DEPFA BANK plc

Interim Report
30 June 2012

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Economic review

The first half of 2012 has continued to be dominated by the Euro area debt crisis. The weak ending to 2011 followed through into 2012 but was alleviated to a large extent by some indications of brightening growth prospects across the globe and signs that some key risks appeared to be receding. In particular, the success of the ECB's long-term liquidity operations ("LTRO") and the resolution of the Greek debt restructuring reduced the likelihood of a catastrophic outcome for the Euro zone, leading to greater optimism in the first quarter of 2012. However, such optimism was short lived and towards the end of the quarter focus started to re-emerge on some of the more vulnerable countries in the Euro area, with concerns over Spain and its banking sector most prominent.

These concerns were then reinforced in the second quarter by a marked deterioration in the macroeconomic landscape after relatively solid GDP readings in the first quarter. Political developments in Greece also dominated. A failure to form a government in Greece following the elections in early May and the potential for an anti-programme government increased fears that the government may be cut off from official funding and eventually leave the Euro area. These fears dissipated towards the end of the quarter as a pro-bailout coalition was formed following the second election.

Increased concerns relating to Spain's banking system eventually culminated in the announcement of financial support from the EU of up to € 100 billion. The first stress test results indicated that € 62 billion would be needed under an adverse scenario. Most importantly, the EU summit at the end of the second quarter led to an agreement that, following the establishment of a European bank supervisor, European Stability Mechanism ("ESM") funds could be used to directly recapitalise banks subject to state aid rules and an establishment of a Memorandum of Understanding ("MoU"). Moreover, this mechanism could be used retroactively, which will benefit existing programme countries.

Policy developments

Policy in the first half of 2012 remained focused on attempts to solve the Euro area debt crisis. At the end of February, the ECB allotted almost € 530 billion to around 800 banks in its second LTRO operation which was judged as successful in alleviating funding pressures for both banks and sovereigns whose debt was purchased by banks. Meanwhile, the ECB's bond purchase program (Securities Markets Program) halted activity in early February due to ECB concerns that it might be compromising its mandate as well as its balance sheet.

It was also agreed that the European Financial Stability Facility ("EFSF") would temporarily run alongside the ESM for a period of one year (until mid 2013). The total lending capacity will be € 700 billion (€ 500 billion new lending capacity) with the process of paid-in capital accelerating quicker than previously planned. One of the most noteworthy policy developments in the first half of 2012 was the aforementioned decision that ESM funds could be provided directly to banks without landing on the sovereign's balance sheet. It was also agreed that ESM funds could be used to purchase sovereign debt where necessary whilst only attaching limited conditionality (existing commitments) under a MoU. Much of the final detail still has to be agreed but these developments have generally been interpreted as positive for the creditworthiness of the more vulnerable EMU states.

Interest rates from all major monetary authorities remained unchanged and at historically low levels with the weakness in the second quarter leading to much speculation of monetary easing in the form of interest rate cuts for the ECB and additional quantitative easing for the US Federal Reserve, the Bank of England and the Bank of Japan. The US Federal Reserve also cut its growth forecasts in the second quarter, noting significant risks to the economy and extended its "Operation Twist" (selling short-term debt and buying longer term debt) to year end.

Financial market developments

Financial market conditions remained volatile in the first half of 2012. The first quarter generally brought with it improved conditions due to conducive policy developments (especially the ECB's LTRO) and the high participation rate in the Greek restructuring which ran relatively smoothly. Overall, this led to a stronger Euro, stronger equity markets and tighter credit spreads. The latter was directly affected by the ECB's LTRO due to banks taking advantage of the natural carry trade which was presented (especially in Italy and Spain). These positive market movements were reversed in the second quarter however due to concerns over Spain and especially concerns that Greece might exit the Euro area. As a result, equity markets fell sharply in the Euro area and the Euro reached its lowest level in almost two years, falling below $1.24 against the US dollar ($1.33 at the end of the first quarter). Increased risk aversion also led to a sharp deceleration of capital flows, especially to emerging markets.

Sovereign spreads widened significantly, especially in Spain where concerns over the solvency of the banking system and its implications for the sovereign reinforced already negative sentiment relating to upward revisions to deficits and liquidity support for local governments. Some of these concerns were alleviated by the announcement of the EU banking sector support towards the end of the quarter, especially the possibility that this support may not be incorporated into the sovereign's balance sheet. This combined with a somewhat benign outcome to Greece's second election led to a late rally in the second quarter which helped alleviate some of the heavy losses which occurred earlier in the quarter. This was reflected in the ITRAXX Western Europe Sovereign index which finished the first quarter at 269bps but widened to almost 330bps during the second quarter before falling quickly to 283bps at the end of the quarter. Meanwhile, the debt of core Europe benefited from increasing risk aversion, with German yields in particular continuing to reach record lows. Negative yields were seen in the t-bill market, whilst two year yields traded tighter than their Japanese counterpart for the first time on record.

Banking sector

Despite the glut of banking sector funding needs in the first half of 2012, liquidity conditions for banks improved significantly, helped in no small measure by the ECB's second LTRO operation as well as the extension of collateral eligibility. Given that some maturing short-term refinancing operations were rolled into this operation, additional liquidity generated by the €530 billion allotment is estimated at € 300 billion. Not surprisingly, ECB deposits hit a new record. Liquidity conditions have also been boosted by the ECB's full allotment policy for their refinancing operations, including a new three-month facility. Moreover, it has indicated it will continue this full allotment policy at least until the end of 2012 and for as long as necessary. At the end of the second quarter, the three-month Euribor fell below 0.65% from about 1.60% in the fourth quarter of 2011. The implied rate on Euribor futures contracts expiring in December has dropped towards 0.40% on the expectation that abundant liquidity and interest rates cuts are likely to push Euribor rates further down. Easy liquidity conditions were also seen in the OIS-Euribor spread (barometer of financial stress), which fell below 40 bps in the first quarter, having been almost 100bps at the turn of the year. Despite increased risk aversion in the second quarter, the OIS-Euribor spread remained at or below 40 bps for almost all of the second quarter, reaffirming the super easy liquidity conditions. However, on an individual basis, some banks have seen liquidity conditions tighten.

Despite generally stable liquidity conditions, some stress could be discerned on the credit risk side in the second quarter. After compressing significantly in the first quarter (again driven by the LTRO), bank CDS spreads widened significantly in quarter two as concerns about liquidity were replaced by capital concerns. Having gone as low as 180bps towards the end of quarter one, the Markit iTraxx Europe Senior Financial Index increased to over 300bps in the second quarter before finishing the quarter at 260bps. As well as concerns over the periphery, the market was also hit by a raft of downgrades across the sector. Moody's in particular were very active and downgraded 15 major global banks, citing significant exposure to the volatility and risk of outsized losses inherent to capital market activities. Senior bank debt continues to get significant support from the European authorities. However, the authorities announced in early June that such implicit support cannot be counted on in future as they provided some details of a bank resolution regime which will come into effect from 2018. In this way, they are attempting to break the negative feedback loop that currently exists between sovereigns and their respective banking sectors.

Public sector

Public sector debt remained at the forefront of the current crisis over the first half of 2012. The first quarter was a relatively positive quarter for public sector debt with the ECB's LTRO increasing demand for sovereign debt at the short end of the curve (especially in Italy and Spain). Spreads generally tightened as risk premia diminished. However, this trend was short lived and reversed in quarter two as debt sustainability concerns returned. As economic conditions deteriorated, it has become less likely that many European governments are going to meet their 2012 targets. Eurostat published official budget deficit and debt data for 2011 which showed that the Euro area average budget deficit fell to 4.1% (6.2% in 2010) and the Euro area government debt-to-GDP ratio increased to 87.2% (85.3% in 2010). The European Commission's Spring forecasts estimate that the average Euro area budget deficit will fall to 3.2% in 2012 and 2.9% in 2013, while government debt will reach 92.6% of GDP by 2013. Disappointing economic growth indicators in quarter two imply significant downside risks to these estimates. In this context, there has been a subtle shift away by European authorities from pure austerity policy measures towards a more growth orientated policy stance.

The Spanish public sector was a key source of market concern in the second quarter. As well as contingent liabilities emanating from the banking sector, the market remained concerned by budgetary overruns, especially at a sub-sovereign level. Although greater confidence in the banking sector should follow from the announcement of Euro-group financial support for the recapitalisation programme, the sovereign continues to face major challenges, such as weak growth and high unemployment, which could ultimately force it to look for a more extensive economic programme.

Despite the increasing strain on the public 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 occurrence of private sector involvement ("PSI") and the open discussion of a potential Greek exit imply that the negative market dynamics relating to all peripherals are likely to persist in the absence of major policy initiatives at an EU level. The fact that there are not sufficient rescue funds readily available for multi-year fully-fledged programmes for Spain (and especially Italy) only reinforces the negative sentiment and implies that credit risks remain elevated. This has also been reflected by the rating agencies, where the downward rating migration has continued through the first half of 2012 especially for European sovereigns with subsequent implications for all public sector entities related to these names. Although the majority of EMU member states have seen some form of negative rating action in the first half of 2012, the periphery remained the main focus of the rating agencies. Spain has seen some of the largest downgrades in the first half of 2012 as its rating was lowered by 5 notches by Moody's (Baa3), 4 notches by S&P (BBB+) and 5 notches by Fitch (BBB).

Directors and other information

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)

Mr. A. Kearns*

Mr. N. Reynolds

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

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Solicitors

Arthur Cox

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Auditors

KPMG

Chartered Accountants, Statutory Audit Firm

1 Harbourmaster Place

IFSC, Dublin 1, Ireland

Registered Number

348819

Management discussion

The directors of DEPFA BANK plc ("the Bank" or "DEPFA") present their management discussion and the unaudited condensed consolidated interim financial statements ("the interim report") as at 30 June 2012.

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 has been no change in the ownership of the Bank during 2012.

Principal activities

The Bank and its subsidiary undertakings ("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 state aid in relation to the stabilisation measures granted to the HRE Group by the Federal Republic of Germany.

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 were mainly comprised of financial instruments as defined in IAS 39.

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 the first half of 2012. 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.

With regard to covered bond ratings, which are also driven by the senior unsecured ratings, the following changes took place during the first half of 2012: Standard & Poor's downgraded DEPFA ACS BANK's Asset Covered Securities to BBB from AA, while the agency raised the rating of the Lettres de Gage issued by Hypo Pfandbrief Bank International S.A. by one notch to AA. Both outlooks are stable. Fitch Ratings downgraded DEPFA ACS BANK's Asset Covered Securities to A from AAA.

Driven by changes to the assessment of the likelihood of future systemic support against the backdrop of legislative changes, Fitch Ratings completed a sector-wide review of subordinated debt in March 2012. The outcome for DEPFA BANK plc was a downgrade of its Lower Tier 2 debt 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:

Banks in the DEPFA Group (1)	Fitch Ratings		Moody's		Standard & Poor's	
	30 June 2012	**31 December 2011**	**30 June 2012**	**31 December 2011**	**30 June 2012**	**31 December 2011**
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	A	AAA (2)	Aa3	Aa3	BBB	AA (2)
Lettres de Gage (1)	-	-	-	-	AA	AA-

(1) The banks in the DEPFA Group are 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.

Following the implementation of revised covered bond criteria, Standard & Poor's placed Hypo Pfandbrief Bank International S.A.'s Lettres de Gage's ratings on Credit Watch Negative in July 2012.

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

Development in earnings

The DEPFA Group, as part of the HRE Group has undergone a process of stabilisation and strategic restructuring since 2008 which has improved its portfolio structure. The success of this process along with the once off effect in the first half of 2012 is reflected in the results. The DEPFA Group has reported a pre-tax income of € 33 million in the first half of 2012. The profit was achieved despite a difficult market climate, including the continuing financing crisis facing some European countries. In the period from 1 January to 30 June 2011 the pre-tax income was €144 million. The operating revenues in the first half of 2012 were lower than the corresponding previous year due to a reduction in the positive effect attributable to profits from the buyback of DEPFA ACS BANK asset covered securities that were redeemed before maturity at prevailing market levels on a reverse enquiry basis. This amounted to € 33 million for the half year to 30 June 2012 compared to € 141 million for the half year to 30 June 2011.

The development in results in 2012 compared with the previous period is detailed in the following table:

Consolidated income statement - unaudited

€ m	**01.01.2012 to 30.06.2012**	**01.01.2011 to 30.06.2011**
Net interest income	60	168
Net fee and commission expense	- 9	- 10
Net trading expense / income	- 14	10
Net expense from financial investments	- 4	- 34
Net income from hedge relationships	24	7
Other operating income	32	55
Total operating revenues	**89**	**196**
Provision for / reversal of losses on loans and advances	- 70	19
Recovery of losses on loans and advances under financial guarantees	69	-
General administrative expenses	- 55	- 72
Other income	-	1
Pre-tax income	**33**	**144**
Taxes on income	- 4	- 12
Net income for the period	**29**	**132**

Net interest income of € 60 million was significantly lower than the corresponding previous period figure of € 168 million. A positive effect of € 33 million was attributable to profits from the buyback of DEPFA ACS BANK asset covered securities that were redeemed before maturity at prevailing market levels on a reverse enquiry basis (2011: € 141 million).

Net fee and commission expense of € -9 million was consistent with corresponding previous year figure of € -10 million. The figure in both periods mainly relates to fees paid to FMS Wertmanagement for guarantees received on assets not yet transferred and still recognised on the statement of financial position.

Net trading expense/income of € -14 million decreased compared to the corresponding previous year figure of € 10 million. This is largely due to market value movements in cross currency basis swaps of € -22 million in 2012 (2011: € -10 million). The remaining € 8 million (2011: €20 million) is mainly attributable to stand-alone derivatives which do not satisfy the criteria of IAS 39 for hedge accounting.

Net expense from financial investments amounted to € -4 million (2011: € -34 million) as a result of the disposal of financial assets. This was compensated by gains generated by the redemption of liabilities shown under net interest income

Net income from hedge relationships amounted to € 24 million (2011: € 7 million). This related to hedge ineffectiveness within the range of 80 % to 125 % permitted under IAS 39, which resulted in income of € 24 million

(2011: €6 million). Assets designated at fair value through profit or loss ("dFVTPL") and related derivatives contributed to a € nil result. (2011: €1 million).

Other operating income amounted to € 32 million (2011: € 55 million) and mainly consisted of income of € 41 million from intergroup recharges to Deutsche Pfandbriefbank AG ("pbb") in relation to asset servicing provided on the positions transferred to FMS Wertmanagement (2011: €42 million). Currency translation resulted in an expense of € -1 million (2011: € 9 million). Additional provisions for IT projects relating to the separation of IT systems for the HRE Group and FMS Wertmanagement were € -10 million (2011: € nil). Other income amounted to € 1 million (2011: € 4 million)

The provision for/reversal of losses on loans and advances amounted to € -70 million (2011: €19 million). The 2012 figure is composed of additions to specific loan loss provisions of € -69 million (2011: net write backs € 15 million) which relate to exposures which are recoverable under financial guarantee contracts with FMS Wertmanagement. There is also an increase in the collective loan loss provision of € -1 million (2011: € 4 million)..

Recovery of losses on loans and advances under financial guarantees amounted to € 69 million (2011: € nil) and relates to the specific loan losses on exposures guaranteed by FMS Wertmanagement, as referred to above.

General administrative expenses have declined to € -55 million, compared with € -72 million in the first half of 2011. Personnel expenses have decreased to € -25 million compared to € -29 million in the previous year. The decrease includes the effects of the lower average headcount in 2012 (375) compared with the previous year (384). Other general administrative expenses amounted to € -30 million and were lower than the corresponding previous year figure of € -43 million, primarily due to the reduction in IT project costs from 2011 to 2012, following the completion and roll-out during 2011 of major IT projects to improve and align systems and processes groupwide.

Other income in the first half of 2012 amounted to € nil. The 2011 figure is € 1 million and is attributable to the net release of provisions created for the strategic refocusing and restructuring of the DEPFA Group.

Pre-tax income amounted to € 33 million (2011: € 144 million).

Taxes on income amounted to € -4 million (2011: €-12 million).

Net income after taxes amounted to € 29 million in the first half of 2012 (2011: € 132 million).

Development in assets

Total assets of the DEPFA Group amounted to € 88 billion at 30 June 2012 and were € 42 billion lower than the corresponding figure at the end of the previous year (31 December 2011: € 130 billion).

The decline is primarily due to a reduction in the FMS Wertmanagement related counter effects of € 40 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 DEPFA 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 DEPFA 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 DEPFA Group facilitates 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 DEPFA 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 statement of financial position at 30 June 2012 and at 31 December 2011 are set out in note 4 of the notes to the unaudited condensed consolidated interim financial statements.

FMS Wertmanagement refinanced its operations on a stand-alone basis during the first half of 2012. Overall, the volume of refinancing passed on to FMS Wertmanagement declined from € 33 billion at the end of the previous year to € nil as of 30 June 2012, 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 € 8.6 billion as at 30 June 2012, compared with € 12.2 billion as of 31 December 2011. 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.

In addition to the decline in counter effects, the total assets also declined by a net €2 billion, including approximately €1 billion of asset sales and maturities. The DEPFA Group does not currently operate any new business in line with the conditions imposed by the European Commission state aid approval.

Development in liabilities and equity

The total DEPFA Group liabilities amounted to € 86 billion as of 30 June 2012, compared with € 127 billion as of 31 December 2011. 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 DEPFA Group remained on the statement of financial position following the transfer of positions to FMS Wertmanagement.

Liabilities evidenced by certificates decreased by € 3 billion from € 39 billion as of 31 December 2011 to € 36 billion as of 30 June 2012. This reduction reflected the run off in outstanding debt, of € 3 billion, as well as the buyback of certain asset covered securities in DEPFA ACS BANK of € 146 million, at prevailing market levels on a reverse enquiry basis.

Equity amounted to € 2.1 billion as of 30 June 2012 (31 December 2011: € 2.7 billion). Compliance with the payment condition imposed by the FMSA reduced retained earnings by € 623 million representing the payment of the final instalment of the purchase price adjustment which was paid on 14 March 2012.

Certain hybrid capital instruments remain classified as equity in 2012 and 2011 as the Group has no contractual obligation to make interest payments.

On 6 March 2012, 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 2012.

On 24 May 2012, 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 2012.

Events after the statement of financial position date

There have been no notable events after 30 June 2012.

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

The DEPFA Group has reported a profit for the first half of 2012 with a pre-tax income of € 33 million. However, the extent of the 2012 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. The DEPFA Group cannot expect in future to benefit from one-off effects to the same extent. The DEPFA 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 incurred, 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 payment condition was completely settled on 14 March 2012. The terms and conditions of any such fees still have to be agreed between the affected companies of the DEPFA Group and the Federal Republic of Germany.

Total assets in 2012 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). Even excluding the FMS Wertmanagement counter effects, it is expected that total assets will continue to decline in 2012 and 2013 due to the fact that the DEPFA 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, risks and uncertainties

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. Following the conclusion of the European Commission approval process in 2011, the DEPFA Group is now focused on continuing the process of optimising the value of its core portfolios with the aim of reprivatisation in the medium term.

At present, a project is being carried out to separate the Deutsche Pfandbriefbank Group (“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 and 2012 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 the 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.
- The possibility of introducing a tax on financial-market transactions is being discussed in most of the countries in the European Union. The aim is to introduce a tax on purchases and sales of transferrable securities or options and other financial instruments. Such a tax might have a negative impact on the profitability of the DEPFA Group.

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

Each of the current directors, whose names are listed on page 4, confirms that to the best of their knowledge:

(a) the unaudited condensed consolidated interim financial statements comprising the unaudited consolidated income statement, the unaudited consolidated statement of comprehensive income, the unaudited consolidated statement of financial position, the unaudited consolidated statement of changes in equity, the unaudited consolidated cash flow statement and related notes 1 to 37 have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

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

- (i) Regulation 8(2) of the Transparency (Directive 2004/109/EC) Regulations 2007, being an indication of important events that have occurred during the first six months of the financial year and their impact on the set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
- (ii) Regulation 8(3) of the Transparency (Directive 2004/109/EC) Regulations 2007, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

On behalf of the Board

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

27 July 2012

Independent review report on unaudited condensed consolidated interim financial statements

Introduction

We have been engaged by DEPFA BANK plc ("the Bank") to review the unaudited condensed consolidated set of financial statements in the Interim Report for the six months ended 30 June 2012 which comprises the unaudited consolidated income statement, unaudited consolidated statement of comprehensive income, unaudited consolidated statement of financial position, unaudited consolidated statements of changes in equity, unaudited consolidated cash flow statement and the related explanatory notes 1 to 37. We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the consolidated set of financial statements.

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

Directors' responsibilities

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

As disclosed on page 18, the annual financial statements of the DEPFA Group are prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU. The directors are responsible for ensuring that the unaudited condensed consolidated set of financial statements included in this Interim Report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the unaudited condensed consolidated set of financial statements in the Interim Report for the six months ended 30 June 2012 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU, the TD Regulations and the Transparency Rules of the Central Bank of Ireland.

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

27 July 2012

Consolidated income statement – unaudited

for the period from 1 January to 30 June

	Note	01.01-30.06 2012 € m	01.01-30.06 2011 € m
Interest income and similar income	5	854	1,084
Interest expense and similar expenses	5	-827	-1,057
Income from buyback of liabilities	5	33	141
Net interest income		**60**	**168**
Fee and commission income	6	-	2
Fee and commission expense	6	-9	-12
Net fee and commission expense		**-9**	**-10**
Net trading expense / income	7	-14	10
Net expense from financial investments	8	-4	-34
Net income from hedge relationships	9	24	7
Other operating income	10	32	55
Total operating revenues		**89**	**196**
Provision for / reversal of losses on loans and advances	18	-70	19
Recovery of losses on loans and advances under financial guarantees	18	69	-
Total losses / reversals of losses on loans and advances net of guarantees		**-1**	**19**
General administrative expenses	11	-55	-72
Other income	12	-	1
Pre-tax income		**33**	**144**
Taxes on income	13	-4	-12
Net income for the period		**29**	**132**
Attributable to:			
Equity holders of the parent		**29**	**132**

The notes on pages 18 to 38 are an integral part of these unaudited condensed consolidated interim financial statements.

Consolidated statement of comprehensive income - unaudited

for the period from 1 January to 30 June

€ m	01.01-30.06.2012			01.01-30.06.2011		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Net income for the period	33	-4	29	144	-12	132
AfS reserve movement - net	3	-	3	8	-	8
Exchange translation differences	1	-	1	-1	-	-1
Total	**37**	**-4**	**33**	**151**	**-12**	**139**
Attributable to the equity holders	37	-4	33	151	-12	139

Disclosure of components of comprehensive income – unaudited

for the period from 1 January to 30 June

	01.01-30.06 2012 € m	01.01-30.06 2011 € m
Net income for the period	29	132
AfS reserve movement - net	3	8
Gains arising in the period	*3*	*8*
Reclassification adjustments for gains included in profit or loss	-	-
Cash flow hedge reserve - net	-	-
Gains / losses arising in the period	*2*	*-12*
Reclassification adjustments for gains / losses included in profit or loss	*-2*	*12*
Exchange translation differences	1	-1
Total	**33**	**139**

The notes on pages 18 to 38 are an integral part of these unaudited condensed consolidated interim financial statements.

Consolidated statement of financial position - unaudited

As at 30 June 2012 and 31 December 2011

	Note	30.06.2012	31.12.2011
		€ m	€ m
ASSETS			
Cash reserve		848	600
Trading assets	15	17,551	20,517
Loans and advances to other banks	16	13,099	15,991
Loans and advances to customers	17	18,152	55,028
Allowance for losses on loans and advances	18	-140	-70
Losses on loans and advances recoverable under financial guarantees	18	69	-
Financial investments	19	31,604	31,617
Property, plant and equipment		1	1
Intangible assets		15	17
Other assets	20	6,235	6,028
Income tax assets	21	215	193
Current tax assets		*8*	*1*
Deferred tax assets		*207*	*192*
Total assets		**87,649**	**129,922**
LIABILITIES			
Liabilities to other banks	22	6,598	38,057
Liabilities to customers	23	16,964	21,356
Liabilities evidenced by certificates	24	36,454	39,456
Trading liabilities	25	17,671	20,604
Provisions	26	130	112
Other liabilities	27	6,351	6,289
Income tax liabilities	28	253	230
Current tax liabilities		*49*	*44*
Deferred tax liabilities		*204*	*186*
Subordinated capital	29	1,079	1,079
Total liabilities		**85,500**	**127,183**
EQUITY			
Equity attributable to equity holders			
Share capital		106	106
Share premium		1,142	1,142
Capital reserve		1,500	1,500
Preferred securities	30	1,136	1,136
Retained earnings		-1,694	-1,100
Other reserves		-41	-45
AfS		*-44*	*-47*
Currency translation		*3*	*2*
Total equity		**2,149**	**2,739**
Total equity and liabilities		**87,649**	**129,922**

The notes on pages 18 to 38 are an integral part of these unaudited condensed consolidated interim financial statements.

Consolidated statement of changes in equity – unaudited

for the period from 1 January to 30 June

€ m	Share capital	Share premium	Capital reserve	Preferred securities	Retained earnings	Other reserves: Unrealised gains / losses on available-for-sale investments	Other reserves: Accumulated effects of currency translations	Total equity
Balance at 1 January 2012	**106**	**1,142**	**1,500**	**1,136**	**-1,100**	**-47**	**2**	**2,739**
Income for the period	-	-	-	-	29	-	-	**29**
Net changes in available-for-sale investments, net of tax	-	-	-	-	-	3	-	**3**
Net changes in currency translation reserve	-	-	-	-	-	-	1	**1**
Total recognised comprehensive income	**-**	**-**	**-**	**-**	**29**	**3**	**1**	**33**
FMS Wertmanagement payment condition, net of tax	-	-	-	-	-623	-	-	**-623**
Balance at 30 June 2012	**106**	**1,142**	**1,500**	**1,136**	**-1,694**	**-44**	**3**	**2,149**

€ m	Share capital	Share premium	Capital reserve	Preferred securities	Retained earnings	Other reserves: Unrealised gains / losses on available-for-sale investments	Other reserves: Accumulated effects of currency translations	Total equity
Balance at 1 January 2011	**106**	**1,142**	**1,500**	**1,136**	**-256**	**-59 -**		**3,569**
Income for the period	-	-	-	-	132	-	-	**132**
Net changes in available-for-sale investments, net of tax	-	-	-	-	-	8	-	**8**
Net changes in currency translation reserve	-	-	-	-	-	-	-1	**-1**
Total recognised comprehensive income	**-**	**-**	**-**	**-**	**132**	**8**	**-1**	**139**
Balance at 30 June 2011	**106**	**1,142**	**1,500**	**1,136**	**-124**	**-51**	**-1**	**3,708**

The notes on pages 18 to 38 are an integral part of these unaudited condensed consolidated interim financial statements.

Consolidated cash flow statement – unaudited

for the period from 1 January to 30 June

	30.06.2012 € m	30.06.2011 € m
Cash flows from operating activities		
Net income before taxation	**33**	**144**
Adjustments for non-cash movements:		
Depreciation and amortisation of tangible and intangible assets	3	3
Foreign exchange gain	1	-9
Net decrease in accrued interest income	375	838
Net decrease in accrued interest expenditure	-387	-787
Provisions for/reversal of losses on loans and advances (net of guarantees)	1	-19
Loss on sale of investment securities and loans	4	34
Income from buyback of liabilities	-33	-141
Other non cash items	-60	-368
Net decrease in loans and advances to other banks	2,903	8,894
Net decrease in loans and advances to customers	36,981	8,763
Net decrease in other assets	9	108
Net decrease in deposits from other banks	-31,479	-7,088
Net decrease in amounts due to customers	-4,596	-8,996
Net decrease in liabilities evidenced by certificates	-3,532	-4,980
Net (decrease)/increase in other liabilities	-62	16
Net (increase)/decrease in trading assets and other receivables	-	4
Net (decrease)/increase in derivatives and trading liabilities	-26	-181
Tax paid	-5	-10
Net cash from/(used in) operating activities	**130**	**-3,775**
Cash flows from investing activities		
Purchase of investment securities	-783	-927
Sale/maturity of investment securities	1,523	2,876
Purchase of intangible assets	-1	-2
Net cash from investing activities	**739**	**1,947**
Cash flows from financing activities		
FMSA payment condition	-623	-
Net cash used in financing activities	**-623**	**-**
Net increase/(decrease) in cash and cash equivalents	**246**	**-1,828**
Cash and cash equivalents at the beginning of the period	**563**	**2,206**
Cash and cash equivalents at the end of the period	**809**	**378**

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

	30.06.2012 € m	30.06.2011 € m
Interest income received	1,229	1,922
Interest expense paid	-1,214	-1,844

The notes on pages 18 to 38 are an integral part of these unaudited condensed consolidated interim financial statements.

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

Notes to the unaudited condensed consolidated interim financial statements

1. General information

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2012 are unaudited but have been reviewed by the auditor whose report is set out on page 12. The financial information presented herein does not amount to statutory financial statements that are required by Section 7 of the Companies (Amendment) Act, 1986 to be annexed to the annual return of DEPFA BANK plc ('the Bank" or "DEPFA"). The statutory financial statements for the financial year ended 31 December 2011 will be filed with the Registrar of Companies along with the annual return by 13 September 2012.

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 ("HRE Group").

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

There has been no change in the ownership of the Bank during 2012.

The consolidated annual financial statements of DEPFA BANK plc (its statutory financial statements as referred to above) are prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

The Bank and its subsidiary undertakings ("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 state aid in relation to the stabilisation measures granted to the HRE Group by the Federal Republic of Germany.

2. Basis of preparation

The unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU. The financial information contained in the unaudited condensed consolidated interim financial statements has been prepared in accordance with the accounting policies set out in the last annual financial statements, as no newly effective IFRS requirements had an impact on existing policies.

3. Operating segments

The internal reporting structure of the DEPFA Group was re-organised on 1 January 2012 into the following reportable primary business segments which reflect the basis on which the DEPFA Group is managed by the Board of Directors (being the chief operating decision maker) during 2012:

- DEPFA ACS BANK
- Hypo Pfandbrief Bank International S.A.
- DEPFA BANK plc and other

The business segment DEPFA ACS BANK includes the assets and liabilities in the DEPFA ACS BANK cover pool as well as other ancillary business in that entity.

The business segment Hypo Pfandbrief Bank International S.A. includes the assets and liabilities in the Hypo Pfandbrief Bank International S.A. cover pool as well as other ancillary business in that entity.

DEPFA BANK plc and other includes all other business in the DEPFA Group including asset servicing provided by the DEPFA Group on the positions transferred to FMS Wertmanagement.

Notes to the unaudited condensed consolidated interim financial statements – (continued)

€ m	01.01-30.06.2012 DEPFA ACS BANK	Hypo Pfandbrief Bank International S.A.	DEPFA BANK plc and other	Group
Net interest income	68	5	-13	60
Non interest revenues	19	5	5	29
Total Revenues	**87**	**10**	**-8**	**89**
Total Expenditure	**-7**	**-3**	**-45**	**-55**
Provision for loss on loans and advances (net of guarantees)	-2	-	1	-1
Pre-tax income/loss	**78**	**7**	**-52**	**33**
Taxation	-10	-2	8	-4
Net income/loss for the period	**68**	**5**	**-44**	**29**
Total Assets	**47,179**	**4,298**	**36,172**	**87,649**
Total Liabilities	**46,577**	**4,183**	**34,740**	**85,500**

€ m	01.01-30.06.2011 DEPFA ACS BANK	Hypo Pfandbrief Bank International S.A.	DEPFA BANK plc and other	Group
Net interest income	163	5	-	168
Non interest revenues	-44	-2	74	28
Total Revenues	**119**	**3**	**74**	**196**
Total Expenditure	**-7**	**-2**	**-62**	**-71**
Provision for loss on loans and advances (net of guarantees)	-	-	19	19
Pre-tax income	**112**	**1**	**31**	**144**
Taxation	-12	-	-	-12
Net income for the period	**100**	**1**	**31**	**132**
Total Assets	**43,960**	**3,982**	**61,839**	**109,781**
Total Liabilities	**48,347**	**3,854**	**53,872**	**106,073**

An analysis of revenue from external customers by geographical region is presented below:

€ m	Ireland	Germany	America/Asia	Rest of Europe	Total
30 June 2012					
Total operating revenues	42	2	14	31	89
Total Assets at 30 June 2012	77,660	4	1,421	8,564	87,649

€ m	Ireland	Germany	America/Asia	Rest of Europe	Total
30 June 2011					
Total operating revenues	149	1	17	29	196
Total Assets at 30 June 2011	98,265	4	1,650	9,862	109,781

4. 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 were mainly comprised 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 also HRE Holding AG spun off parts of their assets to FMS Wertmanagement and received compensation claims in return; in addition, SoFFin – as a further consideration – also received a stake in the share capital of FMS Wertmanagement of € 1 million.

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

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

In addition, the HRE Group has also concluded back-to-back derivatives with FMS Wertmanagement; these have been used to transfer the market risks of existing derivatives, whereas the counterparty risk was retained by the HRE Group. These back-to-back derivatives 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 available-for-sale ("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 IFRS financial statements 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.

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 DEPFA Group. This meant that it was not possible for the original position to be de-recognised. Instead, the back-to back transaction resulted in an increase 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 DEPFA Group (back-to-back transactions); which in turn, were used to finance the collateral requirements of the original derivatives.

(c) FMS Wertmanagement does not have a banking status therefore the DEPFA Group facilitates 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 DEPFA Group received a claim against FMS Wertmanagement, which increased total assets and total liabilities. The effect on the DEPFA Group statement of financial position was reduced to € nil at 30 June 2012 (31 December 2011: € 33 billion) as FMS Wertmanagement refinanced its operations on a stand-alone basis during the first half of 2012.

Within the context of the transfer of certain non strategic positions of the HRE Group to FMS Wertmanagement, the FMSA reserved the right to impose 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 € 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. A final instalment of € 623 million became due and payable in March 2012. All instalments were paid on their due dates.

The purchase price adjustment did not affect the income statement.

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 payment condition was completely settled on 14 March 2012. The terms and conditions of any such fees still have to be agreed between the affected companies of the DEPFA Group and the Federal Republic of Germany.

The effects of all counter effects ("FMSWM Counter Effects") at 30 June 2012 and 31 December 2011 on the statements of financial position at DEPFA Group level are shown below in the pro forma statements of financial position:

Pro Forma Statement of financial position

€ m ASSETS	30.06.2012	30.06.2012 FMSWM Counter Effects	30.06.2012 Post FMSWM Counter Effects	31.12.2011	31.12.2011 FMSWM Counter Effects	31.12.2011 Post FMSWM Counter Effects
Cash reserve	848	-	848	600	-	600
Trading assets	17,551	8,518	9,033	20,517	12,177	8,340
Loans and advances to other banks	13,099	10,520	2,579	15,991	12,982	3,009
Loans and advances to customers	18,152	3,258	14,894	55,028	36,772	18,256
Allowance for losses on loans and advances	-140	-69	-71	-70	-	-70
Losses on loans and advances recoverable under financial guarantee	69	69	-	-	-	-
Financial investments	31,604	6,948	24,656	31,617	6,769	24,848
Property, plant and equipment	1	-	1	1	-	1
Intangible assets	15	-	15	17	-	17
Other assets	6,235	182	6,053	6,028	249	5,779
Income tax assets	215	-	215	193	-	193
Total assets	**87,649**	**29,426**	**58,223**	**129,922**	**68,949**	**60,973**

LIABILITIES	30.06.2012	30.06.2012 FMSWM Counter Effects	30.06.2012 Post FMSWM Counter Effects	31.12.2011	31.12.2011 FMSWM Counter Effects	31.12.2011 Post FMSWM Counter Effects
Liabilities to other banks	6,598	2,548	4,050	38,057	33,863	4,194
Liabilities to customers	16,964	16,184	780	21,356	20,707	649
Liabilities evidenced by certificates	36,454	-	36,454	39,456	-	39,456
Trading liabilities	17,671	8,518	9,153	20,604	12,177	8,427
Provisions	130	-	130	112	-	112
Other liabilities	6,351	2,176	4,175	6,289	2,202	4,087
Income tax liabilities	253	-	253	230	-	230
Subordinated capital	1,079	-	1,079	1,079	-	1,079
Total liabilities	**85,500**	**29,426**	**56,074**	**127,183**	**68,949**	**58,234**
EQUITY						
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	-1,694	-	-1,694	-1,100	-	-1,100
Other reserves	-41	-	-41	-45	-	-45
AfS	*-44*	-	-44	*-47*	-	*-47*
Currency translation	*3*	-	3	*2*	-	*2*
Total equity	**2,149**	**-**	**2,149**	**2,739**	**-**	**2,739**
Total equity and liabilities	**87,649**	**29,426**	**58,223**	**129,922**	**68,949**	**60,973**

5. Net interest income

	01.01-30.06 2012 € m	01.01-30.06 2011 € m
Interest income and similar income		
Lending and money-market business	682	941
Derivatives (net interest income)	63	20
Fixed-income securities	109	123
	854	**1,084**
Interest expense and similar expenses		
Deposits	-307	-444
Liabilities evidenced by certificates	-508	-602
Subordinated capital	-12	-11
	-827	**-1,057**
Income from buyback of liabilities	**33**	**141**
Net interest income	**60**	**168**

Total interest income for financial assets that are not at fair value through profit or loss, amount to € 0.79 billion (2011: € 1.06 billion). Total interest expenses for financial liabilities that are not at fair value through profit or loss amount to € 0.82 billion (2011: € 1.06 billion).

Net interest income includes net income of € 8 million (2011: € 9 million) received in 2012 for assets still recognised on the DEPFA Group statement of financial position as at 30 June 2012, 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.

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 € 33 million (2011: € 141 million).

6. Net fee and commission expense

	01.01-30.06 2012 € m	01.01-30.06 2011 € m
Fee and commission income		
From other lending operations	-	2
	-	**2**
Fee and commission expense		
From other lending operations	-9	-12
	-9	**-12**
Net fee and commission expense	**-9**	**-10**

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.

Guarantee fees of € -8 million (2011: € -9 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 30 June 2012. This amount is offset in net interest income.

None of the above fee and commission income arose on instruments that have been designated at fair value through profit or loss (“dFVTPL”).

7. Net trading expense / income

	01.01-30.06 2012 € m	01.01-30.06 2011 € m
From interest rate instruments and related interest and foreign exchange derivatives	-16	15
From credit risk instruments and related derivatives	2	-5
Net trading expense / income	**-14**	**10**

8. Net expense from financial investments

	01.01-30.06 2012 € m	01.01-30.06 2011 € m
Income from financial investments	-	25
Expense from financial investments	-4	-59
Net expense from financial investments	**-4**	**-34**

Net expense from financial assets is due to the disposal of financial assets and can be split by financial instrument category as follows:

	01.01-30.06 2012 € m	01.01-30.06 2011 € m
Loans and receivables	-4	-34
	-4	**-34**

9. Net income from hedge relationships

	01.01-30.06 2012 € m	01.01-30.06 2011 € m
Result from fair value hedge accounting	24	6
Result from hedged items	*280*	*-327*
Result from hedging instruments	*-256*	*333*
Result from assets dFVTPL and related derivatives	-	1
Result from dFVTPL assets	*221*	*-64*
Result from derivatives related to dFVTPL assets	*-221*	*65*
Net income from hedge relationships	**24**	**7**

Notes to the unaudited condensed consolidated interim financial statements – (continued)

10. Other operating income

	01.01-30.06 2012 € m	01.01-30.06 2011 € m
Other operating income		
Recharge income from other Group companies	42	46
Foreign exchange gains	-	9
Total other operating income	**42**	**55**
Other operating expenses		
Foreign exchange losses	-1	-
Other	-9	-
Total other operating expenses	**-10**	-
Total other operating income	**32**	**55**

The recharge income from other entities in the HRE Group includes income of € 41 million (2011: € 42 million) from intergroup recharges to pbb in relation to asset servicing provided on the positions transferred to FMS Wertmanagement. Other operating expenses are primarily due to provisions for IT projects relating to the separation of IT systems of € -10 million (2011: € nil).

11. General administrative expenses

	01.01-30.06 2012 € m	01.01-30.06 2011 € m
Personnel expenses	**-25**	**-29**
Wages and salaries	*-20*	*-24*
Social security costs	*-3*	*-3*
Pension expenses and related employee benefit costs	*-2*	*-2*
Other general administrative expenses	**-27**	**-40**
Depreciation/amortisation	**-3**	**-3**
On software	*-2*	*-2*
On property, plant and equipment	*-1*	*-1*
Total	**-55**	**-72**

The average number of employees in the DEPFA Group in the period to 30 June 2012 was 375 (June 2011: 384).

Cost-income ratio in % is:

	01.01-30.06 2012	01.01-30.06 2011
Cost-income ratio	62%	36%

12. Other income

	01.01-30.06 2012 € m	01.01-30.06 2011 € m
Reversal of restructuring provision	-	1
	-	**1**

13. Taxes on income

	01.01-30.06 2012 € m	01.01-30.06 2011 € m
Current tax	-2	-20
Deferred tax	-2	8
Total	**-4**	**-12**

14. 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.

	01.01-30.06 2012 € m	01.01-30.06 2011 € m
As shown in net interest income		
Loans and receivables	-	-1
Financial liabilities at amortised cost	33	141
As shown in net expense from financial investments		
Loans and receivables	-4	-34
Total	**29**	**106**

15. Trading assets

	30.06.2012 € m	31.12.2011 € m
Debt securities and other fixed-income securities		
Bonds and notes	47	44
Issued by public sector borrowers	*47*	*44*
Thereof:		
Listed	*47*	*44*
Positive fair values from derivative financial instruments (trading book)	138	193
Interest based and foreign currency based transactions	*88*	*97*
Others	*50*	*96*
Stand-alone derivatives (non-trading book)	17,366	20,280
Total	**17,551**	**20,517**
Of which due from Group companies	479	563

Stand-alone derivatives include derivatives related to FMS Wertmanagement counter effects as described in note 4 to the unaudited condensed consolidated interim 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 DEPFA Group statement of financial position include amounts receivable from other entities in the HRE Group.

16. Loans and advances to other banks

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

	30.06.2012	31.12.2011
	€ m	€ m
Public sector loans	1,826	1,943
Other loans and advances	11,273	14,048
Total	**13,099**	**15,991**
Of which due from Group companies	460	499

Balances due from Group companies in the DEPFA 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:

	30.06.2012	31.12.2011
	€ m	€ m
Repayable on demand	9,071	11,922
With agreed maturities		
up to 3 months	387	262
from 3 months to 1 year	106	135
from 1 year to 5 years	1,709	1,851
from 5 years and over	1,826	1,821
Total	**13,099**	**15,991**

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

17. Loans and advances to customers

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

	30.06.2012	31.12.2011
	€ m	€ m
Public sector loans	16,171	17,917
Other loans and advances	1,981	37,111
Total	**18,152**	**55,028**

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

	30.06.2012	31.12.2011
	€ m	€ m
Repayable on demand	45	41
With agreed maturities		
up to 3 months	107	35,755
from 3 months to 1 year	1,885	2,053
from 1 year to 5 years	3,833	4,678
from 5 years and over	12,282	12,501
Total	**18,152**	**55,028**

18. Allowance for losses on loans and advances

Movement in allowance for losses on loans and advances:

	30.06.2012	31.12.2011
Specific allowance for losses on loans and advances	**€ m**	**€ m**
Balance at 1 January	-2	-15
(Additions) / reversal of specific allowance	-69	14
Foreign exchange retranslation	-	-1
Total specific allowance for losses on loans and advances	**-71**	**-2**

	30.06.2012	31.12.2011
Portfolio based allowance for losses on loans and advances	**€ m**	**€ m**
Balance at 1 January	-68	-85
Additions / (releases) of portfolio allowance	-1	17
Total portfolio based allowance for losses on loans and advances	**-69**	**-68**

Total allowance for losses on loans and advances	**-140**	**-70**

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

	30.06.2012	31.12.2011
	€ m	**€ m**
Public sector and infrastructure loans	-140	-70
	-140	**-70**

The additions to specific allowances in 2012 of € 69 million (2011: € nil) relate to losses on exposures which are recoverable under financial guarantee contracts with FMS Wertmanagement. The income statement effect of the financial guarantees is included in the separate line "Recovery of losses on loans and advances under financial guarantees".

Recovery of losses on loans and advances under guarantees are recognised at the same time as specific allowances for losses on assets subject to the guarantee. In the event of a specific allowance for losses being released the associated guarantee recoverable would also be derecognised.

Interest accrued on impaired loans at 30 June 2012 was € nil (31 December 2011: € nil).

At 30 June 2012, the following amounts were noted as being past due (31 December 2011: € nil).

	30.06.2012	31.12.2011
	€ m	**€ 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	24	-
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	24	-
Carrying amount of the individually assessed impaired financial assets		
Loans	-	-
Total	-	-

All of the above past due amounts are in relation to assets which are covered under a financial guarantee from FMS Wertmanagement.

Carrying amounts of loans and receivables:

	30.06.2012 € m	31.12.2011 € m
Carrying amount of loans and receivables that are neither impaired nor past due	31,156	71,017
Carrying amount of loans and receivables that are past due but not impaired	24	-
Carrying amount of individually assessed impaired financial loans and receivables	66	-
Total	**31,246**	**71,017**
Of which loans and advances to other banks	13,099	15,991
Of which loans and advances to customers	18,147	55,026

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

19. Financial Investments

	30.06.2012 € m	31.12.2011 € m
AfS financial investments	**26**	**26**
Debt securities and other fixed-income securities	26	26
dFVTPL financial instruments	**3,999**	**3,795**
Debt securities and other fixed-income securities	3,999	3,795
LaR financial instruments	**27,579**	**27,796**
Debt securities and other fixed-income securities	27,579	27,796
Total	**31,604**	**31,617**

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 are an economic hedge of the position.

Financial investments are broken down by maturity as follows:

	30.06.2012 € m	31.12.2011 € m
Unspecified amount	1	1
With agreed maturities		
up to 3 months	267	70
from 3 months to 1 year	1,850	1,050
from 1 year to 5 years	7,570	8,524
from 5 years and over	21,916	21,972
Total	**31,604**	**31,617**

The DEPFA Group made use of the IASB amendments to IAS 39 and IFRS 7, published on 13 October 2008, and reclassified financial assets. The DEPFA 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 DEPFA Group reclassified retrospectively as of 1 July 2008 trading assets out of the category held-for-trading amounting to € 3.4 billion and financial investments out of the category available-for-sale of

€ 44.26 billion. In addition, trading assets of € 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 DEPFA Group's financial assets with a (reclassified) carrying amount of approximately € 4.647 billion matured. Thereof € 3.411 billion relate to reclassified AfS financial investments and € 1.236 billion relate to reclassified trading assets.

Interest income for the DEPFA Group reclassified trading instruments is now shown under net interest income; before reclassification interest income was shown in net trading income. In 2012, net interest income contains € 3 million (2011: € 8 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, DEPFA Group securities with a reclassified carrying amount of € 37.392 billion were transferred to FMS Wertmanagement or sold. A net loss of € -16 million was realised on the sold securities.

At the date of reclassification the effective interest rate for the reclassified trading assets of the DEPFA Group which remain on the statement of financial position was between 5.07% and 3.74% (2011: 5.07% and 3.74%). The effective interest rate for AfS assets of the DEPFA Group was between 6.35% and 0.51% (2011: 6.35% and 0.51%).

The following table summarises the carrying amounts and fair values as of 30 June 2012 as well as fair value gains and losses that would have been recognised at 30 June 2012 if the financial assets had not been reclassified.

Reclassifications	**into:** Financial investments LaR			**Effect in reporting period if no assets had been reclassified**	
	Reclass date	**30.06.2012**		**30.06.2012**	
€ m		**Carrying amount**	**Fair value**	**Income statement**	**Changes in AfS reserve (after taxes)**
out of:					
HfT financial investments	1 Jul 08	-	-	-	-
	1 Oct 08	206	208	-	-
		206	**208**	**-**	**-**
out of:					
AfS financial investments	1 Jul 08	7,911	7,352	-	146
Total		**8,117**	**7,560**	**-**	**146**

Reclassifications	**into:** Financial investments LaR			**Effect in reporting period if no assets had been reclassified**	
	Reclass date	**31.12.2011**		**31.12.2011**	
€ m		**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**

20. Other assets

	30.06.2012	**31.12.2011**
	€ m	**€ m**
Positive fair values from derivative financial instruments	6,208	5,992
Hedging derivatives (micro fair value hedges)	*6,026*	*5,743*
Derivatives hedging dFVTPL financial instruments	*182*	*249*
Other assets	27	36
Total	**6,235**	**6,028**
Of which due to Group companies	11	8

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

21. Income tax assets

	30.06.2012 € m	31.12.2011 € m
Current tax assets	8	1
Deferred tax assets	207	192
Total	**215**	**193**

22. Liabilities to other banks

Liabilities to other banks are broken down by maturity as follows:

	30.06.2012 € m	31.12.2011 € m
Repayable on demand	1,680	1,763
With agreed maturities		
up to 3 months	1,736	34,219
from 3 months to 1 year	-	1,355
from 1 year to 5 years	2,952	395
from 5 years and over	230	325
Total	**6,598**	**38,057**
Of which due to Group companies	154	340

Included under liabilities to banks are amounts due under repurchase agreements.

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

23. Liabilities to customers

Liabilities to customers are broken down by maturity as follows:

	30.06.2012 € m	31.12.2011 € m
Repayable on demand	9,057	11,400
With agreed maturities		
up to 3 months	11	55
from 3 months to 1 year	-	11
from 1 year to 5 years	86	16
from 5 years and over	7,810	9,874
Total	**16,964**	**21,356**
Of which due to Group companies	-	-

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

24. Liabilities evidenced by certificates

Liabilities evidenced by certificates are broken down by maturity as follows:

	30.06.2012 € m	31.12.2011 € m
With agreed maturities		
up to 3 months	613	3,418
from 3 months to 1 year	984	1,259
from 1 year to 5 years	18,464	17,307
from 5 years and over	16,393	17,472
Total	**36,454**	**39,456**

25. Trading liabilities

	30.06.2012 € m	31.12.2011 € m
Negative fair values from derivative financial instruments (trading book)	124	175
Of which:		
Interest based and foreign currency based transactions	*73*	*79*
Credit-related transactions	*51*	*96*
Other trading liabilities	99	119
Stand-alone derivatives (banking book)	17,448	20,310
Total	**17,671**	**20,604**
Of which due to Group companies	187	297

Stand-alone derivatives include derivatives related to FMS Wertmanagement counter effects as described in note 4 to the unaudited condensed consolidated interim 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 DEPFA Group statement of financial position include amounts payable to other entities in the HRE Group.

26. Provisions

	30.06.2012 € m	31.12.2011 € m
Provisions for pensions and similar obligation	1	1
Restructuring provisions	39	43
Other provisions	90	68
Total	**130**	**112**

Development of the restructuring and other provisions:

	30.06.2012 Restructuring € m	30.06.2012 Other € m	31.12.2011 Restructuring € m	31.12.2011 Other € m
At 1 January	**43**	**68**	**49**	**46**
Additions	-	15	-	38
Reversals	-	-	-3	-
Transfer	-	17	-	-
Amounts used	-4	-10	-3	-16
At period end	**39**	**90**	**43**	**68**

27. Other liabilities

	30.06.2012 € m	31.12.2011 € m
Negative fair values from derivative financial instruments	6,154	6,013
Hedging derivatives	*5,844*	*5,714*
Micro fair value hedge	5,848	5,715
Cash flow hedge	-4	-1
Derivatives hedging dFVTPL financial instruments	*310*	*299*
Other liabilities	193	272
Deferred income	4	4
Total	**6,351**	**6,289**
Of which due to Group companies	249	199

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

28. Income tax liabilities

	30.06.2012 € m	31.12.2011 € m
Current tax liabilities	49	44
Deferred tax liabilities	204	186
Total	**253**	**230**

29. Subordinated capital

	30.06.2012 € m	31.12.2011 € m
Subordinated liabilities	1,079	1,079
Total	**1,079**	**1,079**

Subordinated capital is broken down by maturity as follows:

	30.06.2012 € m	31.12.2011 € m
With agreed maturities		
from 1 year to 5 years	660	660
from 5 years and over	419	419
Total	**1,079**	**1,079**

The subordinated debt are analysed by nominal, maturity and interest rate below:

	Interest rate %	30.06.2012 Nominal € m	31.12.2011 Nominal € m
Subordinated liabilities			
DEPFA BANK plc, 26/03/24	5.40%	20	20
DEPFA BANK plc, 22/07/14	CPI – Index Linked%	10	10
DEPFA BANK plc, 15/12/15	Euribor + 0.70%	500	500
DEPFA BANK plc, perpetual note	Euribor + 1.00%	360	360
DEPFA BANK plc, 28/11/16	Euribor + 1.02%	40	40
DEPFA BANK plc, 21/12/16	Euribor + 1.02%	110	110
Hypo Pfandbrief Bank International S.A., 18/05/26	6.80%	25	25
		1,065	**1,065**

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.

30. Preferred securities

	30.06.2012 € m	31.12.2011 € 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	**Interest rate %**	**30.06.2012** **€ m**	**31.12.2011** **€ m**
DEPFA Funding II LP, perpetual note	6.50%	400	400
DEPFA Funding III LP, perpetual note	7% until 2008, thereafter CMS 10 yr + 0.10%	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 is classified as equity.

On 6 March 2012 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 2012.

Similarly, on 24 May 2012 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 2012.

31. 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 DEPFA Group's statement of financial position. Bid prices are used to estimate fair values of assets, whereas offer prices are applied for liabilities.

	Carrying value		Fair value	
	30.06.2012	31.12.2011	30.06.2012	31.12.2011
	€ m	€ m	€ m	€ m
ASSETS				
Cash reserve	848	600	848	600
Trading assets	17,551	20,517	17,551	20,517
Loans and advances to other banks	13,099	15,991	12,938	15,832
Loans and advances to customers	18,081	54,958	16,031	52,807
Financial investments	31,604	31,617	29,813	29,489
Category available-for-sale	*26*	*26*	*26*	*26*
Category dFVTPL	*3,999*	*3,795*	*3,999*	*3,795*
Category LaR	*27,579*	*27,796*	*25,788*	*25,668*
Property, plant and equipment	1	1	1	1
Intangible assets	15	17	15	17
Other assets	6,235	6,028	6,235	6,028
Derivatives	*6,208*	*5,992*	*6,208*	*5,992*
Other assets	*27*	*36*	*27*	*36*
Income tax assets	215	193	215	193
Total assets	**87,649**	**129,922**	**83,647**	**125,484**
LIABILITIES				
Liabilities to other banks	6,598	38,057	6,536	37,988
Liabilities to customers	16,964	21,356	17,016	21,403
Liabilities evidenced by certificates	36,454	39,456	30,364	32,741
Trading liabilities	17,671	20,604	17,671	20,604
Provisions	130	112	130	112
Other liabilities	6,351	6,289	6,351	6,289
Derivatives	*6,154*	*6,013*	*6,154*	*6,013*
Other liabilities	*197*	*276*	*197*	*276*
Income tax liabilities	253	230	253	230
Subordinated capital	1,079	1,079	641	549
Total liabilities	**85,500**	**127,183**	**78,962**	**119,916**

Other items	Contract amount		Fair value	
	30.06.2012	31.12.2011	30.06.2012	31.12.2011
Contingent liabilities and loan commitments	206	295	-4	-7

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 as follows:

The above table has taken account of the financial guarantees for calculating the fair values (economic view). If these financial guarantees were to be disregarded, the item loans and advances to customers would show a fair value which was € 1,475 million (2011: € 1,512 million) lower, and a contingent receivable from the financial guarantee of € 1,475 million (2011: € 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 € 17 million (2011: € 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 DEPFA Group, the fair value of the position liabilities to customers would be € 2,096 million lower (2011: € 5,740 million).

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

a) Liabilities to other banks/Liabilities to 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 and include amounts recoverable under financial guarantees. 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:

	30.06.2012 € m	31.12.2011 € m
Loans and receivables (net)	58,759	98,745
Available-for-sale	26	26
Held-for-trading	17,551	20,517
dFVTPL assets	3,999	3,795
Cash reserve	848	600
Derivatives (hedging)	6,208	5,992
Other assets	258	247
Total assets	**87,649**	**129,922**
Held-for-trading	17,671	20,604
Financial liabilities at amortised cost	61,095	99,948
Derivatives (hedging)	6,154	6,013
Other liabilities	580	618
Total liabilities	**85,500**	**127,183**

32. Contingent liabilities and commitments

	30.06.2012 € m	31.12.2011 € m
Contingent Liabilities		
Guarantees and indemnity agreements		
Loan guarantees	58	83
Other Commitments		
Irrevocable loan commitments		
Lending business	148	212
Total	**206**	**295**

The above amounts represent nominal exposures.

33. Contingent assets

	30.06.2012	31.12.2011
Guarantees and indemnity agreements	4,413	4,519
Total	**4,413**	**4,519**

The above table refers to nominal values of guaranteed assets including guaranteed undrawn commitments of € 77 million (2011: € 157 million) for the DEPFA Group. All above guarantees are provided by FMS Wertmanagement.

34. Related party transactions

Balances due to and from Group companies are disclosed in the notes to the unaudited condensed consolidated interim financial statements. Transactions with Group companies included in the income statement categories below consisted of:

	01.01-30.06 2012 € m	01.01-30.06 2011 € m
Interest income and similar income	35	74
Interest expense and similar expenses	-25	-25
Other operating income	46	41
General administrative expenses	-11	-20

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

In addition the net trading expense/income and net income from hedge relationships includes derivative transactions traded on an arm's length basis with HRE Group entities which are used to hedge certain of the DEPFA Group's assets and liabilities and to offset other derivative positions.

As a result of HRE Holding being controlled by SoFFin, a special estate of the German Federal Government (according to section 2 FMStFG), the DEPFA Group is a state-controlled entity and a related party with other entities which are subject to the control, joint control or significant influence of the Federal Republic of Germany (government-related entities). FMS Wertmanagement is also subject to the control of the Federal Republic of Germany and is thus a related party of the HRE Group. Business relations with public sector entities are carried out on an arm's length basis.

Key management compensation

Key management consists of the Board of Directors. Key management compensation consists of short term benefits and post employment benefits.

There have been no loans to members of the Board in 2012 and 2011, nor are there any loans outstanding to members of the Board at 30 June 2012 (31 December 2011: € nil).

There has been compensation paid for loss of office to key management of € 400,000 for the period ended 30 June 2012 (2011: € 500,000).

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

Regulatory capital	30.06.2012	31.12.2011
	€ m	€ m
Tier I capital	1,984	2,745
Tier II (Supplementary) capital	1,090	949
Total regulatory capital	**3,074**	**3,694**

Capital adequacy ratios	30.06.2012	31.12.2011
BIS Risk Weighted Assets (€ m)	5,889	5,746
Tier I capital ratio	33.68%	47.77%
Total capital ratio (Tier I +II)	**52.20%**	**64.28%**

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

With a Tier 1 capital ratio of 33.68% and a total capital ratio of 52.20% the DEPFA Group exceeds the minimum required ratios of 4% and 8.5% respectively.

Capital ratios were not breached at either a Company or DEPFA Group level during 2012.

36. Credit risk exposure to certain European countries

The following table provides an overview of the DEPFA Group's direct sovereign exposure to selected European countries:

			30 June 2012							
			Carrying 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	-	780	-	37	-	**817**	817	817
	Sub-sovereign	LaR	-	-	108	104	8	**220**	218	207
	State-guaranteed	LaR	-	-	-	-	-	**-**	-	-
Italy	Sovereign	LaR	-	-	409	1,558	58	**2,025**	1,674	1,864
	Sub-sovereign	LaR	-	-	3	148	550	**701**	627	562
	State-guaranteed	LaR	-	-	-	32	-	**32**	31	32
Spain	Sovereign	LaR	-	-	-	27	123	**150**	147	89
	Sub-sovereign	LaR	-	-	189	659	2,675	**3,523**	3,274	2,272
	State-guaranteed	LaR	-	-	-	-	252	**252**	251	196
Belgium	Sovereign	LaR	-	38	50	-	710	**798**	588	727
	Sub-sovereign	LaR	-	-	-	25	298	**323**	297	278
	State-guaranteed	LaR	-	-	-	-	1,208	**1,208**	915	966

Notes to the unaudited condensed consolidated interim financial statements – (continued)

€ million	Counterparty	IAS 39 - measurement category	31 December 2011							
			Carrying value							
			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

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. Allowance for loans and advances or impairments for securities are created if there is objective evidence that it will not be possible for the entire amount which is due in accordance with the original contractual conditions to be recovered. As at 30 June 2012 there was no such objective evidence.

The DEPFA Group did not have any sovereign credit risk exposure to Greece, Portugal or Hungary as at 30 June 2012 (31 December 2011: € nil).

The exposure to selected European countries shown in the table above 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 30 June 2012 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.

The fair values of the exposure to selected European countries were determined by applying the measurement methods disclosed in the note 31 “Fair values of financial assets and liabilities”.

37. Events after the statement of financial position date

There have been no notable events after 30 June 2012.