DEPFA BANK

Annual Report
2014

Contents

1 Economic review
6 Directors and other information
8 Chief Executive Review 2014

9 **Directors' report**
12 Major events
14 Ratings
16 Business review
30 Strategy
31 Major business activities
32 Events after 31 December 2014
35 Risk management
64 Regulatory capital and capital adequacy ratios
67 Corporate governance statement

72 Statement of directors' responsibilities
74 Responsibility statement, in accordance with the Transparency Regulations
75 Independent Auditor's Report to the Members of DEPFA BANK plc

77 **Financial statements**
78 Consolidated income statement
79 Consolidated statement of comprehensive loss/income
80 Consolidated statement of financial position
81 Company statement of financial position
82 Consolidated statement of changes in equity
82 Company statement of changes in equity
83 Consolidated and Company cash flow statements
84 Notes to the financial statements

Economic review

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

Although continued recovery in the global economy overall (3.3% GDP growth estimated for 2014 following 3.3% growth in 2013) was seen, economic activity generally disappointed as the year progressed. Like 2013, stronger advanced economies offset much of the slack generated from weakening emerging markets. Nonetheless, emerging markets and developing economies continued to contribute more than two-thirds of global growth, even if at a slower pace than in the past. In advanced economies, activity picked up but at varying speeds. The largest growth contribution came from the United States (2.4% annual growth estimated), supported by robust private demand and easing financial conditions, thereby setting the stage for normalisation of monetary policy. In the Euro area, a modest but uneven recovery (0.9% annual growth estimated following a contraction of 0.4% in 2013) took hold. Despite fading fiscal drags and easing financial and credit conditions, growth remained sub-par with sustained weakness in business sector spending. Whilst some core economies continued to expand robustly (Germany, 1.6%), some others were notably weaker as high debt, high unemployment, and credit constraints continued to hold back momentum (France, 0.4%: Italy, –0.4%). The UK grew most robustly (2.6%) whilst Japan fell well short of expectations (0.0%) as the April consumption tax increase took more out of the economy than expected. On a positive note, many of the hardest hit Euro area economies showed strong recoveries (Ireland, 4.6%: Spain, 1.4%: Slovenia 1.3%).

Whilst many of the tail risks associated with the Euro area crisis in 2011–2012 continued to recede, some new challenges emerged. Foremost among them was the risk of prolonged low inflation (or deflation) in the Euro area which has the potential to suppress demand and output, depress growth and jobs, and make the process of restoring competitiveness in stressed economies even harder. This prospect was heightened by the dramatic fall in oil prices in the second half of the year. Whilst positive for growth prospects, most of the focus was on the added disinflationary pressure, thereby increasing the likelihood that deflation could become entrenched. Geopolitics was another key risk during the year, both in Europe and in the Middle East. In particular, the Ukraine/Russia crisis and its potential effect on commodity prices, supply chains, and financial flows managed to suppress sentiment in Europe during the year. Finally, the high and rising leverage in many emerging markets combined with lower growth and fall in commodity prices also weighed on global sentiment as the year progressed.

Policy developments

All major monetary authorities kept interest rates close to zero in 2014, given ongoing signs of economic slack and somewhat uncertain economic prospects. Amid lacklustre activity figures and falling inflation further monetary easing was needed in the Euro area where the European Central Bank ("ECB") announced a number of stimulatory packages. These included cuts in key policy interest rates (including, for the first time negative interest rates on banks' excess reserves), bringing them to their effective lower bound (0.05% for the main refinancing rate and –0.2% for the deposit rate). It also launched a scheme of six Targeted Long-Term Refinancing Operations ("TLTRO") with fixed interest rates and maturities of up to four years and the extension of the fixed-rate-full-allotment procedure for standard refinancing operations at least until the end of 2016. Furthermore, it announced its Asset-Backed Securities Purchase Program ("ABSPP") and the Covered Bond Purchase Program ("CBPP3") and endorsed an eventual balance sheet target of €1 trillion. With limited take-up from the TLTRO combined with limited ABSPP and CBPP3 purchases (less than €35 billion as of year end 2014) it became clear that purchases of sovereign and potentially corporate bonds, or Quantitative Easing ("QE"), was

the only credible way the ECB could expand its balance sheet by the intended €1 trillion. Fiscal and structural reform impetus generally diminished during the year tempered by benign financing conditions, ongoing economic weakness in some countries, reform fatigue as well as a related shift towards more populist political parties across Europe. Meanwhile the European Commission announced a plan that it hopes will result in €315billion of investment projects, the European Fund for Strategic Investments.

As signalled at the end of 2013, the US Federal Reserve ("Fed") started tapering its monthly purchases of government and mortgage backed bonds through the year, finally ending all purchases in October. Despite strong growth and an unemployment rate falling from 6.1% to 5.6% over the course of the year, the Fed failed to signal the next logical step of rate normalisation. Their main rationale has been the lack of inflationary pressure, compounded by the decline in energy prices, as well as some doubts as to the underlying quality of labour market improvement. On the fiscal policy front the United States adopted a budget and debt ceiling extension. However, given the high degree of political polarisation it failed to put in place a durable medium-term fiscal plan. As the Japanese economy fell into technical recession in the third quarter of 2014 policymakers reacted accordingly. In October, the Bank of Japan ("BoJ") increased the size of its asset purchases to JPY80 trillion (previously JPY60–70 trillion) and stated it would extend the average maturity of Japanese Government Bond ("JGB") purchases to about 7–10 years. After launching the final phase of the "three arrows of Abenomics", that is, a new growth strategy, the government also delayed the second consumption tax rate increase (due in October 2015). Meanwhile, amid relatively benign economic and financial conditions, the Bank of England ("BoE") left its base rate of 0.5% and asset purchase target of £375 billion unchanged throughout the year.

Financial market developments

Financial market conditions remained quite benign in 2014, especially in advanced economies as policy settings remained accommodative. Risk appetite remained strong although there were some signs of nervousness towards the end of the year. This low level of volatility was seen in the Chicago Board Options Exchange Market Volatility Index ("VIX"), which averaged close to 14.5 for the year, almost identical to 2013. Although it did increase to peak over 26 in the final quarter, it remained low by historical standards. As the prospects for monetary policy and the economy in Europe and the US diverged, the Euro understandably depreciated against the dollar. Although the currency averaged around the same as in 2013 (1.33 $/€), over the course of the year it depreciated by 12%, starting the year at 1.37 $/€ and finishing at 1.21 $/€. Greater policy accommodation by the BoJ led to a similar depreciation against the dollar, such that its value against the Euro was little changed for the year. Many emerging market currencies weakened also, particularly those of commodity exporters.

In Europe, the high levels of liquidity and perception of reduced tail risks led to ongoing improvements in market confidence for both the public sector and corporates. Sovereign bond yields and spreads continued to tighten and corporate bonds have followed, although most of the benign movements occurred in the first half of the year. The iTRAXX Western Europe Sovereign index fell from 64bps at the end of 2013 to 28 bps at year end 2014. Most of the contraction came from the weaker economies. The largest move was in Portugal, with its year end five year credit default swaps ("CDS") spread (at 202 bps) almost 150 bps lower than a year previous. Substantial reductions were also seen in Slovenia (–148 bps to 134 bps), Ireland (–69 bps to 50 bps) and Spain (–61 bps to 97 bps), whilst Italy was somewhat of a laggard (–32 bps to 137 bps). Meanwhile, interest rates and risk spreads rose in many emerging market economies, with commodity exporters again feeling the most pressure.

The improving risk appetite was also seen in equities, with core markets reaching new highs, most notably in the US where the S&P and Nasdaq were up 11.4% and 13.4% respectively for the year. Performance in Europe was more mixed given the differing trends across the continent, with most gains focused in the first half of the year. Core yields decreased in both the US and Europe as the market pared back expectations of monetary tightening in the face of reduced inflation expectations. The German ten year yield decreased from 1.93% to a record low of 0.54%, whilst the fall was less pronounced in the US (ten year yield decreased from 3.03% to 2.17%) given its more advanced position along the economic cycle. The 5% decline in the average price of oil between 2013 and 2014 masks the almost 50% collapse in oil prices in the second half of 2014. The decline is partly due to unexpected demand weakness in some major economies. More importantly, however, were oil supply factors, including the decision of the Organization of the Petroleum Exporting Countries (“OPEC”) to maintain current production levels despite the steady rise in production from non-OPEC producers, especially the United States. Despite gold’s usual inverse relationship with risk appetite, the correlation seemed to break down in 2014. After posting strong gains in the first half of the year (up 10% to $1,327 per ounce), linked partially to the increase in geopolitical tensions, it fell by 9% in the second half of the year (when risk appetite also receded), due primarily to the general trend of commodity weakness.

Banking sector

Although bank liquidity conditions remained very supportive, this did not translate into expanded credit provision with both demand and supply factors playing a role. In particular, banks’ efforts to advance with balance sheet adjustments ahead of the ECB’s Comprehensive Balance Sheet Assessment (Asset Quality Review and Stress Tests) had a significant impact on the limited supply of credit in 2014. Whilst lending conditions remained tight by historical terms in Europe, banks did indicate that they expected lending conditions to ease into the future. However, there remained much slack on the demand side as evidenced by the lower than expected take-up of the ECB’s TLTRO. Between the first and second phases, the amount drawn was only €210 billion versus an entitlement of around €440 billion. Thus the TLTRO take-up was insufficient to even compensate for the maturing three year Long-Term Refinancing Operations (“LTROs”).

With regard to the ECB Stress Tests, the results, which were published in October 2014, were encouraging. 25 out of 130 participating banks failed the tests which required banks to hold Common Equity Tier 1 (“CET1”) of at least 8% of Risk-Weighted Assets (“RWA”) under the baseline scenario or 5.5% of RWA in the adverse scenario. It was estimated that the latter scenario would deplete €263 billion of bank capital and the median CET1 ratio would fall to 8.3% of RWA, from 12.4%. Overall, the assessment displayed a €25 billion capital hole, but, given that 13 out of 25 banks had already raised capital, the deficit reduced to only €6.35 billion. Moreover, five banks did not need to raise capital as they shrank their balance sheet or are being wound down. The biggest capital shortfalls were in Italy, where Monte dei Paschi di Siena needed to raise €2.1 billion. In Portugal, Banco Commercial Portuguese needed to raise €1.2 billion. The only German bank which failed the test was Münchener Hypothekenbank. It did not need to raise more capital as it has already increased its CET1 by €400 million in the first half of 2014.

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 and the decision process more streamlined and less politically controlled by member states. It will be backed up by a €55 billion Single Resolution Fund ("SRF") that will be built up by levies on banks and will also be able to borrow on the market to increase its firepower. Following the Basel Committee's finding that variations among countries in models used to assess risks is undermining confidence in capital ratios, the ECB said it plans "intrusive" scrutiny of banks' internal risk-weighting models in order to compute risk weights and to eliminate variations across Eurozone countries.

Although the annual average three-month Euribor rate (0.21%) was close to the equivalent value in 2013 (0.22%), this masked a substantial reduction in the rate between its peak in April (0.35%) and its year end rate (0.08%). The absence of major financial stress was also clearly seen in the Euribor to Overnight Index Swap ("OIS") spread (widely used as the barometer of financial stress), which averaged the year just under 14bps. Banking credit risk market indicators showed persistent improvement over the year against the backdrop of the general trend of improving capitalisation levels and the encouraging results of the ECB Stress Tests. Having started 2014 at 87 bps, the Markit iTRAXX Europe Senior Financial five year CDS Index approached 50 bps (which the index has not breached since 2007/2008) and finished the year at 67 bps. Rating trends were generally negative as the implied government support to banks was reduced, especially given the upcoming full implementation of the EU Bank Recovery and Resolution Directive ("BRRD") that includes provisions for burden-sharing with creditors.

Public sector

In general, the fundamentals of the public sector continued to improve during 2014. The stance of fiscal policy in Europe was broadly neutral as policy makers recognised, at least to a certain extent, the need to facilitate growth. Moreover, this move to a more neutral fiscal stance was also forced by sizeable gains for less centrist (and more populist) parties at the expense of the mainstream incumbent governments across the Euro area. Nevertheless, deficit ratios improved due to moderate growth as well as lower financing costs. The estimated general government deficit for the Euro area fell to 2.6% in 2014, from 2.9% in 2013. However, notable exceptions to this improving trend were France and Italy where the economic impulse was less. In the US, the equivalent deficit fell to 5.5% (from 5.8%) whilst in Japan it fell to 7.1% (from 8.2%). The debt-to-GDP ratio continued to increase for most major economies with that of the Euro area reaching 96.4% (66.5% in 2007). In the US the equivalent figure is estimated at 105.6% (64.0% in 2007) whilst for Japan the ratio hit 245.1% (183.0% in 2007). The EU Council closed the Excessive Deficit Procedure ("EDP") for six countries: Austria, Belgium, Czech Republic, Denmark, the Netherlands and Slovakia. The Council also encouraged 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 encouraged France and Italy to step up their reform efforts and lower spending. Despite this, the European Commission's evaluation of 2015 budgets for member states highlighted seven countries (France, Italy, Spain, Belgium, Austria, Portugal and Malta) that were not in line with commission expectations and would be re-evaluated in early 2015 to ensure compliance under the Stability and Growth Pact.

Financing conditions for the public sector were very strong in Europe where compressed credit spreads as well as a downward shift in the yield curve has made for very cheap funding for many public sector entities. Moreover, the market has been easily able to absorb still high financing requirements. In 2014 gross sovereign bond issuance in the Euro area was €905 billion, which, given redemptions of €649 billion, represented net issuance of €256 billion. As well as the aforementioned reduction in German yields, the yield of other major European economies has fallen to historically low levels, for example, ten year yields fell to 0.84% at year end (from 2.56% one year previous) in France, to 1.89% in Italy (from 4.13%) and to 1.61% in Spain (from 4.15%).

One of the more notable developments in the public sector sphere in 2014 was, as part of its restructuring of Hypo Alpe Adria Bank AG ("HAA"), the decision of the Austrian government to invalidate the guarantee (deficiency) which the State of Carinthia had provided on its subordinated debt. This move has still to be fully tested through the courts. Although it has potentially serious implications for other such "grandfathered" debt, the authorities were keen to clarify that the legislation imposed was specific to HAA. Moreover, other countries with similar guarantee arrangements with its banks, most notably Germany, were also keen to highlight that this development or the implementation of the BRRD did not affect the validity of the guarantees which their states have provided.

Directors and other information

Board of Directors
Mr. P. Ryan[1] (Chairman) (appointed 1 January 2015)
Ms. M. Better[1] (German) (resigned 5 June 2014)
Dr. J. Bourke[1] (Chairman) (resigned 31 December 2014)
Mr. E. A. Brockhaus[1] (German) (appointed 12 September 2014)
Ms. F. Flannery
Mr. T. Glynn (American) (resigned 19 December 2014)
Mr. W. Groth[1] (German)
Mr. F. Hellwig[1] (German) (appointed 19 December 2014)
Dr. H. Horn (German) (appointed 19 December 2014)
Mr. A. Kearns[1]
Mr. C. Müller[1] (German) (appointed 19 December 2014)
Mr. N. Reynolds
Dr. P. Schad (German) (appointed 19 December 2014)
Mr. A. von Uslar-Gleichen[1] (German) (resigned 16 May 2014)
Dr. H. Walter[1] (German) (resigned 4 February 2015)

[1] Non-Executive

Audit Committee
Ms. M. Better (resigned 5 June 2014)
Mr. W. Groth (appointed 5 June 2014)
Mr. A. Kearns (Chairman)
Mr. C. Müller (appointed 10 February 2015)
Dr. H. Walter (resigned 4 February 2015)

Board Risk Committee
Ms. M. Better (resigned 5 June 2014)
Dr. J. Bourke (resigned 31 December 2014)
Mr. E. A. Brockhaus (appointed 10 February 2015)
Ms. F. Flannery
Mr. T. Glynn (resigned 19 December 2014)
Dr. H. Horn (appointed 19 December 2014)
Mr. A. Kearns
Mr. C. Müller (appointed 10 February 2015)
Mr. N. Reynolds
Mr. P. Ryan (Chairman) (appointed 1 January 2015; appointed as Chairman 10 February 2015 pending regulatory approval)
Dr. H. Walter (Chairman) (resigned 4 February 2015)

Secretary & Registered Office
Ms. E. Tiernan
Ms. C. Doorey (appointed 16 June 2014, resigned 19 February 2015)
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

Executive team – Director profiles

Fiona Flannery Chief Executive Officer
Ms. Flannery joined the Board in April 2010 as Chief Risk Officer and was appointed Chief Executive Officer in December 2014. Ms. Flannery is a senior banker with over 25 years' experience in the industry with high level expertise in global enterprise wide risk management and change management. Since joining DEPFA BANK plc in 1994 she has held a number of senior positions including Head of Credit Risk & Credit Advisory and Global Head of Public Finance, Corporate & Financial Institutions. Prior to joining the DEPFA Group, Ms. Flannery worked at PFIZER International Bank Europe and IIB Bank. Ms. Flannery graduated with a bachelor degree in Mathematics and English from National University of Ireland, Galway and completed a Diploma in Advanced Management Performance at the Michael Smurfit Business School in September 2014. Ms. Flannery holds professional qualifications from ACCA and is a Chartered Director since December 2013.

Holger Horn Chief Risk Officer
Dr. Horn joined the Board in December 2014 as an executive director and Chief Risk Officer. He joined the DEPFA Group from FMS Wertmanagement AöR where he was a Member of the Managing Board responsible for Corporate & Asset Finance and Sales Advisory and served as Deputy CRO. Throughout his career at FMS Wertmanagement AöR Dr. Horn was responsible for the management of various asset portfolios, such as Commercial Real Estate, Infrastructure & Asset Finance, as well as Public Sector Finance. Prior to this Dr. Horn was Group Credit Officer at Fitch Ratings. Dr. Horn holds a PhD from Humboldt University in Berlin, where his thesis was "Political Systems and Economic Growth".

Noel Reynolds Chief Financial & Operating Officer
Mr. Reynolds joined the Board in January 2010 as an executive director and Chief Financial Officer. He was appointed, in 2012, as Chief Operating Officer in addition to his existing responsibilities. Prior to this he held a number of senior financial management positions in the DEPFA Group. He is a qualified accountant with over 20 years of banking experience at Board and Senior Management level. He has a comprehensive knowledge of financial reporting, management accounting, regulatory reporting, taxation and compliance. Mr. Reynolds is a Fellow of the Association of Chartered Certified Accountants, a member of the Institute of Bankers in Ireland and is also a Chartered Director since September 2014.

Peter Schad Chief Legal Officer
Dr. Schad joined the Board in December 2014 as an executive director and Chief Legal Officer. Dr. Schad is a banking lawyer with extensive experience in banking law. Prior to joining the DEPFA Group, Dr. Schad was Head of Legal and Compliance of FMS Wertmanagement AöR and in January 2012 took on additional responsibilities as Deputy Chief Operating Officer. Before joining, Dr. Schad held various senior legal positions in the Hypo Real Estate Group. He holds a degree in law and a PhD in economics from the University of Stuttgart.

Chief Executive Review 2014

2014 was another year of change for DEPFA BANK plc and its subsidiaries. In May the Bank announced its acquisition by German state owned FMS Wertmanagement AöR with the transaction closing in December 2014. During the takeover process our new owners FMS Wertmanagement AöR have been, and continue to be, very supportive. As a consequence DEPFA is in a stable position to focus on the priorities ahead.

This will not be without its challenges, as the Bank's strategy is to unwind its portfolios to achieve the maximum income in as efficient a timeframe as possible. With recent changes to the executive team, we are ready for the challenges ahead and confident in the Bank's ability to generate income and maximise value in the coming period.

I extend my thanks to all DEPFA colleagues in Dublin and our other global locations who have continued to demonstrate their professionalism and commitment to the company during the past year.

Fiona Flannery, CEO

Directors' report

The directors of DEPFA BANK plc ("the Bank", "the Company" or "DEPFA") present their report and the audited Group consolidated and Company's separate financial statements ("the financial statements") for the year ended 31 December 2014.

Ownership

On 19 December 2014 the entire ordinary share capital of the Bank was acquired by FMS Wertmanagement AöR, a German State Agency established by the Federal Republic of Germany and to which DEPFA BANK plc and its subsidiary undertakings ("the DEPFA Group") transferred non strategic positions in 2010. Prior to this date, and since 2 October 2007, the entire ordinary share capital of the Bank was held by Hypo Real Estate Holding AG ("HRE Holding"), the parent entity of the Hypo Real Estate Group ("the HRE Group"). FMS Wertmanagement AöR was established in 2010 as the Federal Republic of Germany's winding up institution for the nationalised HRE Group. FMS Wertmanagement AöR is under the direct ownership of the German Financial Markets Stabilisation Fund/German Finanzmarktstabilisierungsfonds ("SoFFin"), which is managed by the Federal Agency for Financial Market Stabilisation ("FMSA").

Principal activities

The DEPFA Group including DEPFA BANK plc, 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.

DEPFA BANK plc continues to wind down its portfolios in a manner designed to maintain value consistent with the change in its constitutive documents (Memorandum of Association) as described in the section Events after 31 December 2014.

DEPFA BANK plc is regulated by the Central Bank of Ireland and has a full banking license.

Dividends

No dividends were paid in 2014 in respect of the year ended 31 December 2013 (2012: € nil). The directors do not propose a dividend in respect of the year ended 31 December 2014.

Directors

The names of the directors in office at the date of signing of the financial statements for the year ended 31 December 2014 are set out on page 6. All changes to the Board of Directors during the year and up to the date of signing are also included on page 6.

Directors' and Secretary's interest in the share capital

The interests of the directors and Company Secretary, who served during the year and those in office at 31 December 2014 and of their spouses and minor children in the shares of the Bank or of any other DEPFA Group undertaking were € nil (31 December 2013: € nil).

No directors held any options on shares of the Bank or of any other DEPFA Group undertaking at 31 December 2014 (31 December 2013: € nil).

Political donations
The Electoral Act, 2012 requires companies to disclose all political donations over €200 in aggregate made during the financial year. The directors, on enquiry, have satisfied themselves that no such donations have been made by the Bank during the financial year.

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

Subsidiary undertakings
Details of subsidiary undertakings are shown in note 51 to the financial statements.

Branches outside the state
The DEPFA Group continues to operate branches within the meaning of Regulation 25 of the European Communities (Accounts) Regulations, 1993, in Italy, Japan, United Kingdom and the United States of America. The Hypo Public Finance Bank London branch was closed on 19 March 2014. The Rome branch of DEPFA BANK plc was closed on 20 March 2015.

Takeover bids regulations
There is only one class of shares and all of the shares are owned by FMS Wertmanagement AöR. There are no restrictions on the transfer or voting rights of these shares. For further details please refer to note 34 to the financial statements.

Auditors
The auditors, KPMG, Chartered Accountants, have indicated their willingness to continue in office in accordance with section 160 (2) of the Companies Acts, 1963 to 2013.

Major events

Sale of the DEPFA Group to FMS Wertmanagement AöR

In recent years the DEPFA 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 sale and in this regard the functional separation of the DEPFA Group from the HRE Group was completed during 2014. In May 2014, the Financial Markets Stabilisation Authority ("FMSA") 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 AöR. This transfer of ownership was completed on 19 December 2014.

The DEPFA Group will continue to be wound down 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. 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 is also not applicable within the framework of managing the DEPFA ACS BANK and Hypo Pfandbrief Bank International S.A. cover pools.

Going concern

Following the announcement that the ownership of the DEPFA Group would be transferred by HRE Holding to FMS Wertmanagement AöR and the subsequent execution of that transfer on 19 December 2014, the directors have considered the appropriateness of the going concern assumption in the preparation of the financial statements.

The directors understand that the DEPFA Group was transferred to FMS Wertmanagement AöR as a going concern and will continue its principal activities, being the wind down of its portfolios in a manner designed to maintain value. 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 funding from FMS Wertmanagement AöR 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 financial statements on a going concern basis of accounting.

Completion of servicing contract for FMS Wertmanagement AöR

On 30 September 2013, in line with scheduled contract termination arrangements, the DEPFA Group ceased servicing activities for the portfolios of FMS Wertmanagement AöR 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 AöR.

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 AöR. 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.

In the first quarter of 2014 a settlement agreement was concluded between pbb and FMS Wertmanagement AöR 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 in February 2014.

European Central Bank/ European Banking Authority Comprehensive Assessment and Asset Quality Review

The European Central Bank ("ECB") completed in 2014 a comprehensive assessment exercise ("Comprehensive Assessment") for selected banks before the start of the single supervision mechanism ("SSM"). This assessment encompassed a supervisory risk assessment, an asset quality review ("AQR") and a stress test. The HRE Group, of which the DEPFA Group was a member at the time of the exercise, was named as one of more than 120 institutions in the Euro zone listed for inclusion, which meant that the DEPFA Group was also covered by this exercise. The DEPFA Group's inclusion in the exercise was therefore not as a stand-alone institution but as part of the HRE Group of which it was a member. The Comprehensive Assessment was concluded in 2014 and no findings from the review specifically applicable to the DEPFA Group were notified to the DEPFA Group from the HRE Group, the Central Bank of Ireland or the ECB.

Ratings

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

Senior unsecured and covered bonds ratings of banks in the DEPFA Group[1)]

	31 December 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[5)]	A–	BBB+	Baa3	BBB
Outlook	Negative	Negative	Stable	Negative	Stable	Stable
Short-term rating	F2	P–3 [5)]	A–2	F2	P–3	A–2
Asset Covered Securities	A[3)]	Aa3[6)]	A–[4)]	A[3)]	A3	BBB[4)]
Lettres de Gage[2)]	–	–	A+[3)]	–	–	A–[4)]

1) Ratings from mandated rating agencies
2) DEPFA BANK plc ("DEPFA"), DEPFA ACS BANK, Hypo Public Finance Bank and Hypo Pfandbrief Bank International S.A. (collectively "the DEPFA Group"). Hypo Pfandbrief Bank International S.A. and its Lettres de Gage are rated exclusively by Standard & Poor's
3) Negative outlook
4) Stable outlook
5) Placed on review for downgrade on 17 March 2015
6) Placed on review for upgrade on 17 March 2015

The ratings assigned by the rating agencies do not necessarily represent the opinion of DEPFA BANK plc or any of the banks in the DEPFA Group. 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 relevant criteria and explanations, terms of use, copyrights and disclaimers. Ratings should not substitute individual analysis. Ratings do not constitute any recommendation to purchase, hold or sell securities issued by any of the banks in the DEPFA Group.

The development of ratings for the banks in the DEPFA Group remains influenced by specific rating drivers for the DEPFA entities and its covered bonds as well as external factors such as the legislative environment and amendments to rating methodologies.

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 potentially 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. As covered bond ratings are linked to the rating of the issuer, this may also have implications for covered bonds.

During 2014 the senior unsecured rating assigned by the mandated rating agencies, Fitch Ratings, Moody's and Standard & Poor's were affected by a number of factors including the legislative environment and the DEPFA Group re-privatisation process which culminated in May 2014 with the announcement by Hypo Real Estate Holding AG that the Federal Republic of Germany would remain the ultimate owner of the DEPFA Group via FMS Wertmanagement AöR.

In February 2014, Standard & Poor's placed the senior 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 made in the DEPFA Group re-privatisation 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 DEPFA Group would remain under indirect ownership of the Federal Republic of Germany, the agency removed the creditwatch negative and affirmed all ratings at BBB with a positive outlook. In December 2014 Standard & Poor's upgraded DEPFA BANK plc, DEPFA ACS BANK, Hypo Pfandbrief Bank International S.A. and Hypo Public Finance Bank by 2 notches to A– with stable outlook.

In May 2014 Moody’s changed the outlook on 82 banks within the European Union (“EU”), including DEPFA BANK plc, DEPFA ACS BANK and Hypo Public Finance 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 ownership structure, Fitch affirmed its ratings in May 2014, maintaining 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 were the subject of rating actions during 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 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. In December 2014, following the upgrade of the senior unsecured rating of DEPFA ACS BANK, the Asset Covered Securities rating was upgraded by Standard & Poor’s from BBB with positive outlook to A– with stable outlook. Similarly, the rating of Lettres de Gage issued by Hypo Pfandbrief Bank International S.A. were upgraded by 2 notches from A– with developing outlook to A+ with negative outlook following the upgrade of the issuer.

In October 2014 Fitch Ratings affirmed the credit ratings for Asset Covered Securities issued by DEPFA ACS BANK.

The impact of potential rating changes is discussed in the opportunities, risks and uncertainties section of this report.

In February 2015 Fitch affirmed the ratings assigned to DEPFA BANK plc.

In March 2015 Moody’s published its new bank rating methodology. This led to the DEPFA Group’s senior unsecured ratings being placed on review for downgrade. The updated bank rating methodology resulted in an amendment to the agency’s covered bond rating methodology which led to DEPFA ACS BANK’s Asset Covered Securities being placed on review for upgrade.

Review of performance

The pre-tax loss for 2014 was €–185 million compared to €–20 million loss in the previous year. The pre-tax loss in both years was affected significantly by once-off effects.

Income from the buyback of DEPFA ACS BANK asset covered securities that were redeemed before maturity at prevailing market levels on a reverse enquiry basis contributed €3 million in 2014 compared to €98 million in 2013 (reported in “Net interest expense/income”). The lower result in 2014 reflects the tightening credit spreads on the DEPFA Group’s own liabilities following the decision in May 2014 that the DEPFA Group would remain under indirect ownership of the Federal Republic of Germany. In 2014, the DEPFA Group recorded a loss in “Net interest expense/income” of €–36 million (2013: € nil) on the partial termination of a loan to pbb as well as losses on the disposal of financial investments of €–3 million (2013: €–9 million).

The pre-tax loss also included trading expense of €–66 million (2013: €–18 million) of which €–44 million (2013: €–41 million) related to the effect of changes in the DEPFA Group’s own credit spreads on its derivative valuations.

Taxes on income were positive in 2014 amounting to €30 million (2013: €56 million) due mainly to the recognition of tax assets and release of provisions arising from the closure of certain tax audits. Overall, this resulted in a Net loss for the year of €–155 million (2013: net income €36 million) after tax.

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

Consolidated income statement

€ m	2014	2013
Net interest expense/income	–55	64
Net fee and commission expense	–2	–15
Net trading expense	–66	–18
Net expense from financial investments	–3	–9
Net income/expense from hedge relationships	4	–31
Other operating income	2	48
Other operating expense	–1	28
Total operating losses/revenues	**–121**	**67**
Reversals of losses on loans and advances	17	2
General administrative expenses	–90	–96
Other income	9	7
Pre-tax loss	**–185**	**–20**
Taxes on income	30	56
Net loss/income	**–155**	**36**

Net interest expense/income declined to €–55 million compared to €64 million in 2013. The decline was primarily attributable to the reduction in buyback of DEPFA ACS BANK asset covered securities that were redeemed before maturity at prevailing market levels on a reverse enquiry basis of €3 million in 2014 (2013: €98 million) and a loss of €–36 million (2013: € nil) on the partial termination of a loan to pbb. There was also a negative impact due to spread tightening

on short term basis mismatches which contributed €2 million net interest income compared to €6 million in 2013. Interest income mainly comprises interest earned on "Loans and advances to other banks", "Loans and advances to customers", "Financial investments" and derivatives. Interest expense mainly comprises interest incurred on "Liabilities to other banks", "Liabilities to customers" and "Liabilities evidenced by certificates".

Net fee and commission expense reduced to €–2 million from the previous year (2013: €–15 million). The reduction is mainly due to a reduction in guarantee fees paid to FMS Wertmanagement AöR relating to guarantees received on assets not yet transferred which were still recognised on the statement of financial position. All such positions were fully transferred to FMS Wertmanagement AöR 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: €–12 million). Charges from the Central Bank of Ireland under the deposit protection scheme resulted in an expense of €–2 million in 2014 (2013: €–2 million).

Net trading expense of €–66 million has decreased compared to the previous year (2013: €–18 million). This includes €–32 million (2013: €–21 million) in derivative valuation effects relating to counterparty risk parameters including both the credit risk of the counterparty, credit valuation adjustment ("CVA") of €12 million (2013: €20 million) and the DEPFA Group's own credit risk, debit valuation adjustment ("DVA") of €–44 million (2013: €–41 million). The significant change in DVA 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 that the DEPFA Group would remain under indirect ownership of the Federal Republic of Germany. The CVA amount for 2014 includes a movement of €11 million relating to a single counterparty. Revaluation of stand-alone derivatives which do not satisfy the criteria of IAS 39 hedge accounting amounted to €–34 million (2013: €7 million).

The previous year's result also includes an amount of €–4 million relating to a change in accounting estimate whereby the DEPFA Group refined its derivative valuation models in 2013 in relation to discounting factors derived from Overnight Index Swap ("OIS") rates. This refinement, in line with market developments, aligned the discounting methodologies with the interest rates applicable to collateral placed or received in relation to the derivatives being valued.

Net expense from financial investments amounted to €–3 million in 2014 (2013: €–9 million). The expense is solely the result of the disposal of financial assets shown under "Financial investments".

Net income/expense from hedge relationships amounted to €4 million (2013: €–31 million). This represents hedge ineffectiveness within the range of 80% to 125% permitted in accordance with IAS 39. The 2013 result was significantly impacted by changes in cross currency basis spreads.

Other operating income Other operating income in the previous year mainly consists of income of €45 million (2014: € nil) from final settlement charges to pbb in relation to asset servicing provided on the positions transferred to FMS Wertmanagement AöR. In line with scheduled contract terminations, the DEPFA Group ceased servicing activities for the portfolios of FMS Wertmanagement AöR on 30 September 2013.

Other operating expense amounted to €–1 million (2013: €28 million) and includes the following items:

- Partial release of provisions in relation to the transfer of positions to FMS Wertmanagement AöR of €2 million (2013: €8 million).
- Partial release of provisions created in 2012 for current and expected litigation expenses of €1 million (2013: €39 million).
- Increase in provisions for the costs of separating the IT infrastructure of the DEPFA Group from the HRE Group of € nil (2013: €–12 million).
- Provision for settlement fee in relation to a settlement agreement between the HRE Group and the DEPFA Group in respect of asset servicing activities for the FMS Wertmanagement AöR portfolios of € nil (2013: €–9 million). This settlement amount includes, inter alia, payment for a waiver by pbb against any future potential claims for breach of duty in relation to the servicing activities provided by the DEPFA Group during the contractual servicing period.
- Partial release of a provision in relation to obligations arising from the sale of certain receivables of € nil (2013: €4 million).
- Foreign exchange loss €–3 million (2013: €–2 million) and other operating expenses of €–1 million (2013: € nil).

Reversals of losses on loans and advances amounted to €17 million (2013: €2 million). This relates to release of incurred but not reported ("IBNR") allowances of €17 million in 2014 (2013: € nil). The reversals of IBNR allowances in 2014 are primarily due to favourable developments in the assessment of a sub-portfolio of loan exposures. In accordance with IAS 39, IBNR allowances are created only for loans and receivables for which there have not yet been any indications of an individual impairment. Specific loan loss provision movements were € nil in 2014 (2013: €2 million).

General administrative expenses were €–90 million in 2014 (2013: €–96 million). Personnel expenses decreased to €–27 million compared to €–36 million in the previous year. The decrease was partially due to the reduction in headcount as a result of the transfer of staff to FMS Wertmanagement Service GmbH ("FMSW-SG") on the 30 September 2013 following the discontinuation of servicing activities. The average headcount (217 people) reduced compared with the previous year (321 people). Other general administrative expenses, including depreciation, amounted to €–63 million (2013: €–60 million). This comprised IT costs €–39 million (2013: €–27 million), professional fees €–6 million (2013: €–10 million), office costs €–8 million (2013: €–12 million) and other admin expenditure €–10 million (2013: €–11 million). The ratio between general administrative expenses and total operating revenues was greater than 100% in 2014 and 2013.

Other income amounted to €9 million (2013: €7 million) and is mainly due to the net movement in provisions created for the strategic restructuring of the DEPFA Group of €10 million (2013: €7 million). Other non income based taxes consists of €–1 million (2013: € nil).

Pre-tax loss amounted to €–185 million in 2014 (2013: €–20 million).

Taxes on income amounted to €30 million (2013: €56 million) and were significantly affected by the recognition of tax assets and release of provisions arising from the closure of certain tax audits.

Net loss/income amounted to €–155 million in 2014 (2013: €36 million).

Segmental review

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 was 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 up to 30 September 2013 by the DEPFA Group on the positions transferred to FMS Wertmanagement AöR and group consolidation effects.

DEPFA ACS BANK

Income statement

€m	2014	2013
Net interest income	38	131
Net fee and commission expense	–9	–8
Net trading income/expense	1	–6
Net expense from financial investments	–10	–9
Net expense/income from hedge relationships	–1	5
Other operating income	1	–
Other operating expense	–	–5
Total operating revenues	**20**	**108**
Reversals of losses on loans and advances	2	–
General administrative expenses	–40	–21
Other income	–	–
Pre-tax loss/income	**–18**	**87**
Taxes on income	–	–11
Net loss/income	**–18**	**76**

Net interest income decreased by 71% to €38 million compared with €131 million in 2013. This decrease was mainly due to a decrease in the contribution to operating revenues from the buyback of issued asset covered securities that were redeemed before maturity at prevailing market levels on a reverse enquiry basis. Gains from buybacks amounted to €3 million in 2014 (2013: €98 million). Interest income mainly comprises interest earned on "Loans and advances to other banks", Loans and advances to customers", "Financial investments" and derivatives. Interest expense mainly comprises interest incurred on "Liabilities to other banks", "Liabilities to customers" and "Liabilities evidenced by certificates".

Net fee and commission expense totalled €–9 million in 2014 (2013: €–8 million), mostly as a result of fees paid to DEPFA BANK plc and Hypo Public Finance Bank for guarantees received on certain assets.

Net trading income/expense of €1 million has increased from expense to income compared to the previous year (2013: €–6 million). This includes €–3 million (2013: €–2 million) in derivative valuation effects relating to counterparty risk parameters including both the credit risk of the counterparty, CVA of €10 million (2013: €–10 million) and the DEPFA ACS BANK's own credit risk, DVA of €–13 million (2013: €8 million). The change in DVA 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 including the DEPFA ACS BANK following the decision that the DEPFA Group would remain under indirect ownership of the Federal Republic of Germany.

Revaluation of stand-alone derivatives which do not satisfy the criteria of IAS 39 hedge accounting amounted to €4 million (2013: €1 million).

The previous year's result also includes an amount of €–5 million relating to a change in accounting estimate whereby the DEPFA Group refined its derivative valuation models in 2013 in relation to discounting factors derived from OIS rates. This refinement, in line with market developments, aligned the discounting methodologies with the interest rates applicable to collateral placed or received in relation to the derivatives being valued.

Net expense from financial investments amounted to €–10 million (2013: €–9 million). This result was due to the disposal of financial assets shown under "Financial investments".

Net expense/income from hedge relationships amounted to €–1 million (2013: €5 million), relating to hedge ineffectiveness on fair value hedges within the range of 80% to 125% permitted in accordance with IAS 39.

Other operating income amounted to €1 million (2013: € nil), with the 2014 amount mainly comprised of foreign currency translation effects.

Other operating expense amounted to € nil (2013: €–5 million), with the 2013 expense mainly comprised of IT costs of separating the DEPFA Group infrastructure from the HRE Group of €–4 million and foreign currency translation effects of €–1 million.

Reversals of losses on loans and advances amounted to €2 million for 2014 (2013: € nil) consisting of a reduction to IBNR allowances, due to favourable developments in loans and advances.

General administrative expenses amounted to €–40 million (2013: €–21 million). The increase in general administrative expenses year on year primarily reflects higher recharged costs from other DEPFA Group entities for services received, €–38 million for 2014, compared with €–19 million for 2013. This higher recharge is partly due to the cessation of servicing arrangements with FMS Wertmanagement AöR, which resulted in higher overall recharges.

Pre-tax loss/income amounted to €–18 million in 2014 (2013: €87 million).

Taxes on income amounted to € nil in 2014 (2013: €–11 million).

Net loss/income amounted to €–18 million in 2014 (2013: €76 million).

Hypo Pfandbrief Bank International S.A.

Income statement € m	**2014**	**2013**
Net interest income	5	6
Net fee and commission expense	–	–
Net trading expense	–6	–3
Net expense from financial investments	–7	–
Net expense from hedge relationships	–	–10
Other operating income	1	–
Other operating expense	–	–
Total operating losses	**–7**	**–7**
Provision for losses on loans and advances	–	–
General administrative expenses	–7	–5
Other income	–	–
Pre-tax loss	**–14**	**–12**
Taxes on income	3	2
Net loss	**–11**	**–10**

Net interest income decreased slightly to €5 million compared with €6 million in 2013. Interest income mainly comprises interest earned on "Loans and advances to other banks", Loans and advances to customers", "Financial investments" and derivatives. Interest expense mainly comprises interest incurred on "Liabilities to other banks", "Liabilities to customers" and "Liabilities evidenced by certificates".

Net trading expense of €–6 million has decreased compared to the previous year (2013: €–3 million). This includes €–6 million (2013: €–9 million) in derivative valuation effects relating to counterparty risk parameters including both the credit risk of the counterparty, CVA of €3 million (2013: €–3 million) and Hypo Pfandbrief Bank International S.A.'s own credit risk, DVA of €–9 million (2013: €–6 million). The significant change in DVA 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 decision that the DEPFA Group would remain under indirect ownership of the Federal Republic of Germany.

The previous year's result also includes an amount of €6 million relating to a change in accounting estimate whereby the DEPFA Group refined its derivative valuation models in 2013 in relation to discounting factors derived from OIS rates. This refinement, in line with market developments, aligned the discounting methodologies with the interest rates applicable to collateral placed or received in relation to the derivatives being valued.

Net expense from financial investments amounted to €–7 million (2013: € nil). This result was due to the disposal of financial assets shown under "financial investments".

Net expense from hedge relationships amounted to € nil (2013: €–10 million), relating to hedge ineffectiveness on fair value hedges within the range of 80% to 125% permitted in accordance with IAS 39. The 2013 result was significantly impacted by changes in cross currency basis spreads.

Other operating income amounted to €1 million (2013: € nil), comprising foreign currency translation effects.

General administrative expenses increased to €–7 million in 2014 (2013: €–5 million). The increase in general administrative expenses year on year primarily reflects higher recharged costs from other DEPFA Group entities for services provided. The higher recharge amount is partly due to the cessation of servicing arrangements with FMS Wertmanagement AöR which resulted in a higher overall cost base for all recharges in the DEPFA group.

Pre-tax loss amounted to €–14 million in 2014 (2013: €–12 million).

Taxes on income amounted to €3 million in 2014 (2013: €2 million).

Net loss amounted to €–11 million in 2014 (2013: €–10 million).

DEPFA BANK plc and other

Income statement

€m	2014	2013
Net interest expense	–98	–73
Net fee and commission income/expense	7	–7
Net trading expense	–61	–9
Net income from financial investments	14	–
Net income/expense from hedge relationships	5	–26
Other operating income	–	48
Other operating expense	–1	33
Total operating losses	**–134**	**–34**
Reversals of losses on loans and advances	15	2
General administrative expenses	–43	–70
Other income	9	7
Pre-tax loss	**–153**	**–95**
Taxes on income	27	65
Net loss	**–126**	**–30**

Net interest expense decreased to €–98 million (2013 €–73 million). The result for 2014 was impacted by a loss of €–36 million (2013: € nil) on the partial termination of a loan to pbb. Interest income received from FMS Wertmanagement AöR on assets not yet transferred which were still recognised on the statement of financial position amounted to €1 million (2013: €12 million). All such positions were fully transferred to FMS Wertmanagement AöR by 5 March 2014 resulting in derecognition on the same date and termination of the related guarantees. Interest income mainly comprises interest earned on "Loans and advances to other banks", Loans and advances to customers", "Financial investments" and derivatives. Interest expense mainly comprises interest incurred on "Liabilities to other banks", "Liabilities to customers" and "Liabilities evidenced by certificates"

Net fee and commission income/expense amounted to €7 million compared to the corresponding amount the previous year (2013: €–7 million). This mainly comprises fee income received from DEPFA ACS BANK for guarantees provided on certain assets amounted to €8 million (2013: €6 million). Fees paid to FMS Wertmanagement AöR for guarantees received on assets not yet transferred and still recognised on the statement of financial position amounted to €–1 million (2013: €–12 million). All such positions were fully transferred to FMS Wertmanagement AöR by 5 March 2014 resulting in derecognition on the same date and termination of the related guarantees.

Net trading expense of €–61 million has decreased compared to the previous year (2013: €–9 million). Of this, trading expense includes €–23 million (2013: €–10 million) in derivative valuation effects relating to counterparty risk parameters including both the credit risk of the counterparty, CVA of €–1 million (2013: €33 million) and the DEPFA Group's own credit risk, DVA of €–22 million (2013: €–43 million). The significant change in DVA arose following the decision that the DEPFA Group would remain under indirect ownership of the Federal Republic of Germany. Revaluation of stand-alone derivatives which do not satisfy the criteria of IAS 39 hedge accounting and other trading effects amounted to €–38 million (2013: €6 million).

The 2013 result also includes an amount of €–5 million relating to a change in accounting estimate whereby the DEPFA Group refined its derivative valuation models in 2013 in relation to discounting factors derived from OIS rates. This refinement, in line with market developments, aligned the discounting methodologies with the interest rates applicable to collateral placed or received in relation to the derivatives being valued.

Net income from financial investments amounted to €14 million in 2014 (2013: € nil). The income is solely the result of the consolidation effect of eliminating losses on disposal of financial assets between DEPFA ACS BANK and Hypo Pfandbrief Bank International S.A.

Net income/expense from hedge relationships amounted to €5 million (2013: €–26 million). This represents hedge ineffectiveness within the range of 80% to 125% permitted in accordance with IAS 39. The 2013 result was significantly impacted by changes in cross currency basis spreads.

Other operating income amounted to € nil (2013: €48 million). The comparative mainly consists of income of €45 million from charges to pbb in relation to asset servicing provided on the positions transferred to FMS Wertmanagement AöR. The DEPFA Group ceased servicing activities for the portfolios of FMS Wertmanagement AöR on 30 September 2013.

Other operating expense amounted to €–1 million (2013: €33 million) and includes the following items:

- Partial release of provisions in relation to the transfer of positions to FMS Wertmanagement AöR of €2 million (2013: €8 million).
- Partial release of provisions created in 2012 for current and expected litigation expenses of €1 million (2013: €39 million).
- Increase in provisions for the costs of separating the IT infrastructure of the DEPFA Group from the HRE Group of € nil (2013: €–7 million).
- Provision for settlement fee in relation to a settlement agreement between the HRE Group and the DEPFA Group in respect of asset servicing activities for the FMS Wertmanagement AöR portfolios of € nil (2013: €–9 million). This settlement amount includes, inter alia, payment for a waiver by pbb against any future potential claims for breach of duty in relation to the servicing activities provided by the DEPFA Group during the contractual servicing period.
- Partial release of a provision in relation to obligations arising from the sale of certain receivables of € nil (2013: €4 million).
- Foreign exchange loss €–3 million (2013: €–2 million) and other operating expenses of €–1 million (2013: € nil).

Reversals of losses on loans and advances amounted to €15 million (2013: €2 million). This relates to release of IBNR allowances of €15 million in 2014 (2013: € nil). In accordance with IAS 39, IBNR allowances are created only for loans and receivables for which there have not yet been any indications of an individual impairment. Specific loan loss provision movements were € nil in 2014 (2013: €2 million).

General administrative expenses declined to €–43 million in 2014 (2013: €–70 million). Personnel expenses decreased to €–24 million compared to €–34 million in the previous year. The decrease was partially due to the reduction in headcount as a result of the transfer of staff to FMSW-SG on the 30 September 2013 following the discontinuation of servicing activities. Other general administrative expenses, after consolidation effects including allocation to other segments, amounted to €–19 million and was significantly lower than the corresponding previous year of €–36 million. The decrease in general administrative expenses year on year primarily reflects higher recharged costs to other DEPFA Group entities for services provided.

Other income amounted to €9 million (2013: €7 million) and is mainly due to the net movement in provisions created for the strategic refocusing and restructuring of the DEPFA Group of €10 million (2013: €7 million). Other non income based taxes consists of €–1 million (2013: € nil).

Pre-tax loss amounted to €–153 million in 2014, compared to pre-tax loss of €–95 million in the previous year.

Taxes on income amounted to €27 million (2013: €65 million) and were significantly affected by the recognition of tax assets and release of provisions arising from the closure of certain tax audits.

Net loss amounted to €–126 million in 2014 (2013: €–30 million).

Development in assets

Total assets of the DEPFA Group amounted to €49 billion at 31 December 2014 and were €1 billion lower than the corresponding figure at the end of the previous year (31 December 2013: €50 billion).

The decline is due to a reduction in the FMS Wertmanagement AöR related counter effects of €2 billion offset by a €1 billion increase in the core assets.

These counter effects arose due to the transfer of certain non strategic positions to FMS Wertmanagement AöR whereby certain risk transfers did not result in derecognition of the related positions.

The counter effects concerning the transfer of positions to FMS Wertmanagement AöR on the DEPFA Group's and the Company's statement of financial position at 31 December 2014 and at 31 December 2013 are set out in note 5 to the financial statements.

In addition to the decline in counter effects, the core assets increased by a net €1 billion which includes offsetting effects such as approximately €5 billion reduction due to asset maturities, €4 billion increase in derivatives, €2 billion increase in reverse repurchase agreements and €1 billion reduction due to the acquisition of DEPFA Finance N.V. in July 2014, which was accounted for as a common control transaction. The development in assets is strongly influenced by market factors. Lower interest rates and a weaker Euro has led to an increase in derivative balances, related collateral balances and the Euro equivalent of assets denominated in foreign currencies. The DEPFA Group does not currently operate any new business in line with the conditions imposed by the European Commission state aid approval.

Development in liabilities and equity

The total DEPFA Group liabilities amounted to €47 billion as at 31 December 2014, compared with €48 billion as at 31 December 2013. The decline is primarily due to a €2 billion reduction in counter effects with FMS Wertmanagement AöR offset by €1 billion increase in core liabilities.

As was the case on the asset side of the statement of financial position, the development in liabilities is strongly influenced by market factors. Lower interest rates and a weaker Euro has led to an increase in derivative balances and related collateral balances.

Equity amounted to €2.0 billion as at 31 December 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 by DEPFA BANK plc in April 2014 in respect of the financial year 2013. No further provision is deemed necessary at 31 December 2014 for the financial year 2014. However, future developments could result in the requirement for additional provisions, although this is not currently expected.

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.

Finally, on 15 October 2014 DEPFA BANK plc determined that DEPFA Funding II LP would not make payments on its €400,000,000 Preferred Securities (XS0178243332) on the next distribution payment date scheduled for 30 October 2014.

Future development in earnings, assets, liabilities and equity of the DEPFA Group

The DEPFA Group has closed the year 2014 with a pre-tax loss of €–185 million. This loss includes €–36 million on the partial termination of a loan to pbb as well as losses on the disposal of financial investments and gains from the buyback of DEPFA ACS BANK asset covered securities on a reverse enquiry basis of €3 million. The extent of similar losses or gains in future years will depend on market and other developments. The loss also includes trading losses of €–66 million of which €–43 million related to the effect of changes in the DEPFA Group's own credit spread on derivative valuations. The DEPFA Group's future position may be negatively affected by further developments in these and other valuation 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 in relation to the state aid proceedings, the DEPFA Group will, subject to certain conditions, have to pay further annual fees to the Federal Republic of Germany, the terms and conditions of which were agreed in March 2013. The DEPFA Group makes full provision for the expected future amounts of such fees which are accounted for directly in equity. A fee of €59 million was paid by DEPFA BANK plc 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 in respect of the financial year 2013 was reflected in the financial statements as at 31 December 2013 and was paid in April 2014. No further provision is considered necessary at 31 December 2014, however, future developments could result in the requirements for additional provisions.

Total assets in 2014 declined by €1 billion and total liabilities declined by €1 billion. Both amounts include reductions of €2 billion in the counter effects of the transfer of certain non strategic positions to FMS Wertmanagement AöR. The remaining counter effects of €2 billion will continue to decline in the future. The reduction in total assets and liabilities also includes maturities, repayments and asset sales partly offset by increases due to changes in foreign exchange rates and interest rates. Even excluding the FMS Wertmanagement AöR counter effects, it is expected that total assets will decline further in 2015 due to the fact that the DEPFA Group is not 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 in recent years are in line with the existing strategy of the DEPFA Group. Following the decision on its ownership status and the subsequent transfer of ownership to FMS Wertmanagement AöR on 19 December 2014, the DEPFA Group continues to focus on the process of optimising the value of its core portfolios and is not undertaking any new business. The continuation of this restricted business model for the DEPFA Group will inevitably lead over time to the reduction and closure of operations in all locations and a general decline in business volumes.

On a reverse enquiry basis, the DEPFA Group has redeemed certain liabilities before maturity in 2013 and 2014 which have realised profits. Such income may also be generated in the future depending on investor behaviour and market conditions.

However, it is also possible that the developments in earnings, assets, liabilities and equity may be adversely affected by certain factors. The extent of such effects 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 continue to face challenges in raising funds without the support of international aid or support programmes. If the financing conditions of some countries deteriorate 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 economic difficulties of certain countries spreads to other countries which are currently considered to be solvent.
- The economic difficulties facing certain countries may, if they deteriorate and spread, lead to a loss of confidence in the refinancing markets, 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 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 rating drivers for the DEPFA Group entities and their covered bonds, could lead to rating changes. Downgrades to bank and/or covered bond ratings could have a negative impact, particularly on the banks' refinancing 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 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 adjustments may have a negative impact on the DEPFA Group earnings in 2015 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 effect on the profitability of the DEPFA Group.
- Litigation which is currently pending and litigation which may occur in future might have a considerable negative impact on the results of the DEPFA Group.
- 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 losses.
- The ongoing development of national and international regulatory requirements and their related costs may have an impact on the structure of assets and liabilities and may thus also affect the development in earnings.

Company strategy of the DEPFA Group

The DEPFA Group's strategy and business model is to a large extent influenced by the conditions and commitments agreed between the European Commission and the Federal Republic of Germany during the state aid approval process. Also, the transfer of ownership of the DEPFA Group to FMS Wertmanagement AöR in December 2014 has the consequence that the DEPFA Group will continue to be wound down under the indirect ownership of the Federal Republic of Germany. In this context, the companies of the DEPFA Group will not carry out any new business operations unless and until they are reprivatised, except in relation to the following:

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

As described in the Major Events section, following the change of ownership of the DEPFA Group, the Board of Directors of DEPFA BANK plc have considered the appropriateness of the going concern assumption in the preparation of the financial statements and have concluded that it is appropriate to prepare the financial statements on a going concern basis of accounting.

Major business activities

Following the transfer of ownership of the DEPFA Group to FMS Wertmanagement AöR on 19 December 2014, the management concept of the DEPFA Group focuses on winding down the portfolios of the DEPFA Group in a manner designed to maintain value, consistent with the changed Memorandum of Association as described in the section Events after 31 December 2014. A major objective in this respect is to achieve a balanced ratio between risk and return, in order to ensure that the risks which are retained are consistent with external and internal risk bearing capacity guidelines.

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

Overall, management and measurement in the DEPFA Group is based on a consistent and integrated system of parameters which provides support to members of management in their leadership. The system of parameters includes analysis of profitability, risk and capital. Regular actual-budget comparisons with corresponding analyses provide management with the reasons for any variances affecting the key parameters. In addition to strategic planning for the DEPFA Group, medium-term extrapolations of the profitability parameters and stress scenario calculations also provide management with a comprehensive overview of the future business development of the DEPFA Group. Cost discipline and efficiency are monitored throughout the DEPFA Group.

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

Events after 31 December 2014

Tender offer on perpetual securities

In January 2015 FMS Wertmanagement AöR, the parent company of the DEPFA Group, informed DEPFA BANK plc that it proposed to launch a tender offer inviting holders of the following securities:

- €400,000,000 6.50% Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities (XS0178243332) issued by DEPFA Funding II LP (the "DEPFA II Securities")
- €300,000,000 Fixed Rate/Variable Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities (DE000A0E5U85) issued by DEPFA Funding III LP (the "DEPFA III Securities"); and
- €500,000,000 Fixed Rate/Floating Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities (XS0291655727) issued by DEPFA Funding IV LP (the "DEPFA IV Securities"),

each guaranteed by DEPFA BANK plc (together, the "Preferred Securities"), to tender those securities for purchase by FMS Wertmanagement AöR on the terms described below and in relation thereto FMS Wertmanagement AöR has entered into a commitment agreement with certain holders of those securities as described below.

FMS Wertmanagement AöR further informed the DEPFA Group that on 22 December 2014 certain holders of the Preferred Securities (the "Committed Holders") representing approximately 70% of the DEPFA II Securities, 59% of the DEPFA III Securities and 66% of the DEPFA IV Securities entered into an agreement with FMS Wertmanagement AöR pursuant to which the Committed Holders have undertaken to tender their Preferred Securities for purchase by FMS Wertmanagement AöR on the terms of a tender offer that FMS Wertmanagement AöR proposes to launch and to vote in favour of certain amendments to the terms and conditions of the Preferred Securities in an associated consent solicitation process (the proposed tender offer and consent solicitation are referred to as the "Proposed Transaction").

The agreement between FMS Wertmanagement AöR and the Committed Holders does not restrict the Committed Holders' ability to trade Preferred Securities, subject to the transferees agreeing to commit to tender those Preferred Securities and to vote in favour of those amendments. This agreement is subject to customary provisions including regarding an outside termination date for consummation of the Proposed Transaction, which provisions can be extended by mutual agreement of the parties.

The Proposed Transaction remains subject in its entirety to regulatory approval by the competent authorities. FMS Wertmanagement AöR has agreed with the Committed Holders to launch the Tender Offer Memorandum promptly following positive indication by the regulator. If it proceeds, the Proposed Transaction will be launched with the issuance of a Tender Offer Memorandum.

FMS Wertmanagement AöR has informed DEPFA BANK plc that it is not able at this time to state with certainty whether or when the issuance of the Tender Offer Memorandum will take place.

The Committed Holders and FMS Wertmanagement AöR have agreed that the Proposed Transaction will include a tender offer by FMS Wertmanagement AöR for the Preferred Securities at a Purchase Price of €0.604509 per €1 of liquidation preference of each DEPFA II Security and DEPFA IV Security as defined in the relevant limited partnership agreement, and €0.584509 per €1 of liquidation preference of each DEPFA III Security as defined in the relevant limited partnership agreement.

Tendering holders of preferred securities will be required to vote in favour of certain amendments to the terms and conditions of the Preferred Securities and related guarantees.

Pursuant to such amendments, holders of Preferred Securities who do not tender their Preferred Securities to FMS Wertmanagement AöR will become subject to an acquisition of such Preferred Securities at the option of the respective issuer of the Preferred Securities or of DEPFA BANK plc as guarantor at an acquisition price of €0.595 per €1 of liquidation preference of each DEPFA II Security and DEPFA IV Security as defined in the relevant limited partnership agreement and €0.575 per €1 of liquidation preference of each DEPFA III Security as defined in the relevant limited partnership agreement.

FMS Wertmanagement AöR has informed DEPFA BANK plc that acceptance of the tender by FMS Wertmanagement AöR will be made subject only to the conditions that in each class of the Preferred Securities valid tenders are received in an amount of not less than 50 per cent of the nominal amount of Liquidation Preference plus one Preferred Security of each such class and that regulatory approval has been obtained. Otherwise the Tender Offer Memorandum will contain only standard tender conditions.

FMS Wertmanagement AöR has informed DEPFA BANK plc that it has agreed to pay the Committed Holders a Commitment Fee of €22,139,320 in aggregate due on completion of the purchase of Preferred Securities by FMS Wertmanagement AöR pursuant to the tender offer.

The effects on the DEPFA Group will depend on the extent to which holders of the Preferred Securities do not tender their Preferred Securities, which could then be acquired by the DEPFA Group at the prices set out above.

Payments on perpetual securities

On 6 March 2015 DEPFA BANK plc determined that the perpetual securities issuing vehicle DEPFA Funding IV LP, would not make payments on its €500,000,000 Preferred Securities (XS0291655727) on the next distribution payment date, scheduled for 21 March 2015.

Amendment to constitutive documents of DEPFA BANK plc

On 13 March 2015, DEPFA BANK plc announced that it received notice from its shareholder, FMS Wertmanagement AöR, of their intention to amend the Memorandum of Association of DEPFA BANK plc by way of written special resolution. The proposed amendment reads as follows:

That the Memorandum of Association of the Company be and is hereby amended by the insertion of the following new Clause 3 (2) into the Company's Memorandum of Association after the existing Clause 3 (1) and the renumbering of the remaining clauses accordingly:

"To carry on the business of the Company and its subsidiaries in pursuance of the above object and all of the objects described in this Memorandum of Association, and to exercise the powers exercisable in relation to the Company and its subsidiaries pursuant to this Memorandum of Association, for the purpose of, or in a manner which facilitates, or which is not otherwise inconsistent with winding down the activities of, and realising the value of the assets of, the Company and its subsidiaries and discharging any and all liabilities of the Company and its subsidiaries."

The directors have assessed the impact of the amendment in the context of considering the appropriateness of the going concern basis of accounting in the preparation of the financial statements. The directors have concluded based on discussions with FMS Wertmanagement AöR in relation to the continuation of the DEPFA Group's principal activities, being the wind down of its portfolios in a manner designed to maintain value, that it is appropriate to continue to prepare the financial statements on a going concern basis.

Branch closures

The Rome branch of DEPFA BANK plc was closed on 20 March 2015.

Apart from the above, there have been no other notable events after 31 December 2014.

Risk management

This section provides information about the:
(1) Organisation and Principles of Risk and Capital Management,
(2) Ongoing Developments in Risk Management,
(3) Material Risk Types:
(a) Credit risk;
(b) Market risk;
(c) Liquidity risk;
(d) Operational risk;
(e) Business risk and
(4) Internal Capital Adequacy Assessment Process ("ICAAP").

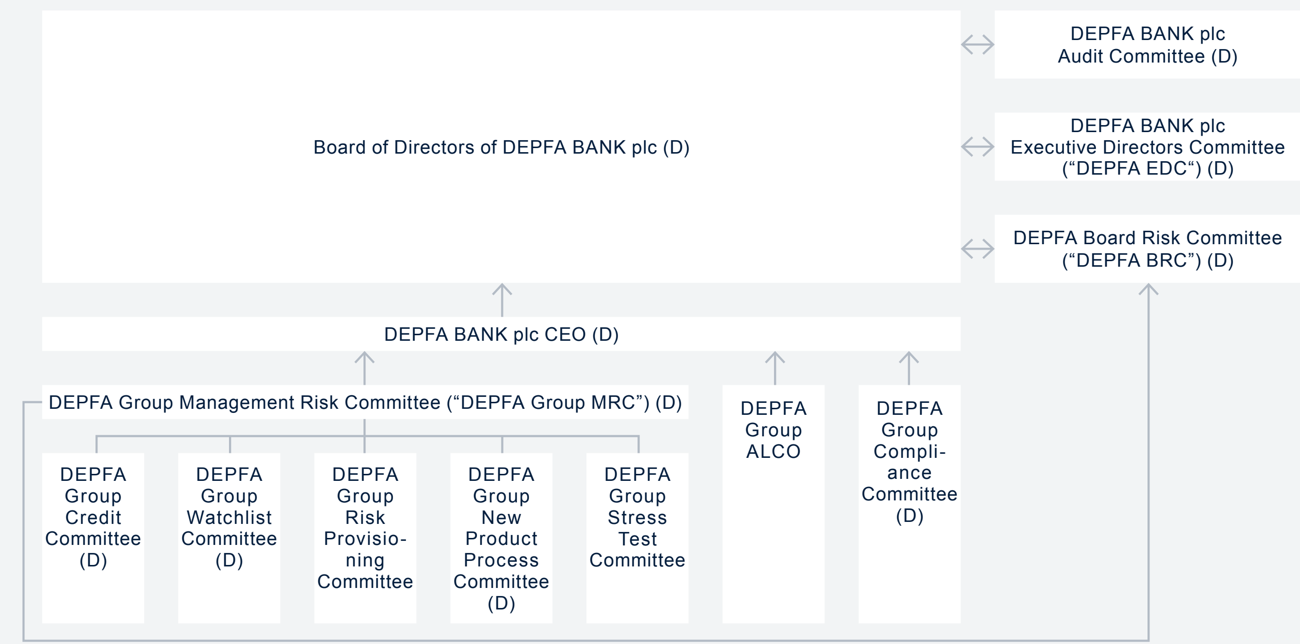
(1) Organisation and principles of risk and capital management

Organisation and committees[a)]

The DEPFA Group relies on its suite of risk management committees for the effective management, control and implementation of a robust risk management framework. The DEPFA Group processes require risk identification, measurement, risk limiting and risk management. The Board of Directors of DEPFA BANK plc (" the Board") bears overall responsibility for the DEPFA Group's risk management system and is responsible for taking decisions in relation to all strategies and key issues of risk management and risk organisation. The following flow chart shows the committees on a DEPFA Group level and their interactions.

Risk management of the DEPFA Group

as of 31 December 2014



a) Forms an integral part of the audited financial statements

The DEPFA Board Risk Committee ("DEPFA BRC"), which considers strategic matters and oversees the portfolio and risk functions within the DEPFA Group, met on a quarterly basis during 2014.

The DEPFA BRC is responsible on behalf of the Board for:
- The effectiveness of the DEPFA Group's risk management organisation relative to the risk profile of the DEPFA Group.
- Ensuring the appropriateness of the policies for maintaining both the composition and level of capital at the DEPFA Group and subsidiary level to cover internal capital requirements and ensure regulatory capital compliance.

In addition the DEPFA BRC reviews management's recommendations on risk and provides recommendations to the Board, in particular on the DEPFA Group's:
- Risk appetite.
- Risk strategy.
- Risk profile.
- Remuneration policies and practices.

The DEPFA Group Management Risk Committee ("DEPFA Group MRC") is concerned with the development and implementation of standards of risk management and control as well as the monitoring of portfolio developments. It consists of the Chief Risk Officer ("DEPFA Group CRO") and the Chief Financial Officer ("DEPFA Group CFO") of the DEPFA Group as well as the Head of Risk Management and Control, the Head of Liquidity Risk, the Head of Country Risk and the Head of Product Valuations.

The DEPFA Group MRC monitors the development of risk-bearing capacity, economic capital ("ECap"), the portfolio and compliance with limits. The DEPFA Group MRC supports the DEPFA BRC on topics arising from the risk functions as well as specific topics the Board may request. In general, the DEPFA Group MRC meets on a monthly basis and approves guidelines/policies, methods for risk measurement and the related parameters, as well as methods of monitoring all risk types.

Further committees are established on a DEPFA Group-level (Asset and Liability Committee, Credit Committee, Watchlist Committee, Risk Provisioning Committee, New Product Process Committee and Stress Test Committee).

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

The following sub-committees report to the DEPFA Group MRC:

The DEPFA Group Credit Committee, in general, schedules meetings on a weekly basis. It is responsible for the approval of annual reviews, prolongations and material changes in credit relationships. The DEPFA Group Credit Committee ensures that the credit decisions are consistent with the prevailing business and risk strategy.

The DEPFA Group Watchlist Committee meets every month. An early warning system is used to identify heightened credit risks at an early stage and to allow proactive management. If appropriate, individual measures are decided by this committee. As the committee convenes every month, other measures may be needed to be undertaken outside of the meeting. As such, these and credit decisions are taken by the key personnel in line with the allocation of credit authority. If there are any objective indications of an impairment, the extent of the impairment is first determined and the result is presented in the DEPFA Group Risk Provisioning Committee.

The DEPFA Group Risk Provisioning Committee reviews recommendations within the framework of a pre-defined set of allocated authorities and provides recommendations regarding the creation and reversal of provisions for losses on loans and advances and bonds as well as any necessary restructuring. The recommendations made by the committee are decided on by the DEPFA EDC and where required the DEPFA BRC are informed.

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

The DEPFA Group Stress Test Committee is primarily responsible for the development of scenarios for integrated stress tests and for the methods, performance and monitoring of the stress tests on a DEPFA Group level. These tests are scenario based and take a holistic approach by incorporating the three-fold elements of risk steering (ECap, regulatory capital and the cumulative total liquidity position). In these tests multiple risk parameters are consistently derived from specific macro scenarios and these parameters are subsequently used to derive the effects on ECap, regulatory capital and liquidity risk.

Risk strategy and policies

The Risk Strategy is aligned to the Business Strategy. It describes the general approach for the mitigation and limitation of risk for the identified risk types. The DEPFA Group's strategy and business model is to a large extent influenced by the conditions and commitments agreed between the European Commission and the Federal Republic of Germany during the finalisation of the state aid approval process in 2011 and this is reflected in its risk and business strategies. In this context, the DEPFA Group is not allowed to conclude new business transactions other than those necessary for regulatory requirements or for reducing risk and transactions required as part of the liquidity management of the DEPFA Group.

Risk steering in the DEPFA Group is based on the following three key risk measures:
- Economic capital
- Regulatory capital
- Cumulative total liquidity position

Risk reporting

Risk reporting reflects the structure of the operating divisions. The DEPFA EDC receives regular risk reports which include an overview as well as more detailed information concerning the risk situation for each risk type and other management information. The format and frequency of the reports is based on the required level of monitoring of key risks. There is a wide variety of reports to cover the different risks from each of the departments: Market Risk, Liquidity Risk, Operational Risk, Credit Risk Analytics, ICAAP, Valuations and Credit Risk Models. Credit limits for example are reviewed and circulated daily to ensure that all business partner and country limits are monitored and reported. A summary of these daily reports is reported with other credit updates, e.g. Critical Facilities, changes in Exposure at default ("EaD") and rating developments which are reported at least monthly.

A monthly risk report is presented to the DEPFA Group MRC, along with periodic presentations which are prepared on an ad-hoc basis or at the request of the Board; such special reports consider specific and acute risk issues for instance in relation to critical markets, products, counterparties and tailored stress tests.

Risk quantification and materiality

The DEPFA Group has set up a specific framework for considering the materiality of risks. This decision framework is based on the following guiding principle:
- Consideration of impact: Risk materiality should be determined by systematic analysis of the potential impact:
  - on different metrics including; capital adequacy, profitability, liquidity, reputation, and regulatory compliance.
  - from the point of view of different stakeholder groups including; investors, regulators, business partners, and employees.

(2) Ongoing developments in risk management

As part of the process of change of ownership of the DEPFA Group, the functional separation of the DEPFA Group from the HRE Group was completed during 2014.

As part of the move to single banking supervision the European Banking Authority ("EBA") undertook an Asset Quality Review in November 2014. The DEPFA Group, via the Asset Quality Review completed for the HRE Group, was part of the comprehensive balance sheet assessment completed by the EBA. The inspection was completed in three steps, whereby the first step of selecting 'risky portfolios' had already begun in November 2013. The second step of a planned on-site inspection was concluded in the first quarter of 2014, and thirdly, overall stress test results for banks were announced at the end of October 2014. HRE Holding reported very strong results in all scenarios. No findings from the review specifically applicable to the DEPFA Group were notified to the DEPFA Group from the HRE Group, the Central Bank of Ireland or the ECB.

The DEPFA Group remains on a standardised approach for the calculation of Credit Risk.

Following the implementation of the Capital Requirements Directive in 2013 ("CRD IV"), the DEPFA Group has implemented a process for the monitoring and reporting of the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR") and leverage ratio to ensure compliance with new requirements under Basel III.

The DEPFA Group continues to monitor the ongoing developments in the regulatory requirements for liquidity ratios, leverage ratios and capital requirements and buffers.

(3) Material risk types

The DEPFA Group identifies the following material risk types for its business activities:
(a) Credit risk
(b) Market risk
(c) Liquidity risk
(d) Operational risk and
(e) Business Risk

Economic capital is calculated for all material risk types with the exception of liquidity risk. Liquidity risk scenarios are taken into account in the course of stress tests in connection with the review of risk-bearing capacity at the DEPFA Group.

The following material risk types of the DEPFA Group are not quantified but are mitigated by means of management actions, processes, reports, policies and guidelines:
- Strategic risks
- Regulatory risks and
- Model risks

(a) Credit risk

Definition[a)]

Credit risk is defined as the risk of the partial or complete loss of the value of a receivable or the partial or complete default due to the default or downgrading of the rating of a business partner. Credit risk comprises business partner, issuer and country risk.

Business partner risks are defined as potential losses of value of trades, attributable to the default of the business partner. The following sub-categories are distinguished in this respect:
- Settlement risk is defined as the risk that, when a trade is settled, the business partner fails to deliver the necessary consideration.
- Replacement risk is defined as the risk that, in the event of a business partner default, the contract has to be replaced on less favourable terms.

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

Country risks are broken down into transfer and conversion risks as well as default risks. Transfer and conversion risks may arise as a result of state intervention which limits or prevents the ability to obtain foreign currency or the cross-border capital transfer of an otherwise solvent debtor. Business partner risks may arise as a result of the default or downgraded rating of a sovereign in which the business partner is based.

Credit risk strategy[a)]

Credit risk strategy is informed by the policy to reduce existing portfolios of assets in a manner which poses minimum strain on capital and which is designed to maintain value.

Credit risk reporting[a)]

The DEPFA Group produces a comprehensive Risk Report on a quarterly basis with more frequent reporting of key exposures on a monthly basis (the “DEPFA Group Risk Report”).
- The DEPFA Group Risk Report contains: development of exposures as relevant credit risk management indicators such as the development of the expected loss, as well as the unexpected loss via Economic Capital. The report produced shows the credit risk within the DEPFA Group, with emphasis on the overall bank risk and risk-bearing capacity. It reports limit utilisations of existing limits and also identifies risk concentrations. Key indicators which are relevant for management purposes, such as the development of the Exposure at Default (“EaD”), the Expected Loss (“EL”) and the Credit Value at Risk (“VaR”) are integrated in this report and are discussed in detail at the DEPFA Group MRC.
- Details concerning the portfolio and risk parameters are extensively reported; they are provided to the DEPFA Group MRC for oversight. Major parameters which are relevant for management purposes, such as the development of the EaD, the EL and the Credit ECap, are integrated in these quarterly reports.
- Decisions on limit maintenance, adjustments of conditions, concentration levels, reviews of internal ratings, probabilities of default (“PD”), loss given defaults (“LGD”) and other major parameters are presented to the DEPFA Group Credit Committee for discussion and approval.

[a)] Forms an integral part of the audited financial statements

- In the daily business of the DEPFA Group, additional reporting supports operational management with regard to the management and timely recognition of risks at the sub-portfolio level.
- Developments, which may result in a major deterioration in the risk position of an individual exposure of the DEPFA Group are reported to a wider group by way of "Credit Issue Notes".

Credit risk quantification via economic capital and risk weighted assets according to CRD IV

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

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

CRD IV The DEPFA Group uses the standardised approach.

Credit risk: Monitoring, management and reporting

Credit risk is mainly assessed in terms of credit exposure, default probabilities and collateral values. Credit risk in the DEPFA Group is identified, measured and monitored at different levels:

- Individual business partner or issuer level
- Product level
- Country level
- Overall portfolio level

The DEPFA Group calculates credit risk regulatory capital requirements under the standardised approach outlined in the CRD IV. For the calculation of economic capital under Internal Capital Adequacy Assessment Process ("ICAAP"), the DEPFA Group uses EaD, PD and LGD models along with a credit portfolio model.

The primary targets of credit risk management ("CRM") are:

- To maintain a low probability that certain potential default events will occur in the future
- To minimise the severity of losses (e.g. taking guarantees and additional collateral, where possible)
- The transfer of risk to external third parties where appropriate (inter alia via portfolio sales).

Credit risk is actively managed to ensure preservation of value within single positions and on an overall portfolio basis. Continuous monitoring and reporting of credit risk supports the early detection of risk issues and risk mitigation.

The following measures are some of the key components of the credit risk management process:

- Detailed analysis of the business partner and the transaction, as well as sponsors if applicable, including a detailed analysis of the net revenues and debt servicing sources of the business partner.
- Definition of processes for making credit decisions, including clear and comprehensive assignment of competencies.
- Standardised credit documentation .
- Standardised processes for managing engagements with business partners which have been classified under intensified management.
- CRM notify key personnel in the DEPFA group of material risk-related changes to support early risk identification which can include the circulation of a "Credit Issue Note" which provides detailed information on the risk-related changes.

Monitoring and reporting of credit risk takes place at regular intervals at the business partner and the portfolio levels.

Each borrower is analysed at least annually through the annual review process taking into account expected and unexpected market conditions. The review analyses business development, profitability, confirmation of adherence to legal covenants and credit rating. The analysis includes details of existing exposures to the business partner as well as exposures to related entities (e.g. Group of Connected Clients).

Core processes of CRM and monitoring include:

- The CRM teams carry out the risk analysis for all existing business of the DEPFA Group.
- Defined early warning indicators are regularly analysed by CRM. In the event of a trigger, a credit reassessment (e.g. rating, guarantees) is carried out for the corresponding cases and appropriate measures are initiated. If deemed appropriate the cases are also included in a monthly monitoring cycle and presented in the DEPFA Group Watchlist Committee.
- CRM analyse the impairment triggers and the necessary impairment calculations if applicable are carried out and submitted to the DEPFA Group Risk Provisioning Committee for consideration. CRM draw up a restructuring plan or a workout plan for critical and impaired exposures. The decision regarding restructuring or workout takes account of scenario analyses of the potential developments of the business partner, the collateral or the relevant market. These are presented and approved in the DEPFA Group Watchlist Committee.
- All critical facilities are monitored by CRM and reported on a monthly basis to the DEPFA Group Watchlist Committee. A summary is presented to the DEPFA Group MRC and also circulated to the DEPFA BRC.
- Management oversight of the CRM function primarily comprises of the Credit Committee, Watchlist Committee and by the DEPFA Group MRC as described in the previous section.

Minimising risk using collateral, including guarantees

For the purpose of calculating the EaD on derivative positions, cash collateral is taken into consideration where eligible netting agreements are in place with the effect of reducing the level of exposure and hence explicitly the credit risk. For securities financing transactions, financial securities and cash received can also reduce credit risk to the business partner. Guarantees are also taken into consideration by way of credit risk substitution (where the guarantee is sufficiently strong) with the effect of reducing credit risks by aligning the ultimate risk to that of the guarantor.

Credit portfolio[a)]

EaD figures used throughout this report are based on the definition as set out in CRD IV.

The CRD IV term EaD represents an estimate of the exposure amount for each transaction the Bank would lose as a result of a business partner default. For non-derivatives it is approximately equivalent to the IFRS book value as well as any committed undrawn position which the business partner could utilise. In the case of derivatives, the EaD is based on net market values and collateral posted or received and a regulatory add-on, which constitutes a buffer in the event of future potential increases of the market value.

In the 2013 report the EaD amounts presented were based on the Basel II definition of EaD which excluded certain components of the IFRS book value such as adjustments arising from hedge accounting and included future interest accruals for three months. Accordingly, the comparative amounts have been restated to reflect the EaD determined according to the CRD IV definition consistent with the current year's presentation.

The following analysis represents the remaining portfolio in the DEPFA Group from a risk perspective ("Core Portfolio") and excludes the transactions where the economic risk has been transferred to FMS Wertmanagement AöR.

The EaD of the core portfolio of the DEPFA Group from a risk perspective amounted to €30.4 billion as of 31 December 2014, which is a €5.3 billion reduction since 31 December 2013 (€35.7 billion). The total reduction was driven mainly by scheduled amortisations and maturities partially offset by increases due to foreign exchange effects and changes in interest rates.

The DEPFA Group continued to upgrade positions to FMS Wertmanagement AöR during 2014 as set out in note 5 to the financial statements.

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

DEPFA Group total portfolio

€ bn	31.12.2014	As restated 31.12.2013[1)]
EaD of Core Portfolio	**30.4**	**35.7**
FMS Wertmanagement AöR non derivative counter effects replaced in EaD with residual counterparty risk	–	3.3
EaD netting impacts (derivatives, repos and collateral)	18.0	9.8
Difference between IFRS and EaD measurement basis	0.1	0.3
IFRS Balance Sheet	**48.5**	**49.1**

[1)] Restatement due to changed EaD basis under CRD IV

[a)] Forms an integral part of the audited financial statements

Expected Loss ("EL")

The EL for a period of one year is a key management parameter for the portfolio. It is calculated for the entire exposure, with the exception of trading book positions and positions for which a single loan loss provision ("SLLP") has been assigned.

The EL, which is calculated using PD, LGD and EaD, reduced to €3.7 million as of 31 December 2014 (31 December 2013: €5.07 million). This fall is largely due to the overall decrease in exposure volume and improvements in ratings.

Country risk[a]

Allocations to regions in the table below are based on the geographic location of the respective risk. Germany, Spain, Belgium and the US account for 64% (EaD €19.6 billion) of the DEPFA Group's total exposure at the end of December 2014 (2013: 59%, EaD €21 billion). The reduction is mainly due to maturities, scheduled amortisations in the lending portfolios as well as some sales, partly offset by changes in foreign exchange and interest rates.

DEPFA Group portfolio: Break-down according to region[a]

EaD in € bn	31.12.2014	As restated 31.12.2013[1]
Austria	1.4	1.4
Belgium	2.4	2.1
Emerging Markets[2]	0.7	0.7
France	1.3	2.0
Germany	8.0	9.0
Ireland	0.5	1.2
Italy	0.6	2.0
Japan	0.4	0.6
Netherlands	1.3	1.5
Other Europe	1.7	2.0
Other Rest of World	1.5	1.5
Scandinavia	0.8	0.9
Spain	2.7	3.0
UK	0.6	0.9
US	6.5	6.9
Total	**30.4**	**35.7**

[1] Restatement due to changed EaD basis under CRD IV
[2] As per IMF definition

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

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

[a] Forms an integral part of the audited financial statements

German exposure remains as having the highest concentration within the portfolio. 74% of the German exposure is AAA rated.

Exposure to Spain continues to represent an important component of the core balance sheet of the DEPFA Group. The Italian country exposure reduced during the year due to a sovereign bond maturity. During 2014 both countries experienced rating upgrades, but close monitoring continues. Due to the public sector nature of all exposures within these countries, none of the portfolio is in arrears and all counterparties continue to perform within expectations. The US exposure continued to reduce, albeit offset slightly due to the EUR/USD depreciation. Belgium exposure increased during the year due mainly to increases in value on long dated Sovereign Belgian bonds.

Rating structure[a)]

While the DEPFA Group is on the standardised approach for CRD IV purposes, it does however use its own internal rating models. Based on the current global environment, 2014 saw an improvement of rating levels in line with the external rating environment. For securitisations, the rating is derived or mapped from the second best external rating.

Overall there was an increase in AAA rated exposures due mainly to increased exposure to FMS Wertmanagement AöR, during the year. There was a significant move from BBB to BBB+ due mainly to the upgrade of Italy, in addition from BBB– to BBB due to the Spanish upgrades.

DEPFA Group portfolio: Break-down according to internal ratings

Internal DEPFA Letter rating mapped to Standard & Poor's classes EaD in € bn	31.12.2014	As restated 31.12.2013[1)]
AAA	12.1	10.5
AA+	3.1	4.6
AA	1.6	1.7
AA–	4.4	5.4
A+	2.4	3.3
A	0.7	1.2
A–	1.2	2.0
BBB+	2.4	1.3
BBB	1.8	3.0
BBB–	0.5	2.5
Sub Investment Grade	0.2	0.2
Total	**30.4**	**35.7**

[1)] Restatement due to changed EaD basis under CRD IV

[a)] Forms an integral part of the audited financial statements

Borrower classification [a)]

The following table sets out the portfolio by borrower classification according to the DEPFA Group's internal borrower classification. Financial institutions reduced due to the scheduled maturities. Public Sector Entity ("PSE") indirect increased during the year mainly due to the reclassification of an existing counterparty from PSE (direct) to PSE (indirect).

DEPFA Group portfolio: Borrower classification

EaD in € bn	31.12.2014	As restated 31.12.2013 [1)]
Corporation	0.3	0.3
Financial Institutions	2.8	3.8
Public Sector Entity (Direct)	7.3	8.3
Public Sector Entity (Indirect)	3.4	1.4
Regional Government (Direct)	3.8	5.1
Regional Government (Indirect)	2.1	3.2
Sovereign (Direct)	2.8	4.8
Sovereign (Indirect)	2.5	2.8
Structured Finance	4.2	4.9
Supranational	1.2	1.1
Total	**30.4**	**35.7**

[1)] Restatement due to changed EaD basis under CRD IV

[a)] Forms an integral part of the audited financial statements

Structured products

Further information regarding the following sub portfolios is disclosed below:
- State-backed and partially guaranteed securities;
- Structured entities inside and outside the group of consolidated companies.

The table below refers to nominals of guaranteed securities.

Overview of state-backed and partially guaranteed securities	31.12.2014		31.12.2013		2014 nominal percentage change versus 2013
Product Category	Nominal value € bn	Fair value € bn	Nominal value € bn	Fair value € bn	
State-guaranteed structured securities €2.8 billion					
CDOs/ABS guaranteed by European states (mainly Germany (€2.092 billion) and Spain (Tranched, €0.081 billion)), Spanish municipalities, and the Federal State of Lower Austria and also by the US Federal Home Administration	2.8	2.8	3.1	3.0	–10%
State-backed structured securities €1.2 billion					
ABS for financing the state-backed US Social Housing Program	0.2	0.2	0.3	0.3	–33%
ABS for financing privately constructed buildings and facilities in the public interest for which interest payments and redemption payments are covered by public sector charges, and other government related ABS	1.0	1.1	1.0	1.1	4%
Tranched securities which securitise state guaranteed (97%) US student loans €3.4 billion					
Securities which securitised student loans (FFELP[1] student loans), of which at least 97% are guaranteed by the US State	3.4	3.2	3.3	3.1	2%
Total	**7.4**	**7.3**	**7.7**	**7.5**	–4%

[1] Federal Family Educational Loan Program

Review of structured products

2014 performance was stable Student loan ABS ("SLABS") transactions held within the DEPFA Group are backed by pools of loans that carry US Department of Education ("DoE") default insurance under the Federal Family Education Loan Program ("FFELP"); they are often referred to as FFELP-backed SLABS. A key risk for the DEPFA Group SLABS portfolio from downward pressure on the US Government external ratings has abated. Moody's, Fitch Ratings and Standard & Poor's now hold the sovereign on a stable outlook.

2015 outlook is stable Considering the concentration level of ABS student loan transactions within the DEPFA Group it is important to consider the outlook, which is considered stable. The FFELP program is expected to be supported through 2015 by improved US fiscal conditions (improving employment and stronger economic activity) and increased over-collateralisation levels due to improved recovery rates.

US unemployment rate Historically, default rates, deferment and forbearance levels on FFELP loan pools have been positively correlated to the US unemployment rate. Current forecasts indicate that the average US unemployment rate will drop to 5.4% for 2015 (from the average 6.2% in 2014 and 7.3% in 2013). This is credit positive for FFELP-backed SLABS as it should drive down default rates, along with deferment and forbearance levels.

An additional benefit to the FFELP-backed SLABS transactions held within the DEPFA Group is that the majority of the transactions are pre-2007 securitisations, which means that they contain a higher proportion of borrowers who graduated into a stronger job market and have already established their professional careers.

Strength of the US Government It is currently projected that the US economy will continue to recover in 2015 and that GDP will grow by approximately 3.2%. While it is not yet known if Congress will be successful in cutting federal debt in 2015, the continued domestic economic recovery and ongoing fiscal prudence at the federal level means that government debt should be close to peaking.

Structured entities [a]

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

The following table summarises the structured entities included in the consolidated financial statements of the DEPFA Group in accordance with International Financial Reporting Standards (“IFRSs”) as of 31 December 2014 and 31 December 2013. The assets used as the basis of consolidation are mainly classified as loans and receivables (“LaR”).

Consolidated special purpose entities by categories

Nominal value in € m	31.12.2014	31.12.2013
Refinancing of the DEPFA Group	9	12
Total	**9**	**12**

The following overview sets out the nominal volume of transactions with non-consolidated structured entities.

Transactions with non-consolidated special purpose entities

Nominal value in € m	31.12.2014	31.12.2013
Exposure of the DEPFA Group	246	346
Total	**246**	**346**

[a] Forms an integral part of the audited financial statements

Watchlist and non-performing loans [a)]

Early warning system The early warning system of the DEPFA Group identifies heightened credit risk at an early stage and manages them proactively.

The Watchlist serves as the early identification mechanism for loans/borrowers/sponsors that are currently not developing as planned (in particular before a contractual event of default occurs). This enables the DEPFA Group to start to take the necessary measures as early as possible to steer the risk and maximise value.

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

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

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

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

Watchlist and non-performing loans

€ m EaD	31.12.2014	31.12.2013
Workout loans	–	2
Restructuring loans	96	270[1)]
Total	**96**	**272**

[1)] of which €185 million relates to exposures guaranteed by FMS Wertmanagement AöR (2014: € nil)

[a)] Forms an integral part of the audited financial statements

Impairments and provisions[a)]

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

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

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

Impairment triggers are reviewed annually for appropriateness.

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

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

Incurred but not reported ("IBNR") allowances are calculated using risk parameters such as PD and LGD. The resultant expected loss in relation to a time horizon of one year is scaled using an IFRS-compliant conversion factor to the period which on average is required for identifying the impairment event.

Impairment process The impairment of all credit risks is recommended by the DEPFA Group Risk Provisioning Committee to the DEPFA EDC for approval. Such approval is preceded by a multiple stage process which is applicable in all subsidiaries throughout the DEPFA Group. The following processes have been implemented for identifying, analysing and measuring the credit risk:

- Annual review with re-rating (PD, LGD and EL) including review of collateral;
- Where appropriate, covenant monitoring with a check to determine whether the specified covenants are being met;
- System monitoring on the basis of overdue items (interest, principal repayments and costs); and
- Early warning system for placing critical exposures on the Watchlist (including fair value triggers).

[a)] Forms an integral part of the audited financial statements

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

An overview of the development of allowances for losses on loans and advances can be found in note 20 to the financial statements.

Reversals of losses on loans and advances in the income statement amounted to €17 million (2013: €2 million). This relates to release of IBNR allowances of €17 million in 2014 (2013: € nil). In accordance with IAS 39, IBNR allowances are created only for loans and receivables for which there have not yet been any indications of an individual impairment. There is no specific loan loss provision as at the reporting date (2013: €2 million).

With regard to the analysis of the impairments, it has to be borne in mind that provisions for losses on loans and advances do not include impairments in relation to exposures reported as derivatives or trading assets. Accordingly, defaults of business partners in relation to such exposures would mainly be recognised in "Net trading expense".

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

Income statement effects (shown under reversals of losses on loans and advances) €	31.12.2014	31.12.2013
IBNR allowances	2	1
Total	**2**	**1**

Contingent liabilities and other obligations Contingent liabilities and other obligations mainly comprise guarantee risks, letters of credit and irrevocable loan commitments and declined to €22 million in 2014 (2013: €89 million) due mainly to transfers of positions to FMS Wertmanagement AöR during 2014.

(b) Market risk

Definition [a)]

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

- Credit-spread risk
- General interest rate risk
- Foreign currency risk
- Tenor, foreign exchange and index basis risk

Organisation of market risk management [a)]

In line with the requirements of Risk Management, the trading and banking book positions are monitored by the RMC, Market Risk department within the Risk Management and Control ("RMC") function which is separate from front office in the structure of the organisation right through to responsibility at the Board level.

Market risk strategy [a)]

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

1. Business is permitted only in financial instruments that can be priced independently (subject to the availability of pricing methods and market data), which have successfully passed the New Product Process and for which, the following aspects have been documented properly:
   - System representation;
   - Pricing methods;
   - Required market and model data; and
   - Risk monitoring methodology.
2. Risk monitoring including risk concentration and the economic profit and loss monitoring are performed daily.
3. Hedging of foreign exchange risk.

Market risk, monitoring, management and reporting [a)]

The RMC, Market Risk function uses a variance-covariance approach to calculate the market risk VaR at the DEPFA Group level and sub-portfolio level on a daily basis. All trading and banking book positions are taken into consideration for this purpose.

The correlations and volatilities which are used for this purpose are based on historical time series of the previous 250 trading days and are included in the calculation on an equally weighted basis. For the daily operational risk management, the VaR relates to a holding period of ten days and a one-sided 99% confidence level.

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

[a)] Forms an integral part of the audited financial statements

The DEPFA Group manages market risk through a three pillar approach which includes risk-awareness of the front office, monitoring of limits by RMC, Market Risk and an escalation procedure to the DEPFA EDC.

Furthermore, three parameters are monitored for the active management of market risks:
- Key sensitivities: interest rate, basis and foreign exchange risks
- Economic profit and loss movements and VaR-limits
- Compliance with all relevant guidelines

Market risks and the associated limits are controlled, managed and reported by RMC to senior management and front office on a daily basis and to the DEPFA Group MRC on a monthly basis. VaR limits are reviewed annually and approved by the DEPFA BRC.

The market risk is monitored by a combination of VaR limits for all trading book and banking book positions. The sensitivities as well as the economic capital are also monitored by RMC, Market Risk. The daily management of the market risk positions is carried out in front office.

The market risk VaR (10-day holding period; 99% confidence level) for the DEPFA Group amounted to €7 million as of 31 December 2014 (31 December 2013: €7 million).

During 2014, the market risk VaR limit for the DEPFA Group remained unchanged at €25 million.

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

Market risk VaR, VaR for the individual risk types and market risk limits

€ m	31.12.2014	31.12.2013
Total VaR	**7**[1]	**7**[1]
Interest Rate VaR	7	6
Foreign Exchange VaR	1	2
Limit	**25**	**25**
% utilisation	**29%**	**27%**

[1] VaR components are not additive to total VaR.

No VaR limit breach occurred during 2014.

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

Sensitivity analysis Sensitivity analysis quantifies the impact of a specified change in individual market parameters on the value of the positions of the DEPFA Group. For instance, the interest rate sensitivity provides an indication of the change in economic present value which results from an isolated change of one basis point in the zero rates which are relevant for measurement purposes.

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

Stress testing Stress scenarios show the market risk under extreme conditions compared to the VaR measurement which simulates the market risk under "normal" market conditions and is not to be understood as a standard for a potential loss in a market climate which is disadvantageous for the position of the DEPFA Group. At the DEPFA Group, uniform hypothetical stress scenarios throughout the DEPFA Group are calculated on a monthly basis for all key risk drivers (credit spreads, interest rates, foreign currency rates) across all books. Historical stress scenarios are also simulated. An upward parallel shift of 200 bps in the interest rate curve would result in an increase as at 31 December 2014 of approximately €55 million in the market value for all books of the DEPFA Group (2013: increase of €33 million).

Market risk reports [a)]
RMC, Market Risk prepares extensive market risk reports at the DEPFA Group level daily for various recipients:

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

Development of the relevant market risk types [a)]
General interest rate risk The total general interest rate risk of the DEPFA Group amounted to approximately €6.97 million VaR as of 31 December 2014 (compared with €6.37 million as of 31 December 2013). On average, the interest rate risk of approximately €5.0 million for 2014 (max. €7.3 million; min. €2.7 million) was at a lower level than the previous year (average VaR for 2013 €6.6 million; max. €9.2 million; min. €5.2 million). Non-linear interest risks are insignificant.

The aggregate sensitivity of the DEPFA Group to interest rates affecting IFRS Trading P&L at 31 December 2014 was €490,000 (31 December 2013: €300,000) per basis point rise.

[a)] Forms an integral part of the audited financial statements

Credit spread risk The credit spread risk reflects the potential change in the present value of positions as a result of changes in the corresponding credit spreads. Risk measuring systems for determining credit spread risks exist for all relevant positions of the DEPFA Group. Most of the credit spread risk is attributable to assets eligible as cover for Asset Covered Securities and Lettres de Gage. Limits for credit spread risk are only applied for positions in the trading book, AfS positions and positions designated at fair value through P&L ("dFVTPL"). At 31 December 2014 and 31 December 2013 the Group did not have any dFVTPL positions. Limits for credit spread risk are not applied to LaR positions. However, sensitivities are calculated for all asset positions, including LaR positions.

Due to the business model of the DEPFA Group, the security holdings in the Asset Covered Securities and Lettres de Gage cover pools account for the majority of the DEPFA Group's positions which are sensitive to credit spread changes. The credit spread sensitivity of the overall portfolio (including the security holdings classified as LaR) amounted to €–15.5 million at the end of December 2014 to a one basis point increase in all credit spreads; of this figure, only €–0.05 million was attributable to the trading books (corresponding figures at the end of 2013 €–18 million, trading books €–0.04 million).

Foreign currency risk and other market risks The VaR on the foreign currency risk amounted to €1.0 million as of 31 December 2014; the corresponding figure as at 31 December 2013 was €1.5 million. The general strategy of the DEPFA Group is to hedge foreign currency risks on an IFRS basis as far as possible.

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

Concentration risk is currently measured via concentration of risk factors in the VaR calculation.

(c) Liquidity risk

Definition [a)]

Liquidity risk is defined as the risk of a credit institution not being able to meet its future on and off balance sheet payment obligations in a timely manner as they fall due, without incurring excessive cost, while continuing to fund its asset book.

The DEPFA Group manages the funding and liquidity on a consolidated basis.

The DEPFA BRC is responsible for developing a strategy for the ongoing management of liquidity risk across the DEPFA Group and its entities, ensuring that it is consistent with the risk tolerance of the DEPFA Group. The Board of DEPFA BANK plc is responsible for appointing the DEPFA Group ALCO and approving the DEPFA Group liquidity policies as well as DEPFA Group liquidity limits.

The DEPFA BRC is responsible for monitoring the DEPFA Group's liquidity risk in accordance with approved policies and procedures. It is also responsible for monitoring liquidity risk limits and limit breaches, while the DEPFA Group ALCO responsibilities include defining liquidity strategy and monitoring of current liquidity positions and if necessary executing liquidity contingency plans.

RMC, Liquidity Risk within the RMC function is responsible for identifying, monitoring, analysing and reporting liquidity and funding risk, thereby facilitating the management of funding and liquidity risk across all entities within the DEPFA Group.

Hedging and reduction of liquidity risk [a)]

A risk tolerance system is used to limit the liquidity risk. Risk tolerance is integrated in the liquidity management process by means of triggers (limit system) in order to ensure a "survival period" in stress conditions. The limits applicable for risk tolerance are regularly determined and adjusted. In addition, the DEPFA Group maintains a "buffer" of high quality liquid assets for use in withstanding liquidity shocks and stress events. The necessary size and composition of this buffer is specified by the DEPFA Group ALCO and is monitored daily.

Liquidity risk, monitoring, management and reporting [a)]

RMC, Liquidity Risk identifies, monitors, analyses and reports liquidity risk at the DEPFA Group level. Monitoring liquidity risks is facilitated by the daily reporting of the projected cumulative liquidity position, the monitoring of the liquidity buffer and of key liquidity metrics, and by ensuring a defined escalation process is in place. A liquidity contingency plan has been approved in this context, which outlines potential liquidity trigger events, and sets out the procedures for the management of liquidity events or a series of events or challenges that could potentially be presented.

[a)] Forms an integral part of the audited financial statements

Liquidity management reports are prepared daily on a consolidated basis and reported to the DEPFA Group senior management and front office. Liquidity reports corresponding to three scenarios are produced daily:

- constant market and funding environment ("Base" scenario);
- a more conservative bank specific risk scenario ("Risk" scenario); and
- a combined idiosyncratic and market wide liquidity shock event ("Stress" scenario – similar to the market conditions post Lehman default).

To produce the liquidity reports, contractual cash flows are combined with assumptions for contingent cash flows and the funding capacity of liquid assets. Assumptions of non-contractual cash flows reflect the scenario underpinning the report and are subject to regular back testing.

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

In addition to the daily calculated scenarios, the DEPFA Group has established additional liquidity stress testing, which simulates possible effects of a macro-economic, fiscal and political crisis on the liquidity situation of the DEPFA Group.

Projected liquidity positions were reported on a monthly basis to the Central Bank of Ireland ("CBI") as part of its liquidity monitoring process. The reports contain the daily liquidity situation as well as projections on the basis of contractual cash flows and assumptions made in relation to future events which would influence liquidity developments.

Additionally, under the regulatory "Requirements for the management of Liquidity Risk", the CBI adopts a maturity mismatch approach where the DEPFA Group is required to analyse its cash inflows and outflows, bucketing them into pre-defined time bands as per their residual contractual maturity. The DEPFA Group must ensure and formally report monthly that it has sufficient available liquidity to cover 100 percent of outflows over the next 8 days and 90 percent of outflows over the subsequent 9 to 30 days.

Furthermore the DEPFA Group, in accordance with regulatory requirements outlined in CRD IV measures monitors and reports the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR") on a DEPFA Group basis.

The LCR is formally reported on a monthly basis. It is designed to promote short term resilience, ensuring that a financial institution has sufficient high quality liquid assets to survive a significant stress scenario lasting for one month. The DEPFA Group ensures that it maintains an adequate liquidity buffer to meet its liquidity needs and its regulatory requirements.

The NSFR is due to be implemented in 2018, but is already monitored on a quarterly basis by regulatory authorities in advance of formal limit adoption. Definitive requirements are still under review.

The NSFR is designed to promote resilience over a longer time horizon by creating additional incentives for banks to fund their activities with more stable sources of funding on an ongoing basis.

Development of the risk position [a)]

The DEPFA Group's one month cumulative liquidity position under the "Base" scenario amounted to €4.3 billion as at 31 December 2014 (31 December 2013: €5.3 billion).

The DEPFA Group continued to exceed all minimum liquidity ratio regulatory requirements from the CBI and other regulatory authorities during 2014 including CRD IV liquidity metrics. With respect to the CBI maturity mismatch report the DEPFA Group was compliant during 2014 reporting ratios of 628% and 243% for sight to 8 days and over 8 days to 1 month respectively at 31 December 2014. The DEPFA Group reported an LCR of 1,193% and an NSFR of 116% at 31 December 2014.

The liquidity situation of the DEPFA Group remains stable and the DEPFA Group continues to expect that it will meet all contractual and regulatory obligations going forward.

The liquidity requirements for 2015, are dependent on:

- Collateral requirements as a result of changing market parameters (includes interest rates, foreign currency rates). The DEPFA Group has a policy which ensures all derivative contracts with major financial institutions are covered by a Collateral Support Agreement ("CSA"). Changes in the underlying market parameters could result in posting or receiving additional liquidity under such contracts;
- Changing requirements of the rating agencies regarding the necessary surplus in the coverpools; and
- The future development of the discounts for repo refinancing on the market and with the central banks.

[a)] Forms an integral part of the audited financial statements

(d) Operational risk

Definition

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

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

Operational risk strategy

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

Operational risk monitoring, management and reporting

The DEPFA Group has established a centralised Operational Risk function ("RMC: Operational Risk") within the RMC function that focuses on the coordination of consistent policy, tools and practices throughout the DEPFA Group for the management, measurement, monitoring and reporting of relevant operational risks.

Risk Management and Control

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

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

- Key risk indicator ("KRI") reporting – provide potential early warning of increased risk associated with non-attainment of control objectives;
- Operational Risk Self-Assessments ("ORSAs") – based on the identification of threats to business processes, the impact of those threats and the subsequent evaluation of controls in place to mitigate the risk; mitigation plans for high-rated risks are monitored by the Operational Risk department;
- Risk event management – the collection, reporting and analysis of internal risk event data enables the DEPFA Group to identify weak controls, ineffective processes or activities and system deficiencies; and ensures that the DEPFA Group takes appropriate action to mitigate any exposures;
- New products – the New Product Process Committee ensures that all products can be managed and measured by the DEPFA Group's management information systems and are reviewed primarily on an annual basis; and
- Development and analysis of operational risk scenarios. Scenario analysis is the identification and analysis of the potential vulnerability of a firm to exceptional but plausible events. It is in effect a supplement for unobserved operational risk events and can therefore be used in stress testing.

This consolidated information is used in order to determine the operational risk profile of the DEPFA Group.

Operational risks are reported by Operational risk to senior management and the DEPFA Group MRC on a monthly basis.

Risk measurement

The standardised approach for operational risk is followed for regulatory capital purposes. The capital requirement of the DEPFA Group for operational risks under this approach is €15.2 million as of 31 December 2014 (€15.2 million as of 31 December 2013).

The economic capital for operational risk amounted to €19 million as of 31 December 2014 (31 December 2013: €19 million).

Major operational risks of the DEPFA Group

The main operational risks faced by DEPFA Group in 2014 were attributable to the disentanglement of the DEPFA Group from the HRE Group.

There was a significant reliance on key staff for execution of the restructuring, the disentanglement tasks and the introduction of the new IT service provider in December 2014. The loss of know-how represents a significant level of risk in the current situation of the DEPFA Group. While the levels of staff turnover within the DEPFA Group remained stable throughout 2014, this risk still remains high.

(e) Business risk

The DEPFA Group's definition of business risk is "The risk of loss of profits due to changes in the external business environment that damage the underlying economics of the DEPFA Group". The main business risk that has been identified for the DEPFA Group is the risk of higher funding costs. It is a component of the ECap Pillar II calculation.

Funding costs may increase for the following three reasons:
- Higher funding requirement
- Increase in the unsecured funding rate
- Exercise of call options on liability hedging swaps, resulting in increased fixed rate unhedged cost on underlying funding.

As part of the liquidity risk measurement, the increased funding requirement which would occur in conjunction with certain market events is simulated every month under a stress scenario. For the unsecured funding rate, the historic maximum of credit spreads for a bank with the DEPFA Group's credit rating is used in the calculation of the potential funding cost. The DEPFA Group prudently assumes that the higher funding rate and the greater funding requirement happen simultaneously.

(4) Internal capital adequacy assessment process ("ICAAP")

Economic capital and monitoring the risk-bearing capacity

Economic capital ("ECap") is the amount of capital required by a bank to cover the material risks to which it is exposed. It is defined as "the quantity of capital required by a bank in order to cover the potential unexpected losses over a time horizon of one year at a certain level of statistical confidence". The standard used by the DEPFA Group for the quantification of the potential losses, over a one year horizon, is that level of losses that the probability of exceeding it is less than 0.05%. This is a lower probability than that associated with the default of a company with a high long-term credit rating from the external rating agencies (A– at Standard & Poor's, A/A2 at Fitch Ratings and Moody's).

As is market standard for commercial banks, liquidity risk is not explicitly included in the DEPFA Group's economic capital calculations as capital is not considered to be an appropriate mitigant for liquidity risk. However liquidity risk is identified as a material risk and is measured, monitored and reported on a regular basis.

In evaluating the capital adequacy of the DEPFA Group, the amount of economic capital is compared with the AFR of the DEPFA Group in a one year timeframe. Included in the AFR are the customary components such as the shareholders' equity, in accordance with IFRSs, subordinated capital and hybrid capital with a holding period of at least one year, as well as the planned net income or loss for the next twelve months. These components are suitable for absorbing potential losses and acting as a risk buffer. Thus capital adequacy is achieved provided the level of AFR is over and above the economic capital.

The results of the capital adequacy assessment and stress testing are regularly presented to the DEPFA MRC, the DEPFA EDC, the Board, and where necessary senior management, who take appropriate measures.

Result of the ICAAP of the DEPFA Group

Economic capital according to risk types and available financial resources €m	**31.12.2014**	**31.12.2013**	Change
Credit risk	534	812	–278
Market risk	45	28	17
Operational risk	19	19	–
Business Risk	–	–	–
Total before diversification effect	**598**	**859**	**–261**
Total after diversification effect	**594**	**850**	**–256**
Available financial resources (AFR)	2,985	3,053	-68
Capital buffer	2,391	2,203	188

The capital buffer has increased by €188 million. This is mainly because of a decline in credit risk economic capital as a result of the scheduled maturity of over €1 billion of Republic of Italy exposure in September 2014.

Credit risk is the most significant risk type on the basis of the ICAAP and accounts for almost 90% of the undiversified economic capital.

There is a significant economic capital buffer of nearly €2.4 billion over a one-year time horizon as of 31 December 2014 (31 December 2013: €2.2 billion). In terms of economic capital, the DEPFA Group was adequately capitalised throughout 2014.

Method used for the individual risk types

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

The method of calculating the economic capital for the individual risk types for 2014 is explained in the following paragraphs:

Credit risk For calculating credit risk at the portfolio level, the DEPFA Group uses a credit portfolio model following the asset value approach. In this model correlated rating migrations and borrower defaults are simulated and the resulting changes in the values are calculated. After a large number of simulations a loss distribution may be generated. The credit risk economic capital is defined as the difference between the 99.95th percentile of the simulated loss distribution and the mean of this distribution. Moreover, the loss distribution of the credit portfolio allows the attribution of the potential losses (economic capital) to individual obligors based on the calculation of the expected shortfall associated with individual obligors. The risk-adjusted allocation of the credit risk capital measured in this way to the individual obligors constitutes a major module in the risk-oriented management of the credit portfolio.

Within the framework of risk-bearing capacity analysis of the DEPFA Group, the credit risk economic capital amounts to €534 million as of 31 December 2014 (31 December 2013: €812 million) excluding diversification benefits due to correlation with other risk types. The decline relates primarily to the scheduled maturity of a large Italian government bond exposure in September 2014. More details of the calculation are set out in section (4) ICAAP.

Market risk Market Risk Economic Capital is calculated using a methodology known as history preserving resampling. This involves creating a loss distribution from monthly historic measurements of Market Risk factors and calculating the associated changes in portfolio values. The required Economic Capital figure is the 99.95th percentile of this distribution.

Operational risk The calculation of economic capital for operational risk is based on the standardised approach (past gross income figures are taken as indicators of Operational Risk) in accordance with Basel II. However for estimation of ICAAP Operational Risk the standardised approach is made more conservative by also taking into account planned Total Operating Revenues figures. The capital requirement specified by the regulator is also scaled to reflect the higher confidence level (from 99.9% to 99.95%).

Business risk The calculation of the economic capital for business risk reflects the risk arising from higher funding costs. As the DEPFA Group had a secure funding position during 2014 and the stress scenarios result in a positive liquidity buffer over the following 12 months, no capital needs to be allocated for business risk.

Stress tests Stress tests in relation to the economic capital are used in order to obtain a better understanding of the sensitivity of the results to the changes in the risk parameters underlying the model. The DEPFA Group carries out stress tests as an instrument for appropriate economic capital management.

In addition the DEPFA Group runs several ad-hoc scenarios tailored specifically to its portfolio.

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

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 Directives 2006/48/EC and 2006/49/EC ("CRD") as transposed into Irish law in Statutory Instruments 661 & 660.

From 1 January 2014 the regulatory capital and capital adequacy ratios are produced in accordance with the Capital Requirements Directives 2013/36/EU and the Capital Requirements Regulation No 575/2013 (transcribed into Irish law under the European Union (Capital Requirements) Regulations 2014 (S.I. 158/2014 and S.I. 159/2014)). These directives and regulations are together referred to as CRD IV. Following the introduction of CRD IV on 1 January 2014 a number of transitional provisions apply both to the eligibility of capital instruments ("Grandfathering") and the phasing-in of deductions. Where figures are noted as "transitional" basis the transitional provisions have been applied, in comparison to the "fully loaded" basis where all figures reflect the fully implemented CRD IV rules. CRD IV contributed to an increase in risk weighted assets ("RWA") and capital requirements, with the most significant of these increases for the DEFPA Group related to the additional charge to cover the credit valuation adjustment ("CVA") on derivative instruments.

The DEPFA Group is regulated by the Central Bank of Ireland, which applies a capital/risk framework for measuring capital adequacy based on the CRD IV. The DEPFA Group uses the CRD IV standardised approach to calculate the RWA. During 2014, under this framework, banks were required to maintain a minimum tier 1 capital of 5.5% and a total capital of 8% of RWA (known as Pillar One requirements) determined on a transitional basis. The DEPFA Group uses the CRD IV standardised approach to calculate the RWA.

Under the framework following a Supervisory Review and Evaluation Process ("SREP"), the Central Bank of Ireland has imposed additional requirements on the DEPFA Group resulting in minimum capital requirements higher than those calculated under Pillar One. The additional requirements are only applicable to total own funds and are based on a combination of the Pillar One calculations and certain individual economic risk calculations which are described in the risk management section of the Directors' report, (4) ICAAP. The DEPFA Group's capital was in excess of the Pillar One and SREP requirements under CRD IV requirements in 2014.

There were no breaches by the Bank of the capital ratios during 2014 (2013: no breaches). At 31 December 2014 the Bank's total capital ratio exceeds the minimum required ratio at 22.64% (2013 under CRD: 42.28%).

With a tier 1 capital ratio of 27.22% (2013 under CRD: 48.28%) and a total capital ratio of 42.39% (2013 under CRD: 75.99%) the DEPFA Group exceeds the minimum required ratios at group level on a transitional basis (Tier 1 capital ratio 5.5%, Total capital ratio 8.0%).

Regulatory capital DEPFA Group	CRD IV transitional basis		CRD
€ m	**31.12.2014**	**Pro-forma 1.1.2014**	**31.12.2013**
Common Equity Tier 1 capital ("CET1")	842	947	956
Total Tier 1 capital	1,481	1,654	1,811
Tier 2 capital	826	1,076	1,039
Total regulatory capital	**2,307**	**2,730**	**2,850**

Capital adequacy ratios DEPFA Group	CRD IV transitional basis		CRD
	31.12.2014	**Pro-forma 1.1.2014**	**31.12.2013**
Risk weighted assets (€ m)	5,441	4,667	3,751
CET 1 capital ratio (%)	15.48%	20.30%	25.49%
Tier 1 capital ratio (%)	27.22%	35.40%	48.28%
Total capital ratio (Tier 1+2)	**42.39%**	**58.50%**	**75.99%**

CRD IV, on a fully loaded basis, requires a minimum total capital ratio at a legal entity level of 8%, with a minimum CET1 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 with the capital buffer requirements being phased in commencing 1 January 2016.

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 counter-cyclical 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.

Despite the rules published to date uncertainty remains in relation to the level of capital buffers that will apply to DEPFA BANK plc and its subsidiaries. Numerous draft and unpublished European Banking Authority technical and implementation standards are expected to be published in 2015.

CRD IV introduced new eligibility requirements for inclusion of capital instruments in CET 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 CRD IV requirements. The hybrid instruments of the DEPFA Group are recognised as equity instruments in the financial statements in accordance with IAS 32.16. The classification of financial instruments as capital instruments or debt instruments depends on whether the DEPFA Group has a contractual obligation to make payments from an issued financial instrument. 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.

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.

The following table outlines the CRD IV fully loaded capital/capital ratios with the transitional capital/capital ratios as above for comparison.

Regulatory Capital DEPFA Group		
		31.12.2014
		CRD IV basis
€ m	Transitional	Fully loaded
CET1 capital	842	812
Total Tier 1 capital	1,481	812
Tier 2 capital	826	946
Total capital	**2,307**	**1,758**

Capital Adequacy Ratios DEPFA Group		
		31.12.2014
		CRD IV basis
	Transitional	Fully loaded
Risk Weighted Assets (€ m)	5,441	5,441
CET1 capital ratio (%)	15.48%	14.92%
Tier 1 capital ratio (%)	27.22%	14.92%
Total capital ratio (%)	**42.39%**	**32.31%**

Corporate governance statement

Central Bank of Ireland Corporate Governance Code ("the Code")

DEPFA BANK plc is regulated by the Central Bank of Ireland ("CBI") and is subject to the requirements of the CBI's Corporate Governance Code for Credit Institutions and Insurance Undertakings ("the Code"). DEPFA BANK plc is not required to comply with the additional disclosure requirements for major institutions.

The Board

Role

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

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

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

Meetings

The Chairman sets the agenda for each Board meeting. The directors are provided in advance with relevant papers to enable them to consider the agenda items and are encouraged to participate fully in the Board's deliberations. Executive management attend Board meetings and make regular presentations. The Board held eight scheduled meetings during 2014 and fourteen additional out-of-course meetings.

Attendance at Board meetings

	Board (Regular)		Board (Out-of-course)	
	A	B	A	B
Dr. J. Bourke[1] (Chairman) (resigned 31 December 2014)	8	8	14	14
Ms. M. Better[1] (German) (resigned 5 June 2014)	4	3 (1)	7	6
Mr. E.A. Brockhaus[1] (German) (appointed 12 September 2014)	3	3	4	4
Ms. F. Flannery	8	8	14	14
Mr. T. Glynn (American) (resigned 19 December 2014)	8	8	14	13
Mr. W. Groth[1] (German)	8	8 (1)	14	10
Mr. F. Hellwig[1] (German) (appointed 19 December 2014)	–	–	1	1
Dr. H. Horn (German) (appointed 19 December 2014)	–	–	1	1
Mr. A. Kearns[1]	8	8	14	13
Mr. C. Müller[1] (German) (appointed 19 December 2014)	–	–	1	1
Mr. N. Reynolds	8	8	14	14
Dr. P. Schad (German) (appointed 19 December 2014)	–	–	1	1
Mr. A. von Uslar-Gleichen[1] (German) (resigned 16 May 2014)	3	3 (1)	5	4
Dr. H. Walter[1] (German) (resigned 4 February 2015)	8	7 (1)	14	12

[1] Non-executive

Column A indicates the number of meetings held during 2014 which the director was eligible to attend.
Column B indicates the number of meetings attended by each director during 2014.
Numbers in parenthesis indicate meetings attended in 2014 by videoconference or teleconference.

Membership

At 31 December 2014 there were six non-executive directors and four executive directors. The names of the directors appear in the table above. Three of the non-executive directors in office during 2014 are considered to have been independent: Dr. John Bourke, Mr. Adrian Kearns and Dr. Herbert Walter. Non-executive directors are appointed so as to maintain an appropriate balance on the Board and to ensure a sufficiently wide and relevant mix of backgrounds, skills and experience to provide strong and effective leadership and control of the Company. All changes to the Board of Directors during the year and up to the date of signing are also included on page 6.

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

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

overall risk management system and is designed, by way of implementing controls, to provide adequate assurance that the financial statements which are prepared comply with the relevant rules despite the risks which have been identified.

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

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

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

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

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

In terms of procedure organisation, the accounting process is based on standardisation of processes and software. In addition, the four-eyes principle is mandatory for major transactions. Data and EDP systems are protected against unauthorised access. In addition, certain relevant information is made available only to employees who actually require such information for their work. Where necessary, results are agreed on an individual entity and DEPFA Group-wide basis.

In addition to the system-based measures, the DEPFA Group has also implemented manual and non-system-based procedures. For instance, a standard process is used to check whether the reported data is correct and complete. For this purpose, variance analysis in the form of actual versus budget comparisons is carried out. The consolidated statement of financial position and the consolidated income statement are also established on a monthly basis and some positions are also established on a daily basis. Extrapolations and forecasts are also prepared. A better understanding is achieved as a result of the continuous and frequent analysis of figures. Mandatory

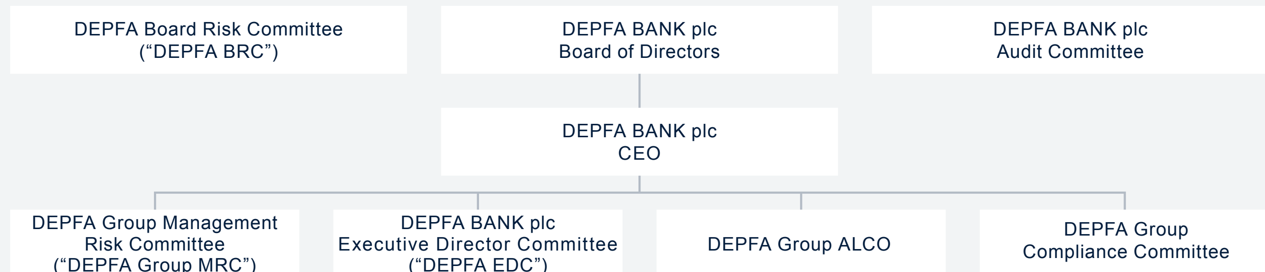
accounting principles applicable throughout the DEPFA Group are defined and communicated. These procedures comprise the analysis and interpretation of the new and existing IFRSs and interpretations in order to permit uniform accounting and evaluation throughout the DEPFA Group. Generally recognised valuation methods are used. The methods which are used and also the underlying parameters are regularly checked and, where necessary, adjusted. Schedules are also defined in order to permit a timely response in the event of deadline problems.

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

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

Standing committees of the Board of Directors and management committees of the Chief Executive Officer

as at 31 December 2014



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

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

Induction and professional development

There is an induction process for new directors. The induction is designed to familiarise directors with the Company and its operations and comprises the provision of relevant briefing material and a programme of meetings with the heads of divisions and senior management. During 2014, workshops on the topics: Credit Valuation Adjustments/Debit Valuation Adjustments, D&O Insurance and a recap of Directors Duties were held for the benefit of the directors.

Board Committees

The Board is assisted in the discharge of its duties by a number of Board Committees, whose purpose it is to consider, in greater depth than would be practicable at Board meetings, matters for which the Board retains responsibility. The composition of such Committees is reviewed annually by the Board. A description of these Committees, each of which operates under Terms of Reference approved by the Board, is given below. Their membership is listed on page 6.

Audit Committee

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

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

Board Risk Committee

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

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

This concludes the Directors' report.

On behalf of the Board

Fiona Flannery	**Adrian Kearns**	**Noel Reynolds**	**Elaine Tiernan**
Director	Director	Director	Company Secretary

26 March 2015

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the DEPFA Group consolidated and Parent Company separate financial statements ("the financial statements"), in accordance with applicable law and regulations.

Company law requires the directors to prepare Group consolidated and Parent Company separate financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") and have elected to prepare the Parent Company financial statements in accordance with IFRSs as adopted by the EU as applied in accordance with the Companies Acts 1963 to 2013.

The DEPFA Group consolidated and Parent Company separate financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and performance of the DEPFA Group and the financial position of the Parent Company. The Companies Acts 1963 to 2013 provide in relation to such financial statements that references in the relevant part of those Acts to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing the DEPFA Group consolidated and Parent Company separate financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the EU and in accordance with the Companies Acts 1963 to 2013; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the DEPFA Group and the Parent Company will continue in business.

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

The directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the DEPFA Group and Parent Company and enable them to ensure that the financial statements comply with the Companies Acts 1963 to 2013 and, as regards the Group financial statements, Article 4 of the IAS Regulations. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the DEPFA Group and Parent Company and to prevent and detect fraud and other irregularities.

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

On behalf of the Board

Fiona Flannery	**Adrian Kearns**	**Noel Reynolds**	**Elaine Tiernan**
Director	Director	Director	Company Secretary

26 March 2015

Responsibility statement, in accordance with the Transparency Regulations

Each of the directors in office, whose names and functions are listed on page 6 confirm that, to the best of each person's knowledge and belief:

- The DEPFA Group consolidated financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities and financial position of the DEPFA Group at 31 December 2014 and its net loss for the year then ended;
- The Parent Company separate financial statements, prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the Companies Acts 1963 to 2013, give a true and fair view of the assets, liabilities and financial position of the Parent Company at 31 December 2014; and
- The Directors' report includes a fair review of the development and performance of the business and the position of the DEPFA Group and Parent Company, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

Fiona Flannery	**Adrian Kearns**	**Noel Reynolds**	**Elaine Tiernan**
Director	Director	Director	Company Secretary

26 March 2015

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

We have audited the Group consolidated and Parent Company separate financial statements ("financial statements") of DEPFA BANK plc ("the Bank" or "the Company") for the year ended 31 December 2014 which comprise; the Consolidated Income Statement, the Consolidated Statement of Comprehensive Loss/Income, the Consolidated Statement of Financial Position, the Company Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated and Company Cash Flow Statements and the related notes. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union, and, as regards the Parent Company separate financial statements, as applied in accordance with the provisions of the Companies Acts 1963 to 2013.

This report is made solely to the Company's members, as a body, in accordance with section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 72 the directors are responsible for the preparation of the financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2014 and of its net loss for the year then ended;
- the Parent Company statement of financial position gives a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Acts 1963 to 2013, of the state of the Parent Company's affairs as at 31 December 2014; and
- the financial statements have been properly prepared in accordance with the Companies Acts 1963 to 2013.

Matters on which we are required to report by the Companies Acts 1963 to 2013

We have obtained all the information and explanations which we consider necessary for the purposes of our audit.

The Parent Company statement of financial position is in agreement with the books of account and, in our opinion, proper books of account have been kept by the Company.

In our opinion the information given in the Directors' report is consistent with the financial statements and the description in the Corporate Governance Statement of the main features of the internal control and risk management systems in relation to the process for preparing the Group financial statements is consistent with the Group financial statements.

The net assets of the Company, as stated in the Company statement of financial position are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2014 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the Company.

Matters on which we are required to report by exception

We have nothing to report in respect of the provisions in the Companies Acts 1963 to 2013 which require us to report to you if, in our opinion the disclosures of directors' remuneration and transactions specified by law are not made.

Niamh Marshall

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

1 Harbourmaster Place
IFSC
Dublin 1, Ireland

26 March 2015

Financial statements

Consolidated income statement

Consolidated income statement

€ m	Note	For year ended on 31.12.2014	As restated[1] For year ended on 31.12.2013
Interest income and similar income	7	993	1,172
Interest expense and similar expenses	7	–1,015	–1,206
Loss on partial termination of loans	7	–36	–
Income from buyback of liabilities	7	3	98
Net interest expense/income		**–55**	**64**
Fee and commission income	8	2	–
Fee and commission expense	8	–4	–15
Net fee and commission expense		**–2**	**–15**
Net trading expense	9	–66	–18
Net expense from financial investments	10	–3	–9
Net income/expense from hedge relationships	11	4	–31
Other operating income	12	2	48
Other operating expense	12	–1	28
Total operating losses/revenues		**–121**	**67**
Reversals of losses on loans and advances	20	17	2
General administrative expenses	13	–90	–96
Other income	14	9	7
Of which: reversal of restructuring provision		10	7
Of which: other		–1	–
Pre-tax loss		**–185**	**–20**
Taxes on income	15	30	56
Net loss/income		**–155**	**36**
Attributable to:			
Equity holders of the parent		–155	36

[1] This restatement is in relation to the deconsolidation of DEPFA Finance N.V. in accordance with the transition requirements of IFRS 10 as set out in note 2 to these audited consolidated financial statements.

The notes on pages 84 to 187 are an integral part of these consolidated financial statements.

On behalf of the Board

Fiona Flannery
Director

Adrian Kearns
Director

Noel Reynolds
Director

Elaine Tiernan
Company Secretary

26 March 2015

Consolidated statement of comprehensive loss/income

€ m	2014 Before tax	2014 Tax	2014 Net of tax	2013 Before tax	2013 Tax	2013 Net of tax
Net loss/income	**–185**	**30**	**–155**	**–20**	**56**	**36**
Other comprehensive income						
Items that are or may be reclassified subsequently to income statement						
AfS reserve movement – net	4	–3	1	6	–3	3
Exchange differences	10	–	10	–1	–	–1
Total other comprehensive income	**14**	**–3**	**11**	**5**	**–3**	**2**
Total comprehensive loss/income	**–171**	**27**	**–144**	**–15**	**53**	**38**
Attributable to:						
Equity holders of the parent	–171	27	–144	–15	53	38

Disclosure of components of comprehensive loss/income

€ m	2014	2013
Net loss/income	**–155**	**36**
Other comprehensive income	**11**	**2**
Items that are or may be reclassified subsequently to income statement		
AfS reserve movement – net	1	3
Gains arising during the year	–	–
Reclassification adjustments for gains/losses included in net income	1	3
Exchange differences	10	– 1
Total comprehensive loss/income	**–144**	**38**

The notes on pages 84 to 187 are an integral part of these consolidated financial statements.

On behalf of the Board

Fiona Flannery
Director

Adrian Kearns
Director

Noel Reynolds
Director

Elaine Tiernan
Company Secretary

26 March 2015

Consolidated statement of financial position

€ m	Note	31.12.2014	As restated[1] 31.12.2013	As restated[1] 01.01.2013
Assets				
Cash reserve	16	502	1,281	1,564
Trading assets	17	9,577	6,135	13,364
Loans and advances to other banks	18	6,523	4,777	9,845
Loans and advances to customers	19	9,282	14,907	18,115
Allowance for losses on loans and advances	20	–10	–100	-102
Amounts recoverable under financial guarantees	20	–	69	69
Financial investments	21	18,055	19,269	25,334
Property, plant and equipment	22	4	–	1
Intangible assets	23	7	9	12
Other assets	24	4,532	3,671	5,798
Income tax assets	25	51	25	214
Current tax assets		46	22	2
Deferred tax assets		5	3	212
Total assets		**48,523**	**50,043**	**74,214**
Liabilities				
Liabilities to other banks	26	4,050	4,703[2]	6,631
Liabilities to customers	27	1,530	4,937[2]	10,006
Liabilities evidenced by certificates	28	27,518	27,529[2]	34,654
Trading liabilities	29	9,794	6,045	13,317
Provisions	30	18	91	148
Other liabilities	31	2,561	3,530	6,016
Income tax liabilities	32	6	12	244
Current tax liabilities		1	9	31
Deferred tax liabilities		5	3	213
Subordinated capital	33	1,072	1,078	1,082
Total liabilities		**46,549**	**47,925**	**72,098**
Equity				
Equity attributable to equity holders				
Share capital	34	106	106	106
Share premium	34	1,142	1,142	1,142
Capital reserve	35	1,500	1,500	1,500
Preferred securities	36	1,136	1,136	1,136
Retained earnings	37	–1,878	–1,723	–1,723
Other reserves	38	–32	–43	–45
AfS		–38	–39	–42
Currency translation and other		6	–4	–3
Total equity		**1,974**	**2,118**	**2,116**
Total equity and liabilities		**48,523**	**50,043**	**74,214**

[1] This restatement is in relation to the deconsolidation of DEPFA Finance N.V. in accordance with the transition requirements of IFRS 10 as set out in note 2 to these audited consolidated financial statements.
[2] Restatement to reclassifiy €377 million from Liabilities to other banks and €87 million from Liabilities to customers into Liabilities evidenced by certificates, consistent with current year presentation.

The notes on pages 84 to 187 are an integral part of these consolidated financial statements.

On behalf of the Board

Fiona Flannery
Director

Adrian Kearns
Director

Noel Reynolds
Director

Elaine Tiernan
Company Secretary

26 March 2015

Company statement of financial position

Company statement of financial position

€ m	Note	31.12.2014	31.12.2013
Assets			
Cash reserve	16	490	1,266
Trading assets	17	15,114	11,033
Loans and advances to other banks	18	9,318	8,336
Loans and advances to customers	19	543	2,531
Allowance for losses on loans and advances	20	–6	–96
Amounts recoverable under financial guarantees	20	–	69
Financial investments	21	1,436	2,447
Property, plant and equipment	22	4	–
Intangible assets	23	7	9
Other assets	24	246	180
Income tax assets	25	53	28
Current tax assets		52	27
Deferred tax assets		1	1
Total assets		**27,205**	**25,803**
Liabilities			
Liabilities to other banks	26	5,823	5,099[1]
Liabilities to customers	27	1,744	4,049[1]
Liabilities evidenced by certificates	28	2,109	2,323[1]
Trading liabilities	29	15,150	10,946
Provisions	30	17	83
Other liabilities	31	155	961
Income tax liabilities	32	1	10
Current tax liabilities		–	9
Deferred tax liabilities		1	1
Subordinated capital	33	1,673	1,682
Total liabilities		**26,672**	**25,153**
Equity			
Equity attributable to equity holders			
Share capital	34	106	106
Share premium	34	1,142	1,142
Capital reserve	35	2,403	2,403
Retained earnings	37	–3,125	–3,010
Other reserves	38	7	9
AfS		1	1
Currency translation and other		6	8
Total equity		**533**	**650**
Total equity and liabilities		**27,205**	**25,803**

[1] Restatement to reclassifiy €334 million from Liabilities to other banks and €87 million from Liabilities to customers into Liabilities evidenced by certificates, consistent with current year presentation.

The notes on pages 84 to 187 are an integral part of these consolidated financial statements.

On behalf of the Board

Fiona Flannery	**Adrian Kearns**	**Noel Reynolds**	**Elaine Tiernan**
Director	Director	Director	Company Secretary

26 March 2015

Consolidated statement of changes in equity – Group

€ m	Share capital	Share premium	Capital reserve	Preferred securities	Retained earnings	Other reserves: Unrealised gains/losses on available-for-sale investments	Other reserves: Accumulated effects of currency translations and other	**Total equity**
Balance at 1 January 2013	**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 year	–	–	–	–	36	–	–	36
Net changes in available-for-sale investments, net of tax	–	–	–	–	–	3	–	3
Net changes in currency translation reserve	–	–	–	–	–	–	–1	–1
Total recognised comprehensive income	**–**	**–**	**–**	**–**	**36**	**3**	**–1**	**38**
Annual state aid compensation	–	–	–	–	–36	–	–	–36
Balance at 31 December 2013	**106**	**1,142**	**1,500**	**1,136**	**–1,723**	**–39**	**–4**	**2,118**
Balance at 1 January 2014	**106**	**1,142**	**1,500**	**1,136**	**–1,723**	**–39**	**–4**	**2,118**
Net loss for the year	–	–	–	–	–155	–	–	–155
Net changes in available-for-sale investments, net of tax	–	–	–	–	–	1	–	1
Net changes in currency translation reserve	–	–	–	–	–	–	10	10
Total recognised comprehensive loss	**–**	**–**	**–**	**–**	**–155**	**1**	**10**	**–144**
Balance at 31 December 2014	**106**	**1,142**	**1,500**	**1,136**	**–1,878**	**–38**	**6**	**1,974**

[1] Restated in accordance with the transition requirements of IFRS 10 as set out in note 2 to these audited consolidated financial statements.

Statement of changes in equity – Company

€ m	Share capital	Share premium	Capital reserve	Retained earnings	Other reserves: Unrealised gains/losses on available-for-sale investments	Other reserves: Accumulated effects of currency translations and other[2]	**Total equity**
Balance at 1 January 2013	**106**	**1,142**	**2,403**	**–2,932**	**2**	**8**	**729**
Net loss for the year	–	–	–	–42	–	–	–42
Net changes in available-for-sale investments, net of tax	–	–	–	–	–1	–	–1
Net changes in currency translation reserve	–	–	–	–	–	–	–
Total recognised comprehensive loss	**–**	**–**	**–**	**–42**	**–1**	**–**	**–43**
Annual state aid compensation	–	–	–	–36	–	–	–36
Balance at 31 December 2013	**106**	**1,142**	**2,403**	**–3,010**	**1**	**8**	**650**
Balance at 1 January 2014	**106**	**1,142**	**2,403**	**–3,010**	**1**	**8**	**650**
Net loss for the year	–	–	–	–115	–	–	–115
Net changes in available-for-sale investments, net of tax	–	–	–	–	–	–	–
Net changes in currency translation reserve	–	–	–	–	–	–2	–2
Total recognised comprehensive loss	**–**	**–**	**–**	**–115**	**–**	**–2**	**–117**
Balance at 31 December 2014	**106**	**1,142**	**2,403**	**–3,125**	**1**	**6**	**533**

[2] Foreign currency translation reserve was revised in the current year in order to reflect the reserve from foreign operations consistently with the Group amounts.

The notes on pages 84 to 187 are an integral part of these consolidated financial statements.

Cash flow statements

Consolidated and Company cash flow statements

€ m	Note	2014	Group 2013	2014	Company 2013
Cash flows from operating activities					
Pre-tax loss		**–185**	**–20**	**–143**	**–106**
Adjustments for non-cash movements:					
Depreciation and amortisation of tangible and intangible assets		4	5	4	5
Foreign exchange loss/(gain)		3	2	–2	–1
Net decrease in accrued interest income		191	614	158	406
Net decrease in accrued interest expenditure		–230	–629	–169	–424
Reversals of losses on loans and advances		–17	–2	–16	–2
Loss on sale of investment securities and loans		3	9	43	–
Income from buyback of liabilities		–3	–98	–	–
Other non cash items (including amortisation)		–74	–64	–175	–66
Net (increase)/decrease in loans and advances to other banks		–1,356	4,998	–853	3,151
Net decrease in loans and advances to customers		2,388	2,503	1,982	541
Net decrease/(increase) in other assets		2	8	–40	14
Net (decrease)/increase in liabilities to other banks		–1,007	–1,351	403	–155
Net decrease in amounts due to customers		–2,661	–4,851	–2,483	–4,171
Net (decrease)/increase in liabilities evidenced by certificates		–1,142	–4,938	58	–83
Net decrease in other liabilities		–131	–182	–107	–182
Net (increase)/decrease in trading assets and other receivables		–	–	–	–
Net increase/(decrease) in derivatives and trading liabilities		42	13	110	–261
Tax received		–	10	–	16
Net cash from operating activities		**–4,173**	**–3,973**	**–1,230**	**–1,318**
Cash flows from investing activities					
Acquisition of subsidiary		–5	–	–	–
Sale/maturity of investment securities		3,488	3,735	543	1,294
Purchase of property and equipment		–4	–	–4	–
Sale of property and equipment		–	1	–	1
Purchase of intangible assets		–2	–2	–2	–2
Net cash from investing activities		**3,477**	**3,734**	**537**	**1,293**
Cash flows from financing activities					
Repayment of subordinated liabilities		–10	–	–10	–
Annual state aid compensation		–36	–59	–36	–59
Net cash from financing activities		**–46**	**–59**	**–46**	**–59**
Net decrease in cash and cash equivalents		**–742**	**–298**	**–739**	**–84**
Cash and cash equivalents at the beginning of the year	16	**1,224**	**1,522**	**1,221**	**1,305**
Cash and cash equivalents at the end of the year	16	**482**	**1,224**	**482**	**1,221**
Included in the cash flows from operating activities for the year are the following amounts:					
Interest income received		1,184	1,747	299	514
Interest expense paid		–1,245	–1,796	–342	–603
Dividends received from Group entities		–	–	35	35

The notes on pages 84 to 187 are an integral part of these consolidated financial statements.

Notes to the financial statements

85 (1) General information

Accounting policies

86 (2) Summary of significant accounting policies
107 (3) Risk management
107 (4) Critical accounting estimates and judgements
109 (5) Transfer of non strategic positions to FMS Wertmanagement AöR

Segment reporting

111 (6) Business segments

Notes to the income statement

114 (7) Net interest expense/income
115 (8) Net fee and commission expense
115 (9) Net trading expense
116 (10) Net expense from financial investments
116 (11) Net income/expense from hedge relationships
116 (12) Other operating income/Other operating expense
117 (13) General administrative expenses
118 (14) Other income
118 (15) Taxes on income

Notes to the statement of financial position

120 (16) Cash reserve
120 (17) Trading assets
121 (18) Loans and advances to other banks
122 (19) Loans and advances to customers
123 (20) Allowance for losses on loans and advances
125 (21) Financial investments
128 (22) Property, plant and equipment
129 (23) Intangible assets
129 (24) Other assets
130 (25) Income tax assets
130 (26) Liabilities to other banks
131 (27) Liabilities to customers
132 (28) Liabilities evidenced by certificates
132 (29) Trading liabilities
133 (30) Provisions
135 (31) Other liabilities
136 (32) Income tax liabilities
136 (33) Subordinated capital
137 (34) Share capital and share premium
138 (35) Capital reserve
138 (36) Preferred securities
139 (37) Retained earnings
140 (38) Other reserves
141 (39) Foreign currency assets and liabilities

Note to the cash flow statements

142 (40) Notes to the items in the cash flow statements and undiscounted cash flows of financial liabilities

Notes to the financial instruments

143 (41) Derivative financial instruments
148 (42) Transfers of financial assets and collateral pledged or held
151 (43) Fair values of financial assets and liabilities
168 (44) Offsetting financial assets and liabilities

Other notes

172 (45) Contingent liabilities and commitments
173 (46) Contingent assets
173 (47) Exchange rates as at 31 December 2014
174 (48) Capital management
175 (49) Group auditors' fee (excluding VAT)
175 (50) Related party transactions
178 (51) Group undertakings
182 (52) Credit risk exposure to certain European countries
184 (53) Additional disclosures required under CRD IV
184 (54) Dividends per share
185 (55) Events after the reporting date
187 (56) Ultimate parent company
187 (57) Approval of financial statements

(1) General information

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, 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 Hypo Real Estate Group ("the HRE Group") by the Federal Republic of Germany. The DEPFA Group is regulated by the Central Bank of Ireland. Debt issued by the DEPFA Group is listed on exchanges in Dublin, Frankfurt, London, Luxembourg and Zurich.

On 19 December 2014 the entire ordinary share capital of the Bank was acquired by FMS Wertmanagement AöR, a German State Agency established by the Federal Republic of Germany and to which the DEPFA Group transferred non strategic positions in 2010. Prior to this date, and since 2 October 2007, the entire ordinary share capital of the Bank was held by Hypo Real Estate Holding AG ("HRE Holding"), the parent entity of the Hypo Real Estate Group ("the HRE Group"). FMS Wertmanagement AöR was established in 2010 as the Federal Republic of Germany's winding up institution for the nationalised HRE Group. FMS Wertmanagement AöR is under the direct ownership of the German Financial Markets Stabilisation Fund/German Finanzmarktstabilisierungsfonds ("SoFFin"), which is managed by the Federal Agency for Financial Market Stabilisation ("FMSA").

(2) Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these Group consolidated and Company's separate financial statements ("the financial statements") are set out below.

International Financial Reporting Standards ("IFRSs") The DEPFA Group has prepared its financial statements for the year ended 31 December 2014 in line with EC Regulation No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 in accordance with IFRSs. These financial statements are based on IFRSs, which have been adopted in European Law by the European Commission as part of the endorsement process. With the exception of specific regulations relating to fair value hedge accounting for a portfolio hedge of interest risks in IAS 39 all mandatory IFRSs have been completely endorsed by the European Union ("EU"). The DEPFA Group does not apply this type of hedge accounting.

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

Basis of preparation The consolidated and Parent Company financial statements have been prepared in accordance with EU endorsed IFRSs, IFRIC interpretations as endorsed by the EU and also the Companies Acts 1963 to 2013, applicable to companies reporting under IFRSs, as adopted by the EU.

The Company has availed of the exemption in Section 148 (8) of the Companies Acts 1963 to 2013 from presenting to its members its Company income statement and related notes that form part of the Company financial statements.

The Group consolidated and Parent Company financial statements are prepared on a going concern basis. Following the announcement that the ownership of the DEPFA Group would be transferred by HRE Holding to FMS Wertmanagement AöR and the subsequent execution of that transfer on 19 December 2014, the directors have considered the appropriateness of the going concern assumption in the preparation of the financial statements.

The directors understand that the DEPFA Group was transferred to FMS Wertmanagement AöR as a going concern and will continue its principal activities, being the wind down of its portfolios in a manner designed to maintain value. 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 funding from FMS Wertmanagement AöR 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 financial statements on a going concern basis of accounting.

Initially adopted standards, interpretations and amendments The following standards, interpretations and amendments were applicable initially in the financial year 2014:

- IFRS 10 Consolidated Financial Statements (IASB effective date 1 January 2013, EU endorsement effective date 1 January 2014)
- IFRS 11 Joint Arrangements (IASB effective date 1 January 2013, EU endorsement effective date 1 January 2014)
- IFRS 12 Disclosure of Interests In Other Entities (IASB effective date 1 January 2013, EU endorsement effective date 1 January 2014)
- IAS 27 Separate Financial Statements (2011), which supersedes IAS 27 (2008) (IASB effective date 1 January 2013, EU endorsement effective date 1 January 2014)
- IAS 28 Investments in Associates and Joint Ventures (2011) which supersedes IAS 28 (2008) (IASB effective date 1 January 2013, EU endorsement effective date 1 January 2014)
- Amendments to IAS 32 Offsetting financial Assets and Financial Liabilities (IASB and EU endorsement effective date 1 January 2014)
- IFRS 10 Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) (IASB and EU endorsement effective date 1 January 2014)
- Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets (IASB and EU endorsement effective date 1 January 2014)
- Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting (IASB and EU endorsement effective date 1 January 2014)
- IFRIC 21 Levies (IASB and EU endorsement effective date 1 January 2014)

IFRS 10 establishes a new control-based model for consolidation that replaces the existing requirements 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 the power over 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 assessed that it did not control the entity at 1 January 2014 and the entity was therefore deconsolidated at that date. 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 year ended 31 December 2013 are as follows:

- Loans and advances to other banks reduced by €–336 million (1 January 2013: €–346 million)
- Loans and advances to customers increased by €1,253 million (1 January 2013: €1,262 million)
- Liabilities to customers increased by €922 million (1 January 2013: €921 million)
- Other reserves in equity reduced by €–5 million (1 January 2013: €–5 million)
- Interest income and similar income for the year ended 31 December 2013 increased by €39 million
- Interest expense and similar expenses for the year ended 31 December 2013 increased by €39 million

On 10 July 2014, the DEPFA Group agreed to acquire the equity of DEPFA Finance N.V. with a settlement date of 18 July 2014. The entity has therefore been reconsolidated by the DEPFA Group from 18 July 2014.

IFRS 11 replaces IAS 31 Interests in joint ventures and SIC-13 Jointly-controlled entities – non-monetary contributions by venturers. IFRS 11 classifies joint arrangements as either joint operations or joint ventures and focuses on the nature of the rights and obligations of the arrangement. The predecessor standard, IAS 31, focused to a greater extent on the legal form to determine the presence of “jointly controlled entities” (“JCEs”), which would then have been equity accounted for or proportionately consolidated. IFRS 11 may result in some of these JCEs instead being seen as joint operations which will be subject to a requirement for the party to directly account for its own assets and liabilities, when additional factors (other than legal form) are taken into account. All investee entities determined under the new criteria to be ‘joint ventures’ will be equity accounted for, with the option for the investor to proportionately consolidate being removed from the new standard. The new standard had no impact on these consolidated financial statements because the DEPFA Group has no investment in joint ventures.

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. These disclosures are included in note 51 to the financial statements.

IAS 27 carries forward the existing accounting requirements for separate financial statements; the requirements of IAS 28 and IAS 31 for separate financial statements have been incorporated into IAS 27. These accounting requirements are incorporated in the separate financial statements of DEPFA BANK plc. There was no impact on these consolidated financial statements because the DEPFA Group has no investments in associates or joint ventures.

IAS 28 previously provided guidance on how to apply equity accounting to associates in consolidated financial statements. The revised IAS 28 continues to include that guidance but it is now extended to also apply that accounting to entities that qualify as joint ventures under IFRS 11. There was no impact on the consolidated financial statements because the DEPFA Group has no investments in joint ventures.

Amendments to IAS 32 (Offsetting Financial Assets and Financial Liabilities) clarify the meaning of “currently has a legally enforceable right of set-off”; and that some gross settlement systems may be considered equivalent to net settlement. The amendments had no impact on these Group consolidated and Company separate financial statements, as according to the master netting agreements to which the DEPFA Group or the Company is a party there is no currently legally enforceable right of set-off in the normal course of business.

IFRS 10 Investment Entities (Amendments to IFRS 10, 12 and IAS 27) requires that where a parent entity meets the definition of an investment entity as set out in the IFRS 10 Amendment, that parent must now carry its investment in certain of its subsidiaries at fair value through profit or loss; it is no longer allowed to consolidate them. The Amendment sets out various detailed criteria that need to be considered to determine if a parent falls into scope of this Amendment. The amendments had no impact on these consolidated financial statements because the DEPFA BANK plc Company (parent) does not meet the definition of an investment entity as set out in IFRS 10.

Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets was issued by the IASB issued to reverse the unintended requirement in IFRS 13 Fair Value Measurement to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed. The amendments had no impact on these Group consolidated and Company separate financial statements because the Group and Company did not own such assets.

Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting are narrow in scope and allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one). This relief was introduced in response to legislative changes across many jurisdictions that would lead to the widespread novation of over-the-counter derivatives. These legislative changes were prompted by a G20 commitment to improve transparency and regulatory oversight of over-the-counter derivatives in a consistent manner. The amendments had no impact on these Group consolidated and Company separate financial statements because the Group and Company have not novated any derivatives to a central counterparty. Future effects will depend on the extent to which qualifying novations of hedging derivatives occur in the future.

IFRIC 21 Levies provides guidance on the accounting for levies imposed by governments under legislation in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The interpretation confirms that an entity recognises a liability for a levy when and only when the triggering event specified in the legislation occurs. An entity does not recognise a liability at an earlier date, even if commercially it has no realistic opportunity to avoid the triggering event. There was no impact on these consolidated financial statements because the DEPFA Group does not have liability for any levies imposed by governments under legislation.

Endorsed standards, interpretations and amendments, which are not yet mandatorily applicable The following standards, interpretations and amendments are EU endorsed, but are not mandatorily applicable in these consolidated financial statements and were not adopted early:
- IAS 19 Amendment: Defined Benefit Plans; Employee Contributions (IASB effective date 1 July 2014, EU endorsement effective date 1 February 2015)
- Annual Improvement to IFRSs 2010–2012 Cycle and 2011–2013 Cycle (IASB effective date 1 July 2014, EU endorsement effective date 1 February 2015)

IAS 19 Amendment (Defined Benefit Plans; Employee Contribution) implements narrow scope amendments, which will apply to contributions from employees or third parties to benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service; for example, employee contributions that are calculated according to a fixed percentage of salary. Based on the level of defined benefit obligations in the DEPFA Group, none of the above impacts are expected to be significant.

As part of its annual improvements process, the IASB has published non-urgent but necessary amendments to IFRSs. Together, the two cycles cover a total of nine standards, with consequential amendments to other standards. The improvements, in accordance with the IASB, are applicable for financial years beginning on or after 1 July 2014, but were endorsed in European law with an effective date of 1 February 2015. The precise impacts of the requirements of these revisions on the DEPFA Group are being considered but from an initial review the impacts are not expected to be significant. The topics covered in these revisions are listed below.

Annual Improvements to IFRSs 2010-2012 Cycle:
- IFRS 2 Share-based Payment: definition of a vesting condition
- IFRS 3 Business Combinations: accounting for contingent consideration in a business combination
- IFRS 8 Operating Segments: (i) aggregation of operating segments and (ii) reconciliation of the total of the reportable segments' assets to the entity's assets
- IFRS 13 Fair Value Measurement: short-term receivables and payables
- IAS 16 Property, Plant and Equipment: revaluation method – proportionate restatement of accumulated depreciation
- IAS 24 Related Party Disclosures: key management personnel services
- IAS 38 Intangible Assets: revaluation method – proportionate restatement of accumulated amortisation

Annual Improvements to IFRSs 2011–2013 Cycle:
- IFRS 1 First-time adoption of IFRSs: meaning of "effective IFRSs"
- IFRS 3 Business Combinations: scope exceptions for joint ventures
- IFRS 13 Fair Value Measurement: scope of paragraph 52 (portfolio exception)
- IAS 40 Investment Property: clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property

Published standards, interpretations and amendments, which are not yet endorsed
The following published standards, interpretations and amendments were not yet endorsed in European Law and have not been early adopted:
- Amendment to IFRS 11 Accounting for acquisitions of Interests in Joint Operations (IASB effective date 1 January 2016)
- IFRS 14 Regulatory Deferral Accounts (IASB effective date 1 January 2016)
- Amendments to IAS 16 and IAS 38 Clarification of acceptable methods of depreciation and amortisation (IASB effective date 1 January 2016)
- Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Bearer Plants (IASB effective date 1 January 2016)
- Amendments to IAS 27 Equity method in Separate Financial Statements (IASB effective date 1 January 2016)
- Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an Investor and its associate or joint venture (September 2014) (IASB effective date 1 January 2016)
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the consolidation exception (December 2014) (IASB effective date 1 January 2016)
- Amendments to IAS 1 Disclosure Initiative (IASB effective date 1 January 2016)
- Annual Improvements to IFRSs 2012-2014 cycle (IASB effective date 1 January 2016)
- IFRS 15 Revenue from contracts with customers (IASB effective date 1 January 2017)
- IFRS 9 Financial Instruments (2009 and subsequent amendments in 2010 and 2013) (IASB effective date 1 January 2018)

The DEPFA Group has not yet assessed the effects of these new standards and changes on its financial statements.

Change in estimate According to IAS 8.34, an accounting estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. In the first half of 2013, the DEPFA Group changed the estimate of Credit Value Adjustments ("CVA") and Debit Valuation Adjustments ("DVA"), which are part of the measurement of derivatives. The changes, which were as a result of a refinement of methodology, lead to the enhanced use of more observable market based parameters for determining the default risk of the DEPFA Group and of the counterparties without observable credit default swap ("CDS") spreads.

There was a further change of estimate in 2014 following an observable change in the market based parameters used for determining the default risk of the DEPFA Group (DVA) following the decision that the DEPFA Group would remain under indirect ownership of the Federal Republic of Germany. The total income statement effect in the period from DVA including the change in estimate amounted to €–44 million (2013: €–41 million).

Reclassification on statement of financial position The DEPFA Group has reclassified certain financial liability instruments on the statement of financial position based on an assessment of their characteristics. The assessment of whether a financial liability instrument is classified as a loan instrument or a liability evidenced by certificate instrument requires judgement and during 2014 the DEPFA Group has reassessed the classification of certain instruments based on their characteristics and the classification of instruments with similar characteristics. The reclassified amounts on the consolidated statement of financial position are from Liabilities to other banks to Liabilities evidenced by certificates €244 million (2013: € 377 million) and from Liabilities to customers to Liabilities evidenced by certificates €91 million (2013: €87 million). The reclassified amounts on the Company statement of financial position are from Liabilities to other banks to Liabilities evidenced by certificates €212 million (2013: € 334 million) and from Liabilities to customers to Liabilities evidenced by certificates €91 million (2013: €87 million). The comparative amounts have been restated accordingly.

Consolidation

Subsidiaries The subsidiaries comprise all entities (including structured entities) from which the DEPFA Group is exposed to variable returns from its involvement with the entity and it has the ability to affect these returns through its power over the entity (control). Subsidiaries are fully consolidated from the date on which control, as defined above, is transferred to the DEPFA Group and cease to be consolidated from the date that control ceases.

Except for “Common Control Transactions” (see below), the purchase method of accounting is used to account for the acquisition of subsidiaries. The fair value of the consideration paid for an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus the fair value of any pre-existing interest and the amount recognised as non-controlling interest. DEPFA BANK plc acquired its subsidiaries before the IASB revised IFRS 3 in 2008. The DEPFA Group chose not to restate the balances in 2008, as was permitted by IFRS 3.

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

Non-controlling interests comprise minority shareholders’ proportionate share in shareholders’ equity and net income.

The first time adoption of IFRS 10 Consolidated Financial Statements led to a change in the group of consolidated companies. As described above, the company DEPFA Finance N.V. was deconsolidated with effect from 1 January 2013 and the comparative amounts have been restated accordingly. On 19 July DEPFA Finance N.V., was acquired from pbb and reconsolidated from that date. The acquisition was accounted for as a transaction under common control. Further details on the effect of the acquisition are set out in note 51 to the financial statements.

Investments in subsidiaries in the Company financial statements are measured at historic cost less impairment.

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

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

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

Gains and losses on individual currency translations at the individual companies in the DEPFA Group are normally shown in the income statement under "Other operating income" or "Other operating expense".

The presentation currency of the DEPFA Group is the Euro, which is the functional currency of the Company and the majority of its subsidiaries. All financial information presented in Euro has been rounded to the nearest million, except where otherwise indicated.

In these consolidated financial statements, statement of financial position items of foreign operations, whose functional currency is not Euro, are translated using the closing rates at reporting date for the financial statements. For translating the expenses and income of these foreign operations, the average rates are used where this is a reasonable approximation to the actual transacted rates in place throughout the year. Differences resulting from the translation of the financial statements of the foreign operations are treated without any impact on the income statement and are shown in "Other reserves". The DEPFA Group of consolidated companies does not include any companies from high-inflation countries.

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

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

The interest element of all hedging derivatives is included in "Net interest expense/income".

Fee and commission expense Fees and commissions which are not part of the effective interest rate calculation are generally recognised on an accruals basis when the service has been provided.

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

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

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

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

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

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

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

Categories pursuant to IAS 39 Initially, when a financial asset or financial liability is recognised, it is measured at its fair value, adjusted for initial direct costs where the item is not subsequently measured at fair value through profit or loss.

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

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

No financial assets or liabilities were classified as dFVTPL in financial years 2014 or 2013.

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

Held-for-trading financial instruments are measured at fair value. Changes in fair value are recognised in the income statement. Held-for-trading financial instruments are stated under "Trading assets" and "Trading liabilities". Interest and the refinancing costs for the trading instruments, are shown in "Net trading expense".

If there is a difference between transaction price and fair value at trade date and the difference results from unobservable data that have a significant impact on the valuation of a financial instrument, the difference (so-called day one profit) is not recognised immediately in the income statement but is recognised over the life of the transaction. The remaining difference is treated directly in the income statement when the inputs become observable, when the transaction matures or is closed out. The DEPFA Group has had no such transaction during 2014 or 2013.

The DEPFA Group classifies certain derivatives and debt securities in the held-for-trading category.

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

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

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

No financial assets were classified as HtM in financial years 2014 or 2013.

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

AfS financial assets other than investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at fair value. Changes in fair value are recognised through other comprehensive income and then retained in a separate item of equity (AfS reserve) not affecting income until the asset is sold, withdrawn or otherwise disposed, or if an impairment is established for the financial asset in accordance with IAS 39.58 et seq., so that the cumulative loss previously recorded in other comprehensive income is then reclassified to the income statement. AfS investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost. If the objective evidence for the impairment of an AfS debt instrument is no longer present, the impairment must be reversed to the income statement. Impairments for an AfS equity instrument which have been recognised in the income statement are not permitted to be reversed through the income statement.

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

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

Financial liabilities are measured at amortised cost. Financial liabilities that are not securitised are recognised in the positions “Liabilities to other banks” and “Liabilities to customers”. If these financial liabilities are securitised and not subordinated, they are disclosed in “Liabilities evidenced by certificates”. Subordinated liabilities are shown in “Subordinated capital”. Interest expense from financial liabilities are shown under the line item “Interest expense and similar expenses”. In addition, the line item “Net interest expense/income” includes net gains and net losses attributable to repurchases or extinguishments of financial liabilities before maturity.

Embedded derivatives Derivatives may be embedded in another contractual arrangement (a host contract). The DEPFA Group accounts for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss and the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract. Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

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

Valuation methods IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement assumes that such a transaction takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. Financial instruments which must be measured at fair value are valued on the basis of quoted market prices or other market prices, if they exist and the markets are active. If a price is not available from an active market, observable market prices from comparable financial instruments are used. If prices from comparable financial instruments are not available, valuation models are used that are based on observable market parameters. If these parameters are not observable at the markets, the valuation of the financial instruments is based on models with certain non-market-observable parameters. The valuation models used are market standard models. A description of these models and the products involved is given in note 43 to the financial statements, “Fair values of financial assets and liabilities”.

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

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

Where the DEPFA Group is the holder of financial guarantees, the fee expense is recognised in the income statement on a straight line basis over the life of the guarantee under "Fee and commission expense". Recovery of losses on assets which are the subject of guarantees held are recognised at the same time as specific allowances for losses on those assets. In the event of a specific allowance for losses being released, the associated guarantee recoverable would also be released.

Derivative financial instruments and hedge accounting

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

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

Hedging derivatives The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and if so, the nature of the item being hedged. The DEPFA Group designates certain derivatives as either:
(a) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or
(b) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge).

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

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

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

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

- The net income or loss arising when the hedging instrument is revalued to its fair value (for a derivative hedging instrument), is recognised in “Net income/expense from hedge relationships”
- The carrying amount of an underlying non-AfS hedged item is adjusted by the fair value change attributable to the hedged risks and is recognised in “Net income/expense from hedge relationships”. If the underlying transaction is an AfS financial asset, the fair value change attributable to hedged risk is re-classified from other comprehensive income to “Net income/expense from hedge relationships”

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

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

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

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

The DEPFA Group had no cash flow hedges during 2013 or 2014.

Derivatives that do not qualify for hedge accounting Some derivatives, while being economic hedges, do not meet the detailed hedge accounting criteria under IFRS. Derivatives that do not qualify for hedge accounting are accounted for as part of the trading portfolio, with net income or loss recognised in "Net trading expense".

Offsetting financial instruments Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The DEPFA Group has not offset any financial instruments at 31 December 2014 or 31 December 2013.

Impairment of financial assets Where financial assets are not measured at fair value through profit or loss, they must be tested for impairment. At each reporting date the DEPFA Group assesses, on a case-by-case basis, whether there is objective evidence of impairment. In order to determine if there is such objective evidence the following indicators of impairment are assessed:

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

Two types of impairment allowances are established: individual allowances and incurred but not reported ("IBNR") allowances.

Allowances for loans and advances are disclosed in a separate account, "Allowances for losses on loans and advances" rather than directly reducing the carrying amount of the assets. The income is shown under "Reversals of losses on loans and advances" in the income statement.

For impairment of financial investments the impairment charge is shown under “Net expense from financial investments” in the income statement.

Where subsequent measurement of financial assets is based on fair value through profit or loss, any impairments, in effect, are taken into account in determining their fair value.

The DEPFA Group records an impairment on loans and advances as well as financial investments if there is objective evidence of impairment.

In determining allowances on individually assessed accounts, the following factors are especially considered:
- the DEPFA Group’s aggregate exposure to the business partner;
- the amount and timing of expected interest and redemption payments;
- the realisable value of collateral and likelihood of successful repossession;
- the likely deduction of any costs involved in recovering amounts outstanding; and
- the market price of the asset, if available.

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

All assets are individually assessed for impairment and therefore there is no requirement for collective impairment.

The IBNR allowances cover losses which have been incurred but have not yet been identified on loans subject to individual assessment. The parameters used to determine IBNR provisions are updated regularly and adjusted if necessary. The IBNR allowance is determined after taking into account:
- historical loss experience in portfolios of similar credit risk characteristics;
- a judgement whether current economic conditions and credit conditions improved or deteriorated compared to the past;
- the estimated period between impairment occurring and being identified; and
- state of the current economic cycle.

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

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

Provisions The DEPFA Group recognises provisions when it has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The DEPFA Group recognises provisions applying these criteria for litigation risks, restructuring activities, onerous contracts and other obligations.

Cash and cash equivalents For the purposes of the cash flow statement, “Cash and cash equivalents” comprise cash reserves including balances with central banks other than mandatory reserve deposits with original maturity of less than 3 months.

Employee benefits

Pension obligations The DEPFA Group operates two types of pension schemes – defined benefit schemes and defined contribution schemes. The defined benefit schemes relate only to former employees.

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

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

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, are recognised immediately in OCI. The DEPFA Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The DEPFA Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

For defined contribution plans, the DEPFA Group pays contributions to privately administered pension plans on a mandatory, contractual or voluntary basis. The DEPFA Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Income tax Current income tax payable on net income, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which net income arises.

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

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

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

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

The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable net income will be available against which these losses can be utilised.

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

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.

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

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

Loans and advances "Loans and advances to other banks" and "Loans and advances to customers" are disclosed under IAS 39 with their amortised cost of purchase if they are not categorised dFVTPL or AfS or an underlying transaction of a fair value hedge. As of 31 December 2014 and as of 31 December 2013, the DEPFA Group did not have loans and advances which are categorised as AfS or dFVTPL.

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

Financial investments LaR and AfS securities are stated under "Financial investments". AfS financial assets are stated at their fair value. Changes in fair value of AfS financial assets are recognised in other comprehensive income thereby not affecting income statement until the asset is sold, disposed of, or if an impairment is established for the financial asset in accordance with IAS 39.58 et seq., in which case the cumulative gain or loss previously recorded in other comprehensive income is then taken to the income statement. IBNR allowances are not created for AfS financial assets. AfS financial assets which are hedged effectively against market price risks are recognised within the framework of fair value hedge accounting whereby fair value changes attributable to hedged risks are reclassified from other comprehensive income to the income statement under "Net income/expense from hedge relationships". LaR financial investments are measured at amortised cost. Individual allowances on LaR financial investments are directly deducted from the carrying amount of the assets. In the financial years 2014 and 2013, the DEPFA Group did not have any HtM financial assets.

Allowances for losses on loans and advances and provisions for contingent liabilities and other commitments
Allowances for losses on loans and advances are created if there is objective evidence that it will not be possible for the entire amount which is due in accordance with the original contractual conditions to be recovered. Allowances for losses on loans and advances are calculated mainly on the basis of expectations with regard to loan defaults, the structure and quality of the loan portfolio, as well as macro-economic parameters on an individual and portfolio basis.

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

Incurred but not reported allowances Under IAS 39.64, loans for which there is no objective indication of the need for an allowance on an individual basis are grouped together to form risk-inherent portfolios. IBNR allowances are set aside for these portfolios; these allowances are calculated based on current events and information with regard to significant changes with detrimental consequences which have occurred in the market, economic, legal or technological environment, as well as historical default rates.

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

Property, plant and equipment Property, plant and equipment are normally shown initially at cost of purchase. The carrying amounts, if the assets are depreciable, are diminished by depreciation in accordance with the expected useful life of the assets applied on a straight line basis. In addition, property, plant and equipment is tested when an indicator of impairment exists. If the value of property, plant and equipment has additionally been diminished, an impairment is taken to the income statement. If the reasons for the impairment are no longer applicable, an amount is written back to the income statement, not exceeding the extent of the amortised cost of purchase. In the case of fittings in rented buildings, the contract duration taking account of extension options that are expected to be availed of is used as the basis of the depreciation period if it is shorter than the economic life.

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

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

Intangible assets

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

Other assets Other assets mainly contain positive fair values from hedging derivative financial instruments.

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

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

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

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

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

Subordinated capital In the event of bankruptcy or liquidation, subordinated capital may only be repaid after all non-subordinated creditors have been satisfied. Subordinated capital of the DEPFA Group encompasses subordinated liabilities and hybrid capital instruments.

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

Share capital

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

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

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

(3) Risk management

The risk management disclosures are contained as indicated in the risk management section of the Directors' report.

(4) Critical accounting estimates and judgements

The Bank believes that, of its significant accounting policies and estimates, the following may involve a higher degree of judgement and complexity:

Fair value of financial and derivative instruments The fair value of financial instruments that are not quoted on active markets is calculated using valuation models. In the cases in which valuation models are used, a check is performed regularly to assess whether the valuation models provide a comparable standard for current market prices. For practical considerations, the valuation models can only take account of quantifiable factors (e.g. cash flows and discount rates) that also require estimates. Changes in assumptions relating to these factors might have an impact on the fair values of the financial instruments. In 2014 the DEPFA Group has implemented a refinement to the derivative valuation models in relation to counterparty risk parameters.

Collateralised derivative instruments are generally valued applying discount factors derived from OIS rates and consider counterparty risk parameters, except for derivatives which are part of the FMS Wertmanagement AöR counter effects described in note 5 to the financial statements. All derivatives are measured at fair value, however in determining the fair value of these derivatives, it has been determined that OIS rates and counterparty risk parameters are not relevant inputs to the fair valuation.

The DEPFA Group is required to fully transfer these positions to FMS Wertmanagement AöR. On this basis the DEPFA Group considers that the principal market for these positions is the bilateral market between the DEPFA Group and FMS Wertmanagement AöR. The transfers will be based on valuation principles consistent with those applied in the 31 December 2009 financial statements of the DEPFA Group. The DEPFA Group therefore values these positions applying parameters consistent with those to be applied in determining the values at which they are expected to be fully transferred to FMS Wertmanagement AöR, that is, applying Euribor/Libor discounting and without considering counterparty risk parameters.

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

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

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

Securitisations and structured entities The DEPFA Group has transactions with and in some cases has sponsored the formation of certain structured entities. The DEPFA Group does not consolidate structured entities that it does not control. As it can sometimes be difficult to determine whether the DEPFA Group controls the structured entity, it makes judgements about its exposure to variable returns from its involvement with the structured entity and its ability to affect those returns through its power over the entity.

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

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

Provisions In accordance with IAS 37.14, the creation and adjustment of provisions for obligations, including those relating to litigation risks, requires the DEPFA Group to use judgement to determine whether it has a present obligation, to estimate the probability that an obligation will result in an outflow of resources and also to estimate the amount that will be required to settle the obligation. The development of such obligations in subsequent years may result in revisions to estimates being required which could result in different amounts being settled. A further description of the DEPFA Group's provisions and the related uncertainties are contained in note 30 to the financial statements.

Annual state aid compensation The DEPFA Group is required to make an estimate of its obligations under the requirement to pay annual fees in compensation for the state aid received. This estimate is performed taking into account forecast financial information as well as the terms and conditions of the obligation. No provision is considered necessary at 31 December 2014 (2013: €36 million). This estimate is subject to ongoing review and revision as required.

(5) Transfer of non strategic positions to FMS Wertmanagement AöR

In 2010, as part of the stabilisation measures granted by the Federal Republic of Germany to the HRE Group of which the DEPFA Group was then a part, the DEPFA Group transferred certain non strategic financial instrument positions to FMS Wertmanagement AöR, the German State Agency established in 2010 as the Federal Republic of Germany's winding up institution for the nationalised HRE Group and which is now the direct parent of the DEPFA Group.

The transfer, which was accounted for as a transaction between companies under common control, consisted of the direct sale or sub-participation of certain positions to FMS Wertmanagement AöR which led to the derecognition of those positions as well as other partial transfer methods which did not achieve immediate derecognition under IAS 39. Examples of transfers not achieving derecognition include credit risk transfers by financial guarantee or the concluding of back to back derivative transactions to transfer the market risk of derivatives but where the DEPFA Group retained the counterparty risk.

The transferred positions for which derecognition was not achieved has led to greater volumes of positions reported on the statement of financial position than would have been the case if full derecognition had been achieved. An "upgrade" process of the transfer methods for these positions has continued since 2010 and most positions have since been derecognised by the DEPFA Group following their full transfer to FMS Wertmanagement AöR.

However, as at 31 December 2014, certain positions still remain on the DEPFA Group statement of financial position. As at 31 December 2014 these statement of financial position counter effects, comprised “back-to-back” derivatives and related cash collateral. The counter effects included as at 31 December 2013 included under “Loans and advances to customers” and “Financial investments”, which were the subject of financial guarantees from FMS Wertmanagement AöR, were fully transferred to FMS Wertmanagement AöR during 2014. Also during 2014, “Liabilities to customers” counter effects were reduced by €2,763 million (both Group and Company) due to the repayment of liquidity facilities provided to the DEPFA Group by FMS Wertmanagement AöR. The following table summarises the statement of financial position items which include counter effects at 31 December 2014 and 31 December 2013:

FMS Wertmanagement AöR counter effects

		Group		Company
€ m	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
Assets				
Trading assets	1,359	613	1,340	574
Loans and advances to other banks	1,028	998	1,009	968
Loans and advances to customers	–	2,190	–	2,190
Financial investments	–	1,035	–	1,035
Total	**2,387**	**4,836**	**2,349**	**4,767**
Liabilities				
Liabilities to customers	1,028	3,491	1,009	3,461
Trading liabilities	1,359	613	1,340	574
Other liabilities	–	732	–	732
Total	**2,387**	**4,836**	**2,349**	**4,767**

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

Due to a requirement in line with the principle of burden sharing required by the European Commission in relation to the state aid proceedings, the DEPFA Group, subject to certain conditions, is required to pay certain annual fees to the Federal Republic of Germany, the terms and conditions of which were agreed in March 2013. The DEPFA Group makes full provision for the expected future amounts of such fees which are accounted for directly in equity. A fee of €59 million was paid by DEPFA BANK plc 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 in respect of the financial year 2013 was reflected in the financial statements as at 31 December 2013 and was paid in April 2014. No further provision is considered necessary at 31 December 2014, however, future developments could result in the requirements for additional provisions.

(6) 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 AöR and group consolidation effects.

The segment report of the DEPFA Group is based on the management information provided to the chief operating decision maker ("CODM"), 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. Other than the following 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.

- Included in the line item "Net interest income/expense" for the segment DEPFA ACS BANK is €283 million (2013: € 273 million) relating to derivative interest and other interest payable to and receivable from the segment DEPFA BANK plc and other. The corresponding net expense is also reported in the line item "Net interest income/expense" in the segment DEPFA BANK plc and other.
- Included in the line item "Net interest income/expense" for the segment Hypo Pfandbrief Bank International S.A. is €32 million (2013: € 36 million) relating to derivative interest and other interest payable to and receivable from the segment DEPFA BANK plc and other. The corresponding net expense is also reported in the line item "Net interest income/expense" in the segment DEPFA BANK plc and other.
- Included in the line item "Net fee and commission expense" for the segment DEPFA ACS BANK is €–9 million (2013: €–6 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 for the segment DEPFA ACS BANK amounted to €–7 million (Nominal: €227 million) (2013: € nil (Nominal: €22 million)). Gains or losses included in the line item "Net interest income" from inter segment transfers for the segment DEPFA ACS BANK amounted to € nil (Nominal: €nil) (2013: € nil (Nominal: €150 million)).

- Gains or losses included in the line item "Net expense from financial investments" from inter segment transfers for the segment Hypo Pfandbrief Bank International S.A. amounted to €–7 million (Nominal: €188 million) (2013: € nil (Nominal: € nil)). Gains or losses included in the line item "Net interest income" from inter segment transfers for the segment Hypo Pfandbrief Bank International S.A. amounted to €–1 million (Nominal: €90 million) (2013: € nil (Nominal: € nil)).
- Included in the line item "General administrative expenses" for the segment DEPFA ACS BANK is €–38 million (2013: € –19 million) relating to charges from the segment DEPFA BANK plc and other. The corresponding income is also reported in the line item "General administrative expenses" in the segment DEPFA BANK plc and other.
- Included in the line item "General administrative expenses" for the segment Hypo Pfandbrief Bank International S.A. is €–2 million (2013: € –1 million) relating to charges from the segment DEPFA BANK plc and other. The corresponding income is also reported in the line item "General administrative expenses" in the segment DEPFA BANK plc and other.

The management information is based on the accounting and valuation methods of the consolidated financial statements, prepared in accordance with IFRSs. Accordingly, reconciliation with the accounting and valuation methods used in the consolidated financial statements is not necessary.

Income/expenses by segments				**1.1.–31.12.2014**
€ m	DEPFA ACS BANK	Hypo Pfandbrief Bank International S.A.	DEPFA BANK plc and other	**Group**
Net interest income/expense	38	5	–98	–55
Net fee and commission expense/income	–9	–	7	–2
Net trading income/expense	1	–6	–61	–66
Net expense/income from financial investments	–10	–7	14	–3
Net expense/income from hedge relationships	–1	–	5	4
Other operating income	1	1	–	2
Other operating expense	–	–	–1	–1
Total operating revenues	**20**	**–7**	**–134**	**–121**
Reversals of losses on loans and advances	2	–	15	17
General administrative expenses	–40	–7	–43	–90
Other income	–	–	9	9
Pre-tax loss/income	**–18**	**–14**	**–153**	**–185**
Taxes on income	–	3	27	30
Net loss/income	**–18**	**–11**	**–126**	**–155**
Material non-cash items other than depreciation and amortisations				
Net decrease in accrued interest income	70	5	116	191
Net decrease in accrued interest expense	–74	–5	–151	–230
Statement of financial position by segments				
Assets	30,740	3,303	14,480	48,523
Liabilities	30,121	3,202	13,226	46,549
Cost/Income ratio	>100%	>100%	>100%	>100%

Income/expenses by segments				**As restated[1)] 1.1.–31.12.2013**
€ m	DEPFA ACS BANK	Hypo Pfandbrief Bank International S.A.	DEPFA BANK plc and other	**Group**
Net interest income/expense	131	6	–73	64
Net fee and commission expense	–8	–	–7	–15
Net trading expense	–6	–3	–9	–18
Net expense from financial investments	–9	–	–	–9
Net income/expense from hedge relationships	5	–10	–26	–31
Other operating income	–	–	48	48
Other operating expense	–5	–	33	28
Total operating revenues	**108**	**–7**	**–34**	**67**
Reversals of losses on loans and advances	–	–	2	2
General administrative expenses	–21	–5	–70	–96
Other income	–	–	7	7
Pre-tax income/loss	**87**	**–12**	**–95**	**–20**
Taxes on income	–11	2	65	56
Net income/loss	**76**	**–10**	**–30**	**36**
Material non-cash items other than depreciation and amortisations				
Net decrease in accrued interest income	205	13	396	614
Net decrease in accrued interest expense	–210	–11	–408	–629
Statement of financial position by segments				
Assets	32,623	3,414	14,006	50,043
Liabilities	31,987	3,300	12,638	47,925
Cost/Income ratio	19%	>100%	>100%	>100%

[1)] This restatement is in relation to the deconsolidation of DEPFA Finance N.V. in accordance with the transition requirements of IFRS 10 as set out in note 2 to these audited consolidated financial statements.

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

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

No single external customer generates more than 10% of gross revenues.

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

Revenue from external customers by region

€ m		Ireland	UK	The Netherlands	Luxembourg	Rest of Europe	America/ Asia	**Group**
Total operating revenues	2014	–132	40	–22	–7	–5	5	–121
	2013	13	45	1	–7	–4	19	67
Non-current assets	31.12.2014	11	–	–	–	–	–	11
	31.12.2013	9	–	–	–	–	–	9

(7) Net interest expense/income

Net interest expense/income € m	2014	As restated[1] 2013
Interest income and similar income		
Lending, money-market business and government subscribed debt	670	1,011
Derivatives (net interest income)	323	161
	993	**1,172**
Interest expense and similar expenses		
Deposits and liabilities evidenced by certificates	–981	–1,153
Subordinated capital	–34	–53
	–1,015	**–1,206**
Loss on partial termination of loans	**–36**	–
Income from buyback of liabilities	**3**	**98**
Total	**–55**	**64**

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

Interest income on impaired loans amounted to € nil (2013: €3.1 million).

Net interest expense/income includes net income (net of funding expense) of €1 million (2013: €12 million) related to assets which were still recognised on the DEPFA Group statement of financial position as at 31 December 2014 and on which guarantees from FMS Wertmanagement AöR 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 5 to the financial statements, all such positions were transferred to FMS Wertmanagement AöR during 2014.

Total interest income for financial assets that are not at fair value through profit or loss, amount to €670 million in 2014 (2013: €1,011 million). Total interest expenses for financial liabilities that are not at fair value through profit or loss amount to €1,015 million in 2014 (2013: €1,206 million).

Net interest income includes a loss of €–36 million (2013: € nil) on the partial termination of a loan to pbb. The partially terminated loan is included in the statement of financial position in "Loans and advances to other banks" and the terminated amount represented a nominal amount of €150 million (2013: € nil).

Net interest income includes gains from the buyback of liabilities that were redeemed before maturity at prevailing market rates on a reverse enquiry basis of €3 million (2013: €98 million). These liabilities were included on the statement of financial position in "Liabilities evidenced by certificates" and represented a nominal amount of €63 million (2013: €541 million).

(8) Net fee and commission expense

Net fee and commission expense		
€ m	2014	2013
Fee and commission income		
From lending operations	2	–
	2	–
Fee and commission expense		
From lending operations	– 4	–15
	– 4	**–15**
Total	**–2**	**–15**

Net fee and commission expense includes guarantee fees of €–1 million (2013: €–12 million) related to assets which were still recognised on the DEPFA Group statement of financial position as at 31 December 2014 and on which guarantees from FMS Wertmanagement AöR have been received. This amount is offset in "Net interest expense/income". As described in note 5 to the financial statements, all such positions were transferred to FMS Wertmanagement AöR during 2014.

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.

(9) Net trading expense

Net trading expense		
€ m	2014	2013
From interest rate instruments and related interest and foreign exchange derivatives	–66	– 18
Total	**–66**	**–18**

Included in net trading expense is a net amount of €–32 million (2013: €–21 million) in derivative valuation effects relating to counterparty risk parameters including both the credit risk of the counterparty, credit valuation adjustment ("CVA") of €12 million (2013: €20 million) and the DEPFA Group's own credit risk, debit valuation adjustment ("DVA") of €–44 million (2013: €–41 million). The significant change in DVA 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 that the DEPFA Group would remain under indirect ownership of the Federal Republic of Germany. The CVA amount for 2014 includes €11 million relating to a single counterparty. Revaluation of stand-alone derivatives which do not satisfy the criteria of IAS 39 hedge accounting amounted to €–34 million (2013: €7 million).

The previous year's result also includes an amount of €–4 million relating to a change in accounting estimate whereby the DEPFA Group refined its derivative valuation models in 2013 in relation to discounting factors derived from Overnight Index Swap ("OIS") rates. This refinement, in line with market developments, aligned the discounting methodologies with the interest rates applicable to collateral placed or received in relation to the derivatives being valued.

(10) Net expense from financial investments

Net expense from financial investments

€ m	2014	2013
Income from financial investments	–	1
Expense from financial investments	–3	–10
Total	**–3**	**–9**

Net expense from financial investments comprise gains and losses from disposals of financial investments and relate solely in both years to instruments classified as Loans and receivables.

(11) Net income/expense from hedge relationships

Net income/expense from hedge relationships

€ m	2014	2013
Result from fair value hedge accounting		
Result from hedged items	–1,025	173
Result from hedging instruments	1,029	–204
Total	**4**	**–31**

(12) Other operating income/Other operating expense

Other operating income

€ m	2014	2013
Other operating income		
Recharge income from other HRE Group companies	1	48
Other	1	–
Total	**2**	**48**

Other operating income mainly consists of income of € nil (2013: €45 million) from final settlement charges to pbb in relation to asset servicing provided on the positions transferred to FMS Wertmanagement AöR and charges to the HRE Group for various supporting activities of €1 million (2013: €3 million). In line with scheduled contract terminations, the DEPFA Group ceased servicing activities for the portfolios of FMS Wertmanagement AöR on 30 September 2013. Also included is other operating income of €1 million (2013: € nil).

Other operating expense

€ m	2014	2013
Other operating expense		
Foreign exchange losses	–3	–2
Other	2	30
Total	**–1**	**28**

Other operating expense includes the following major items:

- Partial release of provisions in relation to the transfer of positions to FMS Wertmanagement AöR of €2 million (2013: €8 million).
- Partial release of provisions created in 2012 for current and expected litigation expenses of €1 million (2013: €39 million).
- Increase in provisions for the costs of separating the IT infrastructure of the DEPFA Group from the HRE Group of € nil (2013: €–12 million).
- Provision for settlement fee in relation to a settlement agreement between the HRE Group and the DEPFA Group in respect of asset servicing activities for the FMS Wertmanagement AöR portfolios of € nil (2013: € –9 million). This settlement amount includes, inter alia, payment for a waiver by pbb against any future potential claims for breach of duty in relation to the servicing activities provided by the DEPFA Group during the contractual servicing period.
- Partial release of a provision in relation to obligations arising from the sale of certain receivables of € nil (2013: €4 million).
- Foreign exchange loss €–3 million (2013: €–2 million) and other operating expenses of €–1 million (2013: € nil).

(13) General administrative expenses

General administrative expenses

€ m	2014	2013
Personnel expenses	**–27**	**–36**
Wages and salaries	–21	–28
Social security costs	–3	–5
Pension expenses and related employee benefit costs	–3	–3
Other general administrative expenses	**–59**	**–55**
Depreciation/amortisation	**–4**	**–5**
On software	–4	–5
On property, plant and equipment	–	–
Total	**–90**	**–96**

Other general administrative expenses also include auditors’ renumeration of €1 million (2013: €1 million) and operating lease rentals of €8 million (2013: €10 million).

The average number of persons employed by the DEPFA Group during the year was 217 (2013: 321).

Pension expenses and related employee benefit costs include €–3 million defined contribution pension plan expenses (2013: €–3 million).

(14) Other income

Other income

€ m	2014	2013
Reversal of restructuring provision	10	7
Other	–1	–
Total	**9**	**7**

Other income contains an amount released against a provision for the strategic realignment and restructuring of the DEPFA Group of €10 million (2013: €7 million). Other expense consists of other non-income based taxes €–1 million (2013: € nil).

(15) Taxes on income

Taxes on income

€ m	2014	2013
Current tax arising on current year results	–2	–6
Current tax arising on prior year results	29	57
Deferred tax arising on current year results	–1	5
Deferred tax arising on prior year results	4	–
Total	**30**	**56**

Current tax amounted to €27 million (2013: €51 million) and were significantly affected by the recognition of tax assets and release of provisions arising from the closure of certain tax audits.

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

Expected taxes on income and actual taxes on income

€ m	2014	2013
Pre-tax loss	–185	–20
Applicable (legal) tax rate as % in Ireland	12.50%	12.50%
Expected (computed) tax effect	23	3
Tax effects:		
Arising from foreign income	–	1
Arising from tax rate differences	–	–
Arising from tax free income	–	–
Arising from non deductible items	–4	–1
Tax losses not recognised as deferred tax assets	–18	–4
Arising from the write up of deferred taxes	–	–
Arising from prior years and other periodical effects	29	57
Accounted taxes on income/expense	**30**	**56**
Group tax ratio as %	16.11%	279.38%

Tax effects arising from prior years and other periodical effects includes the recognition of tax assets and release of provisions arising from the closure of certain tax audits.

Development of deferred taxes

€ m	Group		Company	
	2014	**2013**	**2014**	**2013**
Deferred taxes recognised in the statement of financial position	–	–	–	–
Difference to prior year thereof:				
Recognised in income statement	3	5	–	–
Recognised in equity	–3	–4	–	–
Other	–	–	–	–
Disposals	–	–	–	–

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

Deferred tax assets and liabilities

€ m	Group		Company	
	2014	**2013**	**2014**	**2013**
Loans and advances to other banks/customers (including loan loss allowances)	–	1	–	1
Financial investments	2	7	–	–
Liabilities to other banks/customers	132	80	–	–
Other assets and liabilities	68	57	1	–
Loss carryforwards	5	1	–	–
Netting	–202	–143	–	–
Total deferred tax assets	**5**	**3**	**1**	**1**
Loans and advances to other banks/customers (including loan loss allowances)	5	5	–	–
Financial investments	38	47	1	1
Other assets and liabilities	152	94	–	–
Provisions	12	–	–	–
Netting	–202	–143	–	–
Total deferred tax liabilities	**5**	**3**	**1**	**1**

The deductible temporary differences giving rise to deferred tax assets are expected to reverse in the same periods and in the same tax jurisdiction as the taxable temporary differences giving rise to the deferred tax liabilities.

At 31 December 2014 the Group had total unused tax losses on which deferred tax assets have not been recognised of €1,723 million (31 December 2013: €1,556 million).

At 31 December 2014 the Company had unused tax losses on which deferred tax assets have not been recognised of €1,705 million (31 December 2013: €1,556 million).

The tax losses have no expiry date.

(16) Cash reserve

Cash reserve

€m	Group 31.12.2014	Group 31.12.2013	Company 31.12.2014	Company 31.12.2013
Balances with central banks other than mandatory reserve deposits	482	1,224	482	1,221
Mandatory reserve deposits with central banks	20	57	8	45
Total	**502**	**1,281**	**490**	**1,266**

Cash and cash equivalents comprise of 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.

(17) Trading assets

Trading assets

€m	Group 31.12.2014	Group 31.12.2013	Company 31.12.2014	Company 31.12.2013
Debt securities and other fixed-income securities				
Bonds and notes	46	36	46	36
Issued by public-sector borrowers	46	36	46	36
Thereof: Listed	46	36	46	36
Positive fair values from derivative financial instruments (trading book)	58	55	58	55
Interest based and foreign currency based transactions	58	55	58	55
Others	–	–	–	–
Stand-alone derivatives (banking book)	9,473	6,044	15,010	10,942
Total	**9,577**	**6,135**	**15,114**	**11,033**
Of which transacted with Group companies	1,275	93	3,230	2,180

Amounts transacted with Group companies on 31 December 2014 in the DEPFA Group statement of financial position comprise derivatives transacted with FMS Wertmanagement AöR and in the Company statement of financial position with other entities in the DEPFA Group and FMS Wertmanagement AöR. Amounts transacted with Group companies on 31 December 2013 in the DEPFA Group statement of financial position comprise derivatives transacted with other entities in the HRE Group.

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

(18) Loans and advances to other banks

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

	Group		Company	
€ m	31.12.2014	As restated[1] 31.12.2013	31.12.2014	31.12.2013
Public sector loans	410	1,300	–	–
Other loans and advances	6,113	3,477	9,318	8,336
Total	**6,523**	**4,777**	**9,318**	**8,336**
Of which due from Group companies	–	411	3,954	5,691

[1] This restatement is in relation to the deconsolidation of DEPFA Finance N.V. in accordance with the transition requirements of IFRS 10 as set out in note 2 to these audited consolidated financial statements.

Balances due from Group companies on 31 December 2014 in the DEPFA Group statement of financial position include amounts receivable from FMS Wertmanagement AöR and in the Company statement of financial position with other entities in the DEPFA Group and FMS Wertmanagement AöR. Balances due from Group companies on 31 December 2013 in the DEPFA Group statement of financial position include amounts receivable from other entities in the HRE Group.

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

Loans and advances to other banks broken down by maturities as follows:

	Group		Company	
€ m	31.12.2014	As restated[1] 31.12.2013	31.12.2014	31.12.2013
Repayable on demand	3,518	2,770	5,411	4,232
With contractual maturities				
up to 3 months	2,437	399	3,638	3,975
from 3 months to 1 year	66	1,156	183	–
from 1 year to 5 years	340	452	6	9
from 5 years and over	162	–	80	120
Total	**6,523**	**4,777**	**9,318**	**8,336**

[1] This restatement is in relation to the deconsolidation of DEPFA Finance N.V. in accordance with the transition requirements of IFRS 10 as set out in note 2 to these audited consolidated financial statements.

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

There were no assets past due but not impaired and no assets impaired in 2014 and 2013.

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

(19) Loans and advances to customers

Loans and advances to customers broken down by type of business as follows:	Group		Company	
		As restated [1]		
€ m	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Public sector loans	9,062	14,886	323	2,518
Other loans and advances	220	21	220	13
Total	**9,282**	**14,907**	**543**	**2,531**
Of which due from Group companies	1,720	–	512	–

[1] This restatement is in relation to the deconsolidation of DEPFA Finance N.V. in accordance with the transition requirements of IFRS 10 as set out in note 2 to these audited consolidated financial statements.

Balances due from Group companies on 31 December 2014 in the DEPFA Group statement of financial position include amounts receivable from FMS Wertmanagement AöR and in the Company statement of financial position with other entities in the DEPFA Group and FMS Wertmanagement AöR. Balances due from Group companies on 31 December 2013 in the DEPFA Group statement of financial position include amounts receivable from other entities in the HRE Group.

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

There were no assets past due but not impaired and no assets impaired in 2014 and 2013.

During 2014 a loan of €2,050 million classified under "Loans and advances to customers" at 31 December 2013 was restructured into a bond instrument, but was not derecognised as the terms and conditions and cash flows of the asset remain substantially unchanged. The carrying value of the instrument has been reclassified to "Financial investments" at 31 December 2014. The comparative amount has not been restated for this reclassification.

Loans and advances to customers broken down by maturities as follows:	Group		Company	
		As restated [1]		
€ m	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Repayable on demand	10	21	–	13
With contractual maturities				
up to 3 months	1,808	280	241	106
from 3 months to 1 year	378	1,391	2	1
from 1 year to 5 years	1,311	1,941	–	222
from 5 years and over	5,775	11,274	300	2,189
Total	**9,282**	**14,907**	**543**	**2,531**

[1] This restatement is in relation to the deconsolidation of DEPFA Finance N.V. in accordance with the transition requirements of IFRS 10 as set out in note 2 to these audited consolidated financial statements.

(20) Allowance for losses on loans and advances

Movement in allowance for losses on loans and advances:

Specific allowance for losses on loans and advances

	Group		Company	
€ m	2014	2013	2014	2013
At 1 January	**–69**	**–71**	**–69**	**–71**
Reversals of specific allowance	–	2	–	2
Transfer to FMS Wertmanagement AöR	69	–	69	–
At 31 December	**–**	**–69**	**–**	**–69**

Incurred but not reported allowance for losses on loans and advances

	Group		Company	
€ m	2014	2013	2014	2013
At 1 January	**–31**	**–31**	**–27**	**–26**
Amounts used	4	–	4	–
Reversals of incurred but not reported allowance	17	–	17	–1
At 31 December	**–10**	**–31**	**–6**	**–27**
Total allowance for losses on loans and advances	**–10**	**–100**	**–6**	**–96**

Amounts recoverable under financial guarantees

	Group		Company	
€ m	31.12.2014	31.12.2013	31.12.2014	31.12.2013
At 1 January	**69**	**69**	**69**	**69**
Transfer to FMS Wertmanagement AöR	–69	–	–69	–
At 31 December	**–**	**69**	**–**	**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 AöR 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.

The reversals of incurred but not reported (“IBNR”) allowance in 2014 are primarily due to favourable developments in the assessment of a sub-portfolio of loan exposures.

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

Carrying amounts of loans and receivables

Carrying amounts of loans and receivables

€ m	Group		Company	
	31.12.2014	As restated[1] 31.12.2013	31.12.2014	31.12.2013
Carrying amount of loans and receivables that are neither impaired nor past due	15,805	19,597	9,861	10,780
Carrying amount of loans and receivables that are past due but not impaired	–	–	–	–
Carrying amount of individually assessed impaired loans and receivables	–	87	–	87
Total	**15,805**	**19,684**	**9,861**	**10,867**
Of which loans and advances to other banks	6,523	4,777	9,318	8,336
Of which loans and advances to customers	9,282	14,907	543	2,531

[1] This restatement is in relation to the deconsolidation of DEPFA Finance N.V. in accordance with the transition requirements of IFRS 10 as set out in note 2 to these audited consolidated financial statements.

The above table includes specific allowances for losses on loans and advances and recovery of losses under financial guarantees. IBNR 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	Group		Company	
	31.12.2014	As restated[1] 31.12.2013	31.12.2014	31.12.2013
Loan loss allowances (net of recovery of losses under financial guarantees)	–10	–31	–6	–27
Volume of total lending	15,795	19,653	9,855	10,839
Allowances to total lending	**–0.06%**	**–0.16%**	**–0.06%**	**–0.25%**

[1] This restatement is in relation to the deconsolidation of DEPFA Finance N.V. in accordance with the transition requirements of IFRS 10 as set out in note 2 to these audited consolidated financial statements.

Loans and advances past due but not impaired

At 31 December 2014 and 2013, the following amounts were noted as being past due. However, no impairment provision was made against these past due amounts as the DEPFA Group does not consider that there is any significant issue regarding their recoverability. The total book value in relation to the amounts has also been disclosed to put the size of the amounts in question into context.

Loans past due

	Group		Company	
€ m	31.12.2014	31.12.2013	31.12.2014	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	–	–	–	–
Carrying amount of the individually assessed impaired financial assets				
Loans	–	87	–	87
Total	**–**	**87**	**–**	**87**

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.

(21) Financial investments

Financial investments broken down by type as follows:

	Group		Company	
€ m	31.12.2014	31.12.2013	31.12.2014	31.12.2013
AfS financial investments	**20**	**19**	**20**	**19**
Debt securities and other fixed-income securities	20	19	20	19
Group undertakings	–	–	**1,041**	**1,035**
Shares in Group undertakings	–	–	1,041	1,035
LaR financial investments	**18,035**	**19,250**	**375**	**1,393**
Debt securities and other fixed-income securities	18,035	19,250	375	1,393
Total	**18,055**	**19,269**	**1,436**	**2,447**
Of which due from Group companies	2,055	–	–	–

Balances due from Group companies on 31 December 2014 in the DEPFA Group statement of financial position include amounts receivable from FMS Wertmanagement AöR and in the Company statement of financial position with other entities in the DEPFA Group and FMS Wertmanagement AöR. Balances due from Group companies on 31 December 2013 in the DEPFA Group statement of financial position include amounts receivable from other entities in the HRE Group.

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

During 2014 a loan of €2,050 million classified under "Loans and advances to customers" at 31 December 2013 was restructured into a bond instrument, but was not derecognised as the terms and conditions and cash flows of the asset remain substantially unchanged. The carrying value of the instrument has been reclassified to "Financial investments" at 31 December 2014. The comparative amount has not been restated for this reclassification.

Financial investments broken down by maturities as follows:		Group		Company
€ m	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
Unspecified maturity - shares in Group undertakings	–	–	1,041	1,035
With contractual maturities				
up to 3 months	464	77	26	23
from 3 months to 1 year	1,486	2,198	12	22
from 1 year to 5 years	4,760	4,163	20	19
from 5 years and over	11,345	12,831	337	1,348
Total	**18,055**	**19,269**	**1,436**	**2,447**

Debt securities and other fixed income securities broken down by counterparty type as follows:		Group		Company
€ m	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
Bonds and debt securities				
By public issuers	15,443	16,531	375	1,395
By other issuers	2,612	2,738	20	17
Total	**18,055**	**19,269**	**395**	**1,412**

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 €18.1 billion (2013: €19.3 billion) for the DEPFA Group and €1.4 billion (2013: €2.5 billion) for the Company.

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 below.

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 (Company: €3.4 billion) and financial investments out of the category available-for-sale of €44.26 billion (Company: €33.75 billion). In addition, trading assets of €0.75 billion (Company: €0.75 billion) were reclassified prospectively into financial investments of the category loans and receivables on 1 October 2008.

Since the date of reclassification, the DEPFA Group's financial assets with a (reclassified) carrying amount of approximately €6.427 billion (Company: €2.795 billion) matured. Thereof, €5.012 billion (Company: €1.380 billion) relate to reclassified AfS financial investments and €1.415 billion (Company: €1.415 billion) relate to reclassified trading assets.

Interest income for the DEPFA Group and Company 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 €1.7 million (2013: €4.5 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 expense/income".

Since the date of reclassification, Group securities with a reclassified carrying amount of €37.541 billion (Company: €34.861 billion) were transferred to FMS Wertmanagement AöR or sold. A net loss of €–54.68 million (Company: €5.40 million gain) was realised on the sold securities since the dates of reclassification.

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 5.04% (2013: 5.07% and 4.16%) and of the Company was between 5.07% and 5.04% (2013: 5.07% and 4.16%). The effective interest rate for AfS assets of the DEPFA Group was between 6.35% and 0.51% (2013: 6.35% and 0.51%) and of the Company was between 6.35% and 5.04% (2013: 6.46% and 5.04%).

The following tables summarise the carrying amounts and fair values as of 31 December 2014 as well as fair value gains and losses that would have been recognised in 2014 if the financial assets had not been reclassified:

Group reclassifications 2014	into: Financial investments LaR			Effect in reporting period if no assets would have been reclassified (2014)	
		31.12.2014			
€ m	Reclass date	Carrying amount	Fair value	Income statement	Changes in AfS reserve (after taxes)
out of: HfT financial investments	1.7.2008	–	–	–	–
	1.10.2008	27	27	–	–
		27	**27**	–	–
out of: AfS financial investments	1.7.2008	5,087	5,023	–	45
Total		**5,114**	**5,050**	–	**45**

Company reclassifications 2014	into: Financial investments LaR			Effect in reporting period if no assets would have been reclassified (2014)	
		31.12.2014			
€ m	Reclass date	Carrying amount	Fair value	Income statement	Changes in AfS reserve (after taxes)
out of: HfT financial investments	1.7.2008	–	–	–	–
	1.10.2008	27	27	–	–
		27	**27**	–	–
out of: AfS financial investments	1.7.2008	131	147	–	2
Total		**158**	**174**	–	**2**

Group reclassifications 2013

€ m	Reclass date	into: Financial investments LaR 31.12.2013 Carrying amount	Fair value	Effect in reporting period if no assets would have been reclassified (2013) Income statement	Changes in AfS reserve (after taxes)
out of: HfT financial investments	1.7.2008	–	–	–	–
	1.10.2008	43	44	–1	–
		43	**44**	**–1**	–
out of: AfS financial investments	1.7.2008	6,513	6,387	–	134
Total		**6,556**	**6,431**	**–1**	**134**

Company reclassifications 2013

€ m	Reclass date	into: Financial investments LaR 31.12.2013 Carrying amount	Fair value	Effect in reporting period if no assets would have been reclassified (2013) Income statement	Changes in AfS reserve (after taxes)
out of: HfT financial investments	1.7.2008	–	–	–	–
	1.10.2008	43	44	–1	–
		43	**44**	**–1**	–
out of: AfS financial investments	1.7.2008	140	153	–	–8
Total		**183**	**197**	**–1**	**–8**

(22) Property, plant and equipment

Property, plant and equipment

	Group				Company			
	2014		2013		2014		2013	
€ m	Fixtures and fittings	**Total**	Fixtures and fittings	**Total**	Fixtures and fittings	**Total**	Fixtures and fittings	**Total**
Cost								
At 1 January	**19**	**19**	**23**	**23**	**19**	**19**	**23**	**23**
Additions/Disposals	4	4	–4	–4	4	4	–4	–4
At 31 December	**23**	**23**	**19**	**19**	**23**	**23**	**19**	**19**
Accumulated depreciation								
At 1 January	**19**	**19**	**22**	**22**	**19**	**19**	**22**	**22**
Additions/Disposals	–	–	–3	–3	–	–	–3	–3
Charge for year	–	–	–	–	–	–	–	–
At 31 December	**19**	**19**	**19**	**19**	**19**	**19**	**19**	**19**
Net book value								
At 31 December	**4**	**4**	–	–	**4**	**4**	–	–

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

(23) Intangible assets

Intangible assets

€ m	Group		Company	
	2014	**2013**	**2014**	**2013**
Cost				
At 1 January	**48**	**46**	**47**	**45**
Additions	2	2	2	2
At 31 December	**50**	**48**	**49**	**47**
Accumulated depreciation				
At 1 January	**39**	**34**	**38**	**33**
Charge for year	4	5	4	5
At 31 December	**43**	**39**	**42**	**38**
Net book value				
At 31 December	**7**	**9**	**7**	**9**

The intangible assets mostly comprise purchased software.

(24) Other assets

Other assets

€ m	Group		Company	
	31.12.2014	**31.12.2013**	**31.12.2014**	**31.12.2013**
Positive fair values from derivative financial instruments				
Hedging derivatives (micro fair value hedge)	4,525	3,663	189	163
Other assets	7	8	57	17
Total	**4,532**	**3,671**	**246**	**180**
Of which due from Group companies	–	3	62	25

Balances due from Group companies on 31 December 2014 in the DEPFA Group statement of financial position include amounts receivable from FMS Wertmanagement AöR and in the Company statement of financial position with other entities in the DEPFA Group and FMS Wertmanagement AöR. Balances due from Group companies on 31 December 2013 in the DEPFA Group statement of financial position include amounts receivable from other entities in the HRE Group.

(25) Income tax assets

Income tax assets

€ m	Group		Company	
	31.12.2014	**31.12.2013**	**31.12.2014**	**31.12.2013**
Current tax assets	46	22	52	27
Deferred tax assets	5	3	1	1
Total	**51**	**25**	**53**	**28**

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.

The netting effects of applying such an offset are presented in note 15 to the financial statements.

(26) Liabilities to other banks

Liabilities to other banks broken down by maturities as follows:

€ m	Group		Company	
	31.12.2014	**As restated [1] 31.12.2013**	**31.12.2014**	**As restated [1] 31.12.2013**
Repayable on demand	4,050	2,717	4,172	2,994
With contractual maturities				
up to 3 months	–	1,986	1,651	2,078
from 3 months to 1 year	–	–	–	1
from 1 year to 5 years	–	–	–	10
from 5 years and over	–	–	–	16
Total	**4,050**	**4,703**	**5,823**	**5,099**
Of which due to Group companies	–	55	2,078	1,277

[1] Restatement to reclassifiy €377 million (Company: €334 million) from Liabilities to other banks and €87 million (Company: €87 million) from Liabilities to customers into Liabilities evidenced by certificates, consistent with current year presentation.

Balances due to Group companies on 31 December 2014 in the DEPFA Group statement of financial position include amounts payable to FMS Wertmanagement AöR and in the Company statement of financial position with other entities in the DEPFA Group and FMS Wertmanagement AöR. Balances due to Group companies on 31 December 2013 in the DEPFA Group statement of financial position include amounts payable to other entities in the HRE Group.

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”.

(27) Liabilities to customers

Liabilities to customers broken down by maturities as follows:	Group		Company	
€ m	**31.12.2014**	**As restated[1][2] 31.12.2013**	**31.12.2014**	**As restated[1] 31.12.2013**
Repayable on demand	1,046	745	1,027	716
With contractual maturities				
up to 3 months	–	–	61	63
from 3 months to 1 year	–	–	–	–
from 1 year to 5 years	21	19	193	19
from 5 years and over	463	4,173	463	3,251
Total	**1,530**	**4,937**	**1,744**	**4,049**
Of which due to Group companies	1,045	–	1,242	–

[1] Restatement to reclassifiy €377 million (Company: €334 million) from Liabilities to other banks and €87 million (Company: €87 million) from Liabilities to customers into Liabilities evidenced by certificates, consistent with current year presentation.
[2] This restatement is in relation to the deconsolidation of DEPFA Finance N.V. in accordance with the transition requirements of IFRS 10 as set out in note 2 to these audited consolidated financial statements.

Balances due to Group companies on 31 December 2014 in the DEPFA Group statement of financial position include amounts payable to FMS Wertmanagement AöR and in the Company statement of financial position with other entities in the DEPFA Group and FMS Wertmanagement AöR. Balances due to Group companies on 31 December 2013 in the DEPFA Group statement of financial position include amounts payable to other entities in the HRE Group.

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

(28) Liabilities evidenced by certificates

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

	Group		Company	
€ m	31.12.2014	As restated[1] 31.12.2013	31.12.2014	As restated[1] 31.12.2013
Debt securities in issue				
Public sector bonds	25,712	25,619	303	421
Other debt securities	1,806	1,880	1,806	1,872
Money market securities	–	30	–	30
Total	**27,518**	**27,529**	**2,109**	**2,323**

[1] Restatement to reclassifiy €377 million (Company: €334 million) from Liabilities to other banks and €87 million (Company: €87 million) from Liabilities to customers into Liabilities evidenced by certificates, consistent with current year presentation.

Liabilities evidenced by certificates broken down by maturities as follows:

	Group		Company	
€ m	31.12.2014	As restated[1] 31.12.2013	31.12.2014	As restated[1] 31.12.2013
With contractual maturities				
up to 3 months	3,685	142	204	7
from 3 months to 1 year	1,869	1,004	203	201
from 1 year to 5 years	9,504	13,377	622	1,003
from 5 years and over	12,460	13,006	1,080	1,112
Total	**27,518**	**27,529**	**2,109**	**2,323**

[1] Restatement to reclassifiy €377 million (Company: €334 million) from Liabilities to other banks and €87 million (Company: €87 million) from Liabilities to customers into Liabilities evidenced by certificates, consistent with current year presentation.

(29) Trading liabilities

Trading liabilities

	Group		Company	
€ m	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Negative fair values from derivative financial instruments (trading book)	75	73	75	73
of which: Interest based and foreign currency based transactions	75	73	75	73
Other trading liabilities	76	69	64	54
Stand-alone derivatives (banking book)	9,643	5,903	15,011	10,819
Total	**9,794**	**6,045**	**15,150**	**10,946**
Of which transacted with Group companies	153	–	4,198	3,366

Amounts transacted with Group companies on 31 December 2014 in the DEPFA Group statement of financial position comprise derivatives transacted with FMS Wertmanagement AöR and in the Company statement of financial position with other entities in the DEPFA Group and FMS Wertmanagement AöR. Amounts transacted with Group companies on 31 December 2013 in the DEPFA Group statement of financial position comprise derivatives transacted with other entities in the HRE Group.

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

(30) Provisions

Provisions

		Group		Company
€ m	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
Pensions and similar obligations	2	1	2	1
Restructuring	5	17	5	16
FMS WM related	–	33	–	33
IT Separation	4	27	3	20
Other	7	13	7	13
Total	**18**	**91**	**17**	**83**

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.

Discount rate and valuation parameters

The principal actuarial assumptions used were as follows:

Discount rate and valuation parameters

		Group		Company
%	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
Discount rate	2.00	3.50	2.00	3.50
Rate of increase in pension obligations	1.75	2.00	1.75	2.00
Rate of increase in future compensation and vested rights	1.75	2.50	1.75	2.50
Rate of increase over career	0–1.50	0–1.50	0–1.50	0–1.50

Development of pension obligations

Pension obligations

		Group		Company
€ m	**2014**	**2013**	**2014**	**2013**
At 1 January	**1**	**1**	**1**	**1**
Total expense	–	–	–	–
Transfer to Group company	–	–	–	–
Change in financial assumptions	1	–	1	–
At 31 December	**2**	**1**	**2**	**1**

Expenses in relation to defined benefit schemes were € nil (2013: € nil).

The vast majority of employees have defined contribution plans. This means a defined percentage of fixed salary is paid into externally managed pension funds for employees as part of defined contribution pension schemes. The actuarial report received in relation to the details above was as at 31 December 2014 and is not available for public inspection.

Expenses in respect of contribution-based plans amounted to €–3 million (2013: €–3 million).

Development of restructuring and other provisions

Provisions – Group	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	2	–	–	2	1	19	12	3
Transfer	–	–	–	–	1	3	–	–4
Releases	–12	–2	–	–	–8	–14	–	–52
Amounts used	–3	–31	–23	–8	–3	–14	–2	–
Unwind of discount	1	–	–	–	–	1	–	–
At 31 December	**5**	**–**	**4**	**7**	**17**	**33**	**27**	**13**

Provisions – Company	2014				2013			
€ m	Restructuring	FMS WM related	IT Separation	Other	Restructuring	FMS WM related	IT Separation	Other
At 1 January	**16**	**33**	**20**	**13**	**25**	**37**	**17**	**66**
Additions	2	–	–	2	1	19	5	3
Transfer	–	–	–	–	1	3	–	–4
Releases	–11	–2	–	–	–8	–13	–	–52
Amounts used	–3	–31	–17	–8	–3	–14	–2	–
Unwind of discount	1	–	–	–	–	1	–	–
At 31 December	**5**	**–**	**3**	**7**	**16**	**33**	**20**	**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 WM related provisions contain obligations related to the transfer of assets and liabilities to FMS Wertmanagement AöR.

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.

Through the initiation and intermediation of UBS, in March 2007 DEPFA BANK plc (“DEPFA”) entered into two Credit Default Swaps (“CDS”) with Kommunale Wasserwerke Leipzig GmbH (“KWL”) governed by English law ISDA documentation whereby KWL sold protection to DEPFA on a pool of corporate and financial CDS (the Front Swaps). The notional of the exposure was $116 million. The DEPFA Group sold the identical protection on to UBS Limited (the Back Swaps). The reference portfolio subsequently became highly impaired and KWL defaulted on the CDS payments. Arising out of these transactions two ex-employees of KWL were investigated on suspicion of fraud and one was subsequently jailed.

Legal action began in April 2014 before the High Court in England. The main points are: KWL disputed the validity of the transactions; the DEPFA Group claimed $116 million from KWL; and UBS claimed $83 million from the DEPFA Group (the DEPFA Group having already paid the balance). Judgement was handed down in the UK High Court on 4 November 2014. The judge ruled in favour of the DEPFA Group. The principal finding in respect of the DEPFA Group was that UBS fraudulently misrepresented the transaction to the DEPFA Group, such that the DEPFA Group is entitled to rescind the Back Swaps between the DEPFA Group and UBS. The judge also ruled that the Front Swaps between KWL and the DEPFA Group were valid and sought an undertaking from the DEPFA Group that they would not seek to enforce the Front Swaps against KWL to gain an impermissible windfall.

UBS are seeking the right to appeal the judgement in the Court of Appeal.

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.

(31) Other liabilities

Other liabilities

	Group		Company	
€ m	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
Negative fair values from derivative financial instruments				
Hedging derivatives (micro fair value hedge)	2,540	3,441	118	874
Other liabilities	21	89	37	87
Total	**2,561**	**3,530**	**155**	**961**
Of which due to Group companies	–	49	–	15

Balances due to Group companies on 31 December 2014 in the DEPFA Group statement of financial position include amounts payable to FMS Wertmanagement AöR and in the Company statement of financial position with other entities in the DEPFA Group and FMS Wertmanagement AöR. Balances due to Group companies on 31 December 2013 in the DEPFA Group statement of financial position include amounts payable to other entities in the HRE Group.

(32) Income tax liabilities

Income tax liabilities

€ m	Group		Company	
	31.12.2014	**31.12.2013**	**31.12.2014**	**31.12.2013**
Current tax liabilities	1	9	–	9
Deferred tax liabilities	5	3	1	1
Total	**6**	**12**	**1**	**10**

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.

The netting effects of applying such an offset are presented in note 15 to the financial statements.

(33) Subordinated capital

Subordinated capital

€ m	Group		Company	
	31.12.2014	**31.12.2013**	**31.12.2014**	**31.12.2013**
Subordinated liabilities	1,072	1,078	1,673	1,682
Total	**1,072**	**1,078**	**1,673**	**1,682**
Of which due to Group companies	510	–	1,146	637

Balances due to Group companies on 31 December 2014 in the DEPFA Group statement of financial position include amounts payable to FMS Wertmanagement AöR and in the Company statement of financial position with other entities in the DEPFA Group and FMS Wertmanagement AöR. Balances due to Group companies on 31 December 2013 in the DEPFA Group statement of financial position include amounts payable to other entities in the HRE Group.

Subordinated capital broken down by maturities as follows:

€ m	Group		Company	
	31.12.2014	**31.12.2013**	**31.12.2014**	**31.12.2013**
With contractual maturities	**712**	**718**	**1,313**	**1,322**
from 3 months to 1 year	500	10	500	10
from 1 year to 5 years	150	650	150	650
from 5 years and over	62	58	663	662
No fixed maturity	**360**	**360**	**360**	**360**
Total	**1,072**	**1,078**	**1,673**	**1,682**

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

Subordinated liabilities

€ m		Group		Company	
Issuer maturity	Interest rate	31.12.2014	31.12.2013	31.12.2014	31.12.2013
DEPFA BANK plc, 26.03.2024	5.40%	20	20	20	20
DEPFA BANK plc, 22.07.2014	CPI – Index Linked %	–	10	–	10
DEPFA BANK plc, 15.12.2015	Euribor +0.70%	500	500	500	500
DEPFA BANK plc, perpetual note	Euribor +1.00%	360	360	360	360
DEPFA BANK plc, 28.11.2016	Euribor +1.02%	40	40	40	40
DEPFA BANK plc, 21.12.2016	Euribor +1.02%	110	110	110	110
Hypo Pfandbrief Bank International S.A., 18.5.2026	6.80%	25	25	–	–
DEPFA BANK plc, 30.10.2028	6.55%	–	–	280	280
DEPFA BANK plc, 08.06.2030	Euribor +0.88%	–	–	250	250
DEPFA BANK plc, 21.03.2032	5.099% until 2017, thereafter Euribor +1.94%	–	–	90	90
Total		**1,055**	**1,065**	**1,650**	**1,660**

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

(34) Share capital and share premium

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

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

Share capital and share premium – Group and Company

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

(35) Capital reserve

Capital reserve

€ m	Group		Company	
	2014	2013	2014	2013
At 1 January and at 31 December	**1,500**	**1,500**	**2,403**	**2,403**

The Capital reserve at 2014 and 2013 for Group and Company includes €1,500 million of capital contributions received from the former parent company, Hypo Real Estate Holding AG. These capital contributions are considered distributable. The Company Capital reserve at 2014 and 2013 includes other reserves of €903 million which are not considered distributable.

(36) Preferred securities

Preferred securities

€ m	Group		Company	
	31.12.2014	31.12.2013	31.12.2014	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	Group	
		31.12.2014	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.

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.

On 15 October 2014 DEPFA BANK plc determined that DEPFA Funding II LP would not make payments on its €400,000,000 Preferred Securities (XS0178243332) on the next distribution payment date scheduled for 30 October 2014.

(37) Retained earnings

Retained earnings

	Group		Company	
€ m	**2014**	**2013**	**2014**	**2013**
At 1 January	**–1,723**	**–1,723**	**–3,010**	**–2,932**
Net loss/income	–155	36	–115	–42
Annual state aid compensation	–	–36	–	–36
At 31 December	**–1,878**	**–1,723**	**–3,125**	**–3,010**

(38) Other reserves

Other reserves

€ m	Group		Company	
	31.12.2014	As restated[1] 31.12.2013	31.12.2014	31.12.2013
Unrealised losses/gains from available-for-sale investment securities	–38	–39	1	1
Accumulated currency translation reserve and other	6	–4	6	8
Total	**–32**	**–43**	**7**	**9**

[1] This restatement is in relation to the deconsolidation of DEPFA Finance N.V. in accordance with the transition requirements of IFRS 10 as set out in note 2 to these audited consolidated financial statement.

Unrealised losses/gains from available-for-sale investment securities

€ m	Group		Company	
	2014	2013	2014	2013
At 1 January	**–39**	**–42**	**1**	**2**
Net gains/losses transferred to net loss/income, net of tax	1	3	–	–1
At 31 December	**–38**	**–39**	**1**	**1**

Accumulated currency translation reserve and other

€ m	Group		Company	
	2014	As restated[1] 2013	2014	2013
At 1 January	**–4**	**–3**	**8**	**8**
Net gain/loss from currency translation	10	–1	–2	–
At 31 December	**6**	**–4**	**6**	**8**

[1] This restatement is in relation to the deconsolidation of DEPFA Finance N.V. in accordance with the transition requirements of IFRS 10 as set out in note 2 to these audited consolidated financial statement.

(39) Foreign currency assets and liabilities

The following table represents the carrying value of foreign currency assets and liabilities including derivatives:

Foreign currency assets

	Group		Company	
€ m	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
USD	8,319	6,212	5,052	930
JPY	1,445	1,590	–27	–504
GBP	1,701	1,757	1,785	1,658
CHF	1,744	1,870	904	856
Others	1,729	1,634	–22	316
Total	**14,938**	**13,063**	**7,692**	**3,256**

Foreign currency liabilities

	Group		Company	
€ m	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
USD	8,287	6,172	5,013	878
JPY	1,448	1,591	–20	–498
GBP	1,702	1,757	1,786	1,661
CHF	1,720	1,843	908	857
Others	1,723	1,630	–21	314
Total	**14,880**	**12,993**	**7,666**	**3,212**

As described in the risk management section of the Directors' report, the general strategy of the DEPFA Group is to hedge foreign currency risks as far as possible. The negative amounts in the above table arise due to the effect of cross currency derivatives.

(40) Notes to the items in the cash flow statements and undiscounted cash flows of financial liabilities

The cash flow statement shows the cash flows of the financial year broken down into cash flows attributable to operating activities, investing activities and financing activities.

Operating activities are defined broadly and correspond to operating result. Cash flow from operating activities includes payments (inflows and outflows) attributable to loans and advances to other banks and customers as well as trading assets and other assets. Inflows and outflows attributable to liabilities to other banks and customers, liabilities evidenced by certificates and other liabilities are also included under operating activities. The interest and dividend payments resulting from operating activities are shown under cash flow from operating activities.

Cash flow from investing activities comprises payments for investment securities, receipts from sales and maturities of investment securities, as well as payments for property, plant and equipment.

Cash flow from financing activities comprises the settlement of the FMSA payment condition as described in note 5 to the financial statements, as well as cashflows arising from subordinated liabilities.

The contractual undiscounted cash flows of the financial liabilities are analysed into the following remaining maturities:

Contractual undiscounted cash flows of the financial liabilities	Group		Company	
€ m	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
up to 3 months	**4 ,222**	**2,768**	**2,563**	**6,506**
Of which from derivatives	466	427	680	639
Of which from non derivatives	3,756	2,341	1,883	5,867
from 3 months to 1 year	**9,142**	**5,888**	**7,438**	**2,172**
Of which from derivatives	1,013	1,564	1,364	1,883
Of which from non derivatives	8,129	4,324	6,074	289
from 1 year to 5 years	**15,042**	**19,672**	**6,579**	**7,039**
Of which from derivatives	4,023	3,760	5,299	4,947
Of which from non derivatives	11,019	15,912	1,280	2,092
from 5 years and over	**24,379**	**30,538**	**14,221**	**16,667**
Of which from derivatives	8,582	6,425	10,528	7,682
Of which from non derivatives	15,797	24,113	3,693	8,985

The management of liquidity risk is described in the risk management section of the Directors' report.

(41) Derivative financial instruments

Derivative financial instruments

€ m	Group		Company	
	31.12.2014	**31.12.2013**	**31.12.2014**	**31.12.2013**
Assets				
Trading assets (note 17)	9,531	6,099	15,068	10,997
Other assets (note 24)	4,525	3,663	189	163
Total assets	**14,056**	**9,762**	**15,257**	**11,160**
Liabilities				
Trading liabilities (note 29)	9,718	5,976	15,086	10,892
Other liabilities (note 31)	2,540	3,441	118	874
Total liabilities	**12,258**	**9,417**	**15,204**	**11,766**

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 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 and foreign currency 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 – Group at 31 December 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						
Interest rate swaps	11,117	17,145	46,765	75,027	13,449	11,913
Call options	–	91	–	91	2	–
Put options	–	71	119	190	–	2
Other interest rate contracts	–	–	–	–	–	–
OTC products	**11,117**	**17,307**	**46,884**	**75,308**	**13,451**	**11,915**
Foreign currency based transactions						
Interest rate/currency swaps	889	2,045	1,266	4,200	592	310
Spot and forward currency transactions	2,325	–	––	2,325	13	33
OTC products	**3,214**	**2,045**	**1,266**	**6,525**	**605**	**343**
Other transactions						
Credit derivatives	–	–	–	–	–	–
OTC products	–	–	–	–	–	–
Total	**14,331**	**19,352**	**48,150**	**81,833**	**14,056**	**12,258**

Volume of derivatives – Group 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						
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
OTC products	**15,749**	**25,947**	**52,330**	**94,026**	**9,078**	**9,208**
Foreign currency based transactions						
Interest rate/currency swaps	611	2,466	1,174	4,251	650	166
Spot and forward currency transactions	2,447	–	–	2,447	34	43
OTC products	**3,058**	**2,466**	**1,174**	**6,698**	**684**	**209**
Other transactions						
Credit derivatives	20	–	–	20	–	–
OTC products	**20**	–	–	**20**	–	–
Total	**18,827**	**28,413**	**53,504**	**100,744**	**9,762**	**9,417**

Volume of derivatives – Company at 31 December 2014

€ m	Notional amount – Remaining maturities: Less than 1 year	1 to 5 years	More than 5 years	Total	Fair value: Positive fair values	Negative fair values
Interest based transactions						
Interest rate swaps	19,586	22,811	53,493	95,890	14,337	14,167
Call options	–	91	–	91	2	–
Put options	–	71	119	190	–	2
Other interest rate contracts	–	–	–	–	–	–
OTC products	**19,586**	**22,973**	**53,612**	**96,171**	**14,339**	**14,169**
Foreign currency based transactions						
Interest rate/currency swaps	1,977	6,372	2,549	10,898	851	987
Spot and forward currency transactions	5,735	–	–	5,735	67	48
OTC products	**7,712**	**6,372**	**2,549**	**16,633**	**918**	**1,035**
Other transactions						
Credit derivatives	–	–	–	–	–	–
OTC products	–	–	–	–	–	–
Total	**27,298**	**29,345**	**56,161**	**112,804**	**15,257**	**15,204**

Volume of derivatives – Company at 31 December 2013

€ m	Notional amount – Remaining maturities: Less than 1 year	1 to 5 years	More than 5 years	Total	Fair value: Positive fair values	Negative fair values
Interest based transactions						
Interest rate swaps	18,530	37,937	58,387	114,854	10,095	10,634
Call options	–	89	–	89	1	–
Put options	–	69	119	188	–	2
Other interest rate contracts	–	145	106	251	118	135
OTC products	**18,530**	**38,240**	**58,612**	**115,382**	**10,214**	**10,771**
Foreign currency based transactions						
Interest rate/currency swaps	777	6,087	2,432	9,296	880	895
Spot and forward currency transactions	6,143	–	–	6,143	66	100
OTC products	**6,920**	**6,087**	**2,432**	**15,439**	**946**	**995**
Other transactions						
Credit derivatives	20	–	–	20	–	–
OTC products	**20**	–	–	**20**	–	–
Total	**25,470**	**44,327**	**61,044**	**130,841**	**11,160**	**11,766**

Derivatives counterparties – Group	31.12.2014		31.12.2013	
€ m	Positive fair values	Negative fair values	Positive fair values	Negative fair values
OECD banks and financial institutions	14,056	12,224	9,717	9,356
Other companies	–	34	45	61
Total	**14,056**	**12,258**	**9,762**	**9,417**

Derivatives with FMS Wertmanagement AöR at 31 December 2014, and with HRE Group companies at 31 December 2013, included in the above are:

Derivatives with Group companies – Group	31.12.2014		31.12.2013	
€ m	Positive fair values	Negative fair values	Positive fair values	Negative fair values
OECD banks and financial institutions	1,275	153	93	35
Total	**1,275**	**153**	**93**	**35**

Derivatives counterparties – Company	31.12.2014		31.12.2013	
€ m	Positive fair values	Negative fair values	Positive fair values	Negative fair values
OECD banks and financial institutions	15,257	15,170	11,115	11,705
Other companies	–	34	45	61
Total	**15,257**	**15,204**	**11,160**	**11,766**

Derivatives with DEPFA Group companies and FMS Wertmanagement AöR at 31 December 2014, and with HRE Group companies at 31 December 2013, included in the above are:

Derivatives with Group companies – Company	31.12.2014		31.12.2013	
€ m	Positive fair values	Negative fair values	Positive fair values	Negative fair values
OECD banks and financial institutions	3,241	4,198	2,194	3,366
Total	**3,241**	**4,198**	**2,194**	**3,366**

Fair values appear as sum of positive and negative amounts per contract, from which no pledged security has been deducted and no legally enforceable netting agreements are in place.

(42) 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 5 to the financial statements, 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 FMS Wertmanagement AöR.

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:

	Group		Company	
€ m	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
Trading assets	–	–	–	–
Financial investments	–	1,926	8	1,342
Total	**–**	**1,926**	**8**	**1,342**

Carrying amounts of associated liabilities

	Group		Company	
€ m	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
Liabilities to other banks	–	1,886	7	1,455
Total	**–**	**1,886**	**7**	**1,455**

In addition to the above assets that are transferred, the DEPFA Group and the Company has also pledged assets with a carrying amount of €302 million (2013: €252 million) in relation to certain Guaranteed Investment Contract liabilities.

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 5 to the financial statements, the DEPFA Group has transferred certain non strategic assets to FMS Wertmanagement AöR. 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 € nil in 2014 (2013: €45 million) for the servicing activities. Cumulatively as at 31 December 2014 the DEPFA Group has recorded income of €257 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 31 December 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 €2.260 billion (Company: €2.604 billion) as of 31 December 2014 (2013: €0.192 billion (Company: €0.192 billion)). The DEPFA Group received the collateral as part of repurchase agreements and is principally obliged to return the collateral or similar assets 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 not:
   (a) 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) 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 not:
   (a) 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) 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 not:
(a) 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) 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) 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.

The DEPFA Group has granted certain charges to FMS Wertmanagement AöR on positions which the DEPFA Group has derecognised but where a DEPFA Group entity remains as counterparty of record as described in note 5 to the financial statements.

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.

(43) 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.

Asset and liability designations in the tables below are as follows:
AC – financial assets and liabilities carried at amortised cost.
FV – financial assets and liabilities carried at fair value.

Fair value of financial assets and liabilities – Group at 31 December 2014

€m	Carrying value	Fair value	Fair value hierarchy level Level 1	Level 2	Level 3
Assets					
Cash reserve (AC)	502	502	502	–	–
Trading assets (FV)	9,577	9,577	46	9,372	159
Loans and advances to other banks (AC)	6,523	6,477	4,069	1,901	507
Loans and advances to customers (net of allowance) (AC)	9,272	8,884	1,509	3,186	4,189
Loans and advances recoverable under financial guarantees (AC)	–	–	–	–	–
Financial investments (AC)	18,055	17,692	2,923	10,137	4,632
Category – available-for-sale	20	20	20	–	–
Category – LaR	18,035	17,672	2,903	10,137	4,632
Other assets – Derivatives (FV)	4,525	4,525	–	4,520	5
Total	**48,454**	**47,657**	**9,049**	**29,116**	**9,492**
Liabilities					
Liabilities to other banks (AC)	4,050	4,050	4,050	–	–
Liabilities to customers (AC)	1,530	1,591	1,045	546	–
Liabilities evidenced by certificates (AC)	27,518	26,854	8,451	4,157	14,246
Trading liabilities (FV)	9,794	9,794	–	9,645	149
Other liabilities – Derivatives (FV)	2,540	2,540	–	2,517	23
Subordinated capital (AC)	1,072	865	–	–	865
Total	**46,504**	**45,694**	**13,546**	**16,865**	**15,283**
Other items					
Contingent liabilities & loan commitments	22	–	–	–	–

Fair value of financial assets and liabilities – Group at 31 December 2013

€ m	As restated[1)2)] Carrying value	As restated[1)2)] Fair value	Fair value hierarchy level As restated[1)2)] Level 1	As restated[1)2)] Level 2	As restated[1)2)] Level 3
Assets					
Cash reserve (AC)	1,281	1,281	1,281	–	–
Trading assets (FV)	6,135	6,135	36	6,025	74
Loans and advances to other banks (AC)	4,777	4,776	2,770	196	1,810
Loans and advances to customers (net of allowance) (AC)	14,807	13,568	21	2,999	10,548
Loans and advances recoverable under financial guarantees (AC)	69	69	–	–	69
Financial investments (AC)	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 (FV)	3,663	3,663	–	3,661	2
Total	**50,001**	**48,087**	**8,183**	**21,543**	**18,361**
Liabilities					
Liabilities to other banks (AC)	4,703	4,703	2,717	1,887	99
Liabilities to customers (AC)	4,937	4,624	745	469	3,410
Liabilities evidenced by certificates (AC)	27,529	24,782	7,775	4,646	12,361
Trading liabilities (FV)	6,045	6,045	–	5,971	74
Other liabilities – Derivatives (FV)	3,441	3,441	–	3,403	38
Subordinated capital (AC)	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. in accordance with the transition requirements of IFRS 10 as set out in note 2 to these audited consolidated financial statements.
[2)] Restatement to reclassifiy €377 million from Liabilities to other banks and €87 million from Liabilities to customers into Liabilities evidenced by certificates, consistent with current year presentation.

Fair value of financial assets and liabilities – Company at 31 December 2014 € m	Carrying value	Fair value	Fair value hierarchy level Level 1	Level 2	Level 3
Assets					
Cash reserve (AC)	490	490	490	–	–
Trading assets (FV)	15,114	15,114	46	14,902	166
Loans and advances to other banks (AC)	9,318	9,327	7,013	2,219	95
Loans and advances to customers (net of allowance) (AC)	537	567	21	220	326
Loans and advances recoverable under financial guarantees (AC)	–	–	–	–	–
Financial investments (AC)	1,436	1,476	147	1,319	10
Category – available-for-sale	20	20	20	–	–
Category – investments in Group companies	1,041	1,041	–	1,041	–
Category – LaR	375	415	127	278	10
Other assets – Derivatives (FV)	189	189	–	184	5
Total	**27,084**	**27,163**	**7,717**	**18,844**	**602**
Liabilities					
Liabilities to other banks (AC)	5,823	5,823	5,823	–	–
Liabilities to customers (AC)	1,744	1,811	1,080	553	178
Liabilities evidenced by certificates (AC)	2,109	2,060	–	602	1,458
Trading liabilities (FV)	15,150	15,150	–	14,993	157
Other liabilities – Derivatives (FV)	118	118	–	117	1
Subordinated capital (AC)	1,673	1,245	–	–	1,245
Total	**26,617**	**26,207**	**6,903**	**16,265**	**3,039**
Other items					
Contingent liabilities & loan commitments	876	14	–	–	–

Fair value of financial assets and liabilities – Company at 31 December 2013

€ m	As restated[1)2)] Carrying value	As restated[1)2)] Fair value	Fair value hierarchy level As restated[1)2)] Level 1	As restated[1)2)] Level 2	As restated[1)2)] Level 3
Assets					
Cash reserve (AC)	1,266	1,266	1,266	–	–
Trading assets (FV)	11,033	11,033	36	10,900	97
Loans and advances to other banks (AC)	8,336	8,293	4,208	1,687	2,398
Loans and advances to customers (net of allowance) (AC)	2,435	2,310	13	264	2,033
Loans and advances recoverable under financial guarantees (AC)	69	69	–	–	69
Financial investments (AC)	2,447	2,375	120	2,217	38
Category – available-for-sale	19	19	19	–	–
Category – investments in Group companies	1,035	1,035	–	1,035	–
Category – LaR	1,393	1,321	101	1,182	38
Other assets – Derivatives (FV)	163	163	–	160	3
Total	**25,749**	**25,509**	**5,643**	**15,228**	**4,638**
Liabilities					
Liabilities to other banks (AC)	5,099	5,099	2,994	2,105	–
Liabilities to customers (AC)	4,049	4,096	716	527	2,853
Liabilities evidenced by certificates (AC)	2,323	2,028	–	520	1,508
Trading liabilities (FV)	10,946	10,946	–	10,849	97
Other liabilities – Derivatives (FV)	874	874	–	865	9
Subordinated capital (AC)	1,682	1,182	–	–	1,182
Total	**24,973**	**24,225**	**3,710**	**14,866**	**5,649**
Other items					
Contingent liabilities & loan commitments	750	25	–	–	–

1) Restatement to reclassifiy €334 million from Liabilities to other banks and €87 million from Liabilities to customers into Liabilities evidenced by certificates, consistent with current year presentation.

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

The above tables take account of the financial guarantees for calculating the fair values (economic view). If these financial guarantees were to be disregarded for the DEPFA Group and Company, the item “Loans and advances to customers” would have shown a fair value which was € nil (2013: €475 million) lower and a contingent receivable from the financial guarantee of € nil (2013: €475 million) would have to be shown. All guaranteed assets were transferred to FMS Wertmanagement AöR during 2014 and the related financial guarantees were terminated.

In addition, as part of the process of transferring positions to FMS Wertmanagement AöR, the HRE Group had been provided with liquidity facilities for which in the above table the fair value has been shown as the carrying amount as part of an economic view (because any fair value gains on these facilities would not be 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 have been € nil (2013: €2,097 million) lower for both the DEPFA Group and Company. As described in note 5 to the financial statements, all such liquidity facilities were terminated in 2014, resulting in their dercognition.

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, short term placements 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	Group		Company	
€ m	**31.12.2014**	**As restated [1] 31.12.2013**	**31.12.2014**	**31.12.2013**
Assets				
Loans and receivables (net)	33,830	38,903	10,230	12,233
Available-for-sale	20	19	20	19
Investment in Group entities	–	–	1,041	1,035
Held-for-trading	9,577	6,135	15,114	11,033
Cash reserve	502	1,281	490	1,266
Derivatives	4,525	3,663	189	163
Total	**48,454**	**50,001**	**27,084**	**25,749**
Liabilities				
Held-for-trading	9,794	6,045	15,150	10,946
Financial liabilities at amortised cost	34,170	38,247	11,349	13,153
Derivatives	2,540	3,441	118	874
Total	**46,504**	**47,733**	**26,617**	**24,973**

[1] This restatement is in relation to the deconsolidation of DEPFA Finance N.V. as set out in note 2 to these audited consolidated 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) and for the Company (2013: € nil). Similarly there have been no transfers of fair value instruments from Level 1 to Level 2 for the DEPFA Group (2013: € nil) and for the Company (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 – Group

€ m	Financial assets		
	Trading assets	Hedging derivatives	**Total**
At 1 January 2013	**463**	**2**	**465**
Comprehensive income recognised in income statement	–123	–1	–124
Purchases	–	–	–
Terminations	–	–	–
Change due to transfer to FMS Wertmanagement AöR	–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	76	4	80
Purchases	–	–	–
Terminations	–	–	–
Change due to transfer to FMS Wertmanagement AöR	–74	–	–74
Settlements	–	–	–
Reclassifications into Level 3	83	–	83
Reclassifications out of Level 3	–	–1	–1
At 31 December 2014	**159**	**5**	**164**

Changes in Level 3 financial liabilities – Group

€ m	Financial liabilities		
	Trading liabilities	Hedging derivatives	**Total**
At 1 January 2013	**462**	**42**	**504**
Comprehensive income recognised in income statement	–122	–7	–129
Purchases	–	–	–
Terminations	–	–	–
Change due to transfer to FMS Wertmanagement AöR	–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	74	–8	66
Purchases	–	–	–
Terminations	–	–9	–9
Change due to transfer to FMS Wertmanagement AöR	–74	–	–74
Settlements	–	–9	–9
Reclassifications into Level 3	75	11	86
Reclassifications out of Level 3	–	–	–
At 31 December 2014	**149**	**23**	**172**

Changes in Level 3 financial assets – Company	Financial assets		
€ m	Trading assets	Hedging derivatives	**Total**
At 1 January 2013	**480**	**3**	**483**
Comprehensive income recognised in income statement	–124	–1	–125
Purchases	–	–	–
Terminations	–	–	–
Change due to transfer to FMS Wertmanagement AöR	–259	–	–259
Settlements	–	–	–
Reclassifications into Level 3	7	1	8
Reclassifications out of Level 3	–7	–	–7
At 31 December 2013	**97**	**3**	**100**
At 1 January 2014	**97**	**3**	**100**
Comprehensive income recognised in income statement	68	3	71
Purchases	–	–	–
Terminations	–10	–	–10
Change due to transfer to FMS Wertmanagement AöR	–74	–	–74
Settlements	–	–	–
Reclassifications into Level 3	85	–	85
Reclassifications out of Level 3	–	–1	–1
At 31 December 2014	**166**	**5**	**171**

Changes in Level 3 financial liabilities – Company	Financial liabilities		
€ m	Trading liabilities	Hedging derivatives	**Total**
At 1 January 2013	**480**	**21**	**501**
Comprehensive income recognised in income statement	–123	1	–122
Purchases	–	–	–
Terminations	–	–	–
Change due to transfer to FMS Wertmanagement AöR	–259	–	–259
Settlements	–1	–13	–14
Reclassifications into Level 3	7	–	7
Reclassifications out of Level 3	–7	–	–7
At 31 December 2013	**97**	**9**	**106**
At 1 January 2014	**97**	**9**	**106**
Comprehensive income recognised in income statement	67	–6	61
Purchases	–	–	–
Terminations	–10	1	–9
Change due to transfer to FMS Wertmanagement AöR	–74	–	–74
Settlements	–	–8	–8
Reclassifications into Level 3	77	5	82
Reclassifications out of Level 3	–	–	–
At 31 December 2014	**157**	**1**	**158**

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

The valuation process is performed by Risk Management & Control in conjunction the with Finance department. The Finance department provides accounting-related data. These include:

- Identification data, such as business identification numbers or International Securities Identification Numbers ("ISINs")
- Static data such as counterparties and maturities
- Accounting-relevant data, including nominals, accruals, unamortised fees and hedge accounting effects

The Risk Management & Control function provides additional information used as inputs to the fair value measurement, such as interest rates, credit spreads and market prices. For certain financial instruments the function also provides information on internal ratings and loss given default ("LGD"). For positions that are measured on the statement of financial position at fair value, the fair values are calculated and determined directly by Risk Management & Control. For positions that are not measured on the statement of financial position at fair value the data is collected by the Finance department and checked for completeness. The Finance department calculates the fair values of the financial instruments using the valuation methods determined by Risk Management & Control. Following the valuation, the Finance department performs a quality check on the results.

The tables 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 – Group at 31 December 2014	**Fair Value**			
€ m	Assets	Liabilities	Measurement methods	Observable parameters
Financial assets/liabilities at fair value through profit or loss	**13,892**	**12,162**		
Trading assets/trading liabilities	**9,372**	**9,645**		
	8,796	9,052	DCF models	Cap volatilities
				Credit spread
				Seasonality
				FX rate
				Swaption volatilities
				Yield curve
	576	593	Option pricing models	Cap volatilities
				CDS spread
				Correlation
				Dividend
				Fixing
				FX rate
				FX volatilities
				Seasonality
				Swaption volatilities
				Fixing volatilities
				Yield curve
Fair value hedge derivatives	**4,520**	**2,517**		
	3,966	2,140	DCF models	Cap volatilities
				Seasonality
				Yield curve
	554	377	Option pricing models	Cap volatilities
				Correlation
				FX rate
				FX volatilities
				Swaption volatilities
				Yield curve

Measurement of Level 2 instruments – Group at 31 December 2013

€ m	Fair Value Assets	Fair Value Liabilities	Measurement methods	Observable parameters
Financial assets/liabilities at fair value through profit or loss	**9,686**	**9,374**		
Trading assets/trading liabilities	**6,025**	**5,971**		
	5,748	5,714	DCF models	Cap volatilities
				Credit spread
				Seasonality
				Recovery rate
				FX rate
				Swaption volatilities
				Yield curve
	277	257	Option pricing models	Cap volatilities
				CDS spread
				Correlation
				Dividend
				Fixing
				FX rate
				FX volatilities
				Recovery rate
				Seasonality
				Swaption volatilities
				Fixing volatilities
				Yield curve
Fair value hedge derivatives	**3,661**	**3,403**		
	3,109	2,905	DCF models	Cap volatilities
				Seasonality
				Swaption volatilities
				Yield curve
	552	498	Option pricing models	Cap volatilities
				Correlation
				FX rate
				FX volatilities
				Swaption volatilities
				Yield curve

Measurement of Level 2 instruments – Company at 31 December 2014

€ m	Fair Value Assets	Fair Value Liabilities	Measurement methods	Observable parameters
Financial assets/liabilities at fair value through profit or loss	**15,086**	**15,110**		
Trading assets/trading liabilities	**14,902**	**14,993**		
	13,800	13,869	DCF models	Cap volatilities
				Credit spread
				Seasonality
				FX rate
				Swaption volatilities
				Yield curve
	1,102	1,124	Option pricing models	Cap volatilities
				CDS spread
				Correlation
				Dividend
				Fixing
				FX rate
				FX volatilities
				Seasonality
				Swaption volatilities
				Fixing volatilities
				Yield curve
Fair value hedge derivatives	**184**	**117**		
	120	111	DCF models	Cap volatilities
				Fixing
				Seasonality
				Swaption volatilities
				Yield curve
	64	6	Option pricing models	Cap volatilities
				Correlation
				FX rate
				FX volatilities
				Swaption volatilities
				Yield curve

Measurement of Level 2 instruments – Company at 31 December 2013

€ m	Fair Value		Measurement methods	Observable parameters
	Assets	Liabilities		
Financial assets/liabilities at fair value through profit or loss	**11,060**	**11,714**		
Trading assets/trading liabilities	**10,900**	**10,849**		
	10,044	10,023	DCF models	Cap volatilities
				Credit spread
				Seasonality
				Recovery rate
				FX rate
				Swaption volatilities
				Yield curve
	856	826	Option pricing models	Cap volatilities
				CDS spread
				Correlation
				Dividend
				Fixing
				FX rate
				FX volatilities
				Recovery rate
				Seasonality
				Swaption volatilities
				Fixing volatilities
				Yield curve
Fair value hedge derivatives	**160**	**865**		
	85	834	DCF models	Cap volatilities
				Fixing
				Seasonality
				Swaption volatilities
				Yield curve
	75	31	Option pricing models	Cap volatilities
				Correlation
				FX rate
				FX volatilities
				Swaption volatilities
				Yield curve

The tables 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 – Group at 31 December 2014	Fair Value					
€ m	Assets	Liabilities	Measurement methods	Observable parameters	Non-observable parameters	Parameter range (weighted average)
Measured at fair value through profit or loss	**164**	**172**				
Trading assets/ trading liabilities	159	144	Option pricing models	Swaption volatilities	ATM-Cap-Vola GBP-XO6M beyond 31.12.2034	36.70%
				Correlation	EUR-EONIA beyond 31.12.2064	1.41%
				Seasonality	FX-Vola EUR/CHF beyond 31.12.2024	8.79%
				FX volatilities	GBP-XO3M beyond 05.01.2065	2.20%
				Cap volatilities	GBP-XOIS beyond 05.01.2065	2.30%
				FX Rate	Index-inflation correlations	20% to 98%
	–	5	DCF models		ATM-Cap-Vola CAD-XO3M beyond 31.12.2024	23.90%
				Yield curve	ATM-Swaption-Vola CAD-XO3M beyond 31.12.2034	16.79%
					CPIUK Cap Volatility beyond 31.12.2044	9.66%
					USD-XO6M beyond 31.12.2039	2.83%
Fair value hedge derivatives	5	23	Option pricing models	Yield Curve	ATM-Swaption-Vola EUR-EO6M beyond 31.12.2044	22.20%
					ATM-Cap-Vola JPY-XO6M beyond 31.12.2024	68.14%
				Cap volatilities	ATM-Cap-Vola USD-XO3M beyond 31.12.2034	30.48%
					ATM-Swaption-Vola AUD-XO6M beyond 31.12.2027	22.34%
				Correlation	EUR-EO6M beyond 31.12.2064	1.53%
					EUR-EONIA beyond 31.12.2064	1.41%
				Seasonality	FX-Vola EUR/GBP beyond 31.12.2024	9.66%
					FX-Vola JPY/AUD beyond 31.12.2015	10.95%
				FX Rate	FX-Vola JPY/CAD beyond 31.12.2024	15.58%
					FX-Vola JPY/USD beyond 31.12.2024	15.58%
				FX volatilities	Historical index-FX correlations	–16.31 % to 9.95%
					Historical index-index correlations	–9.45% to 38.80%
				Swaption volatilities	FX-Vola EUR/CHF beyond 31.12.2024	8.79%
					FX-Vola EUR/USD beyond 31.12.2024	10.55%

Measurement of Level 3 instruments – Group at 31 December 2013

€ m	Fair Value Assets	Fair Value Liabilities	Measurement methods	Observable parameters	Non-observable parameters	Parameter range (weighted average)
Measured at fair value through profit or loss	**76**	**112**				
Trading assets/ trading liabilities	74	74	Option pricing models	CDS spread		
				Recovery rate	Low base correlation	57.90%
				Yield curve	High Base Correlation	65.22%
Fair value hedge derivatives	2	38	Option pricing models	Cap volatilities	Dividend NIKKEI	1.33%
				Correlation	Dividend STOXX	3.49%
				Dividend	Historical FX – FX correlations	–11.78% to 7.14%
				Fixing	Historical index – FX correlations	–11.78% to 11.21%
				Spot market exchange rates	Historical index – index correlations	–6.78% to 18.21%
				FX volatilities	Historical issuer – issuer correlations	41.40% to 55.87%
				Fixing volatilities	Index-inflation correlations	0.00%
				Yield curve	Vola NIKKEI	26.49%
					Vola STOXX	19.26%

Measurement of Level 3 instruments – Company at 31 December 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	**171**	**158**				
Trading assets/ trading liabilities	166	152	Option pricing models	Cap volatilities	ATM-Cap-Vola GBP-XO6M beyond 31.12.2034	36.70%
					EUR-EONIA beyond 31.12.2064	1.41%
				Seasonality	FX-Vola EUR/CHF beyond 31.12.2024	8.79%
					FX-Vola EUR/USD beyond 31.12.2024	10.55%
				Correlation	FX-Vola JPY/AUD beyond 31.12.2015	10.95%
					FX-Vola JPY/USD beyond 31.12.2024	15.58%
				FX Rate	GBP-XO3M beyond 05.01.2065	2.20%
					GBP-XOIS beyond 05.01.2065	2.30%
				FX volatilities	Historical index-FX correlations	–16.31 % to 8.71%
					Historical index-index correlations	–7.31% to 38.78%
				Yield Curve	Index-inflation correlations	20% to 98%
	–	5	DCF models		ATM-Cap-Vola CAD-XO3M beyond 31.12.2024	23.90%
				Yield Curve	ATM-Swaption-Vola CAD-XO3M beyond 31.12.2034	16.79%
					CPIUK Cap Volatility beyond 31.12.2044	9.66%
					USD-XO6M beyond 31.12.2039	2.83%
Fair value hedge derivatives	5	1	Option pricing models		ATM-Cap-Vola JPY-XO6M beyond 31.12.2024	68.14%
				Cap volatilities	ATM-Cap-Vola USD-XO3M beyond 31.12.2034	30.48%
					ATM-Swaption-Vola AUD-XO6M beyond 31.12.2027	22.34%
				Correlation	EUR-EO6M beyond 31.12.2064	1.53%
					EUR-EONIA beyond 31.12.2064	1.41%
				FX Rate	FX-Vola EUR/GBP beyond 31.12.2024	9.66%
					FX-Vola JPY/AUD beyond 31.12.2015	10.95%
				FX volatilities	FX-Vola JPY/CAD beyond 31.12.2024	15.58%
					FX-Vola JPY/USD beyond 31.12.2024	15.58%
				Swaption volatilities	Historical index-FX correlations	–16.31 % to 9.95%
					Historical index-index correlations	–9.45% to 6.08%
				Yield Curve	ATM-Swaption-Vola EUR-EO6M beyond 31.12.2044	22.20%

Measurement of Level 3 instruments – Company at 31 December 2013

€ m	Fair Value Assets	Fair Value Liabilities	Measurement methods	Observable parameters	Non-observable parameters	Parameter range (weighted average)
Measured at fair value through profit or loss	**100**	**106**				
Trading assets/ trading liabilities	97	97	Option pricing models	Cap volatilities		
				CDS Spread	Historical FX – FX correlations	7.14%
				Correlation	Historical index – index correlations	–6.78% to 18.12%
				FX Rate	Historical index – FX correlations	–11.78 % to 9.87%
				FX volatilities	Index-inflation correlations	0.00%
				Recovery Rate	Low Base Correlation	57.90%
				Yield Curve	High Base Correlation	65.22%
Fair value hedge derivatives	3	9	Option pricing models	Cap volatilities		
				CDS spread	Dividend NIKKEI	1.33%
				Correlation	Dividend STOXX	3.49%
				Dividend	Historical index – FX correlations	–11.78% to 11.21%
				Fixing	Historical index – index correlations	–1.15% to 18.12%
				FX rate	Historical issuer – issuer correlations	41.40% to 55.87%
				FX volatilities	Index-inflation correlations	0.00%
				Recovery rate	Vola NIKKEI	26.49%
				Swaption volatilities	Vola STOXX	19.26%
				Fixing volatilities		
				Yield curve		

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.

Group and Company:
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 remain-ing time to maturity
		Risk free interest rate		Future cash flows	Expected future cash flows
		Future cash flows			Adjustment to proxies
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	

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 measured at fair value through P&L 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	Group				Company			
	31.12.2014		**31.12.2013**		**31.12.2014**		**31.12.2013**	
€ m	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Assets								
Financial assets at fair value through P&L								
Trading assets	2	–2	–	–	2	–2	–	–
Loans and advances to customers	–	–	–	–	–	–	–	–
Financial investments	–	–	–	–	–	–	–	–
Derivatives	–	–	–	–	–	–	–	–
Available-for-sale	–	–	–	–	–	–	–	–
Financial investments	–	–	–	–	–	–	–	–
Total assets	**2**	**–2**	–	–	**2**	**–2**	–	–
Liabilities								
Financial liabilities at fair value through P&L								
Trading liabilities	2	–2	–	–	2	–2	–	–
Derivatives	1	–1	–	–1	–	–	–	–1
Total liabilities	**3**	**–3**	–	**–1**	**2**	**–2**	–	**–1**

As part of the process of transferring positions to FMS Wertmanagement AöR, significant holdings of derivatives were transferred synthetically to FMS Wertmanagement AöR 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.

(44) Offsetting financial assets and liabilities

The following tables sets out the effect or potential effect of netting arrangements on the DEPFA Group's financial position. This includes the effect or potential effect of rights of set-off associated with the DEPFA Group's recognised financial assets and recognised financial liabilities that are subject to an enforceable master netting arrangement, irrespective of whether they are set off in accordance with paragraph 42 of IAS 32.

In the tables below the derivative values in "Gross amounts of recognised financial assets" represent the carrying value of asset derivatives positions on the statement of financial position where the derivative is subject to an enforceable master netting agreement and where the overall net position of derivatives included in that netting agreement before collateral is considered and if offsetting were applied would be an asset. The amounts reported under "Related amounts not set off in statement of financial position" represent the liability derivative positions and cash collateral balances which are also part of these master netting agreements.

The "Reverse repurchase securities borrowing" amounts represent the carrying value of amounts lent under reverse repurchase agreements ("repos") where the reverse repo is subject to an enforceable master netting agreement. These amounts are included in the statement of financial position under "Loans and advances to other banks". The amounts reported under "Related amounts not set off in statement of financial position" represent the carrying value of non-cash collateral (in "Financial instruments") and cash collateral received.

Assets – Group 2014				Related amounts not set off in statement of financial position		
€ m	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
Derivatives	14,036	–	14,036	–8,627	–5,096	313
Reverse repurchase securities borrowing and similar agreements	2,096	–	2,096	–2,096	–	–
Total	**16,132**	**–**	**16,132**	**–10,723**	**–5,096**	**313**

Assets – Group 2013				Related amounts not set off in statement of financial position		
€ m	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
Derivatives	9,640	–	9,640	–6,506	–2,963	171
Reverse repurchase securities borrowing and similar agreements	–	–	–	–	–	–
Total	**9,640**	**–**	**9,640**	**–6,506**	**–2,963**	**171**

Assets – Company 2014 € m	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in statement of financial position		
				Financial instruments	Cash collateral received	Net amount
Derivatives	15,187	–	15,187	–9,720	–5,199	268
Reverse repurchase securities borrowing and similar agreements	2,440	–	2,440	–2,440	–	–
Total	**17,627**	**–**	**17,627**	**–12,160**	**–5,199**	**268**

Assets – Company 2013 € m	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in statement of financial position		
				Financial instruments	Cash collateral received	Net amount
Derivatives	10,984	–	10,984	–7,695	–3,211	78
Reverse repurchase securities borrowing and similar agreements	1,428	–	1,428	–1,428	–	–
Total	**12,412**	**–**	**12,412**	**–9,123**	**–3,211**	**78**

In the tables below the derivative values in “Gross amounts of recognised financial liabilities” represent the liability derivatives positions on the statement of financial position where the derivative is subject to an enforceable master netting agreement and where the overall net position of derivatives included in that netting agreement before collateral is considered and if offsetting were applied would be a liability. The derivative amounts reported under “Related amounts not set off in statement of financial position” represent the asset derivative positions and cash collateral balances which are also part of these master netting agreements.

The “Repurchase securities borrowing” amounts represent the carrying value of amounts borrowed under repurchase agreements (repos) where the repo is subject to an enforceable master netting agreement. These amounts are included in the statement of financial position under “Liabilities to other banks”. The amounts reported under “Related amounts not set off in statement of financial position” represent the carrying value of non-cash collateral (in “Financial instruments”) and cash collateral pledged.

Liabilities – Group 2014 € m	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in statement of financial position		
				Financial instruments	Cash collateral pledged	Net amount
Derivatives	12,207	–	12,207	–8,627	–3,446	134
Repurchase securities borrowing and similar agreements	–	–	–	–	–	–
Total	**12,207**	**–**	**12,207**	**–8,627**	**–3,446**	**134**

Liabilities – Group 2013 € m	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in statement of financial position		
				Financial instruments	Cash collateral pledged	Net amount
Derivatives	9,125	–	9,125	–6,506	–2,676	–57
Repurchase securities borrowing and similar agreements	1,853	–	1,853	–1,853	–	–
Total	**10,978**	**–**	**10,978**	**–8,359**	**–2,676**	**–57**

Liabilities – Company 2014 € m	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in statement of financial position		
				Financial instruments	Cash collateral pledged	Net amount
Derivatives	15,166	–	15,166	–9,720	–5,346	100
Repurchase securities borrowing and similar agreements	–	–	–	–	–	–
Total	**15,166**	**–**	**15,166**	**–9,720**	**–5,346**	**100**

Liabilities – Company 2013 € m	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in statement of financial position		
				Financial instruments	Cash collateral pledged	Net amount
Derivatives	11,633	–	11,633	–7,695	–4,131	–193
Repurchase securities borrowing and similar agreements	1,421	–	1,421	–1,421	–	–
Total	**13,054**	**–**	**13,054**	**–9,116**	**–4,131**	**–193**

The recognised derivative amounts reported in the above tables can be reconciled to the statement of financial position as follows:

Derivative amounts recognised in the statement of financial position – Group			2014			2013
€ m	Trading	Other	**Total**	Trading	Other	**Total**
Assets						
Total recognised financial assets above	9,522	4,514	14,036	5,986	3,654	9,640
Derivatives not in enforceable netting arrangements	9	11	20	113	9	122
Per note 41 to the financial statements	**9,531**	**4,525**	**14,056**	**6,099**	**3,663**	**9,762**
Liabilities						
Total recognised financial liabilities above	9,709	2,498	12,207	5,910	3,215	9,125
Derivatives not in enforceable netting arrangements	9	42	51	66	226	292
Per note 41 to the financial statements	**9,718**	**2,540**	**12,258**	**5,976**	**3,441**	**9,417**

Derivative amounts recognised in the statement of financial position – Company			2014			2013
€ m	Trading	Other	**Total**	Trading	Other	**Total**
Assets						
Total recognised financial assets above	15,009	178	15,187	10,834	150	10,984
Derivatives not in enforceable netting arrangements	59	11	70	163	13	176
Per note 41 to the financial statements	**15,068**	**189**	**15,257**	**10,997**	**163**	**11,160**
Liabilities						
Total recognised financial liabilities above	15,048	118	15,166	10,803	830	11,633
Derivatives not in enforceable netting arrangements	38	–	38	89	44	133
Per note 41 to the financial statements	**15,086**	**118**	**15,204**	**10,892**	**874**	**11,766**

(45) Contingent liabilities and commitments

(a) Contingent liabilities and loan commitments

Contingent liabilities and other commitments

€ m	Group		Company	
	31.12.2014	**31.12.2013**	**31.12.2014**	**31.12.2013**
Contingent liabilities				
Guarantees and indemnity agreements				
Loan guarantees	22	32	851	671
Other commitments				
Irrevocable loan commitments				
Lending business	–	57	–	57
Liquidity facility	–	–	25	22
Total	**22**	**89**	**876**	**750**

The above amounts represent nominal exposures.

(b) Operating lease commitments

Where a Group company is the lessee, the future minimum lease payments up to the earliest break date under building operating leases are as follows:

Future minimum lease payments

€ m	Group		Company	
	31.12.2014	**31.12.2013**	**31.12.2014**	**31.12.2013**
Up to 12 months	4	8	3	7
Greater than 1 year but less than 5 years	13	13	10	10
Over 5 years	1	2	–	1
Total	**18**	**23**	**13**	**18**

The DEPFA Group has also entered into sub-leases (operating leases) as sub-lessors of certain of the buildings subject to operating leases above. The future minimum lease payments to be received under non-cancellable building operating leases are as follows:

Future minimum lease receipts

€ m	Group		Company	
	31.12.2014	**31.12.2013**	**31.12.2014**	**31.12.2013**
Up to 12 months	1	2	1	2
Greater than 1 year but less than 5 years	4	3	4	3
Over 5 years	–	–	–	–
Total	**5**	**5**	**5**	**5**

(46) Contingent assets

Contingent assets

	Group		Company	
€ m	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
Guarantees and indemnity agreements	–	2,556	225	2,781
Total	**–**	**2,556**	**225**	**2,781**

The above table refers to nominal values of guaranteed assets including guaranteed undrawn commitments of € nil (2013: €54 million) for both the DEPFA Group and the Company. The Group amounts relate solely to financial guarantees provided by FMS Wertmanagement AöR, which have been terminated during the year on transfer of the related assets to FMS Wertmanagement AöR. The Company amount at 31 December 2014 relates to guarantees provided by other DEPFA Group companies (2013: €225 million).

(47) Exchange rates as at 31 December 2014

European Central Bank exchange rates as at 31 December 2014 were:

Exchange rates

€1 =		**31.12.2014**	**31.12.2013**
Great Britain	GBP	0.7789	0.8337
Japan	JPY	145.2300	144.7200
United States of America	USD	1.2141	1.3791
Switzerland	CHF	1.2024	1.2276

(48) Capital management

The DEPFA Group's objectives when managing capital, which is a broader concept than the "equity" presented on the statement of financial position, are:

- to comply with the capital requirements set by the regulators of the banking markets where the entities within the DEPFA Group operate;
- to safeguard the DEPFA Group's ability to continue as a going concern; and
- to maintain a strong capital base to support the company strategy of the DEPFA Group.

Capital adequacy and the use of regulatory capital are monitored daily by the DEPFA Group's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives & Regulations, as implemented by the Central Bank of Ireland (the "Authority"), for supervisory purposes. The required information is filed with the Authority on a quarterly basis.

During 2013 and 2014 the Authority required each bank or banking group to maintain a ratio of total regulatory capital to the risk-weighted asset (the "Total capital ratio") at or above the agreed minimum of 8% (2013: 8.5%) for the DEPFA Group or 8% (2013: 8%) for the Bank and to maintain additional levels of own funds if required under the Supervisory Review and Evaluation Process. In addition, those individual banking subsidiaries or similar financial institutions not incorporated in the European Union are directly regulated and supervised by their local banking supervisor, the requirements of which may differ from country to country.

The DEPFA Group's regulatory capital is divided into two tiers:

- Tier 1 capital – share capital (net of any book values of the treasury shares), qualifying minority interests arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings; and
- Tier 2 capital – qualifying subordinated capital instruments.

During 2013 and 2014 the risk-weighted assets were measured using the CRD IV and CRD standardised approach as applicable. The calculation reflects an estimate of credit, market and other risks associated with each asset and counterparty taking into account any eligible collateral or guarantees and the contingent nature of the potential losses.

There were no breaches by the DEPFA Group or the Bank of the capital requirements during 2014 (2013: no breaches).

Further details on the DEPFA Groups regulatory capital are provided in the Directors report, Regulatory capital and capital adequacy ratios section.

(49) Group auditors' fee (excluding VAT)

Group auditors' fee (excluding VAT)

€ '000	2014	2013
Audit of Parent Company accounts	234	250
Other assurance services	184	184
Tax advisory services	95	82
Other non-audit services	269	1,625
Total	**782**	**2,141**

Other assurance services include fees for the audit of subsidiary companies.

(50) Related party transactions

(a) Key management compensation

Group and Company

€	2014	2013
Short-term employee benefits	1,754,412	1,619,542
Post employment benefits	81,592	80,113
Termination benefits	500,000	–
Total	**2,336,004**	**1,699,655**

Key management is the Board of Directors of DEPFA BANK plc.

Included above is directors' compensation as follows:

Directors' compensation

€	2014	2013
Directors' fees	360,400	385,938
Other remuneration	1,475,604	1,313,717
Termination benefits	500,000	–
Total	**2,336,004**	**1,699,655**

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 31 December 2014 (31 December 2013: € nil).

(b) Letters of comfort and guarantees to related parties

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

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

(c) Balances and transactions with HRE Group companies

Due to the change of ownership of the DEPFA Group on 19 December 2014, HRE Group companies are considered direct related parties up to that date. Balances due to and from HRE Group companies for 31 December 2013 only are disclosed in the notes to the statements of financial position. Transactions with HRE Group companies up to the date of change of ownership included in the income statement categories below consisted of:

Group's transactions with HRE Group companies

€ m	2014	2013
Interest income and similar income	36	21
Interest expense and similar expenses	–30	–16
Net fee and commission expense	–	–
Other operating income	1	58
General administrative expenses	–23	–24

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 were entered into on an arm's length basis.

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

Company balances due to and from DEPFA Group companies are disclosed in the notes to the statement of financial position. Company transactions with DEPFA Group and with HRE Group companies up to the date of change of ownership, included in the income statement categories consisted of:

Company's transactions with HRE and DEPFA Group companies

€ m	2014	2013
Interest and similar income	109	71
Interest expense and similar expenses	–423	–401
Net fee and commission expense	4	2
Other operating income	41	76
General administrative expenses	–22	–23

The amounts above arise on intercompany borrowing and lending and transfers of assets between DEPFA BANK plc and other DEPFA Group entities as well as recharges for certain services provided.

In addition the Company has traded derivative transactions on an arm's length basis with HRE Group and DEPFA Group entities which are used to hedge certain assets and liabilities in the Company or those entities or are offset by the other derivatives in the Company.

(d) Balances and transactions with FMS Wertmanagement AöR

Due to the change of ownership on 19 December 2014, FMS Wertmanagement AöR is considered a related party from that date. Balances due to and from FMS Wertmanagement AöR for 31 December 2014 are disclosed in the notes to the statements of financial position. The income statement effect of transactions with FMS Wertmanagement AöR since the date of change of ownership are € nil for both the DEPFA Group and the Company.

(e) Other related party transactions

As a result of the DEPFA Group's ownership by HRE holding up to 19 December 2014 and since that date by FMS Wertmanagement AöR, 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 had various relationships with its parent FMS Wertmanagement AöR, for example, due to the synthetic transfer of positions. The relationships are described in note 5 to the financial statements, "Transfer of non strategic positions to FMS Wertmanagement AöR". The DEPFA Group had acted as sub-service provider for pbb, which had entered into various service level agreements with FMS Wertmanagement AöR. Under these agreements, pbb provided the servicing for positions that were transferred to FMS Wertmanagement AöR. The different servicing tasks were clearly outlined in specific servicing agreements. Both pbb and the DEPFA Group completely discontinued this servicing on 30 September 2013. The DEPFA Group received income of € nil in relation to asset servicing provided by the DEPFA Group on positions transferred to FMS Wertmanagement AöR (2013: €45 million).

Following the termination of the formal servicing arrangement between the DEPFA Group, pbb and FMS Wertmanagement AöR on 30 September 2013, DEPFA BANK plc and FMS Wertmanagement AöR 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 AöR in respect of the positions that were economically transferred by the DEPFA Group to FMS Wertmanagement AöR 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.

(51) Group undertakings

Shares in DEPFA Group undertakings are included in the financial statements on a historical cost basis subject to periodic impairment reviews.

The DEPFA Group undertakings at 31 December 2014 were:

Group undertakings

Name	Principal Activity	Country of Incorporation	Registered Office	Share in Capital	Class of Share
DEPFA ACS BANK	Issuance and ongoing administration of Asset Covered Securities	Ireland	1 Commons Street, Dublin 1, Ireland	100%	Ordinary
DEPFA Ireland Holding Ltd	Holding company	Ireland	1 Commons Street, Dublin 1, Ireland	100%	Ordinary
DEPFA Funding II LP	Special purpose vehicle for Tier 1 capital raising	UK	21st Floor, 30 St. Mary Axe, London EC3A 8BF, UK	100%	N/A – General Partner Contribution
DEPFA Funding III LP	Special purpose vehicle for Tier 1 capital raising	UK	21st Floor, 30 St. Mary Axe, London EC3A 8BF, UK	100%	N/A – General Partner Contribution
DEPFA Funding IV LP	Special purpose vehicle for Tier 1 capital raising	UK	21st Floor, 30 St. Mary Axe, London EC3A 8BF, UK	100%	N/A – General Partner Contribution
DEPFA Hold One Ltd	Holding company	Ireland	1 Commons Street, Dublin 1, Ireland	100%	Ordinary
DEPFA Hold Two Ltd	Holding company	Ireland	1 Commons Street, Dublin 1, Ireland	100%	Ordinary
DEPFA Hold Six	Holding company	Ireland	1 Commons Street, Dublin 1, Ireland	100%	Ordinary
DEPFA Finance N.V.	Funding vehicle	Netherlands	De Entree 99–197, 1101 HE, Amsterdam, the Netherlands	100%	Ordinary
DBE Property Holdings Ltd	Procurement of office equipment	Ireland	1 Commons Street, Dublin 1, Ireland	100%	Ordinary
Hypo Public Finance Bank	Public Finance Banking and Capital Markets activities	Ireland	1 Commons Street, Dublin 1, Ireland	100%	Ordinary
Hypo Dublin Properties Ltd	Property Management Services	Ireland	1 Commons Street, Dublin 1, Ireland	100%	Ordinary
Hypo Pfandbrief Bank International S.A.	Public Finance Banking	Luxembourg	8–10 Rue Jean Monnet, 2099 Luxembourg	100%	Ordinary
San Sabia Capital Corporation	Funding vehicle	USA	c/o Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, New Castle County, Delaware 19808, USA	0%	N/A

Other than the acquisition of DEPFA Finance N.V., as discussed in note 2 to the financial statements, there was no significant change in the DEPFA Group structure during 2014.

None of the subsidiaries consolidated by the DEPFA Group have any material Non Controlling Interests (“NCIs”).

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

Of its consolidated entities in the table above, the DEPFA Group considers San Sabia Capital Corporation (“San Sabia”) to be a structured entity. San Sabia is a special purpose bankruptcy-remote company incorporated in the State of Delaware in the United States. San Sabia has issued uncollateralised guaranteed investment contracts (“GICs”) to eligible investors, the proceeds of which are invested in reverse repos with DEPFA BANK plc. San Sabia’s share capital is owned in its entirety by GSS Holding, Inc, a Delaware company. Pursuant to an administrative agreement, DEPFA BANK plc, through its New York branch, administers the Company’s operations and also acts as Referral Agent for GIC investors and investments. DEPFA BANK plc also provides liquidity support in return for a fee to the consolidated structured entity above. Although it is not obligated to enter into and renew this liquidity support, DEPFA BANK plc continues to do so in consideration of its role in the set-up of the structured entity and the DEPFA Group’s reputation. DEPFA BANK plc serves as the sole borrower of funds raised by San Sabia and provides commitments to San Sabia that it will continue the practice of borrowing funds raised by San Sabia at rates sufficient to permit San Sabia to meet its ordinary course contractual obligations. As a consequence of the above relationships the DEPFA Group has determined that it controls San Sabia and the entity is therefore consolidated. It is the intention that no further GICs will be entered into in the future by San Sabia.

The following table summarises the carrying amounts of San Sabia positions in the consolidated statement of financial position:

Carrying value € m	**2014**	**2013**
Assets		
Loans and advances to other banks	2	2
Liabilities		
Trading liabilities	13	15

The DEPFA Group considers itself a sponsor of a structured entity when it facilitates the establishment of the entity. As at 31 December 2014 and 31 December 2013, there are no structured entities sponsored by the DEPFA Group and in which it does not have an interest.

The DEPFA Group also has interests in structured entities of which it is not a sponsor and that it does not consolidate. The following overview sets out the nominal volume of the DEPFA Group's interest in non-consolidated structured entities. The nominal amounts of the DEPFA Group's interests are materially equivalent to the DEPFA Group's carrying values which are presented in the category Financial investments on the statement of financial position (2013: Financial investments €273 million, Trading assets €73 million). The carrying amounts of the positions represent the DEPFA Group's maximum exposure to loss.

Transactions with non-consolidated structured entities	31.12.2014		31.12.2013	
Nominal value € m	Interest of the DEPFA Group	Total nominal issued by entity	Interest of the DEPFA Group	Total nominal issued by entity
Delta Spark Limited	246	791	273	880
Omega Capital Corporation	–	–	73	110
Total	**246**	**791**	**346**	**990**

Delta Spark Limited is a structured entity established to securitize receivables purchased in relation to the Spanish Electricity Tariff Deficit 07/08. The receivables represent claims against the Spanish National Electric System (CNE) which is considered sovereign risk. The DEPFA Group has invested in untranched notes issued by Delta Spark Limited in the amounts per the above table. Income from the notes is included in the income statement under "Interest income and similar income".

The DEPFA Group's interest in Omega Capital Corporation, a structured entity facilitating investment in credit linked notes, comprising a loan to the entity, was transferred to FMS Wertmanagement AöR during 2014. Income from the loan is included in the income statement under Interest income and similar income.

Acquisition under common control

On 19 July DEPFA BANK plc acquired 100% of the ordinary share capital of DEPFA Finance N.V. from the then sister entity pbb.

The acquisition was accounted for as a transaction between entities under common control and was transacted on an arm's length basis with a cash consideration of €5.56 million paid by DEPFA BANK plc to pbb.

As described in note 2 to the financial statements, DEPFA Finance N.V. had previously been consolidated by the DEPFA Group under IAS 27 and SIC-12 but was retrospectively deconsolidated on first time application of IFRS 10 on 1 January 2014 resulting in a restatement of the comparative amounts. The subsequent acquisition of DEPFA Finance N.V. results in the entity being reconsolidated at 31 December 2014.

The effects of the acquisition on the financial position of the DEPFA Group are as follows:

€ m	
Positions recognised	
Loans and advances to other banks	306
Positions derecognised	
Loans and advances to customers	1,227
Liabilities to customers	–926

The acquisition consideration was approximately equivalent to the net book value of the positions recognised and derecognised resulting in an immaterial effect on the equity of the DEPFA Group.

(52) 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 31 December 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	–	438	–	19	–	**457**	457	457
	Sub-sovereign	LaR	–	–	–	–	10	**10**	10	10
	State-guaranteed	LaR	–	–	–	–	–	–	–	–
Italy	Sovereign	LaR	–	–	6	190	55	**251**	221	248
	Sub-sovereign	LaR	–	–	2	59	321	**382**	332	330
	State-guaranteed	LaR	–	–	–	–	–	–	–	–
Spain	Sovereign	LaR	–	–	–	18	–	**18**	17	19
	Sub-sovereign	LaR	–	–	206	168	2,183	**2,557**	2,403	2,380
	State-guaranteed	LaR	–	–	–	–	81	**81**	81	80
Slovenia	Sovereign	LaR	–	–	–	–	–	–	–	–
	Sub-sovereign	LaR	–	–	–	–	–	–	–	–
	State-guaranteed	LaR	–	–	–	70	497	**567**	567	441
Belgium	Sovereign	LaR	–	–	–	–	817	**817**	524	805
	Sub-sovereign	LaR	–	–	–	40	151	**191**	182	185
	State-guaranteed	LaR	–	–	–	–	1,287	**1,287**	876	1,229

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

Company's direct sovereign exposure to selected European countries as at 31 December 2014

€ m	Counterparty	IAS 39 measurement category	Book value Repayable on demand	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	From 5 years and over	**Total**	Notional value	Fair value
Ireland	Sovereign	LaR	–	438	–	8	–	**446**	446	446
	Sub-sovereign	LaR	–	–	–	–	–	–	–	–
	State-guaranteed	LaR	–	–	–	–	–	–	–	–
Italy	Sovereign	LaR	–	–	–	–	–	–	–	–
	Sub-sovereign	LaR	–	–	–	–	–	–	–	–
	State-guaranteed	LaR	–	–	–	–	–	–	–	–
Spain	Sovereign	LaR	–	–	–	–	–	–	–	–
	Sub-sovereign	LaR	–	–	–	–	–	–	–	–
	State-guaranteed	LaR	–	–	–	–	–	–	–	–
Belgium	Sovereign	LaR	–	–	–	–	–	–	–	–
	Sub-sovereign	LaR	–	–	–	–	–	–	–	–
	State-guaranteed	LaR	–	–	–	–	–	–	–	–

Company's direct sovereign exposure to selected European countries as at 31 December 2013

€ m	Counterparty	IAS 39 measurement category	Book value Repayable on demand	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	From 5 years and over	**Total**	Notional value	Fair value
Ireland	Sovereign	LaR	–	1,178	14	–	–	**1,192**	1,192	1,192
	Sub-sovereign	LaR	–	–	–	–	–	–	–	–
	State-guaranteed	LaR	–	–	–	–	–	–	–	–
Italy	Sovereign	LaR	–	–	–	–	–	–	–	–
	Sub-sovereign	LaR	–	–	–	–	–	–	–	–
	State-guaranteed	LaR	–	–	–	–	–	–	–	–
Spain	Sovereign	LaR	–	–	–	–	–	–	–	–
	Sub-sovereign	LaR	–	–	–	–	–	–	–	–
	State-guaranteed	LaR	–	–	–	–	–	–	–	–
Belgium	Sovereign	LaR	–	–	–	–	–	–	–	–
	Sub-sovereign	LaR	–	–	–	–	–	–	–	–
	State-guaranteed	LaR	–	–	–	–	–	–	–	–

All of the above positions are included in the IFRSs measurement category loans and receivables. The DEPFA Group tests financial assets which are not measured at fair value for impairments. Allowances for loans and advances or impairments for securities are created if there is objective evidence that it will not be possible for the entire amount which is due in accordance with the original contractual conditions to be recovered. As at 31 December 2014 and 2013 the DEPFA Group considered that there was no such objective evidence.

The DEPFA Group did not have any sovereign credit risk exposure to Greece or Portugal as at 31 December 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 31 December 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.

For the total portfolio as of 31 December 2014 and as of 31 December 2013 the exposure at default according to regions is disclosed in the risk management section of the Directors' report.

The fair values of the exposure to selected European countries were determined by applying the measurement methods disclosed in note 43 to the financial statements, "Fair values of financial assets and liabilities".

(53) Additional disclosures required under CRD IV

The following information is provided in compliance with Article 89 of the Capital Requirements Directive and presents information on a non consolidated basis for each country in which the DEPFA Group has an establishment. No public subsidies have been received by any Group entity.

CRD IV disclosure requirements as at 31 December 2014
€ m

Country	Nature of activities	Number of full time employees	Operating revenues	Profit/loss before tax	Tax on profit/loss
Ireland	Banking or related activity	155	–67	–150	2
USA	Banking or related activity	23	4	–6	24
Great Britan	Banking or related activity	1	40	39	–
Luxembourg	Banking or related activity	13	–7	–14	3
Japan	Banking or related activity	16	–	–5	–1
Italy	Banking or related activity	1	–4	–5	–1
Netherlands	Banking or related activity	–	–22	–22	–

The return on assets as at 31 December 2014, as required by CRD Article 90 (Public disclosure of return on assets), is –0.32% and is calculated as net loss divided by total assets.

(54) 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 31 December 2014, € nil per share (31 December 2013: € nil).

No dividend is proposed for the year ended 31 December 2014.

(55) Events after the reporting date

Tender offer on perpetual securities

In January 2015 FMS Wertmanagement AöR, the parent company of the DEPFA Group, informed DEPFA BANK plc that it proposes to launch a tender offer inviting holders of the following securities:

- €400,000,000 6.50% Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities (XS0178243332) issued by DEPFA Funding II LP (the "DEPFA II Securities")
- €300,000,000 Fixed Rate/Variable Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities (DE000A0E5U85) issued by DEPFA Funding III LP (the "DEPFA III Securities"); and
- €500,000,000 Fixed Rate/Floating Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities (XS0291655727) issued by DEPFA Funding IV LP (the "DEPFA IV Securities"),

each guaranteed by DEPFA BANK plc (together, the "Preferred Securities"), to tender those securities for purchase by FMS Wertmanagement AöR on the terms described below and in relation thereto FMS Wertmanagement AöR has entered into a commitment agreement with certain holders of those securities as described below.

FMS Wertmanagement AöR has further informed the DEPFA Group that on 22 December 2014 certain holders of the Preferred Securities (the "Committed Holders") representing approximately 70% of the DEPFA II Securities, 59% of the DEPFA III Securities and 66% of the DEPFA IV Securities entered into an agreement with FMS Wertmanagement AöR pursuant to which the Committed Holders have undertaken to tender their Preferred Securities for purchase by FMS Wertmanagement AöR on the terms of a tender offer that FMS Wertmanagement AöR proposes to launch and to vote in favour of certain amendments to the terms and conditions of the Preferred Securities in an associated consent solicitation process (the proposed tender offer and consent solicitation are referred to as the "Proposed Transaction").

The agreement between FMS Wertmanagement AöR and the Committed Holders does not restrict the Committed Holders' ability to trade Preferred Securities, subject to the transferees agreeing to commit to tender those Preferred Securities and to vote in favour of those amendments. This agreement is subject to customary provisions including regarding an outside termination date for consummation of the Proposed Transaction, which provisions can be extended by mutual agreement of the parties.

The Proposed Transaction remains subject in its entirety to regulatory approval by the competent authorities. FMS Wertmanagement AöR has agreed with the Committed Holders to launch the Tender Offer Memorandum promptly following positive indication by the regulator. If it proceeds, the Proposed Transaction will be launched with the issuance of a Tender Offer Memorandum.

FMS Wertmanagement AöR has informed DEPFA BANK plc that it is not able at this time to state with certainty whether or when the issuance of the Tender Offer Memorandum will take place.

The Committed Holders and FMS Wertmanagement AöR have agreed that the Proposed Transaction will include a tender offer by FMS Wertmanagement AöR for the Preferred Securities at a Purchase Price of €0.604509 per €1 of liquidation preference of each DEPFA II Security and DEPFA IV Security as defined in the relevant limited partnership agreement, and €0.584509 per €1 of liquidation preference of each DEPFA III Security as defined in the relevant limited partnership agreement.

Tendering holders of preferred securities will be required to vote in favour of certain amendments to the terms and conditions of the Preferred Securities and related guarantees.

Pursuant to such amendments, holders of Preferred Securities who do not tender their Preferred Securities to FMS Wertmanagement AöR will become subject to an acquisition of such Preferred Securities at the option of the respective issuer of the Preferred Securities or of DEPFA BANK plc as guarantor at an acquisition price of €0.595 per €1 of liquidation preference of each DEPFA II Security and DEPFA IV Security as defined in the relevant limited partnership agreement and €0.575 per €1 of liquidation preference of each DEPFA III Security as defined in the relevant limited partnership agreement.

FMS Wertmanagement AöR has informed DEPFA BANK plc that acceptance of the tender by FMS Wertmanagement AöR will be made subject only to the conditions that in each class of the Preferred Securities valid tenders are received in an amount of not less than 50 per cent of the nominal amount of Liquidation Preference plus one Preferred Security of each such class and that regulatory approval has been obtained. Otherwise the Tender Offer Memorandum will contain only standard tender conditions.

FMS Wertmanagement AöR has informed DEPFA BANK plc that it has agreed to pay the Committed Holders a Commitment Fee of €22,139,320 in aggregate due on completion of the purchase of Preferred Securities by FMS Wertmanagement AöR pursuant to the tender offer.

The effects on the DEPFA Group will depend on the extent to which holders of the Preferred Securities do not tender their Preferred Securities, which could then be acquired by the DEPFA Group at the prices set out above.

Payments on perpetual securities

On 6 March 2015 DEPFA BANK plc determined that the perpetual securities issuing vehicle DEPFA Funding IV LP, would not make payments on its €500,000,000 Preferred Securities (XS0291655727) on the next distribution payment date, scheduled for 21 March 2015.

Amendment to constitutive documents of DEPFA BANK plc

On 13 March 2015, DEPFA BANK plc announced that it received notice from its shareholder, FMS Wertmanagement AöR, of their intention to amend the Memorandum of Association of DEPFA BANK plc by way of written special resolution. The proposed amendment reads as follows:

That the Memorandum of Association of the Company be and is hereby amended by the insertion of the following new Clause 3 (2) into the Company’s Memorandum of Association after the existing Clause 3 (1) and the renumbering of the remaining clauses accordingly:

"To carry on the business of the Company and its subsidiaries in pursuance of the above object and all of the objects described in this Memorandum of Association, and to exercise the powers exercisable in relation to the Company and its subsidiaries pursuant to this Memorandum of Association, for the purpose of, or in a manner which facilitates, or which is not otherwise inconsistent with winding down the activities of, and realising the value of the assets of, the Company and its subsidiaries and discharging any and all liabilities of the Company and its subsidiaries."

The directors have assessed the impact of the amendment in the context of considering the appropriateness of the going concern basis of accounting in the preparation of the financial statements. The directors have concluded based on discussions with FMS Wertmanagement AöR in relation to the continuation of the DEPFA Group's principal activities, being the wind down of its portfolios in a manner designed to maintain value, that it is appropriate to continue to prepare the financial statements on a going concern basis.

Branch closures

The Rome branch of DEPFA BANK plc was closed on 20 March 2015.

Apart from the above, there have been no other notable events after 31 December 2014.

(56) Ultimate parent company

FMS Wertmanagement AöR, a German State Agency, is the parent of the Bank. The largest and smallest group into which the results of the Bank are consolidated is that headed by DEPFA BANK plc.

(57) Approval of financial statements

The financial statements were approved by the directors on 26 March 2015.

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