Pursuant to article 16 para. 3 of the German Securities Prospectus Act investors who have already agreed to purchase or subscribe for Notes issued under the Programme (as defined herein) before this Third Supplement (as defined herein) has been published shall have the right, exercisable within two working days after the publication of this Third Supplement, to withdraw their purchase or subscription orders, provided that the new factor arose before the final closing of the offer to the public and the delivery of the securities. A withdrawal, if any, is to be addressed to Deutsche Pfandbriefbank AG, Freisinger Straße 5, 85716 Unterschleißheim, Germany provided that the relevant agreement to purchase or subscribe has been entered into with Deutsche Pfandbriefbank AG or to the relevant bank or savings bank or any other distributor with whom the relevant agreement to purchase or subscribe has been entered into.

Supplement pursuant to article 16 para. 1 of the German Securities Prospectus Act dated 11 April 2014

to the base prospectus dated 7 May 2013 relating to

Deutsche Pfandbriefbank AG

Munich, Federal Republic of Germany

as Issuer

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

This supplement (the "Third Supplement") to the base prospectus dated 7 May 2013 is prepared in connection with the Euro 50,000,000,000 Debt Issuance Programme (the "Programme") of Deutsche Pfandbriefbank AG (the "Issuer") and is supplemental to, and should be read in conjunction with, the base prospectus dated 7 May 2013 as supplemented on 20 August 2013 (the "First Supplement") and on 18 December 2013 (the "Second Supplement") (together with the base prospectus dated 7 May 2013, the "Original Base Prospectus") in respect of the Programme. Unless otherwise stated or the context otherwise requires, terms defined in the Original Base Prospectus shall have the same meaning when used in the Third Supplement. As used herein, the term "Base Prospectus" means the Original Base Prospectus as supplemented by the Third Supplement.

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

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

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

This Third Supplement has been prepared following the publication of the consolidated financial information of the Issuer on 3 April 2014.

OVERALL AMENDMENTS

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

I. SUPPLEMENTAL INFORMATION RELATING TO THE TABLE OF CONTENTS

On page 4 of the Original Base Prospectus, the following information shall be added in the "Table of Contents" after the information relating to Appendix III, which has been inserted by way of the First Supplement:

"APPENDIX IV: DEUTSCHE PFANDBRIEFBANK CONSOLIDATED FINANCIAL INFORMATION 2013

INCOME STATEMENT	I-1
STATEMENT OF COMPREHENSIVE INCOME	I-2
STATEMENT OF FINANCIAL POSITION	I-3
STATEMENT OF CHANGES IN EQUITY	I-4
STATEMENT OF CASH FLOWS	I-5
NOTES	I-6 TO I-81
AUDITOR'S REPORT	I-82"

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

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

"

<table>
<tr>
<td>B.12</td>
<td>Selected historical key financial information regarding the Issuer, statement regarding trend information and significant changes in the financial or trading position of the Issuer</td>
<td>
The following table sets forth selected financial information of Deutsche Pfandbriefbank extracted from the audited consolidated financial statements for the financial years ended 31 December 2012 and 2013:
<table>
<tr><td></td><td></td><td></td><td>2013</td><td>2012</td></tr>
<tr><td>Operating performance according to IFRS</td><td></td><td></td><td></td><td></td></tr>
<tr><td>Pre-tax profit/loss</td><td>In Euro million</td><td></td><td>165</td><td>124</td></tr>
<tr><td>Net income/loss</td><td>in Euro million</td><td></td><td>160</td><td>69</td></tr>
<tr><td>Balance sheet figures</td><td></td><td></td><td>31.12.2013</td><td>31.12.2012</td></tr>
<tr><td>Total assets</td><td>in Euro billion</td><td></td><td>approx. 73.9</td><td>approx. 97.1</td></tr>
<tr><td>Equity (excluding revaluation reserve)</td><td>in Euro billion</td><td></td><td>3.4</td><td>3.2</td></tr>
<tr><td>Equity</td><td>in Euro billion</td><td></td><td>approx. 3.5</td><td>approx. 3.3</td></tr>
</table>
There has been no material adverse change in the prospects of the Issuer since the date of its last published audited financial statements (31 December 2013).

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

There has been no significant change in the financial position of the Issuer and its consolidated subsidiaries since the end of the last financial period for which audited financial information has been published (31 December 2013).
</td>
</tr>
</table>

"

On page 7 the information in "Section B – Issuer" under "Element B.13 – Recent Developments", shall be supplemented by adding the following paragraph at the end:

"In accordance with the endorsement by the European Union the Issuer applied IFRS 10 initially with effective date 1 January 2014. Due to the initial application DEPFA Finance N.V., Amsterdam, has been consolidated for the first time which has increased the equity of the Issuer and its consolidated subsidiaries by EUR 5 million as well as their long-term subordinated liabilities by EUR 0.9 billion (notional amount)."

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

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

"

<table>
<tr>
<td>B.12</td>
<td>Ausgewählte wesentliche historische Finanzinformationen über den Emittenten, Erklärung zu Trendinformationen sowie wesentliche Veränderungen der Finanzlage oder Handelsposition des Emittenten</td>
<td>
Die folgende Tabelle enthält ausgewählte Finanzinformationen zur Deutsche Pfandbriefbank aus dem geprüften konsolidierten Jahresabschluss für die zum 31. Dezember 2012 und 2013 beendeten Geschäftsjahre:
<table>
<tr><td></td><td></td><td>2013</td><td>2012</td></tr>
<tr><td>Ergebniszahlen gemäß IFRS</td><td></td><td></td><td></td></tr>
<tr><td>Ergebnis vor Steuern</td><td>in Mio. Euro</td><td>165</td><td>124</td></tr>
<tr><td>Ergebnis nach Steuern</td><td>in Mio. Euro</td><td>160</td><td>69</td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td>Bilanzzahlen</td><td></td><td>31.12.2013</td><td>31.12.2012</td></tr>
<tr><td>Bilanzsumme</td><td>in Mrd. Euro</td><td>ca. 73,9</td><td>ca. 97,1</td></tr>
<tr><td>Bilanzielles Eigenkapital (ohne Neubewertungsrücklage)</td><td>in Mrd. Euro</td><td>3,4</td><td>3,2</td></tr>
<tr><td>Bilanzielles Eigenkapital</td><td>in Mrd. Euro</td><td>ca. 3,5</td><td>ca. 3,3</td></tr>
</table>
Seit dem Datum der Veröffentlichung des letzten geprüften Jahresabschlusses (31. Dezember 2013) hat es keine wesentlichen negativen Veränderungen in den Aussichten der Emittentin gegeben.

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

Seit dem Ende des Stichtags, für den geprüfte Finanzinformationen veröffentlicht wurden (31. Dezember 2013), hat es keine wesentlichen Veränderungen in der Finanzlage der Emittentin und ihrer konsolidierten Tochtergesellschaften gegeben.
</td>
</tr>
</table>

"

On page 19 the information in "Abschnitt B – Emittent" under "Element B.13 – Aktuelle Entwicklungen", shall be supplemented by adding the following paragraph at the end:

"Die Emittentin hat, in Übereinstimmung mit der Übernahme durch die Europäische Kommission, die Erstanwendung von IFRS 10 zum Erstanwendungszeitpunkt 1. Januar 2014 vorgenommen. Durch diese Erstanwendung wurde die DEPFA Finance N.V. erstkonsolidiert, wodurch es zu einer Erhöhung des Eigenkapitals der Emittentin und ihrer konsolidierten Tochtergesellschaften um EUR 5 Millionen sowie ihrer langfristigen nachrangigen Verbindlichkeiten um EUR 0,9 Milliarden (Nominalbetrag) kommt."

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

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

On page 42 of the Original Base Prospectus, the subsection "Recent Events" shall be supplemented by adding the following paragraph at the end of the subsection:

"In accordance with the endorsement by the European Union the Issuer applied IFRS 10 initially with effective date 1 January 2014 (see also page I-9 of the Deutsche Pfandbriefbank Consolidated Financial Information 2013). Due to the initial application DEPFA Finance N.V., Amsterdam, has been consolidated for the first time which has increased the equity of the Issuer and its consolidated subsidiaries by EUR 5 million as well as their long-term subordinated liabilities by EUR 0.9 billion (notional amount)."

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

On page 44 of the Original Base Prospectus, the information in the first paragraph contained in the Section "5. Trend Information", which has been subsequently amended by way of the First Supplement, shall be deleted and replaced as follows:

"There has been no material adverse change in the prospects of the Issuer since the date of its last published audited financial statements (31 December 2013)."

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

On page 47 of the Original Base Prospectus, the following paragraphs shall be added at the end of the Subsection "Historical Financial Information":

"For the financial year ended 31 December 2013, the Issuer has published consolidated financial information including the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows, the notes and the auditor's report (together with the relevant management report the "Deutsche Pfandbriefbank Consolidated Financial Information 2013"). The Deutsche Pfandbriefbank Consolidated Financial Information 2013 are included in Appendix IV to the Base Prospectus (pages I-1 to I-82).

The Deutsche Pfandbriefbank Consolidated Financial Information 2013 has been prepared on the basis of International Financial Reporting Standards ("IFRS") as applicable in the European Union."

On page 47 et seq. of the Original Base Prospectus, the information contained in the Subsection "Auditing of Historical Financial Information" shall be deleted and replaced as follows:

"The statutory auditors of the Issuer (see Section IV.1 "Statutory Auditors") have audited the Deutsche Pfandbriefbank Consolidated Financial Information 2012, the Deutsche Pfandbriefbank Unconsolidated Financial Information 2012 and the Deutsche Pfandbriefbank Consolidated Financial Information 2013 and have issued an unqualified opinion (*uneingeschränkter Bestätigungsvermerk*) in each case."

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

"There has been no significant change in the financial position of the Issuer and its consolidated subsidiaries since the end of the last financial period for which audited financial information has been published (31 December 2013)."

V. SUPPLEMENTAL INFORMATION RELATING TO THE SECTION "V. HYPO REAL ESTATE GROUP"

SUPPLEMENTAL INFORMATION RELATING TO THE SECTION "2. INFORMATION ABOUT HYPO REAL ESTATE GROUP"

On page 52 of the Original Base Prospectus, the subsection "Strategic Reorganisation and Corporate Strategy of Hypo Real Estate Group" shall be supplemented by adding the following information at the end of the fourth paragraph:

"The selling process for DEPFA has started in 2013 and interested bidders have been invited to submit offers for the acquisition of DEPFA until the end of January 2014. Subsequently, Hypo Real Estate Group and FMSA have selected a limited number of bidders with which negotiations on the acquisition of DEPFA have started. If DEPFA is sold during 2014, then the deconsolidation effect will be a significant component of Hypo Real Estate Group's financial position. In case of deconsolidation the equity of DEPFA in the amount of Euro 1 billion attributable to Hypo Real Estate Holding must be deducted from the selling price. Presumably an estimated selling price may significantly fall below the equity of DEPFA attributable to Hypo Real Estate Holding. Thus, the pre-tax profit of Hypo Real Estate Group may be equal to a negative high three-digit million Euro amount. This would also have a significant negative impact on Hypo Real Estate Group's return on equity after taxes. Additionally this would result in a cost-income-ratio of over 100%."

VI. SUPPLEMENTAL INFORMATION RELATING TO THE APPENDICES

After page H-39 of the Original Base Prospectus the Deutsche Pfandbriefbank Consolidated Financial Information 2013 as laid out on the following pages I-1 to I-82 are newly inserted as I-pages into the Original Base Prospectus.

Appendix IV

Deutsche Pfandbriefbank
Consolidated Financial Information 2013

Consolidated Financial Statements
Consolidated Income Statement

Income/expenses in € million	Notes	2013	2012	Δ in € million
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

Consolidated statement of comprehensive income	2013			2012		
in € million	Before tax	Tax	Net of tax	Before tax	Tax	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 of the period	**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	2013	2012
in € million		
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 of the period	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	31.12.2013	31.12.2012[1]	Δ in € million	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	31.12.2013	31.12.2012[1]	Δ in € million	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 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[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»

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»

Notes

Page	Note	
108	1	General Information
		Accounting Policies
108	2	Principles
114	3	Consistency
114	4	Uniform Consolidated Accounting
114	5	Consolidation
116	6	Financial Instruments
121	7	Cash Reserve
121	8	Trading Assets
121	9	Loans and Advances
121	10	Allowances for Losses on Loans and Advances and Provisions for Contingent Liabilities and Other Commitments (Risk Provisions)
122	11	Financial Investments
122	12	Property, Plant and Equipment
123	13	Intangible Assets
123	14	Other Assets
123	15	Liabilities
123	16	Trading Liabilities
124	17	Provisions
124	18	Other Liabilities
125	19	Subordinated Capital
125	20	Silent Participation
125	21	Share-based Compensation
125	22	Currency Translation
126	23	Taxes on Income
126	24	Non-current Assets Held for Sale
126	25	Accounting Estimates and Assumptions
		Segment Reporting
128	26	Notes to Segment Reporting by Operating Segment
129	27	Income Statement by Operating Segment
130	28	Balance-sheet-related Measures by Operating Segment
130	29	Breakdown of Operating Revenues
		Notes to the Consolidated Income Statement
131	30	Net Interest Income and Similar Income
131	31	Net Commission Income
131	32	Net Trading Income
132	33	Net Income from Financial Investments
132	34	Net Income from Hedge Relationships
133	35	Balance of Other Operating Income/Expenses
133	36	Provisions for Losses on Loans and Advances
134	37	General Administrative Expenses
134	38	Balance of Other Income/Expenses
135	39	Taxes on Income
137	40	Net Gains/Net Losses

Page	Note	
		Notes to the Consolidated Statement of Financial Position (Assets)
138	41	Cash Reserve
138	42	Trading Assets
138	43	Loans and Advances to Other Banks
139	44	Loans and Advances to Customers
140	45	Allowances for Losses on Loans and Advances
141	46	Financial Investments
143	47	Property, Plant and Equipment
143	48	Intangible Assets
144	49	Other Assets
145	50	Income Tax Assets
145	51	Subordinated Assets
145	52	Repurchase Agreements
145	53	Securitisation
		Notes to the Consolidated Statement of Financial Position (Equity and Liabilities)
146	54	Liabilities to Other Banks
146	55	Liabilities to Customers
146	56	Liabilities Evidenced by Certificates
147	57	Trading Liabilities
147	58	Provisions
153	59	Other Liabilities
153	60	Income Tax Liabilities
153	61	Subordinated Capital
155	62	Equity
155	63	Trust Business
		Notes to the Consolidated Statement of Cash Flows
156	64	Notes to the Items in the Consolidated Statement of Cash Flows
		Notes to the Financial Instruments
157	65	Derivative Transactions
159	66	Cash Flow Hedge Accounting
160	67	Undiscounted Cash Flows of Financial Liabilities
160	68	Assets Assigned or Pledged as Collateral
161	69	Collaterals Permitted to Resell or Repledge
161	70	Transfer of Financial Assets
161	71	Fair Values of Financial Instruments
169	72	Exposure to Selected European Countries
171	73	Past Due but Not Impaired Assets
172	74	Restructured Loans and Advances
173	75	Netting of Financial Instruments
		Other Notes
174	76	Contingent Liabilities and Other Commitments
175	77	Key Regulatory Capital Ratios (Based on German Commercial Code)
177	78	Group Auditors' Fee
177	79	Relationship with Related Parties
179	80	Employees
180	81	Members of the Supervisory Board and of the Management Board
181	82	Holdings of pbb

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 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) 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

Number of subsidiaries/ entities[1]	Fully consolidated subsidiaries		Not fully consolidated subsidiaries[1]		Associated companies and other investments		
	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 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 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 expectations with regard to loan defaults, the structure and quality of the loan portfolio as well as macroeconomic 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.

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 10 d EStG, 8 c KStG as well as section 10 a 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 an 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. Additionally 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 reclassification date it had a clear change of intent to hold for the foreseeable future rather than to exit or trade in the short term and 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)			
		31.12.2013		Effect in reporting period if no assets had been reclassified (1.1.–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)	1.7.2008	9.5	9.4	–	226

Reclassifications in 2008 Effects in 2012		into: Financial investments loans and receivables (LaR)			
		31.12.2012		Effect in reporting period if no assets had 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
from: Financial investments available for sale (AfS)	1.7.2008	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 in € million	Software acquired	Internally generated software	Other intangible assets	2013 Total	2012 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						
		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 in € million	Notional amount	Fair value positive	Fair value negative
Interest-based transactions			
Fair value hedge accounting	56,749	4,115	3,969
Cash flow hedge accounting	6,332	443	455
Derivatives hedging dFVTPL financial instruments	–	–	–
Stand-alone derivatives	33,426	1,618	1,406
Total	**96,507**	**6,176**	**5,830**
Foreign-currency-based transactions			
Cash flow hedge accounting	452	43	17
Stand-alone derivatives	4,690	24	47
Total	**5,142**	**67**	**64**
Total	**101,649**	**6,243**	**5,894**

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	Fair value 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	**31.12.2013** Fair value negative	**31.12.2012** Fair value positive	**31.12.2012** Fair value 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					31.12.2013
in € million	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					**31.12.2012**
in € million	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 customers[2]	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	Fair value		Measurement		Non-observable	Parameter range
in € million	Assets	Liabilities	methods	Observable parameters	parameters	(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 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 1.1.2012	**–**	**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 measurement 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 measurement 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**

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 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 8a of Finanzmarktstabilisierungsfondsgesetz pbb assumes joint and several liability for all payment obligations of its subsidiaries resulting from the transaction agreements which have been transferred as part of the process of transferring assets to FMS Wertmanagement.

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

Due to a requirement in line with the principle of burden sharing required by the EU Commission, profits will be retained at pbb Group until reprivatisation, and will be used for repaying the 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 2a 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 2a KWG states that a credit institution or financial services institution which has its registered offices within Germany and which is part of a regulated group of institutions or financial holding group does not have to comply with the following regulations if these regulations are complied with at the level of the ultimate parent company:

> Regulations regarding solvency (equity in relation to risk-weighted assets)
> Regulations regarding large loans (equity in relation to loans extended to individual borrower units)
> Regulations set out in Section 25a (1) 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 10a 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 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	Interest in %				
Name and place of business	Total Sec 16 (4) Aktiengesetz	of which held indirectly	Currency	Equity in thousands	Net income/ loss in thousands
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
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

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 § 15 a 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
[original German version signed by:]

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

Signatories on behalf of Deutsche Pfandbriefbank AG

Eschborn, as of 11 April 2014

signed by Götz Michl
Managing Director

signed by Martina Horn
Director