

Interim Report as of 30 June 2015

PUBLIC SECTOR FINANCE
REAL ESTATE FINANCE

pbb

DEUTSCHE
PFANDBRIEFBANK

Overview

pbb Group	1.1.–30.6. 2015		1.1.–30.6. 2014	
	in € million	112	in € million	83
Operating performance according to IFRS				
Profit or loss before tax	in € million	112	in € million	83
Net income/loss	in € million	88	in € million	74
Key ratios				
Earnings per share	in €	0.65	in €	0.55
Cost-income ratio	in %	48.5	in %	61.1
Return on equity before tax ¹⁾	in %	6.5	in %	4.9
Return on equity after tax ¹⁾	in %	5.1	in %	4.3
Balance sheet figures		30.6.2015	31.12.2014	
Total assets ¹⁾	in € billion	69.6	in € billion	74.9 ²⁾
Financial position equity (excluding revaluation reserve) ¹⁾	in € billion	3.5	in € billion	3.4
Financial position equity ¹⁾	in € billion	3.6	in € billion	3.5
Key regulatory capital ratios		30.6.2015	31.12.2014	
CET1 ratio ¹⁾	in %	24.4	in %	21.7
CET1 ratio fully phased-in	in %	15.7	in %	13.5
Own funds ratio ¹⁾	in %	28.9	in %	26.1
Own funds ratio fully phased-in	in %	25.1	in %	22.1
Leverage ratio ¹⁾ ³⁾	in %	5.5	in %	5.3
Leverage ratio fully phased-in ³⁾	in %	4.9	in %	4.6
Staff		30.6.2015	31.12.2014	
Employees ⁴⁾		799		812

¹⁾ Including silent partnership contribution of €1.0 billion which was repaid on 6 July 2015

²⁾ Adjusted in accordance with IAS 8.14 et.seq. Details are disclosed in Note «Consistency».

³⁾ Leverage ratio is defined as the ratio of Tier 1 capital and the relevant exposure in accordance with CRR.

⁴⁾ On full-time equivalent basis

Senior unsecured ratings and ratings for Pfandbriefe of pbb¹⁾

	30.6.2015			31.12.2014		
	Standard & Poor's	DBRS	Moody's	Standard & Poor's	Moody's	Fitch Ratings
Long-term rating	BBB	A (low) ²⁾	–	BBB	Baa2	A–
Outlook	Developing	–	–	Negative	Negative	Negative
Short-term rating	A–2	R–1 (low) ²⁾	–	A–2	P–2	F1
Public sector Pfandbriefe	AA+ ³⁾	–	Aa1	AA+ ³⁾	Aa1	–
Mortgage Pfandbriefe	AA+ ³⁾	–	Aa2	AA+ ³⁾	Aa2	–

¹⁾ Ratings from mandated rating agencies

²⁾ Under review negative

³⁾ Negative outlook

Contents

2 Foreword of the Management Board

3 Group Interim Management Report

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

51 Consolidated Interim Financial Statements

- 52 Consolidated Income Statement
- 53 Consolidated Statement of Comprehensive Income
- 54 Consolidated Statement of Financial Position
- 55 Consolidated Statement of Changes in Equity
- 55 Consolidated Statement of Cash Flows (condensed)
- 56 Notes (condensed)
- 81 Responsibility Statement
- 82 Review Report

83 Additional Information

- 84 Future-oriented Statements
- 84 Internet Service
- 85 Imprint

Foreword of the Management Board

2

Dear shareholders and business associates,

The first half of 2015 was another good one for Deutsche Pfandbriefbank (ppb). In a highly competitive environment, we saw new business grow to an impressive €6 billion year-on-year whilst remaining true to our demanding risk standards. Gross margins fell slightly short of the previous year's level in both business segments. However, they were stable throughout the first half of the year in Commercial Real Estate Finance, and showed positive development in Public Investment Finance during the period under review.

Strong new business drove our strategic credit portfolio from €28.4 billion at year-end 2014 to €30.8 billion after the first six months of 2015. The higher volume of the strategic credit portfolio had a positive effect on net interest income, our most important source of income, as did other factors. As a result, net interest income rose by 17%, during the first half of 2015, to reach €229 million. At the same time, pbb cut its costs by around 21%, to €98 million. Special effects almost balanced out. All in all, profit before taxes in accordance with IFRS rose by around 35% over the previous year's figure, to €112 million.

ppb is well-established in the European market for commercial real estate finance and public investment finance, and commercially successful. This has paved the way for reprivatisation through a flotation. On 15 July 2015, HRE Holding placed 108 million pbb shares – representing 80% of our capital – with German and international investors, at an issue price of €10.75. Almost all of the shares were allotted to institutional investors. Demand was stronger than supply, and the offer was several times oversubscribed at the issue price. With the flotation, the Federal Republic of Germany (as the indirect owner of pbb) generated a gross proceeds of €1.16 billion. pbb shares have traded in the Prime Standard segment of the Regulated Market at the Frankfurt Stock Exchange since 16 July 2015.

Prior to the flotation, pbb repaid the €1 billion silent participation of the German Financial Markets Stabilisation Fund in full. This means that we have returned a major part of the financial support received by the Federal Republic of Germany. Even without the silent participation, pbb is well-capitalised. As at 30 June 2015, our fully phased-in CET1 ratio was 15.7%.

With the flotation, our responsibilities have grown, as has our commitment. This applies to all levels: to the Management Board, whose entrepreneurial decisions set the course; to our senior management team, responsible for the well-being of the bank as a whole; and to our staff, whose motivation and dedication drive us to economic success.

Yours sincerely,



Andreas Arndt



Thomas Köntgen



Andreas Schenk



Dr. Bernhard Scholz

4 Report on Economic Position

- 4 Development in Earnings
- 12 Development in Assets
- 13 Development in the Financial Position
- 17 Material related party transactions

18 Report on Post-balance Sheet Date Events**20 Risk and Opportunity Report**

- 20 Organisation and Principles of Risk and Capital Management
- 22 Risk Types
- 22 Credit Risk (Counterparty Risk)
- 34 Market Risk
- 36 Liquidity Risk
- 39 Operational Risk (including Legal Risks)
- 40 Property Risk
- 40 Result of Risk-bearing Capacity Analysis

46 Report on Expected Developments

Group Interim Management Report

Group Interim Management Report

Report on Economic Position

On 15 July 2015, Hypo Real Estate Holding AG (HRE Holding) placed 107,580,245 pbb shares held on its own books (including an over-allotment («Greenshoe») of 6,589,289 shares) with a broad investor base, as part of a flotation in its capacity as owner of Deutsche Pfandbriefbank AG (ppb).

The first half of 2015 saw changes to the composition of the Management Board. The Supervisory Boards of HRE Holding and pbb decided that Management Board members of HRE Holding and Deutsche Pfandbriefbank AG (ppb) should no longer hold both offices, with effect from 1 April 2015. Following this decision, Wolfgang Groth retired from pbb's Management Board with effect from 1 April 2015, while Andreas Arndt, Thomas Köntgen and Andreas Schenk all retired from the Management Board of HRE Holding (also with effect from 1 April 2015). Meanwhile, Dr. Bernhard Scholz retired from the Management Board of HRE Holding, with effect from 1 June 2015.

Development in Earnings

Deutsche Pfandbriefbank Group (ppb Group)

In the first half of 2015, pbb Group realised a profit before tax of €112 million, which was a significant improvement year-on-year (1 January to 30 June 2014 («6m 2014»): €83 million). Thus, for the third consecutive period, in the first half of 2015 pbb Group was able to increase profit or loss before tax year-on-year. Compared to the first half of 2014, the increase was 34.9%. This reflects pbb Group's success in increasing profitability, which has formed the foundation – together with a conservative risk policy – for a successful privatisation. pbb achieved the following results in the first half of 2015, compared to the previous year period:

pbb Group		1.1.–30.6.	1.1.–30.6.	Change
		2015	2014	
Operating performance				
Operating income	in € million	202	203	-1
Net interest and similar income	in € million	229	195	34
Net fee and commission income	in € million	9	-	9
Net trading income	in € million	7	-18	25
Net income from financial investments	in € million	-37	1	-38
Net income from hedging relationships	in € million	2	-6	8
Net other operating income/expenses	in € million	-8	31	-39
Loan loss provisions	in € million	5	-2	7
General and administrative expenses	in € million	-98	-124	26
Net miscellaneous income/expenses	in € million	3	6	-3
Profit or loss before tax	in € million	112	83	29
Income taxes	in € million	-24	-9	-15
Net income/loss	in € million	88	74	14
Key ratios				
Earnings per share	in €	0.65	0.55	
Cost-income ratio ¹⁾	in %	48.5	61.1	
Return on equity before tax ²⁾	in %	6.5	4.9	
Return on equity after tax ³⁾	in %	5.1	4.3	

¹⁾ Cost-income ratio is the ratio of general and administrative expenses and operating income.

²⁾ Return on equity before tax is the ratio of annualised profit or loss before tax and average equity (including silent partnership contribution which was repaid on 6 July 2015) excluding revaluation reserve.

³⁾ Return on equity after tax is the ratio of annualised net income/loss and average equity (including silent partnership contribution which was repaid on 6 July 2015) excluding revaluation reserve.

Operating Income At €229 million, net interest income was significantly higher than the figure for the same period of the previous year (€195 million). Thus, for the third consecutive period, during the first half of 2015 pbb Group increased its most important profit component year-on-year. The higher net interest income was due to the increase in the average strategic portfolio volume, from €27.0 billion in the first half of 2014 to €29.9 billion in the first half of 2015. This figure has been continuously rising during the last eighteen months. This was attributable mainly to the positive development in new business volume during 2014 and the first half of 2015; since the beginning of the year, new business volume amounted to €6.0 billion (6m 2014: €4.3 billion), thus exceeding repayments. Net income from early termination fees stood at €6 million (6m 2014: €20 million). Another positive effect was income from the disposal of a bonded loan (€15 million). Furthermore, net interest income included income from the reversal of the cash flow hedge reserve (€12 million) after confirmation of prospective ineffective portions according to IAS 39. Net interest income, adjusted for early termination fees, income from the disposal of the bonded loan, and the reversal of the cash flow hedge reserve, increased during the first half of 2015 by 11.4% year-on-year.

Net fee and commission income totalled €9 million (6m 2014: €0 million), of which €5 million was from realised fees in connection with a French financing arrangement repaid in full.

Net trading income (€7 million; 6m 2014: €-18 million) benefited from positive measurement effects of derivatives, based on interest rate and exchange rate fluctuations (€13 million; 6m 2014: €-3 million). Additional net income was generated by the subsequent measurement of derivatives, taking into account the bilateral credit value adjustment (€2 million; 6m 2014: €-5 million). Net trading income suffered from the so-called *pull-to-par* effect (€-8 million; 6m 2014: €-12 million), due to the fact that the net present value of derivatives approaches nil by their maturity date.

Net income from financial investments amounted to €–37 million (6m 2014: €1 million) and was burdened with €–73 million from additional valuation adjustments on the securities issued by Heta. As at 30 June 2015, cumulative expenses incurred through valuation adjustments on Heta securities recognised in net income from financial investments and loan loss provisions amounted to 50% of the nominal volume of Heta securities (€395 million). However, these expenses were partly set off by income from the disposal of securities (€55 million) with a nominal volume of GBP200 million, which had been planned for a longer period of time. Further disposals of securities from the AfS and LaR categories led to net expenses of €–16 million. The securities sold were largely part of the non-strategic Value Portfolio (VP). The disposal of these securities allowed pbb Group to further reduce the VP portfolio, thus creating growth potential for the profitable strategic portfolios. The disposal of securities issued by sovereign states, sub-sovereign entities as well as state-guaranteed counterparties, with a nominal volume of €759 million, led to an ICAAP reduction of €260 million and a decrease in RWA of €527 million.

The net income from hedging relationships of €2 million (6m 2014: €–6 million) is due to ineffective portions from micro fair value hedge relationships within the range permitted under IAS 39 (80% to 125%).

Net other operating income/expenses (€–8 million; 6m 2014: €31 million) was burdened by the bank levy in the amount of €25 million. Against the background of a new EU bank resolution directive and in the context of IFRIC 21 interpretations, the bank levy annual contribution 2015 was not accrued on a monthly basis, but recognised in full during the period under review, for the first time. As from the contribution period 2015, bank levy contributions will be made according to European standards. The differentiated consideration of an institution's risk situation is one reason why the reporting data and calculation of annual contributions will be different compared to the current bank levy, which is part of the national restructuring fund. The amount disclosed as at 30 June 2015 represents pbb Group's best estimate of the expenses necessary to fulfil the current requirements as per the reporting date. Pre-tax income from the disposal of a property in Japan resulted in positive effects of €39 million. Additional income was attributable to rental income generated from real estate taken over, in the amount of €6 million (6m 2014: €5 million), to currency translation effect in the amount of €5 million (6m 2014: €7 million), and to the cost allocation with HRE Holding in the amount of €4 million (6m 2014: €3 million).

Loan Loss Provisions The net reversal of loan loss provisions (€5 million; 6m 2014: net addition of €–2 million) comprises net additions to specific allowances (€–7 million; 6m 2014: €–13 million), net reversal of portfolio-based allowances (€10 million; 6m 2014: €6 million), recovery payments on previously written-off loans and advances of €1 million (6m 2014: €5 million) as well as income from the reversal of provisions for contingent liabilities and other commitments (€1 million; 6m 2014: €0 million).

Specific allowances related only to a few exposures in the Real Estate Finance (REF) segment (net addition of €–1 million) and a bonded loan to Heta in the VP segment, shown under loans and advances to customers (€–6 million). As in the previous year period, no specific allowances were created on Public Investment Finance (PIF) exposures. Portfolio-based allowances are only recognised for loans and advances for which no indication of an individual impairment has been determined. The net reversals of €10 million (6m 2014: €6 million) were due, *inter-alia*, to rating improvements of borrowers.

General and Administrative Expenses General and administrative expenses decreased to €98 million (6m 2014: €124 million). Based on the half-yearly interim reports, general and administrative expenses have now declined continuously since 2011. This shows evidence of pbb's strict cost discipline and the progress made in Group restructuring. Moreover, pbb Group was able to terminate activities not part of its core business – for example, services rendered to other companies such as DEPFA, except for some contractually agreed remaining minor service work. This allows pbb to concentrate

on its core business segments. In the first half of 2015, the decrease in non-personnel expenses more than compensated for the increase in personnel expenses. Personnel expenses (€56 million; 6m 2014: €54 million) grew slightly, in part due to a slight increase in the average number of employees (839; 6m 2014: 831). The drop in non-personnel expenses from €70 million in the first half of 2014 to €42 million in the first half of 2015 was attributable mainly to lower IT and consultancy expenses. Lower IT expenses resulted in particular from the termination of the majority of IT services rendered to DEPFA and a newly concluded framework agreement with an external service provider. Lower expenses for IT services also translated into decreasing income disclosed in net other operating income/expenses. Expenses for consultancy services also declined due to a lower number of projects.

Net Miscellaneous Income/Expenses Net miscellaneous income/expenses (€3 million; 6m 2014: €6 million) was related to the reversal of restructuring provisions resulting from the parameter validation included in the calculation.

Income Taxes Expenses for current taxes of €12 million (6m 2014: €19 million) and expenses for deferred taxes of €12 million (6m 2014: income of €10 million) resulted in a total income tax expense of €24 million (6m 2014: €9 million). Expenses for current taxes in the amount of €9 million were attributable to the subsidiary Hayabusa Godo Kaisha, Tokyo, and were incurred in particular due to the disposal of a property in Japan.

Operating Segments

Public investment financings provided to Italy were classified as non-strategic activities as at 1 January 2015. Hence, a portfolio with a nominal volume of €1.3 billion was reclassified within segment reporting from the strategic Public Investment Finance (PIF) segment to the non-strategic Value Portfolio (VP) segment. Furthermore, the methodology used for the allocation of IFRS equity to the operating segments was adjusted at the beginning of the 2015 financial year. This adjustment includes the following major changes to the previous approach:

- > Equity, excluding revaluation reserves, is fully allocated to the operating segments and the Consolidation & Adjustments (C&A) reconciliation column without disclosure of excess capital as in the previous approach.
- > The allocation of equity (excluding revaluation reserves) to the operating segments and C&A now follows a proportionate approach and is therefore consistent with the distribution of diversified economic capital within risk management (Gone-concern approach). These adjustments enable the Bank to balance risk and income management more easily.

Allocation of the diversified economic capital is based on the allocation of losses across the operating segments using an Expected Shortfall Approach with a confidence level of 99.0%. The chosen confidence level allows for a balanced consideration of both credit spread-related market risks as well as concentration risks.

The previous period's figures were adjusted according to IFRS 8.29 and disclosed hereafter and in the Note «Segment Reporting».

Operating Segment Real Estate Finance (REF)

Real Estate Finance		1.1.–30.6. 2015	1.1.–30.6. 2014 ¹⁾	Change
Operating performance				
Operating income	in € million	206	148	58
Net interest and similar income	in € million	158	149	9
Net fee and commission income	in € million	9	–	9
Net trading income	in € million	3	–8	11
Net income from financial investments	in € million	18	2	16
Net income from hedging relationships	in € million	1	–2	3
Net other operating income/expenses	in € million	17	7	10
Loan loss provisions	in € million	11	–2	13
General and administrative expenses	in € million	–75	–77	2
Net miscellaneous income/expenses	in € million	3	4	–1
Profit or loss before tax	in € million	145	73	72
Key ratio				
Cost-income ratio	in %	36.4	52.0	
Balance-sheet-related measures				
		30.6.2015	31.12.2014¹⁾	
Financing volumes ²⁾	in € billion	23.5	21.8	
Risk-weighted assets ³⁾	in € billion	6.7	7.2	
Equity ⁴⁾	in € billion	0.8	0.7	

¹⁾ Adjusted in accordance with IFRS 8.29

²⁾ Notional amounts of the drawn parts of loans granted, plus parts of the securities portfolio

³⁾ Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5

⁴⁾ Excluding revaluation reserve, including allocated silent partnership contribution (repaid on 6 July 2015)

The Real Estate Finance (REF) operating segment comprises all commercial real estate financing arrangements of pbb Group. New business volume of €5.2 billion, including extensions with terms of more than one year, underlined pbb's strong position on the market and exceeded the figure for the first half of 2014 (€3.7 billion) considerably.

Operating Income Net interest income increased to €158 million (6m 2014: €149 million) and benefited from the higher average volume of interest-bearing assets, from allocated treasury effects as well as from the reversal of the cash flow hedge reserve. Allocated income from early termination fees stood at €3 million (6m 2014: €8 million). However, expenses allocated to liquidity reserves increased. Net fee and commission income in the amount of €9 million (6m 2014: €0 million) resulted, inter alia, from realised commissions. Net income from financial investments improved from €2 million in the first half of 2014 to €18 million in the first half of 2015, and was due to the allocation of income from security disposals. Net other operating income stood at €17 million (6m 2014: €7 million) and increased compared to the previous year period, based on income from the disposal of a property in Japan. Negative effects resulted mainly from the allocated bank levy.

Loan Loss Provisions Reversals with a total net volume of €11 million were recognised in loan loss provisions (6m 2014: additions of €–2 million). Net additions in the amount of €–1 million (6m 2014: €–13 million) were recognised in specific allowances, resulting from a small number of individual exposures. Reversals with a total net volume of €10 million (6m 2014: €6 million) were disclosed within portfolio-based allowances. In the first half of 2015, pbb recognised recovery payments on previously written-off loans and advances of €1 million (6m 2014: €5 million) and income from the reversal of provisions for contingent liabilities and other commitments of €1 million (6m 2014: €0 million).

General and Administrative Expenses General and administrative expenses stood at € 75 million, thus slightly below the previous period's level (6m 2014: € 77 million) due to lower non-personnel expenses.

Operating Segment Public Investment Finance (PIF)

Public Investment Finance		1.1.–30.6. 2015	1.1.–30.6. 2014 ¹⁾	Change
Operating performance				
Operating income	in € million	22	15	7
Net interest and similar income	in € million	22	17	5
Net fee and commission income	in € million	–	–	–
Net trading income	in € million	1	–2	3
Net income from financial investments	in € million	6	–	6
Net income from hedging relationships	in € million	–	–2	2
Net other operating income/expenses	in € million	–7	2	–9
Loan loss provisions	in € million	–	–	–
General and administrative expenses	in € million	–13	–15	2
Net miscellaneous income/expenses	in € million	–	1	–1
Profit or loss before tax	in € million	9	1	8
Key ratio				
Cost-income ratio	in %	59.1	100.0	
Balance-sheet-related measures				
		30.6.2015	31.12.2014¹⁾	
Financing volumes ²⁾	in € billion	7.3	6.6	
Risk-weighted assets ³⁾	in € billion	1.2	1.3	
Equity ⁴⁾	in € billion	0.3	0.5	

¹⁾ Adjusted in accordance with IFRS 8.29

²⁾ Notional amounts of the drawn parts of loans granted, plus parts of the securities portfolio

³⁾ Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5

⁴⁾ Excluding revaluation reserve, including allocated silent partnership contribution (repaid on 6 July 2015)

The Public Investment Finance (PIF) business segment comprises financings of public infrastructure projects which are eligible for inclusion in Pfandbrief cover. Despite increasing competition in the area of public investment financings, pbb increased its new business volume to € 0.8 billion (6m 2014: € 0.6 billion).

Operating Income At € 22 million, net interest income exceeded the figure for the corresponding period of the previous year (6m 2014: € 17 million). Both the average portfolio volume as well as the average portfolio margin profited from new business transactions, and thus contributed to the overall increase. Moreover, net interest income was supported by allocated treasury income. However, allocated income from early termination fees (€ 1 million; 6m 2014: € 3 million) did not lead to major effects. Net income from financial investments in the amount of € 6 million (6m 2014: € 0 million) benefited from allocated income from security disposals. Net other operating income/expenses in the amount of € –7 million (6m 2014: € 2 million) was burdened, inter alia, from the allocated bank levy.

Loan Loss Provisions In the first half of 2015 and in the first half of 2014, no additions or reversals were required.

General and Administrative Expenses General and administrative expenses stood at € 13 million, thus below the previous period's level (6m 2014: € 15 million) due to lower non-personnel expenses.

Operating Segment Value Portfolio (VP)

Value Portfolio		1.1.-30.6. 2015	1.1.-30.6. 2014 ¹⁾	Change
Operating performance				
Operating income	in € million	–28	39	–67
Net interest and similar income	in € million	47	27	20
Net fee and commission income	in € million	–	–	–
Net trading income	in € million	3	–8	11
Net income from financial investments	in € million	–61	–1	–60
Net income from hedging relationships	in € million	1	–2	3
Net other operating income/expenses	in € million	–18	23	–41
Loan loss provisions	in € million	–6	–	–6
General and administrative expenses	in € million	–10	–32	22
Net miscellaneous income/expenses	in € million	–	1	–1
Profit or loss before tax	in € million	–44	8	–52
Key ratio				
Cost-income ratio	in %	>100.0	82.1	
Balance-sheet-related measures				
		30.6.2015	31.12.2014¹⁾	
Financing volumes ²⁾	in € billion	20.5	22.7	
Risk-weighted assets ³⁾	in € billion	4.7	5.5	
Equity ⁴⁾	in € billion	1.8	1.8	

¹⁾ Adjusted in accordance with IFRS 8.29

²⁾ Notional amounts of the drawn parts of loans granted, plus parts of the securities portfolio

³⁾ Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5

⁴⁾ Excluding revaluation reserve, including allocated silent partnership contribution (repaid on 6 July 2015)

The Value Portfolio (VP) operating segment includes all of pbb Group's non-strategic portfolios and activities. New business is not generated in this segment.

Operating Income Net interest income profited from income generated in connection with the disposal of a promissory note loan and thus increased to €47 million (6m 2014: €27 million). Net interest income was further supported by the reversal of the cash flow hedge reserve. Compared year-on-year, early termination fees were less significant (€2 million; 6m 2014: €9 million). Net income from financial investments decreased from €–1 million in the first half of 2014 to €–61 million in the first half of 2015. This was due to the value adjustment of the Heta exposure and losses incurred in connection with the disposal of non-strategic securities. Net other operating income/expenses amounted to €–18 million (6m 2014: €23 million), with the allocated bank levy as major driver. Net other operating income/expenses was further reduced year-on-year by the termination of IT services rendered to DEPFA.

Loan Loss Provisions Loan loss provisions in the amount of €–6 million (6m 2014: €0 million) resulted from specific allowances recognised on a Heta bonded loan.

General and Administrative Expenses General and administrative expenses stood at €10 million, thus below the previous period's level (6m 2014: €32 million). The main reason for the decline was the termination of the majority of IT services rendered to DEPFA.

Consolidation & Adjustments

Consolidation & Adjustments		1.1.–30.6. 2015	1.1.–30.6. 2014 ¹⁾	Change
Operating performance				
Operating income	in € million	2	1	1
Net interest and similar income	in € million	2	2	–
Net fee and commission income	in € million	–	–	–
Net trading income	in € million	–	–	–
Net income from financial investments	in € million	–	–	–
Net income from hedging relationships	in € million	–	–	–
Net other operating income/expenses	in € million	–	–1	1
Loan loss provisions	in € million	–	–	–
General and administrative expenses	in € million	–	–	–
Net miscellaneous income/expenses	in € million	–	–	–
Profit or loss before tax	in € million	2	1	1
Balance-sheet-related measures				
Risk-weighted assets ²⁾	in € billion	1.1	1.5	
Equity ³⁾	in € billion	0.6	0.4	

¹⁾ Adjusted in accordance with IFRS 8.29

²⁾ Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5

³⁾ Excluding revaluation reserve, including allocated silent partnership contribution (repaid on 6 July 2015)

Consolidation & Adjustments reconciles the aggregated segment results with the consolidated result. Besides consolidation adjustments, this includes certain income and expense items outside the operating segments' areas of responsibility.

Consolidation & Adjustments' profit before tax was €2 million (6m 2014: €1 million). Net interest income arose from the investment of equity allocated to Consolidation & Adjustments.

Development in Assets

Assets	30.6.2015	31.12.2014 ¹⁾	Change
in € million			
Cash reserve	1,785	57	1,728
Trading assets	1,684	2,016	-332
Loans and advances to other banks	2,789	6,800	-4,011
Loans and advances to customers	40,981	38,964	2,017
Allowances for losses on loans and advances	-133	-138	5
Financial investments	17,085	20,475	-3,390
Property and equipment	11	8	3
Intangible assets	22	23	-1
Other assets	5,322	6,659	-1,337
Income tax assets	41	30	11
Current tax assets	40	29	11
Deferred tax assets	1	1	-
Total assets	69,587	74,894	-5,307

¹⁾ Adjusted in accordance with IAS 8.14 et.seq. Details are disclosed in the Note «Consistency».

During the period under review, pbb Group increased its strategic portfolio to a nominal volume of €30.8 billion (31 December 2014: €28.4 billion). This development was due to the increases in both the REF portfolio (+€ 1.7 billion) and the PIF portfolio (+€ 0.7 billion). Loan disbursements exceeded repayments. The volume of non-strategic portfolios declined to €20.5 billion (31 December 2014: €22.7 billion) given active portfolio reductions and maturing funds. Individual balance sheet item developments were as follows:

The increase of the cash reserve to €1.8 billion as at the reporting date (31 December 2014: €0.1 billion) was attributable, inter alia, to temporarily higher deposits held with Deutsche Bundesbank, in connection with the management of cover pools. Trading assets and other assets declined during the first half of 2015 against the background of market interest rate fluctuations. Loans and advances to other banks decreased from €6.8 billion at year-end 2014 to €2.8 billion because of lower deposits held with Eurex Clearing as well as reduced cash collateral provided. Loans and advances to customers rose particularly due to the increase in strategic portfolios. This was partly offset by market-induced fair value fluctuations in Hedge Accounting. Financial investments dropped during the reporting period, from €20.5 billion as at 31 December 2014 to €17.1 billion. This was due principally to portfolio disposals (nominal value: €-1.3 billion), maturing funds (nominal value: €-1.3 billion) and fair value hedge adjustments.

Development in Financial Position

Equity and liabilities	30.6.2015	31.12.2014 ¹⁾	Change
in € million			
Liabilities to other banks	2,381	3,187	-806
Liabilities to customers	10,660	10,593	67
Securitised liabilities	44,803	47,827	-3,024
Trading liabilities	1,670	1,960	-290
Provisions	261	272	-11
Other liabilities	4,958	6,182	-1,224
Income tax liabilities	90	88	2
Current tax liabilities	84	82	2
Deferred tax liabilities	6	6	-
Subordinated capital	1,198	1,279	-81
Financial liabilities	66,021	71,388	-5,367
Financial equity	3,566	3,506	60
Total equity and liabilities	69,587	74,894	-5,307

¹⁾ Adjusted in accordance with IAS 8.14 et.seq. Details are disclosed in the Note «Consistency».

Liabilities Total Group liabilities amounted to € 66.0 billion (31 December 2014: € 71.4 billion). Liabilities to other banks declined to € 2.4 billion (31 December 2014: € 3.2 billion) during the reporting period, given a lower level of securities repurchase transactions and decreasing cash collateral received. Securitised liabilities fell to € 44.8 billion (31 December 2014: € 47.8 billion), which is attributable particularly to maturing Pfandbrief issues and smaller fair value adjustments in Hedge Accounting. Trading liabilities and other liabilities declined due to market-induced fair value fluctuations.

Funding In the first half of the year, new long-term funding was raised in the amount of € 2.2 billion (6m 2014: € 3.0 billion). Early repayments on the assets side and adequate liquidity allowed for a reduction in capital market activities for secured funding. € 0.7 billion (6m 2014: € 1.4 billion) was attributable to new benchmark new issues, as well as to increases of existing public issues. Approximately two-thirds of long-term funding was issued in senior unsecured form, with Pfandbriefe accounting for one-third. Most issues were placed as fixed-rate bonds. Unhedged interest rate exposures are usually hedged by swapping fixed against floating interest rates. In addition to capital markets funding, pbb Group has extended its unsecured funding base through overnight and term deposits from retail investors. At the half-year point, the volume of deposits taken via «pbb direkt» totalled € 2.0 billion (31 December 2014: € 1.5 billion).

Maturities The following table compares the remaining terms of the assets and liabilities:

Maturity structure of financial position in € million	30.6.2015		31.12.2014 ¹⁾	
	Assets	Equity and liabilities	Assets	Equity and liabilities
Total	69,587	69,587	74,894	74,894
Up to 3 months	7,531	7,523	8,320	6,953
More than 3 months to 1 year	4,688	5,356	5,548	6,760
More than 1 year to 5 years	23,184	25,982	23,013	26,637
More than 5 years	27,237	20,181	29,415	22,536
Other assets ²⁾ /equity and liabilities ³⁾	6,947	10,545	8,598	12,008

¹⁾ Adjusted in accordance with IAS 8.14 et.seq. Details are disclosed in the Note «Consistency».

²⁾ Trading assets, allowances for losses on loans and advances, property and equipment, intangible assets, other assets, income tax assets

³⁾ Trading liabilities, provisions, other liabilities, income tax liabilities, equity

Liquidity Ratio The liquidity ratio is calculated at the level of the individual institution at pbb in accordance with the Liquiditätsverordnung (LiqV – German Liquidity Regulation), and amounted to 3.5 at the balance sheet date (31 December 2014: 4.4). This was significantly higher than the statutory minimum of 1.0.

Equity The equity attributable to equity shareholders changed as follows:

Financial position equity in accordance with IFRS in € million	30.6.2015	31.12.2014	Change
Equity attributable to equity holders	3,566	3,506	60
Subscribed capital	380	380	–
Silent partnership contribution	999	999	–
Additional paid-in capital	3,265	3,265	–
Retained earnings	-1,150	-1,154	4
Profits/losses from pension commitments	-72	-79	7
Foreign currency reserve	3	2	1
Revaluation reserve	53	89	-36
AfS reserve	-77	-100	23
Cash flow hedge reserve	130	189	-59
Consolidated profit/loss 1.1.– 30.6./31.12.	88	4	84
Total financial position equity	3,566	3,506	60

pbb's subscribed capital amounted unchanged to € 380,376,059.67 at 31 December 2014, and is composed of 134,475,308 registered ordinary bearer shares in the form of no-parvalue shares with a notional interest in the subscribed capital of € 2.83 per share.

Financial position equity mounted to € 3.6 billion as of 30 June 2015 (31 December 2014: € 3.5 billion). The item profits/losses from pension commitments increased equity by € 7 million as the discount rate used to measure the defined benefit pension obligations, in accordance with the market interest rate of 2.00% as of 31 December 2014, increased to 2.25% as of 30 June 2015.

The increase in the AfS reserve is a result of the spread improvements in southern European bonds, which are assigned to the IFRS valuation category AfS. The cash flow hedge reserve decreased mainly due to the shrinking of the derivatives.

Key Regulatory Capital Ratios As of 30 June 2015, thus before privatisation, in accordance with the waiver rule set out in section 7 of the Capital Requirements Regulation (CRR), pbb was exempted from the requirement to establish the equity and core capital ratios. pbb Group voluntarily discloses these figures. CET1 ratio amounted to 24.4% as of 30 June 2015 (31 December 2014: 21.7%), own funds ratio amounted to 28.9% (31 December 2014: 26.1%). Fully phased-in, therefore after expiry of all Basel III transitional regulations, CET1 ratio amounted to 15.7% (31 December 2014: 13.5%) and Own Funds Ratio to 25.1% (31 December 2014: 22.1%). Please refer to the Risk and Opportunity Report for further information regarding the key regulatory capital ratios.

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

Senior unsecured ratings and ratings for Pfandbriefe of pbb ¹⁾	30.6.2015			31.12.2014		
	Standard & Poor's	DBRS	Moody's	Standard & Poor's	Moody's	Fitch Ratings
Long-term rating	BBB	A (low) ²⁾	–	BBB	Baa2	A–
Outlook	Developing	–	–	Negative	Negative	Negative
Short-term rating	A–2	R–1 (low) ²⁾	–	A–2	P–2	F1
Public sector Pfandbriefe	AA+ ³⁾	–	Aa1	AA+ ³⁾	Aa1	–
Mortgage Pfandbriefe	AA+ ³⁾	–	Aa2	AA+ ³⁾	Aa2	–

¹⁾ Ratings from mandated rating agencies

²⁾ Under review negative

³⁾ Negative outlook

The rating agencies may alter or withdraw their ratings at any time. For the evaluation and usage of ratings, please refer to the rating agencies' pertinent criteria and explanations and the relevant terms of use which are to be considered.

Ratings should not serve as a substitute for personal analysis. They do not constitute a recommendation to purchase, sell or hold securities issued by pbb.

The development of ratings continued to be heavily influenced by external factors, such as legislative changes and, in this context, changes to rating methodologies. Particularly against the background of the implementation of the European Bank Recovery and Resolution Directive (BRRD) for banks, rating agencies have adjusted their assumptions or have announced adjustments with regards to support components incorporated in senior unsecured ratings. This led to rating changes, or will most likely lead to a rating change at DBRS. In addition, rating agencies increasingly factored possible rating effects resulting from the privatisation of the Bank, which had been imposed by the European Commission by the end of 2015, and the accompanying loss of control by the German government into their assessment.

In the first half of 2015, the Bank has decided to consolidate its rating relationships. In this context, the Bank has terminated the mandates for the assignment of unsecured ratings with Fitch Ratings and Moody's. At the same time, the Bank mandated the rating agency DBRS with the assignment of bank ratings.

In the first half of 2015, the following major rating events occurred with regards to the rating agencies that had been mandated as of the balance sheet date:

- > On 9 June 2015, Standard & Poor's affirmed the senior unsecured ratings assigned to pbb in the context of the implementation of the changed assessment of the probability of sovereign support of banks against the backdrop of the BRRD and the application of new rating criteria with regards to «Additional Loss Absorbing Capacity» (ALAC). The outlook remained »Developing« at that time and the ratings were no longer »Under Criteria Observation«, an identifier which had been assigned in April 2015 together with the publication of the ALAC criteria. In February 2015, Standard & Poor's changed the outlook of the senior unsecured rating from »Negative« to »Developing« in the context of the planned privatisation.
- > On 25 June 2015, DBRS affirmed the senior unsecured ratings assigned to the Bank and retained the »Review Negative«, which had been assigned at the end of May 2015 in the context of the review of sovereign support components factored into European bank ratings. The long-term senior unsecured rating of pbb currently includes two notches of systemic rating uplift. The rating excluding this uplift (»Intrinsic Assessment«) stood at »BBB« as of 30 June 2015.

The following material rating actions occurred with regards to the rating agencies where pbb has ended the mandates:

- > Following the termination of the mandate to assign unsecured ratings, Moody's withdrew the bank ratings assigned to pbb on 29 June 2015. On 19 June 2015, in the wake of the application of the new bank rating methodology and due to the removal of any governmental support elements, Moody's downgraded the senior unsecured ratings assigned to pbb by two notches to »Ba1« with a stable outlook and qualified the bank ratings as unsolicited. The »Baseline Credit Assessment«, which excludes the governmental support elements, was at the same time upgraded by two notches to »ba3«. The newly introduced Loss-Given-Failure (LGF) Analysis also resulted in a positive effect of two rating notches. The downgrade followed the rating review of bank ratings assigned to pbb (»Review for Downgrade«), which was initiated in March 2015 in the context of the implementation of the new rating methodology and of the BRRD.
- > Following the termination of Fitch Ratings' mandate for unsecured ratings by pbb, Fitch withdrew the ratings on 19 May 2015. Immediately prior to the withdrawal and in connection with the global review of sovereign support measures, Fitch downgraded the long-term senior unsecured rating assigned to pbb to »BBB« from »A–« and placed it on »Rating Watch Negative«. The short-term rating was downgraded to »F2« from »F1« and placed on »Rating Watch Negative«.

With regards to the Pfandbrief ratings, there were no rating changes during the first half of 2015.

The effects of possible rating changes on the development in assets, financial position and earnings of pbb are disclosed in more detail in the report on expected developments.

Material related party transactions

In the first half of 2015, pbb and HRE Holding reached an agreement that all opportunities and risks arising from a property rented in a contractual relationship are transferred from pbb to HRE Holding. In return, pbb committed to pay compensation amounting to €24 million. Correspondingly, the restructuring provision previously created was used.

Expenses incurred in the context of pbb's privatisation (carried out by HRE Holding) are borne by the seller (again, HRE Holding).

The majority of IT services rendered to DEPFA were discontinued by year-end 2014. With these services, pbb Group generated net income of less than €1 million in the first half of 2015 (6m 2014: €18 million).

All further transactions carried out with related parties overall were immaterial for pbb Group.

Report on Post-balance Sheet Date Events

18

The Finanzmarktstabilisierungsfonds-FMS silent partnership contribution has been repaid at par on 6 July 2015 based on a repayment agreement between pbb and Finanzmarktstabilisierungsfonds-FMS dated 3 July 2015. In pbb Group's consolidated statement of financial position according to IFRS, equity decreased by € 1.0 billion due to the repayment agreement. Within equity, the silent partnership contribution, after the repayment, amounts to € 0 compared to € 999 million prior to the repayment agreement. Retained earnings decreased by € 1 million. Without consideration of the silent partnership contribution, the liquidity ratio would have been 3.0, the CET1 ratio 17.1% (fully phased-in: 15.7%) and the own funds ratio 21.6% (fully phased-in: 17.8%) as at 30 June 2015.

In the context of the first-time application of the new rating methodologies, Standard & Poor's affirmed the rating of the Mortgage Pfandbrief at «AA+» and raised the outlook to «Stable» from «Negative» on 9 July 2015. At the same time, the rating of the Public Sector Pfandbriefe was lowered to «AA-» with «Developing» outlook. The outlook reflects the outlook on the senior unsecured rating assigned at that time. The introduction of the new rating methodologies was announced early January 2015 with the rating identifier «Under Criteria Observation».

According to a resolution adopted by the European Central Bank on 10 July 2015 regarding the establishment of prudential requirements for pbb, the conditions to use the waiver rule according to Article 7 (1) (a) of the CRR were no longer applicable upon completion of the book-building phase (15 July 2015) within the flotation process. Hence, pbb is no longer able to apply the waiver. This means that, in future, the regulatory capital ratios will need to be monitored and reported both on Group level (according to IFRS) and on pbb single-entity level (according to the German Commercial Code (HGB)).

On 15 July 2015, HRE Holding placed 107,580,245 pbb shares held on its own books (including an over-allotment («Greenshoe») of 6,589,289 shares) with a broad investor base, as part of a flotation in its capacity as pbb's owner. The shares were placed at a price of € 10.75 per share, with the offer being several times oversubscribed, at the offer price. Almost all of the shares were allotted to institutional investors. Following the flotation (and after exercise of the over-allotment option), HRE Holding will continue to hold 20% of pbb's share capital. pbb shares (trading symbol «PBB»/ISIN DE0008019001) have been traded in the Prime Standard segment of the Regulated Market at the Frankfurt Stock Exchange since 16 July 2015.

HRE Holding has committed itself to avoid exercise of control over pbb by entering into a control termination agreement with pbb. According to this agreement, HRE Holding shall exercise its voting rights at pbb's Ordinary Annual General Meetings held in or after 2016 only to such an extent that corresponds to a maximum of 49% of the voting rights represented at the respective AGM. This rule will apply for a minimum period of five years.

HRE Holding has agreed to enter into a lock-up agreement, according to which – subject to certain contractually-agreed exceptions – it will continue to hold a minimum stake of 20%, but not exceeding 24.9%, for a two-year period. Following exercise of the over-allotment option granted within the framework of the flotation, this stake amounts to 20%. This lock-up agreement may have positive effects on pbb's ratings, and thus its funding costs.

After the privatisation, risk management on pbb Group level as well as on the institution's individual level has been established in accordance with section 25a(1) sentence 3 numbers 1, 2 and 3 (b) and (c) of the German Banking act (Kreditwesengesetz – «KWG»).

On 17 July 2015, against the backdrop of the flotation, Standard & Poor's affirmed the bank ratings assigned to pbb and changed the outlook from «Developing» to «Negative». The main reasons for the negative outlook were uncertainties as to the accumulation of a subordinated risk buffer in favour of senior unsecured debt according to the requirements of Standard & Poor's and risks related to the economic environment in Germany.

HRE Holding has issued an unrestricted letter of comfort (Patronatserklärung) in respect of pbb in the last few single-entity financial statements, with the most recent letter of comfort in the 2014 financial statements. According to these letters of comfort, HRE Holding ensures that pbb is able to meet its contractual obligations, with the exception of political risk. As at 20 July 2015, HRE Holding has revoked and terminated its letters of comfort in respect of pbb with immediate effect, in connection with pbb's flotation.

There were no other significant events after 30 June 2015.

The risk and opportunity report shows the risks and opportunities associated with each risk type, as identified within the implemented risk management and risk controlling system. For more general or bank-wide risks and opportunities, please refer to the Report on Expected Developments.

Organisation and Principles of Risk and Capital Management

HRE Holding had set up a Group-wide risk management and risk controlling system that laid the groundwork for the application of the so-called waiver according to Article 7 CRR/section 2a of the KWG in the reporting period. All tasks in accordance with section 25a of the KWG for uniform risk identification, measurement and limitation, as well as risk management, were defined centrally by HRE Holding; operational implementation was the responsibility of the respective subsidiary. This Report on Risks and Opportunities also covers opportunities, within the framework of a quality assessment.

As the parent institution of HRE, HRE Holding had developed a Group recovery plan in accordance with the legal requirements (KWG) and the Minimum Requirements for the Design of Recovery Plans (MaSan), and integrated it into the business organisation. The indicators defined for the recovery plan are part of HRE's management of the bank as a whole, with pbb being fully integrated. The objective of the recovery plan is to identify – at an early stage – any developments that may put the bank as a going-concern at risk, and make it possible for the bank to take appropriate (counter-)measures to prevent going-concern risks from materialising.

With effect from 1 April 2015, pbb has no longer been part of HRE's Group-wide risk management and, being a parent institution in its own right, is now responsible for risk management.

Organisation and Committees

From a regulatory perspective, pbb has been the parent company of HRE Group since 1 April 2015. The Management Board of the parent company is responsible for the risk management system, and decides on the strategies and material issues of risk management and risk organisation at pbb Group and HRE Group (up until the reprivatisation of pbb). The risk management system comprises the plausible and systematic identification, analysis, valuation, management, documentation, monitoring and communication of all major risks.

Please refer to the disclosures in the Report on Risks and Opportunities of the Annual Report 2014 for details concerning other major risk management responsibilities of the Management Board.

Please refer to the disclosures in the Report on Risks and Opportunities of the Annual Report 2014 for details about organisation and committees. Please also note that in preparation for the planned reprivatisation, a decision was taken that as of 1 April 2015 the Management Board of HRE Holding AG does no longer have to be identical with the Management Board of Deutsche Pfandbriefbank AG.

Risk Strategy and Policies

The risk strategy of pbb Group is based on the business strategy, risk inventory and the results of a Group-wide financial planning process. It is applicable for the operating segments and legal entities of pbb Group, and reflects the strategic focus of pbb Group as a specialist for real estate finance and public investment finance in Germany and selected countries in Europe, with a focus on Pfandbrief funding. The strategy is reviewed at least annually, and updated if applicable.

The risk strategy was revised in February 2015, adopted by the Management Board of pbb and presented to the Risk Management and Liquidity Strategy Committee of pbb's Supervisory Board. It was presented subsequently to the plenary meeting of the Supervisory Board. It was updated again in June 2015, in preparation of the reprivatisation of pbb and in order to reflect the situation for the time where the waiver option will no longer be applied. This version came into force on 15 July 2015; this is the date where the waiver option was no longer applied.

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

Risk Reporting, Risk Quantification, Risk Controlling and Risk Management

Please refer to the disclosures in the Report on Risks and Opportunities of the Annual Report 2014 for details concerning risk reporting, risk quantification, risk controlling and risk management.

Economic Capital and Monitoring the Risk-bearing Capacity

Please refer to the disclosures in the Report on Risks and Opportunities of the Annual Report 2014 for details concerning economic capital and monitoring risk-bearing capacity.

Risk Types

Please refer to the disclosures in the Report on Risks and Opportunities of the Annual Report 2014 for details concerning the distinction between major risk types as defined by pbb Group.

Credit Risk (Counterparty Risk)

Definitions, Credit Risk Strategy and Principles, Credit Risk Reports

Please refer to the disclosures in the Report on Risks and Opportunities of the Annual Report 2014 for details concerning definitions, credit risk strategy and principles, as well as credit risk reports.

Credit Risk Quantification via Economic Capital and Risk-weighted Assets according to Capital Requirements Regulation (CRR)

Credit Portfolio Model For calculating the economic credit risk capital, pbb Group uses a credit portfolio model, which is described in the Report on Risks and Opportunities of the Annual Report 2014. For details concerning credit risk quantification, please refer to the section «Result of Risk-bearing Capacity Analysis».

Stress Tests For details concerning the stress tests for economic capital in credit risk, please refer to the section «Result of Risk-bearing Capacity Analysis».

In addition to the stress tests regarding economic capital, there are also RWA reverse stress tests. These investigate the extent to which a certain risk parameter (such as rating, loss-given default (LGD), currency) may change before a minimum Common Equity Tier 1 (CET1) ratio of 9% is no longer met. For all tested risk parameters, tolerance change levels apply. These levels must not be violated if the tests of pbb Group are to be successfully completed.

Credit Risk Quantification according to CRR The Basel III Framework Agreement of the Basel Committee was implemented on a European level by means of the EU Capital Requirements Regulation (CRR). To determine regulatory capital, pbb Group applies the so-called Advanced Internal Rating-Based Approach (Advanced IRBA).

Credit Risk Management and Monitoring

Please refer to the disclosures in the Report on Risks and Opportunities of the Annual Report 2014 for details concerning the management and monitoring of credit risk.

Hedging and Mitigating Risk Through Collateral

Please refer to the disclosures in the Report on Risks and Opportunities of the Annual Report 2014 for details concerning risk protection and mitigation through credit collateral.

Credit Portfolio^{a)}

The entire credit portfolio of pbb Group is calculated by using the Exposure at Default (EaD).

For most products, EaD is equal to the carrying amount in the accounting systems (including accrued interest). Committed, undrawn credit lines are additionally included in EaD with a product-specific credit conversion factor (CCF). The CCF indicates the portion of an undrawn credit line that is expected to be drawn upon (based on experience) within one year before a potential default. Derivatives and repo transactions are an exception since their EaD is not identical to their carrying amount but must be determined, in accordance with the Capital Requirements Regulation (CRR) using a different methodology. For instance, the mark-to-market method is applied to derivatives, using the market value plus any regulatory add-ons for potential future market value increases and taking any netting or collateralisation effects into account.

The Group's credit portfolio had an aggregate EaD of €64.0 billion as at 30 June 2015 (EaD as at 31 December 2014: €65.5 billion). This figure includes assets not regarded upon as core exposure of pbb Group, with an EaD of €0.3 billion (EaD as at 31 December 2014: €0.3 billion), which were selected for transfer to FMS Wertmanagement but where the legal (physical) transfer has not yet been possible. The credit risk of these assets was transferred in 2010, by means of guarantees provided by FMS Wertmanagement. As a result, pbb Group's ultimate exposure from these positions is a counterparty credit risk exposure vis-à-vis FMS Wertmanagement – and hence, indirectly against the Federal Republic of Germany.

To adequately reflect pbb Group's actual economic risk exposure, the following overviews of portfolio development and structure do not include the positions mentioned above, which are guaranteed by FMS Wertmanagement. Considering the distinctions set out above, EaD for pbb Group's aggregate exposure totalled €63.7 billion as at 30 June 2015 (31 December 2014: €65.2 billion). The EaD figure as at 30 June 2015 includes a €0.8 billion reduction, due to a review of credit conversion factors in the Real Estate Finance segment that was not taken into account in the figures as at 31 December 2014. Without this credit conversion factor effect, EaD as at 30 June 2015 would have been €0.8 billion higher.

Overview of the Total Exposure of pbb Group: €63,7 billion EaD The credit portfolio is broken down into the segments of
> Real Estate Finance (REF),
> Public Investment Finance (PIF) and
> the non-strategic segment Value Portfolio (VP) which has been earmarked for winding down.

Besides internal reconciliation and consolidation items, «Consolidation & Adjustments» shows the EaD for transactions which are not directly attributable to the operating segments. These are basically asset items for the purpose of asset/liability management.

^{a)} The values and tables below may be subject to rounding differences with regard to the overall portfolio or individual segments.

As at 30 June 2015, 68% (31 December 2014: 54%) of EaD in «Consolidation & Adjustments» was attributed to rating classes AAA to AA-, and 18% (31 December 2014: 24%) in rating rating classes A+ to A-. 14% (31 December 2014: 22%) of EaD was in rating classes BBB+ to BBB-. The portion of EaD in rating classes BB+ and below was 0.1% as at 30 June 2015 (31 December 2014: 0.04%).^{a)}

Total portfolio: EaD according to business segments		30.06.2015	31.12.2014^{b)}	Change
in € billion				
Real Estate Finance		25.1	24.3	0.8
Public Investment Finance		8.3	7.8	0.5
Value Portfolio		23.0	26.2	-3.2
Consolidation & Adjustments		7.3	6.9	0.4
Total		63.7	65.2	-1.5

^{b)} The figures reflect EaD as at 31 December 2014, following the reclassification of Italian bonds in the amount of € 1.5 billion from the Public Investment Finance segment to the Value Portfolio segment.

Risk Parameters Expected Loss The Expected Loss (EL) for a period of one year is determined for the entire exposure, except for non-performing loans for which a specific allowance has already been recognised. EL is calculated using the regulatory parameters of one-year Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EaD).

Expected Loss for the pbb Group amounted to € 101 million as at 30 June 2015 (31 December 2014: € 146 million). The decline in Expected Loss was primarily due to the recovery of two larger financings in the Real Estate Finance segment; a partial repayment of an additional financing in the Real Estate Finance segment also reduced Expected Loss.

Total exposure: expected loss according to business segments		30.6.2015	31.12.2014^{b)}	Change
in € million				
Real Estate Finance		78	121	-43
Public Investment Finance		2	2	-
Value Portfolio		21	23	-2
Consolidation & Adjustments		1	1	-
Total		101	146	-45

^{b)} The figures reflect EL at 31 December 2014, following the reclassification of Italian bonds from the Public Investment Finance segment to the Value Portfolio segment.

As a general rule, future changes in economic data (for example) may lead to changes to the above-mentioned EL figures. This is one reason why realised losses may diverge from Expected Loss.

^{a)} Internal rating classes were mapped to external rating classes for the purpose of determining the breakdown of EaD by rating class.

Regional Breakdown of the Portfolio The main focus of pbb Group's exposure at the reporting date was unchanged, being Western Europe. The increase in the German exposure was largely due to new business, but also to items booked under «Consolidation & Adjustments». In Sweden new Real Estate Finance business primarily led to an exposure increase of €0.4 billion.

The €0.9 billion decline in exposure to Italy was mainly the result of a sale of Italian bonds. Exposure to Poland declined by €0.5 billion during the first half of 2015, mainly due to the maturity of bonds held.

The category «Other», which accounted for €2.3 billion (or around 4% of the portfolio), largely comprises bonds issued by supranational organisations. The largest items of the category «Other Europe» were Switzerland (€0.4 billion – 31 December 2014: €0.4 billion), Belgium (€0.4 billion – 31 December 2014: €0.5 billion), and the Netherlands (€0.4 billion – 31 December 2014: €0.3 billion).

Total portfolio: EaD according to regions		30.6.2015	31.12.2014	Change
in € billion				
Germany		27.8	27.3	0.5
Austria		6.9	7.2	-0.3
France		6.2	6.1	0.1
Great Britain		5.1	4.9	0.2
Spain		5.0	5.2	-0.2
Italy		2.4	3.3	-0.9
Other ¹⁾		2.3	2.6	-0.3
Other Europe ²⁾		1.8	2.1	-0.3
Poland ³⁾		1.7	2.2	-0.5
Sweden		1.6	1.2	0.4
Portugal		1.4	1.4	-
Hungary ³⁾		0.6	0.8	-0.2
Czechia		0.6	0.4	0.2
Finland		0.4	0.5	-0.1
Total		63.7	65.2	-1.5

¹⁾ Includes Supranational issuers, Japan and the United States

²⁾ Includes Switzerland, Belgium, the Netherlands, Slovenia and Denmark.

In the Annual Report 2014 the Czech Republic and Finland were also included in «Other Europe»; these countries will be reported separately from 30 June 2015 onwards.

³⁾ In the Annual Report 2014 Poland and Hungary were included in «Emerging Markets»; these countries will be reported separately from 30 June 2015 onwards. Romania, which was also included in «Emerging Markets», was added to the category «Other Europe».

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

Issuer Risk Bonds, borrowers' note loans and structured loans in the portfolio are broken down by region for the purpose of classifying EaD according to issuer risk. EaD is attributed on the basis of the issuer's country of domicile. The €3.8 billion decline was attributable to maturing bonds and borrowers' note loans, as well as strategic sales from the Value Portfolio.

As at 30 June 2015, the largest items of the category «Other Europe» are Belgium (€0.4 billion – 31 December 2014: €0.5 billion), Slovenia (€0.2 billion – 31 December 2014: €0.3 billion), and Switzerland (€0.1 billion – 31 December 2014: €0.1 billion). The category «Other» almost exclusively comprises bonds issued by supranational organisations.

Looking at the segment breakdown of issuer risk as at 30 June 2015, the Value Portfolio segment accounted for 66% of EaD (31 December 2014: 68%), with the Public Investment Finance segment accounting for 23% (31 December 2014: 19%) and Consolidation & Adjustments for 11% (31 December 2014: 13%).

Total portfolio: issuer risk according to regions		30.6.2015	31.12.2014	Change
	in € billion			
Germany		12.8	13.5	-0.7
Austria		6.6	7.0	-0.4
Spain		4.6	4.8	-0.2
France		3.1	2.9	0.2
Italy		2.4	3.3	-0.9
Other ¹⁾		2.0	2.3	-0.3
Portugal		1.4	1.4	-
Other Europe ²⁾		1.0	1.1	-0.1
Poland ³⁾		0.3	0.8	-0.5
Hungary ³⁾		0.3	0.4	-0.1
Finland		0.2	0.2	-
Czechia		0.1	0.1	-
Great Britain		0.1	0.6	-0.5
Sweden		<0.1	<0.1	-
Total		34.7	38.5	-3.8

¹⁾ Comprises supranational organisations and Japan

²⁾ Comprises among others Belgium, Slovenia, Switzerland, the Netherlands and Denmark.

In the Annual Report 2014 the Czech Republic and Finland were also included in «Other Europe»; these countries will be reported separately from 30 June 2015 onwards.

³⁾ In the Annual Report 2014 Poland and Hungary were included in «Emerging Markets»; these countries will be reported separately from 30 June 2015 onwards.

Real Estate Finance: € 25.1 billion EaD Portfolio Development and Structure The EaD in the Real Estate Finance segment was up by € 0.8 billion, to € 25.1 billion, as at 30 June 2015 in comparison to 31 December 2014. Moreover, the EaD figure as at 30 June 2015 includes a € 0.8 billion reduction, due to a review of credit conversion factors that was not taken into account in the figures as at 31 December 2014. Without this credit conversion factor effect, EaD would have increased by € 1.6 billion during the period from 31 December 2014 to 30 June 2015. Customer derivatives in the portfolio accounted for an EaD of € 0.4 billion as at 30 June 2015 (31 December 2014: € 0.5 billion).

The exposure increase in the Real Estate Finance segment was mainly due to new business in Great Britain and Sweden. Additionally the EaD per se increased because of new business in Germany, which however was overcompensated by the EaD reducing effect from the review of credit conversion factors.

Real Estate Finance: EaD according to regions		30.6.2015 ¹⁾	31.12.2014 ²⁾	Change
in € billion				
Germany		12.1	12.5	-0.4
Great Britain		4.9	4.2	0.7
France		2.6	2.7	-0.1
Sweden		1.5	1.2	0.3
Poland ³⁾		1.4	1.4	-
Other Europe ⁴⁾		0.8	0.8	-
Czechia		0.5	0.3	0.2
Spain		0.4	0.4	-
Hungary ⁵⁾		0.3	0.4	-0.1
Austria		0.3	0.2	0.1
Finland		0.2	0.3	-0.1
Other ⁶⁾		<0.1	<0.1	-
Portugal ⁶⁾		<0.1	<0.1	-
Italy ⁷⁾		<0.1	<0.1	-
Total		25.1	24.3	0.8

¹⁾ Breakdown including customer derivatives of approximately € 0.4 billion

²⁾ Breakdown including customer derivatives of approximately € 0.5 billion

³⁾ In the Annual Report 2014 Poland and Hungary were included in «Emerging Markets»; these countries will be reported separately from 30 June 2015 onwards.

⁴⁾ Comprises among others Switzerland, the Netherlands and Luxembourg.

In the Annual Report 2014 the Czech Republic and Finland were also included in «Other Europe»; these countries will be reported separately from 30 June 2015 onwards.

⁵⁾ Category «Other» includes Japan with € 0.03 billion EaD as of 31 December 2014 and 30 June 2015.

⁶⁾ Portugal includes € 0.03 billion EaD in the Real Estate Finance segment as of 31 December 2014 and 30 June 2015.

⁷⁾ Italy includes € 0.02 billion EaD in the Real Estate Finance segment as of 31 December 2014 and 30 June 2015.

The breakdown of the portfolio by property type as at 30 June 2015 changed only slightly compared to year-end 2014.

Real Estate Finance: EaD according to property type		30.6.2015	31.12.2014	Change
in € billion				
Office buildings		7.7	7.2	0.5
Retail		7.7	6.7	1.0
Housing construction		4.8	4.7	0.1
Logistics/storage		2.3	2.3	–
Mixed use		1.1	1.6	–0.5
Other		0.8	1.2	–0.4
Hotel/leisure		0.7	0.7	–
Total		25.1	24.3	0.8

At the half-year point 2015, investment financings continued to dominate the portfolio (92% – 31 December 2014: 89%); development financings only accounted for 6% of EaD (31 December 2014: 8%). The decline compared to year-end 2014 was due to the adjustment of credit conversion factors. Investment financings are defined as real estate loans, the debt servicing ability of which largely depend upon current cash flows from the property.

Real Estate Finance: EaD according to loan type		30.6.2015	31.12.2014	Change
in € billion				
Investment financing		23.0	21.6	1.4
Development financing		1.5	2.0	–0.5
Customer derivatives		0.4	0.5	–0.1
Other		0.2	0.1	0.1
Total		25.1	24.3	0.8

Risk Parameters Using the regulatory parameters, Expected Loss for the Real Estate Finance portfolio totaled € 78 million as at 30 June 2015 (31 December 2014: €121 million). The decline in Expected Loss was primarily due to the recovery of two larger financings in the Real Estate Finance segment; a partial repayment of an additional financing in the Real Estate Finance segment also reduced Expected Loss.

Public Investment Finance: €8.3 billion EaD Portfolio Development and Structure The portfolio comprises the following financings:

- (I) financings concluded directly with a public-sector debtor, which are eligible for inclusion in cover pursuant to the German Pfandbrief Act, on the basis of a specific designation of purpose according to a defined product catalogue;
- (II) financings for enterprises, which have a public-sector or private legal ownership structure, which are to a great extent collateralised with a public-sector guarantee within the meaning of the German Pfandbrief Act (transport and utility companies, municipal utilities, special-purpose associations, management companies, non-profit entities, associations); and
- (III) financings of special-purpose vehicles, which are collateralised with a public-sector guarantee within the meaning of the German Pfandbrief Act.

Italian bonds with EaD in the amount of €1.5 billion were transferred from the Public Investment Finance segment to the Value Portfolio segment at the beginning of 2015. The comparative figures as at 31 December 2014, as shown in the table, show pro forma the EaD after this segment reclassification.

The EaD in the Public Investment Finance segment increased by €0.5 billion compared to the end of the previous year, particularly as a result of new business originated in Germany and France.

Public Investment Finance: EaD according to regions		30.6.2015	31.12.2014	Change
in € billion				
Germany		2.8	2.5	0.3
France		2.5	2.2	0.3
Spain		2.0	2.1	-0.1
Other Europe ¹⁾		0.3	0.3	-
Austria		0.3	0.3	-
Finland		0.2	0.2	-
Other ²⁾		0.1	0.1	-
Great Britain		0.1	0.1	-
Sweden		<0.1	<0.1	-
Total		8.3	7.8	0.5

¹⁾ Almost 100% Belgium;
in the Annual Report 2014 Austria, Sweden and Finland were also included in «Other Europe»;
these countries will be reported separately from 30 June 2015 onwards.

²⁾ Category «Other» almost exclusively comprises bonds issued by supranational organisations.

«Public Sector Borrowers» summarises claims against sovereign states (9%), public-sector enterprises (31%), and regional governments and municipalities (60%).

Public Investment Finance: EaD according to counterparty structure		30.6.2015	31.12.2014	Change
in € billion				
Public sector borrowers		6.2	6.0	0.2
State-regulated companies ¹⁾		2.1	1.7	0.4
Financial institutions ^{2)/insurance companies}		<0.1	<0.1	–
Total		8.3	7.8	0.5

¹⁾ Water utilities, power supply utilities, etc.

²⁾ Financial institutions with government backing or a sovereign guarantee

The EaD share in the PIF segment in rating classes AAA to AA– increased by 12 percentage points year-on-year, to 55% – due, amongst other factors, to new business originated in these rating classes.

Public Investment Finance: EaD according to internal ratings ¹⁾		30.6.2015	31.12.2014	Change
in € billion				
AAA to AA–		4.5	3.9	0.6
A+ to A–		2.6	2.9	–0.3
BBB+ to BBB–		0.9	0.7	0.2
BB+ and worse		0.3	0.3	–
Total		8.3	7.8	0.5

¹⁾ Internal rating classes were mapped to external rating classes for the purpose of determining the breakdown of EaD by rating class.

Risk Parameters Expected Loss for the Public Investment Finance segment portfolio was virtually unchanged, at €2 million (31 December 2014: €2 million^{a)}).

^{a)} The figures reflect EL at 31 December 2014, following the reclassification of Italian bonds from the Public Investment Finance segment to the Value Portfolio segment.

Value Portfolio: €23,0 billion EaD Portfolio Development and Structure The Value Portfolio comprises non-strategic portfolios of pbb Group.

At the beginning of 2015 Italian bonds with an EaD in the amount of € 1.5 billion were transferred from the Public Investment Finance segment to the Value Portfolio segment. The comparative figures as at 31 December 2014, as shown in the table, show pro forma the EaD after this segment reclassification.

In conformity with the strategy, the further decrease in the exposure as at 30 June 2015 compared with 31 December 2014 was mainly due to reductions in Italy and Germany, with Germany remaining the focus in the portfolio. Exposure to Poland declined by € 0.5 billion during the first half of 2015, mainly due to the maturity of bonds held.

Value Portfolio: EaD according to regions		30.6.2015	31.12.2014	Change
in € billion				
Germany		7.9	8.8	-0.9
Austria		6.3	6.7	-0.4
Italy		2.3	3.3	-1.0
Spain		1.8	1.9	-0.1
Other ¹⁾		1.4	1.5	-0.1
Portugal		1.4	1.4	-
France		0.8	0.9	-0.1
Other Europe ²⁾		0.5	0.6	-0.1
Poland		0.3	0.8	-0.5
Hungary		0.3	0.4	-0.1
Czechia		0.1	0.1	-
Finland		<0.1	<0.1	-
Total		23.0	26.2	-3.2

¹⁾ Comprises among others supranational organisations and Japan

²⁾ Comprises among others Slovenia, Belgium, Switzerland and the Netherlands

Value Portfolio: EaD according to counterparty structure		30.06.2015	31.12.2014	Change
in € billion				
Public sector borrowers		17.4	20.6	-3.2
Financial institutions/insurance companies		4.5	4.8	-0.3
Companies/Project Financing		1.0	0.8	0.2
Total		23.0	26.2	-3.2

Risk Parameters Using the regulatory parameters, Expected Loss for the Value Portfolio totalled € 21 million as at 30 June 2015 (31 December 2014: € 23 million^{a)}). The lower Expected Loss was due to a decline in LGD for a regional government, as well as to the sale of Italian bonds.

^{a)} The figures reflect EL at 31 December 2014, following the reclassification of Italian bonds from the Public Investment Finance segment to the Value Portfolio segment.

Structured Products

pbb Group's residual holdings of fully state-guaranteed Collateralised Debt Obligations had a notional value of €0.7 billion as at 30 June 2015 (31 December 2014: €0.7 billion) and a current fair value of €0.6 billion (31 December 2014: €0.7 billion).

pbb Group's residual holdings of non-state-guaranteed structured securities – specifically, credit-linked investments in the form of Collateralised Debt Obligations (CDOs in the narrower sense of the term) – remained stable in comparison with the end of 2014, with a notional value of €0.1 billion. The fair value of these securities – which securitise credit risks, and which have been almost completely written down – amounted to €3 million as at 30 June 2015 (31 December 2014: €3 million). All holdings in non-state-guaranteed structured securities were sold in July 2015.

The valuation of these assets was essentially based on available market prices.

Watchlist and Non-performing Loans

Please refer to the disclosures in the Report on Risks and Opportunities in the Annual Report 2014 for details concerning the early warning system implemented throughout pbb Group.

Development of Watchlist and Non-performing Loans of pbb Group

Watchlist and non-performing loans of pbb Group	30.6.2015				31.12.2014				Change
	REF	PIF	VP	Total	REF	PIF	VP	Total	
EaD in € million									
Workout loans	10	–	–	10	9	–	–	9	1
Restructuring loans	635	–	243	878	818	–	316	1,134	–256
Non-performing loans^{a)}	645	–	243	888	827	–	316	1,143	–255
Watchlist loans	263	–	244	507	116	–	244	360	147
Total	908	–	487	1,395	943	–	560	1,503	–108

^{a)} In addition €1 million EaD as of 31 December 2014 in «Consolidations & Adjustments»

Watchlist and non-performing loans declined by a total of €108 million during the period from 31 December 2014 to 30 June 2015.

Watchlist loans increased by €217 million (gross)^{a)} and by €147 million (net) during the first half of 2015. The €217 million rise was exclusively attributable to new Watchlist exposures from the REF segment, including one exposure of €110 million. Conversely, two exposures from the REF segment with an aggregate amount of €70 million were returned to ordinary coverage.

Non-performing loans decreased by €283 million (gross)^{a)} and by €255 million (net) during the same period. Successful restructurings and repayments (almost exclusively from the REF segment) totalled €173 million. The reduction in the Value Portfolio reflects an additional valuation adjustment on the Heta portfolio; this led to an EaD decline by €73 million. Furthermore, during the reporting period a property with a financing volume of €30 million had to be consolidated according to IFRS as well as to regulatory scope of consolidation. Additional reductions in balances of existing exposures amounted to €7 million. Exposures with an aggregate volume of €3 million were newly classified as non-performing, whilst exchange rate fluctuations raised the balance by €25 million.

Impairments and Provisions

Please refer to the disclosures in the Report on Risks and Opportunities in the Annual Report 2014 for details concerning impairments and provisions.

Risk Provisioning of pbb Group Please refer to the Notes for an overview of risk provisioning developments, and of provisions.

Coverage for Non-performing Loans^{a)}

The coverage ratio is defined as the ratio between the provisions recognised for non-performing exposures (including the residual volume of structured products, as part of the Value Portfolio) and the EaD – or, with regard to structured products and securities, the nominal amount.

As at 30 June 2015, pbb Group's non-performing loans were covered at 45% (31 December 2014: 30%). The improvement was mainly due to the fact that the volume of non-performing loans declined more strongly relative to existing provisions.

Non-performing loans in the REF segment were covered at 33% (31 December 2014: 24%). As in the previous year, as at 30 June 2015 the PIF segment had no non-performing loans. The coverage ratio in the Value Portfolio stood at 54% (31 December 2014: 37%). The increase compared to year-end 2014 was related to additional valuation adjustments, recognised during the first half of 2015, on the non-strategic exposure to Heta Asset Resolution AG (Heta).

Including collateral furnished, the coverage ratio in the REF segment was approximately 100%.

Opportunities

Please refer to the disclosures in the Report on Risks and Opportunities in the Annual Report 2014 for details concerning opportunities.

^{a)} The coverage ratio was reported on the basis of the regulatory scope of consolidation. The figures as at 31 December 2014 include a financing for which regulatory consolidation was permitted as at 30 June 2015.

Market Risk

Definition

Please refer to the disclosures in the Report on Risks and Opportunities in the Annual Report 2014 for details concerning the definition of market risk. pbb no longer had any direct inflation-linked exposure as at 30 June 2015.

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

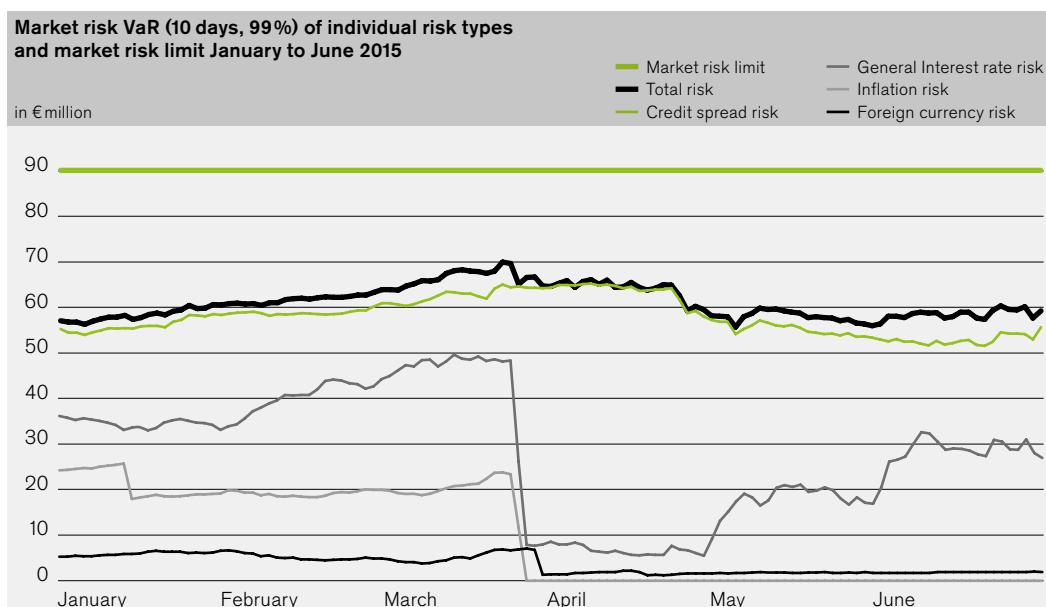
Please refer to the disclosures in the Report on Risks and Opportunities in the Annual Report 2014 for details concerning these items.

Market Risk Measurement and Limits

Market Risk Value at Risk Please refer to the disclosures in the Report on Risks and Opportunities in the Annual Report 2014 for details concerning the definition of market risk value-at-risk (VaR).

Market risk VaR as at 30 June 2015 amounted to €59 million, taking diversification effects between the individual market risk types into consideration (31 December 2014: €57 million). There were no breaches of the market risk VaR limit at pbb Group level during the period under review. pbb's market risk limit was cut from €120 million to €90 million on 2 January 2015.

During the first half of 2015 market risk VaR developments were mainly shaped by changes in credit spread volatility. The following chart shows the development of market risk VaR, as well as VaR developments for the main types of risk, compared to the market risk VaR limit during the course of the year:



The VaR assessment is complemented by additional tools, such as sensitivity analyses, stress tests and back-testing.

Sensitivity Analyses Please refer to the disclosures in the Report on Risks and Opportunities in the Annual Report 2014 for details concerning sensitivity analyses.

Stress Testing Whilst VaR measures market risk in «normal» market conditions and does not provide a measure for potential maximum losses, stress scenarios are used to show market risk in extreme conditions. pbb Group employs hypothetical stress scenarios for key risk drivers, on a monthly basis, to determine the impact of extreme changes in yield curves, foreign exchange rates, credit spreads, inflation rates and volatility on the economic present value of pbb Group's overall portfolio. Historical stress scenarios are simulated additionally. For example, the 200 basis point parallel upwards shift in the yield curve – as required by regulatory authorities – would have resulted in market value losses of €178 million as at 30 June 2015 (31 December 2014: €509 million) on the aggregate exposure of pbb Group. Conversely, a 200 basis point parallel downwards shift in the yield curve would have resulted in market value profits of €23 million as at 30 June 2015 (31 December 2014: €245 million). The asymmetry between potential profits and losses is due, in particular, to the fact that the 200 basis point shift is capped at an interest rate of zero per cent. A significant widening of relevant credit spreads (by between 30 and 1,500 basis points, depending on the rating of the respective positions) would have led to market value losses of €295 million as at 30 June 2015. The Management Board and the relevant executive bodies are informed about the results of stress test scenarios on a regular basis.

Back Testing The quality of the methods used to measure risk is continually reviewed and, where necessary, optimised on the basis of daily comparison of VaR figures and subsequent actual changes in the present value of the portfolio. pbb Group has adopted the Basel Capital Accord's «traffic light» system for the quantitative analysis of its risk model. For this purpose, the number of statistical (negative) outliers detected in backtesting within a period of 250 trading days are counted. Overall, ten outliers were observed in 2015 to date, based on a data history of 250 trading days. These outliers were mainly attributable to extraordinarily strong fluctuations of credit spreads and OIS spreads, and also reflected a significant increase in market volatility levels during the first half of 2015. In contrast, the market data history of 250 trading days on which the VaR model is based mainly includes low-volatility periods. For this reason, pbb plans to introduce an enhanced VaR model for operative risk measurement in the third quarter of 2015, with a considerably longer market data history of seven years. This model would have detected a much lower number of outliers.

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

Please refer to the disclosures in the Report on Risks and Opportunities in the Annual Report 2014 for details concerning this item.

Market Risk Management, Monitoring and Reduction

Please refer to the disclosures in the Report on Risks and Opportunities in the Annual Report 2014 for details concerning these items.

General Interest Rate Risk The general interest rate risk declined to €27 million as at 30 June 2015 (31 December 2014: €36 million), largely due to the sale of a position from the capital investment portfolio in March 2015. The average interest rate risk was €28 million during the first half-year 2015, with a maximum of €50 million and a minimum of €5 million. During 2014, the average interest rate risk was €39 million, with a maximum of €66 million and a minimum of €28 million. Aside from the capital investment portfolio, general interest rate risk was at a low level throughout the first half of 2015.

As in the previous year, non-linear interest rate risks from capital market transactions were negligible (30 June 2015: € 1.3 million; 31 December 2014: € 0.049 million).

Credit Spread Risk The credit spread risk reflects potential changes in the present value of exposures as a result of changes in the corresponding credit spread. The majority of credit spread risk is attributable to assets eligible as cover for Pfandbriefe. Risk measurement systems are in place for calculating credit spread risk for all relevant exposures. Only credit spread risks of holdings classified as available for sale (AfS) or designated at fair value through profit and loss (dFVTPL) are subject to VaR limitation. Positions classified as Loans and Receivables (LaR), however, are not subject thus.

The credit spread VaR for the AfS and dFVTPL portfolios amounted to € 56 million as at 30 June 2015, unchanged from the year-end 2014 (31 December 2014: € 56 million).

Other Market Risks The present value of foreign currency risk was € 2 million as at 30 June 2015, whereas there was no more inflation risk exposure at the record date, due to the sale of a position from the capital investment portfolio, as mentioned above. Basis risks include OIS, tenor spread, cross-currency spread and Libor/Euribor spread risks; these are quantified and recognised within the framework of the VaR model. All basis risks are included in aggregate VaR and are therefore subject to market risk limitation. The bank is not exposed to share price or commodity risks. Financial derivatives are mainly used for hedging purposes.

Opportunities

As detailed above, the sensitivities result in value at risk: a possible future (economic) loss in the event of an unfavourable market development. It is worth noting that the very same sensitivities may also result in economic gains, in the event of a positive market development. For instance, as described above, high negative credit spread sensitivities represent a risk. In the event of a narrowing of the relevant credit spreads, however, these credit spread sensitivities will yield economic profits, constituting an opportunity. Within the framework of the stress scenarios required by supervisory authorities, for example, a 200 basis point parallel downwards shift of the interest rate curve (subject to a floor of 0%) provides the opportunity for a market value gain of € 23 million.

Liquidity Risk

Please refer to the Annual Report 2014 for general information concerning the measurement and management of pbb Group's liquidity risk exposure (including the definition of liquidity risk, the organisation of liquidity management, risk measurement, risk strategy, and risk limits).

Development of pbb Group's Risk Position

The Group's liquidity position during the first half of 2015 exceeded the liquidity projection prepared at the start of the year.

The cumulative liquidity position (liquid assets plus projected net cash flows) determined as part of the liquidity risk measurement process as at 30 June 2015 amounted to € 5.1 billion for a 12-month horizon in the base scenario – a € 1.1 billion increase from the end of the previous year (based on the same projection horizon). As at 30 June 2015, the cumulative liquidity position for a six-month horizon amounted to € 2.3 billion in the risk scenario (31 December 2014: € 1.8 billion).

ppb's liquidity ratio in accordance with the German Liquidity Ordinance was 3.5 as at 30 June 2015, thus exceeding the statutory minimum of 1.0.

Funding Markets

At the beginning of the first half of 2015, expansive monetary policy of central banks continued to be the dominating factor for capital markets. The extension of the ECB's monetary policy easing measures to include public-sector borrowers, as announced in January (the public-sector purchasing programme, covering bonds issued by euro zone sovereign states, issuers with a development mandate, and European institutions), triggered yet another marked decline in interest rate levels during the first quarter 2015. In April 2015, the yield of ten-year German government bonds hit its record low to date of around 5 basis points.

Negative three-month Euribor rates, together with negative yields on government bonds as well as covered bonds, led to increasing market uncertainty and volatility. During the course of the second quarter 2015, this resulted in a marked turnaround in interest rate developments, with the ten-year yield rising by some 90 basis points. Demand for issuance was revived by the higher interest rate environment.

ppb Group can take advantage of both secured and unsecured issues for funding purposes. Pfandbrief issues are the Bank's main funding instrument: thanks to their high quality and acceptance on the international capital markets, Pfandbriefe are comparatively less affected by market fluctuations than many other funding sources. Thanks to the bank's comfortable liquidity situation, it initially deferred covered benchmark transactions during the period under review.

At the beginning of the year, pbb placed a new senior unsecured benchmark issue and successfully increased the size of an additional issue, to benchmark size. A large portion of funding activities was carried out via private placements, which represent an important funding source for the bank, besides public placements. The small size of private placements contributes to the granularity of pbb's funding.

During the first half of 2015, pbb Group raised long-term funding of approximately €2.2 billion, of which €0.7 billion was placed in the form of benchmark transactions. Approximately two-thirds of long-term funding was issued in senior unsecured form, whilst Pfandbriefe accounted for one-third. Most issues were placed as fixed-rate bonds.

In addition to capital markets funding, pbb Group has extended its unsecured funding base through overnight and term deposits from retail investors. At the half-year point, the related funding volume totalled €2.0 billion (31 December 2014: €1.5 billion).

Forecast Liquidity Requirement

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

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

- > further developments in the context of the European financial crisis, and possible effects on the real economy;
- > future developments of haircuts applied to securities for repo funding on the market, and with central banks;
- > possible additional collateral requirements as a result of changing market parameters (such as interest rates and foreign exchange rates);
- > developments in requirements for hedges;
- > changed requirements from rating agencies regarding the necessary over-collateralisation in the cover pools.

Funding Risk

Please refer to the description of business risk in the «Result of Risk-bearing Capacity Analysis» in the Annual Report 2014 for details concerning funding risk.

Market Liquidity Risk

For financial instruments measured at fair value, quantitative details for a better assessment of market liquidity risk can be obtained from the presentation of the three levels of the fair value hierarchy in the notes. Generally, there is no intention to sell LaR holdings for liquidity management purposes, as liquidity for these holdings can mainly be generated by way of including them in the cover pool, using the funding opportunities provided by the central bank, or using them in repo transactions. Market liquidity risk is included in the internal risk management process as part of market risk.

Opportunities

ppb Group's cumulative liquidity position of €5.1 billion in the base scenario over a twelve-month horizon, which is detailed in the section «Development of the Risk Position of the pbb Group», as at 30 June 2015 provides the Group with scope for a flexible response, particularly with regard to possible new business.

If the external factors specified in the section «Forecast Liquidity Requirement» were to develop favourably for pbb Group, this would per se result in a lower future liquidity requirement.

Operational Risk (including Legal Risks)

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

Please refer to the disclosures in the Report on Risks and Opportunities in the Annual Report 2014 for details concerning the definition of operational risks, the related risk strategy, and the organisation of operational risk management.

Special Developments in the Organisation of Legal Risk Management

Please refer to the disclosures in the Report on Risks and Opportunities in the Annual Report 2014 for details concerning this item.

Risk Reports, Monitoring and Management of Operational Risks

Please refer to the disclosures in the Report on Risks and Opportunities in the Annual Report 2014 for details concerning this item.

Risk Measurement

The economic capital for operational risk in the going-concern perspective amounted to €39 million as of 30 June 2015 (31 December 2014: €39 million). Please refer to the chapter «Result of Risk-bearing Capacity Analysis» in the Annual Report 2014 for calculation details.

In line with the regulatory standard approach, the regulatory capital backing for operational risks, which is calculated at the end of each year, was €81 million as at 30 June 2015 (31 December 2014: €81 million).

Operational Risks Profile of pbb Group

pbb suffered financial losses of €2.3 million from operational risks during the first half of 2015 (31 December 2014: €10.9 million). In terms of operational losses, 52% was accounted for by the Real Estate Finance segment and 24% each by the Public Sector Finance and the Value Portfolio segments.

The regulatory event type «Execution, Delivery & Process Management» was the category with both the highest number of events (60%) and virtually all related financial effects (99%) during the first half of 2015. This result was also reflected in the operational risk self-assessment process, which is a bottom-up risk assessment performed by all of the bank's divisions.

Opportunities

Please refer to the disclosures in the Report on Risks and Opportunities in the Annual Report 2014 for details concerning opportunities from operational risks.

Property Risk

Please refer to the disclosures in the Report on Risks and Opportunities in the Annual Report 2014 for details concerning this item.

Result of Risk-bearing Capacity Analysis

Going-Concern

Please refer to the disclosures in the Report on Risks and Opportunities in the Annual Report 2014 for details concerning the going-concern approach.

Going-concern: Economic capital	30.6.2015	31.12.2014	Change
in € million			
Credit risk	203	219	-16
Market risk	150	256	-106
Operational risk	39	39	-
Business risk	-	3	-3
Property risk	6	10	-4
Total before diversification effects	399	527	-128
Total after diversification effects	390	488	-98
Available financial resources (free capital)	1,438	1,464	-26
Excess capital (+)/capital shortfall (-)	1,048	976	72

In the going-concern approach, the reduction of aggregate economic capital after diversification effects was dominated by lower credit risk and market risk. Market risk in particular declined, due to lower credit spread risks, the sale of a state-guaranteed UK security, as well as sales of securities issued by Italian public-sector entities carried at fair value. To a lesser extent, the reduction was also due to methodological enhancements of the market risk model. The decline in credit risk was mainly attributable to the reduction of exposures to long-term assets, due to higher interest rates at the long end of the yield curve during the first half of 2015. In addition, higher realisation ratios for real estate transactions had a risk-reducing effect.

Since the end of last year, the decline in economic capital after diversification effects has exceeded the decrease in available financial resources, leading to higher excess capital compared to 31 December 2014, thus demonstrating the bank's risk-bearing capacity.

A breakdown of economic capital according to segments is provided below:

Going-concern: Economic capital according to segments		30.6.2015	31.12.2014¹⁾	Change
in € million				
Real Estate Finance	129	135	–6	
Public Investment Finance	13	12	1	
Value Portfolio	201	257	–56	
Consolidation & Adjustments	53	95	–42	
Total	390	488	–98	

¹⁾ In order to enhance comparability, economic capital figures as at 31 December 2014 are pro-forma figures, based on two assumptions: the transfer of the Italian portfolio from the PIF segment to the Value Portfolio segment (carried out on 1 January 2015) was already taken into account at the 2014 year-end and figures calculated as at the 2014 year-end are based on the same allocation mechanism as those for the 30 June 2015 reporting date.

The most important developments on a segment level during the first half of 2015 took place in the Value Portfolio, and in Consolidation & Adjustments. The decline of economic capital for the Value Portfolio was mainly attributable to the sale of securities issued by Italian public-sector borrowers, whilst the sale of a state-guaranteed UK security led to lower economic capital in Consolidation & Adjustments.

Gone-Concern

Please refer to the disclosures in the Report on Risks and Opportunities in the Annual Report 2014 for details concerning the gone-concern approach.

Gone-concern: Economic capital		30.6.2015	31.12.2014	Change
in € million				
Credit risk	1,191	1,437	–246	
Market risk	1,085	1,356	–271	
Operational risk	84	84	–	
Business risk	50	65	–15	
Property risk	10	23	–13	
Total before diversification effects	2,421	2,965	–544	
Total after diversification effects	2,196	2,647	–451	
Available financial resources before hidden losses	4,098	4,147	–49	
Hidden losses	–	–	–	
Available financial resources	4,098	4,147	–49	
Excess capital (+)/capital shortfall (–)	1,902	1,500	402	

As in the going-concern approach, developments in the gone-concern approach during the first six months of 2015 were dominated by a reduction in credit risk and market risk.

The decrease in credit risk was largely due to sales of securities issued by Italian public-sector borrowers; this had a positive effect upon portfolio quality, thanks to a reduction in risk concentrations. Due to rising interest rates in the medium- to long-term ranges of the yield curve, long-term credit risk exposures were reduced, given hedge adjustments on related interest rate hedges.

Market risk exposure declined, largely due to the same developments as in the going-concern approach. Both the sale of Italian government bonds from the Value Portfolio and the sale of a state-guaranteed UK security (and the related reversal of inflation, interest rate, and foreign exchange risks) had a significant impact upon risk reduction.

Property risk declined, due to the sale of a Japanese property in April 2015.

Aggregate diversified economic capital decreased significantly as a result of the changes outlined above.

In line with the situation as at 31 December 2014, net hidden losses of securities in the banking book were positive as at 30 June 2015; in line with the prudence principle, this positive amount was not included in available financial resources. Overall, the decline in economic capital has exceeded the decrease in available financial resources, leading to higher excess capital in the first half of 2015.

Even the theoretical deduction from available financial resources of the €1 billion silent partnership contribution (which was repaid at the beginning of July 2015) would not have threatened risk-bearing capacity on the reporting date, thanks to sufficiently large excess capital. pbb's risk-bearing capacity is thus also demonstrated in the gone-concern approach.

In the event of any renewed escalation of the European sovereign debt crisis, which would once again lead to widening credit spreads of numerous European borrowers, it is fair to expect increasing credit spread risks as well as net hidden losses, regardless of any countermeasures.

A breakdown of economic capital across segments in the gone-concern approach is provided below:

Gone-concern: Economic capital according to segments		30.6.2015	31.12.2014¹⁾	Change
in € million				
Real Estate Finance		503	650	-147
Public Investment Finance		192	237	-45
Value Portfolio		1,181	1,557	-376
Consolidation & Adjustments		361	334	27
Total		2,196	2,647	-451

¹⁾ In order to enhance comparability, economic capital figures as at 31 December 2014 are pro-forma figures, based on two assumptions: the transfer of the Italian portfolio from the PIF segment to the Value Portfolio segment (carried out on 1 January 2015) was already taken into account at the 2014 year-end and figures calculated as at the 2014 year-end are based on the same allocation mechanism as those for the 30 June 2015 reporting date.

On a segment level, economic capital increased in Consolidation & Adjustments. The market risk model was refined during the second quarter of 2015, with overall a more conservative calculation of interest risks; in addition, the model can now incorporate negative interest rates. Moreover, the precision of asset revaluations was refined within the market risk model. Consolidation & Adjustments also contains capital investments exposed to interest rate risk. Given the changes in methodology, as explained above, economic capital increased, whereas it declined in all other segments, due to the developments outlined above.

Opportunities

pbb Group observed relief on European bond markets at the end of 2014 and the beginning of 2015, as a result of the ECB's crisis management. If trust in European public finances was fully restored, systematic rating upgrades for public-sector issuers might lead to lower risks, thus further increasing excess capital in the ICAAP.

Method Used for the Individual Risk Types, Stress Tests

Please refer to the disclosures in the Report on Risks and Opportunities in the Annual Report 2014 for details concerning the methodology applied to individual types of risk, and on the conduct of stress tests.

SREP

On 19 December 2014, the EBA published its final guideline on the Supervisory Review and Evaluation Process («SREP»), following a consultation process lasting several months. This guideline (EBA/GL/2014/13) is directed at national competent authorities of the EU member states; it is set for implementation by institutions in 2015, to be applied from 2016 onwards. In the guideline, the EBA has taken a holistic SREP approach that comprises the assessment of selected key indicators, the business model, governance, as well as capital and liquidity risks.

The SREP is thus based on a holistic evaluation of an institution that leads to an overall credit quality rating of an institution. SREP is therefore the bridge between the former Pillar II (in accordance with Articles 76–87, 97 of CRD IV) and the EU Bank Recovery and Resolution Directive (2014/59/EU – «BRRD»), which focuses on winding up and reorganisation.

pbb Group has already initiated a project that aims to fully implement SREP.

As part of the ECB's implementation of the EBA Guidelines, minimum ratios – including the CET1 ratio and the own funds ratio – were prescribed for HRE on 12 March 2015. These ratios were met as at 30 June 2015. Furthermore, ECB adopted a resolution on 10 July 2015, setting out minimum regulatory requirements for pbb and defining minimum ratios for pbb, which were also met as at the reporting date.

Key Regulatory Capital Ratios

Under the waiver option pursuant to Article 7 of EU Regulation no.575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (the EU Capital Requirements Regulation – «CRR»), pbb is exempted from determining own funds and tier 1 ratios at a single-entity level; pbb Group discloses these ratios on a voluntary basis.

The CRR came into effect on 1 January 2014.

Together with the EU Capital Requirements Directive («CRD IV»), the CRR forms the basis for determining regulatory capital.

Besides the minimum capital ratios, these regulations also govern requirements for the eligibility of capital instruments as well as the mandatory determination of regulatory capital, in line with the accounting standards used. For this reason, pbb has determined its regulatory capital ratios based on IFRS since 1 January 2014.

The Management Board manages the Group's capitalisation, based on regulatory capital ratios in accordance with the CRR. According to the CRR, in 2015 the Common Equity Tier 1 ratio (CET1 ratio – the ratio of Common Equity Tier 1 capital to risk-weighted assets) must not fall below 4.5%, the Tier 1 ratio (Tier 1 capital to risk-weighted assets) must not fall below 6.0%, and the own funds ratio (own funds to risk-weighted assets) must not fall below 8.0%.

These requirements for regulatory capital ratios were satisfied throughout the first half of 2015.

Own Funds in € million	30.6.2015 Basel III fully phased-in ¹⁾		31.12.2014 Basel III fully phased-in ¹⁾	
	30.6.2015	31.12.2014	30.6.2015	31.12.2014
CET1	3,337	2,152	3,364	2,090
Additional Tier 1	193	999	195	999
Tier 1	3,530	3,151	3,559	3,089
Tier 2	429	277	483	334
Own Funds	3,959	3,428	4,042	3,423

¹⁾ After expiry of all transitional provisions under Basel III

Risk-weighted assets (RWA) ¹⁾ in € million	30.6.2015		31.12.2014	
	30.6.2015	30.6.2015 Basel III fully phased-in ²⁾	31.12.2014	31.12.2014 Basel III fully phased-in ²⁾
Market risks	71	71	217	217
thereof interest rate risks	—	—	—	—
thereof foreign exchange risks	71	71	217	217
Operational risks	1,010	1,010	1,010	1,010
Credit risks	12,601	12,601	14,261	14,261
thereof CVA charge	426	426	445	445
Other RWA	—	—	1	1
RWA total	13,682	13,682	15,489	15,489

¹⁾ Including weighted credit risk exposures, plus amounts to be included for market risk and operational risk exposures;

using a scaling factor of 12.5

²⁾ After expiry of all transitional provisions under Basel III

Capital ratios in %	30.06.2015		31.12.2014	
	30.06.2015	30.06.2015 Basel III fully phased-in ¹⁾	31.12.2014	31.12.2014 Basel III fully phased-in ¹⁾
CET1 ratio	24.4	15.7	21.7	13.5
Tier 1 ratio	25.8	23.0	23.0	19.9
Own funds ratio	28.9	25.1	26.1	22.1

¹⁾ After expiry of all transitional provisions under Basel III

Report on Expected Developments

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

Future Developments in Assets, Financial Position and Earnings

pbb Group affirms its forecast communicated in the Annual Report 2014. pbb aims at a slight increase in profit or loss before tax for the financial year 2015 compared to the profit or loss before tax for 2014 excluding the valuation adjustment for the Heta exposure in the amount of €-120 million (€174 million). Compared to the profit or loss before tax reported for the financial year 2014 (€54 million), pbb is aiming for a considerable increase. Regarding the volume of new business including extensions with maturities of more than one year (2014: € 10.2 billion) as well as the notional volume of REF and PIF financing (31 December 2014: € 29.8 billion), pbb is also aiming for a slight increase. Furthermore, pbb's aim is to significantly improve return on equity after tax compared to the previous year, both in terms of the disclosed figure (0.1%) as well as return on equity excluding the value adjustment on the Heta exposure (3.4%). Another aim is to modestly improve the cost-income ratio compared to 2014 (57.3% excluding the value adjustment on the Heta exposure). pbb therefore aims to significantly ameliorate the cost-income ratio reported for 2014 (77.0%).

However in the event of a harmful change in ownership as provided for in section 8c Körperschaftssteuergesetz (German Corporate Tax Act), all or part of pbb Group's current tax losses carried forward could no longer be usable. As a result, the current deferred tax assets on tax losses carried forward would have to be written off. This would result in a negative net income/loss and a negative return on equity after tax.

An important secondary condition for pbb Group meeting its earnings and profitability targets is to ensure its risk bearing capacity. With respect to the going-concern perspective, it is aimed for that the risk covering potential available after complying with regulatory minimum capital ratios will exceed the economic capital requirements. From a gone-concern perspective, pbb Group aims for the available capital to exceed the economic capital requirements which is likely as long as spreads of the European countries in focus do not significantly widen increasing the hidden liabilities.

pbb aims at a markedly lower CET1 ratio in 2015, compared to the level of 2014 (21.7%), due to the repayment of silent partnership contribution. However, pbb aims to achieve a CET1 ratio significantly above the minimum 4.5% requirement under the CRR, as well as above the 12.5% targeted by pbb Group.

Opportunities In particular the following opportunities may affect the future developments in assets, financial position and earnings:

- > In recent years, pbb Group has developed an excellent market position, which has also been evident in the increase in new business volume during the first half of 2015, compared with the corresponding period of the previous year. This has built the basis for pbb Group to continue its healthy development and achieve growth in its core business areas of commercial real estate finance and public investment finance and to increase the profitability.
- > After successfully completing the privatisation pbb can increase its focus on the relevant client markets. This is aimed to have a positive impact on new business volumes, and hence also on the development in assets and earnings.

- > The conditions imposed by the European Commission on pbb Group in connection with the approval of state aid have been lifted following privatisation. Thus, future new business will no longer be subject to such limitations. For instance, pbb Group could expand its business activities in new markets and thereby increase its profitability; however, it does not intend to change the conservative risk profile of its portfolio at this time.
- > There is strong demand for financing on the markets which are relevant for pbb Group. In this context, pbb Group considers that the market climate in commercial real estate finance will be attractive in the long term; this would have a positive impact on the volume of new business and would thus have a positive impact on the development in assets and earnings.
- > The introduction of new products, such as finance leases, allows pbb Group to increase its strength. This may also improve the development in assets and earnings.
- > Likewise, pbb Group sees an attractive market environment in the second strategic segment public investment finance. A high demand for financing of the public infrastructure continues to be expected, which would have a positive effect on the volume of new business and consequently on the development in assets and earnings.
- > The development on the real estate markets offer the opportunity for an increase in value of pbb Group's restructured properties and thus the possibility of profitably selling them.
- > The non-strategic Value Portfolio has decreased significantly in recent years, and is expected to decline further in the future. The associated release of risk-weighted assets will therefore create potential for growth in the strategic segments, which will have a positive effect on the development in earnings.
- > The market interest rate is at extremely low levels. If market interest rates increase in the long run, this could have positive effects on earnings of some of pbb Group's portfolios, such as the investment of the liquidity reserve and of own funds. This may in turn boost the development in earnings.
- > Pfandbriefe are a sound investment with a tried-and-tested market infrastructure; this is also reflected by the strong demand from investors. pbb Group has extensive experience in the Pfandbrief market and is able to build on its existing customer relationships. As a result, it was able to successfully place several mortgage and public sector Pfandbrief issues on the market in recent years. pbb Group therefore utilises a capital market instrument that is still in demand – something that has a positive effect on its development in financial position.
- > pbb Group also placed unsecured issues, a clear reflection of investors' confidence. This important means of raising funds has a positive impact on pbb Group's liquidity and the development in financial position.
- > pbb Group issues overnight deposits and term deposits with terms of up to ten years via pbb direkt. The latter's deposit volumes have increased continuously in recent years, allowing pbb Group to access a new source of funding and react flexibly to market opportunities. This has a positive impact on pbb Group's liquidity and the development in financial position.
- > pbb Group's strict focus on costs represents a further opportunity. General and administrative expenses were reduced continuously in recent years. The status of processes will be continuously monitored in order to identify appropriate improvement measures. pbb Group aims to maintain a stable cost base by an active growth which could increase the profitability. This would positively influence liquidity and the development in earnings.
- > Additional efficiency gains will result from the further harmonisation of the IT systems. This is supported by a framework agreement newly arranged in 2014 with an external service provider with the aim to further reduce the IT expenses.
- > pbb Group is an attractive employer. Capable and highly qualified employees and executives can be recruited and retained who support pbb Group achieve its ambitious targets.

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

- > Several European countries were only able to obtain funding with the support of international aid programmes in recent years. If the debt crisis in certain countries worsened further and it became necessary for creditors to take a haircut on other countries' bonds or if public sector debtors became insolvent pbb Group could also suffer substantial allowances for losses on loans and advances and securities. These allowances might increase if, due to market turbolences, the crisis of individual countries spreads to debtors currently considered to be solvent. In addition, the legal underlying conditions for governmental guarantees and warranties may change.
- > Allowances on losses for loans and advances were only required for a small number of individual exposures in recent years thanks, among other things, to pbb Group's successful portfolio management. Nevertheless, it is still possible that significant allowances on losses for loans and advances will have to be recognised in the future. The need to recognise allowances on losses for loans and advances in commercial real estate finance primarily depends on the economic situation of the financed objects and their owners, although it could also be the result of a general crisis in individual markets, such as the real estate markets of various countries.
- > The number of geopolitical conflicts increased globally. Any future intensification or expansion of these conflicts could have a negative effect on the markets and thus the earning power of pbb Group.
- > The ECB is still monitoring funding markets, and is ready to maintain liquidity through quantitative easing. The increased volatility on low interest rate levels as well as risks associated with the crisis in Greece are clear signs of prevailing fragility in the markets. If the European economy were to dip again into recession, the recovery from the debt crisis in some states would be put at risk – resulting in a renewed loss of confidence and sharp reductions in placements on the issuing markets, or significantly lower interbank market volumes. Further interest rate declines might also affect market liquidity. If the funding markets were to be disrupted by such events, pbb Group's liquidity situation could be negatively impacted despite the existence of an appropriate cushion. This might trigger a deliberate reduction in the volume of new business.
- > Rating agencies continue to adapt their methodologies and models in order to assess, amongst other factors, the changing macro-economic environment and the potential impact of the European sovereign debt crisis. These include the new European legislative initiatives to centralise supervision of large banks and to support bank resolution and bail-in of senior unsecured creditors. As of 30 June 2015, the methodological changes that have been announced in this context were not fully finalised. The possible extent of rating downgrades depends on the respective degree of systemic support uplift taken into account in the senior unsecured ratings and the rating agencies' ultimate dealings with this topic. Furthermore, changes to specific rating drivers with regards to the bank and the Pfandbriefe, its other debt and hybrid instruments may result in rating changes. This also includes the termination of the Federal Republic of Germany's indirect ownership of pbb in the context of the flotation. Due to the existing linkages, changes to issuer ratings can correspondingly affect the Pfandbrief ratings. Downgrades of the bank and/or Pfandbrief ratings and/or other debt and hybrid instruments, could have a negative impact, particularly on the bank's funding conditions, on triggers and termination rights within derivatives and other contracts and on access to suitable hedge counterparties and hence may compromise pbb's liquidity as well as its development in assets, financial position and earnings.

- > pbb Group's planned profitability is based on the assumption of adequate growth and high portfolio profitability. Should the targeted development of portfolio size and margins not be achieved – for example, due to increased competition on the market – pbb Group will not be able to reach the required cost-income ratio.
- > The market interest rate is at extremely low levels. If market interest rates remained at this low in the long run or dropped even further, it could have negative effects on some of pbb Group's portfolios, such as the investment of the liquidity reserve and the investment of own funds. This may compromise the development in earnings. Negative effects may also impact other market participants, which may have a positive or negative effect on the competition. In extreme cases, turbulences may arise on the market due to the interconnected nature of the markets.
- > The elimination of the Waiver could result in an additional capital requirement or a limitation of business activities (for instance, due to lower limits on large loans), which could have a negative effect on pbb Group's development in assets, financial position and earnings.
- > The ongoing development of national and international regulatory requirements may have an impact on the structure of assets and liabilities affecting the development in earnings. For instance the further development of the obligations presented by the Basel Committee on Banking Supervision («Basel III» regulation), introduced in the EU via the CRR, regarding more stringent liquidity and capital requirements might have a negative impact on profitability. In addition it is possible that additional requirements for the capital structure (Minimum Requirement for Own Funds and Eligible Liabilities – MREL) and the level of indebtedness (Leverage Ratio) currently under discussion may have a negative effect on the funding and business activity of pbb Group. Existing regulatory and economic parameters could be impacted, too resulting for example in a change in the capitalisation.
- > With its «Guidelines for common procedures and methodologies for the supervisory review and evaluation process» (SREP Guidelines) from December 2014 the EBA proposed a uniform procedure to be used by the ECB in reviewing and assessing credit institutions. The key areas of focus are credit, market price and operational risks, interest rate fluctuation risks in the investment book, risks of excessive indebtedness, liquidity risks and their management. Minimum ratios have been provided for monitoring purposes. pbb Group does not rule out that the ECB may demand a higher capitalisation and even higher equity ratios in the future. This could impact the development in assets, financial position and earnings of pbb Group.
- > As of 2018, pbb Group will have to apply IFRS 9 Financial Instruments for the first time. The standard is expected to have an extensive impact on pbb's development in assets, financial position and earnings, which have not yet been fully determined. Expenses incurred with the implementation of IFRS 9 will burden pbb's development in earnings until 2018.
- > The methods used to value financial instruments are constantly evolving on the market. For example, the market conventions for valuing derivatives have changed, the effect of which can, *inter alia*, be seen in the increasing use of funding value adjustments for taking into account funding costs of unsecured transactions when measuring derivatives. Such or similar changes could have a negative impact on pbb Group's development in earnings in the future.
- > The risk bearing capacity concept is enhanced on a continuous basis. These enhancements and new regulatory requirements could have an impact on the risk bearing capacity assessment using both the going-concern approach and the gone-concern approach. The development of the market values of assets and liabilities is an influencing factor affecting the risk bearing capacity in the gone-concern approach. If hidden liabilities increased due to changes in fair value, the cover capital could fall below the economic capital requirement.

- > Due to the nature of its business and the international expansion as well as the high number of relevant laws and regulations, pbb Group is involved in litigation, arbitration and regulatory proceedings in some countries. Legal disputes which are currently pending (especially relating to participation certificates issued, described under the Note «Provisions»), or could become pending in the future, could have a material negative impact on pbb Group's profit or loss and equity base.
- > New developments in legislation and case law could have a negative effect on the business and thus the development in assets, financial position and earnings of pbb Group.
- > pbb Group is exposed to operational risks, resulting, for example, from technology risks. Although pbb Group has already successfully completed a number of projects to optimise processes and IT infrastructure, it is exposed to operational risks that could result in significant losses.
- > A further operational risk results from reliance on employees who hold risk-taking positions. Resignations of employees in key positions, as well as the inability to replace such employees with appropriate successors, cannot be ruled out. This could impact the development in assets, financial position and earnings.
- > Additional bank levies are planned or under discussion in most EU countries. Examples include the introduction of a European restructuring fund or a financial market transaction tax. Such taxes could have a negative impact on pbb Group's total other comprehensive income for the period and render certain transactions unprofitable.

Summary

pbb Group's positive development in recent years will result in numerous opportunities to increase profitability in future. However, this assessment is based on the assumption that risks arising, for instance, from factors beyond pbb's control, such as the sovereign debt crisis, do not materialise. Overall, giving due consideration to the opportunities and risks, pbb Group aims at a profit or loss before tax for 2015 slightly above the result for 2014 amounting to €174 million, which was adjusted for the allowances on the Heta exposure (€-120 million). A significant increase is aimed for in comparison with the profit or loss before tax recognised in 2014 of €54 million.

52	Consolidated Income Statement
53	Consolidated Statement of Comprehensive Income
54	Consolidated Statement of Financial Position
55	Consolidated Statement of Changes in Equity
55	Consolidated Statement of Cash Flows (condensed)
56	Notes (condensed)
60	Notes to the Consolidated Income Statement
64	Notes to the Consolidated Statement of Financial Position
73	Notes to the Financial Instruments
79	Other Notes
81	Responsibility Statement
82	Review Report

Consolidated Interim Financial Statements

Consolidated Interim Financial Statements

Consolidated Income Statement

52

Consolidated income statement		Notes	1.1.-30.6.	1.1.-30.6.	Change
			2015	2014	
in € million					
Operating income					
Net interest and similar income	5	202	203	-1	
Interest and similar income		229	195	34	
Interest and similar expenses		1,064	1,178	-114	
Net fee and commission income	6	9	-	9	
Fee and commission income		11	6	5	
Fee and commission expenses		-2	-6	4	
Net trading income	7	7	-18	25	
Net income from financial investments	8	-37	1	-38	
Net income from hedging relationships	9	2	-6	8	
Net other operating income/expenses	10	-8	31	-39	
Loan loss provisions	11	5	-2	7	
General and administrative expenses	12	-98	-124	26	
Net miscellaneous income/expenses	13	3	6	-3	
Profit or loss before tax		112	83	29	
Income taxes	14	-24	-9	-15	
Net income/loss		88	74	14	
attributable to:					
Equity holders		88	74	14	

Earnings per share		Notes	1.1.-30.6.	1.1.-30.6.
			2015	2014
in €				
Basic earnings per share	15	0.65	0.55	
Diluted earnings per share	15	0.65	0.55	

Consolidated Statement of Comprehensive Income

Consolidated Interim
Financial Statements

53

Consolidated statement of comprehensive income			1.1.–30.6.2015			1.1.–30.6.2014		
			Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Profit or loss			112	–24	88	83	–9	74
Items that will not be reclassified to income statement			10	–3	7	–17	5	–12
Profits/losses from pension commitments			10	–3	7	–17	5	–12
Items that may be reclassified to income statement			–50	15	–35	55	–15	40
Foreign currency reserve			1	–	1	1	–	1
AfS reserve			31	–8	23	109	–30	79
Cash flow hedge reserve			–82	23	–59	–55	15	–40
Total other comprehensive income			–40	12	–28	38	–10	28
Total comprehensive income of the period			72	–12	60	121	–19	102
attributable to:								
Equity holders (consolidated profit/loss of the parent company)			72	–12	60	121	–19	102

Components of consolidated statement of comprehensive income			1.1.–30.6. 2015	1.1.–30.6. 2014
in € million				
Net income/loss			88	74
Profits/losses from pension commitments			7	–12
Unrealised gains/losses			7	–12
Foreign currency reserve			1	1
Unrealised gains/losses			1	1
AfS reserve			23	79
Unrealised gains/losses			23	79
Cash flow hedge reserve			–59	–40
Unrealised gains/losses			–21	86
Reclassifications of realised gains/losses included in profit or loss			–38	–126
Total other comprehensive income			–28	28
Total unrealised gains/losses			10	154
Total reclassifications of realised gains/losses included in profit or loss			–38	–126
Total comprehensive income of the period			60	102

Consolidated Statement of Financial Position

54

Assets		Notes	30.6.2015	31.12.2014¹⁾	Change	1.1.2014¹⁾
in € million						
Cash reserve			1,785	57	1,728	3,532
Trading assets	16		1,684	2,016	-332	1,642
Loans and advances to other banks	17		2,789	6,800	-4,011	6,685
Loans and advances to customers	18		40,981	38,964	2,017	36,242
Allowances for losses on loans and advances	19		-133	-138	5	-148
Financial investments	20		17,085	20,475	-3,390	20,725
Property and equipment			11	8	3	1
Intangible assets			22	23	-1	31
Other assets	21		5,322	6,659	-1,337	4,769
Income tax assets			41	30	11	45
Current tax assets			40	29	11	44
Deferred tax assets			1	1	-	1
Total assets			69,587	74,894	-5,307	73,524
Equity and liabilities		Notes	30.6.2015	31.12.2014¹⁾	Change	1.1.2014¹⁾
in € million						
Liabilities to other banks	22		2,381	3,187	-806	3,522
Liabilities to customers	23		10,660	10,593	67	10,848
Securitised liabilities	24		44,803	47,827	-3,024	46,858
Trading liabilities	25		1,670	1,960	-290	1,453
Provisions	26		261	272	-11	209
Other liabilities	27		4,958	6,182	-1,224	4,722
Income tax liabilities			90	88	2	70
Current tax liabilities			84	82	2	64
Deferred tax liabilities			6	6	-	6
Subordinated capital	28		1,198	1,279	-81	2,357
Liabilities			66,021	71,388	-5,367	70,039
Equity attributable to equity holders			3,566	3,506	60	3,485
Subscribed capital			380	380	-	380
Silent partnership contribution			999	999	-	999
Additional paid-in capital			3,265	3,265	-	5,036
Retained earnings			-1,150	-1,154	4	-3,115
Profits/losses from pension commitments			-72	-79	7	-41
Foreign currency reserve			3	2	1	1
Revaluation reserve			53	89	-36	65
AfS reserve			-77	-100	23	-220
Cash flow hedge reserve			130	189	-59	285
Consolidated profit/loss 1.1.–30.6./31.12.			88	4	84	160
Equity			3,566	3,506	60	3,485
Total equity and liabilities			69,587	74,894	-5,307	73,524

¹⁾ Adjustments in accordance with IAS 8.14 et seq. Details are disclosed in Note «Principles».

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows (condensed)

in € million	Consolidated statement of changes in equity							Equity attributable to equity holders			Equity	
	Subscribed capital	Silent partnership contribution	Additional paid-in capital	Retained earnings	Profits/losses from pension commitments	Foreign currency reserve	AfS reserve	Revaluation reserve				
								Cash flow hedge reserve	Consolidated profit/loss			
Equity at 1.1.2014	380	999	5,036	-3,115	-41	1	-220	285	160	3,485		
Capital increase	—	—	—	—	—	—	—	—	—	—	—	
Costs of equity transactions	—	—	—	—	—	—	—	—	—	—	—	
Treasury shares	—	—	—	—	—	—	—	—	—	—	—	
Distribution	—	—	—	—	—	—	—	—	—	—	—	
Total comprehensive income of the period	—	—	—	—	-12	1	79	-40	74	102		
Transfers to retained earnings	—	—	—	160	—	—	—	—	—	-160	—	
Changes in the basis of consolidation	—	—	—	—	—	—	—	—	—	—	—	
Equity at 30.6.2014	380	999	5,036	-2,955	-53	2	-141	245	74	3,587		
Equity at 1.1.2015	380	999	3,265	-1,154	-79	2	-100	189	4	3,506		
Capital increase	—	—	—	—	—	—	—	—	—	—	—	
Costs of equity transactions	—	—	—	—	—	—	—	—	—	—	—	
Treasury shares	—	—	—	—	—	—	—	—	—	—	—	
Distribution	—	—	—	—	—	—	—	—	—	—	—	
Total comprehensive income of the period	—	—	—	—	7	1	23	-59	88	60		
Transfer to retained earnings	—	—	—	4	—	—	—	—	—	-4	—	
Changes in the basis of consolidation	—	—	—	—	—	—	—	—	—	—	—	
Equity at 30.6.2015	380	999	3,265	-1,150	-72	3	-77	130	88	3,566		

Consolidated statement of cash flows (condensed)			2015	2014
in € million				
Cash reserve at 1.1.			57	3,532
+/- Cash flow from operating activities			-1,439	-3,388
+/- Cash flow from investing activities			3,237	53
+/- Cash flow from financing activities			-70	-10
+/- Effects of exchange rate changes and non-cash measurement changes			—	—
Cash reserve at 30.6.			1,785	187

Page Note

57 1 Principles
58 2 Consistency
58 3 Consolidation
58 4 Segment Reporting

Notes to the Consolidated Income Statement

60 5 Net Interest and Similar Income
60 6 Net Fee and Commission Income
60 7 Net Trading Income
61 8 Net Income from Financial Investments
61 9 Net Income from Hedging Relationships
61 10 Net Other Operating Income/Expenses
62 11 Loan Loss Provisions
62 12 General and Administrative Expenses
63 13 Net Miscellaneous Income/Expenses
63 14 Income Taxes
63 15 Earnings Per Share

Notes to the Consolidated Statement of Financial Position

64 16 Trading Assets
64 17 Loans and Advances to Other Banks
65 18 Loans and Advances to Customers
66 19 Allowances for Losses on Loans and Advances
67 20 Financial Investments
68 21 Other Assets
68 22 Liabilities to Other Banks
68 23 Liabilities to Customers
69 24 Securitised Liabilities
69 25 Trading Liabilities
70 26 Provisions
72 27 Other Liabilities
72 28 Subordinated Capital

Notes to the Financial Instruments

73 29 Fair Values of Financial Instruments
77 30 Past Due but Not Impaired Assets
78 31 Restructured Loans and Advances

Other Notes

79 32 Contingent Liabilities and Other Commitments
79 33 Relationship with Related Parties
80 34 Employees

1 Principles

ppb Group has prepared the condensed consolidated interim financial statements for the period ended 30 June 2015 in line with EC regulation No. 1606/2002 of the European Parliament and of the Council from 19 July 2002 in accordance with International Financial Reporting Standards (IFRS). The condensed consolidated interim financial statements are based on the IFRS rules, which have been adopted into European Law by the European Commission as part of the endorsement process; it is also based on the regulations of the Commercial Law which are applicable in accordance with section 315a(1) HGB (German Commercial Code). In particular, requirements of IAS 34 were considered. With the exception of specific regulations relating to fair value hedge accounting for a portfolio hedge of interest risks in IAS 39 Financial Instruments: Recognition and Measurement all mandatory IFRS rules have been completely endorsed by the European Union (EU). pbb Group does not apply fair value hedge accounting for a portfolio hedge of interest risks. Therefore, the financial statements are accordingly consistent with the entire IFRS as well as with the IFRS as applicable in the EU.

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

On 4 August 2015, the management board of pbb prepared these consolidated interim financial statements under the going-concern assumption.

Initially Adopted Standards and Interpretations The following standards, interpretations and amendments were initially applied in the first half of 2015:

- > IFRIC Interpretation 21 Levies
- > Amendments to IAS 19 (revised 2011) Employee Benefits: Defined Benefit Plans – Employee Contributions
- > Annual Improvements Project:
 - > Annual Improvements to IFRSs 2010–2012 Cycle
 - > Annual Improvements to IFRSs 2011–2013 Cycle

IFRIC Interpretation 21 IFRIC 21 clarifies when a present obligation exists for levies imposed by governments. With first-time adoption the annual contribution of the bank levy 2015 was not accrued on a monthly basis, but recognised in the full amount of €25 million in the reporting period, for the first time.

Amendments to IAS 19 (revised 2011) Amendments to IAS 19 clarify the requirements regarding the attribution of employee contributions or contributions from third parties to periods of service when the contributions are linked to service. They also provide relief when contributions are independent of the number of years of service. The amendments are effective for financial years beginning on or after 1 July 2014. There were no material impacts on these condensed consolidated interim financial statements.

Annual Improvements Project Annual Improvements to IFRSs 2010–2012 relates to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 38 and IAS 24, and Improvements to IFRSs 2011–2013 to IFRS 1, IFRS 3, IFRS 13 and IAS 40. The amendments are to be applied initially for periods beginning on or after 1 July 2014. All the amendments and adjustments are either not relevant or of minor importance for pbb Group. For this reason there were no material impacts on these condensed consolidated interim financial statements.

2 Consistency

During the period under review, recognition of deferred tax assets and deferred tax liabilities was adjusted in accordance with IAS 8.14 et seq. Due to the newly-established process-related requirements regarding the offsetting of deferred tax assets and liabilities according to IAS 12.74, such deferred tax assets and liabilities were disclosed on an offset basis as at 30 June 2015 for the first time. The previous year's figures were adjusted accordingly.

3 Consolidation

On page 196, the Annual Report 2014 of pbb Group contains a list of all consolidated and non-consolidated investments of pbb. In the first half of 2015 the basis of consolidation remained unchanged.

4 Segment Reporting

Public investment financings provided to Italy were classified as non-strategic activities as at 1 January 2015. Hence, a portfolio with a nominal volume of € 1.3 billion was reclassified within segment reporting from the strategic Public Investment Finance (PIF) segment to the non-strategic Value Portfolio (VP) segment. Furthermore, the methodology used for the allocation of IFRS equity to the operating segments was adjusted at the beginning of the 2015 financial year. This adjustment includes the following major changes to the previous approach:

- > Equity, excluding revaluation reserves, is fully allocated to the operating segments and the Consolidation & Adjustments (C&A) reconciliation column without disclosure of excess capital as in the previous approach.
- > The allocation of equity (excluding revaluation reserves) to the operating segments and C&A now follows a proportionate approach and is therefore consistent with the distribution of diversified economic capital within risk management (Gone-Concern approach). These adjustments enable the Bank to balance risk and income management more easily.

Allocation of the diversified economic capital is based on the allocation of losses across the operating segments using an Expected Shortfall Approach with a confidence level of 99.0%. The chosen confidence level allows for a balanced consideration of both credit spread-related market risks as well as concentration risks.

The previous period's figures were adjusted according to IFRS 8.29. These adjustments translate into positive effects for the profit or loss before tax of the VP segment and burdens for the profit or loss before tax of the PIF segment and the C&A reconciliation column.

Income/expenses		REF	PIF	VP	Consolidation & Adjustments	pbb Group
in € million						
Operating income	1.1.-30.6.2015	206	22	-28	2	202
	1.1.-30.6.2014 ¹⁾	148	15	39	1	203
Net interest and similar income	1.1.-30.6.2015	158	22	47	2	229
	1.1.-30.6.2014 ¹⁾	149	17	27	2	195
Net fee and commission income	1.1.-30.6.2015	9	-	-	-	9
	1.1.-30.6.2014 ¹⁾	-	-	-	-	-
Net trading income	1.1.-30.6.2015	3	1	3	-	7
	1.1.-30.6.2014 ¹⁾	-8	-2	-8	-	-18
Net income from financial investments	1.1.-30.6.2015	18	6	-61	-	-37
	1.1.-30.6.2014 ¹⁾	2	-	-1	-	1
Net income from hedging relationships	1.1.-30.6.2015	1	-	1	-	2
	1.1.-30.6.2014 ¹⁾	-2	-2	-2	-	-6
Net other operating income/expenses	1.1.-30.6.2015	17	-7	-18	-	-8
	1.1.-30.6.2014 ¹⁾	7	2	23	-1	31
Loan loss provisions	1.1.-30.6.2015	11	-	-6	-	5
	1.1.-30.6.2014 ¹⁾	-2	-	-	-	-2
General and administrative expenses	1.1.-30.6.2015	-75	-13	-10	-	-98
	1.1.-30.6.2014 ¹⁾	-77	-15	-32	-	-124
Net miscellaneous income/expenses	1.1.-30.6.2015	3	-	-	-	3
	1.1.-30.6.2014 ¹⁾	4	1	1	-	6
Profit or loss before tax	1.1.-30.6.2015	145	9	-44	2	112
	1.1.-30.6.2014 ¹⁾	73	1	8	1	83

¹⁾ Adjusted according to IFRS 8.29

Cost/income ratio ¹⁾		REF	PIF	VP	pbb Group
in %					
Cost/income ratio	1.1.-30.6.2015	36.4	59.1	> 100.0	48.5
	1.1.-30.6.2014 ²⁾	52.0	100.0	82.1	61.1

¹⁾ The cost/income ratio is the ratio between general and administrative expenses and operating income.

²⁾ Adjusted according to IFRS 8.29

Balance-sheet-related measures, broken down by operating segments		REF	PIF	VP	Consolidation & Adjustments	pbb Group
in € billion						
Financing volumes ¹⁾	30.6.2015	23.5	7.3	20.5	-	51.3
	31.12.2014 ²⁾	21.8	6.6	22.7	-	51.1
Risk-weighted assets ³⁾	30.6.2015	6.7	1.2	4.7	1.1	13.7
	31.12.2014 ²⁾	7.2	1.3	5.5	1.5	15.5
Equity ⁴⁾	30.6.2015	0.8	0.3	1.8	0.6	3.5
	31.12.2014 ²⁾	0.7	0.5	1.8	0.4	3.4

¹⁾ Notional amounts of the drawn parts of granted loans and parts of the securities portfolio

²⁾ Adjusted according to IFRS 8.29

³⁾ Including risk-weighted credit risk positions as well as the capital requirements for market risk positions and operational risks scaled with the factor 12.5

⁴⁾ Excluding revaluation reserve, including silent partnership contribution (repaid on 6 July 2015)

Notes to the Consolidated Income Statement

5 Net Interest and Similar Income

Net interest and similar income by categories of income/expenses in € million	1.1.–30.6. 2015	1.1.–30.6. 2014
Interest and similar income		
Lending and money-market business	1,064	1,178
Fixed-income securities and government-inscribed debt	624	675
Current gains/losses from swap transactions (net interest income and expense)	275	321
	165	182
	–835	–983
Interest and similar expenses		
Liabilities to other banks and customers	–164	–217
Securitised liabilities	–636	–709
Subordinated capital	–35	–57
	229	195

6 Net Fee and Commission Income

Net fee and commission income in € million	1.1.–30.6. 2015	1.1.–30.6. 2014
Securities and custodial services	–1	–
Lending operations and other service	10	–
	9	–

7 Net Trading Income

Net trading income in € million	1.1.–30.6. 2015	1.1.–30.6. 2014
From interest rate instruments and related derivatives	6	–18
From foreign currency instruments and related derivatives	1	–
	7	–18

8 Net Income from Financial Investments

Net income from financial investments	1.1.-30.6. 2015	1.1.-30.6. 2014
in € million		
Income from financial investments	38	3
Expenses from financial investments	-75	-2
Total	-37	1

Net income from financial investments by IAS 39 categories	1.1.-30.6. 2015	1.1.-30.6. 2014
in € million		
AfS financial investments	-68	3
LaR financial investments	31	-2
Total	-37	1

9 Net Income from Hedging Relationships

Net income from hedging relationships	1.1.-30.6. 2015	1.1.-30.6. 2014
in € million		
Result from fair value hedge accounting	2	-7
Result from hedged items	-57	-426
Result from hedging instruments	59	419
Ineffectiveness from cash flow hedge accounting recognised in profit or loss	-	1
Total	2	-6

10 Net Other Operating Income/Expenses

Net other operating income/expenses	1.1.-30.6. 2015	1.1.-30.6. 2014
in € million		
Other operating income	63	40
Other operating expenses	-71	-9
Net other operating income/expenses	-8	31

11 Loan Loss Provisions

Loan loss provisions	1.1.–30.6. 2015	1.1.–30.6. 2014
in € million		
Allowances for losses on loans and advances	3	–7
Additions	–12	–19
Reversals	15	12
Provisions for contingent liabilities and other commitments	1	–
Additions	–	–
Reversals	1	–
Recoveries from written-off loans and advances	1	5
Total	5	–2

12 General and Administrative Expenses

General and administrative expenses	1.1.–30.6. 2015	1.1.–30.6. 2014
in € million		
Personnel expenses	–56	–54
Wages and salaries	–43	–42
Social security costs	–8	–8
Pension expenses and related employee benefit costs	–5	–4
Non-personnel expenses	–42	–70
Other general and administrative expenses	–37	–65
Consulting expenses	–5	–9
IT expenses	–14	–36
Office and operating expenses	–6	–6
Other non-personnel expenses	–12	–14
Depreciation, amortisation and impairment	–5	–5
of software and other intangible assets	–4	–5
of property and equipment	–1	–
Total	–98	–124

13 Net Miscellaneous Income/Expenses

Net miscellaneous income/expenses	1.1.-30.6. 2015	1.1.-30.6. 2014
in € million		
Miscellaneous income	3	6
thereof:		
Reversals of restructuring provisions	3	5
Miscellaneous expenses	–	–
Net miscellaneous income/expenses	3	6

14 Income Taxes

Breakdown	1.1.-30.6. 2015	1.1.-30.6. 2014
in € million		
Current taxes	–12	–19
Deferred taxes	–12	10
thereof:		
Deferred taxes on capitalised losses carried forward	–84	–52
Total	–24	–9

15 Earnings Per Share

Earnings per share are calculated in accordance with IAS 33 by dividing the consolidated profit/loss by the weighted average number of shares.

Earnings per share	1.1.-30.6. 2015	1.1.-30.6. 2014
Consolidated profit/loss	in € million	88
Average number of ordinary shares issued	pieces	134,475,308
Adjusted average number of ordinary shares issued	pieces	134,475,308
Basic earnings per share	in €	0.65
Diluted earnings per share	in €	0.65
		0.55

Notes to the Consolidated Statement of Financial Position

16 Trading Assets

Trading assets		30.6.2015	31.12.2014
in € million			
Positive fair values of derivative financial instruments		1,684	2,016
Total		1,684	2,016

17 Loans and Advances to Other Banks

Loans and advances to other banks by type of business		30.6.2015	31.12.2014
in € million			
Loans and advances		2,522	3,153
Public sector loans		991	1,136
Other loans and advances		1,531	2,017
Investments		267	3,647
Total		2,789	6,800

Loans and advances to other banks by maturities		30.6.2015	31.12.2014
in € million			
Repayable on demand		1,511	2,011
With agreed maturities		1,278	4,789
up to 3 months		273	3,689
more than 3 months to 1 year		74	132
more than 1 year to 5 years		373	404
more than 5 years		558	564
Total		2,789	6,800

18 Loans and Advances to Customers

Loans and advances to customers by type of business		30.6.2015	31.12.2014
in € million			
Loans and advances		40,241	38,964
Public sector loans		16,707	17,125
Real estate loans		23,516	21,822
Other loans and advances		18	17
Investments		500	—
Claims from finance lease agreements		240	—
Total		40,981	38,964

Loans and advances to customers by maturities		30.6.2015	31.12.2014
in € million			
Unspecified terms		559	591
With agreed maturities		40,422	38,373
up to 3 months		2,258	1,102
more than 3 months to 1 year		1,970	2,349
more than 1 year to 5 years		18,475	16,933
more than 5 years		17,719	17,989
Total		40,981	38,964

19 Allowances for Losses on Loans and Advances

Development		Specific allowances	Portfolio-based allowances	Total
in € million				
Balance at 1.1.2014		-97	-51	-148
Changes through profit or loss		-24	5	-19
Gross additions		-43	-5	-48
Reversals		11	10	21
Unwinding		8	-	8
Changes not affecting profit or loss		28	1	29
Use of existing allowances		32	1	33
Effects of foreign currency translations and other changes		-4	-	-4
Balance at 31.12.2014		-93	-45	-138
Balance at 1.1.2015		-93	-45	-138
Changes through profit or loss		-4	10	6
Gross additions		-12	-	-12
Reversals		5	10	15
Unwinding		3	-	3
Changes not affecting profit or loss		-1	-	-1
Use of existing allowances		4	-	4
Effects of foreign currency translations and other changes		-5	-	-5
Balance at 30.6.2015		-98	-35	-133

Allowances for losses on loans and advances were solely recognised in the measurement category loans and receivables.

20 Financial Investments

Breakdown		30.6.2015	31.12.2014
in € million			
AfS financial investments		4,042	4,906
Debt securities and other fixed-income securities		4,039	4,903
Shares and other variable-yield securities		3	3
LaR financial investments		13,043	15,569
Debt securities and other fixed-income securities		13,043	15,569
Total		17,085	20,475

The carrying amounts of the LaR financial investments were reduced by portfolio-based allowances amounting to €-10 million (31 December 2014: €-9 million).

Financial investments by maturities		30.6.2015	31.12.2014
in € million			
Unspecified terms		3	3
With agreed maturities		17,082	20,472
up to 3 months		1,142	867
more than 3 months to 1 year		2,644	3,067
more than 1 year to 5 years		4,336	5,676
more than 5 years		8,960	10,862
Total		17,085	20,475

pbb Group has made use of the IASB amendments to IAS 39 and IFRS 7, published on 13 October 2008, and reclassified retrospectively as of 1 July 2008 financial investments out of the measurement category AfS of €30.2 billion. At the date of reclassification the effective interest rate for the AfS securities was between 0.25% and 34.4%.

Reclassifications in 2008 Effects as of 30 June 2015	into: Financial investment (LaR)			Effect in reporting period if no assets had been reclassified (1.1.–30.6.2015)
			30.6.2015	
	Carrying amount in € billion	Fair value in € billion	Through profit or loss in € million	AfS reserve (after taxes) in € million
out of: Financial investments (AfS)	6.4	7.2	–	–73

Reclassifications in 2008 Effects as of 31 December 2014	into: Financial investment (LaR)			Effect in reporting period if no assets had been reclassified (1.1.–31.12.2014)
			31.12.2014	
	Carrying amount in € billion	Fair value in € billion	Through profit or loss in € million	AfS reserve (after taxes) in € million
out of: Financial investments (AfS)	8.9	9.3	–	303

21 Other Assets

Other assets	30.6.2015	31.12.2014
in € million		
Positive fair values from derivative financial instruments	5,260	6,449
Hedging derivatives	5,260	6,449
Fair value hedge	4,961	5,975
Cash flow hedge	299	474
Salvage acquisitions	49	120
Other assets	4	81
Reimbursements under insurance policies	9	9
Total	5,322	6,659

22 Liabilities to Other Banks

Liabilities to other banks by maturities	30.6.2015	31.12.2014
in € million		
Repayable on demand	1,327	1,693
With agreed maturities	1,054	1,494
up to 3 months	169	529
more than 3 months to 1 year	70	116
more than 1 year to 5 years	276	305
more than 5 years	539	544
Total	2,381	3,187

23 Liabilities to Customers

Liabilities to customers by maturities	30.6.2015	31.12.2014
in € million		
Repayable on demand	1,238	1,154
With agreed maturities	9,422	9,439
up to 3 months	836	1,274
more than 3 months to 1 year	1,904	1,328
more than 1 year to 5 years	5,403	5,305
more than 5 years	1,279	1,532
Total	10,660	10,593

24 Securitised Liabilities

Securitised liabilities by type of business	30.6.2015	31.12.2014
in € million		
Debt securities issued	23,240	25,330
Mortgage bonds	10,160	10,135
Public sector bonds	8,299	10,026
Other debt securities	4,531	5,169
Money market securities	250	–
Registered notes issued	21,563	22,497
Mortgage bonds	5,940	5,912
Public sector bonds	13,820	14,715
Other debt securities	1,803	1,870
Total	44,803	47,827

Securitised liabilities by maturities	30.6.2015	31.12.2014
in € million		
With agreed maturities		
up to 3 months	3,854	2,258
more than 3 months to 1 year	3,169	5,166
more than 1 year to 5 years	19,609	20,137
more than 5 years	18,171	20,266
Total	44,803	47,827

25 Trading Liabilities

Trading liabilities	30.6.2015	31.12.2014
in € million		
Negative fair values from derivative financial instruments	1,670	1,960
Total	1,670	1,960

26 Provisions

Breakdown	30.6.2015	31.12.2014
in € million		
Provisions for pensions and similar obligations	105	115
Restructuring provisions	12	42
Provisions for contingent liabilities and other commitments	2	11
Other provisions	142	104
thereof:		
Long-term liabilities to employees	1	2
Total	261	272

ppb closed a reinsurance in the form of a qualifying insurance policy according to IAS19 to hedge parts of the risk from the defined benefit obligations. A discount rate of 2.25% (31 December 2014: 2.0%) was used for the measurement of the defined benefit pension obligations. The other actuarial assumption were unchanged compared to the consolidated financial statements 2014.

Other provisions include provisions for legal risks amounting to € 109 million (31 December 2014: € 77 million).

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

In appraisal proceedings relating to the merger of three predecessor mortgage banks to form pbb in 2001, the new appraisal ordered by the Munich Regional Court I has resulted in an additional payment averaging €1.00 per share. The potential subsequent payment claims amount up to €9.4 million plus interest since 2001. However, the Munich Regional Court I has rejected requests of claimants to increase compensation payments. Individual applicants have lodged complaints against the court's decision. As the Munich Regional Court I did not rectify these complaints, complaint proceedings have been initiated at the Munich Higher Regional Court.

The profit participation certificates issued by the predecessor institutions participated in significant losses due to the net losses for the period incurred since 2008 respectively pbb's unappropriated retained losses since this time. The redemption amounts have reduced and interest payment has been suspended. Individual investors therefore initiated legal proceedings, contesting in particular various individual clauses relating to loss participation and replenishment following loss participation. The key questions in this connection are which balance sheet items must be taken into account to calculate loss participation and whether replenishment is required if pbb records a net income, unappropriated retained earnings or a other income. Courts have decided against the legal view of pbb in view of the individual decisions regarding profit participation certificates. Some of the court decisions are legally binding; some have been subject to appeals lodged by pbb. The disputed profit-participation certificates had a total nominal volume of € 221 million, out of which € 10.4 million are currently subject to pending litigation. Within these legal proceedings, claimants are demanding the repayment of a nominal € 5.9 million volume, plus accessory claims. These proceedings may result in a partial or comprehensive increase in redemption claims, or in the subsequent distribution of cancelled coupon payments or interest payment claims. Furthermore, of profit-participation certificate holders have extra-judicially asserted their rights of partial or full replenishment, subsequent distribution of cancelled coupon payments as well as interest payments in the order of a nominal volume in the high double-digit million euro range, while further claims could possibly follow.

Since the decisions of the Federal Court of Justice in 2014 on the inadmissibility of a credit processing fee in credit agreements with private customers, the Bank sees itself facing queries from previous private customers for the repayment of alleged credit processing fees. These demands have not yet proven to be justified. Since the end of last year, individual commercial customers have requested the repayment of the credit processing fees.

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

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

27 Other Liabilities

Other liabilities	30.6.2015	31.12.2014
in € million		
Negative fair values from derivative financial instruments	4,839	6,083
Hedging derivatives	4,839	6,083
Fair value hedge	4,630	5,649
Cash flow hedge	209	434
Other liabilities	119	99
Total	4,958	6,182

28 Subordinated Capital

Breakdown	30.6.2015	31.12.2014
in € million		
Subordinated liabilities	848	939
Hybrid capital instruments	350	340
Total	1,198	1,279

Subordinated capital by maturities	30.6.2015	31.12.2014
in € million		
With agreed maturities		
up to 3 months	99	45
more than 3 months to 1 year	213	150
more than 1 year to 5 years	694	890
more than 5 years	192	194
Total	1,198	1,279

The unwinding of value adjusted instruments of subordinated capital led to an expense of €–10 million (6m 2014: €–9 million).

Notes to the Financial Instruments

29 Fair Values of Financial Instruments

Fair values and fair value hierarchy of financial instruments		30.6.2015				
	in € million	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets		69,211	70,917	13,239	25,747	31,931
at fair value through profit or loss	6,645	6,645	—	6,599	46	
at fair value not affecting profit or loss	4,341	4,341	4,042	299	—	
not measured at fair value in the balance sheet	58,225	59,931	9,197	18,849	31,885	
Cash reserve	1,785	1,785	1,785	—	—	
Trading assets (HfT)	1,684	1,684	—	1,684	—	
Loans and advances to other banks	2,789	2,809	1,463	772	574	
Category LaR	2,789	2,809	1,463	772	574	
Loans and advances to customers ¹⁾	40,608	42,208	—	13,759	28,449	
Category LaR	40,608	42,208	—	13,759	28,449	
Real Estate Finance	23,376	24,179	—	—	24,179	
Public Investment Finance	5,731	6,017	—	4,256	1,761	
Value Portfolio	9,314	9,704	—	7,693	2,011	
Consolidation & Adjustments	2,222	2,343	—	1,810	533	
Portfolio-based allowances	—35	—35	—	—	—35	
Financial investments	17,085	17,171	9,991	4,318	2,862	
Category AfS	4,042	4,042	4,042	—	—	
Category LaR	13,043	13,129	5,949	4,318	2,862	
Other assets	5,260	5,260	—	5,214	46	
Fair value hedge derivatives	4,961	4,961	—	4,915	46	
Cash flow hedge derivatives	299	299	—	299	—	
Financial liabilities	65,582	66,608	20,139	7,728	38,741	
at fair value through profit or loss	6,300	6,300	—	6,287	13	
at fair value not affecting profit or loss	209	209	—	209	—	
not measured at fair value in the balance sheet	59,073	60,099	20,139	1,232	38,728	
Liabilities to other banks	2,381	2,454	1,325	—	1,129	
Liabilities to customers	10,660	10,711	801	—	9,910	
Securitised liabilities	44,803	45,711	17,997	1,232	26,482	
Covered	38,220	39,481	14,734	1,006	23,741	
Uncovered	6,583	6,230	3,263	226	2,741	
Trading liabilities (HfT)	1,670	1,670	—	1,670	—	
Other liabilities	4,870	4,870	16	4,826	28	
Fair value hedge derivatives	4,630	4,630	—	4,617	13	
Cash flow hedge derivatives	209	209	—	209	—	
Other financial liabilities	31	31	16	—	15	
Subordinated capital	1,198	1,192	—	—	1,192	
Other items	2,303	2,348	—	—	2,348	
Contingent liabilities	149	149	—	—	149	
Irrevocable loan commitments	2,154	2,199	—	—	2,199	

¹⁾ Reduced by allowances for losses on loans and advances and claims from finance lease agreements

Fair values and fair value hierarchy of financial instruments		31.12.2014				
in € million		Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets		74,623	76,959	13,345	31,390	32,224
at fair value through profit or loss		7,991	7,991	—	7,916	75
at fair value not affecting profit or loss		5,380	5,380	4,906	474	—
not measured at fair value in the balance sheet		61,252	63,588	8,439	23,000	32,149
Cash reserve		57	57	57	—	—
Trading assets (HfT)		2,016	2,016	—	2,016	—
Loans and advances to other banks		6,800	6,846	1,955	3,907	984
Category LaR		6,800	6,846	1,955	3,907	984
Loans and advances to customers ¹⁾		38,826	41,063	—	13,193	27,870
Category LaR		38,826	41,063	—	13,193	27,870
Real Estate Finance		21,664	22,858	—	—	22,858
Public Investment Finance		5,367	5,731	—	3,560	2,171
Value Portfolio		10,024	10,550	—	7,694	2,856
Consolidation & Adjustments		1,816	1,969	—	1,939	30
Portfolio-based allowances		—45	—45	—	—	—45
Financial investments		20,475	20,528	11,333	5,900	3,295
Category AfS		4,906	4,906	4,906	—	—
Category LaR		15,569	15,622	6,427	5,900	3,295
Other assets		6,449	6,449	—	6,374	75
Fair value hedge derivatives		5,975	5,975	—	5,900	75
Cash flow hedge derivatives		474	474	—	474	—
Financial liabilities		70,954	73,105	17,778	13,715	41,612
at fair value through profit or loss		7,609	7,609	—	7,601	8
at fair value not affecting profit or loss		434	434	—	434	—
not measured at fair value in the balance sheet		62,911	65,062	17,778	5,680	41,604
Liabilities to other banks		3,187	3,322	1,690	317	1,315
Liabilities to customers		10,593	11,035	1,192	—	9,843
Securitised liabilities		47,827	49,388	14,884	5,363	29,141
Covered		40,967	42,541	12,194	5,168	25,179
Uncovered		6,860	6,847	2,690	195	3,962
Trading liabilities (HfT)		1,960	1,960	—	1,958	2
Other liabilities		6,108	6,108	12	6,077	19
Fair value hedge derivatives		5,649	5,649	—	5,643	6
Cash flow hedge derivatives		434	434	—	434	—
Other financial liabilities		25	25	12	—	13
Subordinated capital		1,279	1,292	—	—	1,292
Other items		2,322	2,342	—	—	2,342
Contingent liabilities		84	84	—	—	84
Irrevocable loan commitments		2,238	2,258	—	—	2,258

¹⁾ Reduced by allowances for losses on loans and advances

As at 30 June 2015, no financial instruments measured at fair value were reclassified from Level 1 to Level 2 or vice versa (31 December 2014: none). The same applies to reclassifications from Level 2 to Level 3 (31 December 2014: €8 million). Financial assets measured at fair value in the amount of €20 million (31 December 2014: €17 million) and financial liabilities in the amount of €1 million (31 December 2014: €3 million) were reclassified from Level 3 to Level 2 since inputs were observable on the market again.

Level 2 instruments measured at fair value as of 30.6.2015

Measurement methods	Observable parameters
DCF methods	Cap volatilities
	Euro zone inflation rates
	Reference interest rates
	Sasonalities of Euro zone inflation rates
	Swaption volatilities
	Volatilities of Euro zone inflation caps
	Spot market exchange rates
	Yield curves
Option pricing models	Cap volatilities
	CMS Spread Options (strike prices)
	CMS Spread Options (option prices)
	Euro zone inflation rates
	Reference interest rates
	Sasonalities of Euro zone inflation rates
	Swaption volatilities
	Volatilities of Euro zone inflation caps
	Spot market exchange rates
	Exchange rate volatilities
	Yield curves

Level 3 instruments measured at fair value as of 30.6.2015

Measurement method	Non-observable parameters	Range (weighted average)
Option pricing models	ATM-Swaption-Vola GBP-X03M beyond 30Y expiry	33.84% (33.84%)
	EUR-EONIA beyond 02/07/2065	1.58% (1.58%)
	EUR-EO6M beyond 02/07/2065	1.67% (1.67%)
	Historical index/index correlations	73.49% (73.49%)
	Historical index/exchange rate correlations	-1.56% to -17.63% (-9.60%)
	Vola ASW-Spread_DE0002461860	0.51% (0.51%)

Sensitivities Positive and negative changes of less than €1 million each arose for financial assets and liabilities measured at fair value on 30 June 2015. On 31 December 2014 the sensitivity analysis resulted in positive and negative changes for liabilitites of €1 million each.

Changes in Level 3 Financial Instruments measured at Fair Value

Changes in level 3 financial assets in € million	Financial assets at fair value through profit or loss	Financial assets at fair value not affecting profit or loss	Total
	Fair value hedge derivatives	Cash flow hedge derivatives	
Balance at 1.1.2014	79	4	83
Through profit or loss	2	-1	1
Purchases	19	-	19
Sales	-19	-	-19
Reclassification into Level 3	8	-	8
Reclassification out of Level 3	-14	-3	-17
Balance at 31.12.2014	75	-	75
Balance at 1.1.2015	75	-	75
Through profit or loss	-9	-	-9
Reclassification out of Level 3	-20	-	-20
Balance at 30.6.2015	46	-	46

Changes in level 3 financial liabilities in € million	Financial liabilities at fair value through profit or loss		Total
	Trading liabilities	Fair value hedge derivatives	
Balance at 1.1.2014	2	10	12
Through profit or loss	-	-1	-1
Reclassification out of Level 3	-	-3	-3
Balance at 31.12.2014	2	6	8
Balance at 1.1.2015	2	6	8
Through profit or loss	-1	7	6
Reclassification out of Level 3	-1	-	-1
Balance at 30.6.2015	-	13	13

The earnings contributions made by trading assets and trading liabilities are presented under net trading income, whereas the effects of hedge relationships recognised in profit or loss are reported under net income from hedging relationships.

Assets and Liabilities According to Measurement Categories and Classes

Asset and liabilities according to measurement categories and classes according to IAS 39	30.6.2015	31.12.2014
in € million		
Assets		
Loans and receivables (LaR)	69,451	74,623
Available for sale (AfS)	56,440	61,195
Held for trading (HfT)	4,042	4,906
Cash reserve	1,684	2,016
Claims from finance lease agreements	1,785	57
Positive fair values from hedging derivatives	240	—
	5,260	6,449
Liabilities		
Held for trading (HfT)	65,582	70,954
Financial liabilities at amortised cost	1,670	1,960
Negative fair values from hedging derivatives	59,073	62,911
	4,839	6,083

30 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 30 June 2015 and as of 31 December 2014. However, no specific allowances were made for these assets respectively the underlying collaterals as pbb Group does not consider that there is any issue regarding their recoverability. Such timing issues in receipts of payments due occur regularly (up to three months) in the normal course of business and are not considered to be an evidence for impairment.

LaR Assets

Carrying amounts of past due but not impaired LaR assets	30.6.2015	31.12.2014
in € million		
up to 3 months	3	32
more than 3 months to 6 months	7	10
more than 6 months to 1 year	1	7
more than 1 year	3	10
Total	14	59

Carrying amounts LaR assets		30.6.2015	31.12.2014
in € billion			
Carrying amount of LaR assets that are neither impaired nor past due		55.7	60.5
Carrying amount of LaR assets that are past due but not impaired (total investment)		–	0.1
Carrying amount of individually assessed impaired LaR assets (net)		0.8	0.6
Balance of specific allowances		0.1	0.1
Balance of portfolio-based allowances		–	0.1
Total		56.6	61.4
thereof:			
Loans and advances to other banks (including investments)		2.8	6.8
Loans and advances to customers (including investments)		40.7	39.0
Financial investments (gross)		13.1	15.6

AfS Assets As of 30 June 2015 and as of 31 December 2014 pbb Group had neither past due and not impaired nor impaired AfS financial investments in the portfolio.

31 Restructured Loans and Advances

As of 30 June 2015 and as of 31 December 2014, restructuring agreements mainly related to standstill agreements and to the discontinuation of contractual arrangements.

Restructured loans and advances		30.6.2015	31.12.2014
in € million			
Carrying amount of loans and advances that are neither impaired nor past due		793	1,048
Carrying amount of loans that are past due but not impaired (gross)		13	12
Carrying amount of impaired loans and advances (gross)		472	241
Total		1,278	1,301

Other Notes

32 Contingent Liabilities and Other Commitments

Contingent liabilities and other commitments		30.6.2015	31.12.2014
in € million			
Contingent liabilities			
Guarantees and warranties		149	84
Performance guarantees and warranties		149	84
Other commitments			
Irrevocable loan commitments		2,154	2,238
Guarantees		2,154	2,238
Mortgage and public sector loans		20	6
		2,134	2,232
Total		2,303	2,322

33 Relationship with Related Parties

As of 30 June 2015, Finanzmarktstabilisierungsfonds-FMS, a special fund of the federal government in accordance with Section 2 (2) FMSFG, represents the ultimate parent entity of HRE Holding and thus also of pbb. Accordingly, on balance sheet date, pbb was 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.

pbb entered into an agreement with HRE Holding during the first half of 2015, according to which all opportunities and risks associated with a property rented on a contractual basis were transferred from pbb to HRE Holding. In return, the Bank agreed to a one-time payment of €24 million to HRE Holding. The restructuring provision recognised so far was reversed accordingly.

Expenses incurred in the context of pbb's privatisation (carried out by HRE Holding) are borne by the seller (again, HRE Holding).

The majority of IT services rendered to DEPFA were discontinued by year-end 2014. With these services, pbb Group generated net income of less than €1 million in the first half of 2015 (6m 2014: €18 million).

All further transactions carried out in the first half of 2015 and in the first half of 2015 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.

34 Employees

Average number of employees	1.1.–30.6. 2015	1.1.–31.12. 2014
Employees (excluding apprentices)	839	838
thereof: senior staff in Germany	17	17
Total	839	838

Munich, 4 August 2015

Deutsche Pfandbriefbank AG
The Management Board



Andreas Arndt



Thomas Köntgen



Andreas Schenk



Dr. Bernhard Scholz

Responsibility Statement

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

Munich, 4 August 2015

Deutsche Pfandbriefbank AG
The Management Board



Andreas Arndt



Thomas Köntgen



Andreas Schenk



Dr. Bernhard Scholz

To Deutsche Pfandbriefbank AG, Munich

We have reviewed the condensed interim consolidated financial statements of the Deutsche Pfandbriefbank AG, Munich – comprising consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of change in equity, consolidated statement of cash flows (condensed) and notes (condensed) – together with the group interim management report of the Deutsche Pfandbriefbank, Munich, for the period from 1 January to 30 June 2015 that are part of the semi annual financial report according to § 37w WpHG [«Wertpapierhandelsgesetz»: «German Securities Trading Act»]. The preparation of the condensed interim consolidated financial statements in accordance with those IFRS applicable to interim financial reporting as adopted by the EU, and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports, is the responsibility of the Company's management. Our responsibility is to issue a report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

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

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

Munich, 5 August 2015

KPMG AG
Wirtschaftsprüfungsgesellschaft
[original German version signed by:]

Mock Wirtschaftsprüfer [German Public Auditor]	Schmidt Wirtschaftsprüferin [German Public Auditor]
---	--

Additional Information

Additional Information

Future-oriented Statements

Internet Service

Future-oriented Statements

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

Internet Service

Visit us at the World Wide Web:
www.pfandbriefbank.com

Go to «Investor Relations» and find information on external ratings of our Group companies, facts and figures. Our Annual and Interim Reports can be read online, downloaded on your computer or a print version can be ordered online.

Publisher

Deutsche Pfandbriefbank AG, Munich, Germany
(Copyright 2015)

Concept, Design and Realisation

KMS TEAM GmbH, www.kms-team.com

Deutsche Pfandbriefbank AG

Freisinger Straße 5
85716 Unterschleißheim
Germany
T +49 (0)89 2880-0
F +49 (0)89 2880-10319
info@pfandbriefbank.com
www.pfandbriefbank.com