DEPFA BANK

Interim Report 30 June 2014

Contents

The following is a commentary on the global and sector specific economic environments in which the DEPFA Group has operated during the first half of 2014.

Global activity has broadly strengthened in the first half of 2014 with much of the impetus for stronger growth coming from advanced economies. Whilst geopolitical risks are adding to an already weak outlook for emerging economies (e.g. Ukraine/Russia, Middle East), in advanced economies major concerns include downside risks from low inflation and the possibility of protracted low growth, especially in the Euro area and Japan. The recovery remains lacklustre in the Euro area where the economy expanded by a modest 0.2% quarter-on-quarter in the first quarter following a 0.3% expansion in the fourth quarter of 2013. Although final demand continues to expand, business surveys in the second quarter suggest that the momentum remains subdued with domestic growth drivers lacking. Private consumption has remained anaemic as a result of weakness in disposable income stemming from subdued wage growth, tax increases and the need in many countries for a high savings rate to reduce the household debt overhang. These constraints will be lifted only gradually, especially since the decline in households' debt has been very small so far. With the recovery remaining lacklustre, the average unemployment rate in Europe is falling only gradually, from 11.8% in December 2013 to 11.6% in May 2014. This contrasts with the US which has seen its unemployment rate fall from 6.7% to 6.1% over the first half of the year.

The recovery remains quite uneven across the Euro area where Germany has continued to outperform (0.8% quarter-on-quarter in the first quarter). Growth has been disappointing in France (0.0% in the first quarter) and Italy (–0.1% quarter-on-quarter) although there are increasing positive signs from the other peripheral economies, especially Spain (0.4%) and Ireland (2.7%). The recovery in other advanced economies has been stronger, especially in the UK (0.8%) and US (0.7%). In the first quarter Japan saw its strongest quarterly growth rate since 2011, expanding by 1.6% quarter-on-quarter. However, this strength was largely due to the increased consumption tax in April 2014 which caused purchases to be brought forward. These diverging growth patterns amongst major economies have led to diverging monetary policy paths. The focus in the US and UK has been on policy tightening whilst, in June 2014 the European Central Bank ("ECB") announced a raft of easing measures in the face of persistently subdued inflation readings (0.6% average in the half year) and weak bank lending figures.

Policy developments

The major monetary authorities have kept base rates close to zero in the first half of 2014. The only major central bank to materially change policy has been the ECB, who in June 2014 delivered a package of easing measures and kept the door open for more, if necessary. The main refinancing rate (benchmark) was cut to 0.15% from 0.25%, the deposit facility (overnight deposits) rate was cut to –0.10% from 0.00% and the marginal lending facility (overnight liquidity) rate to 0.40% from 0.75%. The ECB will also offer targeted longer-term refinancing operations ("TLTRO"), initially €400 billion, with continued access to the facility conditional on lending by financial institutions to the real economy. Moreover, there continued to be speculation of an explicit quantitative easing campaign, similar to that of other major central banks, and further efforts to boost the European securitisation market.

In the US, following the decision in December 2013 to start tapering the monthly purchase of government and mortgage backed bonds, the US Federal Reserve ("Fed") has reduced its total monthly purchase to $35 billion, from $85 billion per month in January 2014, and now expects to cease monthly purchases in the fourth quarter of 2014. Despite what was construed as a hawkish first press conference by the new Fed chairman Janet Yellen, minutes from the meetings suggest that there will be no major change in policy stance under her reign. Despite the fact that unemployment is close to a six year low, the consensus forecast is that US base rates will not start to increase until the third quarter of 2015. The UK became notably more hawkish towards the end of June 2014, especially after the Governor of the Bank of England stated that the first rate hike could happen sooner than the market expects (current expectation is for the first quarter of 2015). UK policymakers are also planning measures to attempt to softly quell the emerging house price boom.

Eurozone Finance Ministers agreed on a common bank resolution regime and fund which will hold control over the wind-down plans for troubled banks in the Euro area. The Single Resolution Mechanism ("SRM") makes mutualisation in banking rescues speedier, the decision process more streamlined and less politically controlled by member states and will be backed up by a €55 billion fund that will be built up by levies on banks. The Single Resolution Fund ("SRF") will also be able to borrow in the market to increase its firepower.

The International Monetary Fund ("IMF") published new proposals for its approach to sovereign debt restructuring. A new alternative to painful upfront restructuring for restoring debt sustainability would consist of a re-profiling of existing bonds, where maturities would be extended for the duration of the IMF programme with no change to the coupon or principal. Finally, after meeting the criteria for adopting the Euro, the European Commission ("EC") has proposed that Lithuania adopt the Euro on 1 January 2015.

Financial market developments

Financial conditions in advanced economies have been broadly stable in the first half of the year. After a temporary weakening amid the emerging market turmoil early in the year, financial markets have seized on the relative strength of corporate earnings and the support provided by the major central banks. These relatively benign financial conditions are reflected in the Chicago Board Options Exchange Market Volatility Index ("VIX"), which averaged levels similar to 2013. This stability has been seen in the US Dollar/Euro exchange rate which remained range bound between 1.35 and 1.39 in the first half of the year. There has been a marked depreciating trend in the Euro vis-à-vis GBP (5–6%), mainly reflecting the differing stages in the economic cycle. Equity markets have posted solid gains in the first half of the year as price to earnings ratios moved back to pre-crisis levels. Bond yields in Europe have fallen due both to the prospect of more easy monetary policy for longer and a continued reduction in risk premiums associated with the Euro area crisis.

The compressed risk premiums are due both to the ongoing adjustments of fiscal fundamentals and investor search for higher yields in an attempt to benefit from carry trades. This has led to a further marked diminution in Euro area credit spreads, especially for the peripheral economies. Portugal has seen the largest fall in its five year Credit Default Swaps ("CDS") spread, falling almost 190 bps to 164 bps over the first half of 2014. This performance was followed by Slovenia (–162 bps to 120 bps), Spain (–91 bps to 66 bps), Italy (–74 bps to 95 bps) and Ireland (–74 bps to 46 bps). The iTRAXX Western Europe CDS Index moved from 62 bps at the end of 2013 to 31 bps at the end of June 2014.

Banking sector

The European banking sector has continued to see very weak bank lending in the first half of 2014, which is influenced by both supply and demand factors. The Euro area recovery has indeed so far remained largely without banking credit growth, with firms financing their investment internally or by issuing debt securities. Regulatory uncertainties and banks' efforts to advance with balance sheet adjustments ahead of the Asset Quality Review ("AQR") and the European Banking Authority stress tests ("EBA stress tests") have also likely contributed to the limited supply of credit in some countries. However, since the beginning of 2014, banks have started to predict an end to the net tightening of credit standards on loans to non-financial corporations, further easing for loans to households and a pick-up in loan demand, thereby indicating that lending conditions are slowly improving. Although Euro area banks have improved their solvency positions and turned to more stable funding sources, profitability remains poor because of narrow interest margins on the stocks of assets. It is particularly a problem in countries facing a combination of poor credit quality, high private sector indebtedness, high unemployment and subdued economic growth.

With monetary policy remaining easy in core markets, the banking sector has faced little stress in the first half of the year with liquidity conditions remaining very benign. Although 3-month Euribor gradually ticked up through the first quarter (from 0.28 % to 0.35 %), it has fallen back to 0.2 % due to the prospect of the recent ECB easing measures. The Overnight Index Swap ("OIS")-Euribor spread (barometer of financial market stress) has also tightened considerably towards the end of the second quarter to reach 16 bps from a peak of 23 bps earlier in the quarter. The iTRAXX Senior Financial CDS Index moved from 87 bps at 31 December 2013 to finish at the end of June 2014 at 68 bps. The recent measures by the ECB will further boost liquidity. Banks will be able to benefit from the full four years of the two initial TLTROs (and then the additional quarterly TLTROs). The initial technical details on the new TLTROs suggest there won't be many constraints on how banks recycle funds provided by the TLTRO. Deleveraging banks will still have to slow down their pace of deleveraging to qualify or to avoid repaying in one go their TLTRO money.

Despite these rather benign financial metrics in the sector, the perceived riskiness of banks has shown further deterioration in the first half of the year, especially from the rating agencies. Although regulatory investigations (and fines) have played a role, this primarily stems from lower rating uplift from implied systemic support as a growing number of countries move toward adopting bank resolution regimes that include provisions for burden-sharing with creditors.

As part of the Single Supervisory Mechanism ("SSM"), due to be operating in November 2014, the ECB has accelerated its "comprehensive assessment" of the banking sector in the first half of the year. This includes the Supervisory Risk Assessment ("SRA"), AQR and the EBA stress tests. The SRA aims to address key risks in the banks' balance sheets, including liquidity, leverage and funding. By analysing processes, policies, accounting practices, credit exposures and provisions, the AQR is attempting to assess credit and market risks on bank assets with the main goal being to detect any risks that may stem from an inaccurate valuation of banks' assets as of December 2013. The EBA stress tests assess the shock-absorption capacity of banks in an adverse macro-economic environment out to 2016. The tests focus on credit (counterparty) risk, market risk, sovereign risk, securitisation and cost of funding. The EBA stress tests will cover at least 50 % of bank assets in each country, and includes more than 120 banks across 22 European Union ("EU") Member States (128 for SSM countries) with the results due to be published in October 2014.

Public sector

Following substantial fiscal consolidation during 2011 to 2013, the fiscal policy stance is expected to be close to neutral in 2014. Overall fiscal policy is expected to have less of a drag on growth in Europe, especially in the context of the recent local and European elections which saw sizeable gains for less centrist parties at the expense of the mainstream incumbent governments. Thus far in 2014, headline deficits have continued to fall as the recovery advances and given additional deficit-reducing measures having been adopted or being implemented by EU Member States. As a result, debt ratios have shown signs of stabilisation. Final figures for 2013 showed that the headline general government deficit for the Euro area fell from −3.7% of GDP in 2012 to −3.0% (−7.3% and 8.4% for the US and Japan respectively) whilst the debt ratio increased from 92.7% to 95.0% (104.5% and 243.2% for US and Japan respectively). In June 2014, the EC recommended that the EU Council should close the Excessive Deficit Procedure ("EDP") for six countries: Austria, Belgium, Czech Republic, Denmark, the Netherlands and Slovakia. Confident that the worst of the austerity is over, the EU Council now wants countries to shift from quantitative to qualitative consolidation, favouring job and growth friendly taxation, supporting investment, strengthening tax compliance and fighting tax fraud. In particular it has encouraged France and Italy to step up their reform efforts and lower spending.

As previously noted, financing conditions were 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 low interest rate environment (and search for yield), the increasing perception that the worst of the European debt crisis is behind us and abundant liquidity. Given these conditions, governments have been able to finance themselves comfortably in the first half of the year. The solid appetite for Euro area fixed income debt drove stronger than usual front-loading of debt issuances, maturity extensions and more active liability management by debt management offices. Peripheral countries, on aggregate, have already by the end of the second quarter covered 64% of their 2014 gross conventional issuance target (54% for core countries), 8% higher than historical average. Moreover, unlike recent years, there was little impact of supply on the secondary market, which points to a belief in stronger fundamentals. The generally improving fiscal picture and reduction in tail risks has led the rating agencies to stabilise most of their ratings for sovereigns in Europe, with a number of upgrades occurring for some of the peripheral economies. The exit of Portugal from its economic programme without a precautionary facility added to the perception of decreasing tail risks in Europe in the first half of 2014.

Directors and other information

Board of Directors

Ms. M. Better [1] (German)
(resigned 5 June 2014)
Dr. J. Bourke [1] (Chairman)
Ms. F. Flannery
Mr. T. Glynn (American)
(Chief Executive Officer – CEO)
Mr. W. Groth [1] (German)
Mr. A. Kearns [1]
Mr. N. Reynolds
Mr. A. von Uslar-Gleichen [1] (German)
(resigned 16 May 2014)
Dr. H. Walter [1] (German)

[1] Non-Executive

Audit Committee

Ms. M. Better (resigned 5 June 2014)
Dr. J. Bourke
Mr. W. Groth (appointed 5 June 2014)
Mr. A. Kearns (Chairman)
Dr. H. Walter

Board Risk Committee

Ms. M. Better (resigned 5 June 2014)
Dr. J. Bourke
Ms. F. Flannery
Mr. T. Glynn
Mr. W. Groth (appointed 5 June 2014)
Mr. A. Kearns
Mr. N. Reynolds
Dr. H. Walter (Chairman)

Secretary & Registered Office

Ms. E. Tiernan
Ms. C. Doorey
(appointed as Interim Company Secretary 16 June 2014)
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 six month period ended 30 June 2014.

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 the first half of 2014.

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.

Major events

In recent years the DEPFA Group, as part of the HRE Group, has been involved in a process of stabilisation and strategic restructuring. The finalisation of the state aid proceedings between the European Commission and the Federal Republic of Germany in 2011 allowed for the DEPFA Group's reprivatisation. The process of strategic restructuring, enabling the functional desegregation of the DEPFA Group from the HRE Group has continued in 2014. However, in May 2014 the Financial Markets Stabilisation Authority ("FMSA"), which is responsible for the management of SoFFin, decided that a reprivatisation of the DEPFA Group would not occur and instead the ownership of the DEPFA Group would be transferred to FMS Wertmanagement, the German State agency established by the Federal Republic of Germany and to which the DEPFA Group transferred non strategic positions in 2010. These issues are discussed in further detail below.

Public tender process for the sale of the DEPFA Group

On 26 August 2013, HRE Holding launched a public tender offer for the reprivatisation of the DEPFA Group. HRE Holding intended to sell the entire registered share capital of DEPFA BANK plc in an open, transparent and non-discriminatory bidding process. Following a due diligence process, interested bidders provided bids to HRE Holding in January 2014. On 13 May 2014, HRE Holding announced that the owner of HRE Holding had stopped the sale process of the DEPFA Group and HRE Holding had been asked to instead transfer the DEPFA Group to FMS Wertmanagement. This means that the wind down of the DEPFA Group will be continued under the indirect ownership of the Federal Republic of Germany and the companies within the DEPFA Group will not conduct any new business except as permitted by the decision of the EU Commission on 18 July 2011.

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 unless 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.

Completion of servicing contract for FMS Wertmanagement

On 30 September 2013, in line with scheduled contract termination arrangements, the DEPFA Group ceased servicing activities for the portfolios of FMS Wertmanagement and successfully completed the transfer of this servicing, together with the associated personnel, to FMS Wertmanagement Service GmbH ("FMSW-SG"), an independent servicing company established by FMS Wertmanagement.

These services had been rendered since October 2010 as part of a co-operation agreement, whereby Deutsche Pfandbriefbank AG ("pbb") assumed responsibility for managing the HRE Group portfolios transferred (both legally and synthetically) to FMS Wertmanagement. The DEPFA Group had entered into sub-servicing arrangements with pbb to fulfil their servicing obligations in respect of the DEPFA Group portfolios. The services were provided under remunerated contractual arrangements. The DEPFA Group continues to retain legal title over a residual portfolio of assets and derivatives which were synthetically transferred, generally by way of sub-participation, to FMS Wertmanagement and most of which are derecognised from the DEPFA Group statement of financial position. The DEPFA Group continues to work with FMS Wertmanagement on completing legal transfers for these positions.

In the first quarter of 2014 a settlement agreement was concluded between pbb and FMS Wertmanagement in respect of the servicing and certain other matters and a further agreement was signed between the HRE Group and the DEPFA Group in respect of the sub-servicing arrangements. Under the terms of the agreement between the DEPFA Group and the HRE Group, the DEPFA Group made a payment in return for a waiver by pbb for any claims for breach of duty in relation to the servicing activities provided by the DEPFA Group during the contractual servicing period. The payment was fully provided for in the 31 December 2013 financial statements and was paid on 20 February 2014.

Related party transactions

Related party transactions are set out in note 44 to the unaudited condensed consolidated interim financial statements.

Going concern

Following the announcement that the DEPFA Group will be transferred by HRE Holding to FMS Wertmanagement, the directors have considered the appropriateness of the going concern assumption in the preparation of the unaudited condensed consolidated interim financial statements.

The directors understand that the DEPFA Group will be transferred to FMS Wertmanagement as a going concern. The directors consider that the liquidity position of the DEPFA Group is stable and that it continues to be in a position to meet its own funding requirements. The DEPFA Group is not currently dependent on inter-group funding and is expected to be able to meet its obligations as they fall due for a minimum period of one year from the date of this report. The directors have also considered that the regulatory capital ratios are currently and are expected to continue to be significantly in excess of the required minimum ratios for a minimum period of one year from the date of this report.

The directors have therefore concluded that it is appropriate to prepare the unaudited condensed consolidated interim financial statements on a going concern basis of accounting.

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 2014			31 December 2013		
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	Negative	Positive	Negative	Stable	Stable
Short-term rating	F2	P–3	A–2	F2	P–3	A–2
Asset Covered Securities	A[3]	Aa3	BBB[4]	A[3]	A3	BBB[5]
Lettres de Gage	–	–	A–[6]	–	–	A–[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] Positive outlook
[5] Stable outlook
[6] Developing outlook

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

The development of ratings for the banks in the DEPFA Group remains influenced by external factors such as legislative changes and, in this context, changes to rating methodologies or parameters applied by the rating agencies. In April 2014, the European Parliament voted to adopt the Bank Recovery and Resolution Directive ("BRRD") and the Single Resolution Mechanism ("SRM"), thereby establishing a Banking Union in Europe. The establishment of frameworks for managing troubled banks has negative rating implications for senior unsecured debt due to, inter alia, potential decreases in systemic support as well as heightened risks of bail-in of senior unsecured creditors in a banking crisis. The envisaged transfer of ownership of the DEPFA Group to FMS Wertmanagement may also lead to rating changes. As covered bond ratings are linked to the senior unsecured rating of the issuer this may also have rating implications for covered bonds.

The senior unsecured ratings assigned by the mandated rating agencies, Fitch Ratings, Moody's and Standard & Poor's were affected by potential implications of the DEPFA Group's reprivatisation process and changes in the legislative environment in the first half of 2014.

In February 2014, Standard & Poor's placed the unsecured ratings assigned to DEPFA BANK plc, DEPFA ACS BANK, Hypo Pfandbrief Bank International S.A. and Hypo Public Finance Bank on creditwatch negative due to the progress in the DEPFA Group reprivatisation process. The creditwatch negative was compounded by the action taken by Standard & Poor's on financial institutions across Europe upon the adoption of the BRRD and the SRM in April 2014. Following the announcement in May 2014 that the Federal Republic of Germany would remain the ultimate owner of the DEPFA Group via FMS Wertmanagement, the agency removed the creditwatch negative and affirmed all ratings with positive outlook.

In May 2014, Moody's changed the outlook on 82 banks within the EU, including DEPFA BANK plc and DEPFA ACS BANK, from stable to negative, reflecting the agency's assessment that the balance of risk had shifted to the downside for banks' senior unsecured creditors in the context of new European Union legislation.

Following clarification of the DEPFA Group's future ownership structure, Fitch affirmed its ratings in May 2014 and maintained the negative outlook to reflect the agency's view of the DEPFA Group's on-going sensitivity to developments in relation to support for EU banks.

DEPFA ACS BANK's asset covered securities ("ACS") were the subject of rating actions during the first half of 2014. Following Moody's upgrade of the Irish sovereign rating and the increase in the Irish country ceiling, Moody's upgraded the rating of the ACS issued by DEPFA ACS BANK from A3 to A1 in January 2014. In May 2014, following a further upgrade of the Irish sovereign rating and an increase in the Irish country ceiling, Moody's upgraded the ACS ratings to Aa3.

In April 2014 Fitch affirmed the rating of the DEPFA Group's ACS.

Finally, in line with the rating action on the unsecured ratings, the ratings of the covered bonds issued by DEPFA ACS BANK and Hypo Pfandbrief Bank International S.A. were placed on creditwatch negative by Standard & Poor's in February 2014 and affirmed with positive and developing outlook, respectively, in May 2014.

Review of performance

The pre-tax loss in the period was €–101 million compared to pre-tax income of € 3 million in the period from 1 January to 30 June 2013. The decline is primarily due to a reduction in net interest expense/income and net trading expense/income. Net interest expense/income in the prior period was positively impacted by 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 € 2 million for the half year to 30 June 2014 compared to € 38 million for the half year to 30 June 2013.

The net trading expense/income has been negatively impacted in the current period due to changes in counterparty risk parameters on derivative valuations. This contributed an expense of €–30 million in 2014 compared to income of € 6 million for the corresponding period in 2013.

Other operating income reduced due to the cessation of asset servicing provided by the DEPFA Group on the positions transferred to FMS Wertmanagement. The asset servicing was completely discontinued at the end of September 2013. Asset servicing generated € 36 million in 2013 compared to €1 million in the current period.

The development in results in 2014 compared with the previous period is detailed in the following table:

Consolidated income statement – unaudited € m	**Half Year ended on 30 June 2014**	**Half Year ended on 30 June 2013**
Net interest expense/income	−13	15
Net fee and commission expense	−2	−8
Net trading expense/income	−47	13
Net expense from financial investments	–	−1
Net income/expense from hedge relationships	2	−9
Other operating income	2	38
Other operating expense	–	−4
Total operating revenues	**−58**	**44**
Reversals of losses on loans and advances	5	3
Recovery of losses on loans and advances under financial guarantees	–	–
General administrative expenses	−48	−51
Other expense/income	–	7
Pre-tax loss/income	**−101**	**3**
Taxes on income	7	−1
Net loss/income	**−94**	**2**

Net interest expense/income declined to €–13 million (2013: €15 million). The interest income was positively affected by once off effects primarily attributable to the buyback of DEPFA ACS BANK asset covered securities that were redeemed before maturity at prevailing market levels on a reverse enquiry basis of €2 million in 2014 (2013: €38 million). Net interest income was burdened in 2014 due to additional expenses resulting from accelerated hedge amortisations of €–16 million (2013: €–9 million). Furthermore, effects from short term basis mismatches contributed €1 million net interest income (2013: €5 million).

Net fee and commission expense reduced to €–2 million compared to the corresponding previous period (2013: €–8 million). The movement is mainly due to a reduction in guarantees fees paid to FMS Wertmanagement relating to guarantees received on assets not yet transferred and recognised on the statement of financial position. All such positions were fully transferred to FMS Wertmanagement by 5 March 2014 resulting in derecognition on the same date and termination of the related guarantees. Consequently guarantee fees paid for the period reduced to €–1 million (2013: €–7 million).

Net trading expense/income of €–47 million has decreased compared to the previous period (2013: €13 million). Included in net trading expense is a net amount of €–30 million (2013: €6 million) in derivative valuation effects relating to counterparty risk parameters including both the credit risk of the counterparty, credit valuation adjustment ("CVA") of €5 million (2013: €–5 million) and the DEPFA Group's own credit risk, debit valuation adjustment ("DVA") of €–35 million (2013: €11 million). The amounts for CVA and DVA include a change in accounting estimate following an observable change in the market based parameters used for determining the default risk of the DEPFA Group following the announcement about the future ownership structure of the DEPFA Group. Other valuation effects from stand-alone derivatives which do not satisfy the criteria of IAS 39 hedge accounting amounted to €–17 million (2013: €7 million).

Net expense from financial investments amounted to € nil in 2014 (2013: €–1 million). The expense is solely the result of the disposal of financial assets.

Net income/expense from hedge relationships amounted to €2 million (2013: €–9 million). This represents hedge ineffectiveness within the range of 80% to 125% permitted in accordance with IAS 39.

Other operating income amounted to €2 million (2013: €38 million), which mainly consisted of income of €1 million from final settlement charges to pbb in relation to asset servicing provided by the DEPFA Group on the positions transferred to FMS Wertmanagement (2013: €36 million). The asset servicing was completely discontinued at the end of September 2013. Also included are charges to the HRE Group for various supporting activities of € nil (2013: €2 million). Foreign exchange gains amounted to €1 million (2013: € nil).

Other operating expense amounted to €nil in 2014 (2013: €–4 million). The 2013 expense included provisions relating to current and expected litigation of €–3 million. Foreign exchange losses amounted to € nil (2013: €–1 million).

Reversals of losses on loans and advances amounted to €5 million (2013: €3 million) and is due to a decrease in portfolio-based allowances (2013: €3 million). In accordance with IAS 39, portfolio-based allowances are created only for loans and receivables for which there have not yet been any indications of an individual impairment.

General administrative expenses declined to €–48 million in 2014 compared with €–51 million in the first half of 2013. Personnel expenses decreased to €–14 million compared to €–22 million in the previous period. The decrease was partially due to the reduction in headcount as a result of the transfer of staff to FMS Wertmanagement on the 30 September 2013 following the discontinuation of servicing activities. The average headcount (220 people) reduced compared with the previous period (353 people). Other general administrative expenses amounted to €–34 million and has increased compared to the corresponding previous period of €–29 million from dissynergies following separation activities from the HRE Group.

Other expense/income amounted to €nil million (2013: €7 million). The prior period amount is due to the net release of provisions created for the strategic refocusing and restructuring of the DEPFA Group.

Pre-tax loss/income amounted to €–101 million in 2014 (2013: €3 million).

Taxes on income amounted to €7 million in 2014 (2013: €–1 million) and were significantly affected in 2014 by the reversal of provisions for uncertain tax positions.

Net loss/income amounted to €–94 million in 2014 (2013: €2 million).

Development in assets

Total assets of the DEPFA Group amounted to €46.5 billion at 30 June 2014 and were €3.5 billion lower than the corresponding figure as restated at the end of the previous year (31 December 2013: €50.0 billion).

The total assets at 31 December 2013 as previously reported have been restated to reflect the deconsolidation of DEPFA Finance N.V. on application of IFRS 10 on 1 January 2014 as set out in note 2 to these unaudited condensed consolidated interim financial statements.

The decline is mainly due to a reduction in the FMS Wertmanagement related counter effects 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.

On 3 February 2014 positions comprising “loans and advances to customers” counter effects of €2,190 million, “allowance for losses on loans and advances” of €–69 million and “losses on loans and advances recoverable under financial guarantees” of €69 million were legally transferred to FMS Wertmanagement resulting in their derecognition on the same date.

On 5 March 2014, positions comprising “financial investments” counter effects of €1,035 million were legally transferred to FMS Wertmanagement resulting in their derecognition on the same date.

The positions transferred had previously been backed by financial guarantee by FMS Wertmanagement and the related financial guarantee agreements were also terminated on the transfer dates. No gains or losses arose on the transfers or on termination of the financial guarantee agreements.

The counter effects concerning the transfer of positions to FMS Wertmanagement on the DEPFA Group’s statement of financial position at 30 June 2014 and at 31 December 2013 are set out in note 4 of the notes to the unaudited condensed consolidated interim financial statements.

During 2014 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 €1.1 billion as at 30 June 2014, compared with €0.6 billion as of 31 December 2013. The increase is a result of back-to-back transactions being used to transfer the market price risks of derivatives to FMS Wertmanagement relating to the asset transfers on 3 February 2014 and 5 March 2014 described above.

In addition to the decline in counter effects, the total assets decreased by a net €0.6 billion, 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 €45 billion as of 30 June 2014, compared with a restated amount of €48 billion as of 31 December 2013. 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 €3 billion.

The total liabilities and total equity at 31 December 2013, as previously reported, have been restated to reflect the deconsolidation of DEPFA Finance N.V. on application of IFRS 10 on 1 January 2014 as set out in note 2 to these unaudited condensed consolidated interim financial statements.

Equity amounted to €2 billion as of 30 June 2014 (31 December 2013: €2.1 billion). In compliance with the DEPFA Group's obligations in relation to the annual state aid compensation, €36 million was paid on 15 April 2014 relating to net income as at 31 December 2013. This obligation was fully accrued in 2013.

Certain hybrid capital instruments remain classified as equity in 2014 and 2013, as the DEPFA Group has no contractual obligation to make interest payments.

On 6 March 2014 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 2014.

Similarly, on 23 May 2014 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 2014.

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

The DEPFA Group has reported a net loss for the first half of 2014, with a pre-tax loss of €–101 million. The 2014 net loss includes net impacts from changes in counterparty risk parameters on derivative valuations of €–30 million, including €–35 million from the DEPFA Group's own credit risk. The DEPFA Group's future position may be negatively impacted by further developments in these parameters. 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, be required 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 and the terms and conditions of the annual state aid compensation fees were agreed in March 2013. 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 and paid in April 2013. A further amount of €36 million was reflected in the financial statements as at 31 December 2013 and was paid in April 2014. No further provision is considered necessary at 30 June 2014. However, future developments could result in the requirements for additional provisions.

Total assets in 2014 declined by €3.5 billion mainly due to the diminishing counter effects of the transfer of certain non strategic positions to FMS Wertmanagement. The remaining counter effects of €1.9 billion at 30 June 2014 will continue to decline in the future. It is expected that total assets will continue to decline, 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 announcement in May 2014 that the DEPFA Group would not be reprivatised but would remain under the indirect ownership of the Federal Republic of Germany, the DEPFA Group continues to focus on the process of optimising the value of its core portfolios. The continuation of this restricted business model, will inevitably lead over time to the reduction and closure of operations in all locations.

At present, a project is continuing to separate the Deutsche Pfandbriefbank Group ("the pbb Group") and the DEPFA Group, the completion of which is required for the transfer of ownership of the DEPFA Group to FMS Wertmanagement.

On a reverse enquiry basis, the DEPFA Group has redeemed certain liabilities before maturity in 2013 and 2014 which has realised significant profits in 2013 and to a lesser extent in 2014. 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 and uncertainties might materialise:

- Some European countries in 2013 and 2014 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 continued to improve 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 include the new European legislative initiatives to centralise supervision of large banks and to support bank resolution and bail-in of senior unsecured creditors. These measures, alongside the specific ratings drivers including the envisaged transfer of ownership to FMS Wertmanagement for the DEPFA Group entities and its covered bonds, could lead to rating changes. Downgrades to Bank and/or covered bond ratings could have a negative impact, particularly on the Banks' re-financing capacity, on triggers and termination rights within derivative and other contracts and on access to suitable hedge counterparties and hence on their financial position and profitability.

- The European Central Bank will complete in 2014 a comprehensive assessment exercise ("Comprehensive Assessment") for selected banks before the start of the single supervision mechanism ("SSM"). This assessment encompasses a supervisory risk assessment, an asset quality review ("AQR") and a stress test. The HRE Group has been named as one of more than 120 institutions in the Euro zone listed for inclusion, requiring that the DEPFA Group is also covered by this exercise. Prior to the announcement of results of these components, uncertainty regarding these results may affect the market for refinancing for banking institutions generally and as a result of the review, the European Central Bank may require higher capital adequacy levels to be held by individual institutions. The DEPFA Group has not received any findings to date from the review from the Central Bank of Ireland or the European Central Bank. This process is ongoing.
- The methods for measurement of financial instruments will continue to evolve in the market. For example, the market conventions may change the valuation and pricing of derivatives. Such changes may have a negative impact on the DEPFA Group earnings in 2014 and later periods.
- 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 over collateralisation in the cover pools.
  - Changes in market rates including interest rates can have a positive or adverse affect on the profitability of the DEPFA Group.
- Litigation which is currently pending and litigation which may occur in future might have a considerably negative impact on the results of 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 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 transfer of ownership of the DEPFA Group could potentially trigger a credit event upon merger as specified in ISDA agreements, which may affect access to suitable hedge counterparties.
- Discussions are continuing on a proposed European Union Financial Transactions Tax. The European Commission has published a proposal for a Directive on this tax, as requested by eleven EU Member States, under the "enhanced co-operation" procedure in the EU treaties. The aim is to introduce a tax on transactions in equities, bonds and derivatives. Such a tax may have a negative impact on the profitability of the DEPFA Group.

Regulatory capital and capital adequacy ratios

From 1 January 2008 to 31 December 2013 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.

On 1 January 2014 Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 (Capital Requirements Directive; "CRD IV") and Regulation 575/2013 of the European Parliament and of the Council of 26 June 2013 (Capital Requirements Regulation; "CRR") (implementing the Basel III proposals for a revised regulatory framework) came into effect. The Directive was transferred into Irish law via the European Union (Capital Requirements) Regulations 2014 (S.I. 158/2014 and S.I. 159/2014). This legislation is collectively referred to as CRD IV.

CRD IV requires a minimum Total Capital Ratio of 8%, with a minimum Common Equity Tier 1 ("CET1") capital ratio of 4.5% and a minimum Tier 1 capital ratio of 6%. Banks are also required to hold a capital conservation buffer of 2.5% to withstand future periods of stress bringing the CET1 requirement to 7%. The capital conservation buffer also increases the Total Capital Ratio requirement to 10.5%. The revised capital and buffer requirements are subject to transition provisions which set out the 'phase in' arrangements from 2014 to 2019.

In addition, the local regulators can require countercyclical capital and systemic risk buffers to be held. These buffers aim to ensure that the capital requirements take account of the macro-financial environment in which banks operate. The purpose of the countercyclical capital buffer is to counteract the effects of the economic cycle on banks' lending activity, ensuring that banks accumulate during periods of economic growth a sufficient capital base to absorb losses in stressed periods. The countercyclical capital buffer ranges from 0% to 2.5% of RWA, the calculation of which is entity specific and calculated as a weighted average of the countercyclical buffer rates that apply in the countries where their credit exposures are located. Transition provisions apply, which set out the 'phase in' arrangements from 2014 to 2019.

Local regulators may also introduce a Systemic Risk Buffer of CET1 for the financial sector or one or more subsets of the sector, in order to prevent and mitigate long term non-cyclical systemic or macroprudential risks with the potential of serious negative consequences to the financial system and the real economy. This buffer will range from 0% to 3% of RWAs, but can be higher in certain circumstances.

CRD IV introduces new eligibility requirements for inclusion of capital instruments in common equity Tier 1, additional Tier 1 and Tier 2 capital.

The DEPFA Group has Alternative Capital Instruments ("ACI's") which are non-standard forms of capital that are generally referred to in the market as hybrid capital. Their inclusion in regulatory capital is impacted by the new CRD IV requirements. The 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. These 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.

Up to 31 December 2013 the hybrid instruments qualified for inclusion in Tier 1 regulatory capital under CRD and met the qualification criteria for 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 CRD IV these hybrid instruments no longer qualify for inclusion in Tier 1 regulatory capital. CRD IV contains transitional provisions which permit the grandfathering of existing instruments with a phase out of qualifying amounts from 1 January 2014 to 1 January 2022.

Additional changes under CRD IV to prudential filters and capital deductions do not have a material effect on the regulatory capital of the Bank.

With a Tier 1 capital ratio of 25.12% (Pro forma (CRD IV) 1 January 2014: 35.40%) and a Total capital ratio of 41.04% (Pro forma (CRD IV) 1 January 2014: 58.50%) the DEPFA Group exceeds the minimum required ratios at Group level (Tier 1 capital ratio 4%, Total capital ratio 8.0%).

Regulatory capital € m	**30 June 2014**	**Pro forma (CRD IV) 1 January 2014**
Tier 1 capital	1,597	1,654
Tier 2 supplementary capital	1,012	1,076
Total regulatory capital	**2,609**	**2,730**

Capital adequacy ratios	**30 June 2014**	**Pro forma (CRD IV) 1 January 2014**
Risk weighted assets (€ m)	6,356	4,667
Tier 1 capital ratio (%)	25.12%	35.40%
Total capital ratio (Tier 1 + 2)	**41.04%**	**58.50%**

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 2014 and 2013.

There were no breaches by the Bank (Company only) of the capital ratios during 2014 (2013: no breaches). At 30 June 2014 the Bank's Total capital ratio under CRD IV exceeds the minimum required ratio at 43.78 % (2013 under CRD: 42.28 %).

No capital contributions were received by the Bank during 2014 (2013: € nil).

Events after 30 June 2014

On 10 July 2014 DEPFA BANK plc agreed to acquire from its sister entity Deutsche Pfandbriefbank AG ("pbb"), the entity DEPFA Finance N.V. with a settlement date of 18 July 2014. DEPFA Finance N.V., which is incorporated in the Netherlands, is a vehicle for the on-lending to the banks in the HRE Group of the proceeds of the preferred securities of three Tier 1 issuing vehicles in the DEPFA Group, namely DEPFA Funding II LP, DEPFA Funding III LP and DEPFA Funding IV LP.

The acquisition, which is accounted for as a common control transaction, was transacted on an arm's length basis with a consideration of €5.56 million paid by DEPFA BANK plc to pbb. This consideration was approximately equivalent to the book value of the equity of DEPFA Finance N.V. at the acquisition date, resulting in an immaterial effect on the equity of the DEPFA Group.

Apart from the above, there have been no notable events after 30 June 2014.

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 47 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

31 July 2014

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 2014 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 47. 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 36, 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 Financial Reporting Council. 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 2014 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.

Niamh Marshall

for and on behalf of
KPMG
Chartered Accountants, Statutory Audit Firm

1 Harbourmaster Place
IFSC
Dublin 1, Ireland

31 July 2014

Unaudited condensed consolidated interim financial statements

Consolidated income statement – unaudited

Consolidated income statement – unaudited € m	Note	Half year ended on 30 June 2014	As restated[1] Half year ended on 30 June 2013
Interest income and similar income	6	527	615
Interest expense and similar expenses	6	−542	−638
Income from buyback of liabilities	6	2	38
Net interest expense/income		**−13**	**15**
Fee and commission income	7	–	–
Fee and commission expense	7	−2	−8
Net fee and commission expense		**−2**	**−8**
Net trading expense/income	8	−47	13
Net expense from financial investments	9	–	−1
Net income/expense from hedge relationships	10	2	−9
Other operating income	11	2	38
Other operating expense	11	–	−4
Total operating revenues		**−58**	**44**
Reversals of losses on loans and advances	19	5	3
Recovery of losses on loans and advances under financial guarantees	19	–	–
Total reversals of losses on loans and advances net of guarantees		**5**	**3**
General administrative expenses	12	−48	−51
Other expense/income	13	–	7
Of which: restructuring		–	7
Pre-tax loss/income		**−101**	**3**
Taxes on income	14	7	−1
Net loss/income		**−94**	**2**
Attributable to:			
Equity holders of the parent		−94	2

[1] This restatement is in relation to the deconsolidation of DEPFA Finance N.V. as set out in note 2 to these unaudited condensed consolidated interim financial statements.

The notes on pages 36 to 79 are an integral part of these unaudited condensed consolidated interim financial statements.

Consolidated statement of comprehensive income – unaudited	Half year ended on 30 June 2014			Half year ended on 30 June 2013		
€ m	Before tax	Tax	**Net of tax**	Before tax	Tax	**Net of tax**
Net loss/income for the period	**−101**	**7**	**−94**	**3**	**−1**	**2**
Other comprehensive income						
Items that are or may be reclassified subsequently to income statement						
AfS reserve movement – net	2	−2	–	2	–	2
Exchange differences	1	–	1	1	–	1
Total other comprehensive income	**3**	**−2**	**1**	**3**	**–**	**3**
Total comprehensive loss/income	**−98**	**5**	**−93**	**6**	**−1**	**5**
Attributable to:						
Equity holders of the parent	−98	5	−93	6	−1	5

Disclosure of components of comprehensive income – unaudited € m	Half year ended on 30 June 2014	Half year ended on 30 June 2013
Net loss/income for the period	**−94**	**2**
Other comprehensive income	**1**	**3**
Items that are or may be reclassified subsequently to income statement		
AfS reserve movement – net	–	2
Gains arising during the period	–	–
Reclassification adjustments for gains/losses included in net income	–	2
Exchange differences	1	1
Total comprehensive loss/income	**−93**	**5**

The notes on pages 36 to 79 are an integral part of these unaudited condensed consolidated interim financial statements.

Consolidated statement of financial position – unaudited

Consolidated statement of financial position - unaudited € m	Note	30 June 2014	As restated[1] 31 December 2013
Assets			
Cash reserve	15	411	1,281
Trading assets	16	7,783	6,135
Loans and advances to other banks	17	4,724	4,777
Loans and advances to customers	18	9,834	14,907
Allowance for losses on loans and advances	19	−22	−100
Losses on loans and advances recoverable under financial guarantees	19	–	69
Financial investments	20	19,709	19,269
Property, plant and equipment	21	4	–
Intangible assets	22	8	9
Other assets	23	4,066	3,671
Income tax assets	24	26	25
Current tax assets		21	22
Deferred tax assets		5	3
Total assets		**46,543**	**50,043**
Liabilities			
Liabilities to other banks	25	3,612	5,080
Liabilities to customers	26	2,449	5,024
Liabilities evidenced by certificates	27	26,776	27,065
Trading liabilities	28	7,841	6,045
Provisions	29	43	91
Other liabilities	30	2,710	3,530
Income tax liabilities	31	8	12
Current tax liabilities		3	9
Deferred tax liabilities		5	3
Subordinated capital	32	1,079	1,078
Total liabilities		**44,518**	**47,925**
Equity			
Equity attributable to equity holders			
Share capital	33	106	106
Share premium	33	1,142	1,142
Capital reserve	34	1,500	1,500
Preferred securities	35	1,136	1,136
Retained earnings	36	−1,817	−1,723
Other reserves	37	−42	−43
AfS		−39	−39
Currency translation		−3	−4
Total equity		**2,025**	**2,118**
Total equity and liabilities		**46,543**	**50,043**

[1] This restatement is in relation to the deconsolidation of DEPFA Finance N.V. as set out in note 2 to these unaudited condensed consolidated interim financial statements.

The notes on pages 36 to 79 are an integral part of these unaudited condensed consolidated interim financial statements.

Consolidated statement of changes in equity – unaudited

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 and other	**Total equity**
Balance at 1 January 2013, as previously reported	**106**	**1,142**	**1,500**	**1,136**	**−1,723**	**−42**	**2**	**2,121**
Impact of deconsolidation of DEPFA Finance N.V.[1]	–	–	–	–	–	–	−5	−5
Restated balance at 1 January 2013	**106**	**1,142**	**1,500**	**1,136**	**−1,723**	**−42**	**−3**	**2,116**
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**	**−2**	**2,121**
Balance at 1 January 2014, as previously reported	**106**	**1,142**	**1,500**	**1,136**	**−1,723**	**−39**	**1**	**2,123**
Impact of deconsolidation of DEPFA Finance N.V.[1]	–	–	–	–	–	–	−5	−5
Restated balance at 1 January 2014	**106**	**1,142**	**1,500**	**1,136**	**−1,723**	**−39**	**−4**	**2,118**
Net loss for the period	–	–	–	–	−94	–	–	−94
Net changes in available-for-sale investments, net of tax	–	–	–	–	–	–	–	–
Net changes in currency translation reserve	–	–	–	–	–	–	1	1
Total recognised comprehensive loss	**–**	**–**	**–**	**–**	**−94**	**–**	**1**	**−93**
Balance at 30 June 2014	**106**	**1,142**	**1,500**	**1,136**	**−1,817**	**−39**	**−3**	**2,025**

[1] This restatement is in relation to the deconsolidation of DEPFA Finance N.V. as set out in note 2 to these unaudited condensed consolidated interim financial statements.

The notes on pages 36 to 79 are an integral part of these unaudited condensed consolidated interim financial statements.

Consolidated cash flow statement – unaudited

Consolidated cash flow statement – unaudited € m	Half year ended on 30 June 2014	Half year ended on 30 June 2013
Cash flows from operating activities		
Pre-tax loss/income	**−101**	**3**
Adjustments for non-cash movements:		
Depreciation and amortisation of tangible and intangible assets	2	3
Foreign exchange (gains)/losses	−1	1
Net decrease/(increase) in accrued interest income	103	−25
Net (decrease)/increase in accrued interest expenditure	−112	9
Reversals of losses on loans and advances	−9	−3
Loss on sale of investment securities and loans	–	1
Income from buyback of liabilities	−2	−38
Other non cash items	−240	−59
Net decrease in loans and advances to other banks	416	2,435
Net decrease in loans and advances to customers	1,822	928
Net increase in other assets	−2	−2
Net decrease in liabilities to other banks	−1,466	−1,088
Net decrease in amounts due to customers	−1,718	−2,278
Net decrease in liabilities evidenced by certificates	−916	−957
Net decrease in other liabilities	−42	−188
Net increase/(decrease) in derivatives and trading liabilities	123	−141
Tax received	–	11
Net cash from operating activities	**−2,143**	**−1,388**
Cash flows from investing activities		
Sale/maturity of investment securities	1,345	2,513
Purchase of property, plant and equipment	−4	–
Purchase of intangible assets	−1	−1
Net cash from investing activities	**1,340**	**2,512**
Cash flows from financing activities		
Annual state aid compensation fee paid	−36	−59
Net cash from financing activities	**−36**	**−59**
Net (decrease)/increase in cash and cash equivalents	**−839**	**1,065**
Cash and cash equivalents at the beginning of the period (note 15)	**1,224**	**1,522**
Cash and cash equivalents at the end of the period (note 15)	**385**	**2,587**
Included in the cash flows for the period are the following amounts:		
Interest income received	630	571
Interest expense paid	−654	−610

The notes on pages 36 to 79 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 2014 are unaudited but have been reviewed by the auditor whose report is set out on page 27 and 28. 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 2013 will be filed with the Registrar of Companies along with the annual return by 13 September 2014. 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.

On 26 August 2013, HRE Holding launched a public tender offer for the reprivatisation of the DEPFA Group. HRE Holding intended to sell the entire registered share capital of DEPFA BANK plc in an open, transparent and non-discriminatory bidding process. Following a due diligence process, interested bidders provided bids to HRE Holding in January 2014. On 13 May 2014, HRE Holding announced that the owner of HRE Holding had stopped the sale process of the DEPFA Group and HRE Holding had been asked to instead transfer the DEPFA Group to FMS Wertmanagement, the German State agency established by the Federal Republic of Germany and to which the DEPFA Group transferred non strategic positions in 2010. This means that the wind down of the DEPFA Group will be continued under the indirect ownership of the Federal Republic of Germany and the companies within the DEPFA Group will not conduct any new business except as permitted by the decision of the EU Commission on 18 July 2011.

There was no change in the ownership of the Bank during the first half of 2014.

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 (“EU”).

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.

These unaudited condensed consolidated interim financial statements are prepared on a going concern basis for the reasons set out in note 3 to the unaudited condensed consolidated interim financial statements.

Initially adopted standards, interpretations and amendments The following standards, interpretations and amendments were adopted with an initial application date of 1 January 2014:
- IFRS 10 Consolidated Financial Statements and Amendments to IAS 27 Separate Financial Statements
- IFRS 11 Joint Arrangements and Amendments to IAS 28 Investments in Associates and Joint Ventures
- IFRS 12 Disclosure of Interests in Other Entities
- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities: Transition Guidance
- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements: Investment Entities
- Amendments to IAS 32: Offsetting Financial Assets and Financial Liabilities
- Amendments to IAS 36: Recoverable Amount Disclosures for Non Financial Assets
- Amendments to IAS 39: Novation of Derivatives and Continuation of Hedge Accounting.

IFRS 10 established a new control-based model for consolidation that replaced the existing requirement of both IAS 27 and SIC-12 Consolidation – Special Purpose entities. Under the new requirements an investor controls an investee when (i) it has exposure to variable returns from that investee (ii) it has power over the relevant activities of the investee that affect those returns and (iii) there is a link between that power and those variable returns. The standard includes specific guidance on the question of whether an entity is acting as an agent or principal in its involvement with an investee. Also it is worth noting that the assessment of control is based on all facts and circumstances and is reassessed if there is an indication that there are changes in those facts and circumstances. The new standard, in accordance with the IASB, is applicable for financial years beginning on or after 1 January 2013, but was endorsed in European Law with an effective date of 1 January 2014.

First time adoption of IFRS 10 leads to a change in the group of consolidated companies. The company DEPFA Finance N.V., incorporated in the Netherlands, and whose equity was at the effective date of IFRS 10 wholly owned by Deutsche Pfandbriefbank AG ("pbb"), was previously consolidated by the DEPFA Group under IAS 27 and SIC-12 based on an analysis of the risks and rewards of the entity. Under IFRS 10, applying the criteria for control specified therein and listed above, the DEPFA Group has assessed that it does not control the entity and it has therefore deconsolidated from 1 January 2014. As the transition requirements of IFRS 10 require the standard on initial adoption to be applied retrospectively, the comparative amounts have been restated accordingly. The effects on the statement of financial position at 31 December 2013 and on the income statement for the six month period to 30 June 2013 are as follows:
- Loans and advances to other banks reduced by €–336 million
- Loans and advances to customers increased by €1,253 million
- Liabilities to customers increased by €922 million
- Interest income and similar income increased by €19 million
- Interest expense and similar expenses increased by €19 million
- Other reserves in equity reduced by €–5 million

As referred to in note 47 “Events after the reporting date”, the DEPFA Group agreed to acquire the equity of DEPFA Finance N.V. on 10 July 2014.

IFRS 12 sets out more comprehensive disclosures relating to the nature, risks and financial effects of interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity or operation. The new standard, in accordance with the IASB, is applicable for annual periods beginning on or after 1 January 2013, but was endorsed in European Law with an effective date of 1 January 2014. Arising from the requirements of IFRS 12, additional disclosures are expected in the annual consolidated financial statements.

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 2014 were the same as in the financial statements as at 31 December 2013.

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 May 2014, following the announcement that the DEPFA Group will be transferred by HRE Holding to FMS Wertmanagement, the DEPFA Group changed the estimate of Debit Valuation Adjustments (“DVA”), which are a part of the measurement of derivatives. The change arises from an observable change in the market based parameters used for determining the default risk of the DEPFA Group following the announcement. The total income statement effect in the period from DVA including the change in estimate amounted to €−35 million (2013: €11 million).

03 Critical accounting estimates and judgements

Going concern Following the announcement that the DEPFA Group will be transferred by HRE Holding to FMS Wertmanagement, the directors have considered the appropriateness of the going concern assumption in the preparation of the unaudited condensed consolidated interim financial statements.

The directors understand that the DEPFA Group will be transferred to FMS Wertmanagement as a going concern. The directors consider that the liquidity position of the DEPFA Group is stable and that it continues to be in a position to meet its own funding requirements. The DEPFA Group is not currently dependent on inter-group funding and is expected to be able to meet its obligations as they fall due for a minimum period of one year from the date of this report. The directors have also considered that the regulatory capital ratios are currently and are expected to continue to be significantly in excess of the required minimum ratios for a minimum period of one year from the date of this report. The directors have therefore concluded that it is appropriate to prepare the unaudited condensed consolidated interim financial statements on a going concern basis of accounting.

Apart from the above, the DEPFA Group’s critical accounting estimates and judgements are consistent with those contained within note 4 of the DEPFA Group’s financial statements as at 31 December 2013.

04 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.

At the end of September 2010, the HRE Group including the DEPFA Group concluded the agreements necessary for the transfer with FMS Wertmanagement. The positions were transferred to FMS Wertmanagement with legal and/or economic effect as of 1 October 2010; however, no legal and/or economic transfer was originally intended for some of the positions to be transferred. Instead, such positions were backed by a financial guarantee of FMS Wertmanagement; with the intention to complete a legal and/or economic transfer in this respect at a later date.

The transfer was a non cash transaction between companies under common control.

Whereas most of the transferred positions have resulted in a derecognition at the DEPFA 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 were used to transfer the market risks of existing derivatives, whereas the counterparty risk was retained by the DEPFA Group. These back-to-back derivatives resulted in a significant increase in the derivative position of the DEPFA Group as of 1 October 2010.

An "upgrade" process of the transfer methods for the transactions which did not initially result in a derecognition has continued in 2014.

As part of the process of transferring the positions, pbb also assumed responsibility for managing the transferred portfolios for FMS Wertmanagement as part of a co-operation agreement, whereby pbb also uses services of other subsidiaries of the HRE Group for rendering this service. The co-operation agreement terminated on 30 September 2013.

The DEPFA Group ceased most servicing activities for the FMS Wertmanagement portfolios on this date and successfully completed transfer of this servicing, together with the associated personnel, to FMS Wertmanagement Service GmbH ("FMSW-SG"), an independent servicing company established by FMS Wertmanagement.

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

(a) In the case of some assets it was not possible for beneficial ownership to be transferred to FMS Wertmanagement, which meant that the criteria for derecognition were not satisfied. Furthermore, in the case of derivatives, back-to-back transactions were used to transfer the market price risks of the derivative to FMS Wertmanagement by way of taking out a derivative with offsetting 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 and €59 million was paid by DEPFA BANK plc Group in April 2013 in respect of the financial year 2012. Full provision was made for this amount in the financial statements at 31 December 2012. An amount of €36 million was paid by DEPFA BANK plc Group in April 2014 in respect of the financial year 2013. Full provision was made for this amount in the financial statements at 31 December 2013. Apart from this amount no further provision is considered necessary at 30 June 2014. 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 2014 and 31 December 2013 ("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

€ m	Per statement of financial position 30 June 2014	30 June 2014 FMS WM counter effects	**30 June 2014 Post FMS WM counter effects**	As restated[1] Per statement of financial position 31 December 2013	31 December 2013 FMS WM counter effects	**As restated[1] 31 December 2013 Post FMS WM counter effects**
Assets						
Cash reserve	411	–	411	1,281	–	1,281
Trading assets	7,783	1,034	6,749	6,135	613	5,522
Loans and advances to other banks	4,724	877	3,847	4,777	998	3,779
Loans and advances to customers	9,834	–	9,834	14,907	2,190	12,717
Allowance for losses on loans and advances	−22	–	−22	−100	−69	−31
Losses on loans and advances recoverable under financial guarantees	–	–	–	69	69	–
Financial investments	19,709	–	19,709	19,269	1,035	18,234
Property, plant and equipment	4	–	4	–	–	–
Intangible assets	8	–	8	9	–	9
Other assets	4,066	–	4,066	3,671	–	3,671
Income tax assets	26	–	26	25	–	25
Total assets	**46,543**	**1,911**	**44,632**	**50,043**	**4,836**	**45,207**
Liabilities						
Liabilities to other banks	3,612	–	3,612	5,080	–	5,080
Liabilities to customers	2,449	877	1,572	5,024	3,491	1,533
Liabilities evidenced by certificates	26,776	–	26,776	27,065	–	27,065
Trading liabilities	7,841	1,034	6,807	6,045	613	5,432
Provisions	43	–	43	91	–	91
Other liabilities	2,710	–	2,710	3,530	732	2,798
Income tax liabilities	8	–	8	12	–	12
Subordinated capital	1,079	–	1,079	1,078	–	1,078
Total liabilities	**44,518**	**1,911**	**42,607**	**47,925**	**4,836**	**43,089**
Equity						
Share capital	106	–	106	106	–	106
Share premium	1,142	–	1,142	1,142	–	1,142
Capital reserve	1,500	–	1,500	1,500	–	1,500
Preferred securities	1,136	–	1,136	1,136	–	1,136
Retained earnings	−1,817	–	−1,817	−1,723	–	−1,723
Other reserves	−42	–	−42	−43	–	−43
Total equity	**2,025**	**–**	**2,025**	**2,118**	**–**	**2,118**
Total equity and liabilities	**46,543**	**1,911**	**44,632**	**50,043**	**4,836**	**45,207**

[1] This restatement is in relation to the deconsolidation of DEPFA Finance N.V. as set out in note 2 to these unaudited condensed consolidated interim financial statements.

The principal movements between 31 December 2013 and 30 June 2014 in the counter effects were as follows:

On 3 February 2014 the positions at 31 December 2013 in the tables above comprising "loans and advances to customers" counter effects of €2,190 million, "allowance for losses on loans and advances" of €−69 million and "losses on loans and advances recoverable under financial guarantees" of €69 million were legally transferred to FMS Wertmanagement resulting in their derecognition on the same date.

On 5 March 2014, the positions at 31 December 2013 in the tables above comprising “financial investments” counter effects of €1,035 million were legally transferred to FMS Wertmanagement resulting in their derecognition on the same date.

The positions transferred had previously been backed by financial guarantee by FMS Wertmanagement and the related financial guarantee agreements were also terminated on the transfer dates. No gains or losses arose on the transfers or on termination of the financial guarantee agreements.

On separate dates between 31 December 2013 up to and including 5 March 2014, the amount in the tables above for “liabilities to customers” counter effects of Group €3,491 million had been reduced by €2,763 million due to repayment and termination of liquidity facilities provided to the DEPFA Group by FMS Wertmanagement. No gain or loss arose on the repayments.

Segment reporting

05 Business segments

The internal reporting structure of the DEPFA Group is organised 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 2014 and 2013:

- 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 €−4 million (2013: €−10 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. Gains or losses included in the line item “Net expense from financial investments” from inter segment transfers amounted to €9 million (Nominal: €118 million) (2013: €nil (Nominal: €22 million)). Gains or losses included in the line item “Net interest income” from inter segment transfers amounted to €1 million (Nominal: €90 million) (2013: €nil (Nominal: €150 million)). Other than these items, 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 2014
€ m	DEPFA ACS BANK	Hypo Pfandbrief Bank International S.A.	DEPFA BANK plc and other	**Group**
Net interest income/expense	19	1	−33	−13
Net fee and commission expense/income	−4	–	2	−2
Net trading expense	–	−5	−42	−47
Net expense/income from financial investments	−7	−3	10	–
Net expense/income from hedge relationships	−2	1	3	2
Other operating income	–	–	2	2
Other operating expense	–	–	–	–
Total operating revenues	**6**	**−6**	**−58**	**−58**
Reversal of losses on loans and advances	–	–	5	5
Recovery of losses on loans and advances under financial guarantees	–	–	–	–
General administrative expenses	−16	−3	−29	−48
Other income	–	–	–	–
Pre-tax loss	**−10**	**−9**	**−82**	**−101**
Taxes on income	–	2	5	7
Net loss	**−10**	**−7**	**−77**	**−94**
Statement of financial position by segments				
Assets	30,410	3,260	12,873	46,543
Liabilities	29,785	3,154	11,579	44,518
Cost/Income ratio	>100%	>100%	>100%	>100%

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/expense	51	4	−40	15
Net fee and commission expense/income	−11	–	3	−8
Net trading income/expense	3	−5	15	13
Net expense from financial investments	−1	–	–	−1
Net income/expense from hedge relationships	12	−7	−14	−9
Other operating income	–	–	38	38
Other operating expense	–	–	−4	−4
Total operating revenues	**54**	**−8**	**−2**	**44**
Reversals of 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%

For the purpose of geographical segments, a distinction is made between “Ireland”, “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 and non-current assets by geographical region is presented below:

€ m		Ireland	Rest of Europe	America/Asia	**Group**
Total operating revenues	01.01.–30.06.2014	−69	1	10	−58
	01.01.–30.06.2013	17	16	11	44
Non-current assets	30.06.2014	12	–	–	12
	30.06.2013	11	1	–	12

Notes to the income statement

06 Net interest expense/income

Net interest expense/income € m	Half year ended on 30 June 2014	As restated[1] Half year ended on 30 June 2013
Interest income and similar income		
Lending and money-market business	333	452
Fixed-income securities and government subscribed debt	71	89
Derivatives (net interest income)	123	74
	527	**615**
Interest expense and similar expenses		
Deposits	–161	–167
Liabilities evidenced by certificates	–354	–445
Subordinated capital	–27	–26
	–542	**–638**
Income from buyback of liabilities	**2**	**38**
Net interest expense/income	**–13**	**15**

[1] This restatement is in relation to the deconsolidation of DEPFA Finance N.V. as set out in note 2 to these unaudited condensed consolidated interim financial statements.

Interest income on impaired loans amounted to €nil (2013: €1.6 million).

Net interest expense/income includes net income (net of funding expense) of €1 million (2013: €7 million) related to assets which were recognised on the DEPFA Group statement of financial position as at 31 December 2013 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. As described in note 4, all such positions were transferred to FMS Wertmanagement during the period.

Total interest income for financial assets that are not at fair value through profit or loss, amount to €404 million in 2014 (2013: €541 million). Total interest expense for financial liabilities that are not at fair value through profit or loss amount to €–542 million in 2014 (2013: €–638 million).

Net interest expense/income includes gains from the buyback of liabilities that were redeemed before maturity at prevailing market rates on a reverse enquiry basis of €2 million (2013: €38 million). These liabilities were included on the statement of financial position in "Liabilities evidenced by certificates" and represented a nominal amount of €23 million (2013: €226 million).

07 Net fee and commission expense

Net fee and commission expense € m	Half year ended on 30 June 2014	Half year ended on 30 June 2013
Fee and commission income		
From other lending operations	–	–
	–	**–**
Fee and commission expense		
From other lending operations	−2	−8
	−2	**−8**
Net fee and commission expense	**−2**	**−8**

Net fee and commission expense includes guarantee fees of €−1 million (2013: €−7 million) related to assets which were still recognised on the DEPFA Group statement of financial position as at 31 December 2013 and on which guarantees from FMS Wertmanagement have been received. This amount is offset in "Net interest expense/income". As described in note 4, all such positions were transferred to FMS Wertmanagement during the period.

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

08 Net trading expense/income

Net trading expense/income € m	Half year ended on 30 June 2014	Half year ended on 30 June 2013
From interest rate instruments and related interest and foreign exchange derivatives	−47	12
From credit risk instruments and related derivatives	–	1
Total	**−47**	**13**

Included in net trading expense is a net amount of €−30 million (2013: €6 million) in derivative valuation effects relating to counterparty risk parameters including both the credit risk of the counterparty, credit valuation adjustment ("CVA") of €5 million (2013: €−5 million) and the DEPFA Group's own credit risk, debit valuation adjustment ("DVA") of €−35 million (2013: €11 million). The DVA amount for 2014 includes a change in accounting estimate following an observable change in the market based parameters used for determining the default risk of the DEPFA Group following the announcement about the future ownership structure of the DEPFA Group.

Other valuation effects from stand-alone derivatives which do not satisfy the criteria of IAS 39 hedge accounting amounted to €−17 million (2013: €7 million).

09 Net expense from financial investments

Net expense from financial investments € m	**Half year ended on 30 June 2014**	**Half year ended on 30 June 2013**
Income from financial investments	–	–
Expense from financial investments	–	–1
Total	**–**	**–1**

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

Net expense from financial investments € m	**Half year ended on 30 June 2014**	**Half year ended on 30 June 2013**
Loans and receivables	–	–1
Available-for-sale financial investments	–	–
Total	**–**	**–1**

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

10 Net income/expense from hedge relationships

Net income/expense from hedge relationships € m	**Half year ended on 30 June 2014**	**Half year ended on 30 June 2013**
Result from fair value hedge accounting		
Result from hedged items	–488	131
Result from hedging instruments	490	–140
Total	**2**	**–9**

11 Other operating income/other operating expense

€ m	**Half year ended on 30 June 2014**	**Half year ended on 30 June 2013**
Other operating income		
Recharge income from other HRE Group companies	1	38
Foreign exchange gains	1	–
Total	**2**	**38**

Other operating income mainly consists of income of €1 million (2013: €36 million) from final settlement 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 € nil (2013: €2 million). In line with scheduled contract terminations, the DEPFA Group ceased servicing activities for the portfolios of FMS Wertmanagement on 30 September 2013. Foreign exchange gains amounted to €1 million (2013: € nil).

€ m	**Half year ended on 30 June 2014**	**Half year ended on 30 June 2013**
Other operating expense		
Foreign exchange losses	–	–1
Other	–	–3
Total	**–**	**–4**

Other operating expense for 2013 mainly includes provisions created by the DEPFA Group for current and expected litigation €–3 million (2014: € nil). Foreign exchange losses amounted to € nil (2013: €–1 million).

12 General administrative expenses

General administrative expenses € m	Half year ended on 30 June 2014	Half year ended on 30 June 2013
Personnel expenses	**–14**	**–22**
Wages and salaries	–11	–17
Social security costs	–2	–3
Pension expenses and related employee benefit costs	–1	–2
Other general administrative expenses	**–32**	**–26**
Depreciation/amortisation	**–2**	**–3**
On software	–2	–3
On property, plant and equipment	–	–
Total	**–48**	**–51**

The average number of persons employed by the DEPFA Group during the period was 220 (2013: 353).

Pension expenses and related employee benefit costs include €–1 million defined contribution pension plan expenses (2013: €–2 million).

13 Other expense/income

Other expense/income € m	Half year ended on 30 June 2014	Half year ended on 30 June 2013
Reversal of restructuring provision	–	7
Total	**–**	**7**

Other expense/income for 2013 of €7 million is due to the net release of provisions created for the strategic refocusing and restructuring of the DEPFA Group (2014: € nil).

14 Taxes on income

Taxes on income € m	Half year ended on 30 June 2014	Half year ended on 30 June 2013
Current tax	5	–5
Deferred tax	2	4
Total	**7**	**–1**

Current tax for 2014 includes €6 million (2013: € nil) in relation to the reversal of provisions for uncertain tax positions.

Notes to the statement of financial position

15 Cash reserve

Cash reserve

€ m	30.06.2014	31.12.2013
Balances with central banks other than mandatory reserve deposits	385	1,224
Mandatory reserve deposits with central banks	26	57
Total	**411**	**1,281**

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

Mandatory reserve deposits are restricted and are required to be held based on certain regulatory requirements.

16 Trading assets

Trading assets

€ m	30.06.2014	31.12.2013
Debt securities and other fixed-income securities		
Bonds and notes	39	36
Issued by public-sector borrowers	39	36
Thereof: Listed	39	36
Positive fair values from derivative financial instruments (trading book)	56	55
Interest based and foreign currency based transactions	56	55
Others	–	–
Stand-alone derivatives (banking book)	7,688	6,044
Total	**7,783**	**6,135**
Of which transacted with Group companies	78	93

Stand-alone derivatives include derivatives related to FMS Wertmanagement counter effects as described in note 4 to the unaudited condensed consolidated interim financial statements, as well as derivatives which are economically hedging but which do not meet the detailed hedge accounting criteria under IFRSs.

Amounts transacted with Group companies in the DEPFA Group statement of financial position comprise derivatives transacted with other entities in the HRE Group.

17 Loans and advances to other banks

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

€ m	30.06.2014	As restated[1] 31.12.2013
Public sector loans	524	1,300
Other loans and advances	4,200	3,477
Total	**4,724**	**4,777**
Of which due from Group companies	8	75

[1] This restatement is in relation to the deconsolidation of DEPFA Finance N.V. as set out in note 2 to these unaudited condensed consolidated interim financial statements.

Other loans and advances primarily comprise of cash collateral balances in relation to derivative transactions, reverse repos, loans to Group companies and nostro balances.

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 other banks broken down by maturities as follows: € m	30.06.2014	As restated[1)] 31.12.2013
Repayable on demand	3,127	2,770
With agreed maturities		
up to 3 months	1,065	399
from 3 months to 1 year	175	1,156
from 1 year to 5 years	357	452
Total	**4,724**	**4,777**

1) This restatement is in relation to the deconsolidation of DEPFA Finance N.V. as set out in note 2 to these unaudited condensed consolidated interim financial statements.

Cash collateral placed in relation to derivative transactions is classified as “Repayable on demand”.

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

18 Loans and advances to customers

Loans and advances to customers are broken down by type of business as follows: € m	30.06.2014	As restated[1)] 31.12.2013
Public sector loans	9,825	14,886
Other loans and advances	9	21
Total	**9,834**	**14,907**
Of which due from Group companies	1,227	1,253

1) This restatement is in relation to the deconsolidation of DEPFA Finance N.V. as set out in note 2 to these unaudited condensed consolidated interim financial statements.

Other loans and advances comprises cash collateral placed in relation to derivatives.

Loans and advances to customers broken down by maturities as follows: € m	30.06.2014	As restated[1)] 31.12.2013
Repayable on demand	9	21
With agreed maturities		
up to 3 months	666	280
from 3 months to 1 year	502	1,391
from 1 year to 5 years	1,415	1,941
from 5 years and over	7,242	11,274
Total	**9,834**	**14,907**

1) This restatement is in relation to the deconsolidation of DEPFA Finance N.V. as set out in note 2 to these unaudited condensed consolidated interim financial statements.

19 Allowance for losses on loans and advances

Movement in allowance for losses on loans and advances:

Specific allowance for losses on loans and advances		
€ m	**2014**	**2013**
At 1 January	**−69**	**−71**
Reversals/(Additions) of specific allowance	–	2
Transfer to FMS Wertmanagement	69	–
At 30 June/31 December	**–**	**−69**

Portfolio allowance for losses on loans and advances		
€ m	**2014**	**2013**
At 1 January	**−31**	**−31**
Releases of portfolio allowance	5	–
Amounts used	4	–
At 30 June/31 December	**−22**	**−31**
Total allowance for losses on loans and advances	**−22**	**−100**

Losses on loans and advances recoverable under financial guarantees		
€ m	**2014**	**2013**
At 1 January	**69**	**69**
Transfer to FMS Wertmanagement	−69	–
At 30 June/31 December	**–**	**69**

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.

On 3 February 2014, the guaranteed loans to which the recovery of losses relate were legally transferred to FMS Wertmanagement resulting in their derecognition on the same date. The related financial guarantee was also terminated on the same date. No gains or losses arose on the transfers or the termination of the financial guarantee.

Interest accrued on impaired loans at 30 June 2014 was € nil (31 December 2013: €1.1 million).

Carrying amounts of loans and advances

Carrying amounts of loans and advances		
€ m	**30.06.2014**	**As restated[1] 31.12.2013**
Carrying amount of loans and advances that are neither impaired nor past due	14,558	19,597
Carrying amount of loans and advances that are past due but not impaired	–	–
Carrying amount of individually assessed impaired loans and receivables	–	87
Total	**14,558**	**19,684**
Of which loans and advances to other banks	4,724	4,777
Of which loans and advances to customers	9,834	14,907

[1] This restatement is in relation to the deconsolidation of DEPFA Finance N.V. as set out in note 2 to these unaudited condensed consolidated interim financial statements.

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	30.06.2014	As restated[1] 31.12.2013
Loan loss allowances (net of recovery of losses under financial guarantees)	−22	−31
Volume of total lending	14,536	19,653
Provision ratio	**−0.15%**	**−0.16%**

[1] This restatement is in relation to the deconsolidation of DEPFA Finance N.V. as set out in note 2 to these unaudited condensed consolidated interim financial statements.

Loans and advances past due but not impaired At 30 June 2014 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	30.06.2014	31.12.2013
Assets: past due but not impaired (due amount)		
Past due but not impaired less than 90 days	–	–
Past due but not impaired between 3 months and 6 months	–	–
Past due but not impaired between 6 months and 1 year	–	–
Past due but not impaired greater than 1 year	–	–
Total	**–**	**–**
Assets: past due but not impaired (total investment)		
Past due but not impaired less than 90 days	–	–
Past due but not impaired between 3 months and 6 months	–	–
Past due but not impaired between 6 months and 1 year	–	–
Past due but not impaired greater than 1 year	–	–
Total	**–**	**–**
Net carrying amount of the individually assessed impaired financial assets		
Loans	–	87
Total	**–**	**87**

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.

20 Financial investments

Financial investments broken down by type as follows:

€ m	30.06.2014	31.12.2013
AfS financial investments	**19**	**19**
Debt securities and other fixed-income securities	19	19
Group undertakings	–	–
Shares in Group undertakings	–	–
LaR financial investments	**19,690**	**19,250**
Debt securities and other fixed-income securities	19,690	19,250
Total	**19,709**	**19,269**

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

Financial investments broken down by maturities as follows:

€ m	30.06.2014	31.12.2013
Unspecified maturity	–	–
With agreed maturities		
up to 3 months	1,463	77
from 3 months to 1 year	1,409	2,198
from 1 year to 5 years	3,331	4,163
from 5 years and over	13,506	12,831
Total	**19,709**	**19,269**

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 €5.503 billion matured. Thereof, €4.112 billion relate to reclassified AfS financial investments and €1.391 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 2014, net interest income contains €1.0 million (30 June 2013: €2.3 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 €37.651 billion were transferred to FMS Wertmanagement or sold. A net loss of €–36.78 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 4.16 % (2013: 5.07 % and 4.16 %). The effective interest rate for corresponding AfS assets of the DEPFA Group was between 6.35 % and 0.51 % (2013: 6.35 % and 0.51 %).

The following tables summarise the carrying amounts and fair values for the DEPFA Group as of 30 June 2014 as well as fair value gains and losses that would have been recognised at 30 June 2014 if the financial assets had not been reclassified:

Reclassifications	into: Financial investments LaR			Effect in reporting period if no assets would have been reclassified (01.01.2014 to 30.06.2014)	
		30.06.2014			
€ m	Reclass date	Carrying amount	Fair value	Income statement	Changes in AfS reserve (after taxes)
out of:	01.07.2008	–	–	–	–
HfT financial investments	01.10.2008	44	45	–	–
		44	**45**	**–**	**–**
out of: AfS financial investments	01.07.2008	6,577	6,506	–	46
Total		**6,621**	**6,551**	**–**	**46**

Reclassifications	into: Financial investments LaR			Effect in reporting period if no assets would have been reclassified (2013)	
		31.12.2013			
€ m	Reclass date	Carrying amount	Fair value	Income statement	Changes in AfS reserve (after taxes)
out of:	01.07.2008	–	–	–	–
HfT financial investments	01.10.2008	43	44	–1	–
		43	**44**	**–1**	**–**
out of: AfS financial investments	01.07.2008	6,513	6,387	–	134
Total		**6,556**	**6,431**	**–1**	**134**

There were no past due but not impaired financial investments for 2014 (2013: € nil).

The carrying amount of the AfS and LaR financial investments that are neither past due nor impaired comes to €19.7 billion (2013: €19.3 billion) for the DEPFA Group.

21 Property, plant and equipment

Property, plant and equipment		**2014**		**2013**
€ m	Fixtures, fittings and equipment	**Total**	Fixtures, fittings and equipment	**Total**
Cost				
At 1 January	**19**	**19**	**23**	**23**
Additions/Disposals	4	4	−4	−4
At 30 June/31 December	**23**	**23**	**19**	**19**
Accumulated depreciation				
At 1 January	**19**	**19**	**22**	**22**
Additions/Disposals	–	–	−3	−3
Charge for period/year	–	–	–	–
At 30 June/31 December	**19**	**19**	**19**	**19**
Net book value				
At 30 June/31 December	**4**	**4**	**–**	**–**

The DEPFA Group did not hold any property in 2014 and 2013.

22 Intangible assets

Intangible assets € m	**2014**	**2013**
Cost		
At 1 January	**48**	**46**
Additions	1	2
At 30 June/31 December	**49**	**48**
Accumulated depreciation		
At 1 January	**39**	**34**
Charge for period/year	2	5
At 30 June/31 December	**41**	**39**
Net book value		
At 30 June/31 December	**8**	**9**

The intangible assets mostly comprise purchased software.

23 Other assets

Other assets € m	**30.06.2014**	**31.12.2013**
Positive fair values from derivative financial instruments		
Hedging derivatives (micro fair value hedges)	4,056	3,663
Other assets	10	8
Total	**4,066**	**3,671**
Of which due from Group companies	3	3

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

24 Income tax assets

Income tax assets € m	30.06.2014	31.12.2013
Current tax assets	21	22
Deferred tax assets	5	3
Total	**26**	**25**

Deferred tax assets and deferred tax liabilities are offset on the statement of financial position where they arise in a Group entity for which it has been determined that there is a legally enforceable right to set off current tax assets against current tax liabilities.

25 Liabilities to other banks

Liabilities to other banks broken down by maturities as follows: € m	30.06.2014	31.12.2013
Repayable on demand	3,274	2,717
With agreed maturities		
up to 3 months	142	1,986
from 3 months to 1 year	29	113
from 1 year to 5 years	145	177
from 5 years and over	22	87
Total	**3,612**	**5,080**
Of which due to Group companies	47	55

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

Cash collateral received in relation to derivative transactions is classified as “Repayable on demand”.

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

26 Liabilities to customers

Liabilities to customers broken down by maturities as follows: € m	30.06.2014	As restated[1)] 31.12.2013
Repayable on demand	894	745
With agreed maturities		
up to 3 months	5	–
from 3 months to 1 year	–	–
from 1 year to 5 years	87	19
from 5 years and over	1,463	4,260
Total	**2,449**	**5,024**

[1)] This restatement is in relation to the deconsolidation of DEPFA Finance N.V. as set out in note 2 to these unaudited condensed consolidated interim financial statements.

Cash collateral received in relation to derivative transactions is classified as “Repayable on demand”.

27 Liabilities evidenced by certificates

Liabilities evidenced by certificates are broken down by type of business as follows:

€ m	30.06.2014	31.12.2013
Debt securities in issue		
Public sector bonds	24,873	25,155
Other debt securities	1,874	1,880
Money market securities	29	30
Total	**26,776**	**27,065**

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

€ m	30.06.2014	31.12.2013
With agreed maturities		
up to 3 months	123	142
from 3 months to 1 year	4,129	891
from 1 year to 5 years	10,632	13,200
from 5 years and over	11,892	12,832
Total	**26,776**	**27,065**

28 Trading liabilities

Trading liabilities

€ m	30.06.2014	31.12.2013
Negative fair values from derivative financial instruments (trading book)	75	73
of which: Interest based and foreign currency based transactions	75	73
Other trading liabilities	68	69
Stand-alone derivatives (banking book)	7,698	5,903
Total	**7,841**	**6,045**
Of which transacted with Group companies	–	–

Stand-alone derivatives include derivatives related to FMS Wertmanagement counter effects as described in note 4 to the unaudited condensed consolidated interim financial statements, as well as derivatives which are economically hedging but which do not meet the detailed hedge accounting criteria under IFRSs.

Amounts transacted with Group companies in the DEPFA Group statement of financial position comprise derivatives transacted with other entities in the HRE Group.

29 Provisions

Provisions € m	30.06.2014	31.12.2013
Pensions and similar obligations	1	1
Restructuring	16	17
FMS Wertmanagement (“WM”) related	1	33
IT Separation	13	27
Other	12	13
Total	**43**	**91**

The DEPFA Group operates two types of pension schemes – defined benefit schemes and defined contribution schemes. Provisions for pensions and similar obligations related to defined benefit schemes for which former employees have a direct commitment from the DEPFA Group and a pension provision is created for this purpose. The pension obligation is unfunded.

Development of restructuring and other provisions

Provisions				2014				2013
€ m	Restructuring	FMS WM related	IT Separation	Other	Restructuring	FMS WM related	IT Separation	Other
At 1 January	**17**	**33**	**27**	**13**	**26**	**38**	**17**	**66**
Additions	1	–	–	–	1	19	12	3
Transfer	–	–	–	–	1	3	–	−4
Releases	−1	−1	–	–	−8	−14	–	−52
Amounts used	−1	−31	−14	−1	−3	−14	−2	–
Unwind of discount	–	–	–	–	–	1	–	–
At 30 June/31 December	**16**	**1**	**13**	**12**	**17**	**33**	**27**	**13**

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.

FMS Wertmanagement related provisions contain obligations related to the transfer of assets and liabilities to FMS Wertmanagement.

IT Separation provisions contain obligations in connection with the separation of the DEPFA Groups’s IT infrastructure from that of the HRE Group.

Legal and arbitration proceedings The DEPFA Group is exposed to potential risks arising from litigation and other proceedings in which it is currently involved. In particular, risks may arise from the following proceedings and where considered necessary, appropriate provisions have been recorded and included in Other provisions:

Legal action began in April 2014 before the High Court in England as a result of two credit default swap transactions with Kommunale Wasserwerke Leipzig GmbH (“KWL”). DEPFA BANK plc, a further bank and KWL are involved. The former managing directors of KWL are alleged to have exceeded their powers when the transactions were concluded. The alleged damage was originally quantified at approximately €116 million.

Two former employee of DEPFA BANK plc Rome branch (together with certain employees of three other banks) were convicted (with suspended sentences) of having defrauded the City of Milan in connection with derivative transactions entered into by the banks with the City between 2005 and 2007. Summary judgement was handed down on 19 December 2012. DEPFA BANK plc was fined €1 million and a further sum of €24 million ordered to be confiscated relating to alleged "profits from the crime". The criminal trial started in May 2010 at the Criminal Court of First Instance in Milan. The prosecutor alleged that the derivative transactions included hidden fees for the banks causing unjustifiable enrichment for the banks to the detriment of the City of Milan. DEPFA BANK plc, as well as the other banks, was joined as an accused party under Italian Administrative law no. 231 for allegedly failing to have appropriate organisational controls in place to avoid crimes of their employees. DEPFA BANK plc appealed the judgement which was heard in the Milan Court of Appeal from 30 January 2014 to 7 March 2014. On 7 March 2014 the Court of Appeal issued its summary judgement fully acquitting all the accused individuals and the banks of the charges. Provisions made by the DEPFA Group in relation to these proceedings were accordingly released at 31 December 2013. The Milan Public Prosecutor did not file any appeal within the time allowed and so this case is now closed.

Certain other derivative transactions with public sector counterparties are already or may become the subject of litigation or other legal proceedings.

The DEPFA Group considers that appropriate provision has been made for the obligations related to litigation and other legal risks. The provision amounts related to the litigation and other legal risks and to obligations arising from the sale of certain receivables are not separately presented as, in the view of the directors, to do so could be expected to prejudice the position of the DEPFA Group in relation to these issues.

30 Other liabilities

Other liabilities

€ m	30.06.2014	31.12.2013
Negative fair values from derivative financial instruments		
Hedging derivatives (micro fair value hedges)	2,664	3,441
Other liabilities	46	89
Total	**2,710**	**3,530**
Of which due to Group companies	48	49

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

31 Income tax liabilities

Income tax liabilities

€ m	30.06.2014	31.12.2013
Current tax liabilities	3	9
Deferred tax liabilities	5	3
Total	**8**	**12**

Deferred tax assets and deferred tax liabilities are offset on the statement of financial position where they arise in a group entity for which it has been determined that there is a legally enforceable right to set off current tax assets against current tax liabilities.

32 Subordinated capital

Subordinated capital € m	30.06.2014	31.12.2013
Subordinated liabilities	1,079	1,078
Total	**1,079**	**1,078**
Of which due to Group companies	–	–

Subordinated capital broken down by maturities as follows: € m	30.06.2014	31.12.2013
With agreed maturities	**719**	**718**
from 3 months to 1 year	10	10
from 1 year to 5 years	650	650
from 5 years and over	59	58
No fixed maturity	**360**	**360**
Total	**1,079**	**1,078**

The subordinated capital is analysed by nominal, maturity and interest rate below:

Subordinated liabilities € m Issuer maturity	Interest rate	30.06.2014	31.12.2013
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.

33 Share capital and share premium

Share capital and share premium € m	Number of Shares in issue	Ordinary Shares	Share premium	Total
At 30 June 2014	353,019,720	106	1,142	**1,248**
At 31 December 2013	353,019,720	106	1,142	**1,248**

The total authorised number of ordinary shares at 30 June 2014 was 16,666,333,330 (31 December 2013: 16,666,333,330) with a par value of €0.30 per share (31 December 2013: €0.30 per share). All issued shares are fully paid.

The total authorised number of non-cumulative redeemable preference shares at 30 June 2014 was 10,000,000 (31 December 2013: 10,000,000) with a par value of €0.01 per share (31 December 2013: €0.01 per share). No non-cumulative redeemable preference shares have been issued to date.

34 Capital reserve

Capital reserve € m	30.06.2014	31.12.2013
Total	**1,500**	**1,500**

This reserve comprises capital contributions from the parent company, Hypo Real Estate Holding AG, which are considered distributable.

35 Preferred securities

Preferred securities € m	30.06.2014	31.12.2013
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	30.06.2014	31.12.2013
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 2014 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 2014.

Similarly, on 23 May 2014 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 2014.

36 Retained earnings

Retained earnings € m	2014	2013
At 1 January	**−1,723**	**−1,723**
Net loss/income	−94	36
Annual state aid compensation	–	−36
At 30 June/31 December	**−1,817**	**−1,723**

37 Other reserves

Other reserves € m	30.06.2014	As restated[1] 31.12.2013
Unrealised losses/gains from available-for-sale investment securities	−39	−39
Accumulated currency translation reserve	−3	−4
Total	**−42**	**−43**

[1] This restatement is in relation to the deconsolidation of DEPFA Finance N.V. as set out in note 2 to these unaudited condensed consolidated interim financial statements.

Unrealised losses/gains from available-for-sale investment securities € m	2014	2013
At 1 January	**−39**	**−42**
Net gains/losses transferred to net income, net of tax	–	3
At 30 June/31 December	**−39**	**−39**

Accumulated currency translation and other reserve € m	2014	As restated[1] 2013
At 1 January	**−4**	**−3**
Net gain from currency translation	1	−1
At 30 June/31 December	**−3**	**−4**

[1] This restatement is in relation to the deconsolidation of DEPFA Finance N.V. as set out in note 2 to these unaudited condensed consolidated interim financial statements.

Notes to the financial instruments

38 Derivative financial instruments

Derivative financial instruments

€ m	30.06.2014	31.12.2013
Assets		
Trading assets (note 16)	7,744	6,099
Other assets (note 23)	4,056	3,663
Total assets	**11,800**	**9,762**
Liabilities		
Trading liabilities (note 28)	7,773	5,976
Other liabilities (note 30)	2,664	3,441
Total liabilities	**10,437**	**9,417**

Derivatives are contracts or agreements whose values are determined on the basis of changes in an underlying variable, such as interest rates, foreign exchange rates, securities prices, financial and commodity indices or other variables. The timing of cash receipts and payments for derivatives is generally determined by contractual agreement. Derivatives are either standardised contracts traded on exchanges or over-the-counter ("OTC") contracts agreed individually by the parties to the contract. Futures and certain options are examples of standard exchange-traded derivatives. Forwards, swaps and other option contracts are examples of OTC derivatives. OTC derivatives are not freely tradable. In the normal course of business, however, they may be terminated or assigned to another counterparty if the current party to the contract agrees.

Derivatives may be used for trading purposes or for risk management purposes. The DEPFA Group uses derivative financial instruments primarily as a means of hedging the risk associated with asset/liability management in the context of interest bearing transactions. Interest rate derivatives are primarily entered into to hedge the fair value interest rate risk in fixed-rate securities, loans extended, promissory note loans and debt securities in issue. Derivatives are also entered into, to a lesser extent, for the purpose of hedging foreign currency risks. Foreign exchange risks are primarily hedged by means of suitable fair value hedges for securities, loans extended and debt securities in issue. However, some derivatives used for risk management purposes do not qualify for hedge accounting and are therefore classified as part of the "trading portfolio" in the DEPFA Group financial statements.

Derivatives used by the DEPFA Group include:
- Interest rate and cross currency swaps
- Interest rate options
- Forward foreign exchange contracts
- Credit default swaps

Interest rate swaps involve the exchange of fixed and variable rate interest payments between two parties at specified times based on a common nominal amount and maturity date. The nominal amounts are normally not exchanged.

Cross currency swaps have nominal amounts in two different currencies. The interest is paid in these two currencies. An exchange of the nominal amount often takes place at the beginning and at the end of the contract.

Interest rate risks reflect the material risks associated with such contracts. Where these are OTC transactions, counterparty default risk also exists.

Interest rate options are contracts that allow the purchaser to enter into contracts on financial instruments or to buy or sell an underlying variable, at a specified price at a specified point of time. The option writer is obligated to buy, sell or enter into a financial instrument if the purchaser chooses to exercise the option. Option contracts purchased or written by the DEPFA Group include caps and floors which are interest rate hedging instruments, as the agreed payment covers the difference in interest between the agreed interest rate and the market rate. Exposure to current and future movements in interest rates and the ability of the counterparties to meet the terms of the contracts represent the primary risks associated with interest rate options.

Forward foreign exchange contracts involve an agreement to exchange two currencies at a specific price and date agreed in advance. Exposure to changes in foreign currency exchange rates and foreign interest rates and the counterparty default risk are the primary risks associated with forward foreign exchange contracts.

Credit default swaps are contracts which transfer credit risk on an underlying reference asset or group of assets from one party to another in exchange for a fee. The material risk from credit default swaps is exposure to changes in the credit risk of the underlying reference asset and the ability of the counterparties to meet the terms of the contracts.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the DEPFA Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market factors such as interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below.

Volume of derivatives at 30 June 2014				**Notional amount**		**Fair value**
	Remaining maturities					
€ m	Less than 1 year	1 to 5 years	More than 5 years	**Total**	Positive fair values	Negative fair values
Interest based transactions						
OTC products	**18,839**	**20,596**	**48,886**	**88,321**	**11,180**	**10,223**
Interest rate swaps	18,839	20,438	48,767	88,044	11,178	10,221
Call options	–	89	–	89	2	–
Put options	–	69	119	188	–	2
Other interest rate contracts	–	–	–	–	–	–
Foreign currency based transactions						
OTC products	**3,019**	**2,168**	**1,179**	**6,366**	**620**	**214**
Spot and forward currency transactions	2,296	–	–	2,296	2	31
Interest rate/currency swaps	723	2,168	1,179	4,070	618	183
Other transactions						
OTC products	**10**	**–**	**–**	**10**	**–**	**–**
Credit derivatives	10	–	–	10	–	–
Total	**21,868**	**22,764**	**50,065**	**94,697**	**11,800**	**10,437**

Volume of derivatives at 31 December 2013	Notional amount				Fair value	
	Remaining maturities					
€ m	Less than 1 year	1 to 5 years	More than 5 years	**Total**	Positive fair values	Negative fair values
Interest based transactions						
OTC products	**15,749**	**25,947**	**52,330**	**94,026**	**9,078**	**9,208**
Interest rate swaps	15,749	25,644	52,105	93,498	8,958	9,071
Call options	–	89	–	89	2	–
Put options	–	69	119	188	–	2
Other interest rate contracts	–	145	106	251	118	135
Foreign currency based transactions						
OTC products	**3,058**	**2,466**	**1,174**	**6,698**	**684**	**209**
Spot and forward currency transactions	2,447	–	–	2,447	34	43
Interest rate/currency swaps	611	2,466	1,174	4,251	650	166
Other transactions						
OTC products	**20**	**–**	**–**	**20**	**–**	**–**
Credit derivatives	20	–	–	20	–	–
Total	**18,827**	**28,413**	**53,504**	**100,744**	**9,762**	**9,417**

Derivatives counterparties	30.06.2014		31.12.2013	
€ m	Positive fair values	Negative fair values	Positive fair values	Negative fair values
OECD banks	8,512	7,187	7,247	6,163
OECD financial institutions	3,243	3,188	2,470	3,193
Other companies	45	62	45	61
Total	**11,800**	**10,437**	**9,762**	**9,417**

Derivatives with Group companies included in the above are:

Derivatives with Group companies	30.06.2014		31.12.2013	
€ m	Positive fair values	Negative fair values	Positive fair values	Negative fair values
OECD banks	78	28	93	35

Fair values appear as sum of positive and negative amounts per contract, from which no pledged security has been deducted and no netting agreements have been taken into consideration.

39 Transfers of financial assets and collateral pledged or held

In the ordinary course of its business the DEPFA Group enters into transactions that result in the transfer of financial assets that consist primarily of debt securities classified as financial investments, loans and advances to other banks and loans and advances to customers. The transferred assets continue either to be recognised in their entirety or to the extent of the DEPFA Group's continuing involvement or are derecognised in their entirety.

As described in note 4, in addition to the transfer of financial assets in the ordinary course of business, in 2010 the HRE Group, including the DEPFA Group, transferred certain non strategic positions to a deconsolidated environment, FMS Wertmanagement.

Transferred financial assets that are not derecognised

Sale and repurchase agreements

Sale and repurchase agreements ("repos") are transactions in which the DEPFA Group sells a security and simultaneously agrees to repurchase it at a fixed price on a future date. The DEPFA Group continues to recognise the securities in their entirety in the statement of financial position because it retains substantially all the risks and rewards of ownership. The obligation to pay the repurchase price is recognised as a financial liability. As the DEPFA Group sells the contractual rights to the cash flows of the securities it does not have the ability to use the transferred assets during the term of the arrangement.

The following table sets out an overview of carrying amounts related to transferred financial assets that are not derecognised in their entirety and the associated liabilities:

€ m	30.06.2014	31.12.2013
Trading assets	–	–
Financial investments	–	1,926
Total	**–**	**1,926**

Carrying amounts of associated liabilities		
€ m	30.06.2014	31.12.2013
Liabilities to other banks	–	1,886
Total	**–**	**1,886**

In addition to the above assets that are transferred, the DEPFA Group has also pledged assets with a carrying amount of €237 million (2013: €252 million) in relation to certain Guaranteed Investment Contract liabilities and € nil (2013: € nil) of assets are pledged to central banks where no funding has been drawn at 30 June 2014 or 31 December 2013.

Transferred assets that are derecognised in their entirety

In general, the DEPFA Group has no continuing involvement in transferred and derecognised assets.

As described in note 4, the DEPFA Group has transferred certain non strategic assets to the deconsolidated environment, FMS Wertmanagement. As part of the process of transferring positions, pbb also assumed the responsibility for providing certain servicing activities for the transferred portfolios and pbb also used services of other subsidiaries of the HRE Group including DEPFA BANK plc for rendering this service. DEPFA BANK plc received compensation on an arm's length basis for providing the servicing activities. The DEPFA Group has recorded income of €1 million in 2014 (2013: €45 million) for the servicing activities. Cumulatively as at 30 June 2014 the DEPFA Group has recorded income of €258 million (to 31 December 2013: €257 million). The asset servicing by the DEPFA Group was discontinued at the end of September 2013.

In relation to the transferred assets to which the continuing involvement of the servicing activity relates, the carrying value and fair value of the continuing involvement at 30 June 2014 is € nil. The DEPFA Group has no exposure to loss on the related assets and there are no obligations to repurchase the derecognised assets.

Collateral held that may be sold or repledged

The fair value of collateral received that may be resold or pledged in the absence of default amounted to €0.889 billion as of 30 June 2014 (2013: €0.192 billion). The DEPFA Group received the collateral as part of repurchase agreements and is principally obliged to return the collateral to the grantor.

Other pledges and charges on assets

During 2010, DEPFA BANK plc migrated to the TARGET 2 system, which is a wholesale payment infrastructure for credit institutions across Europe. TARGET 2 is a real time gross settlement system for large volume interbank payments in Euro. The following disclosures relate to the charges arising as a result of the migration to TARGET 2.

1. On 5 February 2010, a first floating charge was placed in favour of the Central Bank of Ireland ("CBI") over all of DEPFA BANK plc's right, title, interest and benefit, present and future, in and to the balances then or at any time standing to the credit of DEPFA BANK plc's account held as a TARGET 2 participants with the CBI (the "Charged Account Property").

   This floating charge contains provisions whereby during the subsistence of the security, otherwise than with the prior written consent of the CBI, DEPFA BANK plc shall:
   (a) not create or attempt to create or permit to arise or subsist any encumbrance on or over the Charged Account Property or any part thereof; or
   (b) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the Charged Account Property or any part thereof or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

2. On 5 February 2010, a first floating charge was placed in favour of the CBI over all DEPFA BANK plc's right, title, interest and benefit, present and future, in and to certain segregated securities (the "Charged Securities Property") listed in an Eligible Securities Schedule kept by DEPFA BANK plc for the purpose of participating in TARGET 2.

   This floating charge contains a provision whereby during the subsistence of the security, otherwise than with the prior written consent of the CBI, DEPFA BANK plc shall:
   (a) not create or attempt to create or permit to arise or subsist any encumbrance on or over the Charged Securities Property or any part thereof; or
   (b) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the Charged Securities Property or any part thereof or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

DEPFA BANK plc remains a participant in TARGET 2. Charge 1 described above over the cash balances in the account remains in place. Charge 2 over certain segregated securities has been terminated and replaced by a new charge following the changes implemented by the CBI under its Eurosystem Credit Operations, as further described below.

The CBI implemented a new collateral management system for Eurosystem Credit Operations with effect from 26 May 2014. Under this new arrangement the Master Repo Agreement ("MRA") signed by DEPFA BANK plc and the CBI as part of the CBI's Documentation on Monetary Policy Instruments and Procedures was terminated and replaced by a Framework Agreement. With effect from 26 May 2014 DEPFA BANK plc's repo operations under the MRA have been replaced by an arrangement for secured lending. Under the terms of the Framework Agreement DEPFA BANK plc executed a new deed of charge. At the same time the deed of floating charge over eligible securities for liabilities arising in TARGET 2 (as referred to above under charge 2) was terminated and the CBI's security replaced by the terms of the new charge as described below.

On 7 April 2014 DEPFA BANK plc granted to the CBI (i) a first fixed charge over all of its present and future rights, title, interest and benefit in and to the Counterparty Collateral Account Assets (as defined therein) and (ii) a first floating charge over all its present and future rights, title, interest and benefit in and to the Other Collateral Pool Assets (as defined therein). This fixed and floating charge also contains a negative pledge provision whereby during the subsistence of the security, otherwise than with the prior written consent of the CBI, DEPFA BANK plc shall:
(a) not create or attempt to create or permit to arise or subsist any encumbrance on or over the charged assets or any part thereof; and
(b) not sell, transfer, lend or otherwise dispose of any of the fixed charge assets or any part thereof or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time; and
(c) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of any of the floating charge assets or any part thereof or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

In the normal course of business relationships with banking and custodian counterparties, other liens and encumbrances can arise on certain assets from time to time.

40 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 at 30 June 2014

€ m	Carrying value	Fair value	Fair value hierarchy level Level 1	Level 2	Level 3
Assets					
Cash reserve	411	411	411	–	–
Trading assets	7,783	7,783	39	7,722	22
Loans and advances to other banks	4,724	4,723	3,577	615	531
Loans and advances to customers (net of allowance)	9,812	9,219	9	3,039	6,171
Loans and advances recoverable under financial guarantees	–	–	–	–	–
Financial investments	19,709	19,306	5,060	8,071	6,175
Category available-for-sale	19	19	19	–	–
Category LaR	19,690	19,287	5,041	8,071	6,175
Other assets – Derivatives	4,056	4,056	–	4,054	2
Total	**46,495**	**45,498**	**9,096**	**23,501**	**12,901**
Liabilities					
Liabilities to other banks	3,612	3,608	3,312	–	296
Liabilities to customers	2,449	2,356	895	525	936
Liabilities evidenced by certificates	26,776	25,717	8,376	4,079	13,262
Trading liabilities	7,841	7,841	–	7,822	19
Other liabilities – Derivatives	2,664	2,664	–	2,637	27
Subordinated capital	1,079	866	–	–	866
Total	**44,421**	**43,052**	**12,583**	**15,063**	**15,406**
Other items					
Contingent liabilities & loan commitments	26	–	–	–	–

Fair value of financial assets and liabilities at 31 December 2013

€ m	As restated[1] Carrying value	As restated[1] Fair value	Fair value hierarchy level As restated[1] Level 1	As restated[1] Level 2	As restated[1] Level 3
Assets					
Cash reserve	1,281	1,281	1,281	–	–
Trading assets	6,135	6,135	36	6,025	74
Loans and advances to other banks	4,777	4,776	2,770	196	1,810
Loans and advances to customers (net of allowance)	14,807	13,568	21	2,999	10,548
Loans and advances recoverable under financial guarantees	69	69	–	–	69
Financial investments	19,269	18,595	4,075	8,662	5,858
Category available-for-sale	19	19	19	–	–
Category LaR	19,250	18,576	4,056	8,662	5,858
Other assets – Derivatives	3,663	3,663	–	3,661	2
Total	**50,001**	**48,087**	**8,183**	**21,543**	**18,361**
Liabilities					
Liabilities to other banks	5,080	5,058	2,717	1,887	454
Liabilities to customers	5,024	4,678	745	469	3,464
Liabilities evidenced by certificates	27,065	24,373	7,775	4,646	11,952
Trading liabilities	6,045	6,045	–	5,971	74
Other liabilities – Derivatives	3,441	3,441	–	3,403	38
Subordinated capital	1,078	823	–	–	823
Total	**47,733**	**44,418**	**11,237**	**16,376**	**16,805**
Other items					
Contingent liabilities & loan commitments	89	–	–	–	–

[1] This restatement is in relation to the deconsolidation of DEPFA Finance N.V. as set out in note 2 to these unaudited condensed consolidated interim financial statements.

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

The above tables have taken account of the financial guarantees for calculating the fair values (economic view). If these financial guarantees were to be disregarded for the DEPFA Group, the item loans and advances to customers would show a fair value which was €nil lower (2013: €475 million) and a contingent receivable from the financial guarantee of €nil (2013: €475 million) would have to be shown.

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 €nil lower (2013: €2,097 million) for the DEPFA Group. As described in note 4, all such positions discussed above were legally transferred to FMS Wertmanagement during the period, which resulted in their dercognition on the date of transfer.

In the tables above, Level 1 balances under the categories Loans and advances to other banks, Liabilities to other banks and Liabilities to customers relate to nostro cash accounts and collateral placed or received in relation to derivative transactions. These positions are considered to be repayable on demand and have interest rates which reset on a daily basis.

Financial assets and liabilities according to measurement categories

€ m	30.06.2014	As restated[1] 31.12.2013
Loans and receivables (net)	34,226	38,903
Available-for-sale	19	19
Held-for-trading	7,783	6,135
Cash reserve	411	1,281
Derivatives (hedging)	4,056	3,663
Total	**46,495**	**50,001**
Held-for-trading	7,841	6,045
Financial liabilities at amortised cost	33,916	38,247
Derivatives (hedging)	2,664	3,441
Total	**44,421**	**47,733**

[1] This restatement is in relation to the deconsolidation of DEPFA Finance N.V. as set out in note 2 to these unaudited condensed consolidated interim financial statements.

The fair value of financial instruments, 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 at the measurement date under current market conditions (i.e. an exit price). The fair values were determined as of the reporting date based on the market information available and on valuation methods described here.

The DEPFA Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1 – inputs that are quoted market prices (unadjusted) in active markets for identical assets and liabilities that the entity can access at the measurement date.
Level 2 – inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3 – inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

For positions measured at fair value in the statement of financial position, there have been no transfers of fair value instruments from Level 2 to Level 1 for the DEPFA Group (2013: € nil). Similarly there have been no transfers of fair value instruments from Level 1 to Level 2 for the DEPFA Group (2013: € nil).

The following table presents the changes in Level 3 fair value instruments for the period for positions measured at fair value in the statement of financial position:

Changes in Level 3 financial assets

			Financial assets
€ m	Trading assets	Hedging derivatives	**Total**
At 1 January 2013	**463**	**2**	**465**
Comprehensive income recognised in income statement	–123	–1	–124
Purchases	–	–	–
Sales	–	–	–
Change due to transfer to FMS Wertmanagement	–259	–	–259
Settlements	–	–	–
Reclassifications into Level 3	–	1	1
Reclassifications out of Level 3	–7	–	–7
At 31 December 2013	**74**	**2**	**76**
At 1 January 2014	**74**	**2**	**76**
Comprehensive income recognised in income statement	3	1	4
Purchases	–	–	–
Sales	–	–	–
Change due to transfer to FMS Wertmanagement	–74	–	–74
Settlements	–	–	–
Reclassifications into Level 3	19	1	20
Reclassifications out of Level 3	–	–2	–2
At 30 June 2014	**22**	**2**	**24**

Changes in Level 3 financial liabilities

	Financial liabilities		
€ m	Trading liabilities	Hedging derivatives	**Total**
At 1 January 2013	**462**	**42**	**504**
Comprehensive income recognised in income statement	–122	–7	–129
Purchases	–	–	–
Sales	–	–	–
Change due to transfer to FMS Wertmanagement	–259	–	–259
Settlements	–	–13	–13
Reclassifications into Level 3	–	16	16
Reclassifications out of Level 3	–7	–	–7
At 31 December 2013	**74**	**38**	**112**
At 1 January 2014	**74**	**38**	**112**
Comprehensive income recognised in income statement	3	–	3
Purchases	–	–	–
Sales	–	–10	–10
Change due to transfer to FMS Wertmanagement	–74	–	–74
Settlements	–	–	–
Reclassifications into Level 3	16	5	21
Reclassifications out of Level 3	–	–6	–6
At 30 June 2014	**19**	**27**	**46**

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.

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 May 2014, following the announcement that the DEPFA Group will be transferred by HRE Holding to FMS Wertmanagement, the DEPFA Group changed the estimate of Debit Valuation Adjustments (“DVA”), which are a part of the measurement of derivatives. The change arises from an observable change in the market based parameters used for determining the default risk of the DEPFA Group following the announcement. The effect in subsequent periods from DVA is not disclosed as estimating it is impracticable.

The table below set out information about measurement methods and observable inputs in measuring financial instruments carried at their fair value and categorised as Level 2 in the fair value hierarchy.

Measurement of Level 2 instruments at 30 June 2014	**Fair Value**			
€ m	Assets	Liabilities	Measurement methods	Observable parameters
Financial assets/liabilities at fair value through profit or loss	**11,776**	**10,459**		
Trading assets/trading liabilities	**7,722**	**7,822**		
	7,409	7,511	DCF models	Cap volatilities
				Credit spread
				Recovery rate
				FX rate
				Swaption volatilities
				Yield curve
	313	311	Option pricing models	Cap volatilities
				CDS spread
				Correlation
				Dividend
				Fixing
				FX volatilities
				Recovery rate
				Seasonality
				Swaption volatilities
				Fixing volatilities
				Yield curve
Fair value hedge derivatives	**4,054**	**2,637**		
	3,423	2,287	DCF models	Yield curve
				Swaption volatilities
	631	350	Option pricing models	Cap volatilities
				Correlation
				FX rate
				FX volatilities
				Swaption volatilities
				CDS spread
				Recovery rate
				Yield curve

The table below set out information about measurement methods and unobservable inputs in measuring financial instruments carried at their fair value and categorised as Level 3 in the fair value hierarchy.

Measurement of Level 3 instruments at 30 June 2014

€ m	Fair Value Assets	 Liabilities	Measurement methods	Observable parameters	Non-observable parameters	Parameter range (weighted average)
Measured at fair value through profit or loss	**24**	**46**				
Trading assets/ trading liabilities	22	19	Option pricing models		EUR EONIA Yield Curve Extrapolation	2.12 %
				Swaption volatilities	GBP OIS Yield Curve Extrapolation	3.32 %
				Yield curve	GBP LIBOR Yield Curve Extrapolation	3.14 %
Fair value hedge derivatives	2	27	Option pricing models	Correlation	Dividend NIKKEI	1.57 %
				FX rate	Dividend STOXX	3.62 %
				FX volatilities	Historical Index – FX correlations	−10.76 % to 9.54 %
					Historical index – index correlations	−11.76 % to 73.10 %
					Historical FX – FX correlations	−1.81 % to 39.77 %
					EUR EONIA Yield Curve Extrapolation	2.12 %
				Yield curve	Vola NIKKEI	24.76 %
					Vola STOXX	16.67 %
					Forward - FX correlations	0.00 %

The estimated fair value of deposits and loans repayable on demand (such as nostro and collateral balances) and the fair value of floating rate placements and overnight deposits at the reporting date is their carrying amount. The table below outlines the valuation methodology of amortised cost positions categorised as Level 2 or Level 3.

Disclosure Requirements for Financial Instruments (FIs) measured at amortised cost

Classes of financial instruments	**Valuation methods for fair value level 2**	Observable parameters	**Valuation methods for fair value level 3**	Observable parameters	Unobservable parameters
Asset					
Loans and Receivables (LaR)	**Quoted prices in active markets**	Quoted prices for proxy trades	**Discounted cash flow models**	Credit spreads	Internal rating classes
	Discounted cash flow models	Credit spreads		Benchmark interest rates	Recovery rates
		Benchmark interest rates		Risk free interest rate	Expected remaining time to maturity
		Risk free interest rate		Future cash flows	Expected future cash flows
		Future cash flows			
Liability					
Financial liabilities (measured at amortised cost)	**Discounted cash flow models**	Future cash flows	**Discounted cash flow models**	Future cash flows	Expected future cash flows
		Credit spreads		Credit spreads	Credit spreads
		Quoted prices for proxy trades		Benchmark interest rates	
		Benchmark interest rates			

By definition, the fair value of Level 3 instruments is dependent on unobservable market data inputs. The following table presents the sensitivity of the fair value of the DEPFA Group Level 3 Instruments to the relevant unobservable market data e.g. correlations or estimated volatility. Sensitivities are quantified according to the DEPFA Group risk policy.

Sensitivities of Level 3 instruments	**30 June 2014**		**31 December 2013**	
€ m	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Assets				
Financial assets at fair value through P&L				
Trading assets	–	–	–	–
Loans and advances to customers	–	–	–	–
Financial investments	–	–	–	–
Derivatives	–	–	–	–
Available-for-sale				
Financial investments	–	–	–	–
Total assets	**–**	**–**	**–**	**–**
Liabilities				
Financial liabilities at fair value through P&L				
Trading liabilities	–	–	–	–
Derivatives	1	–1	–	–1
Total liabilities	**1**	**–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 of each other.

Other notes

41 Contingent liabilities and commitments

Contingent liabilities and other commitments € m	30.06.2014	31.12.2013
Contingent liabilities		
Guarantees and indemnity agreements		
Loan guarantees	26	32
Other commitments		
Irrevocable loan commitments		
Lending business	–	57
Liquidity facility	–	–
Total	**26**	**89**

The above amounts represent nominal exposures.

The DEPFA Group operating lease commitments are consistent with those contained in the DEPFA Group's financial statements as at 31 December 2013.

42 Contingent assets

Contingent assets € m	30.06.2014	31.12.2013
Guarantees and indemnity agreements	–	2,556
Total	**–**	**2,556**

The above table refers to nominal values of guaranteed assets including guaranteed undrawn commitments of € nil (2013: € 54 million) for both the DEPFA Group. All above amounts relate to financial guarantees provided by FMS Wertmanagement, which have been terminated since 31 December 2013 on transfer of the related assets to FMS Wertmanagement as described in note 4 to the unaudited condensed consolidated interim financial statements.

43 Exchange rates as at 30 June 2014

European Central Bank exchange rates as at 30 June 2014 were:

Exchange rates € 1 =		30.06.2014	31.12.2013
Great Britain	GBP	0.8015	0.8337
Japan	JPY	138.4400	144.7200
United States of America	USD	1.3658	1.3791
Switzerland	CHF	1.2156	1.2276

44 Related party transactions

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 2014 and 2013, nor are there any loans outstanding to members of the Board at 30 June 2014 (31 December 2013: € nil).

There has been compensation paid for loss of office to key management of € nil for the period ended 30 June 2014 (2013: € nil).

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.

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 € m	Half year ended on 30 June 2014	Half year ended on 30 June 2013
Interest and similar income	29	11
Interest expense and similar expenses	−25	−9
Other operating income	–	44
General administrative expenses	−10	−10

The amounts above arise on intercompany borrowing 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 on an arm's length basis.

In addition, the "Net trading expense/income" and "Net expense/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.

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 4 "Transfer of non strategic positions to FMS Wertmanagement". The DEPFA Group has acted 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 were affected by the servicing agreements. Both pbb and the DEPFA Group completely discontinued this servicing on 30 September 2013. The DEPFA Group received income of €1 million from final settlement charges to pbb in relation to asset servicing provided by the DEPFA Group on positions transferred to FMS Wertmanagement (30 June 2013: €36 million).

Following the termination of the formal servicing arrangement between the DEPFA Group, pbb and FMS Wertmanagement on 30 September 2013, DEPFA BANK plc and FMS Wertmanagement executed an 'After Sales Agreement' in October 2013 to continue to provide a limited form of servicing between the DEPFA Group entities and FMS Wertmanagement in respect of the positions that were economically transferred by the DEPFA Group to FMS Wertmanagement in 2010 but where a DEPFA Group entity remains the legal counterparty of record. Costs incurred by either party in the delivery of such limited servicing are reimbursed on a 'cost-plus' basis.

45 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 to selected European countries as at 30 June 2014			**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	–	269	26	–	–	**295**	295	295
	Sub-sovereign	LaR	–	–	–	–	10	**10**	10	10
	State-guaranteed	LaR	–	–	–	–	–	**–**	–	–
Italy	Sovereign	LaR	–	1,295	7	121	48	**1,471**	1,202	1,466
	Sub-sovereign	LaR	–	–	2	104	375	**481**	427	426
	State-guaranteed	LaR	–	–	–	–	–	**–**	–	–
Spain	Sovereign	LaR	–	–	–	19	–	**19**	18	20
	Sub-sovereign	LaR	–	37	82	359	2,359	**2,837**	2,653	2,608
	State-guaranteed	LaR	–	–	–	–	123	**123**	123	121
Slovenia	Sovereign	LaR	–	–	–	–	–	**–**	–	–
	Sub-sovereign	LaR	–	–	–	–	–	**–**	–	–
	State-guaranteed	LaR	–	–	–	70	497	**567**	567	499
Belgium	Sovereign	LaR	–	–	–	–	744	**744**	524	718
	Sub-sovereign	LaR	–	–	–	40	217	**257**	237	249
	State-guaranteed	LaR	–	–	–	–	1,185	**1,185**	876	1,140

DEPFA Group's direct sovereign exposure to selected European countries as at 31 December 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	–	1,178	26	–	–	**1,204**	1,204	1,204
	Sub-sovereign	LaR	–	–	–	–	11	**11**	11	10
	State-guaranteed	LaR	–	–	–	–	–	**–**	–	–
Italy	Sovereign	LaR	–	–	1,311	122	47	**1,480**	1,197	1,462
	Sub-sovereign	LaR	–	–	–	154	381	**535**	486	467
	State-guaranteed	LaR	–	–	–	–	–	**–**	–	–
Spain	Sovereign	LaR	–	–	–	19	–	**19**	17	19
	Sub-sovereign	LaR	–	–	109	404	2,359	**2,872**	2,716	2,564
	State-guaranteed	LaR	–	–	–	–	160	**160**	160	157
Slovenia	Sovereign	LaR	–	–	–	–	–	**–**	–	–
	Sub-sovereign	LaR	–	–	–	–	–	**–**	–	–
	State-guaranteed	LaR	–	–	–	70	497	**567**	567	438
Belgium	Sovereign	LaR	–	–	–	–	683	**683**	524	652
	Sub-sovereign	LaR	–	25	–	40	214	**279**	262	265
	State-guaranteed	LaR	–	–	–	–	1,121	**1,121**	895	1,045

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 2014 there was no such objective evidence.

The DEPFA Group did not have any sovereign credit risk exposure to Greece or Portugal as at 30 June 2014 (31 December 2013: € 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 2014 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 40 "Fair values of financial assets and liabilities".

46 Dividends per share

Final dividends are not accounted for until they have been ratified at the Annual General Meeting.

No dividends were paid during the period to 30 June 2014, € nil per share (31 December 2013: € nil).

No dividend is proposed for the period ended 30 June 2014.

47 Events after the reporting date

On 10 July 2014 DEPFA BANK plc agreed to acquire from its sister entity Deutsche Pfandbriefbank AG ("pbb"), the entity DEPFA Finance N.V. with a settlement date of 18 July 2014. DEPFA Finance N.V., which is incorporated in the Netherlands, is a vehicle for the on-lending to the banks in the HRE Group of the proceeds of the preferred securities of three Tier 1 issuing vehicles in the DEPFA Group, namely DEPFA Funding II LP, DEPFA Funding III LP and DEPFA Funding IV LP.

The acquisition, which is accounted for as a common control transaction, was transacted on an arm's length basis with a consideration of €5.56 million paid by DEPFA BANK plc to pbb. This consideration was approximately equivalent to the book value of the equity of DEPFA Finance N.V. at the acquisition date, resulting in an immaterial effect on the equity of the DEPFA Group.

Apart from the above, there have been no notable events after 30 June 2014.

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