DEPFA ACS BANK

Interim Report
30 June 2011

Content

Directors and other information

Board of Directors
Dr. J. Bourke*
Mr. C. Dunne* (Chairman)
Mr. T. Glynn (American)* (appointed 15 March 2011)
Ms. F. Flannery
Mr. N. Reynolds
Mr. S. Rio (French)
Mr. K.L. Walsh

* Non-Executive

Audit Committee
The Board of Directors of DEPFA ACS BANK has authorised the DEPFA BANK plc Audit Committee to act on its behalf

Secretary & Registered Office
Ms. E. Tiernan
1 Commons Street
Dublin 1
Ireland

Solicitors
Arthur Cox
Earlsfort Centre
Earlsfort Terrace
Dublin 2
Ireland

Auditors
KPMG
Chartered Accountants and Registered Auditor
1 Harbourmaster Place
IFSC
Dublin 1
Ireland

Cover Assets Monitor
AIB International Financial Services Ltd
AIB International Centre
Dublin 1
Ireland

Registered Number
354382

The directors of DEPFA ACS BANK ("the Bank") present their management discussion and the unaudited interim financial statements ("the interim report") as at 30 June 2011.

Management discussion

Principal activities

The Bank's primary purpose is the issuance of Asset Covered Securities ("ACS") in accordance with the Irish Asset Covered Securities Act, 2001 as amended by the Asset Covered Securities (Amendment) Act 2007 ("the Legislation"), subject to the conditions imposed by the European Commission's recently approved state aid proceedings in relation to the stabilisation measures granted to the Hypo Real Estate Group ("the HRE Group") by the Federal Republic of Germany.

Ownership

The Bank is part of the DEPFA Group ("the Group" or "the DEPFA Group") which comprises DEPFA BANK plc and its subsidiaries. In 2007 the entire ordinary share capital of DEPFA BANK plc, the parent of the Bank, was acquired by Hypo Real Estate Holding AG ("HRE Holding"), the parent entity of the HRE Group.

As part of the recapitalisation of the HRE Group, the German Financial Markets Stabilisation Fund/German Finanzmarktstabilisierungsfonds ("SoFFin") became the only shareholder of Hypo Real Estate Holding AG on 13 October 2009.

There has been no change in ownership of the Bank during 2011.

Ratings

The bank ratings of DEPFA ACS BANK remained unchanged in the first half of 2011 and up to the date of signing of the unaudited interim financial statements, however the following changes regarding covered bond and subordinated debt ratings occurred:

Moody's concluded its review of the Asset Covered Securities issued by DEPFA ACS BANK and confirmed the Aa3 rating.

Standard & Poor's has downgraded the Lower Tier 2 ratings DEPFA ACS BANK from BBB– to BB–.

The EU Commission's final approval of state aid announced on 18 July 2011 had no immediate implications for the ratings of DEPFA ACS Bank.

Based on the rating methodologies applied, the DEPFA Group entities' ratings benefit inter alia from linkages between the Group and FMS Wertmanagement resulting from the transfer of assets to and the provision of related services for FMS Wertmanagement. Under the current circumstances, the Bank considers the maximum rating level has been achieved for these banks.

The current bank and covered bond ratings are shown in the table below.

Overview of the rating of DEPFA ACS BANK up to the date of signing the unaudited interim financial statements[1]

	Fitch Ratings	Moody's	Standard & Poor's
Long-term Rating	BBB+	Baa3	BBB
Outlook	Negative	Stable	Stable
Short-term Rating	F2	P-3	A-2
Asset Covered Securities	AAA(2)	Aa3	AA

(1) Ratings from mandated rating agencies

(2) Rating Watch Negative

Management discussion (cont.)

Business Review

Development in earnings

In recent years, the DEPFA Group, as part of the HRE Group has undergone a process of strategic restructuring and has improved its portfolio structure. The success of this process is reflected in results. In the first half of 2011, DEPFA ACS BANK has reported a pre-tax profit of € 112 million.

In the first six months of 2011, the Bank recorded an increase in net interest income, increasing by 426% to € 163 million compared with € 31 million for the similar period in 2010, primarily as a result of the € 141 million profits from the buyback of DEPFA ACS BANK asset covered securities that were redeemed before maturity at prevailing market levels on a reverse enquiry basis (2010: nil).

Net fee and commission expense amounted to € -1 million (2010: € -23 million). The commission expense in the previous period was largely attributable to costs incurred for the guarantees in connection with the liquidity support measures provided by SoFFin. This liquidity support ceased on 1 October 2010.

Net trading (expense) / income recorded a loss of € -4 million to June 2011 compared to a profit of € 1 million to June 2010. This result is due to marking to market derivatives that do not qualify for hedge accounting.

Net expense from financial investments amounted to € -32 million (2010: € -15 million), relating to the loss on the sale of financial assets.

Net expense from hedge relationships amounted to € -1 million (2010: € -1 million), mainly relating to hedge inefficiencies within the range of 80 % to 125 % permitted under IAS 39.

Other operating (expense) / income amounted to € -6 million (2010: € 1 million), predominantly relating to foreign exchange revaluation losses.

Provision for losses on loans and advances amounted to € nil (2010: € -10 million). The 2010 figure related to the collective provision, as there are no specific provisions on any of the Bank's positions.

General administrative expenses increased from € -4 million in June 2010 to € -7 million in June 2011, as a result of increased recharges from intergroup companies.

Pre-tax profit for the period amounted to € 112 million (2010: € -20 million loss). Taxes on income amounted to € -12 million (2010: € nil).

Net profit for the period amounted to € 100 million (2010: € -20 million loss).

Development in assets

Total assets decreased by 38%, to € 44 billion in June 2011 from € 71 billion in December 2010.

The decline is mainly attributable to a further reduction of the counter effects which had increased total assets in the course of the transfer of positions to FMS Wertmanagement.

In the case of some assets, it was not possible for beneficial ownership to be transferred to FMS Wertmanagement, which meant that the criteria for derecognition were not satisfied. Furthermore in the case of derivatives, back-to-back transactions were used to transfer the market price risks of the derivative to FMS Wertmanagement by way of taking out a derivative with identical conditions, whereas the counterparty risks were retained by the Bank. This meant that it was not possible for the original position to be de-recognised. Instead, the back-to-back transactions resulted in an increase of the statement of financial position total.

FMS Wertmanagement had to provide collateral for the new derivatives which were taken out between FMS Wertmanagement and the Bank (back-to-back transactions); which in turn, were used to finance the collateral requirements of the original derivatives.

Furthermore, because FMS Wertmanagement does not have a banking status, the Bank handled certain refinancing functions for FMS Wertmanagement, for instance with the ECB or in bilateral repo transactions. The refinancing funds were passed on to FMS Wertmanagement. The Bank received a claim against FMS Wertmanagement, which increased the statement of financial position total.

Management discussion (cont.)

The total counter effects on the Bank are described in detail in note 4 of the notes to the unaudited interim financial statements.

These counter effects were reduced in the first half of 2011, in line with overall strategy.

Work is continuing on replacing back-to-back transactions by way of direct business relations between FMS Wertmanagement and the external counterparties (novation of derivatives). As a result of this novation of derivatives with simultaneous termination of back-to-back transactions, the effect of back-to-back business extending the statement of financial position was reduced, and the statement of financial position total was also reduced by the novation of the external derivatives. Moreover, the termination and novation had a significant effect on the collateral provided and received for these derivatives.

The total assets would also have declined even without the decline in the counter effects resulting from the transfer of positions to FMS Wertmanagement. This was due to net repayments and sales. Market-related factors also had the effect of reducing total assets. The fact that the Euro strengthened against the US Dollar, the Japanese Yen and Sterling resulted in lower carrying amounts of the foreign currency positions translated into Euros. In addition, the higher level of interest rates resulted in a decline of the market value of the derivatives, which was also reflected in a decline in total assets.

Development in financial position

Total liabilities decreased by 38%, to € 43 billion in June 2011 from € 70 billion in December 2010.

As was the case on the asset side of the statement of financial position the decline is mainly attributable to the same reduction in counter effects with FMS Wertmanagement.

Liabilities evidenced by certificates decreased by € 5 billion from € 37 billion in December 2010 to € 32 billion in June 2011. This reduction reflected the run off in outstanding debt, of € 4 billion, as well as the buyback of certain unlisted asset covered securities in DEPFA ACS BANK of € 1 billion mostly during the first quarter of 2011 at prevailing market levels on a reverse enquiry basis.

The shareholders' equity amounted to € 706 million as of 30 June 2011, compared with € 598 million as of 31 December 2010, an increase of € 108 million. The movement in equity in the period is a combination of the profit of € 100 million and the reduction in the AfS reserve of € 8 million.

Going concern

On 18 July 2011 the European Commission approved the state aid for the HRE Group. With its positive decision the material factors of uncertainty in relation to the going concern assumption which were known at the date of signing the 31 December 2010 year end financial statements no longer exist. These factors were:

- The continuing existence of HRE Holding and its subsidiaries, including DEPFA ACS BANK, was dependent upon the European Commission approving the support measures which were implemented by SoFFin.
- The ability of HRE Holding and its major subsidiaries, including DEPFA ACS BANK, to continue as going concerns was dependent upon the European Commission not imposing any conditions which would not permit the HRE Group and its subsidiaries, including DEPFA ACS BANK, to implement an economically sustainable business plan and in particular would not undo the regulatory effectiveness of the capital support measures.

The unaudited interim financial statements are prepared on a going concern basis.

Management discussion (cont.)

Events after the statement of financial position date

On 18 July 2011, the Federal Republic of Germany reached formal agreement with the European Commission with regard to the state aid proceedings which the European Commission initiated in relation to the stabilisation measures granted to the HRE Group by the Federal Republic of Germany. The approval procedure has thus been completed; the decision of the European Commission is expected to be published in the official Gazette of the European Commission in the course of the next few weeks. The HRE Group has thus obtained the legal and planning certainty necessary for its proper operation.

The decision of the European Commission relates to all elements of aid granted to the HRE Group since the autumn of 2008, i.e. capitalisations, guarantee lines and the transfer of assets to the deconsolidated environment FMS Wertmanagement and requires the HRE Group to take appropriate compensation measures, in particular a reduction of total assets of Deutsche Pfandbriefbank Group. This aim is reached to a large extent.

The consequence of the decision of the European Commission is that the companies within the DEPFA Group will not conduct any new business until they are reprivatised. This is not applicable for measures carried out as part of bank, risk and refinancing management which is necessary for regulatory purposes and which has the aim of maintaining value and also within the framework of managing the cover pools.

With its positive decision, the European Commission has also accepted the viability of the business model of Deutsche Pfandbriefbank AG as a specialist bank for real estate finance and public sector investment finance. The consequence for Deutsche Pfandbriefbank AG is that it is now positioned as the strategic core bank of the HRE Group. It operates new business in real estate finance and public investment finance. Deutsche Pfandbriefbank AG will discontinue traditional public finance activities as pure budget financing. It has restricted its regional area of activity to selected countries in Europe. The growth of Deutsche Pfandbriefbank AG will be limited. These requirements have been recognised correspondingly in business planning. The agreed guidelines are applicable up to the point at which Deutsche Pfandbriefbank AG will be reprivatised, but will be applicable at least until the end of 2013. The existing contractual links with the deconsolidated environment FMS Wertmanagement (in particular servicing and refinancing) will be terminated at the latest by the end of September 2013. The entities of the DEPFA Group are free to provide services to FMS Wertmanagement after 30 September 2013.

Both the Deutsche Pfandbriefbank Group and the DEPFA Group may be sold in the medium-term. The complete reprivatisation of the DEPFA Group is a medium-term objective. Measures have already been initiated to sever the links between the companies of the DEPFA Group and the other companies of the HRE Group.

In addition, the European Commission has imposed a payment condition in relation to the aid proceedings, namely the complete fulfilment of the payment of € 1.59 billion, as set out in note 28 of the notes to the unaudited interim financial statements, to avoid distortions of competition in connection with the utilisation of the deconsolidated environment. In consequence, this payment condition will result in a subsequent purchase price adjustment in the companies of the HRE Group which transferred assets to FMS Wertmanagement. On the basis of data collected, the payment condition will probably mainly relate to the DEPFA Group, however depending on the future development, the entities of the Deutsche Pfandbriefbank Group may also be required to pay. The exercise by FMSA of its right to impose a payment condition by the issuance of one or more decrees will result in the payment condition being recognised in equity at that time and consequently has no impact on the income statement.

Furthermore, the European Commission has set conditions for interest and profit participation payments the HRE Group makes to third parties outside the HRE Group for certain instruments and until further notice. These conditions apply to a series of profit related capital instruments, which existed on 30 September 2010 and which were not provided by SoFFin. As a result of further conditions, in line with the “burden sharing” specified by the European Commission, from the time at which the payment condition of € 1.59 billion is completely settled up to the time of privatisation, the DEPFA Group will, subject to certain conditions, have to pay further annual fees to the Federal Republic of Germany. Profits of the Deutsche Pfandbriefbank Group will be used to repay the silent participation to SoFFin.

Apart from the above, there have been no other reportable events after 30 June 2011.

Management discussion (cont.)

Future development in assets, financial position and earnings of the DEPFA Group including DEPFA ACS BANK

The Group has reported a profit of the first half of 2011. However, the profit has benefited from special factors such as the profits from the buy back of asset covered securities. From its current point of view, the DEPFA BANK plc Board of Directors expects the Group to be profitable and that a positive result will be generated for 2011. As a requirement in line with the "burden sharing" principle specified by the European Commission, from the time at which the payment condition of € 1.59 billion is completely settled up to the time of privatisation, the DEPFA Group will, subject to certain conditions, have to pay further annual fees to the Federal Republic of Germany.

Total Group assets in the first half of 2011 declined appreciably due to the diminishing counter effects of the transfer of positions to FMS Wertmanagement. The volume of opposite effects will probably continue to decline in the future. Accordingly, some of the assets for which the opportunities and risks have previously been transferred synthetically will be transferred in full. Changes of debtor (novations) will be carried out in the case of other instruments. In addition, FMS Wertmanagement will refinance its operations on a standalone basis to an even greater extent and will thus no longer require the Group to pass on funds. Therefore, total assets are expected to decline considerably for the year 2011. However, the actual extent of the reduction in total assets is still uncertain, and is not entirely within the control of the Group. In addition, market-related factors such as changes in exchange rates and market interest rates can also have an impact on total assets.

Opportunities and risks within the DEPFA Group including DEPFA ACS BANK

The developments in net assets, financial position and earnings which have occurred since the transfer of assets to FMS Wertmanagement are in line with existing strategy of the DEPFA Group. The conclusion of the approval process is a further milestone for the restructuring and refocusing of the Group with the aim of reprivatisation.

However, it is also possible that the net assets, financial position and results of operations might be adversely affected by certain factors. The extent of these potential effects is influenced particularly by the occurrence or non-occurrence of the following risks, or the extent to which such risks might materialise:

- FMSA reserves the right, due to considerations of competition neutrality, to impose a payment condition for the stabilisation measure, which must not exceed € 1.59 billion. A possible payment obligation might have a considerably negative impact on the financial position of the DEPFA Group, but will not pose a threat to the continued existence of the DEPFA Group as a going concern, due to the conditions attached to any fixing for any such payment obligation.

- In line with the "burden-sharing" principle specified by the European Commission, the DEPFA Group will, subject to certain conditions, have to pay further annual fees to the Federal Republic of Germany, which might have a negative impact on the financial position of the Group but will not at the time of such payment pose a threat to the continued existence of the DEPFA Group as a going concern.

- Although there has been a certain improvement, the situation on some markets continues to be difficult and the macro-economic situation is uncertain. High fiscal deficits mean that some countries might experience considerable refinancing problems, or might require external aid to obtain refinancing. It is possible that some countries might not be able to service their interest and repayment obligations. In such a case, also as a result of the consequent economic turmoil, it may be necessary to recognise considerable impairments in relation to securities or loans.

- According to the EU Rating Act as per September 2009 external ratings for the purposes of the calculation of capital requirements can only be used in banks in the future if the respective rating agencies are registered in accordance with the EU Rating Act and are supervised by the responsible supervisors. If agencies prepare ratings outside of the EU the regulation in the third country must meet European standards. The registration process of the rating agencies Fitch Ratings, Moody's and Standard&Poors as well as the check of the regulatory standards of several third countries are still ongoing. Negative effects on the financial situation of the DEPFA Group can arise from a refusal of the registration or the absence of the approval of third country regulations as a higher regulatory capital requirement could arise on certain positions.

- The further development of national and international regulatory requirements can have an effect on the structure of assets and liabilities and can therefore affect the development of income. For example, arising from the introduction of changed requirements from the Basel Committee on Banking Supervision (Basel III) the profitability could be negatively affected by higher liquidity or capital demands. In addition, the calculation of regulatory and economic ratios which are already mandatory today could be affected, which could also lead to additional requirements.

Statement of the directors in respect of the unaudited interim financial statements

Each of the current directors, whose names are listed on page 3, confirm that to the best of their knowledge:

(a) the interim financial statements comprising the unaudited income statement, the unaudited statement of comprehensive income, the unaudited disclosure of components of comprehensive income, the unaudited statement of financial position, the unaudited condensed cash flow statement, the unaudited statement of changes in equity and related notes 1 to 33 have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

(b) the interim management discussion includes a fair review of the information required by:

   (i) Regulation 8(2) of the Transparency (Directive 2004/109/EC) Regulations 2007, being an indication of important events that have occurred during the first six months of the financial year and their impact on the set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

   (ii) Regulation 8(3) of the Transparency (Directive 2004/109/EC) Regulations 2007, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

On behalf of the Board

Dr. J. Bourke	**Mr. N. Reynolds**
Director	**Director**

29 July 2011

Independent review report on unaudited interim financial statements of DEPFA ACS BANK

Introduction

We have been engaged by DEPFA ACS BANK ("the Bank") to review the unaudited set of financial statements in the Interim Report for the six months ended 30 June 2011 which comprises the unaudited income statement, unaudited statement of comprehensive income, unaudited statement of financial position, unaudited statements of changes in equity, unaudited condensed cash flow statement and the related explanatory notes (notes 1-33). We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the set of financial statements.

This report is made solely to the Bank in accordance with the terms of our engagement to assist the Bank in meeting the requirements of the Transparency (Directive 2004/109/EC) Regulations 2007 ("the TD Regulations") and the transparency Rules of the Central Bank of Ireland ("CBI"). Our review has been undertaken so that we might state to the Bank those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The Interim Report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim financial report in accordance with the TD Regulations and the Transparency Rules of the Central Bank of Ireland.

As disclosed on page 16, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The directors are responsible for ensuring that the unaudited set of financial statements included in this Interim Report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

Our responsibility

Our responsibility is to express to the Bank a conclusion on the unaudited set of financial statements in the Interim Report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independent review report on unaudited interim financial statements of DEPFA ACS BANK (cont.)

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the unaudited set of financial statements in the Interim Report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU, the TD Regulations and the Transparency Rules of the Central Bank of Ireland.

Frank Gannon
For and on behalf of KPMG
Chartered Accountants statutory audit firm
1 Harbourmaster Place
IFSC
Dublin 1

29 July 2011

Income statement – unaudited

for the period from 1 January to 30 June

			As restated*
		1 Jan – 30 June 2011	**1 Jan – 30 June 2010**
		€m	**€m**
Interest and similar income		850	999
Interest expense and similar expenses		-687	-968
Net interest income	5	**163**	**31**
Net fee and commission expense		-1	-23
Net fee and commission expense	6	**-1**	**-23**
Net trading (expense) / income	7	-4	1
Net expense from financial investments	8	-32	-15
Net expense from hedge relationships	9	-1	-1
Other operating (expense) / income	10	-6	1
Total operating revenues		**119**	**-6**
Provision for losses on loans and advances	16	-	-10
General administrative expenses	11	-7	-4
Pre-tax profit/(loss)		**112**	**-20**
Taxes on income		-12	-
Net profit/(loss) for the period		**100**	**-20**
Attributable to:			
Equity holders of the parent		100	-20

* Details of the reclassification of 2010 comparatives are set out in note 31, section (b), of the notes to the unaudited interim financial statements.

Statement of comprehensive income – unaudited

for the period from 1 January to 30 June

€ m	**1 Jan – 30 June 2011**			**1 Jan – 30 June 2010**		
	Before tax	**Tax**	**After tax**	**Before tax**	**Tax**	**After tax**
Net income/(loss) for the period	112	-12	100	-20	-	-20
AFS reserve	9	-1	8	8	-1	7
Total comprehensive income	**121**	**-13**	**108**	**-12**	**-1**	**-13**
Attributable to the equity holders	121	-13	108	-12	-1	-13

Disclosure of components of comprehensive income – unaudited

for the period from 1 January to 30 June

	1 Jan – 30 June 2011	**1 Jan – 30 June 2010**
	€ m	**€ m**
Net income/(loss) for the period	100	-20
AFS reserve	8	7
Gains arising in the period	8	7
Cash flow hedge reserve	-	-
(Losses)/gains arising in the period	-12	52
Reclassification adjustments for (losses)/gains included in profit or loss	12	-52
Total comprehensive income	**108**	**-13**

Statement of financial position – unaudited

As at 30 June 2011 and 31 December 2010

	Note	30/06/2011	As restated* 31/12/2010
		€ m	€ m
ASSETS			
Cash reserves		17	34
Trading assets	13	1,988	3,504
Loans and advances to other banks	14	2,723	24,186
Loans and advances to customers	15	14,466	15,082
Allowance for losses on loans and advances	16	-1	-1
Financial investments	18	21,945	24,264
Other assets	19	2,819	3,649
Deferred tax assets		3	4
Total assets		**43,960**	**70,722**
LIABILITIES			
Liabilities to other banks	20	4,921	23,280
Liabilities to customers	21	1,444	2,513
Liabilities evidenced by certificates	22	31,803	37,183
Trading liabilities	23	1,931	3,500
Other liabilities	24	2,509	3,010
Current tax liabilities	25	14	1
Subordinated capital	26	632	637
Total liabilities		**43,254**	**70,124**
EQUITY			
Equity attributable to equity holders			
Share capital		510	510
Retained earnings		219	119
Other reserves - AfS		-23	-31
Total equity		**706**	**598**
Total equity and liabilities		**43,960**	**70,722**

* Details of the reclassification of 2010 comparatives are set out in note 31, section (a), of the notes to the unaudited interim financial statements.

Condensed cash flow statement – unaudited

for the period from 1 January to 30 June

	1 Jan – 30 June	
	2011 **€ m**	**2010** **€ m**
Cash and cash equivalents as of 1 January	**-**	**-**
Cash flow from operating activities	-1,947	-148
Cash flow from investing activities	1,947	148
Cash flow from financing activities	-	-
Cash and cash equivalents as of 30 June	**-**	**-**

Cash and cash equivalents comprise of cash reserves including balances with central banks other than mandatory reserve deposits.

Statement of changes in equity - unaudited

for the period from 1 January to 30 June

€ m	**Share capital**	**Retained earnings**	**Available-for-sale reserve**	**Equity**
Balance at 1 January 2011	510	119	-31	598
Total comprehensive income	-	100	8	108
Balance at 30 June 2011	**510**	**219**	**-23**	**706**

€ m	**Share capital**	**Retained earnings**	**Available-for-sale reserve**	**Equity**
Balance at 1 January 2010	510	127	-66	571
Total comprehensive income	-	-20	7	-13
Balance at 30 June 2010	**510**	**107**	**-59**	**558**

The transfer of AfS assets to FMS Wertmanagement, as set out in note 4 of the notes to the unaudited interim financial statements, had a material positive impact on the AfS reserve. Each of the positions were transferred at the corresponding carrying amount of the transferor company in accordance with the accounting requirements which were applicable for the individual financial statements of the respective company with the exception of AfS and former AfS assets which are transferred at their corresponding carrying amount adjusted for the related AfS revaluation reserve balance in equity.

Notes to the unaudited interim financial statements

1. General Information

DEPFA ACS BANK ("the Bank") is part of the DEPFA Group ("the Group" or "the DEPFA Group"), which comprises DEPFA BANK plc and its subsidiaries.

The interim financial statements for the six months ended 30 June 2011 are unaudited but have been reviewed by the auditor whose report is set out on pages 10 and 11. The financial information presented herein does not amount to statutory financial statements that are required by Section 7 of the Companies (Amendment) Act, 1986 to be annexed to the annual return of the Bank. The statutory financial statements for the financial year ended 31 December 2010 will be filed with the Registrar of Companies along with the annual return by 13 September 2011. The audit report under section 163 of the Companies Act 1990 on those statutory financial statements was unqualified but did contain an emphasis of matter relating to the going concern basis of accounting.

The annual financial statements of the Bank are prepared in accordance with International Financial Reporting Standards ('IFRS').

In 2007 the entire ordinary share capital of DEPFA BANK plc, the parent of the Bank, was acquired by Hypo Real Estate Holding AG ("HRE Holding"), the parent entity of the HRE Group.

As part of the recapitalisation of the HRE Group, the German Financial Markets Stabilisation Fund/German Finanzmarktstabilisierungsfonds ("SoFFin") became the only shareholder of Hypo Real Estate Holding AG on 13 October 2009.

There has been no change in ownership of the Bank during 2011.

On 18 July 2011, the Federal Republic of Germany reached formal agreement with the European Commission with regard to the state aid proceedings which the European Commission initiated in relation to the stabilisation measures granted to the HRE Group by the Federal Republic of Germany. The approval procedure has thus been completed; the decision of the European Commission is expected to be published in the official Gazette of the European Commission in the course of the next few weeks. The HRE Group has thus obtained the legal and planning certainty necessary for its proper operation.

The decision of the European Commission relates to all elements of aid granted to the HRE Group since the autumn of 2008, i.e. capitalisations, guarantee lines and the transfer of assets to the deconsolidated environment FMS Wertmanagement and requires the HRE Group to take appropriate compensation measures, in particular a reduction of total assets of Deutsche Pfandbriefbank Group. This aim is reached to a large extent.

The consequence of the decision of the European Commission is that the companies within the DEPFA Group will not conduct any new business until they are reprivatised. This is not applicable for measures carried out as part of bank, risk and refinancing management which is necessary for regulatory purposes and which has the aim of maintaining value and also within the framework of managing the cover pools.

With its positive decision, the European Commission has also accepted the viability of the business model of Deutsche Pfandbriefbank AG as a specialist bank for real estate finance and public sector investment finance. The consequence for Deutsche Pfandbriefbank AG is that it is now positioned as the strategic core bank of the HRE Group. It operates new business in real estate finance and public investment finance. Deutsche Pfandbriefbank AG will discontinue traditional public finance activities as pure budget financing. It has restricted its regional area of activity to selected countries in Europe. The growth of Deutsche Pfandbriefbank AG will be limited. These requirements have been recognised correspondingly in business planning. The agreed guidelines are applicable up to the point at which Deutsche Pfandbriefbank AG will be reprivatised, but will be applicable at least until the end of 2013. The existing contractual links with the deconsolidated environment FMS Wertmanagement (in particular servicing and refinancing) will be terminated at the latest by the end of September 2013. The entities of the DEPFA Group are free to provide services to FMS Wertmanagement after 30 September 2013.

Both the Deutsche Pfandbriefbank Group and the DEPFA Group may be sold in the medium-term. The complete reprivatisation of the DEPFA Group is a medium-term objective. Measures have already been initiated to sever the links between the companies of the DEPFA Group and the other companies of the HRE Group.

2. Basis of preparation

The interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU. The financial information contained in the interim financial statements has been prepared in accordance with the accounting policies set out in the last annual financial statements, except as explained below.

In accordance with IAS 8.14 (b), there has been a change in the way of recognising all remaining securities which were allocated to the IAS 39 measurement category loans and receivables. In the past, some of these securities which were recognised as loans and receivables (LaR) were disclosed as loans and advances to other banks and loans and advances to customers. In future, these holdings will be disclosed completely as financial assets. In accordance with IAS 8.19 (b), the change has been carried out retrospectively, which means that the previous year figures have been adjusted accordingly. Financial assets have increased by € 18.5 billion as of 31 December 2010 (31 December 2009: € 35.6 billion); loans and advances to other banks have declined by € 2.9 billion (31 December 2009: € 4.3 billion) and loans and advances to customers have declined by € 15.6 billion (31 December 2009: € 31.3 billion).

The Bank shows profits or losses from the sale of receivables in net interest income, and effects from the sale of financial assets are shown in net income from financial investments. As a result of the LaR securities being reclassified under financial assets (whereas they had previously been shown under receivables), it is also necessary to adjust the way in which profits and losses from the sale of such positions are reported. These effects are therefore no longer shown in net interest income and have to be shown in net income from financial investments.

The sale of LaR securities in the first half of 2010 resulted in a net loss of € 14 million, which was shown in net interest income. The net expense from financial investments for the first half of 2010 has thus increased by € 14 million, with net interest income increasing by the contra amount. The Bank has retrospectively adjusted the figures in accordance with IAS 8.14 (b), as set out in note 31 of the notes to the unaudited interim financial statements.

3. Operating segments

The HRE Group continued to use the segment structure established in 2010 as part of the strategic refocusing process.

There are three operating segments:

- Real Estate Finance segment - which contains the strategic business in commercial real estate financing,
- Public Sector Finance segment - which contains strategic public sector financing business
- “Value Portfolio” segment which conatins all non-strategic business, which is to be reduced without imposing excessive strain on existing value.

The DEPFA Group is considered part of the non strategic business of the HRE Group and is included in the Value Portfolio segment of the HRE Group. The DEPFA Group has withdrawn completely from new business in all segments. DEPFA ACS BANK is considered to be part of the non-strategic business of the HRE Group and is included in the “Value Portfolio” segment. Non-strategic activities are to be reduced without imposing excessive strain on existing value.

The DEPFA Group continued to be organised into the three segments, which were established in 2010:

- Value Management Europe / Rest of World
- Value Management America
- Infrastructure Finance

These segments have been used as the basis of managing the DEPFA Group from the start of 2010.

Notes to the unaudited interim financial statements (cont.)

For consistency in the HRE Group structure and in the DEPFA Group structure, DEPFA ACS BANK continued in 2011 to be organised into two operating segments:

- Value Management Europe / Rest of World
- Value Management America

The operating segment Value Management Europe / Rest of World incorporates the traditional public sector finance lending business of the Group in the form of bond and loan financing with public sector authorities geographically located outside of the Americas. As in 2010, no new business has been conducted in this segment in 2011.

The operating segment Value Management Americas incorporates the traditional public sector finance lending business of the Group in the form of bond and loan financing with public sector authorities typically located in the USA and Canada. This segment also included the majority of trading assets and trading liabilities as well as income from securitisations and customer derivatives as well as specific guaranteed investment contracts ("GIC") business. As in 2010, no new business has been conducted in this segment in 2011.

The segment report of the Group is based on the internal controlling instruments and the management information system which is prepared in accordance with IFRS, as adopted by the EU. Income and expenses are allocated to appropriate cost centres, whereby portfolio structures are used as the basis for allocating income. General administrative expenses are allocated to the appropriate cost centres in the segment. The segments generated only Group external income, and did not generate any income with other segments of the Group. Accordingly, there are no issues of consolidation between the segments. The management information is based on the accounting and valuation methods of the financial statements prepared in accordance with IFRS, as adopted by the EU. Accordingly, reconciliation with the accounting and valuation methods used in the financial statements is not necessary.

	1 Jan – 30 Jun 2011		
	Value Management Europe/RoW	**Value Management Americas**	**Total**
Net interest income	122	41	163
Non interest revenues	-17	-27	-44
Total Revenues	**105**	**14**	**119**
Total Expenditure	**-5**	**-2**	**-7**
Provision for losses on loans and advances	-	-	-
Pre-tax profit/(loss)	**100**	**12**	**112**
Taxes on income			-12
Net profit for the period			**100**
Total Assets	**35,031**	**8,929**	**43,960**

Notes to the unaudited interim financial statements (cont.)

	1 Jan – 30 Jun 2010		
	Value Management Europe/RoW	Value Management Americas	Total
Net interest income	16	15	31
Non interest revenues	-25	-12	-37
Total Revenues	**-9**	**3**	**-6**
Total Expenditure	**-3**	**-1**	**-4**
Provision for losses on loans and advances	-10	-	-10
Pre-tax profit/(loss)	**-22**	**2**	**-20**
Taxes on income			-
Net loss for the period			**-20**
Total Assets	**65,046**	**24,029**	**89,075**

4. Transfer of non strategic positions to FMS Wertmanagement

In January 2010, the HRE Group submitted an application to the FMSA for a stabilisation measure in accordance with section 8a (1) Clause 1 FMStFG (establishment of a deconsolidated environment) in order to transfer assets and liabilities of the HRE Group and its direct and indirect subsidiaries to a deconsolidated environment. This application was approved by the FMSA, and the deconsolidated environment FMS Wertmanagement was established on 8 July 2010. The transferred positions mainly comprised financial instruments as defined in IAS 39.

At the end of September 2010, the HRE Group concluded the agreements necessary for the transfer with FMS Wertmanagement. The positions were transferred to FMS Wertmanagement with legal and/or economic effect as of 1 October 2010; however, no legal and/or economic transfer was originally intended for some of the positions to be transferred. On the contrary, they were backed by a financial guarantee of FMS Wertmanagement; any legal and/or economic transfer in this respect will only take place at a later date. The transfer was a non-cash transaction between companies under common control.

The positions were transferred to FMS Wertmanagement by way of a spin-off for inclusion in an existing company in accordance with Section 8a (8) FMStFG in conjunction with Section 123 (2) No. 1 as follows: Deutsche Pfandbriefbank AG and also HRE Holding AG spun off parts of their assets to FMS Wertmanagement and received compensation claims in return; in addition, SoFFin – as a further consideration – also received a stake in the share capital of FMS Wertmanagement of € 1 million.

The assets and liabilities of the subsidiaries were transferred to HRE Holding AG by way of singular succession (Einzelrechtsnachfolge) and the resultant pending agreements were subsequently spun off to FMS Wertmanagement.

Whereas most of the transferred positions have resulted in a derecognition at the HRE Group due to the transfer of at least economic ownership to FMS Wertmanagement, this is not applicable for the positions which are merely backed by way of the financial guarantee.

In addition, the HRE Group has also concluded back-to-back derivatives with FMS Wertmanagement; these have been used to transfer the market risks of existing derivatives, whereas the counterparty risk was retained by the HRE Group. These back-to-back derivatives have resulted in a significant increase in the derivative position of the HRE Group as of 1 October 2010.

An “upgrade” of the transfer methods is being considered for the transactions which have so far not resulted in a derecognition, in order to meet the derecognition requirements at a later date.

Each of the positions were transferred at the corresponding carrying amount of the transferor company in accordance with the accounting requirements which were applicable for the individual financial statements of the respective company with the exception of AfS and former AfS assets which are transferred at their corresponding carrying amount adjusted for the related AfS revaluation reserve balance in equity.

The amount of the compensation claim which the HRE Group as well as the other transferring subsidiaries received from FMS Wertmanagement as of 1 October 2010 was calculated as the difference between the carrying amount of the assets transferred by the respective company and the transferred liabilities.

Notes to the unaudited interim financial statements (cont.)

As part of the process of transferring the positions, Deutsche Pfandbriefbank AG also assumed responsibility for managing the transferred portfolios for FMS Wertmanagement as part of a co-operation agreement, whereby Deutsche Pfandbriefbank AG also uses services of other subsidiaries of the HRE Group for rendering this service. The co-operation agreement will be terminated at the latest by the end of September 2013. The companies of the DEPFA Group are free to provide services to FMS Wertmanagement after 30 September 2013.

In addition, Deutsche Pfandbriefbank has provided a commitment to FMS Wertmanagement that it will implement certain IT functionalities. Companies of the HRE Group are also considering whether to transfer legal and economic ownership of certain portfolios to FMS Wertmanagement for those cases in which the transfer to FMS Wertmanagement has so far not resulted in a derecognition.

The transfer of positions which reduced total assets was partially offset by the main counter effects described below:

(a) In the case of some assets, it was not possible for beneficial ownership to be transferred to FMS Wertmanagement, which meant that the criteria for derecognition were not satisfied. Furthermore in the case of derivatives, back-to back transactions were used to transfer the market price risks of the derivative to FMS Wertmanagement by way of taking out a derivative with identical conditions, whereas the counterparty risks were retained by the Group. This meant that it was not possible for the original position to be de-recognised. Instead, the back-to back transaction resulted in an increase of the statement of financial position total.

(b) FMS Wertmanagement had to provide collateral for the new derivatives which were taken out between FMS Wertmanagement and the Group (back-to-back transactions); which in turn, were used to finance the collateral requirements of the original derivatives.

(c) FMS Wertmanagement does not have a banking status - therefore the Bank handled certain refinancing functions for FMS Wertmanagement, for instance with the ECB or in bilateral repo transactions. The refinancing funds were passed on to FMS Wertmanagement. The Bank received a claim against FMS Wertmanagement, which increased the statement of financial position total.

Notes to the unaudited interim financial statements (cont.)

The effects of all counter effects ("FMSWM Counter Effects") on the 31 December 2010 and 30 June 2011 statements of financial positions are shown below in the pro forma statements of financial position:

	30/06/2011	30/06/2011 FMSWM Counter Effects	30/06/2011 Post FMSWM Counter Effects	As restated* 31/12/2010	31/12/2010 FMSWM Counter Effects	31/12/2010 Post FMSWM Counter Effects
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Assets						
Cash reserves	17	-	17	34	-	34
Trading assets	1,988	1,469	519	3,504	2,540	964
Loans and advances to other banks	2,723	1,036	1,687	24,186	19,946	4,240
Loans and advances to customers	14,466	-	14,466	15,082	-	15,082
Allowance for losses on loans and advances	-1	-	-1	-1	-	-1
Financial investments	21,945	-	21,945	24,264	-	24,264
Other assets	2,819	38	2,781	3,649	106	3,543
Deferred tax assets	3	-	3	4	-	4
Total assets	**43,960**	**2,543**	**41,417**	**70,722**	**22,592**	**48,130**
Liabilities and equity						
Liabilities to other banks	4,921	(408)	5,329	23,280	17,433	5,847
Liabilities to customers	1,444	1,444	-	2,513	2,513	-
Liabilities evidenced by certificates	31,803	-	31,803	37,183	-	37,183
Trading liabilities	1,931	1,469	462	3,500	2,540	960
Other liabilities	2,509	38	2,471	3,010	106	2,904
Current tax liabilities	14	-	14	1	-	1
Subordinated capital	632	-	632	637	-	637
Liabilities	**43,254**	**2,543**	**40,711**	**70,124**	**22,592**	**47,532**
Share capital	510	-	510	510	-	510
Retained earnings	219	-	219	119	-	119
Other reserves – AfS	-23	-	-23	-31	-	-31
Equity	**706**	**-**	**706**	**598**	**-**	**598**
Total liabilities and equity	**43,960**	**2,543**	**41,417**	**70,722**	**22,592**	**48,130**

* Details of the reclassification of 2010 comparatives are set out in note 31, section (a), of the notes to the unaudited interim financial statements.

5. Net interest income

	1 Jan – 30 June 2011	1 Jan – 30 June 2010
	€ m	**€ m**
Interest and similar income		
Lending and money-market business	717	878
Derivatives	55	-
Fixed-income securities	78	121
	850	**999**
Interest expense and similar expenses		
Liabilities to other banks	-196	-152
Liabilities evidenced by certificates	-482	-767
Derivatives	-	-41
Subordinated capital	-9	-8
	-687	**-968**
Net interest income	**163**	**31**

Notes to the unaudited interim financial statements (cont.)

6. Net fee and commission expense

	1 Jan – 30 June 2011 € m	1 Jan – 30 June 2010 € m
Fee and commission expense		
From lending operations	-1	-23
Net fee and commission expense	**-1**	**-23**

Net fee and commission expense totalled € -1 million in the period (2010: € -23 million), mostly as a result of commission costs incurred for the guarantees related to the liquidity support measures.

None of the above fees arose on either trust or fiduciary activities that result in the holding or investing of assets on behalf of individuals, trusts, retirement benefit plans, and other institutions.

7. Net trading (expense) / income

	1 Jan – 30 June 2011 € m	1 Jan – 30 June 2010 € m
From interest rate instruments and related derivatives	-4	1
	-4	**1**

8. Net expense from financial investments

	1 Jan – 30 June 2011 € m	1 Jan – 30 June 2010 € m
Loss on sale of financial investments	-32	-15
	-32	**-15**

9. Net expense from hedge relationships

	1 Jan – 30 June 2011 € m	1 Jan – 30 June 2010 € m
Result from fair value hedge accounting	-1	-1
Result from hedged items	365	423
Result from hedging instruments	-366	-424
	-1	**-1**

10. Other operating (expense) / income

	1 Jan – 30 June 2011 € m	1 Jan – 30 June 2010 € m
Net foreign exchange (losses)/gains	-6	1
	-6	**1**

Notes to the unaudited interim financial statements (cont.)

11. General administrative expenses

	1 Jan – 30 June 2011 € m	1 Jan – 30 June 2010 € m
Personnel expenses		
Wages and salaries	-	-1
Social security costs	-	-
Pension expenses and related employee benefit costs	-	-
Other general administrative expenses	-7	-3
	-7	**-4**

The average number of employees in the Bank in the six month period to 30 Jun 11 was 8 (2010: 8).

12. Net gains/losses

The income statement contains the following income statement-related net gains/net losses from disposal/sale of loans and receivables, available-for-sale assets and financial liabilities at amortised cost.

	1 Jan – 30 June 2011 € m	1 Jan – 30 June 2010 € m
As shown in net interest income		
Loans and receivables	-	-
Financial liabilities at amortised cost	141	-
As shown in net expense from financial investments		
Loans and receivables	-32	-15
	109	**-15**

13. Trading assets

	30/06/2011 € m	31/12/2010 € m
Standalone derivatives (non-trading book)	1,988	3,504
	1,988	**3,504**
Of which due from group companies	404	788

Standalone derivatives include mainly derivatives which are economically hedging but which do not meet the detailed hedge accounting criteria under IFRSs.

Balances due from group companies in the Bank statement of financial position include amounts receivable from other entities in the HRE Group.

Notes to the unaudited interim financial statements (cont.)

14. Loans and advances to other banks

Loans and advances to other banks are broken down by type of business as follows:

	30/06/2011 € m	As restated* 31/12/2010 € m
Public sector loans	1,669	1,845
Other loans and advances	1,054	22,341
	2,723	**24,186**
Of which due from group companies	239	21,367

Balances due from group companies in the Bank statement of financial position include amounts receivable from other entities in the HRE Group.

Loans and advances to banks are broken down by maturity as follows:

	30/06/2011 € m	As restated* 31/12/2010 € m
Repayable on demand	814	974
With agreed maturities		
Up to 3 months	191	21,264
from 3 months to 1 year	52	80
from 1 year to 5 years	1,490	1,440
from 5 years and over	176	428
	2,723	**24,186**

* Details of the reclassification of 2010 comparatives are set out in note 31, section (a), of the notes to the unaudited interim financial statements.

The book value of these loans represents the maximum exposure to credit risk on these assets.

15. Loans and advances to customers

Loans and advances to customers are broken down by type of business as follows:

	30/06/2011 € m	As restated* 31/12/2010 € m
Public sector loans	14,466	15,082
	14,466	**15,082**
Of which due from group companies	-	-

Balances due from group companies in the Bank statement of financial position include amounts receivable from other entities in the HRE Group.

Loans and advances to customers are broken down by maturity as follows:

	30/06/2011 € m	As restated* 31/12/2010 € m
With agreed maturities		
Up to 3 months	203	219
from 3 months to 1 year	522	635
from 1 year to 5 years	4,505	4,730
from 5 years and over	9,236	9,498
	14,466	**15,082**

* Details of the reclassification of 2010 comparatives are set out in note 31, section (a), of the notes to the unaudited interim financial statements.

16. Allowance for losses on loans and advances

Movement in allowance for losses on loans and advances:

	30/06/2011 € m	31/12/2010 € m
Collective provision for losses on loans and advances		
Balance at 1 January	-1	-10
Additions to collective provision	-	6
Transfer to disposal group	-	3
Total collective provision for losses on loans and advances	**-1**	**-1**

The total allowance for losses on loans and advances is made up of public sector loans only.

17. Loans and advances past due but not impaired

At 30 June 2011, nil amount was noted as being past due.

Loans past due

Assets: past due but not impaired (due amounts)

	30/06/2011 € m	31/12/2010 € m
Up to 3 months	-	-
From 3 months to 6 months	-	-
From 6 months to 1 year	-	-
From 1 year and over	-	-
Total	**-**	**-**

Assets: past due but not impaired (total investment)

	30/06/2011 € m	31/12/2010 € m
Up to 3 months	-	-
From 3 months to 6 months	-	-
From 6 months to 1 year	-	-
From 1 year and over	-	-
Total	**-**	**-**

Carrying amount of the individually assessed impaired financial assets

	30/06/2011 € m	31/12/2010 € m
Loans	-	-
Total	**-**	**-**

Notes to the unaudited interim financial statements (cont.)

Carrying amount of loans and receivables

	30/06/2011 € m	31/12/2010 € m
Carrying amount of loans and receivables that are neither impaired nor past due	17,189	39,268
Carrying amount of loans and receivables that are past due but not impaired	-	-
Carrying amount of individually assessed impaired financial loans and receivables	-	-
Total	**17,189**	**39,268**
Of which loans and advances to other banks	2,723	24,186
Of which loans and advances to customers	14,466	15,082

18. Financial investments

	30/06/2011 € m	As restated* 31/12/2010 € m
Available-for-sale financial investments	**47**	**47**
Debt securities and other fixed-income securities	47	47
Loans and Receivables financial investments	**21,898**	**24,217**
Debt securities and other fixed-income securities	21,898	24,217
	21,945	**24,264**

Financial investments, broken down by maturities

	30/06/2011 € m	As restated* 31/12/2010 € m
With agreed maturities		
Up to 3 months	923	164
from 3 months to 1 year	344	1,287
from 1 year to 5 years	7,288	7,919
from 5 years and over	13,390	14,894
	21,945	**24,264**

* Details of the reclassification of 2010 comparatives are set out in note 31, section (a), of the notes to the unaudited interim financial statements.

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

On 30 September 2008, the Bank reclassified retrospectively as of 1 July 2008 trading assets out of the category available-for-sale of € 4.18 billion.

Since the date of reclassification, the Bank's financial assets with a (reclassified) carrying amount of approximately € 0.288 billion became due.

The reclassification of AfS assets did not cause a disclosure change of current interest income as it is still shown under net income from financial investments.

In 2011 Bank securities with a reclassified carrying amount of € 250 million were sold due to the decided reduction of the portfolio. A net profit of € 4.1 million was realised on these sold securities.

At the date of reclassification the effective interest rate for the AfS assets of the Bank was between 5.93% and 1.56% (2010: 5.93% and 1.56%).

The following table summarises the carrying amounts and fair values as of 30 June 2011 as well as fair value gains and losses that would have been recognised in the first half of 2011 if the financial assets had not been reclassified.

30 June 2011 Reclassifications	Into: Financial investments LaR			Effect in reporting period if no assets had been reclassified	
	Reclass date	30 Jun 2011		Date of reclassification to 30 June 2011	
		Carrying amount € million	Fair value € million	Income Statement € million	AfS Reserve (after taxes) € million
Out of:					
AfS financial investments	1 July 2008	2,137	2,036	-	57

31 December 2010 Reclassifications	Into: Financial investments LaR			Effect in reporting period if no assets had been reclassified	
	Reclass date	31 December 2010		Date of reclassification to 31 December 2010	
		Carrying amount € million	Fair value € million	Income Statement € million	AfS Reserve (after taxes) € million
Out of:					
AfS financial investments	1 July 2008	2,549	2,376	-	29

19. Other assets

	30/06/2011 € m	31/12/2010 € m
Positive fair values from derivative financial investments		
Hedging derivatives (fair value hedges)	2,812	3,643
Other assets	7	6
	2,819	**3,649**
Of which due from group companies	2,235	2,799

Balances due from group companies in the Bank statement of financial position include amounts receivable from other entities in the HRE Group.

20. Liabilities to other banks

	30/06/2011 € m	31/12/2010 € m
Liabilities to other banks	4,921	23,280
	4,921	**23,280**
Of which due to group companies	4,598	5,618

Balances due to group companies in the Bank statement of financial position include amounts payable to other entities in the HRE Group.

Notes to the unaudited interim financial statements (cont.)

Liabilities to other banks by maturities

	30/06/2011	31/12/2010
	€ m	**€ m**
Repayable on demand	1,802	1,900
With agreed maturities		
Up to 3 months	2,742	20,473
from 3 months to 1 year	67	436
from 1 year to 5 years	310	460
from 5 years and over	-	11
	4,921	**23,280**

21. Liabilities to customers

	30/06/2011	31/12/2010
	€ m	**€ m**
Liabilities to customers – repayable on demand	1,444	2,513
	1,444	**2,513**
Of which due to group companies	-	-

Balances due to group companies in the Bank statement of financial position include amounts payable to other entities in the HRE Group.

22. Liabilities evidenced by certificates

By type of business:	30/06/2011	31/12/2010
	€ m	**€ m**
Public sector covered bonds	31,803	37,183
	31,803	**37,183**

By maturities:

	30/06/2011	31/12/2010
	€ m	**€ m**
With agreed maturities		
up to 3 months	97	2,066
from 3 months to 1 year	3,600	1,492
from 1 year to 5 years	11,068	14,917
from 5 years and over	17,038	18,708
	31,803	**37,183**

Notes to the unaudited interim financial statements (cont.)

23. Trading liabilities

	30/06/2011 € m	31/12/2010 € m
Standalone derivatives (non-trading book)	1,931	3,500
	1,931	**3,500**
Of which due to group companies	1,236	2,401

Standalone derivatives include mainly derivatives which are economically hedging but which do not meet the detailed hedge accounting criteria under IFRS.

Balances due to group companies in the Bank statement of financial position include amounts payable to other entities in the HRE Group.

24. Other liabilities

	30/06/2011 € m	31/12/2010 € m
Negative fair values from derivative financial investments		
Hedging derivatives	2,447	2,855
Other liabilities	62	155
	2,509	**3,010**
Of which due to group companies	1,930	2,127

Balances due to group companies in the Bank statement of financial position include amounts payable to other entities in the HRE Group.

25. Current tax liabilities

	30/06/2011 € m	31/12/2010 € m
Current tax liabilities	14	1
	14	**1**

26. Subordinated capital

	30/06/2011 € m	31/12/2010 € m
Subordinated liabilities	632	637
	632	**637**
Of which due to group companies	632	637

Balances due to group companies in the Bank statement of financial position include amounts payable to other entities in the HRE Group.

The Bank has not had any defaults of principal, interest or redemption amounts during the period on its borrowed funds (2010: € nil).

Subordinated capital, broken down by maturities	30/06/2011 € m	31/12/2010 € m
With agreed maturities		
from 5 years and over	632	637
	632	**637**

Notes to the unaudited interim financial statements (cont.)

The subordinated debt instruments are analysed below:

		30/06/2011 Nominal € m	31/12/2010 Nominal € m
Subordinated liabilities			
DEPFA Finance NV	Euribor + 0.885%	50	50
DEPFA Finance NV	6.55%	60	60
DEPFA Ireland Holding Limited	Euribor + 0.425%	130	130
DEPFA Ireland Holding Limited	Euribor + 0.72%	60	60
DEPFA Ireland Holding Limited	Euribor + 0.285%	75	75
DEPFA Finance NV	5.099% until 2017, thereafter Euribor + 1.94%	170	170
DEPFA BANK plc	Euribor + 0.325%	70	70

With all subordinated liabilities, there can be no early repayment obligation on the part of the issuer. In the event of bankruptcy or liquidation, such liabilities may only be repaid after all non-subordinated creditors have been satisfied.

The Bank has not had any defaults of principal, interest or redemption amounts during the period on its subordinated capital (2010: nil).

27. Fair values of assets and liabilities

The following table summarises the carrying amounts and fair values of those financial assets and liabilities presented on the Bank's statement of financial position. Bid prices are used to estimate fair values of assets, whereas offer prices are applied for liabilities.

	Carrying Value		Fair Value	
	30/06/2011 € m	31/12/2010 € m	30/06/2011 € m	31/12/2010 € m
Financial assets				
Cash reserves	17	34	17	34
Trading assets	1,988	3,504	1,988	3,504
Loans and advances to other banks	2,723	24,186	2,696	24,157
Loans and advances to customers	14,466	15,082	13,165	13,783
Allowance for losses on loans and advances	-1	-1	-1	-1
Financial investments	21,945	24,264	20,924	22,996
Other assets	2,819	3,649	2,819	3,649
Deferred tax assets	3	4	3	4
Total assets	**43,960**	**70,722**	**41,611**	**68,126**
Financial liabilities				
Liabilities to other banks	4,921	23,280	4,920	23,278
Liabilities to customers	1,444	2,513	1,444	2,513
Liabilities evidenced by certificates	31,803	37,183	27,908	32,497
Trading liabilities	1,931	3,500	1,931	3,500
Other liabilities	2,509	3,010	2,509	3,010
Current tax liabilities	14	1	14	1
Subordinated capital	632	637	274	183
Total liabilities	**43,254**	**70,124**	**39,000**	**64,982**

The change in hidden reserves or hidden charges of the HRE Group is mainly attributable to the transfer of positions to FMS Wertmanagement which took place as of 1 October 2010.

In the case of certain positions which had not been physically transferred to FMS Wertmanagement but which had been synthetically transferred to FMS Wertmanagement by way of a financial guarantee as of the statement of financial position date, the hidden reserves and hidden charges are as follows:

The carrying amounts reflect the maximum on statement of financial position exposure to credit risk of the assets and the maximum amount the entity could have to pay of the other items according to IFRS 7.

a) Loans and advances to other banks and customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market interest rates as adjusted for movements in credit to determine fair value. As many of these positions are not traded on an active market, judgement is required as to the appropriate credit adjustment.

b) Liabilities to other banks

The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

c) Liabilities evidenced by certificates

The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity for a similar credit rating.

d) Subordinated capital

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Assets and liabilities according to measurement categories:

	30/06/2011	31/12/2010
	€ m	€ m
Loans and receivables	39,087	63,485
Available-for-sale	47	47
Cash reserves	17	34
Derivatives	4,800	7,147
Other assets	9	9
Total assets	**43,960**	**70,722**
Financial liabilities at amortised cost	38,168	62,976
Derivatives	4,378	6,355
Other liabilities	708	793
Total liabilities	**43,254**	**70,124**

28. Commitments

	30/06/2011	31/12/2010
	€ m	€ m
Irrevocable loan commitments	-	16

Transfer of non-strategic positions to FMS Wertmanagement

Within the context of the transfer of non-strategic positions of the HRE Group to FMS Wertmanagement, the FMSA reserves the right to impose a payment condition for the stabilisation measure in accordance with Section 8a (4) No. 8 FMStFG against the HRE Group for payment to FMS Wertmanagement; this figure must not exceed € 1.59 billion to achieve neutrality in compensation. The purpose of this payment condition is to restore neutrality in terms of competition. The payment condition can also be fixed in several notices. However, the extent of the payment condition must be fixed in such a way that, after the condition has been fixed, the regulatory Tier 1 capital ratio of the bank entities within the HRE subgroups Deutsche Pfandbriefbank AG and the DEPFA Group do not fall below 15 % in each entity as of 31 March 2011. In addition, the fixing of the payment condition must not result in the sub-groups or their parent companies:

- becoming insolvent, illiquid or result in a negative going concern assumption,
- relevant regulatory capital ratios, major credit limits or other legal or regulatory requirements being violated,
- their rating falling below investment grade, or
- the purchase price, taking account of the payment condition, falling below the market value of the transferred positions.

The European Commission has imposed a payment condition in relation to the aid proceedings, namely the complete fulfilment of the payment of € 1.59 billion to avoid distortions of competition in connection with the utilisation of the deconsolidated environment. In consequence, this payment condition has resulted in a subsequent purchase price adjustment in the companies of the HRE Group which transferred assets to FMS Wertmanagement. On the basis of data collected, the payment condition will probably mainly relate to the DEPFA Group, however depending on the future development, the entities of the Deutsche Pfandbriefbank Group may also be required to pay. The exercise by FMSW of its right to impose a payment condition by the issuance of one or more decrees will result in the payment condition being recognised in equity at that time and consequently has no impact on the income statement.

29. Related party transactions

Balances due to and from group companies are disclosed in the notes to the unaudited interim financial statements The largest group into which the results of the Bank are consolidated is that headed by HRE Holding. Transactions with group companies consisted of:

	30/06/2011	30/06/2010
	€ m	**€ m**
Interest and similar income	73	75
Interest expense and similar expenses	-64	-124
Net fee and commission expense	-	-22
Net expense from financial investments	-	-
Other operating income	-	-
General administrative expenses	-7	-3

The amounts above arise on intercompany borrowings and lending, and transfers of assets between the Bank and other group entities, as well as recharges for certain services provided. All related party transactions are entered into at an arm's length basis.

As a result of HRE Holding being controlled by SoFFin, a special estate of the German Federal Government (according to section 2 FMStFG), the Group is a state-controlled entity and a related party with other entities which are subject to the control, joint control or significant influence of the Federal Republic of Germany ("government-related entities"). FMS Wertmanagement is also subject to the control of the Federal Republic of Germany and is thus a related party of the HRE Group. Business relations with public sector entities are carried out on an arm's length basis. Fees payable in respect of liquidity support facilities provided by SoFFin, the Deutsche Bundesbank and the German Financial Sector are set out in note 6 of the notes to the unaudited interim financial statements.

Key management compensation

Key management consists solely of directors of the Bank. Key management compensation consists of short term benefits and post employment benefits.

30. Regulatory capital and capital adequacy ratios in accordance with BIS

	30/06/2011	31/12/2010
Regulatory capital	**€ m**	**€ m**
Tier I capital	629	629
Tier II (supplementary) capital	506	506
Total regulatory capital	**1,135**	**1,135**

	30/06/2011	31/12/2010
Capital adequacy ratios		
BIS Risk Weighted Assets (€ million)	3,273	3,392
Core capital ratio (Tier I)	19.23%	18.55%
Total capital ratio (Tier I +II)	**34.67%**	**33.46%**

The regulatory capital and capital adequacy ratios were produced in accordance with the Bank for International Settlements' (BIS), Basel II Accord regulations to facilitate International comparisons (standardized approach).

With a Tier I Capital Ratio of 19.23% and a Total Capital Ratio of 34.67% the Bank exceeds the minimum required ratios.

Notes to the unaudited interim financial statements (cont.)

31. Reconciliation of the restated comparatives with the interim statement of financial position and the interim income statement

(a) Reconciliation of the presentation of the 2010 statement of financial position from the 2010 audited financial statements to the 2010 comparatives in the 2011 unaudited interim statement of financial position.

In accordance with IAS 8.14 (b), there has been a change in the way of recognising the securities which were allocated to the IAS 39 measurement category loans and receivables. In the past, some of these securities which were recognised as loans and receivables (LaR) were disclosed as loans and advances to other banks and loans and advances to customers. In future, these holdings will be disclosed completely as financial assets. In accordance with IAS 8.19 (b), the change has been carried out retrospectively, which means that the previous year figures have been adjusted accordingly. Financial assets have increased by € 18.5 billion as of 31 December 2010 (31 December 2009: € 35.6 billion); loans and advances to other banks have declined by € 2.9 billion (31 December 2009: € 4.3 billion) and loans and advances to customers have declined by € 15.6 billion (31 December 2009: € 31.3 billion).

The Bank shows profits or losses from the sale of receivables in net interest income. On the other hand, effects from the sale of financial assets are shown in the net income from financial investments. As a result of the LaR securities being reclassified under financial assets (whereas they had previously been shown under receivables), it is also necessary to adjust the way in profits and losses from the sale of such positions are reported. These effects are therefore no longer shown in net interest income and have to be shown in net income from financial investments.

The sale of LaR securities in the first half of 2010 resulted in a net loss of € 14 million, which was shown in net interest income. The net expense from financial investments for the first half of 2010 has thus increased by € 14 million, with net interest income increasing by the contra amount. The Bank has retrospectively adjusted the figures in accordance with IAS 8.14 (b), as set out below.

	2010 Financial Statements	**Reclassifications – LaR Securities**	**2011 Presentation of 2010 comparative**
	€ m	**€ m**	**€ m**
ASSETS			
Cash reserves	34	-	34
Trading assets	3,504	-	3,504
Loans and advances to other banks	27,129	-2,943	24,186
Loans and advances to customers	30,627	-15,545	15,082
Allowance for losses on loans and advances	-1	-	-1
Financial investments	5,776	18,488	24,264
Other assets	3,649	-	3,649
Deferred tax assets	4	-	4
Total assets	**70,722**	**-**	**70,722**

Notes to the unaudited interim financial statements (cont.)

(b) Reconciliation of the presentation of the 2010 unaudited interim income statement from the 2010 unaudited interim financial statements to the 2010 comparatives in the 2011 unaudited interim income statement.

	2010 Interim Financial Statements € m	Reclassifications – LaR Securities € m	2011 Presentation of 2010 comparative € m
	€m	€m	€m
Interest and similar income	999	-	999
Interest expense and similar expenses	-982	14	-968
Net interest income	**17**	**14**	**31**
Commission expense	-23	-	-23
Net fee and commission expense	**-23**	**-**	**-23**
Net trading income/expense	1	-	1
Net expense from financial investments	-1	-14	-15
Net expense from hedge relationships	-1	-	-1
Other operating income/expense	1	-	1
Total operating revenues	**-6**	**-**	**-6**
Provision for losses on loans and advances	-10	-	-10
General administrative expenses	-4	-	-4
Pre-tax Profit/Loss	**-20**	**-**	**-20**
Taxes on income	-	-	-
Net Profit/Loss for the period	**-20**	**-**	**-20**
Attributable to:			
Equity holders of the parent	-20	-	-20

32. Credit risk exposure to certain European countries

The following table provides an overview of the direct sovereign exposure of selected European countries:

	30 Jun 2011		31 Dec 2010	
	Carrying Value € m	Fair Value € m	Carrying Value € m	Fair Value € m
Ireland	12	12	12	12
Italy	2,032	1,949	2,209	2,109
Spain	357	289	372	291
	2,401	**2,250**	**2,593**	**2,412**

All of the above positions are included in the IFRS measurement category loans and receivables. DEPFA ACS BANK tests financial assets which are not measured at fair value for impairments. Allowance for loans and advances or impairments for securities are created if there is objective evidence that it will not be possible for the entire amount which is due in accordance with the original contractual conditions to be recovered. As at 30 June 2011 there was no such objective evidence.

The Bank did not have any sovereign credit risk exposure to either Greece or Portugal as at 30 June 2011 (31 December 2010: Nil).

33. Events after the statement of financial position date

On 18 July 2011, the Federal Republic of Germany reached formal agreement with the European Commission with regard to the state aid proceedings which the European Commission initiated in relation to the stabilisation measures granted to the HRE Group by the Federal Republic of Germany. The approval procedure has thus been completed; the decision of the European Commission is expected to be published in the official Gazette of the European Commission in the course of the next few weeks. The HRE Group has thus obtained the legal and planning certainty necessary for its proper operation.

The decision of the European Commission relates to all elements of aid granted to the HRE Group since the autumn of 2008, i.e. capitalisations, guarantee lines and the transfer of assets to the deconsolidated environment FMS Wertmanagement and requires the HRE Group to take appropriate compensation measures, in particular a reduction of total assets of Deutsche Pfandbriefbank Group. This aim is reached to a large extent.

The consequence of the decision of the European Commission is that the companies within the DEPFA Group will not conduct any new business until they are reprivatised. This is not applicable for measures carried out as part of bank, risk and refinancing management which is necessary for regulatory purposes and which has the aim of maintaining value and also within the framework of managing the cover pools.

With its positive decision, the European Commission has also accepted the viability of the business model of Deutsche Pfandbriefbank AG as a specialist bank for real estate finance and public sector investment finance. The consequence for Deutsche Pfandbriefbank AG is that it is now positioned as the strategic core bank of the HRE Group. It operates new business in real estate finance and public investment finance. Deutsche Pfandbriefbank AG will discontinue traditional public finance activities as pure budget financing. It has restricted its regional area of activity to selected countries in Europe. The growth of Deutsche Pfandbriefbank AG will be limited. These requirements have been recognised correspondingly in business planning. The agreed guidelines are applicable up to the point at which Deutsche Pfandbriefbank AG will be reprivatised, but will be applicable at least until the end of 2013. The existing contractual links with the deconsolidated environment FMS Wertmanagement (in particular servicing and refinancing) will be terminated at the latest by the end of September 2013. The entities of the DEPFA Group are free to provide services to FMS Wertmanagement after 30 September 2013.

Both the Deutsche Pfandbriefbank Group and the DEPFA Group may be sold in the medium-term. The complete reprivatisation of the DEPFA Group is a medium-term objective. Measures have already been initiated to sever the links between the companies of the DEPFA Group and the other companies of the HRE Group.

In addition, the European Commission has imposed a payment condition in relation to the aid proceedings, namely the complete fulfilment of the payment of € 1.59 billion, as set out in note 28 of the notes to the unaudited interim financial statements, to avoid distortions of competition in connection with the utilisation of the deconsolidated environment. In consequence, this payment condition will result in a subsequent purchase price adjustment in the companies of the HRE Group which transferred assets to FMS Wertmanagement. On the basis of data collected, the payment condition will probably mainly relate to the DEPFA Group, however depending on the future development, the entities of the Deutsche Pfandbriefbank Group may also be required to pay. The exercise by FMSA of its right to impose a payment condition by the issuance of one or more decrees will result in the payment condition being recognised in equity at that time and consequently has no impact on the income statement.

Furthermore, the European Commission has set conditions for interest and profit participation payments the HRE Group makes to third parties outside the HRE Group for certain instruments and until further notice. These conditions apply to a series of profit related capital instruments, which existed on 30 September 2010 and which were not provided by SoFFin. As a result of further conditions, in line with the "burden sharing" specified by the European Commission, from the time at which the payment condition of € 1.59 billion is completely settled up to the time of privatisation, the DEPFA Group will, subject to certain conditions, have to pay further annual fees to the Federal Republic of Germany. Profits of the Deutsche Pfandbriefbank Group will be used to repay the silent participation to SoFFin.

Apart from the above, there have been no other reportable events after 30 June 2011.