DEPFA BANK

A member of Hypo Real Estate Group

Annual Report 2011

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Economic review

Following a strong carryover from 2010, the global economy was beset by a number of shocks in 2011. Global demand and supply were adversely affected by many factors including geopolitical risks in the Middle East, interruptions to the supply chain caused by the Japanese earthquake and Thai floods whilst much uncertainty was caused by the absence of a solution to the Euro area debt crisis and, to a lesser extent, the stand-off over the US debt ceiling. All of these factors led to a significant fall in global economic activity throughout 2011, which was reinforced by increased financial market volatility.

Whilst activity in many of the major advanced economies (especially the US and Germany) was strong at the start of the year, due to an improving global trade environment, emerging markets continued to outperform other markets. A major development in 2011 was that, after persistent problems with Greece's EU/IMF program, the EU and IMF agreed that any further support for Greece would need the participation of private sector creditors who would need to take significant haircuts on outstanding debt. The problems moved beyond Greece and engulfed other European countries such as Portugal (who required a bailout), Italy and Spain (whose spreads increased significantly and ultimately led to a reopening of the ECB's bond purchase program) and several other countries whose credit ratings were downgraded.

As a result of the consequent financial market turbulence, global activity weakened sharply towards the end of 2011 for both mature and previously resilient emerging market economies (especially those in Asia). Given the debt crisis, the Euro area has been hit harder, with many economies contracting in the final quarter of 2011. In contrast, an important growth divergence emerged between the US and the Euro area, with the former recording its strongest growth performance in 18 months in the fourth quarter of 2011.

Policy developments In the advanced economies, policymakers' priorities in 2011 centred on repairing public balance sheets and overstretched private balance sheets (banks and households) whilst monetary policy remained very accommodative. The European authorities continued to try to boost the firepower of their support institutions (the European Financial Stability Facility ("EFSF") and the European Stability Mechanism ("ESM")) throughout 2011 and enhance fiscal coordination but progress was slow and a credible backstop was still not in place at year end, although liquidity support from the monetary authorities did ease some of the risks.

The US Federal Reserve, the Bank of England and the Bank of Japan maintained interest rates at historically low rates (0.25%, 0.5% and 0.1% respectively) whilst also increasing the magnitude of quantitative easing policies. The ECB was more hawkish however and actually increased interest rates by 50 bps during the summer due to concerns over medium term inflationary pressures. However, given the deteriorating growth outlook in the second half of 2011, it decreased the policy rate by 25bps at two consecutive meetings in November and December 2011 to leave the main refinancing rate at 1%. It also recommenced its bond purchase program in August following a sharp increase in funding costs for Italy and Spain. The most significant policy development occurred in the fourth quarter of 2011. With bank funding all but drying

up in the Euro area, the ECB was prompted to offer a three-year Long-Term Refinancing Operation ("LTRO") at a rate of 1%. The offer was taken up by a total of 523 banks and € 490 billion was borrowed.

Financial market developments Financial market conditions were extremely volatile in 2011 and were driven primarily by the intensification of the crisis in Europe and falling growth expectations. Bank lending conditions moved sideways or deteriorated across a number of advanced economies. Capital flows to emerging economies fell sharply though the year whilst currency markets were volatile. Concerns about banking sector losses and fiscal sustainability widened sovereign spreads for many Euro area countries, which reached highs not seen since the launch of the Economic and Monetary Union ("EMU"). Despite some concern over the future of the EMU, this did not really manifest itself to a great extent in the currency market in 2011. The Euro exchange rate was only 3% lower against the USD at year end compared to the previous year, whilst its average exchange rate for the year was actually 6% higher. This reflected the fact that the US faces its own economic challenges as well as the lower level of US interest rates and the ongoing policy of quantitative easing.

In general, the market began to focus more on debt sustainability and to differentiate between credits based purely on their fundamentals rather than any implied support. Although Greece was at the forefront of the crisis, it also engulfed other highly indebted countries, primarily in Europe. Portugal required emergency funding from the EU/IMF, whilst spreads on other countries such as Italy and Spain increased significantly. In fact, with the exception of core safe haven countries (such as Germany), spreads on most public sector assets increased as the market re-evaluated what it regarded as safe assets. The ITRAXX Western European Sovereign Index reached new highs (above 385bps) despite numerous EU policy announcements designed to quell market fears.

Banking sector Liquidity conditions in the banking sector deteriorated throughout 2011 with this trend gathering pace in the second half of the year. A lack of confidence led to serious strains in the interbank market with banks preferring to invest in short-term central bank instruments despite the low yields available. Some European banks also faced a serious shortage of dollar funding which eventually led to an unlimited swap line being established between the ECB and the US Federal Reserve. The barometer of the health of the banking sector, the Euribor overnight indexed spread ("OIS"), rose above 1% in the fourth quarter of 2011, its highest level since the start of 2009, at the prospect of substantial funding needs arising in early 2012. Moreover, the ITRAXX European Senior Financial CDS Index hit a record high of over 350bps in December. Earnings generally fell for the sector whilst a number of entities were restructured or consolidated.

Given that much of the mistrust amongst banks focused on the extent of sovereign exposure on their books (especially Greek exposure) and the associated risks, the European Banking Authority ("EBA") undertook stress tests on the European banking sector which, unlike previous stress tests, took into account the mark to market value of sovereign exposure. The results showed that the European banking sector needed approximately €115 billion of additional capital compared to the previous version of the stress tests which resulted in only a €3.5 billion capital requirement. This helped provide more certainty to the sector but concerns were only materially alleviated following the announcements of the ECB's LTRO operation.

Public sector The fallout from the crisis has hit the public sector the hardest of all sectors given the crystallisation of contingent liabilities on governments' balance sheet, the negative effect the downturn has had on revenues and expenditures and the increased risk premia which investors demand for holding public sector debt. Such pressures intensified in 2011 where public sector borrowers were faced with the challenging prospect of increasing financing requirements but deteriorating market conditions. The weak growth environment continued to exert a lagged effect on many cyclical variables which impact heavily on revenues and expenditures of public sector borrowers. Higher financing gaps combined with existing maturity schedules and general public sector reform has forced more public sector entities to re-structure. Central governments have taken significant steps to counter decreasing revenues by introducing stringent cost cutting measures and have tightened national borrowing constraints. Despite the increasing strain on the sector the vast majority of entities continued to service their debt as scheduled often with the aid of enhanced support at a sovereign level.

The rating agencies have also taken a dismal view of events in 2011, which has led to a raft of downgrades of European sovereigns and other public sector borrowers and has served to reinforce the already negative sentiment in financial markets. Although the crisis did not engulf the US to a large extent, it did not emerge unscathed either as its rating was downgraded to AA+ by Standard & Poor's and is on negative outlook by all three agencies (Standard & Poor's, Moody's and Fitch Ratings) due to question marks over the sustainability of the public finances in the absence of serious consolidation measures. Although there have been some stresses below the federal level, the cost of funding for the US government has not been affected by the downgrade. Similarly in Europe, the German government has benefited in 2011 from flight to quality flows which pushed funding costs down to historically low levels.

Board of Directors
Ms. M. Better* (German) (Chairman)
Dr. J. Bourke*
Mr. C. Dunne (resigned 31 January 2012)
Ms. F. Flannery
Mr. T. Glynn (American)
Mr. D. Grehan*
Mr. W. Groth* (German) (appointed 28 February 2011)
Mr. A. Kearns*
Mr. N. Reynolds
Mr. S. Rio (French) (resigned 30 November 2011)
Mr. A. von Uslar-Gleichen* (German)
Dr. H. Walter* (German)

* Non-Executive

Audit Committee
Dr. J. Bourke (Chairman)
Mr. A. Kearns
Dr. H. Walter

Board Risk Committee
Ms. M. Better
Dr. J. Bourke
Ms. F. Flannery
Mr. T. Glynn
Mr. D. Grehan
Mr. N. Reynolds
Dr. H. Walter (Chairman)

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, Statutory Audit Firm
1 Harbourmaster Place
IFSC, Dublin 1, Ireland

Registered Number 348819

Directors' Report

Directors' Report

The directors of DEPFA BANK plc ("the Bank" or "DEPFA") present their report and the audited consolidated financial statements for the year ended 31 December 2011.

Ownership On 2 October 2007 the entire ordinary share capital of the Bank was acquired by Hypo Real Estate Holding AG ("HRE Holding"), the parent entity of the Hypo Real Estate Group ("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 was no change in the ownership of the Bank during 2011.

Principal activities The Bank and its subsidiary undertakings ("the Group" or "the DEPFA Group"), operating in Ireland and in other parts of the world, provide a comprehensive range of banking, financial and related services, subject to the conditions imposed by the European Commission's approval, on 18 July 2011, of the state aid in relation to the stabilisation measures granted to the HRE Group by the Federal Republic of Germany.

Dividends No dividends were paid in 2011 in respect of the year ended 31 December 2010 (2009: nil). The directors do not propose a dividend in respect of the year ended 31 December 2011.

Directors The names of the directors in office at the date of signing of the audited financial statements for the year ended 31 December 2011 are set out on page 7.

Mr. C. Dunne and Mr. S. Rio both retired from the Board of Directors of DEPFA BANK plc at the end of their respective contracts. Mr. T. Glynn assumed the board responsibilities of Mr. S. Rio and Mr. N. Reynolds assumed the board responsibilities of Mr. C. Dunne in addition to their existing board responsibilities.

Directors' and Secretary's interest in the share capital The interests of the directors and Company Secretary, in office at 31 December 2011 and of their spouses and minor children in the shares of the Bank or HRE Group undertakings were nil (31 December 2010: nil).

No directors held any options on HRE Holding shares at 31 December 2011 (31 December 2010: nil).

Major events

In recent years the DEPFA Group, as part of the HRE Group, has been involved in a process of stabilisation and strategic restructuring. The year 2011 continued to be a challenging year however much progress was made during the year including the finalisation of the state aid proceedings between the European Commission and the Federal Republic of Germany which allows for the DEPFA Group's reprivatisation in the medium term. In addition the process which will enable the functional desegregation of the DEPFA Group from the HRE Group was started. These issues are discussed in further detail below.

Proceedings at the European Commission The predominant event in the Group's financial year 2011 was the approval, on 18 July 2011, by the European Commission of the state aid in relation to the stabilisation measures granted to the HRE Group by the Federal Republic of Germany. The HRE Group thus obtained the legal and planning certainty necessary for its proper regulation.

The decision of the European Commission related to all elements of aid granted to the HRE Group since the autumn of 2008, i.e. capitalisations, guarantee lines and the transfer of certain non strategic positions to the deconsolidated environment FMS Wertmanagement and required the HRE Group to take appropriate compensation measures.

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 DEPFA ACS BANK and Hypo Pfandbrief Bank International S.A. cover pools.

The DEPFA Group may be sold in the medium-term and its

complete reprivatisation 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.

Transfer of non strategic positions to FMS Wertmanagement In January 2010, the HRE Group submitted an application to the Financial Markets Stabilisation Authority ("FMSA") for a stabilisation measure, in accordance with section 8a (1) Clause 1 FMStFG (establishment of a deconsolidated environment), in order to transfer certain non strategic positions of the HRE Group to a deconsolidated environment. The FMSA reached a positive decision regarding this application and established the deconsolidated environment FMS Wertmanagement, on 8 July 2010. The positions transferred consisted of financial instruments as defined in IAS 39.

Within the framework of the transfer of certain non strategic positions from the HRE Group to FMS Wertmanagement, the FMSA reserved the right to stipulate a payment condition of up to € 1.59 billion in order to avoid distortion of competition.

The European Commission imposed a payment condition in relation to the state aid, namely the complete fulfilment of the payment of the € 1.59 billion payment condition to avoid distortions of competition in connection with the utilisation of the deconsolidated environment. In consequence, this payment condition resulted in a subsequent purchase price adjustment in the companies of the DEPFA Group which had transferred certain non strategic positions to FMS Wertmanagement.

In August 2011, the FMSA issued a decree determining that the full amount had to be borne by the DEPFA Group.

A first instalment of € 800 million became due and payable in September 2011 and a second instalment of € 167 million became due and payable in November 2011. Both instalments were paid on their due dates.

On 6 March 2012, the FMSA issued a decree for the final instalment of the payment condition, € 623 million, to be paid by DEPFA BANK plc in March 2012.

The purchase price adjustment did not and will not affect the income statement.

Restructuring measures In 2011, the non strategic Madrid branch of the Bank was closed and the non strategic subsidiary DEPFA Bank Europe plc was wound down, had its licence revoked at the Group's request by the Central Bank of Ireland and was placed in a member's voluntary liquidation.

Project measures Following the completion of the state aid proceedings, the HRE Group now focuses on creating the conditions necessary to enable the reprivatisation of the Deutsche Pfandbriefbank Group ("the pbb Group") and the DEPFA Group. A project was started in 2011 with the aim of separating the processes and operations of the pbb Group and the DEPFA Group and also separating the services which are provided by the two subgroups as servicers or subservicers for FMS Wertmanagement. In addition to the above, statement of financial position and financial connections are also taken into consideration in the project.

Ratings

The senior unsecured ratings assigned to the rated banking entities in the DEPFA Group by the three mandated rating agencies, Fitch Ratings, Moody's and Standard & Poor's remained unchanged during 2011. These ratings consider, to varying degrees, the likelihood of external support in a crisis scenario by the Federal Republic of Germany, which is the ultimate owner of the DEPFA Group via its parent HRE Holding.

Fitch Ratings' "Viability Rating", which was introduced during 2011 to replace the "Individual Rating" and assigned to DEPFA BANK plc, was confirmed by the agency at b and subsequently withdrawn as the Bank will not conduct any new banking business prior to reprivatisation. Following the introduction of new bank rating criteria, Standard & Poor's assigned a Standalone Credit Profile ("SACP") of bbb- to the DEPFA Group; prior to this, these banks had an SACP of bb, based on the HRE Group assessment. During the reporting period, Moody's applicable Bank Financial Strength Rating ("BFSR") for the banks within the DEPFA Group remained at E+ with a stable outlook.

During the course of 2011 the following changes took place with regard to covered bond ratings which are, to varying degrees, also driven by the senior unsecured ratings: while Moody's confirmed DEPFA ACS BANK's asset covered securities ratings at Aa3, Standard & Poor's placed their AA

Directors' Report (continued)

rating on "CreditWatch negative". The review of the Lettres de Gage issued by Hypo Pfandbrief Bank International S.A. by Standard & Poor's was concluded and the rating was downgraded to AA- with a stable outlook.

With regard to subordinated debt ratings, the following rating changes occurred, inter alia driven by changes to the assessment of the likelihood of future systemic support against the backdrop of legislative changes: Moody's lowered existing subordinated debt ratings within the DEPFA Group to B3 with stable outlook. Standard & Poor's downgraded existing Lower Tier 2 Ratings from BBB- to BB- in February 2011, but upgraded these ratings to BB+ following the implementation of their new banking criteria in December 2011. The relevant rating for Hypo Pfandbrief Bank International S.A. was not affected by the February 2011 rating action due to its location in Luxembourg; however its subordinated debt rating was lowered from BBB- to BB+ in December 2011. Fitch Ratings announced in December 2011 that it was also analysing subordinated debt with a view to eventually downgrading this rating category. In March 2012 Fitch Ratings completed its review of subordinated debt and the outcome for DEPFA BANK plc was a downgrade of this debt category to B+ from BBB.

The DEPFA Group entities' ratings inter alia still benefit from linkages between DEPFA and FMS Wertmanagement resulting from the transfer of positions and the related services for FMS Wertmanagement.

The DEPFA Group senior unsecured ratings and covered bond ratings are shown in the table below:

The rating agencies may alter or withdraw their ratings at any time as deemed appropriate. For the evaluation and usage of ratings, the rating agencies' pertinent criteria and explanations should be referred to and the terms of use are to be considered. Ratings should not substitute individual analysis. Ratings do not constitute any recommendation to purchase, hold or sell securities issued by the DEPFA Group.

Business review

Review of performance In recent years the DEPFA Group, as part of the HRE Group has been involved in a process of stabilisation and strategic restructuring which has improved its portfolio structure. The success of the process along with once off effects in 2011 is reflected in its results. The DEPFA Group has reported a pre-tax income of € 124 million for the year 2011.

In the prior year 2010 the pre-tax income was negative at € -680 million. However in 2010, the results of operations reflected the continued volatility of the Halcyon and Pegasus trading portfolios, the transfer of non strategic positions to the deconsolidated environment FMS Wertmanagement and also other stabilisation and restructuring measures.

Banks in DEPFA Group (1)	Fitch Ratings		Moody's		Standard & Poor's	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Long-term rating	BBB+	BBB+	Baa3	Baa3	BBB	BBB
Outlook	Negative	Negative	Stable	Stable	Stable	Stable
Short-term rating	F2	F2	P-3	P-3	A-2	A-2
Asset Covered Securities	AAA(2)	AAA(2)	Aa3	Aa3	AA(2)	AA
Lettres de Gage (1)	-	-	-	-	AA-	AA(2)

(1) DEPFA Group comprises DEPFA BANK plc, DEPFA ACS BANK, Hypo Public Finance Bank and Hypo Pfandbrief Bank International S.A.
Note: Hypo Pfandbrief Bank International S.A. and its Lettres de Gage are rated exclusively by Standard & Poor's.
(2) Watch Negative / CreditWatch Negative.

The development in results in 2011 compared with the previous year is detailed in the following table:

Consolidated income statement

€ m	2011	2010
Net interest income	196	211
Net fee and commission expense	- 19	- 310
Net trading income/expenses	19	- 457
Net expense/income from financial investments	- 53	72
Net income/expense from hedge relationships	4	- 11
Other operating income	81	15
Total operating revenues	**228**	**- 480**
Reversals of/provision for losses on loans and advances	31	- 2
General administrative expenses	-134	- 203
Other expenses/income	- 1	5
Pre-tax income/loss	**124**	**- 680**
Taxes on income	- 5	- 1
Net income/loss	**119**	**- 681**

Net interest income declined by 7% to € 196 million (2010: € 211 million). This decline is primarily attributable to the reduction in the volume of interest bearing assets due to the transfer of positions to FMS Wertmanagement. Offsetting this decline was a positive effect contributing € 143 million to operating revenues 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: € 33 million).

Net fee and commission expense amounted to € -19 million and was considerably less negative than the previous year (2010: € -310 million). Fees paid to FMS Wertmanagement for guarantees received on assets not yet transferred and still recognised on the statement of financial position amounted to € -18 million (2010: € -2 million). The 2010 result was mainly due to charges of € -311 million for liquidity support measures provided by SoFFin and the Federal Republic of Germany. This liquidity support has not been utilised since 1 October 2010.

Net trading income/expenses of € 19 million has improved considerably compared to the previous year (2010: € -457 million). The improvement is largely attributable to the transfer of non strategic portfolios including the Halcyon and Pegasus portfolio and customer derivatives to FMS Wertmanagement. The losses in 2010 incurred on the Halcyon and Pegasus portfolio due to the adverse development of spreads within the collateralised mortgage backed securities ("CMBS") market amounted to € -332 million and valuation losses on stand-alone derivatives due to higher default risk of customer derivatives amounted to € -136 million. The 2011 figure of € 19 million is mainly due to cross currency basis swaps (€ 27 million), whose market values increased as a result of the development in cross currency basis spreads. Stand-alone derivatives which do not satisfy the criteria of IAS 39 for hedge accounting accounted for € -8 million.

Net expense/income from financial investments amounted to € -53 million in 2011 (2010: € 72 million). The expense in 2011 is solely the result of the disposal of financial assets. This was compensated by gains generated by the redemption of liabilities shown under net interest income. In 2010, the disposal of financial assets resulted in a gain of € 55 million and net releases of portfolio-based allowances in relation to financial assets contributed € 17 million.

Net income/expense from hedge relationships amounted to € 4 million (2010: € -11 million). The € 4 million (2010: € -7 million) reflected hedge inefficiencies within the range of 80% to 125% permitted in accordance with IAS 39 and are mainly due to fluctuations in cross currency basis spreads. Portfolios designated at fair value through profit or loss ("dFVTPL") contributed a nil result (2010: € -4 million). The majority of the dFVTPL assets were transferred to FMS Wertmanagement and as a result the volatility arising from these portfolios declined.

Other operating income amounted to € 81 million (2010: € 15 million) which mainly consisted of income of € 93 million from charges to Deutsche Pfandbriefbank AG ("pbb") in relation to asset servicing provided by the DEPFA Group on the positions transferred to FMS Wertmanagement (2010: € 38 million), € -17 million from provisions relating to IT costs associated with separating the DEPFA Group's infrastructure and operating processes from that of the HRE Group, charges to the HRE Group for various supporting activities € 7 million and other expenses € -2 million.

Reversals of/provisions for losses on loans and advances amounted to € 31 million (2010: € -2 million) and consisted of writebacks of individual allowances of € 14 million (2010: € 35 million) and portfolio-based allowances of € 17

million (2010: € -37 million). In accordance with IAS 39, portfolio-based allowances are created only for loans and receivables for which there have not yet been any indications of an individual impairment.

General administrative expenses declined to € -134 million (2010: € -203 million). Personnel expenses increased to € -53 million compared to € -47 million in the previous year. In 2010, € 15 million of prior year accruals for discretionary payments were released. The increase was partially offset by the lower average headcount (405 people) compared with the previous year (434 people). Other general administrative expenses amounted to € -81 million and was significantly lower than the corresponding previous year of € -156 million. This was due to higher consultancy and IT fees incurred in 2010 in connection with the project of transferring positions to FMS Wertmanagement. These costs contributed € -62 million to general administrative expenses in 2010. The ratio between general administrative expenses and operating revenues amounted to 59% in the year under review compared to >100% in the prior year.

Other expenses/income amounted to € -1 million (2010: € 5 million) and is due to the net movement in provisions created for the strategic refocusing and restructuring of the DEPFA Group. The income in 2010 related to the release of provisions as a result of lower than expected redundancy costs in closed branches.

Pre-tax income/loss amounted to € 124 million in 2011, compared to a pre-tax loss of € -680 million in the prior year.

Taxes on income amounted to € -5 million (2010: € -1 million). The tax expense was incurred in countries in which the Group generated positive pre-tax profits.

Net income/loss amounted to € 119 million in 2011 (2010: € -681 million).

Segmental review

The HRE Group is organised into three operating segments:

- Real Estate Finance
- Public Sector Finance
- Value Portfolio

In the financial year 2011, the HRE Group only operated new business in the two reporting segments Real Estate Finance and Public Sector Finance. New business is only written by pbb. The HRE Group focuses on Pfandbrief-eligible new business in Real Estate Finance and Public Sector Finance, with a regional focus on Europe subject to any conditions imposed by the European Commission in relation to state aid.

The HRE Group has withdrawn completely from all new business in the non strategic segment Value Portfolio. The DEPFA Group is considered part of the non strategic business of the HRE Group and is included fully in the Value Portfolio segment. The DEPFA Group does not currently operate any new business in line with the agreement on state aid between the European Commission and the Federal Republic of Germany. Non strategic activities are to be reduced without imposing excessive strain on existing value.

The DEPFA Group is organised into the following business segments:

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

Value Management Europe/Rest of World

€ m	2011	2010
Net interest income	126	21
Net fee and commission expense	-5	-193
Net trading income/expense	1	-50
Net expense/income from financial investments	-29	65
Net income from hedge relationships	4	7
Other operating income	56	9
Total operating revenues	**153**	**-141**
Reversals of/provision for losses on loans and advances	25	-14
General administrative expenses	-92	-133
Other expenses/income	-1	5
Pre-tax income/loss	**85**	**-283**

The business 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 was conducted in this segment in 2011.

Pre-tax income/loss in the segment was € 85 million (2010: € -283 million).

Net interest income rose from € 21 million in 2010 to € 126 million in the current year. The increase was mainly due to the positive effect (contributing € 109 million to operating revenues) of the buyback of DEPFA ACS BANK asset covered securities that were redeemed before maturity at prevailing market levels on a reverse enquiry basis (2010: € 22 million). Net interest income in the current year also benefitted from the improvement in funding structure following the transfer of positions to FMS Wertmanagement in 2010, together with the termination of the related SoFFin liquidity support.

Net fee and commission expense declined from € -193 million in 2010 to € -5 million in 2011. Fees paid to FMS Wertmanagement for guarantees received on assets not yet transferred and still recognised on the statement of financial position amounted to € -4 million (2010: € -0.3 million). The 2010 result was mainly due to SoFFin liquidity support measures provided by SoFFin and the Federal Republic of Germany of € -193 million. This liquidity support has not been utilised since 1 October 2010.

Net trading income/expenses amounted to € 1 million in 2011 (2010: € -50 million). The 2010 result arose from valuation losses on stand-alone derivatives up to the point of transfer of these positions to FMS Wertmanagement.

Net expense/income from financial investments amounted to € -29 million (2010: € 65 million). Losses on sales during 2011 arose mainly from the disposal of sovereign assets and are offset by the large gains on the buyback of asset covered securities during the year shown under net interest income. Gains on sales during the previous year were attributable to the sale of financial assets and net releases to portfolio-based allowances in relation to financial assets.

Net income from hedge relationships within the range permitted under IAS 39 resulted in hedge ineffectiveness of € 4 million (2010: € 7 million). The hedge ineffectiveness resulted mainly from fluctuations in cross currency basis spreads.

Other operating income improved considerably from € 9 million in 2010 to € 56 million in 2011. The 2011 result included income of € 64 million from asset servicing provided on the portfolio transferred to FMS Wertmanagement and € -13 million of provisions related to IT costs associated with separating the DEPFA Group's infrastructure and operating processes from that of the HRE Group.

Reversals of/provisions for losses on loans and advances amounted to € 25 million (2010: € -14 million) and consisted of a release of specific provisions of € 14 million and a release of portfolio-based allowances of € 11 million.

General administrative expenses of € -92 million are significantly lower than the corresponding previous year (2010: € -133 million). Personnel expenses have increased from € -31 million in 2010 to € -36 million in 2011. This is due to the release in 2010 of prior year accruals for discretionary payments of € 10 million. Non-personnel expenses amounted to € -56 million and was considerably lower than the corresponding previous year of € -102 million. This was mainly due to higher consultancy and IT fees incurred in 2010 in connection with the project of transferring non strategic positions to FMS Wertmanagement.

Other expenses/income amounted to € -1 million (2010: € 5 million). The 2011 result arose from movements in provisions previously created for the strategic refocusing and restructuring of the HRE Group. The 2010 result related to releases from these provisions as a result of lower than expected redundancy costs in closed branches.

Value Management Americas

€ m	2011	2010
Net interest income	57	102
Net fee and commission expense	-	-67
Net trading income/expense	15	-412
Net expense/income from financial investments	-24	5
Net expense from hedge relationships	-	-8
Other operating income	19	4
Total operating revenues	**67**	**-376**
Reversals of losses on loans and advances	4	52
General administrative expenses	-32	-43
Other expenses/income	-	-
Pre-tax income/loss	**39**	**-367**

The business 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. Almost all of these trading positions, securitisations and customer derivatives were transferred to FMS Wertmanagement on 1 October 2010 leaving the Group with traditional public sector finance business in this segment throughout 2011. As in 2010, no new business was conducted in this segment in 2011.

Pre-tax income/loss for 2011 was € 39 million in comparison to the prior year result of € -367 million.

Net interest income of € 57 million was lower than the corresponding prior year (2010: € 102 million). The net interest income in 2011 benefitted from the positive effect contributing € 34 million to operating revenues of the buyback of DEPFA ACS BANK asset covered securities that were redeemed before maturity at prevailing market levels on a reverse enquiry basis (2010: € 11 million). The net interest income in 2010 included positive effects from the drawdown of standby bond repurchase facilities in the US market (US customer liquidity facilities). These were to a great extent triggered by downgrades in the Group's credit ratings. Most of the remaining bond repurchase facilities were restructured in 2010 and any remaining bonds which were not restructured were transferred to FMS Wertmanagement.

Net fee and commission expense improved considerably from the prior year from € -67 million in 2010 to € nil in 2011. The 2010 result was attributable to SoFFin liquidity support measures provided by SoFFin and the Federal Republic of Germany of € -70 million. This liquidity support has not been utilised since 1 October 2010.

Net trading income/expenses improved from € -412 million in 2010 to € 15 million in 2011. In 2010, the major impact was from valuation losses of € -332 million incurred in relation to the Halcyon and Pegasus portfolio following the adverse development of spreads within the CMBS market, with valuation adjustments from higher default risk of customer derivatives comprising the balance of losses in this segment. These portfolios were transferred on 1 October 2010 to FMS Wertmanagement.

Net expense/income from financial investments of € -24 million in 2011 (2010: € 5 million) was due mainly to the sale of US municipal bonds and CMBS.

Net expense from hedge relationships amounted to € nil (2010: € -8 million).

Other operating income improved from € 4 million in 2010 to € 19 million in 2011. The 2011 result includes € 22 million representing the segments share of income from asset servicing provided on the positions transferred to FMS Wertmanagement, € -3 million of provisions relating to IT costs associated with separating the DEPFA Group's infrastructure and operating processes from that of the HRE Group.

Reversals of losses on loans and advances amounted to € 4 million (2010: € 52 million). The 2010 result consisted of a writeback of individual allowances of € 56 million and portfolio-based allowances of € -4 million. The 2011 result mainly comprised a release of portfolio-based allowances of € 4 million.

General administrative expenses of € -32 million were significantly lower than the corresponding previous year (2010: € -43 million). Personnel expenses increased from € -10 million in 2010 to € -13 million in 2011, owing to the release in 2010 of prior year accruals for discretionary payments of € 3 million. Non personnel expenses amounted to € -19 million and were considerably lower than the corresponding previous year of € -33 million. This was mainly

due to higher consultancy and IT fees incurred in 2010 in connection with the project of transferring non strategic positions to FMS Wertmanagement.

Other expenses/income amounted to € nil (2010: € nil).

Infrastructure Finance

€ m	2011	2010
Net interest income	13	88
Net fee and commission expense	-14	-50
Net trading income	3	5
Net income from financial investments	-	2
Net expense from hedge relationships	-	-10
Other operating income	6	2
Total operating revenues	**8**	**37**
Reversals of/provision for losses on loans and advances	2	-40
General administrative expenses	-10	-27
Other expenses/income	-	-
Pre-tax income/loss	**-**	**-30**

The Infrastructure Finance segment relates to the financing of infrastructure projects. The Group focused all activities in this segment on essential infrastructure e.g. roads, bridges, tunnels and public buildings. As in 2010, no new business was conducted in this segment in 2011.

Pre-tax loss in the segment was € nil (2010: € -30 million).

Net interest income decreased to € 13 million in 2011, from € 88 million in 2010. The primary contributor to this decline is the transfer of positions to FMS Wertmanagement. As part of the FMS Wertmanagement transaction, almost all Infrastructure Finance positions have been transferred to FMS Wertmanagement either via sale or are covered by guarantee on which a fee is payable which is equivalent to the net interest income margin earned on those positions.

Net fee and commission expense improved considerably from the prior year and increased from € -50 million in 2010 to € -14 million in 2011. The 2011 result was due to guarantee fees paid to FMS Wertmanagement for positions not yet transferred and still recognised on the statement of financial position. The 2010 result was almost all attributable to SoFFin liquidity support measures provided by SoFFin and the Federal Republic of Germany of € -48 million. This liquidity support has not been utilised since 1 October 2010.

Net trading income of € 3 million (2010: € 5 million) relates to gains on stand-alone derivatives.

Net income from financial investments was € nil in 2011 (2010: € 2 million).

Net expense from hedge relationships was € nil in 2011 (2010: € -10 million).

Other operating income of € 6 million (2010: € 2 million) includes the segment's share of income from asset servicing provided on the positions transferred to FMS Wertmanagement of € 7 million and € -1 million of provisions relating to IT costs associated with separating the DEPFA Group infrastructure and operating processes from that of the HRE Group.

Reversals of/provisions for losses on loans and advances amounted to € 2 million (2010: € -40 million). The 2010 result consisted of increases of € -19 million in portfolio-based provisions and € -21 million in specific provisions. The 2011 result consisted of a release of portfolio-based provisions.

General administrative expenses of € -10 million are significantly lower than the corresponding previous year figure (2010: € -27 million). Personnel expenses have decreased from € -6 million in 2010 to € -4 million in 2011, owing to the release in 2010 of prior year accruals for discretionary payments of € 2 million. Non-personnel expenses amounted to € -6 million and were considerably lower than the corresponding previous year of € -21 million. This was mainly due to higher consultancy and IT fees incurred in 2010 in connection with the project of transferring non strategic positions to FMS Wertmanagement.

Other expenses/income amounted to € nil (2010: € nil).

Development in assets

Total assets of the Group amounted to € 130 billion at 31 December 2011 and were € 14 billion lower than the corresponding figure at the end of the previous year (31 December 2010: € 144 billion).

The decline is primarily due to a reduction in the FMS Wertmanagement related counter effects of € 11 billion.

These counter effects arose in the case of some assets, as 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 most 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 derecognised. Instead, the back-to-back transaction resulted in an increase in total assets and total liabilities.

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

Furthermore, because FMS Wertmanagement does not have a banking status, the Group handles certain refinancing functions for FMS Wertmanagement, for instance with the ECB or in bilateral repo transactions. The refinancing funds are passed on to FMS Wertmanagement. The Group receives a claim against FMS Wertmanagement which increases the total assets and total liabilities.

The counter effects concerning the transfer of positions to FMS Wertmanagement on the Group's and the Company's statement of financial position at 31 December 2011 and at 31 December 2010 are set out in note 5 of the notes to the financial statements.

FMS Wertmanagement refinanced its operations on a stand-alone basis to a greater extent during 2011. Accordingly, the volume of refinancing passed on by the Group to FMS Wertmanagement decreased. Overall, the volume of refinancing passed on to FMS Wertmanagement declined from € 36 billion at the end of the previous year to € 33 billion as of 31 December 2011, resulting in a decline in loans and advances to customers. The back-to-back derivatives were to a certain extent replaced by direct business relations between FMS Wertmanagement and the external customers (novation of derivatives). Overall, the volume of back-to-back derivatives amounted to € 12.2 billion as of year end, compared with € 16.7 billion as of 31 December 2010. The decline is reflected in trading assets. The lower derivative volumes with FMS Wertmanagement have meant that there has also been a decline in the requirement for collateral, which has resulted in a further decline in total assets and total liabilities.

Notwithstanding the decline in counter effects, the total assets also declined due to repayments and sales of € 6 billion. The DEPFA Group does not currently operate any new business in line with the conditions imposed by the European Commission state aid. Market-related factors had the effect of increasing total assets. The fact that the Euro weakened against the US Dollar, the Japanese Yen and Sterling resulted in higher carrying amounts of the foreign currency positions when translated into euro. In addition, the lower level of long-term interest rates resulted in an increase in derivative market values and the carrying value of underlying assets in fair value hedge relationships.

Developments in equity and liabilities

The total Group liabilities amounted to € 127 billion as of 31 December 2011, compared with € 140 billion as of 31 December 2010. As was the case on the asset side of the statement of financial position, the decline is also mainly attributable to the same reduction in counter effects with FMS Wertmanagement.

All covered bonds, senior unsecured and subordinated debt instruments issued by the Group remained on the statement of financial position following the transfer of positions to FMS Wertmanagement.

Liabilities evidenced by certificates decreased by € 5 billion from € 44 billion as of 31 December 2010 to € 39 billion as of 31 December 2011. This reduction reflected the run off in outstanding debt, of € 4 billion, as well as the buyback of certain 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.

Equity amounted to € 2.7 billion as of 31 December 2011 (31 December 2010: € 3.6 billion). Compliance with the payment condition imposed by the FMSA reduced retained earnings by € 963 million.

Certain hybrid capital instruments remain classified as equity in 2010 and 2011. During 2009, the Board of DEPFA BANK plc determined that Tier 1 and the upper Tier 2 instruments would not be serviced in 2009. The carrying amounts of these hybrid capital instruments were reclassified to equity preferred securities from subordinated capital during 2009.

On 4 March 2011, the Board of Directors of DEPFA BANK plc determined that the perpetual securities issuing vehicle, DEPFA Funding IV LP, would not make payments on its € 500,000,000 Preferred Securities (XS0291655727) on the next distribution payment date, scheduled for 21 March 2011.

On 23 May 2011, the Board of Directors of DEPFA BANK plc determined that DEPFA Funding III LP would not make payments on its € 300,000,000 Preferred Securities (DE000A0E5U85) on the next distribution payment dates, scheduled for 8 June 2011 and on 14 October 2011, the Board of DEPFA BANK plc determined that DEPFA Funding II LP would not make payments on its € 400,000,000 Preferred Securities (XS0178243332) on the next distribution date, scheduled for 30 October 2011.

Going concern

On 18 July 2011, the European Commission approved the state aid in relation to the stabilisation measures granted to the HRE Group by the Federal Republic of Germany. 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 consolidated financial statements no longer existed. These factors were:

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

The decision of the European Commission related to all elements of aid granted to the HRE Group including the entities of the DEPFA Group since the autumn of 2008, i.e. capitalisations, guarantee lines and the transfer of certain non strategic positions to the deconsolidated environment, FMS Wertmanagement and required the HRE Group to take appropriate compensation measures. In the course of its assessment, the Board of Directors of DEPFA BANK plc have not identified any major items of uncertainty which relate to events or conditions which cast considerable doubts on the going concern assumption in the preparation of the consolidated financial statements of the DEPFA Group.

Development in earnings, assets, liabilities and equity of the DEPFA Group

The DEPFA Group has closed the year 2011 with a pre-tax income of € 124 million. However, the extent of the 2011 profit has benefited from once-off effects such as the profits from the redemption of asset covered securities on a reverse enquiry basis, net of losses from sales of financial investments and loans and receivables. The Group cannot expect in future to benefit from one-off effects to the same extent. The Group's future position may also be adversely affected by higher additions to provisions for losses on loans and advances which may have to be assumed, or there may be other adverse factors such as serious turmoil in financial markets or the defaults of sovereign states.

Due to a requirement in line with the principle of burden sharing required by the European Commission, from the time at which the payment condition of € 1.59 billion is completely settled up to the time of reprivatisation, the DEPFA Group will, subject to certain conditions, have to pay further annual fees to the Federal Republic of Germany. The precise form of these payments still has to be agreed between the affected companies of the DEPFA Group and the Federal Republic of Germany.

Total assets in 2011 declined appreciably, mainly due to the diminishing counter effects of the transfer of certain non strategic positions to FMS Wertmanagement. The extent of counter effects will continue to decline in future. For instance, changes of borrowers are carried out for some instruments (novations). In addition, FMS Wertmanagement will refinance its operations on a stand-alone basis to an even greater extent and will thus no longer require the

DEPFA Group to pass on refinancing funds. Even excluding the FMS Wertmangement counter effects, it is expected that total assets will decline in 2012 and 2013 due to the fact that the Group is not currently undertaking any new business. However, the development in total assets is not fully subject to the control of the DEPFA Group. Market-related factors such as changes in exchange rates and interest rates can also have an impact on total assets.

Opportunities and risks

The developments in earnings, assets, liabilities and equity which have occurred since the transfer of certain non strategic positions to FMS Wertmanagement are in line with the existing strategy of the DEPFA Group. The conclusion of the European Commission approval process is a further milestone for the restructuring and refocusing of the DEPFA Group with the aim of reprivatisation in the medium term.

The DEPFA Group can now focus on continuing the process of optimising the value of its core portfolios.

At present, a project is being carried out to separate the pbb Group and the DEPFA Group. As a result of the separation, it will be easier to distinguish the two sub-groups which improves the chances of a successful reprivatisation. However, it is also possible that the developments in earnings, assets, liabilities and equity may be adversely affected by certain factors. The extent of which is influenced particularly by the occurrence or non-occurrence of the following risks, or the extent to which such risks might materialise:

- Some European countries in 2011 were only able to obtain funds with the support of international aid programmes. If the debt crisis of some countries deteriorates any further, a partial or complete claims waiver might become necessary for creditors, or sovereign debtors may become insolvent in an orderly or disorderly manner. In these cases, the DEPFA Group, in its capacity as a provider of public sector finance, may also have to recognise considerable impairments on loans and advances and on financial investments. These impairments may increase if the negative effect of the crises on certain countries spreads to other countries which are currently considered to be solvent.
- Due to the financial crisis, the situation in the refinancing markets has undergone considerable change in recent years. Firstly, it has become more difficult to place issues in the market. Secondly, the debt crisis affecting some European countries has been one of the factors which has resulted in a major loss of confidence and significantly lower turnover on the interbank market, i.e. the market in which banks lend money to each other. If the problems affecting the refinancing markets continue or become more serious, there may be negative consequences for the liquidity situation of the DEPFA Group, despite the existing liquidity reserves.
- The 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 measures, alongside the specific rating drivers for the DEPFA Group entities and its covered bonds, could lead to rating changes. Downgrades to Bank and/or covered bond ratings could have a negative impact particularly on the Banks' re-financing capacity and hence on their financial position and profitability.
- While the actual liquidity situation for the DEPFA Group remains stable and the DEPFA Group continues to expect that it will meet all contractual and regulatory obligations going forward, the extent of liquidity requirements in the future however is dependent on:

  - The future development of the discounts for repo refinancing on the market and with the central banks.

  - Collateral requirements as a result of changing market parameters (including interest rates, foreign currency rates and basis for calculation).

  - Changing requirements of the rating agencies regarding the necessary surplus in the cover pools.

- Litigation which is currently pending and litigation which may occur in future might have a considerably negative impact on the results of HRE Group and the DEPFA Group.
- The HRE Group and its subsidiaries, including the DEPFA Group, have initiated projects for optimising processes and IT infrastructure. Some of these have already been successfully completed, whereas others are still ongoing. Despite the projects, the DEPFA Group is exposed to operational risks, such as its reliance on key positions and a higher level of staff fluctuation. These risks may

result in material losses. The risks may also become relevant for the service obligations assumed by the HRE Group and the DEPFA Group for the on-going operation of FMS Wertmanagement.

- The ongoing development of national and international regulatory requirements may have an impact on the structure of assets and liabilities and may thus also affect the development in earnings. For instance, the modified obligations regarding more stringent liquidity requirements, presented by the Basel Committee on Banking Supervision (Basel III), may have a negative impact on profitability, or profitability may be reduced by stricter capital requirements. In addition, there may also be an impact on existing regulatory and economic parameters, requiring for example, a change in capital backing.
- In accordance with the EU Rating Ordinance of September 2009, external ratings can in future be used in banks for calculating capital requirements only if the corresponding rating agencies are registered in line with the EU Rating Ordinance and if they are regulated by the relevant regulatory authorities. If agencies issue ratings outside the European Union, regulation in the other country must correspond to the European standards. Whereas the registration processes for instance of the major rating agencies have been concluded, the process of checking the regulatory standards of various other countries is still ongoing. If the regulations of other countries are not recognised, this may have a negative impact on the financial situation of the DEPFA Group because this would result in a higher requirement for backing with regulatory capital.

Strategy

Organisational and legal structure of the HRE Group In the year under review, the structure of the HRE Group continued to comprise Hypo Real Estate Holding AG, the senior HRE Holding entity and the operating bank subsidiaries of pbb and DEPFA BANK plc.

Company strategy of the HRE Group On 18 July 2011, the European Commission approved the state aid in relation to the stabilisation measures granted to the HRE Group by the Federal Republic of Germany. With its positive decision, the European Commission recognised the viability of the business model pbb as a specialist bank for real estate finance and public sector finance.

Deutsche Pfandbriefbank AG, as the strategic core bank of the HRE Group, operates Pfandbrief-eligible new business in the fields of commercial real estate finance and public sector finance, with a regional focus on Europe. Growth is expected to be limited in the next few years, in line with the approval of the European Commission and new business must generate a defined minimum return. pbb no longer conducts new business in the field of public sector finance as pure budget financing. The agreed covenants are applicable up to the point at which pbb is reprivatised, but are applicable until at least December 2013.

Company strategy of the DEPFA Group The DEPFA Group's strategy and business model is to a large extent influenced by the conditions and commitments agreed between the European Commission and the Federal Republic of Germany during the state aid approval process. In this context, the companies of the DEPFA Group will not carry out any new business operations until they are reprivatised except in relation to the following:

- restructuring of existing loans to preserve value, provided such loans are subject to problem loan monitoring,
- transactions required as part of the liquidity management of the DEPFA Group or of FMS Wertmanagement, e.g. central bank transactions,
- the management of the cover pool assets of Hypo Pfandbrief Bank International S.A. and DEPFA ACS BANK,
- extensions to existing loans required to avoid losses, to the extent that these extensions hold out far better prospects for final liquidation,
- derivative transactions required for managing interest rate, currency and credit risks of the existing portfolio, e.g. asset swaps, to the extent that they lead to a reduction of the total market risk exposure of the DEPFA Group,
- transactions that had already been fully included in the consolidated financial statements of DEPFA BANK plc and/or whose economic chances and risks had, for the greater part, already rested with the DEPFA Group,
- any and all transactions required to meet regulatory or other legal requirements, including the acquisition, holding and sale of securities permitted for managing the

cover pool assets of the DEPFA Group or for managing liquidity at the DEPFA Group,

- any and all transactions concluded by DEPFA BANK plc and its subsidiaries for refinancing purposes, including new issues and redemption of debt instruments.

Furthermore, the DEPFA Group, or the companies therein and/or the credit portfolios are intended to be reprivatised or sold in the medium term. In this regard, measures designed to separate the DEPFA Group from the other companies of the HRE Group have already been initiated.

Deutsche Pfandbriefbank AG has provided a contractual undertaking to provide certain defined services to FMS Wertmanagement in relation to the transferred portfolios. These contractual obligations are expected to be completed by 30 September 2013. The companies of the DEPFA Group act as sub-service provider for certain of these services.

Management concept

Major business activities The management concept of the HRE Group focuses on achieving long-term growth in the value of the HRE Group. A major criterion in this respect is to achieve a balanced ratio between risk and return, in order to ensure that the risks which are taken on are consistent with external and internal risk bearing capacity guidelines and to achieve an adequate return on the capital employed.

Different strategies are used for the pbb Group and for the DEPFA Group in order to achieve this objective. Whereas pbb is the strategic core bank of the HRE Group, in which new business is generated, the holdings of the DEPFA Group are being reduced in a manner designed to maintain value.

The DEPFA Group is acting as sub-service provider for pbb, which has entered into various service level agreements with FMS Wertmanagement. Under these agreements, pbb provides the servicing for the HRE Group's certain non strategic positions that have been transferred to FMS Wertmanagement. The different servicing tasks are clearly outlined in specific servicing agreements. The majority of the departments in the DEPFA Group are affected by the servicing agreements. Further adjustments to the set-up of certain departments might be necessary to optimise the servicing for FMS Wertmanagement and the workload in the DEPFA Group over time. According to the European Commission's state aid ruling, pbb will have to terminate this servicing by end of September 2013.

Besides the transfer of positions to FMS Wertmanagement, there remain substantial portfolios in the DEPFA Group of mostly long-term budget finance assets (in the form of bonds, schuldschein and loans). The strategic focus for these portfolios is the conservation and maximisation of value through a mix of strategies. Certain parts of the portfolio are to be run-down along the original amortisation profile while a certain part is managed through opportunistic sales, extensions and restructurings, where these activities are considered value enhancing. As the range of credit formats, structures and embedded instruments is still extensive, a team of highly professional asset managers, traders and derivative specialists is dedicated to the management of the remaining portfolio.

Overall management and measurement in the HRE Group are based on a consistent and integrated system of parameters which comprises income, expense and risk parameters. A key parameter in this respect is return on equity, which shows the return generated in relation to the capital which is employed. The value of the HRE Group is increased if the return on equity exceeds the costs of capital. In order to determine the return on equity, the HRE Group compares the net income for the year (according to International Financial Reporting Standards ("IFRSs")) to the average capital excluding the AfS reserve and cash flow hedge reserve. The costs of capital correspond to the minimum expectation regarding the return on the available IFRS capital.

Strict cost discipline is a further driver designed to enhance the return on equity. In the strategic core bank and also in those parts of the Group which are to be streamlined, this is monitored on the basis of absolute costs and also by means of the cost-income ratio, i.e. the ratio between general administrative expenses and operating revenues.

The main risk parameters used for risk management are economic capital, regulatory capital and the cumulative liquidity position and are described in the risk management section of this report.

Management is performed at the level of the HRE Group and at the level of the main companies, including the entities within the DEPFA Group. The HRE Group is also responsi-

ble for management at the level of the three HRE Group business segments Public Sector Finance, Real Estate Finance and Value Portfolio.

Events after 31 December 2011 On 25 January 2012, in co-ordination with its governing bodies and with the agreement of the FMSA, FMS Wertmanagement reached a fundamental decision with regard to the target model for the servicing of positions transferred from the HRE Group. FMS Wertmanagement plans to set up an independent servicing company for its portfolio management. Services in the areas of Operations and IT are to be carried out by a third party. In both cases, FMS Wertmanagement intends primarily to take on staff from the HRE Group.

On 6 March 2012, the Board of Directors of DEPFA BANK plc determined that the perpetual securities issuing vehicle DEPFA Funding IV LP, would not make payments on its € 500,000,000 Preferred Securities (XS0291655727) on the next distribution payment date, scheduled for 21 March 2012.

On 6 March 2012, the FMSA issued a decree for the final instalment of the payment condition, € 623 million, to be paid by DEPFA BANK plc in March 2012.

Apart from the above, there have been no other notable events after 31 December 2011.

Risk Management

This section provides information about the:
(1) organisation and principles of risk and capital management,
(2) major projects in risk management,
(3) major risk types:
 (a) Credit risk;
 (b) Market risk;
 (c) Liquidity risk; and
 (d) Operational risk and
(4) the Internal Capital Adequacy Assessment Process ("ICAAP");

within the HRE Group and the DEPFA Group which is integrated into the HRE Group processes.

(1) Organisation and principles of risk and capital management

***Organisation and committees** The Risk Management and Liquidity Strategy Committee of the HRE Group Supervisory Board is mainly responsible for controlling the overall risk situation and for establishing, monitoring and improving an efficient risk management system and is also responsible for the liquidity management and assurance of the HRE Group. The HRE Group Management Board notifies this committee of all increases to individual impairment allowances and the creation of new individual impairment allowances concerning the HRE Group and the DEPFA Group respectively in excess of € 5 million and also notifies this committee on a weekly basis of major exposures with higher levels of risk.

The Board of Directors of DEPFA BANK plc bear overall responsibility for the DEPFA Group's risk management system and are responsible for taking decisions in relation to all strategies and key issues of risk management and risk organisation.

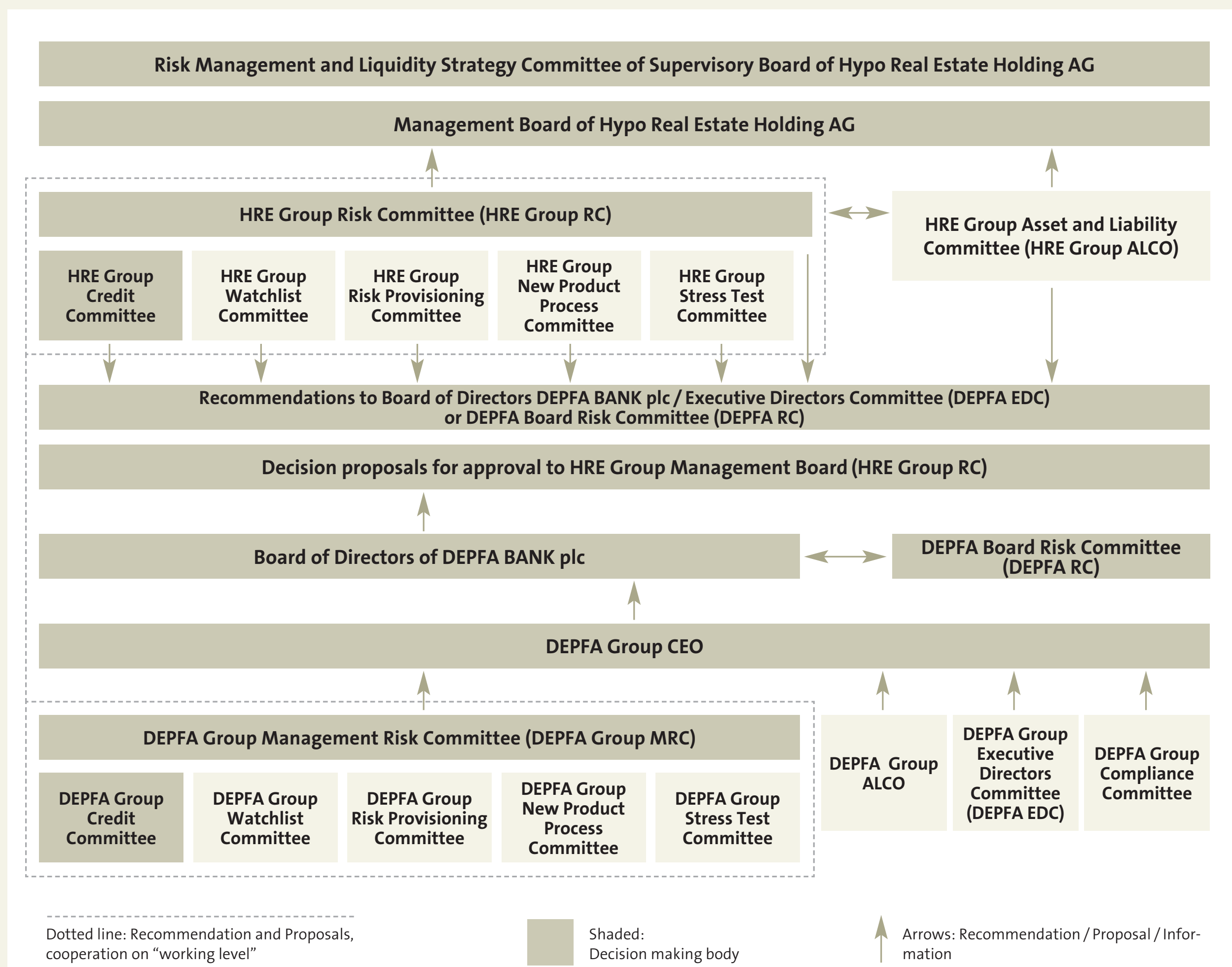
The risk management system of the DEPFA Group, which is integrated into the risk management system of the HRE Group, is a system which covers all business activities of the DEPFA Group and comprises the systematic identification, analysis, valuation, management, documentation and communication of all major risks and related monitoring on the basis of the defined risk strategy of the DEPFA Group which is revised annually.

At the HRE Group level, the HRE Group Management Board informs the HRE Group Supervisory Board regularly with regard to the HRE Group-wide business and risk strategies and the risk profile of the HRE Group and the DEPFA Group, as well as the specific business and risk strategies of the DEPFA Group.

Risk management of the HRE Group is organised centrally and — as shown in the following diagram — comprises the HRE Group Management Board and HRE Group Supervisory Board, as well as several committees which have been established by the Management Board of Hypo Real Estate Holding AG and the Board of Directors of DEPFA BANK plc:

* Forms an integral part of the audited financial statements

Directors' Report (continued)



The relevant committee for the DEPFA Group risk matters is the DEPFA Group Management Risk Committee ("DEPFA Group MRC").

The establishment of the DEPFA Board Risk Committee ("DEPFA RC") was approved on 1 December 2011 and this committee met for the first time on 29 February 2012. Prior to this the DEPFA Board relied on the Risk Committee of the DEPFA Group's Parent Company (the "HRE Group RC"), the terms of reference of which were approved by the DEPFA BANK plc Board of Directors. The principle purpose of the DEPFA RC is to review, on behalf of the Board, management's recommendations on risk, in particular:

- Consider and recommend to the Board the DEPFA Group's risk appetite.
- Consider and recommend to the Board the DEPFA Group's risk strategy.
- Review on behalf of the Board the DEPFA Group's risk profile.
- Monitor the effectiveness of the DEPFA Group's risk management organisation relative to the risk profile of the DEPFA Group.
- Advise the board on the effectiveness of policies with respect to maintaining, on an ongoing basis, amounts, types and distribution of both internal capital and own funds adequate to cover the risks of the institution.

Further committees are established on a DEPFA Group-level (Credit Committee, Watchlist Committee, Risk Provisioning Committee, New Product Process Committee and the Stress Test Committee). These committees work closely with those of the HRE Group.

The DEPFA Group MRC consists of the Chief Risk Officer ("DEPFA Group CRO") and the Chief Financial Officer ("DEPFA Group CFO") of the DEPFA Group as well as the DEPFA Head of Risk Management and Control, the DEPFA Head of Liquidity Risk and the DEPFA Head of Country Risk. In general, the committee meets on a monthly basis and adopts guidelines/policies, methods for risk measurement and the related parameters, as well as methods of monitoring all risk types.

The HRE Group operates a Group-wide risk management and risk controlling system which represents a pre-condition for the application of the waiver according to Section 2 a KWG. All HRE Group tasks are performed in accordance with Section 25 a KWG, which requires uniform risk identification, measurement, risk limiting and as risk management. Operational implementation is the responsibility of the respective subsidiary. To this end, the DEPFA Group established its own suite of Risk Management Committees in the fourth quarter of 2011, for the effective management, control and implementation of a robust risk management framework. Prior to this, the DEPFA Board relied on the HRE Group RC.

The DEPFA Group MRC was established by the Chief Executive Officer of DEPFA BANK plc ("DEPFA Group CEO"). The DEPFA Group CRO is concerned with the development and decision of standards of risk management and control as well as the monitoring of portfolio developments. The DEPFA Group MRC supports the DEPFA RC on topics arising from the risk functions as well as specific topics that the DEPFA BANK plc Board of Directors may request.

To secure risk management at the HRE Group level, the HRE Group RC is the decision making body with respect to risk methodologies, risk parameterisation, risk monitoring and policies/guidelines. The DEPFA Group MRC has to ensure compliance with the HRE Group RC decisions. If any divergences occur, the DEPFA Group MRC has to inform the HRE Group RC.

Any strategic decision must be approved by the DEPFA BANK plc Board of Directors. The DEPFA Group MRC is not responsible for individual credit decisions.

The DEPFA Group MRC monitors the development of risk-bearing capacity, economic capital, risk cover funds, the credit portfolio and the compliance with limits. It takes decisions regarding suitable measures of credit risk management and discusses the portfolios of the DEPFA Group regularly.

The DEPFA Asset and Liability Committee ("DEPFA Group ALCO") is chaired by the DEPFA Group CRO and comprises the DEPFA Group CEO, the DEPFA Group CFO as well as the Heads of Treasury, Liquidity Risk, Market Risk and Risk Management & Control. It meets at least once every six weeks. Its tasks comprise liquidity management, management of the balance sheet structure, funds transfer pricing as well as market risk management and management of the regulatory capital ratios. This committee is also responsible for preparing decision-making documents for liquidity and refinancing strategies which, following discussions in the DEPFA Group MRC, are provided to the DEPFA Group Executive Directors Committee ("DEPFA EDC"), which will ultimately decide on the implementation.

The DEPFA Group Credit Committee comprises the DEPFA Group CRO, Senior Credit Executives and the Head of Country Risk. The front office representatives have a voting right as part of front office responsibility. In general, the committee meets at least once every week and is responsible for competence-based credit decisions for annual reviews, prolongations and material changes in the credit relationship. The DEPFA Group Credit Committee ensures that the credit decisions are consistent with the prevailing business and risk strategy.

The DEPFA Group Watchlist Committee for each business segment meet every month. All exposures identified by the early warning system are discussed and, if appropriate, individual measures are decided by these bodies; these measures must be subsequently implemented by the relevant departments. Where necessary, the committees take decisions regarding any necessary steps for restructuring and workout on the basis of an exposure strategy. All necessary credit decisions are taken by the key personnel in line with the allocation of credit powers or in the DEPFA Group Credit Committee.

If there are any indications of an objective impairment, the extent of the impairment is first determined and the result is presented in the DEPFA Group Risk Provisioning Committee.

The DEPFA Group Risk Provisioning Committee takes decisions within the framework of a pre-defined set of allocated powers and provides recommendations regarding the creation and reversal of provisions for losses on loans and advances as well as any necessary rescue acquisitions. The recommendations made by the committee are decided on by the DEPFA EDC and are taken in line with the HRE Group Risk Provisioning Committee.

The DEPFA Group New Product Process Committee ensures that all products can be managed and measured by the Group's management information systems and are reviewed primarily on an annual basis. As the DEPFA Group is no longer writing new asset business, a new product would only currently arise in the event of re-hedging or management of liquidity or regulatory risks.

The newly established **DEPFA Group Stress Test Committee**, which is a sub-committee of the DEPFA Group MRC, is responsible for the method, performance and monitoring of the stress tests at the level of the DEPFA Group.

Risk strategy and policies

The risk strategy is aligned to the business strategy and the results of the HRE Group-wide financial planning process. It is in force for business segments and the legal entities of the DEPFA Group. In addition, the risk strategy is a framework for all risk and business strategies of the HRE Group business segments, as well as the HRE Group risk guide.

The DEPFA Group's business model is to a large extent influenced by the conditions and commitments agreed between the European Commission and the Federal Republic of Germany during the state aid approval process and this is reflected in its Risk and Business strategies. These commitments are valid until the reprivatisation of the DEPFA Group. The DEPFA Group must be reprivatised as a whole or in part by the end of 2014. According to the EU decision, the DEPFA Group is not allowed to conclude new business transactions other than those necessary for regulatory requirements or for reducing risk or transactions required as part of the liquidity management of the DEPFA Group or FMS Wertmanagement. The DEPFA Group is considered part of the HRE Group's non strategic business within the segment Value Portfolio. The DEPFA Group must discontinue its business areas of Infrastructure Finance and Capital Markets/Asset Management. In addition, the DEPFA Group is active as a sub-service provider for FMS Wertmanagement.

Risk steering in the DEPFA Group is based on three-fold steering focusing on the following risk measures:

- Economic capital
- Regulatory capital
- Cumulative total liquidity position

The risk strategy of the DEPFA Group describes the general approach for the mitigation and limitation of risk for the identified risk types. Furthermore, in the DEPFA Group risk strategy limits are presented at the DEPFA Group level. The basis for the management of concentration risk is also outlined.

Risk reporting

Risk reporting reflects the structure of the operating segments. The senior management of the DEPFA Group receive regular risk reports which include an extensive overview as well as detailed information concerning the risk situation for each risk type and company, as well as other management relevant information. In addition, special reports are prepared on an ad-hoc basis or at the request of the HRE Group Management Board or HRE Group Supervisory Board or the DEPFA BANK plc Board of Directors; such special reports consider specific and acute risk issues, for instance in relation to critical markets, products, counterparties and tailored stress tests.

Risk quantification and risk management

The credit risk, market risk, business risk and operational risk in particular are quantified and backed with risk cover funds as part of the risk-bearing capacity analysis. The liquidity risk is quantified on the basis of the liquidity position. The individual calculation methods are described in detail in sections (3c) "Liquidity risk" and (4) "ICAAP".

Further risk types considered as material as a result of the regular internal risk inventory, such as strategic, regulatory and model risks as well as pension, participation and pro-

perty risk which are considered to be immaterial, are not measured quantitatively. Instead, they are managed and limited by means of regular detailed reports and clear specifications, e.g. the regulations concerning compliance and corporate governance.

At the portfolio level and at the level of individual transactions, risk in the DEPFA Group is managed by:

1. Monitoring the risk-bearing capacity on the basis of comparing economic capital and the available financial resources of the DEPFA Group.

2. Monitoring the risk-weighted assets ("RWA") at the portfolio level to ensure that the total capital ratio does not fall below 8.5%.

3. Operational risk management via:

- The use of Basel-II-compliant risk parameters in lending business. The Basel-II-compliant management approach shows the average expected loss at the borrower level and is therefore a major component in early recognition and profitability monitoring. The parameters are reviewed and recalibrated annually.
- A limit system for counterparty and issuer risks on the basis of uniform risk measuring methods.
- Intense monitoring and management of individual counterparties.
- Monitoring the risk of losses by way of appropriate impairment triggers in accordance with IAS 39.

(2) Major projects in risk management

Management information system ("MIS"): Since 2010, internal and external credit risk reporting has to a large extent been based on the reporting platform "MIS/Risk Cockpit" which was introduced throughout the HRE Group in 2009. Further fine-tuning on additional information and a higher degree of automation for preparing the reports was implemented in the first half of 2011.

Liquidity risk management: The fourth quarter of 2010 saw the development of an application which meets the reporting requirements with regard to the HRE Group-wide uniform liquidity risk management. This was implemented in January 2011. In 2012, there will be further development which adequately takes account of constantly expanding regulatory aspects.

Basel II / DEPFA: The preparations for Basel II-IRBA approval for the DEPFA Group were completed and the audit application was submitted to the regulatory authorities in 2010. The audit was expected to be concluded during 2011, however this has been extended into 2012. A further on-site inspection by the German Bundesbank is scheduled to occur in phases in both the first and second quarters of 2012.

(3) Major risk types

The DEPFA Group distinguishes the following major risk types for its business activities:
3 (a) Credit risk
3 (b) Market risk
3 (c) Liquidity risk and
3 (d) Operational risk

Economic capital is calculated for all risk types including business risk, apart from liquidity risk. Liquidity risk scenarios are taken into account in the course of stress tests in connection with the review of risk-bearing capacity at the DEPFA Group and the HRE Group levels.

The following are major risk types of the DEPFA Group which are not quantified but which are limited by means of suitable reports, guidelines and policies:

- Strategic risks
- Reputational risks
- Regulatory risks and
- Model risks

(3) (a) Credit risk

***Definition** Credit risk is defined as the risk of the loss of value of a receivable or the partial or complete default of a receivable due to the default or downgrading of the rating of a business partner. The credit risk also comprises the counterparty, issuer and country risk, which are defined as follows:

Counterparty risks are defined as potential losses of value of trades which are not fulfilled and in particular derivatives, attributable to the default of the counterparty. The following sub-categories are distinguished in this respect:

- Settlement risk, which is defined as the risk that, when a trade is settled, the counterparty fails to deliver the

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necessary consideration.

- Replacement risk is defined as the risk that, in the event of a counterparty default, the contract has to be replaced on less favourable terms.

- Cash risk is defined as the risk that the counterparty might not repay (cash) loans which have been raised.

Issuer risk is the risk of the complete or partial loss of receivables from security investments due to the default of the issuer.

Country risks are broken down into transfer and conversion risks as well as default risks. Transfer and conversion risks may arise as a result of state intervention which limits or prevents the ability to obtain foreign currency or the cross-border capital transfer of a solvent debtor. Counterparty risks may arise as a result of the default or downgraded rating of a country in its capacity as a debtor.

***Credit risk strategy and principles**

The HRE Group has broken down the overall credit portfolio into a Strategic Portfolio (Real Estate Finance and Public Sector Finance) and a Value Portfolio. The risk strategy of the DEPFA Group splits the Value Portfolio in three operating segments: Value Management Europe / Rest of the World, Value Management Americas and Infrastructure Finance. According to the European Commission, the DEPFA Group cannot carry out any new business operations until reprivatised. This is not applicable for measures designed to maintain value, for the efficient management of cover funds as well as business necessary as a result of regulatory requirements or other legal reasons, particularly within the framework of risk and refinancing management.

The Value Portfolio comprises the public finance business of the DEPFA Group as well as capital market business and a minor part of infrastructure financing operations. In the Value Portfolio, emphasis is placed on the reduction of existing assets in a manner which poses minimum strain on capital and which is designed to maintain value.

Organisation of credit risk management

In line with the requirements of Risk Management ("MaRisk"), the organisation of the DEPFA Group CRO as the back-office entities for credit risk management are organisationally independent of the sales entities right through to the Board of Directors of DEPFA BANK plc.

***Credit risk reporting**

- The DEPFA Group risk report contains the development of exposures as relevant credit risk management indicators such as the development of the expected loss, as well as the unexpected loss via Value at Risk ("VaR"). The report shows the credit risk within the DEPFA Group, as well as within each legal entity within the Group, with emphasis on the overall bank risk and the risk-bearing capacity. It reports limit utilisations and violations of existing limits and also identifies risk concentrations. Key indicators which are relevant for management purposes, such as the development of the exposure at default ("EaD"), the expected loss ("EL") and the credit VaR are integrated in this report and are discussed in the DEPFA EDC and notified to the Board of Directors of DEPFA BANK plc.

- In the quarterly credit risk report of the DEPFA Group, details concerning the portfolio and risk parameters are extensively reported; they are provided to the Board of Directors of DEPFA BANK plc for discussion. Major parameters which are relevant for management purposes, such as the development of the EaD, the EL and the credit VaR, are integrated in these quarterly reports.

- Decisions on limit maintenance, adjustments of conditions, concentration levels, reviews of internal ratings ("PD") and loss given defaults ("LGD") and other major parameters are presented to the DEPFA Group Credit Committee for discussion and approval.

- In the daily business of the DEPFA Group, further regular reports support operational management with regard to the management and timely recognition of risks at the sub-portfolio level.

- Unusual developments, which may result in a major deterioration in the risk position of an individual exposure of the DEPFA Group are reported to a wider group by way of so-called "credit issue notes".

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Credit risk quantification via economic capital and risk weighted assets according to Basel II

Credit portfolio model Unexpected loss forms the basis for determining the economic credit risk capital. The DEPFA Group uses a credit portfolio model which is described in greater detail in section (4) ICAAP.

Stress tests Stress tests help to anticipate effects of potential scenarios on the credit portfolio by feeding stressed parameters to the credit portfolio model. The stress tests for economic capital in credit risk are described in greater detail in section (4) ICAAP.

Basel II As stated in the earlier section 'Major projects in risk management' of this report, the preparations for the IRBA-approval according to Basel II have been completed and the formal application for approval has been submitted to the regulatory authorities. The result of the regulatory audit for the introduction of the Advanced IRBA at DEPFA BANK plc and DEPFA ACS BANK have now been postponed to 2012.

EU-wide stress test / recapitalisation survey

On 15 July 2011, the European Banking Authority ("EBA") published the results of a European bank stress test which simulated the effects of pre-defined macro-economic scenarios and parameters on the capital ratios of banks. According to these results, the HRE Group exceeded the requirements of the EBA in all scenarios. Even in the adverse scenario, the HRE Group reported a core Tier 1 ratio of 10.0% after a two-year stress period at the end of 2012, thus exceeding the minimum requirement of the stress test (5.0%). The stress test took account of an additional reduction of € 1.59 billion in shareholders' equity arising from the payment condition imposed by FMSA for the stabilisation measures in accordance with section 8a (4) No. 8 FMStFG, within the context of the transfer of non strategic positions of the HRE Group to FMS Wertmanagement.

In addition, in the second half of 2011, the EBA together with the national bank regulators, carried out a recapitalisation survey amongst 71 European banks, including the HRE Group. The results were published by the EBA on 8 December 2011. In order to determine any possible additional recapitalisation requirement, the regulatory requirements were used as the basis for simulating various aspects, including the impact of the sovereign debt crisis on the banking book. For this purpose, the effect on the core Tier 1 ratio was considered if all receivables due from countries and regional governments of the European Economic Region were to be recognised at current market values as of 30 September 2011. With a core Tier 1 ratio of 18.6%, the HRE Group exceeded the requirements of the European banking regulator of 9.0% and accordingly did not report a recapitalisation requirement. EBA stress tests were not carried out at a DEPFA Group or legal entity level.

***Credit risk management ("CRM")**

Credit risk is mainly determined by credit exposure, default probabilities and collateral values. Credit risk at the DEPFA Group is identified, measured and monitored at different individual levels:

- Individual borrower, counterparty or issuer level
- Product level
- Country level
- Overall portfolio level

The DEPFA Group uses the EaD, PD and LGD models. In addition, a credit portfolio model is in place to measure the Credit VaR.

The risk appetite (limit) for credit risk is derived in a top-down approach. This is the ceiling for limits on an operating level, which are derived in a bottom-up approach.

As the DEPFA Group focuses on the Value Portfolio, emphasis is placed on the reduction of existing assets and maintaining value.

The primary targets of credit risk management are:
- to maintain a low probability that certain potential default events will occur in the future
- to ensure a low severity of losses (e.g. taking guarantees and additional collateral, where possible)
- the transfer of risk to external third parties (via syndication, securitisation, portfolio sales, credit derivatives and as insurance)

The credit competence guideline also defines the decision-making powers of the individual credit risk managers for prolongations in existing business in the DEPFA Group, de-

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pending on the counterparty group and expected loss class.

***Credit risk management and monitoring**

Credit risk is an intrinsic component of the business model. The objective is to manage credit risk actively. The general principle of risk management is to ensure the preservation of value within single transactions and on an overall portfolio basis. This includes proper analysis before credit risk is taken and measures in place for limitation as well as for monitoring and reporting of credit risk.

The following measures, among others, are used within the risk management process:

- Detailed analysis of the borrower/counterparty and the transaction, as well as sponsors if applicable, including a detailed audit of the profit and cost sources of the borrower/counterparty
- Definition of the minimum requirements (limits) for the key risk factors (e.g. loan-to-value ratio, term, ticket-size)
- Definition of stringent processes for making credit decisions, including clear and comprehensive assignment of competencies
- Standardised credit documentation using standard forms
- Standardised defined parameters for managing engagements which require extra attention
- Credit issue notes as an instrument for internal ad-hoc reporting in the DEPFA Group to key personnel for material risk-related changes

Active credit portfolio management is characterised by a permanent monitoring of the DEPFA Group portfolio to minimise further risk concentration on clients, customer types, sponsors, industries, regions, transactions, legislations etc. Credit risk is also a key consideration in the approval of a new product in the DEPFA Group.

Monitoring and reporting of the credit risk takes place at regular intervals at the borrower/borrower unit and the portfolio levels. The primarily annual follow-up is concentrated on a future-oriented analysis on the basis of historical data and current market conditions. It serves to analyse business development, earning power, the legal situation (for public corporations), credit rating and recoverability of the financed assets. This also includes a detailed risk analysis and early reporting and escalation to the key personnel if necessary. Furthermore, measures required to protect the DEPFA Group's risk position are defined. The analysis includes written documentation of the planned and existing engagements on the basis of borrower units.

Core processes of credit risk management and monitoring as well as the relevant areas of the DEPFA Group CRO function which are involved are described in the following:

- The CRM teams (Credit Officer Public Sector, Financial Institution & Value Portfolio) carry out the risk analysis for all existing business of the DEPFA Group. PD and LGD rating tools, which are developed by the Ratings Analytics team and annually validated and calibrated, are used by the CRM teams for valuation purposes and for preparing the credit decision for the review process.

- The DEPFA Group legal department, with external lawyers/lawyer's offices where appropriate, are responsible for the contract and collateral documentation review.

- Defined early warning indicators are regularly analysed by CRM. In the event of any irregularities, a credit reassessment (e.g. rating, collateral) is carried out for the corresponding cases and appropriate measures are initiated. The cases are also included in a monthly monitoring cycle and presented in the HRE Group Watchlist Committee.

- CRM analyses the impairment triggers (please also refer to the section concerning the Watchlist and non-performing loans) and the necessary impairment calculations are carried out for the DEPFA Group and submitted to the DEPFA Group Risk Provisioning Committee for consideration. CRM draw up a restructuring plan or a workout plan for critical and impaired exposures of the DEPFA Group. The decision regarding restructuring or workout takes account of scenario analyses of the potential developments of the borrower, the collateral or the relevant market. These are presented and approved in the DEPFA Group Risk Provisioning Committee, whose members include the DEPFA Group CRO.

- Critical exposures (Watchlist) as well as restructuring and workout cases (non-performing loans) of the DEPFA Group are reported monthly in the DEPFA Group risk report and in the DEPFA Group MRC and also, upon request, in special analyses to the HRE Group Management Board and the HRE Group Supervisory Board.

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***Hedging and minimising risk by collateral**

At the DEPFA Group, assets and also other financial securities and guarantees are accepted as collateral (e.g. credit insurances, guarantees, fixed-income securities etc.), particularly in the public sector field.

The value of the collateral is reviewed as part of the regular (annual) rating assessment of borrowers performed by the credit officers.

Credit portfolio

EaD figures used throughout this report are based on the HRE Group methodology which is IRBA based.

The Basel II term EaD represents an estimate of the exposure amount for each transaction the Bank will close as a result of a counterparty default. It is calculated to include the principle outstanding, plus future interest accruals for one year as well as any committed undrawn position which the counterparty could utilise. All of these loss estimates should seek to fully capture the risks of an underlying exposure. In the case of derivatives, the EaD is defined as the sum of the current market value and the regulatory add-on, which constitutes a buffer in the event of future potential increases of the market value.

The EaD of the credit portfolio of the DEPFA Group from a risk perspective amounted to € 55.8 billion as of 31 December 2011, which is a € 10.8 billion reduction as of 31 December 2010 (€ 66.6 billion). The total reduction can be attributable to the following;

- Trade maturities and novation of trades to FMS Wertmanagement (75% of total reduction);
- Reduction of exposure to Central Bank of Ireland (7% of total reduction);
- FX movements (5% of total reduction); and
- Asset sales by DEPFA ACS BANK (13% of total reduction).

71% of EaD to the DEPFA Group is in euro denominated trades. The largest non Euro exposure is to USD (17%), followed by Canadian Dollar (3%). The DEPFA Group continued to novate trades (predominantly derivatives) to FMS Wertmanagement. This process allows for the transfer of economic risk to FMS Wertmanagement while the trade initially remained with the DEPFA Group via back-to-back transactions. The EaD on ECB repo exposure provided via the Central Bank of Ireland reduced by € 700 million to € 8.85 billion as of 31 December 2011, these transactions are reverse repos with FMS Wertmanagement and facilitate funding access on behalf of FMS Wertmanagement to the ECB platform.

The following analysis represents the remaining portfolio in the DEPFA Group from a risk perspective ("Core Portfolio") and excludes the transactions where the economic risk has been transferred to FMS Wertmanagment. However it includes transactions where the counterparty risk remains with the DEPFA Group. It excludes counterparty credit risk with FMS Wertmanagement insofar as it does not relate to assets held in the DEPFA ACS BANK coverpool or hedging of economic risk remaining in the DEPFA Group (2010 figures have been restated to include a € 2 billion exposure to FMS Wertmanagement held in the DEPFA ACS BANK Coverpool, now deemed to be part of the Core Portfolio).

The total portfolio analysed is reconciled to the total assets as disclosed in the statement of financial position as follows:

	31 December 2011	31 December 2010
	€ billion	€ billion
EaD of Core Portfolio	55.8	66.6
FMS Wertmanagement non derivative counter-effects replaced in EaD with residual counterparty risk	36.2	37.5
EaD netting impacts (derivatives, repos and collateral)	35.2	36.4
Difference between IFRS and EaD measurement basis	2.3	2.2
Non financial instrument balances not included in EaD	0.4	1.3
IFRS Balance Sheet	129.9	144.0

Risk parameters

The EL, which is calculated from the annual PD, the LGD and the EaD, amounted to € 6.9 million as of 31 December 2011 using the parameters specified by Basel II (31 December 2010: € 68.7 million).

The expected loss for a period of one year is a key management parameter for the portfolio. It is calculated for the

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entire exposure, with the exception of trading book positions and non-performing loans for which a single loan loss provision ("SLLP") has been assigned. The reduction in EL in 2011 is due to a write back of SLLPs in the first quarter of 2011.

Economic credit risk capital

The unexpected loss of the credit portfolio, derived from the credit VaR and the expected loss, is calculated using a Monte-Carlo based credit portfolio model for a period of one year and a confidence level of 99.95%. Within the framework of risk-bearing capacity analysis of the DEPFA Group, the credit risk economic capital amounts to € 758 million as of 31 December 2011 (31 December 2010: € 693 million) excluding diversification effects to other risk types. Details of the calculation are set out in section (4) ICAAP.

Country risk

Germany, the UK and the US account for 40% (EaD € 22 billion) of the DEPFA Group's total exposure at the end of December 2011 (2010: 41%, € 27 billion).

***DEPFA Group Portfolio 31 December: Break-down according to region**

		As restated
	31 December 2011	31 December 2010
Region	EaD in € bn	EaD in € bn
Emerging Markets[1]	0.8	1.3
France	3.0	4.3
Germany	11.9	13.3
Ireland	9.7	12.0
Italy	2.6	3.0
Japan	1.1	1.3
Netherlands	1.4	1.5
Other Europe	6.4	6.6
Other Rest of World	3.5	3.7
Scandinavia	1.2	1.4
Spain	3.9	4.3
UK	1.1	4.0
US	9.2	9.9
Total	**55.8**	**66.6**

(1) As per IMF definition

All country limits comply with a set of maximum country limits derived and calibrated with a VaR style credit portfolio model. In addition, an independent risk assessment is performed by a team of economists within the DEPFA Group who provide expert judgement in relation to the associated risks of doing business within a particular framework.

The maximum country limits ensure that the additional capital requirement caused by full limit utilisation does not exceed the headroom as defined by the capital planning process.

***Rating structure**

Changes in the internal rating classes between 2010 and 2011 are a reflection of the external economic environment to which the DEPFA Group is exposed. As stated in this report earlier, external rating agencies' view on the environment led to a high number of downgrades. As the DEPFA Group uses its own internal rating models and based on the worsening global environment, a similar downgrading effect occurred internally. The internal downgrades had an impact on a large number of obligors within the DEPFA Group, most notably Sovereign and Sub-Sovereign exposure. However, 98% of all exposures remained within the A-rating category (2010: 97%).

***DEPFA Group portfolio 31 December: Break-down according to internal ratings**

		As restated
Internal rating class mapped to S&P classes	31 December 2011 EaD in € bn	31 December 2010 EaD in € bn
AAA	9.9	12.8
AA+ to AA-	23.0	35.2
A+ to A-	21.8	16.4
BBB+ and below	1.1	2.2
Total	**55.8**	**66.6**

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Counterparty Types

*DEPFA Group portfolio 31 December: Counterparty Type

Counterparty Type	31 December 2011 EaD in € bn	As restated 31 December 2010 EaD in € bn
Corporate	3.8	4.4
Financial Institutions	7.9	12.4
Government related companies	1.5	1.8
Local Government Authority	7.0	7.7
Public Sector Enterprise	19.7	24.1
Sovereign	15.9	16.2
Total	**55.8**	**66.6**

Structured products

In accordance with the recommendations of the Financial Stability Board ("FSB", former "FSF") as well as the Senior Supervisory Group ("SSG") for "Leading Practice for Selected Exposures", further information regarding the following sub portfolios is disclosed:

- Structured and partially guaranteed products;
- Other structured products; and
- Special purpose entities inside and outside the group of consolidated companies.

*Overview of state-backed and partially guaranteed securities

The table below refers to nominals of guaranteed securities.

Structured Securities		31 December 2011		31 December 2010	
Product Category	2011 Nominal Percentage Change Versus 2010	Nominal value € billion	Fair value € billion	Nominal value € billion	Fair value € billion
State-guaranteed structured securities: € 1.2 billion					
CDOs/ABS guaranteed by European states (mainly Spain), Spanish municipalities and the Federal State of Lower Austria and also by the US Federal Home Administration	-14%	1.2	1.1	1.4	1.2
State-backed structured securities: € 1.6 billion					
ABS for financing the state-backed US Social Housing Program	-25%	0.6	0.7	0.8	0.9
ABS for financing privately constructed buildings and facilities in the public interest for which interest payments and redemption payments are covered by public sector charges and other government related ABS	-9%	1.0	1.1	1.1	1.1
Securities which securitise state-guaranteed (97%) US student loans: € 4.2 billion					
Securities which securitised student loans (FFELP^ student loans), of which at least 97% are guaranteed by the US state; 95% have an AAA rating; 5% have an AA rating	2%	4.2	3.8	4.1	3.8
^ Federal Family Educational Loan Program					
Structured securities, guaranteed by financial institutions: € nil					
CDO guaranteed by European banks	-100%	0.0	0.0	0.6	0.6
Total	**-13%**	**7.0**	**6.7**	**8.0**	**7.6**

The 14% reduction in state-guaranteed structured securities is attributable to asset sales of US Federal Home administration exposure during 2011. The DEPFA Group's CDO exposure that is guaranteed by financial institutions was sold in 2011, hence the 100% reduction in this product category.

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Considering the concentration level of ABS student loan transactions within the DEPFA Group, it is important to consider the outlook, which will principally be driven by two factors: (1) the on-going economic weakness in the US; and (2) the weakening fiscal position of the US Government.

Student loan ABS transactions held by the DEPFA Group are backed by pools of loans that carry US Department of Education ("ED") default insurance under the Federal Family Education Loan Program ("FFELP"). The default rates on these loan pools are positively correlated to US unemployment rates. It is currently forecast that US unemployment rates will remain above 8.5% through at least the fourth quarter of 2012. This would suggest that student loan default rates will remain elevated for the foreseeable future.

Elevated default rates on underlying student loan collateral will make FFELP student loan ABS investors relatively more dependent on the ED insurance for cashflow. According to Moody's, student loan ABS transactions derive between 10% and 30% of cashflow from ED insurance payments. However, the weak US economy and years of deficit spending have eroded the US Government's fiscal position. This weakens the credit support provided through FFELP, probably to a level below that consistent with a AAA rating. As a consequence, there remains a significant risk that student loan ABS positions held by the DEPFA Group will be subject to downgrade in the near to medium term. To the extent these downgrades are based only upon the fiscal position of the US, these downgrades should result in ratings in the high investment-grade range (AA to AA+). Despite the downgrade potential, the DEPFA Group does not foresee losses on the student loan ABS positions as a result of a US Government downgrade.

A number of positions in the student loan ABS portfolio are either denominated in euro or have tranches denominated in euro. These positions have been negatively impacted by downgrades of European banks who provide hedging for the euro-denominated liabilities. Although a counterparty default is unlikely, such a default could result in payment shortfalls to student loan ABS tranches. The weakening of these counterparties may also have a negative impact on position ratings and could result in downgrades.

Repayment rates for student loan ABS are expected to remain low due to the labour market issues described above and due to political initiatives taken by the US Federal Government to reduce the level of distress being felt by borrowers. These initiatives include the "Pay as You Earn" program which will enable eligible student borrowers to cap student loan payments at 10% of discretionary income. The portfolio however continues to perform well and no losses are expected at this time.

***Special purpose entities**

Special purpose entities ("SPE") are generally used for isolating assets of operating companies so that they are not affected by insolvency and also, if necessary, to enable these assets, which are frequently used as collateral, to be disposed of more easily. The DEPFA Group has used special purpose entities for various purposes as part of its business operations, whereby the emphasis is clearly placed on risk reduction.

The following table summarises the special purpose entities included in the consolidated financial statements of the DEPFA Group in accordance with IFRSs as of 31 December 2011 and 31 December 2010. The assets used as the basis of consolidation are mainly classified as loans and receivables ("LaR").

Consolidated special purpose entities by categories	Nominal value in € m	
	31 December 2011	31 December 2010
Refinancing of the DEPFA Group	32	59
Total	**32**	**59**

The following overview sets out the nominal volume of transactions with non-consolidated special purpose entities. The other transactions mainly consist of cash-collateralised liquidity facilities.

Transactions with non-consolidated special purpose entities	Nominal value in € m	
	31 December 2011	31 December 2010
Other	402	426
Total	**402**	**426**

***Watchlist and non-performing loans: € 93 million**

Early warning system The early warning system of the DEPFA Group guarantees that risks are identified as early as possible and are steered effectively.

The Watchlist serves as the early identification mechanism for loans/borrowers/sponsors that are currently not develo-

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ping as planned (in particular before a contractual event of default occurs). This enables the DEPFA Group to start to take the necessary measures as early as possible to steer the risk and maximise value.

Restructuring loans are generally loans extended to counterparties which satisfy at least one criterion under Basel II (e.g. a major liability of the debtor is more than 90 days overdue as a result of arrears due to the banking group, a moratorium on interest payments, costs and fees, waiver of receivables or interest, the debtor has applied for insolvency) and for which no individual impairment has yet been recognised.

If no further default criterion exists 90 days after the debtor has settled the default, the default can be cancelled and it is no longer necessary for the loan to be classified as non-performing.

Workout comprises all loans exposed to acute default risks and for which risk provisioning had to be created (an individual allowance or single loan loss provision).

***Development of the Watchlist and non-performing loans**

The portfolio of non-performing loans and Watchlist loans as at the end of the year is set out in the following table:

€ m	31 December 2011	31 December 2010
Workout loans	3	25
Restructuring loans	90	88
Non performing loans	**93**	**113**
Watchlist loans	-	135
Total	**93**	**248**

***Impairments and provisions**

Individual allowances All assets which are not allocated to the trading book are regularly tested to determine whether they are impaired. In a first step it is analysed whether there is an objective indication for an impairment. After that the extent of impairment is calculated as the difference between the current book value and the present value of all expected future cash flows discounted at the original effective interest rate of the asset. The following are major objective indications of an impairment:

- Considerable financial difficulties of the borrower;
- Overdue contractual interest payments or redemption payments or other breaches of contract;
- Increased probability that the borrower will become insolvent or will undergo a restructuring process; and
- Re-negotiations as a result of financial difficulties.

As part of the process of individual processing of significant loans, the extent of the sustainably recoverable amount is determined by discounting the expected cash flows. The interest rate specified at the point at which the loan was extended is normally used for discounting purposes. The impairment is calculated by deducting this amount from the current book value of the asset. In the case of financial assets classified as available-for-sale ("AfS") the impairment is defined with reference to the market price.

In 2011 the impairment triggers continued to be refined and adapted.

The following factors in particular are taken into consideration for determining the actual amount of the impairment:

- The total exposure of the DEPFA Group to the borrower;
- The amount and timing of the expected interest rate payment and redemption payment;
- The recoverable amount of the securities and the probability of successful recovery;
- The probable amount of costs for collecting outstanding amounts; and
- If available, the market price of the asset.

Portfolio-based allowances are calculated using risk parameters which are compliant with Basel II, such as PD and LGD. The resultant expected loss in relation to a time horizon of one year is scaled using an IFRS-compliant conversion factor to the period which on average is required for identifying the impairment event.

If differences are identified between long-term average values for the parameters PD and LGD on the one hand and the current figures on the other as a result of the market environment in some portfolios of the operating segments, these are taken into consideration accordingly.

Impairment process The impairment of all credit risks is approved by the DEPFA Group CRO in the DEPFA Group

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Risk Provisioning Committee and is communicated to the DEPFA EDC, which includes the DEPFA Group CFO. Such approval is preceded by a multiple stage process which is applicable in all subsidiaries throughout the DEPFA Group. The following instruments have been implemented for identifying, analysing and measuring the credit risk:

- Annual review with regular check of the rating (PD, LGD and EL) and the relevant security;
- Where appropriate, covenant monitoring with a check to determine whether the specified covenants are being met;
- System monitoring on the basis of overdue items (interest, redemption payments and costs); and
- Early warning system for placing critical exposures on the Watchlist.

All non-performing loans are dealt with at least as of the statement of financial position date in order to determine whether it is necessary to adjust the provisions for losses on loans and advances.

An overview of the development of allowances for losses on loans and advances can be found in note 21 in the notes to the consolidated financial statements.

Reversals of/provisions for losses on loans and advances in the 2011 consolidated income statement amounted to € 31 million (2010: € -2 million) and consisted of a write back of individual allowances of € 14 million (2010: € 35 million) and portfolio-based allowances of € 17 million (2010: € -37 million). The expected losses of the portfolio have decreased, due to the repayment of transactions where specific loan loss provisions had been applied. In accordance with IAS 39, portfolio-based allowances are created only for loans and receivables for which there have not been any indications of an individual impairment.

Contingent liabilities and other obligations Contingent liabilities and other obligations mainly comprise guarantee risks, letters of credit and irrevocable loan commitments and declined to € 295 million in 2011 (2010: € 417 million). With regard to the analysis of the impairments, it has to be borne in mind that provisions for losses on loans and advances do not include impairments in relation to exposures reported as derivatives, trading assets or financial investments. Accordingly, defaults of credit institutions are mainly recognised in net trading income/expenses or in the net expenses/income from financial investments. In the financial year 2011, a cost of € nil (2010: € 136 million) from default risk of customer derivative positions was recognised in net trading income/expenses.

Direct write-ups, impairments and portfolio-based allowances for financial investments – income statement effects

€ m	31 December 2011	As restated* 31 December 2010
Net write-ups	-	-15
Portfolio-based	1	46
Total	**1**	**31**

*The comparative amount has been restated to include positions now included in financial investments, as described in note 57 of the notes to the consolidated financial statements.

(3) (b) Market risk

***Definition**

Market risk is defined as the risk of a loss of value resulting from the fluctuation of the market prices of financial instruments. Transactions of the DEPFA Group are mainly exposed to the following risk types:

- Credit-spread risk
- General interest rate risk
- Foreign currency risk

***Market risk strategy**

The DEPFA Group adheres to the following guiding principles to manage market risk:

1. In compliance with MaRisk business is allowed only in financial instruments that can be priced independently (availability of pricing methods and market data), which can be broken down into risk drivers (availability of market data history), which have successfully passed the New Product Process and for which of the following aspects have been documented properly:

- System representation;
- Pricing methods;
- Required market and model data; and
- Risk monitoring methodology.

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2. Business is conducted with respect to client needs.
3. Risk monitoring and the economic P&L monitoring are performed daily.
4. Risk concentrations regarding market risk are monitored on a daily basis.
5. Credit spread risks are an integral part of the business model (e.g. PSF cover pool positions). Therefore the credit spread risk of positions classified as Loans and Receivables (LaR) are not limited in market risk. The risk resulting from credit spread changes due to rating migrations is considered in the credit risk limit. However, the credit spread risk of positions which are not part of LaR is limited by the market risk limit.
6. Hedging of FX risk, e.g. no active proprietary FX-risk positioning (HRE Group ALCO provides HRE Group-wide steering for IFRS based FX positions).

Organisation of market risk management

In line with the requirements of MaRisk, the trading and banking book positions are monitored by Risk Management & Control which is separate from Treasury in the structure of the organisation right through to responsibility at the Board of Directors level.

***Market risk reports**

Risk Management & Control prepares extensive market risk reports at the DEPFA Group level every day for various recipients:

- The daily market risk report is addressed to the DEPFA Group's senior management. It shows market risk VaR, limit utilisations and economic performance figures at the DEPFA Group level and also at various levels of detail.
- Daily sensitivity reports comprise analyses of the main risk factors at various levels of detail and are made available to Risk Management personnel as well as to the DEPFA Group's senior management.

***Measurement and limiting**

Daily measurement and limiting of market risk positions Risk Management & Control uses a variance-covariance approach to calculate the market risk VaR at the overall and sub-portfolio level on a daily basis. All trading and banking book positions are taken into consideration for this purpose.

The correlations and volatilities which are used are based on historical time series of the previous 250 trading days, which are included in the calculation on an equally weighted basis.

For the daily operational risk management, the VaR relates to a holding period of ten days and a one-sided 99% confidence interval.

Individual market risk components, such as the interest, FX and credit spread VaR, are aggregated to form a total VaR.

The VaR is calculated on a consolidated basis at the DEPFA Group level and also at the individual subsidiary banks, operating segments, departments, portfolios and desk levels.

The market risk VaR (10-day holding period; 99% confidence level) for the DEPFA Group amounted to € 13 million as of 31 December 2011 (31 December 2010: € 25 million).

During the second quarter of 2011, the HRE Group RC approved a market risk limit reduction for the DEPFA Group from € 55 million to € 45 million. No limit breaches for the DEPFA Group occurred during 2011.

The following table illustrates the market risk VaR of the DEPFA Group as well as the VaR for the individual risk types compared with the market risk limits at year end:

	31 December 2011	31 December 2010
	€ m	€ m
Total VaR	**13**	**25**
Interest Rate VaR	10	20
Foreign Exchange VaR	9	14
Limit	**45**	**55**
% utilisation	**29%**	**45%**

No VaR limit breach occurred during 2011.

The VaR assessment is complemented by further instruments such as sensitivity analyses as well as stress and back testing.

Sensitivity analysis Sensitivity analyses quantify the impact of a change in individual market parameters on the value of the positions of the DEPFA Group. For instance, the credit spread sensitivity provides an indication of the change in economic present value which results from an isolated

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change of one basis point in the credit spreads which are relevant for measurement purposes.

Back testing The quality of the risk measuring methods which are used is constantly monitored and optimised where appropriate by way of the daily comparison of VaR values and actual changes in present values which subsequently occur. For the quantitative assessment of the risk model, the DEPFA Group has used the traffic signal system of the Basel Capital Accord. In this process, the statistical (negative) outliers determined as part of the back testing process are counted within a period of 250 trading days. Overall, seven outliers were observed for the trading books during the past 12 months; these were mainly attributable to the market movements of the credit spreads. The risk model of the DEPFA Group is thus within an acceptable range.

Stress testing Whereas the VaR measurement simulates the market risk under "normal" market conditions and is not to be understood as a standard for a potential loss in a market climate which is particularly disadvantageous for the position of the Bank, stress scenarios show the market risk under extreme conditions. At the DEPFA Group, uniform hypothetical stress scenarios throughout the DEPFA Group are calculated on a monthly basis for all key risk drivers (credit spreads, interest rates, foreign currency rates) across all books. Historical stress scenarios are also simulated. For example, an upward parallel shift of 200 bps in the interest rate curve would result in a change of approximately € 42.8 million loss in the market value for all books of the DEPFA Group (2010: € 145.1 million loss).

Economic market risk capital

For calculating the economic market risk capital, which is taken into consideration for the risk-bearing capacity analysis, the market risk VaR is scaled to a period of one year and also to a higher confidence level (from 99% to 99.95%). The economic capital for market risk, disregarding diversification effects for other risk types, amounted to € 205 million as of 31 December 2011 (31 December 2010: € 204 million).

Control, management and monitoring of market risk

The DEPFA Group uses a three-pillar approach for managing and monitoring the market risk:

- Risk management controls implemented in the front office;
- Risk measurement and monitoring compliance with limits by Risk Management & Control; and
- Escalation processes across all decision-making committees right through to the DEPFA BANK plc Board of Directors level.

The market risk is monitored by a combination of VaR limits for all trading book and banking book positions; the sensitivities as well as the economic capital are also monitored by Risk Management & Control. The daily management of the market risk positions is carried out in Treasury/Public Finance.

***Development of the relevant market risk types**

General interest rate risk The total general interest rate risk of the DEPFA Group amounted to approximately € 10.2 million VaR as of 31 December 2011 (compared with € 20.5 million as of 31 December 2010). On average, the interest rate risk of approx. € 9.9 million for 2011 (max. € 27 million; min. € 3.6 million) was still at a lower level than the year before (average VaR for 2010 € 23.9 million; max. € 38.6 million; min. € 13.9 million). Non-linear interest risks are insignificant.

Credit spread risk The credit spread risk reflects the potential change in the present value of positions as a result of changes in the corresponding credit spreads. Risk measuring systems for determining credit spread risks exist for all relevant positions of the DEPFA Group. Most of the credit spread risk is attributable to assets eligible as cover for asset covered securities and Lettres de Gage. The limit is applicable only to the credit spread risks of the trading books, AfS fair value positions and dFVTPL holdings and is not applicable for the LaR positions. However, sensitivities are calculated for all holdings, i.e. also for LaR positions.

Due to the business model of the DEPFA Group, the security holdings in the asset covered securities and Lettres de Gage cover pools account by far for the majority of the DEPFA Group's positions which are sensitive to credit spread changes. Accordingly, the credit spread sensitivity of the overall portfolio (incl. the security holdings classified as LaR) amounted to € 27.7 million at the end of December 2011 with a simultaneous increase of one basis point in all credit spreads; of this figure, only € 0.1 million

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was attributable to the trading books (corresponding figures at the end of 2010 € 39.7 million, trading books € 0.1 million).

Foreign currency risk and other market risks The foreign currency risk which is calculated as a present value amounted to € 9.3 million as of 31 December 2011; the corresponding figure as at 31 December 2010 was € 13.8 million. The general strategy of the DEPFA Group is to hedge foreign currency risks as far as possible.

The DEPFA Group is not exposed to equity or commodity risks and inflation risks are hedged.

(3) (c) Liquidity risk

***Definition**

Liquidity risk is defined as the risk of not being able to meet the extent and deadlines of existing or future payment obligations in full or on time. This would for instance be the case if there were no longer sufficient external refinancing sources.

***Liquidity risk strategy**

The liquidity risk strategy is a key component of the DEPFA Group's risk strategy and is broken down into various modules. The refinancing of the DEPFA Group is monitored and controlled by means of a limit system. The limits are defined as part of the annual business planning process.

Quantitative and qualitative techniques are used to determine the DEPFA Group's liquidity risk profile. Contractual cash flows as well as modelled and optional cash flows are included in the calculation of the liquidity risk profile. All non contractual cash flows are subject to regular back testing.

Among these techniques are stress tests which check the capacity of the DEPFA Group to withstand various stress scenarios including the breakdown of certain key assumptions. Therefore the liquidity risk profile is calculated within different scenarios:

- Base Scenario: Expected liquidity position under constant market and refinancing conditions
- Risk Scenario: Liquidity position under simulation of specific stress situations
- Historic Stress Scenario: Liquidity position under simulation of specific stress situations (more conservative than the Risk Scenario)

In addition to these daily calculated scenarios, the DEPFA Group established liquidity stress testing, which simulates possible effects of a macro-economic, fiscal and political crisis on the liquidity situation of the DEPFA Group (Further Decline, EU break up). A buffer is held for further refinancing needs in times of crisis (CEBS stress test).

***Organisation of liquidity risk management**

The DEPFA Group MRC identifies, measures, reports and monitors the liquidity risk at the DEPFA Group level. The processes and methods used are regularly reviewed by the DEPFA Group ALCO and are reported to the HRE Group ALCO.

***Liquidity risk report**

The liquidity management reports are prepared daily on a DEPFA Group-wide basis and reported to the DEPFA Group senior management. They are reported to the Central Bank of Ireland as part of its liquidity monitoring process periodically. The reports are consolidated at the HRE Group level and liquidity reporting is also provided to the Bundesbank, Bundesanstalt für Finanzdienstleistungsaufsicht ("BaFin") and SoFFin. The reports contain the daily liquidity situation as well as projections on the basis of contractual cash flows and assumptions made in relation to future events which will influence the probable liquidity development.

***Measuring and limiting liquidity risk**

A system for measuring and limiting short-term and medium-term variances within the cash flows has been installed in order to manage the liquidity risks. In addition to contractual cash flows, contingent cash flows are also considered. The latter are back-tested on a regular basis.

The liquidity position which consists of contractual and contingent cash flows is measured by considering different scenarios. This results on a daily basis in different liquidity positions reflecting:

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- constant market and funding environment (base scenario);
- a more conservative market and funding environment (risk scenario); and
- liquidity squeeze (stress scenario) similar to the market conditions post Lehman default.

Limits are defined for these three scenarios on a DEPFA Group level. For the risk and stress scenarios, limits are defined out to two years. For the base scenario, limits are defined out to ten years.

***Liquidity risk monitoring and management**

Monitoring of the liquidity risks is assured by the daily reporting of the liquidity situation of the DEPFA Group and a defined escalation process. A liquidity contingency plan has been approved in this context, which sets out the procedures for the management of liquidity squeezes.

Liquidity risk management is based on various interconnected components which in turn are based on a "liquidity risk tolerance" defined by the Board of Directors of DEPFA BANK plc. This ensures that the individual companies of the DEPFA Group have adequate liquidity reserves.

***Hedging and reduction of liquidity risk**

A risk tolerance system is used to limit the liquidity risk. Risk tolerance is integrated in the liquidity management process by means of triggers (limit system) in order to ensure a "survival period" in stress conditions. The limits applicable for risk tolerance are regularly determined and adjusted.

Development of the risk position

The transfer of positions to FMS Wertmanagement was a key milestone for the stabilisation of the DEPFA Group. The transfer of non strategic positions and risk positions was a significant improvement to the DEPFA Group's statement of financial position structure and liquidity position which resulted in no further requirement for liquidity assistance and a significantly lower dependence on market movements. The Group continued to exceed all minimum liquidity ratio requirements from the Central Bank of Ireland during 2011.

Outlook

Actual liquidity situation for the DEPFA Group remains stable and the DEPFA Group continues to expect that it will meet all contractual and regulatory obligations going forward. The extent of liquidity requirements for 2012 however is dependent on:

- the future development of the discounts for repo refinancing on the market and with the central banks.
- collateral requirements as a result of changing market parameters (includes interest rates, foreign currency rates and basis for calculation); and
- changing requirements of the rating agencies regarding the necessary surplus in the cover pools.

Nevertheless the DEPFA Group considers that it has sufficient liquidity reserves to meet all contractual and regulatory obligations going forward.

(3) (d) Operational risk

Definition

The DEPFA Group defines operational risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events". The definition includes legal risks, but excludes strategic and reputation risks.

Operational risks are associated with most aspects of DEPFA Group's business activities and comprise numerous widely differing risks.

Strategy for operational risks

The DEPFA Group's primary aims are the early identification, recording, assessment, monitoring, prevention and mitigation of operational risk, as well as timely and meaningful management reporting. The DEPFA Group does not attempt to completely eliminate risk but to minimise unexpected loss by limiting the operational risks of the DEPFA Group to a reasonable level. The DEPFA Group's approach is to ensure that it has sufficient information to make informed decisions about risk mitigation.

Organisation of operational risk management

The DEPFA Group has established a centralised Operatio-

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nal Risk function within the Risk Management & Control division that focuses on the coordination of consistent policy, tools and practices throughout the DEPFA Group for the management, measurement, monitoring and reporting of relevant operational risks.

Risk reports, monitoring and management of operational risks

Operational Risk is controlled through a network of controls, procedures, reports and responsibilities. Within the DEPFA Group, each individual business area and management level takes responsibility for its own operational risks and provides adequate resources and procedures for the management of those risks.

The DEPFA Group uses the following Group-wide processes and method for management, measurement, monitoring and reporting of operational risks:

- Key risk indicator ("KRI") reporting - provide potential early warning of increased risk associated with non-attainment of control objectives;
- Operational risk self-assessments - based on the identification of threats to business processes, the impact of those threats and the subsequent evaluation of controls in place to mitigate the risk; mitigation plans for high-rated risks are monitored by the Operational Risk department;
- Risk event management - the collection, reporting and analysis of internal risk event data enables the DEPFA Group to identify weak controls, ineffective processes or activities and poor systems; and ensures that the DEPFA Group takes appropriate action to mitigate any exposures;
- New Products - the New Product Process Committee ensures that all products can be managed and measured by the DEPFA Group's management information systems and are reviewed primarily on an annual basis. As the DEPFA Group is no longer writing new asset business, a new product would only arise in the event of re-hedging or management of liquidity or regulatory risks; and
- Targeted risk reviews – in partnership with the business, predefined key areas of risk examined in depth and recommendations for risk mitigation are provided.

The consolidated information is used in order to determine the operational risk profile of the DEPFA Group and the HRE Group and any required measures in relation to mitigation of identified risks.

Risk measurement

The economic capital for operational risk amounted to € 11 million as of 31 December 2011 (31 December 2010: € 19 million).

In order to determine the minimum capital requirement in accordance with Basel II and the EU Capital Requirements Directives ("CRD"), the DEPFA Group uses the standard approach. The capital backing of the DEPFA Group for operational risks under this approach is € 22.7 million as at 31 December 2011 (€ 41 million as of 31 December 2010).

Major operational risks of the DEPFA Group

The main operational risks are essentially attributable to the ongoing process of restructuring and repositioning the DEPFA Group. This includes the provision of services to FMS Wertmanagement which commenced on 1 October 2010.

There is a significant reliance on key staff for execution of the restructuring and performance of regular processes and controls. This is particularly important given the environment of processing systems and manual processes and controls. The loss of know-how represents a significant level of risk in the current situation of the DEPFA Group. While the level of staff turnover within the DEPFA Group reduced during 2011, this risk still remains high.

(4) Internal Capital Adequacy Assessment Process ("ICAAP")

Economic capital and monitoring the risk-bearing capacity

The DEPFA Group has established a risk-bearing capacity analysis which is based on ICAAP. The assessment of internal capital adequacy is based on the concept of economic capital and the comparison to the available financial resources of the DEPFA Group.

Economic capital ("ECap") is the amount of capital required by a bank to cover the risk it is running. It is defined as "the quantity of capital required by a bank in order to cover the largest potential unexpected total loss with a defined probability over a time horizon of one year". The standard used by the DEPFA Group for the probability of loss is 99.95% and implies a lower default probability than that associated with companies with good long term credit ratings from the

external rating agencies (A- at Standard & Poor's, A/A2 at Fitch Ratings and Moody's).

The individual specific methods of calculating the unexpected loss for the individual risk types are described in greater detail in the section "Method used for individual risk types". As is market standard for commercial banks, liquidity risk is not included in the DEPFA Group's economic capital calculations but it is taken into consideration by means of potential higher funding costs.

In evaluating the capital adequacy of the DEPFA Group, the amount of economic capital is compared with the financial resources available to the DEPFA Group within one year. The definition of the "available financial resources" for one year comprises customary components such as the shareholders' equity in accordance with IFRSs, components similar to shareholders' equity (subordinated capital and hybrid capital with a holding period of at least one year) as well as the planned income statement result for the next twelve months. These components are suitable for alleviating the impact of potential losses and for maintaining a corresponding risk buffer. The available financial resources must always be greater than the economic capital required.

The results of the capital adequacy assessment process and of the stress tests are regularly presented to the DEPFA EDC and the Board of Directors of DEPFA BANK plc. They are discussed and if necessary any management measures are defined by the DEPFA Group MRC.

Result of the ICAAP of the DEPFA Group

Economic capital according to risk types and available financial resources:

€ million	31 December 2011	31 December 2010	Change
Credit risk	758	693	65
Market risk	205	204	1
Operational risk	11	19	-8
Business risk	-	-	-
Risk of the Bank's own real estate holdings	-	-	-
Risk of participation holdings	-	-	-
Total before diversification effect	**974**	**916**	**58**
Total after diversification effect	**925**	**862**	**63**
Available financial resources (AFR)	3,060	3,007	53
Capital buffer	2,135	2,145	-10

The increase in capital is driven mainly by the increased economic capital required for credit risk due to increasing credit spreads in the last quarter of 2011 along with changes in default probabilities and recovery rates on existing business.

Credit risk is the most significant risk type on the basis of the ICAAP and accounts for 78% of the undiversified economic capital.

There is a significant economic capital buffer of € 2.1 billion for a one-year observation period as of 31 December 2011 (31 December 2010: € 2.1 billion). In terms of economic capital, the DEPFA Group was adequately capitalised during 2011.

In accordance with Section 25 a (1) KWG, credit institutions are obliged to set up appropriate and effective procedures in order to ensure that their risk-bearing capacity can be established and assured in the long term. These procedures complement the regulatory procedures defined in the Solvency Ordinance.

The HRE Group's own risk-bearing capacity calculation is the subject of regulatory reviews (Supervisory Review and Evaluation Process, "SREP"). On 7 December 2011, the BaFin detailed key aspects of the regulatory appraisal in its letter "Regulatory appraisal of bank-internal risk-bearing capacity concepts". For instance, according to this appraisal, hidden charges attributable to securities as part of the long term assets have to be deducted from the risk cover potential in a liquidation scenario at a German entity level. The corresponding market price risks should be completely recognised in the risk-bearing capacity calculation. However, the concept currently used by the HRE Group uses a different assumption, namely that there is the ability and intention to hold these securities to maturity. Consequently, the hidden charges attributable to securities as part of the long term assets are not fully recognised in the risk cover potential. The HRE Group at present also does not recognise all credit spread risks for securities as part of the long term assets in the calculation of economic capital.

The risk-bearing capacity concept is currently being developed further at Group level in order to ensure that the specific regulatory requirements will be met in future. These changes are not reflected in DEPFA Group's ICAAP and any changes are subject to the methodological agreement of the Irish Regulator. Any agreed changes with the Irish Regulator could affect existing calculations.

***Method used for the individual risk types**

The economic capital of each risk type is determined using a quantitative approach and aggregated to form the overall bank risk, taking account of specific correlations. In line with the common market standard, the risk types are calculated for a period of one year and a confidence level derived from the target rating of the ICAAP (in this case: 99.95%).

The method of calculating the economic capital for the individual risk types for 2011 is explained in the following paragraphs:

***Credit risk**

For calculating credit risk at the portfolio level, the DEPFA Group uses a HRE Group-wide credit portfolio model which follows the approach of a so-called asset value model. The idea of this approach is that by repeated simulations of correlated rating migrations and borrower defaults as well as a calculation of resulting value changes arising from a corresponding revaluation of the portfolio, probability statements can be made with regard to potential losses from lending business. The resulting loss distribution from many simulations is used to calculate the economic credit risk capital as the highest unexpected loss with a confidence level of 99.95% which will result within one year due to rating migrations and defaults in the credit portfolio. In addition to the loss distribution of the credit portfolio, a significant result is the risk-adjusted allocation of the credit risk capital measured in this way to the individual borrower units using the so-called expected shortfall principle. This ensures proper allocation to the borrowers and thus constitutes a major module in the risk-oriented management of the credit portfolio.

***Market risk**

Under ECap the calculation of market risk VaR also includes VaR figures for the Hybrid Capital. The market risk VaR is scaled accordingly in order to take account of the higher confidence level and the one-year period of the capital adequacy assessment process.

The economic capital for market risk over a one-year horizon remains almost constant and was € 205 million as of 31 December 2011 (December 2010: € 204 million), excluding diversification effects to other risk types.

Operational risk

The calculation of economic capital for operational risk includes the result of the calculation using the standard approach in accordance with Basel II. For the purpose of the ICAAP, the capital requirement specified by the regulator is scaled to reflect the higher confidence level (from 99.9% to 99.95%).

The economic capital for operational risk amounted to € 11 million as of 31 December 2011 (31 December 2010: € 19 million).

Business risk

In 2011, the German regulator clarified the definition of available financial resources ("AFR"), determining that planned profits cannot be used in the calculation of AFR.

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As a result, business risk in ICAAP only includes risk from higher funding costs only.

Funding costs may increase for the following two reasons:
- Higher funding requirement
- Increase in the unsecured funding rate

As part of the liquidity risk measurement, the increased funding requirement which would occur in conjunction with certain market events is simulated every month using a stress scenario. For the unsecured funding rate an increase to the historic maximum of credit spreads of the Bank's own rating observed on the market is simulated. It is assumed conservatively that both events will occur simultaneously.

The calculation of the economic capital for Business Risk includes risk arising from higher funding costs. As a result of a secure funding position for 2011 where stress scenarios result in a positive liquidity buffer over the following 12 months, no capital requirement exists for business risk.

Liquidity risk

Capitalising for liquidity risk in the narrower sense is neither possible nor is such a procedure standard practice in the sector. Liquidity risk in the broader sense of an increase in funding costs is recognised in the economic capital for the business risk.

Stress tests

Stress tests in relation to the economic capital are used in order to obtain a better understanding of the sensitivity of the results to changes in the risk parameters underlying the model. The DEPFA Group carries out stress tests as an instrument for appropriate economic capital management for five individual categories, each in relation to an isolated risk type:
- Downgrading of the main counterparties, measured in terms of economic capital
- Stress tests of the creditworthiness of all counterparties
- Stress tests with regard to collateral
- Operational risk
- Business risk

In addition there are two integrated stress test scenarios in place, i.e. scenarios applicable for all risk types (the stress scenario as well as the extreme stress scenario). Both scenarios are based on theoretical and historical events. The purpose of the stress scenario is to reflect an unusual but potentially plausible event, whereas the extreme stress scenario is to be associated with extreme events. The stress scenario calculates the effects on the economic capital consistently over all risk types and also on the available financial resources. In contrast, the extreme stress scenario determines only the effects on the available financial resources. A check is performed which confirms that the DEPFA Group still has positive AFR after the occurrence of the extreme scenario. In addition the DEPFA Group runs several ad-hoc specific scenarios tailored specifically to its portfolio.

This concludes the risk management section of the Directors' Report.

Regulatory capital and capital adequacy ratios

Since 1 January 2008 the regulatory capital and capital adequacy ratios were produced in accordance with the Capital Requirements Directive 2006/48/EC and 2006/49/EC (CRD) as transposed into Irish law in Statutory Instruments 661 & 660.

The DEPFA Group is regulated by the Central Bank of Ireland, which applies a capital/risk framework for measuring capital adequacy based on the CRD. Under this framework banks are required to maintain a minimum Tier 1 capital of 4% and a Total capital of 8% of risk weighted assets (known as Pillar One requirements). The Group uses the Basel II standardised approach to calculate the risk weighted assets.

Under the framework following a Supervisory Review and Evaluation Process ("SREP"), the Central Bank of Ireland has imposed additional requirements on the DEPFA Group resulting in minimum capital requirements higher than those calculated under Pillar One. The additional requirements are only applicable to total own funds and are based on a combination of the Pillar One calculations and certain individual economic risk calculations which are described in the risk management section of the Directors' Report, (4) ICAAP. The Group's capital is in excess of the Pillar One and SREP requirements during both 2011 and 2010.

There were no breaches by the Bank of the Total capital ratio during 2011 (2010: no breaches). At 31 December

2011 the Bank's Total capital ratio exceeds the minimum required ratio at 61.72% (2010: 70.97%).

No capital contributions were received by the Bank during 2011. During 2010 the Bank received non-refundable capital contributions from HRE Holding totalling € 900 million. These non-refundable contributions qualify as Regulatory Tier 1 Capital.

With a Tier 1 capital ratio of 47.77% (2010: 50.76%) and a Total capital ratio of 64.28% (2010: 64.48%) the DEPFA Group exceeds the minimum required ratios at Group level (Tier 1 capital ratio 4%, Total capital ratio 8.5%).

Regulatory Capital (€ million)	31 December 2011	31 December 2010
Tier I capital	2,745	3,673
Tier II supplementary capital	949	992
Total regulatory capital	**3,694**	**4,665**

Capital Adequacy Ratios	31 December 2011	31 December 2010
Risk weighted assets (€ m)	5,746	7,235
Tier I capital ratio	47.77%	50.76%
Total capital ratio (Tier I + II)	**64.28%**	**64.48%**

The Central Bank of Ireland uses the term Alternative Capital Instruments ("ACI's") to describe non-standard forms of capital that are generally referred to in the market as hybrid capital. The following structures qualify as ACI's under Notice BSD S1/04, "Alternative Capital Instruments: Eligibility as Tier 1 Capital", an amendment to the implementation of EC Own Funds and Solvency Ratio Directives BSD S1/00 of the Central Bank of Ireland.

Under the terms and conditions of the ACI's issued out of DEPFA Funding II LP as listed below, DEPFA BANK plc (as the General Partner) has certain call rights. The Bank will not exercise any call right if such exercise would breach any of the eligibility criteria for Tier 1 Capital set out in Notice BSD S1/04 quoted above.

The below hybrid instruments of the DEPFA Group are recognised as capital instruments in accordance with IAS 32.16. The classification of financial instruments as capital instruments or debt instruments depends on whether the DEPFA Group has a contractual obligation to make payments from an issued financial instrument. The above instruments are subordinated debt issued in the form of undated bonds via the issuance vehicles DEPFA Funding II LP, DEPFA Funding III LP and DEPFA Funding IV LP on which the DEPFA Group has no contractual obligation to make interest payments.

Political donations

The Electoral Act, 1997 requires companies to disclose all political donations over € 5,079 in aggregate made during the financial year. The directors, on enquiry, have satisfied themselves that no such donations have been made by the Bank during the financial year.

Accounting records

The directors have taken appropriate measures to secure compliance with the Bank's obligation to keep proper books of account through the use of appropriate systems and procedures and employment of competent persons. The books of account are kept at 1 Commons Street, IFSC, Dublin 1, Ireland.

Subsidiary undertakings

Details of subsidiary undertakings are shown in note 56 of the notes to the financial statements.

Branches outside the state

The Group continues to operate branches within the meaning of Regulation 25 of the European Communities (Accounts) Regulations, 1993, in France, Italy, Japan, United Kingdom and the United States of America.

Hybrid capital instruments		2011 € m	2010 € m
DEPFA Funding II LP, perpetual note	6.50%	400	400
DEPFA Funding III LP, perpetual note	7% until 2008, thereafter CMS 10 yr + 0.1%	300	300
DEPFA Funding IV LP, perpetual note	5.029% until 2017, thereafter Euribor + 1.87%	500	500
		1,200	**1,200**

Corporate Governance

Central Bank of Ireland corporate governance code (the "Code")

As DEPFA BANK plc is regulated by the Central Bank of Ireland it is subject to the requirements of the Central Bank of Ireland's Corporate Governance Code for Credit Institutions and Insurance Undertakings (the "Code") which became effective from 1 January 2011 and allowed for two transitional periods by which institutions had to become compliant with the Code, namely to 30 June 2011 to implement any necessary changes to systems and structures and to 31 December 2011 to implement changes to the Board. DEPFA BANK plc availed of the transitional periods to become compliant by 31 December 2011. DEPFA BANK plc is not required to comply with the additional requirements for major institutions.

The Board

Role

The Board is responsible for effective, prudent and ethical oversight of the Company, setting business strategy and ensuring that risk and compliance are properly managed. There is a comprehensive schedule of matters specifically reserved for decision by the Board which includes, without limitation:

- Approval of corporate governance framework
- Changes to the DEPFA Group capital structure
- Major changes to the DEPFA Group corporate structure
- Changes to management and control structure
- Material capital expenditure
- Changes to the structure, size and composition of the Board
- Selection of the Chairman or Chief Executive Officer
- Terms of reference, membership and chairmanship of Board committees
- Changes or amendments to the terms of the delegated authority of the Chief Executive Officer

The role of the Chairman, which is non-executive, is separate from the role of the Chief Executive. There is a procedure in place to enable the directors to take independent professional advice, at the Group's expense. The Company's parent company, for the benefit of all HRE Group entities including the Company, holds insurance cover to protect directors and officers against liability arising from legal actions brought against them in the course of their duties.

Meetings

The Chairman sets the agenda for each Board meeting. The directors are provided in advance with relevant papers to enable them to consider the agenda items and are encouraged to participate fully in the Board's deliberations. Executive management attend Board meetings and make regular presentations. The Board held six scheduled meetings during 2011 and six additional out-of-course meetings.

Attendance at Board meetings

	Board (Regular)		Board (Out-of-course)	
Name	A	B	A	B
Ms. M. Better* (German) (Chairman)	6	5	6	5 (2)
Dr. J. Bourke*	6	6	6	5
Mr. C. Dunne (resigned 31 January 2012)	6	6	6	6 (1)
Ms. F. Flannery	6	6	6	6
Mr. T. Glynn (American)	6	6	6	6
Mr. D. Grehan*	6	6	6	6
Mr. W. Groth* (appointed 28 February 2011)	5	4	6	6
Mr. A. Kearns*	6	6	6	5
Mr. N. Reynolds	6	6	6	6
Mr. S. Rio (French) (resigned 30 November 2011)	5	4 (1)	6	6 (1)
Mr. A. von Uslar-Gleichen* (German)	6	6 (1)	6	5 (3)
Dr. H. Walter* (German)	6	6 (1)	6	6 (4)

* Non-executive

Column A indicates the number of scheduled meetings held during 2011 which the director was eligible to attend.

Column B indicates the number of meetings attended by each director during 2011.

Numbers in parenthesis indicate meetings attended in 2011 by videoconference or teleconference.

Membership

At 31 December 2011 there were 7 non-executive directors and 4 executive directors. The names of the directors appear in the table above. Four of the non-executive directors in office during 2011 are considered to have been independent: Dr. John Bourke, Mr. Duncan Grehan, Mr. Adrian Kearns and Dr. Herbert Walter. Non-executive directors are appointed so as to maintain an appropriate balance on the Board and to ensure a sufficiently wide and relevant mix of backgrounds, skills and experience to provide strong and effective leadership and control of the Company.

Internal control and risk management system with regard to the accounting process

The internal control and risk management system with regard to the accounting process comprises the principles, procedures and measures designed to assure the effectiveness and efficiency of accounting and also to ensure compliance with the relevant legal regulations. The aim of the risk management system with regard to the accounting process is to identify and evaluate risks which may oppose the objective of ensuring that the financial statements comply with the relevant rules, to limit risks which have been identified and to check the impact of such risks on the financial statements and also the way in which these risks are presented. The internal control system with regard to the accounting process is an integral component of the risk management system and is designed, by way of implementing controls, to guarantee adequate assurance that the financial statements which are prepared comply with the relevant rules despite the risks which have been identified.

However, an internal control and risk management system with regard to the accounting process cannot provide absolute assurance regarding success in attaining the associated objectives. As is the case with all discretionary decisions, decisions relating to the establishment of appropriate systems may also be incorrect as a result of faults, errors, changes in ambient variables or deliberate violations and criminal actions. These problems mean that it is not possible with absolute assurance to identify or prevent misstatements in the financial statements.

At the DEPFA Group, the internal control and risk management system with regard to the accounting process is reflected in the structure and procedure organisation. In terms of structure organisation, the internal control and risk management system with regard to the accounting process comprises the Board of Directors, the Audit Committee and the departments which report to the DEPFA Group CFO.

The directors are responsible for preparing the Directors' Report and the Group and parent company financial statements in accordance with applicable law and regulations. In conjunction with the obligation to maintain a Group-wide internal control and risk management system, the Board of Directors also bear responsibility for monitoring an adequate and effective internal control and risk management system with regard to the accounting process.

The Board of Directors has established an audit committee that operates within specific terms of reference approved by the Board. The internal audit department supports the Board of Directors in its control function by way of independent audits.

The DEPFA Group CFO is responsible for preparing the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRSs"). The companies of the DEPFA Group prepare their financial statements in accordance with the respective local legal requirements. For DEPFA Group accounting purposes, the financial statements are harmonised in relation to uniform accounting policies in accordance with IFRSs. Each company included in the consolidated financial statements reports its statements of financial position, income statement and notes via the consolidation software to a central department in Finance. In Finance, the data of the foreign currency companies is translated into euro by means of the consolidation software. In addition, this is where the data is checked for plausibility, analysed and consolidated.

In terms of procedure organisation, the internal control and risk management system with regard to the accounting process is based on an intended far reaching standardisation of processes and software. For core activities and processes, there is a HRE Group guideline department and a code of conduct. In addition, the four-eye principle is mandatory for major transactions. Data and EDP systems are protected against unauthorised access. In addition, certain relevant information is made available only to employees who actually require such information for their work. Where necessary, results are agreed on a company and DEPFA Group-wide basis.

In addition to the system-based measures, the DEPFA Group has also implemented manual and non-system-based procedures. For instance, a standard process is used to check whether the reported data is correct and complete. For this purpose, variance analyses in the form of budget versus actual comparisons are carried out. The consolidated statement of financial position and the income statement are also established on a monthly basis and some positions are also established on a daily basis. Extrapolations and forecasts are also prepared. A better understanding is achieved as a result of the continuous and frequent analysis of figures. Mandatory accounting principles applicable throughout the DEPFA Group are defined and communicated. These procedures comprise the analysis and interpretation of the new and existing IFRSs and interpretations in order to permit uniform accounting and evaluation throughout the DEPFA Group. Generally recognised valuation methods are used. The methods which are used and also the underlying parameters are regularly checked and, where necessary, adjusted. Schedules are also defined in order to permit a timely response in the event of deadline problems.

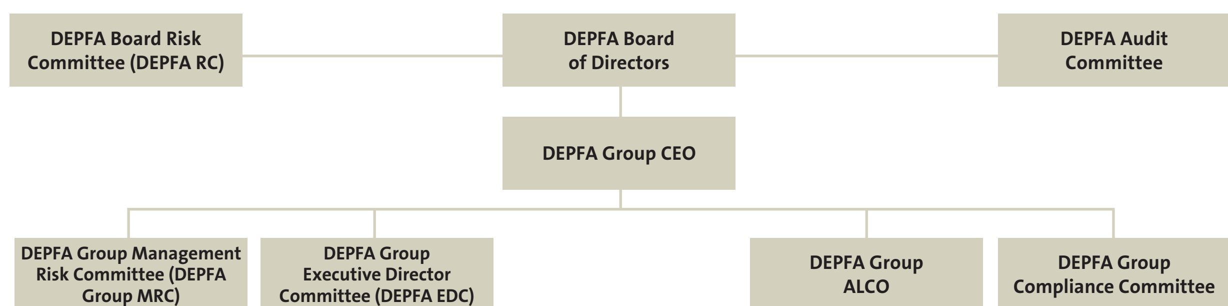
Chairman

The role of the Chairman is to lead the Board, encourage critical discussions, challenge mindsets and promote effective communication between executive and non-executive directors.

Chief Executive Officer

The Board has delegated responsibility for DEPFA BANK plc's operations, the execution of its strategy and responsibility for its compliance and performance to the Chief Executive Officer ("DEPFA Group CEO"). The DEPFA Group CEO is authorised by the Board to establish management committees to support him in carrying out his functions, including a DEPFA EDC, to which the Board has authorised the Chief Executive Officer to appoint and sub-delegate certain matters.

Standing Committees of the Board of Directors and Management Committees of the Chief Executive Officer



Company Secretary

The directors have access to the advice and services of the Company Secretary who is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

Performance evaluation

The Board evaluated its own performance during the year, under the guidance of the Chairman. Each director completed a questionnaire, the results of which were collated and presented for discussion at a Board meeting. Arising from the evaluation, a number of modifications were made to further strengthen the Board's functioning.

Induction and professional development

There is an induction process for new directors. The induction is designed to familiarise directors with the Company and its operations and comprises the provision of relevant briefing material and a programme of meetings

with the heads of divisions and senior management. During 2011, internal seminars on directors' duties under Irish law, as well as information sessions regarding the Central Bank Corporate Governance Code, ICAAP, Risk Management Stress Testing and Risk Policy Documents were conducted for the benefit of directors.

Board Committees

The Board is assisted in the discharge of its duties by a number of Board Committees, whose purpose it is to consider, in greater depth than would be practicable at Board meetings, matters for which the Board retains responsibility. The composition of such Committees is reviewed annually by the Board. A description of these Committees, each of which operates under Terms of Reference approved by the Board, is given below. Their membership is listed on page 7.

Audit Committee

The purpose of the Committee is to carry out the following duties:

- Monitor the effectiveness of the internal control systems
- Oversee the financial reporting process
- Monitor the effectiveness of the HRE Group internal audit function, as it applies to the DEPFA Group
- Manage the overall relationship with the external auditor
- Monitor the effectiveness of the process for monitoring compliance with applicable laws and regulations
- Monitor the effectiveness of the IT system

Board Risk Committee

The establishment of the DEPFA RC was approved on 1 December 2011 and this committee met for the first time on 29 February 2012. Prior to this the Board relied on the HRE Group RC, the terms of reference of which were approved by the DEPFA BANK plc Board of Directors. The principle purpose of DEPFA RC is to review, on behalf of the Board, management's recommendations on risk, in particular:

- Consider and recommend to the Board the DEPFA Group's Risk Appetite.
- Consider and recommend to the Board the DEPFA Group's Risk Strategy.
- Review on behalf of the Board the DEPFA Group's risk profile.
- Monitor the effectiveness of the DEPFA Group's risk management organisation relative to the risk profile of the DEPFA Group.
- Advise the board on the effectiveness of policies with respect to maintaining, on an ongoing basis, amounts, types and distribution of both internal capital and own funds adequate to cover the risks of the institution.

Takeover bids regulations

There is only one class of shares and all of the shares are owned by Hypo Real Estate Holding AG, there are no restrictions on the transfer or voting rights of these shares. For further details please refer to note 37 to the financial statements.

Auditors

The auditors, KPMG, Chartered Accountants, Statutory Audit Firm, have indicated their willingness to continue in office in accordance with section 160(2) of the Companies Act, 1963.

On behalf of the Board

Tom Glynn	**John Bourke**	**Noel Reynolds**	**Elaine Tiernan**
Director	Director	Director	Company Secretary

12 March 2012

Statement of director's responsibilities

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the Group and parent company financial statements, in accordance with applicable law and regulations. Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU and have elected to prepare the parent company financial statements in accordance with IFRSs as adopted by the EU as applied in accordance with the Companies Acts 1963 to 2009.

The Group and parent company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the Group and Company. The Companies Acts 1963 to 2009 provide in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the EU and in accordance with the Companies Acts 1963 to 2009; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

Under applicable law, the directors are also responsible for preparing a Directors' Report. In addition, in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007 (the Transparency Regulations), the directors are required to include in their report a fair review of the business and a description of the principal risks and uncertainties facing the Group and the Company and a responsibility statement relating to these and other matters, included below.

The directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Group and parent company and enable them to ensure that the financial statements comply with the Companies Acts 1963 to 2009 and, as regards the Group financial statements, Article 4 of the IAS Regulations. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

Tom Glynn
Director

John Bourke
Director

Noel Reynolds
Director

Elaine Tiernan
Company Secretary

12 March 2012

Responsibility Statement, in accordance with the Transparency Regulations

Each of the directors in office, whose names and functions are listed on page 7 confirm that, to the best of each person's knowledge and belief:

- The Group financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities and financial position of the Group at 31 December 2011 and its profit for the year then ended;
- The parent company financial statements, prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the Companies Acts 1963 to 2009, give a true and fair view of the assets, liabilities and financial position of the parent company at 31 December 2011; and
- The Directors' Report includes a fair review of the development and performance of the business and the position of the Group and parent company, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

Tom Glynn	**John Bourke**	**Noel Reynolds**	**Elaine Tiernan**
Director	Director	Director	Company Secretary

12 March 2012

Independent Auditor's Report

Independent Auditor's Report to the Members of DEPFA BANK plc

We have audited the group and parent company financial statements (''financial statements'') of DEPFA BANK plc ("the Bank" or "the Company") for the year ended 31 December 2011 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Parent Company Statement of Financial Position, the Group and Parent Company Cash Flow Statement, the Group and Parent Company Statement of Changes in Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of directors' responsibilities on page 48.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with IFRSs as adopted by the EU and have been properly prepared in accordance with the Companies Acts 1963 to 2009 and, in the case of the group financial statements, Article 4 of the IAS Regulation. We also report to you, in our opinion, whether proper books of account have been kept by the Company; whether at the statement of financial position date, there exists a financial situation requiring the convening of an extraordinary general meeting of the Company; and whether the information given in the Directors' Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit and whether the Parent Company financial statements are in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We are required by law to report to you our opinion as to whether the description of the main features of the internal control and risk management systems in relation to the process for preparing the consolidated group financial statements, set out in the Directors' Report is consistent with the consolidated financial statements.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31 December 2011 and of its profit for the year then ended;
- the Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Acts 1963 to 2009, of the state of the parent company's affairs as at 31 December 2011;
- the group financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2009 and Article 4 of the IAS Regulation; and
- the Company financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2009.

Other matters

We have obtained all the information and explanations which we consider necessary for the purposes of our audit. In our opinion, proper books of account have been kept by the Company. The Company statement of financial position is in agreement with the books of account.

In our opinion, the information given in the Directors' Report and the description of the main features of the internal control and risk management systems in relation to the process for preparing the consolidated group financial statements is consistent with the financial statements.

The net assets of the company, as stated in the Company statement of financial position are not less than half of the amount of its called-up share capital and, in our opinion, on that basis, there did not exist at 31 December 2011 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the company.

Frank Gannon
for and on behalf of
KPMG
Chartered Accountants, Statutory Audit Firm
1 Harbourmaster Place
IFSC
Dublin 1
Ireland

12 March 2012

Consolidated income statement

For the year ended 31 December 2011			
			As restated *
€ m	Note	2011	2010
Interest and similar income	7	1,867	4,488
Interest expense and similar expenses	7	-1,813	-4,310
Income from buyback of liabilities	7	142	33
Net interest income		**196**	**211**
Fee and commission income	8	5	15
Fee and commission expense	8	-24	-325
Net fee and commission expense		**-19**	**-310**
Net trading income/expenses	9	19	-457
Net expense/income from financial investments	10	-53	72
Net income/expense from hedge relationships	11	4	-11
Other operating income	12	81	15
Total operating revenues		**228**	**-480**
Reversals of/provision for losses on loans and advances	21	31	-2
General administrative expenses	13	-134	-203
Other expenses/income	14	-1	5
Of which: restructuring expenses		3	5
Of which: other		-4	-
Pre-tax income/loss		**124**	**-680**
Taxes on income	16	-5	-1
Net income/loss		**119**	**-681**
Attributable to:			
Equity holders of the parent		119	-681

The notes on pages 58 to 119 are an integral part of these consolidated financial statements.

* Details of the reclassification of 2010 comparatives are set out in note 57 of the notes to the audited consolidated financial statements.

On behalf of the Board

Tom Glynn
Director

John Bourke
Director

Noel Reynolds
Director

Elaine Tiernan
Company Secretary

12 March 2012

Consolidated statement of comprehensive income

€ m	2011			2010		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Net income/loss	124	-5	119	-680	-1	-681
AfS reserve movement - net	13	-1	12	2,075	-288	1,787
Exchange differences	2	-	2	-4	-	-4
Total	**139**	**-6**	**133**	**1,391**	**-289**	**1,102**
attributable to:						
Equity holders of the parent	**139**	**-6**	**133**	**1,391**	**-289**	**1,102**

Disclosure of components of comprehensive income

€ m	2011	2010
Net income/loss	119	-681
AfS reserve movement - net	12	1,787
Gains/losses arising during the year	12	1,774
Reclassification adjustments for gains/losses included in profit or loss	-	13
Cash flow hedge reserve - net	-	-
Gains/losses arising during the year	-7	20
Reclassification adjustments for gains/losses included in profit or loss	7	-20
Exchange differences	2	-4
Total	**133**	**1,102**

The notes on pages 58 to 119 are an integral part of these consolidated financial statements.

On behalf of the Board

Tom Glynn
Director

John Bourke
Director

Noel Reynolds
Director

Elaine Tiernan
Company Secretary

12 March 2012

Consolidated statement of financial position

As at 31 December 2011			As restated *
€ m	**Note**	**2011**	**2010**
ASSETS			
Cash reserve	17	600	2,283
Trading assets	18	20,517	24,740
Loans and advances to other banks	19	15,991	21,565
Loans and advances to customers	20	55,028	56,859
Allowances for losses on loans and advances	21	-70	-100
Financial investments	22	31,617	33,845
Property, plant and equipment	23	1	1
Intangible assets	24	17	19
Other assets	25	6,028	4,655
Income tax assets	26	193	128
Current tax assets		1	6
Deferred tax assets		192	122
Total assets		**129,922**	**143,995**
LIABILITIES			
Liabilities to other banks	29	38,057	39,803
Liabilities to customers	30	21,356	25,856
Liabilities evidenced by certificates	31	39,456	44,288
Trading liabilities	32	20,604	24,618
Provisions	33	112	96
Other liabilities	34	6,289	4,524
Income tax liabilities	35	230	169
Current tax liabilities		44	46
Deferred tax liabilities		186	123
Subordinated capital	36	1,079	1,072
Total liabilities		**127,183**	**140,426**
EQUITY			
Equity attributable to equity holders			
Share capital	37	106	106
Share premium	37	1,142	1,142
Capital reserve	38	1,500	1,500
Preferred securities	39	1,136	1,136
Retained earnings	40	-1,100	-256
Other reserves	41	-45	-59
AfS		-47	-59
Currency translation		2	-
Total equity		**2,739**	**3,569**
Total equity and liabilities		**129,922**	**143,995**

The notes on pages 58 to 119 are an integral part of these consolidated financial statements.

* Details of the reclassification of 2010 comparatives are set out in note 57 of the notes to the audited consolidated financial statements.

On behalf of the Board

Tom Glynn
Director

John Bourke
Director

Noel Reynolds
Director

Elaine Tiernan
Company Secretary

12 March 2012

Company statement of financial position

As at 31 December 2011			As restated *
€ m	Note	2011	2010
ASSETS			
Cash reserve	17	587	2,248
Trading assets	18	26,559	29,588
Loans and advances to other banks	19	17,351	24,152
Loans and advances to customers	20	40,251	41,346
Allowances for losses on loans and advances	21	-67	-99
Financial investments	22	8,715	8,106
Property, plant and equipment	23	1	1
Intangible assets	24	17	19
Other assets	25	719	1,055
Income tax assets	26	2	4
Current tax assets		1	3
Deferred tax assets		1	1
Total assets		**94,135**	**106,420**
LIABILITIES			
Liabilities to other banks	29	40,180	44,404
Liabilities to customers	30	19,021	23,344
Liabilities evidenced by certificates	31	2,626	3,627
Trading liabilities	32	26,489	29,486
Provisions	33	112	97
Other liabilities	34	2,633	1,543
Income tax liabilities	35	40	54
Current tax liabilities		38	45
Deferred tax liabilities		2	9
Subordinated capital	36	1,682	1,673
Total liabilities		**92,783**	**104,228**
EQUITY			
Equity attributable to equity holders			
Share capital	37	106	106
Share premium	37	1,142	1,142
Capital reserve	38	2,403	2,403
Retained earnings	40	-2,310	-1,470
Other reserves	41	11	11
AfS		2	6
Currency translation		9	5
Total equity		**1,352**	**2,192**
Total equity and liabilities		**94,135**	**106,420**

The notes on pages 58 to 119 are an integral part of these consolidated financial statements.

* Details of the reclassification of 2010 comparatives are set out in note 57 of the notes to the audited consolidated financial statements.

On behalf of the Board

Tom Glynn
Director

John Bourke
Director

Noel Reynolds
Director

Elaine Tiernan
Company Secretary

12 March 2012

Consolidated statement of changes in equity – Group

For the year ended 31 December 2011						Other reserves		
€ m	Share capital	Share premium	Capital reserve	Preferred securities	Retained earnings	Unrealised gains/losses on available-for-sale investments	Accumulated effects of currency translations	Total equity
Balance at 1 January 2010	**106**	**1,142**	**600**	**1,136**	**406**	**-1,846**	**4**	**1,548**
Loss for the year	-	-	-	-	-681	-	-	**-681**
Net changes in available-for-sale investments, net of tax	-	-	-	-	-	-2,606	-	**-2,606**
Net changes in currency translation reserve	-	-	-	-	-	-	-4	**-4**
Change due to transfer to FMS Wertmanagement	-	-	-	-	-	4,393	-	**4,393**
Total recognised comprehensive loss	**-**	**-**	**-**	**-**	**-681**	**1,787**	**-4**	**1,102**
Capital Contribution	-	-	900	-	-	-	-	**900**
Change due to transfer to FMS Wertmanagement	-	-	-	-	19	-	-	**19**
Balance at 31 December 2010	**106**	**1,142**	**1,500**	**1,136**	**-256**	**-59**	**-**	**3,569**
Profit for the year	-	-	-	-	119	-	-	**119**
Net changes in available-for-sale investments, net of tax	-	-	-	-	-	12	-	**12**
Net changes in currency translation reserve	-	-	-	-	-	-	2	**2**
Total recognised comprehensive loss	**-**	**-**	**-**	**-**	**119**	**12**	**2**	**133**
FMSA payment condition, net of tax	-	-	-	-	-963	-	-	**-963**
Balance at 31 December 2011	**106**	**1,142**	**1,500**	**1,136**	**-1,100**	**-47**	**2**	**2,739**

The notes on pages 58 to 119 are an integral part of these consolidated financial statements.

Statement of changes in equity – Company

For the year ended 31 December 2011					Other reserves		
€ m	Share capital	Share premium	Capital reserve	Retained earnings	Unrealised gains/losses on available-for-sale investments	Accumulated effects of currency translations	Total equity
Balance at 1 January 2010	**106**	**1,142**	**1,503**	**-789**	**-1,698**	**5**	**269**
Loss for the year	-	-	-	-681	-	-	**-681**
Net changes in available-for-sale investments, net of tax	-	-	-	-	-2,532	-	**-2,532**
Net changes in currency translation reserve	-	-	-	-	-	-	**-**
Change due to transfer to FMS Wertmanagement	-	-	-	-	4,236	-	**4,236**
Total comprehensive income	**-**	**-**	**-**	**-681**	**1,704**	**-**	**1,023**
Capital contribution	-	-	900	-	-	-	**900**
Balance at 31 December 2010	**106**	**1,142**	**2,403**	**-1,470**	**6**	**5**	**2,192**
Loss for the year	-	-	-	-31	-	-	**-31**
Net changes in available-for-sale investments, net of tax	-	-	-	-	-4	-	**-4**
Net changes in currency translation reserve	-	-	-	-	-	4	**4**
Total comprehensive income	**-**	**-**	**-**	**-31**	**-4**	**4**	**-31**
Capital contribution	-	-	-	-	-	-	**-**
FMSA payment condition, net of tax	-	-	-	-809	-	-	**-809**
Balance at 31 December 2011	**106**	**1,142**	**2,403**	**-2,310**	**2**	**9**	**1,352**

The notes on pages 58 to 119 are an integral part of these consolidated financial statements.

Cash flow statements– Group and Company

For the year ended 31 December 2011	Group		Company	
		As restated *		As restated *
€ m	2011	2010	2011	2010
Cash flows from operating activities				
Net loss before taxation	**124**	**-680**	**-30**	**-671**
Adjustments for non-cash movements:				
Depreciation and amortisation of tangible and intangible assets	5	7	5	6
Foreign exchange gain	-4	-	-12	-
Net decrease in accrued interest income	1,068	1,580	844	160
Net decrease in accrued interest expenditure	-1,032	-891	-795	-794
Provisions for/reversal of losses on loans and advances	-30	2	-31	-29
Loss/(gain) on sale of investment securities and loans	53	-72	64	-50
Income from buyback of liabilities	-142	-33	-	-
Other non cash items	-114	-24	75	-34
Net decrease/(increase) in loans and advances to other banks	5,666	-6,196	6,898	18,153
Net decrease in loans and advances to customers	2,299	38,887	1,196	18,257
Net decrease/(increase) in other assets	288	-201	491	-427
Net decrease in deposits from other banks	-1,640	-19,094	-4,318	-24,421
Net decrease in amounts due to customers	-4,683	-12,973	-4,505	-16,739
Net decrease in liabilities evidenced by certificates	-6,365	-6,145	-1,166	-837
Net (decrease)/increase in other liabilities	-19	-183	-3	10
Net (increase)/decrease in trading assets and other receivables	-1	801	4	755
Net (decrease)/increase in derivatives and trading liabilities	-120	-126	135	912
Tax paid	-9	-7	-12	1
Net cash from operating activities	**-4,656**	**-5,348**	**-1,160**	**-5,748**
Cash flows from investing activities				
Purchase of investment securities	-1,382	-1,371	-1,618	-1,282
Sale/maturity of investment securities	5,366	6,918	1,948	7,229
Purchase of property and equipment	-1	-	-1	-
Purchase of intangible assets	-3	7	-3	7
Net cash from investing activities	**3,980**	**5,554**	**326**	**5,954**
Cash flows from financing activities				
Capital contribution received	-	900	-	900
FMSA payment condition	-967	-	-809	-
Net cash from financing activities	**-967**	**900**	**-809**	**900**
Net increase in cash and cash equivalents	**-1,643**	**1,106**	**-1,643**	**1,106**
Cash and cash equivalents at the beginning of the year (Note 17)	**2,206**	**1,100**	**2,206**	**1,100**
Cash and cash equivalents at the end of the year (Note 17)	**563**	**2,206**	**563**	**2,206**

Included in the cash flows for the year are the following amounts:

	Group		Company	
		As restated *		As restated *
€ m	2011	2010	2011	2010
Interest income received	2,935	6,068	1,673	2,895
Interest expense paid	-2,845	-5,201	-1,637	-3,405

The notes on pages 58 to 119 are an integral part of these consolidated financial statements.

* Details of the reclassification of 2010 comparatives are set out in note 57 of the notes to the audited consolidated financial statements.

Notes to the financial statements

Notes to the financial statements

01 General information

DEPFA BANK plc ("the Bank" or "DEPFA") is a provider of financial services to public sector clients worldwide. The Bank and its subsidiary undertakings ("the Group" or "the DEPFA Group"), operating in Ireland and in other parts of the world, provides a comprehensive range of banking, financial and related services subject to the conditions imposed by the European Commission's approval on 18 July of the state aid in relation to the stabilisation measures granted to the HRE Group by the Federal Republic of Germany. The Group is regulated by the Central Bank of Ireland and the German Bundesanstalt für Finanzdienstleistungsaufsicht ("BaFin"). Debt issued by the Group is listed on exchanges in Dublin, Frankfurt, London, Luxembourg and Zurich.

On 2 October 2007 the entire ordinary share capital of the Company was acquired by Hypo Real Estate Holding AG (the "HRE Holding") the parent entity of the Hypo Real Estate Group ("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 was no change in the ownership of the Bank during 2011.

02 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below.

IFRS and interpretations applied for the first time as well as changes of standards and interpretations

The DEPFA Group has prepared its financial statements for the period ended 31 December 2011 in line with EC ordinance No. 1606/2002 of the European Parliament and Council of 19 July 2002 in accordance with International Financial Reporting Standards ("IFRSs"). These financial statements are based on the IFRSs, which have been adopted in European Law by the European Commission as part of the endorsement process. With the exception of specific regulations relating to fair value hedge accounting for a portfolio hedge of interest risks in IAS 39 all mandatory IFRSs have been completely endorsed by the EU. The DEPFA Group does not apply this type of hedge accounting. Therefore, the financial statements are accordingly consistent with the entire IFRSs and also with the IFRSs as applicable in the EU.

The IFRSs are standards and interpretations adopted by the International Accounting Standards Board ("IASB"). These are the International Financial Reporting Standards, the International Accounting Standards ("IAS") and the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") or the former Standing Interpretations Committee ("SIC").

Initially adopted standards, interpretations and amendments

The following standards, interpretations and amendments were applicable initially in the financial year 2011:

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Amendment to IAS 32 Financial Instruments Presentation on Classification of Rights Issues
- Amendments to IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
- Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement
- Annual Improvements to IFRSs 2010

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments clarifies the accounting when an entity issues shares or other equity instruments to extinguish all or parts of a financial liability. This standard has had no impact on the DEPFA Group.

Amendment to IAS 32 Financial Instruments: Presentation on Classification of Rights Issues addresses the issuer's accounting for rights, options and warrants to acquire a fixed number of own equity instruments that are denominated in a currency other than the functional currency of the issuer. As the DEPFA Group has not issued any such products at present, the amendment did not have any impact on the DEPFA Group.

Amendments to IFRS 1 Limited Exemptions from Comparative IFRS 7 Disclosures for First-time Adopters clarify comparative disclosures relating to financial instruments for IFRS first-time adopters. The DEPFA Group is not a first-time adopter of this IFRS and therefore it had no impact on the DEPFA Group.

Amendment to IFRIC 14 Prepayments of Minimum Funding Requirement concerns accounting requirements of pension plans. The amendment is applicable if an entity supplies prepayments to meet the minimum funding requirements regarding its pension plan. As this is not the case for the pension plans of the DEPFA Group, there was no impact on the DEPFA Group.

In the course of the project Business Combination Phase II the following standards and interpretations were amended

and were combined in Annual Improvements to IFRSs 2010:

- IFRS 3 (revised) Business Combinations
- IAS 27 (revised) Consolidated and Separate Financial Statements
- IAS 21 The Effects of Changes in Foreign Exchange Rates
- IAS 28 Investment in Associates
- IAS 31 Interests in Joint Ventures
- IAS 32 Financial Instruments Presentation
- IAS 39 Financial Instruments Recognition and Measurement

Additionally, Annual Improvements to IFRSs 2010 comprises the amendments of the following standards and interpretations:

- IFRS 1 First-time Adoption of International Financial Reporting Standards
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 34 Interim Financial Reporting
- IFRIC 13 Customer Loyalty Programmes

The majority of the amendments of Annual Improvements to IFRSs 2010 are applicable for financial years beginning on or after 1 January 2011. Annual Improvements to IFRSs 2010 does not have a material impact on the DEPFA Group. The amendment to IAS 34 Interim Financial Reporting is an exception which will result in extended financial instruments disclosures in the consolidated interim financial statements of the DEPFA Group.

Endorsed standards, interpretations and amendments, which are not yet mandatorily applicable

In November 2011 the European Union endorsed the Amendments to IFRS 7 Financial Instruments: Disclosures – Transfer of Financial Assets. The amendments require disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities; and to evaluate the nature of and risks associated with, the entity's continuing involvement in derecognised financial assets. The amendments shall be applied for financial years beginning on or after 1 July 2011 and could increase the disclosures of the DEPFA Group concerning derecognition of financial assets. It is not planned to apply the standards early.

Published standards, interpretations and amendments which are not yet endorsed

The following standards, interpretations and amendments will probably have material impacts on the DEPFA Group:

- IFRS 9 Financial Instruments and Subsequent Amendments to IFRS 9 and IFRS 7
- IFRS 10 Consolidated Financial Statements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- Amendements to IAS 1 Presentation of Items of Other Comprehensive Income (OCI)

It is not planned to apply the above standards early.

The IASB is replacing the standard IAS 39 Financial Instruments: Recognition and Measurement by IFRS 9 Financial Instruments in several project phases. The IASB published new policies in 2009 and 2010 for the first project phase Classification and Measurement. Finally adopted standard parts are not yet available for the two other project phases Impairment Methodology and Hedge Accounting. With regard to the classification of the financial instruments, the Classification and Measurement part in its current version only provides the two categories measurement at fair value and measurement at amortised cost. Financial debt instruments are classified on the assets' side of the statement of financial position depending on the business model of the entity for managing financial assets and the characteristics of the contractual cash flows of the financial asset. Equity instruments and dFVTPL assets generally have to be measured at fair value. On the liabilities side of the statement of financial position, all non-derivative liabilities which are not used for trading purposes or which are not designated for measurement at fair value have to be measured at amortised cost. In the case of the dFVTPL liabilities, changes in value which are attributable to the change in the entity's own credit risk have to be recognised directly in equity. The initial application of the new standard IFRS 9, which is envisaged for financial years beginning on or after 1 January 2015, will probably have a material impact for the DEPFA Group. In future, it will be necessary for some assets and liabilities, which have previously been measured at amortised cost, to be measured at fair value and vice versa. Applying IFRS 9 initially will require additional disclosures, which were added to the regulations of IFRS 7. However, it will only be possible to make a definitive assessment of the entire impacts on the DEPFA Group when all parts of IFRS 9 have been completely published.

IFRS 10 Consolidated Financial Statements supersedes the guidance regarding control and consolidation including IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IAS 27 is renamed Separate Financial Statements and includes solely the guidance regarding separate financial statements. In IFRS 10 the determination of control is enhanced by a broad guidance which demonstrates multiple forms of how a reporting entity can control another entity. The new standard has to be applied for financial years beginning on or after 1 January 2013. There may be changes in the group of consolidated companies of the DEPFA Group due to IFRS 10.

IFRS 12 Disclosure of Interests in Other Entities expands the disclosure requirements concerning the nature, risks and financial implications of an entity's investment in sub-

sidiaries, associates, joint arrangements and non consolidated special purpose entities. The new standard has to be applied for financial years beginning on or after 1 January 2013. Due to the requirements of IFRS 12 the DEPFA Group will probably extend disclosures regarding its interests in other entities.

Material requirements of IFRS 13 Fair Value Measurement concern, for example, the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent market participants (exit price). In consequence, the fair value of a liability would represent the default risk, i.e. the own credit risk. For measuring financial instruments applying bid price or the asking price would be required, if these prices more appropriately represent the fair value. IFRS 13 expands the disclosure requirements regarding the fair value hierarchy. These additional disclosures are similar to the disclosures of IFRS 7 Financial Instruments: Disclosures, but they are required not only for financial instruments but also for all assets and liabilities. IFRS 13 is applicable to financial years beginning on or after 1 January 2013. The standard is applicable prospectively. In particular, the amendments of the currently applicable fair value measurement methods, for example considering the bid price or the asking price as appropriate and including the own credit risk, may result in material impacts on the DEPFA Group.

According to Amendments to IAS 1 Presentation of Items of Other Comprehensive Income (OCI), positions of other comprehensive income have to be grouped based on whether or not they can be recycled into the income statement – including subtotals for both groups. Amendment to IAS 1 is applicable for periods beginning on or after 1 July 2012. The DEPFA Group will adjust its disclosures accordingly.

Furthermore, the IASB published the following standards, interpretations and amendments, which will not have a material impact on the DEPFA Group or which are not relevant:

- IFRS 11 Joint Arrangements
- IAS 27 Separate Financial Statements
- IAS 28 Investments in Associates and Joint Ventures
- IFRIC Interpretation 20: Stripping Costs in the Production Phase of a Surface Mining
- Amendments to IAS 12 Income Taxes – Deferred tax: Recovery of Underlying Assets
- Amendments to IFRS 1 – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters
- Amendments to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
- Amendments to IFRS 7 Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities
- Amendments to IAS 19 Employee Benefits

Consistency

These policies have been consistently applied in accordance with the framework of IFRSs as well as IAS 1 and IAS 8.

Basis of preparation

The consolidated financial statements have been prepared in accordance with European Union (EU) endorsed IFRSs, IFRIC interpretations as endorsed by the European Union (EU) and also the Companies Acts 1963 to 2009, applicable to companies reporting under IFRSs and the European Communities (Credit Institutions: Accounts) Regulations, 1992.

The consolidated and Parent Company financial statements have been prepared in accordance with IFRSs and IFRIC interpretations as endorsed by the EU and also the Companies Acts 1963 to 2009. The Company has taken advantage of the exemption in Section 148(8) of the Companies Acts 1963 to 2009 from presenting to its members its Company income statement and related notes that form part of the Company financial statements.

The consolidated and Parent Company financial statements are prepared on a going concern basis.

On 18 July 2011, the European Commission approved the state aid in relation to the stabilisation measures granted to the HRE Group by the Federal Republic of Germany. 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 consolidated financial statements, no longer exist. These factors were:

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

Consolidation

Subsidiaries

Subsidiaries comprise all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls an entity. Subsidiaries are fully consolidated from the date on which control is transferred

to the Group and cease to be consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary acquired, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The financial statements and group reporting of all subsidiaries are drawn up to the year ended 31 December and the accounting policies applied in their preparation are consistent with the Group accounting policies.

Non-controlling interests comprise minority shareholders' proportionate share in shareholders' equity and net income. The Group applies the parent company method of consolidation. Therefore, goodwill can arise on the acquisition of non-controlling interests and the sale of such interests can give rise to a profit or loss in the income statement.

Common control transactions

Common control transactions are business combinations involving businesses or entities under common control. These transactions are accounted for at book value. Consequently, any differences between consideration paid/received and the book value are transferred directly to shareholders equity and no goodwill arises.

In 2002 the Group was reorganised, the purpose of which was to de-merge the Property Finance and IT Services activities from the Public Finance business, which resulted in the formation of the current parent company, DEPFA BANK plc. This de-merger was treated as a discontinued operation.

DEPFA BANK plc was created by a share for share exchange with the previous parent company, DEPFA Deutsche Pfandbriefbank AG. This share for share exchange and other transfers of assets and property as part of the reorganisation were treated as a transaction under common control and accounted for at book value.

Under Irish company law, a share premium was created on the above share for share exchange. A merger adjustment arose being the difference between the fair value of the shares issued and the book value of the net assets acquired. The merger adjustment was transferred to retained earnings.

The Group availed of the exemption in IFRS 1 to apply IFRS to business combinations, including common control transactions, from 15 March 2002, the date of the Group restructuring.

On 31 December 2007 the Company acquired Hypo Public Finance Bank from Hypo Real Estate Holding AG. This was accounted for as a transaction under common control. A merger adjustment arose being the difference between the fair value of the shares acquired and the book value of the net assets acquired. The merger adjustment was transferred to retained earnings.

As discussed in note 5 of the notes to the financial statements, the transfer of positions to FMS Wertmanagement on 1 October 2010 is accounted for as a transaction under common control.

Segment reporting

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Board of Directors (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance and for which discrete financial information is available. For detail on these disclosures please see note 6 "Business segments".

Foreign currency translation

Currency translation is carried out in accordance with the requirements of IAS 21. On the relevant date for the financial statements, monetary items in a foreign currency are translated into the functional currency. Non-monetary items, which were stated in a foreign currency using historical cost of purchase, are stated using the exchange rate applicable at the point they were purchased.

Income and expenditures attributable to currency translation at the individual companies in the Group are normally shown in the income statement under "Other operating income".

The reporting currency of the Group is the Euro.

In these consolidated financial statements, statement of financial position items of the subsidiaries, if they do not prepare financial statements in euro, are translated using the closing rates at reporting date for the financial statements. For translating the expenses and income of these subsidiaries, the average rates are used where this is a rea-

sonable approximation to the actual transacted rates in place throughout the year. Differences resulting from the translation of the financial statements of the subsidiaries are treated without any impact on the income statement and are shown in "Other reserves". The Group of consolidated companies does not include any companies from high-inflation countries.

Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate the Group estimates cash flows considering all contractual terms of the financial instrument, for example, prepayment options, but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

The interest element of all derivatives and financial instruments designated at fair value through profit or loss ("dFVTPL") is included in "Net interest income".

Fee and commission expense

Fees and commissions which are not part of the effective interest rate calculation are generally recognised on an accruals basis when the service has been provided. Loan syndication fees are recognised as income when the syndication has been completed and the Group has retained no part of the loan package for itself or retained a part at the same effective interest rate as the other participants.

Commitment fees, together with related direct costs, for loan facilities where draw down is probable are deferred and recognised as an adjustment to the effective interest rate on the loan once drawn. Commitment fees in relation to facilities where draw down is not probable are recognised over the term of the commitment in "Net fee and commission expense".

Other advisory and service fees are recognised when the service has been provided.

Financial instruments

According to IAS 32, a financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Recognition and derecognition The Group recognises a financial asset or a financial liability on its statement of financial position when and only when, it becomes party to the contractual provisions of the financial instrument.

The purchases or sales of financial instruments are accounted for at trade date. Premiums and discounts appear in the position "Net interest income" for the accounting period in question in line with the effective interest rate. In accordance with the derecognition requirements of IAS 39, a financial asset is derecognised when substantially all risks and rewards have been transferred. If the significant risks and rewards associated with ownership of the transferred financial asset are neither transferred nor retained and if the power of disposal continues to be exercised over the transferred asset, the Company must recognise the asset to the extent of the supposed continuing involvement. There are no transactions within the Group which result in partial derecognition arising due to a continuing involvement.

In the case of repurchase agreements and synthetic securitisations the assets transferred do not qualify for derecognition because the derecognition criteria of IAS 39 are not fulfilled.

Categories pursuant to IAS 39 Initially, when a financial asset or financial liability is recognised, it is measured at its fair value.

For subsequent measurement according to IAS 39, all financial instruments must be classified according to this standard, be recognised in the statement of financial position and be measured according to its categorisation.

(a) Designated at fair value through profit or loss ("dFVTPL") If certain conditions are satisfied, financial assets or liabilities can be classified at their fair value through profit or loss when they are initially recognised. A designation can be made, if the use of the valuation category means that an accounting mismatch is either avoided or considerably reduced, if the management and performance measurement of a portfolio of financial instruments are based on the fair values or if the instrument contains a separable embedded derivative. The Group classifies financial assets under the dFVTPL category only for the first two cases.

As of 31 December 2011, only fixed-income securities are held in the category dFVTPL. Financial liabilities are not allocated to this category. The portfolio of fixed-income securities is managed on a fair value basis. In addition, open interest risk positions of the portfolio are to a large extent closed by hedging derivatives. Because changes in the value of derivatives under IAS 39 in principle have to be recognised in profit or loss, the designation of fixed income securities under the category dFVTPL will avoid

an accounting mismatch in terms of reported results.

As a result of the designation of fixed income securities, the opposite movements relating to the hedged risk in the income statement cancel each other to a large extent. The accounting treatment is accordingly consistent with risk management and the investment strategy.

dFVTPL financial instruments are measured at fair value. Changes in fair value are recognised in profit or loss. As financial liabilities are not designated in the category dFVTPL, the Group does not have any effect resulting from the instruments being valued with the Group's own current credit risk.

The fixed income securities under the category dFVTPL are stated under the item of "Financial investments". Interest income from the securities is shown under the position "Net interest income". The changes in value to be recognised in profit or loss (net gains and net losses from fair value option) are stated under the line "Net income from hedge relationships" in the same way as the changes in value of the corresponding derivatives.

(b) Held-for-trading a financial asset or a financial liability is held-for-trading if it is:

- acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- a derivative (except for a derivative that is a designated and effective hedging instrument).

Held-for-trading financial instruments are measured at fair value. Changes in fair value are recognised in profit or loss. Held-for-trading financial instruments are stated under "Trading assets" and "Trading liabilities". Interest and dividend income, as well as the refinancing costs for the trading instruments, are shown in "Net trading income/expenses".

If there is a difference between transaction price and market value at trade date and the difference results from unobservable data that have a significant impact on the valuation of a financial instrument, the difference (so-called day one profit) is not recognised immediately in the income statement but is recognised over the life of the transaction. The remaining difference is treated directly in the income statement when the inputs become observable, when the transaction matures or is closed out.

(c) Loans and receivables ("LaR") are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include bonded notes.

Loans and receivables are recognised in the line items "Loans and advances to other banks", "Loans and advances to customers" and "Financial investments" and are measured at amortised cost. Interest income from loans and receivables are shown in "Net interest income". Market price related net gains and net losses attributable to prepayment penalties or to selling of loans and advances to customers and of loans and advances to other banks are shown under the position "Net interest income". Such net gains and net losses are shown in "Net expense/income from financial investments" for financial investments. Impairments are shown under "Reversals of/provisions for losses on loans and advances" for loans and advances and in "Net expense/income from financial investments" for financial investments.

(d) Held-to-maturity ("HtM") investments are non-derivative financial assets, with fixed or determinable payments and fixed maturity, that are quoted on an active market and that an entity has the positive intention and ability to hold to maturity. HtM financial investments are measured at amortised cost.

No financial assets were classified as HtM in financial years 2011 and 2010.

(e) Available-for-sale ("AfS") assets are those non-derivative financial assets, that are designated as available for sale and which are not categorised as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

AfS financial assets are measured at fair value. Changes in fair value are recognised in a separate item of equity (AfS reserve) not affecting income until the asset is sold, withdrawn or otherwise disposed, or if an impairment is established for the financial asset in accordance with IAS 39.58 et seq., so that the cumulative loss previously recorded in other comprehensive income is now reclassified to the income statement. If the objective evidence for the impairment of an AfS debt instrument is no longer present, the impairment must be reversed to the income statement. On the other hand, impairments for an AfS equity instrument which have been recognised in the income statement are not permitted to be reversed through the income statement.

AfS financial assets are disclosed under "Financial investments". Interest income from AfS assets is stated under the position "Net interest income". Net gains and net losses generated by the disposal of AfS financial instruments, in addition to changes in value as a result of impairment or write-ups to be recognised in profit or loss are shown under "Net expense/income from financial investments".

(f) Financial liabilities are those non-derivative financial liabilities that are not classified at fair value through profit or loss.

Financial liabilities are measured at amortised cost. Financial liabilities that are not securitised are recognised in the positions "Liabilities to other banks" and "Liabilities to customers". If these financial liabilities are securitised and not subordinated, they are disclosed in "Liabilities evi-

denced by certificates". Subordinated liabilities are shown in "Subordinated capital". Interest expenses from financial liabilities are shown under the line item "Interest expense and similar expenses". In addition, the line item "Net interest income" includes net gains and net losses attributable to repurchases or extinguishments of financial liabilities before maturity.

Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

Classes

IFRS 7 requires disclosures according to classes of financial instruments. The Group mainly defined the IAS 39 measurement categories, irrevocable loan commitments, financial guarantees, hedging derivatives and cash reserve as classes.

Valuation methods

Financial instruments which must be measured at fair value are valued on the basis of stock market prices or other market prices, if they exist. If a price is not available from an active market, observable market prices from comparable financial instruments are used. If prices from comparable financial instruments are not available, valuation models are used that are based on observable market parameters. If these parameters are not observable at the markets, the valuation of the financial instruments is based on models with certain non-market-observable parameters. The valuation models used are market standard models. A description of these models and the products involved is given in note 48 "Fair values of financial assets and liabilities".

Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments, to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement, the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising as determined at the statement of financial position date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of Management.

Derivative financial instruments and hedge accounting

Derivatives are used for trading and hedging purposes. They include, in particular, interest rate swaps, cross-currency swaps, interest rate options, foreign exchange forwards, interest rate futures and credit derivatives.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. Where such evidence exists, the Group recognises profits or losses on day one being the difference between the price and fair value at initial recognition. Where such evidence does not exist, day one profit or loss is deferred and recognised in the income statement, to the extent that it arises from a change in a factor (including time) that market participants would consider in setting a price. Straight line amortisation is used where it approximates the above. Subsequent changes in fair value are recognised immediately in the income statement without reversal of deferred day one profits or losses.

Derivatives are measured at fair value. Changes in fair value are recognised in the income statement if the derivatives are not utilised in cash flow hedge accounting. The valuation results from stand-alone derivatives are shown in "Net trading income" and from hedging derivatives in "Net income from hedge relationships". The interest from all derivatives is disclosed in the position "Net interest income". In the statement of financial position, stand-alone derivatives are disclosed under "Trading assets" when fair value is positive and "Trading liabilities" when fair value is negative and hedging derivatives under "Other assets" when fair value is positive and "Other liabilities" when fair value is negative.

Embedded derivatives Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

Hedging derivatives The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

(a) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or
(b) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge).

Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge Under IAS 39, with a fair value hedge, a stated asset, liability, off-balance-sheet fixed obligation or a precisely designated part of such an asset, liability or obligation, is hedged against the risk of a change in fair value which is attributable to a specific risk and could possibly have an effect on profit or loss for the period.

If the hedge of the fair value in the course of the reporting period satisfies the criteria of IAS 39.88, the hedge is stated in the statement of financial position as follows:

- The profit or loss arising when the hedging instrument is revalued to its fair value (for a derivative hedging instrument), or the currency component of its carrying amount calculated in accordance with IAS 21 (for non-derivative hedging instruments), is recognised in profit or loss for the period.
- The carrying amount of an underlying non-AfS hedged item is adjusted by the fair value change attributable to the hedged risks and is recognised in profit or loss for the period. If the underlying transaction is an AfS financial asset, the fair value change attributable to hedged risk is re-classified from other comprehensive income to profit or loss.

The Group uses fair value hedge accounting for micro-hedge relationships. Fair value hedge accounting is not used for a portfolio of interest risks. Ineffectiveness within the range permitted under IAS 39 is shown in the line "Net income from hedge relationships". Regression analysis is mainly used to measure effectiveness. The dollar offset method is applied in some cases for quantifying the ineffectiveness. If the hedge relationship is terminated for reasons other than the derecognition of the hedged item, the difference between the carrying amount of the hedged item at that point and the value at which it would have been carried, had the hedge never existed (the unamortised fair value adjustment), is amortised to the income statement over the remaining term of the original hedge. If the hedged item is derecognised, e.g. due to sale or repayment, the unamortised fair value adjustment is recognised immediately in the income statement.

(b) Cash flow hedge The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in other comprehensive income are reclassified to the income statement in the periods in which the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place). The transfer is to the income statement line item which includes the hedged item.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately reclassified to the income statement.

Hedge of a net investment in a foreign operation A net investment hedge is a hedge of the foreign currency exposure on a net investment in a foreign operation. Hedges of net investments in foreign operations are accounted for identically to cash flow hedges. The Group does not hedge a net investment in a foreign operation in the financial year 2011 and as of 31 December 2010.

Derivatives that do not qualify for hedge accounting Some derivatives, while being economic hedges, do not meet the detailed hedge accounting criteria under IFRS. Derivatives that do not qualify for hedge accounting are accounted for as part of the trading portfolio.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Impairment of financial assets

Where financial assets are not fair valued through profit and loss, they must be tested for impairment. At each statement of financial position date the Group assesses, on a case-by-case basis, whether there is objective evidence for impairment. The criteria used to determine if there is such objective evidence includes:

- significant financial difficulties of the borrower;
- overdue contractual payments of either principal or interest or other breaches of contract;
- increased likelihood that the borrower will enter bankruptcy or other financial reorganisation;
- renegotiations due to economic problems; and
- when available, the market price of the asset indicating evidence of impairment.

Two types of impairment allowances are established: individual allowances and portfolio-based allowances. Allowances for loans and advances are disclosed in a separate

account, "Allowances for losses on loans and advances" rather than directly reducing the carrying amount of the assets. The expense is shown under "Reversals of/provision for losses on loans and advances" in the income statement. The impairment charge is shown under "Net expense/income from financial investments" in the income statement. Where subsequent measurement of financial assets is based on fair value through profit or loss, an impairment is implied in the fair value.

The Group records an impairment on loans and advances as well as financial investments whose terms have been renegotiated if there is objective evidence for impairment.

In determining allowances on individually assessed accounts, the following factors are especially considered:

- the Group aggregate exposure to the customer;
- the amount and timing of expected interest and redemption payments;
- the realisable value of collateral and likelihood of successful repossession;
- the likely deduction of any costs involved in recovering amounts outstanding; and
- the market price of the asset, if available.

Financial assets carried at amortised cost for which no evidence of impairment has been specifically identified on an individual basis are grouped according to their credit risk for the purpose of calculating portfolio-based allowances.

This impairment covers losses which have been incurred but have not yet been identified on loans subject to individual assessment. The parameters used to determine portfolio-based provisions are updated regularly and adjusted if necessary. The portfolio-based allowances are determined after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics;
- a judgement whether current economic conditions and credit conditions improved or deteriorated compared to the past;
- the estimated period between impairment occurring and being identified; and
- state of the current economic cycle.

Leases

The leases entered into by the Group are operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Cash and cash equivalents

For the purposes of the cash flow statement, "Cash and cash equivalents" comprise of cash reserves including balances with central banks other than mandatory reserve deposits.

Employee benefits

(a) Pension obligations The Group operates two types of pension schemes – defined benefit schemes and defined contribution schemes.

A defined contribution scheme is a pension plan under which the Group pays fixed contributions into a separate fund. In these plans, the Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit scheme is a pension plan that is not a defined contribution scheme. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the statement of financial position date, together with adjustments for past service costs. The defined benefit obligation, which is unfunded, is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the income statement as they are identified. Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

For defined contribution plans, the Group pays contributions to privately administered pension plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Share compensation scheme In 2002, the Group established an incentive compensation programme under which share awards were made to employees and directors of the Group for no cash consideration. The incentive compensation programme no longer operates. All shares due under the award scheme were vested to employees of the Group in 2009. As of 31 December 2011 and 31 December 2010, no company of the Group has provided a commitment for share-based compensation.

Income tax

Current income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred income tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred income tax related to the fair value re-measurement of available-for-sale investments and cash flow hedges, which are charged or credited through other comprehensive income, is also credited or charged directly to other comprehensive income and may be subsequently recognised in the income statement together with the related gain or loss.

Discontinued operations

A discontinued operation is a component of the Group's business which represents a separate major line of business or geographical area of operations and has been disposed of or is held for sale. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation had been discontinued from the start of the earliest period presented.

Trading assets

Trading assets comprise held-for-trading securities as well as positive market values of trading derivatives and of stand-alone derivatives in the banking book. In addition, borrowers' note loans and registered bonds as well as public sector bonds, to the extent they are used for trading purposes, are stated under other trading assets.

Trading assets are stated at their fair value. In the case of derivative and original financial transactions which are not listed on an exchange, internal price models based on cash value considerations and option price models are used as the basis of calculating the statement of financial position value. Valuation and realised profits and losses attributable to trading assets are stated under net trading income in the income statement.

Loans and advances

"Loans and advances to other banks" and "Loans and advances to customers" are disclosed under IAS 39 with their amortised cost of purchase if they are not categorised dFVTPL or AfS or an underlying transaction of a fair value hedge. dFVTPL financial instruments are measured at fair value. Changes in fair value are recognised in profit or loss. As of 31 December 2011 and as of 31 December 2010, the Group did not have loans and advances which are categorised as AfS.

Allowances for losses on loans and advances are shown under a separate line item, "Reversals of/provisions for losses on loans and advances" in the income statement. Fair value changes attributable to hedged risks on loans and advances in qualifying fair value hedge relationships are shown under "Net income/expense from hedge relationships". All other income and expenses from loans and advances, including net gains and net losses, are shown under the position "Net interest income" in the income statement.

Financial investments

dFVTPL, LaR and AfS securities are stated under "Financial investments". dFVTPL and AfS financial assets are stated at their fair value. Changes in the fair value are taken to the income statement in the case of dFVTPL financial assets. Changes in fair value of AfS financial assets are recognised in other comprehensive income not affecting income statement until the asset is sold, withdrawn, disposed of, or if an impairment is established for the financial asset in accordance with IAS 39.58 et seq. in which case the cumulative profit or loss previously recorded under

equity is then taken to the income statement. Portfolio-based allowances are not created for AfS financial assets. AfS financial assets which are hedged effectively against market price risks are recognised within the framework of fair value hedge accounting whereby fair value changes attributable to hedged risks are reclassified from other comprehensive income to the income statement under “net income/expense from hedge relationships”. LaR financial investments are measured at amortised cost. Individual allowances on LaR financial investments are directly deducted from the carrying amount of the assets. In the financial years 2011 and 2010, the Group did not have any HtM financial assets.

Allowances for losses on loans and advances and provisions for contingent liabilities and other commitments

Allowances for losses on loans and advances 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. Allowances for loans and advances are calculated mainly on the basis of expectations with regard to loan defaults, the structure and quality of the loan portfolio, as well as macro-economic parameters on an individual and portfolio basis.

Individual allowances For all recognisable default risks, the extent of the allowance for losses on loans and advances is calculated as the difference between the carrying amount of the asset and the present value of the expected future cash flow. The latter is calculated on the basis of the original financial effective interest rate in the case of fixed income instruments and on the basis of the interest rate at impairment date in the case of variable income instruments. Market rate changes do not have any effect in this respect. The increase in the present value of an adjusted receivable (so-called unwinding) which occurs over a period of time is shown as interest income.

Portfolio-based allowances Under IAS 39.64, loans for which there is no objective indication for the need of an allowance on an individual basis are grouped together to form risk-inherent portfolios. Portfolio-based allowances are set aside for these portfolios; these allowances are calculated on current events and information with regard to significant changes with detrimental consequences which have occurred in the technology, market, economic or legal environment, as well as historical default rates.

Allowances for losses on loans and advances are broken down into allowances relating to loans and advances, provisions for contingent liabilities and other commitments such as irrevocable loan commitments. An allowance relating to loans and advances is shown as a negative item on the assets side of the statement of financial position, whereas a provision for contingent liabilities and other commitments is shown on the liability side of the statement of financial position. In the income statement, all effects are shown in “Reversals of/provisions for losses on loans and advances” apart from time-related increases in the present value of impaired receivables, which are shown under the position “Net interest income”.

Property, plant and equipment

Property, plant and equipment are normally shown initially at cost of purchase or cost of production. The carrying amounts, if the assets are subject to wear and tear, are diminished by depreciation in accordance with the expected useful life of the assets. In addition, property, plant and equipment is tested at least annually for impairment. If the value of property, plant and equipment has additionally been diminished, an impairment is taken to the income statement. If the reasons for the impairment are no longer applicable, an amount is written back to the income statement, not exceeding the extent of the amortised cost of purchase or production. In the case of fittings in rented buildings, the contract duration taking account of extension options is used as the basis of the depreciation period if it is shorter than the economic life.

Useful economic life in years	
Furniture, fixtures and office equipment	5
IT equipment	3-5
Other plant and operating equipment	5

Cost of purchase or cost of production, which is subsequently incurred, is capitalised if an additional economic benefit accrues to the Group. Measures which are designed to maintain the condition of the property, plant and equipment are recognised in the income statement of the financial year in which they arise.

Intangible assets

(a) Goodwill Goodwill represents the excess of the cost of an acquisition over the fair value of the Group’s share of the net identifiable assets of the acquired entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in “Intangible assets”. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill, brand names and customer relationships have not been recognised after their complete impairment in the financial year 2008.

(b) Computer software Software is an intangible asset with a finite useful life. Purchased software is stated at amortised cost of purchase. The Group capitalises internally generated software if it is probable that future economic benefits will flow to the Group and the expenses can be measured reliably. Expenses eligible for capitalisation include external directly-attributable costs for materials and services, as well as personnel expenses for employees directly associated with an internally generated software project. Software is written down in a straight-line basis over an expected useful life of three to five years. In addition, intangible

assets with a finite useful life have to be tested for impairment at least annually and whenever there is an indication that the intangible asset may be impaired.

Other assets

Other assets mainly contain positive fair values from derivative financial instruments (hedging derivatives and derivatives hedging dFVTPL financial instruments).

Liabilities

Liabilities other than underlying transactions of an effective fair value hedge and which are not classified as dFVTPL are stated at amortised cost. The Group has not designated any liabilities under the category dFVTPL. Fair value changes attributable to hedged risks on liabilities in qualifying fair value hedge relationships are shown under "net income/expense from hedge relationships". All other income and expenses from liabilities including net gains and net losses resulting from redemption of liabilities are shown under the position "Net interest income" in the income statement.

Sale and repurchase agreements

Securities sold subject to repurchase agreements ("repos") are carried as assets in the financial statements when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in "Liabilities to other banks" or "Liabilities to customers", as appropriate. Securities purchased under agreements to resell ("reverse repos") are recorded as "Loans and advances to other banks" or "Loans and advances to other customers", as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Trading liabilities

Refinancing positions of the trading portfolio measured at fair value are stated under trading liabilities. In addition, trading liabilities also include negative market values of trading derivatives and of stand-alone derivatives of the banking book. Trading liabilities are recognised at their fair values. Valuation and realised profits and losses attributable to trading liabilities are stated under "Net trading income" in the income statement.

Other liabilities

Negative fair values from derivative financial instruments (hedging derivatives and derivatives hedging dFVTPL financial instruments) and accrued liabilities are stated under other liabilities. Accrued liabilities include future expenditures, which are uncertain in terms of actual extent or timing, but less uncertain than is the case with provisions. These are liabilities for products or services which have been received or supplied and have not yet been paid for, invoiced by the supplier or formally agreed. This also includes short-term liabilities to employees, for instance flexi time credits and vacation entitlements. The accrued liabilities have been stated in the amount likely to be utilised.

If the obligations listed at this point cannot be quantified more precisely on the reference date for the financial statements and if the criteria specified in IAS 37 for establishing provisions are satisfied, these items must be stated under provisions.

Subordinated capital

In the event of bankruptcy or liquidation, subordinated capital may only be repaid after all non-subordinated creditors have been satisfied. Subordinated capital of the Group encompasses subordinated liabilities, participating certificates outstanding and hybrid capital instruments. For some instruments of subordinated capital, the holders participate in any net loss or consolidated net loss. In addition, the interest entitlement can be ceased or reduced under specific conditions. For other instruments, the interest ceases only in the case of a net loss which can be caught up depending on the structuring.

Pursuant to IAS 32, the subordinated capital instruments issued by the Group were classified as financial liabilities or equity instruments in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument. Financial liabilities are measured at amortised cost. The amortised costs are the amount at which the financial liability is measured at initial recognition minus principal payments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any expected reduction of interest and/or principal payments.

Non-current assets held for sale

In accordance with IFRS 5, non-current assets or disposal groups held for sale must be shown on the statement of financial position date at the lower of carrying amount and fair value less costs to sell. The assets must be shown separately in the statement of financial position. As of 31 December 2011 and 31 December 2010, the Group did not have material non-current assets held for sale.

Share capital

(a) Share issue costs Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(b) Dividends on ordinary shares Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders or paid (if declared by the directors). Dividends for the year that are declared after the statement of financial position date are dealt with in the events after the reporting date note.

(c) Own shares Where the Company or other members of the consolidated Group purchases the Company's equity share capital, the consideration paid is deducted from total equity as own shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in equity.

03 Risk management

The risk management disclosures are contained as indicated in the "Risk management" section of the Directors' Report.

04 Critical accounting estimates and judgements

Going concern

These consolidated financial statements have been prepared on a going concern basis. The reasoning behind why the directors have prepared the accounts on a going concern basis and a description of the factors considered are contained in the Basis of preparation in note 2 of the notes to the financial statements.

Fair value of financial and derivative instruments

The fair value of financial instruments that are not listed on active markets is calculated using valuation models. In the cases in which valuation models are used, a check is performed regularly to assess whether the valuation models provide a comparable standard for current market prices. For practical considerations, the valuation models can only take account of quantifiable factors (e.g. cash flows and discount rates) that also require estimates. Changes in assumptions relating to these factors might have an impact on the fair values of the financial instruments.

Future-related assumptions and estimation of uncertainties

When the financial statements are being prepared, as described below, the Group makes future-related assumptions as well as estimations, resulting in a considerable risk of a major change to the stated assets and liabilities becoming necessary during the next financial year.

Taxation

The taxation charge includes amounts due to fiscal authorities in the various territories in which the Group operates and includes estimates, based on a judgement of the application of law and practice in certain cases to determine the quantification of any liabilities arising. In arriving at such estimates, management assesses the relative merits and risks of tax treatments assumed, taking into account statutory, judicial and regulatory guidance and, where appropriate, external advice.

In relation to the recognition of deferred tax assets and liabilities, estimates are required on the extent to which temporary differences are expected to be reversed.

Allowances for losses on loans and advances

The loan portfolio of the Group is reviewed at least annually in order to identify any impairment losses on loans and advances. It is necessary to assess whether the estimated future cash flows of a loan portfolio are lower than the contractual ones. For this purpose, it is necessary to make judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or economic conditions that correlate with defaults on assets in the portfolio. The methods and assumptions, concerning the assessments of the extent and timing of the payment streams, are reviewed regularly to reduce any differences between estimated and actual defaults. In addition, the determination of portfolio-based provisions is based on a loss identification period as well as the expected loss based on statistical data.

Securitisations and special purpose entities

The Group has sponsored the formation of special purpose entities ("SPEs") primarily for the purpose of allowing clients to hold investments, for securitisation transactions and for buying or selling credit protection. The Group does not consolidate SPEs that it does not control. As it can sometimes be difficult to determine whether the Group controls the SPE, it makes judgements about its exposure to the risks and rewards, as well as its ability to make operational decisions for the SPE in question.

Embedded derivatives

According to IAS 39.11, an embedded derivative must be separated from the underlying contract and must be valued separately if, in addition to other criteria, the economic features and risks of the embedded derivative are not closely related to the economic features and risks of the underlying agreement. The economic risks of the underlying contracts and embedded derivatives are assessed on the

basis of measuring methods to evaluate the existence of an obligation to separate.

Hedge accounting

Relationships between underlyings and hedging instruments can be presented in the framework of hedge accounting. A relationship only qualifies for hedge accounting when certain conditions specified under IAS 39.88 are satisfied. One of these conditions is that the hedge has to be very effective with regard to achieving compensation for the risks resulting from changes in the fair value or the cash flow in relation to the hedged risk, in line with the originally documented risk management strategy for this specific hedge.

The establishment of the effectiveness of the risk hedge and the assessment of the probability of occurrence of future cash flows depend on risk measuring methods, the parameters which are used and assumptions relating to the probability of occurrence. These methods and parameters are continuously developed in line with the risk management objectives and strategies which means that a review in subsequent years may result in an assessment which differs from the original assessment.

05 Transfer of positions to FMS Wertmanagement

In January 2010, the HRE Group submitted an application to the Financial Markets Stabilisation Authority (“FMSA”) for a stabilisation measure in accordance with section 8a (1) Clause 1 FMStFG (Establishment of a deconsolidated environment), in order to transfer certain non strategic positions of the HRE Group to a deconsolidated environment. The FMSA reached a positive decision regarding this application and established the deconsolidated environment FMS Wertmanagement, on 8 July 2010. The positions transferred consisted of 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. Instead, 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 (“pbb”) and 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 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. Some of the transactions which did not originally result in a derecognition have already been “upgraded” and derecognised.

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 were 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.

The transfer resulted in capital effects recognised in equity as of 1 October 2010. The effect was attributable to deconsolidation effects and also to valuation differences between the carrying amounts shown in the IFRSs financial state-

ments and the corresponding carrying amounts shown in the separate financial statements prepared in accordance with local accounting regulations.

As part of the process of transferring the positions, pbb also assumed responsibility for managing the transferred portfolios for FMS Wertmanagement as part of a co-operation agreement, whereby pbb 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.

In addition, the Deutsche Pfandbriefbank Group ("the pbb Group") has provided a commitment to FMS Wertmanagement that it will implement certain IT functionalities.

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 derecognised. Instead, the back-to-back transaction resulted in an increase in total assets and total liabilities.

(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, was used to finance the collateral requirements of the original derivatives.

(c) FMS Wertmanagement does not have a banking status therefore the Group currently handles certain refinancing functions for FMS Wertmanagement, for instance with the ECB or in bilateral repo transactions. The refinancing funds are passed on to FMS Wertmanagement. The Group receives a claim against FMS Wertmanagement, which increases total assets and total liabilities.

The effects of all counter effects at 31 December 2011 and 2010 ("FMSWM Counter Effects") on the statement of financial position at Group and Company level are shown below in the pro forma statements of financial position:

Pro Forma Statement of financial position - Group

€ m **Assets**	31.12.2011	31.12.2011 FMSWM Counter Effects	31.12.2011 Post FMSWM Counter Effects	As restated * 31.12.2010	31.12.2010 FMSWM Counter Effects	31.12.2010 Post FMSWM Counter Effects
Cash reserve	600	-	600	2,283	-	2,283
Trading assets	20,517	12,177	8,340	24,740	16,733	8,007
Loans and advances to other banks	15,991	12,982	3,009	21,565	17,097	4,468
Loans and advances to customers	55,028	36,772	18,256	56,859	40,251	16,608
Allowance for losses on loans and advances	-70	-	-70	-100	-	-100
Financial investments	31,617	6,769	24,848	33,845	5,684	28,161
Property, plant and equipment	1	-	1	1	-	1
Intangible assets	17	-	17	19	-	19
Other assets	6,028	249	5,779	4,655	272	4,363
Income tax assets	193	-	193	128	-	128
Total assets	**129,922**	**68,949**	**60,973**	**143,995**	**80,037**	**63,958**
Liabilities and equity						
Liabilities to other banks	38,057	33,863	4,194	39,803	37,094	2,709
Liabilities to customers	21,356	20,707	649	25,856	25,132	724
Liabilities evidenced by certificates	39,456	-	39,456	44,288	-	44,288
Trading liabilities	20,604	12,177	8,427	24,618	16,733	7,885
Provisions	112	-	112	96	-	96
Other liabilities	6,289	2,202	4,087	4,524	1,078	3,446
Income tax liabilities	230	-	230	169	-	169
Subordinated capital	1,079	-	1,079	1,072	-	1,072
Total liabilities	**127,183**	**68,949**	**58,234**	**140,426**	**80,037**	**60,389**
Share capital	106	-	106	106	-	106
Share premium	1,142	-	1,142	1,142	-	1,142
Capital reserve	1,500	-	1,500	1,500	-	1,500
Preferred securities	1,136	-	1,136	1,136	-	1,136
Retained earnings	-1,100	-	-1,100	-256	-	-256
Other reserves	-45	-	-45	-59	-	-59
AfS	-47	-	-47	-59	-	-59
Currency translation	2	-	2	-	-	-
Total equity	**2,739**	**-**	**2,739**	**3,569**	**-**	**3,569**
Total equity and liabilities	**129,922**	**68,949**	**60,973**	**143,995**	**80,037**	**63,958**

Pro Forma Statement of financial position - Company

€ m **Assets**	31.12.2011	31.12.2011 FMSWM Counter Effects	31.12.2011 Post FMSWM Counter Effects	As restated * 31.12.2010	31.12.2010 FMSWM Counter Effects	31.12.2010 Post FMSWM Counter Effects
Cash reserve	587	-	587	2,248	-	2,248
Trading assets	26,559	9,734	16,825	29,588	14,088	15,500
Loans and advances to other banks	17,351	10,647	6,704	24,152	14,584	9,568
Loans and advances to customers	40,251	36,772	3,479	41,346	40,250	1,096
Allowance for losses on loans and advances	-67	-	-67	-99	-	-99
Financial investments	8,715	6,769	1,946	8,106	5,684	2,422
Property, plant and equipment	1	-	1	1	-	1
Intangible assets	17	-	17	19	-	19
Other assets	719	249	470	1,055	272	783
Income tax assets	2	-	2	4	-	4
Total assets	**94,135**	**64,171**	**29,964**	**106,420**	**74,878**	**31,542**
Liabilities and equity						
Liabilities to other banks	40,180	33,863	6,317	44,404	37,094	7,310
Liabilities to customers	19,021	18,372	649	23,344	22,619	725
Liabilities evidenced by certificates	2,626	-	2,626	3,627	-	3,627
Trading liabilities	26,489	9,734	16,755	29,486	14,088	15,398
Provisions	112	-	112	97	-	97
Other liabilities	2,633	2,202	431	1,543	1,077	466
Income tax liabilities	40	-	40	54	-	54
Subordinated capital	1,682	-	1,682	1,673	-	1,673
Total liabilities	**92,783**	**64,171**	**28,612**	**104,228**	**74,878**	**29,350**
Share capital	106	-	106	106	-	106
Share premium	1,142	-	1,142	1,142	-	1,142
Capital reserve	2,403	-	2,403	2,403	-	2,403
Preferred securities	-	-	-	-	-	-
Retained earnings	-2,310	-	-2,310	-1,470	-	-1,470
Other reserves	11	-	11	11	-	11
AfS	2	-	2	6	-	6
Currency translation	9	-	9	5	-	5
Total equity	**1,352**	**-**	**1,352**	**2,192**	**-**	**2,192**
Total equity and liabilities	**94,135**	**64,171**	**29,964**	**106,420**	**74,878**	**31,542**

* Details of the reclassification of 2010 comparatives are set out in note 57 of the notes to the audited consolidated financial statements.

06 Business segments

The HRE Group is organised into three operating segments:
- Real Estate Finance
- Public Sector Finance
- Value Portfolio

In the financial year 2011, the HRE Group only operated new business in the two reporting segments Real Estate Finance and Public Sector Finance. New business is only written by pbb. The HRE Group focuses on Pfandbrief-eligible new business in Real Estate Finance and Public Sector Finance, with a regional focus on Europe subject to any conditions imposed by the European Commission in relation to state aid.

The HRE Group has withdrawn completely from all new business in the non strategic business segment Value Portfolio. The DEPFA Group is considered part of the non strategic business of the HRE Group and is included fully in the Value Portfolio segment. The DEPFA Group does not currently operate any new business in line with the agreement on state aid between the European Commission and the Federal Republic of Germany. Non strategic activities are to be reduced without imposing excessive strain on existing value.

The DEPFA Group is organised into the following business segments:
- Value Management Europe/Rest of World
- Value Management Americas
- Infrastructure Finance

The business 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 was conducted in this segment in 2011.

The business 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, income from securitisations and customer derivatives. Almost all of these trading positions, securitisations and customer derivatives were transferred to FMS Wertmanagement on 1 October 2010, leaving the Group with traditional public sector finance business in this segment throughout 2011. As in 2010, no new business was conducted in this segment in 2011.

The Infrastructure Finance segment relates to the financing of infrastructure projects. The Group focused all activities in this segment on essential infrastructure e.g. roads, bridges, tunnels and public buildings. As in 2010, no new business was 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 IFRSs. 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 the 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 consolidated financial statements, prepared in accordance with IFRSs. Accordingly, reconciliation with the accounting and valuation methods used in the consolidated financial statements is not necessary.

The cost-income ratio is the ratio of general administrative expenses to operating revenues, consisting of net interest income, net fee and commission expense, net trading income/expenses, net expense/income from financial investments, net income/expense from hedge relationships and the balance of other operating income.

€ m	1 Jan – 31 Dec 2011			
	Value Management Europe/Rest of World	Value Management Americas	Infrastructure Finance	Group
Net interest income	126	57	13	196
Net fee and commission expense	-5	-	-14	-19
Net trading income	1	15	3	19
Net expense from financial investments	-29	-24	-	-53
Net income from hedge relationships	4	-	-	4
Other operating income	56	19	6	81
Total operating revenues	**153**	**67**	**8**	**228**
Reversals of/provision for losses on loans and advances	25	4	2	31
General administrative expenses	-92	-32	-10	-134
Other expenses	-1	-	-	-1
Pre-tax income	**85**	**39**	**-**	**124**
Taxes on income	-	-	-	-5
Net income	**85**	**39**	**-**	**119**
Statement of financial position				
Assets	**95,674**	**29,680**	**4,568**	**129,922**
Liabilities	**94,222**	**28,503**	**4,458**	**127,183**
Cost/Income ratio	**60%**	**48%**	**>100%**	**59%**

€ m	1 Jan – 31 Dec 2010			
	As restated*	As restated*		As restated*
	Value Management Europe/Rest of World	Value Management Americas	Infrastructure Finance	Group
Net interest income	21	102	88	211
Net fee and commission expense	-193	-67	-50	-310
Net trading income/expenses	-50	-412	5	-457
Net income from financial investments	65	5	2	72
Net income/expense from hedge relationships	7	-8	-10	-11
Other operating income	9	4	2	15
Total operating revenues	**-141**	**-376**	**37**	**-480**
Reversals of/provision for losses on loans and advances	-14	52	-40	-2
General administrative expenses	-133	-43	-27	-203
Other income	5	-	-	5
Pre-tax loss	**-283**	**-367**	**-30**	**-680**
Taxes on income	-	-	-	-1
Net loss	**-283**	**-367**	**-30**	**-681**
Statement of financial position				
Assets	**105,540**	**33,452**	**5,003**	**143,995**
Liabilities	**104,003**	**31,420**	**5,003**	**140,426**
Cost/Income ratio	**>100%**	**>100%**	**73%**	**>100%**

* Details of the reclassification of 2010 comparatives are set out in note 57 of the notes to the audited consolidated financial statements.

For the purpose, of Group geographical segments, a distinction is made between "Ireland", "Germany", "Rest of Europe" and "America/Asia" based on the registered office or location of the respective Group company or branch office.

The calculation of results is based on the assumption that the Group companies in the region are legally independent units responsible for their respective operations.
An analysis of revenue from external customers by geographical region is presented below:

€ m	Ireland	Germany	America/Asia	Rest of Europe	Total
2011					
Total operating revenues	115	3	41	69	228
Total Assets 31/12/11	116,640	5	1,704	11,573	129,922
2010					
Total operating revenues	-393	4	64	-155	-480
Total Assets 31/12/2010	130,662	6	3,147	10,180	143,995

07 Net interest income

	2011 € m	As restated * 2010 € m
Interest income and similar income		
Lending and money-market business	1,607	3,200
Fixed-income securities and government subscribed debt	242	1,288
Derivatives	18	-
	1,867	**4,488**
Interest expense and similar expenses		
Deposits	-632	-1,589
Liabilities evidenced by certificates	-1,157	-1,568
Derivatives	-	-1,136
Subordinated capital	-24	-17
	-1,813	**-4,310**
Income from buyback of liabilities	**142**	**33**
Net interest income	**196**	**211**

*Details of the reclassification of 2010 comparatives are set out in note 57 of the notes to the audited consolidated financial statements.

Interest income on impaired loans amounted to € 1.9 million (2010: € 9.7 million).

Net interest income includes net income of € 18 million (2010: € 2 million) received in 2011 for assets still recognised on the DEPFA Group statement of financial position as at 31 December 2011, which are not yet transferred to FMS Wertmanagement and on which guarantees from FMS Wertmanagement have been received. There is an offset for this amount included in net fee and commission expense for fees paid for the guarantees received.

Total interest income for financial assets that are not at fair value through profit or loss, amount to € 1.9 billion in 2011 (2010: € 4.5 billion). Total interest expenses for financial liabilities that are not at fair value through profit or loss amount to € 1.8 billion in 2011 (2010: € 3.2 billion).

Net interest income includes gains from the buyback of liabilities that were redeemed before maturity at prevailing market rates on a reverse enquiry basis of € 142 million (2010: € 33 million).

08 Net fee and commission expense

	2011 € m	2010 € m
Fee and commission income		
From other lending operations	5	15
	5	**15**
Fee and commission expense		
From other lending operations	-24	-325
	-24	**-325**
Net fee and commission expense	**-19**	**-310**

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

Included in fee and commission expense above is an amount of € nil relating to guarantee fees payable to the syndicate formed from the German financial sector, the Deutsche Bundesbank and SoFFin for liquidity support facilities (2010: € 311 million).

Guarantee fees of € -18 million (2010: € -2 million) were paid in 2011 to FMS Wertmanagement in respect of financial guarantees received on assets not yet transferred and still recognised on the DEPFA Group statement of financial position as at 31 December 2011. This amount is offset in net interest income.

None of the above net fee and commission expense arose on instruments that have been designated at fair value through profit or loss.

09 Net trading income/expenses

	2011 € m	2010 € m
From interest rate instruments and related interest and foreign exchange derivatives	21	-293
From credit risk instruments and related derivatives	-2	-164
	19	**-457**

10 Net expense/income from financial investments

	2011 € m	As restated * 2010 € m
Income from financial investments	2	111
Expense from financial investments	-55	-39
	-53	**72**

*Details of the reclassification of 2010 comparatives are set out in note 57 of the notes to the audited consolidated financial statements.

Net reversals of € nil (2010: € 16 million) have been recognised on a CMBS portfolio.

Net income from financial assets can be split by financial instrument category as follows:

	2011 € m	As restated * 2010 € m
Loans and receivables	-53	57
Available-for-sale financial investments	-	15
	-53	**72**

11 Net income/expense from hedge relationships

	2011 € m	2010 € m
Result from fair value hedge accounting	4	-7
Result from hedged items	-234	7,646
Result from hedging instruments	238	-7,653
Result from designated at fair value through P&L investments and related derivatives	-	-4
Result from dFVTPL investments	-251	151
Result from derivatives related to dFVTPL investments	251	-155
	4	**-11**

12 Other operating income

Other operating income	2011 € m	2010 € m
Recharge income from other group companies	100	58
Foreign exchange gains	4	-
Other	1	1
Total other operating income	**105**	**59**
Other operating expense		
Recharge expense from other group companies	-	-1
Other	-24	-43
Total other operating expense	**-24**	**-44**
Other income	**81**	**15**

Other operating income mainly consists of income of € 93 million (2010: € 38 million) from charges to pbb in relation to asset servicing provided on the positions transferred to FMS Wertmanagement and charges to the HRE Group for various supporting activities of € 7 million (2010: € 20 million).

Other operating expense in 2011 mainly includes provisions created by the DEPFA Group for IT separation costs of € 17 million and the upgrade of other positions of € 6 million.

Other operating expense in 2010 included provisions created by the DEPFA Group for IT and reporting adjustments of € 25 million, setting up FMS Wertmanagement of € 12 million, the provision for transfer taxes of € 4 million and the upgrade of other provisions of € 2 million.

13 General administrative expenses

	2011 € m	2010 € m
Personnel expenses	**-53**	**-47**
Wages and salaries	-42	-35
Social security costs	-7	-8
Pension expenses and related employee benefit costs	-4	-4
Other general administrative expenses	**-75**	**-149**
Depreciation/amortisation	**-6**	**-7**
On software	-5	-4
On property, plant and equipment	-1	-3
	-134	**-203**

Operating expenses also include auditors' remuneration of € 1 million (2010: € 1 million) and operating lease rentals of € 11 million (2010: € 8 million). The average number of persons employed by the Group during the year was 405 (2010: 434).

Cost-income ratio in % is:

	2011	2010
Cost-Income ratio	59%	>100%

14 Other expenses/income

	2011 € m	2010 € m
Reversal of restructuring provision	3	5
Other	-4	-
	-1	**5**

15 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.

	2011 € m	2010 € m
Loans and receivables	-52	39
Available-for-sale	-	14
Financial liabilities at amortised cost	142	33
	90	**86**

16 Taxes on income

	2011 € m	2010 € m
Current tax	-11	-5
Deferred tax	6	4
	-5	**-1**

The differences between the expected (computed) taxes on income and the taxes on income actually shown are outlined in the following reconciliation:

Notes to the financial statements (continued)

	2011 € m	2010 € m
Profit/(loss) before tax	124	-680
Applicable (legal) tax rate as % in Ireland	12.50%	12.5%
Expected (computed) tax effect	16	-85
Tax effects:		
Arising from foreign income	1	1
Arising from tax rate differences	-1	-12
Arising from losses	-8	-
Arising from tax free income	7	-2
Arising from deductible and non deductible items	-1	-1
Arising from valuation adjustments and the non application of deferred taxes	-6	98
Arising from the write up deferred taxes	1	-1
Arising from prior years and other periodical effects	-4	3
Accounted taxes on income/(expense)	**5**	**1**
Group tax ratio as %	3.94%	-0.15%

	Group		Company	
Development of deferred taxes	2011 € m	2010 € m	2011 € m	2010 € m
Deferred taxes recognised in the statement of financial position	6	-1	-	-7
Difference to prior year thereof :				
Recognised in income statement	6	4	7	-2
Recognised in equity	-	-184	-	-192
Other	1	-	-	-
Disposals	-	-121	-	-70

The deferred tax assets and liabilities of the Group relate to the following items:

	Group		Company	
		As restated *		As restated *
	2011 € m	2010 € m	2011 € m	2010 € m
Loans and advances to other banks/customers (including loan loss allowances)	2	3	-	1
Financial investments	12	16	-	-
Liabilities to other banks/customers	100	48	-	-
Other assets and liabilities	74	55	1	-
Loss carryforwards	4	-	-	-
Total deferred tax assets	**192**	**122**	**1**	**1**
Loans and advances to other banks/customers (including loan loss allowances)	7	15	-	7
Financial investments	67	37	2	2
Other assets and liabilities	112	71	-	-
Total deferred tax liabilities	**186**	**123**	**2**	**9**

17 Cash reserve

	Group		Company	
	2011 € m	2010 € m	2011 € m	2010 € m
Balances with central banks other than mandatory reserve deposits	563	2,206	563	2,206
Mandatory reserve deposits with central banks	37	77	24	42
	600	**2,283**	**587**	**2,248**

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

18 Trading assets

	Group		Company	
	2011 € m	2010 € m	2011 € m	2010 € m
Debt securities and other fixed-income securities				
Bonds and notes	44	40	44	40
Issued by public-sector borrowers	44	40	44	40
Thereof:				
Listed	44	40	44	40
Positive fair values from derivative financial instruments (trading book)	193	772	193	772
Interest based and foreign currency based transactions	97	641	97	641
Others	96	131	96	131
Stand-alone derivatives (banking book)	20,280	23,928	26,322	28,776
Total Trading assets	**20,517**	**24,740**	**26,559**	**29,588**
Of which due from Group companies	563	1,031	4,960	5,695

Stand-alone derivatives include derivatives related to FMS Wertmanagement counter effects as described in note 5 (a) to the financial statements, as well as derivatives which are economically hedging but which do not meet the detailed hedge accounting criteria under IFRSs.

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

19 Loans and advances to other banks

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

	Group		Company	
		As restated *		As restated *
	2011 € m	2010 € m	2011 € m	2010 € m
Public sector loans	1,943	2,184	-	-
Other loans and advances	14,048	19,381	17,351	24,152
	15,991	**21,565**	**17,351**	**24,152**
Of which due from Group companies	499	488	5,289	6,417

Balances due from Group companies in the Group 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:

	Group		Company	
		As restated *		As restated *
	2011 € m	2010 € m	2011 € m	2010 € m
Repayable on demand	11,922	15,826	13,534	16,737
With agreed maturities				
up to 3 months	262	290	1,625	3,260
from 3 months to 1 year	135	106	369	490
from 1 year to 5 years	1,851	1,615	55	517
from 5 years and over	1,821	3,728	1,768	3,148
	15,991	**21,565**	**17,351**	**24,152**

* Details of the reclassification of 2010 comparatives are set out in note 57 of the notes to the audited consolidated financial statements.

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

Notes to the financial statements (continued)

20 Loans and advances to customers

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

	Group		Company	
		As restated *		As restated *
	2011 € m	2010 € m	2011 € m	2010 € m
Public sector loans	17,917	19,072	3,409	3,829
Other loans and advances	37,111	37,787	36,842	37,517
	55,028	**56,859**	**40,251**	**41,346**

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

	Group		Company	
		As restated *		As restated *
	2011 € m	2010 € m	2011 € m	2010 € m
Repayable on demand	41	-	31	-
With agreed maturities				
up to 3 months	35,755	35,892	35,669	35,757
from 3 months to 1 year	2,053	1,270	1,023	628
from 1 year to 5 years	4,678	6,527	492	1,415
from 5 years and over	12,501	13,170	3,036	3,546
Total	**55,028**	**56,859**	**40,251**	**41,346**

* Details of the reclassification of 2010 comparatives are set out in note 57 of the notes to the audited consolidated financial statements.

21 Allowance for losses on loans and advances

Movement in allowance for losses on loans and advances:

	Group		Company	
		As restated*		As restated*
Specific allowance for losses on loans and advances	2011 € m	2010 € m	2011 € m	2010 € m
Balance at 1 January	-15	-295	-16	-240
Reversal of specific allowance	14	35	14	53
Application of provision	-	42	-	14
Foreign exchange retranslation	-1	-26	-	-15
Change due to transfer to FMS Wertmanagement	-	229	-	172
Total specific allowance for losses on loans and advances	**-2**	**-15**	**-2**	**-16**

	Group		Company	
		As restated*		As restated*
Portfolio allowance for losses on loans and advances	2011 € m	2010 € m	2011 € m	2010 € m
Balance at 1 January	-85	-276	-83	-251
Additions/(releases) to portfolio allowance	17	-37	18	-24
Application of provision	-	-	-	-
Change due to transfer to FMS Wertmanagement	-	228	-	192
Total portfolio based allowance for losses on loans and advances	**-68**	**-85**	**-65**	**-83**
Total allowance for losses on loans and advances	**-70**	**-100**	**-67**	**-99**

* Details of the reclassification of 2010 comparatives are set out in note 57 of the notes to the audited consolidated financial statements.

The total allowance for losses on loans and advances is made up as follows:

	Group		Company	
	2011 € m	2010 € m	2011 € m	2010 € m
Public sector and infrastructure loans	-70	-100	-67	-99
	-70	**-100**	**-67**	**-99**

Interest accrued on impaired loans at 31 December 2011 was € nil (2010: € nil).

Carrying amounts of loans and receivables

	Group		Company	
		As restated *		As restated *
	2011 € m	2010 € m	2011 € m	2010 € m
Carrying amount of loans and receivables that are neither impaired nor past due	71,017	78,398	57,600	65,471
Carrying amount of individually assessed impaired financial loans and receivables	-	11	-	11
Total	**71,017**	**78,409**	**57,600**	**65,482**
Of which loans and advances to other banks	15,991	21,565	17,351	24,152
Of which loans and advances to customers	55,026	56,844	40,249	41,330

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

Ratio of allowances to total lending

	Group		Company	
		As restated *		As restated *
	2011 € m	2010 € m	2011 € m	2010 € m
Loan loss allowances	-70	-100	-67	-99
Volume of total lending	70,949	78,324	57,535	65,399
Provision ratio	**-0.10%**	**-0.13%**	**-0.12%**	**-0.15%**

Loans and advances past due but not impaired

At 31 December 2011, the following amounts were noted as being past due. However, no impairment provision was made against these past due amounts as the Group does not consider that there is any significant issue regarding their recoverability. The total book value in relation to the amounts has also been disclosed to put the size of the amounts in question into context.

Loans past due 31 December 2011 – Group	Group 2011 € m	Group 2010 € m
Assets: past due but not impaired (due amount)		
Past due but not impaired less than 90 days	-	-
Past due but not impaired between 3 months and 6 months	-	-
Past due but not impaired between 6 months and 1 year	-	-
Past due but not impaired greater than 1 year	-	-
Total	**-**	**-**
Assets: past due but not impaired (total investment)		
Past due but not impaired less than 90 days	-	-
Past due but not impaired between 3 months and 6 months	-	-
Past due but not impaired between 6 months and 1 year	-	-
Past due but not impaired greater than 1 year	-	-
Total	**-**	**-**
Carrying amount of the individually assessed impaired financial assets		
Loans	-	11
Total	**-**	**11**

Loans past due 31 December 2011 – Company	Company 2011 € m	Company 2010 € m
Assets: past due but not impaired (due amount)		
Past due but not impaired less than 90 days	-	-
Past due but not impaired between 3 months and 6 months	-	-
Past due but not impaired between 6 months and 1 year	-	-
Past due but not impaired greater than 1 year	-	-
Total	**-**	**-**
Assets: past due but not impaired (total investment)		
Past due but not impaired less than 90 days	-	-
Past due but not impaired between 3 months and 6 months	-	-
Past due but not impaired between 6 months and 1 year	-	-
Past due but not impaired greater than 1 year	-	-
Total	**-**	**-**
Carrying amount of the individually assessed impaired financial assets		
Loans	-	11
Total	**-**	**11**

The Group did not obtain any assets by taking possession of collateral or calling on any other credit enhancements in relation to the above outstanding amounts.

22 Financial investments

	Group		Company	
		As restated *		As restated *
	2011 € m	2010 € m	2011 € m	2010 € m
AfS financial investments	**26**	**110**	**26**	**63**
Equity securities and other fixed-income securities	-	-	-	-
Debt securities and other fixed-income securities	26	110	26	63
Group undertakings	**-**	**-**	**1,053**	**1,154**
Shares in Group undertakings	-	-	1,053	1,154
dFVTPL financial investments	**3,795**	**3,405**	**3,795**	**3,405**
Debt securities and other fixed-income securities	3,795	3,405	3,795	3,405
LaR financial investments	**27,796**	**30,330**	**3,841**	**3,484**
Debt securities and other fixed-income securities	27,796	30,330	3,841	3,484
Total	**31,617**	**33,845**	**8,715**	**8,106**

* Details of the reclassification of 2010 comparatives are set out in note 57 of the notes to the audited consolidated financial statements.

The book value of these financial investments represents the maximum exposure to credit risk on these assets. The portfolio of debt securities designated at fair value through profit or loss have been so designated to reduce the measurement inconsistency with the relevant offsetting derivative, which is an economic hedge of the position.

Financial investments, broken down by maturities

	Group		Company	
		As restated *		As restated *
	2011 € m	2010 € m	2011 € m	2010 € m
Unspecified amount	1	1	1,054	1,155
With agreed maturities				
up to 3 months	70	246	23	-
from 3 months to 1 year	1,050	1,571	86	115
from 1 year to 5 years	8,524	8,573	350	174
from 5 years and over	21,972	23,454	7,202	6,662
Total	**31,617**	**33,845**	**8,715**	**8,106**

Breakdown of debt securities and other fixed income securities at 31 December by counterparty type:

	Group		Company	
		As restated *		As restated *
	2011 € m	2010 € m	2011 € m	2010 € m
Bonds and debt securities				
By public issuers	26,991	28,922	3,517	2,719
By other issuers	4,626	4,923	4,145	4,233
	31,617	**33,845**	**7,662**	**6,952**

Notes to the financial statements (continued)

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

On 30 September 2008, the Group reclassified retrospectively as of 1 July 2008 trading assets out of the category held-for-trading amounting to € 3.4 billion (Company: € 3.4 billion) and financial investments out of the category available-for-sale of € 44.26 billion (Company: € 33.75 billion). In addition, trading assets of € 0.75 billion (Company: € 0.75 billion) were reclassified prospectively into financial investments of the category loans and receivables on 1 October 2008.

Since the date of reclassification, the Group's financial assets with a (reclassified) carrying amount of approximately € 4.623 billion (Company: € 2.853 billion) became due. Thereof, € 3.386 billion (Company: € 1.617 billion) relate to reclassified AfS financial investments and € 1.236 billion (Company: € 1.236 billion) relate to reclassified trading assets.

Interest income for the Group and Company reclassified trading instruments is now shown under net interest income; before reclassification interest income was shown in net trading income. In 2011, net interest income contains € 7.5 million (2010: € 86.6 million) of interest income for reclassified trading instruments. The reclassification of AfS assets did not cause a disclosure change of current interest income as it is still shown under net interest income.

Since the date of reclassification, Group securities with a reclassified carrying amount of € 37.375 billion (Company: € 32.379 billion) were transferred to FMS Wertmanagement or sold. A net loss of € -15.49 million (Company: gain of € 2.69 million) was realised on the sold securities.

At the date of reclassification the effective interest rate for the reclassified trading assets of the Group which remain on the statement of financial position was between 5.07% and 3.74% (2010: 5.07% and 3.37%) and of the Company was 5.07% and 3.74% (2010: 5.07% and 3.37%). The effective interest rate for AfS assets of the Group was between 6.35% and 0.51% (2010: 7.12% and 0.51%) and of the Company was 6.46% and 5.04% (2010: 6.56% and 2.93%).

The following tables summarise the carrying amounts and fair values as of 31 December 2011 as well as fair value gains and losses that would have been recognised in 2011 if the financial assets had not been reclassified:

€ m Group 2011 Reclassifications	Into: Financial investments (LaR)			Effect in reporting period if no assets had been reclassified	
	Reclass date	31 December 2011		Date of reclassification to 31 Dec 2011	
		Carrying Amount	Fair Value	Income Statement	Changes in AfS Reserve (after taxes)
out of:					
HfT financial investments	1 Jul 08	-	-	-	-
	1 Oct 08	203	205	-4	-
		203	**205**	**-4**	**-**
out of:					
AfS financial investments	1 Jul 08	7,864	7,184	-	-194
Total		**8,067**	**7,389**	**-4**	**-194**

€ m Company 2011 Reclassifications	Into: Financial investments (LaR)			Effect in reporting period if no assets had been reclassified	
	Reclass date	31 December 2011		Date of reclassification to 31 Dec 2011	
		Carrying Amount	Fair Value	Income Statement	Changes in AfS Reserve (after taxes)
out of:					
HfT financial investments	1 Jul 08	-	-	-	-
	1 Oct 08	203	205	-4	-
		203	**205**	**-4**	**-**
out of:					
AfS financial investments	1 Jul 08	201	227	-	36
Total		**404**	**432**	**-4**	**36**

€ m Group 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 Dec 2010	
		Carrying Amount	Fair Value	Income Statement	Changes in AfS Reserve (after taxes)
out of:					
HfT financial investments	1 Jul 08	-	-	-	-
	1 Oct 08	272	278	-6	-
		272	**278**	**-6**	**-**
out of:					
AfS financial investments	1 Jul 08	9,238	8,828	-	46
Total		**9,510**	**9,106**	**-6**	**46**

€ m Company 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 Dec 2010	
		Carrying Amount	Fair Value	Income Statement	Changes in AfS Reserve (after taxes)
out of:					
HfT financial investments	1 Jul 08	-	-	-	-
	1 Oct 08	272	278	-6	-
		272	**278**	**-6**	**-**
out of:					
AfS financial investments	1 Jul 08	859	876	-	9
Total		**1,131**	**1 ,154**	**-6**	**9**

Securities listed on stock exchange

Group	31 December 2011 €m			31 December 2010 €m		
						As restated*
	Debt securities and other fixed income securities	Equity securities	Total	Debt securities and other fixed income securities	Equity securities	Total
Listed	26,680	-	26,680	26,257	-	26,257
Unlisted	4,937	-	4,937	7,588	-	7,588
Total	**31,617**	**-**	**31,617**	**33,845**	**-**	**33,845**

Company	31 December 2011 €m			31 December 2010 €m		
						As restated*
	Debt securities and other fixed income securities	Equity securities	Total	Debt securities and other fixed income securities	Equity securities	Total
Listed	6,440	-	6,440	5,948	-	5,948
Unlisted	1,222	1,053	2,275	1,004	1,154	2,158
Total	**7,662**	**1,053**	**8,715**	**6,952**	**1,154**	**8,106**

* Details of the reclassification of 2010 comparatives are set out in note 57 of the notes to the audited consolidated financial statements.

Financial investments – past due but not impaired

There were no past due but not impaired financial investments for 2011 (2010: € nil).

The carrying amount of the AfS and LaR financial investments that are neither past due nor impaired comes to € 31.6 billion (2010: € 33.8 billion) for the Group and € 8.7 billion (2010: € 8.1 billion) for the Company.

23 Property, plant and equipment

	Group		Company	
Cost € m	Fixtures and fittings	Total	Fixtures and fittings	Total
At 1 January 2010	**41**	**41**	**33**	**33**
Disposals	-19	-19	-11	-11
At 31 December 2010	**22**	**22**	**22**	**22**
Accumulated depreciation				
At 1 January 2010	**37**	**37**	**29**	**29**
Disposals	-19	-19	-11	-11
Charge for year	3	3	3	3
At 31 December 2010	**21**	**21**	**21**	**21**
Net book value				
At 31 December 2010	**1**	**1**	**1**	**1**
Cost €m				
At 1 January 2011	**22**	**22**	**22**	**22**
Additions	1	1	1	1
At 31 December 2011	**23**	**23**	**23**	**23**
Accumulated depreciation				
At 1 January 2011	**21**	**21**	**21**	**21**
Disposals	-	-	-	-
Charge for year	1	1	1	1
At 31 December 2011	**22**	**22**	**22**	**22**
Net book value				
At 31 December 2011	**1**	**1**	**1**	**1**

The Group did not hold any property in 2011 and 2010.

24 Intangible assets

	Group	Company
Cost € m	Total	Total
At 1 January 2010	**34**	**33**
Additions	7	7
At 31 December 2010	**41**	**40**
Accumulated depreciation		
At 1 January 2010	**18**	**18**
Amortisation Charge for year	4	3
At 31 December 2010	**22**	**21**
Net book value		
At 31 December 2010	**19**	**19**
Cost € m		
At 1 January 2011	**41**	**40**
Additions	3	3
At 31 December 2011	**44**	**43**
Accumulated depreciation		
At 1 January 2011	**22**	**21**
Amortisation Charge for year	5	5
At 31 December 2011	**27**	**26**
Net book value		
At 31 December 2011	**17**	**17**

The intangible assets mostly comprise purchased and self-developed software.

25 Other assets

	Group		Company	
	2011 € m	2010 € m	2011 € m	2010 € m
Positive fair values from derivative financial instruments	5,992	4,332	630	477
Hedging derivatives (micro fair value hedge)	5,743	4,061	381	206
Derivatives hedging dFVTPL financial instruments	249	271	249	271
Other assets	36	323	89	578
	6,028	**4,655**	**719**	**1,055**
Of which due from Group companies	8	22	70	277

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

26 Income tax assets

	Group		Company	
	2011 € m	2010 € m	2011 € m	2010 € m
Current tax assets	1	6	1	3
Deferred tax assets	192	122	1	1
	193	**128**	**2**	**4**

27 Subordinated assets

The following statement of financial position items contain subordinated assets in the IAS 39 measurement category LaR:

	Group		Company	
		As restated*		As restated*
	2011 € m	2010 € m	2011 € m	2010 € m
Loans and advances	339	330	-	-
Financial Investments	98	95	-	-
	437	**425**	**-**	**-**

* Details of the reclassification of 2010 comparatives are set out in note 57 of the notes to the audited consolidated financial statements.

Assets are considered to be subordinated if they are fulfilled after the loans of other creditors in case of insolvency or bankruptcy of the borrower.

28 Repurchase agreements

As a pledgor under repurchase agreements, the Group has pledged assets with a book value of € 3 billion (2010: € 1 billion). The assets are not derecognised.

The considerations which have been received amount to € 36 billion (2010: € 37 billion) and are recognised under liabilities and are mainly classified under "Liabilities to other banks".

The Group currently handles certain refinancing functions for FMS Wertmanagement, for instance repurchase agreements with the ECB and bilateral repurchase transactions.

The refinancing funds are passed on to FMS Wertmanagement and in return the Group receives a claim against FMS Wertmanagement.

FMS Wertmanagement has pledged assets to the Group in respect of € 33 billion of repo transactions which is in turn pledged by the Group to the repo counterparties.

Notes to the financial statements (continued)

29 Liabilities to other banks

	Group		Company	
		As restated*		As restated*
Liabilities to other banks, broken down by maturities	**2011 € m**	**2010 € m**	**2011 € m**	**2010 € m**
Repayable on demand	1,763	1,109	1,280	802
With agreed maturities				
up to 3 months	34,219	35,131	36,948	39,382
from 3 months to 1 year	1,355	1,053	1,369	1,608
from 1 year to 5 years	395	1,514	199	1,623
from 5 years and over	325	996	384	989
	38,057	**39,803**	**40,180**	**44,404**
Of which due to Group companies	340	-	3,176	22,312

* Details of the reclassification of 2010 comparatives are set out in note 57 of the notes to the audited consolidated financial statements.

Included under liabilities to other banks are amounts due under repurchase agreements (note 28).

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

30 Liabilities to customers

	Group		Company	
		As restated*		As restated*
Liabilities to customers, broken down by maturities	**2011 € m**	**2010 € m**	**2011 € m**	**2010 € m**
Repayable on demand	11,400	14,273	9,066	11,761
With agreed maturities				
up to 3 months	55	28	54	28
from 3 months to 1 year	11	66	11	66
from 1 year to 5 years	16	63	16	63
from 5 years and over	9,874	11,426	9,874	11,426
	21,356	**25,856**	**19,021**	**23,344**
Of which due to Group companies	-	-	-	-

* Details of the reclassification of 2010 comparatives are set out in note 57 of the notes to the audited consolidated financial statements.

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

31 Liabilities evidenced by certificates

	Group		Company	
By type of business:	**2011 € m**	**2010 € m**	**2011 € m**	**2010 € m**
Debt securities in issue	**38,277**	**43,242**	**2,626**	**3,627**
Public sector bonds	35,630	39,616	-	-
Other debt securities	2,607	3,589	2,586	3,590
Money market securities	40	37	40	37
Registered notes in issue	**1,179**	**1,046**	**-**	**-**
Public sector bonds	1,179	1,046	-	-
Total	**39,456**	**44,288**	**2,626**	**3,627**
By maturity:		**As restated***		
With agreed maturities				
up to 3 months	3,418	2,569	16	501
from 3 months to 1 year	1,259	2,995	421	605
from 1 year to 5 years	17,307	16,693	807	1,001
from 5 years and over	17,472	22,031	1,382	1,520
Total	**39,456**	**44,288**	**2,626**	**3,627**

* Details of the reclassification of 2010 comparatives are set out in note 57 of the notes to the audited consolidated financial statements.

32 Trading liabilities

	Group		Company	
	2011 € m	2010 € m	2011 € m	2010 € m
Negative fair values from derivative financial instruments (trading book)	175	763	175	763
of which:				
Interest based and foreign currency based transactions	79	634	79	634
Credit-related transactions	96	129	96	129
Other trading liabilities	119	228	80	135
Stand-alone derivatives (banking book)	20,310	23,627	26,234	28,588
Total	**20,604**	**24,618**	**26,489**	**29,486**
Of which due to Group companies	297	751	5,001	4,800

Stand-alone derivatives include derivatives related to FMS Wertmanagement counter effects as described in note 5 (a) to the financial statements, as well as derivatives which are economically hedging but which do not meet the detailed hedge accounting criteria under IFRSs.

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

33 Provisionss

	Group		Company	
	2011 € m	2010 € m	2011 € m	2010 € m
Provisions for pensions and similar obligations	1	1	1	1
Restructuring provisions	43	49	42	50
Other provisions	68	46	69	46
Total	**112**	**96**	**112**	**97**

The DEPFA Group operates two types of pension schemes – defined benefit schemes and defined contribution schemes. Provisions for pensions and similar obligations are for defined benefit schemes for which the employees receive a direct commitment from their respective company and a pension provision is created for this purpose. The pension obligation is unfunded.

Discount rate and valuation parameters

The principal actuarial assumptions used were as follows:

	Group		Company	
	2011	2010	2011	2010
Discount rate	4.75%	4.75%	4.75%	4.75%
Rate of increase in pension obligations	2.00%	2.00%	2.00%	2.00%
Rate of increase in future compensation and vested rights	2.50%	2.50%	2.50%	2.50%
Rate of increase over career	0-1.5%	0-1.5%	0-1.5%	0-1.5%

Development of pension obligations

	Group		Company	
	2011 € m	2010 € m	2011 € m	2010 € m
At 1 January	1	1	1	1
Total expense	-	-	-	-
Transfer to Group company	-	-	-	-
Contributions paid	-	-	-	-
At 31 December	**1**	**1**	**1**	**1**

Expenses in relation to defined benefit schemes was € nil (2010: € nil).

The vast majority of employees have defined contribution plans. This means a defined percentage of fixed salary is paid into externally managed pension funds for employees as part of defined contribution pension schemes.

Expenses in respect of contribution-based plans amounted to € 4 million (2010: € 4 million).

Development of restructuring and other provisions

Group	2011 €m		2010 €m	
	Restructuring provisions	Other provisions	Restructuring provisions	Other provisions
At 1 January	49	46	61	8
Additions	-	38	7	46
Reversals	-3	-	-10	-
Amounts used	-3	-16	-9	-8
At 31 December	**43**	**68**	**49**	**46**

Company	2011 €m		2010 €m	
	Restructuring provisions	Other provisions	Restructuring provisions	Other provisions
At 1 January	50	46	60	-
Additions	-	39	7	46
Reversals	-4	-	-10	-
Amounts used	-4	-16	-7	-
At 31 December	**42**	**69**	**50**	**46**

Restructuring provisions mainly relate to obligations relating to the strategic management and restructuring of the Group. The main components of the expenses are personnel expenses including severance payments, expenses for closure of locations and expenses for consulting.

Other provisions contain obligations in connection with the transfer of the assets and liabilities to FMS Wertmanagement amounting to € 41 million (2010: € 43 million) and IT separation provision of € 17 million (2010: € nil).

Legal and arbitration proceedings

The DEPFA Group is exposed to potential risks arising from litigation and other proceedings in which it is currently involved. In particular, risks may arise from the following proceedings and where considered necessary, appropriate provisions have been recorded:

Legal action is pending before the High Court in England as a result of two credit default swap transactions with Kommunale Wasserwerke Leipzig GmbH ("KWL"). DEPFA Bank, a further bank and KWL are involved. The former managing directors of KWL are alleged to have exceeded

their powers when the transactions were concluded. The alleged damage was originally quantified at approximately € 116 million.

Two employees of DEPFA Bank's Rome branch (together with certain employees of 3 other banks) are accused of having defrauded the City of Milan in connection with derivative transactions entered into by the banks with the City in 2005. The criminal trial started in May 2010 at the criminal court in Milan. It is alleged that the derivative transactions included hidden fees for the banks causing unjustifiable enrichment for the banks to the detriment of the City of Milan. DEPFA, as well as the other banks, is also an accused party to the criminal proceedings. According to Italian law no. 231, employers may be condemned if they are not able to prove that they had appropriate organisational measurements in place to avoid crimes of their employees. In case of a (subsidiary) condemnation DEPFA is threatened with monetary fines of up to € 1.5 million as well as being banned from business in Italy. The trial is currently in the phase of hearing the witnesses and experts of the parties.

34 Other liabilities

	Group		Company	
	2011 € m	2010 € m	2011 € m	2010 € m
Negative fair values from derivative financial instruments	6,013	4,212	2,353	1,245
Hedging derivatives	5,714	4,175	2,054	1,208
Micro fair value hedge	5,715	4,183	2,054	1,208
Cash flow hedge	-1	-8	-	-
Derivatives hedging dFVTPL financial instruments	299	37	299	37
Other liabilities	272	308	276	294
Deferred income	4	4	4	4
	6,289	**4,524**	**2,633**	**1,543**
Of which due to Group companies	199	254	196	223

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

35 Income tax liabilities

	Group		Company	
	2011 € m	2010 € m	2011 € m	2010 € m
Current tax liabilities	44	46	38	45
Deferred tax liabilities	186	123	2	9
	230	**169**	**40**	**54**

36 Subordinated capital

	Group		Company	
	2011 € m	2010 € m	2011 € m	2010 € m
Subordinated liabilities	1,079	1,072	1,682	1,673
	1,079	**1,072**	**1,682**	**1,673**
Of which due to Group companies	-	-	637	632

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

Subordinated capital, broken down by maturities	Group		Company	
	2011 € m	2010 € m	2011 € m	2010 € m
With agreed maturities				
from 1 year to 5 years	660	508	660	508
from 5 years and over	419	564	1,022	1,165
	1,079	**1,072**	**1,682**	**1,673**

The subordinated debt are analysed by nominal, maturity and interest rate below:

		Group		Company	
Subordinated liabilities	Interest rate %	2011 Nominal € m	2010 Nominal € m	2011 Nominal € m	2010 Nominal € m
DEPFA BANK plc, 26/03/24	5.40%	20	20	20	20
DEPFA BANK plc, 22/07/14	CPI – Index Linked%	10	10	10	10
DEPFA BANK plc, 15/12/15	Euribor + 0.70%	500	500	500	500
DEPFA BANK plc, perpetual note	Euribor + 1.00%	360	360	360	360
DEPFA BANK plc, 28/11/16	Euribor + 1.02%	40	40	40	40
DEPFA BANK plc, 21/12/16	Euribor + 1.02%	110	110	110	110
Hypo Pfandbrief Bank International S.A., 18/05/26	6.80%	25	25	-	-
DEPFA BANK plc, 30/10/28	6.55%	-	-	280	280
DEPFA BANK plc, 8/06/30	Euribor + 0.88%	-	-	250	250
DEPFA BANK plc, 21/3/32	5.099% until 2017, thereafter Euribor + 1.94%	-	-	90	90
		1,065	**1,065**	**1,660**	**1,660**

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.

37 Share capital and share premium

Group and Company	Number of Shares in issue	Ordinary Shares (€ m)	Share Premium (€ m)	Total (€ m)
At 31 December 2010	353,019,720	106	1,142	1,248
At 31 December 2011	353,019,720	106	1,142	1,248

The total authorised number of ordinary shares at year end was 16,666,333,330 (2010: 16,666,333,330) with a par value of € 0.30 per share (2010: € 0.30 per share). All issued shares are fully paid.

The total authorised number of non-cumulative redeemable preference shares at year end was 10,000,000 (2010: 10,000,000) with a par value of € 0.01 per share (2010: € 0.01 per share). No non-cumulative redeemable preference shares have been issued to date.

38 Capital reserve

	Group		Company	
	2011 € m	2010 € m	2011 € m	2010 € m
At January 1	1,500	600	2,403	1,503
Capital contribution	-	900	-	900
At December 31	**1,500**	**1,500**	**2,403**	**2,403**

The capital reserve is considered non-distributable.

Capital contributions of € nil were received in cash from the parent company, Hypo Real Estate Holding AG (2010: € 900 million).

39 Preferred Securities

	Group		Company	
	2011 € m	2010 € m	2011 € m	2010 € m
Hybrid capital instruments	1,136	1,136	-	-
	1,136	**1,136**	**-**	**-**

The hybrid capital instruments are analysed by nominal, maturity and interest rate below:

Hybrid capital instruments		2011 Nominal € m	2010 Nominal € m
DEPFA Funding II LP, perpetual note	6.50%	400	400
DEPFA Funding III LP, perpetual note	7% until 2008, thereafter CMS 10 yr + 0.1%	300	300
DEPFA Funding IV LP, perpetual note	5.029% until 2017, thereafter Euribor + 1.87%	500	500
		1,200	**1,200**

Hybrid capital instruments in particular include issues in the form of preferred shares placed by specifically established special purpose entities. These instruments differ from conventional supplementary capital in that they are subject to more stringent conditions in terms of maturity. In addition, hybrid capital instruments are not repaid until after supplementary capital (subordinated liabilities and participating certificates outstanding) in the event of bankruptcy. In contrast to traditional components of core capital, the claim to a share of profit, which depends on the existence of profit, takes the form of a fixed or variable interest payment in the case of hybrid capital instruments. Moreover, hybrid capital can be issued both with unlimited maturity and repayable in the long-term.

The above hybrid instruments of the DEPFA Group are recognised as capital instruments in accordance with IAS 32.16. The classification of financial instruments as capital instruments or debt instruments depends on whether the DEPFA Group has a contractual obligation to make payments from an issued financial instrument. The above instruments are subordinated debt issued in the form of undated bonds via the issuance vehicles DEPFA Funding II LP, DEPFA Funding III LP and DEPFA Funding IV LP on which the DEPFA Group has no contractual obligation to make interest payments.

Accordingly, the carrying amount of these hybrid capital instruments are classified as equity.

On 4 March 2011 the Board of Directors of DEPFA BANK plc determined that the perpetual preferred securities issuing vehicle, DEPFA Funding IV LP, would not make payments on its € 500,000,000 Preferred Securities (XS0291655727) on the next distribution payment date scheduled for 21 March 2011.

Similarly, on 23 May 2011 the Board of Directors of DEPFA BANK plc determined that DEPFA Funding III LP would not make payments on its € 300,000,000 Preferred Securities (DE000A0E5U85) on the next distribution payment date scheduled for 8 June 2011 and on the 14 October 2011 the Board of DEPFA BANK plc determined that DEPFA Funding II LP would not make payments on its € 400,000,000 Preferred Securities (XS0178243332) on the next distribution payment date scheduled for 30 October 2011.

40 Retained earnings

	Group		Company	
	2011 € m	2010 € m	2011 € m	2010 € m
At January 1	**-256**	**406**	**-1,470**	**-789**
Net income/loss	119	-681	-31	-681
Arising on transfer to FMS Wertmanagement	-	19	-	-
FMSA payment condition, net of tax	-963	-	-809	-
At December 31	**-1,100**	**-256**	**-2,310**	**-1,470**

41 Other reserves

Other reserves	Group 2011 € m	Group 2010 € m	Company 2011 € m	Company 2010 € m
Unrealised gains/losses from cash flow hedges	-	-	-	-
Unrealised losses/gains from available-for-sale investment securities	-47	-59	2	6
Accumulated currency translation reserve	2	-	9	5
	-45	**-59**	**11**	**11**

Unrealised gains/losses from cash flow hedges	Group 2011 € m	Group 2010 € m	Company 2011 € m	Company 2010 € m
At January 1	-	-	-	-
Net losses/gains from changes in fair value, net of tax	-7	20	-	3
Net gains/losses transferred to net profit, net of tax	7	-20	-	-3
At December 31	**-**	**-**	**-**	**-**

Unrealised losses/gains from available-for-sale investment securities	Group 2011 € m	Group 2010 € m	Company 2011 € m	Company 2010 € m
At January 1	-59	-1,846	6	-1,698
Net gains/losses from changes in fair value, net of tax	12	-2,619	-4	-2,528
Net gains/losses transferred to net profit, net of tax	-	13	-	-4
Change due to transfer to FMS Wertmanagement	-	4,393	-	4,236
At December 31	**-47**	**-59**	**2**	**6**

Accumulated currency translation reserve	Group 2011 € m	Group 2010 € m	Company 2011 € m	Company 2010 € m
At January 1	-	4	5	5
Net gain from currency translation	2	-4	4	-
At December 31	**2**	**-**	**9**	**5**

42 Foreign currency assets and liabilities

Foreign currency assets	Group 2011 € m	Group 2010 € m	Company 2011 € m	Company 2010 € m
USD	15,818	16,639	9 ,943	6,897
JPY	5,113	5,265	5 ,036	1,260
GBP	8,357	7,161	7 ,990	7,456
Others	9,367	9,421	7 ,937	479
	38,655	**38,486**	**30,906**	**16,092**

Foreign currency liabilities	Group 2011 € m	Group 2010 € m	Company 2011 € m	Company 2010 € m
USD	15,830	16,806	9,913	7,023
JPY	5,100	5,285	5,035	1,281
GBP	8,342	7,186	7,978	7,470
Others	9,321	9,445	7,919	512
	38,593	**38,722**	**30,845**	**16,286**

43 Notes to the items in the cash flow statement and undiscounted cash flows of financial liabilities

The cash flow statement shows the cash flows of the financial year broken down into cash flows attributable to operating activities, investing activities and financing activities.

Operating activities are defined broadly and correspond to operating result. Cash flow from operating activities includes payments (inflows and outflows) attributable to loans and advances to other banks and customers as well as trading assets and other assets. Inflows and outflows attributable to liabilities to other banks and customers, liabilities evidenced by certificates and other liabilities are also included under operating activities. The interest and dividend payments resulting from operating activities are shown under cash flow from operating activities.

Cash flow from investing activities comprises payments for investment securities, receipts from sales and maturities of investment securities, as well as payments for property, plant and equipment.

Cash flow from financing activities comprises inflows for capital contribution received and also the FMSA payment condition.

The contractual undiscounted cash flows of the financial liabilities are analysed into the following remaining maturities:

	Group		Company	
	2011 € bn	2010 € bn	2011 € bn	2010 € bn
up to 3 months	**53**	**55**	**49**	**55**
Of which from derivatives	1	2	1	2
Of which from non derivatives	52	53	48	53
from 3 months to 1 year	**6**	**8**	**5**	**5**
Of which from derivatives	2	3	3	3
Of which from non derivatives	4	5	2	2
from 1 year to 5 years	**30**	**37**	**12**	**20**
Of which from derivatives	9	15	10	16
Of which from non derivatives	21	22	2	4
from 5 years and over	**59**	**86**	**41**	**61**
Of which from derivatives	28	41	30	41
Of which from non derivatives	31	45	11	20

44 Derivative financial instruments

	Group		Company	
	2011 € m	2010 € m	2011 € m	2010 € m
Assets				
Trading assets (note 18)	20,473	24,700	26,515	29,548
Other assets (note 25)	5,992	4,332	630	477
	26,465	**29,032**	**27,145**	**30,025**
Liabilities				
Trading liabilities (note 32)	20,485	24,390	26,409	29,351
Other liabilities (note 34)	6,013	4,212	2,353	1,245
	26,498	**28,602**	**28,762**	**30,596**

Derivatives are contracts or agreements whose values are determined on the basis of changes in an underlying variable, such as interest rates, foreign exchange rates, securities prices, financial and commodity indices or other variables. The timing of cash receipts and payments for derivatives is generally determined by contractual agreement. Derivatives are either standardised contracts traded on exchanges or over-the-counter ("OTC") contracts agreed individually by the parties to the contract. Futures and certain options are examples of standard exchange-traded derivatives. Forwards, swaps and other option contracts are examples of OTC derivatives. OTC derivatives are not freely tradable. In the normal course of business, however, they may be terminated or assigned to another counterparty if the current party to the contract agrees.

Derivatives may be used for trading purposes or for risk management purposes. The Group uses derivative financial instruments primarily as a means of hedging the risk associated with asset/liability management in the context of interest bearing transactions. Interest rate derivatives are primarily entered into to hedge the fair value interest rate risk in fixed-rate available-for-sale securities, loans extended, promissory note loans and debt securities in issue.

Derivatives are also entered into, to a lesser extent, for the purpose of hedging foreign currency risks. Foreign exchange risks are primarily hedged by means of suitable fair value hedges for available-for-sale securities, loans extended and debt securities in issue. However, some derivatives used for risk management purposes do not qualify for hedge accounting and are therefore classified as part of the ''trading portfolio'' in the Group financial statements.

Derivatives used by the Group include:

- Interest rate and cross currency swaps
- Interest rate futures, forward rate agreements ("FRAs") and interest rate options
- Forward foreign exchange contracts
- Credit default swaps

Interest rate swaps involve the exchange of fixed and variable rate interest payments between two parties at specified times based on a common nominal amount and maturity date. The nominal amounts are normally not exchanged.

Cross currency swaps have nominal amounts in two different currencies. The interest is paid in these two currencies. An exchange of the nominal amount often takes place at the beginning and at the end of the contract.

Futures are standardised exchange-traded contracts to receive or sell a specific financial instrument at a specific future date and price. FRAs provide for the payment or receipt of the difference between a specified interest rate and reference rate at a future trade date. Interest rate risks reflect the material risks associated with such contracts. Where these are OTC transactions, counterparty default risk also exists.

Interest rate options are contracts that allow the purchaser to enter into contracts on financial instruments or to buy or sell an underlying variable, at a specified price at a specified point of time. The option writer is obligated to buy, sell or enter into a financial instrument if the purchaser chooses to exercise the option. Option contracts purchased or written by the Group include caps and floors which are interest rate hedging instruments, as the agreed payment covers the difference in interest between the agreed interest rate and the market rate. Exposure to current and future movements in interest rates and the ability of the counterparties to meet the terms of the contracts represent the primary risks associated with interest rate options.

Forward foreign exchange contracts involve an agreement to exchange two currencies at a specific price and date agreed in advance. Exposure to changes in foreign currency exchange rates and foreign interest rates and the counterparty default risk are the primary risks associated with forward foreign exchange contracts.

Credit default swaps are contracts which transfer credit risk on an underlying reference asset or group of assets from one party to another in exchange for a fee. The material risk from credit default swaps is exposure to changes in the credit risk of the underlying reference asset and the ability of the counterparties to meet the terms of the contracts.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market factors such as interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below.

Volume of derivatives

Group	31 December 2011					
	Notional amount				Fair value	
	Remaining maturities					
€ m	Less than 1 year	1 to 5 years	More than 5 yrs	Total	Positive fair values	Negative fair values
Interest based transactions						
OTC products	**14,146**	**72,751**	**138,928**	**225,825**	**23,976**	**25,151**
Interest rate swaps	14,081	72,111	138,285	224,477	23,845	24,998
Call options	52	309	244	605	13	-
Put options	13	331	352	696	-	13
Other interest rate contracts	-	-	47	47	118	140
Exchange traded products	**541**	**1**	**-**	**542**	**3**	**-**
Interest rate futures	541	1	-	542	3	-
Total	**14,687**	**72,752**	**138,928**	**226,367**	**23,979**	**25,151**
Foreign currency based transactions						
OTC products	**6,403**	**9,661**	**4,933**	**20,997**	**2,185**	**1,046**
Spot and forward currency transactions	3,551	-	-	3,551	44	45
Interest rate/currency swaps	2,852	9,661	4,933	17,446	2,141	1,001
Total	**6,403**	**9,661**	**4,933**	**20,997**	**2,185**	**1,046**
Other transactions						
OTC products	**77**	**472**	**5,510**	**6,059**	**301**	**301**
Credit derivatives	77	472	5,510	6,059	301	301
Other forward transactions	-	-	-	-	-	-
Total	**77**	**472**	**5,510**	**6,059**	**301**	**301**
Total	**21,167**	**82,885**	**149,371**	**253,423**	**26,465**	**26,498**

Group	31 December 2010					
	Notional amount				Fair value	
	Remaining maturities					
€ m	Less than 1 year	1 to 5 years	More than 5 yrs	Total	Positive fair values	Negative fair values
Interest based transactions						
OTC products	**15,811**	**102,855**	**246,356**	**365,022**	**26,345**	**26,787**
Interest rate swaps	15,660	101,829	240,755	358,244	26,133	26,504
Call options	-	210	3,113	3,323	66	112
Put options	48	416	1,754	2,218	17	61
Other interest rate contracts	103	400	734	1,237	129	110
Exchange traded products	**2,419**	**2,212**	**-**	**4,631**	**6**	**-**
Interest rate futures	2,419	2,212	-	4,631	6	-
Total	**18,230**	**105,067**	**246,356**	**369,653**	**26,351**	**26,787**
Foreign currency based transactions						
OTC products	**11,798**	**10,952**	**8,825**	**31,575**	**2,324**	**1,459**
Spot and forward currency transactions	9,470	-	-	9,470	57	119
Interest rate/currency swaps	2,328	10,952	8,825	22,105	2,267	1,340
Total	**11,798**	**10,952**	**8,825**	**31,575**	**2,324**	**1,459**
Other transactions						
OTC products	**424**	**1,180**	**8,228**	**9,832**	**357**	**356**
Credit derivatives	320	1,166	8,228	9,714	281	280
Other forward transactions	104	14	-	118	76	76
Total	**424**	**1,180**	**8,228**	**9,832**	**357**	**356**
Total	**30,452**	**117,199**	**263,409**	**411,060**	**29,032**	**28,602**

Notes to the financial statements (continued)

Volume of derivatives (continued)

Company	31 December 2011					
	Notional amount				Fair value	
	Remaining maturities					
€ m	Less than 1 year	1 to 5 years	More than 5 yrs	Total	Positive fair values	Negative fair values
Interest based transactions						
OTC products	**11,275**	**81,297**	**142,431**	**235,003**	**24,243**	**26,028**
Interest rate swaps	11,213	80,679	141,788	233,680	24,112	25,875
Call options	49	309	244	602	13	-
Put options	13	309	352	674	-	13
Other interest rate contracts	-	-	47	47	118	140
Exchange traded products	**541**	**1**	**-**	**542**	**3**	**-**
Interest rate futures	541	1	-	542	3	-
Total	**11,816**	**81,298**	**142,431**	**235,545**	**24,246**	**26,028**
Foreign currency based transactions						
OTC products	**13,122**	**13,046**	**6,492**	**32,660**	**2,598**	**2,433**
Spot and forward currency transactions	9,064	-	-	9,064	275	50
Interest rate/currency swaps	4,058	13,046	6,492	23,596	2,323	2,383
Total	**13,122**	**13,046**	**6,492**	**32,660**	**2,598**	**2,433**
Other transactions						
OTC products	**77**	**472**	**5,510**	**6,059**	**301**	**301**
Credit derivatives	77	472	5,510	6,059	301	301
Other forward transactions	-	-	-	-	-	-
Total	**77**	**472**	**5,510**	**6,059**	**301**	**301**
Total	**25,015**	**94,816**	**154,433**	**274,264**	**27,145**	**28,762**

Company	31 December 2010					
	Notional amount				Fair value	
	Remaining maturities					
€ m	Less than 1 year	1 to 5 years	More than 5 yrs	Total	Positive fair values	Negative fair values
Interest based transactions						
OTC products	**16,883**	**113,626**	**247,308**	**377,817**	**26,667**	**27,405**
Interest rate swaps	16,615	112,435	241,580	370,630	26,429	27,124
Call options	136	212	3,195	3,543	86	112
Put options	-	355	1,751	2,106	15	56
Other interest rate contracts	132	624	782	1,538	137	113
Exchange traded products	**2,419**	**2,212**	**-**	**4,631**	**6**	**-**
Interest rate futures	2,419	2,212	-	4,631	6	-
Total	**19,302**	**115,838**	**247,308**	**382,448**	**26,673**	**27,405**
Foreign currency based transactions						
OTC products	**19,792**	**17,002**	**13,462**	**50,256**	**2,995**	**2,835**
Spot and forward currency transactions	13,777	-	-	13,777	230	114
Interest rate/currency swaps	6,015	17,002	13,462	36,479	2,765	2,721
Total	**19,792**	**17,002**	**13,462**	**50,256**	**2,995**	**2,835**
Other transactions						
OTC products	**424**	**1,182**	**8,513**	**10,119**	**357**	**356**
Credit derivatives	320	1,168	8,363	9,851	281	280
Other forward transactions	104	14	150	268	76	76
Total	**424**	**1,182**	**8,513**	**10,119**	**357**	**356**
Total	**39,518**	**134,022**	**269,283**	**442,823**	**30,025**	**30,596**

Derivatives counterparties

Group	31 December 2011 €m		31 December 2010 €m	
	Fair values		Fair values	
	Positive	Negative	Positive	Negative
OECD banks	10,619	17,792	10,678	20,042
OECD financial institutions	15,797	8,641	18,023	8,433
Non OECD banks	-	-	18	-
Other companies and private individuals	49	65	313	127
Total	**26,465**	**26,498**	**29,032**	**28,602**

Derivatives with Group companies included in the above are:

Group	31 December 2011 €m		31 December 2010 €m	
	Fair values		Fair values	
	Positive	Negative	Positive	Negative
OECD banks	568	286	1,036	795

Company	31 December 2011 €m		31 December 2010 €m	
	Fair values		Fair values	
	Positive	Negative	Positive	Negative
OECD banks	14,026	20,583	14,407	22,371
OECD financial institutions	13,070	8,114	15,295	8,098
Non OECD banks	-	-	18	-
Other companies and private individuals	49	65	305	127
Total	**27,145**	**28,762**	**30,025**	**30,596**

Derivatives with Group companies included in the above are:

Company	31 December 2011 €m		31 December 2010 €m	
	Fair values		Fair values	
	Positive	Negative	Positive	Negative
OECD banks	4,974	4,967	5,694	4,789

Fair values appear as sum of positive and negative amounts per contract, from which no pledged security has been deducted and no netting agreements have been taken into consideration.

45 Cash flows from hedge accounting

The cash flows of the hedged items shown in cash flow hedge accounting are expected to occur in the following periods:

	Group		Company	
	2011 € m	2010 € m	2011 € m	2010 € m
up to 3 months	-	-	-	-
from 3 months to 1 year	-	-3	-	-
from 1 year to 2 years	-	-8	-	-
from 2 years to 5 years	-59	-95	-	-
from 5 years and over	-3	-108	-	-

It is expected that the cash flows will affect the income statement in the period of occurrence.

The development of the cash flow hedge reserve is shown in note 41 to the financial statements.

46 Assets assigned or pledged as security for liabilities

The following liabilities had assets pledged as security at 31 December 2011 and 31 December 2010:

	Group		Company	
	2011 € m	2010 € m	2011 € m	2010 € m
Liabilities to other banks	35,574	37,439	35,574	20,138
Liabilities to customers	481	609	481	609
Total	**36,055**	**38,048**	**36,055**	**20,747**

The Group currently handles certain refinancing functions for FMS Wertmanagement, for instance repurchase agreements with the ECB and bilateral repurchase transactions. The refinancing funds are passed on to FMS Wertmanagement and in return the Group receives a claim against FMS Wertmanagement.

FMS Wertmanagement has pledged assets to the Group in respect of € 33 billion of repo liabilities which is in turn pledged by the Group to the repo counterparties.

In addition to the assets pledged by FMS Wertmanagement in relation to the above liabilities, the following assets (recorded on the statement of financial position) were pledged as security for certain of the above liabilities at 31 December 2011 and 31 December 2010.

Pledged assets:

	Group		Company	
	2011 € m	2010 € m	2011 € m	2010 € m
Loans and advances to other banks	170	97	170	97
Loans and advances to customers	969	1,489	969	1,489
Financial investments	2,477	38	369	38
Total	**3,616**	**1,624**	**1,508**	**1,624**

During 2010, DEPFA BANK plc and DEPFA ACS BANK migrated to the TARGET 2 system, which is a wholesale payment infrastructure for credit institutions across Europe. TARGET 2 is a real time gross settlement system for large volume interbank payments in euro. The following disclosures relate to the charges arising as a result of the migration to TARGET 2.

1. On 5 February 2010, first floating charges were placed in favour of the Central Bank and Financial Services Authority of Ireland ("CBFSAI") over all of DEPFA BANK plc and DEPFA ACS BANK's right, title, interest and benefit, present and future, in and to the balances then or at any time standing to the credit of DEPFA BANK plc and DEPFA ACS BANK's accounts held as TARGET 2 participants with the CBFSAI (the "Charged Account Property").

These floating charges contain provisions whereby during the subsistence of the security, otherwise than with the prior written consent of the CBFSAI, DEPFA BANK plc and DEPFA ACS BANK shall:

(a) not create or attempt to create or permit to arise or subsist any encumbrance on or over the Charged Account Property or any part thereof; or
(b) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the Charged Account Property or any part thereof or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

2. On 5 February 2010, first floating charges were placed in favour of the CBFSAI over all DEPFA BANK plc and DEPFA ACS BANK's right, title, interest and benefit, present and future, in and to certain segregated securities (the "Charged Securities Property") listed in Eligible Securities Schedules kept by DEPFA BANK plc and DEPFA ACS BANK for the purpose of participating in TARGET 2.

This floating charge contains a provision whereby during the subsistence of the security, otherwise than with the prior written consent of the CBFSAI, DEPFA BANK plc and DEPFA ACS BANK shall:

(a) not create or attempt to create or permit to arise or subsist any encumbrance on or over the Charged Securities Property or any part thereof; or
(b) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the Charged Securities Property or any part thereof or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

DEPFA ACS BANK terminated its participation in TARGET 2 with effect from 12 December 2011 and its charges created in favour of the CBFSAI, as described above, were released with effect from 8 March 2012. DEPFA BANK plc remains a participant in TARGET 2 and the charges described above remain in place.

47 Collateral held that may be sold or repledged

The fair value of collateral that may be resold or repledged in the absence of default amounted to € 38 billion as of 31 December 2011 (2010: € 37 billion). The Group received the collateral as part of repurchase agreements and is principally obliged to return the collateral to the grantor. The majority of collateral which can be sold or repledged in the absence of default results from collateral of FMS Wertmanagement which are pledged for funding at central banks or in bilateral repo. The funding is transferred to FMS Wertmanagement which does not have direct access to ECB funding. The fair value of the transferred collateral from FMS Wertmanagement amounts to € 38 billion (2010: € 36 billion).

48 Fair values of financial assets and liabilities

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

Group	Carrying value		Fair value	
		As restated*		As restated*
	2011 € m	2010 € m	2011 € m	2010 € m
ASSETS				
Cash reserve	600	2,283	600	2,283
Trading assets	20,517	24,740	20,517	24,740
Loans and advances to other banks	15,991	21,565	15,832	21,425
Loans and advances to customers (net of allowance)	54,958	56,759	52,807	55,095
Financial investments	31,617	33,845	29,489	32,090
Category available-for-sale	26	110	26	110
Category dFVTPL	3,795	3,405	3,795	3,405
Category LaR	27,796	30,330	25,668	28,575
Property, plant and equipment	1	1	1	1
Intangible assets	17	19	17	19
Other assets	6,028	4,655	6,028	4,655
Derivatives	5,992	4,332	5,992	4,332
Other	36	323	36	323
Income tax assets	193	128	193	128
Total assets	**129,922**	**143,995**	**125,484**	**140,436**
LIABILITIES				
Liabilities to other banks	38,057	39,803	37,988	39,722
Liabilities to customers	21,356	25,856	21,403	25,850
Liabilities evidenced by certificates	39,456	44,288	32,741	38,636
Trading liabilities	20,604	24,618	20,604	24,618
Provisions	112	96	112	96
Other liabilities	6,289	4,524	6,289	4,524
Derivatives	6,013	4,212	6,013	4,212
Other	276	312	276	312
Income tax liabilities	230	169	230	169
Subordinated capital	1,079	1,072	549	516
Total liabilities	**127,183**	**140,426**	**119,916**	**134,131**

Other items	Contract amount		Fair value	
	2011 € m	2010 € m	2011 € m	2010 € m
Contingent liabilities & loan commitments	295	417	-7	-26

Notes to the financial statements (continued)

Company	Carrying value		Fair value	
		As restated*		As restated*
	2011 € m	2010 € m	2011 € m	2010 € m
ASSETS				
Cash reserve	587	2,248	587	2,248
Trading assets	26,559	29,588	26,559	29,588
Loans and advances to other banks	17,351	24,152	17,200	24,103
Loans and advances to customers (net of allowance)	40,184	41,247	39,874	41,548
Financial investments	8,715	8,106	8,353	7,743
Category available-for-sale	1,079	1,217	1,079	1,217
Category dFVTPL	3,795	3,405	3,795	3,405
Category LaR	3,841	3,484	3,479	3,121
Property, plant and equipment	1	1	1	1
Intangible assets	17	19	17	19
Other assets	719	1,055	719	1,055
Derivatives	630	477	630	477
Other	89	578	89	578
Income tax assets	2	4	2	4
Total assets excluding shares in group undertakings	**94,135**	**106,420**	**93,312**	**106,309**
LIABILITIES				
Liabilities to other banks	40,180	44,404	40,114	44,325
Liabilities to customers	19,021	23,344	19,068	23,338
Liabilities evidenced by certificates	2,626	3,627	2,065	3,246
Trading liabilities	26,489	29,486	26,489	29,486
Provisions	112	97	112	97
Other liabilities	2,633	1,543	2,633	1,543
Derivatives	2,353	1,245	2,353	1,245
Other	280	298	280	298
Income tax liabilities	40	54	40	54
Subordinated capital	1,682	1,673	665	650
Total liabilities	**92,783**	**104,228**	**91,186**	**102,739**
Other items	Contract amount		Fair value	
	2011 € m	2010 € m	2011 € m	2010 € m
Contingent liabilities & loan commitments	1,878	2,082	146	72

* Details of the reclassification of 2010 comparatives are set out in note 57 of the notes to the audited consolidated financial statements.

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 fair values are determined as follows:

The above tables have taken account of the financial guarantees for calculating the fair values (economic view). If these financial guarantees were to be disregarded for both Group and Company, the item loans and advances to customers would show a fair value which was € 1,512 million lower and a contingent receivable from the financial guarantee of € 1,512 million would have to be shown. This is also applicable for the position contingent liabilities and loan commitments, for which the value would decline by € 15 million if a financial guarantee is not taken into consideration.

In addition, as part of the process of transferring positions to FMS Wertmanagement, the HRE Group has been provided with liquidity facilities for which the fair value in the above table has been shown with the carrying amount as part of an economic view (because these facilities are not realisable). If these were to be valued in the same way as an unsecured liability position of the Group, the fair value of the position liabilities to customers would be € 5,740 million lower for both Group and Company.

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) **Liabilities to other banks and customers** 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.

b) 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.

c) Deposits and borrowings 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.

d) 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.

Assets and liabilities according to measurement categories:

	Group		Company	
	2011 € m	2010 € m	2011 € m	2010 € m
Loans and receivables (net)	98,745	108,654	61,376	68,883
Available-for-sale	26	110	1,079	1,217
Held-for-trading	20,517	24,740	26,559	29,588
dFVTPL assets	3,795	3,405	3,795	3,405
Cash reserve	600	2,283	587	2,248
Derivatives (hedging)	5,992	4,332	630	477
Other assets	247	471	109	602
Total assets	**129,922**	**143,995**	**94,135**	**106,420**
Held-for-trading	20,604	24,618	26,489	29,486
Financial liabilities at amortised cost	99,948	111,019	63,509	73,048
Derivatives (hedging)	6,013	4,212	2,353	1,245
Other liabilities	618	577	432	449
Total liabilities	**127,183**	**140,426**	**92,783**	**104,228**

The recognised fair values of financial instruments according to IFRS 7 correspond to the amounts at which, in the opinion of the Group, an asset could be exchanged on the statement of financial position date between willing, competent business partners or the amount at which a liability could be settled between such business partners. The fair values were determined as of the statement of financial position date based on the market information available and on valuation methods described in note “Fair values of financial assets and liabilities”.

As per the amendment to IFRS 7 “Financial Instruments: Disclosures” issued in March 2009 all financial assets and liabilities of the Group that are measured at fair value should be grouped into the fair value hierarchy. The three-level hierarchy is based on the degree to which the input for the fair value measurement is observable.

Level 1 – quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities.

Level 2 – inputs that are observable either directly or indirectly, other than quoted prices included within Level 1.

Level 3 – valuation techniques that include inputs that are not based on observable market data (unobservable inputs).

The following table shows financial assets and financial liabilities measured at fair value grouped into the fair value hierarchy:

Notes to the financial statements (continued)

Group Fair value hierarchy in € million	31 December 2011			
	Total	Level 1	Level 2	Level 3
ASSETS				
Financial assets at fair value through P&L				
Trading assets	20,517	47	19,753	717
Financial investments	3,795	-	-	3,795
Hedging derivatives	5,743	-	5,736	7
Derivatives hedging dFVTPL	249	-	-	249
Available-for-sale				
Financial investments	26	26	-	-
TOTAL	**30,330**	**73**	**25,489**	**4,768**
LIABILITIES				
Financial liabilities at fair value through P&L				
Trading liabilities	20,604	-	19,765	839
Hedging derivatives	5,714	-	5,688	26
Derivatives hedging dFVTPL	299	-	-	299
TOTAL	**26,617**	**-**	**25,453**	**1,164**

Group Fair value hierarchy in € million	31 December 2010			
	Total	Level 1	Level 2	Level 3
ASSETS				
Financial assets at fair value through P&L				
Trading assets	24,740	6	23,757	977
Financial investments	3,405	-	-	3,405
Hedging derivatives	4,061	-	4,050	11
Derivatives hedging dFVTPL	271	-	-	271
Available-for-sale				
Financial investments	110	61	49	-
TOTAL	**32,587**	**67**	**27,856**	**4,664**
LIABILITIES				
Financial liabilities at fair value through P&L				
Trading liabilities	24,618	-	23,427	1,191
Hedging derivatives	4,175	-	4,132	43
Derivatives hedging dFVTPL	37	-	-	37
TOTAL	**28,830**	**-**	**27,559**	**1,271**

Company Fair value hierarchy in € million	31 December 2011			
	Total	Level 1	Level 2	Level 3
ASSETS				
Financial assets at fair value through P&L				
Trading assets	26,559	47	25,791	721
Financial investments	3,795	-	-	3,795
Hedging derivatives	381	-	374	7
Derivatives hedging dFVTPL	249	-	-	249
Available-for-sale				
Financial investments	26	26	-	-
TOTAL	**31,010**	**73**	**26,165**	**4,772**
LIABILITIES				
Financial liabilities at fair value through P&L				
Trading liabilities	26,489	-	25,684	805
Hedging derivatives	2,054	-	2,035	19
Derivatives hedging dFVTPL	299	-	-	299
TOTAL	**28,842**	**-**	**27,719**	**1,123**

Company Fair value hierarchy in € million	31 December 2010			
	Total	Level 1	Level 2	Level 3
ASSETS				
Financial assets at fair value through P&L				
Trading assets	29,588	6	28,662	920
Financial investments	3,405	-	-	3,405
Hedging derivatives	206	-	199	7
Derivatives hedging dFVTPL	271	-	-	271
Available-for-sale				
Financial investments	63	62	1	-
TOTAL	**33,533**	**68**	**28,862**	**4,603**
LIABILITIES				
Financial liabilities at fair value through P&L				
Trading liabilities	29,486	-	28,368	1,118
Hedging derivatives	1,208	-	1,188	20
Derivatives hedging dFVTPL	37	-	-	37
TOTAL	**30,731**	**-**	**29,556**	**1,175**

There have been transfers from Level 2 to Level 1 of € 45 million for the Group (2010: € nil) and of € 45 million for the Company (2010: € nil). There have been transfers from Level 1 to Level 2 of € nil for the Group (2010: € 47 million) and € nil for the Company (2010: € nil).

The following table presents the changes in Level 3 instruments for the year:

Group	Financial assets					
Changes in Level 3 financial assets € million	**Trading assets**	**Loans & advances to customers**	**Financial investments**	**Hedging derivatives**	**Derivatives dFVTPL**	**Total**
Balance at 1 January 2010	**1,374**	**333**	**-**	**6**	**24**	**1,737**
Comprehensive income recognised in Income Statement	-598	3	202	5	-39	-427
Purchases	541	-	1,273	-	-	1,814
Sales	-147	-	-99	-	-31	-277
Change due to transfer to FMS Wertmanagement	-377	-336	-	-	-	-713
Settlements	1	-	-24	-	1	-22
Reclassifications into Level 3	183	-	2,053	-	316	2,552
Balance at 31 December 2010	**977**	**-**	**3,405**	**11**	**271**	**4,664**
Balance at 1 January 2011	**977**	**-**	**3,405**	**11**	**271**	**4,664**
Comprehensive income recognised in Income Statement	279	-	286	-2	-36	527
Purchases	-	-	1,822	-	-	1,822
Sales	-	-	-1,647	-	14	-1,633
Change due to transfer to FMS Wertmanagement	-321	-	-	-	-	-321
Settlements	-	-	-71	-	-	-71
Reclassifications into Level 3	14	-	-	-	-	14
Reclassifications out of Level 3	-232	-	-	-2	-	-234
Balance at 31 December 2011	**717**	**-**	**3,795**	**7**	**249**	**4,768**

Group	Financial liabilities			
Changes in Level 3 financial liabilities € million	**Trading liabilities**	**Hedging derivatives**	**Derivatives hedging dFVTPL**	**Total**
Balance at 1 January 2010	**1,856**	**168**	**-**	**2,024**
Comprehensive income recognised in Income Statement	-126	57	-13	-82
Purchases	1,648	-	-	1,648
Sales	-2,010	-33	-	-2,043
Change due to transfer to FMS Wertmanagement	-102	-	-	-102
Settlements	-399	-	-	-399
Reallocations	149	-149	-	-
Reclassifications into Level 3	202	-	50	252
Reclassifications out of Level 3	-27	-	-	-27
Balance at 31 December 2010	**1,191**	**43**	**37**	**1,271**
Balance at 1 January 2011	**1,191**	**43**	**37**	**1,271**
Comprehensive income recognised in Income Statement	296	3	290	589
Purchases	66	-	-	66
Sales	-125	-	-28	-153
Change due to transfer to FMS Wertmanagement	-311	-	-	-311
Settlements	-67	-	-	-67
Reclassifications into Level 3	19	-	-	19
Reclassifications out of Level 3	-230	-20	-	-250
Balance at 31 December 2011	**839**	**26**	**299**	**1,164**

Company	Financial assets					
Changes in Level 3 financial assets € million	**Trading assets**	**Loans & advances to customers**	**Financial investments**	**Hedging derivatives**	**Derivatives dFVTPL**	**Total**
Balance at 1 January 2010	**1,151**	**333**	**-**	**6**	**24**	**1,514**
Comprehensive income recognised in Income Statement	-365	3	202	2	-39	-197
Purchases	417	-	1,273	-	-	1,690
Sales	-419	-	-99	-	-31	-549
Change due to transfer to FMS Wertmanagement	-124	-336	-	-	-	-460
Settlements	1	-	-24	-	1	-22
Reclassifications into Level 3	258	-	2,053	-	316	2,627
Reclassifications out of Level 3	-	-	-	-	-	-
Balance at 31 December 2010	**919**	**-**	**3,405**	**8**	**271**	**4,603**
Balance at 1 January 2011	**919**	**-**	**3,405**	**8**	**271**	**4,603**
Comprehensive income recognised in Income Statement	274	-	285	-1	-36	522
Purchases	-	-	1,823	-	-	1,823
Sales	-	-	-1,647	-	14	-1,633
Change due to transfer to FMS Wertmanagement	-282	-	-	-	-	-282
Settlements	-	-	-71	-	-	-71
Reclassifications into Level 3	14	-	-	-	-	14
Reclassifications out of Level 3	-204	-	-	-	-	-204
Balance at 31 December 2011	**721**	**-**	**3,795**	**7**	**249**	**4,772**

Company	Financial liabilities			
Changes in Level 3 financial liabilities € million	**Trading liabilities**	**Hedging derivatives**	**Derivatives hedging dFVTPL**	**Total**
Balance at 1 January 2010	**806**	**64**	**-**	**870**
Comprehensive income recognised in Income Statement	-78	57	-12	-33
Purchases	515	-	-	515
Sales	-228	-33	-	-261
Change due to transfer to FMS Wertmanagement	-18	-	-	-18
Settlements	-125	-	-	-125
Reallocations	68	-68	-	-
Reclassifications into Level 3	204	-	49	253
Reclassifications out of Level 3	-26	-	-	-26
Balance at 31 December 2010	**1,118**	**20**	**37**	**1,175**
Balance at 1 January 2011	**1,118**	**20**	**37**	**1,175**
Comprehensive income recognised in Income Statement	293	-1	289	581
Purchases	7	-	-	7
Sales	-31	-	-27	-58
Change due to transfer to FMS Wertmanagement	-310	-	-	-310
Settlements	-45	-	-	-45
Reclassifications into Level 3	23	-	-	23
Reclassifications out of Level 3	-250	-	-	-250
Balance at 31 December 2011	**805**	**19**	**299**	**1,123**

Although the Group believes that its estimates of fair value are appropriate, using reasonably possible alternative input factors changes the fair value. The following tables shows the fair value sensitivities of the Level 3 instruments as of 31 December 2011 and 31 December 2010, which have been quantified on the basis of the specified valuation parameters taking account of standard scenarios.

Sensitivities of Level 3 Instruments in € million	31 December 2011			
	Group		Company	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Assets				
Financial assets at fair value through P&L				
Trading assets	-	-	24	-4
Loans and advances to customers	-	-	-	-
Financial investments	39	-39	39	-39
Derivatives	29	-29	29	-29
Available-for-sale				
Financial investments	-	-	-	-
Total	**68**	**-68**	**92**	**-72**
Liabilities				
Financial liabilities at fair value through P&L				
Trading liabilities	6	-6	47	-67
Derivatives	29	-29	29	-29
Total	**35**	**-35**	**76**	**-96**

Sensitivities of Level 3 Instruments in € million	31 December 2010			
	Group		Company	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Assets				
Financial assets at fair value through P&L				
Trading assets	-	-	-	-
Loans and advances to customers	-	-	-	-
Financial investments	351	-351	351	-351
Derivatives	279	-279	279	-279
Available-for-sale				
Financial investments	-	-	-	-
Total	**630**	**-630**	**630**	**-630**
Liabilities				
Financial liabilities at fair value through P&L				
Trading liabilities	4	-4	6	-6
Derivatives	50	-50	47	-47
Total	**54**	**-54**	**53**	**-53**

As part of the process of transferring positions to FMS Wertmanagement, significant holdings of derivatives were transferred synthetically to FMS Wertmanagement by way of concluding opposite back-to-back transactions. As a result of their contractual opposite nature, these products have been combined in a separate IFRS 7 category within which the sensitivities of the original transactions cancel out those of the back-to-back transactions. In view of this aspect and also in order to present the economic context of the impact of risks on the net assets, financial position and results of operations, transactions which mirror each other have not been taken into consideration with regard to the beneficial and detrimental changes to Level 3 instruments.

The above favourable and unfavourable changes are calculated independently from each other.

Further offsetting effects due to compensating derivatives and hedge relationships attenuate both, favourable and unfavourable changes.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period. In the following paragraphs, the

valuation methods on the level of product classes are described in detail:

- The fair values of certain financial instruments reported at nominal values are almost identical to their carrying amounts. These include for example cash reserve, receivables and liabilities without fixed interest rates or which mature in the short term. Differences between the carrying amount and the fair value of these financial instruments are not material.

- Quoted market prices are applied for exchange traded derivatives and, where available, for securities and quoted debt instruments. The fair value of debt instruments for which no active market price is available is determined as the present value for future expected cash flows on the basis of related benchmark interest curves and credit spreads.

- The fair value of interest rate swap and cross currency swap agreements are determined on the basis of discounted future expected cash flows. The market interest rates applicable for the remaining maturity of the financial instruments are used for the purpose of the calculation. The fair value of forward exchange transactions is determined on the basis of current forward rates.

- Options are valued using exchange rate quotations or recognised models for determining option prices. For simple European options, the current Black-Scholes models (currency and index instruments) or lognormal models (interest instruments) are used as the valuation models. In the case of more exotic instruments, the interest rates are simulated via one and multi-dimensional term structure models with use of the current interest rate structure as well as caps or swaption volatilities as parameters relevant for valuation purposes. One and multifactor models are used for interest-currency products.

- Widely accepted standard models are used for credit derivatives, e.g. credit default swaps.

- Gaussian copula models which are usual in the market and appropriate adjustments thereof are used for determining fair values for structured credit products. In parallel the expected loss of these products was calculated on the basis of the underlyings and the subordination. A detailed separate credit analysis was performed for the tranches being held in the event of of significant expected losses. Counterparty risk adjustments are taken into account for the measurement of customer derivatives.

49 Deferred day one profit & loss

Movements of deferred day one profit and loss from the acquisition of certain derivatives were as follows:

	Group		Company	
	2011 € m	2010 € m	2011 € m	2010 € m
At 1 January	**-**	**52**	**-**	**52**
Released to profit and loss during the period	-	-2	-	-2
Change due to transfer to FMS Wertmanagement	-	-50	-	-50
At December 31	**-**	**-**	**-**	**-**

50 Contingent liabilities and commitments

(a) Contingent liabilities and loan commitments

	Group		Company	
Contingent liabilities	2011 € m	2010 € m	2011 € m	2010 € m
Guarantees and indemnity agreements				
Loan guarantees	83	94	1,666	1,774
Other commitments				
Irrevocable loan commitments				
Lending business	212	323	212	308
Total	**295**	**417**	**1,878**	**2,082**

The above amounts represent nominal exposures.

Transfer of non strategic positions to FMS Wertmanagement

Within the framework of the transfer of certain non strategic positions from the HRE Group to FMS Wertmanagement, the FMSA reserved the right to stipulate a payment condition of up to € 1.59 billion in order to avoid distortion of competition.

The European Commission imposed a payment condition in relation to the state aid, namely the complete fulfilment of the payment of the € 1.59 billion payment condition to avoid distortions of competition in connection with the utilisation of the deconsolidated environment. In consequence, this payment condition resulted in a subsequent purchase price adjustment in the companies of the DEPFA Group which had transferred certain non strategic positions to FMS Wertmanagement.

In August 2011, the FMSA issued a decree determining that the full amount had to be borne by the DEPFA Group.

A first instalment of € 800 million became due and payable in September 2011 and a second instalment of € 167 million became due and payable in November 2011. Both instalments were paid on their due dates.

On 6 March 2012, the FMSA issued a decree for the final instalment of the payment condition, € 623 million, to be paid by DEPFA BANK plc in March 2012.

The purchase price adjustment did not and will not affect the income statement.

(b) Operating lease commitments

Where a Group company is the lessee, the future minimum lease payments under non-cancellable building operating leases are as follows:

	Group		Company	
	2011 € m	2010 € m	2011 € m	2010 € m
Up to 12 months	10	7	9	7
Greater than 1 year but less than 5 years	27	24	24	22
Over 5 years	33	37	31	34
	70	**68**	**64**	**63**

51 Contingent assets

	Group		Company	
	2011 € m	2010 € m	2011 € m	2010 € m
Guarantees	4,519	4,966	4,638	4,966
	4,519	**4,966**	**4,638**	**4,966**

The above table refers to nominal values of guaranteed assets including guaranteed undrawn commitments of € 157 million (2010: € 225 million) for both Group and Company.

52 Exchange rates as at 31 December 2011

European Central Bank exchange rates as at 31 December 2011 were:

Great Britain	1€ = GB£	0.8353
Japan	1€ = JP¥	100.2000
United States of America	1€ = US$	1.2939

53 Capital management

The Group's objectives when managing capital, which is a broader concept than the "equity" on the face of statement of financial position, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented by the Central Bank of Ireland (the "Authority"), for supervisory purposes. The required information is filed with the Authority on a quarterly basis.

The Authority requires each bank or banking group to: (a) hold the minimum level of the regulatory capital of € 6 million, (b) maintain a ratio of total regulatory capital to the risk-weighted asset (the "Total capital ratio") at or above the internationally agreed minimum of 8.5% for the Group or 8% for the Bank and (c) maintain additional levels of own funds if required under the Supervisory Review and Evaluation Process. In addition, those individual banking subsidiaries or similar financial institutions not incorporated in the European Union are directly regulated and supervised by their local banking supervisor, the requirements of which may differ from country to country.

The Group's regulatory capital as managed by its central Group Treasury is divided into two tiers:

- Tier 1 capital: share capital (net of any book values of the treasury shares), minority interests arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available-for-sale.

The risk-weighted assets are measured using the Basel II standardised approach. The calculation reflects an estimate of credit, market and other risks associated with each asset and counterparty taking into account any eligible collateral or guarantees and the contingent nature of the potential losses.

There were no breaches by the Group or the Bank of the capital requirements during 2011 (2010: no breaches).

54 Group auditors' fee (excluding VAT)

	Group	
	2011 € '000	2010 € '000
Audit of individual company accounts	330	381
Other assurance services	340	592
Tax advisory services	31	19
Other non-audit services	166	59
	867	**1,051**

55 Related party transactions

(a) Group

Key management compensation	2011 €	2010 €
Short-term employee benefits	3,750,497	2,921,974
Post employee benefits	203,518	149,688
	3,954,015	**3,071,662**

Key management is the Board of Directors.
Included above is directors' compensation as follows:

Directors' compensation	2011 €	2010 €
Directors' fees	454,200	420,271
Other remuneration	3,499,815	2,651,391
	3,954,015	**3,071,662**

Other remuneration includes compensation for loss of office of € 500,000 (2010: € 63,700).

There have been no loans to members of the Board in 2011 and 2010, nor are there any loans outstanding to members of the Board at 31 December 2011 (2010: nil).

DEPFA BANK plc, as the parent company of the Group, has issued a letter of comfort to DEPFA ACS BANK. This letter of comfort provides that the Bank will provide financial support to DEPFA ACS BANK, to the extent that it is unable to fulfil its contractual obligations.

DEPFA BANK plc has executed a guarantee whereby it has irrevocably and unconditionally guaranteed the performance by Hypo Pfandbrief Bank International S.A. of all its obligations issued up to and during the term of the guarantee.

Balances due to and from Group companies are disclosed in the notes to the statement of financial position. Non derivative transactions with Group companies consisted of:

Group	2011 € m	2010 € m
Interest and similar income	133	135
Interest expense and similar expenses	-51	-464
Net fee and commission expense	-3	-310
Other operating income	72	4

In addition the Group has traded derivative transactions on an arm's length basis with HRE Group entities which are used to hedge certain of the Group's assets and liabilities and to offset other derivative positions.

The Group received a guarantee from Hypo Real Estate International AG now part of the pbb Group, a Group company, in respect of a counterparty exposure arising on a derivative transaction entered into by the Group. This guarantee has been accounted for as a derivative and its fair value changes have been included in net trading income up until the date of termination on 1 October 2010.

(b) Company

Balances due to and from Group companies are disclosed in the notes to the statement of financial position. Non derivative transactions with Group companies consisted of:

Company	2011 € m	2010 € m
Interest and similar income	56	79
Interest expense and similar expenses	-57	-462
Net fee and commission expense	-5	-310
Other operating income/expenses	73	-3

In addition the Company has traded derivative transactions on an arm's length basis with HRE Group and DEPFA Group entities which are used to hedge certain assets and liabilities in the Company or those entities or are offset by the other derivatives in the Company.

These amounts arise on intercompany borrowings and lending and transfers of assets between DEPFA BANK plc and other Group entities as well as recharges for certain services provided.

(c) Other related party transactions

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 enterprises which are subject to the control, joint control or significant influence of the Federal Republic of Germany (so-called government-related entities). 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 disclosed in note 8.

The Group has various relationships with its sister company FMS Wertmanagement for example due to the fulfilment of the funding function for FMS Wertmanagement or due to the synthetic transfer of positions. The relationships are described in note 5.

56 Group undertakings

Shares in Group undertakings are included in the financial statements on a historical cost basis.

The Group undertakings at 31 December 2011 were:

Name	Principal Activity	Country of Incorporation	Registered Office	Share in Capital
DEPFA Bank Europe plc*	Public Finance Banking	Ireland	1 Commons Street, Dublin 1, Ireland	100%
DEPFA Investment Bank Ltd*	Advisory services and placement of securities	Cyprus	10 Diomidous Street, 2024 Nicosia, Cyprus	100%
DEPFA ACS BANK	Issuance and ongoing administration of asset covered securities	Ireland	1 Commons Street, Dublin 1, Ireland	100%
DEPFA Ireland Holding Ltd	Holding company	Ireland	1 Commons Street, Dublin 1, Ireland	100%
DEPFA Funding II LP	Special purpose vehicle for Tier 1 capital raising	UK	105 Wigmore Street, London W1U 1QY, UK	100%
DEPFA Funding III LP	Special purpose vehicle for Tier 1 capital raising	UK	105 Wigmore Street, London W1U 1QY, UK	100%
DEPFA Funding IV LP	Special purpose vehicle for Tier 1 capital raising	UK	105 Wigmore Street, London W1U 1QY, UK	100%
DEPFA Hold One Ltd	Holding company	Ireland	1 Commons Street, Dublin 1, Ireland	100%
DEPFA Hold Two Ltd	Holding company	Ireland	1 Commons Street, Dublin 1, Ireland	100%
DEPFA Hold Six	Holding company	Ireland	1 Commons Street, Dublin 1, Ireland	100%
DEPFA Finance N.V.	Funding vehicle	Netherlands	De Entree 99-197, 1101 HE, Amsterdam, the Netherlands	0%
DBE Property Holdings Ltd	Procurement of office equipment	Ireland	1 Commons Street, Dublin 1, Ireland	100%
Hypo Public Finance Bank	Public Finance Banking and Capital Markets activities	Ireland	1 Commons Street, Dublin 1, Ireland	99.99%
Hypo Dublin Properties Ltd	Property Management Services	Ireland	3 Harbourmaster Place, Dublin 1, Ireland	100%
Hypo Public Finance USA, LLC	Public Finance Banking	USA	c/o Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, New Castle County, Delaware 19808, USA	100%
Hypo Pfandbrief Bank International S.A.	Public Finance Banking	Luxembourg	4 Rue Alphonse Weicker, 2099 Luxembourg	100%
Pallas Capital Corp	Funding vehicle	USA	c/o Lord Securities Corporation, One Commerce Center, 1201 North Orange Street, Suite 800, Wilmington, North Castle County, Delaware 19801-1186, USA	0%
San Sabia Capital Corporation	Funding vehicle	USA	c/o Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, New Castle County, Delaware 19808, USA	0%

*entity in process of liquidation

There was no significant change in the Group structure during 2011.

57 Reconciliation of the restated comparatives with the statement of financial position and the income statement

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 investments. 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. The Group's financial investments have increased by € 20.8 billion as of 31 December 2010 (31 December 2009: € 71.8 billion); loans and advances to other banks have declined by € 2.9 billion (31 December 2009: € 8.6 billion) and loans and advances to customers have declined by € 17.9 billion (31 December 2009: € 63.2 billion). The Company's financial investments have increased by € 2.3 billion as of 31 December 2010 (31 December 2009: € 38.9 billion); loans and advances to other banks have declined by € 10 million (31 December 2009: € 6.9 billion) and loans and advances to customers have declined by € 2.3 billion (31 December 2009: € 32.0 billion).

Notes to the financial statements (continued)

The Group shows profits or losses from the sale of receivables in net interest income. On the other hand, effects from the sale of financial investments are shown in the net income from financial investments. As a result of the LaR securities being reclassified under financial investments (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 are shown in net income from financial investments.

The sale of LaR securities in 2010 resulted in net income of € 72 million, of which € 41million was shown in net interest income. The net income from financial investments as of 31 December 2010 has thus improved by € 41 million to the detriment of net interest income. The income statement has also been restated to show a separate item for income from buyback of liabilities. Interest and similar income has thus declined by € 33 million and this amount is shown separately in income from buyback of liabilities. The Group has retrospectively adjusted the figures in accordance with IAS 8.14 (b), as can be seen below.

	Group			Company		
Assets € m	**2010 Financial Statements**	**Reclassification - LaR Securities**	**2011 Presentation of 2010 comparatives**	**2010 Financial Statements**	**Reclassification - LaR Securities**	**2011 Presentation of 2010 comparatives**
Cash reserve	2,283	-	2,283	2,248	-	2,248
Trading assets	24,740	-	24,740	29,588	-	29,588
Loans and advances to other banks	24,511	-2,946	21,565	24,162	-10	24,152
Loans and advances to customers	74,750	-17,891	56,859	43,689	-2,343	41,346
Allowance for losses on loans and advances	-100	-	-100	-99	-	-99
Financial investments	13,008	20,837	33,845	5,753	2,353	8,106
Property, plant and equipment	1	-	1	1	-	1
Intangible assets	19	-	19	19	-	19
Other assets	4,655	-	4,655	1,055	-	1,055
Income tax assets	128	-	128	4	-	4
Current tax assets	6	-	6	3	-	3
Deferred tax assets	122	-	122	1	-	1
Total assets	**143,995**	**-**	**143,995**	**106,420**	**-**	**106,420**

€ m	**2010 Financial Statements**	**Reclassification - LaR Securities**	**Reclassification - Buyback of liabilities**	**2011 Presentation of 2010 comparatives**
Interest and similar income	4,587	-66	-33	4,488
Interest expense and similar expenses	-4,335	25	-	-4,310
Income from buyback of liabilities	-	-	33	33
Net interest income	**252**	**-41**	**-**	**211**
Fee and commission income	15	-	-	15
Fee and commission expense	-325	-	-	-325
Net fee and commission expense	**-310**	**-**	**-**	**-310**
Net trading expense	-457	-	-	-457
Net income from financial investments	31	41	-	72
Net expenses from hedge relationships	-11	-	-	-11
Other operating income	15	-	-	15
Total operating revenues	**-480**	**-**	**-**	**-480**
Provision for losses on loans and advances	-2	-	-	-2
General administrative expenses	-203	-	-	-203
Other income	5	-	-	5
Of which restructuring	5	-	-	5
Pre-tax loss	**-680**	**-**	**-**	**-680**
Taxes on income	-1	-	-	-1
Net loss				
Attributable to:				
Equity holders of the parent	-681	-	-	-681

In addition to the above, the related note disclosures have also been restated to achieve consistency with the current year presentation.

58 Credit risk exposure to certain European countries

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

Group			31 December 2011							
			Book value							
€ million	Counterparty -	IAS 39 - measurement category	Repayable on demand	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	From 5 years and over	Total	Notional value	Fair value
Ireland	Sovereign	LaR	-	510	-	37	-	**547**	547	547
	Sub-sovereign	LaR	-	103	108	12	-	**223**	221	192
	State-guaranteed	LaR	-	-	-	-	-	**-**	-	-
Italy	Sovereign	LaR	-	-	410	1,590	56	**2,056**	1,692	1,806
	Sub-sovereign	LaR	-	21	5	216	560	**802**	735	699
	State-guaranteed	LaR	-	-	-	53	-	**53**	51	52
Spain	Sovereign	LaR	-	-	-	-	150	**150**	147	89
	Sub-sovereign	LaR	-	-	29	760	2,729	**3,518**	3,321	2,581
	State-guaranteed	LaR	-	-	-	-	284	**284**	284	254
Belgium	Sovereign	LaR	-	-	110	-	675	**785**	608	719
	Sub-sovereign	LaR	-	-	-	25	296	**321**	297	259
	State-guaranteed	LaR	-	-	-	-	1,179	**1,179**	934	835

Company			31 December 2011							
			Book value							
€ million	Counterparty -	IAS 39 - measurement category	Repayable on demand	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	From 5 years and over	Total	Notional value	Fair value
Ireland	Sovereign	LaR	-	510	-	24	-	**534**	534	534
	Sub-sovereign	LaR	-	-	-	-	-	**-**	-	-
	State-guaranteed	LaR	-	-	-	-	-	**-**	-	-
Italy	Sovereign	LaR	-	-	-	-	-	**-**	-	-
	Sub-sovereign	LaR	-	-	-	-	-	**-**	-	-
	State-guaranteed	LaR	-	-	-	-	-	**-**	-	-
Spain	Sovereign	LaR	-	-	-	-	-	**-**	-	-
	Sub-sovereign	LaR	-	-	-	134	-	**134**	145	137
	State-guaranteed	LaR	-	-	-	-	-	**-**	-	-
Belgium	Sovereign	LaR	-	-	-	-	-	**-**	-	-
	Sub-sovereign	LaR	-	-	-	-	-	**-**	-	-
	State-guaranteed	LaR	-	-	-	-	-	**-**	-	-

All of the above positions are included in the IFRS measurement category loans and receivables. The DEPFA Group tests financial assets which are not measured at fair value for impairments. Allowances 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 31 December 2011 there was no such objective evidence.

The Group did not have any sovereign credit risk exposure to Greece, Portugal or Hungary as at 31 December 2011 (31 December 2010: € nil).

The exposure to selected European countries shown in the table contains loans and advances and securities. In addition, interest rate derivatives to sovereign and sub-sovereign counterparties are taken into account but are netted with collaterals resulting in nil exposure. Time lags in providing the collaterals and haircuts are not taken into account. State-guaranteed contains for example loans and advances to banks and corporations which are guaranteed by sovereigns or sub-sovereigns. As of 31 December 2011 the DEPFA Group did not have any credit default swaps whose underlyings are linked to sovereigns,sub-sovereigns and state-guaranteed exposures of the countries shown above.

For the total portfolio as of 31 December 2011 and as of 31 December 2010 the exposure at default according to regions is disclosed in the Risk Management section.

The fair values of the exposure to selected European countries were determined by applying the measurement methods disclosed in the note 48 “Fair values of financial assets and liabilities”.

59 Dividends per share

Final dividends are not accounted for until they have been ratified at the Annual General Meeting.

No dividend is proposed for the year ended 31 December 2011.

60 Events after the reporting date

On 25 January 2012, in co-ordination with its governing bodies and with the agreement of the FMSA, FMS Wertmanagement reached a fundamental decision with regard to the target model for the servicing of positions transferred from the HRE Group. FMS Wertmanagement plans to set up an independent servicing company for its portfolio management. Services in the areas of Operations and IT are to be carried out by a third party. In both cases, FMS Wertmanagement intends primarily to take on staff from the HRE Group.

On 6 March 2012 the Board of Directors of DEPFA BANK plc determined that the perpetual securities issuing vehicle DEPFA Funding IV LP would not make payments on its € 500,000,000 Preferred Securities (XS0291655727) on the next distribution payment date, scheduled for 21 March 2012.

On 6 March 2012, the FMSA issued a decree for the final instalment of the payment condition, € 623 million, to be paid by DEPFA BANK plc in March 2012.

Apart from the above, there have been no other notable events after 31 December 2011.

61 Ultimate parent company

Hypo Real Estate Holding AG, a company registered in Germany, is the parent company of the Bank. The largest and smallest Group into which the results of the Bank are consolidated is that headed by Hypo Real Estate Holding AG. Copies of the financial statements of Hypo Real Estate Holding AG can be obtained from The Secretary, Hypo Real Estate Holding AG, Freisinger Str. 5, 85716 Unterschleisseim, Germany.

62 Approval of financial statements

The financial statements were approved by the directors on 12 March 2012.

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