity as members of the Supervisory Board.

22.3.6 Committees

The Supervisory Board may form committees from among its members and authorize such committees to perform specific tasks. The committees' tasks, authorizations and processes are determined by the Supervisory Board. Where permissible by law, important powers of the Supervisory Board may also be transferred to the committees. According to the rules of procedure for the Supervisory Board, the following committees have been established:

- Audit Committee (*Prüfungsausschuss*),
- Risk Management and Liquidity Strategy Committee (*Risikomanagement- und Liquiditätsstrategieausschuss*),
- Executive Board Committee (*Präsidial- und Nominierungsausschuss*), and
- Remuneration Control Committee (*Vergütungskontrollausschuss*).

Each of these committees has its own rules of procedure adopted by the Supervisory Board.

22.3.6.1 Audit Committee (Prüfungsausschuss)

The Supervisory Board has adopted rules of procedure for the Audit Committee. Pursuant to these rules of procedure and the rules of procedure for the Supervisory Board, the Audit Committee shall consist of at least three members of the Supervisory Board to be appointed by the Supervisory Board. The members of the Audit Committee shall have good knowledge in the areas of accounting or business administration. One member of the Audit Committee shall be an independent financial expert who has expertise in the areas of accounting or auditing of financial statements. The chairman of the Audit Committee who is appointed by the Supervisory Board shall have expertise in the areas of accounting and auditing of financial statements as well as specialist knowledge and experience in the application of accounting principles and internal control processes and shall be independent. Former members of the Management Board of the Company shall not become members of the Audit Committee prior to the expiry of a three years period following their resignation from the Management Board and shall not become its chairman. The chairman of the Supervisory Board shall not be appointed as chairman of the Audit Committee.

The Audit Committee prepares the decisions of the Supervisory Board on establishing the annual financial statements, on the approval of the consolidated financial statements and on profit distribution. The Audit Committee also reviews the half-yearly and quarterly financial statements and discusses the report on the limited review of the half-yearly and quarterly financial statements with the Management Board and the auditor. Furthermore, the Audit Committee makes proposals for the appointment and the remuneration of the auditor and prepares the proposal of the Supervisory Board to the General Shareholders' Meeting for the election of the auditor. It may determine the key points of the audit. The Audit Committee also determines the details regarding the independency of the auditor elected by the General Shareholders' Meeting. The Audit Committee monitors the financial accounting process, the

efficiency of the risk management system (including the internal control system and the internal audit system) and the audit of the financial statements as well as the correction of the defects determined by the auditor. The Audit Committee is entitled to audit all business documents, business records, business information on data storage devices as well as assets and liabilities. The Audit Committee is entitled to obtain, in connection with its activities, information from the auditors, the Management Board and from all senior managers. The Chairman of the Audit Committee is entitled to obtain information directly from the Head of Internal Revision and the Head of Risk Control. The Management Board must be notified about such an information request. The Management Board is obliged to regularly report to the Audit Committee on the measures of the internal revision and the efficiency of the internal audit system. Moreover, the Audit Committee is responsible for the compliance guidelines and compliance system with regard to accounting, internal revision or audit matters.

The Audit Committee held a total of seven meetings in 2014. Its current members are: Dagmar P. Kollmann (Chairwoman), Dr. Hedda von Wedel, Dr. Günther Bräunig, Joachim Plesser.

22.3.6.2 Risk Management and Liquidity Strategy Committee (Risikomanagement- und Liquiditätsstrategieausschuss)

The Supervisory Board has adopted rules of procedure for the Risk Management and Liquidity Strategy Committee. Pursuant to these rules of procedure and the rules of procedure for the Supervisory Board, the Risk Management and Liquidity Strategy Committee shall consist of at least three members of the Supervisory Board to be appointed by the Supervisory Board. The chairman and the deputy chairman are appointed by the Supervisory Board.

The Risk Management and Liquidity Strategy Committee's primary tasks are as follows:

- Supporting the Supervisory Board in controlling the risk- and liquidity management of the Company and pbb Group by advising the Supervisory Board on the current and future ability to take on risk and the risk management strategy
- Supporting the Supervisory Board in monitoring the implementation of the risk management strategy by senior management
- Reviewing risk reports from the Management Board and asking questions on the risk control mechanisms and risk management
- Advising the Supervisory Board on strategic questions regarding the liquidity control of the Company and pbb Group
- Monitoring the terms and conditions the Company enters into to ensure that its business model is in line with its and pbb Group's risk management strategy
- Reviewing proposals by the Management Board to address any divergences between the company's business model and risk management strategy
- Determination of the details regarding the information which the Management Board has to provide on the topics risk and strategy during the meetings of the Risk Committee
- Evaluating certain risk-related reports provided by the Management Board
- Evaluating whether the Company's remuneration policy takes into account its and pbb Group's risk, capital and liquidity structure as well as the probability and maturity of the revenues.

The Risk Management and Liquidity Strategy Committee held four meetings in 2014. The current members of the Risk Management and Liquidity Strategy Committee are: Joachim Plesser (Chairman), Dagmar P. Kollmann, Dr. Hedda von Wedel, Dr. Günther Bräunig.

22.3.6.3 Executive Board Committee (Präsidial- und Nominierungsausschuss)

The Supervisory Board has adopted rules of procedure for the Executive Board Committee. Pursuant to these rules of procedure and the rules of procedure for the Supervisory Board, the Executive Board Committee shall consist of the chairman of the Supervisory Board (as chairman) and two further members of the Supervisory Board to be appointed by the Supervisory Board.

The Executive Board Committee's primary tasks are as follows:

- Preparing the Supervisory Board meetings, handling ongoing affairs between the meetings of the Supervisory Board and consulting the Management Board on the strategic development of the company
- Preparing Supervisory Board's membership nominations for the election or appointment of the shareholders' representatives of the Supervisory Board by considering the criteria set out by the Supervisory Board for its composition and the balance of knowledge, competencies and experience of all members of the Supervisory Board
- Supporting the Supervisory Board in identifying candidates for the Management Board by considering the criteria set out by the Supervisory Board for the composition and the balance of knowledge, competencies and experience of all members of the Management Board
- Preparing Supervisory Board decisions on the appointment, reappointment or termination of members of the Management Board (including the long term planning concerning the composition of the Management Board)
- Supporting the Supervisory Board in determining of general targets for the proportion of women in the Supervisory Board and the Management Board and in increasing the representation of any underrepresented gender on the Supervisory Board and the Management Board and formulating a strategy to achieve this objective
- Concluding, amending and terminating employment and pension contracts of members of the Management Board subject to Supervisory Board approval regarding the structure and the total amount of the remuneration of the members of the Management Board
- Preparing principles for cooperation between the Supervisory Board and Management Board
- Transacting with active and former members of the Management Board pursuant to Section 112 AktG
- Monitoring compliance with the rules of procedure for the Management Board and approval of certain activities of members of the Management Board pursuant to Section 88 AktG and other side-line activities (in particular memberships in supervisory boards outside pbb Group) as well as certain related party transactions
- Preparing decisions on the granting of loans pursuant to Section 12 No. 1h of the Supervisory Board's rules of procedure
- Preparing decisions pursuant to Section 114 AktG
- Supporting the Supervisory Board in evaluating the structure, size, composition and performance of the Management Board and Supervisory Board
- Supporting the Supervisory Board in evaluating the knowledge, competencies and experience of the members of the Management Board and the Supervisory Board and of each board as a whole
- Supporting the Supervisory Board in reviewing the principles used by the Management Board to appoint senior employees
- Notwithstanding Section 107(3) AktG, the Executive Board Committee is able to pass resolutions of the Supervisory Board in extraordinary circumstances, such as to avoid significant disadvantages to the Company arising out of the Supervisory Board's inability to reach a timely decision. The Executive Board Committee also deals with questions concerning the corporate governance of the Company. It delivers regular reports on the status and effectiveness of the Company's corporate governance and suggests areas for development.

The Executive Board Committee held five meetings in 2014. The current members of the Executive Board Committee are: Dr. Günther Bräunig (Chairman), Dagmar P. Kollmann, Joachim Plesser.

22.3.6.4 Remuneration Control Committee (Vergütungskontrollausschuss)

The Supervisory Board has adopted rules of procedure for the Remuneration Control Committee. Pursuant to these rules of procedure and the rules of procedure for the Supervisory Board, the Remuneration Control Committee shall consist of at least four members of the Supervisory Board with the chairmen of the Supervisory Board, of the Risk Management and Liquidity Strategy Committee and of the Audit Committee as well as one employee representative as members. Chairman of the Remuneration Control Committee is the chairman of the Supervisory Board. At least one member of the Remuneration Control Committee shall have sufficient expertise and professional experience in the areas of risk management and risk controlling (in particular with regard to mechanism to align remuneration schemes to the risk disposition, risk strategy and the capital base of the Company).

The Remuneration Control Committee's primary tasks are as follows:

- Supporting the Supervisory Board in arranging appropriate remuneration schemes for the Management Board in compliance with banking regulatory law
- Monitoring the appropriateness of the remuneration policy for members of the Management Board and senior managers and employees, with a focus on the structure and level of remuneration for senior employees with risk and/or compliance functions and employees who have a material influence on the Company's overall risk profile
- Supporting the Supervisory Board in monitoring of the appropriateness of the remuneration policy for employees, including regular reviews of the total amount of the bonus payments and the remuneration policy pursuant to applicable banking regulatory law
- Preparing the Supervisory Board's resolutions on the remuneration of the members of the Management Board with a focus on the effects of the resolutions on the Company's risks and risk management. The long-term interests of shareholders, investors, other stakeholders and the public interest are also taken into account
- Supporting the Supervisory Board in monitoring whether the internal controls and other relevant units are properly involved in the arranging of remuneration schemes
- Evaluating the effects of the remuneration schemes on the risk, capital and liquidity position and ensuring that the remuneration schemes are aligned to (i) the business strategy of Company based on its sustainable development, (ii) the related risk strategies and (iii) the remuneration strategy on Company's and pbb Group's level.

The Remuneration Control Committee held two meetings in 2014. The current members of the Remuneration Control Committee are: Dr. Günther Bräunig (Chairman), Dagmar P. Kollmann, Joachim Plesser, Heike Theißing.

22.4 Certain Information on the Members of the Management Board and the Supervisory Board; Conflict of Interest

During the last five years, no current member of the Management Board or Supervisory Board has been convicted of any fraudulent offenses. In addition, no current member of the Management Board or Supervisory Board has been publicly incriminated or sanctioned by statutory or regulatory authorities (including professional associations) or, acting in the capacity of a member of a management or supervisory entity or as senior manager, been associated with any bankruptcies and/or insolvencies, receiverships or liquidations. No current member of the Management Board or Supervisory Board has ever been deemed by a court to be unfit for membership in a management or supervisory entity of a company or to be unfit to exercise management duties for or manage the business of an issuer during the past five years. At the date of the Prospectus, no family relationships exist among the members of the Management Board, among the members of the Supervisory Board and among the members of the Management Board on the one hand and the members of the Supervisory Board on the other hand.

With the exception of the transactions and legal relationships described in the sections entitled "Relationships with Related Persons" there are no potential conflicts of interest among the members of the Management Board and the Supervisory Board of the Company between their obligations to the Company and their private interests or other obligations.

The following members of the Management Board have been members of the management board of the Selling Shareholder (Hypo Real Estate Holding AG):

Name	Member
Andreas Arndt	April 2014 until March 2015
Thomas Köntgen	October 2014 until March 2015
Andreas Schenk	March 2014 until March 2015
Dr. Bernhard Scholz	January 2010 until June 2015

The following members of the Supervisory Board are members of the supervisory board of the Selling Shareholder (Hypo Real Estate Holding AG):

Name	Member since	Appointed until the end of the annual general shareholders' meeting resolving on the exoneration for the financial year
Dr. Günther Bräunig (Chairman)	2014	2018
Dagmar P. Kollmann (Deputy Chairman)	2009	2015
Joachim Plesser	2014	2018
Dr. Ludger Schuknecht	2011	2018
Dr. Hedda von Wedel	2009	2018
Dr. Jeromin Zettelmeyer	2014	2018

The Company expects that these members of the Supervisory Board will resign from office as members of the supervisory board of the Selling Shareholder with effect as of a date falling on or about the Settlement.

No member of the Supervisory Board has executed a contract for services with a company of the Group that provides for benefits on termination. For the Management Board see "*22.2.5 Term and Termination of Service Agreements, Commitments in connection with Termination of Management Board Membership*".

22.5 General Shareholders' Meeting

The annual or ordinary general shareholders' meeting of the Company is held within the first eight months of each financial year. The general shareholders' meeting of the Company takes place at the registered office of the Company or at the seat of a German stock exchange where the shares are listed or at any German city with more than 100,000 inhabitants.

The general shareholders' meeting is convened by the Management Board or, where required by the German Stock Corporation Act (*Aktiengesetz*), the Supervisory Board. The invitation to general shareholders' meeting of the Company is published in the Federal Gazette (*Bundesanzeiger*) together with the agenda of the meeting and proposals for voting by the Management Board and/or the Supervisory Board.

Only those shareholders who have duly submitted notification of attendance in a timely manner prior to the meeting shall be entitled to attend the general shareholders' meeting and to exercise their voting rights. Such notification of attendance shall be made in text form in German or English language and must be received by the Company at the address specified for this purpose in the notice of the meeting no less than six days prior to the general shareholders' meeting. A shorter time limit to be expressed in days may be stipulated in the notice of the meeting. The day of receipt of the notification of attendance and the day of the general shareholders' meeting shall not be taken into account for the purpose of calculating this time limit. The Management Board is authorized to determine that the shareholders may also attend the general shareholders' meeting without being present at the place where it is held and without a proxy and may exercise their rights in whole or in part by means of electronic communication.

A general shareholders' meeting of the Company must be called at least 30 days prior to the date of the meeting, excluding the day the notice is sent and the day of the general shareholders' meeting of the Company itself, unless a shorter period is permitted by law. This notice period shall be extended by the days of the attendance notification period described in the preceding paragraph.

If the interests of the Company so require, the general shareholders' meeting of the Company can also be convened by the Supervisory Board. Pursuant to the German Stock Corporation Act (*Aktiengesetz*), shareholders whose shares constitute at least 5% of the share capital of the Company may demand that the general shareholders' meeting of the Company be convened; this demand must be made in writing, stating the purpose of the meeting and be directed to the Management Board. Using the same procedure, shareholders whose aggregated shares constitute at least 5% of the Company's share capital or an interest of €500,000 may demand that items be submitted for vote at a general shareholders' meeting of the Company. In addition, shareholders must prove that they have owned their shares for at least three months and that they will hold their shares until their motion has been decided upon. If the demand is not met by the Company, a court may authorize the shareholders who issued the demand to convene the general shareholders' meeting of the Company. The convening notice or publication must make reference to such authorization. Shareholders or shareholders associations can use the shareholder forum of the German Federal Gazette (*Bundesanzeiger*), which is available through the Company Register's (*Unternehmensregister*) website, to either put forward a joint request or to put forward a request on behalf of the shareholders for a general shareholders' meeting.

The general shareholders' meeting of the Company votes on a variety of measures including amendments to the Articles of Association, capital measures, the appropriation of the distributable profit (*Bilanzgewinn*), on the exoneration (*Entlastung*) of the Management Board members and of the Supervisory Board members for the financial year prior to the respective general shareholders' meeting of the Company. The general shareholders' meeting of the Company also appoints an external auditor for the respective current financial year and the shareholder representatives at the Supervisory Board.

Each share entitles its holder to one vote at the general shareholders' meeting of the Company. The voting right enters into effect upon full payment of the contribution. Voting rights can be exercised through a proxy. Authority to vote by proxy must be granted in text form (*Textform*) in accordance with Section 126b of the German Civil Code (*Bürgerliches Gesetzbuch*). The Management Board is authorized to determine that shareholders may submit their votes, without attending the meeting, in writing or by means of electronic communication (absentee voting). Should the Management Board use this authorization, it will specify the details of this procedure at the time of convening the general shareholders' meeting.

Unless otherwise stipulated by mandatory statutory provisions or provisions of the Articles of Association, resolutions of the general shareholders' meeting of the Company are adopted by a simple majority of the votes cast or, if a capital majority is required, by a simple majority of the registered share capital represented at the meeting.

The Articles of Association stipulate that where statutory law requires that a majority of the share capital be represented during the adoption of a resolution, the simple majority of the share capital represented at the meeting shall suffice, unless statutory law requires a majority larger than a simple majority to adopt the resolution. However, pursuant to the German Stock Corporation Act (*Aktiengesetz*), resolutions of fundamental importance (*grundlegende Bedeutung*) mandatorily require—in addition to a majority of the votes cast—a majority of at least 75% of the registered share capital represented at the vote on the resolution. Resolutions of fundamental importance include:

- changes to the Articles of Association regarding the purpose/objects of the Company,
- capital increases,
- capital decreases,
- the creation of authorized or conditional capital,
- restructurings and transformations pursuant to the German Transformation Act (*Umwandlungsgesetz*), including mergers, divisions, certain transfers of assets and changes in legal form;
- an agreement to transfer all of the Company's assets pursuant to Section 179a of the German Stock Corporation Act (*Aktiengesetz*);
- the execution of inter-company agreements (in particular control and profit and loss transfer agreements),
- the dissolution of the Company.

Neither German law nor the Articles of Association of the Company limit the rights of shareholders who do not reside in Germany or who are foreign shareholders in relation to holding shares and exercising the voting rights pertaining to the shares.

The rights of the shareholders can generally only be amended with the consent of the affected shareholders but there are circumstances, set out by law, in which a 75% majority is sufficient. As at the date of the Prospectus, there are no provisions in the Articles of Association that deviate from the statutory provisions regarding the scope of amending shareholders rights.

22.6 Corporate Governance and Compliance

The Company believes that good corporate governance means responsible enterprise management and supervision with a view to sustainable value creation. In particular, the Company strives to further foster the trust placed in pbb Group by investors, business partners, employees and the public at large. The Company also attaches great importance to the efficient conduct of work by the Management Board and Supervisory Board, good cooperation between these bodies and with the Company's staff, and to open and transparent corporate communications.

The corporate structure of the Company is based on the responsible, transparent and efficient management and control of the Company.

On December 1, 2009, the Management Board of the Company resolved—subject to a resolution to the same effect by the Supervisory Board of the Company—to apply the Public Governance Code adopted by the Federal German government on July 1, 2009 under the "comply or explain" principle. The Public Governance Code includes recommendations (*Empfehlungen*), that the Company "shall" (*soll*) follow, and suggestions (*Anregungen*), that the Company "should" (*sollte* or *kann*) follow, for the management and monitoring of unlisted companies in which the Federal Republic of Germany owns a majority stake, and recognized standards of good and responsible management. The current version of the Public Governance Code is available on the website of the German Federal Ministry of Finance (*Bundesministerium der Finanzen*) (http://www.bundesfinanzministerium.de). On May 6, 2010, the Company's Supervisory Board resolved the application of the Public Governance Code under the same "comply or explain" principle.

The Management Board and the Supervisory Board of the Company have published the latest compliance statement (*Entsprechenserklärung*) regarding the Public Governance Code on March 5, 2015 (in German language only). In it, the Management Board and the Supervisory Board of the Company explained that the Public Governance Code had been complied with, subject to the following exceptions:

- Due to personnel changes within the Company's bodies, the annual financial statements and the management report of the Company and of pbb Group were submitted to the ordinary shareholders' meeting no earlier than on August 26, 2014 (Public Governance Code, No. 2.1),
- There are no variable compensation components in place, because of the approved stabilization measures under the Financial Market Stabilization Act and the Financial Market Stabilization Fund Act, (Public Governance Code, No. 4.3.1).
- The Company does not follow the recommendation relating to the age limit for the members of the management after which such members shall withdraw from the management. The decisive criterion for the continuing membership in the management is the expertise of the members of the management and not their age (Public Governance Code, No. 5.1.2).
- Decision power was granted to the risk management and liquidity strategy committee of the Supervisory Board in connection with credit decisions. The Company considers such decision power to be appropriate, as it is reasonable in the current situation of the Group that the Supervisory Board—or a committee thereof—closely monitors larger credit commitments. Due to the multitude of loans subject to prior approval of the Supervisory Board (*vorlegepflichtige Kreditfälle*), an involvement of the risk management and liquidity strategy committee has proven appropriate for efficiency purposes (Public Governance Code, No. 5.1.8).

- The Company does not follow the recommendation relating to the age limit for the members of the supervisory bodies. The decisive criterion for the continuing membership in the supervisory bodies is the expertise of the members and not their age (Public Governance Code, No. 5.2.2).
- With effect as of June 8, 2009 FMS acquired the majority of the shares in HRE Holding which, as of that date, became an enterprise controlled by FMS. However, pbb is not required to prepare a dependency report since the provisions of the German Stock Corporation Act (*Aktiengesetz*) as to controlling enterprises do not apply to HRE Group pursuant to Section 7d FMStBG (Public Governance Code, No. 7.1.4).

Following the completion of the Offering (and provided that the Federal Republic of Germany ceases to own an indirect majority stake in the Company) as well as the listing of the shares on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), the Public Governance Code will cease to apply to the Company. Instead, the Company will become subject to the obligation to render a declaration as to compliance with the Governance Code. Through the application of the Public Governance Code during the last years, which in many respects contains comparable principles to those contained in the Governance Code, the Company has already identified itself with the objectives of corporate governance and has largely brought itself in line with the standards of German listed companies.

In line with the Public Governance Code, the Governance Code includes recommendations (*Empfehlungen*), that the Company "shall" (*soll*) follow, and suggestions (*Anregungen*), that the Company "should" (*sollte* or *kann*) follow, for the management and supervision of companies listed on German stock exchanges with regard to good corporate governance. Topics include shareholders and general shareholders' meetings, management and supervisory boards, transparency, accounting and the auditing of financial statements. The current version of the Governance Code is available on the website of the Commission of the German Corporate Governance Code (http://www.corporate-governance-code.de). While suggestions of the Governance Code are not mandatory, Section 161 AktG requires the management and supervisory boards of a listed company to annually disclose which recommendations of the Governance Code have been complied with, and in the event of non-compliance, to provide the reason for such non-compliance. This declaration must be made permanently accessible to shareholders. The contents of such declaration do not bind the Management or Supervisory Board for the future, however, any deviation from the previous declaration triggers the obligation to submit, publish and provide shareholders with an amended declaration in due course. In contrast, deviations from the suggestions contained in the Governance Code need not be disclosed.

The Company has so far been subject to the rules of the Public Governance Code (and thus complying also already with most of the recommendations of the Governance Code) and is currently working on the implementation of the Governance Code's recommendations under the 'comply or explain'-principle. The Company expects to publish its first compliance statement during the third quarter of the financial year 2015. As at the date of the Prospectus, the Company has identified the following exceptions from the compliance with the recommendations under the Governance Code:

- The Supervisory Board has not formed a separate Nomination Committee (*Nominierungsausschuss*) which exclusively comprises shareholder representatives. Pursuant to Section 25d (11) German Banking Act (*Kreditwesengesetz*), the Nomination Committee of credit institutions has to be responsible for certain tasks which are closely related to tasks commonly assigned to the Executive Board Committee (*Präsidialausschuss*) which possibly also comprises employee representatives. For purposes of efficiency, the Company considers the maintenance of a single Executive Board Committee (*Präsidial- und Nominierungsausschuss*) being responsible for the tasks set out in Section 25d (11) German Banking Act (*Kreditwesengesetz*) and the tasks commonly assigned to the Executive Board Committee (*Präsidialausschuss*) to be appropriate (Governance Code, No. 5.3.3).
- Depending on the time the envisaged new remuneration system for the members of the Management Board is implemented, the Company might, for a short transitional period after the listing of the shares, not follow the recommendation relating to the variable compensation components for members of the management (Governance Code, No. 4.2.3(2)).

23 UNDERWRITING

23.1 Subject of and Arrangements on Underwriting

The Company, the Selling Shareholder and each of the Underwriters entered into the Underwriting Agreement on or about June 26, 2015, in which the Underwriters have, subject to certain conditions, agreed to underwrite and acquire the Existing Shares.

The following table presents the percentage of Existing Shares underwritten by the respective Underwriter pursuant to the Underwriting Agreement:

Underwriter	Maximum number of Existing Shares to be acquired[1)]	Percentage of Existing Shares
Citigroup Capital Markets Limited, Citigroup Centre, 33 Canada Square, Canary Wharf, London E14 5LB, United Kingdom	37,871,609	37.5%
Deutsche Bank Aktiengesellschaft, Taunusanlage 12, 60325 Frankfurt am Main, Germany	37,871,609	37.5%
J.P. Morgan Securities plc, 25 Bank Street, London E14 5JP, United Kingdom	15,148,644	15.0%
Joh. Berenberg, Gossler & Co. KG, Neuer Jungfernstieg 20, 20354 Hamburg, Germany	5,049,547	5.0%
COMMERZBANK Aktiengesellschaft, Kaiserstr. 16 (Kaiserplatz), 60311 Frankfurt am Main	5,049,547	5.0%
Total	**100,990,956**	**100.0**

1) Excluding Over-Allotment Shares and excluding exercise of Greenshoe Option.

In the Underwriting Agreement, the Underwriters have agreed to acquire 100,990,956 Existing Shares from the Selling Shareholder as well as up to 6,589,289 shares (Over-Allotment Shares), with regard to a potential over-allotment from the Selling Shareholder, and to sell such shares as part of the Offering. The Underwriters have agreed to remit the offer price of the Existing Shares to the Selling Shareholder and the offer price of the Over-Allotment Shares to the Selling Shareholder if and to the extent the Greenshoe Option (less agreed commissions and expenses) is exercised at the time the shares from the holdings of the Selling Shareholder are delivered.

The obligations of the Underwriters are subject to various conditions, including, amongst other things, (i) the conclusion of a pricing agreement, (ii) the absence of a material adverse change (e.g. a material loss or interference with respect to the Company or the Group's business from fire, explosion, flood or other calamity, or from any labor dispute or court or governmental action, order or decree, or a material change to the Company's share capital or the long-term debt of the Group or a material adverse change or any development involving a prospective material adverse change, in or affecting the condition, business, prospects, management, financial position, shareholders' equity or results of operations of the Group, or a not only temporary suspension or material limitation in trading in securities generally on the Frankfurt Stock Exchange, the London Stock Exchange or the New York Stock Exchange), which, in any case described in this clause (ii), in the reasonable judgment of the Joint Global Coordinators would make it impractical or inadvisable to proceed with the Offering or the delivery of the Offer Shares on the terms and in the manner contemplated in the Prospectus, (iii) receipt of customary certificates, legal opinions and letters, and (iv) the making of necessary filings and the receipt of necessary approvals in connection with the Offering.

The Underwriters have provided and may, from time to time, provide services to companies of the Group and the Selling Shareholder in the ordinary course of business and may extend credit to and have regular business dealings with companies of the Group and the Selling Shareholder in their capacity as financial institutions (for a more detailed description of the interests of the Underwriters in the Offering, see "*5.12 Interests of Parties Participating in the Offering*").

23.2 Commissions

The Underwriters will offer the shares at the offer price. The Selling Shareholder will pay the Underwriters for the Existing Shares and the Over-Allotment Shares commissions that are structured as follows:

- a commission of 1.0% of the aggregate gross proceeds of all Offer Shares (including Over-Allotment Shares);

- a discretionary incentive fee of up to 0.25% of the aggregate gross proceeds of all Offer Shares (including Over-Allotment Shares) payable at the Selling Shareholder's absolute discretion regarding the Existing Shares and the Over-Allotment Shares.

The decision to pay any discretionary fee, the determination of its amount and allocation among the Underwriters, are within the sole discretion of the Selling Shareholder (following internal consultation) as indicated above. The Selling Shareholder has also agreed to reimburse the Underwriters for certain costs and expenses.

23.3 Greenshoe Option and Securities Loan

To cover a potential over-allotment, up to 6,589,289 ordinary bearer shares with no par value (*Stückaktien*) will be made available by the Selling Shareholder in the form of a securities loan (*Wertpapierdarlehen*) to Deutsche Bank for the account of the Underwriters. In addition, the Selling Shareholder will further grant the Underwriters the option to acquire these shares against payment of the offer price (Greenshoe Option) in order to satisfy their retransfer obligation under the securities loan. The Greenshoe Option may be exercised at maximum to the extent that shares of the Selling Shareholder have been placed by way of Over-Allotment. The Greenshoe Option shall be exercisable by Deutsche Bank as stabilization manager on behalf of the Joint Global Coordinators or Underwriters and in coordination/agreement with the Joint Global Coordinators and will terminate 30 calendar days after commencement of the stock exchange trading of the shares.

23.4 Termination/Indemnification

The Underwriting Agreement provides that the Underwriters may, under certain circumstances, terminate the Underwriting Agreement, including after the Offer Shares have been allotted and listed, up to delivery and settlement. Grounds for termination include in particular:

- a material adverse change in the economic position or the business of the Company or the Group; and
- an event that has material adverse effects on the financial markets.

If the Underwriting Agreement is terminated, the Offering will not take place, in which case any allotments already made to investors will be invalidated, and investors will have no claim for delivery. Claims with respect to security commissions already paid and costs incurred by an investor in connection with the subscription will be governed solely by the legal relationship between the investor and the financial institution to which the investor submitted its purchase order. Investors who engage in short selling bear the risk of being unable to satisfy their delivery obligations.

The Company and the Selling Shareholder will agree in the Underwriting Agreement to indemnify the Underwriters against certain liabilities that may arise in connection with the Offering.

23.5 Selling Restrictions

In the Underwriting Agreement, each of the Underwriters will undertake to offer the Company's shares offered by it to the public solely in the Federal Republic of Germany and in the Grand Duchy of Luxembourg and to refrain from (either by itself or through any of its affiliates nor any person acting on its or their behalf) (i) offering, selling, soliciting offers to buy or delivering the shares to any person in the United States, except (a) to such persons whom they reasonably believe to be qualified institutional buyers (within the meaning of Rule 144A under the Securities Act) in transactions meeting the requirements of Rule 144A of the Securities Act or (b) in accordance with Rule 903 of Regulation S, and (ii) engaging in any directed selling efforts (as the term is defined in Regulation S of the Securities Act) with respect to these shares. These shares are not and will not be registered pursuant to the provisions of the Securities Act or with the securities regulators of the individual states of the United States and may only be offered or sold outside the United States in accordance with Regulation S under the Securities Act and in compliance with all other applicable U.S. legal regulations.

Each of the Underwriters will represent to the Company and the Selling Shareholder that no shares which are the subject of the Offering outlined in the Prospectus will be offered to the public in any Member State of the European Economic Area which has implemented the Directive 2003/71/EC, as amended, including any amendments by the Directive 2010/73/EU which amended the Prospectus

Directive to the extent implemented in the relevant Member State and any and all relevant implementation measures in each relevant Member State (the "**Prospectus Directive**") (hereinafter referred to as a "**Relevant Member State**"). This shall not apply to the Offering within the Federal Republic of Germany and the Grand Duchy of Luxembourg as indicated in the Prospectus. The Offer Shares may, however, be offered at any time in a Relevant Member State in accordance with the following exemptions listed in the Prospective Directive, provided these exemptions have been implemented in the Relevant Member State:

- offers of securities addressed solely to a legal entity which is a qualified investor as defined by the Prospectus Directive; or
- in all other cases of Article 3 of the Prospectus Directive, as implemented in the Relevant Member State.

These exemptions shall apply only on condition that such an offer to sell shares does not require the publication of a prospectus or a prospectus supplement by the Company or any Underwriter pursuant to Article 3 of the Prospectus Directive.

For the purposes of this section, an "offer to the public" with respect to the Offer Shares in a Relevant Member State shall mean a communication to persons in any form and by any means presenting sufficient information about the terms of the offer and the shares to be offered so as to enable an investor to decide whether to purchase or subscribe for these shares. As a result of the measures to implement the Prospectus Directive in such Member State, deviations may arise in this State. The term Prospectus Directive includes any amendment thereto, including the Directive 2010/73/EU which amends the Prospectus Directive to the extent implemented in the Relevant Member State and any and all relevant implementation measures in each Relevant Member State.

Offers of the shares pursuant to the Offering are only being made to persons in the United Kingdom who are "qualified investors" or otherwise in circumstances which do not require publication by the Company of a Prospectus pursuant to Section 85 (1) of the Financial Services and Markets Act 2000 ("**FSMA**"). Any investment or investment activity to which the Prospectus relates is available only to, and will be engaged in only with, investment professionals falling within Article 19 (5), or high net worth entities falling within Article 49 (2), of the FSMA (Financial Promotion) Order 2005 or other persons to whom such investment or investment activity may lawfully be made available (together, "**Relevant Persons**"). Persons who are not Relevant Persons should not take any action on the basis of the Prospectus and should not act or rely on it.

The Underwriters will undertake to comply with the relevant laws of any and all countries in which they conduct selling and other activities in connection with the Offering.

24 TAXATION IN THE FEDERAL REPUBLIC OF GERMANY

The following section presents a number of key German taxation principles which generally are or can be relevant to the acquisition, holding or transfer of shares both by a shareholder (an individual, a partnership or corporation) that has a tax domicile in Germany (that is, whose place of residence, habitual abode, registered office or place of management is in Germany) and by a shareholder without a tax domicile in Germany. The information is not exhaustive and does not constitute a definitive explanation of all possible aspects of taxation that could be relevant for shareholders. The information is based on the tax law in force in Germany as of the date of the Prospectus (and its interpretation by administrative directives and courts) as well as typical provisions of double taxation treaties that Germany has concluded with other countries. Tax law can change — sometimes retrospectively. Moreover, it cannot be ruled out that the German tax authorities or courts may consider an alternative assessment to be correct that differs from the one described in this section.

This section cannot serve as a substitute for tailored tax advice to individual shareholders. Shareholders are therefore advised to consult their tax advisers regarding the tax implications of the acquisition, holding or transfer of shares and regarding the procedures to be followed to achieve a possible reimbursement of German withholding tax (Kapitalertragsteuer). Only such advisors are in a position to take the specific tax-relevant circumstances of individual shareholders into due account.

24.1 Taxation of the Company

As a rule, the taxable profits generated by German corporations are subject to corporate income tax (*Körperschaftsteuer*). The rate of the corporate income tax is a standard 15% for both distributed and retained earnings, plus a solidarity surcharge (*Solidaritätszuschlag*) amounting to 5.5% on the corporate income tax liability (i.e. 15.825% in total).

In general, dividends (*Dividenden*) or other profit shares that the Company derives from domestic or foreign corporations are effectively 95% exempt from corporate income tax (including solidarity surcharge), as 5% of such receipts are treated as a non-deductible business expenses, and are therefore subject to corporate income tax (and solidarity surcharge thereon). However, pursuant to the Act for the implementation of the ruling of the European Court of Justice ("ECJ") dated October 20, 2011 (*Gesetz zur Umsetzung des EuGH-Urteils vom 20. Oktober 2011 in der Rechtssache C-284/09*, (BR-Drucks. 146/13/B)), dividends that the Company receives or received from domestic or foreign corporations after February 28, 2013, are no longer exempt from corporate income tax (including solidarity surcharge thereon), if the Company only held (or holds) a direct participation of less than 10% in the share capital of such corporation at the beginning of the calendar year (hereinafter in all cases, a "**Portfolio Participation**"—*Streubesitzbeteiligung*). Participations of at least 10% acquired during a calendar year are deemed to have been acquired at the beginning of the calendar year. Participations in the share capital of other corporations which the Company holds through a partnership (including those that are co-entrepreneurships (*Mitunternehmerschaften*)) are attributable to the Company only on a *pro rata* basis at the ratio of the interest share of the Company in the assets of the relevant partnership.

The Company's gains from the disposal of shares in a domestic or foreign corporation are, in general, effectively 95% exempt from corporate income tax (including the solidarity surcharge thereon), regardless of the size of the participation and the holding period. 5% of the gains are treated as non-deductible business expenses and are therefore subject to corporate income tax (plus the solidarity surcharge thereon) at a rate of 15.825%. Conversely, losses incurred from the disposal of such shares are generally not deductible for corporate income tax purposes. As at the date of the Prospectus, there are no specific rules for the taxation of gains arising from the disposal of Portfolio Participations.

Additionally, German corporations are also usually subject to trade tax (*Gewerbesteuer*) with respect to their taxable trade profit (*Gewerbeertrag*) generated at their permanent establishments maintained in Germany (*inländische Betriebstätten*). Trade tax generally ranges from approximately 7% to 18.2% of the taxable trade profit depending on the municipal trade tax multiplier applied by the relevant municipal authority (*Hebesatz*). When determining the income of the corporation that is subject to corporate income tax, trade tax may not be deducted as a business expense. In principle, profits derived from the sale of shares in another domestic and foreign corporation are treated in the same way for trade tax purposes as for corporate income tax. Contrary to this, dividends derived from

domestic and foreign corporations are only effectively 95% exempt from trade tax, if the Company either held an interest of at least 15% in the share capital of the company making the distribution at the beginning of the relevant assessment period or—in the case of foreign corporations—if the Company has held a stake of this size since the beginning of such period (trade tax participation exemption privilege—gewerbesteuerliches Schachtelprivileg). If the participation is held in a foreign corporation as per Article 2 of Council Directive 2011/96/EU of November 30, 2011 (the "Parent-Subsidiary Directive") with its registered office in another Member State of the European Union, the trade tax participation exemption privilege becomes applicable from an interest of 10% in the share capital of the foreign corporation at the beginning of the relevant assessment period. Otherwise, the dividends will be subject to trade tax in full. Additional restrictions apply for dividends originating from foreign corporations which do not fall under Article 2 of the Parent-Subsidiary Directive.

The provisions of the so-called interest barrier (*Zinsschranke*) limit the degree to which interest expenses are deductible from the tax base for corporate income tax as well as trade tax purposes. Accordingly, as a rule, interest expenses exceeding interest income are deductible in an amount of up to 30% of the EBITDA as determined for tax purposes in a given financial year, although there are exceptions to this rule. Non-deductible interest expenses must be carried forward to subsequent financial years. EBITDA that has not been fully utilized must under certain circumstances be carried forward to the next five years. For trade tax purposes, 25% of the interest expenses deductible after applying the interest barrier are added when calculating the taxable trade profit. Therefore, for trade tax purposes, the amount of deductible interest expenses is only 75% of the interest expenses deductible for purposes of corporate income tax.

Under certain conditions, negative income of the Company that has not been offset by current year positive income can be carried forward or back into other assessment periods. Loss carry-backs to the immediately preceding assessment period are only permissible up to €1,000,000 (€511,500 until and including 2012) for corporate income tax but not for trade tax purposes. Negative income that has not been offset and not carried back can only be carried forward to subsequent assessment periods in an amount of up to €1 million to offset positive income for corporate income and trade tax purposes (tax loss carry forwards). If the taxable income or the taxable trade profit exceeds this amount, only 60% of the excess amount can be offset by tax loss carry forwards. The remaining 40% of the taxable income is subject to tax in any case (minimum taxation—*Mindestbesteuerung*). Unused tax loss carry forwards can, as a rule, be carried forward indefinitely and deducted pursuant to the rules set out regarding future taxable income or trade profits. However, if more than 25% or more than 50% of the Company's share capital or voting rights respectively is/are transferred to a purchaser or group of purchasers within five years, directly or indirectly, or if a similar situation arises (harmful share acquisition—*schädlicher Beteiligungserwerb*), the Company's unutilized losses and interest carry-forwards (possibly also EBITDA carry-forwards) will generally be forfeited in part (in case of a participation of more than 25% but no more than 50%) or in full (in case of a participation of more than 50%) and may not be offset against future profits, certain exceptions apply.

24.2 Taxation of Shareholders

24.2.1 Income Tax Implications of the Holding, Sale and Transfer of Shares

In terms of the taxation of shareholders of the Company, a distinction must be made between taxation in connection with the holding of shares ("*Taxation of Dividends*") and taxation in connection with the sale of shares ("*Taxation of Capital Gains*") and taxation in connection with the gratuitous transfer of shares ("*Inheritance and Gift Tax*").

24.2.2 Taxation of Dividends

24.2.2.1 Withholding Tax

As a general rule, the dividends distributed to the shareholder are subject to a withholding tax (*Kapitalertragsteuer*) of 25% and a solidarity surcharge of 5.5% thereon (i.e. 26.375% in total plus church tax, if applicable). This, however, will not apply if and to the extent that dividend payments are funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto; § 27 KStG*); in this case no withholding tax will be withheld. However, these payments will reduce the acquisition costs of the shares and may, consequently, increase a taxable capital gain upon the disposal of the shares (see below at "*24.2.3 Taxation of Capital Gains*"). The assessment basis for the withholding tax is the dividend approved by the general shareholders' meeting.

If shares—as it is the case with the shares in the Company—are admitted for collective custody by a central securities depository (*Wertpapiersammelbank*) pursuant to Section 5 German Act on Securities Accounts (*Depotgesetz*) and are entrusted to such bank for collective custody (*Sammelverwahrung*) in Germany, the withholding tax is withheld and passed on for the account of the shareholders (i) by the domestic credit or financial services institution (*inländisches Kredit- oder Finanzdienstleistungsinstitut*) (including domestic branches of such foreign enterprises), by the domestic securities trading company (*inländisches Wertpapierhandelsunternehmen*) or the domestic securities trading bank (*inländische Wertpapierhandelsbank*) which keeps or administers the shares and disburses or credits the dividends or disburses the dividends to a foreign agent, (ii) by the central securities depository (*Wertpapiersammelbank*) to which the shares were entrusted for collective custody if the dividends are disbursed to a foreign agent by such central securities depository (*Wertpapiersammelbank*) or (iii) by the Company itself if and to the extent shares held in collective custody (*girosammelverwahrt*) by the central securities depository (*Wertpapiersammelbank*) are treated as so-called "*abgesetzte Bestände*" (stock being held separately) (hereinafter in all cases, the "**Dividend Paying Agent**"). Aside from the case of stock being held separately, the Company does not assume any responsibility for the withholding of the withholding tax.

In general, the withholding tax must be withheld without regard to whether and to which extent the dividend is exempt from tax at the level of the shareholder and whether the shareholder is domiciled in Germany or abroad.

However, withholding tax on dividends distributed to a company domiciled in another EU Member State within the meaning of Article 2 of the Parent-Subsidiary Directive, may be refunded upon application and subject to further conditions. This also applies to dividends distributed to a permanent establishment of such a parent company in another Member State of the European Union or to a parent company that is subject to unlimited tax liability in Germany, provided that the participation in the Company is actually part of such permanent establishment's business assets. Further requirements for the refund of withholding tax under the Parent-Subsidiary Directive are that the shareholder has directly held at least a 10% of the company's registered capital for one year and that a respective application is filed with the German Federal Central Tax Office (*Bundeszentralamt für Steuern, Hauptdienstsitz Bonn-Beuel*, An der Küppe 1, D-53225 Bonn, Germany).

If, in the case of a holding of at least 10%, shares held in collective custody (*girosammelverwahrt*) by the German central securities depository (*Wertpapiersammelbank*) Clearstream Banking AG are treated as so-called "*abgesetzte Bestände*" (stock being held separately), the German tax authorities will not object when the main paying agent (*Hauptzahlstelle*) of the Company upon presentation of an exemption certificate (*Freistellungsbescheinigung*) and of a proof that this stock has been held separately, disburses the dividend without deducting withholding tax. An exemption certificate can be granted upon application (using official application forms) with the German Federal Central Tax Office (*Bundeszentralamt für Steuern*).

With respect to distributions made to other shareholders without a tax domicile in Germany, the withholding tax rate can be reduced in accordance with the double taxation treaty if Germany has entered into a double taxation treaty with the shareholder's country of residence and if the shares neither form part of the assets of a permanent establishment or a fixed place of business in Germany, nor form part of business assets for which a permanent representative in Germany has been appointed. The withholding tax reduction is generally granted by the German Federal Central Tax Office (*Bundeszentralamt für Steuern*) upon application in such a manner that the difference between the total amount withheld, including the solidarity surcharge, and the reduced withholding tax actually owed under the relevant double taxation treaty (generally 15%) is refunded by the German Federal Central Tax Office.

Forms for the reimbursement and exemption from the withholding at source procedure are available at the German Federal Central Tax Office (http://www.bzst.bund.de) as well as at German embassies and consulates.

If dividends are distributed to corporations subject to limited taxation, i.e. corporations with no registered office or place of management in Germany, and if the shares neither belong to the assets of a permanent establishment or fixed place of business in Germany nor are part of business assets for which a permanent representative in Germany has been appointed, two-fifths of the tax withheld at the source can generally be refunded even if not all of the prerequisites for a refund under the Parent-Subsidiary Directive or the relevant double taxation treaty are fulfilled. The relevant application forms are available at the German Federal Central Tax Office (at the address specified above).

The possibilities for an exemption from or a refund of withholding tax (as described in the five preceding paragraphs) depend on certain other conditions being met (particularly the fulfillment of so-called substance requirements—*Substanzerfordernisse*).

In a ruling dated October 20, 2011, the ECJ held that the German taxation of dividends distributed by German corporations to companies located in another EU Member State violated EU law because these dividends would, if the shareholding does not reach the minimum participation of 10% provided for in the Parent-Subsidiary Directive, economically be subject to higher taxation than dividends which are distributed to companies with their registered offices in the Federal Republic of Germany. According to the judgment of the ECJ, the German taxation of dividends also violated the Treaty on the European Economic Area (EEA) because dividends which are distributed to companies with their registered offices in Iceland or Norway would economically be subject to a higher taxation than dividends distributed to companies with their registered office in the Federal Republic of Germany.

The legislator reacted to the ECJ's ruling dated October 20, 2011 by enacting the Act for the implementation of the ECJ's ruling dated October 20, 2011 (*Gesetz zur Umsetzung des EuGH-Urteils vom 20. Oktober 2011 in der Rechtssache C-284/09*, (BR-Drucks. 146/13/B)) which provides for (i) new rules for the taxation of dividends from Portfolio Participations received after February 28, 2013 (see "*24.1 Taxation of the Company*") and (ii) for a mechanism under which corporations domiciled in the EU or EEA, which do not fall under the Parent-Subsidiary Directive, can apply for a refund of withholding tax on the dividends received before and including February 28, 2013 if certain prerequisites are met. Please note that such a refund might in certain situations also be available with regard to withholding tax imposed on dividends received after February 28, 2013 if corporate shareholders, which are domiciled in the EU or EEA, directly hold at least 10% in the equity capital of the Company at the beginning of the relevant calendar year or acquire a stake of at least 10% in the equity capital of the Company in the course of the relevant calendar year, but do not fulfill the requirements provided for by the Parent-Subsidiary Directive at the time they apply for such refund. Shareholders affected by these rules are recommended to consult their tax advisors.

24.2.2.2 Taxation of Dividends of Shareholders with a Tax Domicile in Germany

(1) Shares Held as Non-Business Assets

Dividends distributed to shareholders with a tax domicile in Germany whose shares are held as non-business assets form part of their taxable capital investment income, which is subject to a special uniform income tax rate of 25% plus solidarity surcharge of 5.5% thereon (i.e. 26.375% in total plus church tax, if applicable). The income tax owed for this dividend income is in general satisfied by the withholding tax withheld by the Dividend Paying Agent (flat-rate withholding tax—*Abgeltungsteuer*). Income-related expenses cannot be deducted from the shareholder's capital investment income (including dividends), except for an annual lump-sum deduction (*Sparer-Pauschbetrag*) of €801 (€1,602 for married couples filing jointly). However, the shareholder may request that his capital investment income (including dividends) along with his other taxable income be subject to progressive income tax rate (instead of the uniform tax rate for capital investment income) if this results in a lower tax burden. In this case the withholding tax will be credited against the progressive income tax and any excess amount will be refunded. In this case as well income-related expenses cannot be deducted from the capital investment income, except for the aforementioned annual lump-sum deduction.

Exceptions from the flat rate withholding tax apply upon application for shareholders who have a shareholding of at least 25% in the Company and for shareholders who have a shareholding of at least 1% in the Company and work for the Company in a professional capacity. In this situation, the tax treatment described below at "(2) *Shares Held as Business Assets*" applies.

With regard to dividends received after December 31, 2014, an automatic procedure for deducting church tax applies unless the shareholder has filed a blocking notice (*Sperrvermerk*) with the German Federal Central Tax Office. The church tax for dividends is satisfied by the Dividend Paying Agent withholding such tax. Church tax withheld at source may not be deducted as a special expense (*Sonderausgabe*) in the course of the tax assessment, but the Dividend Paying Agent may reduce the withholding tax (including the solidarity surcharge) by 26.375% of the church tax to be withheld on the dividends. If no church tax is withheld by a Dividend Paying Agent, a shareholder subject to church tax is obliged to declare the dividends in his income tax return. The church tax on the dividends is then levied by way of a tax assessment.

As an exemption, dividend payments that are funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto; § 27 KStG*) and are paid to shareholders with a tax domicile in Germany whose shares are held as non-business assets, do—contrary to the above—not form part of the shareholder's taxable income. If the dividend payment funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto; § 27 KStG*) exceeds the shareholder's acquisition costs, negative acquisition costs will arise which can result in a higher capital gain in case of the shares' disposal (cf. below). This will not apply if (i) the shareholder or, in the event of a gratuitous transfer, its legal predecessor, or, if the shares have been gratuitously transferred several times in succession, one of his legal predecessors at any point during the five years preceding the (deemed, as the case may be,) disposal, directly or indirectly held at least 1% of the share capital of the Company (a "Qualified Holding") and (ii) the dividend payment funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto; § 27 KStG*) exceeds the acquisition costs of the shares. In such a case of a Qualified Holding, a dividend payment funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto; § 27 KStG*) is deemed a sale of the shares and is taxable as a capital gain if and to the extent the dividend payment funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto; § 27 KStG*) exceeds the acquisition costs of the shares. In this case the taxation corresponds with the description in the section "*24.2.3 Taxation of Capital Gains*" made with regard to shareholders maintaining a Qualified Holding.

(2) Shares Held as Business Assets

Dividends from shares held as business assets of a shareholder with a tax domicile in Germany are not subject to the flat-rate withholding tax. The taxation depends on whether the shareholder is a corporation, a sole proprietor or a partnership (co-entrepreneurship). The withholding tax (including the solidarity surcharge and church tax, if applicable) withheld and paid by the Dividend Paying Agent will be credited against the shareholder's income or corporate income tax liability (including the solidarity surcharge and church tax, if applicable) or refunded in the amount of any excess.

Dividend payments that are funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto; § 27 KStG*) and are paid to shareholders with a tax domicile in Germany whose shares are held as business assets are generally fully tax-exempt in the hands of such shareholder. To the extent the dividend payments funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto; § 27 KStG*) exceed the acquisition costs of the shares, a taxable capital gain should occur. The taxation of such gain corresponds with the description in the section "*24.2.3 Taxation of Capital Gains*" made with regard to shareholders whose shares are held as business assets (however, as regards the application of the 95% exemption in case of a corporation this is not undisputed).

(i) Corporations

If the shareholder is a corporation with a tax domicile in Germany, the dividends are in general effectively 95% exempt from corporate income tax and the solidarity surcharge. 5% of the dividends are treated as a non-deductible business expenses and are therefore subject to corporate income tax (plus the solidarity surcharge) at a total tax rate of 15.825%. In other respects, business expenses actually incurred in direct relation to the dividends may be deducted. However, pursuant to the Act for the implementation of the ECJ's ruling dated October 20, 2011 (*Gesetz zur Umsetzung des EuGH-Urteils vom 20. Oktober 2011 in der Rechtssache C-284/09*, (BR-Drucks. 146/13/B)), dividends that the shareholder received and receives after February 28, 2013, are no longer exempt from corporate income tax (including solidarity surcharge thereon), if the shareholder only held (or holds) a Portfolio Participation at the beginning of the calendar year. Participations of at least 10% acquired during a calendar year are deemed to have been acquired at the beginning of the calendar year. Participations which a shareholder holds through a partnership (including those that are co-entrepreneurships (*Mitunternehmerschaften*)) are attributable to the shareholder only on a pro rata basis at the ratio of the interest share of the shareholder in the assets of the relevant partnership.

Dividends (after deducting business expenses economically related to the dividends) are subject to trade tax in the full amount, unless the requirements of the trade tax participation exemption privilege (see "*24.1 Taxation of the Company*") are fulfilled. In this latter case, the dividends are not subject to trade tax; however, trade tax is levied on the amount considered to be a non-deductible business expenses (amounting to 5% of the dividend). Trade tax ranges from approximately 7% to 18.2% of the taxable trade profit depending on the municipal trade tax multiplier applied by the relevant municipal authority.

(ii) Sole Proprietors

If the shares are held as business assets by a sole proprietor with a tax domicile in Germany, only 60% of the dividends are subject to progressive income tax (plus the solidarity surcharge) at a total tax rate of up to approximately 47.5% (plus church tax, if applicable), so-called partial income method (*Teileinkünfteverfahren*). Only 60% of the business expenses economically related to the dividends are tax-deductible. If the shares belong to a domestic permanent establishment in Germany of a business operation of the shareholder, the dividend income (after deducting business expenses economically related thereto) is not only subject to income tax but is also fully subject to trade tax, unless the prerequisites of the trade tax participation exemption privilege (see "*24.1 Taxation of the Company*") are fulfilled. In this latter case, the net amount of dividends, i.e. after deducting directly related expenses, is exempt from trade tax. As a rule, trade tax can be credited against the shareholder's personal income tax, either in full or in part, by means of a lump-sum tax credit method, depending on the level of the municipal trade tax multiplier and certain individual tax-relevant circumstances of the taxpayer.

(iii) Partnerships

If the shareholder is a commercially active or commercially tainted partnership (co-entrepreneurship) with a tax domicile in Germany, the income or corporate income tax is not levied at the level of the partnership but at the level of the respective partner. The taxation for every partner depends on whether the partner is a corporation or an individual. If the partner is a corporation, the dividends contained in the profit share of the shareholder will be taxed in accordance with the principles applicable for corporations (see "*(i) Corporations*" above). If the partner is an individual, the taxation is in line with the principles described for sole proprietors (see *"(ii) Sole Proprietors*" above). Upon application and subject to further conditions, an individual as a partner can have his personal income tax rate lowered for earnings not withdrawn from the partnership.

In addition, the dividends are generally subject to trade tax in the full amount at the partnership level if the shares are attributed to a German permanent establishment of the partnership. If a partner of the partnership is an individual, the portion of the trade tax paid by the partnership pertaining to his profit share will generally be credited, either in full or in part, against his personal income tax by means of a lump-sum method—depending on the level of the municipal trade tax multiplier and certain individual tax-relevant circumstances of the taxpayer. Due to a lack of case law and administrative guidance, it is, as at the date of the Prospectus, unclear how the new rules for the taxation of dividends from Portfolio Participations (see "*(i) Corporations*" above) might impact the trade tax treatment at the level of the partnership. Shareholders are strongly recommended to consult their tax advisors. Under a literal reading of the law, if the partnership fulfills the prerequisites for the trade tax participation exemption privilege (as described above at "*24.1 Taxation of the Company*") at the beginning of the relevant assessment period, the dividends (after the deduction of business expenses economically related thereto) should generally not be subject to trade tax. However, in this case, trade tax should be levied on 5% of the dividends to the extent they are attributable to the profit share of such corporate partners to whom at least 10% of the shares in the Company are attributable on a look-through basis, since such portion of the dividends should be deemed to be non-deductible business expenses. The remaining portion of the dividend income attributable to other than such specific corporate partners (which includes individual partners and should, under a literal reading of the law, also include corporate partners to whom, on a look-through basis, only Portfolio Participations are attributable) should not be subject to trade tax.

24.2.2.3 Taxation of Dividends of Shareholders without a Tax Domicile in Germany

Shareholders without a tax domicile in Germany, whose shares are attributable to a German permanent establishment or fixed place of business or are part of business assets for which a permanent representative in Germany has been appointed, are liable for tax in Germany on their dividend income. In this respect the provisions outlined above for shareholders with a tax domicile in Germany whose shares are held as business assets apply accordingly "*(2) Shares Held as Business Assets*"). The withholding tax (including the solidarity surcharge) withheld and passed on will be credited against the income or corporate income tax liability or refunded in the amount of any excess.

In all other cases, any German tax liability for dividends is satisfied by the withholding of the withholding tax by the Dividend Paying Agent. Withholding tax is only reimbursed in the cases and to the extent described above under "*24.2.2.1 Withholding Tax*".

Dividend payments that are funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto; § 27 KStG*) are generally not taxable in Germany.

24.2.3 Taxation of Capital Gains

24.2.3.1 Taxation of Capital Gains of Shareholders with a Tax Domicile in Germany

(1) Shares Held as Non-Business Assets

Gains on the disposal of shares acquired after December 31, 2008 by a shareholder with a tax domicile in Germany and held as non-business assets are generally—regardless of the holding period—subject to a uniform tax rate on capital investment income in Germany (25% plus the solidarity surcharge of 5.5% thereon, i.e. 26.375% in total plus any church tax if applicable).

The taxable capital gain is computed from the difference between (a) the proceeds of the disposal and (b) the acquisition costs of the shares and the expenses related directly and materially to the disposal. The capital gain might increase if the dividend payments that are funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto; § 27 KStG*). The reason is that such dividends reduce the original acquisition costs of the shares; if dividend payments that are funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto; § 27 KStG*) exceed the acquisition costs, negative acquisition costs—which can increase a capital gain—can arise in case of shareholders, whose shares are held as non-business assets and do not qualify as a Qualified Holding.

Only an annual lump-sum deduction of €801 (€1,602 for married couples filing jointly) may be deducted from the entire capital investments income. It is generally not possible to deduct income-related expenses in connection with capital gains, except for the expenses directly related in substance to the disposal which can be deducted when calculating the capital gains. Losses on disposals of shares may only be offset against gains on the disposal of shares.

If the shares are held in custody or administered by a domestic credit institution, domestic financial services institution, domestic securities trading company or a domestic securities trading bank, including domestic branches of foreign credit institutions or financial service institutions, or if such an office executes the disposal of the shares and pays out or credits the capital gains (a "Domestic Paying Agent"), the tax on the capital gains will in general be satisfied by the Domestic Paying Agent withholding the withholding tax on investment income in the amount of 26.375% (including the solidarity surcharge) on the capital gain and transferring it to the tax authority for the account of the seller.

However, the shareholder can apply for his total capital investment income, together with his other taxable income, to be subject to the progressive income tax rate as opposed to the uniform tax rate on investment income, if this results in a lower tax liability. In this case, the withholding tax is credited against the progressive income tax and any resulting excess amount will be refunded. Further, income-related expenses are non-deductible, except for the annual lump-sum deduction. Further, the limitations on offsetting losses are also applicable under the income tax assessment.

In the case of capital gains received after December 31, 2014, an automatic procedure for deducting church tax applies unless the shareholder has filed a blocking notice (*Sperrvermerk*) with the German Federal Central Tax Office. The church tax for capital gains is satisfied by the Domestic Paying Agent withholding such tax. A deduction of the withheld church tax as a special expense is not permissible, but the withholding tax to be withheld (including the solidarity surcharge) is reduced by 26.375% of the church tax to be withheld on the capital gains. In the case of capital gains received after December 31, 2014, an automatic procedure for deducting church tax applies unless the shareholder has filed a blocking notice (*Sperrvermerk*) with the German Federal Central Tax Office.

If the withholding tax or, if applicable, the church tax on capital gains, is not withheld by a Domestic Paying Agent, the shareholder is required to declare the capital gains in his income tax return. The income tax and any applicable church tax on the capital gains will then be collected by way of assessment. Regardless of the holding period and the time of acquisition, gains from the disposal of shares are not subject to the flat rate withholding tax (*Abgeltungsteuer*) but to progressive income tax in case of a "Qualified Holding". In this case, the partial income method applies to gains on the disposal of shares, which means that only 60% of the capital gains are subject to tax and only 60% of the losses on the disposal and expenses economically related thereto are tax deductible. Even though

withholding tax is withheld by a Domestic Paying Agent in the case of a Qualified Holding, this does not satisfy the tax liability of the shareholder. Consequently, a shareholder must declare his capital gains in his income tax returns. The withholding tax (including the solidarity surcharge and church tax, if applicable) withheld and paid will be credited against the shareholder's income tax on his tax assessment (including the solidarity surcharge and any church tax if applicable) or refunded in the amount of any excess.

(2) Shares Held as Business Assets

Gains on the sale of shares held as business assets of a shareholder with a tax domicile in Germany are not subject to the flat rate withholding tax (*Abgeltungsteuer*). The taxation of the capital gains depends on whether the shareholder is a corporation, a sole proprietor or a partnership (co-entrepreneurship). The capital gain might increase if dividend payments are funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto; § 27 KStG*). The reason is that such dividends reduce the original acquisition costs. In case of disposal a higher taxable capital gain can arise herefrom. If the dividend payments exceed the shares' book value for tax purposes, a taxable capital gain can arise.

(i) Corporations

If the shareholder is a corporation with a tax domicile in Germany, the gains on the disposal of shares are, in general, effectively 95% exempt from corporate income tax (including the solidarity surcharge) and trade tax, as at the date of the Prospectus, regardless of the size of the participation and the holding period. 5% of the gains are treated as non-deductible business expenses and are therefore subject to corporate income tax (plus the solidarity surcharge) at a tax rate amounting to 15.825% and trade tax (depending on the municipal trade tax multiplier applied by the municipal authority, generally between approximately 7% and 18.2%). As a rule, losses on disposals and other profit reductions in connection with shares (e.g. from a write-down) cannot be deducted as business expenses. As at the date of the Prospectus, there are no specific rules for the taxation of gains arising from the disposal of Portfolio Participations.

(ii) Sole Proprietors

If the shares are held as business assets by a sole proprietor with a tax domicile in Germany, only 60% of the gains on the disposal of the shares are subject to progressive income tax (plus the solidarity surcharge) at a total tax rate of up to approximately 47.5%, and, if applicable, church tax (partial-income method). Only 60% of the losses on the disposal and expenses economically related thereto are tax deductible. If the shares belong to a German permanent establishment of a business operation of the sole proprietor, 60% of the gains of the disposal of the shares are, in addition, subject to trade tax.

Trade tax can be credited towards the shareholder's personal income tax, either in full or in part, by means of a lump-sum tax credit method—depending on the level of the municipal trade tax multiplier and certain individual tax-relevant circumstances of the taxpayer.

(iii) Partnerships

If the shareholder is a commercially active or commercially tainted partnership (co-entrepreneurship) with a tax domicile in Germany, the income or corporate income tax is not levied at the level of the partnership but at the level of the respective partner. The taxation depends on whether the partner is a corporation or an individual. If the partner is a corporation, the gains on the disposal of the shares as contained in the profit share of the partner will be taxed in accordance with the principles applicable for corporations (see *"(i) Corporations*" above). For capital gains in the profit share of a partner that is an individual, the principles outlined above for sole proprietors apply accordingly (partial-income method, see above under *"(iii) Sole proprietors*"). Upon application and subject to further conditions, an individual as a partner can obtain a reduction of his personal income tax rate for earnings not withdrawn from the partnership.

In addition, gains on the disposal of shares are subject to trade tax at the level of the partnership, if the shares are attributed to a domestic permanent establishment of a business operation of the partnership, generally, at 60% as far as they are attributable to the profit share of an individual as the

partner of the partnership, and, as at the date of the Prospectus, at 5% as far as they are attributable to the profit share of a corporation as the partner of the partnership. Losses on disposals and other profit reductions in connection with the shares are, s at the date of the Prospectus, not considered for the purposes of trade tax if they are attributable to the profit share of a corporation, and are taken into account at 60% in the context of general limitations if they are attributable to the profit share of an individual.

If the partner of the partnership is an individual, the portion of the trade tax paid by the partnership attributable to his profit share will generally be credited, either in full or in part, against his personal income tax by means of a lump-sum method—depending on the level of the municipal trade tax multiplier and certain individual tax-relevant circumstances of the taxpayer.

(3) Withholding Tax

In the case of a Domestic Paying Agent, the gains from the sale of shares held as business assets are in general subject to withholding tax in the same way as from shares held as non-business assets by a shareholder (see the section "*24.2.3.1 Taxation of Capital Gains of Shareholders with a Tax Domicile in Germany*"). However, the Domestic Paying Agent will not withhold the withholding tax, if (i) the shareholder is a corporation, association of persons or estate with a tax domicile in Germany, or (ii) the shares belong to the domestic business assets of a shareholder, and the shareholder declares so to the Domestic Paying Agent using the designated official form and certain other requirements are met. If withholding tax is in nonetheless withheld by a Domestic Paying Agent, the withholding tax (including the solidarity surcharge and church tax, if applicable) withheld and paid will be credited against the income or corporate income tax liability (including the solidarity surcharge and church tax, if applicable) or will be refunded in the amount of any excess.

24.2.3.2 Taxation of Capital Gains of Shareholders without a Tax Domicile in Germany

Capital gains derived by shareholders with no tax domicile in Germany are only subject to German tax if the selling shareholder has a Qualified Holding in the Company or the shares belong to a domestic permanent establishment or fixed place of business or are part of business assets for which a permanent representative in Germany has been appointed.

In the case of a Qualified Holding, 5% of the gains on the disposal of the shares are currently in general subject to corporate income tax plus the solidarity surcharge, if the shareholder is a corporation. If the shareholder is a private individual, only 60% of the gains on the disposal of the shares are subject to progressive income tax plus the solidarity surcharge (partial-income method). However, most double taxation treaties provide for exemption from German taxation and assign the right of taxation to the shareholder's country of residence. According to the tax authorities there is no obligation to withhold withholding tax at source in the case of a Qualified Holding if the shareholder submits to the Domestic Paying Agent a certificate of domicile issued by a foreign tax authority.

With regard to gains or losses on the disposal of shares belonging to a domestic permanent establishment, or fixed place of business, or which are part of business assets for which a permanent representative in Germany has been appointed, the above-mentioned provisions pertaining to shareholders with a tax domicile in Germany whose shares are business assets apply *mutatis mutandis (*see *"24.2.3.1 Taxation of Capital Gains of Shareholders with a Tax Domicile in Germany*"). The Domestic Paying Agent can refrain from deducting the withholding tax if the shareholder declares to the Domestic Paying Agent on an official form that the shares form part of domestic business assets and certain other requirements are met.

24.2.4 Special Treatment of Companies in the Financial and Insurance Sectors and Pension Funds

If financial institutions or financial services providers hold or sell shares that are allocable to their trading book pursuant to Section 1a of the German Banking Act (*Gesetz über das Kreditwesen*), they will neither be able to use the partial income method nor be entitled to the effective 95% exemption from corporate income tax plus the solidarity surcharge and any applicable trade tax. Thus, dividend income and capital gains are fully taxable. The same applies to shares acquired by financial institutions in the meaning of the German Banking Act for the purpose of generating profits from short-term proprietary trading. The preceding sentence applies accordingly for shares held in a permanent

establishment in Germany by financial institutions, financial service providers, and finance companies tax resident in another Member State of the European Union or in other signatory states of the EEA Agreement. Likewise, dividend income and capital gains are fully taxable if the underlying shares qualify as a capital investment in the case of life insurance and health insurance companies, or are held by pension funds.

However, an exemption to the foregoing, and thus a 95% effective tax exemption, applies to dividends obtained by the aforementioned companies, to which the Parent-Subsidiary Directive applies.

24.2.5 Inheritance and Gift Tax

The transfer of shares to another person *mortis causa* or by way of gift is generally subject to German inheritance or gift tax if:

(i) the place of residence, habitual abode, place of management or registered office of the decedent, the donor, the heir, the donee or another acquirer is, at the time of the asset transfer, in Germany, or such person, as a German national, has not spent more than five continuous years outside of Germany without maintaining a place of residence in Germany, or

(ii) the decedent's or donor's shares belonged to business assets for which there had been a permanent establishment in Germany or a permanent representative had been appointed, or

(iii) the decedent or the donor, at the time of the succession or gift, held a direct or indirect interest of at least 10% of the Company's share capital either alone or jointly with other related parties.

The small number of double taxation treaties in respect of inheritance and gift tax which Germany has concluded to date usually provide for German inheritance or gift tax only to be levied in the cases under (i) and, subject to certain restrictions, in the cases under (ii). Special provisions apply to certain German nationals living outside of Germany and to former German nationals.

24.2.6 Other Taxes

No German capital transfer taxes, value-added-tax, stamp duties or similar taxes are, as at the date of the Prospectus, levied on the purchase or disposal or other forms of transfer of the shares. However, an entrepreneur may opt to subject disposals of shares, which are in principle exempt from value-added-tax, to value-added-tax if the sale is made to another entrepreneur for the entrepreneur's business. Wealth tax and financial transaction tax ("**FTT**") are, as at the date of the Prospectus, not levied in Germany.

However, on 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (participating Member States). The Commission's Proposal has a very broad scope and could, if introduced, apply to certain dealings in the shares (including secondary market transactions) in certain circumstances. Under the Commission's proposal the FTT could apply in certain circumstances to persons both within and outside the participating Member States. Generally, it would apply to certain dealings in the shares where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State. Joint statements issued by participating Member States indicate an intention to implement the FTT by January 1, 2016. However, the FTT proposal remains subject to negotiation between the participating Member States and the scope of any such tax is uncertain. Additional EU Member States may decide to participate. Prospective holders of the shares are advised to seek their own professional advice in relation to the FTT.

25 TAXATION IN LUXEMBOURG

The following is a general description of certain Luxembourg tax considerations relating to the purchasing, holding and disposing of the Company's shares. This description does not purport to be a complete analysis of all possible tax situations that may be relevant to a decision to purchase shares of the Company. Prospective purchasers should consult their own tax advisers as to the applicable tax consequences of the purchase and the ownership of shares, based on their particular circumstances. No conclusions should be drawn with respect to issues not specifically addressed by this description. This description is based on the laws, regulations and applicable tax treaties as in effect in Luxembourg on the date hereof, all of which are subject to change, possibly with retroactive effect. It is not intended to be, nor should it be construed to be, legal or tax advice. Prospective purchasers should therefore consult their own advisers as to the effects of any local laws, including Luxembourg tax law, to which they may be subject.

The residence concept used under the respective headings below applies for Luxembourg income tax assessment purposes only. Any reference in the present section to a tax, duty, levy, impost or other charge or withholding of a similar nature refers to Luxembourg tax law and/or concepts only. Also, a reference to Luxembourg income tax encompasses corporate income tax (*impôt sur le revenu des collectivites*), municipal business tax (*impôt commercial communal*), solidarity surcharges (*contributions au fonds pour l'emploi*), as well as personal income tax (*impôt sur le revenu*) generally. Investors may further be subject to net wealth tax (*impôt sur la fortune*) as well as other duties, levies or taxes. Corporate income tax, municipal business tax as well as the solidarity surcharge apply to most corporate taxpayers resident of Luxembourg for tax purposes. Individual tax payers are generally subject to personal income tax and the solidarity surcharge. Under certain circumstances, where an individual taxpayer acts in the course of the management of a professional or business undertaking, municipal business tax may apply as well.

25.1 Taxation of Income Derived from, and Capital Gains Realized on, the Company's Shares by Luxembourg Resident Taxpayers

25.1.1 Individual Holders of Shares

Dividends derived from shares of the Company by resident individuals, who act in the course of the management of either their private wealth or their professional or business activity, are subject to income tax at the progressive ordinary rate (with a current effective marginal rate of up to 40%). Such income tax rate is increased by 7% for income not exceeding €150,000 for single taxpayers and €300,000 for couples taxed jointly, and by 9% for income above these amounts. Under current Luxembourg tax laws, 50% of the gross amount of dividends derived from the Company's shares will be exempt from Luxembourg income tax. In addition, a total lump-sum of €1,500 (which is doubled for taxpayers who are jointly taxable) is deductible from total dividends received during the tax year.

Capital gains realized on the disposal of the Company's shares by resident individuals, who act in the course of the management of their private wealth, are not subject to income tax, unless said capital gains qualify either as speculative gains or as gains on a substantial participation. A disposal may include a sale, an exchange, a contribution or any other kind of alienation of shares. Capital gains are deemed to be speculative if the shares are disposed within six months after their acquisition or if their disposal precedes their acquisition. Speculative gains realized during the year that are equal to, or are greater than, €500 are subject to income tax at ordinary rates. A participation is deemed to be substantial where a resident individual holder of shares holds, either alone or together with his spouse, his partner and/or minor children, directly or indirectly, at any time within the 5 years preceding the disposal, more than 10% of share capital of the Company. A holder of shares is also deemed to alienate a substantial participation if he acquired free of charge, within the 5 years preceding the transfer, a participation that was constituting a substantial participation in the hands of the alienator (or the alienators in case of successive transfers free of charge within the same 5 year period). Capital gains realized on a substantial participation more than six months after the acquisition thereof may benefit from an allowance of up to €50,000 granted for a ten-year period (which is doubled for taxpayers who are jointly taxable). They are subject to income tax according to the half- global rate method, (i.e. the average rate applicable to total income is calculated according to progressive income tax rates and half of the average rate is applied to the capital gains realized on the substantial participation unless the gains are of a speculative nature).

Capital gains realized on the disposal of the Company's shares by resident individual holders of shares, who act in the course of their professional or business activity, are subject to income tax at ordinary rates.

25.1.2 Luxembourg Resident Corporate Holders of Shares

Dividends derived from the Company's shares by a Luxembourg fully-taxable resident company are subject to income tax, unless the conditions of the Luxembourg participation exemption regime, as described below, are satisfied. Under current Luxembourg tax laws, 50% of the gross amount of dividends derived from the Company's shares will be exempt from Luxembourg income tax.

Under the Luxembourg participation exemption regime, dividends derived from the Company's shares by a fully-taxable Luxembourg collective entity (*organisme à caractère collectif*) may be exempt from income tax if, cumulatively, (i) it has held or commits itself to hold the shares for an uninterrupted period of at least 12 months, (ii) during this uninterrupted period of 12 months the shares represent a participation of a least 10% in the share capital of the Company or the shares were acquired for an acquisition price of at least €1.2 million, (iii) the dividend is put at the disposal within such period. Liquidation proceeds are, under Luxembourg domestic law, assimilated to a received dividend and may be exempt under the same conditions. Shares held through a fiscally transparent entity are considered as being a direct participation proportional to the percentage held in the net assets of the transparent entity.

Capital gains realized by a Luxembourg fully-taxable collective entity (*organisme à caractère collectif*) on the shares are subject to income tax at ordinary rates, unless the conditions of the participation exemption regime, as described below, are satisfied.

Under the Luxembourg participation exemption regime, capital gains realized on the Company's shares by a Luxembourg fully-taxable collective entity (*organisme à caractère collectif*) may be exempt from income tax if, cumulatively, (i) it has held or commits itself to hold the shares for an uninterrupted period of at least 12 months, (ii) during this uninterrupted period of 12 months the shares represent a participation of a least 10% in the share capital of the Company or the shares were acquired for an acquisition price of at least €6 million. Shares held through a fiscally transparent entity are considered as being a direct participation proportional to the percentage held in the net assets of the transparent entity.

25.1.3 Luxembourg Resident Companies Benefiting from a Special Tax Regime

Holders of the Company's shares who are (i) undertakings for collective investment subject to the law of December 17, 2010 relating to undertakings for collective investment, as amended, or (ii) specialized investment funds subject to the law of February 13, 2007 relating to specialized investment funds, as amended, or (iii) private asset holding companies governed by the law of May 11, 2007 introducing a private family assets holding company, as amended, are exempt from income tax in Luxembourg. Dividends derived from and capital gains realized on the shares are thus not subject to income tax in their hands.

Dividends derived from and capital gains realized on the shares by holders of shares who are securitization companies subject to the law of March 22, 2004 on securitization, as amended, are subject to income tax at ordinary rates. Further to the exemptions and deductions available under general rules of the income tax law, the obligations assumed by securitization companies vis-à-vis investors and creditors (e.g. dividends, interest, etc.) are deductible from income for tax purposes. Income received by securitization vehicles in relation with an investment in the shares made for the purpose of securitization may therefore be neutralized and thus be non-taxable in Luxembourg (except for the Luxembourg minimum flat tax). Dividends derived from and capital gains realized on the Company's shares by holders of shares who are companies subject to the law of June 15, 2004 on venture capital vehicles, as amended, ("**SICAR Law**") are exempt from corporate income tax to the extent such dividends and capital gains are deemed to be qualifying income within the meaning of the SICAR Law.

25.2 Taxation of Income Derived from, and Capital Gains Realized on, the Company's Shares by Luxembourg Non-Resident Taxpayers

25.2.1 Individual Holders of Shares

Capital gains realized on the disposal of the Company's shares by non-resident individuals are not subject to income tax in Luxembourg.

25.2.2 Corporate Holders of Shares

Dividends derived from the Company's shares by non-resident corporate holders having a permanent establishment, a permanent representative or a fixed place of business in Luxembourg to which the shares are attributable are subject to income tax, unless the conditions of the Luxembourg participation exemption regime, as described below, are satisfied. Under current Luxembourg tax laws, 50% of the gross amount of dividends derived from the shares will be exempt from Luxembourg income tax.

Under the Luxembourg participation exemption regime, dividends derived from the Company's shares by a Luxembourg permanent establishment of (i) a collective entity (*organisme à caractère collectif*) meeting the conditions set out in Article 2 of the EU Parent-Subsidiary Directive, (ii) a capital company (*société de capitaux*) which is a resident in a state that has concluded a double tax treaty with Luxembourg or (iii) of a capital company (*société de capitaux*) or a cooperative company which is resident in a state other than a Member State of the European Union but which is part of the European Economic Area Agreement, may be exempt from income tax if, cumulatively, (i) it has held or commits itself to hold the shares for an uninterrupted period of at least 12 months, (ii) during this uninterrupted period of 12 months the shares represent a participation of a least 10% in the share capital of the Company or the shares were acquired for an acquisition price of at least €1.2 million, (iii) the dividend is put at the disposal within such period. Liquidation proceeds are, under Luxembourg domestic law, assimilated to a received dividend and may be exempt under the same conditions. Shares held through a fiscally transparent entity are considered as being a direct participation proportional to the percentage held in the net assets of the transparent entity.

Capital gains realized on disposal of the Company's shares by non-resident corporate holders holding the shares through a permanent establishment, a permanent representative or a fixed place of business in Luxembourg, are subject to income tax at ordinary rates, unless the conditions of the participation exemption regime, as described below, are satisfied.

Under the Luxembourg participation exemption regime, capital gains realized on the Company's shares by a Luxembourg permanent establishment of (i) a collective entity (*organisme à caractère collectif*) meeting the conditions set out in Article 2 of the EU Parent-Subsidiary Directive or (ii) a capital company (*société de capitaux*) which is a resident in a state that has concluded a double tax treaty with Luxembourg or (iii) of a capital company (*société de capitaux*) or a cooperative company but which is resident in a state other than a Member State of the European Union which is part of the European Economic Area Agreement may be exempt from income tax if, cumulatively, (i) it has held or commits itself to hold the shares for an uninterrupted period of at least 12 months, (ii) during this uninterrupted period of 12 months the shares represent a participation of a least 10% in the share capital of the Company or the shares were acquired for an acquisition price of at least €6 million. Shares held through a fiscally transparent entity are considered as being a direct participation proportional to the percentage held in the net assets of the transparent entity.

However, if a double tax treaty between Luxembourg and the country of residence of the holder of shares applies, the Luxembourg non-resident holder of shares may perhaps benefit from an exemption from Luxembourg tax upon disposal of its shares pursuant to the relevant provisions of such double tax treaty.

25.3 Other Taxes

25.3.1 Net Wealth Tax

Luxembourg net wealth tax will not be levied on a holder of the Company's shares unless (i) the conditions of the participation exemption applicable to dividends (as described above) are not fulfilled (except that no holding period is required) and the holder is a corporate entity resident in Luxembourg other than an undertaking for collective investment governed by the law of December 17, 2010 relating

to undertakings for collective investment, as amended, a securitization vehicle governed by the law of March 22, 2004 on securitization, as amended, an entity subject to the SICAR Law, a specialized investment fund governed by the law of February 13, 2007 relating to specialized investment funds, as amended, or a private asset holding company governed by the law of May 11, 2007 introducing a private family assets holding company, as amended, or (ii) the shares are attributable to an enterprise or part thereof which is carried on through a permanent establishment, a permanent representative or a fixed place of business in Luxembourg of a capital company (*société de capitaux*) to which the shares are attributable, where the conditions of the participation exemption applicable to dividends (as described above) are not fulfilled (except that no holding period is required).

25.3.2 Registration Taxes and Stamp Duties

Neither the issuance of the shares, nor the disposal of the shares is subject to Luxembourg registration tax or stamp duty. In the case of voluntary registration in Luxembourg, only a fixed registration duty of €12 would apply.

25.3.3 Inheritance and Gift Tax

Under Luxembourg tax law, where an individual shareholder is a resident of Luxembourg for inheritance tax purposes at the time of his/her death, the shares are included in his or her taxable basis for inheritance tax purposes. Gift tax may be due on a gift or donation of shares, if embodied in a Luxembourg deed or otherwise registered in Luxembourg.

25.3.4 Withholding Tax

Dividends distributed by the Company to the shareholders are not subject to any withholding tax in Luxembourg even if paid through a Luxembourg-based paying agent.

26 FINANCIAL INFORMATION

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Consolidated Income Statement

Consolidated income statement in € million

	1.1.-31.3.2015	1.1.-31.3.2014	Change
Operating income	93	89	4
Net interest and similar income	113	89	24
Interest and similar income	540	583	-43
Interest and similar expenses	-427	-494	67
Net fee and commission income	7	—	7
Fee and commission income	8	3	5
Fee and commission expenses	-1	-3	2
Net trading income	5	-9	14
Net income from financial investments	-20	-1	-19
Net income from hedging relationships	-1	-3	2
Net other operating income/expenses	-11	13	-24
Loan loss provisions	4	5	-1
General and administrative expenses	-48	-62	14
Net miscellaneous income/expenses	2	6	-4
Profit or loss before tax	**51**	**38**	13
Income taxes	-12	5	-17
Net income/loss attributable to:	**39**	**43**	-4
Shareholders	39	43	-4

Earnings per share in €

	1.1.-31.3.2015	1.1.-31.3.2014
Basic earnings per share	0.29	0.32
Diluted earnings per share	0.29	0.32

Consolidated Statement of Comprehensive Income

Consolidated statement of comprehensive income in € million

	1.1.-31.3.2015			1.1.-31.3.2014		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Profit or loss	**51**	**-12**	**39**	**38**	**5**	**43**
Items that will not be reclassified to income statement	-24	**6**	**-18**	—	—	—
Profits/losses from pension commitments	-24	6	-18	—	—	—
Items that may be reclassified to income statement	83	-22	61	47	-13	34
Foreign currency reserve	1	—	1	—	—	—
AfS reserve	133	-36	97	72	-20	52
Cash flow hedge reserve	-51	14	-37	-25	7	-18
Total other comprehensive income	59	-16	43	47	-13	34
Total comprehensive income of the period	**110**	**-28**	**82**	**85**	**-8**	**77**
attributable to:						
Shareholders	110	-28	82	85	-8	77

Components of consolidated statement of comprehensive income in € million

	1.1.-31.3.2015	1.1.-31.3.2014
Net income/loss	**39**	**43**
Profits/ losses from pension commitments	-18	—
Unrealised gains/losses	-18	—
Foreign currency reserve	1	—
Unrealised gains/losses	1	—
AfS reserve	97	52
Unrealised gains/losses	97	52
Cash flow hedge reserve	-37	-18
Unrealised gains/losses	-21	89
Reclassification adjustments for gains/losses included in profit or loss	-16	-107
Total other comprehensive income	43	34
Total unrealised gains/losses	59	141
Total reclassification adjustments for gains/losses included to profit or loss	-16	-107
Total comprehensive income of the period	**82**	**77**

Consolidated Statement of Financial Position

Assets in € million

	31.3.2015	31.12.2014[1)]	Change	1.1.2014[1)]
Cash reserve	1,554	57	1,497	3,532
Trading assets	2,110	2,016	94	1,642
Loans and advances to other banks	4,162	6,800	-2,638	6,685
Loans and advances to customers	40,962	38,964	1,998	36,242
Allowances for losses on loans and advances	-134	-138	4	-148
Financial investments	19,676	20,475	-799	20,725
Property and equipment	12	8	4	1
Intangible assets	22	23	-1	31
Other assets	6,992	6,659	333	4,769
Income tax assets	30	30	—	45
Current tax assets	28	29	-1	44
Deferred tax assets	2	1	1	1
Total assets	**75,386**	**74,894**	492	**73,524**

Equity and liabilities in € million

	31.3.2015	31.12.2014[1)]	Change	1.1.2014[1)]
Liabilities to other banks	2,871	3,187	-316	3,522
Liabilities to customers	10,367	10,593	-226	10,848
Securitised liabilities	47,871	47,827	44	46,858
Trading liabilities	2,083	1,960	123	1,453
Provisions	261	272	-11	209
Other liabilities	6,966	6,182	784	4,722
Income tax liabilities	114	88	26	70
Current tax liabilities	108	82	26	64
Deferred tax liabilities	6	6	—	6
Subordinated capital	1,265	1,279	-14	2,357
Liabilities	**71,798**	**71,388**	410	**70,039**
Equity attributable to equity holders	3,588	3,506	82	3,485
Subscribed capital	380	380	—	380
Silent partnership contribution	999	999	—	999
Additional paid-in capital	3,265	3,265	—	5,036
Retained earnings	-1,150	-1,154	4	-3,115
Profits/losses from pension commitments	-97	-79	-18	-41
Foreign currency reserve	3	2	1	1
Revaluation reserve	149	89	60	65
AfS reserve	-3	-100	97	-220
Cash flow hedge reserve	152	189	-37	285
Consolidated profit/loss 1.1.-31.3./31.12.	39	4	35	160
Equity	**3,588**	**3,506**	**82**	**3,485**
Total equity and liabilities	**75,386**	**74,894**	492	**73,524**

1) Adjusted in accordance with IAS 8.14 et.seq. Details are disclosed in note Consistency

Consolidated Statement of Changes in Equity

Consolidated statement of changes in equity in € million

	Equity attributable to equity holders									
							Revaluation reserve			
	Subscribed capital	Silent partnership contribution	Additional paid-in capital	Retained earnings	Profits/losses from pension commitments	Foreign currency reserve	AfS reserve	Cash flow hedge reserve	Consolidated profit/loss	Equity
Equity at 1.1.2014	**380**	**999**	**5,036**	**-3,115**	**-41**	**1**	**-220**	**285**	**160**	**3,485**
Capital increase	—	—	—	—	—	—	—	—	—	—
Transaction costs of capital measures	—	—	—	—	—	—	—	—	—	—
Treasury shares	—	—	—	—	—	—	—	—	—	—
Distribution	—	—	—	—	—	—	—	—	—	—
Total comprehensive income of the period	—	—	—	—	—	—	52	-18	43	77
Transfer to retained earnings	—	—	—	160	—	—	—	—	-160	—
Changes in the basis of consolidation	—	—	—	—	—	—	—	—	—	
Equity at 31.3.2014	**380**	**999**	**5,036**	**-2,955**	**-41**	**1**	**-168**	**267**	**43**	**3,562**
Equity at 1.1.2015	**380**	**999**	**3,265**	**-1,154**	**-79**	**2**	**-100**	**189**	**4**	**3,506**
Capital increase	—	—	—	—	—	—	—	—	—	—
Transaction costs of capital measures	—	—	—	—	—	—	—	—	—	—
Transfers	—	—	—	—	—	—	—	—	—	—
Treasury shares	—	—	—	—	—	—	—	—	—	—
Distribution	—	—	—	—	—	—	—	—	—	—
Total comprehensive income of the period	—	—	—	—	-18	1	97	-37	39	82
Transfer to retained earnings	—	—	—	4	—	—	—	—	-4	—
Changes in the basis of consolidation	—	—	—	—	—	—	—	—	—	
Proceeds from equity holder	—	—	—	—	—	—	—	—	—	—
Equity at 31.3.2015	**380**	**999**	**3,265**	**-1,150**	**-97**	**3**	**-3**	**152**	**39**	**3,588**

Consolidated Statement of Cash Flows (condensed)

Consolidated statement of cash flows (condensed) in € million

	2015	2014
Cash and cash equivalents at 1.1.	**57**	**3,532**
+/- Cash flow from operating activities	207	-3,651
+/- Cash flow from investing activities	1,300	448
+/- Cash flow from financing activities	-10	—
+/- Effects of exchange rate changes and non-cash valuation changes	—	—
Cash and cash equivalents at 31.3.	**1,554**	**329**

Notes (condensed)

1. Principles

Deutsche Pfandbriefbank Group (pbb Group) has prepared the condensed consolidated interim financial statements for the period ended 31 March 2015 in line with EC regulation No. 1606/2002 of the European Parliament and of the Council from 19 July 2002 in accordance with the 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 5 May 2015, the Management Board of Deutsche Pfandbriefbank AG (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 quarter of 2015:

- Amendments to IAS 19 (revised 2011) Employee Benefits: Defined Benefit Plans –Employee Contributions
- Annual Improvements Project:
  - Annual Improvements to IFRSs 2010–2012 Cycle
  - Annual Improvements to IFRSs 2011–2013 Cycle

Amendments to IAS 19 (revised 2011) The amendments to IAS 19 clarify the requirements regarding the attribution of employee contributions or contributions from third parties to periods of service when the contributions are linked to service. They also provide relief when contributions are independent of the number of years of service. The amendments are effective for financial years beginning on or after 1 July 2014. There were no impacts on these condensed consolidated interim financial statements.

Annual Improvements Project Annual Improvements to IFRSs 2010–2012 relates to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 38 and IAS 24, and Improvements to IFRSs 2011–2013 to IFRS 1, IFRS 3, IFRS 13 and IAS 40. The amendments are to be applied for the first time to reporting periods beginning on or after 1 July 2014. All the amendments and adjustments are either not relevant or of minor importance for pbb Group. For this reason there were no impacts on these condensed consolidated interim financial statements.

2. Consistency

Accounting of deferred tax assets and liabilities was changed in the reporting period according to IAS 8 et seq. Due to the newly established procedural conditions for offsetting deferred taxes in compliance with IAS 12.74, deferred tax assets and liabilities were initially disclosed on a net basis as of 31 March 2015. Previous year figures were adjusted accordingly.

3. Consolidation

On page 196, the Annual Report 2014 of pbb Group contains a list of all consolidated and non-consolidated investments of pbb. The basis of consolidation remained unchanged in in the first quarter 2015.

4. Notes to Segment Reporting by Operating Segment

With effect from 1 January 2015 public investment finance attributable to the country Italy are classified as non-strategic activities. For this reason, a portfolio with a notional amount of €1.3 billion was reclassified from the strategic Public Investment Finance (PIF) to the non-strategic Segment Value Portfolio (VP) in the segment report to be prepared in accordance with IFRS 8. In addition, the method of allocating the IFRS capital to the business segments was changed at the beginning of financial year 2015. Significant changes to the previous approach are as follows:

- IFRS equity is fully allocated to the segments and reconciliation column Consolidation & Adjustments (C&A) and without disclosure of surplus equity as in the previous approach.
- IFRS equity is now allocated to the operating segments and C&A proportionally and is thus consistent with the allocation of the diversified economic capital according to the gone-concern approach of risk management. As a consequence, the bank will achieve even better synchronisation between risk and profit management.

Allocation of diversified economic capital is based on the loss distribution across the segments in an expected shortfall approach with a confidence level of 99.0%. The confidence level selected concedes well-balanced consideration of credit spread-induced market and cluster risks.

The previous year's figures were adjusted as required by IAS 8.29. For comparison purposes, financial years 2012, 2013 and 2014 are also presented in this report according to the new methodology. Profit or loss before tax in the VP segment is favoured by the adjustments, while profit or loss before tax in the PIF segment and the C&A reconciliation column is burdened by the adjustments.

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

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

Value Portfolio (VP) The VP operating segment includes all the non-strategic portfolios and activities of pbb Group. In particular, the segment comprises budget financing, non-strategic public investment financings and selected structured products

Consolidation & Adjustments (C&A) 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 by Operating Segments

Income/expenses in € million

		REF	PIF	VP	C&A	pbb Group
Operating income	1.1.-31.3.2015	92	13	-14	2	93
	1.1.-31.3.2014[1)]	72	6	11	—	89
	1.1.-31.12.2014[1)]	282	35	1	8	326
	1.1.-31.12.2013[1)]	352	17	105	8	482
	1.1.-31.12.2012[1)]	284	14	164	5	467
Net interest and similar income	1.1.-31.3.2015	75	8	28	2	113
	1.1.-31.3.2014[1)]	72	7	9	1	89
	1.1.-31.12.2014[1)]	294	40	79	8	421
	1.1.-31.12.2013[1)]	258	24	30	7	319
	1.1.-31.12.2012[1)]	249	17	24	6	296
Net fee and commission income	1.1.-31.3.2015	7	—	—	—	7
	1.1.-31.3.2014[1)]	—	—	—	—	—
	1.1.-31.12.2014[1)]	2	—	-1	—	1
	1.1.-31.12.2013[1)]	10	1	-1	-1	9
	1.1.-31.12.2012[1)]	25	-1	-1	—	23
Net trading income	1.1.-31.3.2015	2	1	2	—	5
	1.1.-31.3.2014[1)]	-4	-1	-4	—	-9
	1.1.-31.12.2014[1)]	-13	-4	-13	—	-30
	1.1.-31.12.2013[1)]	-21	-6	-24	—	-51
	1.1.-31.12.2012[1)]	2	1	7	—	10
Net income from financial investments	1.1.-31.3.2015	13	6	-39	—	-20
	1.1.-31.3.2014[1)]	1	—	-2	—	-1
	1.1.-31.12.2014[1)]	14	3	-94	—	-77
	1.1.-31.12.2013[1)]	96	-1	1	—	96
	1.1.-31.12.2012[1)]	14	—	-1	—	13
Net income from hedging relationships	1.1.-31.3.2015	-1	—	—	—	-1
	1.1.-31.3.2014[1)]	-1	-1	-1	—	-3
	1.1.-31.12.2014[1)]	-2	—	-1	—	-3
	1.1.-31.12.2013[1)]	4	1	4	—	9
	1.1.-31.12.2012[1)]	-3	-1	-2	—	-6
Net other operating income/expenses	1.1.-31.3.2015	-4	-2	-5	—	-11
	1.1.-31.3.2014[1)]	4	1	9	-1	13
	1.1.-31.12.2014[1)]	-13	-4	31	—	14
	1.1.-31.12.2013[1)]	5	-2	95	2	100
	1.1.-31.12.2012[1)]	-3	-2	137	-1	131
Loan loss provisions	1.1.-31.3.2015	10	—	-6	—	4
	1.1.-31.3.2014[1)]	5	—	—	—	5
	1.1.-31.12.2014[1)]	-14	—	-7	—	-21
	1.1.-31.12.2013[1)]	-1	—	-7	—	-8
	1.1.-31.12.2012[1)]	5	-4	3	—	4
General and administrative expenses	1.1.-31.3.2015	-37	-6	-5	—	-48
	1.1.-31.3.2014[1)]	-39	-8	-15	—	-62
	1.1.-31.12.2014[1)]	-160	-31	-60	—	-251
	1.1.-31.12.2013[1)]	-147	-28	-136	-1	-312
	1.1.-31.12.2012[1)]	-139	-25	-176	-1	-341
Net miscellaneous income/expenses	1.1.-31.3.2015	2	—	—	—	2
	1.1.-31.3.2014[1)]	4	1	1	—	6
	1.1.-31.12.2014[1)]	—	—	—	—	—
	1.1.-31.12.2013[1)]	2	—	1	—	3
	1.1.-31.12.2012[1)]	-3	—	-3	—	-6

Income/expenses in € million

		REF	PIF	VP	C&A	pbb Group
Profit or loss before tax	**1.1.-31.3.2015**	**67**	**7**	**-25**	**2**	**51**
	1.1.-31.3.2014[1)]	**42**	**-1**	**-3**	**—**	**38**
	1.1.-31.12.2014[1)]	**108**	**4**	**-66**	**8**	**54**
	1.1.-31.12.2013[1)]	**206**	**-11**	**-37**	**7**	**165**
	1.1.-31.12.2012[1)]	**147**	**-15**	**-12**	**4**	**124**

1) Adjusted according to IFRS 8.29

Profit or loss before tax achieved in the first quarter of 2015 was burdened with €-79 million due to a further value adjustment on securities and a borrower's note loan relating to Heta Asset Resolution AG (Heta). With €-73 million, these were attributed to the net income from financial investments (recorded in full in the VP segment) and €-6 million were attributed to loan loss provisions (recorded in full in the VP segment). Further expenses amounting to €-3 million resulted from derivatives terminated in March 2015 that were in a hedging relationship with Heta loans and securities prior to the recognition of value adjustments on loans and securities in respect of Heta. Of these expenses, €-1 million related to the REF segment, €-1 million to the PIF segment and €-1 million to the VP segment.

In financial year 2014, profit or loss before tax was burdened by €-120 million due to value adjustments in respect of Heta and changes to the market value of the related hedging derivatives. With €-109 million, these were attributed to the net income from financial investments (recorded in full in the VP segment), €-8 million to loan loss provisions (recorded in full in the VP segment) and €-3 million to net trading income. Of the expenses in net trading income, €-1 million related to the REF segment, €-1 million to the PIF segment and €-1 million to the VP segment. Without these expenses, profit and loss before tax would have amounted to €174 million.

Key ratio in %

		REF	PIF	VP	C&A	pbb Group
Cost-income ratio[1)]	1.1.-31.3.2015	40.2	46.2	>100,0	—	51.6
	1.1.-31.3.2014[2)]	54.2	>100,0	>100,0	—	69.7
	1.1.-31.12.2014[2)]	56.7	88.6	>100,0	—	77.0
	1.1.-31.12.2013[2)]	41.8	>100,0	>100,0	12.5	64.7
	1.1.-31.12.2012[2)]	48.9	>100,0	>100,0	20.0	73.0

1) The cost-income ratio is the ratio of general and administrative expenses and operating income.
2) Adjusted according to IFRS 8.29

Key ratio in %

		REF	PIF	VP	C&A	pbb Group
Return on equity before tax	1.1.-31.3.2015	39.6	9.7	-4.9	1.3	5.9
	1.1.-31.3.2014	20.7	-0.5	-0.5	0.5	4.5
	1.1.-31.12.2014	14.2	0.9	-3.5	1.8	1.6
	1.1.-31.12.2013	27.8	-2.7	-2.1	1.6	5.0
	1.1.-31.12.2012	20.2	-4.0	-0.7	0.8	3.8

Key ratio in %

		REF	PIF	VP	C&A	pbb Group
Return on equity before tax	1.1.-31.3.2015	55.8	13.7	-6.8	1.8	8.3
without consideration	1.1.-31.3.2014	29.2	-0.7	-0.7	0.7	6.5
of silent partnership contribution	1.1.-31.12.2014	20.0	1.2	-4.9	2.6	2.2
of €999 million[1)]	1.1.-31.12.2013	40.0	-3.8	-3.1	2.3	7.2
	1.1.-31.12.2012	29.3	-5.8	-0.9	1.1	5.5

1) Besides the non-consideration of silent partnership contribution no further adjustment were carried out

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

Balance Sheet related measures by Operating Segments in € billion

		REF	PIF	VP	C&A	pbb Group
Equity[1]	31.3.2015	0.7	0.3	2.0	0.4	**3.4**
	31.12.2014[2]	0.7	0.5	1.8	0.4	**3.4**
	31.12.2013[2]	0.8	0.4	1.8	0.4	**3.4**
	31.12.2012[2]	0.8	0.4	1.7	0.4	**3.3**
Risk-weighted assets[3]	31.03.2015[4]	6.8	1.3	5.5	1.2	**14.8**
	31.12.2014[2][4]	7.2	1.3	5.5	1.5	**15.5**
	31.12.2013[2][4]	7.4	1.4	7.7	1.6	**18.1**
	31.12.2012[2][5]	9.6	1.4	3.8	0.5	**15.3**
Financing volumes	31.3.2015	23.5	6.8	22.2	—	**52.5**
	31.12.2014[2]	21.8	6.6	22.7	—	**51.1**
	31.12.2013[2]	20.4	5.7	25.1	—	**51.2**
	31.12.2012[2]	22.1	6.0	30.3	—	**58.4**

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) Consolidated in accordance with section 10 a of the German Banking Act (KWG)

6. Breakdown of Operating Income

Operating revenues by products in € million

	1.1.-31.3.2015	1.1.-31.3.2014[1]
Real estate finance	92	72
Strategic public investment finance	13	6
Other products	-12	11
Total	**93**	**89**

1) Adjusted in accordance with IFRS 8.29

Notes to the Consolidated Income Statement

In the period from 1 January to 31 March 2015 (reporting period) pbb Group recognised a profit or loss before tax of €51 million. In the period from 1 January to 31 March 2014 (previous year's reporting period) profit or loss before tax was at €38 million. Net income/loss amounted to €39 million (1.1.-31.3.2014: €43 million), return on equity after tax was at 4.5% (1.1.-31.3.2014: 5.1%). Without taking into account the silent participation the return on equity after tax would have been at 6.3% (1.1.-31.3.2014: 7.3%; 2014: 0.2%; 2013: 7.0%; 2012: 3.1%). Return on assets before tax amounted to 0.3% (1.1.-31.3.2014: 0.2%; 2014: 0.1%; 2013: 0.2%; 2012: 0.1%) and after tax 0.2% (1.1.-31.3.2014: 0.2%; 2014: 0.0%; 2013: 0.2%; 2012: 0.1%).

7. Net Interest and Similar Income

Net interest and similar income by categories of income/expenses in € million

	1.1.-31.3.2015	1.1.-31.3.2014
Interest and similar income	**540**	**583**
Lending and money-market business	317	331
Fixed-income securities and government-inscribed debt	143	156
Current result from swap transactions (net interest income and expense)	80	96
Interest and similar expenses	**-427**	**-494**
Liabilities to other banks and costumers	-83	-108
Securitised liabilities	-326	-357
Subordinated capital	-18	-29
Total	**113**	**89**

Net interest and similar income of the reporting period at €113 million was higher than the previous year figure of €89 million. Net interest and similar income benefited from an income of €15 million from a bonded loan disposal. Furthermore, the new business volume of €2.8 billion (1.1.-31.3.2014: € 1.6 billion) had a positive impact. The average notional volume of the REF portfolio increased from €20.8 billion in the first quarter 2014 to €22.5 billion in the first quarter 2015; the average notional volume of the PIF portfolio increased from €5.9 billion to €6.7 billion. Net income of €1 million 1.1.-31.3.2014: €2 million) resulted from prepayment and withdrawal penalties.

Interest income for financial assets that are measured at amortised cost, amount to €0.5 billion (1.1.-31.3.2014: €0.5 billion). Interest expenses for financial liabilities that are not measured at fair value through profit or loss amount to €-0.4 billion (1.1.-31.3.2014: €-0.5 billion).

8. Net Fee and Commission Income

Net fee and commission income in € million

	1.1.-31.3.2015	1.1.-31.3.2014
Securities and custodial services	-1	—
Lending operations and other service	8	—
Total	**7**	**—**

Net fee and commission income mainly results from the realisation of penalty fees amounting to €5 million for a French financing arrangement. The facility has since been repaid in full.

9. Net Trading Income

Net trading income in € million

	1.1.-31.3.2015	1.1.-31.3.2014
From interest rate instruments and related derivatives	4	-9
From foreign exchange instruments	1	—
Total	**5**	**-9**

Net trading income benefited from positive valuation effects of currency and interest rate derivatives (€16 million), but it was burdened by the so called pull-to-par effect (€-4 million). This effect resulted from movements of derivatives' present values over the term to zero on maturity. Further burdens were caused by the subsequent measurement of derivatives considering bilateral credit value adjustments (€-4 million) and by derivatives terminated in March 2015, which had been in a hedging relationship with Heta loans and securities before valuation adjustments were recognised (€-3 million).

As in the previous year's reporting period, pbb Group did not own any portfolios with the intention of generating short-term profits.

10. Net Income from Financial Investments

Net income from financial investments in € million

	1.1.-31.3.2015	1.1.-31.3.2014
Income from financial investments	54	1
Expenses from financial investments	-74	-2
Total	**-20**	**-1**

Net income from financial investments by IAS 39 categories in € million

	1.1.-31.3.2015	1.1.-31.3.2014
LaR financial investments	-20	-2
Not attributable to IAS 39 measurement categories	—	1
Total	**-20**	**-1**

Net income from financial investments was burdened with €-73 million due to an additional value adjustments of Heta securities. Further expenses arose from the disposal of bonds from an Austrian issuer. These expenses could be partly compensated by income amounting to €55 million from disposal of a security with a notional amount of £200 million.

€-1 million (1.1.-31.3.2014: €-2 million) were added to portfolio-based allowances on LaR securities.

In the previous year's reporting period an income of €1 million resulted from a subsequent payment for the entity Little Britain Holdings (Jersey) Ltd., which was sold in 2013.

11. Net Income from Hedging Relationships

Net income from hedging relationships in € million

	1.1.-31.3.2015	1.1.-31.3.2014
Result from fair value hedge accounting	-1	-3
Result from hedged items	184	-185
Result from hedging instruments	-185	182
Result from dFVTPL investments and related derivatives	—	—
Result from dFVTPL investments	—	—
Result from derivatives related to dFVTPL investments	—	—
Ineffectiveness from cash flow hedge accounting affecting profit or loss	—	—
Total	**-1**	**-3**

Net income from hedging relationships was due to hedging inefficiencies of micro fair value hedges, which are admissible according to IFRS.

12. Net Other Operating Income/Expenses

Net other operating income/expenses in € million

	1.1.-31.3.2015	1.1.-31.3.2014
Other operating income	14	15
Other operating expenses	-25	-2
Net other operating income/expenses	**-11**	**13**

Net income from other operating income/expenses was materially impacted by the bank levy amounting to €-22 million, which comprised the theoretical annual contribution 2015 of €-9 million and the post-clearing contribution of €-13 million. Due to the implementation of a new EU liquidation guidance in accordance with an interpretation of IFRIC 21 the annual contribution 2015 was not accrued for the first time but completely recognised in the reporting period. Income was generated from rents for taken-over properties (€3 million, 1.1.-31.3.2014: €2 million) and from foreign currency translation (€3 million, 1.1.-31.3.2014: €2 million). Income of €2 million (1.1.-31.3.2014: €1 million) was gained from cost clearing with HRE Holding. Further income amounting to €1 million each resulted from value-added tax refund and from the reversal of provisions for litigation cost.

13. Loan Loss Provisions

Loan loss provisions in € million

	1.1.-31.3.2015	1.1.-31.3.2014
Allowances for losses on loans and advances	3	3
Additions	-8	-2
Releases	11	5
Provisions for contingent liabilities and other commitments	—	—
Additions	—	—
Releases	—	—
Recoveries from written-off loans and advances	1	2
Total	**4**	**5**

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.

In the reporting period, the additions of €-8 million (1.1.-31.3.2014: €-2 million) fully related to specific allowances, which were attributable with €-6 million to a bonded loan from Heta. In the first quarter 2014 the additions were attributable to specific allowances (€-1 million) and portfolio-based allowances (€-1 million). Releases of €11 million (1.1.-31.3.2014: €5 million) related to €8 million of portfolio-based allowances (1.1.-31.3.2014: €2 million) and €3 million of specific allowances (1.1.-31.3.2014: €3 million). The releases of portfolio-based allowances resulted from rating upgrades. Recoveries from written-off loans and advances were at €1 million (1.1.-31.3.2014: €2 million).

14. General and Administrative Expenses

General and administrative expenses in € million

	1.1.-31.3.2015	1.1.-31.3.2014
Personnel expenses	-28	-27
Wages and salaries	-22	-20
Social security costs	-4	-5
Pension expenses and related employee benefit costs	-2	-2
Non-personnel expenses	-20	-35
Other general administrative expenses	-17	-32
Consulting expenses	-2	-5
IT expenses	-5	-16
Office and operating expenses	-3	-3
Other non-personnel expenses	-7	-8
Depreciation, amortisation and impairment	-3	-3
of software and other intangible assets excluding goodwill	-2	-3
of property and equipment	-1	—
Total	**-48**	**-62**

Cost-income ratio in %

	1.1.-31.3.2015	1.1.-31.3.2014
Cost-income ratio	51.6	69.7

Personnel expenses increased slightly in particular as a result of a higher average number of employees (842; 1.1.-31.3.2014: 826). Non-personnel expenses dropped due to lower IT and consulting expenses. Lower IT expenses resulted mainly from the largely termination of IT services for DEPFA and due to newly concluded framework contract with an external service provider. Due to fewer projects consulting expenses were lower than in the previous year's reporting period.

15. Net Miscellaneous Income/Expenses

Net miscellaneous income/expenses in € million

	1.1.-31.3.2015	1.1.-31.3.2014
Miscellaneous income	2	6
thereof:		
Releases of restructuring provisions	2	4
Miscellaneous	—	—
Thereof:		
Additions to restructuring provisions	—	—
Other taxes	—	—
Balance of other income/expenses	**2**	**6**

16. Income Taxes

Breakdown in € million

	1.1.-31.3.2015	1.1.-31.3.2014
Current taxes	-29	-8
Deferred taxes	17	13
Therof:		
Deferred taxes on capitalised losses carried forward	-35	8
Total	**-12**	**5**

Current taxes of €-29 million resulted mainly from a reverse tax effect in the current period from close-out transactions, which were undertaken in 2013.

17. Net Gains/Net Losses

Net gains/net losses in € million

	1.1.-31.3.2015	1.1.-31.3.2014
Loans and receivables	-1	5
Available for sale	—	1
Held for trading	5	-9
Financial liabilities at amortised cost	-5	-5

18. Earnings per Share

In accordance with the IAS 33, earnings per share are calculated by dividing consolidated profit/loss by the weighted average number of shares.

Earnings per share

	1.1.-31.3.2015	1.1.-31.3.2014
Consolidated profit/loss (in € million)	39	43
Average number of ordinary shares issued (pieces)	134,475,308	134,475,308
Adjusted average number of ordinary shares issued (pieces)	134,475,308	134,475,308
Basic earnings per share (in €)	**0.29**	**0.32**
Diluted earnings per share (in €)	**0.29**	**0.32**

Notes to the Statement of Financial Position

Total assets of pbb Group amounted to €75.4 billion as of 31 March 2015 (31 December 2014: €74.9). Cash reserve increased by €1.5 billion to €1.6 billion due to the short-term investment of liquidity from sales and repayments of securities, which, in turn, resulted in a decrease of financial investment by €0.8 billion. Furthermore, short-term loans and advances to other banks were shifted into the cash reserve. Loans and advances to customers rose on the one hand by €1.6 billion due to the increased notional volume of the paid out real estate financing and on the other hand by €0.5 billion due to fair value hedge adjustments as a consequence of the declined market interest level.

Balance sheet equity amounted to €3.6 billion as of 31 March 2015 (31 December 2014: €3.5 billion). No capital increases or reductions were implemented in the first quarter 2015. The item profits/losses from pension commitments reduced equity by €18 million as the discount rate used to measure the defined benefit pension obligations dropped from 2.0% as of 31 December 2014 to 1.5% as of 31 March 2015 in accordance with the market interest rate. ,

In financial year 2014, retained earnings increased by €30 million due to a payment by HRE Holding to compensate for payment obligations already accrued for in prior years in connection with the transfer of positions to FMS Wertmanagement in 2010. Additionally, a withdrawal was made from the additional paid-in capital pursuant to section 272 (2) nos. 1–3 HGB of €1,771 million to partially balance out the balance sheet loss in accordance with the German Commercial Code. In the IFRS consolidated financial statements, there was a reduction of €-1,771 million in additional paid-in capital with an increase of the same amount in retained earnings.

Total Assets Covenants As at 31 March 2015, pbb Group complied with all covenants relating to the total assets which had been imposed by the European Commission in connection with the approval of state aid. Because certain offsetting effects attributable to the transfer of selected positions to FMS Wertmanagement no longer exist, the adjusted total assets as at 31 March 2015 of €75.4 billion (31 December 2014: €74.9 billion) corresponded to total assets in accordance with IFRSs and were thus lower than the prescribed upper limit for 31 December 2015 of €107.0 billion (31 December 2014: €103.0 billion). At €53.5 billion (31 December 2014: €52.5 billion), strategic total assets – which have been additionally adjusted by the non-strategic public sector financing portfolio – also fell below the prescribed upper limit for 31 December 2015 of €86.0 billion (31 December 2014: €79.0 billion).

19. Trading Assets

Trading assets in € million

	31.3.2015	31.12.2014
Positive fair values from derivative financial instruments	2,110	2,016
Total	**2,110**	**2,016**

20. Loans and Advances to Other Banks

Loans and advances to other banks by type of business in € million

	31.3.2015	31.12.2014
Loans and advances	3,573	3,153
Public sector loans	1,109	1,136
Other loans and advances	2,464	2,017
Investments	589	3,647
Total	**4,162**	**6,800**

Loans and advances to other banks by maturities in € million

	31.3.2015	31.12.2014
Repayable on demand	2,472	2,011
With agreed maturities	1,690	4,789
up to 3 months	726	3,689
from 3 months to 1 year	16	132
from 1 year to 5 years	404	404
from 5 years and over	544	564
Total	**4,162**	**6,800**

21. Loans and Advances to Customers

Loans and advances to customers by type of business in € million

	31.3.2015	31.12.2014
Loans and advances	40,962	38,964
Public sector loans	17,562	17,125
Real estate loans	23,379	21,822
Other loans and advances	21	17
Investments	**40,962**	**38,964**
Total	40,962	38,964

Loans and advances to customers by maturities in € million

	31.3.2015	31.12.2014
Unspecified terms	525	591
With agreed maturities	40,437	38,373
up to 3 months	966	1,102
from 3 months to 1 year	2,661	2,349
from 1 year to 5 years	17,729	16,933
from 5 years and over	19,081	17,989
Total	**40,962**	**38,964**

22. Allowances for Losses on Loans and Advances

Development in € million

	Specific allowances	Portfolio-based allowances	Total
Balance at 1.1.2014	**-97**	**-51**	**-148**
Changes affecting income statement	-24	5	-19
Gross additions	-43	-5	-48
Releases	11	10	21
Increase of the present value due to passage of time (unwinding)	8	—	8
Changes not affecting profit or loss	28	1	29
Use of existing loan-loss allowances	32	1	33
Effects of currency translations and other changes	-4	—	-4
Balance at 31.12.2014	**-93**	**-45**	**-138**
Balance at 1.1.2015	**-93**	**-45**	**-138**
Changes affecting income statement	-3	8	5
Gross additions	-8	—	-8
Releases	3	8	11
Increase of the present value due to passage of time (unwinding)	2	—	2
Changes not affecting profit or loss	-1	—	-1
Use of existing loan-loss allowances	3	—	3
Effects of currency translations and other changes	-4	—	-4
Balance at 31.3.2015	**-97**	**-37**	**-134**

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

23. Financial Investments

Breakdown in € million

	31.3.2015	31.12.2014
AfS financial investments	4,981	4,906
Debt securities and other fixed-income securities	4,978	4,903
Equity securities and other variable-yield securities	3	3
LaR financial investments	14,695	15,569
Debt securities and other fixed-income securities	14,695	15,569
Total	**19,676**	**20,475**

The carrying amounts of the LaR financial investments were reduced by portfolio-based allowances amounting to €-10 million (2014: €-9 million).

Financial investments by maturities in € million

	31.3.2015	31.12.2014
Unspecified terms	3	3
With agreed maturities	19,673	20,472
up to 3 months	958	867
from 3 months to 1 year	3,065	3,067
from 1 year to 5 years	5,188	5,676
from 5 years and over	10,462	10,862
Total	**19,676**	**20,475**

24. Property and Equipment

Breakdown in € million

	31.3.2015	31.12.2014
Operating equipment	12	8
Total	**12**	**8**

Development of property and equipment in € million

	2015	2014
Operating equipment		
Acquisition/production costs		
Balance at 1.1.	**21**	**15**
Additions	5	7
Disposals	-2	-1
Balance at 31.3./31.12.	**24**	**21**
Amortisation/depreciation and write-ups	—	0
Balance at 1.1.	**-13**	**-14**
Depreciation	-1	—
Disposals	2	1
Balance at 31.3./31.12	**-12**	**-13**
Carrying amounts	—	—
Balance at 31.3./31.12	**12**	**8**

25. Intangible Assets

Breakdown in € million

	31.3.2015	31.12.2014
Purchased Software	1	1
Internally developed software	16	18
Other intangible assets	5	4
Total	**22**	**23**

Development of intangible assets in € million

	2015			
	Purchased Software	Internally developed software	Other intangible assets	Total
Acquisition/production costs				
Balance at 1.1.	**76**	**42**	**4**	**122**
Additions	—	—	1	1
Disposals	—	—	—	—
Balance at 31.3.	**76**	**42**	**5**	**123**
				—
Amortisation and write-ups	—	—	—	—
Balance at 1.1.	**-75**	**-24**	**—**	**-99**
Amortisation	—	-2	—	-2
Disposals	—	—	—	—
Balance at 31.3.	**-75**	**-26**	**—**	**-101**
				—
Carrying amounts				—
Balance at 31.3.	**1**	**16**	**5**	**22**

Development of intangible assets in € million

	2014			
	Purchased Software	Internally developed software	Other intangible assets	Total
Acquisition/production costs				
Balance at 1.1.	**77**	**51**	**2**	**130**
Additions	–	4	2	6
Disposals	-1	-13	—	-14
Balance at 31.12.	**76**	**42**	**4**	**122**
				—
Amortisation and write-ups	—	—	—	—
Balance at 1.1.	**-75**	**-24**	**—**	**-99**
Amortisation	-2	-9	—	-11
Disposals	2	9	—	11
Balance at 31.12.	**-75**	**-24**	**—**	**-99**
				—
Carrying amounts				—
Balance at 31.12.	**1**	**18**	**4**	**23**

26. Other Assets

Other assets in € million

	31.3.2015	31.12.2014
Positive fair values from derivative financial instruments	6,841	6,449
Hedging derivatives	6,841	6,449
Fair value hedge	6,368	5,975
Cash flow hedge	473	474
Salvage acquisitions	129	120
Other assets	13	81
Reimbursements under insurance contracts	9	9
Total	**6,992**	**6,659**

27. Income Tax Assets

Income tax assets in € million

	31.3.2015	31.12.2014[1)]
Current tax assets	28	29
Deferred tax assets	2	1
Total	**30**	**30**

1) Adjusted in accordance with IAS 8.14 et.seq. Details are disclosed in note Consistency

Deferred tax assets comprise capitalised temporary tax assets in conjunction with tax losses carried forward of €177 million (31 December 2014: €211 million) and other temporary tax assets.

According to section 8c paragraph 1 of the German Corporate Income Tax Act *(Körperschaftsteuergesetz)* it may be possible that tax losses carried forward will become unusable in the course of transferring pbb's shares to one or more acquirer. These deferred tax assets on tax losses carried forward amounting to €177 million would then have to be released through profit or loss.

Deferred tax assets due to unused tax losses carried forward were recognised, if it will be necessary according to IAS 12.34 et seq. and if there will be no change of the tax status according to SIC-25.

28. Liabilities to Other Banks

Liabilities to other banks by maturities in € million

	31.3.2015	31.12.2014
Repayable on demand	1,732	1,693
With agreed maturities	1,139	1,494
up to 3 months	117	529
from 3 months to 1 year	185	116
from 1 year to 5 years	299	305
from 5 years and over	538	544
Total	**2,871**	**3,187**

29. Liabilities to Customers

Liabilities to customers by maturities in € million

	31.3.2015	31.12.2014
Repayable on demand	1,008	1,154
With agreed maturities	9,359	9,439
up to 3 months	807	1,274
from 3 months to 1 year	1,860	1,328
from 1 year to 5 years	5,365	5,305
from 5 years and over	1,327	1,532
Total	**10,367**	**10,593**

30. Securitised Liabilities

Securitised liabilities by type of business in € million

	31.3.2015	31.12.2014
Debt securities in issue	25,190	25,330
Mortgage bonds	10,125	10,135
Public sector bonds	10,341	10,026
Other debt securities	4,704	5,169
Money market securities	20	—
Registered notes in issue	22,681	22,497
Mortgage bonds	5,936	5,912
Public sector bonds	14,836	14,715
Other debt securities	1,909	1,870
Total	**47,871**	**47,827**

Securitised liabilities by maturities in € million

	31.3.2015	31.12.2014
With agreed maturities		
up to 3 months	2,686	2,258
from 3 months to 1 year	4,752	5,166
from 1 year to 5 years	20,586	20,137
from 5 years and over	19,847	20,266
Total	**47,871**	**47,827**

31. Trading Liabilities

Trading liabilities in € million

	31.3.2015	31.12.2014
Negative fair values from derivative financial instruments	2,083	1,960
Total	**2,083**	**1,960**

32. Provisions

Breakdown in € million

	31.3.2015	31.12.2014
Provisions for pensions and similar obligations	140	115
Restructuring provisions	13	42
Provisions for contingent liabilities and other commitments	5	11
Other provisions	103	104
Thereof:		
Long-term liabilities to employees	2	2
Total	**261**	**272**

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 1.5% (31 December 2014: 2.0%) was used for the measurement of the defined benefit pension obligations. The other actuarial assumptions were unchanged compared to the consolidated financial statements 2014.

In the first quarter 2015, pbb and HRE Holding reached an agreement that all opportunities and risks arising from a property rented in a contractual relationship are transferred from pbb to HRE Holding. In return, pbb committed to pay compensation amounting to €24 million by 4 May 2015 after expiry of an objection period. Correspondingly, the restructuring provision previously created was used as of 31 March 2015 and a corresponding liability was recognised.

Other provisions comprise provisions for legal risks amounting to €71 million (31 December 2014: €77 million):

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.

In appraisal proceedings relating to the merger of three predecessor mortgage banks to form pbb in 2001, the new appraisal ordered by the court has resulted in an additional payment averaging €1.00 per share. The potential subsequent payment claims amount up to €9.4 million plus interest as from 2001.

The profit participation certificates issued by the predecessor institutions participated in significant losses due to the net losses for the period incurred since 2008, and to pbb's net accumulated losses since this time. The redemption amounts have reduced and interest paymant has been suspended. Individual investors therefore initiated legal proceedings, contesting in particular various individual clauses relating to loss participation and replenishment following loss participation. The key questions in this connection are which balance sheet items must be taken into account to calculate loss participation and whether replenishment is required if pbb records a net income, unappropriate retained earnings or a other income. The courts seized have decided against the legal view of pbb especially in view of the individual decisions regarding profit participation certificates. The bank has lodged appeals in these cases. The contested profit participation certificates had a notional amount of €221 million (of which proceedings involving a principal amount of €15.5 million were pending in which

the plaintiff is demanding a repayment of €6.3 million). These claims may ultimately result in a full or partial increase in the repayment claims and, if applicable, result in interest claims by the plaintiff.

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

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

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

33. Other Liabilities

Other liabilities in € million

	31.3.2015	31.12.2014
Negative fair values from derivative financial instruments	6,833	6,083
Hedging derivatives	6,833	6,083
Fair value hedge	6,339	5,649
Cash flow hedge	494	434
Other liabilities	133	99
Total	**6,966**	**6,182**

34. Income Tax Liabilities

Income tax liabilities in € million

	31.3.2015	31.12.2014[1)]
Current tax liabilities	108	82
Deferred tax liabilities	6	6
Total	**114**	**88**

1) Adjusted in accordance with IAS 8.14 et.seq. Details are disclosed in note Consistency

35. Subordinated Capital

Breakdown in € million

	31.3.2015	31.12.2014
Subordinated liabilities	920	939
Hybrid capital instruments	345	340
Total	**1,265**	**1,279**

Subordinated capital by maturities in € million

	31.3.2015	31.12.2014
With agreed maturities		
to 3 months	88	45
3 months to 1 year	286	150
1 year to 5 years	697	890
5 years and over	194	194
Total	**1,265**	**1,279**

Due the current accumulated loss of pbb the existing hybrid capital instruments were not serviced.

The unwinding of value adjusted instruments of subordinated capital led to an expense of €-5 million (1.1.-31.3.2014: €-5 million).

Notes to the Financial Instruments

36. Fair Values of Financial Instruments

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

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

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

Fair values of financial instruments in € million

	31.3.2015				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets	**75,171**	**77,797**	**15,783**	**29,538**	**32,476**
measured at fair value through profit or loss	8,478	8,478	—	8,420	58
measured at fair value through other comprehensive income	5,454	5,454	4,981	473	—
not measured at fair value in the balance sheet	61,239	63,865	10,802	20,645	32,418
Cash reserve	1,554	1,554	1,554	—	—
Trading assets (HfT)	2,110	2,110	—	2,110	—
Loans and advances to other banks	4,162	4,189	2,398	1,265	526
Category LaR	4,162	4,189	2,398	1,265	526
Loans and advances to customers[1)]	40,828	43,174	—	14,265	28,909
category LaR	40,828	43,174	—	14,265	28,909
Real Estate	22,946	24,283	—	—	24,283
Public Investment Finance	5,544	5,874	—	4,030	1,844
Value Portfolio	10,595	11,136	—	8,343	2,793
Consolidations & Adjustments	1,780	1,918	—	1,892	26
Portfolio-based allowances	-37	-37	—	—	-37
Financial investments	19,676	19,929	11,831	5,115	2,983
Category AfS	4,981	4,981	4,981	—	—
Category LaR	14,695	14,948	6,850	5,115	2,983
Other assets	6,841	6,841	—	6,783	58
Fair value hedge derivatives	6,368	6,368	—	6,310	58
Cash flow hedge derivatives	473	473	—	473	—
Financial liabilities	**71,336**	**73,131**	**22,200**	**10,204**	**40,727**
measured at fair value through profit or loss	8,422	8,422	—	8,395	27
measured at fair value through other comprehensive income	494	494	—	494	—
not measured at fair value in the balance sheet	62,420	64,215	22,200	1,315	40,700
Liabilities to other banks	2,871	3,037	1,730	—	1,307
Liabilities to customers	10,367	10,647	774	—	9,873
Securitised liabilities	47,871	49,298	19,684	1,315	28,299
Covered	41,238	42,749	16,195	1,180	25,374
Uncovered	6,633	6,549	3,489	135	2,925
Trading liabilities (HfT)	2,083	2,083	—	2,083	—
Other liabilities	6,879	6,879	12	6,806	61
Fair value hedge derivatives	6,339	6,339	—	6,312	27
Cash flow hedge derivatives	494	494	—	494	—
Other financial liabilities	46	46	12	—	34
Subordinated capital	1,265	1,187	—	—	1,187

1) Reduced by allowances for losses on loans and advances

Fair values of financial instruments in € million

	31.12.2014				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets	**74,623**	**76,959**	**13,345**	**31,390**	**32,224**
measured at fair value through profit or loss	7,991	7,991	—	7,916	75
measured at fair value through other comprehensive income	5,380	5,380	4,906	474	—
not measured at fair value in the balance sheet	61,252	63,588	8,439	23,000	32,149
Cash reserve	57	57	57	—	—
Trading assets (HfT)	2,016	2,016	—	2,016	—
Loans and advances to other banks	6,800	6,846	1,955	3,907	984
Category LaR	6,800	6,846	1,955	3,907	984
Loans and advances to customers[1)]	38,826	41,063	—	13,193	27,870
category LaR	38,826	41,063	—	13,193	27,870
Real Estate	21,664	22,858	—	—	22,858
Public Investment Finance	5,367	5,731	—	3,560	2,171
Value Portfolio	10,024	10,550	—	7,694	2,856
Consolidations & Adjustments	1,816	1,969	—	1,939	30
Portfolio-based allowances	-45	-45	—	—	-45
Financial investments	20,475	20,528	11,333	5,900	3,295
Category AfS	4,906	4,906	4,906	—	—
Category LaR	15,569	15,622	6,427	5,900	3,295
Other assets	6,449	6,449	—	6,374	75
Fair value hedge derivatives	5,975	5,975	—	5,900	75
Cash flow hedge derivatives	474	474	—	474	—
Financial liabilities	**70,954**	**73,105**	**17,778**	**13,715**	**41,612**
measured at fair value through profit or loss	7,609	7,609	—	7,601	8
measured at fair value through other comprehensive income	434	434	—	434	—
not measured at fair value in the balance sheet	62,911	65,062	17,778	5,680	41,604
Liabilities to other banks	3,187	3,322	1,690	317	1,315
Liabilities to customers	10,593	11,035	1,192	—	9,843
Securitised liabilities	47,827	49,388	14,884	5,363	29,141
Covered	40,967	42,541	12,194	5,168	25,179
Uncovered	6,860	6,847	2,690	195	3,962
Trading liabilities (HfT)	1,960	1,960	—	1,958	2
Other liabilities	6,108	6,108	12	6,077	19
Fair value hedge derivatives	5,649	5,649	—	5,643	6
Cash flow hedge derivatives	434	434	—	434	—
Other financial liabilities	25	25	12	—	13
Subordinated capital	1,279	1,292	—	—	1,292

1) Reduced by allowances for losses on loans and advances

As in the year 2014, no financial instruments measured at fair value were reclassified from Level 1 to Level 2 and vice versa in the first quarter 2015. Not all inputs for certain assets that were previously allocated to Level 2 and measured at fair value were observable on the market in first quarter 2015. As a result, assets recognised at fair value in the amount of €0 million (2014: €8 million) and financial liabilities in the amount of €3 million (2014: €0 million) were reclassified from Level 2 to Level 3. From 3 to level 2 assets recognised at fair value in the amount €20 million (2014: €17 million) and financial liabilities in the amount of €2 million (2014: €3 million) were reclassified because inputs were observable on the market again.

Disclosures to the Measurement Methods and Input Parameters

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

- identification data, such as business identification numbers or International Securities Identification Numbers (ISINs)

- static data such as notional amounts, name and country of the counterparty and (remaining) terms
- accounting data such as carrying amounts, accruals and the effects of hedge accounting

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

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

Level 2 instruments disclosed at fair value in the balance sheet as of 31.3.2015	Measurement methods	Observable parameters
Trading assets/liabilities	DCF methods	Cap volatilities Euro zone inflation rates Reference interest rates Saisonalities of Euro zone inflation rates Swaption volatilities Volatilities of Euro zone inflation caps Spot market exchange rates Yield curves
	Option pricing models	Cap volatilities Reference interest rates Swaption volatilities Spot market exchange rates Exchange rate volatilities Yield curves
Fair value hedge derivatives	DCF methods	Cap volatilities Reference interest rates Swaption volatilities Yield curves
	Option pricing models	Cap volatilities CMS Spread Options (strike prices) CMS Spread Options (option prices) Euro zone inflation rates Reference interest rates Saisonalities of Euro zone inflation rates Swaption volatilities Volatilities of Euro zone inflation caps Spot market exchange rates Exchange rate volatilities Yield curves
Cash flow hedge derivatives	DCF methods	Reference interest rates Yield curves
	Option pricing models	Cap volatilities CMS Spread Options (strike prices) CMS Spread Options (option prices) Reference interest rates Swaption volatilities Spot market exchange rates Exchange rate volatilities Yield curves

Level 3 instruments disclosed at fair value in the balance sheet as of 31.3.2015	Measurement methods	Non-oberservable parameters	Parameter range (average)
Fair value hedge derivatives	Option pricing models	ATM-Swaption-Vola GBP-XO3M beyond 30Y expiry	+32.66% (+32.66%)
		EUR-EONIA beyond 02/04/2065	+0.63% (+0.63%)
		EUR-EO6M beyond 02/04/2065	+0.75% (+0.75%)
		Historical index/ index correlations	-5.99% to +65.70% (+41.81%)
		Historical index/ exchange rate correlations	-14.42% bis +12.97% (+1.67%)

Sensitivities Although pbb Group believes that its estimates of fair values are appropriate, using reasonably possible alternative input factors will significantly impact the fair value. The following table shows the fair value sensitivity of level 3 instruments as of 31 March 2015 and as of 31 December 2014 which have been quantified on the basis of the specified valuation parameters taking account usual market scenarios:

Sensitivities of Level 3 instruments in € million

	31.03.2015		31.12.2014	
	Positive changes	Negative changes	Positive changes	Negative changes
Assets				
Financial assets at fair value through profit or loss				
Fair value hedge derivatives	0.1	-0.1	—	—
Total	**0.1**	**-0.1**	**—**	**—**
Liabilities				
Financial liabilities at fair value through profit or loss				
Trading liabilities	—	—	0.7	-0.7
Fair value hedge derivatives	1.0	-1.0	0.5	-0.5
Total	**1.0**	**-1.0**	**1.2**	**-1.2**

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

Changes in Level 3 Financial Assets and Financial Liabilities measured at Fair Value

Changes in Level 3 financial assets in € million

	Financial assets at fair value through profit or loss		Financial assets at fair value through OCI	
	Trading assets	Fair value hedge derivatives	Cash flow hedge derivatives	Total
Balance at 1.1.2014	**—**	**79**	**4**	**83**
Comprehensive income recognised in	—	—	—	**—**
Profit or loss	—	2	-1	1
Revaluation reserve	—	—	—	—
Purchases	—	19	—	**19**
Sales	—	-19	—	**-19**
Issues	—	—	—	**—**
Settlements	—	—	—	**—**
Reclassifications into Level 3	—	8	—	**8**
Reclassifications out of Level 3	—	-14	-3	**-17**
Balance at 31.12.2014	**—**	**75**	**—**	**75**
	—	—	—	**—**
Balance at 1.1.2015	**—**	**75**	**—**	**75**
Comprehensive income recognised in	—	—	—	**—**
Profit or loss	—	3	—	3
Revaluation reserve	—	—	—	—
Purchases	—	—	—	**—**
Sales	—	—	—	**—**
Issues	—	—	—	**—**
Settlements	—	—	—	**—**
Reclassifications into Level 3	—	—	—	**—**
Reclassifications out of Level 3	—	-20	—	**-20**
Balance at 31.3.2015	**—**	**58**	**—**	**58**

Changes in Level 3 financial liabilities in € million

	Financial liabilities at fair value through profit or loss		Financial liabilities at fair value through OCI	
	Trading assets	Fair value hedge derivatives	Cash flow hedge derivatives	Total
Balance at 1.1.2014	**2**	**10**	**—**	**12**
Comprehensive income recognised in	—	—	—	**—**
Profit or loss	—	-1	—	-1
Revaluation reserve	—	—	—	—
Purchases	—	—	—	**—**
Sales	—	—	—	**—**
Issues	—	—	—	**—**
Settlements	—	—	—	**—**
Reclassifications into Level 3	—	—	—	**—**
Reclassifications out of Level 3	—	-3	—	**-3**
Balance at 31.12.2014	**2**	**6**	**—**	**8**
	—	—	—	**—**
Balance at 1.1.2015	**2**	**6**	**—**	**8**
Comprehensive income recognised in	—	—	—	**—**
Profit or loss	—	18	—	18
Revaluation reserve	—	—	—	—
Purchases	—	—	—	**—**
Sales	—	—	—	**—**
Issues	—	—	—	**—**
Settlements	—	—	—	**—**
Reclassifications into Level 3	—	3	—	**3**
Reclassifications out of Level 3	-2	—	—	**-2**
Balance at 31.3.2015	**—**	**27**	**—**	**27**

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

Assets and Liabilities According to Measurement Categories and Classes

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

Asset and liabilities according to measurement categories and classes in € million

	31.3.2015	31.12.2014
Assets	**75,171**	**74,623**
Loans-and-receivables (LaR)	59,685	61,195
Available-for-sale (AfS)	4,981	4,906
Held-for-trading (HfT)	2,110	2,016
Cash reserve	1,554	57
Positive fair values from hedging derivatives	6,841	6,449
Liabilities	**71,290**	**70,954**
Held-for-trading (HfT)	2,083	1,960
Financial liabilities at amortised cost	62,374	62,911
Negative fair values from hedging derivatives	6,833	6,083

37. Exposure to Selected European Countries

Exposure to selected Eurpean countries as of 31 March 2015 in € million

			Carrying amount						
Country	Counterparty	IAS 39 category	up to 3 months	3 months to 1 year	1 year to 5 years	5 years and over	Total	Notional amount	Fair value
Italy	**Sovereign**	LaR	—	—	295	372	**667**	593	638
		AfS	—	41	—	1,710	**1,751**	1,100	1,751
	Sub-sovereign	LaR	—	—	25	950	**975**	928	860
	State-guaranteed	LaR	—	—	—	—	**—**	—	—
Portugal	**Sovereign**	LaR	—	—	46	—	**46**	42	47
		AfS	—	—	49	144	**193**	165	193
	Sub-sovereign	LaR	—	—	130	200	**330**	330	277
	State-guaranteed	LaR	—	—	100	330	**430**	405	399
Spain	**Sovereign**	LaR	—	—	—	10	**10**	10	10
		AfS	—	794	—	—	**794**	765	794
	Sub-sovereign	LaR	—	399	847	645	**1,891**	1,699	1,883
		HFT	—	—	—	6	**6**	35	6
	State-guaranteed	LaR	—	41	—	146	**187**	170	190

Exposure to selected Eurpean countries as of 31 December 2014 in € million

			Carrying amount						
Country	Counterparty	IAS 39 category	up to 3 months	3 months to 1 year	1 year to 5 years	5 years and over	Total	Notional amount	Fair value
Italy	**Sovereign**	LaR	85	—	293	373	**751**	675	714
		AfS	—	41	—	1,565	**1,606**	1,100	1,606
	Sub-sovereign	LaR	—	—	19	951	**970**	927	837
	State-guaranteed	LaR	—	—	—	—	**—**	—	—
Portugal	**Sovereign**	LaR	—	—	43	—	**43**	39	43
		AfS	—	—	49	136	**185**	165	185
	Sub-sovereign	LaR	—	—	130	200	**330**	330	271
	State-guaranteed	LaR	—	—	100	329	**429**	405	367
Spain	**Sovereign**	LaR	—	—	—	10	**10**	10	10
		AfS	103	792	—	—	**895**	865	895
	Sub-sovereign	LaR	11	308	889	677	**1,885**	1,710	1,853
		HFT	—	—	—	5	**5**	35	5
	State-guaranteed	LaR	—	—	63	149	**212**	193	214

As of 31 March 2015 and as of 31 December 2014 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 of those states.

The exposure to selected countries shown in the table contains loans and advances and securities. In addition, it shows interest rate derivatives to sovereign and sub-sovereign counterparties. The interest rate derivatives are netted with collaterals. Time lags in providing the collaterals and haircuts are not taken into account. State-guaranteed exposure contains for example loans and advances to banks and corporations which are guaranteed by sovereigns or sub-sovereigns. As of 31 March 2015 and as of 31 December 2014 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 through profit or loss changes in value are directly included in the book value. pbb Group tests financial assets which are not measured at fair value through profit or loss for impairments. Allowances for loans and advance or impairments for securities are created if there is objective evidence that it is not possible to recover the entire amount which is due according with the original contractual conditions. As per 31 March 2015 and as of 31 December 2014 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.

38. Past Due but Not Impaired Assets

LaR Assets The following table shows the total portfolio of the partly or completely past due but not impaired loans and advances as of 31 March 2015 and as of 31 December 2014. However, no specific allowances were made for these assets respectively the underlying collaterals as pbb Group does not consider that there is any issue regarding their recoverability. Such timing issues in receipts of payments due occur regularly (up to three months) in the normal course of business and are not considered to be an evidence for impairment.

LaR assets: past due but not impaired (total investment) in € million

	31.3.2015	31.12.2014
up to 3 months	15	32
from 3 months to 6 months	5	10
from 6 months to 1 year	7	7
from 1 year and over	10	10
Total	**37**	**59**

Carrying amounts LaR assets in € billion

	31.3.2015	31.12.2014
Carrying amount of LaR assets that are neither impaired nor past due	59.2	60.5
Carrying amount of LaR assets that are past due but not impaired (total investment)	—	0.1
Carrying amount of individually assessed impaired LaR assets (net)	0.6	0.6
Balance of specific allowances	0.1	0.1
Balance of portfolio-based allowances	—	0.1
Total	**59.9**	**61.4**
thereof:		
Loans and advances to other banks (including investments)	4.2	6.8
Loans and advances to customers (including investments)	41.0	39.0
Financial investments (gross)	14.7	15.6

AfS Assets As of 31 March 2015 and as of 31 December 2013 pbb Group had neither past due and not impaired nor impaired AfS financial investments in the portfolio.

39. Restructured Loans and Advances

In the first quarter 2015 and in the financial year 2014 restructured loans and advances resulted mainly from standstill agreements and suspending contractual agreements.

Restructured loans and advances in € million

	31.3.2015	31.12.2014
Carrying amount of loans and advances that are neither impaired nor past due	1,147	1,048
Carrying amount of loans that are past due but not impaired (gross)	6	12
Carrying amount of individually assessed impaired loans and advances (gross)	135	241
Total	**1,288**	**1,301**

Other Notes

40. Contingent Liabilities and Other Commitments

Contingent liabilities and other commitments in € million

	31.3.2015	31.12.2014
Contingent liabilities	**128**	**84**
Guarantees and warranties	128	84
Performance guarantees and warranties	128	84
Other commitments	**1,894**	**2,238**
Irrevocable loan commitments	1,894	2,238
Guarantees	18	6
Mortgage and public sector loans	1,876	2,232
Total	**2,022**	**2,322**

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

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

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 Finanzmarktstabilisierungsfonds-FMS.

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

41. Key Regulatory Capital Ratios

In accordance with the waiver regulation set out in Section 7 of the Capital Requirements Regulation (CRR), pbb is exempted from the requirement to establish the equity and core capital ratios.

The Management Board of HRE 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 4.5%, the Tier 1 ratio (Tier 1/risk-weighted assets) may not fall below 6.0% and the own funds ratio (own funds/risk-weighted assets) may not fall below 8.0% in 2014.

Due to the "Equity Waiver", approved by Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), a CET1 ratio of 7% (without consideration of any transitional regulations) is defined as the main objective criterion.

These requirements with respect to the regulatory capital ratios were satisfied throughout the whole first quarter of 2015.

With its "Guidelines for common procedures and methodologies for the supervisory review and evaluation process" (SREP Guidelines) in December 2014, the EBA proposed a uniform procedure to be used by the ECB in reviewing and assessing institutions. The primary areas of focus are credit, market price and operational risks, interest rate fluctuation risks in the investment book, risks of excessive indebtedness, liquidity risks and their management. As part of the monitoring, minimum ratios including the CET1 ratio and the own funds ratio were prescribed for HRE on 12 March 2015. These ratios were met as of 31March 2015. The ratios will be newly established in the course of an annual assessment in the seconds half 2015. The levels of these future ratios cannot be estimated at present, especially because EBA is planning a new calibration of its measurement methods.

HRE

Own funds HRE in € million

	31.3.2015	31.3.2015 Basel III fpi[1)]	31.12.2014	31.12.2014 Basel III fpi[1)]
CET1	2,997	2,966	2,996	2,870
Additional Tier 1	—	—	—	—
Tier 1	2,997	2,966	2,996	2,870
Tier 2	—	—	—	—
Own funds	**2,997**	**2,966**	**2,996**	**2,870**

1) After expiry of all Basel III transitional regulations

Risk-weighted assets (RWA)[1)] HRE in € million

	31.3.2015	31.3.2015 Basel III fpi[2)]	31.12.2014	31.12.2014 Basel III fpi[2)]
Market risks	56	56	217	217
thereof interest rate risks	—	—	—	—
thereof foreign exchange risks	56	56	217	217
Operational risks	949	949	949	949
Credit risks	13,703	13,703	14,261	14,261
thereof CVA charge	420	420	445	445
Other RWA	6	6	1	1
RWA total	**14,714**	**14,714**	**15,428**	**15,428**

1) Including weighted credit risk positions and capital charges for market risk positions and operational risk, using a scaling factor of 12.5
2) After expiry of all Basel III transitional regulations

Capital ratios HRE in %

	31.3.2015	31.3.2015 Basel III fpi[1)]	31.12.2014	31.12.2014 Basel III fpi[1)]
CET1 ratio	20.4	20.2	19.4	18.6
Tier 1 ratio	20.4	20.2	19.4	18.6
Own funds ratio	20.4	20.2	19.4	18.6

1) After expiry of all Basel III transitional regulations

pbb Group

Own funds pbb Group in € million

	31.3.2015	31.3.2015 Basel III fpi[1)]	31.12.2014	31.12.2014 Basel III fpi[1)]
CET1	3,319	2,191	3,364	2,090
Additional Tier 1	189	999	195	999
Tier 1	3,508	3,190	3,559	3,089
Tier 2	451	304	483	334
Own funds	**3,959**	**3,494**	**4,042**	**3,423**

1) After expiry of all Basel III transitional regulations

Risk-weighted assets (RWA)[1] pbb Group in € million

	31.3.2015	31.3.2015 Basel III fpi[2]	31.12.2014	31.12.2014 Basel III fpi[2]
Market risks	56	56	217	217
thereof interest rate risks	—	—	—	—
thereof foreign exchange risks	56	56	217	217
Operational risks	1,010	1,010	1,010	1,010
Credit risks	13,703	13,703	14,261	14,261
thereof CVA charge	420	420	445	445
Other RWA	6	6	1	1
RWA total	**14,775**	**14,775**	**15,489**	**15,489**

1) Including weighted credit risk positions and capital charges for market risk positions and operational risk, using a scaling factor of 12.5
2) After expiry of all Basel III transitional regulations

Capital ratios pbb Group in %

	31.3.2015	31.3.2015 Basel III fpi[1]	31.12.2014	31.12.2014 Basel III fpi[1]
CET1 ratio	22.5	14.8	21.7	13.5
Tier 1 ratio	23.7	21.6	23.0	19.9
Own funds ratio	26.8	23.6	26.1	22.1

1) After expiry of all Basel III transitional regulations

42. 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 first quarter 2015, pbb and HRE Holding reached an agreement that all opportunities and risks arising from a property rented in a contractual relationship are transferred from pbb to HRE Holding. In return, pbb committed to pay compensation amounting to €24 million by 4 May 2015 after expiry of an objection period. Correspondingly, the restructuring provision previously created was used as of 31 March 2015 and a corresponding liability was recognised.

IT services rendered to DEPFA have largely expired at the end of 2014. From these services pbb Group generated a net income of less than €1 million (1.1.-31.3.2014: €7 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.

43. Employees

Average number of employees

	1.1.-31.3.2015	1.1.-31.12.2014
Employees (excluding apprentices)	842	838
thereof: senior staff in Germany	17	17
Total	**842**	**838**

44. Significant Events after 31 March 2015

With effect from 1 April 2015, the Supervisory Boards of HRE and pbb have decided to break up the current identical constellation of the Management Boards at both entities. As part of these changes, Wolfgang Groth resigned from the pbb Management Board. With effect from 1 April 2015, in the course of the regulatory responsibility the superordinate institution changed from HRE Holding to pbb.

On 30 April 2015, pbb decided to discontinue the rating mandates for unsecured ratings of Fitch Ratings and Moody's Investor Service. The decision to withdraw the ratings lies with the rating agencies. The rating mandate of Standard & Poor's remains for unsecured ratings and Pfandbrief ratings. Continuing the rating mandate of Moody's Investor Service is currently under review.

No further significant events took place after 31 March 2015.

Munich, 5 May 2015

Deutsche Pfandbriefbank Aktiengesellschaft
The Management Board

Andreas Arndt Thomas Köntgen Andreas Schenk Dr. Bernhard Scholz

26.2 Audited Consolidated Financial Statements of Deutsche Pfandbriefbank AG Prepared in Accordance with IFRS as of and for the Financial Year Ended December 31, 2014 (with Comparative Figures for the Financial Year Ended December 31, 2013)

Consolidated income statement

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

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

Consolidated Statement of Comprehensive Income

Consolidated statement of comprehensive income

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

Components of consolidated statement of comprehensive income

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

Consolidated Statement of Financial Position

Assets

in € million	Notes	31.12.14	31.12.13[1)2)]	Change	1.1.13[1)2)]
Cash reserve	9, 43	57	3,532	-3,475	1,929
Trading assets	10, 44	2,016	1,642	374	3,325
Loans and advances to other banks	11, 45	6,800	6,685	115	8,917
Loans and advances to customers	11, 46	38,964	36,242	2,722	49,590
Allowances for losses on loans and advances	12, 47	-138	-148	10	-325
Financial investments	13, 48	20,475	20,725	-250	25,326
Property and equipment	14, 49	8	1	7	2
Intangible assets	15, 50	23	31	-8	39
Other assets	16, 51	6,659	4,769	1,890	7,242
Income tax assets	25, 52	654	1,162	-508	1,701
Current tax assets		29	44	-15	53
Deferred tax assets		625	1,118	-493	1,648
Total assets		**75,518**	**74,641**	**877**	**97,746**

Equity and liabilities

in € million	Notes	31.12.14	31.12.13[1)2).]	Change	1.1.2013[1)2).]
Liabilities to other banks	17, 56	3,187	3,522	-335	7,797
Liabilities to customers	17, 57	10,593	10,848	-255	11,895
Securitised liabilities	17, 58	47,827	46,858	969	52,296
Trading liabilities	18, 59	1,960	1,453	507	3,192
Provisions	19, 60	272	209	63	235
Other liabilities	20, 61	6,182	4,722	1,460	14,438
Income tax liabilities	25, 62	712	1,187	-475	1,695
Current tax liabilities		82	64	18	64
Deferred tax liabilities		630	1,123	-493	1,631
Subordinated capital	21, 63	1,279	2,357	-1,078	2,910
Liabilities		**72,012**	**71,156**	**856**	**94,458**
Equity attributable to equity holders		**3,506**	**3,485**	**21**	**3,288**
Subscribed capital	64	380	380	–	380
Silent partnership contribution	22, 64	999	999	–	999
Additional paid-in capital	64	3,265	5,036	-1,771	5,036
Retained earnings	64	-1,154	-3,115	1,961	-3,184
Profits/losses from pension commitments	19	-79	-41	-38	-46
Foreign currency reserve	24	2	1	1	2
Revaluation reserve	8	89	65	24	32
AfS reserve		-100	-220	120	-360
Cash flow hedge reserve		189	285	-96	392
Consolidated profit/loss 1.1.–31.12.		4	160	-156	69
Equity		**3,506**	**3,485**	**21**	**3,288**
Total equity and liabilities		**75,518**	**74,641**	**877**	**97,746**

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

Consolidated Statement of Cash Flows

Consolidated statement of cash flows[1)]

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

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

Consolidated Statement of Changes in Equity

Consolidated statement of changes in equity

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

1) As disclosed in consolidated financial statements 2012. Retrospective IAS 19 (revised 2011) first time adoption took effect in 2013.

2) Details are disclosed in Note «Principles».

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1 General Information

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

Accounting Policies

2 Principles

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

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

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

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

> IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements (revised 2011)

> IFRS 11 Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures (revised 2011)

> IFRS 12 Disclosure of Interests in Other Entities

> Amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities: Transition Guidance

> Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements: Investment Entities

> Amendments to IAS 32: Offsetting Financial Assets and Financial Liabilities

> Amendments to IAS 36: Recoverable Amount Disclosures for Non Financial Assets

> Amendments to IAS 39: Novation of Derivatives and Continuation of Hedge Accounting

IFRS 10 and IAS 27 (revised 2011) IFRS 10 replaces the guidance on control and consolidation previously contained in IAS 27 and SIC-12. IFRS 10 introduces the concept of control as the basis for consolidation. Under this model, parent-subsidiary relationships can arise not only from voting power, but from other contractual arrangements as well. IAS 27 was renamed Separate Financial Statements and now deals only with separate financial statements; SIC-12 was withdrawn.

Due to the retrospective first-time application of IFRS 10, the formerly consolidated company House of Europe Funding I Ltd., George Town, no longer requires consolidation. The deconsolidation resulted in a reduction in the balance sheet total of €202 million as of 31 December 2013 (2012: €254 million), which affected the cash reserve (€0 million, 2012: €8 million), financial investments (€167 million; 2012: €246 million) and loans and advances to other banks (€35 million; 2012: €0 million) on the assets side, and securitised liabilities (€202 million; 2012: €254 million) on the liabilities side. The deconsolidation did not affect the consolidated income statement.

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

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

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

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

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

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

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

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

Standards, Interpretations and Amendments Endorsed by the EU but Not Yet Effective The following standards, interpretations and amendments were endorsed by the EU as of the balance sheet date but are not yet applicable and were not voluntarily applied early:

> IFRIC Interpretation 21 Levies

> Amendments to IAS 19 (revised 2011) Employee Benefits: Defined Benefit Plans – Employee Contributions

> Annual Improvements to IFRSs 2010–2012 Cycle

> Annual Improvements to IFRSs 2011–2013 Cycle

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

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

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

Standards, Interpretations and Amendments Issued but Not Yet Endorsed by the EU In addition, standards, interpretations and amendments were issued, but had not yet been endorsed by the European Union and not applied early by pbb Group as at the reporting date. The dates of the first application for the following standards are subject to endorsement by the European Union:

> IFRS 9 – Financial Instruments

> IFRS 14 Regulatory Deferral Account

> IFRS 15 Revenue from Contracts with Customers

> Amendments to IFRS 10, IFRS 12 and IFRS 28: Investment Entities – Applying the Consolidation Exception

> Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture

> Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations

> Amendments to IAS 1: Disclosure Initiative

> Amendments to IAS 16 and IAS 41: Bearer Plants

> Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

> Amendments to IAS 27: Equity Method in Separate Financial Statements

> Annual Improvements to IFRSs 2012–2014 Cycle

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

The Classification and Measurement phase provides the following measurement categories for the classification of financial instruments:

> at fair value through profit or loss

> at fair value through other comprehensive income

> at amortised cost

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

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

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

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

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

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

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

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

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

Amendments to IAS 1 With the amendment to IAS 1, the concept of materiality is highlighted further with the aim of relieving IFRS financial statements of unimportant information thus promoting the provision of relevant information. For this purpose it is clarified that the concept of materiality must be applied to all components of the IFRS financial statements, which should prevent the shifting of irrelevant information from other parts of the financial statements to the Notes. Corresponding to this, it is clarified that unimportant information is also not separately recognised if its presentation in an IFRS standard is explicitly required. This also applies if certain minimum items are required. In addition, the following items continue to be regulated, clarified or suggested by the amendments to IAS 1:

> Presentation of subtotals

> Structure of the Notes, for instance depending on the relevance of the information for an understanding of the net assets, financial position and results of operations

> Disclosures regarding accounting methods

> Presentation of results of companies measured according to the equity method in the statement of comprehensive income as an independent item

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

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

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

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

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

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

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

3 Consistency

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

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

In the context of the de-consolidation of units accounted for in foreign currency prior to the period recognised as the earliest in these consolidated financial statements, pbb Group carried forward the foreign currency reserve attributable to the de-consolidated units in equity. In these consolidated financial statements, pbb Group adjusted these foreign currency reserves in the statement of financial position as of 31 December 2013 and as of 1 January 2013 as well as in the consolidated statement

of changes in equity for 2013 against retained earnings pursuant to IAS 8.42 with retrospective effect with no effect on profit and loss. The foreign currency reserve was adjusted commensurately as of 31 December 2013 and 1 January 2013 by €31 million respectively, and retained earnings were adjusted commensurately as of 31 December 2013 and 1 January 2013 by €-31 million respectively.

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

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

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

4 Uniform Consolidated Accounting

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

5 Consolidation

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

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

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

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

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

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

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

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

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

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

6 Disclosures of Interests in Subsidiaries

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

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

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

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

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

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

7 Disclosures of Interests in Associates

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

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

8 Financial Instruments

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

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

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

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

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

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

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

Held-for-Trading A financial asset or a financial liability is held for trading if it is:

> acquired or incurred principally for the purpose of selling or repurchasing it in the near term,

> part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or

> a derivative (except for a derivative that is a designated and effective hedging instrument).

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

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

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

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

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

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

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

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

AfS financial assets are measured at fair value. Changes in fair value are recognised in a separate item of equity (AfS reserve) not affecting profit or loss until the asset is sold, withdrawn or otherwise disposed of or if an impairment is established for the financial asset in accordance with IAS 39.58 et

seq., so that the cumulative loss previously recognised in equity is now recognised in profit or loss. If the objective evidence for the impairment of an AfS debt instrument drops out, the impairment has to be reversed through profit or loss. On the other hand, impairments of an AfS equity instrument which have been recognised in profit or loss are not permitted to be reversed through profit or loss.

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

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

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

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

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

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

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

Impairment According to IAS 39.58 a financial asset must be tested for impairment. At each balance sheet date pbb Group assesses on a case-by-case basis whether there is objective evidence for impairment. The criteria used to determine if there is such objective evidence included:

> significant financial difficulties of the borrower

> overdue contractual payments of either principal or interest or other breaches of contract

> increased probability that the borrower will enter bankruptcy or other financial reorganisation

> renegotiations due to economic problems

> a decline in the fair value of a financial asset below its (amortised) cost

Receivables at risk of default are restructured by pbb Group if the borrower's financial position has deteriorated but a positive going-concern forecast for the loan exposure can still be carried out. This is carried out by changing the underlying terms and conditions or side agreements by means of a unilateral or mutual declaration of intent. Restructuring agreements should maximise opportunities for pbb Group to realise its outstanding receivables or at least minimise the risk of default of the loan

exposure. These generally include inter alia standstill agreements, changed interest payment/ repayment terms, interest/repayment reductions or the suspension of contractual agreements (e.g. financial covenants) so that the borrower is again able to meet their payment obligations. The credit risk associated with restructured loans is managed by the Group's Credit Risk Management units. The methods used to measure and manage risk are presented in the section of the risk and opportunity report entitled «Credit Risk». Further information is provided in the Note «Restructured Loans and Advances».

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

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

To measure the impairment loss, the following factors are especially considered:

> pbb Group's aggregate exposure to the customer

> the amount and timing of expected interest and redemption payments

> the realisable value of collateral and likelihood and time of successful repossession

> the likely deduction of any costs involved in recovering amounts outstanding

> the market price of the asset if available

For the purpose of calculating portfolio-based allowances, financial assets measured at amortised cost for which no impairment has been identified on an individual basis are grouped in portfolios according to their credit risk. The portfolio-based allowances cover impairments which have been incurred but not yet been identified. The parameters used to determine portfolio-based allowances are checked regularly and adjusted if necessary. The allowances are determined after taking into account the following factors:

> historical loss experience in portfolios of similar credit risk characteristics

> a judgement whether current economic conditions and credit conditions improved or deteriorated compared to the past

> the estimated period between impairment occurring and the impairment being identified

> state of the current economic cycle

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

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

If the hedge of the fair value in the course of the reporting period meets the criteria of IAS 39.88, the hedge is accounted as follows:

> The profit or loss arising when the hedging instrument is remeasured at fair value (for a derivative hedging instrument) or the currency component of its carrying amount measured in accordance with IAS 21 (for non-derivative hedging instruments) is recognised in profit or loss for the period and

> The carrying amount of a hedged item is adjusted by the profit or loss arising from the hedged item and attributable to the hedged risks, and is recognised in profit or loss for the period. This is

applicable if the hedged item is otherwise measured at cost. The profit or loss attributable to the hedged risk is recognised in profit or loss for the period if the hedged item is an available-for-sale (AfS) financial asset. The amortisation of the hedge adjustment is started on the date of the revoking of the hedge relationship.

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

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

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

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

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

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

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

9 Cash Reserve

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

10 Trading Assets

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

11 Loans and Advances

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

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

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

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

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

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

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

13 Financial Investments

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

14 Property and Equipment

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

Useful lives

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

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

15 Intangible Assets

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

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

16 Other Assets

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

17 Liabilities

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

18 Trading Liabilities

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

19 Provisions

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

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

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

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

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

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

20 Other Liabilities

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

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

21 Subordinated Capital

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

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

22 Silent Partnership Contribution

Finanzmarktstabilisierungsfonds-FMS provided pbb with a silent partnership contribution of €1.0 billion deducted by transaction costs in 2009. The silent partnership contribution has an indefinite life. The

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

23 Share-based Compensation

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

24 Currency Translation

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

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

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

25 Income Taxes

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

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

26 Non-current Assets Held for Sale

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

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

27 Accounting Estimates and Assumptions

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

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

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

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

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

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

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

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

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

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

With regard to the capitalisation of losses carried forward and other tax credits, the extent as well as the actual availability of such tax benefits are subject to estimation. Major losses carried forward are subject to national German tax law, and their availability also depends inter alia on the restrictions set

out in Sections 10d EStG, 8c KStG as well as Section 10a GewStG. Restrictions based on a change in the tax status (SIC-25) as a result of the planned privatisation did not occur as of the balance sheet date. Deferred tax assets arising from losses carried forward are therefore recognised to the extent as it is likely that future taxable income will be available to offset the non-utilised tax losses carried forward.

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

Segment Reporting

28 Notes to Segment Reporting by Operating Segment

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

> The segment report to be prepared and set up for internal control in compliance with the regulations set out in IFRS 8 now includes the three business segments of Real Estate Finance (REF), Public Investment Finance (PIF) and Value Portfolio (VP). The key change compared to the previous year is the dissolution of the former Public Sector Finance (PSF) segment and the creation of the new Public Investment Finance (PIF) segment. The non-strategic portfolio of existing business in non-earmarked financing to the public sector (budget financing) in the former PSF segment is now in principle allocated to the VP segment. The new PIF segment includes the strategic public sector investment financing of pbb Group. The REF and PIF segments thus comprise the strategic activities, and the VP segment the non-strategic activities of pbb Group's customer business. The previous year's figures were adjusted as required by IAS 8.29.

> In order to increase transparency and significance, the accrued fees for net interest income were segmented for the first time since the beginning of the financial year of 2014 according to the principle of causation. The previous year's figures thus had to also be adjusted, which favoured the REF segment but was to the detriment of the PIF and VP segments. The previous year's figures were adjusted as required by IAS 8.29.

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

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

Value Portfolio (VP) The VP operating segment includes all the non-strategic portfolios and activities of pbb Group. In particular, the segment comprises budget financing and selected structured products as well as income and expenses from IT services provided to DEPFA. The IT services provided to DEPFA came to an end as of 31 December 2014.

The service provided for FMS Wertmanagement was discontinued to a large extent on 30 September 2013, as mandated by the European Commission. The remaining income and expenses, in particular from the provision of information, the granting of powers of attorney, as well as the provision of services required by the regulatory authorities, are not material and shown in the VP operating segment.

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

29 Income Statement by Operating Segment

Income/expenses

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

Cost-income ratio[2]

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

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

30 Balance-sheet-related Measures by Operating Segment

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

Balance-sheet-related measures by operating segment in € billion		REF	PIF	VP	Consolidation & Adjustments	pbb Group
Equity[1]	31.12.2014	0.8	0.5	1.4	0.7	3.4
	31.12.2013[2]	0.8	0.4	1.2	1.0	3.4
Risk-weighted assets[3]	31.12.2014[4]	7.2	2.4	4.4	1.5	15.5
	31.12.2013[2][5]	7.4	3.1	6.0	1.6	18.1
	31.12.2013[2][6]	8.1	2.1	3.2	0.7	14.1
Financing volumes	31.12.2014	21.8	8.0	21.3	—	51.1
	31.12.2013[2]	20.4	7.2	23.6	—	51.2

1) Excluding revaluation reserve
2) Adjusted in accordance with IFRS 8.29
3) Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5

4) Consolidated in accordance with CRR
5) Pro forma Basel III figure; consolidated in accordance with CRR
6) Consolidated in accordance with section 10 a of the German Banking Act (KWG)

31 Breakdown of Operating Income

Operating Income by Products

Operating income by products

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

1) Adjusted in accordance with IFRS 8.29

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

Operating revenues by regions

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

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

Notes to the Consolidated Income Statement

32 Net Interest and Similar Income

Net interest and similar income by categories of income/expenses

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

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

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

33 Net Fee and Commission Income

Net fee and commission income

in € million	2014	2013
Securities and custodial services	-2	-1
Lending operations and other service	3	10
Total	1	9

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

34 Net Trading Income

Net trading income

in € million	2014	2013
From interest rate instruments and related derivatives	-31	-51
From credit risk instruments and related derivatives	1	—
Total	-30	-51

35 Net Income From Financial Investments

Net income from financial investments

in € million	2014	2013
Income from financial investments	35	101
Expenses from financial investments	-112	-5
Total	-77	96

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

Net income from financial investments of financial instruments by IAS 39 categories

in € million	2014	2013
AfS financial investments	7	4
LaR financial investments	-105	-2
No IAS 39 category attributable	21	94
Total	-77	96

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

36 Net Income from Hedging Relationships

Net income from hedging relationships

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

37 Net Other Operating Income/Expenses

Net other operating income/expenses

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

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

38 Loan Loss Provisions

Loan loss provisions

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

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

39 General and Administrative Expenses

General and administrative expenses

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

Cost-income ratio

in %	2014	2013
Cost-income ratio	77.0	64.7

40 Net Miscellaneous Income/Expenses

Net miscellaneous income/expenses

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

41 Income Taxes

Breakdown

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

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

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

Development of deferred taxes

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

Reconciliation

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

1) Adjusted, details are disclosed in Note «Consistency»

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

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

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

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

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

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

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

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

Deferred tax liabilities/assets

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

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

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

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

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

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

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

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

42 Net Gains/Net Losses

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

Net gains/net losses

in € million	2014	2013
Loans and receivables	-75	16
Available for sale	7	4
Held for trading	-30	-51
Designated at fair value through profit or loss	—	-1
Financial liabilities at amortised cost	-4	-14

Notes to the Consolidated Statement of Financial Position (Assets)

43 Cash Reserve

Cash reserve

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

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

44 Trading Assets

Trading assets

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

45 Loans and Advances to Other Banks

Loans and advances to other banks by type of business

in € million	31.12.2014	31.12.2013[1)]
Loans and advances	3,153	4,631
Public sector loans	1,136	1,978
Real estate loans	—	51
Other loans and advances	2,017	2,602
Investments	3,647	2,054
Total	6,800	6,685

Loans and advances to other banks by maturities

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

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

46 Loans and Advances to Customers

Loans and advances to customers by type of business

in € million	31.12.2014	31.12.2013
Loans and advances	38,964	36,042
Public sector loans	17,125	15,464
Real estate loans	21,822	20,557
Other loans and advances	17	21
Investments	—	200
Total	38,964	36,242

Loans and advances to customers by maturities

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

47 Allowances for Losses on Loans and Advances

Breakdown

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

Development

in € million	Specific allowances	Portfolio-based allowances	Total
Balance at 1.1.2013	-283	-42	-325
Changes affecting income	1	-9	-8
Gross additions	-50	-16	-66
Reversals	42	7	49
Increase of the present value due to passage of time (unwinding)	9	—	9
Changes not affecting income	185	—	185
Use of existing allowances	185	—	185
Balance at 31.12.2013	-97	-51	-148
Balance at 1.1.2014	-97	-51	-148
Changes affecting income	-24	5	-19
Gross additions	-43	-5	-48
Reversals	11	10	21
Increase of the present value due to passage of time (unwinding)	8	—	8
Changes not affecting income	28	1	29
Use of existing allowances	32	1	33
Effects of foreign currency translations and other changes	-4	—	-4
Balance at 31.12.2014	-93	-45	-138

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

48 Financial Investments

Breakdown

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

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

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

Financial investments by maturities

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

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

pbb Group has made use of the IASB amendments to IAS 39 and IFRS 7, published on 13 October 2008, and reclassified retrospectively as of 1 July 2008 financial investments out of the measurement category AfS of €30.2 billion. At the date of reclassification the effective interest rate for the AfS securities was between 0.25% and 34.4%.

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

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

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

49 Property and Equipment

Breakdown

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

Development of property and equipment

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

50 Intangible Assets

Breakdown

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

Development of intangible assets

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

51 Other Assets

Other assets

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

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

52 Income Tax Assets

Income tax assets

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

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

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

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

53 Subordinated Assets

The balance sheet items do not contain subordinated assets.

54 Repurchase Agreements

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

55 Securitisation

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

56 Liabilities to Other Banks

Liabilities to other banks by maturities

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

57 Liabilities to Customers

Liabilities to customers by maturities

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

58 Securitised Liabilities

Securitised liabilities by type of business

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

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

Securitised liabilities by maturities

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

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

59 Trading Liabilities

Trading liabilities

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

60 Provisions

Breakdown

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

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

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

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

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

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

Actuarial assumptions

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

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

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

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

Balance sheet items (net defined benefit liability)

in € million	2014	2013
Present value of defined benefit obligation	297	247
Fair value of plan assets	-182	-182
Total	115	65

Development of net defined benefit liability

in € million	2014	2013
Balance at 1.1.	65	71
Transfer of staff	—	—
Pension expenses	3	4
Remeasurements	53	-7
Reclassifications in reimbursements	—	2
Direct payments to beneficiaries	-6	-5
Balance at 31.12.	115	65

Development of defined benefit obligation

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

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

Development of fair value of plan assets

in € million	2014	2013
Balance at 1.1.	182	190
Transfer to staff	—	-4
Interest income	6	6
Remeasurements	2	—
Payments to beneficiaries	-8	-8
Reclassifications in/from reimbursements	—	-2
Balance at 31.12.	182	182

Development of pension expenses

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

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

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

Remeasurement recognised in other comprehensive income (equity)

in € million	2014	2013
Actuarial gains/losses from demographic assumptions	—	—
Actuarial gains/losses from financial assumptions	-51	8
Actuarial gains/losses from experience assumptions	-4	-1
Remeasurements from plan assets	2	—
Total	-53	7

Delevopment of reimbursement

in € million	2014	2013
Balance at 1.1.	9	7
Additions	—	2
Balance at 31.12.	9	9

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

Actuarial assumptions

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

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

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

Development of provisions
(without provisions for pension and similar obligations)

in € million	Restructuring provisions	Provisions for contingent liabilities and other commitments	Other provisions
Balance at 1.1.2013	71	17	76
Additions	4	—	74
Reversals	-11	-4	-18
Increase of the present value due to passage of time (unwinding)	1	—	—
Amounts used	-17	—	-49
Reclassifications	—	—	—
Balance at 31.12.2013	48	13	83
Balance at 1.1.2014	48	13	83
Additions	4	—	81
Reversals	-4	—	-11
Increase of the present value due to passage of time (unwinding)	1	—	—
Amounts used	-7	—	-44
Reclassifications	—	-2	-5
Balance at 31.12.2014	42	11	104

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

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

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

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

pbb received contractually agreed compensation of €6 million for a former French financing arrangement, which has since been repaid in full. The customer has brought an action before the Paris commercial court for repayment of the fee, which it believes to be unreasonable. The court dismissed the action in full on 7 October 2014. The plaintiff appealed against this dismissal.

In appraisal proceedings relating to the merger of three predecessor mortgage banks to form pbb in 2001, the new appraisal ordered by the court has resulted in an additional payment averaging €1.00 per share. The potential subsequent payment claims amount up to €9.4 million plus interest as from 2001.

The profit participation certificates issued by the predecessor institutions participated in significant losses due to the net losses for the period incurred since 2008, and to pbb's net accumulated losses since this time. The redemption amounts have reduced and interest paymant has been suspended. Individual investors therefore initiated legal proceedings, contesting in particular various individual clauses relating to loss participation and replenishment following loss participation. The key questions in this connection are which balance sheet items must be taken into account to calculate loss participation and whether replenishment is required if pbb records a net income, unappropriate retained earnings or a other income. Courts have decided against the legal view of pbb especially in view of the individual decisions regarding profit participation certificates. The bank has lodged appeals in these cases. The contested profit participation certificates had a notional amount of €221 million (of which proceedings involving a principal amount of €15.4 million were pending in which the plaintiff is demanding a repayment of €6.3 million). These claims may ultimately result in a full or partial increase in the repayment claims and, if applicable, result in interest claims by the plaintiff.

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

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

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

61 Other Liabilities

Other liabilities

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

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

62 Income Tax Liabilities

Income tax liabilities

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

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

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

63 Subordinated Capital

Breakdown

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

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

Subordinated capital by maturities

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

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

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

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

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

64 Equity

Subscribed capital equals the maximum liability of the shareholder for the liabilities of the corporation to its creditors. The subscribed capital as of 31 December 2014 and during the entire financial year 2014 amounted to €380,376,059.67 which is divided into 134,475,308 ordinary bearer shares in the

form of no-par-value shares representing a theoretical interest in the share capital of €2.83 per share. HRE Holding holds 100% of the share capital of pbb. Finanzmarktstabilisierungsfonds-FMS is the only shareholder of HRE Holding. At 31 December 2014 and 31 December 2013 there was neither authorised capital nor conditional capital.

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

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

65 Trust Business

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

Trust assets

in € million	31.12.2014	31.12.2013
Loans and advances to customers	—	3
Total	—	3

Trust liabilities

in € million	31.12.2014	31.12.2013
Liabilities to customers	—	3
Total	—	3

Notes to the Consolidated Statement of Cash Flows

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

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

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

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

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

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

Notes to the Financial Instruments

67 Derivative Transactions

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

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

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

Volume of derivatives at 31 December 2014

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

Use made of derivative transactions at 31 December 2014

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

Volume of derivatives at 31 December 2013

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

Use made of derivative transactions at 31 December 2013

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

Counterparties

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

68 Cash Flow Hedge Accounting

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

Cash flow hedge: periods of hedging items when cash flows are expected to occur

in € million	31.12.2014	31.12.2013
Up to 1 month	-1	-1
1 month to 3 months	-3	-3
3 months to 1 year	-2	-3
1 year to 2 years	-1	-10
2 years to 5 years	-8	-15
5 years and over	-53	-74
Total	-68	-106

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

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

69 Undiscounted Cash Flows of Financial Liabilities

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

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

70 Assets Assigned or Pledged as Collateral

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

Liabilities

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

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

Assets pledged

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

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

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

71 Collaterals Permitted to Resell or Repledge

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

72 Transfer of Financial Assets

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

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

73 Fair Values of Financial Instruments

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

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

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

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

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

Fair values of financial instruments and fair value hierarchy

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

1) Reduced by allowances for losses on loans and advances

Fair values of financial instruments and fair value hierarchy

in € million	31.12.2013 Carrying amounts	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	20,084	21,069	—	—	21,069
Public Investment Finance	4,189	4,413	—	3,229	1,184
Value Portfolio	9,513	9,848	—	8,591	1,257
Consolidation & Adjustments	2,359	2,479	2	2,270	207
Portfolio-based allowances	-51	-51	—	—	-51
Financial investments	20,725	20,097	11,574	4,428	4,095
Category AfS	4,284	4,284	4,284	—	—
Category LaR[1)]	16,441	15,813	7,290	4,428	4,095
Other assets	4,601	4,601	—	4,518	83
Fair value hedge derivatives	4,115	4,115	—	4,036	79
Cash flow hedge derivatives	486	486	—	482	4
Financial liabilities	69,669	71,227	20,762	8,341	42,124
at fair value through profit or loss	5,422	5,422	—	5,410	12
at fair value not affecting profit or loss	472	472	—	472	—
in balance sheet not measured at fair value	63,775	65,333	20,762	2,459	42,112
Liabilities to other banks	3,522	3,551	1,330	906	1,315
Liabilities to customers	10,848	11,277	1,329	—	9,948
Securitised liabilities	46,858	48,254	18,059	1,553	28,642
Covered	40,810	42,169	15,798	1,499	24,872
Uncovered[1)]	6,048	6,085	2,261	54	3,770
Trading liabilities (HfT)	1,453	1,453	—	1,451	2
Other liabilities	4,631	4,631	44	4,431	156
Fair value hedge derivatives	3,969	3,969	—	3,959	10
Cash flow hedge derivatives	472	472	—	472	—
Other financial liabilities	190	190	44	—	146
Subordinated capital[1)]	2,357	2,061	—	—	2,061
Other items	2,594	2,675	—	—	2,675
Contingent liabilities	25	25	—	—	25
Irrevocable loan commitments	2,569	2,650	—	—	2,650

1) Adjusted due to retrospective IFRS 10 first time adoption. Details are disclosed in Note «Principles».
2) Reduced by allowances for losses on loans and advances

As in the previous year, no financial instruments measured at fair value were reclassified from Level 1 to Level 2 and vice versa. Not all inputs for certain assets that were previously allocated to Level 2 and measured at fair value were observable on the market in 2014. As a result, assets recognised at fair value in the amount of €8 million (2013: €18 million) and financial liabilities in the amount of €0 million (2013: €3 million) were reclassified from Level 2 to Level 3. From 3 to level 2 assets recognised at fair value in the amount €17 million (2013: €0 million) and financial liabilities in the amount of €3 million (2013: €0 million) were reclassified because inputs were observable on the market again.

Disclosures to the Measurement Methods and Input Parameters

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

> identification data, such as business identification numbers or International Securities Identification Numbers (ISINs)

> static data such as notional amounts, name and country of the counterparty and (remaining) terms

> accounting data such as carrying amounts, accruals and the effects of hedge accounting

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

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

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

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

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

	Measurement methods	Non-observable parameters	Parameter-rangee (weighted average)
Trading assets/ liabilities	Option pricing models	Forward/exchange rate correlations	0.00% (0.00%)
		Asset swap spreads (volatilities)	+0.34% (+0.34%)
Fair value hedge derivatives	Option pricing models	EUR-EONIA beyond 02/10/2064	+1.41% (+1.41%)
		EUR-EO6M beyond 02/10/2064	+1.53% (+1.53%)
		Historical index/index correlations	-0.94 to +71.19% (+30.97%)
		Historical index/exchange rate correlations	-10.82% to +20.49% (+4.11%)

Financial instruments not measured at fair value as of 31 December 2014

	Level 2		Level 3		
in € million	Measurement methods	Observable parameters	Measurement methods	Observable parameters	Non-observable parameters
Financial assets					
Loans and receivables (LaR)	DCF models	Credit spreads	DCF models	Credit spreads	Internal rating classes
		Reference interest rates		Reference interest rates	Recovery rates
		Risk-free interest rate		Risk-free interest rate	Expected maturities
		Observable future cash flows		Observable future cash flows	Estimated future cash flows
	Quoted prices in non-active markets	Quoted prices for proxy trades	—	—	—
Financial liabilities					
Financial liabilities at amortised cost	DCF models	Observable future cash flows	DCF models	Observable future cash flows	Estimated future cash flows
		(Own) credit spreads		(Own) credit spreads	(Own) credit spreads (secondary market grid)
		Benchmark interest rates		Benchmark interest rates	—
	Quoted prices in non-active markets	Quoted prices for proxy trades	—	—	—

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

Sensitivities of level 3 instruments measured at fair value

	31.12.2014		31.12.2013	
in € million	Positive changes	Negative changes	Positive changes	Negative changes
Assets				
Financial assets at fair value through profit or loss				
Fair value hedge derivatives	—	—	0.7	-0.7
Total	—	—	0.7	-0.7
Liabilities				
Financial liabilities at fair value through profit or loss				
Trading liabilities	0.7	-0.7	—	—
Fair value hedge derivatives	0.5	-0.5	—	—
Total	1.2	-1.2	—	—

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

Changes in Level 3 Financial Instruments measured at Fair Value

Changes in level 3 financial assets

	Financial assets at fair value through profit or loss		Financial assets at fair value not affecting profit or loss	
in € million	Trading assets	Fair value hedge derivatives	Cash flow hedge derivatives	Total
Balance at 1.1.2013	1	78	4	83
Comprehensive income				
Income statement	-1	-17	—	-18
Revaluation reserve	—	—	—	—
Purchases	—	8	—	8
Sales	—	-8	—	-8
Issues	—	—	—	—
Settlements	—	—	—	—
Transfers into Level 3	—	18	—	18
Transfers out of Level 3	—	—	—	—
Balance at 31.12.2013	—	79	4	83
Balance at 1.1.2014	—	79	4	83
Comprehensive income				
Income statement	—	2	-1	1
Revaluation reserve	—	—	—	—
Purchases	—	19	—	19
Sales	—	-19	—	-19
Issues	—	—	—	—
Settlements	—	—	—	—
Reclassification into Level 3	—	8	—	8
Reclassification out of Level 3	—	-14	-3	-17
Balance at 31.12.2014	—	75	—	75

Changes in level 3 financial liabilities

in € million	Financial liabilities at fair value through profit or loss: Trading liabilities	Financial liabilities at fair value through profit or loss: Fair value hedge derivatives	Financial liabilities at fair value not affecting profit or loss: Cash flow hedge derivatives	Total
Balance at 1.1.2013	2	2	—	4
Comprehensive income	—	—	—	—
Income statement	—	-2	—	-2
Revaluation reserve	—	—	—	—
Purchases	—	9	—	9
Sales	—	-2	—	-2
Issues	—	—	—	—
Settlements	—	—	—	—
Transfers into Level 3	—	3	—	3
Transfers out of Level 3	—	—	—	—
Balance at 31.12.2013	2	10	—	12
Balance at 1.1.2014	2	10	—	12
Comprehensive income				
Income statement	—	-1	—	-1
Revaluation reserve	—	—	—	—
Purchases	—	—	—	—
Sales	—	—	—	—
Issues	—	—	—	—
Settlements	—	—	—	—
Reclassification into Level 3	—	—	—	—
Reclassification out of Level 3	—	-3	—	-3
Balance at 31.12.2014	2	6	—	8

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

Assets and Liabilities According to Measurement Categories and Classes

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

Asset and liabilities according to measurement categories and classes in accordance with IAS 39

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

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

74 Exposure to Selected European Countries

Exposure to selected European countries as of 31 December 2014

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

Exposure to selected European countries as of 31 December 2013

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

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

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

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

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

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

75 Past Due but Not Impaired Assets

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

LaR Assets

Carrying amounts of past due but not impaired LaR assets

in € million	31.12.2014	31.12.2013
Up to 3 months	32	274
From 3 months to 6 months	10	40
From 6 months to 1 year	7	81
From 1 year and over	10	47
Total	59	442

Carrying amounts LaR assets

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

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

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

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

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

76 Restructured Loans and Advances

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

Restructured loans and advances

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

Development of restructured loans and advances

in € million	2014	2013
Balance at 1.1.	1,508	1,818
Additions	592	213
Disposals	-633	-462
Reclassifications after expiry of good conduct period	-135	—
Changes in the basis of consolidation	-31	-61
Balance at 31.12.	1,301	1,508

Proportion of restructured loans and advances in the total portfolio

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

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

Allowances for losses on restructured loans and advances

in € million	31.12.2014	31.12.2013
Specific allowances	73	62
Portfolio-based allowances	4	7
Total	77	69

Proportion of allowances for losses in the restructured loans and advances portfolio

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

77 Netting of Financial Instruments

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

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

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

Netting of financial instruments as of 31 December 2014

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

Netting of financial instruments as of 31 December 2013

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

Other Notes

78 Contingent Liabilities and Other Commitments

Contingent liabilities and other commitments

in € million	31.12.2014	31.12.2013
Contingent liabilities	84	25
Guarantees and warranties	84	25
Loan guarantees	—	4
Performance guarantees and warranties	84	21
Other commitments	2,238	2,569
Irrevocable loan commitments	2,238	2,569
Guarantees	6	30
Mortgage and public sector loans	2,232	2,539
Total	2,322	2,594

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

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

The Restructuring Fund Ordinance specifies an additional charge for the so-called bank levy. The difference between the actually determined bank levy and the calculated standard amount for the years 2011 to 2019 can be subsequently charged in the following two years in each case. However, the obligation to pay the additional amount arises only if corresponding profits are generated in subsequent financial years; the amount of this payment is capped by the feasibility or charge specified in the ordinance. Whether the additional payment becomes due, and also the extent of such an additional payment, accordingly depend on profits being generated in subsequent years. The additional payment which pbb can be charged in 2015 and 2016 is €13 million.

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

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

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

79 Key Regulatory Capital Ratios

In accordance with the waiver regulation set out in Section 7 of the Capital Requirements Regulation (CRR, from 1 January 2014), pbb is exempted from the requirement to establish the equity and core capital ratios. pbb Group voluntarily discloses these figures.

(EU) Directive no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms applies with effect from 1 January 2014.

These regulations (CRR/CRD IV) form the basis for determining the regulatory capitalisation.

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

The Management Board manages the capital based on the CRR. According to the CRR, the CET1 ratio (Common Equity Tier 1/risk-weighted assets) may not fall below 4.0%, the Tier 1 ratio (Tier 1/risk-weighted assets) may not fall below 5.5% and the own funds ratio (own funds/risk-weighted assets) may not fall below 8.0% in 2014.

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

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

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

Own Funds

in € million	31.12.2014	31.12.2014 Basel III fully phased-in[1]	31.12.2013 Pro forma Basel III figure[2][3]	31.12.2013 Pro forma Basel III figure fully phased-in[1][2]	31.12.2013[4]
CET1	2) 3,364	2,090	3,336	1,993	2,475
Additional Tier 1	3) 195	999	216	999	350
Tier 1	4) 3,559	3,089	3,552	2,992	2,825
Tier 2	5) 483	334	632	454	835
Own Funds	6) 4,042	3,423	4,184	3,446	3,660

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

Risk-weighted assets (RWA)[1]

in € million	31.12.2014	31.12.2014 Basel III fully phased-in[2]	31.12.2013 Pro forma Basel III figure[3]	31.12.2013 Pro forma Basel III figure fully phased-in[2][3]	31.12.2013[4]
Market risks	7) 217	217	158	158	75
thereof interest rate risks	8) —	—	—	—	—
thereof foreign exchange risks	9) 217	217	158	158	75
Operational risks	10) 1,010	1,010	923	923	923
Credit risks	11) 14,261	14,261	16,979	16,979	13,087
thereof CVA charge	12) 445	445	531	531	—
Other RWA	13) 1	1	3	3	—
RWA total	14) 15,489	15,489	18,063	18,063	14,085

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

Capital ratios

in %	31.12.2014	31.12.2014 Basel III fully phased-in[1]	31.12.2013 Pro forma Basel III figure[2][3]	31.12.2013 Pro forma Basel III figure fully phased-in[1][2]	31.12.2013[4]
CET1 ratio	15) 21.7	13.5	18.5	11.0	17.6
Tier 1 ratio	16) 23.0	19.9	19.7	16.6	20.1
Own funds ratio	17) 26.1	22.1	23.2	19.1	26.0

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

80 Group Auditors' Fee

Group auditors' fee

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

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

81 Relationship with Related Parties

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

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

Related Entities Finanzmarktstabilisierungsfonds-FMS, a special fund of the federal government in accordance with Section 2 (2) FMStFG, represents the ultimate parent entity of HRE Holding and thus also of pbb. Accordingly, pbb is a government-related entity and a related party to other companies which are controlled, jointly controlled or significantly influenced by the Federal Republic of Germany. In addition to the parent entity HRE Holding FMS Wertmanagement and its affiliated company DEPFA are also controlled by the -Federal Republic of Germany and is thus a related party of pbb Group. In the year 2014, pbb Group reimbursed Finanzmarktstabilisierungsfonds-FMS no expenses (excluding bank levy) (2013: €0 million).

pbb Group had a net liability of €0.3 billion (31 December 2013: €0.0 billion) to its parent company HRE Holding as of 31 December 2014. As of 31 December 2014, HRE Holding held financial investments of pbb Group amounting to €0.8 billion (2013: €0.8 billion). Net interest income of pbb Group to HRE Holding amounted to €-12 million (2013:€-12 million). Net other operating income/

expenses of €4 million (2013: €5 million) resulted from the transfer of employees to HRE Holding, the passing on of Management Board salaries to HRE Holding resulted in the amount of €2 million (2013: €0 million) and €1 million (2013: €1 million) is attributable to IT services rendered to HRE Holding. Retained earnings increased by €30 million due to a payment by HRE Holding to compensate for payment obligations in connection with the transfer of positions to FMS Wertmanagement in 2010.

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

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

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

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

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

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

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

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

Vested remuneration paid to persons with key function in the Group (Senior Management)[1)]

	2014			2013
in € thousand	Remuneration[2)]	Severance payments	Total	Total
Total	6,579	—	6,579	6,858

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

Pension obligations to persons with key function in pbb Group (Senior Management)

in € thousand	31.12.2014	31.12.2013
Total[1)]	85,650	73,963

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

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

82 Employees

Average number of employees

	2014	2013
Employees (excluding apprentices)	838	960
thereof: senior staff in Germany	17	17
Total	838	960

83 Members of the Supervisory Board and of the Management Board

Supervisory Board of pbb in fiscal 2014

Name, place of residence Function in the Supervisory Board	Principal activity Function in the Committees of the Supervisory Board
Dr. Günther Bräunig, Frankfurt am Main, Germany Chairman (from 26.8.2014)	Member of the Management Board of KfW Chairman of the Presidential- and Nominations Committee and of the Remuneration Control Committee, Member of the Audit Committee and of the Risk Management and Liquidity Strategy Committee
Dr. Bernd Thiemann, Münster, Germany Chairman (until 26.8.2014)	Former Chairman of the Management Board of DG Bank AG Chairman of the Presidential- and Nominations Committee and of the Remuneration Control Committee, Member of the Audit Committee and of the Risk Management and Liquidity Strategy Committee
Dagmar Kollmann, Vienna, Austria Deputy Chairperson	Entrepreneur Chairperson of the Audit Committee and Member of the Presidential- and Nominations Committee, of the Risk Management and Liquidity Strategy Committee and of the Remuneration Control Committee
Dr. Christian Gebauer-Rochholz, Hochheim, Germany Workers' Council Representative	Bank employee
Dr. Alexander Groß, Teltow, Germany Member (until 25.2.2014)	Head of the Economic Policy department in the Bundesministerium für Wirtschaft und Energie
Georg Kordick, Poing, Germany Workers' Council Representative	Bank employee
Joachim Plesser, Ratingen, Germany Member (from 26.8.2014)	Former member of the Management Board of Eurohypo AG Chairman of the Risk Management and Liquidity Strategy Committee, Member of the Presidential- and Nominations Committee, of the Audit Committee and of the Remuneration Control Committee

Name, place of residence Function in the Supervisory Board	Principal activity Function in the Committees of the Supervisory Board
Dr. Ludger Schuknecht, Frankfurt am Main, Germany Member	Director General for economic and fiscal policy strategy; international economy and finance in the Bundesministerium der Finanzen
Heike Theißing, Munich, Germany Workers' Council Representative	Bank employee Member of the Remuneration Control Committee
Dr. Hedda von Wedel, Andernach, Germany Member	President of the Bundesrechnungshof, retired Member of the Audit Committee
Dr. Jeromin Zettelmeyer, Berlin, Germany Member (from 15.4.2014)	Head of the Economic Policy department in the Bundesministerium für Wirtschaft und Energie

Management Board of pbb in fiscal 2014

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

84 Holdings of pbb

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

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

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

Exchange rates

€1 corresponds to		31.12.2014
India	INR	76.7190
Japan	JPY	145.2300

Munich, 18 March 2015

Deutsche Pfandbriefbank Aktiengesellschaft

The Management Board

Andreas Arndt Thomas Köntgen

Wolfgang Groth Andreas Schenk Dr. Bernhard Scholz

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group 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.

Munich, 18 March 2015

Deutsche Pfandbriefbank Aktiengesellschaft

The Management Board

Andreas Arndt Thomas Köntgen

Wolfgang Groth Andreas Schenk Dr. Bernhard Scholz

The following auditor's report, prepared in accordance with § 322 HGB ("Handelgesetzbuch": "German Commercial Code"), refers to the complete consolidated financial statements, comprising consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes, together with the group management report of the Deutsche Pfandbriefbank AG for the financial year 1 January to 31 December 2014. The group management report is not included in the Prospectus. The above-mentioned auditor's report and consolidated financial statements are both translations of the respective German-language documents.

Auditor's Report

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

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

Our audit has not led to any reservations.

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

Munich, 18 March 2015

KPMG AG

Wirtschaftsprüfungsgesellschaft

Wiechens	Schmidt
Wirtschaftsprüfer	Wirtschaftsprüferin

26.3 Audited Consolidated Financial Statements of Deutsche Pfandbriefbank AG Prepared in Accordance with IFRS as of and for the Financial Year Ended December 31, 2013 (with Comparative Figures for the Financial Year Ended December 31, 2012)

Consolidated Income Statement

Income/expenses

in € million	Notes	2013	2012	Change
Operating revenues		482	467	15
Net interest income and similar income	30	319	296	23
Interest income and similar income		2,448	2,879	-431
Interest expenses and similar expenses		-2,129	-2,583	454
Net commission income	31	9	23	-14
Commission income		15	27	-12
Commission expenses		-6	-4	-2
Net trading income	32	-51	10	-61
Net income from financial investments	33	96	13	83
Net income from hedge relationships	34	9	-6	15
Balance of other operating income/expenses	35	100	131	-31
Provision for losses on loans and advances	36	-8	4	-12
General administrative expenses	37	-312	-341	29
Balance of other income/expenses	38	3	-6	9
Pre-tax profit/loss		**165**	**124**	**41**
Taxes on income	39	-5	-55	50
Net income/loss		**160**	**69**	**91**
attributable to:				
Equity holders (consolidated profit/loss attributable to the parent company)		160	69	91

Consolidated Statement of Comprehensive Income

in € million	2013 Before tax	2013 Tax	2013 Net of tax	2012 Before tax	2012 Tax	2012 Net of tax
Net income/loss	**165**	**-5**	**160**	**124**	**-55**	**69**
Items that will not be reclassified to income statement	7	-2	5	-56	14	-42
Additional paid-in capital	—	—	—	—	—	—
Retained earnings	—	—	—	-6	—	-6
Profits/losses from pension commitments[1)]	7	-2	5	-50	14	-36
Items that may be reclassified to income statement	45	-13	32	240	-66	174
Foreign currency reserve	-1	—	-1	5	—	5
AfS reserve	196	-56	140	260	-71	189
Cash flow hedge reserve	-150	43	-107	-25	5	-20
Total other comprehensive income	**52**	**-15**	**37**	**184**	**-52**	**132**
Total comprehensive income of the period	**217**	**-20**	**197**	**308**	**-107**	**201**
attributable to:						
Equity holders (consolidated profit/loss attributable to the parent company)	217	-20	197	308	-107	201

Disclosure of components of consolidated comprehensive income

in € million	2013	2012
Net income/loss	160	69
Additional paid-in capital	—	—
Unrealised gains/losses	—	—
Retained earnings	—	-6
Unrealised gains/losses	—	-6
Profits/losses from pension commitments[1)]	5	-36
Unrealised gains/losses	5	-36
Foreign currency reserve	-1	5
Unrealised gains/losses	-1	5
AfS reserve	140	189
Unrealised gains/losses	137	186
Reclassification adjustments for gains/losses included in profit or loss	3	3
Cash flow hedge reserve	-107	-20
Unrealised gains/losses	-175	16
Reclassification adjustments for gains/losses included in profit or loss	68	-36
Total other comprehensive income	37	132
Total unrealised gains/losses	-34	165
Total reclassification adjustments for gains/losses included in profit or loss	71	-33
Total comprehensive income of the period	**197**	**201**

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

Consolidated Statement of Financial Position

Assets

in € million	Notes	31.12.13	31.12.12[1)]	Change	1.1.2012[1)]
Cash reserve	7, 41	3,532	1,937	1,595	323
Trading assets	8, 42	1,642	3,325	-1,683	9,818
Loans and advances to other banks	9, 43	5,798	7,995	-2,197	7,632
Loans and advances to customers	9, 44	36,242	49,590	-13,348	55,236
Allowances for losses on loans and advances	10, 45	-148	-325	177	-477
Financial investments	11, 46	20,892	25,572	-4,680	28,677
Property, plant and equipment	12, 47	1	2	-1	3
Intangible assets	13, 48	31	39	-8	35
Other assets	14, 49	4,769	7,242	-2,473	6,065
Income tax assets	23, 50	1,165	1,704	-539	1,478
Current tax assets		44	53	-9	55
Deferred tax assets		1,121	1,651	-530	1,423
Total assets		**73,924**	**97,081**	**-23,157**	**108,790**

Equity and liabilities

in € million	Notes	31.12.13	31.12.12[1)]	Change	1.1.2012[1)]
Liabilities to other banks	15, 54	3,522	7,797	-4,275	8,223
Liabilities to customers	15, 55	10,848	11,895	-1,047	12,363
Liabilities evidenced by certificates	15, 56	47,060	52,550	-5,490	55,038
Trading liabilities	16, 57	1,453	3,192	-1,739	9,903
Provisions	17, 58	209	235	-26	184
Other liabilities	18, 59	4,722	14,438	-9,716	16,123
Income tax liabilities	23, 60	1,190	1,698	-508	1,373
Current tax liabilities		64	64	—	82
Deferred tax liabilities		1,126	1,634	-508	1,291
Subordinated capital	19, 61	1,440	1,993	-553	2,501
Liabilities		**70,444**	**93,798**	**-23,354**	**105,708**
Equity attributable to equity holders		**3,480**	**3,283**	**197**	**3,082**
Subscribed capital	62	380	380	—	380
Silent participation	20, 62	999	999	—	999
Additional paid-in capital	62	5,036	5,036	—	5,036
Retained earnings	62	-3,097	-3,166	69	-3,277
Profits/losses from pension commitments		-41	-46	5	-10
Foreign currency reserve	22	-30	-29	-1	-34
Revaluation reserve	6	73	40	33	-129
AfS reserve		-220	-360	140	-549
Cash flow hedge reserve		293	400	-107	420
Consolidated profit/loss 1.1. – 31.12.		160	69	91	117
Equity		**3,480**	**3,283**	**197**	**3,082**
Total equity and liabilities		**73,924**	**97,081**	**-23,157**	**108,790**

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

Consolidated Statement of Cash Flows

Consolidated statement of cash flows[1)]

in € million	2013	2012
Net income/loss	**160**	**69**
Write-downs, provisions for losses on, and write-ups of, loans and advances and additions to provisions in lending business	13	4
Write-downs and depreciation less write-ups on non-current assets	15	19
Change in other non-cash positions	185	163
Result from the sale of non-current assets	-97	-18
Other adjustments	-320	-241
Subtotal	-44	-4
Change in assets and liabilities from operating activities after correction for non-cash components		
Increase in assets/decrease in liabilities (-)		
Decrease in assets/increase in liabilities (+)		
Trading portfolio	-57	-235
Loans and advances to other banks	2,127	-546
Loans and advances to customers	4,892	5,837
Other assets from operating activities	119	-108
Liabilities to other banks	-3,992	-493
Liabilities to customers	-927	-545
Liabilities evidenced by certificates	-3,646	-3,433
Other liabilities from operating activities	-561	-2,276
Interest income received	2,226	2,493
Dividend income received	—	1
Interest expense paid	-1,987	-2,267
Taxes on income paid	11	-17
Cash flow from operating activities	**-1,839**	**-1,593**
Proceeds from the sale of non-current assets	4,843	4,290
Payments for the acquisition of non-current assets	-944	-533
Proceeds from the sale of investments	81	—
Payments for the acquisition of investments	—	—
Cash flow from investing activities	3,980	3,757
Payments of subordinated capital	-546	-550
Cash flow from financing activities	**-546**	**-550**
Cash and cash equivalents at the end of the previous period	1,937	323
+/- Cash flow from operating activities	-1,839	-1,593
+/- Cash flow from investing activities	3,980	3,757
+/- Cash flow from financing activities	-546	-550
+/- Effects of exchange rate changes and non-cash valuation changes	—	—
Cash and cash equivalents at the end of the period	**3,532**	**1,937**

1) Explanations in Note «Notes to the Items in the Consolidated Statement of Cash Flows»

Consolidated statement of changes in equity

	Equity attributable to equity holders									
							Revaluation reserve			
in € million	Subscribed capital	Silent participation	Additional paid-in capital	Retained earnings	Profits/ losses from pension commitments[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	—	—	—	-6	-36	5	189	-20	69	201
Transfer to retained earnings	—	—	—	117	—	—	—	—	-117	—
Changes in the group of consolidated companies	—	—	—	—	—	—	—	—	—	—
Equity at 31.12.2012	**380**	**999**	**5,036**	**-3,166**	**-46**	**-29**	**-360**	**400**	**69**	**3,283**
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	—	—	—	—	5	-1	140	-107	160	197
Transfer to retained earnings	—	—	—	69	—	—	—	—	-69	—
Changes in the group of consolidated companies	—	—	—	—	—	—	—	—	—	—
Equity at 31.12.2013	**380**	**999**	**5,036**	**-3,097**	**-41**	**-30**	**-220**	**293**	**160**	**3,480**

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

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1 General Information

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

Accounting Policies

2 Principles

pbb has prepared its Group financial statements for the period ended 31 December 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). These financial statements are based on the IFRS rules, which have been adopted in European Law by the European commission as part of the endorsement process; it is also based on the regulations of commercial law which are applicable in accordance with section 315a (1) HGB (German Commercial Code).

The IFRS are standards and interpretations adopted by the Inter-national Accounting Standards Board (IASB). These are the Inter-national 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 (Deutsche Rechnungslegungs Standards – DRS) published by the Deutsche Rechnungslegungs Standards Committee (DRSC) have been taken into account.

The Management Board of pbb prepared these consolidated financial statements on 18 March 2014 under the going-concern assumption.

Initially Adopted Standards, Interpretations and Amendments Applied for the First Time The following standards, interpretations and amendments, sorted by their date of endorsement by the European Union, were applied for the first time in financial year 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

> 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 Mine

> IFRS 13 Fair Value Measurement

> Improvements to IFRS (2011)

Under the amendments to IAS 1, items of other comprehensive income are required to be grouped and presented based on whether they could be recycled to the consolidated income statement. The presentation requirements were taken into account in these consolidated financial statements by adding new headings to the consolidated statement of comprehensive income.

The amendments to IAS 12 supersede interpretation SIC-21 and govern the manner in which it should be presumed that investment properties, property, plant and equipment and intangible assets measured at fair value will be recovered when measuring deferred taxes. They had no impact on these consolidated financial statements, as pbb Group measures such assets at amortised cost.

Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters and Amendments to IFRS 1 – Government Loans relate only to first-time adopters of IFRSs and therefore have no impact on pbb Group.

The amendments to IFRS 7 extend the disclosures required about financial assets and financial liabilities that have been set off. In addition to a qualitative description of rights of set-off, they also require extensive quantitative disclosures, such as the gross amount before offsetting, the net amount after offsetting and the fair value of financial instruments received or pledged as collateral. The extended disclosure requirements were taken into account in these consolidated financial instruments in the note Offsetting of Financial Instruments.

IAS 19 (revised 2011) removes the option to use the corridor approach to recognise actuarial gains and losses. Instead, these effects must be recognised in equity (other comprehensive income). Past service cost must be recognised in the period in which the underlying plan amendment occurs rather than allocated over the vesting period of the benefits, as was the case previously. Under IAS 19 (revised 2011), the interest rate determined for discounting pension obligations is now also used for expected returns on plan assets. In addition, IAS 19 (revised 2011) changes the accounting for bonus payments for partial retirement agreements. IAS 19.173 requires the changes under IAS 19 (revised 2011) to be applied retrospectively. Due to the change in the presentation of actuarial gains/losses, equity declined by €46 million as at 31 December 2012 (prior-year reporting date) (31 December 2011: €10 million). Actuarial gains/losses arising from defined benefit obligations are presented in a separate line item in equity. At the same time, provisions for pensions and similar obligations increased by €71 million (31 December 2011: €21 million). Deferred tax assets for these items increased by €18 million as at 31 December 2012 (31 December 2011: €4 million) as wells as other assets by €7 million (31 December 2011: €7 million). As the effects of the change in the interest rate determined for expected returns on plan assets and the change in the recognition of past service cost and bonus payments for partial retirement agreements are insignificant for pbb Group, the prior-year consolidated income statement was unaffected. Due to the change in actuarial gains and losses arising from defined benefit obligations, prior-year total comprehensive income, which also includes changes in equity, declined by €36 million.

IFRIC 20 governs the treatment of stripping costs incurred in surface mining. Due to pbb Group's business model, IFRIC 20 has no impact on these consolidated financial statements.

IFRS 13 combines the rules on fair value measurement for all assets and liabilities. Significant new requirements in IFRS 13 relate, for example, to 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 in the principal market (or most advantageous market) at the measurement date under current market conditions (i. e. an exit price). pbb Group ensures that items are measured at exit prices by using secondary market spreads or referring to them for validation. This primarily had an impact of €-0.1 billion on the fair values of pbb Group's financial assets and liabilities. IFRS 13 also extends the disclosure requirements, particularly for the fair value hierarchy. The extended disclosures are presented in these consolidated financial statements in the Note «Fair Values of Financial Instruments».

Improvements to IFRSs (2011) contain minor changes to or clarifications of IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34. It had no significant impact on these consolidated financial statements.

Standards, Interpretations and Amendments Endorsed but Not Yet Effective The following standards, interpretations and amendments, sorted by their date of endorsement by the European Union, were endorsed prior to 31 December 2013, but are not yet effective and were not applied early:

> IFRS 10 Consolidated Financial Statements and Amendments to IAS 27 Separate Financial Statements

> IFRS 11 Joint Arrangements and Amendments 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 guidance on control and consolidation previously contained in IAS 27 and SIC-12. IFRS 10 introduces the concept of control as the basis for consolidation. Under this model, parent-subsidiary relationships can arise not only from voting power, but from other contractual arrangements as well. IAS 27 was renamed Separate Financial Statements and now deals only with separate financial statements; SIC-12 was withdrawn. The new standards were initially effective for financial years beginning on or after 1 January 2013. However, they were endorsed by the European Union with an effective date of 1 January 2014. Initial application of IFRS 10 is expected to result in only two changes in the consolidated group structure of pbb Group. The previously consolidated House of Europe Funding I Ltd., Grand Cayman, will cease to be consolidated, as a result of which the total assets of pbb Group will decline by €0.2 billion. Ceasing to consolidate the entity will have no impact on pbb Group's income statement. In addition, DEPFA Finance N.V., Amsterdam, will be consolidated for the first time. This will increase pbb Group's equity by €5 million and its total assets by €0.9 billion. Consolidating the entity for the first time is not expected to have a significant impact on pbb Group's income statement.

IFRS 11 supersedes IAS 31 and removes the option to proportionately consolidate joint ventures. In future, joint ventures will be accounted for using the equity method in accordance with IAS 28. The new standards were initially effective for financial years beginning on or after 1 January 2013. However, they were endorsed by the European Union with an effective date of 1 January 2014. The impact on future consolidated financial statements will depend on whether or not pbb Group has any joint ventures or investments required to be included using the equity method in future. This is not currently the case.

IFRS 12 combines the disclosure requirements for interests in subsidiaries, joint ventures, associates and unconsolidated structured entities in a single standard. The new standard was initially effective for financial years beginning on or after 1 January 2013. However, it was endorsed by the European Union with an effective date of 1 January 2014. pbb Group expects the application of IFRS 12 to result in extended disclosures about interests in other entities.

Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12) clarifies that decisions about whether or not investments are required to be consolidated in accordance with IFRS 10 should be made at the beginning of the period in which the standard is applied for the first time. In pbb Group, the decision will therefore be made on 1 January 2014. pbb Group has changed its accounting processes to ensure that the decision about whether to consolidate is made on 1 January 2014.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) exempts specifically defined investment entities from the requirement to consolidate subsidiaries that they control. The investments in question 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 pbb Group.

The amendments to IAS 32 clarify the requirements for offsetting financial instruments. They also explain the meaning of «currently has a legally enforceable right of set-off» and clarify which gross settlement systems may be considered equivalent to net settlement within the meaning of the standard. The amendments to IAS 32 must be applied for the first time for financial years beginning on or after 1 January 2014. The clarification of IAS 32 is not expected to have a significant impact on pbb Group. The amendments to IFRS 7 Financial Instruments accompanying the amendments to IAS 32 and the resulting extended disclosures were presented in these financial statements in the note Offsetting of Financial Instruments.

The amendments to IAS 36 correct a disclosure requirement introduced into IAS 36 by IFRS 13 regarding the recoverable amount of cash-generating units to which a significant amount of goodwill or intangible assets with indefinite useful lives has been allocated. They also introduce new disclosures when an impairment loss is recognised or reversed for an asset or a cash-generating unit and recoverable amount was based on fair value less costs of disposal. The amendments must be applied retrospectively, but only for reporting periods in which IFRS 13 has already been applied. They are not expected to have any impact on pbb Group unless it holds such intangible assets in future.

Lawmakers have made far-reaching legal changes designed to improve transparency and regulatory oversight of over-the-counter derivatives. For example, entities 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 requires hedge accounting to cease 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 with the previous hedging relationship. The IASB has therefore added a provision to the previous IAS 39 providing relief from the requirement to cease hedge accounting if the novation of a hedging instrument with a central counterparty meets certain criteria. In particular, the relief requires that novation be required by laws or regulations. The amendments to IAS 39 must be applied for financial years beginning on or after 1 January 2014. Early application of the requirements is permitted. pbb Group will make use of the relief in order to maximise the effectiveness of its hedging relationships.

Standards, Interpretations and Amendments Issued but Not Yet Endorsed In addition, the following standards, interpretations and amendments, sorted by their date of publication, were issued, but had not yet been endorsed by the European Union and not applied early by pbb Group at the reporting date:

> IFRS 9 – Financial Instruments

> IFRS 9 – Hedge Accounting and Amendments to IFRS 9, IFRS 7 and IAS 39

> Amendments to IFRS 9 and IFRS 7 – Mandatory Effective Date and Transition Disclosures

> Amendments to IAS 19 (revised 2011) Employee Benefits: Defined Benefit Plans – Employee Contributions

> IFRIC Interpretation 21 Levies

> Improvements to IFRSs 2012

> Improvements to IFRSs 2013

The IASB is replacing IAS 39 with IFRS 9 through a project in several phases. In 2009 and 2010, the IASB published new requirements for the first phase of the project, Classification and Measurement, which are likely to be amended again. For the Impairment Methodology and Hedge Accounting phases of the project, on the other hand, no sections of the standard have yet been adopted. The Classification and Measurement phase is expected to provide the following measurement categories for the classification of financial instruments:

> at fair value through profit or loss

> at fair value through other comprehensive income

> at amortised cost

The classification of financial debt instruments on the assets side depends on the entity's business model for managing financial assets and the characteristics of the contractual cash flows of the financial asset. Equity instruments and assets at FVTPL, on the other hand, are generally required to be measured at fair value. On the liabilities side, non-derivative liabilities that are not held for trading or that the entity does not elect to measure at fair value must be measured at amortised cost. Changes in the value of liabilities at FVTPL that are attributable to changes in the entity's own credit risk are required to be recognised directly in equity. The effective date of IFRS 9 is currently expected to be 1 January 2018. Initial application of the new standard is expected to have an extensive impact on pbb's consolidated financial statements. It is likely that some assets and liabilities previously measured at amortised cost will have to be measured at fair value in future and vice versa. However, the overall impact on pbb Group will not become clear until all sections of IFRS 9 have been published.

Amendments to IFRS 10, IFRS 11 and IFRS 12: Transition Guidance clarify the retrospective application of the concerned standards and have to be initially adopted along with IFRS 10, IFRS 11 and IFRS 12 for financial years beginning on or after 1 January 2014.

In a second phase of the project, the IASB published IFRS 9 – Hedge Accounting and Amendments to IFRS 9, IFRS 7 and IAS 39. The aim of the hedge accounting model under IFRS 9 is to more closely align accounting with the risk management system. The types of hedging relationship still permitted are:

> Cash flow hedge accounting

> Fair value hedge accounting

> Hedge of a net investment in a foreign operation

The list of qualifying hedged items and hedges has in each case been extended. In particular, groups of hedged items may now be designated if, individually, the hedged items qualify for designation, as may net positions and nil net positions. As a rule, any financial instrument measured at fair value is suitable as a hedging instrument. The exception to this rule are liabilities for which the fair value option has been used and equity instruments designated at fair value through other comprehensive income. IFRS 9 dispenses with the range of 80% to 125% required by IAS 39 when measuring effectiveness, as a result of which effectiveness no longer has to be tested retrospectively. Effectiveness still has to be tested prospectively and any ineffectiveness recognised. A hedging relationship may only be discontinued if the requirements defined for this are met; this means that hedging relationships must be continued if the risk management objective remains unchanged. Extended disclosures have to be made about the risk management strategy, the effects of risk management on future cash flows and the effects of hedge accounting on the financial statements. In addition, recognition in other comprehensive income of own credit risk for financial liabilities that the entity has elected to measure at fair value is now possible in isolation, i. e. without applying the other requirements under IFRS 9. This section of IFRS 9 must be initially applied in accordance with the requirements on the initial application of IFRS 9 as a whole. The requirements will have an impact on pbb Group's hedge accounting. However, it will not be possible to assess the overall impact until all sections of IFRS 9 have been published.

Mandatory Effective Date and Transition Disclosures (Amendments to IFRS 9 and IFRS 7) provides relief from restating prior-year amounts when applying IFRS 9 for the first time. This relief was initially only available when early applying IFRS 9 before 1 January 2012 and involves making additional disclosures in accordance with IFRS 7 at the date of transition. The effective date of these amendments is the same as specified in IFRS 9.

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

IFRIC 21 Levies is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IFRIC 21 clarifies when a present obligation exists and a provision or liability has to be recognised for levies imposed by governments. In particular, levies resulting from IAS 12 Income Taxes are not within the scope of IFRIC 21. IFRIC 21 requires a liability to be recognised for levies when the event triggering the obligation to pay the levy occurs. This triggering event that gives rise to the obligation results, in turn, from the wording of the underlying standard. Its wording therefore determines the accounting treatment. Subject to endorsement by the European Union, the interpretation is effective for financial years beginning on or after 1 January 2014. For pbb Group, IFRIC 21 is not at present expected to have a significant impact on the levies currently payable.

Through the Annual Improvements Project, minor amendments are made to individual standards in order to clarify issues or standardise the wording. Improvements to IFRSs 2012 related to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38, and Improvements to IFRSs 2013 to IFRS 1, IFRS 3, IFRS 13 and IAS 40. Subject to endorsement by the European Union, both sets of improvements are effective for financial years beginning on or after 1 July 2014. They are not expected to have a significant impact on pbb Group.

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

Group Management Report The Group management report meets the requirements of section 315 (1) and (2) HGB (German Civil Code) and DRS 20, which was already initially adopted in

the reporting year 2012 on a voluntarily basis. It comprises fundamental information about the Group, a report on the economic position, a report on post-balance-sheet date events, and a report on expected developments as well as a risk and opportunity report. The risk and opportunity report contains information which, under IFRS 7, is required to be disclosed. Events after the balance sheet date are described in the report on post-balance-sheet date events.

3 Consistency

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

In financial year 2013, pbb Group changed the presentation logic for expenditure items. These are now shown with minus signs. Prior-year figures are presented in the same way.

As of 31 December 2013 pbb Group applied the equal accounting and measurement principles as in the consolidated financial statements as of 31 December 2012.

4 Uniform Consolidated Accounting

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

5 Consolidation

	Fully consolidated subsidiaries		Not fully consolidated subsidiaries[1)]		Associated companies and other investments		
Number of subsidiaries/ entities[1)]	Total	Thereof special-purpose entities	Total	Thereof special-purpose entities	Associated companies	Other investments	Total
1.1.2012	**12**	**4**	**7**	**2**	**4**	**6**	**29**
Additions	1	1	—	—	—	—	1
Disposals	-2	—	-1	-1	-1	-2	-6
Mergers	-1	—	-1	—	—	—	-2
31.12.2012	**10**	**5**	**5**	**1**	**3**	**4**	**22**
1.1.2013	**10**	**5**	**5**	**1**	**3**	**4**	**22**
Additions	1	1	—	—	—	—	1
Disposals	-1	-1	—	—	—	—	-1
Mergers	—	—	-1	—	—	—	-1
31.12.2013	**10**	**5**	**4**	**1**	**3**	**4**	**21**

1) pbb, subsidiaries (including special-purpose entities), associated companies and other investments
2) Not fully consolidated due to immateriality respectively not to be consolidated according to SIC-12

These consolidated financial statements set out a list of shareholdings in the chapter «Holdings». In this list, the subsidiaries are structured on the basis of whether or not they are consolidated. Other shareholdings are also listed. All fully consolidated companies have prepared their individual financial statements for the period ended 31 December 2013.

The effects of the contractual relations between the Group companies and the subsidiaries which are not consolidated are set out in the consolidated financial statements. The pooled results of the subsidiaries, which have not been consolidated in view of their minor significance, are less than €1 million (2012: €2 million). Net losses are almost completely included in the Group financial statement by depreciation on investments, provisions and profits transferred. The pooled total assets of the non-consolidated subsidiaries account as in the previous year for less than 0.1% of the Group's total assets. The shares in the non-consolidated companies are shown as AfS financial investments.

pbb holds 100% of the interest in DEPFA Finance N.V., Amsterdam. As the majority of risks and rewards is held Group-externally pbb has not to consolidate the special-purpose entity according to IAS 27 in conjunction with SIC 12.

In 2013 it came to the following changes in consolidation:

All shares of Little Britain Holdings (Jersey) Ltd., Jersey, were sold on 20 September 2013. The deconsolidation resulted in a gain of €92 million, which was recognised in pbb's consolidated financial

statements under net income from financial investments. The €1 million loss generated by the company between 1 January and the date of sale, 20 September 2013, is included in pbb's consolidated financial statements. The total assets in accordance with the accounting policies applicable to pbb's consolidated financial statements amounted to €97 million. The assets side of the company's statement of financial position primarily comprised salvage acquisitions in the amount of €84 million, which were reported under other assets. The equity and liabilities side mainly consisted of a liability to pbb in the amount of €108 million and equity in the amount of €-13 million.

FUNDUS Gesellschaft für Grundbesitz und Beteiligungen GmbH, Munich, previously an unconsolidated subsidiary, was merged with pbb effective 28 August 2013.

The company RPPSE Espacio Oviedo S.L.U., Madrid, was initially consolidated on 26 Novermber 2013. On this day pbb firmly committed to take over the participation in the company and gained control over the company. The company has a property with a book value of €27 million on the asset side according to the accounting policies of the Group and a funding from pbb about €61 million on the liability side. The initial consolidation resulted in an asset change. pbb Group recognises the property with a book value of €27 million as a salvage acquisition under the item other assets instead of the loan impaired to this amount. There have been no material effects on the income statement. The shares were purchased for €1 on 25 February 2014 by IMMO Invest Real Estate GmbH, Munich, a subsidiary of pbb.

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

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

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

6 Financial Instruments

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

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

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

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

Collaterals with the same counterparty and same conditions (e.g. ISDA frame contract) are netted according to IAS 32.34 and thus disclosed as a net amount.

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

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

Held-for-Trading A financial asset or a financial liability is held for trading if it is:

> acquired or incurred principally for the purpose of selling or repurchasing it in the near term

> part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking

> a derivative (except for a derivative that is a designated and effective hedging instrument)

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

If there is a difference between transaction price and market value at the trading date and the difference results from unobservable data that have a significant impact on the measurement of a financial instrument, the difference (so-called day one profit) is not recognised immediately in profit or loss but is recognised over the life of the transaction. The remaining difference is recognised directly in profit or loss when the inputs become observable, when the transaction matures or is closed out. In the financial years 2013 and 2012 there were no material day one profits.

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

As of 31 December 2013, pbb Group had no financial assets and no financial liabilities in the category dFVTPL. As of 31 December 2012, one fixed-income security was held in the category dFVTPL. An inconsistency in terms of measurement was avoided by this designation. This security was recognised under financial investments. Interest income from the securities was recognised in net interest income and similar income. The changes in value to be recognised in profit or loss were recognised in net income from hedge relationships in the same way as the changes in value of the corresponding derivatives.

Held-to-Maturity (HtM) Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. HtM financial investments are measured at amortised cost. In financial years 2013 and 2012, no financial assets were classified as HtM at pbb Group.

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

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

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

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

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

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

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

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

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

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

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

Impairment According to IAS 39.58 a financial asset must be tested for impairment. At each balance sheet date pbb Group assesses on a case-by-case basis whether there is objective evidence for impairment. The criteria used to determine if there is such objective evidence included:

> significant financial difficulties of the borrower

> overdue contractual payments of either principal or interest or other breaches of contract

> increased probability that the borrower will enter bankruptcy or other financial reorganisation

> renegotiations due to economic problems

> a decline in the fair value of a financial asset below its (amortised) cost

Receivables at risk of default are restructured by pbb Group when the borrower's financial position has detoriated but going concern for the loan exposure can still be assumed. The Group then partly grants special conditions by agreeing to terms and conditions that are more favourable for the borrower than the Group has provided initially. The Group implements a forbearance policy, respectively restructuring agreements in order to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy respectively restructuring agreement, loan forbearance or loan extension is granted on a selective basis in a situation where the debtor is currently in default on its debt, or where there is a high risk of default, there is evidence that the debtor made all reasonable effort to pay under the original contractual terms and it is expected to be able to meet the revised terms. The revised terms usually include extending maturity, changing timing of interest payments and amendments to the terms of loan covenants. The credit risk associated with restructured loans is managed by the Group's Credit Risk Management units. The methods used to measure and manage risk are presented in the section of the risk and opportunity report entitled «Credit Risk». Further information is provided in the note restructured loans and advances.

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

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

To measure the impairment loss, the following factors are especially considered:

> pbb Group's aggregate exposure to the customer

> the amount and timing of expected interest and redemption payments

> the realisable value of collateral and likelihood of successful repossession

> the likely deduction of any costs involved in recovering amounts outstanding

> the market price of the asset if available

For the purpose of calculating portfolio-based allowances, financial assets carried at amortised cost for which no impairment has been identified on an individual basis are grouped in portfolios according to their credit risk. This allowance covers losses which have been incurred but have not yet been identified on loans subject to individual assessment. The parameters used to determine portfolio-based allowances are checked regularly and adjusted if necessary. The portfolio-based allowances are determined after taking into account:

> historical loss experience in portfolios of similar credit risk characteristics

> a judgement whether current economic conditions and credit conditions improved or deteriorated compared to the past

> the estimated period between impairment occurring and the impairment being identified

> state of the current economic cycle

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

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

If the hedge of the fair value in the course of the reporting period meets the criteria of IAS 39.88, the hedge is accounted as follows:

> The profit or loss arising when the hedging instrument is remeasured at fair value (for a derivative hedging instrument) or the currency component of its carrying amount measured in accordance with IAS 21 (for non-derivative hedging instruments) is recognised in profit or loss for the period and

> The carrying amount of a hedged item is adjusted by the profit or loss arising from the hedged item and attributable to the hedged risks, and is recognised in profit or loss for the period. This is applic-able if the hedged item is otherwise measured at cost. The profit or loss attributable to the hedged risk is recognised in profit or loss for the period if the hedged item is an available-for-sale (AfS) financial asset. The amortisation of the hedge adjustment is started on the date of the revoking of the hedge relationship.

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

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

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

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

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

In those periods in which the cash flows of the hedged item have an impact on profit or loss for the period, the cash flow hedge reserve is released through profit or loss. If a cash flow hedge for a forecast transaction is deemed to be no longer effective, or if the hedge relationship is revoked, the cumulative gains or losses on the hedging derivative initially recognised in equity remain in equity until the committed or forecast transaction occurs. At this point, the gains or losses have to be recognised in profit or loss. pbb Group uses a macro approach for cash flow hedge accounting.

Hedge of a Net Investment in a Foreign Operation A net investment hedge is a hedge of the foreign currency exposure on a net investment in a foreign operation. Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. pbb Group did not hedge a net investment in a foreign operation in the financial years 2013 and 2012.

7 Cash Reserve

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

8 Trading Assets

Trading assets comprise positive market values of stand-alone derivatives of the bank book. Trading assets are measured at fair value. Unrealised and realised gains and losses attributable to trading assets are recognised in net trading income in profit or loss.

9 Loans and Advances

Loans and advances to other banks and loans and advances to customers are measured in accordance with IAS 39 at amortised cost if they are not categorised dFVTPL or AfS or a hedged item of a fair value hedge. As of 31 December 2013, and as of 31 December 2012, pbb Group did not have loans and advances which are classified as AfS or dFVTPL.

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

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

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

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

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

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

11 Financial Investments

dFVTPL, LaR and AfS securities are recognised and disclosed as financial investments. dFVTPL and AfS financial assets are measured at fair value. Changes in the fair value are through profit or loss in case of dFVTPL financial assets in economical hedge relationships and are recognised in net income from hedge relationships and disclosed in the net income from hedge relationships. Changes in fair value of AfS financial assets are disclosed as a separate item of equity (AfS reserve) not affecting profit or loss until the asset is sold, withdrawn, disposed of, or if an impairment is established for the financial asset in accordance with IAS 39.58 et seq. Therefore, the cumulative profit or loss previously recognised in equity is now affecting profit or loss. Individual allowances on AfS financial assets are directly deducted from the carrying amount of the assets. Portfolio-based allowances on AfS financial assets shall not be created for AfS financial assets. AfS financial assets which are hedged effectively against market price risks are part of the hedge accounting. LaR financial investments are measured at

amortised cost. Individual allowances and portfolio-based allowances on LaR financial investments are directly deducted from the carrying amount of the assets. In the financial years 2013 and 2012, pbb Group did not have any HtM financial assets.

12 Property, Plant and Equipment

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

Useful lives

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

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

13 Intangible Assets

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

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

14 Other Assets

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

15 Liabilities

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

16 Trading Liabilities

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

17 Provisions

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

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

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

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

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

18 Other Liabilities

Besides negative fair values from derivative financial instruments (hedging derivatives and derivatives hedging dFVTPL financial instruments), accruals are one of the items recognised in other liabilities. Accruals arose from liabilities for products or services which have been received or supplied and have not yet been paid for, invoiced by the supplier or formally agreed. This also includes short-term liabilities to employees, for instance flexitime credits and vacation entitlements. The accruals are measured at the amount likely to be utilised.

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

19 Subordinated Capital

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

Pursuant to IAS 32 the subordinated capital instruments issued by companies of pbb Group were classified as financial liabilities or equity instruments in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument. Financial liabilities are measured at amortised cost. The amortised costs are the amount at which the financial

liability is measured at initial recognition minus principal payments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount and minus any expected reduction of interest and/or principal payments.

20 Silent Participation

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

21 Share-based Compensation

As of 31 December 2013 and as of 31 December 2012 no company of pbb Group has provided a commitment for share-based compensation.

22 Currency Translation

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

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

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

23 Taxes on Income

Taxes on income are recognised and measured in accordance with IAS 12. Apart from the exceptions defined in the standard, deferred taxes are calculated for all temporary differences for the IFRS values and the tax base as well as for the differences resulting from uniform Group measurement principles and differences from the consolidation (balance sheet method). Deferred tax assets arising from non-utilised losses carried forward, interest assets carried forward and tax credits are recognised if required from IAS 12.34 et seq.

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

24 Non-current Assets Held for Sale

In accordance with IFRS 5, non-current assets held for sale or disposal group have to be measured on the balance sheet date at the lower of carrying amount and fair value less costs to sell. The assets have to be disclosed separately in the statement of financial position. As at 31 December 2013 and at 31 December 2012 pbb Group did not own non-current assets held for sale.

25 Accounting Estimates and Assumptions

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

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

Allowances The portfolio of pbb Group is reviewed at least annually in order to identify any impairment losses on loans and advances. It is necessary to assess whether the estimated future cash flows of a loan portfolio are lower than the actual contractual ones. For this purpose, it is necessary to make judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or economic conditions that correlate with defaults on assets in the portfolio. The methods and assumptions concerning the assessments of the extent and timing of the payment streams are reviewed regularly to reduce any differences between estimated and actual defaults. In addition, the determination of portfolio-based provisions is based on a loss identification period as well as the expected loss based on statistical data.

Fair Values of Original and Derivative Financial Instruments The fair value of financial instruments that are not listed on active markets is measured using valuation models. In the cases in which valuation models are used, a check is performed regularly to assess whether the valuation models provide a comparable standard for current market prices. For practical considerations, the valuation models can only take account of quantifiable factors (e. g. cash flows and discount rates) that also require estimates. Changes in assumptions relating to these factors might have an impact on the fair values of the financial instruments. In accordance with IAS 8.34, accounting estimates must be revised if changes occur in the circumstances on which the estimate was based or as a result of new information or experience gained. In the reporting period, pbb Group revised the credit value adjustment (CVA) estimates used to measure derivatives. As a result, market-based parameters are used to calculate credit risk for pbb Group and for counterparties that do not have specific credit default swaps (CDS). The accounting estimate changes led to income of €3 million, which was recognised in net trading income. In addition, overnight yield curves (including tenor basis effects) were used to measure derivatives for the first time as of 31 December 2013 due to changes in market conventions. This resulted in a transition effect of €-33 million, which was recognised in the income statement under net trading income, and an effect of €-4 million that was recognised in equity (other comprehensive income) under the cash flow hedge reserve.

Embedded Derivatives According to IAS 39.11, an embedded derivative has to be separated from the host contract and has to be measured separately if, in addition to other criteria, the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. The economic risks of the host contracts and embedded derivatives are assessed on the basis of measuring methods to evaluate the existence of an obligation to separate.

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

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

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

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

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

With regard to the capitalisation of losses carried forward and other tax credits, the extent as well as the availability of such tax benefits are subject to estimation. Major losses carried forward are subject to national German tax law, and their availability also depends on the restrictions set out in section 10d EStG, 8c KStG as well as section 10a GewStG. Deferred tax assets arising from losses carried forward are recognised as far as it is likely that taxable income will be available to offset the non-utilised tax losses carried forward.

Segment Reporting

26 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 as the basis 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 REF operating segment comprises all 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 PSF operating segment 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 VP operating segment 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.

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

27 Income Statement by Operating Segment

Income/expenses

in € million		REF	PSF	VP	Consolidation & Adjustments	pbb Group
Operating revenues	2013	334	28	102	18	482
	2012	264	47	147	9	467
Net interest income and similar income	2013	240	62	—	17	319
	2012	227	58	1	10	296
Net commission income	2013	10	—	—	-1	9
	2012	25	-1	-1	—	23
Net trading income	2013	-21	-30	—	—	-51
	2012	2	8	—	—	10
Net income from financial investments	2013	96	—	—	—	96
	2012	16	-2	-1	—	13
Net income from hedge relationships	2013	4	5	—	—	9
	2012	-3	-3	—	—	-6
Balance of other operating income/expenses	2013	5	-9	102	2	100
	2012	-3	-13	148	-1	131
Provisions for losses on loans and advances	2013	-1	-7	—	—	-8
	2012	5	-4	3	—	4
General administrative expenses	2013	-147	-54	-111	—	-312
	2012	-139	-53	-148	-1	-341
Balance of other income/expenses	2013	2	1	—	—	3
	2012	-3	-1	-2	—	-6
Pre-tax profit	2013	**188**	**-32**	**-9**	**18**	**165**
	2012	**127**	**-11**	**—**	**8**	**124**

Cost-income ratio[1)]

in %		REF	PSF	VP	pbb Group
Cost-income ratio (based on operating revenues)	2013	44.0	>100.0	>100.0	64.7
	2012	52.7	>100.0	>100.0	73.0

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

28 Balance-sheet-related Measures by Operating Segment

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

Balance-sheet-related measures by operating segment

in € billion		REF	PSF	VP	Consolidation & Adjustments	pbb Group
Equity[1)]	31.12.2013	0.8	1.6	—	1.0	3.4
	31.12.2012	1.0	1.4	—	0.8	3.2
Risk-weighted assets[2)]	31.12.2013	8.1	5.4	0.1	0.5	14.1
	31.12.2012	9.6	5.0	0.2	0.5	15.3
Financing volumes	31.12.2013	20.4	30.0	0.8	—	51.2
	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

29 Breakdown of Operating Revenues

Operating Revenues by Products Operating revenues from other products mainly contained a balance of other operating income/expenses for the on 30 September 2013 mostly discontinuated servicing for the ongoing operation of FMS Wertmanagement and for IT services to the sister company DEPFA totalling €96 million (2012: €146 million).

Operating revenues by products

in € million		Commercial real estate financing	Public sector financing	Other products	pbb Group
Operating revenues	2013	334	28	120	482
	2012	264	47	156	467

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

Operating revenues by regions

in € million		Germany	Rest of Europe	America/Asia	pbb Group
Operating revenues	2013	326	53	103	482
	2012	473	17	-23	467

Operating Revenues by Customers A balance of other operating income/expenses of €60 million (2012: €106 million) recognised in the Value Portfolio segment resulted from services for the ongoing operation of FMS Wertmanagement. The service provided for the FMS Wertmanagement discontinuated to a large extend as mandated by the European Commission on 30 September 2013. Because this position accounted for more than 10% of all operating revenues of pbb Group, FMS Wertmanagement was a major client in accordance with IFRS 8.34. The balance of other operating income/expenses compensated for the expenses additional profit margin of the pbb Group incurred in connection with servicing.

Notes to the Consolidated Income Statement

30 Net Interest Income and Similar Income

Net interest income and similar income by categories of income/expenses

in € million	2013	2012
Interest income and similar income	**2,448**	**2,879**
Lending and money-market business	1,302	1,557
Fixed-income securities and government-inscribed debt	785	869
Investments	—	2
Current result from swap transactions (balance of interest income and interest expenses)	361	451
Interest expenses and similar expenses	**-2,129**	**-2,583**
Liabilities to other banks and customers	-487	-604
Liabilities evidenced by certificates	-1,570	-1,884
Subordinated capital	-72	-95
Total	**319**	**296**

Total interest income for financial assets that are measured at amortised cost, amount to €2.1 billion (2012: €2.4 billion). Total interest expenses for financial liabilities that are not measured at fair value through profit or loss amount to €-2.1 billion (2012: €-2.6 billion).

31 Net Commission Income

Net commission income

in € million	2013	2012
Securities and custodial services	-1	-2
Lending operations and other service operations	10	25
Total	**9**	**23**

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

32 Net Trading Income

Net trading income

in € million	2013	2012
From interest rate instruments and related derivatives	-51	8
From credit risk instruments and related derivatives	—	2
Total	**-51**	**10**

33 Net Income From Financial Investments

Net income from financial investments

in € million	2013	2012
Income from financial investments	101	22
Expenses from financial investments	-5	-9
Total	**96**	**13**

Net income from financial investments consists of income from the sale of securities of the measurement categories AfS and LaR together with changes in the value of such instruments that are to be recognised in profit or loss. HtM investments were not held in 2013 and 2012. 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	2013	2012
AfS financial investments	4	14
LaR financial investments	-2	-1
Total	**2**	**13**

Net income from financial investments not accounting for IAS 39 amounted to €94 million. Attributable to the disposal of Little Britain Holdings (Jersey) Ltd. was a result of €92 million.

34 Net Income from Hedge Relationships

Net income from hedge relationships

in € million	2013	2012
Result from fair value hedge accounting	8	-6
Result from hedged items	-344	-450
Result from hedging instruments	352	444
Result from dFVTPL investments and related derivatives	—	2
Result from dFVTPL investments	-1	—
Result from derivatives related to dFVTPL investments	1	2
Ineffectiveness from cash flow hedge accounting affecting income	1	-2
Total	**9**	**-6**

35 Balance of Other Operating Income/Expenses

Balance of other operating income/expenses

in € million	2013	2012
Other operating income	245	277
Other operating expenses	-145	-146
Balance of other operating income/expenses	**100**	**131**

The balance of other operating income/expenses from services for the ongoing operation of FMS Wertmanagement amounted to €60 million (2012: €106 million). The services provided to FMS Wertmanagement were largely discontinued on 30 September 2013 as mandated by the European Commission, which meant that the volume of necessary services has declined accordingly. General administrative expenses declined simultaneously. Income from IT services to fellow subsidiary DEPFA amounted to €36 million (2012: €40 million). In the financial year 2013, the bank levy resulted in expenses of €-11 million (2012: €-24 million). An income of €11 million (2012: €7 million) was attributable to rental income generated from taken over real estate. Net income resulting from foreign currency translation amounted to less than €1 million (2012: net income of €3 million).

36 Provisions for Losses on Loans and Advances

Provisions for losses on loans and advances

in € million	2013	2012
Provisions for losses on loans and advances	-17	-1
Additions	-66	-66
Reversals	49	65
Provisions for contingent liabilities and other commitments	1	4
Additions	—	-4
Reversals	1	8
Recoveries from written-off loans and advances	8	1
Total	**-8**	**4**

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».

37 General Administrative Expenses

General administrative expenses

in € million	2013	2012
Personnel expenses	-121	-131
Wages and salaries	-94	-104
Social security costs	-18	-19
Pension expenses and related employee benefit costs	-9	-8
Non-personnel expenses	-191	-210
Other general administrative expenses	-177	-197
Consulting expenses	-40	-57
IT expenses	-91	-102
Office and operating expenses	-14	-14
Other administrative expenses	-32	-24
Depreciation/amortisation	-14	-13
On software and other intangible assets excluding goodwill	-13	-12
On property, plant and equipment	-1	-1
Total	**-312**	**-341**

Cost-income ratio

in %	2013	2012
Cost-income ratio	64.7	73.0

38 Balance of Other Income/Expenses

Balance of other income/expenses

in € million	2013	2012
Other income	11	5
thereof:		
Reversals of restructuring provisions	11	5
Other expenses	-8	-11
thereof:		
Additions to restructuring provisions	-4	-11
Other taxes	-4	—
Balance of other income/expenses	**3**	**-6**

39 Taxes on Income

Breakdown

in € million	2013	2012
Current taxes	2	8
Deferred taxes	-7	-63
thereof:		
Deferred taxes on capitalised losses carried forward	80	-7
Total	**-5**	**-55**

Current taxes contain tax income for prior years of €6 million (2012: €20 million).

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

Development of deferred taxes

in € million	2013	2012[1)]
Deferred taxes recognised in the statement of financial position	-5	17
Difference to prior year	-22	-115
thereof:		
Recognised in income statement	-7	-63
Recognised in profits/losses from pension commitments	-2	14
Recognised in AfS reserve	-56	-71
Recognised in cash flow hedge reserve	43	5

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

Reconciliation

in € million	2013	2012
Net income/loss before taxes	165	124
Applicable (legal) tax rate in %	15.83	15.83
Expected (computed) tax expense	-26	-20
Tax effects		
arising from foreign income	-1	—
arising from tax rate differences	10	-26
arising from tax-free income	–	1
arising from deductible and non-deductible items	-10	-15
arising from valuation adjustments and non-application of deferred taxes	23	-7
arising from prior years	-1	12
Reported taxes on income	**-5**	**-55**
Group tax ratio in %	**3.03**	**44.35**

The tax rate applicable for the financial year, including solidarity surcharge, is 15.83% and is comprised of the 15.0% German corporate tax rate currently valid together with the payable solidarity surcharge of 5.5%.

The effects attributable to foreign income comprise tax rate differences arising from foreign fiscal jurisdictions. These arose as foreign income has been taxed with different tax rates.

The effects from tax rate differences include the trade tax burden (current and deferred in accordance with IFRS) which exists in Germany additionally to German corporation tax and solidarity surcharge.

The item effects arising from tax-free income comprises effects from tax-free income from participating interests and dividends both domestically and internationally. Regulations for the determination of taxable income were applied as valid for the particular jurisdiction.

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

The item effects arising from valuation adjustments and non-application of deferred taxes comprises major effects from not recognised deferred tax assets at periodical losses. pbb Group recognised no impairments on deferred tax assets which have been recorded last year on the basis of existing losses carried forward.

The item effects from previous years includes both current taxes for years which have been incurred as a result of tax audits or a reassessment of the tax liability, as well as deferred taxes for prior years.

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

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

Deferred tax liabilities/assets

in € million	2013	2012[1)]
Loans and advances to other banks/customers (including loan loss allowances)	22	27
Financial investments	11	13
Trading assets	384	536
Other assets/liabilities	696	1,041
Others	13	17
Deferred tax liabilities	1,126	1,634
Loans and advances to other banks/customers (including loan loss allowances)	9	9
Financial investments	88	144
Provisions	38	69
Other assets/liabilities	483	820
Trading liabilities	284	472
Liabilities evidenced by certificates	5	3
Losses carried forward	214	134
Deferred tax assets	**1,121**	**1,651**

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

For the domestic companies, the deferred taxes are calculated using the uniform rate of corporation tax of 15.0% plus the 5.5% solidarity surcharge payable on this and the locally applicable collection rate for municipal trade tax (the current basic rate is 3.5%). For pbb the tax rate for the valuation of deferred taxes is 27.80% (2012: 28.00%).

On the reporting date, there are unused losses carried forward totalling €3,781 million (2012: €3,649 million) at corporate tax level and €3,844 million (2012: €3,747 million) at trade tax level. Deferred tax assets have been stated as €738 million (2012: €447 million) at corporate tax level and €810 million (2012: €519 million) at trade tax level, because the criteria for recognition in accordance with IAS12.34 et seq. were satisfied. The loss carried forward can be utilised for an unlimited period of time. Add-itionally temporary differences of €1 million (2012: €3 million) were not recognised with deferred tax assets.

From the origination and reversal of temporary differences a deferred tax expense arose of €-86 million (2012: €-56 million).

No deferred tax income resulted from tax rate changes (2012: €1 million).

As in the previous year the current tax expense was not reduced by the use of previously unrecognised tax losses. Deferred tax income of € 39 million resulted from capitalisation not yet recognised losses carried forward.

On differences associated with investments in subsidiaries, deferred tax liabilities in the amount of €140 million (2012: €173 million) has not been stated because it is the ability and the intention to invest profits permanently in these subsidiaries.

40 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	2013	2012
Loans and receivables	16	10
Available for sale	4	14
Held for trading	-51	10
Designated at fair value through profit or loss	-1	—
Financial liabilities at amortised cost	**-**	**6**

Notes to the Consolidated Statement of Financial Position (Assets)

41 Cash Reserve

Cash reserve

in € million	31.12.2013	31.12.2012
Balance with central banks	3,532	1,937
Total	**3,532**	**1,937**

Cash in hand as of 31 December 2013 amounts to less than €1 million as was the case in the previous year.

42 Trading Assets

Trading assets

in € million	31.12.2013	31.12.2012
Positive fair values of derivative financial instruments	1,642	3,325
Total	**1,642**	**3,325**

43 Loans and Advances to Other Banks

Loans and advances to other banks by type of business

in € million	31.12.2013	31.12.2012
Loans and advances	3,744	5,092
Public sector loans	1,978	2,231
Real estate loans	51	52
Other loans and advances	1,715	2,809
Investments	2,054	2,903
Total	**5,798**	**7,995**

Loans and advances to other banks by maturities

in € million	31.12.2013	31.12.2012
Repayable on demand	1,648	2,736
With agreed maturities	4,150	5,259
up to 3 months	2,138	3,016
3 months to 1 year	381	222
1 year to 5 years	646	891
5 years and over	985	1,130
Total	**5,798**	**7,995**

44 Loans and Advances to Customers

Loans and advances to customers by type of business

in € million	31.12.2013	31.12.2012
Loans and advances	36,042	49,090
Public sector loans	15,464	19,139
Real estate loans	20,557	29,919
Other loans and advances	21	32
Investments	200	500
Total	**36,242**	**49,590**

Loans and advances to customers by maturities

in € million	31.12.2013	31.12.2012
With agreed maturities	36,242	49,590
up to 3 months	2,087	4,008
3 months to 1 year	2,937	4,973
1 year to 5 years	15,122	21,595
5 years and over	16,096	19,014
Total	**36,242**	**49,590**

45 Allowances for Losses on Loans and Advances

Breakdown

in € million	31.12.2013	31.12.2012
Specific allowances for losses on loans and advances to other banks	—	—
Specific allowances for losses on loans and advances to customers	-97	-283
Portfolio-based allowances	-51	-42
Total	**-148**	**-325**

Development

in € million	Specific allowances	Portfolio-based allowances	Total
Balance at 1.1.2012	-413	-64	-477
Changes affecting income	-15	22	7
Gross additions	-48	-18	-66
Reversals	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
Balance at 31.12.2012	-283	-42	-325
Balance at 1.1.2013	-283	-42	-325
Changes affecting income	1	-9	-8
Gross additions	-50	-16	-66
Reversals	42	7	49
Increase of the present value due to passage of time (unwinding)	9	—	9
Changes not affecting income	185	—	185
Use of existing loan-loss allowances	185	—	185
Balance at 31.12.2013	**-97**	**–51**	**-148**

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

46 Financial Investments

Breakdown

in € million	31.12.2013	31.12.2012
AfS financial investments	4,284	3,920
Shares in non-consolidated subsidiaries	—	1
Debt securities and other fixed-income securities	4,282	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	16,608	21,569
Debt securities and other fixed-income securities	16,608	21,569
Total	**20,892**	**25,572**

The carrying amounts of the LaR financial investments were reduced by portfolio-based allowances amounting to €–14 million (2012: €–12 million).

pbb Group cannot determine reliably a fair value for some shares in companies for which there is no market value available and which are not fully consolidated or are not accounted for using the equity method due to considerations of materiality or due to a missing control respectively a missing significant influence. These companies in the legal form of limited or private are not traded in an active market and therefore are measured at cost. The carrying amount of these financial investments amounted to €0 million as of 31 December 2013 (2012: €1 million). In financial year 2013, financial investments, for which it is not possible for the fair value to be reliably established, were derecognised for €1 million (2012: €1 million). As in the previous year no profit was recognised.

Financial investments by maturities

in € million	31.12.2013	31.12.2012
Unspecified terms	2	3
With agreed maturities	20,890	25,569
Up to 3 months	767	3,131
From 3 months to 1 year	1,567	1,507
From 1 year to 5 years	7,671	8,121
From 5 years and over	10,885	12,810
Total	**20,892**	**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 reclas-sification 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 which had met the definition of 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 category available-for-sale of €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 €10.3 billion (2012: €9.5 billion) became due.

In the financial year 2013 no reclassified securities (2012: €0.1 billion) were sold. Therefore no net profit or loss was realised (2012: net profit of €6 million).

The reclassification of AfS assets did not cause a disclosure change of current interest income. Interest income is still shown under net interest income and similar income.

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

Reclassifications in 2008 Effects in 2013	into: Financial investments loans and receivables (LaR)			Effect 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
from:					
Financial investments available for sale (AfS)	1.7.08	9.5	9.4	—	226

Reclassifications in 2008 Effects in 2012	into: Financial investments loans and receivables (LaR)			Effect in reporting period if no assets had been reclassified (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
from:					
Financial investments available for sale (AfS)	1.7.08	10.9	10.5	5	187

47 Property, Plant and Equipment

Breakdown

in € million	31.12.2013	31.12.2012
Plant and operating equipment	1	2
Total	**1**	**2**

Development of property, plant and equipment

in € million	2013	2012
Plant and operating equipment		
Acquisition/production costs		
Balance at 1.1.	**18**	**19**
Disposals	-3	-1
Balance at 31.12.	**15**	**18**
Depreciation and write-ups		
Balance at 1.1.	**-16**	**-16**
Depreciation	-1	-1
Disposals	3	1
Balance at 31.12.	**-14**	**-16**
Carrying amounts		
Balance at 31.12.	**1**	**2**

48 Intangible Assets

Breakdown

in € million	31.12.2013	31.12.2012
Purchased software	2	4
Internally developed software	27	34
Other intangible assets	2	1
Total	**31**	**39**

Development of intangible assets

	2013				2012
in € million	Software acquired	Internally generated software	Other intangible assets	Total	Total
Acquisition/production costs					
Balance at 1.1.	**76**	**51**	**1**	**128**	**118**
Additions	1	4	2	7	18
Disposals	—	-4	-1	-5	-8
Balance at 31.12.	**77**	**51**	**2**	**130**	**128**
Amortisation and write-ups					
Balance at 1.1.	**-72**	**-17**	**—**	**-89**	**-83**
Impairment losses	-3	-10	—	-13	-12
Disposals	—	3	—	3	6
Balance at 31.12.	**-75**	**-24**	—	**-99**	**-89**
Carrying amounts					
Balance at 31.12.	**2**	**27**	**2**	**31**	**39**

49 Other Assets

Other assets

in € million	31.12.2013	31.12.2012[1)]
Positive fair values from derivative financial instruments	4,601	6,821
Hedging derivatives	4,601	6,821
Fair value hedge	4,115	5,819
Cash flow hedge	486	1,002
Salvage acquisitions	97	176
Other assets	59	238
Capitalised excess cover of qualified insurance for pension provisions	12	7
Total	**4,769**	**7,242**

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

The decrease in salvage acquisitions was mainly due to the deconsolidation of Little Britain Holdings (Jersey) Ltd. (€-84 million). The carrying amount of salvage acquisitions also declined as a result of currency effects. The initial consolidation of RPPSE Espacio Oviedo S.L.U., Madrid, led to an increase of €27 million in the salvage acquisition portfolio.

50 Income Tax Assets

Income tax assets

in € million	31.12.2013	31.12.2012[1)]
Current tax assets	44	53
Deferred tax assets	1,121	1,651
Total	**1,165**	**1,704**

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

The income tax assets item contains both reimbursement claims from actual taxes as well as a considerable element of deferred tax claims. These are attributable to capitalised temporary tax claims in connection with tax losses carried forward as well as other temporary tax claims. A considerable proportion of deferred tax assets were credited pursuant to IAS 12.61 of AfS and cash flow hedge reserve, because the underlying assets were also posted under these items. The actual tax claims also include the capitalised claim for payment of the corporate income tax credit.

51 Subordinated Assets

The balance sheet items do not contain subordinated assets.

52 Repurchase Agreements

As a pledgor of genuine repurchase agreements, pbb Group has pledged assets with a book value of €1.3 billion (2012: €0.5 billion). The securities are still recognised as assets. The considerations which have been received amount to €1.3 billion (2012: €0.4 billion) and are recognised mainly as liabilities to other banks. Assets in repurchase agreements are the only transferable assets the acquirer can sell or repledge in the absence of default according to IAS 39.37 (a).

53 Securitisation

As of 31 December 2013 pbb Group has the synthetic securitisation Estate UK-3 with a transaction period of 15 years (maturity 2022) and a total volume of lending of €384 million (2012: €449 million) in the portfolio. The issuer of the transaction with commercial mortgage loans is pbb. The credit linked notes were completely sold to the investors. Therefore, no risks remained at pbb Group. Overall a reduction of expected loss according to Basel II of €138 million (2012: €120 million) was achieved.

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

54 Liabilities to Other Banks

Liabilities to other banks by maturities

in € million	31.12.2013	31.12.2012
Repayable on demand	1,269	2,058
With agreed maturities	2,253	5,739
Up to 3 months	1,015	378
3 months to 1 year	285	311
1 year to 5 years	478	4,572
5 years and over	475	478
Total	**3,522**	**7,797**

55 Liabilities to Customers

Liabilities to customers by maturities

in € million	31.12.2013	31.12.2012
Repayable on demand	676	962
With agreed maturities	10,172	10,933
Up to 3 months	894	736
3 months to 1 year	1,821	1,340
1 year to 5 years	5,360	5,910
5 years and over	2,097	2,947
Total	**10,848**	**11,895**

56 Liabilities Evidenced by Certificates

Liabilities evidenced by certificates by type of business

in € million	31.12.2013	31.12.2012
Debt securities issued	25,836	28,761
Mortgage bonds	8,719	7,681
Public sector bonds	12,103	17,160
Other debt securities	4,901	3,414
Money market securities	113	506
Registered notes issued	21,224	23,789
Mortgage bonds	5,907	6,783
Public sector bonds	13,719	15,711
Other debt securities	1,598	1,295
Total	**47,060**	**52,550**

Liabilities evidenced by certificates by maturities

in € million	31.12.2013	31.12.2012
With agreed maturities		
Up to 3 months	2,883	6,202
3 months to 1 year	3,239	4,125
1 year to 5 years	19,886	17,874
5 years and over	21,052	24,349
Total	**47,060**	**52,550**

57 Trading Liabilities

Trading liabilities

in € million	31.12.2013	31.12.2012
Negative fair values from derivative financial instruments	1,453	3,192
Total	**1,453**	**3,192**

58 Provisions

Breakdown

in € million	31.12.2013	31.12.2012[1)]
Provisions for pensions and similar obligations	65	71
Restructuring provisions	48	71
Provisions for contingent liabilities and other commitments	13	17
Other provisions	83	76
thereof:		
Long-term liabilities to employees	2	3
Total	**209**	**235**

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

There are defined contribution and defined benefit plans for the employees of pbb Group. In the defined contribution plans pbb makes payments for commitments by industry-wide organisations, for instance in Germany the BVV. In almost all non-German entities a defined percentage of fixed salary is paid into externally managed pension funds for employees as part of defined contribution pension schemes. Expenses in respect of defined contribution plans amounted to €-5 million (2012: €-5 million). In the year 2014 the expense may be lower due to the reduced number of employees. Expenses in respect of contribution-based plans for persons with key function in the Group amounted to less than €-1 million (2012: €-1 million). The employer's contribution to the statutory pension insurance amounted to €-7 million in the year 2013 (2012: €-8 million).

In case of defined benefit plans the employees receive a direct commitment from their respective company. The pension plan especially contains retirement pensions, invalidity pensions and surviving dependant's pensions. The receipt of retirement pensions respectively invalidity pensions starts after a vesting period is fulfilled, earliest after reaching a minimum age in the case of part or full incapacity for work, latest when going into retirement, usually after completion of the 65th year of life. In the case of active employees there are predominantly modern modular pension plans. For the other eligible persons there are also final salary-based defined benefit plans. The annual pension module depends amongst others from the paid gross annual salary and the member's length of service. The surviving dependant's pension usually amounts to 60% pension or contribution of the spouse. The pension plan is administered by pbb itself with the aid of an external service provider for the administration.

Pension provisions are recognised for obligations arising from direct commitments. The defined benefit plans have been principally closed for new entrants since 1 April 2004. There have been no plan amendments, curtailments and settlements in the years 2013 and 2012.

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

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

Actuarial assumptions

in %	31.12.2013/ 1.1.2014	31.12.2012/ 1.1.2013
Discount rate	3.50	3.25
Rate of increase in pension obligations	2.00	2.00
Rate of increase in future compensation and vested rights	2.50	2.50

The rate of increase over career amounts for members of the Management Board 0.0% (2012: 0.0%), for directors and non-pay-scale staff 1.5% (2012: 1.5%) and for pay-scale staff 0.5% (2012: 0.5%). The guidance tables 2005G from Klaus Heubeck were used as the biometric basis.

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

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

Amounts recognised in financial statements (net defined benefit liability)

in € million	2013	2012[1)]
Present value of defined benefit obligation	247	261
Fair value of plan assets	-182	-190
Total	**65**	**71**

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

Development of net defined benefit liability

in € million	2013	2012[1)]
Balance at 1.1.	71	23
Transfer of staff	—	—
Pension expenses	4	3
Remeasurements	-7	50
Reclassifications in reimbursements	2	—
Direct payments to beneficiaries	-5	-5
Balance at 31.12.	**65**	**71**

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

Development of defined benefit obligation

in € million	2013	2012[1)]
Balance at 1.1.	261	215
Transfer of staff	-4	—
Current service costs	2	1
Interest expenses	8	10
Remeasurements	-7	49
Actuarial gains/losses from demographic assumptions	—	—
Actuarial gains/losses from financial assumptions	-8	47
Actuarial gains/losses from experience assumptions	1	2
Settlements	—	—
Payments to beneficiaries	-13	-14
Balance at 31.12.	**247**	**261**

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

Plan assets consist exclusively of reinsurance pledged to plan beneficiaries. The plan assets accordingly do not contain any own financial instruments or any own used property, plant and equipment. For 2014 there are no contributions to plan assets expected. pbb does not use special asset-liability matching strategies to manage the pledged reinsurance.

Development of fair value of plan assets

in € million	2013	2012[1)]
Balance at 1.1.	190	192
Transfer to staff	-4	—
Interest income	6	8
Remeasurements	—	-1
Payments to beneficiaries	-8	-9
Reclassifications in/from reimbursements	-2	—
Balance at 31.12.	**182**	**190**

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

Development of pension expenses

in € million	2013	2012
Service costs	2	1
Current service costs	2	1
Past service costs	—	—
Curtailments	—	—
Gains/losses on settlements	—	—
Net interest expenses	2	2
Interest expenses on defined benefit obligation	8	10
Interest income on plan assets	-6	-8
Total	**4**	**3**

For the year 2014 pbb expects pension expenses of a similar amount as in 2013. Pension expenses are part of general administrative expenses. As the pension plan has been principally closed further contributions in 2014 are not expected.

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

Remeasurement recognised in other comprehensive income (equity)

in € million	2013	2012[1)]
Actuarial gains/losses from demographic assumptions	—	—
Actuarial gains/losses from financial assumptions	8	-47
Actuarial gains/losses from experience assumptions	-1	-2
Remeasurements from plan assets	—	-1
Total	**7**	**–50**

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

Delevopment of reimbursement

in € million	2013	2012
Balance at 1.1.	7	7
Additions	2	—
Balance at 31.12.	**9**	**7**

As at 31 December 2013, the quantitative sensitivity analysis – which uses the same measurement methods as the obligation recognised in the statement of financial position – for the material actuarial assumptions is as follows:

Actuarial assumptions

in € million	Discount rate		Rate of increase in pension obligations		Rate of increase in future compensation and vested rights	
Change of sensitivity level in percentage points	0.5 increase	0.5 decrease	0.5 increase	0.5 decrease	0.5 increase	0.5 decrease
Gross obligation	231	264	259	235	247	246

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

The weighted average duration of the defined benefit obligations amounted to 14 years at 31 December 2013 (2012: 14 years).

Development of provisions

(without provisions for pension and similar obligations)

in € million	Restructuring provisions	Provisions for contingent liabilities and other commitments	Other provisions
Balance at 1.1.2012	**68**	**20**	**73**
Additions	11	11	47
Reversals	-5	-8	-15
Increase of the present value due to passage of time (unwinding)	4	—	1
Amounts used	-7	-5	-31
Reclassifications	—	-1	1
Balance at 31.12.2012	**71**	**17**	**76**
Balance at 1.1.2013	**71**	**17**	**76**
Additions	4	-	74
Reversals	-11	-4	-18
Increase of the present value due to passage of time (unwinding)	1	—	—
Amounts used	-17	—	-49
Reclassifications	—	—	—
Balance at 31.12.2013	**48**	**13**	**83**

On 19 December 2008 the Management Board and Supervisory Board of pbb Group decided upon the strategic realignment and restructuring of the Group. A restructuring provision amounting to €120 million was created for obligations relating to the strategic realignment and restructuring in the fourth quarter 2008. In the financial year 2013 €-17 million (2012: €-7 million) were used of this provision. The restructuring provision will probably be completely utilised by the year 2024.

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

The other provisions comprise primarily provisions for legal risks, other taxes, long-term liabilities with regard to employees and provisions in connection with the transfer of positions to FMS Wertmanagement.

Legal risk (litigation risk) pbb Group is bound, 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 and international scope of its business activities and the large number of relevant requirements and regulations, pbb Group is involved in litigation, arbitration and regulatory proceedings in several 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 liabilities arising from these proceedings if the potential outflow of resources is sufficiently likely and the amount of the liability 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 uncertain liability are largely based on estimates. The actual liability can vary considerably from this estimate. In accounting for the individual cases, pbb Group analyses developments in both individual cases and comparable cases, drawing on its own expertise or appraisals and opinions by external consultants, and in particular by legal advisors, depending on the significance and complexity of the case concerned. 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 award proceedings relating to the merger of three predecessor mortgage banks to form pbb in 2001, the new appraisal ordered by the court has resulted in an additional payment averaging €1.00 per share.

The profit participation certificates issued by the predecessor institutions participated in significant losses due to the net losses for the period incurred since 2008, and to pbb's net accumulated losses since this time. These reduced the amounts repaid and, as a result, no interest was paid. Individual plaintiffs therefore initiated legal proceedings, contesting in particular various individual clauses relating to loss participation and replenishment following loss participation. The key questions in this connection are which capital components must be used to calculate loss participation and whether replenishment is required if pbb records a net gain for the period or a net retained profit. The contested profit participation certificates had an aggregate principal amount of €260 million (of which proceedings involving a principal amount of €12.5 million were pending). The plaintiffs' repayment claims may increase up to the full amount or in part as a result of these actions.

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 €5 million.

59 Other Liabilities

Other liabilities

in € million	31.12.2013	31.12.2012
Negative fair values from derivative financial instruments	4,441	6,230
Hedging derivatives	4,441	6,227
Fair value hedge	3,969	5,515
Cash flow hedge	472	712
Derivatives hedging dFVTPL financial instruments	—	3
Other liabilities	281	8,208
Total	**4,722**	**14,438**

The transfer of loans to FMS Wertmanagement in August 2013 was recognised in the statement of financial position and reduced the other liabilities position by €7.5 billion. Other liabilities include amongst others liabilities from the offsetting of results and also accruals pursuant to IAS 37. Accruals in particular include accounts payable in respect of invoices still outstanding, short-term liabilities to employees and other accruals in respect of commission, interest, operating expenses, etc.

60 Income Tax Liabilities

Income tax liabilities

in € million	31.12.2013	31.12.2012
Current tax liabilities	64	64
Deferred tax liabilities	1,126	1,634
Total	**1,190**	**1,698**

Income tax liabilities include both provisions and liabilities from current taxes as well as deferred tax liabilities. A significant proportion of deferred tax liabilities were netted against cash flow hedge reserve.

61 Subordinated Capital

Breakdown

in € million	31.12.2013	31.12.2012
Subordinated liabilities	1,119	1,689
Hybrid capital instruments	321	304
Total	**1,440**	**1,993**

With all subordinated liabilities, there can be no early repayment obligation on the part of the issuer. In the event of bankruptcy or liquidation, such liabilities may only be repaid after all non-subordinated creditors have been satisfied.

Subordinated capital by maturities

in € million	31.12.2013	31.12.2012
With agreed maturities		
Up to 3 months	41	89
3 months to 1 year	10	502
1 year to 5 years	874	430
5 years and over	515	972
Total	**1,440**	**1,993**

The unwinding of some instruments of subordinated capital led to an expense of €-18 million (2012: €-17 million).

Participating Certificates Outstanding Issued participatory capital comprises the following issues with a carrying amount of €0 million (2012: €0 million):

Participating certificates outstanding

in € million	Year of issue	Type	Nominal amount in € million	Interest rate in %	Maturity
pbb	1989	Registrated participation certificate	10	8.000	2014

The interest claim is reduced to the extent that a payout would result in an annual balance sheet loss for the year. Holders of participating certificates outstanding principally participate in any net loss or balance sheet loss for the year through a reduction in their repayment entitlements. During the term of the profit participation certificates, after the holders participate in net accumulated losses, the reduced profit participation capital must be replenished up to the principal amount before any additions are made to reserves and before any dividend is paid on the share capital. As at 31 December 2013, the holders of the profit participation certificates did not have any claim to payment due to (past) loss participations in accordance with the terms and conditions of the profit participation certificates.

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

62 Equity

Subscribed capital equals the maximum liability of the shareholder for the liabilities of the corporation to its creditors. Additional paid-in capital includes premiums from the issue of shares and the contribution of Finanzmarktstabilisierungsfonds-FMS to reserves. Retained earnings were generally created only from net income of the current financial year or previous periods. This includes legal reserves to be created from net income and other retained earnings.

The subscribed capital as of 31 December 2013 and during the entire financial year 2013 amounts to €380,376,059.67 which is divided into 134,475,308 ordinary bearer shares in the form of no-par-value shares representing a theoretical interest in the share capital of €2.83 per no-par-value share. HRE Holding holds 100% of the share capital of pbb. Finanzmarktstabilisierungsfonds-FMS is the only shareholder of HRE Holding. At 31 December 2013 and 31 December 2012 there was neither authorised capital nor conditional capital.

In the year 2009 Finanzmarktstabilisierungsfonds-FMS provided pbb with a silent participation of €1.0 billion. The silent participation participates in the cumulative loss calculated in accordance with the regulations of commercial law to the same extent that the silent participation is related to the total carrying amount of all liable capital shares which participate in the cumulative loss. The total loss of the silent partner in relation to the cumulative loss under commercial law is limited to its silent contribution. The cumulative loss which is attributable to the year 2008 is not used for calculating the loss participation. At the end of the year 2013, the silent contribution was reduced by €37 million to €92 million (2012: by €53 million to €129 million) in the commercial law financial statements of pbb. pbb has a replenishment obligation.

63 Trust Business

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

Trust assets

in € million	31.12.2013	31.12.2012
Loans and advances to customers	3	3
Total	**3**	**3**

Trust liabilities

in € million	31.12.2013	31.12.2012
Liabilities to customers	3	3
Total	**3**	**3**

Notes to the Consolidated Statement of Cash Flows

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

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

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

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

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

All shares of Little Britain Holdings (Jersey) Ltd., Jersey, were sold in financial year 2013. The selling price less costs and the repayment of a liability owed by the company to pbb was €81 million and was recognised under cash flow from investing activities.

Notes to the Financial Instruments

65 Derivative Transactions

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

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

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

Volume of derivatives at 31 December 2013

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

Use made of derivative transactions at 31 December 2013

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

Volume of derivatives at 31 December 2012

in € million	Notional amount: Remaining maturities: Less than 1 year	1 to 5 years	More than 5 years	Total	Fair value: positive	negative
Interest-based transactions						
OTC products	20,452	51,772	48,664	120,888	10,026	9,325
Interest rate swaps	18,691	48,893	48,648	116,232	10,012	9,308
Interest rate options	1,761	2,879	23	4,663	14	17
Call options	872	1,392	6	2,270	14	—
Put options	889	1,487	17	2,393	—	17
Total	**20,452**	**51,772**	**48,671**	**120,895**	**10,026**	**9,325**
Foreign-currency-based transactions						
OTC products	4,968	479	607	6,054	120	97
Spot and forward currency transactions	4,838	38	—	4,876	23	24
Interest rate/currency swaps	130	441	607	1,178	97	73
Total	**4,968**	**479**	**607**	**6,054**	**120**	**97**
Total	**25,420**	**52,251**	**49,278**	**126,949**	**10,146**	**9,422**

Use made of derivative transactions at 31 December 2012

in € million	Notional amount	Fair value: positive	negative
Interest-based transactions			
Fair value hedge accounting	61,019	5,819	5,515
Cash flow hedge accounting	11,017	919	654
Derivatives hedging dFVTPL financial instruments	80	—	3
Stand-alone derivatives	48,779	3,288	3,153
Total	**120,895**	**10,026**	**9,325**
Foreign-currency-based transactions			
Cash flow hedge accounting	667	83	58
Stand-alone derivatives	5,387	37	39
Total	**6,054**	**120**	**97**
Total	**126,949**	**10,146**	**9,422**

Counterparties

in € million	31.12.2013 Fair value: positive	negative	31.12.2012 Fair value: positive	negative
OECD banks	5,474	5,788	8,121	8,800
OECD financial institutions	205	42	1,090	572
Other companies and private individuals	564	64	935	50
Total	**6,243**	**5,894**	**10,146**	**9,422**

66 Cash Flow Hedge Accounting

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

Cash flow hedge: periods of hedged items when cash flows are expected to occur

in € million	31.12.2013	31.12.2012
Up to 1 month	-1	—
1 month to 3 months	-3	—
3 months to 1 year	-3	2
1 year to 2 years	-10	-3
2 years to 5 years	-15	13
5 years and over	-74	312
Total	**-106**	**324**

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

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

67 Undiscounted Cash Flows of Financial Liabilities

Contractual undiscounted cash flows of the financial liabilities according to IFRS 7.39

in € billion	31.12.2013	31.12.2012
Up to 3 months	3	8
From derivative financial instruments	1	1
From non-derivative financial instruments	2	7
3 months to 1 year	7	9
From derivative financial instruments	—	1
From non-derivative financial instruments	7	8
1 year to 5 years	33	38
From derivative financial instruments	2	4
From non-derivative financial instruments	31	34
5 years and over	35	46
From derivative financial instruments	2	4
From non-derivative financial instruments	33	42

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

68 Assets Assigned or Pledged as Collateral

The following assets and received collaterals were assigned or pledged as collateral:

Liabilities

in € million	31.12.2013	31.12.2012
Liabilities to other banks	1,479	4,474
Total	**1,479**	**4,474**

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

Assets pledged

in € million	31.12.2013	31.12.2012
Loans and advances to customers	200	232
Financial investments	1,294	5,775
Total	**1,494**	**6,007**

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

69 Collaterals Permitted to Resell or Repledge

As of 31 December 2013 and as of 31 December 2012 there were no collaterals that may be resold or repledged in the absence of default.

70 Transfer of Financial Assets

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

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

71 Fair Values of Financial Instruments

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

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

> Level1 – quoted priced (unadjusted) in active markets for identical financial assets or financial liabilities.

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

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

Fair values of financial instruments and fair value hierarchy

in € million	31.12.2013 Carrying amounts	Fair value	Level 1	Level 2	Level 3
Financial assets	**72,559**	**73,581**	**16,836**	**25,900**	**30,845**
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	62,032	63,054	12,552	19,740	30,762
Cash reserve	3,532	3,532	3,532	—	—
Trading assets (HfT)	1,642	1,642	—	1,642	—
Loans and advances to other banks	5,798	5,702	1,728	1,222	2,752
Category LaR	5,798	5,702	1,728	1,222	2,752
Loans and advances to customers[1)]	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 Sector Finance	15,423	16,238	2	14,090	2,146
Other	221	221	—	—	221
Portfolio-based allowances	-51	-51	—	—	-51
Financial investments	20,892	20,346	11,574	4,428	4,344
Category AfS	4,284	4,284	4,284	—	—
Category LaR	16,608	16,062	7,290	4,428	4,344
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	**68,954**	**70,698**	**20,762**	**8,341**	**41,595**
thereof: at fair value through profit or loss	5,422	5,422	—	5,410	12
thereof: at fair value not affecting profit or loss	472	472	—	472	—
in balance sheet not measured at fair value	63,060	64,804	20,762	2,459	41,583
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	47,060	48,456	18,059	1,553	28,844
Covered	40,810	42,169	15,798	1,499	24,872
Uncovered	6,250	6,287	2,261	54	3,972
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	1,440	1,330	—	—	1,330
Other items	**2,594**	**2,675**	**—**	**—**	**2,675**
Contingent liabilities	25	25	—	—	25
Irrevocable loan commitments	2,569	2,650	—	—	2,650

1) Reduced by allowances for losses on loans and advances

Fair values of financial instruments and fair value hierarchy

in € million	31.12.2012 Carrying amounts	Fair value	Level 1	Level 2	Level 3
Financial assets	**94,915**	**94,221**	1)	1)	1)
at fair value through profit or loss	9,227	9,227	83	9,065	79
at fair value not affecting profit or loss	4,922	4,922	3,920	998	4
in balance sheet not measured at fair value	80,766	80,072	1)	1)	1)
Cash reserve	1,937	1,937	1)	1)	1)
Trading assets (HfT)	3,325	3,325	–	3,324	1
Loans and advances to other banks	7,995	7,817	1)	1)	1)
Category LaR	7,995	7,817	1)	1)	1)
Loans and advances to customers2)	49,265	50,143	1)	1)	1)
Category LaR	49,265	50,143	1)	1)	1)
Real Estate Finance	20,747	21,104	1)	1)	1)
Public Sector Finance	19,029	19,252	1)	1)	1)
Other	9,531	9,829	1)	1)	1)
Portfolio-based allowances	-42	-42	1)	1)	1)
Financial investments	25,572	24,178	1)	1)	1)
Category AfS	3,920	3,920	3,920	–	–
Category dFVTPL	83	83	83	–	–
Category LaR	21,569	20,175	1)	1)	1)
Other assets	6,821	6,821	–	6,739	82
Fair value hedge derivatives	5,819	5,819	–	5,741	78
Cash flow hedge derivatives	1,002	1,002	–	998	4
Financial liabilities	**91,615**	**91,688**	1)	1)	1)
at fair value through profit or loss	8,710	8,710	–	8,706	4
at fair value not affecting profit or loss	712	712	–	712	–
in balance sheet not measured at fair value	82,193	82,266	1)	1)	1)
Liabilities to other banks	7,797	7,809	1)	1)	1)
Liabilities to customers	11,895	12,159	1)	1)	1)
Liabilities evidenced by certificates	52,550	52,487	1)	1)	1)
Covered	48,091	48,085	1)	1)	1)
Uncovered	4,459	4,402	1)	1)	1)
Trading liabilities (HfT)	3,192	3,192	–	3,190	2
Other liabilities	14,188	14,194	1)	1)	1)
Fair value hedge derivatives	5,515	5,515	–	5,513	2
Cash flow hedge derivatives	712	712	–	712	–
Derivatives hedging dFVTPL financial instruments	3	3	–	3	–
Other financial liabilities	7,958	7,964	1)	1)	1)
Subordinated capital	1,993	1,847	1)	1)	1)
Other items	**1,110**	**1,004**		1)	1)
Contingent liabilities	75	75	1)	1)	1)
Irrevocable loan commitments	1,035	929	1)	1)	1)

1) Due to the prospective application of IFRS 13, the fair values of financial assets and liabilities are only broken down by level as at 31.12.2012 if they are regularly measured at fair value
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 2013. As a result, assets recognised at fair value in the amount of €18 million (2012: €1 million) and financial liabilities in the amount of €3 million (2012: €0 million) were reclassified from Level 2 to Level 3.

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 31 December 2013

	Fair value			
in € million	**Assets**	**Liabilities**	**Measurement methods**	**Observable parameters**
Trading assets/liabilities	1,642	1,451	DCF methods	Cap volatilities Inflation rates Reference interest rates Swaption volatilities Spot market exchange rates Yield curves
Fair value hedge derivatives	4,036	3,959	DCF methods	Cap volatilities Reference interest rates Swaption volatilities Yield curves
			Option pricing models	Cap volatilities Reference interest rates Swaption volatilities Spot market exchange rates Exchange rates volatilities Yield curves
Cash flow hedge derivatives	482	472	DCF methods	Reference interest rates Yield curves
			Option pricing models	Cap volatilities Reference interest rates Swaption volatilities Yield curves

Measurement of level 3 instruments as of 31 December 2013

in € million	Fair value Assets	Fair value Liabilities	Measurement methods	Observable parameters	Non-observable parameters	Parameter range (weighted average)
Trading assets/liabilities	—	2	Option pricing models	Cap volatilities	Asset swap spreads volatilities	64.44% (64.44%)
				Reference interest rates		
				Spot market exchange rates		
				Yield curves		
Fair value hedge derivatives	79	10	Option pricing models	Cap volatilities	Historical index/ index correlations	0.26% to 75.52% (19.87%)
				Inflation rates	Volatility of EUROSTOXX50	19.26% (19.26%)
				Reference interest rates	Historical index/ exchange rate correlations	-17.83% to 11.58% (-4.9%)
				Fixings on EUROSTOXX50	Dividends in EUROSTOXX50 (volatilities)	3.49% (3.49%)
				Swaption volatilities	Index/inflation correlations	0% (0%)
				Spot market exchange rates		
				Exchange rates volatilities		
				Yield curves		
Cash flow hedge derivatives	4	—	Option pricing models	Cap volatilities	Historical index/index correlations	15.61% (15.61%)
				Reference interest rates	Historical index/ exchange rate correlations	-5.95% to — 12.27% (-9.11%)
				Swaption volatilities		
				Spot market exchange rates		
				Exchange rates volatilities		
				Yield curves		

Financial instruments not measured at fair value as of 31. December 2013

	Level 2		Level 3		
in € million	Measurement methods	Observable parameters	Measurement methods	Observable parameters	Non-observable parameters
Financial assets					
Loans and receivables (LaR)	DCF models	Credit spreads	DCF models	Credit spreads	Internal rating classes
		Reference interest rates		Reference interest rates	Recovery rates
		Risk-free interest rate		Risk-free interest rate	Expected maturities
		Observable future cash flows		Observable future cash flows	Estimated future cash flows
Quoted prices in non-active markets		Quoted prices for proxy trades	—	—	—
Financial liabilities					
Financial liabilities at amortised cost	DCF models	Observable future cash flows	DCF models	Observable future cash flows	Estimated future cash flows
		(Own) credit spreads		(Own) credit spreads	(Own) credit spreads (secondary market grid)
		Benchmark interest rates		Benchmark interest rates	—
	Quoted prices in non-active markets	Quoted prices for proxy trades	—	—	—

Sensitivities Although pbb Group believes that its estimates of fair values are appropriate, using reasonably possible alternative input factors will significantly impact the fair value. The following table shows the fair value sensitivity of level 3 instruments as of 31 December 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

	31.12.2013		31.12.2012	
in € million	Positive changes	Negative changes	Positive changes	Negative changes
Assets				
Financial assets at fair value through profit or loss				
Fair value hedge derivatives	0.7	-0.7	5.2	-4.5
Total	**0.7**	**-0.7**	**5.2**	**-4.5**
Liabilities				
Financial liabilities at fair value through profit or loss				
Trading liabilities	—	—	0.1	-0.1
Fair value hedge 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

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 1.1.2012	**—**	**49**	**2**	**51**
Comprehensive income				
Income statement	—	30	—	30
Revaluation reserve	—	—	2	2
Purchases	1	—	—	1
Sales	—	-2	—	-2
Issues	—	—	—	—
Settlements	—	—	—	—
Transfers into Level 3	—	1	—	1
Transfers 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	-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**

Changes in level 3 financial liabilities

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

Level 3 financial assets and liabilities measured at fair value through profit or loss generated a loss of €-16 million in 2013 (2012: gain of €39 million). 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.

There were no changes recognised directly in equity in 2013. In the previous year, changes to cash flow hedge derivatives amounting to €2 million were recognised in the cash flow hedge reserve.

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.

Asset and liabilities according to measurement categories and classes in accordance with IAS 39

in € million	31.12.2013	31.12.2012
Assets	**72,559**	**94,915**
Loans and receivables (LaR)	58,500	78,829
Available for sale (AfS)	4,284	3,920
Held for trading (HfT)	1,642	3,325
dFVTPL assets (dFVTPL)	—	83
Cash reserve	3,532	1,937
Positive fair values from hedging derivatives	4,601	6,821
Liabilities	**68,954**	**91,615**
Held for trading (HfT)	1,453	3,192
Financial liabilities at amortised cost	63,060	82,193
Negative fair values from hedging derivatives	4,441	6,230

72 Exposure to Selected European Countries

Exposure to selected European countries as of 31 December 2013

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

Exposure to selected European countries as of 31 December 2012

in € million	Counterparty	IAS 39 measure-ment category	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	From 5 years and over	Total	Notional amount	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 31 December 2013 and as of 31 December 2012 pbb Group did not have any exposure to sovereign counterparties of Greece, Cyprus and Ireland. The same applies for sub-sovereign or state-guaranteed counterparties.

The exposure to selected countries shown in the table contains loans and advances and securities. In addition, it shows interest rate derivatives to sovereign and sub-sovereign counterparties. The interest rate derivatives are netted with collaterals. Time lags in providing the collaterals and haircuts are not taken into account. State-guaranteed exposure contains for example loans and advances to banks and corporations which are guaranteed by sovereigns or sub-sovereigns. As of 31 December 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 the total exposure as of 31 December 2013 and as of 31 December 2012 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 per 31 December 2013 and as of 31 December 2012 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».

73 Past Due but Not Impaired Assets

The following table shows the total portfolio of the partly or completely past due but not impaired loans and advances as of 31 December 2013 and as of 31 December 2012. However, no individual allowances were made for these assets respectively the collaterals underlying these assets as pbb Group does not consider that there is any issue regarding their recoverability. Such timing issues in receipts of payments due occur regularly (up to three months) in the normal course of business and do not, by themselves, impair the quality of the asset.

LaR Assets

LaR assets: past due but not impaired (total investments)

in € million	31.12.2013	31.12.2012
Up to 3 months	274	665
From 3 months to 6 months	40	71
From 6 months to 1 year	81	67
From 1 year and over	47	75
Total	**442**	**878**

Carrying amounts LaR assets

in € billion	31.12.2013	31.12.2012
Carrying amount of LaR assets that are neither impaired nor past due	57.6	77.3
Carrying amount of LaR assets that are past due but not impaired (total investment)	0.4	0.9
Carrying amount of individually assessed impaired LaR assets (net)	0.4	0.6
Balance of individual allowances	0.1	0.3
Balance of portfolio-based allowances	0.1	0.1
Total	**58.6**	**79.2**
thereof:		
Loans and advances to other banks (including investments)	5.8	8.0
Loans and advances to customers (including investments)	36.2	49.6
Financial investments (gross)	16.6	21.6

The carrying amount of assets that would otherwise be past due or impaired and whose terms have been renegotiated amounts to €91 million (2012: €90 million).

The fair value of collaterals for the impaired financial assets amounts to approximately €0.4 billion (2012: €0.6 billion). The collaterals mainly consist of land charges.

AfS Assets As of 31 December 2013 and as of 31 December 2012 pbb Group has neither past due and not impaired nor impaired AfS financial investments in the portfolio.

74 Restructured Loans and Advances

As in the previous year, restructuring agreements mainly related to standstill agreements and to the discontinuation of contractual arrangements in the year under review.

Restructured loans and advances

in € million	31.12.2013	31.12.2012
Carrying amount of loans and advances that are neither impaired nor past due	1,128	1,271
Carrying amount of loans that are past due but not impaired (gross)	89	4
Carrying amount of individually assessed impaired loans and advances (gross)	352	543
Total	**1,569**	**1,818**

Development of restructured loans and advances

in € million	2013	2012
Balance at 1.1.	**1,818**	**1,704**
Additions	213	392
Disposals	-462	-278
Balance at 31.12.	**1,569**	**1,818**

Proportion of restructured loans and advances in the total stock

in %	31.12.2013	31.12.2012
Proportion of restructured loans and advances in the total stock	3.7	3.2

Allowances for losses on restructured loans and advances

in € million	31.12.2013	31.12.2012
Individual allowances	62	262
Portfolio-based allowances	7	8
Total	**69**	**270**

Proportion of allowances for losses in the restructured loans and advances stock

in %	31.12.2013	31.12.2012
Proportion of allowances for losses in the restructured loans and advances stock	4.4	14.9

75 Netting of Financial Instruments

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

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

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

Netting of financial instruments as of 31 December 2013

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

Netting of financial instruments as of 31 December 2012

in € billion	Gross carrying amounts of recognised financial assets/ liabilities	Gross carrying amounts of the items offset in the statement of financial position	Net amounts presented in the statement of financial position	Rights of set-off that did not lead to an offsetting in the statement of financial position	Received respectively pledged collaterals	Remaining net amount
Financial assets	10.1	—	10.1	6.5	2.8	0.8
Positive fair values of derivatives	10.1	—	10.1	6.5	2.8	0.8
Financial liabilities	9.4	—	9.4	6.5	2.4	0.5
Negative fair values of derivatives	9.4	—	9.4	6.5	2.4	0.5

Other Notes

76 Contingent Liabilities and Other Commitments

Contingent liabilities and other commitments

in € million	31.12.2013	31.12.2012
Contingent liabilities	25	75
Guarantees and indemnity agreements	25	75
Loan guarantees	4	4
Performance guarantees and indemnities	21	71
Other commitments	2,569	1,035
Irrevocable loan commitments	2,569	1,035
Book credits	—	102
Guarantees	30	31
Mortgage and public sector loans	2,539	902
Total	**2,594**	**1,110**

pbb, Munich, as a legal successor of Hypo Real Estate Bank International AG, 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 to the guarantee contract to all liabilities, which existed until the date of sale. Due to the current development in earnings, assets and financial position as well as the expected future development, pbb does not rule out the default of Hypo Public Finance Bank puc, Dublin, but a default should be rather unlikely.

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

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

pbb Group is a lessor of operating lease agreements. Non-terminable operating lease agreements for land and buildings as well as for operating and business equipment existed as of 31 December 2013. The minimum obligations arising from non-terminable leasing arrangements will result in expenses of €-11 million in 2014, €-36 million in total in the years 2015 to 2018 and €-31 million in total for 2019 and beyond. In the previous year the non-terminable operating lease agreements were as follows: for financial year 2013: €-14 million, in financial years 2014 to 2017 €-32 million in total and for 2018 and beyond €-35 million in total. Operating lease agreements were made on an arm's-length basis and are mainly related to the rental of land and buildings. The agreements include partial renewal options that the lease can be extended for several periods, and escalation clauses in the form of stepped rents or indexation clauses and release clauses as well.

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

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

In accordance with the waiver rule set out in section 2 a of the Kreditwesengesetz (KWG – German Banking Act), pbb is exempted from having to calculate equity and Tier 1 capital ratios at the level of the institution.

The waiver regulation set out in Section 2 a 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 25 a (1) Sentense 3 No. 1 KWG for establishing and assuring risk-bearing capacity, defining strategies, setting up processes for identifying, assessing, managing, monitoring and communicating risks.

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

pbb Group's regulatory capital in accordance with the Solvabilitätsverordnung (SolvV – German Solvency Regulation) is as follows:

Own funds[1)]

in € million	31.12.2013	31.12.2012
Core capital (Tier I)	2,825	2,898
Supplementary capital (Tier II)	835	1,179
Equity capital	3,660	4,077
Tier III capital	—	—
Total	**3,660**	**4,077**

1) Consolidated in accordance with section 10 a of the KWG; pro forma in accordance with the prepared annual financial statements and following the appropriation of net profit

The risk-weighted assets, the operational risks and the market risk positions are as follows:

Risk-weighted assets[1)]

in € billion	31.12.2013	31.12.2012
Risk-weighted assets	14.1	15.3

1) Including weighted credit risk positions and capital charges for market risk positions and operational risk, using a scaling factor of 12.5; according to Basel II advanced IRB approach for authorised portfolios, otherwise Basel II standardised approach; pro forma in accordance with the prepared annual financial statements and following the appropriation of net profit

Operational risks

in € million	31.12.2013	31.12.2012
Total	**74**	**86**

Market risk positions

in € million	31.12.2013	31.12.2012
Currency risks	6	6
Interest rate risks	—	—
Total	**6**	**6**

The capital ratios were calculated on the basis of the definition of equity given in the SolvV and using risk-weighted assets in accordance with Basel II and are as follows:

Key capital ratios[1)]

in %	31.12.2013	31.12.2012
Tier 1 capital ratio[2)]	20.1	18.9
Equity capital ratio[3)]	26.1	26.7
Own funds ratio (overall indicator)[2)]	26.0	26.6

1) Pro forma in accordance with the prepared annual financial statements and following the appropriation of net profit
2) Including weighted credit risk positions and capital charges for market risk positions and operational risk, using a scaling factor of 12.5
3) Including weighted credit risk positions and capital charges for operational risk, using a scaling factor of 12.5

78 Group Auditors' Fee

Group auditors' fee

in € thousand	2013	2012
Audit	2,584	2,948
Other assurance services	632	611
Tax advisory services	2	2
Other non-audit services	3,193	4,291
Total	**6,411**	**7,852**

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

79 Relationship with Related Parties

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

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

Related Entities Finanzmarktstabilisierungsfonds-FMS, a special fund of the federal government in accordance with Section 2 (2) FMStFG, represents the ultimate parent entity of HRE Holding and thus also of pbb. Accordingly, pbb is a government-related entity and a related party to other companies which are controlled, jointly controlled or significantly influenced by the Federal Republic of Germany. In addition to the parent entity HRE Holding and the affiliated company DEPFA FMS Wertmanagement is also controlled by the -Federal Republic of Germany and is thus a related party of pbb Group. In the year 2013, pbb Group reimbursed Finanzmarktstabilisierungsfonds-FMS no expenses (excluding bank levy) (2012: €0 million).

There were no loans and advances (netted by liabilities) of pbb Group to its parent company HRE Holding as of 31 December 2013 and as of 31 December 2012. As of 31 December 2013, HRE Holding held financial investments of pbb Group amounting to €0.8 billion (2012: €0.8 billion). The net interest income of pbb Group to HRE Holding amounted to €-12 million (2012: €-2 million). A balance of €5 million in other operating income/expenses (2012: €5 million) resulted from the transfer of employees to HRE Holding and €1 million (2012: €2 million) is attributable to IT services for HRE Holding.

pbb Group had loans and advances (netted by liabilities) to its fellow subsidiary DEPFA of €0.2 billion as of 31 December 2013 (2012: €0.2 billion) and subordinated liabilities of €0.3 billion (2012: €0.3 billion). In the financial year 2013 pbb Group realised a net interest income of €-38 million (2012: €-43 million) and a net commission income of €0 million (2012: €2 million) to DEPFA. The net income from IT services provided to DEPFA was €36 million (2012: €40 million).

There were no business relationships with the fellow subsidiary Hypo Real Estate Finance B.V. i.L., Amsterdam in the years 2013 and 2012. Besides, assets and liabilities did not exist.

As of 31 December 2013, loans and advances to non-consolidated companies amounted to €0 million (2012: €1 million); the liabilties amounted to €0 million (2012: €0 million). Loans and advances to associated companies which were not measured with the equity method amounted to €41 million (2012: €43 million), whereas the liabilities were at €0 million (2012: €0 million).

The following major transactions with FMS Wertmanagement affected the development in assets and the financial position 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 €0.0 billion in the position trading assets (2012: €1.0 billion).

> 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 31 December 2013. These securities are disclosed as financial investments.

> Since 16 September 2013, pbb Group has no longer invested excess liquidity for FMS Wertmanagement with the central bank (2012: €0.5 billion). This resulted in a corresponding reduction in the loans and advances to other banks and liabilities to customers' balance sheet items.

> Mortgage loans were synthetically transferred to FMS Wertmanagement with effect from 1 October 2010 to transfer the economic risk, but remained in pbb's cover pool on the balance sheet. The obligation to transfer the resulting cash flows gave rise to a liability to FMS Wertmanagement in the same amount. These loans were transferred to FMS Wertmanagement and derecognised from the

balance sheet in August 2013, at which point they had a carrying amount of €6.4 billion (2012: €7.5 billion). As a result, the loans and advances to customers and other liabilities balance sheet items declined.

The development in assets and liabilities resulted in effects with FMS Wertmanagement 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 €60 million (2012: €106 million) compensated for the expenses which were incurred by pbb Group for servicing. The servicing discontinuated to a large extend as mandated by the European Commission on 30 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.

On 31 December 2013 liabilities to defined contribution plans amounted to €3 million (2012: €3 million).

Related Persons pbb Group defines related persons as the Management Board, the Supervisory Board, employees in the second tier of management at pbb as well as members of management of the subsidiaries of pbb as well as their respective close relatives. pbb paid neither fixed remuneration nor severance payments to the Management Board during the financial years 2013 and 2012. For 2013, the total remuneration paid to former members of the Management Board and their surviving dependants amounted to €5,173 thousand (2012: €5,133 thousand). The Supervisory Board remuneration for the reporting period amounted to €100 thousand (2012: €84 thousand). This figure was composed exclusively of fixed remuneration. There were no receivables to related persons from loans or advanves at balance sheet date.

Vested remuneration paid to persons with key function in the Group (Senior Management)[1)]

	2013			2012
in € thousand	Remuneration[2)]	Severance payments	Total	Total
Total	6,858	—	**6,858**	**9,121**

1) Members of the second management level of pbb and managing directors of subsidiaries of pbb
2) Reporting follows the so-called vested principle. The components of compensation which were vested in the relevant period 2013 are reported

Pension obligations to persons with key function in pbb Group (Senior Management)

in € thousand	31.12.2013	31.12.2012
Total[1)]	73,963	77,552

1) Thereof €63,404 thousand (2012: €67,434 thousand) for pensioners and surviving dependants

Statement according to section 15a WpHG During the complete financial years 2013 and 2012 HRE Holding held all shares of pbb. Hence, members of the Management Board and the Supervisory Board did not hold shares of the Company as at 31 December 2013 and as at 31 December 2012. In the years 2013 and 2012 no shares or share derivatives of pbb were purchased or sold by members of the Management Board and the Supervisory Board.

80 Employees

Average number of employees

	2013	2012
Employees (excluding apprentices)	960	1,042
thereof: senior staff in Germany	17	20
Total	**960**	**1,042**

81 Members of the Supervisory Board and of the Management Board

Supervisory Board of pbb as of 31 December 2013			Function in the Committees of the Supervisory Board	
Name and place of residence	Principal activity	Function in the Supervisory Board	Audit Committee	Risk Management and Liquidity Strategy Committee
Dr. Bernd Thiemann Münster	Former Chairman of the Management Board of DG Bank AG	Chairman	Member	Member
Dagmar Kollmann Vienna	Entrepreneur	Deputy Chairperson	Chairperson	Member
Dr. Günther Bräunig Frankfurt/Main	Member of the Management Board of KfW	Member	Member	Chairman
Dr. Christian Gebauer-Rochholz Hochheim	Bank employee	Workers' Council Representative		
Dr. Alexander Groß Teltow	Head of the Economic Policy department in the Bundesministerium für Wirtschaft und Energie	Member		
Georg Kordick Poing	Bank employee	Workers' Council Representative		
Dr. Ludger Schuknecht Frankfurt/Main	Director General for economic and fiscal policy strategy; international economy and finance in the Bundesministerium der Finanzen	Member		
Heike Theißing Munich	Bank employee	Workers' Council Representative		
Dr. Hedda von Wedel Andernach	President of the Bundesrechnungshof, retired	Member	Member	

Management Board of pbb as of 31 December 2013

Name and place of residence	Function in the Management Board	Mandates held in Supervisory Bodies under the Respective Law for Major Corporations
Manuela Better Munich	CEO/CRO	> Non-executive Director of DEPFA Bank plc > Non-executive Director of DEPFA ACS Bank > Non-executive Director of Hypo Public Finance Bank
Wolfgang Groth Tawern	Treasury/Asset Management	> Non-executive Director of DEPFA Bank plc > Chairman and Non-executive Director of Hypo Public Finance Bank
Dr. Bernhard Scholz Regensburg	Real Estate Finance/Public Investment Finance	
Alexander von Uslar Gruenwald	CFO/COO	> Non-executive Director of DEPFA Bank plc > Non-executive Director of DEPFA ACS Bank

82 Holdings of pbb

Holdings of pbb as of 31 December 2013
Additional statement according to HGB

Name and place of business	Interest in %		Currency	Equity in thousands	Net income/loss in thousands
	Total Sec 16 (4) Aktiengesetz	of which held indirectly			
Subsidiaries					
Consolidated subsidiaries					
Hayabusa Godo Kaisha, Tokyo	100.00	100.00	JPY	-243,846	-148,386
House of Europe Funding I Ltd.[1)], George Town	—	—	EUR	1	—
Hypo Real Estate Capital India Corp. Private Ltd. i.L., Mumbai	100.00	—	INR	19,632	-154
Hypo Real Estate Capital Japan Corp., Tokyo	100.00	—	JPY	30,603,480	68,458
Hypo Real Estate International LLC I, Wilmington	100.00	—	EUR	-232,755	36,750
Hypo Real Estate International Trust I, Wilmington	100.00	—	EUR	-232,700	36,750
IMMO Immobilien Management GmbH & Co. KG, Munich	100.00	—	EUR	1,234	-1,893
Ragnarök Vermögensverwaltung AG & Co. KG[2)], Munich	100.00	6.00	EUR	1,224	-2,644
RPPSE Espacio Oviedo S.L.U.[1)], Madrid	—	—	EUR	-42,912	-25,732

Name and place of business	Interest in % Total Sec 16 (4) Aktiengesetz	Interest in % of which held indirectly	Currency	Equity in thousands	Net income/loss in thousands
Non-consolidated subsidiaries					
DEPFA Finance N.V., Amsterdam	100.00	—	EUR	5,326	485
GfI-Gesellschaft für Immobilienentwicklung und -verwaltung mbH i.L., Stuttgart	100.00	—	EUR	10	—
Immo Immobilien Management Beteiligungsgesellschaft mbH, Munich	100.00	—	EUR	29	-3
IMMO Invest Real Estate GmbH[3], Munich	100.00	—	EUR	28	-41
Associated companies					
SANO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dresden KG, Düsseldorf	33.33	—	EUR	-3,876	504
SOMA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Darmstadt KG, Düsseldorf	33.33	—	EUR	-10,230	31
WISUS Beteiligungs GmbH & Co. Zweite Vermietungs-KG, Munich	33.00	—	EUR	-2,266	271

1) Special-purpose entity without capital investment consolidated according to SIC-12
2) General partner liability (Komplementärhaftung) of pbb
3) Profit transfer by shareholders on the basis of profit and loss transfer agreement

Exchange rates

€1 corresponds to		31.12.2013
India	INR	85.3660
Japan	JPY	144.7200

Munich, 18 March 2014

Deutsche Pfandbriefbank Aktiengesellschaft

The Management Board

Manuela Better | Wolfgang Groth | Andreas Schenk

Dr. Bernhard Scholz | Alexander von Uslar

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group 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.

Munich, 18 March 2014

Deutsche Pfandbriefbank Aktiengesellschaft

The Management Board

Manuela Better	Wolfgang Groth	Andreas Schenk
Dr. Bernhard Scholz	Alexander von Uslar	

The following auditor's report, prepared in accordance with § 322 HGB ("Handelgesetzbuch": "German Commercial Code"), refers to the complete consolidated financial statements, comprising consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes, together with the group management report of the Deutsche Pfandbriefbank AG for the financial year 1 January to 31 December 2013. The group management report is not included in the Prospectus. The above-mentioned auditor's report and consolidated financial statements are both translations of the respective German-language documents.

Auditor's Report

We have audited the consolidated financial statements prepared by the Deutsche Pfandbriefbank AG, Munich, comprising consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes, together with the Group management report for the financial year from 1 January to 31 December 2013. The preparation of the consolidated financial statements and the Group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315 a Abs. 1 HGB (Handelsgesetzbuch "German Commercial Code") are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 15a Abs. 1 HGB and give a true and fair view of the development in assets, financial position and earnings of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, 19 March 2014

KPMG AG
Wirtschaftsprüfungsgesellschaft

Wiechens	Schmidt
Wirtschaftsprüfer	Wirtschaftsprüferin

26.4 Audited Consolidated Financial Statements of Deutsche Pfandbriefbank AG Prepared in Accordance with IFRS as of and for the Financial Year Ended December 31, 2012 (with Comparative Figures for the Financial Year Ended December 31, 2011)

Consolidated Income Statement

Income/expenses

in € million	Notes	2012	2011	Δ in € million
Operating revenues		467	526	-59
Net interest income and similar income	31	296	371	-75
Interest income and similar income		2,879	3,691	-812
Interest expenses and similar expenses		2,583	3,320	-737
Net commission income	32	23	32	-9
Commission income		27	38	-11
Commission expenses		4	6	-2
Net trading income	33	10	-8	18
Net income from financial investments	34	13	3	10
Net income from hedge relationships	35	-6	-56	50
Balance of other operating income/expenses	36	131	184	-53
Provision for losses on loans and advances	37	-4	-12	8
General administrative expenses	38	341	357	-16
Balance of other income/expenses	39	-6	7	-13
Pre-tax profit/loss		**124**	**188**	-64
Taxes on income	40	55	71	-16
Net income/loss		**69**	**117**	-48
attributable to:				
Equity holders (consolidated profit/loss from the parent company)		69	117	-48

Consolidated Statement of Comprehensive Income

Consolidated statement of comprehensive income

in € million	2012 Before tax	2012 Tax	2012 Net of tax	2011 Before tax	2011 Tax	2011 Net of tax
Net income/loss	**124**	**55**	**69**	**188**	**71**	**117**
Additional paid-in capital	—	—	—	—	—	—
Retained earnings	-6	—	-6	-3	—	-3
Foreign currency reserve	5	—	5	1	—	1
AfS reserve	260	71	189	-406	-116	-290
Cash flow hedge reserve	-26	-6	-20	-121	-27	-94
Total other comprehensive income of the period	233	65	168	-529	-143	-386
Total comprehensive income of the period	**357**	**120**	**237**	**-341**	**-72**	**-269**
attributable to:						
Equity holders (consolidated profit/loss from the parent company)	357	120	237	-341	-72	-269

Disclosure of components of consolidated comprehensive income

in € million	2012	2011
Net income/loss	**69**	**117**
Additional paid-in capital	—	—
Unrealised gains/losses	—	—
Retained earnings	-6	-3
Unrealised gains/losses	-6	-3
Foreign currency reserve	5	1
Unrealised gains/losses	5	1
AfS reserve	189	-290
Unrealised gains/losses	177	-294
Reclassification adjustments for gains/losses included in profit or loss	12	4
Cash flow hedge reserve	-20	-94
Unrealised gains/losses	47	393
Reclassification adjustments for gains/losses included in profit or loss	-67	-487
Total other comprehensive income of the period	168	-386
Total unrealised gains/losses	223	97
Total reclassification adjustments for gains/losses included in profit or loss	-55	-483
Total comprehensive income of the period	**237**	**-269**

Consolidated Statement of Financial Position

Assets

in € million	Notes	31.12.12	31.12.11	Δ in € million	1.1.2011
Cash reserve	8, 42	1,937	323	1,614	224
Trading assets	9, 43	3,325	9,818	-6,493	16,168
Loans and advances to other banks	10, 44	7,995	7,632	363	12,128
Loans and advances to customers	10, 45	49,590	55,236	-5,646	118,642
Allowances for losses on loans and advances	11, 46	-325	-477	152	-561
Financial investments	12, 47	25,572	28,677	-3,105	33,605
Property, plant and equipment	13, 48	2	3	-1	5
Intangible assets	14, 49	39	35	4	32
Other assets	15, 50	7,235	6,058	1,177	5,035
Income tax assets	24, 51	1,686	1,474	212	1,545
Current tax assets		53	55	-2	64
Deferred tax assets		1,633	1,419	214	1,481
Total assets		**97,056**	**108,779**	**-11,723**	**186,823**

Equity and liabilities

in € million	Notes	31.12.12	31.12.11	Δ in € million	1.1.2011
Liabilities to other banks	16, 55	7,797	8,223	-426	62,587
Liabilities to customers	16, 56	11,895	12,363	-468	17,384
Liabilities evidenced by certificates	16, 57	52,550	55,038	-2,488	63,846
Trading liabilities	17, 58	3,192	9,903	-6,711	16,294
Provisions	18, 59	164	163	1	176
Other liabilities	19, 60	14,438	16,123	-1,685	18,883
Income tax liabilities	24, 61	1,698	1,373	325	1,526
Current tax liabilities		64	82	-18	83
Deferred tax liabilities		1,634	1,291	343	1,443
Subordinated capital	20, 62	1,993	2,501	-508	2,766
Liabilities		**93,727**	**105,687**	**-11,960**	**183,462**
Equity attributable to equity holders		3,329	3,092	237	3,361
Subscribed capital	63	380	380	—	380
Silent participation	21, 63	999	999	—	999
Additional paid-in capital	63	5,036	5,036	—	5,036
Retained earnings	63	-3,166	-3,277	111	-3,089
Foreign currency reserve	23	-29	-34	5	-35
Revaluation reserve	7	40	-129	169	255
AfS reserve		-360	-549	189	-259
Cash flow hedge reserve		400	420	-20	514
Consolidated profit/loss 1.1.-31.12.		69	117	-48	-185
Equity		**3,329**	**3,092**	**237**	**3,361**
Total equity and liabilities		**97,056**	**108,779**	**-11,723**	**186,823**

Consolidated statement of Cash Flows[1)]

in € million	2012	2011[2)]
Net income/loss	**69**	**117**
Write-downs, provisions for losses on, and write-ups of, loans and advances and additions to provisions in lending business	4	-10
Write-downs and depreciation less write-ups on non-current assets	19	75
Change in other non-cash positions	163	432
Result from the sale of non-current assets	-18	-4
Other adjustments	-241	-300
Subtotal	**-4**	**310**
Change in assets and liabilities from operating activities after correction for non-cash components		
Increase in assets/decrease in liabilities (-)		
Decrease in assets/increase in liabilities (+)		
Trading portfolio	-235	-31
Loans and advances to other banks	-546	3,974
Loans and advances to customers	5,837	63,712
Other assets from operating activities	-108	87
Liabilities to other banks	-493	-54,449
Liabilities to customers	-545	-5,156
Liabilities evidenced by certificates	-3,433	-9,902
Other liabilities from operating activities	-2,276	-4,470
Interest income received	2,493	3,158
Dividend income received	1	—
Interest expense paid	-2,267	-3,042
Taxes on income paid	-17	-10
Cash flow from operating activities	**-1,593**	**-5,819**
Proceeds from the sale of non-current assets	4,290	10,420
Payments for the acquisition of non-current assets	-533	-4,142
Proceeds from the sale of investments	—	—
Payments for the acquisition of investments	—	—
Cash flow from investing activities	**3,757**	**6,278**
Payments of subordinated capital	-550	-360
Cash flow from financing activities	**-550**	**-360**
Cash and cash equivalents at the end of the previous period	323	224
+/– Cash flow from operating activities	-1,593	-5,819
+/– Cash flow from investing activities	3,757	6,278
+/– Cash flow from financing activities	-550	-360
+/– Effects of exchange rate changes and non-cash valuation changes	—	—
Cash and cash equivalents at the end of the period	**1,937**	**323**

Consolidated Statement of Changes in Equity

Consolidated statement of changes in equity

	Equity attributable to equity holders								
					Revaluation reserve				
in € million	Subscribed capital	Silent participation	Additional paid-in capital	Retained earnings	Foreign currency reserve	AfS reserve	Cash flow hedge reserve	Consolidated profit/loss	Equity
Equity at 1.1.2011	**380**	**999**	**5,036**	**-3,089**	**-35**	**-259**	**514**	**-185**	**3,361**
Capital increase	—	—	—	—	—	—	—	—	—
Transaction costs of capital measures	—	—	—	—	—	—	—	—	—
Treasury shares	—	—	—	—	—	—	—	—	—
Distribution	—	—	—	—	—	—	—	—	—
Total comprehensive income for the year	—	—	—	-3	1	-290	-94	117	-269
Transfer to retained earnings	—	—	—	-185	—	—	—	185	—
Changes in the group of consolidated companies	—	—	—	—	—	—	—	—	—
Equity at 31.12.2011	**380**	**999**	**5,036**	**-3,277**	**-34**	**-549**	**420**	**117**	**3,092**
Equity at 1.1.2012	**380**	**999**	**5,036**	**-3,277**	**-34**	**-549**	**420**	**117**	**3,092**
Capital increase	—	—	—	—	—	—	—	—	—
Transaction costs of capital measures	—	—	—	—	—	—	—	—	—
Treasury shares	—	—	—	—	—	—	—	—	—
Distribution	—	—	—	—	—	—	—	—	—
Total comprehensive income for the year	—	—	—	-6	5	189	-20	69	237
Transfer to retained earnings	—	—	—	117	—	—	—	-117	—
Changes in the group of consolidated companies	—	—	—	—	—	—	—	—	—
Equity at 31.12.2012	**380**	**999**	**5,036**	**-3,166**	**-29**	**-360**	**400**	**69**	**3,329**

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1 General Information

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

Accounting Policies

2 Principles

pbb has prepared its Group financial statements for the period ended 31 December 2012 in line with EC ordinance No. 1606/2002 of the European Parliament and Council of 19 July 2002 in accordance with International Financial Reporting Standards (IFRS). These financial statements are based on the IFRS rules, which have been adopted in European Law by the European commission as part of the endorsement process; it is also based on the regulations of commercial law which are applicable in accordance with section 315 a (1) HGB (German Commercial Code). With the exception of specific regulations relating to fair value hedge accounting for a portfolio hedge of interest risks in IAS 39 all mandatory IFRS rules have been completely endorsed by the EU. pbb Group does not apply this type of hedge accounting. Therefore, the financial statements are accordingly consistent with the entire IFRS and also with the IFRS as applicable in the EU.

The IFRS are standards and interpretations adopted by the Inter-national Accounting Standards Board (IASB). These are the Inter-national 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 (Deutsche Rechnungslegungs Standards – DRS) published by the Deutsche Rechnungslegungs Standards Committee (DRSC) have been taken into account.

The Management Board of pbb prepared these consolidated financial statements on 19 March 2013 under the going-concern assumption.

Initially Adopted Standards, Interpretations and Amendments Amendments to IFRS 7 Financial Instruments: Disclosures – Transfer of Financial Assets require disclosing in a separate note the relationships between financial assets, which were not derecognised in their entirety, and the associated financial liabilities as well as the nature and the risks of the continuing involvement in derecognised assets. A separate note Transfer of Financial Assets was added to these consolidated financial statements of ppb.

Endorsed Standards, Interpretations and Amendments, Which Are Not Yet Mandatorily Applicable The following standards, interpretations and amendments are endorsed until 31 December 2012, are not mandatorily applicable and were not adopted earlier:

> Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters

> Amendments to IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets

> IFRS 10 Consolidated Financial Statements and Amendments to IAS 27 Separate Financial Statements

> IFRS 11 Joint Arrangements and Amendments to IAS 28 Investments in Associates and Joint Ventures

> IFRS 12 Disclosure of Interests in Other Entities

> IFRS 13 Fair Value Measurement

> Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

> IAS 19 (revised 2011) Employee Benefits

> IFRIC Interpretation 20: Stripping Costs in the Production Phase of a Surface Mining

> Amendments to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities and Amendments to IFRS 7 Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities

Amendments to IFRS 1 concern solely IFRS first-time adopters. Because pbb Group is not an IFRS first-time adopter, there were no impacts on these consolidated 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. On these consolidated financial statements there were no impacts because pbb Group did not own such assets.

IFRS 10 supersedes the requirements of IAS 27 and SIC-12 regarding control and consolidation. IFRS 10 implements the control concept as consolidation model. According to this, parent-subsidiary relationships will not only depend on voting rights, but also on other contractual commitments. IAS 27 was renamed in Separate Financial Statements and is solely applicable to separate financial statements, SIC-12 was cancelled. The new standards are originally applicable for financial years beginning on or after 1 January 2013, but were endorsed in European Law with an effective date of 1 January 2014. IFRS 10 will probably result in impacts on the group of consolidated companies of pbb, especially in connection with structured entities.

IFRS 11 supersedes IAS 31 and cancels the proportionate consolidation option of joint ventures. In the future, the equity method is applicable according to IAS 28. The new standards are originally applicable for financial years beginning on or after 1 January 2013, but were endorsed in European Law with an effective date of 1 January 2014. Impacts on future consolidated financial statements will depend on whether or not joint arrangements and at equity investments exist in pbb Group. Presently, this is not the case.

In IFRS 12 the IASB consolidated the disclosure requirements concerning subsidiaries, joint arrangements and associates as well as non-consolidated structured entities. The new standard was originally applicable for financial years beginning on or after 1 January 2013, but was endorsed in European Law with an effective date of 1 January 2014. Due to the requirements of IFRS 12 pbb Group expects extended disclosures regarding its interests in other entities.

The regulations for all assets and liabilities concerning fair value measurement were summarised in IFRS 13. Material new requirements of IFRS 13 Fair Value Measurement 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). For measuring financial instruments applying bid price respectively asking price is permitted for assets respectively debts, if these prices represent the fair value in the best way. IFRS 13 expands the disclosure requirements regarding the fair value hierarchy. IFRS 13 is applicable to financial years beginning on or after 1 January 2013. The standard is applicable prospectively. Impacts on consolidated financial statements of pbb will be due to the amended methods to measure fair value and the extended disclosures.

According to Amendments to IAS 1 Presentation of Items of Other Comprehensive Income (OCI), positions of other comprehensive income have to be grouped whether or not they could be recycled into the income statement. Amendments to IAS 1 is applicable for periods beginning on or after 1 July 2012. pbb Group will adjust its disclosures accordingly.

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. The interest rate for discounting the defined benefit obligation is also used for the expected return on plan assets. In addition, sensitivity analysis of pension plans and the average duration of the defined benefit obligation have to be disclosed in the notes. Furthermore, an amendment of the accounting of bonus feature elements («Aufstockungsbeträge») in connection with semi-retirement contracts results from IAS 19 (revised 2011). IAS 19 (revised 2011) is applicable for periods beginning on or after 1 January 2013. The Amendments will generally have impacts on

employee benefits accounting and disclosure of pbb Group. In particular, the cancellation of the corridor approach will increase equity volatility. Using the measurement parameters available at the end of 2012 would result in an equity reducing effect of approx. € 46 million. The pre-tax profit will benefit by approx. € 1 million. The cancellation of the amortisation of actuarial losses if the corridor is exceeded is widely compensated by the changed return on plan assets in income statement. Furthermore, notes disclosures will increase.

IFRIC 20 includes requirements concerning stripping costs of a surface mine. The interpretation is applicable for financial years beginning on or after 1 January 2013. pbb Group is not impacted by IFRIC 20.

The IASB revised the regulations regarding the netting of financial assets and financial liabilities and published the revision in the form of Amendments to IAS 32 and Amendments to IFRS 7. To allow the comparison between financial statements under IFRS and under US accounting principles, Amendments to IFRS 7 requires materially extended notes disclosures. Besides a qualitative description, comprehensive quantitative disclosure becomes necessary, e.g. the gross amount before netting, the net amount after netting and the fair value of financial instruments, which have been received or granted as collaterals. Amendments to IAS 32 and Amendments to IFRS 7 are retrospectively applicable for financial years beginning on or after 1 January 2013 (IFRS 7) respectively on or after 1 January 2014 (IAS 32). pbb Group expects extended notes disclosures.

Published Standards, Interpretations and Amendments Which Are Not Yet Endorsed The following published standards, interpretations and Amendments were not yet endorsed in European Law:

> IFRS 9 Financial Instruments and Subsequent Amendments (also concerned is IFRS 7 Financial Instruments: Disclosures)

> Amendments to IFRS 10, IFRS 11 and IFRS 12: Transition Guidance

> Amendments to IFRS 1: Government Loans

> Amendments to IFRS 10, IFRS 12 and IAS 27: Investment Entities

> Improvement to IFRSs (2009–2011)

The IASB is replacing the standard IAS 39 by IFRS 9 in several project phases. For the first project phase Classification and Measurement the IASB published new policies in 2009 and 2010, which presumably will be amended again. On the other hand, finally adopted standard parts are not yet available for the two other project phases Impairment Methodology and Hedge Accounting. The Classification and Measurement will probably provide the following measurement categories:

> at fair value through profit or loss

> at fair value through other comprehensive income

> at amortised cost

Financial debt instruments are classified on the assets' side of the balance sheet depending on the business model of the entity for managing financial assets and the characteristics of the contractual cash flows of the financial asset. On the other hand, equity instruments and dFVTPL assets generally have to be measured at fair value. On the liabilities side of the balance sheet, all non-derivative liabilities which are not used for trading or which are not designated for measuring at fair value have to be measured at amortised cost. In the case of the dFVTPL liabilities, changes in value which are attributable to the change in the own credit risk have to be recognised directly in equity. The initial application of the new standard IFRS 9, which is envisaged for financial years beginning on or after 1 January 2015, will probably have a material impact for pbb Group financial statement. In future, it will be necessary for some assets and liabilities which have previously been measured at amortised cost presumably to be measured at fair value, and vice versa. However, it will only be possible to make a definitive assessment of the entire impacts on pbb Group when all parts of IFRS 9 have been completely published.

Amendments to IFRS 10, IFRS 11 and IFRS 12: Transition Guidance clarify the retrospective application of the concerned standards and have to be initially adopted along with IFRS 10, IFRS 11 and IFRS 12 for financial years beginning on or after 1 January 2014.

Amendments to IFRS 10, IFRS 12 and IAS 27: Investment Entities is not relevant for pbb Group, because according to its business model, the Group is not an investment entity. Thereof, future consolidated financial statements of pbb will presumably not be impacted. The amendments have to be initially adopted for financial years beginning on or after 1 January 2014.

In the course of the process to slightly amend several standards and interpretations, the IASB published the further amendment standard Improvements to IFRS 2009–2011. The Improvements to IFRS 2009–2011 are applicable for the financial year beginning on or after 1 January 2013 and will presumably result in immaterial impacts on future consolidated financial statements of pbb Group.

Statement of Compliance for the Public Corporate Governance Code of the Federation (PCGK-B) The Management Board of the Company, which is an entity that is indirectly completely owned by the Federal Republic of Germany, has adopted a resolution to apply the PCGK-B in accordance with comply or explain and subject to the Supervisory Board adopting a resolution with the same wording. The Management Board and the Supervisory Board published a statement of compliance for the PCGK-B on the website of the Company (www.hyporealestate.com) after the respective resolution is adopted by the Supervisory Board.

Consolidated Financial Review The consolidated financial review meets the requirements of section 315 (1) and (2) HGB (German Civil Code) and DRS 20, which was already initially adopted in the reporting year 2012 on a voluntarily basis. It comprises a report on the principles of the Group, a financial report, a report of significant events after 31 December 2012, and a forecast report as well as a risk and opportunities report. The risk and opportunities report contains information which, under IFRS 7, is required to be disclosed. Events after the balance sheet date are described in the report of events after 31 December 2012.

3 Consistency

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

In 2011 there was a change in the way of recognising the bonds which were allocated to the measurement category loans and receivables. In the past, some of these bonds which were recognised as loans and receivables were disclosed as loans and advances to other banks and as loans and advances to customers. Since 2011 these instruments are disclosed completely as financial investments. In the statement of cash flows of the Group financial statements 2011 the disclosure change of the bonds was disclosed as a cash valuation change. This disclosure was adjusted according to IAS 8.42 and disclosed as a non-cash valuation change in the Group financial statements 2012. Therefore in the statement of cash flows 2012, the previous year comparison figures for cash flow from operating activities have been decreased by € -17.3 billion and cash flow from investing activities have been increased by € 17.3 billion respectively. There was no impact on cash and cash equivalents.

Apart from above, as of 31 December 2012 pbb Group applied the equal accounting and measurement principles as in the consolidated financial statements as of 31 December 2011.

4 Uniform Consolidated Accounting

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

5 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.

6 Consolidation

	Fully consolidated		Not fully consolidated (due to immateriality/ not to be consolidated according to SIC-12)		
pbb and subsidiaries (including special-purpose entities)	Total	Thereof special-purpose entities	Total	Thereof special-purpose entities	Total
1.1.2011	**12**	**4**	**10**	**2**	**22**
Additions	—	—	—	—	—
Disposals	—	—	—	—	—
Mergers	—	—	-3	—	-3
31.12.2011	**12**	**4**	**7**	**2**	**19**
1.1.2012	**12**	**4**	**7**	**2**	**19**
Additions	1	1	—	—	1
Disposals	-2	—	-1	-1	-3
Mergers	-1	—	-1	—	-2
31.12.2012	**10**	**5**	**5**	**1**	**15**

Associated companies and other investments

	Associated companies	Other investments	Total
1.1.2011	**4**	**6**	**10**
Additions	—	—	—
Disposals	—	—	—
31.12.2011	**4**	**6**	**10**
1.1.2012	**4**	**6**	**10**
Additions	—	—	—
Disposals	-1	-2	-3
31.12.2012	**3**	**4**	**7**

These consolidated financial statements set out a list of shareholdings in the chapter Holdings. In this list, the subsidiaries are structured on the basis of whether or not they are consolidated. Other shareholdings are also listed. All fully consolidated companies have prepared their individual financial statements for the period ended 31 December 2012.

The effects of the contractual relations between the Group companies and the subsidiaries which are not consolidated are set out in the consolidated financial statements. The pooled results of the subsidiaries, which have not been consolidated in view of their minor significance, are less than € 2 million. Net losses are almost completely included in the Group financial statement by depreciation on investments, provisions and profits transferred. The pooled total assets of the non-consolidated subsidiaries account for less than 0.1 % of the Group total assets. The shares in the non-consolidated companies are shown as AfS financial investments.

pbb holds 100 % of the interest in -DEPFA Finance N.V., Amsterdam. As the majority of risks and rewards is held Group-externally pbb has not to consolidate the special-purpose entity.

In 2012, pbb Group has simplified the corporate structure. Primarily for this reason it came to the following changes in consolidation:

The company Hypo Real Estate Capital Singapore Corp. Private Ltd. (in liquidation), Singapore, a previously consolidated 100 % subsidiary of pbb, was liquidated effective 2 March 2012. The

liquidation did not result in any impacts on the development in earnings, assets and financial position of pbb Group because the subsidiary had no assets or liabilities on the date of liquidation.

The special-purpose vehicle Hayabusa GK, Tokyo, was initially consolidated on 2 July 2012. The wholly owned subsidiary of Hypo Real Estate Capital Japan Corp., Tokyo, acquired a salvage acquisition for € 102 million in Japan on 31 August 2012. The carrying amount of the salvage acquisition was € 89 million as at the balance sheet date. The planned-sale is part of a hands-free process, in which pbb Group relies on its business relations or an arranger.

pbb Services GmbH, Munich, a previously fully consolidated subsidiary of pbb, was merged with the parent company as a result of the merger agreement of 7 August 2012. The merger has not had any impact on the net assets, financial position and results of operations of the pbb Group.

Hypo Real Estate Capital Hong Kong Corp. Ltd. i.L., Hong Kong, a previously fully consolidated wholly owned subsidiary of pbb, was liquidated with effect from 17 October 2012. The liquidation has not had any impact on the net assets, financial position and results of operations of the pbb Group, because the Company did not have any assets and liabilities at the time of the liquidation.

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

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

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

7 Financial Instruments

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

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

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

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

Collaterals with the same counterparty and same conditions (e.g. ISDA frame contract) are netted according to IAS 32.34 and thus disclosed as a net amount.

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

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

Held-for-Trading A financial asset or a financial liability is held for trading if it is:

> acquired or incurred principally for the purpose of selling or repurchasing it in the near term

> part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking or

> a derivative (except for a derivative that is a designated and effective hedging instrument).

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

If there is a difference between transaction price and market value at trade date and the difference results from unobservable data that have a significant impact on the measurement of a financial instrument, the difference (so-called day one profit) is not recognised immediately in profit or loss but is recognised over the life of the transaction. The remaining difference is recognised directly in profit or loss when the inputs become observable, when the transaction matures or is closed out. In the financial years 2012 and 2011 there were no material day one profits.

Designated at Fair Value through Profit or Loss (dFVTPL) If certain conditions are satisfied, financial assets or liabilities can be classified as a financial asset respectively a financial liability at fair value through profit or loss when they are initially recognised. A designation can be made if the use of the measurement category means that a recognition and measurement inconsistency is either avoided or considerably reduced, and management and performance measurement of a portfolio of financial instruments are based on the fair values or if the instrument contains a separable embedded derivative. pbb Group classifies financial assets under the dFVTPL category only for the first case. As of 31 December 2012, only the fixed-income security is held in the category dFVTPL. Financial receivables and liabilities are not classified into this category. The portfolio of fixed-income securities and loans and advances is managed on fair value basis. In addition, open interest risk positions of the portfolio are to a large extent closed by hedging derivatives. Because changes in the fair value of derivatives under IAS 39 in principle have to be recognised in profit or loss, the designation of fixed-income securities into the category dFVTPL will avoid inconsistency in terms of measurement. As a result of the designation of fixed-income securities, the opposite movements relating to the hedged risk in the income statement cancel each other to a large extent. The accounting treatment is accordingly consistent with risk management and the investment strategy.

dFVTPL financial instruments are measured at fair value. Changes in fair value are recognised in profit or loss. Because financial liabilities are not designated into the category dFVTPL, pbb Group does not have any effect resulting from the instruments being measured at the own current credit risk. The fixed-income securities in the category dFVTPL are disclosed as financial investments. Interest income from the securities is recognised in net interest income and similar income. The changes in value to be recognised in profit or loss (net gains and net losses from fair value option) are recognised in net income from hedge relationships in the same way as the changes in value of the corresponding derivatives.

Held-to-Maturity (HtM) Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. HtM financial investments are measured at amortised cost. In financial years 2012 and 2011, no financial assets were classified as HtM at pbb Group.

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

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

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

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

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

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

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

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

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

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

Measurement Methods Financial instruments at fair value are measured on the basis of stock market prices or other market prices, if existent. If a price is not available from an active market, observable market prices from comparable financial instruments are used. If prices from comparable financial

instruments are not available, valuation models are used that base on observable market parameters. If these parameters are not observable at the markets, the measurement of the financial assets is based on models with non-market-observable parameters. The used measurement models are market standard models. A description of these models and the products is given in the note Fair Values of Financial Instruments.

Impairment According to IAS 39.58 a financial asset must be tested for impairment. At each balance sheet date pbb Group assesses on a case-by-case basis whether there is objective evidence for impairment. The criteria used to determine if there is such objective evidence included:

> significant financial difficulties of the borrower

> overdue contractual payments of either principal or interest or other breaches of contract

> becoming probable that the borrower will enter bankruptcy or other financial reorganisation

> renegotiations due to economic problems

> the market price of the asset if available

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position, where the Group has made concessions. Loans, which have been restructured with renegotiated terms, due to deterioration in the borrower's financial position, the Group has partly granted special conditions by agreeing to terms and conditions that are more favourable for the borrower than the Group has provided initially. The Group implements a forbearance policy, respectively restructuring agreements in order to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy respectively restructuring agreement, loan forbearance or loan extension is granted on a selective basis in a situation where the debtor is currently in default on its debt, or where there is a high risk of default, there is evidence that the debtor made all reasonable effort to pay under the original contractual terms and it is expected to be able to meet the revised terms. The revised terms usually include extending maturity, changing timing of interest payments and amendments to the terms of loan covenants.

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

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

To measure the impairment loss, the following factors are especially considered:

> pbb Group's aggregate exposure to the customer

> the amount and timing of expected interest and redemption payments

> the realisable value of collateral and likelihood of successful repossession

> the likely deduction of any costs involved in recovering amounts outstanding

> the market price of the asset if available

For the purpose of calculating portfolio-based allowances, financial assets carried at amortised cost for which no impairment has been identified on an individual basis are grouped in portfolios according to their credit risk. This allowance covers losses which have been incurred but have not yet been identified on loans subject to individual assessment. The parameters used to determine portfolio-based allowances are checked regularly and adjusted if necessary. The portfolio-based allowances are determined after taking into account:

> historical loss experience in portfolios of similar credit risk characteristics

> a judgement whether current economic conditions and credit conditions improved or deteriorated compared to the past

> the estimated period between impairment occurring and the impairment being identified

> state of the current economic cycle

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

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

If the hedge of the fair value in the course of the reporting period meets the criteria of IAS 39.88, the hedge is accounted as follows:

> The profit or loss arising when the hedging instrument is remeasured at fair value (for a derivative hedging instrument) or the currency component of its carrying amount measured in accordance with IAS 21 (for non-derivative hedging instruments) is recognised in profit or loss for the period.

> The carrying amount of a hedged item is adjusted by the profit or loss arising from the hedged item and attributable to the hedged risks, and is recognised in profit or loss for the period. This is applicable if the hedged item is otherwise measured at cost. The profit or loss attributable to the hedged risk is recognised in profit or loss for the period if the hedged item is an available-for-sale (AfS) financial asset. The amortisation of the hedge adjustment is started on the date of the revoking of the hedge relationship.

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

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

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

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

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

interest payments from the interest derivatives in detailed maturity bands. The dollar offset method is used to assess efficiency.

In those periods in which the cash flows of the hedged item have an impact on profit or loss for the period, the cash flow hedge reserve is released through profit or loss. If a cash flow hedge for a forecast transaction is deemed to be no longer effective, or if the hedge relationship is revoked, the cumulative gains or losses on the hedging derivative initially recognised in equity remain in equity until the committed or forecast transaction occurs. At this point, the gains or losses have to be recognised in profit or loss. pbb Group uses a macro approach for cash flow hedge accounting.

Hedge of a Net Investment in a Foreign Operation A net investment hedge is a hedge of the foreign currency exposure on a net investment in a foreign operation. Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. pbb Group did not hedge a net investment in a foreign operation in the financial years 2012 and 2011.

8 Cash Reserve

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

9 Trading Assets

Trading assets comprise positive market values of stand-alone derivatives of the bank book. Trading assets are measured at fair value. Unrealised and realised gains and losses attributable to trading assets are recognised in net trading income in profit or loss.

10 Loans and Advances

Loans and advances to other banks and loans and advances to customers are measured in accordance with IAS 39 at amortised cost if they are not categorised dFVTPL or AfS or a hedged item of a fair value hedge. As of 31 December 2012, and as of 31 December 2011, pbb Group did not have loans and advances which are classified as AfS or dFVTPL.

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

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

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

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

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

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

12 Financial Investments

dFVTPL, LaR and AfS securities are recognised and disclosed as financial investments. dFVTPL and AfS financial assets are measured at fair value. Changes in the fair value are through profit or loss in case of dFVTPL financial assets in economical hedge relationships and are recognised in net income from hedge relationships and disclosed in the net income from hedge relationships. Changes in fair value of AfS financial assets are disclosed as a separate item of equity (AfS reserve) not affecting profit or loss until the asset is sold, withdrawn, disposed of, or if an impairment is established for the financial asset in accordance with IAS 39.58 et seq. Therefore, the cumulative profit or loss previously recognised in equity is now affecting profit or loss. Individual allowances on AfS financial assets are directly deducted from the carrying amount of the assets. Portfolio-based allowances on AfS financial assets shall not be created for AfS financial assets. AfS financial assets which are hedged effectively against market price risks are part of the hedge accounting. LaR financial investments are measured at amortised cost. Individual allowances and portfolio-based allowances on LaR financial investments are directly deducted from the carrying amount of the assets. In the financial years 2012 and 2011, pbb Group did not have any HtM financial assets.

13 Property, Plant and Equipment

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

Useful lives

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

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

14 Intangible Assets

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

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

15 Other Assets

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

16 Liabilities

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

17 Trading Liabilities

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

18 Provisions

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

Provisions for defined benefit plan pensions and similar obligations are calculated on the basis of actuarial reports in accordance with IAS 19. They are measured using the projected unit credit method, and this method takes into account the present value of the earned pension entitlements as well as the actuarial gains and losses which have not yet been redeemed. Actuarial gains or losses result from differences between the expected and actual factors (for instance a higher or lower number of invalidity or mortality cases than expected on the basis of the calculation principles used) or changes in the measurement parameters.

The actuarial gains and losses are accounted by using the so-called corridor approach: a portion of actuarial gains or losses shall be recognised as income or expense in subsequent periods only if the net cumulative unrecognised gains or losses at the end of the previous reporting period exceed the greater of 10 % of the present value of the earned pension entitlements and 10 % of the fair value of the assets of any external benefit facility. The portion of actuarial gains or losses that has to be recognised in profit or loss is divided by the expected average remaining working lives of the employees participating in that plan.

The interest rate used for discounting defined benefit obligations is based on the long-term interest rates at balance sheet date on high-class fixed-income corporate bonds.

pbb obtained insurance against parts of the risks arising from defined-benefit pension commitments as of 1 January 2005 by taking reinsurance classified as a qualifying insurance policy under IAS 19. This reinsurance is pledged to the plan beneficiaries and constitutes plan assets under IAS 19. The pension obligations have to be netted with the plan assets by taking into account the ceiling according to IAS 19.58.

In accordance with IAS 19, the cost of defined-benefit pension commitments recognised in general administrative expenses in the position costs for retirement pensions and benefits has been reduced by the expected income from the plan assets. The expected actuarial rate of return from plan assets derives from the expected long-term viability of reinsurances.

19 Other Liabilities

Besides negative fair values from derivative financial instruments (hedging derivatives and derivatives hedging dFVTPL financial instruments), accruals are one of the items recognised in other liabilities. Accruals arose from liabilities for products or services which have been received or supplied and have not yet been paid for, invoiced by the supplier or formally agreed. This also includes short-term liabilities to employees, for instance flexitime credits and vacation entitlements. The accruals are measured at the amount likely to be utilised.

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

20 Subordinated Capital

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

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

21 Silent Participation

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

22 Share-based Compensation

As of 31 December 2012 and as of 31 December 2011 no company of pbb Group has provided a commitment for share-based compensation.

23 Currency Translation

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

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

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

24 Taxes on Income

Taxes on income are recognised and measured in accordance with IAS 12. Apart from the exceptions defined in the standard, deferred taxes are calculated for all temporary differences for the IFRS values and the tax base as well as for the differences resulting from uniform Group measurement principles and differences from the consolidation (balance sheet method). Deferred tax assets arising from non-utilised losses carried forward, interest assets carried forward and tax credits are recognised if required from IAS 12.34 et seq.

Deferred taxes are measured using the national tax rates which are expected at the time when the differences are balanced, as the concept of deferred taxes is based on the presentation of future tax assets or tax liabilities (liability method). Changes of tax rates have been taken into account. The pay-out of the corporate income tax claim which was capitalised on 31 December 2006 has begun since 1 January 2008 over a period of ten years independently of a dividend payment. The interest-free claim had to be shown with the present value. An unchanged rate of 3.7 % p. a. has been used for discounting purposes. Changes of the capitalised corporate income tax claims due to tax assessment notes for previous periods in the year 2012 were recognised accordingly in the income statement.

25 Non-current Assets Held for Sale

In accordance with IFRS 5, non-current assets held for sale or disposal group have to be measured on the balance sheet date at the lower of carrying amount and fair value less costs to sell. The assets have to be disclosed separately in the statement of financial position. As of 31 December 2012 and of 31 December 2011 pbb Group did not own non-current assets held for sale.

26 Accounting Estimates and Assumptions

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

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

Allowances The portfolio of pbb Group is reviewed at least annually in order to identify any impairment losses on loans and advances. It is necessary to assess whether the estimated future cash flows of a loan portfolio are lower than the actual contractual ones. For this purpose, it is necessary to make judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or economic conditions that correlate with defaults on assets in the portfolio. The methods and assumptions concerning the assessments of the extent and timing of the payment streams are reviewed regularly to reduce any differences between estimated and actual defaults. In addition, the determination of portfolio-based provisions is based on a loss identification period as well as the expected loss based on statistical data.

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

values of the financial instruments. Moreover, the methods for measurement of financial instruments are developed further on the market on a continuous basis. For example, in the financial year 2012, the measurement of secured derivatives was extended to include the bilateral credit value adjustment. This extended valuation now takes account of the credit risk of the respective counterparty and also the credit risk of pbb Group for the secured derivatives. The conversion process has resulted in an effect of € 7 million recognised in the income statement. In addition, the methods for measuring financial instruments are continuously enhanced. For example, market conventions change for the measurement of derivatives especially by using overnight interest rate swap curves. Such adjustments can have negative effects on the income of pbb Group in 2013.

Embedded Derivatives According to IAS 39.11, an embedded derivative has to be separated from the host contract and has to be measured separately if, in addition to other criteria, the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. The economic risks of the host contracts and embedded derivatives are assessed on the basis of measuring methods to evaluate the existence of an obligation to separate.

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

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

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

With regard to the capitalisation of losses carried forward and other tax credits, the extent as well as the availability of such tax benefits are subject to estimation. Major losses carried forward are subject to national German tax law, and their availability also depends on the restrictions set out in section 10d EStG, 8c KStG as well as section 10a GewStG. Deferred tax assets arising from losses carried forward are recognised as far as it is likely that taxable income will be available to offset the non-utilised tax losses carried forward.

Segment Reporting

27 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 as the basis 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.

28 Income Statement, Broken Down by Operating Segment

Income/expenses

in € million		REF	PSF	VP	Consolidation & Adjustments	pbb Group
Operating revenues	2012	264	47	147	9	467
	2011	274	63	168	21	526
Net interest income and similar income	2012	227	58	1	10	296
	2011	245	109	—	17	371
Net commission income	2012	25	-1	-1	—	23
	2011	37	-3	-2	—	32
Net trading income	2012	2	8	—	—	10
	2011	–11	-3	6	—	-8
Net income from financial investments	2012	16	-2	-1	—	13
	2011	1	5	–3	—	3
Net income from hedge relationships	2012	-3	-3	—	—	-6
	2011	-7	-48	-1	—	-56
Balance of other operating	2012	-3	-13	148	-1	131
income/expenses	2011	9	3	168	4	184
Provisions for losses on loans	2012	-5	4	-3	—	-4
and advances	2011	-1	—	-11	—	-12
General administrative expenses	2012	139	53	148	1	341
	2011	138	54	159	6	357
Balance of other income/expenses	2012	-3	-1	-2	—	-6
	2011	3	2	2	—	7
Pre-tax profit	**2012**	**127**	**-11**	**—**	**8**	**124**
	2011	**140**	**11**	**22**	**15**	**188**

Cost-income ratio[1)]

	in %	REF	PSF	VP	pbb Group
Cost-income ratio (based on operating revenues)	2012	52.7	>100.0	>100.0	73.0
	2011	50.4	85.7	94.6	67.9

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

29 Balance-sheet-related Measures, Broken Down by Operating Segment

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

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

in € billion		REF	PSF	VP	Consolidation & Adjustments	pbb Group
Equity[1]	31.12.2012	1.0	1.4	0.0	0.9	3.3
	31.12.2011	1.2	1.0	0.1	0.9	3.2
Risk-weighted assets[2) 3)]	31.12.2012	9.6	5.0	0.2	0.5	15.3
	31.12.2011	11.8	4.1	0.5	0.6	17.0
	31.12.2011	12.1	4.3	0.6	—	17.0
Financing volumes	31.12.2012	22.1	35.4	0.9	—	58.4
	31.12.2011	23.5	44.0	1.1	—	68.6

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
3) The segmentation of risk-weighted assets was changed in the year 2012. In the new segmentation Consolidation & Adjustments contains risk-weighted assets of the asset liability management. The figures of the year 2011 are disclosed according to the new and former segmentation pursuant to IFRS 8.29

30 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 € 146 million (2011: € 144 million).

Operating revenues by products

in € million		Commercial real estate financing	Public sector financing	Other products	pbb Group
Operating revenues	2012	264	47	156	**467**
	2011	274	63	189	**526**

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

Operating revenues by regions

in € million		Germany	Rest of Europe	America/Asia	pbb Group
Operating revenues	2012	473	17	-23	**467**
	2011	488	38	—	**526**

Operating Revenues by Customers A balance of other operating income/expenses of € 106 million (2011: € 109 million) recognised in the Value Portfolio segment resulted from services for the ongoing operation of FMS Wertmanagement. Because this position 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 the pbb Group incurred in connection with servicing.

Notes to the Consolidated Income Statement

31 Net Interest Income and Similar Income

Net interest income and similar income, broken down by categories of income/expenses

in € million	2012	2011
Interest income and similar income	2,879	3,691
Lending and money-market business	1,557	2,141
Fixed-income securities and government-inscribed debt	869	971
Investments	2	—
Current result from swap transactions (balance of interest income and interest expenses)	451	579
Interest expenses and similar expenses	2,583	3,320
Liabilities to other banks and customers	604	1,014
Liabilities evidenced by certificates	1,884	2,182
Subordinated capital	95	124
Total	**296**	**371**

Total interest income for financial assets that are measured at amortised cost, amount to € 2.4 billion (2011: € 3.1 billion). Total interest expenses for financial liabilities that are not measured at fair value through profit or loss amount to € 2.6 billion (2011: € 3.3 billion).

32 Net Commission Income

Net commission income

in € million	2012	2011
Securities and custodial services	-2	-3
Lending operations and other service operations	25	35
Total	**23**	**32**

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

33 Net Trading Income

Net trading income

in € million	2012	2011
From interest rate instruments and related derivatives	8	-12
From credit risk instruments and related derivatives	—	6
From foreign currency instruments and related derivatives	2	-2
Total	**10**	**-8**

34 Net Income From Financial Investments

Net income from financial investments

in € million	2012	2011
Income from financial investments	22	10
Expenses from financial investments	9	7
Total	**13**	**3**

Net income from financial investments consists of income from the sale of securities of the measurement categories AfS and LaR together with changes in the value of such instruments that are to be recognised in profit or loss. HtM investments were not held in 2012 and 2011. 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	2012	2011
AfS financial investments	14	3
LaR financial investments	-1	—
Total	**13**	**3**

35 Net Income from Hedge Relationships

Net income from hedge relationships

in € million	2012	2011
Result from fair value hedge accounting	-6	-19
Result from hedged items	-450	169
Result from hedging instruments	444	-188
Result from dFVTPL investments and related derivatives	2	-37
Result from dFVTPL investments	—	-39
Result from derivatives related to dFVTPL investments	2	2
Ineffectiveness from cash flow hedge accounting affecting income	-2	—
Total	**-6**	**-56**

36 Balance of Other Operating Income/Expenses

Balance of other operating income/expenses

in € million	2012	2011
Other operating income	277	315
Other operating expenses	146	131
Balance of other operating income/expenses	131	184

The balance of other operating income/expenses from services for the ongoing operation of FMS Wertmanagement amounted to € 106 million (2011: € 109 million). Income from IT services to sister company DEPFA amounted to € 40 million (2011: € 35 million). Income from services for ongoing operation of FMS Wertmanagement compensated the corresponding general administrative expenses. In the financial year 2012, the bank levy resulted in expenses of € 24 million (2011: € 2 million), including a calculated annual contribution for 2012, as well as the subsequent amount. Net income resulting from foreign currency translation amounted to € 3 million (2011: € 7 million).

37 Provisions for Losses on Loans and Advances

Provisions for losses on loans and advances

in € million	2012	2011
Provisions for losses on loans and advances	1	-2
Additions	66	68
Releases	-65	-70
Provisions for contingent liabilities and other commitments	-4	-9
Additions	4	2
Releases	-8	-11
Recoveries from written-off loans and advances	-1	-1
Total	-4	-12

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.

38 General Administrative Expenses

General administrative expenses

in € million	2012	2011
Personnel expenses	131	129
Wages and salaries	104	101
Social security costs	19	19
Pension expenses and related employee benefit costs	8	9
Non-personnel expenses	210	228
Other general administrative expenses	197	215
Consulting expenses	57	50
IT expenses	102	121
Office and operating expenses	14	14
Other administrative expenses	24	30
Depreciation/amortisation	13	13
On software and other intangible assets excluding goodwill	12	11
On property, plant and equipment	1	2
Total	341	357

Cost-income ratio

in %	2012	2011
Cost-income ratio	73.0	67.9

39 Balance of Other Income/Expenses

Balance of other income/expenses

in € million	2012	2011
Other income	5	9
thereof:		
Releases of restructuring provisions	5	9
Other expenses	11	2
thereof:		
Additions to restructuring provisions	11	2
Balance of other income/expenses	-6	7

40 Taxes on Income

Breakdown

in € million	2012	2011
Current taxes	-8	18
Deferred taxes	63	53
thereof:		
Deferred taxes on capitalised losses carried forward	7	15
Total	55	71

Current taxes contain tax income for prior years of € -20 million (2011: € -5 million).

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

Development of deferred taxes

in € million	2012	2011
Deferred taxes recognised in the statement of financial position	-1	128
Difference to prior year	-129	90
thereof:		
Recognised in income statement	-63	-53
Recognised in AfS reserve	-71	116
Recognised in cash flow hedge reserve	5	27

Reconciliation

in € million	2012	2011
Net income/loss before taxes	124	188
Applicable (legal) tax rate in %	15.83	15.83
Expected (computed) tax expense	20	30
Tax effects		
arising from foreign income	—	3
arising from tax rate differences	26	23
arising from tax-free income	-1	—
arising from deductible and non-deductible items	15	16
arising from valuation adjustments and non-application of deferred taxes	7	3
arising from prior years and other aperiodical effects	-12	-5
arising from other differences	—	1
Reported taxes on income	55	71
Group tax ratio in %	44.3	37.7

The tax rate applicable for the financial year, including solidarity surcharge, is 15.83 % and is comprised of the 15.0 % German corporate tax rate currently valid together with the payable solidarity surcharge of 5.5 %.

The effects attributable to foreign income comprise tax rate differences arising from foreign fiscal jurisdictions. These arose as foreign income has been taxed with different tax rates.

The effects from tax rate differences include the trade tax burden (current and deferred in accordance with IFRS) which exists in Germany additionally to German corporation tax and solidarity surcharge.

The item effects arising from tax-free income comprises effects from tax-free income from participating interests and dividends both domestically and internationally. Regulations for the determination of taxable income were applied as valid for the particular jurisdiction.

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

The item effects arising from valuation adjustments and non-application of deferred taxes comprises major effects from not recognised deferred tax assets at periodical losses. We recognised no impairments on deferred tax assets which have been recorded last year on the basis of existing losses carried forward.

The item effects from previous years includes both current taxes for years which have been incurred as a result of tax audits or a reassessment of the tax liability, as well as deferred taxes for prior years.

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

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

Deferred tax liabilities/assets

in € million	2012	2011
Loans and advances to other banks/customers (including loan loss allowances)	27	11
Financial investments	13	39
Trading assets	536	192
Other assets/liabilities	1,041	1,031
Others	17	18
Deferred tax liabilities	1,634	1,291
Loans and advances to other banks/customers (including loan loss allowances)	9	6
Financial investments	144	225
Provisions	69	81
Other assets/liabilities	802	780
Trading liabilities	472	183
Liabilities evidenced by certificates	3	3
Losses carried forward	134	141
Deferred tax assets	1,633	1,419

For the domestic companies, the deferred taxes are calculated using the uniform rate of corporation tax of 15.0 % plus the 5.5 % solidarity surcharge payable on this and the locally applicable collection rate for municipal trade tax (the current basic rate is 3.5 %). For pbb the tax rate for the valuation of deferred taxes is 28.00 % (2011: 27.80 %).

On the reporting date, there are unused losses carried forward totalling € 3,649 million (2011: € 3,560 mil- lion) at corporate tax level and € 3,747 million (2011: € 3,712 million) at trade tax level. Deferred tax assets have been stated as € 447 million (2011: € 481 million) at corporate tax level and € 519 million (2011: € 545 million) at trade tax level, because the criteria for recognition in accordance with IAS 12.34 et seq. were satisfied. The loss carried forward can be utilised for an unlimited period of time. Additionally temporary differences of € 3 million (2011: € 5 million) were not recognised with deferred tax assets.

From the origination and reversal of temporary differences a deferred tax expense arose of € 56 million (2011: € 39 million).

A deferred tax income of € -1 million (2011: € -5 million) resulted from tax rate changes.

The current tax expense was not reduced by the use of previously unrecognised tax losses (2011: € 0.2 million).

On differences associated with investments in subsidiaries, deferred tax liabilities in the amount of € 173 million (2011: € 634 million) has not been stated because it is the ability and the intention to invest profits permanently in these subsidiaries.

41 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	2012	2011
Loans and receivables	10	15
Available for sale	14	3
Held for trading	10	-8
Designated at fair value through profit or loss	—	-39
Financial liabilities at amortised cost	6	31

Notes to the Consolidated Statement of Financial Position (Assets)

42 Cash Reserve

Cash reserve

in € million	31.12.2012	31.12.2011
Balance with central banks	1,937	323
Total	1,937	323

Cash in hand as of 31 December 2012 amounts to less than € 1 million as was the case in the previous year.

43 Trading Assets

Trading assets

in € million	31.12.2012	31.12.2011
Positive fair values from derivative financial instruments	3,325	9,818
Total	3,325	9,818

44 Loans and Advances to Other Banks

Loans and advances to other banks, broken down by type of business

in € million	31.12.2012	31.12.2011
Loans and advances	5,092	6,886
Public sector loans	2,231	2,602
Real estate loans	52	—
Other loans and advances	2,809	4,284
Investments	2,903	746
Total	7,995	7,632

Loans and advances to other banks, broken down by maturities

in € million	31.12.2012	31.12.2011
Repayable on demand	2,736	293
With agreed maturities	5,259	7,339
up to 3 months	3,016	4,890
from 3 months to 1 year	222	150
from 1 year to 5 years	891	1,032
from 5 years and over	1,130	1,267
Total	7,995	7,632

45 Loans and Advances to Customers

Loans and advances to customers, broken down by type of business

in € million	31.12.2012	31.12.2011
Loans and advances	49,090	54,736
Public sector loans	19,139	21,725
Real estate loans	29,919	32,984
Other loans and advances	32	27
Investments	500	500
Total	49,590	55,236

Loans and advances to customers, broken down by maturities

in € million	31.12.2012	31.12.2011
With agreed maturities	49,590	55,236
up to 3 months	4,008	3,608
from 3 months to 1 year	4,973	5,286
from 1 year to 5 years	21,595	20,326
from 5 years and over	19,014	26,016
Total	49,590	55,236

46 Allowances for Losses on Loans and Advances

Breakdown

in € million	31.12.2012	31.12.2011
Individual allowances for losses on loans and advances to other banks	—	17
Individual allowances for losses on loans and advances to customers	283	396
Portfolio-based allowances	42	64
Total	325	477

Development

in € million	Individual allowances	Portfolio-based allowances	Total
Balance at 1.1.2011	460	101	561
Changes affecting income	12	-23	-11
Gross additions	54	14	68
Releases	-33	-37	-70
Increase of the present value due to passage of time (unwinding)	-9	—	-9
Changes not affecting income	-59	-14	-73
Use of existing loan-loss allowances	-87	-14	-101
Effects of currency translations and other changes not affecting income	28	—	28
Balance at 31.12.2011	413	64	477
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

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

47 Financial Investments

Breakdown

in € million	31.12.2012	31.12.2011
AfS financial investments	3,920	3,916
Shares in non-consolidated subsidiaries	1	1
Debt securities and other fixed-income securities	3,917	3,913
Equity securities and other variable-yield securities	2	2
dFVTPL financial investments	83	148
Debt securities and other fixed-income securities	83	148
LaR financial investments	21,569	24,613
Debt securities and other fixed-income securities	21,569	24,613
Total	25,572	28,677

The carrying amounts of the LaR financial investments were reduced by portfolio-based allowances amounting to € -12 million (2011: € -7 million).

pbb Group cannot determine reliably a fair value for some shares in companies for which there is no market value available and which are not fully consolidated or are not accounted for using the equity method due to considerations of materiality or due to a missing control respectively a missing significant influence. These companies in the legal form of limited or private are not traded in an active market. Therefore, the investments are measured at cost. The carrying amount of these financial investments amounted to € 1 million as of 31 December 2012 (2011: € 2 million). In financial year 2012, financial investments, for which it is not possible for the fair value to be reliably established, were derecognised for € 1 million (2011: € 1 million). This resulted in a profit of less than € 1 million.

Financial investments, broken down by maturities

in € million	31.12.2012	31.12.2011
Unspecified terms	3	3
With agreed maturities	25,569	28,674
Up to 3 months	3,131	1,654
From 3 months to 1 year	1,507	1,500
From 1 year to 5 years	8,121	10,987
From 5 years and over	12,810	14,533
Total	25,572	28,677

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 reclas-sification 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 which had met the definition of 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 category available-for-sale of € 20.7 billion respectively € 9.5 billion (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 € 9.5 billion (2011: € 8.7 billion) became due.

In the financial year 2012 securities with a reclassified carrying amount of € 0.1 billion (2011: € 0.1 billion) were sold. Thereby a net profit of € 6 million (2011: € 6 million) was realised.

The reclassification of AfS assets did not cause a disclosure change of current interest income. Interest income is still shown under net interest income and similar income.

The following tables summarise the carrying amounts and fair values as of 31 December 2012 and 31 December 2011 as well as fair value gains and losses that would have been recognised in 2012 and 2011 if the financial assets had not been reclassified.

Reclassifications 2012	into: Financial investment loans and receivables (LaR)				
		31.12.2012		Effect in reporting period if no assets would have been reclassified (1.1.–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

Reclassifications 2011	into: Financial investment loans and receivables (LaR)				
		31.12.2011		Effect in reporting period if no assets would have been reclassified (1.1.–31.12.2011)	
	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	12.1	11.3	8	-309

48 Property, Plant and Equipment

Breakdown

in € million	31.12.2012	31.12.2011
Plant and operating equipment	2	3
Total	2	3

Development of property, plant and equipment

in € million	2012	2011
Plant and operating equipment		
Acquisition/production costs		
Balance at 1.1.	19	21
Changes in the group of consolidated companies	—	—
Changes from foreign currency translation	—	—
Additions	—	—
Reclassifications	—	—
Disposals	-1	-2
Balance at 31.12.	18	19
Depreciation and write-ups		
Balance at 1.1.	16	16
Changes in the group of consolidated companies	—	—
Changes from foreign currency translation	—	—
Depreciation	1	2
Impairment losses	—	—
Write-ups	—	—
Reclassifications	—	—
Disposals	-1	-2
Balance at 31.12.	16	16
Carrying amounts		
Balance at 31.12.	2	3

49 Intangible Assets

Breakdown

in € million	31.12.2012	31.12.2011
Software acquired	4	6
Internally generated software	34	21
Other intangible assets	1	8
Total	39	35

Development of intangible assets

	2012				2011
in € million	Software acquired	Internally generated software	Other intangible assets	Total	Total
Acquisition/production costs					
Balance at 1.1.	74	36	8	118	108
Changes in the group of consolidated companies	—	—	—	—	—
Changes from foreign currency translation	—	—	—	—	—
Additions	2	16	—	18	15
Reclassifications	—	7	-7	—	—
Disposals	—	-8	—	-8	-5
Balance at 31.12.	76	51	1	128	118
Amortisation and write-ups					
Balance at 1.1.	68	15	—	83	76
Changes in the group of consolidated companies	—	—	—	—	—
Changes from foreign currency translation	—	—	—	—	—
Amortisation	4	8	—	12	11
Impairment losses	—	—	—	—	—
Write-ups	—	—	—	—	—
Reclassifications	—	—	—	—	—
Disposals	—	-6	—	-6	-4
Balance at 31.12.	72	17	—	89	83
Carrying amounts					
Balance at 31.12.	4	34	1	39	35

50 Other Assets

Other assets

in € million	31.12.2012	31.12.2011
Positive fair values from derivative financial instruments	6,821	5,714
Hedging derivatives	6,821	5,714
Fair value hedge	5,819	4,800
Cash flow hedge	1,002	914
Salvage acquisitions	176	90
Other assets	238	254
Total	7,235	6,058

pbb Group acquired a salvage acquisition for € 102 million in Japan on 31 August 2012. The carrying amount of the salvage acquisition was € 89 million as at balance sheet date.

51 Income Tax Assets

Income tax assets

in € million	31.12.2012	31.12.2011
Current tax assets	53	55
Deferred tax assets	1,633	1,419
Total	1,686	1,474

The income tax assets item contains both reimbursement claims from actual taxes as well as a considerable element of deferred tax claims. These are attributable to capitalised temporary tax claims in connection with tax losses carried forward as well as other temporary tax claims. A considerable proportion of deferred tax assets were credited pursuant to IAS 12.61 of AfS and cash flow hedge reserve, because the underlying assets were also posted under these items. The actual tax claims also include the capitalised claim for payment of the corporate income tax credit.

52 Subordinated Assets

The balance sheet items does not contain subordinated assets.

53 Repurchase Agreements

As a pledgor of genuine repurchase agreements, pbb Group has pledged assets with a book value of € 0.5 billion (2011: € 2.3 billion). The securities are still recognised as assets. The considerations which have been received amount to € 0.4 billion (2011: € 2.2 billion) and are recognised as liabilities and thereof mainly as liabilities to other banks. Assets in repurchase agreements are the only transferable assets the acquirer can sell or repledge in the absence of default according to IAS 39.37(a).

54 Securitisation

As of 31 December 2012 pbb Group has the synthetic securitisation Estate UK-3 with a transaction period of 15 years (maturity 2022) and a total volume of lending of € 449 million (2011: € 460 million) in the portfolio. The issuer of the transaction with commercial mortgage loans is pbb. The securitisation programme contains a first-loss piece totalling € 17 million (2011: € 18 million). Thereof risks are neither held by interest sub-participations nor by purchase of own junior tranches. Overall a reduction of expected loss according to Basel II of € 120 million (2011: € 118 million) was achieved.

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

55 Liabilities to Other Banks

Liabilities to other banks, broken down by maturities

in € million	31.12.2012	31.12.2011
Repayable on demand	2,058	2,007
With agreed maturities	5,739	6,216
Up to 3 months	378	2,435
From 3 months to 1 year	311	786
From 1 year to 5 years	4,572	2,750
From 5 years and over	478	245
Total	7,797	8,223

56 Liabilities to Customers

Liabilities to customers, broken down by maturities

in € million	31.12.2012	31.12.2011
Repayable on demand	962	841
With agreed maturities	10,933	11,522
Up to 3 months	736	675
From 3 months to 1 year	1,340	1,003
From 1 year to 5 years	5,910	5,526
From 5 years and over	2,947	4,318
Total	11,895	12,363

57 Liabilities Evidenced by Certificates

Liabilities evidenced by certificates, broken down by type of business

in € million	31.12.2012	31.12.2011
Debt securities issued	28,761	31,634
Mortgage bonds	7,681	6,984
Public sector bonds	17,160	21,290
Other debt securities	3,414	3,246
Money market securities	506	114
Registered notes issued	23,789	23,404
Mortgage bonds	6,783	6,768
Public sector bonds	15,711	15,527
Other debt securities	1,295	1,109
Total	52,550	55,038

Liabilities evidenced by certificates, broken down by maturities

in € million	31.12.2012	31.12.2011
With agreed maturities		
Up to 3 months	6,202	4,266
From 3 months to 1 year	4,125	4,767
From 1 year to 5 years	17,874	20,980
From 5 years and over	24,349	25,025
Total	52,550	55,038

58 Trading Liabilities

Trading liabilities

in € million	31.12.2012	31.12.2011
Negative fair values from derivative financial instruments	3,192	9,903
Total	3,192	9,903

59 Provisions

Breakdown

in € million	31.12.2012	31.12.2011
Provisions for pension and similar obligations	—	2
Restructuring provisions	71	68
Provisions for contingent liabilities and other commitments	17	20
Other provisions	76	73
thereof:		
Long-term liabilities to employees	3	3
Total	164	163

Provisions for pensions and similar obligations include in-house employer's pension direct commitments for Company pensions payable to executive bodies and employees of pbb Group.

For the multitude of employees in Germany there are both existing defined benefit plans as well as defined contribution plans. In the defined contribution plans, Group companies make payments for commitments by industry-wide organisations, for instance in Germany the BVV and HVB benefit funds. In the case of defined benefit plans, the employees receive a direct commitment from their respective company. In the case of active employees there are predominantly modern modular pension plans. Pension provisions are created for obligations arising from direct commitments. The defined benefit pension plans have been principally closed.

Non-German Group entities only have defined contribution plans. For almost all international entities, a defined percentage of fixed salary is paid into externally managed pension funds for employees as a part of defined contribution pension schemes. Expenses in respect of contribution-based plans amounted to € 5 million (2011: € 3 million). The expectations for 2013 are in the same range. The employer's contribution for the statutory pension insurance amounted to € 8 million in the year 2012 (2011: € 7 million).

Discount rates and valuation parameters

in %	31.12.2012/ 1.1.2013	31.12.2011/ 1.1.2012
Discount rate	3.25	4.75
Expected return from plan assets	4.00[1)]	4.25
Rate of increase in pension obligations	2.00	2.00
Rate of increase in future compensation and vested rights	2.50	2.50
Rate of increase over career	0 -1.50	0 -1.50

1) For periods beginning on or after 1 January 2013 IAS 19 (revised 2011) will have to be applied. As per this standard the net interest method is relevant.

The rate of increase over career amounts for members of the Management Board 0.0% (2011: 0.0%), for directors and non-pay-scale staff 1.5% (2011: 1.5%) and for pay-scale staff 0.5% (2011: 0.5%). The guidance tables 2005 G from Klaus Heubeck were used as the biometric basis.

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. The expected return of the plan assets has been calculated by the expected return including profit participation of the insurer.

The reinsurance is a plan asset in accordance with IAS 19. In accordance with IAS 19.54, the pension obligations have to be reduced by the extent of the plan assets. Accordingly, the funding is as follows:

Funding status

in € million	31.12.2012	31.12.2011	31.12.2010	31.12.2009	31.12.2008
Present value of partly funded pension obligations	261	215	217	204	143
Fair value of plan assets	-197	-199	-198	-198	-195
Funding status	64	16	19	6	-52
Outstanding actuarial profit (+)/loss (-)	-64	-14	-14	-1	—
Outstanding past service cost	—	—	—	—	—
Net of balance sheet value	—	2	5	5	-52
thereof:					
Capitalised excess cover of plan assets	—	—	—	—	52
Pensions provisions recognised	—	2	5	5	—

The 10% corridor of the higher amount originating from the present value of the pension claims vested and the fair value of plan assets was exceeded as of 31 December 2012. For periods beginning on or after 1 January 2013 IAS 19 (revised 2011) will hereto be applied. As per this standard the corridor method is not allowed anymore. Instead, actuarial gains and losses have to be shown in equity. Movements in pension obligations are shown below:

Development of pension obligations

in € million	2012	2011
Balance at 1.1.	215	217
Changes in the group of consolidated companies	—	—
Transfer of staff	—	—
Pensions claims vested	1	1
Interest expense	10	9
Actuarial profit (-)/loss (+)	49	—
Payments to beneficiaries	-14	-12
Balance at 31.12.	261	215

The new arisen actuarial loss in 2013 is mainly due to the reduction in the discount rate which, in accordance with IAS 19, has to be linked to the long-term rate for prime fixed-income corporate bonds.

The experience-based adjustment of pension claims (profit (-)/loss (+)) amounts on 31 December 2012 to 1% (2011: 0%; 2010: 0%; 2009: -2%, 2008: 0%) of the corres-ponding present value of pension claims vested.

Pension expenses are broken down as follows:

Breakdown of pension expenses

in € million	2012	2011
Present value of pension claims vested	1	1
Interest expense	10	9
Expected return from plan assets	-8	-8
Past service cost	—	—
Actuarial losses recognised as expense	—	—
Total	3	2

Plan assets consist exclusively of reinsurance pledged to the plan beneficiaries. The plan assets accordingly do not contain any own financial instruments or any owner-operated property, plant and equipment which is used. For 2013 there are no contributions to plan assets expected. Developments in plan assets are as follows:

Development of plan assets

in € million	2012	2011
Balance at 1.1.	199	198
Changes in the group of consolidated companies	—	—
Transfer of staff	—	—
Expected return from plan assets	8	8
Outstanding actuarial profit (+)/loss (-)	-1	—
Payments to beneficiaries	-9	-7
Balance at 31.12.	197	199

The actual return from the plan assets amounts to € 7 million (2011: € 8 million) in the reporting period.

Development of provisions
(without provisions for pension and similar obligations)

in € million	Restructuring provisions	Provisions for contingent liabilities and other commitments	Other provisions
Balance at 1.1.2011	83	34	54
Additions	2	3	62
Reversals	-9	-11	-11
Increase of the present value due to passage of time (unwinding)	2	—	—
Amounts used	-11	-6	-25
Reclassifications	1	—	-7
Balance at 31.12.2011	68	20	73
Balance at 1.1.2012	68	20	73
Additions	11	11	47
Reversals	-5	-8	-15
Increase of the present value due to passage of time (unwinding)	4	—	1
Amounts used	-7	-5	-31
Reclassifications	—	-1	1
Balance at 31.12.2012	71	17	76

On 19 December 2008 the Management Board and Supervisory Board of pbb Group decided upon the strategic realignment and restructuring of the Group. A restructuring provision amounting to € 120 million was created for obligations relating to the strategic realignment and restructuring in the fourth quarter 2008. In the financial year 2012 € 7 million (2011: € 11 million) were used of this provision. The restructuring provision will probably be completely utilised by the year 2024.

The target structure of the pbb Group was further specified in the fourth quarter of 2012 as part of the strategic refocusing process. Necessary measures, such as termination of servicing for FMS Wertmanagement, the organisational segregation from the affiliated DEPFA Group and European focusing will result in a lower personnel requirement. The employees' representatives and employees themselves have been notified of the planned measures in Company meetings. A new social plan package has been agreed with the employees' representatives. The adjustment to the personnel requirement planned in future has resulted in the need for a figure of € 11 million to be added to the restructuring provision.

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

The other provisions comprise provisions for litigation costs amounting to € 11 million (2011: € 12 million), provisions in connection with town planning agreements of € 9 million (2011: € 9 million) and provisions for long-term liabilities with regard to employees of € 3 million (2011: € 3 million). Additionally, in connection with the transfer of positions to FMS Wertmanagement provisions amounting to € 2 million (2011: € 8 million) are included in other provisions.

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 certain codes of conduct for avoiding conflicts of interest, combating money laundering, preventing the financing of terrorism, preventing criminal actions 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 proceedings in which the amount of claims of persons who are enforcing corresponding claims is not quantified. pbb Group creates provisions for the uncertain liabilities 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 on the outcome of the proceedings. The assessment of the probability and quantification of the uncertain liability mainly depends on assessments. The actual liability may differ considerably from this original assessment. With regard to the accounting treatment of the individual cases, pbb Group analyses the developments of the individual proceedings as well as of comparable proceedings and, depending on the significance and difficulty of the specific case, relies on its own expertise or appraisals of external advisors, and in particular legal advisors.

As contractually agreed, pbb has received compensation of € 6 million for a completely repaid French financing arrangement. The customer has instituted legal proceedings before the commercial court of Paris for repayment of the fee, which is alleged to be unreasonable.

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.

None of the other pending proceedings has a quantified value in dispute of more than € 5 million, or is otherwise of material significance for pbb Group.

60 Other Liabilities

Other liabilities

in € million	31.12.2012	31.12.2011
Negative fair values from derivative financial instruments	6,230	5,829
Hedging derivatives	6,227	5,812
Fair value hedge	5,515	5,046
Cash flow hedge	712	766
Derivatives hedging dFVTPL financial instruments	3	17
Other liabilities	8,208	10,294
Total	14,438	16,123

The largest single item of other liabilities is a liability to FMS Wertmanagement as compensation for assets which were not transferred for legal reasons. Other liabilities include amongst others liabilities from the offsetting of results and also accruals pursuant to IAS 37. Accruals in particular include accounts payable in respect of invoices still outstanding, short-term liabilities to employees and other accruals in respect of commission, interest, operating expenses, etc.

61 Income Tax Liabilities

Income tax liabilities

in € million	31.12.2012	31.12.2011
Current tax liabilities	64	82
Deferred tax liabilities	1,634	1,291
Total	1,698	1,373

Income tax liabilities include both provisions and liabilities from current taxes as well as deferred tax liabilities. A significant proportion of deferred tax liabilities were netted against AfS reserve or cash flow hedge reserve.

62 Subordinated Capital

Breakdown

in € million	31.12.2012	31.12.2011
Subordinated liabilities	1,689	2,208
Participating certificates outstanding	—	6
Hybrid capital instruments	304	287
Total	1,993	2,501

With all subordinated liabilities, there can be no early repayment obligation on the part of the issuer. In the event of bankruptcy or liqu idation, such liabilities may only be repaid after all non-subordinated creditors have been satisfied.

Subordinated capital, broken down by maturities

in € million	31.12.2012	31.12.2011
With agreed maturities		
Up to 3 months	89	99
From 3 months to 1 year	502	416
From 1 year to 5 years	430	947
From 5 years and over	972	1,039
Total	1,993	2,501

The appreciation of some instruments of subordinated capital led to an expense of € -17 million in the year 2012 (2011: € -17 million).

Participating Certificates Outstanding Issued participatory capital comprises the following issues:

Participating certificates outstanding

in € million	Year of issue	Type	Nominal amount in € million	Interest rate in %	Maturity
pbb	1989	Registered participation certificate	10	8.000	2014

The participating certificates which matured on 31 December 2012 were disclosed in other liabilities.

The interest claim is reduced to the extent that a pay-out would result in an annual balance sheet loss for the year. Holders of participating certificates outstanding principally participate in any net loss or balance sheet loss for the year through a reduction in their repayment entitlements.

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

63 Equity

Subscribed capital equals the maximum liability of the shareholder for the liabilities of the corporation to its creditors. Additional paid-in capital includes premiums from the issue of shares and the contribution of Finanzmarktstabilisierungsfonds-FMS to reserves. Retained earnings were generally created only from net income of the current financial year or previous periods. This includes legal reserves to be created from net income and other retained earnings.

The subscribed capital as of 31 December 2012 and during the entire financial year 2012 amounts to € 380,376,059.67 which is divided into 134,475,308 ordinary bearer shares in the form of no-par-value shares representing a theoretical interest in the share capital of € 2.83 per no-par-value share. HRE Holding holds 100% of the share capital of pbb. Finanzmarktstabilisierungsfonds-FMS is the only shareholder of HRE Holding. At 31 December 2012 and 31 December 2011 there was neither authorised capital nor conditional capital.

In the year 2009 Finanzmarktstabilisierungsfonds-FMS provided pbb with a silent participation of € 1.0 billion. The silent participation participates in the cumulative loss calculated in accordance with the regulations of commercial law to the same extent that the silent participation is related to the total carrying amount of all liable capital shares which participate in the cumulative loss. The total loss of the silent partner in relation to the cumulative loss under commercial law is limited to its silent contribution. The cumulative loss which is attributable to the year 2008 is not used for calculating the loss participation. At the end of the year 2012, the silent contribution was reduced by € 53 million to € 129 million (2011: by € 103 million to € 182 million) in the commercial law financial statements of pbb. pbb has a replenishment obligation.

64 Foreign-currency Assets and Liabilities

Foreign-currency assets and liabilities

in € million	31.12.2012	31.12.2011
Foreign-currency assets	9,225	19,058
thereof:		
USD	1,530	4,790
JPY	1,072	2,026
CHF	1,638	3,148
SEK	1,583	2,811
GBP	3,042	5,927
Others	360	356
Foreign-currency liabilities (excluding own funds)	9,318	18,838
thereof:		
USD	1,604	4,795
JPY	1,088	1,750
CHF	1,643	3,147
SEK	1,583	2,810
GBP	3,080	6,000
Others	320	336

65 Trust Business

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

Trust assets

in € million	31.12.2012	31.12.2011
Loans and advances to customers	3	15
Total	3	15

Trust liabilities

in € million	31.12.2012	31.12.2011
Liabilities to other banks	—	8
Liabilities to customers	3	7
Total	3	15

Notes to the Consolidated Statement of Cash Flows

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

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

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

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

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

In 2012 and 2011, no company was purchased or sold.

Notes to the Financial Instruments

67 Derivative Transactions

The following tables present the respective nominal amounts and fair values of OTC derivatives and derivatives traded on a stock exchange.

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

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

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

Volume of derivatives at 31 December 2012

	Nominal amount				Fair value	
	Remaining maturities					
in € million	Less than 1 year	1 to 5 years	More than 5 years	Total	positive	negative
Interest-based transactions						
OTC products	20,452	51,772	48,664	120,888	10,026	9,325
Interest rate swaps	18,691	48,893	48,648	116,232	10,012	9,308
Interest rate options	1,761	2,879	23	4,663	14	17
Call options	872	1,392	6	2,270	14	—
Put options	889	1,487	17	2,393	—	17
Total	20,452	51,772	48,671	120,895	10,026	9,325
Foreign-currency-based transactions						
OTC products	4,968	479	607	6,054	120	97
Spot and forward currency transactions	4,838	38	—	4,876	23	24
Interest rate/currency swaps	130	441	607	1,178	97	73
Exchange-traded products	—	—	—	—	—	—
Currency options	—	—	—	—	—	—
Total	4,968	479	607	6,054	120	97
Total	25,420	52,251	49,278	126,949	10,146	9,422

Use made of derivative transactions at 31 December 2012

		Fair value	
in € million	Nominal amount	positive	negative
Interest-based transactions			
Fair value hedge accounting	61,019	5,819	5,515
Cash flow hedge accounting	11,017	919	654
Derivatives hedging dFVTPL financial instruments	80	—	3
Stand-alone derivatives	48,779	3,288	3,153
Total	120,895	10,026	9,325

in € million	Nominal amount	Fair value positive	Fair value negative
Foreign-currency-based transactions			
Fair value hedge accounting	—	—	—
Cash flow hedge accounting	667	83	58
Stand-alone derivatives	5,387	37	39
Total	6,054	120	97
Total	126,949	10,146	9,422

Volume of derivatives at 31 December 2011

in € million	Nominal amount – Remaining maturities: Less than 1 year	1 to 5 years	More than 5 years	Total	Fair value positive	Fair value negative
Interest-based transactions						
OTC products	43,352	117,814	85,364	246,530	15,135	15,180
Interest rate swaps	41,167	114,471	85,339	240,977	15,115	15,138
Interest rate options	2,185	3,343	25	5,553	20	42
Call options	1,009	1,621	7	2,637	20	—
Put options	1,176	1,722	18	2,916	—	42
Total	43,352	117,814	85,364	246,530	15,135	15,180
Foreign-currency-based transactions						
OTC products	7,861	5,619	1,377	14,857	395	548
Spot and forward currency transactions	6,110	198	—	6,308	34	190
Interest rate/currency swaps	1,751	5,421	1,377	8,549	361	358
Exchange-traded products	—	26	—	26	2	2
Currency options	—	26	—	26	2	2
Total	7,861	5,645	1,377	14,883	397	550
Total	51,213	123,459	86,741	261,413	15,532	15,730

Use made of derivative transactions at 31 December 2011

in € million	Nominal amount	Fair value positive	Fair value negative
Interest-based transactions			
Fair value hedge accounting	67,366	4,798	5,033
Cash flow hedge accounting	13,322	808	674
Derivatives hedging dFVTPL financial instruments	185	—	17
Stand-alone derivatives	165,657	9,529	9,456
Total	246,530	15,135	15,180
Foreign-currency-based transactions			
Fair value hedge accounting	72	2	13
Cash flow hedge accounting	867	106	92
Stand-alone derivatives	13,944	289	445
Total	14,883	397	550
Total	261,413	15,532	15,730

Counterparties

in € million	31.12.2012 Fair value positive	31.12.2012 Fair value negative	31.12.2011 Fair value positive	31.12.2011 Fair value negative
OECD banks	8,121	8,800	9,707	12,000
OECD financial institutions	1,090	572	5,256	3,679
Other companies and private individuals	935	50	569	51
Total	10,146	9,422	15,532	15,730

68 Cash Flow Hedge Accounting

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

Cash flow hedge: periods of hedged items when cash flows are expected to occur

in € million	31.12.2012	31.12.2011
Up to 1 month	—	5
From 1 month to 3 months	—	6
From 3 months to 1 year	2	12
From 1 year to 2 years	-3	21
From 2 years to 5 years	13	66
From 5 years and over	312	173
Total	324	283

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

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

69 Undiscounted Cash Flows of Financial Liabilities

The contractual undiscounted cash flows from derivative and non-derivative financial instruments of the financial liabilities according to IFRS 7.39 are split up into the following remaining maturities:

Contractual undiscounted cash flows of the financial liabilities according to IFRS 7.39

in € billion	31.12.2012	31.12.2011
Up to 3 months	8	9
From derivative financial instruments	1	1
From non-derivative financial instruments	7	8
From 3 months to 1 year	9	12
From derivative financial instruments	1	2
From non-derivative financial instruments	8	10
From 1 year to 5 years	38	45
From derivative financial instruments	4	8
From non-derivative financial instruments	34	37
From 5 years and over	46	54
From derivative financial instruments	4	5
From non-derivative financial instruments	42	49

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

70 Assets Assigned or Pledged as Collateral for Own Liabilities

The following assets and received collaterals were assigned or pledged as collateral:

Liabilities

in € million	31.12.2012	31.12.2011
Liabilities to other banks	4,474	4,283
Total	4,474	4,283

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

Assets pledged

in € million	31.12.2012	31.12.2011
Loans and advances to customers	232	517
Financial investments	5,775	6,433
Total	6,007	6,950

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

71 Collaterals Permitted to Resell or Repledge

As of 31 December 2012 and as of 31 December 2011 there were no collaterals that may be resold or repledged in the absence of default.

72 Transfer of Financial Assets

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

However, the transferring party could retain a continuing involvement in derecognised assets. Normal representations and warranties in connection with the transfer, e.g. relating to fraud, good faith and fair dealings, do not represent a continuing involvement. pbb Group has no continuing involvement in transferred and derecognised financial assets, but renders the servicing for FMS Wertmanagement against compensation on an arm's-length basis. The transfer of the position is disclosed in the note Transfer of Positions to FMS Wertmanagement; the impacts of the transfer is disclosed in the note Relationship With Related Parties.

73 Fair Values of Financial Instruments

The recognised fair values of financial instruments according to IFRS 7 correspond to the amounts at which, in the opinion of pbb Group, an asset could be exchanged on the balance sheet date between willing, competent business partners or the amount at which a liability could be settled between such business partners. The fair values were determined as of the balance sheet date based on the market information available and on valuation methods described in the note Financial Instruments.

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 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	—	—
Hedging 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
Hedging 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

Fair value hierarchy at 31 December 2011

in € million	Total	Level 1	Level 2	Level 3
Assets				
Financial assets at fair value through profit or loss	14,766	148	14,569	49
Trading assets	9,818	—	9,818	—
dFVTPL financial investments	148	148	—	—
Hedging derivatives	4,800	—	4,751	49
Financial assets at fair value not affecting profit or loss	4,829	3,915	912	2
AfS financial investments[1)]	3,915	3,915	—	—
Cash flow hedge derivatives	914	—	912	2
Total	19,595	4,063	15,481	51
Liabilities				
Financial liabilities at fair value through profit or loss	14,966	—	14,947	19
Trading liabilities	9,903	—	9,902	1
Hedging derivatives	5,046	—	5,028	18
Derivatives hedging dFVTPL financial instruments	17	—	17	—
Financial liabilities at fair value not affecting profit or loss	766	—	766	—
Cash flow hedge derivatives	766	—	766	—
Total	15,732	—	15,713	19

1) Excluding shares in non-consolidated subsidiaries

In the current reporting period, for several financial instruments quoted prices on active markets were no longer available due to changes in the market conditions. Nevertheless, the fair values of these financial instruments could be determined based on input data observable on the market. Hence, financial assets with a fair value of € 1 million were reclassified from level 2 into level 3 of the fair value hierarchy. In the financial year 2012, there have been neither reclassifications from level 1 into level 2, nor reclassifications from level 2 in level 1.

The following tables present the changes in level 3 instruments for the financial years 2011 and 2012:

Changes in level 3 financial assets

	Financial assets at fair value through profit or loss		Financial assets at fair value not affecting profit or loss	
in € million	Trading assets	Hedging derivatives	Cash flow hedge derivatives	Total
Balance at 1.1.2011	8	18	33	59
Comprehensive income				
Income statement	—	-3	—	-3
Revaluation reserve	—	—	—	—
Purchases	—	32	—	32
Sales	—	—	-33	-33
Changes due to transfer to FMS Wertmanagement	—	—	—	—
Issues	—	—	—	—
Settlements	—	—	—	—
Transfers into Level 3	—	2	2	4
Transfers out of Level 3	-8	—	—	-8
Balance at 31.12.2011	—	49	2	51
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

Changes in level 3 financial liabilities

in € million	Financial liabilities at fair value through profit or loss		Financial liabilities at fair value not affecting profit or loss	Total
	Trading liabilities	Hedging derivatives	Cash flow hedge derivatives	
Balance at 1.1.2011	-253	-7	—	-260
Comprehensive income				
Income statement	28	-11	—	17
Revaluation reserve	—	—	—	—
Purchases	—	—	—	—
Sales	216	—	—	216
Issues	—	—	—	—
Settlements	8	—	—	8
Transfers into Level 3	—	—	—	—
Transfers out of Level 3	—	—	—	—
Balance at 31.12.2011	-1	-18	—	-19
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

Of the total gains or losses for the year 2012 recognised in profit or loss amounting to € 42 million relates to assets and liabilities, which were classified in level 3 on balance sheet date and which were measured at fair value. Gains from assets at fair value through profit or loss of € 32 million are included in net income from hedge relationships (€ 30 million). The changes recognised in equity (cash flow hedge reserve) mainly relate (€ 2 million) to cash flow hedge derivatives held in the balance sheet date. Gains from liabilities at fair value through profit or loss of € 9 million are included in net income from hedge relationships.

In the years 2012 and 2011, pbb Group did not reclassify any financial liabilities from level 2 into level 3.

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

Sensitivities of level 3 instruments at 31 December 2012

in € million	Favourable changes	Unfavourable changes
Assets		
Financial assets at fair value through profit or loss		
Hedging derivatives	5.2	-4.5
Total	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

Sensitivities of level 3 instruments at 31 December 2011

in € million	Favourable changes	Unfavourable changes
Assets		
Financial assets at fair value through profit or loss		
Hedging derivatives	2.3	-2.2
Total	2.3	-2.2
Liabilities		
Financial liabilities at fair value through profit or loss		
Trading liabilities	0.1	-0.1
Hedging derivatives	6.5	-5.0
Total	6.6	-5.1

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.

In the following the measurement methods on the level of product classes are described in detail:

The fair values of certain financial instruments reported at notional values are almost identical to their carrying amounts. These include, for example, cash reserve, loans and advances and liabilities without fixed interest rates or maturity respectively mature in the short term. For these financial instruments the carrying amount is used for fair value measurement because the difference is not material.

Quoted market prices are applied for market securities and derivatives as well as for quoted debt instruments. The fair value of the original debt instruments for which no active market price is available is determined as the present value for future expected cash flows on the basis of related benchmark interest curves and credit spreads. In specific terms, this means that the credit spread is calculated for a comparable instrument with a price from an active market, and is then used together with the standard rate curve of the respective currency for discounting the cash flows of the illiquid instrument. The rate curve and the prices for liquid instruments are derived from standard providers.

The fair value of interest and currency interest swap agreements and also interest rate futures are determined on the basis of discounted future expected cash flows. The market interest rates applicable for the remaining maturity of the financial instruments are used for the purpose of the calculation. The fair value of forward exchange transactions is determined on the basis of current forward rates. Options are valued using exchange rate quotations or recognised models for determining option prices. For simple European options, the current Black-Scholes models (currency and index instruments) or lognormal models (interest instruments) are used as the valuation models. In the case of more exotic instruments, the interest rates are simulated via one- and multidimensional term structure models with use of the current interest rate structure as well as caps or swaption volatilities as parameters relevant for valuation purposes. One- and multifactor models are used for interest-currency products.

A hazard rate model which corresponds to the market standard is used for credit derivatives such as credit default swaps. The model uses the standard rate curve for the respective currency as well as the CDS spreads and recovery rates of the respective issuer. The input data are used for deriving probabilities of default and probabilities of survival, which in turn are used for measuring the cash flows.

Gaussian copula models which are usual in the market and appropriate adjustments thereof are used for determining fair values for structured credit products. In parallel the expected loss of the respected papers was calculated on the basis of the underlyings and the subordination. A detailed separate credit analysis was performed for the tranches being held in case of significant expected losses.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably determined are measured at cost according to IAS 39.46.

In the financial year 2012, the market interest rates in the short- and medium-term scope decreased strongly and in the long-term scope it decreased moderately. The cause is attributable to the monetary policy of the ECB, that's target it was to reduce the refinancing of states in the sovereign debt crisis. These included mainly providing high cash position and the repurchase of government bonds. As a consequence, credit spreads narrowed sharply within the euro countries in the course of the year. These factors have had the following impact on the fair market values of the financial instruments of pbb Group:

Fair values of financial instruments

	31.12.2012		31.12.2011	
in € million	Carrying amounts	Fair value	Carrying amounts	Fair value
Assets	94,915	94,221	106,923	105,244
Cash reserve	1,937	1,937	323	323
Trading assets (HfT)	3,325	3,325	9,818	9,818
Loans and advances to other banks[1)]	7,995	7,817	7,615	7,386
Category LaR	7,995	7,817	7,615	7,386
Loans and advances to customers[1)]	49,265	50,143	54,776	55,158
Category LaR	49,265	50,143	54,776	55,158
Financial investments	25,572	24,178	28,677	26,845
Category AfS	3,920	3,920	3,916	3,916
Category dFVTPL	83	83	148	148
Category LaR	21,569	20,175	24,613	22,781
Other assets	6,821	6,821	5,714	5,714
thereof:				
Hedging derivatives	6,821	6,821	5,714	5,714
Liabilities	91,615	91,688	103,758	103,183
Liabilities to other banks	7,797	7,809	8,223	8,224
Liabilities to customers	11,895	12,159	12,363	12,504
Liabilities evidenced by certificates	52,550	52,487	55,038	54,159
Trading liabilities (HfT)	3,192	3,192	9,903	9,903
Other liabilities	14,188	14,194	15,730	15,794
thereof:				
Hedging derivatives	6,227	6,227	5,812	5,812
Derivatives hedging dFVTPL financial instruments	3	3	17	17
Subordinated capital	1,993	1,847	2,501	2,599
Other items	1,110	1,004	1,175	1,094
Contingent liabilities	75	75	38	38
Irrevocable loan commitments	1,035	929	1,137	1,056

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 € 6 million (2011: € 64 million) higher than the carrying amounts.

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

Asset and liabilities according to measurement categories and classes in accordance with IAS 39

in € million	31.12.2012	31.12.2011
Assets	94,915	106,923
Loans and receivables (LaR)	78,829	87,004
Available for sale (AfS)	3,920	3,916
Held for trading (HfT)	3,325	9,818
dFVTPL assets (dFVTPL)	83	148
Cash reserve	1,937	323
Positive fair values from hedging derivatives	6,821	5,714
Liabilities	91,615	103,758
Held for trading (HfT)	3,192	9,903
Financial liabilities at amortised cost	82,193	88,026
Negative fair values from hedging derivatives	6,230	5,829

74 Exposure to Selected European Countries

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	Total	Nominal amount	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
		dFVTPL	—	—	—	—	—	—	—
	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
Hungary	Sovereign	LaR	—	—	258	131	389	335	336

Exposure to selected European countries as of 31 December 2011

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	Total	Nominal amount	Fair value
Italy	Sovereign	LaR	798	817	101	146	1,862	1,788	1,754
		AfS	—	—	—	1,021	1,021	1,060	1,021
	Sub-sovereign	LaR	11	—	47	1,212	1,270	1,222	1,045
	State-guaranteed	LaR	—	—	—	768	768	667	677
Portugal	Sovereign	LaR	50	—	47	—	97	86	86
		AfS	—	—	16	79	95	165	95
		dFVTPL	—	—	17	45	62	105	62
	Sub-sovereign	LaR	—	—	187	245	432	430	218
	State-guaranteed	LaR	—	—	360	470	830	806	488
Spain	Sub-sovereign	LaR	—	345	683	1,318	2,346	2,155	2,011
		HfT	—	—	—	2	2	35	2
	State-guaranteed	LaR	—	—	260	180	440	422	411
Hungary	Sovereign	LaR	—	—	117	266	383	334	287

As of 31 December 2012 and as of 31 December 2011 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 31 December 2012 and as of 31 December 2011 pbb Group did not have any credit default swaps whose underlyings are linked to sovereigns, sub-sovereigns and state-guaranteed exposures of the countries shown above.

For the total exposure as of 31 December 2012 and as of 31 December 2011 the exposure at default according to regions is disclosed in the risk and opportunities 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 per 31 December 2012 and as of 31 December 2011 there was no such objective evidence.

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

75 Past Due but Not Impaired Assets

The following table shows the total portfolio of the partly or completely past due but not impaired loans and advances as of 31 December 2012 and as of 31 December 2011. However, no individual allowances were made for these assets respectively the collaterals underlying these assets as pbb Group does not consider that there is any issue regarding their recoverability. Such timing issues in receipts of payments due occur regularly (up to three months) in the normal course of business and do not, by themselves, impair the quality of the asset.

LaR Assets

LaR assets: past due but not impaired (total investments)

in € million	31.12.2012	31.12.2011
Up to 3 months	665	331
From 3 months to 6 months	71	25
From 6 months to 1 year	67	61
From 1 year and over	75	18
Total	878	435

Carrying amounts LaR assets

in € billion	31.12.2012	31.12.2011
Carrying amount of LaR assets that are neither impaired nor past due	77.6	86.3
Carrying amount of LaR assets that are past due but not impaired (total investment)	0.9	0.4
Carrying amount of individually assessed impaired LaR assets (net)	0.6	0.7
Balance of portfolio-based allowances	0.1	0.1
Total	79.2	87.5
thereof:		
Loans and advances to other banks (including investments)	8.0	7.7
Loans and advances to customers (including investments)	49.6	55.2
Financial investments (gross)	21.6	24.6

The carrying amount of assets that would otherwise be past due or impaired and whose terms have been renegotiated amounts to € 90 million (2011: € 77 million).

The fair value of collaterals for the impaired financial assets amounts to approximately € 0.6 billion (2011: € 0.7 billion). The collaterals mainly consist of land charges.

AfS Assets As of 31 December 2012 and as of 31 December 2011 pbb Group has neither past due and not impaired nor impaired AfS financial investments in the portfolio.

Other Notes

76 Contingent Liabilities and Other Commitments

Contingent liabilities and other commitments

in € million	31.12.2012	31.12.2011
Contingent liabilities	75	38
Guarantees and indemnity agreements	75	38
Loan guarantees	4	6
Performance guarantees and indemnities	71	32
Other commitments	1,035	1,137
Irrevocable loan commitments	1,035	1,137
Book credits	102	73
Guarantees	31	51
Mortgage and public sector loans	902	1,013
Total	1,110	1,175

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 8 a of Finanzmarktstabilisierungsfondsgesetz pbb assumes joint and several liability for all payment obligations of its subsidiaries resulting from the transaction agreements which have been transferred as part of the process of transferring assets to FMS Wertmanagement.

The Restructuring Fund Ordinance specifies an additional charge for the so-called bank levy. The difference between the actually determined bank levy and the calculated standard amount for the years 2011 to 2019 can be subsequently charged in the following two years in each case. However, the obligation to pay the additional amount arises only if corresponding profits are generated in subsequent financial years; the amount of this payment is capped by the feasibility or charge specified in the ordinance. Whether the additional payment becomes due, and also the extent of such an additional payment, accordingly depend on profits being generated in subsequent years. The additional payment which pbb can be charged in 2013 is € 32 million. As far as can be seen at present, it is not assumed that the additional amount will be fixed in full.

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 silent participation of the Federal Republic of Germany.

pbb Group is a lessor of operating lease agreements. Non-terminable operating lease agreements for land and buildings as well as for operating and business equipment existed as of 31 December 2012. The minimum obligations arising from non-terminable leasing arrangements will result in expenses of € 14 million in 2013, € 32 million in total in the years 2014 to 2017 and € 35 million in total for 2018 and beyond. In the previous year the non-terminable operating lease agreements were as follows: for business year 2012: € 13 million, in business years 2013 to 2016 € 37 million in total and for 2017 and beyond € 41 million in total. Operating lease agreements were made on an arm's-length basis and are mainly related to the rental of land and buildings. The agreements include partial renewal options that the lease can be extended for several periods, and escalation clauses in the form of stepped rents or indexation clauses and release clauses as well.

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

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

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

The waiver regulation set out in Section 2 a 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 25 a (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.

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

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

Own funds[1)]

in € million	31.12.2012	31.12.2011
Core capital (Tier I)	2,898	2,762
Supplementary capital (Tier II)	1,179	1,383
Equity capital	4,077	4,145
Tier III capital	—	—
Total	4,077	4,145

1) Consolidated pursuant to section 10 a 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	31.12.2012	31.12.2011
Risk-weighted assets	15.3	17.0

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 per prepared annual financial statements and after result distribution

Operational risks

in € million	31.12.2012	31.12.2011
Total	86	80

Market risk positions

in € million	31.12.2012	31.12.2011
Currency risks	6	6
Interest rate risks	—	—
Total	6	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 %	31.12.2012	31.12.2011
Core capital ratio[2)]	18.9	16.3
Equity capital ratio[3)]	26.7	24.5
Own funds ratio (overall indicator)[2)]	26.6	24.4

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

78 Group Auditors' Fee

Group auditors' fee

in € thousand	2012	2011
Audit	2,948	3,549
Other assurance services	611	1,578
Tax advisory services	2	51
Other non-audit services	4,291	1,300
Total	7,852	6,478

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

79 Relationship with Related Parties

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

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

Related Entities Finanzmarktstabilisierungsfonds-FMS, a special fund of the Federal Government in accordance with Section 2 (2) FMStFG, represents the ultimate parent entity of HRE Holding and thus also of pbb. Accordingly, pbb is a government-related entity and a related party to other companies which are controlled, jointly controlled or significantly influenced by the Federal Republic of Germany. In addition to the parent entity HRE Holding and the affiliated company DEPFA FMS Wertmanagement is also controlled by the -Federal Republic of Germany and is thus a related party of pbb Group. In the year 2012, pbb Group reimbursed Finanzmarktstabilisierungsfonds-FMS expenses (excluding bank levy) of € 0 million (2011: € 4 million).

There were no loans and advances (netted by liabilities) of pbb Group to its parent company HRE Holding as of 31 December 2012 and as of 31 December 2011. As of 31 December 2012, HRE Holding held financial investments of pbb Group amounting to € 0.8 billion (2011: € 0.8 billion). The net interest income of pbb Group to HRE Holding amounted to € 12 million (2011: € - 2 million). A balance of € 2 million in other operating income/expenses (2011: € 0 million) is attributable to IT services for HRE Holding.

pbb Group had loans and advances (netted by liabilities) to its affiliated company DEPFA of € 0.2 billion as of 31 December 2012 (2011: € 0.4 billion) and subordinated liabilities of € 0.3 billion (2011: € 0.3 billion). In the financial year 2012 pbb Group realised a net interest income of € - 43 million (2011: € - 85 million) and a net commission income of € 2 million (2011: € 3 million) to DEPFA. The net income from IT services provided to DEPFA was € 40 million (2011: € 35 million).

There were no business relationships with the sister entity Hypo Real Estate Finance B.V. i.L., Amsterdam in the years 2012 and 2011. Besides, assets and liabilities had not been existed.

As of 31 December 2012, loans and advances to non-consolidated companies amounted to € 1 million (2011: € 3 million); the liabilties amounted to € 0 million (2011: € 0 million). Loans and advances to associated companies which were not measured with the equity method amounted to € 43 million (2011: € 45 million), whereas the liabilities were at € 0 million (2011: € 0 million).

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

> The 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 € 1.0 billion in the position trading assets (2011: € 7.4 billion). Of this figure, € 0.7 billion (2011: € 4.2 billion) was attributable to business with FMS Wertmanagement. The positive market values of original business which was not transferred directly amounted to € 0.3 billion as of 31 December 2012 (2011: € 3.2 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 the financial position.

> The carrying amount of securities which were issued by FMS Wertmanagement declined from € 3.0 billion as of 31 December 2011 to € 2.2 billion as of 31 December 2012. These securities are disclosed as financial investments.

> The deposition of unneeded liquidity of FMS Wertmanagement in the central bank amounting to € 0.5 billion (2011: € 0.7 billion) in loans and advances to other banks resulted in a slight reduction of total assets in receivables to other banks, respectively liabilities to other banks.

The financial position of the 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 € 1.0 billion in the position trading liabilities (2011: € 7.4 billion). Of this figure, € 0.3 billion (2011: € 3.2 billion) was attributable to business with FMS Wertmanagement. The negative market values of original business which was not directly transferred amounted to € 0.7 billion as of the balance sheet date (2011: € 4.2 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 € 106 million (2011: € 109 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.

On 31 December 2012 liabilities to defined contribution plans amounted to € 3 million (2011: € 1 million).

Related Persons pbb Group defines related persons as the Management Board, the Supervisory Board, employees in the second tier of management at pbb as well as members of management of the subsidiaries of pbb as well as their respective close relatives. pbb paid neither fixed remuneration nor severance payments to the Management Board during the financial years 2012 and 2011. For 2012, the total remuneration paid to former members of the Management Board and their surviving dependants amounted to € 5,133 thousand (2011: € 5,140 thousand). The Supervisory Board remuneration for the reporting period amounted to € 84 thousand (2011: € 70 thousand). This figure was composed exclusively of fixed remuneration.

Vested remuneration paid to persons with key function in the Group (Senior Management)[1)]

	2012[2)]			2011
in € thousand	Re-mu-ner-ation[3)]	Severance payments	Total	Total
Total	8,929	192	9,121	8,561

1) Members of the second management level of pbb and managing directors of subsidiaries of pbb
2) The considerable increase is mainly due to the reduction in the discount rate which, in accordance with IAS 19, has to be based on the long-term rate for prime fixed-income corporate bonds
3) Reporting follows the so-called vested principle. The components of compensation which were vested in the relevant period 2011 are reported

Pension obligations to persons with key function in pbb Group (Senior Management)

in € thousand	31.12.2012	31.12.2011
Total[1)]	77,552	66,653

1) Thereof € 67,434 thousand (2011: € 59,668 thousand) for pensioners and surviving dependants

Statement according to section 15 a WpHG During the complete business years 2012 and 2011 HRE Holding held all shares of pbb. Hence, members of the Management Board and the Supervisory Board did not hold shares of the Company as at 31 December 2012 and as at 31 December 2011. In the years 2012 and 2011 no shares or share derivatives of pbb were purchased or sold by members of the Management Board and the Supervisory Board.

80 Employees

Average number of employees	2012	2011
Employees (excluding apprentices)	1,042	993
thereof: senior staff in Germany	20	20
Total	**1,042**	**993**

81 Members of the Supervisory Board and of the Management Board

Supervisory Board of pbb as of 31 December 2012

Name and place of residence	Principal activity	Function in the Supervisory Board	Function in the Committees of the Supervisory Board	
			Audit Committee	Risk Management and Liquidity Strategy Committee
Dr. Bernd Thiemann Kronberg	Former Chairman of the Management Board of DG Bank AG	Chairman	Member	Member
Dagmar Kollmann Bad Homburg	Chairperson of the Partners Committee of Kollmann GmbH	Deputy Chairper-son	Chairperson	Member
Dr. Günther Bräunig Frankfurt/Main	Member of the Management Board of KfW	Member	Member	Chairman
Dr. Christian Gebauer-Rochholz Hochheim	Bank employee	Workers' Council Represen-tative[1)]		
Dr. Alexander Groß Teltow	Head of the Economic Policy department in the Bundesministerium für Wirtschaft und Technologie	Member[2)]		
Georg Kordick Poing	Bank employee	Workers' Council Represen-tative		
Dr. Ludger Schuknecht Frankfurt/Main	Head of the Fundamental Financial and Economic Issues department in the Bundesministerium der Finanzen	Member[2)]		
Heike Theißing Munich	Bank employee	Workers' Council Represen-tative		
Dr. Hedda von Wedel Andernach	President of the Bundesrechnungshof, retired	Member	Member	

1) from 20 November 2012
2) from 1 June 2012

Management Board of pbb as of 31 December 2012

Name and place of residence	Function in the Management Board	Mandates held in Supervisory Bodies under the Respective Law for Major Corporations
Manuela Better Munich	CEO/CRO	>Member of the Board of Directors of DEPFA Bank plc > Non-executive Director of DEPFA ACS Bank > Non-executive Director of Hypo Public Finance Bank
Wolfgang Groth Tawern	Treasury/Asset Management	> Non-executive Director of DEPFA Bank plc > Non-executive Director of Hypo Public Finance Bank
Dr. Bernhard Scholz Regensburg	Real Estate Finance/Public Investment Finance	
Alexander von Uslar Gruenwald	CFO/COO	> Member of the Board of Directors of DEPFA Bank plc > Non-executive Director of DEPFA ACS Bank

82 Holdings of pbb

Holdings of pbb as of 31 December 2012 Additional Statement according to HGB

Name and place of business	Interest in %		Currency	Equity in thousands	Net income/loss in thousands
	Total Sec 16 (4) Aktiengesetz	of which held indirectly			
Subsidiaries					
Consolidated subsidiaries					
Hayabusa Godo Kaisha, Tokyo	100.00	100.00	JPY	179,892	109,892
House of Europe Funding I Ltd.[1)], Grand Cayman	—	—	EUR	1	—
Hypo Real Estate Capital India Corp. Private Ltd. i.L., Mumbai	100.00	—	INR	19,786	7,546
Hypo Real Estate Capital Japan Corp., Tokyo	100.00	—	JPY	30,417,625	-632,239
Hypo Real Estate International LLC I, Wilmington	100.00	—	EUR	80,550	-57,313
Hypo Real Estate International Trust I, Wilmington	100.00	—	EUR	80,545	-57,277
IMMO Immobilien Management GmbH & Co. KG, Munich	100.00	—	EUR	3,127	61
Little Britain Holdings (Jersey) Ltd., Jersey	100.00	—	GBP	24,686	-4,479

Name and place of business	Interest in %		Currency	Equity in thousands	Net income/loss in thousands
	Total Sec 16 (4) Aktiengesetz	of which held indirectly			
Ragnarök Vermögensverwaltung AG & Co. KG[2], Munich	100.00	6.00	EUR	3,868	-12
Non-consolidated subsidiaries					
DEPFA Finance N.V., Amsterdam	100.00	—	EUR	4,842	470
FUNDUS Gesellschaft für Grundbesitz und Beteiligungen mbH[3], Munich	100.00	—	EUR	904	1
GfI-Gesellschaft für Immobilienentwicklung und -verwaltung mbH i.L., Stuttgart	100.00	—	EUR	11	—
Immo Immobilien Management Beteiligungsgesellschaft mbH, Munich	100.00	—	EUR	31	2
IMMO Invest Real Estate GmbH[3], Munich	100.00	—	EUR	28	1,095
Associated companies					
SANO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dresden KG, Duesseldorf	33.33	—	EUR	-4,380	180
SOMA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Darmstadt KG, Duesseldorf	33.33	—	EUR	-10,261	-348
WISUS Beteiligungs GmbH & Co. Zweite Vermietungs-KG, Munich	33.00	—	EUR	-2,266	271

1) Special-purpose entity without capital investment consolidated according to SIC-12
2) General partner liability (Komplementärhaftung) of pbb
3) Profit transfer by shareholders on the basis of profit and loss transfer agreement

Exchange rates

€ 1 equates to		31.12.2012
Great Britain	GBP	0.8161
India	INR	72.5600
Japan	JPY	113.6100

Munich, 19 March 2013

Deutsche Pfandbriefbank Aktiengesellschaft

The Management Board

Manuela Better

Wolfgang Groth

Dr. Bernhard Scholz

Alexander von Uslar

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group 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 principal opportunities and risks associated with the expected development of the Group.

Munich, 19 March 2013

Deutsche Pfandbriefbank Aktiengesellschaft

The Management Board

Manuela Better

Wolfgang Groth

Dr. Bernhard Scholz

Alexander von Uslar

The following auditor's report, prepared in accordance with § 322 HGB ("Handelgesetzbuch": "German Commercial Code"), refers to the complete consolidated financial statements, comprising consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows, consolidated statement of changes in equity and note, together with the group management report of the Deutsche Pfandbriefbank AG for the financial year 1 January to 31 December 2012. The group management report is not included in the Prospectus. The above-mentioned auditor's report and consolidated financial statements are both translations of the respective German-language documents.

Auditor's Report

We have audited the consolidated financial statements prepared by Deutsche Pfandbriefbank AG, Munich, comprising consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows, consolidated statement of changes in equity and notes, together with the group management report for the business year from 1 January to 31 December 2012. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315 a Abs. 1 HGB (Handelsgesetzbuch "German Commercial Code") are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 15 a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Deutsche Pfandbriefbank Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, 20 March 2013

KPMG AG

Wirtschaftsprüfungsgesellschaft

Wiechens	Schmidt
Wirtschaftsprüfer	Wirtschaftsprüfer

26.5 Audited Unconsolidated Financial Statements of Deutsche Pfandbriefbank AG Prepared in Accordance with the German Commercial Code (*Handelsgesetzbuch*) as of and for the Financial Year Ended December 31, 2014

Balance Sheet

Assets

in € thousand	31.12.2014		31.12.2013
1. Cash reserve			
a) Cash on hand	1		2
b) Balances with central banks	56,976		3,531,687
of which: with the Deutsche Bundesbank € 56,976 thousand (2013: € 3,531,687 thousand)			
		56,977	**3,531,689**
2. Loans and advances to other banks			
a) Mortgage loans	—		51,145
b) Municipal loans	1,134,920		1,966,462
c) Other loans and advances	6,379,098		4,641,000
of which: repayable on demand € 2,000,328 thousand (2013: € 171,030 thousand) against securities lending € - thousand (2013: € - thousand)			
		7,514,018	**6,658,607**
3. Loans and advances to customers			
a) Mortgage loans	21,797,757		20,475,819
b) Municipal loans	14,442,362		14,049,988
c) Other loans and advances	158,789		374,192
of which: against securities lending € - thousand (2013: € - thousand)			
		36,398,908	**34,899,999**
4. Bonds and other fixed-interest securities			
a) Money market instruments			
aa) from public-sector issuers	—		—
of which: eligible as collateral at the Deutsche Bundesbank € - thousand (2013: € - thousand)			
ab) from other issuers	—		—
of which: eligible as collateral at the Deutsche Bundesbank € - thousand (2013: € - thousand)			
		—	**—**
b) Bonds and debt securities			
ba) from public-sector issuers	10,061,159		10,173,298
of which: eligible as collateral at the Deutsche Bundesbank € 1,579,687 thousand (2013: 7,917,077 thousand)			
bb) from other issuers	8,086,474		8,949,507
of which: eligible as collateral at the Deutsche Bundesbank € 16,642,280 thousand (2013: € 6,164,358 thousand)			
	18,147,633		**19,122,805**
c) own debt securities			
Nominal amount € 2,603,326 thousand (2013: € 3,365,966 thousand)	2,658,712		**3,399,551**
		20,806,345	**22,522,356**
5. Shares and other non-fixed-income securities		**2,219**	**1,535**
6. Participating interests		**196**	**196**
of which: to other banks € - thousand (2013: € -thousand) to financial services institutions € -thousand (2013: € - thousand)			
7. Shares in affiliated companies		**213,687**	**211,466**
of which: to other banks € - thousand (2013: € -thousand) to financial services institutions € -thousand (2013: € 45 thousand)			
8. Special assets		**234**	**2,886**
of which: loans in transit € 234 thousand (2013: € 2,886 thousand)			
Carryover		**64,992,584**	**67,828,734**

	31.12.2014		31.12.2013
Carryover		**64,992,584**	**67,828,734**
9. Intangible assets			
a) Self-created commercial property rights and similar rights and values	—		—

b) acquired concessions, commercial property rights and similar rights and values as well as licences in such rights and values	6,988		15,907
c) Goodwill	—		—
d) Prepaid expenses	—		—
		6,988	**15,907**
10. Tangible assets		**8,283**	**1,810**
11. Other assets		**225,825**	**175,728**
of which: Compensation transactions related to interest in connection with the transfer to FMS Wertmanagement € - thousand (2013: € 2,117 thousand)			
12. Deferred charges and prepaid expenses			
a) from issues and loans	92,623		98,760
b) other	299,037		303,546
		391,660	**402,306**
13. Active difference resulting from asset offsetting		**5,227**	**18,180**
Total Assets		**65,630,567**	**68,442,665**

Liabilities and equity

in € thousand	**31.12.2014**		**31.12.2013**
1. Accounts due to other banks			
a) Registered mortgage Pfandbrief bonds issued	229,349		317,652
b) Registered public-sector Pfandbrief bonds issued	355,882		322,014
c) Other liabilities	3,875,866		4,313,457
of which: Repayable on demand € 1,692,897 thousand (2013: € 148,649 thousand)			
		4,461,097	**4,953,123**
Delivered to lender as collateral for loans			
Registered mortgage Pfandbrief bonds € - thousand (2013: € - thousand)			
Registered public-sector Pfandbrief bonds € - thousand (2013: € - thousand)			
2. Accounts due to customers			
a) Registered mortgage Pfandbrief bonds issued	5,170,289		5,586,787
b) Registered public-sector Pfandbrief bonds issued	11,328,243		11,768,089
c) Savings deposits			
ca) Withdrawal notice of three months	—		—
cb) Withdrawal notice of more than three months	—		—
	—		—
d) Other liabilities	12,254,721		12,420,629
of which: Repayable on demand € 1,160,069 thousand (2013: € 477,520 thousand)			
		28,753,253	**29,775,505**
To secure loans drawn down relating to issuers granting			
Registered mortgage Pfandbrief bonds € 6,790 thousand (2013: € 12,296 thousand)			
Registered public-sector Pfandbrief bonds € 20,230 thousand (2013: 21,234 thousand)			
3. Debts evidenced by certificates			
a) Bonds issued			
aa) Mortgage Pfandbrief bonds	10,075,491		9,130,794
ab) Public-sector Pfandbrief bonds	9,712,673		11,886,034
ac) Other bonds	7,408,764		7,401,473
	27,196,928		**28,418,301**
b) Other	123,638		113,017
of which: Money market instruments € 123,638 thousand (2013: € 113,017 thousand)			
		27,320,566	**28,531,318**
Carryover		**60,534,916**	**63,259,946**

	31.12.2014		**31.12.2013**
Carryover		**60,534,916**	**63,259,946**
4. Special liabilities		**234**	**2,886**
of which: Borrowings in transit € 234 thousand (2013: € 3,225 thousand)			

5. Sundry liabilities			**79,182**	**177,516**
of which: Compensation transactions related to interest in connection with the transfer to FMS Wertmanagement € - thousand (2013: € 8,148 thousand)				
6. Deferred income				
a) From issues and loans		153,512		98,599
b) Other		518,724		541,489
			672,236	**640,088**
7. Provisions				
a) For pensions and similar commitments		36,273		43,236
b) For taxes		79,477		61,203
c) Other		273,041		270,473
			388,791	**374,912**
8. Subordinated liabilities			**1,271,745**	**1,438,249**
9. Participatory capital			**—**	**—**
of which: maturing in less than two years € -thousand (2013: € - thousand)				
10. Fund for general banking risks			**46,680**	**46,680**
11. Equity				
a) Capital stock		380,376		380,376
aa) Subscribed capital				
ab) silent participation				
Nominal amount	1,000,000			1,000,000
Loss allocation	-908,376			-908,376
		91,624		**91,624**
			472,000	**472,000**
b) Additional paid-in capital			**3,267,195**	**5,038,123**
c) Retained earnings				
ca) Statutory reserve		12,655		12,655
cb) Reserve for shares in a controlling or majority shareholder company		—		—
cc) Reserves as per articles of association		—		—
cd) Other retained earnings		266,546		266,546
			279,201	**279,201**
d) Unappropriated retained loss			**-1,381,613**	**-3,286,936**
			2,636,783	**2,502,388**
Total equity and liabilities			**65,630,567**	**68,442,665**
1. Contingent liabilities				
a) From bills endorsed and discounted		—		—
b) From guarantees and indemnity agreements (please see Notes regarding existing letters of comfort)		84,463		55,784
c) From collateralisation of third-party liabilities		—		—
2. Other commitments				
a) Repurchase obligations arising from retail repos		—		—
b) Placing and underwriting commitments		—		—
c) Irrevocable loan commitments		2,237,716		2,538,359
			2,237,716	**2,538,359**

Income Statement

in € thousand	**1.1. - 31.12.2014**			**1.1. - 31.12.2013**
1. Interest income from				
a) Lending and money market business	3,568,881			4,069,251
b) Fixed-income and book-entry securities	712,811	**4,281,692**		822,921
2. Interest expenses		-3,802,260		-4,840,358
			479,432	**51,814**
3. Current income from				
a) Equities and other non-variable-yield securities		34		—
b) Holdings		—		54
c) Shares in associated companies		1		—
			35	**54**
4. Income from profit pooling, profit transfer or partial profit transfer agreements			—	—
5. Commission income		11,861		16,645
6. Commission expenses		-11,507		-5,466
			354	**11,179**
7. Other operating income			**88,735**	**240,910**

8.	General administrative expenses				
	a) Personnel expenses				
	aa) Wages and salaries	-90,199			-96,364
	ab) Social security taxes, pension expenses and related employee benefits	-28,706	**-118,905**		-28,821
	of which: for pensions € 13,877 thousand (2013: € 12,290 thousand)				
	b) Other general administrative expenses		-141,168		-185,978
				-260,073	**-311,163**
9.	Amortisation/depreciation and write-downs on intangible and tangible assets			**-7,879**	**-12,079**
10.	Other operating expenses			**-19,980**	**-131,669**
11.	Write-downs and allowances for receivables and specific securities as well as additions to loan-loss provisions		-41,552		—
12.	Income from write-ups to receivables and specific securities as well as from the release of loan-loss provisions		—		14,914
				-41,552	**14,914**
13.	Write-downs and impairments to holdings, shares in associated companies and securities treated as long-term assets		-63,677		—
14.	Income from write-ups on participating interests, shares in affiliated companies and investment securities		—		72,173
				-63,677	**72,173**
15.	Additions to the fund for general banking risks			**—**	**—**
16.	Expenses from loss adoption			**-3,491**	**-41**
17.	Profit/loss on normal business operations			**171,904**	**-63,908**
18.	Extraordinary income			**31,213**	**7,863**
19.	Extraordinary expenses			—	—
20.	Taxes on income		-43,152		3,433
21.	Other tax not reported under item 10		-713		-173
				-43,865	**3,260**
22.	Net income/loss			**159,252**	**-52,785**
23.	Profit/loss brougt forward from the previous year			**-3,286,936**	**-3,266,160**
				-3,127,684	**-3,318,945**
24.	Withdrawals from additional paid-in capital			1,770,928	—
25.	Withdrawals from participation capital			—	5,159
26.	Withdrawals from silent participation			—	37,186
27.	Replenishment of participation capital			-24,857	-10,336
28.	Unappropriate retained earnings/loss			**-1,381,613**	**-3,286,936**

Notes

General Accounting Policies

1 Accounting regulations

The 2014 annual financial statements of pbb were prepared according to the accounting regulations of the German Commercial Code (HGB) and the legal form and sector-specific regulations of the German Stock Corporation Act (AktG), the German Banking Act (KWG), and the German Pfandbrief Act (PfandBG). A key factor for the categorisation and content of the balance sheet and income statement is the German Ordinance concerning Accounting for Banks (RechKredV). The German Accounting Standards (Deutschen Rechnungslegungs Standards – DRS) published by the Deutsche Rechnungslegungs Standards Committee (DRSC) have been taken into account.

The annual financial statements include income statement, balance sheet and notes. In accordance with section 289 HGB, a financial review is also included.

2. Accounting and valuation principles

The pbb Management Board has prepared the annual financial statements on 18 March 2015 under the going-concern assumption.

The cash reserve is recognised at its nominal value.

Receivables were recognised at their nominal value pursuant to section 340e (2) HGB. The difference between the nominal amount and the amount to be paid out is reported as a deferred item, and is released in proportion to the capital amounts and pro rata temporis and is recognised directly in net interest income.

Provision is made for all identifiable, specific lending default risks through the formation of specific allowances and provisions. Latent default risks in the lending business are covered by general allowances. This calculation was performed on the basis of expected losses.

The options pursuant to section 340f (3) and section 340c (2) HGB were utilised.

The securities in the liquidity reserve portfolio are accounted for in accordance with the strict-lower-of-cost-or-market principle, unless they are not subject to an evaluation unit in accordance with section 254 HGB or subject to interest rate-induced changes in the overall assessment of interest rate risk in the banking book.

In the case of securities forming part of long-term assets, the carrying amount corresponds to the amortised cost.

The carrying amount of structured securities (CDOs) corresponds to cost to the extent that, in the instance of sustained impairment, a write-down equivalent to the expected default was not performed.

For the determination of fair values balance-sheet-date-related transaction and stock exchange prices are generally used. If these are unavailable, recognised measurement models are used whereby the model parameters are derived from comparable market transactions. If no transaction or stock exchange prices are available for transactions, recourse was made to in-house measurement models in most cases. Market parameters or market prices deriving from forced liquidations or distress sales were generally not used.

A global provision for latent default risks for securities held as long-term assets was formed. Calculation was performed on the basis of expected losses.

Shares in affiliated companies and participations are recognised at cost, less any write-downs to the lower fair value. If the reasons for the write-down no longer apply, a write-up will be carried out.

Property, plant and equipment was measured at cost, decreased by scheduled and, if necessary, by unscheduled depreciation. Scheduled straight-line depreciation is based on depreciation rates corresponding to the estimated useful lives that are also applicable from a fiscal perspective.

Goods of minor value with purchase costs up to € 150 were fully written off in the year of acquisition. A collective item was formed for depreciable movable assets with acquisition costs of over € 150 and up to € 1,000 pursuant to section 6 (2a) of the Income Tax Act (EStG). This collective item is depreciated on a straight-line basis over a five-year period.

Purchased intangible assets were recognised at cost, decreased by scheduled and, if necessary, by unscheduled depreciation. Scheduled depreciation was calculated using economic useful lives. Utilisation was not made of the option to capitalise for internally generated intangible assets held as long term assets.

Assigned claims to employees resulting from reinsurance of pension obligations constitute assets which must not be accessible to any other creditors and which are exclusively held for the purpose of meeting pension related liabilities or similar long-term obligations. In accordance with section 253 (1) sentence 4 HGB in conjunction with section 246 (2) sentence 2 HGB, these assets are measured at fair value and are offset by the provisions of the corresponding pension plan. The individual buy-back values constitute the fair values. Correspondingly, income and expenses resulting from reinsurance and discounts of the related pension provisions are offset. Asset surplus from asset offsetting are shown under the corresponding designation in a separate item.

Reimbursements from HRE internal staff allocations are recognised under other operating income.

Derivative financial instruments are mainly used to hedge interest rate and currency risks in the context of overall risk management. Customer derivatives to hedge interest rate risks are concluded, which are regularly covered by offsetting transactions on the inter-bank market. Interest rate derivative financial instruments are mapped mainly in the context of evaluation units, in accordance with section 254 HGB or as part of the overall assessment of interest rate risk in the banking book. Currency-related derivative financial instruments are taken into account in the foreign currency translation, in accordance with section 340h HGB.

Interest income and expenses arising from derivative financial transactions are reported on a gross basis.

Liabilities are recognised using the amount to be paid. When exercising the option according to section 250 (2) HGB, the difference between settlement amount and issue price is recognised as deferred income/expense and will be written back pro rata temporis and in proportion to the capital and will be recognised through profit or loss in net interest income. Zero-coupon bonds are recognised at their issue amount plus proportional interest in line with the issue yield.

For contingent liabilities and anticipated losses provisions are recognised to the amount of the necessary settlement amount according to prudent business judgment. If the original remaining term of a provision is more than one year, it is discounted using the remaining fixed term interest rates published by the Deutsche Bundesbank. If anticipated losses result from a fair value measurement of pending transactions, based on net present values of market value calculations, these transactions are not discounted in the sense of IDW RS HFA Tz. 44, but recognised with their negative fair value. For provisions with an original maturity of up to one year, the option right for discounting is not used. The increase of the present value for provisions due to unwinding is calculated on an exact monthly basis.

In the calculation of provisions for legal risks, especially the value of claim and the possibility of utilisation are taken into account. In this context, pbb also draws on expertise from external lawyers.

Results from compounding and discounting of provisions are recognised within the net interest income.

Provisions for pension obligations are measured according to the projected unit credit method. This presents an appropriate procedure, based on objective and verifiable criteria. Calculations are based on the following assumptions.

> Technical interest rate 4.53 % p.a. (2013: 4.88 % p.a.)

> Income trends 2.50 % p.a. (2013: 2.50 % p.a.)

> Pension trends 1.75 % p.a. (2013: 2.00 % p.a.)

> Mortality tables: K. Heubeck "Richttafeln 2005 G"

Contingent liabilities and other liabilities are stated off balance at nominal amount, less recognised provisions.

In the financial statements of pbb valuation units are mapped according to section 254 HGB. These are micro-evaluation units in which the interest rate risk is hedged. This takes into account only those hedging relationships in which a high efficiency can be expected with regard to the hedging effect. The effective portion of changes in value is not posted on the underlying and hedging transactions (freezing

method). The ineffective portion of the hedged risk of valuation units is imparity, considered as provision for anticipated losses. Changes in the value of non-hedged risks are mapped according to the general accounting and valuation methods without taking into account the existing valuation units. If the fair value of derivatives that are not part of a valuation unit in accordance with section 254 HGB, falls below their carrying amount, a provision for anticipated losses equal to the difference is recognised where there is no consideration within the overall assessment of interest rate risk in the banking book.

In accordance with the opinion on the loss-free valuation of interest-bearing transactions of the banking book (IDW RS BFA 3) as of the balance sheet date, pbb carried out a loss-free valuation using the present value method. Following the risk management, an interest book with balance sheet and off-balance sheet transactions is considered as an evaluation object. The calculated present value of margin stock transactions in interest book are compared with the net present value of determined administrative and risk costs, with its present value, until they mature. As of 31 December 2013, there is no obligation surplus from the evaluation object.

In the context of the special coverage concept, asset, liabilities, income and expenses denominated in foreign currencies are translated pursuant to section 340h HGB in conjunction with section 256a HGB at balance sheet date using the spot exchange rate. The special coverage concept used by the Bank in the context of currency translation comprises only foreign currency assets and liabilities having a magnitude and currency identity. The fulfilment of these two criteria is ensured by an internal funding model. For reasons of clarity and rationality, the disclosure of the resulting exchange income and expenses was not shown as a separate item in the income statement under other operating income or other operating expenses, contrary to section 340a (1) in conjunction with section 277 (5) sentence 2 HGB. The relevant disclosure is made in the notes under the P & L items 7 and 10. Open foreign currency positions of hedged items are largely closed through spot transactions or suitable derivatives. Conversion results from position peaks in one currency are always treated in accordance with the imparity principle. Income and expenses in foreign currencies are recorded at the exchange rate of the day on which they occur. In this overall context, the particularities of commercial law for foreign currency translation of institutions (IDW RS BFA 4) have been taken fully into consideration.

Deferred taxes are calculated on temporary differences between accounting and tax values of assets, liabilities and deferred income. For the recognition of deferred taxes in accordance with section 274 sentence 1 HGB, pbb takes the option to net assets and deferred tax claim. A surplus is not recognised in cases where deferred tax assets are higher than deferred tax liabilities.

Deferred tax assets at pbb arise, in particular, by non-permanent impairments of marketable securities, other provisions not recognised in the tax balance sheet and from differences in treatment between tax and accounting rules of pension provisions. Deferred tax liabilities mainly consist of receivables from customers and Close out Expenses not recognised in the tax balance sheet. The existing tax losses carried forward increase the deferred tax assets in the amount of their usability. Deferred tax is provided by a combined income tax rate of 27.8 %, which includes the corporation tax, trade tax and the solidarity surcharge.

According to section 285 (17) HGB the calculated total fee of the auditor for the fiscal year is included in the consolidated financial statements.

To improve the structure, the financial statements were prepared in thousand euros (€ thousand) or in some items in million euros (€ million). In the present report, slight differences in totals and in the calculation of percentages may, therefore, occur due to rounding.

For credit institutions in the legal form of a corporation, all required mandatory disclosures are listed below, arising from the legal principles mentioned above.

Notes to the Income Statement

3 Net interest income (Income statement items 1 and 2)

For reasons of clarity and to improve structure, expenses from the compounding of provisions were not shown separately in the profit and loss account, contrary to section 340a (1) in conjunction with section 277 (5) sentence 1 HGB. The expenses from the compounding of provisions to the amount of € -4,557 thousand (2013: € -11,620 thousand) are reported in interest expenses.

4 Net commission income (Income statement items 5 and 6)

The commission income primarily includes income from upfront fees to the amount of € 8,923 thousand (2013: € 12,124 thousand) and fees for assuming the credit risk of the loans granted by the subsidiaries amounting to € 2,012 thousand (2013: € 3,708 thousand).

The commission expenses include, amongst others, fees from securities and custody business to the amount of € -1,720 thousand (2013: € -1,319 thousand).

5 Other operating income (Income statement item 7)

The other operating income includes following main single items:

in € thousand	2014	2013
Income from release of provisions (excluding lending business)	26,548	27,382
Income from passed-on costs in the lending business	—	1,350
Income from administration cost transfers	7,787	16,450
Income from currency changes	6,435	2,425
Income from Servicing Fees FMS-Wertmanagement[1)]	—	125,892
Income from IT services	31,995	36,956
Income from previous years (not related to the period)	5,610	9,610

1) The income is largely accompanied by expenses for the sevice delivery and other operating expenses from the compensation for services with group business units. The servicing was principally terminated as of end of September.

Income from administration cost transfers results from services to sister companies.

6 General administrative expenses (Income statement item 8)

The general administrative expenses consist of personnel expenses amounting to € -118,905 thousand (2013: € -125,185 thousand) and other general administrative expenses of € -141,168 thousand (2013: € -185,978 thousand).

Remuneration of the Management Board and of the Supervisory Board

In the financial years 2014 pbb paid neither fixed remuneration nor severance payment to the Management Board; as was the case in the prior year. Though in anticipation with the planned privatisation of pbb, the contracts of the Management Board were completed with pbb in the course of 2014, the salaries where completely charged to HRE Holding.

The remuneration of former members of the Management Board and their surviving dependants in the financial year 2013 totalled € -5,136 thousand (2013: € -5,173 thousand).

The Supervisory Board remuneration for the reporting year amounted to € -96 thousand (2013: € -100 thousand). This figure was composed exclusively of fixed remuneration.

7 Other operating expenses (Income statement item 10)

Other operating expenses mainly include additions to other provisions in non-lending business amounting to € -13,667 thousand (2013: € -10,771 thousand) and expenses from replacement of software amounting to € -3,285 thousand (2013: € -thousand).

8 Write-downs and impairments to holdings, shares in associated companies and securities treated as long-term assets (Income statement item 13 and 14)

In this income statement item write-ups, disposal gains and write-downs of securities treated as long-term assets amounting to € 70,216 thousand net (2013: € -2,892 thousand) are included. Income from shares in holdings and associated companies accumulated to € 6,539 thousand (2013: € 79,273 thousand). Write-downs on holdings amounting to € -thousand (2013: € -4,208 thousand) were carried out.

9 Extraordinary expenses and income (Income statement item 18 and 19)

The balance of extraordinary expenses and income includes mainly refunds due to the correction agreement (Korrekturvereinbarung) with FMS Wertmanagement amounting to € 30,159 thousand (2013: € -thousand).

10 Taxes on income (Income statement item 20)

Taxes on income amounted to € -43,152 thousand (2013: € 3,433 thousand). The tax expense for the current year amounts to € -24,792 thousand (2013: € -2,816 thousand) and for prior years to € -18,360 thousand (2013: € 6,249 thousand).

A VAT fiscal unit relationship exists with HRE Holding AG

Notes to the Balance Sheet

11 Mortgage loans (assets items 2 and 3)/ Pfandbrief bonds in circulation (Equity and liabilities items 1, 2 and 3)

Cover statement

in € thousand		2014	2013
A. Mortgage Pfandbrief bonds			
Cover assets	Loans and advances to other banks		
	Mortgage loans	—	—
	Loans and advances to customers		
	Mortgage loans	13,453,501	13,038,721
	Tangible assets (land charges on the Bank's own property)	—	—
	Sundry assets	—	—
		13,453,501	**13,038,721**
Further cover assets	Other loans and advances to other banks	—	500,000
	Bonds and other fixed-interest securities	5,873,104	6,036,768
	Receivables arising from derivatives	—	—
Total cover assets		**19,326,605**	**19,575,489**
	Total mortgage Pfandbrief bonds requiring cover	15,372,141	14,927,808
	of which liabilities arising from derivatives	—	—
Surplus cover		**3,954,464**	**4,647,681**
B. Public-sector Pfandbrief bonds			
Cover assets	Loans and advances to other banks		
	a) Mortgage loans	—	—
	b) Municipal loans	817,192	1,490,726
	Loans and advances to customers		
	a) Mortgage loans[1)]	49,981	61,905
	b) Municipal loans	14,237,919	14,086,409
	Bonds and other fixed-interest securities	9,195,563	10,223,654
		24,300,655	**25,862,694**
Other cover assets	Other loans and advances to other banks	—	573,000
	Receivables from derivatives	—	—
Cover assets, total		**24,300,655**	**26,435,694**
	Total public-sector Pfandbrief bonds requiring cover	20,994,675	23,476,385
	of which liabilities from derivatives	—	—
Surplus cover		**3,305,980**	**2,959,309**

1) Of the mortgage loans, local authority guaranteed mortgage loans were used as cover for public-sector Pfandbrief bonds.

Notes pursuant to section 28 on the Pfandbrief Act

By the CRD IV Implementation Act, the transparency information of section 28 Pfandbrief Act have been changed and have to be reported in the financial statements of 31.12.2014 for the first time. Prior-year figures only have to be reported on that transparency information which has not materially changed. For material changed information no prior-year figures have to be reported as of 31.12.2014.

Mortgage Pfandbrief bonds in circulation, and related cover assets

in € million	Nominal value 2014	Nominal value 2013	Net present value 2014	Net present value 2013	Risk-adjusted net present value[1] 2014	Risk-adjusted net present value[1] 2013
Total outstanding						
Mortgage Pfandbriefe	15,372.1	14,927.8	16,962.9	15,935.7	17,308.2	16,453.3
Cover Pool	19,326.6	19,575.5	21,320.0	20,749.4	21,196.2	20,729.1
Over-Collateralisation (OC)	**3,954.5**	**4,647.7**	**4,357.1**	**4,813.7**	**3,888.0**	**4,275.8**
OC in % of Pfandbriefe outstanding	25.7%	31.1%	25.7%	30.2%	22.5%	26.0%
Over-Collateralisation in Consideration of vdp-Credit-Quality-Differentiation-Model	3,916.6		4,312.2			
OC in % of Pfandbriefe outstanding	25.5%		25.4%			

1) For the calculation of risk cash value the dynamic rate method is applied (section 5(1) no.1).

Maturity structure[1] (remaining maturity) nominal

in € million	Mortgage Pfandbriefe 2014	Mortgage Pfandbriefe 2013	Cover funds 2014	Cover funds 2013
<= 0,5 years	281.6		2,172.0	
> 0,5 years and <= 1 year	393.2	2,731.3	2,096.7	4,248.5
> 1 year and <= 1,5 years	1,532.9		1,195.6	
> 1,5 years and <= 2 years	1,581.4	970.9	1,474.7	3,883.0
> 2 years and <= 3 years	2,890.7	3,001.0	3,411.7	2,979.1
> 3 years and <= 4 years	1,390.9	1,634.5	2,951.6	3,288.7
> 4 years and <= 5 years	2,548.8	1,298.9	2,029.2	1,597.7
> 5 years and <= 10 years	2,739.8	3,237.0	2,799.8	1,996.8
> 10 years	2,012.8	2,054.2	1,195.3	1,581.7

1) The maturity structure of outstanding mortgage Pfandbriefe and the cover pool used for this purpose were redefined in 2014; the corresponding figures for the previous year were split according the division of the previous year.

Further cover assets mortgage Pfandbrief bonds

in € million	Germany 2014	Belgium 2014	France 2014	Great Britain 2014
Equalization claims	0.0	0.0	0.0	0.0
Money claims	351.6	0.0	43.6	207.8
thereof: covered bonds	0.0	0.0	0.0	0.0
Bonds	225.0	169.0	0.0	0.0
Total	**576.6**	**169.0**	**43.6**	**207.8**

in € million	Italy 2014	Japan 2014	Austria 2014	Poland 2014
Equalization claims	0.0	0.0	0.0	0.0
Money claims	552.7	48.1	103.6	569.6
thereof: covered bonds	0.0	0.0	0.0	0.0
Bonds	1,270.3	0.0	729.0	0.0
Total	**1,823.0**	**48.1**	**832.6**	**569.6**

in € million	Portugal 2014	Slovenia 2014	Spain 2014	Czech Republic 2014
Equalization claims	0.0	0.0	0.0	0.0
Money claims	122.2	17.5	0.0	0.0
thereof: covered bonds	0.0	0.0	0.0	0.0
Bonds	0.0	0.0	786.2	45.0
Total	**122.2**	**17.5**	**786.2**	**45.0**

in € million	Hungary 2014	Luxembourg 2014	Total[1)] 2014
Equalization claims	0.0	0.0	0.0
Money claims	96.0	0.0	2,112.7
thereof: covered bonds	0.0	0.0	0.0
Bonds	128.4	100.0	3,452.9
Total	**224.4**	**100.0**	**5,565.6**

1) excluding statutory overcollateralization (€ 307.5 million)

Receivables used as cover for mortgage Pfandbrief bonds by regions in which the secured properties are located, and according to type of use

	Germany				France			
	Commercial		Residential		Commercial		Residential	
in € million	2014	2013	2014	2013	2014	2013	2014	2013
Apartments	0.0	0.0	178.1	21.8	0.0	0.0	0.0	0.0
Detached houses	0.0	0.0	28.5	71.3	0.0	0.0	0.0	0.0
Apartment buildings	0.0	0.0	2,315.8	2,832.9	0.0	0.0	11.5	11.7
Office buildings	1,530.7	1,864.6	0.0	0.0	725.6	784.9	0.0	0.0
Retail buildings	1,793.8	1,675.1	0.0	0.0	167.0	113.6	0.0	0.0
Industrial buildings	72.4	28.7	0.0	0.0	46.2	51.3	0.0	0.0
Other commercially used buildings	795.0	527.6	0.0	0.0	225.1	202.8	0.0	0.0
Unfinished new buildings not yet ready to generate a return	41.7	7.4	91.5	34.6	53.2	53.2	0.0	0.0
Building sites	87.9	103.2	0.0	0.0	0.0	0.0	0.0	0.0
Securities	**4,321.5**	**4,206.6**	**2,613.9**	**2,960.6**	**1,217.1**	**1,205.8**	**11.5**	**11.7**

	Great Britain				Netherlands			
	Commercial		Residential		Commercial		Residential	
in € million	2014	2013	2014	2013	2014	2013	2014	2013
Apartments	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Detached houses	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.7
Apartment buildings	0.0	0.0	25.7	49.3	0.0	0.0	0.0	0.0
Office buildings	675.3	521.4	0.0	0.0	27.3	70.1	0.0	0.0
Retail buildings	940.8	787.3	0.0	0.0	48.9	95.3	0.0	0.0
Industrial buildings	47.0	43.9	0.0	0.0	0.0	0.0	0.0	0.0
Other commercially used buildings	452.3	330.5	0.0	0.0	72.6	3.2	0.0	0.0
Unfinished new buildings not yet ready to generate a return	0.0	21.8	0.0	0.0	0.0	0.0	0.0	0.0
Building sites	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities	**2,115.4**	**1,704.9**	**25.7**	**49.3**	**148.8**	**168.6**	**0.6**	**0.8**

in € million	Austria				Switzerland			
	Commercial		Residential		Commercial		Residential	
	2014	2013	2014	2013	2014	2013	2014	2013
Apartments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Detached houses	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0
Apartment buildings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Office buildings	14.4	14.1	0.0	0.0	0.0	0.0	0.0	0.0
Retail buildings	46.0	45.8	0.0	0.0	121.3	0.0	0.0	0.0
Industrial buildings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other commercially used buildings	0.0	0.0	0.0	0.0	0.0	114.3	0.0	0.0
Unfinished new buildings not yet ready to generate a return	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Building sites	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities	**60.4**	**59.9**	**0.1**	**0.1**	**121.3**	**114.3**	**0.0**	**0.0**

in € million	Finland				Italy			
	Commercial		Residential		Commercial		Residential	
	2014	2013	2014	2013	2014	2013	2014	2013
Apartments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Detached houses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Apartment buildings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Office buildings	41.3	41.2	0.0	0.0	7.8	0.0	0.0	0.0
Retail buildings	63.7	19.5	0.0	0.0	0.0	87.7	0.0	0.0
Industrial buildings	86.2	89.2	0.0	0.0	0.0	0.0	0.0	0.0
Other commercially used buildings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unfinished new buildings not yet ready to generate a return	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Building sites	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities	**191.2**	**149.9**	**0.0**	**0.0**	**7.8**	**87.7**	**0.0**	**0.0**

in € million	Luxembourg				Japan			
	Commercial		Residential		Commercial		Residential	
	2014	2013	2014	2013	2014	2013	2014	2013
Apartments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Detached houses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Apartment buildings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Office buildings	0.0	8.4	0.0	0.0	0.0	149.7	0.0	0.0
Retail buildings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Industrial buildings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other commercially used buildings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unfinished new buildings not yet ready to generate a return	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Building sites	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities	**0.0**	**8.4**	**0.0**	**0.0**	**0.0**	**149.7**	**0.0**	**0.0**

in € million	Poland				Sweden			
	Commercial		Residential		Commercial		Residential	
	2014	2013	2014	2013	2014	2013	2014	2013
Apartments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Detached houses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Apartment buildings	0.0	0.0	0.0	0.0	0.0	0.0	231.7	175.4
Office buildings	163.1	118.7	0.0	0.0	309.6	205.4	0.0	0.0
Retail buildings	423.7	209.6	0.0	0.0	119.0	76.2	0.0	0.0
Industrial buildings	0.0	0.0	0.0	0.0	215.2	230.7	0.0	0.0
Other commercially used buildings	186.4	81.3	0.0	0.0	0.0	32.5	0.0	0.0
Unfinished new buildings not yet ready to generate a return	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Building sites	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities	**773.2**	**409.6**	**0.0**	**0.0**	**643.8**	**544.8**	**231.7**	**175.4**

in € million	Slowakia				Spain			
	Commercial		Residential		Commercial		Residential	
	2014	2013	2014	2013	2014	2013	2014	2013
Apartments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Detached houses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Apartment buildings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Office buildings	0.0	0.0	0.0	0.0	98.3	119.2	0.0	0.0
Retail buildings	0.0	0.0	0.0	0.0	187.3	228.8	0.0	0.0
Industrial buildings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other commercially used buildings	16.2	0.0	0.0	0.0	11.0	11.0	0.0	0.0
Unfinished new buildings not yet ready to generate a return	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Building sites	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities	**16.2**	**0.0**	**0.0**	**0.0**	**296.6**	**359.0**	**0.0**	**0.0**

in € million	Czech Republic				Hungary			
	Commercial		Residential		Commercial		Residential	
	2014	2013	2014	2013	2014	2013	2014	2013
Apartments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Detached houses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Apartment buildings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Office buildings	166.2	74.3	0.0	0.0	102.0	84.7	0.0	0.0
Retail buildings	51.5	22.5	0.0	0.0	0.0	0.0	0.0	0.0
Industrial buildings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other commercially used buildings	22.4	22.4	0.0	0.0	172.1	172.1	0.0	0.0
Unfinished new buildings not yet ready to generate a return	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Building sites	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities	**240.1**	**119.2**	**0.0**	**0.0**	**274.1**	**256.8**	**0.0**	**0.0**

in € million	Slovenia				Romania			
	Commercial		Residential		Commercial		Residential	
	2014	2013	2014	2013	2014	2013	2014	2013
Apartments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Detached houses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Apartment buildings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Office buildings	0.0	0.0	0.0	0.0	0.0	19.1	0.0	0.0
Retail buildings	37.5	47.2	0.0	0.0	0.0	120.6	0.0	0.0
Industrial buildings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other commercially used buildings	0.0	0.0	0.0	0.0	105.0	108.7	0.0	0.0
Unfinished new buildings not yet ready to generate a return	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Building sites	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities	**37.5**	**47.2**	**0.0**	**0.0**	**105.0**	**248.4**	**0.0**	**0.0**

in € million	Total[1] Commercial 2014	Total[1] Commercial 2013	Total[1] Residential 2014	Total[1] Residential 2013
Apartments	0.0	0.0	178.2	21.9
Detached houses	0.0	0.0	29.1	72.1
Apartment buildings	0.0	0.0	2,584.7	3,069.3
Office buildings	3,861.6	4,075.8	0.0	0.0
Retail buildings	4,000.5	3,529.2	0.0	0.0
Industrial buildings	467.0	443.8	0.0	0.0
Other commercially used buildings	2,058.1	1,606.4	0.0	0.0
Unfinished new buildings not yet ready to generate a return	94.9	82.4	91.5	34.6
Building sites	87.9	103.2	0.0	0.0
Securities	**10,570.0**	**9,840.8**	**2,883.5**	**3,197.9**

	2014	2013
Securities, commerical and residential, total	**13,453.5**	**13,038.7**

1) Excluding further cover assets (€5,873.1 million; 2013: 6,536.8 million)

Loans and advances used to cover mortgage Pfandbrief bonds according to size groups[1]

in € million	2014	2013
up to and including €300,000	211.8	248.8
more than €300,000 and up to and including € 1 million	479.6	1,929.2
more than € 1 million and up to and including € 5 million	1,980.3	
more than €5 million	10,781.8	10,860.7
Total	**13,453.5**	**13,038.7**

2) The size of the groups in outstanding mortgage Pfandbrief bonds were redefined in 2014; the corresponding previous year figures where split according the division of the previous year.

Key figures about outstanding mortgage Pfandbrief bonds and cover pool

in € million		2014
Outstanding Mortgage Pfandbriefe		**15,372.1**
thereof fixed-rate Pfandbriefe section		83.5%
Cover Pool		**19,326.6**
thereof total amount of claims which exceed the limits according to section 13(1)		0.0
thereof total amount of the claims which exceed the limits according to section 19(1) no. 2		0.0
thereof total amount of the claims which exceed the limits according to section 19 (1) no. 3		378.4
thereof fixed-rate cover assets		38.1%
Net present value for each foreign currency in €(Net Total of asset/liability)	CHF	746.0
	DKK	13.0
	GBP	1,449.1
	JPY	75.6
	NOK	1.9
	SEK	533.9
	USD	48.5
volume-weighted average time in years (seasoning)		5.2
weighted average loan-to-value ratio		38.9%
weighted average loan-to-value ratio, based upon the market value -optional-		0.0

Arrears on receivables used as cover for mortgage Pfandbrief bonds

Total payments at least 90 days in arrears

in € million	2014	2013
Germany	4.0	4.6
Netherlands	14.4	0.0
Spain	5.8	0.0
Total	**24.2**	**4.6**

The following details relate to receivables used to cover mortgage Pfandbrief bonds:

Enforcement measures (assets items 2 und 3)

	Number of cases		of which commercial		of which residential	
	2014	2013	2014	2013	2014	2013
Forced sales pending as of 31 December	8	10	0	1	8	9
Administrative receivership	2	9	0	2	2	7
of which included in pending forced sales	2	7	0	1	2	6
Total	**8**	**12**	**0**	**2**	**8**	**10**
Forced sales performed in the financial year	1	2	0	0	1	2

Properties purchased or acquired by auction (assets items 10 und 11)

In the year under review, pbb was not obliged to acquire any salvage acquisition to avoid losses on mortgages.

Interest arrears (assets items 2 and 3)

	of which commercial		of which residential	
in € million	2014	2013	2014	2013
Total amount of arrears on interest to be paid by mortgage borrowers of not written down in previous years	**0.1**	**0.3**	**0.0**	**0.2**

Public-sector Pfandbrief bonds in circulation and related cover assets

	Nominal		Net present value		Risk cash value	
in € million	2014	2013	2014	2013	2014	2013
Total of circulating						
Public Pfandbriefe	20,994.7	23,476.4	25,728.5	26,525.1	27,215.1	28,263.7
Cover funds	24,300.7	26,435.7	28,229.2	29,630.5	28,807.6	30,637.3
Excess cover	**3,306.0**	**2,959.3**	**2,500.7**	**3,105.4**	**1,592.5**	**2,373.6**
OC in % of Pfandbriefe outstanding	15.7%	12.6%	9.7%	11.7%	5.9%	8.4%
Over-Collateralisation in Consideration of vdp-Credit-Quality-Differentiation-Model	3,277.4		2,472.2			
OC in % of Pfandbriefe outstanding	15.6%		9.6%			

1) For the calculation of risk cash value the dynamic rate method is applied (section 5 (1) no. 1)

Maturity structure[1] (remaining maturity) nominal

in € million	Public Pfandbriefe 2014	Public Pfandbriefe 2013	Cover funds 2014	Cover funds 2013
<= 0,5 years	1,961.7	2,188.7	1,729.3	3,941.1
> 0,5 years and <= 1 year	1,904.5		1,561.1	
> 1 year and <= 1,5 years	926.6	3,855.5	1,495.8	2,530.9
> 1,5 years and <= 2 years	444.7		1,246.5	
> 2 years and <= 3 years	2,060.7	1,365.7	2,552.6	2,857.4
> 3 years and <= 4 years	1,485.0	2,088.1	1,657.6	2,596.8
> 4 years and <= 5 years	1,872.3	1,485.0	1,347.6	1,533.4
> 5 years and <= 10 years	2,983.0	4,197.7	4,238.2	4,806.7
> 10 years	7,356.2	8,295.7	8,472.0	8,169.4

1) The maturity structure of outstanding public-sector Pfandbriefe and the cover pool used for this purpose were redefined in 2014; the corresponding figures for the previous year were split according the division of the previous year.

Receivables used as cover for public-sector Pfandbrief bonds

in € million	Germany 2014	Germany 2013	Belgium 2014	Belgium 2013	Denmark 2014	Denmark 2013
Central government	4,355.8	4,828.4	50.0	50.0	0.0	0.0
Regional authorities	6,702.7	7,480.7	200.7	238.5	0.0	0.0
Local authorities	706.9	755.7	0.0	0.0	0.0	0.0
Other	1,497.1	2,139.9	0.0	0.0	41.2	36.3
Total	**13,262.5**	**15,204.7**	**250.7**	**288.5**	**41.2**	**36.3**

in € million	Finland 2014	Finland 2013	France 2014	France 2013	Czech Republic 2014	Czech Republic 2013
Central government	0.0	0.0	633.7	955.5	0.0	40.0
Regional authorities	0.0	0.0	730.8	443.5	0.0	0.0
Local authorities	46.7	50.0	195.3	93.3	0.0	0.0
Other	144.5	71.2	644.2	471.3	0.0	0.0
Total	**191.2**	**121.2**	**2,204.0**	**1,963.6**	**0.0**	**40.0**

in € million	Great Britain 2014	Great Britain 2013	Italy 2014	Italy 2013	Japan 2014	Japan 2013
Central government	17.0	0.0	410.4	14.1	134.0	134.5
Regional authorities	16.0	15.0	19.6	22.6	0.0	0.0
Local authorities	19.3	18.0	25.3	29.3	60.0	60.0
Other	106.9	99.9	0.0	0.0	0.0	0.0
Total	**159.2**	**132.9**	**455.3**	**66.0**	**194.0**	**194.5**

in € million	Netherlands 2014	Netherlands 2013	Austria 2014	Austria 2013	Poland 2014	Poland 2013
Central government	0.0	100.3	3,779.8	3,518.9	99.8	97.8
Regional authorities	0.0	0.0	459.4	490.1	0.0	0.0
Local authorities	0.5	1.4	0.0	0.0	0.0	0.0
Other	0.0	0.0	345.8	645.4	0.0	0.0
Total	**0.5**	**101.7**	**4,585.0**	**4,654.4**	**99.8**	**97.8**

in € million	Portugal 2014	Portugal 2013	Sweden 2014	Sweden 2013	Switzerland 2014	Switzerland 2013
Central government	0.0	0.0	0.0	0.0	0.0	0.0
Regional authorities	285.8	285.8	0.0	0.0	0.0	24.4
Local authorities	0.0	0.0	40.0	40.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	125.0	125.0
Total	**285.8**	**285.8**	**40.0**	**40.0**	**125.0**	**149.4**

in € million	Slovakia		Slovenia		Spain	
	2014	2013	2014	2013	2014	2013
Central government	15.0	15.0	206.5	253.3	300.0	0.0
Regional authorities	0.0	0.0	0.0	0.0	737.6	652.4
Local authorities	0.0	0.0	0.0	0.0	191.1	196.9
Other	0.0	0.0	0.0	17.0	163.3	212.3
Total	**15.0**	**15.0**	**206.5**	**270.3**	**1,392.0**	**1,061.6**

in € million	International Organisations		Total[1)]	
	2014	2013	2014	2013
Central government	0.0	0.0	10,002.0	10,007.8
Regional authorities	0.0	0.0	9,152.6	9,653.0
Local authorities	0.0	0.0	1,285.1	1,244.6
Other	793.0	1,139.0	3,861.0	4,957.3
Total	**793.0**	**1,139.0**	**24,300.7**	**25,862.7**

1) Excluding further cover assets addording to section 20 (2) PfandBG amounting to € - million (2013: € 573 million)

Key figures about outstanding public-sector Pfandrief bonds and cover pool

in € million		2014
Outstanding Mortgage Pfandbriefe		20,994.7
thereof fixed-rate Pfandbriefe		79.4%
Cover Pool		24,300.7
thereof total amount of claims which exceed the limits according to section 20 (1)		0.0
thereof fixed-rate cover assets		68.3%
Net present value for each foreign currency in Euro (Net total of asset/liability)	CHF	-106.2
	DKK	13.3
	GBP	-678.3
	JPY	188.7
	NOK	-37.4
	USD	479.2

Total payments at least 90 days in arrears

As of Balance sheet date no payment was at least 90 days in arrears as was the case in the previous year.

12 Residual maturities of selected balance sheet items

in € thousand	2014	2013
Loans and advances to other banks (assets item 2)	**7,514,018**	**6,658,607**
Repayable on demand	2,000,328	171,030
Loans and advances with duration	5,513,690	6,487,577
- 3 months or less	4,417,550	4,487,625
- between 3 months and 1 year	130,000	380,540
- between 1 year and 5 years	402,266	635,641
- more than 5 years	563,874	983,771
Loans and advances to customers (assets item 3)	**36,398,908**	**34,899,999**
- of undetermined duration	590,559	—
- 3 months or less	1,208,075	2,285,807
- between 3 months and 1 year	2,405,386	2,931,347
- between 1 year and 5 years	16,567,821	14,854,586
- more than 5 years	15,627,067	14,828,259
Bonds and other fixed-interest securities (assets item 4)	**20,806,345**	**22,522,356**
of which falling due in the subsequent year	4,243,846	2,531,084
Accounts due to other banks (equity and liabilities item 1)	**4,461,097**	**4,953,123**
Repayable on demand	1,692,897	148,649
with agreed duration or cancellation period	2,768,200	4,804,474
- 3 months or less	1,204,006	3,007,474
- between 3 months and 1 year	181,054	334,455
- between 1 year and 5 years	637,419	798,294
- more than 5 years	745,721	664,251
Accounts due to customers (equity and liabilities item 2)	**28,753,253**	**29,775,505**
Repayable on demand	1,160,069	477,520
with agreed duration or cancellation period	27,593,184	29,297,985
- 3 months or less	1,816,844	1,701,364
- between 3 months and 1 year	1,851,934	2,603,345
- between 1 year and 5 years	9,447,122	9,350,214
- more than 5 years	14,477,284	15,643,062
Debts evidenced by certificates (equity and liabilities item 3)	**27,320,566**	**28,531,318**
a) Bonds issued	27,196,928	28,418,301
of which maturing in the following year	6,983,126	5,206,215
b) Other	123,638	113,017
- 3 months or less	177	13,017
- between 3 months and 1 year	123,461	100,000
- between 1 year and 5 years	—	—
- more than 5 years	—	—

13 Subordinated assets (assets items 2, 3, 4 and 11)

As in the previous year, no subordinated assets were included in the financial statement.

14 Breakdown of marketable securities and financial investments (assets items 4, 5, 6 and 7)

The marketable securities included in the corresponding asset items are divided into listed and unlisted securities as follows:

	of which listed		of which unlisted	
in € thousand	2014	2013	2014	2013
Bonds and other fixed-interest securities	19,365,572	20,914,363	1,440,773	1,607,993
Shares and other variable-yield securities	—	—	2,219	1,535
Participating interests	—	—	—	—
Shares in affiliated companies	—	—	—	45

15 Bonds and other fixed-income securities (assets item 4)

In bonds and other fixed income securities (asset item 4), pbb has third-party bonds amounting to € 18,147,633 thousand (2013: € 19,122,805 thousand) in its stock, of which € 14,622,135 thousand (2013: € 15,644,694 thousand) is recognised as long term assets and € 3,525,498 thousand (2013: € 3,478,111 thousand) as current assets.

Long-term assets securities, totalling a carrying amount of € 9,943,892 thousand (2013: € 10,527,032 thousand), are not recognised with their lower fair value of € 9,146,535 thousand (2013: € 9,166,606 thousand) as of balance sheet date. Non-applied write-downs to lower fair value of € -797,357 thousand (2013: € -1,360,426 thousand) are divided into the following issuers:

in € thousand	thereof public sector issuers	thereof other banks	thereof other issuers	2014 Total	2013 Total
Book value	4,508,455	3,386,641	2,048,796	9,943,892	10,527,032
Fair value	3,995,157	3,314,403	1,836,975	9,146,535	9,166,606
not applied write-downs in long-term assets	513,298	72,238	211,821	797,357	1,360,426

The corresponding amounts of countries (Sovereign, Sub-sovereign and State-guaranteed) in focus of not recognised write-downs, as mentioned above, are as follows:

in € thousand	Italy	Portugal	Spain	Total
Book value	2,606,540	524,229	939,187	4,069,956
Fair value	2,223,318	491,851	900,176	3,615,345
not applied write-downs in long-term assets	383,222	32,378	39,011	454,611

As of 31 December 2014 and of 31 December 2013 pbb had no exposures to the central governments of Greece, Cyprus and Ireland. The same applies to sub-sovereign and state-guaranteed counterparties of these states.

pbb expects all fair values of not impaired bonds to be only temporarily lower than the carrying amount. No payment interruptions or doubts of recoverability of those bonds were observed. As the financial stabilisation mechanism was in place a write down to the lower fair value for euro area countries in focus was not required.

In the following financial year, bonds and other fixed-income securities amounting to € 4,243,846 thousand (2013: € 2,531,084 thousand) will become due.

16 Participating interests and shares in affiliated companies (assets items 6 and 7)

In participating interests (assets items 6) and shares in affiliated companies (assets items 7), pbb was, with the exception of Ragnarök Vermögensverwaltung AG & Co. KG, Munich, never a shareholder with unlimited liability.

Shares in affiliated companies

Name and registered office	Capital share in %, total sec. 16 (4) AktG	of which indirect	Equity in thousand	Net income in thousand	Currency
Gfl-Gesellschaft für Immobilienent-wicklung und-verwaltung mbH i.L., Stuttgart	100.00%		10	—	EUR
Hypo Real Estate Capital India Corp. Private Ltd. i.L., Mumbai	100.00%		18,652	-980	INR
Hypo Real Estate Capital Japan Corp., Tokio	100.00%		30,486,256	-117,223	JPY
with following participation Hayabusa Godo Kaisha, Tokio	100.00%	100.00%	-252,896	-9,050	JPY
Hypo Real Estate International LLC I, Wilmington	100.00%		114,182	346,936	EUR
Hypo Real Estate International Trust I, Wilmington	100.00%		-113,700	119,000	EUR
IMMO Immobilien Management Beteiligungsgesellschaft mbH, Munich	100.00%		20	-8	EUR
IMMO Immobilien Management GmbH & Co. KG, Munich	100.00%		1,223	-11	EUR
IMMO Invest Real Estate GmbH, Munich	100.00%		3,028	—[1)]	EUR
with following participation RPPSE Espacio Oviedo S.L.U.	100.00%	100.00%	-2,543	-13,693	EUR
Ragnarök Vermögensverwaltung AG & Co. KG, Munich	100.00%	6.00%	1,158	-65[2)]	EUR

1) Profit absorbed by shareholders due to profit transfer agreement
2) General partner liability

Participating interests

Name and registered office	Capital share in %, total sec. 16 (4) AktG	of which indirect	Equity in thousand	Net income in thousand	Currency
SANO Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Dresden KG, Düsseldorf	33.33%		-3,331	546	EUR
SOMA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Darmstadt KG, Düsseldorf	33.33%		-10,170	60	EUR
WISUS Beteiligungs GmbH & Co. Zweite Vermietungs-KG, Munich	33.00%		-1,959	308	EUR

All other participating interests are below 20 %. There are no further participations in large corporations exceeding 5 % of voting rights.

For the purpose of a salvage acquisition, all shares of the Spanish society RPPSE Espacio Oviedo S.L.U., Madrid, were acquired by IMMO Invest Real Estate GmbH with the purchase and transfer agreement dated 25 February 2014. The purchase price amounted to € 1.00,

With the sale and transfer agreement dated 18 July 2014, pbb has sold its share in DEPFA Finance NV, Amsterdam. The sale resulted in a gain of € 5,515 thousand.

As of 31 December 2014 the following exchange rates were applied:

India	1 € =	76.719	INR
Japan	1 € =	145.230	JPY

17 Special transactions (assets item 8 and equity and liabilities item 4)

Trust assets and trust liabilities brake down into balance sheet items as follows:

in € thousand	2014	2013
Loans and advances to customers	234	2,886
Accounts due to other banks	173	267
Accounts due to customers	61	2,619

18 Intangible assets (assets item 9)

The recognised amount of intangible assets includes acquired software totalling € 6,988 thousand (2013: € 15,907 thousand).

19 Tangible assets (assets item 10)

Tangible assets include € 8,283 thousand (2013: € 1,810 thousand) office equipment.

20 Schedule of changes in fixed assets (assets items 4, 6, 7, 9 and 10)

in € thousand	Intangible assets	Tangible assets	Investment securities	Participating interests	Shares in affiliated companies
Book value 1.1.2013	**26,947**	**2,601**	**19,215,529**	**196**	**273,677**
Cost	120,935	17,175			
Additions due to merger	—	—			
Additions	1,507	72			
Disposals	-4,737	-2,647			
Transfers	—	-8			
Currency changes	1	-44			
Write-ups	—	—			
Depreciation/amortisation	-11,136	-943			
Cumulative depreciation/amortisation	-101,799	-12,738			
Changes + / -[1)]			-3,570,834	—	-62,211
Book value 31.12.2013	**15,907**	**1,810**	**15,644,695**	**196**	**211,466**
Book value 1.1.2014	**15,907**	**1,810**	**15,644,695**	**196**	**211,466**
Cost	117,912	15,996			
Additions due to merger	—	—			
Additions	1,680	7,253			
Disposals	-13,136	-1,005			
Transfers	—	—			
Currency changes	3	141			
Write-ups	—	—			
Depreciation/amortisation	-7,390	-489			
Cumulative depreciation/amortisation	-99,471	-14,102			
Changes + / -[1)]			-1,022,560	—	2,221
Book value 31.12.2014	**6,988**	**8,283**	**14,622,135**	**196**	**213,687**

1) Utilisation was made of the pooling option pursuant to section 34 (3) RechKredV.

21 Other assets (assets item 11)

This item primarily comprises adjustments from the valuation of the hedged foreign currency transactions to the amount of € 101,023 thousand (2013: € 64,030 thousand) and € 71,051 thousand matured debt securities (2013: € - thousand).

Due to the offsetting prohibition of section 246 (2) sentence 2 HGB, claims from reinsurance policies for pensions which were not pledged are disclosed in other assets. These claims amount to € 9,378 thousand (2013: € 9,199 thousand). After offsetting with reinsured provisions for pensions and provisions for partial retirement, the fair values of the pledged claims from pension obligations are disclosed in the position "Active difference resulting from asset offsetting".

22 Active difference resulting from asset offsetting (assets item 13)

The active difference (section 246 (2) sentence 2 and 3 HGB) reported in the annual financial statements as of 31 December 2014, to the amount of € 5,227 thousand (2013: € 18,180 thousand) results from reinsurance claims for pensions with a fair value of € 181,453 thousand (2013: € 182,031 thousand) netted with pension provisions amounting to € 176,226 thousand (2013: € 163,851 thousand). Income from reinsurance claims for pensions of € 8,385 thousand (2013: € 5,551 thousand) is netted with expense from the liability amounting to € -10,106 thousand (2013: € -10,386 thousand). There is no difference between acquisition costs and fair value of reinsurance claims for pensions. Thus, the limited profits distributions according to (section 268 (8) HGB) is not applicable.

23 Prepaid expenses and deferred charges (assets item 12 and equity and liabilities item 6)

in € thousand	2014	2013
Asset item 12 a)		
Deferred charges and prepaid expenses from issues and loans	92,623	98,760
of which:		
Discount from debt securities and loans raised	78,451	82,708
Premium from lendings	14,172	16,052
Equity and liabilities item 6 a)		
Deferred income from issues and loans	153,512	98,599
of which:		
Discount from lendings	101,043	83,854
Premium from debt securities and loans raised	52,469	14,745

24 Sundry liabilities (equity and liabilities item 5)

Other liabilities mainly include the balancing item from currency derivatives amounting to € 55,353 thousand (2013: € - thousand).

25 Provisions for pensions and similar commitments (equity and liabilities item 7a)

In this item, as of balance sheet date 31 December 2014, according to section 246 (2) sentence 2 HGB, only provisions for pensions and similar commitments after netting with plan asset are shown (provisions for pensions € 212,499 thousand (2013: € 207,086 thousand), netted with the amount of plan assets of € 176,226 thousand (2013: € 163,850 thousand)).

The provisions for pensions of former members of the Management Board and their surviving dependents amount to € 63,208 thousand (2013: € 62,117 thousand).

26 Other provisions (equity and liabilities item 7c)

Other provisions include the following main items:

> Restructuring provisions amounting to € 38,393 thousand (2013: € 45,486 thousand).

> Provisions for valuation units to the amount of € 39,906 thousand (2013: € 47,180 thousand)

> Provisions for litigation risks and associated interest at the rate of € 76.176 thousand (2013: € 29,195 thousand).

27 Subordinated liabilities (equity and liabilities item 8)

This item relates to borrower's note loans, bearer bonds and registered bonds. The fixed interest rates issues have interest rates between 2.777% per annum and 8.06% per annum. The maturity dates range between 2015 and 2037.

Subordinated liabilities include interest expenses of € -76,216 thousand (2013: € -183,319 thousand). This balance sheet item includes proportional interests of € 46,169 thousand (2013: € 52,673 thousand).

One item exceeding 10% of the total amount of subordinated liabilities is included in the issue amount.

in € thousand Year issued	Nominal value	Interest rate	Maturity dates
2007	350,076	5.879%	2037

Registered participation certificates were added, resulting from the merger with DEPFA Deutsche Pfandbriefbank AG in 2009. According to section 23 UmwG equivalent rights were granted to the holders. Repayment claims of holders amounted to € 77,000 thousand (2013: € 77,000 thousand). These repayment claims are subordinated to all non-subordinated creditors.

The terms of the funds are structured in such a way that they correspond to the requirements of section 10 (5a) KWG.

28 Participatory capital (equity and liabilities item 9)

As of 31 December 2014, pbb has no participatory capital on its stock. The previous year figure concerned an emission of a registered participation certificate from 1989 with a nominal amount of € 10,226 thousand, the book value of which was nil reflecting the no longer eligible repayment claim arising from the historical bail-in in accordance with the conditions for participation certificates.

29. Development in equity (equity and liabilities item 11)

Subscribed capital equals the maximum liability of the shareholder for the liabilities of the corporation to its creditors. Additional paid-in capital includes premiums from the issue of shares and the contribution of Finanzmarktstabilisierungsfonds-FMS to reserves. Retained earnings were generally created only from net income of the current financial year or previous periods. This includes legal reserves to be created from net income and other retained earnings.

Changes in Equity

	Capital stock			Additional paid-in capital	Retained earnings			Unappropriated retained loss	Total
in € thousand	Subscribed capital	Silent participation	Total		Statutory reserve	Other retained earnings	Total		
Equity as of 01.01.2013	380,376	128,810	509,186	5,038,123	12,655	266,546	279,201	-3,266,160	**2,560,350**
Net income			—				—	-52,785	**-52,785**
"Loss participation" of silent participation		-37,186	-37,186				—	37,186	**—**
Change of profit participating certificates			—				—	-5,177	**-5,177**
Equity as of 31.12.2013	**380,376**	**91,624**	**472,000**	**5,038,123**	**12,655**	**266,546**	**279,201**	**-3,286,936**	**2,502,388**
Equity as of 01.01.2014	**380,376**	**91,624**	**472,000**	**5,038,123**	**12,655**	**266,546**	**279,201**	**-3,286,936**	**2,502,388**
Net income			—				—	159,252	**159,252**
Equity transfer			—	-1,770,928			—	1,770,928	**—**
"Loss participation" of silent participation			—				—	—	**—**
Change of profit participating certificates			—				—	-24,857	**-24,857**
Equity as of 31.12.2014	**380,376**	**91,624**	**472,000**	**3,267,195**	**12,655**	**266,546**	**279,201**	**-1,381,613**	**2,636,783**

30. Capital stock (equity and liabilities item 11a)

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

In the year 2009 Finanzmarktstabilisierungsfonds-FMS provided pbb with a silent participation of € 1.0 billion. The silent participation participates in the cumulative loss calculated in accordance with the regulations of commercial law to the same extent that the silent participation is related to the total carrying amount of all liable capital shares which participate in the cumulative loss. The total loss of the silent partner in relation to the cumulative loss under commercial law is limited to its silent contribution. The cumulative loss which is attributable to the year 2008 is not used for calculating the loss participation. At the end of the year 2014, the silent contribution was unchanged compared with the previous year and amounted to € 91,624 thousand. pbb has a replenishment obligation.

The silent partner is not entitled to cancel the participation agreement. If the exclusion of the notice period is legally void, termination cannot be effective before 31 December 2039. A complete or partial termination on the part of pbb is not possible prior to the expiration of a 5 year period. The silent participation conforms to the requirements of subordination according to section 10 (5) and (5a) KWG.

As of balance sheet date the capital stock amounts to € 472,000,165.53 (2013: € 472,000,165.53).

31. Additional paid-in capital (equity and liabilities item 11b)

To partially offset the net loss, a withdrawal of additional paid-in capital was made in the amount of € 1,770,928 thousand in accordance with section 272 (2) number 1-3 HGB.

Additional paid in capital as per section 272 (2) number 4 HGB, amounts to € 3,241,811 thousand (2013: € 3,241,811 thousand).

32. Foreign currency positions

Assets denominated in foreign currencies totalled € 9,272,038 thousand (2013: € 9,042,997 thousand). As of the end of the year liabilities denominated in foreign currencies amounted to € 9,242,884 thousand (2013: € 8,776,792 thousand).

33. Assets transferred as collateral

The following assets were transferred as collateral for the Bank's own liabilities:

	Balance sheet value	
in € thousand	2014	2013
Pledging of securities arising from open market transactions with the ECB	—	—
Securities sold under agreement to repurchase	534,515	1,073,904
Loans sold under agreement to repurchase	93,894	102,100
Pledging of loans to secure loans taken up	166,056	77,151
Pledging of a security to secure loans taken up	17,967	20,085
Cash collateral posted at other banks	1,966,594	1,465,244

All assets are transferred for liabilities to credit institutions.

34. Receivables due from, and liabilities to, affiliated companies and other Group companies

in € thousand		From / to associated companies		From /to other Group companies	
		2014	2013	2014	2013
Loans and advances to banks	(Asset item 2)	—	55,078	—	—
Loans and advances to customers	(Asset item 3)	107,622	108,802	39,104	41,275
Bonds and other fixed-interest securities	(Asset item 4)	—	—	—	—
Accounts due to other banks	(Equity and liabilities item 1)	—	75,202	—	—
Accounts due to customers	(Equity and liabilities item 2)	530,217	221,510	—	—
Debts evidenced by certificates	(Equity and liabilities item 3)	891,728	822,348	—	—
Subordinated liabilities	(Equity and liabilities item 8)	361,338	634,608	—	—

Other Information

35. Contingent liabilities (equity and liabilities item 1b below the line)

pbb, Munich, as a legal successor of Hypo Real Estate Bank International AG, 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 to the guarantee contract to all liabilities, which existed until the date of sale. Due to the current development in earnings, assets and financial position as well as the expected future development, pbb does not rule out the default of Hypo Public Finance Bank puc, Dublin, but a default should be rather unlikely.

Reported liabilities from guarantees and indemnity agreements amounted to € 84,463 thousand (2013: € 55,784 thousand) resulting from bank business. Before committing to guarantees or indemnity agreements a thorough credit check of the potential guarantee takes place. Any deterioration of creditworthiness which follows is monitored closely and appropriate provisions are made as necessary. Latent risks from guarantees and indemnity agreements are additionally covered by general allowances. In this regard, pbb has no signals for further future defaults.

36. Other commitments (equity and liabilities item 2c below the line)

The reported irrevocable loan commitments of € 2,237,716 thousand (2013: € 2,538,359 thousand) relate, with an amount of € 1.887.803 thousand (2013: € 2,330,990 thousand), to mortgage loans and, with € 349,913 thousand (2013: € 207,369 thousand), to loans granted to the public sector. Before granting a loan, a thorough credit check of the potential borrower takes place. Any deterioration of creditworthiness which follows is monitored closely and appropriate provisions are made as necessary. Latent risks from irrevocable loan commitments are additionally covered by general allowances. In this regard pbb has no signals for further future defaults.

37. Off-balance sheet liabilities and other financial obligations

Off-balance sheet liabilities and other financial obligations existed as of the balance sheet date as follows:

pbb, Munich, as a legal successor of Hypo Real Estate Bank International AG, has committed support to Hypo Real Estate Bank International LLC I, Wilmington, to honour all financial obligations on maturity date. Based on the actual financial and assets position, the income situation and the future outlook of Hypo Real Estate Bank International LLC I, Wilmington, pbb does not exclude any default, but assesses the default risk to be unlikely.

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

The Restructuring Fund Ordinance specifies an additional charge for the so-called bank levy. The difference between the actually determined bank levy and the calculated standard amount for the years 2011 to 2019 can be subsequently charged in the following two years in each case. However, the

obligation to pay the additional amount arises only if corresponding profits are generated in subsequent financial years; the amount of this payment is capped by the feasibility or charge specified in the ordinance. Whether the additional payment becomes due, and also the extent of such an additional payment, accordingly depend on profits being generated in subsequent years. The additional payment which pbb can be charged in 2015 and 2016 totals to € 13 million.

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

Miscellaneous other financial obligations existing as of the balance sheet date lie within a normal business scope.

38. Legal Risks

pbb 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 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 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 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 believes that the outcome of the proceedings would be seriously compromised by their disclosure.

pbb received contractually agreed compensation of €6 million for a former French financing arrangement, which has since been repaid in full. The customer has brought an action before the Paris commercial court for repayment of the fee, which it believes to be unreasonable. The court dismissed the action in full on 7 October 2014. The plaintiff appealed against this dismissal.

In appraisal proceedings relating to the merger of three predecessor mortgage banks to form pbb in 2001, the new appraisal ordered by the court has resulted in an additional payment averaging €1.00 per share. The potential subsequent payment claims amount up to €9.4 million plus interest as from 2001.

The profit participation certificates issued by the predecessor institutions participated in significant losses due to the net losses for the period incurred since 2008, and to pbb's net accumulated losses since this time. The redemption amounts have reduced and interest paymant has been suspended. Individual investors therefore initiated legal proceedings, contesting in particular various individual clauses relating to loss participation and replenishment following loss participation. The key questions in this connection are which balance sheet items must be taken into account to calculate loss participation and whether replenishment is required if pbb records a net income, unappropriate retained earnings or a other income. Courts have decided against the legal view of pbb especially in view of the individual decisions regarding profit participation certificates. The bank has lodged appeals in these cases. The contested profit participation certificates had a notional amount of €221 million. Of which proceedings involving a principal amount of €15.4 million were pending in which the plaintiff is demanding a repayment of €6.3 million. These claims may ultimately result in a full or partial increase in the repayment claims and, if applicable, result in interest claims by the plaintiff.

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

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

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 for other reasons, exist with an amount in dispute in excess of more than €5 million.

39. Financial derivatives

The following section presents derivative transactions that are open as of the balance sheet date corresponding to the recommendations of the Accounting Committee of the Bundesverband deutscher Banken in conjunction with section 285 number 19 HGB.

Financial derivatives are done almost exclusively to hedge against interest-rate and currency risks (only OTC products) as part of the management of assets and liabilities and micro control. As far as possible, the negative balances arising from the market values of financial derivatives are offset with positive market values arising from the corresponding balance sheet transactions. Counterparties include OECD governments, OECD banks, and OECD financial institutions and customers. Customer derivatives are exclusively done to hedge credit risks.

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

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

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

The nominal volume of non-balance-sheet-effective transactions amounted to € 97,928 million (2013: € 101,649 million) as of the end of 2014. Using the market measurement method (unnetted), the counterparty default risk amounted to € 8,465 million (2013: € 6.243 million) as of this date, corresponding to 9 % of the nominal volume (2013: 6 %). The fair value of the derivatives was calculated on the basis of generally recognised financial-mathematical models. These are essentially the discounted cash flow model, the Black & Scholes model, and the Hull-White model.

Financial derivatives

in € million	Nominal amount: Residual term <= 1 year	Nominal amount: Residual term 1 - 5 years	Nominal amount: Residual term > 5 years	Nominal amount: Total 2014	Nominal amount: Total 2013	Fair value: positive 2014	Fair value: positive 2013	Fair value: negative 2014	Fair value: negative 2013
Interest-related transactions	**11,880**	**42,817**	**37,248**	**91,945**	**96,507**	**8,411**	**6,176**	**7,939**	**5,830**
OTC products									
FRAs	—	—	—	—	—	—	—	—	—
Interest-rate swaps (same currency)	10,464	38,001	37,190	85,655	92,024	8,407	6,165	7,934	5,815
Interest-rate option - purchases	677	2,408	29	3,114	2,194	4	11	—	—
Interest-rate option - sales	739	2,408	29	3,176	2,289	—	—	5	15
Other interest-rate contracts	—	—	—	—	—	—	—	—	—
Currency transactions	**4,355**	**1,284**	**344**	**5,983**	**5,142**	**54**	**67**	**104**	**64**
OTC products									
Currency futures	4,194	—	—	4,194	3,854	19	17	55	38
Cross-currency swaps	161	1,284	344	1,789	1,288	35	50	49	26
Currency option - purchases	—	—	—	—	—	—	—	—	—
Currency option - sales	—	—	—	—	—	—	—	—	—
Total	**16,235**	**44,101**	**37,592**	**97,928**	**101,649**	**8,465**	**6,243**	**8,043**	**5,894**

The following value components for financial derivatives are shown in the balance sheet:

Accrued Interest

in € million		2014: Interest-related transactions	2014: Currency transactions	2014: Total	2013: Total
Loans and advances to other banks	(Asset item 2)	710	3	713	818
Loans and advances to customers	(Asset item 3)	71	—	71	81
Other assets	(Asset item 11)	—	—	—	1
Accounts due to other banks	(Equity and liabilitie item 1)	649	3	652	691
Accounts due to customers	(Equity and liabilitie item 2)	4	—	4	10
Sundry liabilities	(Equity and liabilitie item 5)	—	—	—	—
Total		**128**	**—**	**128**	**199**

Currency effect

in € million		2014 Interest-related transactions	2014 Currency transactions	2014 Total	2013 Total
Other assets	(Asset item 11)	—	101	101	63
Sundry liabilities	(Equity and liabilitie item 5)	—	55	55	—
Total		—	**46**	**46**	**63**

Option fees / upfront fees

in € million		2014 Interest-related transactions	2014 Currency transactions	2014 Total	2013 Total
Deferred charges and prepaid expenses	(Asset item 12)	286	5	291	301
Deferred income	(Equity and liabilitie item 6)	515	1	516	540
Total		**-229**	**4**	**-225**	**-239**

Provisions for anticipated losses

in € million		2014 Interest-related transactions	2014 Currency transactions	2014 Total	2013 Total
Other provisions	(Equity and liabilitie item 7)	40	—	**40**	**47**

40. Credit derivatives

As in the previous year, pbb does not participate in the credit derivatives market.

41. Valuation units

At present, pbb shows interest rate risks in micro-valuation units only. The carrying amounts (fair value for derivatives) of the underlying transactions, included in valuation units, are as follows in the table below:

Book value in € thousand	2014	2013
Assets		
Bonds and other fixed-interest securities	9,196,673	10,293,878
Loans and advances to customers	8,724,069	8,726,894
Loans and advances to other banks	114,293	165,014
Liabilties		
Debts evidenced by certificates	19,766,599	19,206,026
Accounts due to customers	17,660,024	19,900,430
Accounts due to other banks	835,480	972,213
Derivates positive market value (clean)	5,333,003	3,443,439
Derivates negative market value (clean)	5,128,035	3,480,233

The following overview shows the amount of hedged risk in valuation units (corresponding to the risk indicated fair value portion):

in € thousand	effective part 2014	negative ineffective part 2014	effective part 2013	negative ineffective part 2013
Assets				
Schuldverschreibungen und andere festverzinsliche Wertpapiere	2,373,260	-10	1,808,200	-40
Forderungen an Kunden	2,619,539	—	1,396,617	-240
Forderungen an Kreditinstitute	1,105	—	9,835	—
Liabilities				
Debts evidenced by certificates	828,767	8,239	566,027	3,546
Accounts due to customers	4,211,736	25,484	2,404,065	27,306
Accounts due to other banks	69,655	492	50,631	567
Derivates positive market value (clean)	5,144,789	—	3,240,525	—
Derivates negative market value (clean)	5,028,535	5,681	3,434,454	15,481
Total	**—**	**-39,906**	**—**	**-47,180**

The negative ineffective part results from the ineffective portion of the hedged risk of valuation units considering the imparity as a provision for anticipated losses from pending transaction. In the current financial year, provisions for anticipated losses of € 7.3 million were released (2013: release of € 11.0 million). As of 31 December 2014, the provision for anticipated losses amounts to € 39.9 million (2013: € 47.2 million).

Following pbb´s approach to conclude transactions of underlying and hedging with the same and very similar conditions, it is expected that the risks for the transactions in the combined valuation units are comparable and mostly counter-developing. Hedge transactions basically have the same due date as the corresponding underlying transaction, early reversals or time limited hedges are possible in individual cases.

A sensitivity and regression analysis is utilised to assess the hedge effectiveness. To calculate the amount of cumulative ineffectiveness, the risk indicated volume of the underlying and hedge transaction were compared.

42. Boards

Supervisory Board

Name, place of residence Function in the Supervisory Board	**Principal activity** Function in committees of the Supervisory Board
Dr. Günther Bräunig, Frankfurt / Main Chairman (since 26.8.2014)	**Member of the Management Board of KfW** Chairperson of Executive Board Committee and Compensation Control Committee, member of Audit Committee and Risk Mangement and Liquidity Strategy Committee
Dr. Bernd Thiemann, Muenster Chairman (until 26.8.2014)	**Former Chairman of the Management Board of DG Bank AG** Chairperson of Executive Board Committee and Compensation Control Committee, member of Audit Committee and Risk Mangement and Liquidity Strategy Committee
Dagmar Kollmann, Vienna Deputy Chairperson	**Entrepreneur** Chairperson of Audit Committee and member of Executive Board Committee, Risk Mangement and Liquidity Strategy Committee and Compensation Control Comittee

Dr. Christian Gebauer-Rochholz, Hochheim Workers' Council Representative	**Bank employee**
Dr. Alexander Groß, Teltow Member (until 25.2.2014)	**Head of the Economic Policy department in the Bundesministerium für Wirtschaft und Technologie**
Georg Kordick, Poing Workers' Council Representative	**Bank employee**
Joachim Plesser, Ratingen Member (since 26.8.2014)	**Former member of the Management Board of Eurohypo AG** Chairperson of Risk Mangement and Liquidity Strategy, member of Executive Board Committee, Audit Committee and Compensation Control Comittee
Dr. Ludger Schuknecht, Frankfurt / Main Member	**Director General for economic and fiscal policy strategy; international economy and finance in the Bundesministerium der Finanzen**
Heike Theißing, Munich Workers' Council Representative	**Bank employee** Member of Control Compensation Committee
Dr. Hedda von Wedel, Andernach Member	**President of the Bundesrechnungshof, retired** Member of Audit Committee
Dr. Jeromin Zettelmeyer, Berlin member (since 15.4.2014)	**Head of the Economic Policy department in the Bundesministerium für Wirtschaft und Energie**

Management Board

Name, place of residence Function in the Management Board	Mandates held on statutory supervisory bodies of major corporations
Andreas Arndt, Munich Co-CEO (since 1.10.2014) CFO (since 15.4.2014 until 30.9.2014)	
Manuela Better, Munich CEO (until 3.6.2014)/CRO (until 1.3.2014)	Non Executive Director of DEPFA Bank plc, until 5th June 2014 Non Executive Director of DEPFA ACS Bank, until 5th June 2014 Non Executive Director of Hypo Public Finance Bank, until 5th June 2014 AXA Konzern AG, since 27.05.2014
Thomas Köntgen, Frankfurt am Main Co-CEO (since 1.10.2014)	
Wolfgang Groth, Tawern Treasury/ Asset Management	Non Executive Director of DEPFA Bank plc Chairman and Non Executive Director of DEPFA ACS Bank, since 24th July 2014 Chairman and Non Executive Director of Hypo Public Finance Bank
Andreas Schenk, Dreieich CRO (since 1.3.2014)	
Dr. Bernhard Scholz, Regensburg Real Estate Finance/ Public Investment Finance	
Alexander von Uslar, Gruenwald CFO/COO (until 16.5.2014)	

43. Employees

Average over the year (excluding senior staff)	2014 male	2014 female	2014 Total	2013 Total
Full-time employees	494	226	720	825
Part-time employees	10	92	102	118
Summe	**504**	**318**	**822**	**943**

The decrease resulted, in particular, from the transfer of employees from pbb to FMS Wertmanagement Service GmbH in the fourth quarter of 2013.

44. Loans to board members

There were no receivables due from Board Members arising from loans or advances as of the balance sheet date.

45. Treasury shares

In the financial year, pbb acquired no common stock of HRE Holding AG, Munich. There are no holdings in treasury shares as of the balance sheet date.

46. Consolidated financial statements

HRE Holding AG, Munich, prepares consolidated financial statements according to International Financial Reporting Standards (IFRS), in which the pbb is included. The consolidated financial statements are published in the electronic Federal Gazette. The consolidated financial statements can also be viewed on the Internet.

Statement of Compliance for the Public Corporate Governance Code of the Federation

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

Munich, 18 March 2015

Deutsche Pfandbriefbank AG, Munich

The Management Board

Andreas Arndt	Thomas Köntgen	
Wolfgang Groth	Andreas Schenk	Dr. Bernhard Scholz

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of pbb, Munich, and the Management Report includes a fair review of the development and performance of the business and the position of the Bank, together with a description of the material opportunities and risks associated with the expected development of the Bank.

Munich, 18 March 2015

Deutsche Pfandbriefbank AG, Munich

The Management Board

Andreas Arndt	Thomas Köntgen	
Wolfgang Groth	Andreas Schenk	Dr. Bernhard Scholz

The following auditor's report, prepared in accordance with § 322 HGB ("Handelgesetzbuch": "German Commercial Code"), refers to the complete annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the management report of the Deutsche Pfandbriefbank AG for the financial year 1 January to 31 December 2014. The management report is not included in the Prospectus. The above-mentioned auditor's report and financial statements are both translations of the respective German-language documents.

Auditor's Report

"We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the Deutsche Pfandbriefbank AG, Munich, for the business year from 1 January to 31 December 2014. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

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

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with (German) principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development."

Munich, 18 March 2015

KPMG AG
Wirtschaftsprüfungsgesellschaft

Wiechens
Wirtschaftsprüfer

Schmidt
Wirtschaftsprüferin

27 RECENT DEVELOPMENTS AND OUTLOOK

Since March 31, 2015 until the date of the Prospectus, there have been no significant changes in pbb Group's business, financial position or results of operations other than those described below.

The economic development in the countries where pbb Group operates was fairly positive since March 31, 2015. Most European economies entered the year 2015 in recovery mode, as business investment picked up. Real GDP in the European Union in the first quarter of 2015 increased by 0.4% compared to the last quarter of 2014 on a seasonal and working-day adjusted basis (source: Eurostat). According to Bloomberg (source: "Markit Eurozone Composite PMI SA; Bloomberg Ticker: MPMIEZCA" by Bloomberg), real GDP growth in the EU is expected to be fairly robust in the second quarter of 2015. Fears of imminent deflation appear to have subsided, with aggregate economic demand picking up amid a slow, but persistent decline in the unemployment rate while the ECB continues to provide liquidity. Long-term interest rates have also started their normalization process, accompanied by higher interest rate volatility. Against this backdrop, spreads for the funding of the Company remained in general at the same levels as in March 2015, while rating agencies continued to adapt their rating methodologies and models, in particular with regard to systemically important banks and the bail-in of senior unsecured creditors.

The on-going debt crisis of Greece has led to an increased volatility of the financial markets and such volatility can be expected to continue.

Transaction volumes in commercial real estate were high in April and May 2015 in most of the markets where pbb Group operates. In Germany the rolling transaction volume of the twelve months ended May 31, 2015 amounted to over €40 billion with €3 billion in May 2015 (source: "Investment Market monthly Germany, May 2015" by Savills). pbb Group believes that the number of domestic and cross-border investors actively targeting not only prime markets and locations, but also non-core opportunities in commercial real estate, is increasing further.

pbb Group's REF new business volumes in the second quarter of 2015 were almost on the same level as in the first quarter of 2015, but higher than in the second quarter of 2014, and contributed to a better than expected REF new business volume in the first six months of 2015 (based on commitments and extensions of more than one year). The REF new business margins continued to be subject to pressure from increasing competition in the market. pbb Group's PIF new business volumes (based on commitments and extensions of more than one year) in the second quarter of 2015 were higher than in the first quarter of 2015 and higher than in the second quarter of 2014. The overall PIF new business volume in the first six months of 2015 (based on commitments and extensions of more than one year) is below expectations, also due to low PIF market activity in France with moderate investment spending by local authorities.

Following the announcement of Moody's on June 19, 2015 to downgrade the long-term senior unsecured ratings of the Company to 'Ba1' (stable outlook), the spreads for unsecured securities issued by pbb Group increased significantly. On June 29, 2015, Moody's announced the withdrawal of the unsecured ratings. Standard & Poor's has announced the application of revised rating criteria for Pfandbriefe to become effective as from mid July 2015 (expected). pbb Group expects these to result in an increase of the over-collateralization requirements for Pfandbriefe. pbb Group is considering to meet the new requirements, should they be implemented, with regard to its Mortgage Pfandbriefe. It may consider, however, to keep or reduce the current over-collateralization level for its Public Sector Pfandbriefe and accept their potential downgrade (expected to 'AA-').

pbb Group realized a material gain from the sale of an office building in Japan in April 2015. The office building was owned by pbb Group consolidated company Hayabusa Godo Kaisha, Japan, which had been acquired as a result of a rescue acquisition. With the sale price exceeding the book value of the property, pbb Group realized an extraordinary profit of €39 million before tax while HREC Japan, a subsidiary of the Company, discontinued to provide services to FMS-WM on June 29, 2015. pbb Group also realized €12 million in net interest income from the release of a cash flow hedge reserve. As the cash flow hedge became partly ineffective, derivatives had to be redesignated from the cash flow hedge accounting and released to the profit and loss account. These two positive one-off effects were off-set by a further increase in the provisions made for certain legal proceedings initiated by former holders of participation certificates and by losses from the sale of bonds. pbb Group sold bonds in an aggregate nominal amount of €944 million plus JPY 2 billion (€14.6 million based on the currency exchange rate as of June 30, 2015) since April 1, 2015 until June 30, 2015.

Total assets decreased after March 31, 2015. As of May 31, 2015, total assets amounted to €71.2 billion compared to €75.4 billion as of March 31, 2015. This decrease was primarily due to the repayment of a debt security by using existing liquidity in the cash reserve, the sale of the bonds of the Value Portfolio and lower market values of derivatives. On the liability side, the decrease was reflected in lower securitized liabilities and lower market values of derivatives.

The SoFFin Silent Participation of €1.0 billion has been repaid at par on July 6, 2015 based on the SoFFin Silent Participation Repayment Agreement between the Company and FMS dated July 3, 2015. In pbb Group's consolidated statement of financial position according to IFRS, equity decreased by €1.0 billion due to the SoFFin Silent Participation Repayment Agreement. Within equity, the silent partnership contribution, after the repayment, amounts to €0 compared to €999 million prior to the SoFFin Silent Participation Repayment Agreement. Retained earnings (*Gewinnrücklagen*) decreased by €1 million which reflects the original transactions costs that had to be accounted directly to equity at origination of the SoFFin Silent Participation in 2009. Under German GAAP the SoFFin Silent Participation had been subject to write-downs to absorb losses in the previous financial years. Prior to the SoFFin Silent Participation Repayment Agreement, it had a book value of €92 million according to German GAAP. Therefore, the SoFFin Silent Participation Repayment Agreement has used up capital of the Company in the amount of €908 million according to German GAAP. The capital needed has been taken from the additional paid-in capital (*Kapitalrücklage*) pursuant to Section 272(2) no. 4 HGB. To align the equity disclosure in the IFRS consolidated financial statements with German GAAP, the capital use resulted, in the consolidated statement of financial position according to IFRS, in a reduction of €908 million in additional paid-in capital (*Kapitalrücklage*) and an increase of retained earnings (*Gewinnrücklagen*) in the same amount.

The outlook for the European economy in the second half of 2015 continues to look fairly benign. Private consumption is expected to remain the main pillar of economic growth, as most observers see unemployment declining further from structurally high levels. A further pick-up in business investments should also put the economic recovery on a broader basis. However, net export activity might remain weak, thus not adding significantly to, or in some cases even subtracting from, economic growth. Furthermore, downside risks to the European economic recovery still remain in place. These risks mainly stem from higher short-term and long-term U.S. interest rates, uncertainties regarding the future developments in Greece, the very sluggish pick-up in global trade and persisting geopolitical concerns in Eastern Europe and the Middle East.

Based on a positive development of the income statement in the first three months 2015, pbb Group continues to aim for further growth in the year 2015. In particular, pbb Group aims to further improve profitability mainly expressed in profit before tax and return on equity before and after tax and efficiency expressed in a lower cost income ratio. As in previous years, it is expected that the Real Estate Finance segment will be the primary driver for profit or loss before tax.

28 DEFINED TERMS

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Munich, London, Frankfurt am Main, Hamburg, July 7, 2015

Deutsche Pfandbriefbank AG

/s/ Andreas Arndt

/s/ Thomas Köntgen

Citigroup Global Markets Limited

/s/ Andreas Bernstorff

Deutsche Bank Aktiengesellschaft

/s/ Jobst von Hoyningen-Huene

/s/ Heiko Leopold

J.P. Morgan Securities plc

/s/ Stefan Weiner

Joh. Berenberg, Gossler & Co. KG

/s/ Marc C. Gei

/s/ Christian Wöckener-Erten

COMMERZBANK Aktiengesellschaft

/s/ Jörg Alexander Seidel

/s/ Claudia Ebert