DEPFA BANK

# Interim Report 30 June 2013

# Contents

# Economic review

The following is a commentary on the global and sector specific economic environments in which the DEPFA Group has operated during 2013.

Following a very weak end to 2012, the start of 2013 saw renewed optimism as advanced economy policymakers seemed to have successfully defused two of the biggest short-term threats to the global recovery; the threat of a Euro area break-up and a sharp fiscal contraction in the US (the "fiscal cliff"). However, uncertainty re-emerged in the first quarter, following an inconclusive election in Italy, whilst Cyprus became the latest country to agree a bailout with the Eurogroup, with both depositors and senior bondholders bearing losses. The increased uncertainty generated by these events weighed on already weak economic prospects for the Euro area which re-entered technical recession in the first quarter, declining by 0.3 % quarter-on-quarter, following a 0.6 % contraction in the fourth quarter. The US continued its recovery (increasing 0.4 % quarter-on-quarter) whilst Asia has shown signs of gaining some momentum, helped in no small measure by the promise of expansionist policies in Japan (1.0 % quarter-on-quarter). The second quarter was relatively quiet following the volatility in quarter one as focus shifted to growth-accommodating monetary and fiscal policies. However, global growth continued to be divergent. Based on leading indicators for the quarter, US growth is estimated to be around the same pace as in the first quarter, with the recovery of the housing and labour markets persisting. Japan continued to benefit in the short-term from stimulus measures, whilst the Euro area showed some very tentative signs of economic stabilisation, albeit with ongoing recession in the periphery.

Overall, global growth forecasts have been downgraded across the board, driven to a large extent by appreciably weaker domestic demand and slower growth in several key emerging market ("EM") economies, as well as a more protracted recession in the Euro area. Downside risks still dominate including the possibility of a longer growth slowdown in EM countries, especially given risks of lower potential growth, slowing credit, and tighter financial conditions if the anticipated unwinding of monetary policy stimulus in the US leads to sustained capital flow reversals. Increased uncertainty with regard to the pace of monetary withdrawal and additional signs of stress in the Euro area towards the end of the second quarter (mainly in Portugal and Greece) continue to dampen growth prospects for the year. It is also worth noting that the City of Detroit filed for bankruptcy in July 2013 on a debt burden of over € 15 billion, which is likely to impact on the bond market for weaker municipals in the US in the second half of 2013.

**Policy developments**

The decision to bail-in depositors (over € 100,000) and senior bondholders in Cyprus, as well as the imposition of capital controls was a major shift in policy in 2013. After implying that this model could be used in future bail-outs (causing much market consternation), EU officials quickly backtracked stating that the bailout for Cyprus was "tailor-made" and a once-off. Following signs that fourth quarter weakness was extending into 2013, the European Central Bank ("ECB") lowered interest rates for the first time since July 2012 (from 0.75 % to 0.5 %), citing low underlying price pressures and weak economic sentiment. Although further reductions do not look imminent, the ECB has stated that it will consider non-conventional easing measures. This includes lowering the haircut on asset-backed securities ("ABS") assets and the possibility of a negative deposit rate.

The EU Commission gave more time to most member states to hit budget targets, but stressed that this period should be used to make long needed structural reforms. EU Finance Ministers also agreed to adjust the maturities on European Financial Stability Facility ("EFSF") and European Financial Stability Mechanism ("EFSM") loans to Ireland and Portugal in order to smooth the debt redemption profiles as both countries face a redemption hump in 2015 to 2016 and in 2020 to 2021. Progress was also made on devising a bank resolution regime in Europe where the bail-in of creditors would be formalised so as to reduce the contingent liabilities on taxpayers.

There was no change in base interest rates for the US, UK or Japan in the first six months of 2013. Whilst the UK and US did not change their quantitative easing ("QE") program in the first half of the year, a Bank of Japan ("BoJ") policy overhaul was announced. It involves an aggressive expansion of the monetary base (45 % in 2013, 35 % in 2014), primarily by buying Japanese government bonds, in an effort to reach 2 % inflation within two years. In the UK, the debate surrounding whether or not to expand the QE program continues whilst greater economic momentum in the US has focused the debate on when the US Federal Reserve's QE will start to be wound down. US Federal Reserve Chairman Ben Bernanke noted that downside risks to the US economy have diminished and that he expects to slow the pace of bond purchases later this year if the labour market shows further signs of improvement. Moreover, stronger US Federal Reserve forecasts forced the markets to re-price interest rate forecasts from 2015 onwards.

## Financial market developments

Despite ongoing weakness in the economy, financial conditions continued to stabilise in the first half of 2013 due to the perceived reduction in tail risks brought about by the ECB's Outright Monetary Transactions ("OMT") program and the avoidance of the fiscal cliff in the US. Markets did take somewhat of a backward step following both the Italian elections and the problems in Cyprus but, overall, volatility did not reach the heights of previous years and risk appetite returned early in the second quarter, although it dissipated towards the end of the quarter. As a result of this relative calm, the Euro remained relatively stable against the US dollar at around $ 1.30. Meanwhile, global focus shifted to policy induced weakness of some major currencies as the JPY continued its depreciating trend on the back of its monetary expansion. Although it weakened by close to 20 % against USD from the start of the year until mid-May 2013, this fall reversed somewhat in June 2013 to leave the overall fall of 14 % in the first half of the year.

Credit spreads in the Euro area periphery benefited most from the general improvement in risk appetite, while prices for many risky assets, notably equities, rose globally. Most of the gains were seen in the first quarter and early in the second quarter, with some payback towards the end of the first half of the year. Five year credit default swap ("CDS") spreads over the first half of the year tightened the most for Ireland (200 bps to 165 bps) and Portugal (449 bps to 400 bps) and to a lesser extent Spain (295 bps to 281 bps). In terms of yields, Spain saw ten year yields fall by 50 bps as the markets cut bets that a full bailout would be needed. Aside from Cyprus, the two main underperformers were Italy (278 bps to 281 bps) and Slovenia (230 bps to 331 bps). Overall, the ITRAXX Western Europe Sovereign index was 94 bps at the end of June 2013 having finished 2012 at 111 bps. The debt of core Europe lost out from increased risk aversion in the first six months of the year, with German and French yields increasing by 41 bps (to 1.73 %) and 35 bps (to 2.35 %) respectively. The prospect of tighter US monetary policy (especially in the second quarter) was the main driver behind the substantial (73 bps) increase in the US ten year yield (to 2.49 %) over the first half of the year.

**Banking sector**

Amid ongoing accommodative monetary policy, bank liquidity conditions remained benign in the first half of 2013. This was reflected in the repayments of the ECB's Long Term Refinancing Operation ("LTRO"), whose outstanding value declined by approximately €320 billion from the start of the year. This reflects the fact that banks are finding non-ECB funds easier to access and are more relaxed about future liquidity conditions. However, it is also likely to reflect ongoing bank deleveraging and hence a lower need for such funds. This was also reflected in bank lending surveys which showed lending conditions remain quite tight. At the end of the second quarter, three-month Euribor was 0.22 % having being 0.19 % at the end of 2012. The implied rate on Euribor futures contracts expiring in December 2013 was 0.32 %, having started the year at 0.3 %. Easy liquidity conditions were also seen in the Euribor to Overnight Index Swap ("OIS") spread (barometer of financial stress), which has remained stable and at extremely low levels (12 bps) since the start of the year. Banking credit indicators have been less benign, given the ongoing discussion over bank resolution regimes. Having started the year at 141 bps, the Markit ITRAXX Europe Senior Financial five year CDS Index peaked at 205 bps towards the end of March 2013. It did however retreat back to 167 bps by mid-2013. Rating agencies have also continued their recent trend of downgrading financial institutions, taking into account the lower probability of support in the future as well as tighter regulations, fragile global markets and stagnant economies.

The ECB published new rules concerning the use of bonds issued by banks and guaranteed by governments. From 2015, banks will not be allowed to use as collateral any own-issued uncovered government guaranteed bank bonds. The move was designed to pressurise governments into improving their banking sectors more quickly. Following the Cypriot bail-in, there has been some progress made on devising a resolution regime which attempts to break the strong linkages that exist between banking sectors and their respective sovereign governments.

Eurogroup Finance Ministers agreed that the European Stability Mechanism ("ESM") will be allowed to directly recapitalise banks, with an initial sum of €60 billion, although it is not expected to be operational until late 2014 at the earliest. The issue of retroactive recapitalisation was not ruled out but would be on a "case by case basis". The agreement also envisages a resolution fund to be set up by each EU member state within ten years with a level of at least 0.8 % of all insured deposits. The full proposal is only due to take effect from 2018.

## Public sector

Fiscal consolidation remained the core theme in the first half of 2013 and is set to continue over the forecast horizon. This is especially the case for European economies, with the US and Japan still to present credible medium to long-term fiscal adjustment strategies. Final figures for 2012 showed that the headline general government deficit for the Euro area fell from −4.2 % of GDP in 2011 to −3.7 % (to −8.4 % and 11.2 % in 2012 for the US and Japan respectively) whilst the debt ratio increased from 87.3 % to 90.6 % (to 107 % and 244 % in 2012 for the US and Japan respectively). With many European Monetary Union ("EMU") countries continuing to implement sizeable fiscal measures in 2013, headline fiscal deficits continued to fall in the first half of the year. However, the pace of consolidation in structural terms has slowed. This has been reinforced by decisions at a European level to slow down the pace of consolidation in an effort to reduce the growth effects on already stagnant economies. In this regard, the EU Commission recommended giving more time to most member states to hit budget targets, but stressed that this period should be used to make long needed structural reforms. It recommended that the Excessive Deficit Procedure ("EDP") for Hungary, Italy, Romania, Latvia and Lithuania be lifted. Other countries granted an extra two years to correct excessive deficits (greater than 3 % of GDP) included Poland (2014), France (2015), Slovenia (2015) and Spain (2016). Belgium (2014), the Netherlands (2014) and Portugal (2015) were granted one year extensions.

As outlined above, financing conditions were quite benign for the public sector in the first half of the year. Spread and yield levels fell, with the periphery countries benefiting most. These conditions were attributed to the reduction in tail risks and abundant liquidity. Given these conditions, governments have been able to finance themselves quite comfortably in the first half of the year with most achieving around 60 % of their full year target whilst others have achieved almost 70 %. Given the level of concerns surrounding Spain in 2012, it reached a quite impressive issuance level equating to 68 % of its annual target. This provides an important buffer for the second half of the year in case conditions were to materially deteriorate. Another welcome development was the ability of both Ireland and Portugal to re-enter the capital markets and issue new ten year bonds at competitive rates. Nevertheless, given that debt ratios continue on their upward trajectory, rating agencies have generally continued to move ratings downwards, although the pace and sheer number of downgrades has fallen compared to recent years, especially for the peripheral countries.

# Directors and other information

**Board of Directors**

Ms. M. Better [1] Chairman (German)
Dr. J. Bourke [1]
Ms. F. Flannery
Mr. T. Glynn (American) (Chief Executive Officer – CEO)
Mr. D. Grehan [1] (resigned 10 May 2013)
Mr. W. Groth [1] (German)
Mr. A. Kearns [1]
Mr. N. Reynolds
Mr. A. von Uslar-Gleichen [1] (German)
Dr. H. Walter [1] (German)

[1] 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 (resigned 10 May 2013)
Mr. N. Reynolds
Dr. H. Walter (Chairman)

**Secretary & Registered Office**

Ms. E. Tiernan
Ms. K. Tempany (appointed 23 July 2012,
resigned 4 March 2013)
1 Commons Street
Dublin 1, Ireland

**Solicitors**

Arthur Cox
Earlsfort Centre
Earlsfort Terrace
Dublin 2, Ireland

**Auditors**

KPMG
Chartered Accountants
Statutory Audit Firm
1 Harbourmaster Place
IFSC, Dublin 1, Ireland

**Registered Number**
348819

# Management discussion

The directors of DEPFA BANK plc (“the Bank”, “the Company” or “DEPFA”) present their management discussion and the unaudited condensed consolidated interim financial statements (“the interim report”) for the period ended 30 June 2013.

**Ownership**

On 2 October 2007 the entire ordinary share capital of the Bank was acquired by Hypo Real Estate Holding AG (“HRE Holding”), the parent entity of the Hypo Real Estate Group (“the HRE Group”).

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

There was no change in the ownership of the Bank during 2013.

**Principal activities**

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

**Proceedings at the European Commission**

On 18 July 2011, the European Commission approved the state aid in relation to the stabilisation measures granted to the HRE Group by the Federal Republic of Germany. The HRE Group thus obtained the legal and planning certainty necessary for its proper regulation.

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

The consequence of the decision of the European Commission in 2011 is that the companies within the DEPFA Group will not conduct any new business until they are reprivatised. This is not applicable for measures carried out as part of bank, risk and refinancing management which is necessary for regulatory purposes and which has the aim of maintaining value and also within the framework of managing the DEPFA ACS BANK and Hypo Pfandbrief Bank International S.A. cover pools.

The DEPFA Group may be sold in the medium-term and its complete reprivatisation is a medium-term objective. Measures initiated in 2011 to sever the links between the companies of the DEPFA Group and the other companies of the HRE Group are continuing in 2013.

### 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. Further details on the effects of this transfer are set out in note 3 to the unaudited condensed consolidated interim financial statements.

### Related party transactions

Related party transactions are set out in note 41 to the unaudited condensed consolidated interim financial statements.

# Ratings

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

| **Senior unsecured ratings and covered bonds ratings of banks in the DEPFA Group[1]** | | | **30 June 2013** | | | **31 December 2012** |
|---|---|---|---|---|---|---|
| **Banks in the DEPFA Group[2]** | **Fitch Ratings** | **Moody's** | **Standard & Poor's** | **Fitch Ratings** | **Moody's** | **Standard & Poor's** |
| Long-term rating | BBB+ | Baa3 | BBB | BBB+ | Baa3 | BBB |
| Outlook | Negative | Stable | Stable | Negative | Stable | Stable |
| Short-term rating | F2 | P–3 | A–2 | F2 | P–3 | A–2 |
| Asset Covered Securities | A[3] | A3 | BBB[4] | A[3] | A3 | BBB[4] |
| Lettres de Gage[2] | — | — | A–[4] | — | — | AA[5] |

[1] Ratings from mandated rating agencies
[2] DEPFA BANK plc, DEPFA ACS BANK, HYPO Public Finance Bank and Hypo Pfandbrief Bank International S.A. (Hypo Pfandbrief Bank International S.A. and its Lettres de Gage are rated exclusively by Standard & Poor's)
[3] Negative outlook
[4] Stable outlook
[5] Credit Watch Negative

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

The senior unsecured ratings assigned by the mandated rating agencies, Fitch Ratings, Moody's and Standard & Poor's remained unchanged for the banks in the DEPFA Group during the first half of 2013; Fitch Ratings affirmed the ratings in July 2013. Similarly, the ratings for asset covered securities issued by DEPFA ACS BANK remained unchanged during that period. In January 2013 Standard & Poor's lowered their ratings of the Lettres de Gage issued by Hypo Pfandbrief Bank International S.A. from AA Credit Watch Negative to A– Credit Watch Developing. The Credit Watch was resolved at the end of May 2013 when the A– rating was confirmed with a stable outlook.

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 and the specific rating drivers for the DEPFA Group entities and its covered bonds may result in rating changes. The ongoing reduction in linkages between the DEPFA Group and FMS Wertmanagement, or any changes to the ownership structure of the DEPFA Group could also 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 on access to suitable hedge counterparties and hence on their financial position and profitability.

## Review of performance

The pre-tax income in the period was € 3 million compared to income of € 33 million in the period from 1 January to 30 June 2012. The decline is primarily due to a reduction in net interest income. The pre-tax income in both periods was affected significantly by positive once-off effects. For instance, there was a 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 € 38 million for the half year to 30 June 2013 compared to € 33 million for the half year to 30 June 2012.

The development in results in 2013 compared with the previous period is detailed in the following table:

| **Consolidated income statement – unaudited**<br>€ m | **Half Year Ended on 30 June 2013** | **Half Year Ended on 30 June 2012** |
|---|---|---|
| Net interest income | 15 | 60 |
| Net fee and commission expense | –8 | –9 |
| Net trading income/expense | 13 | –14 |
| Net expense from financial investments | –1 | –4 |
| Net expense/income from hedge relationships | –9 | 24 |
| Other operating income | 38 | 42 |
| Other operating expense | –4 | –10 |
| **Total operating revenues** | **44** | **89** |
| Reversal of/provision for losses on loans and advances | 3 | –70 |
| Recovery of losses on loans and advances under financial guarantees | – | 69 |
| General administrative expenses | –51 | –55 |
| Other income | 7 | – |
| **Pre-tax income** | **3** | **33** |
| Taxes on income | –1 | –4 |
| **Net income** | **2** | **29** |

**Net interest income** declined by 75 % to € 15 million (2012: € 60 million). This decrease was mainly due to the negative impact of the close out of short-term basis mismatches as well as continuing expenses from re-hedging callable liabilities where the related hedging derivative had been called. Furthermore, there was a reduction in the average holdings of interest bearing assets compared with the previous period. A positive effect of € 38 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 in 2013 (2012: € 33 million).

**Net fee and commission expense** amounted to €–8 million and was consistent with the corresponding previous period (2012: €–9 million) and includes commission expense for guarantees received from FMS Wertmanagement on assets not yet transferred and still recognised on the statement of financial position amounting to €–7 million (2012: €–8 million).

**Net trading income/expense** of €13 million has increased compared to the previous period (2012: €–14 million). Of this, €–4 million (2012: €–22 million) is due to market value movements in cross currency basis swaps. Other stand-alone derivatives which do not satisfy the criteria of IAS 39 for hedge accounting accounted for €11 million (2012: €8 million). Trading income also includes €6 million (2012: €nil) in derivative valuation effects relating to counterparty risk parameters including both the credit risk of the counterparty and DEPFA Group's own credit risk.

**Net expense from financial investments** amounted to €–1 million in 2013 (2012: €–4 million). The expense is solely the result of the disposal of financial assets.

**Net expense/income from hedge relationships** amounted to €–9 million (2012: €24 million). This represents hedge ineffectiveness within the range of 80 % to 125 % permitted in accordance with IAS 39.

**Other operating income** amounted to €38 million (2012: €42 million), which mainly consisted of income of €36 million from charges to Deutsche Pfandbriefbank AG ("pbb") in relation to asset servicing provided by the DEPFA Group on the positions transferred to FMS Wertmanagement (2012: €41 million). Lower service income corresponded to the lower general administrative expenses. The asset servicing is expected to be completely discontinued by the end of September 2013. Also included are charges to the HRE Group for various supporting activities of €2 million (2012: €1 million).

**Other operating expense** amounted to €–4 million (2012: €–10 million), which included provisions relating to current and expected litigation of €–3 million (2012: €nil) and other expenses of €–1 million (2012: €–1 million). The 2012 figure also includes IT costs associated with separating the DEPFA Group's infrastructure and operating processes from that of the HRE Group of €–9 million (2013: €nil).

**Reversal of/provision for losses on loans and advances** amounted to €3 million (2012: €–70 million). The 2012 amount includes specific loan loss provisions of €–69 million (2013: €nil), which relate to exposures which are recoverable under financial guarantee contracts with FMS Wertmanagement. There is also a decrease in portfolio-based allowances of €3 million (2012: €–1 million). In accordance with IAS 39, portfolio-based allowances are created only for loans and receivables for which there have not yet been any indications of an individual impairment.

**Recovery of losses on loans and advances under financial guarantees** amounted to €nil (2012: €69 million) and relates to the specific loan losses on exposures guaranteed by FMS Wertmanagement, as referred to above.

**General administrative expenses** declined to € –51 million in 2013 compared with € –55 million in the first half of 2012. Personnel expenses decreased to €–22 million compared to € –25 million in the previous period. The decrease was partially due to the lower average headcount (353 people) compared with the previous period (375 people). Other general administrative expenses amounted to € –29 million and was marginally lower than the corresponding previous period of € –30 million.

**Other income** amounted to € 7 million (2012: € nil) and is due to the net release of provisions created for the strategic refocusing and restructuring of the DEPFA Group.

**Pre-tax income** amounted to € 3 million in 2013 (2012: € 33 million).

**Taxes on income** amounted to €–1 million in 2013 (2012: €–4 million).

**Net income** amounted to € 2 million in 2013 (2012: € 29 million).

## Development in assets

Total assets of the DEPFA Group amounted to € 62 billion at 30 June 2013 and were € 11 billion lower than the corresponding figure at the end of the previous year (31 December 2012: € 73 billion).

The decline is primarily due to a reduction in the FMS Wertmanagement related counter effects of €6 billion and a reduction in total assets due to repayments and disposals of €3 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 transactions 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.

The counter effects concerning the transfer of positions to FMS Wertmanagement on the DEPFA Group's statement of financial position at 30 June 2013 and at 31 December 2012 are set out in note 3 of the notes to the unaudited condensed consolidated interim financial statements.

During 2013 back-to-back derivatives continued to be 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 € 2.9 billion as at 30 June 2013, compared with € 4.2 billion as of 31 December 2012. 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 € 5 billion, including approximately € 3 billion of asset disposals 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.

## Developments in liabilities and equity

The total DEPFA Group liabilities amounted to € 60 billion as of 30 June 2013, compared with € 71 billion as of 31 December 2012. As was the case on the asset side of the statement of financial position, the decline is also attributable to the same reduction in counter effects with FMS Wertmanagement of €6 billion, as well as the maturity of certain liability positions.

Liabilities evidenced by certificates decreased by € 2.5 billion from € 34.7 billion as of 31 December 2012 to € 32.2 billion as of 30 June 2013. This reduction reflected changes in fair value due to hedge accounting as well as the run off in outstanding debt and the buyback of certain asset covered securities in DEPFA ACS BANK, at prevailing market levels on a reverse enquiry basis.

Equity amounted to € 2.1 billion as of 30 June 2013 (31 December 2012: € 2.1 billion). In compliance with the DEPFA Group's obligations in relation to the annual state aid compensation, € 59 million was paid on 15 April 2013 relating to net income as at 31 December 2012. This obligation was fully accrued in 2012.

Certain hybrid capital instruments remain classified as equity in 2013 and 2012, as the DEPFA Group has no contractual obligation to make interest payments.

On 6 March 2013 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 2013.

Similarly, on 24 May 2013 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 2013.

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

The DEPFA Group has reported net income for the first half of 2013, with a pre-tax income of € 3 million. However, the extent of the 2013 net income has benefited from once-off effects such as the profits from the buyback of DEPFA ACS BANK asset covered securities amounting to € 38 million (2012: € 33 million) that were redeemed before maturity at prevailing market levels on a reverse enquiry basis, net of losses from sales of financial investments and loans and receivables. The DEPFA Group cannot be certain that in future it will benefit from once-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 ("annual state aid compensation fees") to the Federal Republic of Germany. The payment condition was completely settled on 14 March 2012. The terms and conditions of the annual state aid compensation fees were agreed in March 2013 and full provision has been made in the financial statements for the expected future amounts payable, which have been accounted for directly in equity. An amount of € 59 million was reflected in the financial statements in this regard as at 31 December 2012 (2011: € nil). No further provision is deemed necessary, however, future developments could result in the requirement for additional provisions.

Total assets in 2013 declined appreciably, mainly due to the diminishing counter effects of the transfer of certain non strategic positions to FMS Wertmanagement and a reduction in total assets due to repayments and disposals. 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 2013 and 2014 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 foreign currency 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 continuing 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.

On a reverse enquiry basis, the DEPFA Group has redeemed certain liabilities before maturity in 2012 and 2013 which has realised significant profits. Such income may also be generated in the future depending on investor behaviour and market conditions.

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 2012 and 2013 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.
- The situation in the refinancing markets has improved in the period under review. Nevertheless the refinancing markets are still problematic. The debt crisis facing some European countries may, for instance, result in a loss of confidence in the issuing markets or the unsecured and secured interbank markets. This could negatively impact on 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 ratings drivers for the DEPFA Group entities and its covered bonds, could lead to rating changes. The ongoing reduction in linkages between the DEPFA Group and FMS Wertmanagement, or any changes to the ownership structure of the DEPFA Group could also 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 on access to suitable hedge counterparties 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 is dependent on:
  - The future development of the discounts for repo refinancing in the market and with the central banks.
  - Collateral requirements as a result of changing market parameters (including interest rates, foreign currency exchange 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 ongoing 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.
- The possibility of introducing a tax on financial market transactions continues to be discussed in most of the countries in the European Union. The aim is to introduce a tax on purchase and sales of transferable securities or options and other financial instruments. Such a tax may have a negative impact on the profitability of the DEPFA Group.

# Regulatory capital and capital adequacy ratios

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

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

Under the framework following a Supervisory Review and Evaluation Process ("SREP"), the Central Bank of Ireland has imposed additional requirements on the DEPFA Group resulting in minimum capital requirements higher than those calculated under Pillar One. The additional requirements are only applicable to total own funds and are based on a combination of the Pillar One calculations and certain individual economic risk calculations. The DEPFA Group's capital was in excess of the Pillar One and SREP requirements during both 2013 and 2012.

There were no breaches by the Bank of the capital ratios during 2013 (2012: no breaches). At 30 June 2013 the Bank's Total capital ratio exceeds the minimum required ratio at 35.18 % (31 December 2012: 40.95 %).

No capital contributions were received by the Bank during 2013 (2012: € nil). During 2009 and 2010 the Bank received non-refundable capital contributions from HRE Holding totalling € 1.5 billion. These non-refundable contributions qualify as Regulatory Tier 1 Capital.

With a Tier 1 capital ratio of 38.83 % (2012: 37.60 %) and a Total capital ratio of 61.79 % (2012: 58.85 %) the DEPFA Group exceeds the minimum required ratios at Group level (Tier 1 capital ratio 4 %, Total capital ratio 8.5 %).

**Regulatory capital**

| € m | 30 June 2013 | 31 December 2012 |
|---|---|---|
| Tier I capital | 1,768 | 1,803 |
| Tier II supplementary capital | 1,045 | 1,018 |
| **Total regulatory capital** | **2,813** | **2,821** |

**Capital adequacy ratios**

| | 30 June 2013 | 31 December 2012 |
|---|---|---|
| Risk weighted assets (€ m) | 4,552 | 4,793 |
| Tier I capital ratio (%) | 38.83 % | 37.60 % |
| **Total capital ratio (Tier I + II)** | **61.79 %** | **58.85 %** |

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

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

Based on the latest draft CRD IV/Capital Requirements Regulation ("CRR") (implementing the Basel III proposals for a revised regulatory framework) these instruments will no longer qualify for inclusion in Tier 1 regulatory capital. The draft CRD IV/CRR contains transitional provisions which permit the grandfathering of existing instruments with a phase out of qualifying amounts from the implementation date of the CRD IV/CRR to 31 December 2021.

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

**Hybrid capital instruments**

| € m | | 30 June 2013 | 31 December 2012 |
|---|---|---|---|
| DEPFA Funding II LP, perpetual note | 6.50 % | 400 | 400 |
| DEPFA Funding III LP, perpetual note | 7 % until 2008, thereafter CMS 10 yr +0.1 % | 300 | 300 |
| DEPFA Funding IV LP, perpetual note | 5.029 % until 2017, thereafter Euribor +1.87 % | 500 | 500 |
| **Total** | | **1,200** | **1,200** |

# Events after 30 June 2013

There have been no notable events after 30 June 2013.

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

Each of the current directors, whose names are listed on page 6, 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 43 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

**John Bourke**
Director

**Noel Reynolds**
Director

1 August 2013

# Independent review report on the unaudited condensed consolidated interim financial statements

We have been engaged by DEPFA BANK plc ("the Bank") to review the unaudited condensed consolidated financial statements in the Interim Report for the six months ended 30 June 2013 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 43. 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 unaudited condensed consolidated 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 report in accordance with the TD Regulations and the Transparency Rules of the Central Bank of Ireland.

As disclosed on page 32, 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 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 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 financial statements in the Interim Report for the six months ended 30 June 2013 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, Ireland

1 August 2013

# Unaudited condensed consolidated interim financial statements

# Consolidated income statement – unaudited

| Consolidated income statement – unaudited<br>€ m | Note | For half year ended on 30 June 2013 | For half year ended on 30 June 2012 |
|---|---|---|---|
| Interest income and similar income | 5 | 596 | 854 |
| Interest expense and similar expenses | 5 | −619 | −827 |
| Income from buyback of liabilities | 5 | 38 | 33 |
| **Net interest income** | | **15** | **60** |
| Fee and commission income | 6 | – | – |
| Fee and commission expense | 6 | −8 | −9 |
| **Net fee and commission expense** | | **−8** | **−9** |
| Net trading income/expense | 7 | 13 | −14 |
| Net expense from financial investments | 8 | −1 | −4 |
| Net expense/income from hedge relationships | 9 | −9 | 24 |
| Other operating income | 10 | 38 | 42 |
| Other operating expense | 10 | −4 | −10 |
| **Total operating revenues** | | **44** | **89** |
| Reversal of/provision for losses on loans and advances | 18 | 3 | −70 |
| Recovery of losses on loans and advances under financial guarantees | 18 | – | 69 |
| **Total reversal of losses on loans and advances net of guarantees** | | **3** | **−1** |
| General administrative expenses | 11 | −51 | −55 |
| Other income | 12 | 7 | – |
| Of which: restructuring | | 7 | – |
| **Pre-tax income** | | **3** | **33** |
| Taxes on income | 13 | −1 | −4 |
| **Net income** | | **2** | **29** |
| **Attributable to:** | | | |
| Equity holders of the parent | | 2 | 29 |

The notes on pages 32 to 63 are an integral part of these unaudited condensed consolidated interim financial statements.

# Consolidated statement of comprehensive income – unaudited

| Consolidated statement of comprehensive income – unaudited | For half year ended on 30 June 2013 | | | For half year ended on 30 June 2012 | | |
|---|---|---|---|---|---|---|
| € m | Before tax | Tax | Net of tax | Before tax | Tax | Net of tax |
| Net income for the period | **3** | **–1** | **2** | **33** | **–4** | **29** |
| **Other comprehensive income** | | | | | | |
| Items that are or may be reclassified subsequently to income statement | | | | | | |
| AfS reserve movement – net | 2 | – | 2 | 3 | – | 3 |
| Exchange differences | 1 | – | 1 | 1 | – | 1 |
| **Total other comprehensive income** | **3** | **–** | **3** | **4** | **–** | **4** |
| **Total comprehensive income** | **6** | **–1** | **5** | **37** | **–4** | **33** |
| **attributable to:** | | | | | | |
| Equity holders of the parent | 6 | –1 | 5 | 37 | –4 | 33 |

| Disclosure of components of comprehensive income – unaudited<br>€ m | For half year ended on 30 June 2013 | For half year ended on 30 June 2012 |
|---|---|---|
| Net income for the period | 2 | 29 |
| **Other comprehensive income** | **3** | **4** |
| Items that are or may be reclassified subsequently to income statement | | |
| AfS reserve movement – net | 2 | 3 |
| Gains arising during the period | 2 | 3 |
| Reclassification adjustments for gains/losses included in net income or loss | – | – |
| Cash flow hedge reserve – net | – | – |
| Gains arising during the period | – | 2 |
| Reclassification adjustments for losses included in the consolidated income statement | – | –2 |
| Exchange differences | 1 | 1 |
| **Total** | **5** | **33** |

The notes on pages 32 to 63 are an integral part of these unaudited condensed consolidated interim financial statements.

# Consolidated statement of financial position – unaudited

| Consolidated statement of financial position – unaudited<br>€ m | Note | 30 June 2013 | 31 December 2012 |
|---|---|---|---|
| **Assets** | | | |
| Cash reserve | 14 | 2,626 | 1,564 |
| Trading assets | 15 | 10,325 | 13,364 |
| Loans and advances to other banks | 16 | 7,748 | 10,191 |
| Loans and advances to customers | 17 | 15,424 | 16,853 |
| Allowance for losses on loans and advances | 18 | −99 | −102 |
| Losses on loans and advances recoverable under financial guarantees | 18 | 69 | 69 |
| Financial investments | 19 | 21,573 | 25,334 |
| Property, plant and equipment | 20 | 1 | 1 |
| Intangible assets | 21 | 11 | 12 |
| Other assets | 22 | 4,383 | 5,798 |
| Income tax assets | 23 | 174 | 214 |
| Current tax assets | | 1 | 2 |
| Deferred tax assets | | 173 | 212 |
| **Total assets** | | **62,235** | **73,298** |
| **Liabilities** | | | |
| Liabilities to other banks | 24 | 5,429 | 6,631 |
| Liabilities to customers | 25 | 6,711 | 9,085 |
| Liabilities evidenced by certificates | 26 | 32,176 | 34,654 |
| Trading liabilities | 27 | 10,153 | 13,317 |
| Provisions | 28 | 135 | 148 |
| Other liabilities | 29 | 4,211 | 6,016 |
| Income tax liabilities | 30 | 216 | 244 |
| Current tax liabilities | | 46 | 31 |
| Deferred tax liabilities | | 170 | 213 |
| Subordinated capital | 31 | 1,078 | 1,082 |
| **Total liabilities** | | **60,109** | **71,177** |
| **Equity** | | | |
| **Equity attributable to equity holders** | | | |
| Share capital | 32 | 106 | 106 |
| Share premium | 32 | 1,142 | 1,142 |
| Capital reserve | 33 | 1,500 | 1,500 |
| Preferred securities | 34 | 1,136 | 1,136 |
| Retained earnings | 35 | −1,721 | −1,723 |
| Other reserves | 36 | −37 | −40 |
| AfS | | −40 | −42 |
| Currency translation | | 3 | 2 |
| **Total equity** | | **2,126** | **2,121** |
| **Total equity and liabilities** | | **62,235** | **73,298** |

The notes on pages 32 to 63 are an integral part of these unaudited condensed consolidated interim financial statements.

| Consolidated statement of changes in equity – unaudited | | | | | | Other reserves | | |
|---|---|---|---|---|---|---|---|---|
| € m | Share capital | Share premium | Capital reserve | Preferred securities | Retained earnings | Unrealised gains/losses on available-for-sale investments | Accumulated effects of currency translations | **Total equity** |
| **Balance at 1 January 2012** | **106** | **1,142** | **1,500** | **1,136** | **–1,100** | **–47** | **2** | **2,739** |
| Net 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** |
| FMSA 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** |
| **Balance at 1 January 2013** | **106** | **1,142** | **1,500** | **1,136** | **–1,723** | **–42** | **2** | **2,121** |
| Net income for the period | – | – | – | – | 2 | – | – | 2 |
| Net changes in available-for-sale investments, net of tax | – | – | – | – | – | 2 | – | 2 |
| Net changes in currency translation reserve | – | – | – | – | – | – | 1 | 1 |
| **Total recognised comprehensive income** | **–** | **–** | **–** | **–** | **2** | **2** | **1** | **5** |
| **Balance at 30 June 2013** | **106** | **1,142** | **1,500** | **1,136** | **–1,721** | **–40** | **3** | **2,126** |

The notes on pages 32 to 63 are an integral part of these unaudited condensed consolidated interim financial statements.

# Consolidated cash flow statement – unaudited

| Consolidated cash flow statement – unaudited<br>€ m | For half year ended on 30 June 2013 | For half year ended on 30 June 2012 |
|---|---|---|
| **Cash flows from operating activities** | | |
| **Pre-tax income** | **3** | **33** |
| Adjustments for non-cash movements: | | |
| Depreciation and amortisation of tangible and intangible assets | 3 | 3 |
| Foreign exchange gain | 1 | 1 |
| Net (increase)/decrease in accrued interest income | −25 | 375 |
| Net increase/(decrease) in accrued interest expenditure | 9 | −387 |
| Reversal of/provision for losses on loans and advances | −3 | 70 |
| Recovery of losses on loans and advances under financial guarantee | – | −69 |
| Loss on sale of investment securities and loans | 1 | 4 |
| Income from buyback of liabilities | −38 | −33 |
| Other non cash items | −59 | −60 |
| Net decrease in loans and advances to other banks | 2,435 | 2,903 |
| Net decrease in loans and advances to customers | 928 | 36,981 |
| Net (increase)/decrease in other assets | −2 | 9 |
| Net decrease in liabilities to other banks | −1,088 | −31,479 |
| Net decrease in amounts due to customers | −2,278 | −4,596 |
| Net decrease in liabilities evidenced by certificates | −957 | −3,532 |
| Net decrease in other liabilities | −188 | −62 |
| Net decrease in derivatives and trading liabilities | −141 | −26 |
| Tax received/(paid) | 11 | −5 |
| **Net cash from operating activities** | **−1,388** | **130** |
| **Cash flows from investing activities** | | |
| Purchase of investment securities | – | −783 |
| Sale/maturity of investment securities | 2,513 | 1,523 |
| Purchase of intangible assets | −1 | −1 |
| **Net cash from investing activities** | **2,512** | **739** |
| **Cash flows from financing activities** | | |
| Annual state aid compensation | −59 | – |
| FMSA payment condition | – | −623 |
| **Net cash from financing activities** | **−59** | **−623** |
| **Net increase in cash and cash equivalents** | **1,065** | **246** |
| **Cash and cash equivalents at the beginning of the period (Note 14)** | **1,522** | **563** |
| **Cash and cash equivalents at the end of the period (Note 14)** | **2,587** | **809** |
| Included in the cash flows for the period are the following amounts: | | |
| Interest income received | 571 | 1,229 |
| Interest expense paid | −610 | −1,214 |

The notes on pages 32 to 63 are an integral part of these unaudited condensed consolidated interim financial statements.

# Notes to the unaudited condensed consolidated interim financial statements

## 01 General information

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2013 are unaudited but have been reviewed by the auditor whose report is set out on page 23. The financial information presented herein does not amount to statutory financial statements that are required by Regulation 7 (3) of the European Communities (Credit Institutions: Accounts) Regulation 1992 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 2012 will be filed with the Registrar of Companies along with the annual return by 13 September 2013. The audit report on those statutory financial statements was unqualified and did not contain any matters to which attention was drawn by way of emphasis of matter.

DEPFA BANK plc ("the Bank", "the Company" or "DEPFA") is a provider of financial services to public sector clients worldwide. The Bank and its subsidiary undertakings ("the DEPFA Group"), operating in Ireland and in other parts of the world, provides a comprehensive range of banking, financial and related services subject to the conditions imposed by the European Commission's approval on 18 July 2011 of the state aid in relation to the stabilisation measures granted to the HRE Group by the Federal Republic of Germany. The DEPFA Group is regulated by the Central Bank of Ireland and the German Bundesanstalt für Finanzdienstleistungsaufsicht ("BaFin"). Debt issued by the DEPFA Group is listed on exchanges in Dublin, Frankfurt, London, Luxembourg and Zurich.

On 2 October 2007 the entire ordinary share capital of the Bank was acquired by Hypo Real Estate Holding AG (the "HRE Holding") the parent entity of the Hypo Real Estate Group ("the HRE Group").

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

There was no change in the ownership of the Bank during 2013.

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.

## Accounting policies

## 02 Summary of significant accounting policies

**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, subject to the revisions arising below.

**Initially adopted standards, interpretations and amendments** The following standards, interpretations and amendments were initially adopted in the first half of 2013:
- Amendments to IAS 1 Presentation of Items of Other Comprehensive Income
- Amendments to IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets
- IAS 19 (revised 2011) Employee Benefits
- IFRS 13 Fair Value Measurement

According to Amendments to IAS 1, positions of other comprehensive income ("OCI") must distinguish between items that will never reclassify and those that will/may reclassify through income statement. Comparative information has also been presented in these unaudited condensed consolidated interim financial statements. The disclosure requirements of Amendments to IAS 1 were addressed in these unaudited condensed consolidated interim financial statements.

Amendments to IAS 12 revised the deferred tax measurement for investment properties, property, plant and equipment measured at fair value. There were no impacts on these condensed consolidated interim financial statements because the DEPFA Group did not own such assets or does not measure them at fair value.

IAS 19 revised the approach for recognising actuarial gains or losses on defined benefit pension schemes, and also requires increased disclosure requirements. However, based on the level of defined benefit obligations in the DEPFA Group, the impact of this was not significant.

IFRS 13 sets out requirments for measuring the fair value of assets and liabilities as well as requiring extended disclosures. Material new requirements of IFRS 13 concern, for example, the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent market participants (exit price). In addition, IFRS 13 extends the disclosures in relation to the fair value hierarchy. In the current unaudited condensed consolidated interim financial statements the initial application of IFRS 13 resulted in effects on the determination of fair values of financial instruments to be measured at amortised costs which are disclosed in the note fair values of financial instruments. According to IFRS 13.24, the fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market under current market conditions (exit price). The DEPFA Group takes into account the requirement to apply exit prices by using secondary market inputs for primary valuations or alternatively using such inputs for validation. This has effects mainly on the fair values of the financial liabilities of the DEPFA Group. Referring to IFRS 13 in connection with IAS 34.16 A (j) the extended disclosures are described in note 37 "Fair values of financial assets and liabilities".

**Standards, interpretations and amendments, which are not yet mandatorily applicable** The following standards, interpretations and amendments are initially applicable in the EU for financial years beginning on or after 1 January 2014:
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- Amendments to IAS 27 Separate Financial Statements
- Amendments to IAS 28 Investments in Associates and Joint Ventures

These standards were not applied earlier by the DEPFA Group.

With the exception of the described changes due to initially adopted or changed standards the accounting policies applied in the preparation of the unaudited condensed consolidated interim financial statements as at 30 June 2013 were the same as in the financial statements as at 31 December 2012.

**Change in estimate** According to IAS 8.34, an accounting estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. In the first half of 2013, the DEPFA Group changed the estimate of Credit Value Adjustments ("CVA"), which are part of the measurement of derivatives. The changes lead to the use of more accurate market based parameters for determining the default risk of the DEPFA Group and of the counterparties without credit default swaps ("CDS"). The total income statement effect from CVA including the change in estimate amounted to € 6m in the period.

## 03 Transfer of non strategic positions to FMS Wertmanagement

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

Further details regarding the transfer of the positions are available in the DEPFA Group financial statements as at 31 December 2012.

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 positions of the HRE Group as of 1 October 2010.

An "upgrade" of the transfer methods is in process 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.

As part of the process of transferring the positions, Deutsche Pfandbriefbank AG ("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, continues to be partially offset by the main remaining 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 derecognised. Instead, the back-to-back transaction resulted in an increase in total assets and total liabilities.
(b) FMS Wertmanagement had to provide collateral for the new derivatives, which were taken out between FMS Wertmanagement and the DEPFA Group (back-to-back transactions); which in turn, was used to finance the collateral requirements of the original derivatives.

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

The European Commission imposed a payment condition in relation to the state aid, namely the complete fulfilment of the payment of €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 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.

The European Commission also imposed, subject to certain conditions, a requirement to pay further annual state aid compensation fees from the time at which the payment condition is completely settled up to the time of reprivatisation.

The terms and conditions of such fees were agreed in March 2013. Full provision has been made in the financial statements for the expected future amounts payable. An amount of € 59 million was reflected in the financial statements in this regard as at 31 December 2012 (2011: € nil). No further provision is deemed necessary, however, future developments could result in the requirement for additional provisions.

As with the purchase price adjustment, these fees do not affect the income statement.

The effects of all counter effects at 30 June 2013 and 31 December 2012 (“FMS WM counter effects”) on the statement of financial position at Group level are shown below in the pro forma statements of financial position:

| **Pro forma statement of financial position**<br>€ m | **Per statement of financial position 30 June 2013** | **30 June 2013 FMS WM counter effects** | **30 June 2013 Post FMS WM counter effects** | **Per statement of financial position 31 December 2012** | **31 December 2012 FMS WM counter effects** | **31 December 2012 Post FMS WM counter effects** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash reserve | 2,626 | – | 2,626 | 1,564 | – | 1,564 |
| Trading assets | 10,325 | 3,228 | 7,097 | 13,364 | 4,225 | 9,139 |
| Loans and advances to other banks | 7,748 | 3,609 | 4,139 | 10,191 | 6,284 | 3,907 |
| Loans and advances to customers | 15,424 | 2,663 | 12,761 | 16,853 | 3,131 | 13,722 |
| Allowance for losses on loans and advances | −99 | −69 | −30 | −102 | −69 | −33 |
| Losses on loans and advances recoverable under financial guarantees | 69 | 69 | – | 69 | 69 | – |
| Financial investments | 21,573 | 1,564 | 20,009 | 25,334 | 2,890 | 22,444 |
| Property, plant and equipment | 1 | – | 1 | 1 | – | 1 |
| Intangible assets | 11 | – | 11 | 12 | – | 12 |
| Other assets | 4,383 | – | 4,383 | 5,798 | – | 5,798 |
| Income tax assets | 174 | – | 174 | 214 | – | 214 |
| **Total assets** | **62,235** | **11,064** | **51,171** | **73,298** | **16,530** | **56,768** |
| **Liabilities and equities** | | | | | | |
| Liabilities to other banks | 5,429 | 649 | 4,780 | 6,631 | 2,006 | 4,625 |
| Liabilities to customers | 6,711 | 6,149 | 562 | 9,085 | 8,445 | 640 |
| Liabilities evidenced by certificates | 32,176 | – | 32,176 | 34,654 | – | 34,654 |
| Trading liabilities | 10,153 | 3,228 | 6,925 | 13,317 | 4,225 | 9,092 |
| Provisions | 135 | – | 135 | 148 | – | 148 |
| Other liabilities | 4,211 | 1,038 | 3,173 | 6,016 | 1,854 | 4,162 |
| Income tax liabilities | 216 | – | 216 | 244 | – | 244 |
| Subordinated capital | 1,078 | – | 1,078 | 1,082 | – | 1,082 |
| **Total liabilities** | **60,109** | **11,064** | **49,045** | **71,177** | **16,530** | **54,647** |
| 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 | −1,721 | – | −1,721 | −1,723 | – | −1,723 |
| Other reserves | −37 | – | −37 | −40 | – | −40 |
| **Total equity** | **2,126** | **–** | **2,126** | **2,121** | **–** | **2,121** |
| **Total equity and liabilities** | **62,235** | **11,064** | **51,171** | **73,298** | **16,530** | **56,768** |

## Segment reporting

### 04 Business segments

The internal reporting structure of the DEPFA Group was reorganised 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 2013 and 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.

The segment report of the DEPFA Group is based on the internal controlling instruments and the management information system, which is prepared in accordance with IFRSs. Income and expenses are allocated to appropriate cost centres, whereby portfolio structures are used as the basis for allocating income. General administrative expenses are allocated to the appropriate cost centres in the segment.

Included in the line item net fee and commission expense for the segment DEPFA ACS BANK is €–10 million (2012: €15 million) relating to financial guarantees provided by the segment DEPFA BANK plc and other. The corresponding income is also reported in the line item net fee and commission expense in the segment DEPFA BANK plc and other.

There are no gains or losses included in the line item net expense from financial investments from inter segment transfers (2012: €nil). The segments generated only the DEPFA Group external income and did not generate any income with other segments of the DEPFA Group. Accordingly, there are no further issues of consolidation between the segments. The management information is based on the accounting and valuation methods of the consolidated financial statements, prepared in accordance with IFRSs, and this interim report. Accordingly, reconciliation with the accounting and valuation methods used in the consolidated financial statements is not necessary.

| **Income/expenses by segments** | | | | **1 January – 30 June 2013** |
|---|---|---|---|---|
| € m | DEPFA ACS BANK | Hypo Pfandbrief Bank International S.A. | DEPFA BANK plc and other | **Group** |
| Net interest income | 51 | 4 | –40 | 15 |
| Net fee and commission expense | –11 | – | 3 | –8 |
| Net trading income/expense | 3 | –5 | 15 | 13 |
| Net expense from financial investments | –1 | – | – | –1 |
| Net expense/income from hedge relationships | 12 | –7 | –14 | –9 |
| Other operating income | – | – | 38 | 38 |
| Other operating expense | – | – | –4 | –4 |
| **Total operating revenues** | **54** | **–8** | **–2** | **44** |
| Provision for losses on loans and advances | 1 | – | 2 | 3 |
| Recovery of losses on loans and advances under financial guarantees | – | – | – | – |
| General administrative expenses | –7 | –3 | –41 | –51 |
| Other income | – | – | 7 | 7 |
| **Pre-tax income/loss** | **48** | **–11** | **–34** | **3** |
| Taxes on income | –6 | 3 | 2 | –1 |
| **Net income/loss** | **42** | **–8** | **–32** | **2** |
| **Statement of financial position by segments** | | | | |
| Assets | 38,307 | 3,718 | 20,210 | 62,235 |
| Liabilities | 37,707 | 3,600 | 18,802 | 60,109 |
| Cost/Income ratio | 13 % | > 100 % | > 100 % | > 100 % |

| **Income/expenses by segments** | | | | **1 January – 30 June 2012** |
|---|---|---|---|---|
| € m | DEPFA ACS BANK | Hypo Pfandbrief Bank International S.A. | DEPFA BANK plc and other | **Group** |
| Net interest income | 68 | 5 | –13 | 60 |
| Net fee and commission expense | 14 | – | –23 | –9 |
| Net trading income/expense | 2 | 5 | –21 | –14 |
| Net expense from financial investments | –5 | – | 1 | –4 |
| Net income from hedge relationships | 9 | – | 15 | 24 |
| Other operating income | 1 | – | 41 | 42 |
| Other operating expense | –2 | – | –8 | –10 |
| **Total operating revenues** | **87** | **10** | **–8** | **89** |
| Reversal of/provision for losses on loans and advances | –2 | – | –68 | –70 |
| Recovery of losses on loans and advances under financial guarantees | – | – | 69 | 69 |
| General administrative expenses | –7 | –3 | –45 | –55 |
| Other expenses | – | – | – | – |
| **Pre-tax income** | **78** | **7** | **–52** | **33** |
| Taxes on income | –10 | –2 | 8 | –4 |
| **Net income** | **68** | **5** | **–44** | **29** |
| **Statement of financial position by segments** | | | | |
| Assets | 47,179 | 4,298 | 36,172 | 87,649 |
| Liabilities | 46,577 | 4,183 | 34,740 | 85,500 |
| Cost/Income ratio | 8 % | 30 % | > 100 % | 62 % |

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

The calculation of results is based on the assumption that the DEPFA Group companies in the region are legally independent units responsible for their respective operations.

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

**Revenue from external customers by region**

| € m | | Ireland | Germany | Rest of Europe | America/Asia | **Group** |
|---|---|---|---|---|---|---|
| Total operating revenues | 1.1.–30.06.2013 | 17 | – | 16 | 11 | 44 |
| | 1.1.–30.06.2012 | 42 | 2 | 31 | 14 | 89 |
| Non-current assets | 1.1.–30.06.2013 | 11 | – | 1 | – | 12 |
| | 1.1.–30.06.2012 | 15 | – | 1 | – | 16 |

## Notes to the income statement

### 05 Net interest income

| Net interest income<br>€ m | Half year ended on 30 June 2013 | Half year ended on 30 June 2012 |
|---|---|---|
| **Interest income and similar income** | | |
| Lending and money-market business | 433 | 682 |
| Fixed-income securities and government subscribed debt | 89 | 109 |
| Derivatives (net interest income) | 74 | 63 |
| | **596** | **854** |
| **Interest expense and similar expenses** | | |
| Deposits | −167 | −307 |
| Liabilities evidenced by certificates | −445 | −508 |
| Subordinated capital | −7 | −12 |
| | **−619** | **−827** |
| **Income from buyback of liabilities** | **38** | **33** |
| **Net interest income** | **15** | **60** |

Interest income on impaired loans amounted to € 1.6 million (2012: € 0.9 million).

Net interest income includes net income (net of funding expense) of € 7 million (2012: € 8 million) related to assets still recognised on the DEPFA Group statement of financial position as at 30 June 2013, which are not yet transferred to FMS Wertmanagement and on which guarantees from FMS Wertmanagement have been received. There is an offset for this amount included in net fee and commission expense for fees paid for the guarantees received.

Total interest income for financial assets that are not at fair value through profit or loss, amount to € 0.5 billion in 2013 (2012: € 0.8 billion). Total interest expenses for financial liabilities that are not at fair value through profit or loss amount to € −0.6 billion in 2013 (2012: € −0.8 billion).

Net interest income includes gains from the buyback of liabilities that were redeemed before maturity at prevailing market rates on a reverse enquiry basis of € 38 million (2012: € 33 million). These liabilities were included on the statement of financial position in "Liabilities evidenced by certificates" and represented a nominal amount of € 226 million (2012: € 146 million).

### 06 Net fee and commission expense

| Net fee and commission expense<br>€ m | Half year ended on 30 June 2013 | Half year ended on 30 June 2012 |
|---|---|---|
| **Fee and commission income** | | |
| From other lending operations | – | – |
| | **–** | **–** |
| **Fee and commission expense** | | |
| From other lending operations | −8 | −9 |
| | **−8** | **−9** |
| **Net fee and commission expense** | **−8** | **−9** |

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.

Net fee and commission expense includes guarantee fees of € −7 million (2012: € −8 million) in respect of financial guarantees received from FMS Wertmangement on assets not yet transferred and still recognised on the DEPFA Group statement of financial position as at 30 June 2013. This amount is offset in net interest income.

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

## 07 Net trading income/expense

| **Net trading income/expense**<br>€ m | **Half year ended on 30 June 2013** | **Half year ended on 30 June 2012** |
|---|---|---|
| From interest rate instruments and related interest and foreign exchange derivatives | 12 | –16 |
| From credit risk instruments and related derivatives | 1 | 2 |
| **Total** | **13** | **–14** |

Trading income also includes € 6 million (2012: € nil) in derivative valuation effects relating to counterparty risk parameters including both the credit risk of the counterparty and DEPFA Group's own credit risk.

## 08 Net expense from financial investments

| **Net expense from financial investments**<br>€ m | **Half year ended on 30 June 2013** | **Half year ended on 30 June 2012** |
|---|---|---|
| Income from financial investments | – | – |
| Expense from financial investments | –1 | –4 |
| **Total** | **–1** | **–4** |

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

| **Net expense from financial assets**<br>€ m | **Half year ended on 30 June 2013** | **Half year ended on 30 June 2012** |
|---|---|---|
| Loans and receivables | –1 | –4 |
| Available-for-sale financial investments | – | – |
| **Total** | **–1** | **–4** |

Net expense from financial investments comprise gains and losses from disposals.

## 09 Net expense/income from hedge relationships

| **Net expense/income from hedge relationships**<br>€ m | **Half year ended on 30 June 2013** | **Half year ended on 30 June 2012** |
|---|---|---|
| Result from fair value hedge accounting | –9 | 24 |
| Result from hedged items | 131 | 280 |
| Result from hedging instruments | –140 | –256 |
| Result from designated at fair value through P&L investments and related derivatives | – | – |
| Result from dFVTPL investments | – | 221 |
| Result from derivatives related to dFVTPL investments | – | –221 |
| **Total** | **–9** | **24** |

## 10 Other operating income/Other operating expense

| €m | Half year ended on 30 June 2013 | Half year ended on 30 June 2012 |
|---|---:|---:|
| **Other operating income** | | |
| Recharge income from other HRE Group companies | 38 | 42 |
| **Total other operating income** | **38** | **42** |

Other operating income mainly consists of income of €36 million (2012: €41 million) from charges to pbb in relation to asset servicing provided on the positions transferred to FMS Wertmanagement and charges to the HRE Group for various supporting activities of €2 million (2012: €1 million).

| €m | Half year ended on 30 June 2013 | Half year ended on 30 June 2012 |
|---|---:|---:|
| **Other operating expense** | | |
| Foreign exchange losses | –1 | –1 |
| Other | –3 | –9 |
| **Total other operating expense** | **–4** | **–10** |

Other operating expense in 2013 mainly includes provisions created by the DEPFA Group for current and expected litigation €–3 million (2012: € nil). Other operating expense in 2012 was primarily due to provisions for IT projects relating to the separation of IT systems of €–9 million.

## 11 General administrative expenses

| **General administrative expenses**<br>€m | Half year ended on 30 June 2013 | Half year ended on 30 June 2012 |
|---|---:|---:|
| **Personnel expenses** | **–22** | **–25** |
| Wages and salaries | –17 | –20 |
| Social security costs | –3 | –3 |
| Pension expenses and related employee benefit costs | –2 | –2 |
| **Other general administrative expenses** | **–26** | **–27** |
| **Depreciation/amortisation** | **–3** | **–3** |
| On software | –3 | –2 |
| On property, plant and equipment | – | –1 |
| **Total** | **–51** | **–55** |

The average number of persons employed by the DEPFA Group during the period was 353 (2012: 375).

Pension expenses and related employee benefit costs include €–2 million defined contribution pension plan expenses (2012: €–2 million).

## 12 Other income

| **Other income**<br>€m | Half year ended on 30 June 2013 | Half year ended on 30 June 2012 |
|---|---:|---:|
| Reversal of restructuring provision | 7 | – |
| **Total** | **7** | **–** |

Other income contains an amount released against a provision for the strategic realignment and restructuring of the DEPFA Group of €7 million (2012: €nil)

## 13 Taxes on income

| Taxes on income<br>€ m | Half year ended on 30 June 2013 | Half year ended on 30 June 2012 |
|---|---|---|
| Current tax | –5 | –2 |
| Deferred tax | 4 | –2 |
| **Total** | **–1** | **–4** |

# Notes to the statement of financial position

## 14 Cash reserve

| Cash reserve<br>€ m | 30.06.2013 | 31.12.2012 |
|---|---|---|
| Balances with central banks other than mandatory reserve deposits | 2,587 | 1,522 |
| Mandatory reserve deposits with central banks | 39 | 42 |
| **Total** | **2,626** | **1,564** |

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

## 15 Trading assets

| € m | 30.06.2013 | 31.12.2012 |
|---|---|---|
| Debt securities and other fixed-income securities | | |
| Bonds and notes | 40 | 44 |
| Issued by public-sector borrowers | 40 | 44 |
| Thereof: | | |
| Listed | 40 | 44 |
| Positive fair values from derivative financial instruments (trading book) | 66 | 83 |
| Interest based and foreign currency based transactions | 65 | 81 |
| Others | 1 | 2 |
| Stand-alone derivatives (banking book) | 10,219 | 13,237 |
| **Total Trading assets** | **10,325** | **13,364** |
| Of which due from Group companies | 195 | 403 |

Stand-alone derivatives include derivatives related to FMS Wertmanagement counter effects as described in note 3 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:

| Loans and advances to other banks broken down by type of business<br>€ m | 30.06.2013 | 31.12.2012 |
|---|---|---|
| Public sector loans | 1,648 | 1,774 |
| Other loans and advances | 6,100 | 8,417 |
| **Total** | **7,748** | **10,191** |
| Of which due from Group companies | 468 | 468 |

Other loans and advances to other banks mainly consist of collateral balances for derivatives and reverse repo transactions.

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 maturities as follows:

| Loans and advances to other banks broken down by maturities<br>€ m | 30.06.2013 | 31.12.2012 |
|---|---|---|
| Repayable on demand | 4,953 | 6,414 |
| With agreed maturities | | |
| up to 3 months | 803 | 239 |
| from 3 months to 1 year | 1,083 | 67 |
| from 1 year to 5 years | 575 | 1,760 |
| from 5 years and over | 334 | 1,711 |
| **Total** | **7,748** | **10,191** |

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:

| Loans and advances to customers are broken down by type of business<br>€ m | 30.06.2013 | 31.12.2012 |
|---|---|---|
| Public sector loans | 13,555 | 14,865 |
| Other loans and advances | 1,869 | 1,988 |
| **Total** | **15,424** | **16,853** |

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

| Loans and advances to customers are broken down by maturities<br>€ m | 30.06.2013 | 31.12.2012 |
|---|---|---|
| Repayable on demand | 26 | 36 |
| With agreed maturities | | |
| up to 3 months | 891 | 722 |
| from 3 months to 1 year | 1,122 | 895 |
| from 1 year to 5 years | 2,533 | 3,219 |
| from 5 years and over | 10,852 | 11,981 |
| **Total** | **15,424** | **16,853** |

## 18 Allowance for losses on loans and advances

Movement in allowance for losses on loans and advances:

| Specific allowance for losses on loans and advances<br>€ m | 30.06.2013 | 31.12.2012 |
|---|---|---|
| **Balance at 1 January** | **–71** | **–2** |
| (Additions)/reversals of specific allowance | – | –69 |
| **Total specific allowance for losses on loans and advances** | **–71** | **–71** |

| Portfolio allowance for losses on loans and advances<br>€ m | 30.06.2013 | 31.12.2012 |
|---|---|---|
| **Balance at 1 January** | **–31** | **–68** |
| Releases of portfolio allowance | 3 | 37 |
| **Total portfolio based allowance for losses on loans and advances** | **–28** | **–31** |
| **Total allowance for losses on loans and advances** | **–99** | **–102** |

| Losses on loans and advances recoverable under financial guarantees<br>€ m | 30.06.2013 | 31.12.2012 |
|---|---|---|
| Recovery of losses on loans and advances under financial guarantees | 69 | 69 |
| **Total** | **69** | **69** |

The additions to specific allowances in 2013 of € nil (2012: € 69 million) 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.

The total allowance for losses on loans and advances and losses on loans and advances recoverable under financial guarantees are all public sector and infrastructure loans.

Interest accrued on impaired loans at 30 June 2013 was € 0.3 million (31 December 2012: € 1.1 million).

### Carrying amounts of loans and receivables

| Carrying amounts of loans and receivables<br>€ m | 30.06.2013 | 31.12.2012 |
|---|---|---|
| Carrying amount of loans and receivables that are neither impaired nor past due | 23,086 | 26,954 |
| Carrying amount of loans and receivables that are past due but not impaired | – | 21 |
| Carrying amount of individually assessed impaired financial loans and receivables | 84 | 67 |
| **Total** | **23,170** | **27,042** |
| Of which loans and advances to other banks | 7,748 | 10,191 |
| Of which loans and advances to customers | 15,422 | 16,851 |

The above table includes specific allowances for losses on loans and advances and recovery of losses under financial guarantees. Portfolio allowances for losses on loans and advances are excluded.

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

### Ratio of allowances to total lending

| Ratio of allowances to total lending | | |
|---|---|---|
| € m | 30.06.2013 | 31.12.2012 |
| Loan loss allowances (net of recovery of losses under financial guarantees) | −30 | −33 |
| Volume of total lending | 23,142 | 27,011 |
| **Provision ratio** | **−0.13 %** | **−0.12 %** |

**Loans and advances past due but not impaired** At 30 June 2013 the following amounts were noted as being past due. However, no impairment provision was made against these past due amounts as the DEPFA Group does not consider that there is any significant issue regarding their recoverability. The total book value in relation to the amounts has also been disclosed to put the size of the amounts in question into context.

| Loans past due | | |
|---|---|---|
| € m | 30.06.2013 | 31.12.2012 |
| **Assets: past due but not impaired (due amount)** | | |
| Past due but not impaired less than 90 days | – | 1 |
| 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** | **–** | **1** |
| **Assets: past due but not impaired (total investment)** | | |
| Past due but not impaired less than 90 days | – | 21 |
| 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** | **–** | **21** |
| **Carrying amount of the individually assessed impaired financial assets** | | |
| Loans | 84 | 67 |
| **Total** | **84** | **67** |

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

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

## 19 Financial investments

| Financial investments | | |
|---|---|---|
| € m | 30.06.2013 | 31.12.2012 |
| **AfS financial investments** | **20** | **22** |
| Debt securities and other fixed-income securities | 20 | 22 |
| **LaR financial investments** | **21,553** | **25,312** |
| Debt securities and other fixed-income securities | 21,553 | 25,312 |
| **Total** | **21,573** | **25,334** |

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

| Financial investments are broken down by maturities as follows: | | |
|---|---|---|
| € m | 30.06.2013 | 31.12.2012 |
| Unspecified amount | 1 | 2 |
| With agreed maturities | | |
| up to 3 months | 218 | 525 |
| from 3 months to 1 year | 667 | 1,115 |
| from 1 year to 5 years | 6,213 | 7,108 |
| from 5 years and over | 14,474 | 16,584 |
| **Total** | **21,573** | **25,334** |

In 2008 the DEPFA Group made use of the IASB amendments to IAS 39 and IFRS 7, published on 13 October 2008 and reclassified certain 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, that they were 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 € 4.970 billion matured. Thereof, € 3.645 billion relate to reclassified AfS financial investments and € 1.325 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 2013, net interest income contains € 2.3 million (30 June 2012: € 3 million) of interest income for reclassified trading instruments. The reclassification of AfS assets did not cause a disclosure change of interest income as it is still shown under net interest income.

Since the date of reclassification, Group securities with a reclassified carrying amount of € 37.524 billion were transferred to FMS Wertmanagement or sold. A net loss of € –28.39 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 4.02 % (2012: 5.07 % and 4.02 %). The effective interest rate for corresponding AfS assets of the DEPFA Group was between 6.35 % and 0.51 % (2012: 6.35 % and 0.51 %).

The following tables summarise the carrying amounts and fair values for the DEPFA Group as of 30 June 2013 as well as fair value gains and losses that would have been recognised at 30 June 2013 if the financial assets had not been reclassified:

| Reclassified assets – as at 30. 06. 2013 | | into: Financial investments LaR | | Effect in reporting period if no assets would have been reclassified (01. 01. 2013 to 30. 06. 2013) | |
|---|---|---|---|---|---|
| | | 30. 06. 2013 | | | |
| € m | Reclass date | Carrying amount | Fair value | Income statement | Changes in AfS reserve (after taxes) |
| out of: HfT financial investments | 01. 07. 2008 | – | – | – | – |
| | 01. 10. 2008 | 109 | 111 | –1 | – |
| | | **109** | **111** | **–1** | **–** |
| out of: AfS financial investments | 01. 07. 2008 | 7,034 | 6,785 | – | 55 |
| **Total** | | **7,143** | **6,896** | **–1** | **55** |

| Reclassified assets – as at 31. 12. 2012 | | into: Financial investments LaR | | Effect in reporting period if no assets would have been reclassified (01. 01. 2012 to 30. 06. 2012) | |
|---|---|---|---|---|---|
| | | 31. 12. 2012 | | | |
| € m | Reclass date | Carrying amount | Fair value | Income statement (30. 06. 2012) | Changes in AfS reserve (after taxes) |
| out of: HfT financial investments | 01. 07. 2008 | – | – | – | – |
| | 01. 10. 2008 | 112 | 114 | – | – |
| | | **112** | **114** | **–** | **–** |
| out of: AfS financial investments | 01. 07. 2008 | 7,483 | 7,188 | – | 146 |
| **Total** | | **7,595** | **7,302** | **–** | **146** |

**Financial investments – past due but not impaired** There were no past due but not impaired financial investments for 2013 (2012: € nil).

The carrying amount of the AfS and LaR financial investments that are neither past due nor impaired comes to €21.6 billion (2012: €25.3 billion) for the DEPFA Group.

## 20 Property, plant and equipment

| Property, plant and equipment | 2013 | | 2012 | |
|---|---|---|---|---|
| € m | Fixtures and fittings | **Total** | Fixtures and fittings | **Total** |
| **Cost** | | | | |
| **At 1 January** | **23** | **23** | **23** | **23** |
| Additions/Disposals | - | - | - | - |
| **At 30 June/31 December** | **23** | **23** | **23** | **23** |
| **Accumulated depreciation** | | | | |
| **At 1 January** | **22** | **22** | **22** | **22** |
| Disposals | - | - | - | - |
| Charge for year | - | - | - | - |
| **At 30 June /31 December** | **22** | **22** | **22** | **22** |
| **Net book value** | | | | |
| **At 30 June /31 December** | **1** | **1** | **1** | **1** |

The DEPFA Group did not hold any property in 2013 and 2012.

## 21 Intangible assets

| Intangible assets | | |
|---|---|---|
| € m | 2013 | 2012 |
| **Cost** | | |
| **At 1 January** | **46** | **44** |
| Additions | 2 | 2 |
| **At 30 June/31 December** | **48** | **46** |
| **Accumulated amortisation** | | |
| **At 1 January** | **34** | **27** |
| Charge for year | 3 | 7 |
| **At 30 June/31 December** | **37** | **34** |
| **Net book value** | | |
| **At 30 June/31 December** | **11** | **12** |

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

## 22 Other assets

| Other assets | | |
|---|---|---|
| € m | 30.06.2013 | 31.12.2012 |
| Positive fair values from derivative financial instruments | 4,365 | 5,781 |
| Hedging derivatives (micro fair value hedge) | 4,365 | 5,781 |
| Other assets | 18 | 17 |
| **Total** | **4,383** | **5,798** |
| Of which due from Group companies | 13 | 10 |

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

## 23 Income tax assets

| Income tax assets | | |
|---|---|---|
| € m | 30.06.2013 | 31.12.2012 |
| Current tax assets | 1 | 2 |
| Deferred tax assets | 173 | 212 |
| **Total** | **174** | **214** |

## 24 Liabilities to other banks

| Liabilities to other banks are broken down by maturities as follows:<br>€ m | 30.06.2013 | 31.12.2012 |
|---|---|---|
| Repayable on demand | 2,859 | 3,207 |
| With agreed maturities | | |
| up to 3 months | 2,153 | 239 |
| from 3 months to 1 year | – | – |
| from 1 year to 5 years | 238 | 2,957 |
| from 5 years and over | 179 | 228 |
| **Total** | **5,429** | **6,631** |
| Of which due to Group companies | 85 | 235 |

Included under liabilities to other 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.

## 25 Liabilities to customers

| Liabilities to customers are broken down by maturities as follows:<br>€ m | 30.06.2013 | 31.12.2012 |
|---|---|---|
| Repayable on demand | 3,287 | 4,571 |
| With agreed maturities | | |
| up to 3 months | – | 54 |
| from 3 months to 1 year | 16 | – |
| from 1 year to 5 years | 20 | 35 |
| from 5 years and over | 3,388 | 4,425 |
| **Total** | **6,711** | **9,085** |

## 26 Liabilities evidenced by certificates

| Liabilities evidenced by certificates are broken down by type of business as follows:<br>€ m | 30.06.2013 | 31.12.2012 |
|---|---|---|
| Debt securities in issue | 31,011 | 33,414 |
| Public sector bonds | 28,971 | 31,254 |
| Other debt securities | 2,008 | 2,127 |
| Money market securities | 32 | 33 |
| Registered notes in issue | 1,165 | 1,240 |
| Public sector bonds | 1,165 | 1,240 |
| **Total** | **32,176** | **34,654** |

Liabilities evidenced by certificates decreased by € 2.5 billion from € 34.7 billion as of 31 December 2012 to € 32.2 billion as of 30 June 2013. This reduction mainly reflected the run off in outstanding debt and the buyback of certain asset covered securities in DEPFA ACS BANK, at prevailing market levels on a reverse enquiry basis.

| Liabilities evidenced by certificates are broken down by maturities as follows: | | |
|---|---|---|
| € m | 30.06.2013 | 31.12.2012 |
| With agreed maturities | | |
| up to 3 months | 3,676 | 158 |
| from 3 months to 1 year | 1,058 | 4,158 |
| from 1 year to 5 years | 13,489 | 14,557 |
| from 5 years and over | 13,953 | 15,781 |
| **Total** | **32,176** | **34,654** |

## 27 Trading liabilities

| Trading liabilities | | |
|---|---|---|
| € m | 30.06.2013 | 31.12.2012 |
| Negative fair values from derivative financial instruments (trading book) | 59 | 69 |
| of which: | | |
| Interest based and foreign currency based transactions | 59 | 69 |
| Other trading liabilities | 97 | 112 |
| Stand-alone derivatives (banking book) | 9,997 | 13,136 |
| **Total** | **10,153** | **13,317** |
| Of which due to Group companies | 42 | 63 |

Stand-alone derivatives include derivatives related to FMS Wertmanagement counter effects as described in note 3 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.

## 28 Provisions

| Provisions | | |
|---|---|---|
| € m | 30.06.2013 | 31.12.2012 |
| Provisions for pensions and similar obligations | 1 | 1 |
| Restructuring provisions | 19 | 26 |
| Other provisions | 115 | 121 |
| **Total** | **135** | **148** |

The DEPFA Group operates two types of pension schemes – defined benefit schemes and defined contribution schemes. Provisions for pensions and similar obligations are for defined benefit schemes for which the employees receive a direct commitment from their respective company and a pension provision is created for this purpose. The pension obligation is unfunded.

**Development of restructuring and other provisions**

| Provisions | 2013 | | 2012 | |
|---|---|---|---|---|
| €m | Restructuring provisions | Other provisions | Restructuring provisions | Other provisions |
| **At 1 January** | **26** | **121** | **43** | **68** |
| Additions | – | 4 | – | 61 |
| Transfer | – | – | – | 17 |
| Reversals | –7 | – | –12 | – |
| Amounts used | – | –10 | –6 | –26 |
| Unwind of discount | – | – | 1 | 1 |
| **At 30 June/31 December** | **19** | **115** | **26** | **121** |

Restructuring provisions mainly relate to obligations relating to the strategic management and restructuring of the DEPFA Group. The main components of the expenses are personnel expenses including severance payments, expenses for closure of locations and expenses for consulting.

Other provisions contain obligations in connection with the transfer of the assets and liabilities to FMS Wertmanagement amounting to € 32 million (2012: € 36 million), IT separation provision of € 17 million (2012: € 17 million). Also included in other provisions are amounts provided for in relation to legal and litigation risks and obligations arising from the sale of certain receivables, the circumstances of which have not significantly changed during the period.

## 29 Other liabilities

| Other liabilities<br>€m | 30.06.2013 | 31.12.2012 |
|---|---|---|
| Negative fair values from derivative financial instruments | 4,165 | 5,782 |
| Hedging derivatives | 4,165 | 5,782 |
| Micro fair value hedge | 4,165 | 5,783 |
| Cash flow hedge | – | –1 |
| Other liabilities | 46 | 234 |
| **Total** | **4,211** | **6,016** |
| Of which due to Group companies | 63 | 224 |

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

## 30 Income tax liabilities

| Income tax liabilities<br>€m | 30.06.2013 | 31.12.2012 |
|---|---|---|
| Current tax liabilities | 46 | 31 |
| Deferred tax liabilities | 170 | 213 |
| **Total** | **216** | **244** |

## 31 Subordinated capital

| **Subordinated capital**<br>€ m | **30.06.2013** | **31.12.2012** |
|---|---|---|
| Subordinated liabilities | 1,078 | 1,082 |
| **Total** | **1,078** | **1,082** |
| 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.

| **Subordinated capital balances are broken down by maturities as follows:**<br>€ m | **30.06.2013** | **31.12.2012** |
|---|---|---|
| With agreed maturities | | |
| from 1 year to 5 years | 660 | 660 |
| from 5 years and over | 418 | 422 |
| **Total** | **1,078** | **1,082** |

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

| **Subordinated liabilities**<br>€ m | Interest rate | **30.06.2013** | **31.12.2012** |
|---|---|---|---|
| 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 |
| **Total** | | **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.

## 32 Share capital and share premium

| **Share capital and share premium**<br>€ m | Number of Shares in issue | Ordinary Shares | Share premium | **Total** |
|---|---|---|---|---|
| At 30 June 2013 | 353,019,720 | 106 | 1,142 | 1,248 |
| At 31 December 2012 | 353,019,720 | 106 | 1,142 | 1,248 |

The total authorised number of ordinary shares at 30 June 2013 was 16,666,333,330 (31 December 2012: 16,666,333,330) with a par value of €0.30 per share (31 December 2012: €0.30 per share). All issued shares are fully paid.

The total authorised number of non-cumulative redeemable preference shares at 30 June 2013 was 10,000,000 (31 December 2012: 10,000,000) with a par value of €0.01 per share (31 December 2012: €0.01 per share). No non-cumulative redeemable preference shares have been issued to date.

## 33 Capital reserve

| Capital reserve | | |
|---|---|---|
| € m | 30.06.2013 | 31.12.2012 |
| **Total** | **1,500** | **1,500** |

This reserve comprised capital contributions from the parent company, Hypo Real Estate Holding AG.

## 34 Preferred securities

| Preferred securities | | |
|---|---|---|
| € m | 30.06.2013 | 31.12.2012 |
| Hybrid capital instruments | 1,136 | 1,136 |
| **Total** | **1,136** | **1,136** |

The hybrid capital instruments are analysed by nominal, maturity and interest rate below:

| Hybrid capital instruments | | | |
|---|---|---|---|
| Nominal € m | Interest rate | 30.06.2013 | 31.12.2012 |
| DEPFA Funding II LP, perpetual note | 6.50% | 400 | 400 |
| DEPFA Funding III LP, perpetual note | 7% until 2008, thereafter CMS 10 yr + 0.1% | 300 | 300 |
| DEPFA Funding IV LP, perpetual note | 5.029% until 2017, thereafter Euribor + 1.87% | 500 | 500 |
| **Total** | | **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 equity instruments in accordance with IAS 32.16. The classification of financial instruments as equity 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 2013 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 2013.

Similarly, on 24 May 2013 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 2013.

## 35 Retained earnings

| Retained earnings<br>€ m | 2013 | 2012 |
|---|---|---|
| **At 1 January** | **–1,723** | **–1,100** |
| Net income | 2 | 59 |
| FMSA payment condition, net of tax | – | –623 |
| Annual state aid compensation | – | –59 |
| **At 30 June** | **–1,721** | **–1,723** |

## 36 Other reserves

| Other reserves<br>€ m | 30. 06. 2013 | 31. 12. 2012 |
|---|---|---|
| Unrealised losses/gains from available-for-sale investment securities | –40 | –42 |
| Accumulated currency translation reserve | 3 | 2 |
| **Total** | **–37** | **–40** |

| Unrealised losses/gains from available-for-sale investment securities<br>€ m | 2013 | 2012 |
|---|---|---|
| **At 1 January** | **–42** | **–47** |
| Net gains/losses from changes in fair value, net of tax | 2 | 5 |
| Net gains/losses transferred to net income, net of tax | – | – |
| Change due to transfer to FMS Wertmanagement | – | – |
| **At 30 June/31 December** | **–40** | **–42** |

| Accumulated currency translation reserve<br>€ m | 2013 | 2012 |
|---|---|---|
| **At 1 January** | **2** | **2** |
| Net gain from currency translation | 1 | – |
| **At 30 June/31 December** | **3** | **2** |

## Notes to the financial instruments

### 37 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.

| **Fair value of financial assets and liabilities** | 30 June 2013 | | 31 December 2012 | |
|---|---|---|---|---|
| € m | Carrying value | Fair value | Carrying value | Fair value |
| **Assets** | | | | |
| Cash reserve | 2,626 | 2,626 | 1,564 | 1,564 |
| Trading assets | 10,325 | 10,325 | 13,364 | 13,364 |
| Loans and advances to other banks | 7,748 | 7,618 | 10,191 | 10,068 |
| Loans and advances to customers (net of allowance) | 15,325 | 14,221 | 16,751 | 15,186 |
| Loans and advances recoverable under financial guarantees | 69 | 69 | 69 | 69 |
| Financial investments - debt securities | 21,573 | 20,832 | 25,334 | 24,089 |
| Category available-for-sale | 20 | 20 | 22 | 22 |
| Category LaR | 21,553 | 20,812 | 25,312 | 24,067 |
| Other assets – derivatives | 4,365 | 4,365 | 5,781 | 5,781 |
| **Total** | **62,031** | **60,056** | **73,054** | **70,121** |
| **Liabilities** | | | | |
| Liabilities to other banks | 5,429 | 5,398 | 6,631 | 6,597 |
| Liabilities to customers | 6,711 | 6,748 | 9,085 | 9,139 |
| Liabilities evidenced by certificates | 32,176 | 28,989 | 34,654 | 29,847 |
| Trading liabilities | 10,153 | 10,153 | 13,317 | 13,317 |
| Other liabilities – derivatives | 4,165 | 4,165 | 5,782 | 5,782 |
| Subordinated capital | 1,078 | 803 | 1,082 | 777 |
| **Total** | **59,712** | **56,256** | **70,551** | **65,459** |
| **Other items** | Contract amount | Fair value | Contract amount | Fair value |
| Contingent liabilities & loan commitments | 111 | –5 | 120 | –2 |

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

The above tables have taken account of the financial guarantees for calculating the fair values (economic view). If these financial guarantees were to be disregarded for the DEPFA Group, the item loans and advances to customers would show a fair value which was € 798 million lower and a contingent receivable from the financial guarantee of € 798 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 €9 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 €2,391 million lower for the DEPFA Group.

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 13.

a) **Liabilities to other banks and customers** The fair value of floating rate placements and overnight deposits is estimated to be their carrying amount due to the short term nature of these investments. 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.

**Financial assets and liabilities according to measurement categories**

| €m | 30.06.2013 | 31.12.2012 |
|---|---|---|
| Loans and receivables (net) | 44,695 | 52,323 |
| Available-for-sale | 20 | 22 |
| Held-for-trading | 10,325 | 13,364 |
| Cash reserve | 2,626 | 1,564 |
| Derivatives (hedging) | 4,365 | 5,781 |
| **Total** | **62,031** | **73,054** |
| Held-for-trading | 10,153 | 13,317 |
| Financial liabilities at amortised cost | 45,394 | 51,452 |
| Derivatives (hedging) | 4,165 | 5,782 |
| **Total** | **59,712** | **70,551** |

The recognised fair values of financial instruments according to IFRS 13 correspond to the amounts at which, in the opinion of the DEPFA Group, an asset could be exchanged on the statement of financial position date between willing, competent business partners or the amount at which a liability could be settled between such business partners. The fair values were determined as of the statement of financial position date based on the market information available and on valuation methods described in this note.

As per the amendment to IFRS 13 “Fair Value Measurement” issued in May 2011, all financial assets and liabilities of the DEPFA Group that are measured at fair value should be grouped into the fair value hierarchy. The three-level hierarchy is based on the degree to which the input for the fair value measurement is observable.

**Level 1** – quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities.
**Level 2** – inputs that are observable either directly or indirectly, other than quoted prices included within Level 1.
**Level 3** – valuation techniques that include inputs that are not based on observable market data (unobservable inputs).

The following table shows financial assets and financial liabilities measured at fair value grouped into the fair value hierarchy for the DEPFA Group:

| **Fair value hierarchy** | | | | **30 June 2013** | | | | **31 December 2012** |
|---|---|---|---|---|---|---|---|---|
| € m | **Total** | Level 1 | Level 2 | Level 3 | **Total** | Level 1 | Level 2 | Level 3 |
| **Assets** | | | | | | | | |
| Financial assets at fair value through P&L | | | | | | | | |
| Trading assets | 10,325 | 40 | 9,827 | 458 | 13,364 | 44 | 12,857 | 463 |
| Financial investments | – | – | – | – | – | – | – | – |
| Hedging derivatives | 4,365 | – | 4,363 | 2 | 5,781 | – | 5,779 | 2 |
| Available-for-sale | | | | | | | – | |
| Financial investments | 20 | 20 | – | – | 22 | 22 | – | – |
| **Total assets** | **14,710** | **60** | **14,190** | **460** | **19,167** | **66** | **18,636** | **465** |
| **Liabilities** | | | | | | | | |
| Financial liabilities at fair value through P&L | | | | | | | | |
| Trading liabilities | 10,153 | – | 9,695 | 458 | 13,317 | – | 12,855 | 462 |
| Hedging derivatives | 4,165 | – | 4,138 | 27 | 5,782 | – | 5,740 | 42 |
| Derivatives hedging dFVTPL | – | – | – | – | – | – | – | – |
| **Total liabilities** | **14,318** | **–** | **13,833** | **485** | **19,099** | **–** | **18,595** | **504** |

There have been no transfers from Level 2 to Level 1 for the DEPFA Group for either 2013 or 2012. There have been no transfers from Level 1 to Level 2 for the DEPFA Group for either 2013 or 2012.

The following table presents the changes in Level 3 instruments for the period for the DEPFA Group:

| **Changes in Level 3 financial assets** | | | | | | **Financial assets** |
|---|---|---|---|---|---|---|
| € m | Trading assets | Loans & advances to customers | Financial investments | Hedging derivatives | Derivatives dFVTPL | **Total** |
| **Balance at 1 January 2012** | **717** | **–** | **3,795** | **7** | **249** | **4,768** |
| Comprehensive income recognised in Income Statement | –72 | – | –18 | – | 65 | –25 |
| Purchases | – | – | 1,175 | – | – | 1,175 |
| Sales | –23 | – | –1,131 | –5 | –65 | –1,224 |
| Change due to transfer to FMS Wertmanagement | –159 | – | –3,821 | – | –249 | –4,229 |
| Settlements | – | – | – | – | – | – |
| Reclassifications into Level 3 | – | – | – | – | – | – |
| Reclassifications out of Level 3 | – | – | – | – | – | – |
| **Balance at 31 December 2012** | **463** | **–** | **–** | **2** | **–** | **465** |
| **Balance at 1 January 2013** | **463** | **–** | **–** | **2** | **–** | **465** |
| Comprehensive income recognised in Income Statement | –4 | – | – | – | – | –4 |
| Purchases | – | – | – | – | – | – |
| Sales | – | – | – | – | – | – |
| Change due to transfer to FMS Wertmanagement | –1 | – | – | – | – | –1 |
| Settlements | – | – | – | – | – | – |
| Reclassifications into Level 3 | – | – | – | – | – | – |
| Reclassifications out of Level 3 | – | – | – | – | – | – |
| **Balance at 30 June 2013** | **458** | **–** | **–** | **2** | **–** | **460** |

**Changes in Level 3 financial liabilities**

| € m | Financial liabilities<br>Trading liabilities | Hedging derivatives | Derivatives hedging dFVTPL | Total |
|---|---|---|---|---|
| **Balance at 1 January 2012** | **839** | **26** | **299** | **1,164** |
| Comprehensive income recognised in Income Statement | −78 | −1 | 16 | −63 |
| Purchases | – | – | – | – |
| Sales | −25 | – | 3 | −22 |
| Change due to transfer to FMS Wertmanagement | −158 | – | −318 | −476 |
| Settlements | −6 | – | – | −6 |
| Reclassifications into Level 3 | – | 17 | – | 17 |
| Reclassifications out of Level 3 | −110 | – | – | −110 |
| **Balance at 31 December 2012** | **462** | **42** | **–** | **504** |
| | | | | |
| **Balance at 1 January 2013** | **462** | **42** | **–** | **504** |
| Comprehensive income recognised in Income Statement | −4 | −2 | – | −6 |
| Purchases | – | – | – | – |
| Sales | – | – | – | – |
| Change due to transfer to FMS Wertmanagement | −1 | – | – | −1 |
| Settlements | – | −13 | – | −13 |
| Reclassifications into Level 3 | – | – | – | – |
| Reclassifications out of Level 3 | – | – | – | – |
| **Balance at 30 June 2013** | **457** | **27** | **–** | **484** |

The DEPFA Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred. There were no transfers between Level 1 to Level 2 of the fair value hierarchy during the six months ended 30 June 2013.

According to IAS 8.34, an accounting estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. In the first half of 2013, the DEPFA Group changed the estimate of Credit Value Adjustments (“CVA”), which are part of the measurement of derivatives. The changes lead to the use of more accurate market based parameters for determining the default risk of the DEPFA Group and of the counterparties without credit default swaps (“CDS”).

The DEPFA Group has an established control framework with respect to the measurement of fair values. This framework includes a valuation team and has overall responsibility for all significant fair value measurements, including Level 3 fair values. The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair value, then the valuation team assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which the resulting fair value estimate should be classified. Significant valuation issues are reported to the DEPFA Group Audit Committee.

Although the DEPFA Group believes that its estimates of fair value are appropriate, using reasonably possible alternative input factors changes the fair value. The following tables shows the fair value sensitivities of the Level 3 instruments as of 30 June 2013 and 31 December 2012 for the DEPFA Group, which have been quantified on the basis of the specified valuation parameters taking account of standard scenarios.

**Sensitivities of Level 3 instruments**

| € m | 30 June 2013 Favourable changes | 30 June 2013 Unfavourable changes | 31 December 2012 Favourable changes | 31 December 2012 Unfavourable changes |
|---|---|---|---|---|
| **Assets** | | | | |
| Financial assets at fair value through P&L | | | | |
| Trading assets | – | – | – | – |
| Loans and advances to customers | – | – | – | – |
| Financial investments | – | – | – | – |
| Derivatives | – | – | 1 | –1 |
| Available-for-sale | | | | |
| Financial investments | – | – | – | – |
| **Total assets** | **–** | **–** | **1** | **–1** |
| **Liabilities** | | | | |
| Financial liabilities at fair value through P&L | | | | |
| Trading liabilities | – | – | – | – |
| Derivatives | 1 | –1 | – | – |
| **Total liabilities** | **1** | **–1** | **–** | **–** |

As part of the process of transferring positions to FMS Wertmanagement, significant holdings of derivatives were transferred synthetically to FMS Wertmanagement by way of concluding opposite back-to-back transactions. As a result of their contractual opposite nature, these products have been combined in a separate IFRS 13 category within which the sensitivities of the original transactions cancel out those of the back-to-back transactions. In view of this aspect and also in order to present the economic context of the impact of risks on the net assets, financial position and results of operations, transactions which mirror each other have not been taken into consideration with regard to the beneficial and detrimental changes to Level 3 instruments.

The above favourable and unfavourable changes are calculated independently from each other.

Further offsetting effects due to compensating derivatives and hedge relationships attenuate both favourable and unfavourable changes.

In 2012, the DEPFA Group refined its derivative valuation models in relation to counterparty risk parameters resulting in a change of accounting estimate as described in note 7 “Net trading income/expense”. This estimation technique was further refined in 2013. Other than this change in estimation technique, the methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period. In the following paragraphs, the valuation methods on the level of product classes are described in detail:

- The fair values of certain financial instruments reported at nominal values are almost identical to their carrying amounts. These include for example cash reserve, receivables and liabilities without fixed interest rates and which mature in the short term. Differences between the carrying amount and the fair value of these financial instruments are not material.
- Quoted market prices are applied for exchange traded derivatives and, where available, for securities and quoted debt instruments. The fair value of debt instruments for which no active market price is available is determined as the present value for future expected cash flows on the basis of related benchmark interest curves and credit spreads.
- The fair value of interest rate swap and cross currency swap agreements are determined on the basis of discounted future expected cash flows. The market interest rates applicable for the remaining maturity of the financial instruments are used for the purpose of the calculation. The fair value of forward exchange transactions is determined on the basis of current forward rates.

- Options are valued using exchange rate quotations or recognised models for determining option prices. For simple European options, the current Black-Scholes models (currency and index instruments) or lognormal models (interest instruments) are used as the valuation models. In the case of more exotic instruments, the interest rates are simulated via one and multi-dimensional term structure models with use of the current interest rate structure as well as caps or swaption volatilities as parameters relevant for valuation purposes. One and multi-factor models are used for interest-currency products.
- Widely accepted standard valuation models are used for credit derivatives, e.g. credit default swaps.

## Other notes

### 38 Contingent liabilities and commitments

**Contingent liabilities and other commitments**

| € m | 30.06.2013 | 31.12.2012 |
|---|---|---|
| **Contingent liabilities** | | |
| Guarantees and indemnity agreements | | |
| Loan guarantees | 43 | 50 |
| **Other commitments** | | |
| Irrevocable loan commitments | | |
| Lending business | 68 | 70 |
| Liquidity facility | – | – |
| **Total** | **111** | **120** |

The above amounts represent nominal exposures.

### 39 Contingent assets

**Contingent assets**

| € m | 30.06.2013 | 31.12.2012 |
|---|---|---|
| Guarantees and indemnity agreements | 3,245 | 4,238 |
| **Total** | **3,245** | **4,238** |

The above table refers to nominal values of guaranteed assets including guaranteed undrawn commitments of € 63 million (2012: € 64 million) for the DEPFA Group. All above guarantees are provided by FMS Wertmanagement. The change in contingent assets in the period reflects the effects of the transfer of certain guaranteed positions to FMS Wertmanagement.

### 40 Exchange rates as at 30 June 2013

European Central Bank exchange rates as at 30 June 2013 were:

**Exchange rates**

| 1€ = | | 30.06.2013 | 31.12.2012 |
|---|---|---|---|
| Great Britain | GB£ | 0.8572 | 0.8161 |
| Japan | JP¥ | 129.3900 | 113.6100 |
| United States of America | US$ | 1.3080 | 1.3194 |

## 41 Related party transactions

### (a) Key management compensation

Key management is the Board of Directors of DEPFA BANK plc. Key management compensation consists of short term benefits and post employment benefits.

There have been no loans to members of the Board in 2013 and 2012, nor are there any loans outstanding to members of the Board at 30 June 2013 (31 December 2012: € nil).

There has been compensation paid for loss of office to key management of € nil for the period ended 30 June 2013 (2012: € 400,000).

### (b) Letters of comfort and guarantees to related parties

DEPFA BANK plc, as the parent company of the DEPFA Group, has issued a letter of comfort to DEPFA ACS BANK. This letter of comfort provides that the Bank will provide financial support to DEPFA ACS BANK, to the extent that it is unable to fulfil its contractual obligations.

DEPFA BANK plc has executed a guarantee whereby it has irrevocably and unconditionally guaranteed the performance by Hypo Pfandbrief Bank International S. A. of all its obligations issued up to 31 May 2010.

### (c) Balances and transactions with HRE Group companies

Balances due to and from Group companies are disclosed in the notes to the statement of financial position. Transactions with HRE Group companies included in the income statement categories below consisted of:

| **Transactions with HRE Group companies**<br>€ m | **Half year ended on 30 June 2013** | **Half year ended on 30 June 2012** |
|---|---|---|
| Interest and similar income | 11 | 35 |
| Interest expense and similar expenses | −9 | −25 |
| Net fee and commission expense | – | – |
| Other operating income | 44 | 46 |
| General administrative expenses | −10 | −11 |

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.

### (d) Other related party transactions

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

The DEPFA Group has various relationships with its sister company FMS Wertmanagement, for example, due to the synthetic transfer of positions. The relationships are described in note 3 “Transfer of non strategic positions to FMS Wertmanagement”. The DEPFA Group is acting as sub-service provider for pbb, which has entered into various service level agreements with FMS Wertmanagement. Under these agreements, pbb provides the servicing for positions that have been transferred to FMS Wertmanagement. The different servicing tasks are clearly outlined in specific servicing agreements. The majority of the departments in the DEPFA Group are affected by the servicing agreements. Both pbb and the DEPFA Group will completely discontinue this servicing by the end of September 2013. In the period to 30 June 2013 the DEPFA Group recognised income of €36 million in relation to asset servicing provided by the DEPFA Group on positions transferred to FMS Wertmanagement (30 June 2012: € 41 million).

## 42 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:

| DEPFA Group's direct sovereign exposure of selected European countries as at 30 June 2013 | | | Book value | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| € m | 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 | – | 2,554 | 39 | – | – | **2,593** | 2,593 | 2,593 |
| | Sub-sovereign | LaR | – | 103 | – | – | 8 | **111** | 111 | 109 |
| | State-guaranteed | LaR | – | – | – | – | – | **–** | – | – |
| Italy | Sovereign | LaR | – | – | – | 1,474 | 51 | **1,525** | 1,212 | 1,482 |
| | Sub-sovereign | LaR | – | – | 2 | 151 | 421 | **574** | 516 | 479 |
| | State-guaranteed | LaR | – | 5 | – | – | – | **5** | 5 | 5 |
| Spain | Sovereign | LaR | – | – | – | 21 | – | **21** | 19 | 20 |
| | Sub-sovereign | LaR | – | 8 | 121 | 531 | 2,545 | **3,205** | 2,997 | 2,606 |
| | State-guaranteed | LaR | – | – | – | – | 191 | **191** | 191 | 183 |
| Slovenia | Sovereign | LaR | – | – | – | – | – | **–** | – | – |
| | Sub-sovereign | LaR | – | – | – | – | – | **–** | – | – |
| | State-guaranteed | LaR | – | – | – | 70 | 497 | **567** | 567 | 317 |
| Belgium | Sovereign | LaR | – | – | – | – | 684 | **684** | 500 | 637 |
| | Sub-sovereign | LaR | – | – | 25 | 40 | 250 | **315** | 292 | 292 |
| | State-guaranteed | LaR | – | – | – | – | 1,155 | **1,155** | 895 | 990 |

| DEPFA Group's direct sovereign exposure of selected European countries as at 31 December 2012 | | | Book value | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| € m | 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 | – | 1,294 | 41 | – | – | **1,335** | 1,335 | 1,335 |
| | Sub-sovereign | LaR | – | 100 | 109 | – | 8 | **217** | 216 | 215 |
| | State-guaranteed | LaR | – | – | – | – | – | **–** | – | – |
| Italy | Sovereign | LaR | – | – | – | 1,518 | 55 | **1,573** | 1,229 | 1,502 |
| | Sub-sovereign | LaR | – | – | 1 | 172 | 489 | **662** | 589 | 533 |
| | State-guaranteed | LaR | – | – | – | – | – | **–** | – | – |
| Spain | Sovereign | LaR | – | – | – | 24 | – | **24** | 22 | 22 |
| | Sub-sovereign | LaR | – | 15 | 274 | 505 | 2,640 | **3,434** | 3,205 | 2,496 |
| | State-guaranteed | LaR | – | – | – | – | 217 | **217** | 217 | 198 |
| Slovenia | Sovereign | LaR | – | – | – | – | – | **–** | – | – |
| | Sub-sovereign | LaR | – | – | – | – | – | **–** | – | – |
| | State-guaranteed | LaR | – | – | – | 70 | 532 | **603** | 602 | 309 |
| Belgium | Sovereign | LaR | – | – | – | – | 706 | **706** | 500 | 656 |
| | Sub-sovereign | LaR | – | – | – | 40 | 282 | **322** | 292 | 293 |
| | State-guaranteed | LaR | – | – | – | – | 1,233 | **1,233** | 915 | 1,071 |

All of the above positions are included in the IFRS measurement category loans and receivables. The DEPFA Group tests financial assets which are not measured at fair value for impairments. Allowances for loans and advances or impairments for securities are created if there is objective evidence that it will not be possible for the entire amount which is due in accordance with the original contractual conditions to be recovered. As at 30 June 2013 there was no such objective evidence.

The DEPFA Group did not have any sovereign credit risk exposure to Cyprus, Greece, Portugal or Hungary as at 30 June 2013 (31 December 2012: € nil).

The exposure to selected European countries shown in the table contains loans and advances and securities. State-guaranteed contains for example loans and advances to banks and corporations which are guaranteed by sovereigns or sub-sovereigns. As of 30 June 2013 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 37 “Fair values of financial assets and liabilities”.

## 43 Events after the reporting date

There have been no notable events after 30 June 2013.

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