DEPFA BANK
DEPFA ACS BANK

Interim Report 30 June 2013

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Economic review

The following is a commentary on the global and sector specific economic environments in which the DEPFA Group including DEPFA ACS BANK has operated during the first half of 2013.

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

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

Policy developments

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

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

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

Financial market developments

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

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

Banking sector

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

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

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

Public sector

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

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

Directors and other information

Board of Directors

Ms. M. Better[1] (German)
Dr. J. Bourke[1]
Ms. F. Flannery (Chief Executive Officer – CEO)
Mr. T. Glynn (American)
Mr. A. Kearns[1]
Mr. N. Reynolds
Mr. A. von Uslar-Gleichen[1] (German, Chairman)

[1] Non-Executive

Secretary & Registered Office

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

Solicitors

Arthur Cox
Earlsfort Centre
Earlsfort Terrace
Dublin 2, Ireland

Auditors

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

Cover Assets Monitor

Capita International Financial Services Ltd
AIB International Centre
Dublin 1, Ireland

Registered Number
354382

Management discussion

The directors of DEPFA ACS BANK ("the Bank") present their management discussion and the unaudited condensed interim financial statements ("the interim report") for the period ended 30 June 2013.

Ownership

The Bank is part of the DEPFA Group ("the DEPFA Group") which comprises DEPFA BANK plc and its subsidiaries. The entire share capital of DEPFA ACS BANK is held by DEPFA BANK plc. On 2 October 2007 the entire ordinary share capital of DEPFA BANK plc, the parent of the Bank, was acquired by Hypo Real Estate Holding AG ("HRE Holding"), the parent entity of the Hypo Real Estate Group ("the HRE Group").

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

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

Principal activities

The Bank's primary purpose is the issuance of asset covered securities ("ACS") in accordance with the Irish Asset Covered Securities Act, 2001 as amended by the Asset Covered Securities (Amendment) Act 2007 ("the Legislation"). Accordingly, the principal activities of the Bank are the management of public sector assets and the ongoing administration of ACS in accordance with the Legislation, subject to the conditions imposed by the European Commission's approval, on 18 July 2011, of the state aid in relation to the stabilisation measures granted to the HRE Group by the Federal Republic of Germany. The ACS are secured by a cover pool of public sector assets ("the cover pool") which also includes cover asset hedge contracts. The jurisdictions of the public sector entity with the financial obligation under the assets are restricted by the Legislation to member countries of the European Economic Area, US, Canada, Japan, Switzerland, Australia and New Zealand.

The Bank is regulated by the Central Bank of Ireland and has a full banking licence. In addition, the Bank is a designated credit institution as defined under the Legislation.

Proceedings at the European Commission

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

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

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

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

Transfer of non strategic positions to FMS Wertmanagement

In January 2010, the HRE Group submitted an application to the Financial Markets Stabilisation Authority ("FMSA") for a stabilisation measure in accordance with section 8a (1) Clause 1 FMStFG (Establishment of a deconsolidated environment) in order to transfer certain non strategic positions of the HRE Group to a deconsolidated environment. The FMSA reached a positive decision regarding this application and established the deconsolidated environment FMS Wertmanagement on 8 July 2010. The positions transferred were mainly comprised of financial instruments as defined in IAS 39. Further details on the effects of this transfer are set out in note 3 to the unaudited condensed interim financial statements.

Related party transactions

Related party transactions are set out in note 36 to the unaudited condensed interim financial statements.

Ratings

Senior unsecured ratings and covered bond ratings of DEPFA ACS BANK are shown in the table below:

Senior unsecured ratings and covered bond ratings of DEPFA ACS BANK[1]	30 June 2013			31 December 2012		
	Fitch Ratings	Moody's	Standard & Poor's	Fitch Ratings	Moody's	Standard & Poor's
Long-term rating	BBB+	Baa3	BBB	BBB+	Baa3	BBB
Outlook	Negative	Stable	Stable	Negative	Stable	Stable
Short-term rating	F2	P–3	A–2	F2	P–3	A–2
Asset Covered Securities	A[2]	A3	BBB[3]	A[2]	A3	BBB[3]

[1] Ratings from mandated rating agencies
[2] Negative outlook
[3] Stable outlook

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

The senior unsecured ratings assigned by the mandated rating agencies, Fitch Ratings, Moody's and Standard & Poor's remained unchanged for DEPFA ACS BANK during the first half of 2013; Fitch Ratings affirmed the ratings in July 2013. Similarly, the ratings for asset covered securities issued by DEPFA ACS BANK remained unchanged during the same period.

The rating agencies continue to adapt their methodologies and models in order to assess, amongst other factors, the changing macro-economic environment and the potential impact of the European sovereign debt crisis. These measures and the specific rating drivers for DEPFA ACS BANK and its covered bonds may result in rating changes. The ongoing reduction in linkages between the DEPFA Group and FMS Wertmanagement, or any changes to the ownership structure of the DEPFA Group could also lead to rating changes. Downgrades to Bank and/or covered bond ratings could have a negative impact particularly on the Bank's re-financing capacity and on access to suitable hedge counterparties and hence on its financial position and profitability.

Review of performance

The business of the Bank is focused on the financing of long-term assets via the issuance of long-term ACS.

The Bank has reported pre-tax income of € 48 million for the first half of 2013, compared with € 78 million in the prior year. The pre-tax income in both periods was affected significantly by once-off effects. For instance the positive effect attributable to profits from the buyback of the Bank's ACS that were redeemed before maturity at prevailing market levels on a reverse enquiry basis, which amounted to € 38 million in 2013 (2012: € 33 million).

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

Income statement

€ m	01. 01.– 30. 06. 2013	01. 01.– 30. 06. 2012
Net interest income	51	68
Net fee and commission expense/income	–11	14
Net trading income	3	2
Net expense from financial investments	–1	–5
Net income from hedge relationships	12	9
Other operating income	—	1
Other operating expense	—	–2
Total operating revenues	**54**	**87**
Reversal of / provision for losses on loans and advances	1	–2
General administrative expenses	–7	–7
Pre-tax income	**48**	**78**
Taxes on income	–6	–10
Net income	**42**	**68**

Net interest income decreased by 25 % to € 51 million compared with € 68 million in 2012. This decrease was mainly due to the negative impact of the close out of short-term basis mismatches as well as continuing expenses from re-hedging callable liabilities where the related hedging derivative had been called. Furthermore, there was a reduction in the average holdings of interest bearing assets compared with the previous period. Revenues from the buyback of the Bank's ACS that were redeemed before maturity at prevailing market levels on a reverse enquiry basis amounted to € 38 million in 2013 (2012: € 33 million).

Net fee and commission expense/income totalled € –11 million in 2013 (2012: € 14 million), mostly as a result of fees paid to DEPFA BANK plc and Hypo Public Finance Bank for guarantees received on certain assets. The commission income in the prior period was mostly income generated on the termination at market value of guarantees provided by DEPFA BANK plc related to specific assets of the Bank.

Net trading income totalled € 3 million in 2013 (2012: € 2 million), with € 1 million (2012: € 2 million) relating to marking to market derivatives that do not qualify for hedge accounting. Trading income also includes € 2 million (2012: € nil) in derivative valuation effects relating to counterparty risk parameters including both the credit risk of the counterparty and the Bank's own credit risk.

Net expense from financial investments amounted to € –1 million (2012: € –5 million). This result was due to the disposal of financial assets shown under "financial investments".

Net income from hedge relationships amounted to € 12 million (2012: € 9 million), relating to hedge ineffectiveness on fair value hedges within the range of 80 % to 125 % permitted in accordance with IAS 39 and is due to fluctuations in cross currency basis spreads, as well as other hedge inefficiencies.

Other operating income amounted to € nil (2012: € 1 million). In 2012, other operating income was mainly comprised of foreign currency translation effects.

Other operating expense amounted to € nil (2012: € –2 million). In 2012, other operating expense was mainly comprised of provisions relating to IT costs associated with separating the DEPFA Group's infrastructure and operating processes from that of the HRE Group.

Reversal of / provision for losses on loans and advances amounted to € 1 million (2012: € –2 million), and consisted of a reduction in portfolio-based allowances.

General administrative expenses amounted to € –7 million (2012: € –7 million). Administration costs were unchanged on 2012 and mainly comprised of recharges from other DEPFA Group entities for services provided.

Pre-tax income amounted to € 48 million in 2013 (2012: € 78 million).

Taxes on income amounted to € –6 million in 2013 (2012: € –10 million).

Net income amounted to € 42 million in 2013 (2012: € 68 million).

Development in assets

Total assets of the Bank amounted to € 38 billion as of 30 June 2013 and were € 4 billion lower than the corresponding figure as of 31 December 2012.

The decline is primarily due to the maturity and disposal of certain assets shown under "financial investments" and "loans and advances to customers" of € 3 billion and a reduction in the FMS Wertmanagement related counter effects of € 1 billion.

These counter effects arose in the case of some assets, as it was not possible for beneficial ownership to be transferred to FMS Wertmanagement, which meant that the criteria for derecognition were not satisfied. Furthermore, in the case of derivatives, so-called back-to-back transactions were used to transfer the market price risks of the derivative to FMS Wertmanagement by way of taking out a derivative with identical conditions, while the counterparty risks were retained by the Bank. This meant that it was not possible for the original position to be derecognised. Instead, the back-to-back transactions resulted in an increase in total assets and total liabilities.

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

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

These counter effects continued to be reduced in 2013, in line with overall strategy.

During 2013 the back-to-back derivatives continued to be replaced by direct business relations between FMS Wertmanagement and the external counterparties (novation of derivatives). Overall the volume of back-to-back derivatives amounted to € 0.4 billion as at 30 June 2013 compared with € 0.7 billion as at 31 December 2012. The decline is reflected in trading assets. The lower derivative volumes with FMS Wertmanagement have meant that there has also been a decline in the requirement for collateral, which has resulted in a further decline in total assets and total liabilities.

Developments in liabilities and equity

Total liabilities of the Bank amounted to € 38 billion as of 30 June 2013, compared with € 42 billion as of 31 December 2012. This reduction was primarily due to the maturity of certain liabilities shown under "liabilities evidenced by certificates" of € 2.2 billion, as well as the reduction of € 1 billion in counter effects with FMS Wertmanagement, as was the case on the asset side of the statement of financial position.

Liabilities evidenced by certificates decreased by € 2.2 billion from € 29.7 billion as of 31 December 2012 to € 27.5 billion as of 30 June 2013. This reduction reflected changes in fair value due to hedge accounting as well as the run off in outstanding debt and the buyback of certain asset covered securities, at prevailing market levels on a reverse enquiry basis.

Equity amounted to € 600 million as of 30 June 2013 (31 December 2012: € 557 million). The movement in equity is due to a combination of the net income of € 42 million and the reduction in the AfS reserve of € 1 million.

Development in earnings, assets, liabilities and equity of DEPFA ACS BANK

DEPFA ACS BANK has generated pre-tax income of €48 million for the first half of 2013. However, to an extent this profit has benefited from once-off effects such as the profits from the redemption of ACS on a reverse enquiry basis amounting to €38 million (2012: €33 million), net of losses from disposals of financial investments and loans and receivables. The Bank cannot be certain that in future it will benefit from once-off effects to the same extent. The Bank'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.

Total assets in 2013 declined appreciably, mainly due to the maturity and disposal of certain assets and the diminishing counter effects of the transfer of certain non strategic positions to FMS Wertmanagement. The extent of the counter effects will continue to decline in future. For instance, changes of borrowers are carried out for some instruments (novations). Even excluding the FMS Wertmanagement counter effects, it is expected that total assets will decline in the second half of 2013 due to the fact that the Bank is not currently undertaking any new business. However, the development in total assets is not fully subject to the control of the Bank. 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 facing the DEPFA Group including DEPFA ACS BANK

The developments in earnings, assets, liabilities and equity which have occurred since the transfer of certain non strategic positions to FMS Wertmanagement are in line with the existing strategy of the DEPFA Group. Following the conclusion of the European Commission approval process in 2011, the DEPFA Group and its subsidiary entities including the Bank is now focused on continuing the process of optimising the value of its core portfolios with the aim of reprivatisation in the medium-term.

At present, a project is continuing to separate the pbb Group and the DEPFA Group. As a result of the separation, it will be easier to distinguish the two sub-groups which improve the chances of a successful reprivatisation.

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

However, it is also possible that the developments in earnings, assets, liabilities and equity may be adversely affected by certain factors. The extent of which is influenced particularly by the occurrence or non-occurrence of the following risks, or the extent to which such risks might materialise:

- Some European countries in 2013 and 2012 were only able to obtain funds with the support of international aid programmes. If the debt crisis of some countries deteriorates any further, a partial or complete claims waiver might become necessary for creditors, or sovereign debtors may become insolvent in an orderly or disorderly manner. In these cases, the Bank, in its

capacity as a provider of public sector finance, may also have to recognise considerable impairments on loans and advances and on financial investments. These impairments may increase if the negative effect of the crises on certain countries spreads to other countries which are currently considered to be solvent.

- The situation in the refinancing markets has improved in the period under review. Nevertheless the refinancing markets are still problematic. The debt crisis facing some European countries may, for instance, result in a loss of confidence in the issuing markets or the unsecured and secured interbank markets. This could negatively impact on the liquidity situation of the DEPFA Group including the Bank despite the existing liquidity reserves.
- The rating agencies continue to adapt their methodologies and models in order to assess, amongst other factors, the changing macro-economic environment and the potential impact of the European sovereign debt crisis. These measures, alongside the specific ratings drivers for the DEPFA Group entities and its covered bonds, could lead to rating changes. The ongoing reduction in linkages between the DEPFA Group and FMS Wertmanagement, or any changes to the ownership structure of the DEPFA Group could also lead to rating changes. Downgrades to Bank and/or covered bond ratings could have a negative impact, particularly on the Bank's re-financing capacity and on access to suitable hedge counterparties and hence on their financial position and profitability.
- While the actual liquidity situation for the DEPFA Group remains stable and the DEPFA Group continues to expect that it will meet all contractual and regulatory obligations going forward the extent of liquidity requirements in the future is dependent on:
  - The future development of the discounts for repo refinancing in the market and with the central banks.
  - Collateral requirements as a result of changing market parameters (including interest rates, foreign currency exchange rates and basis for calculation).
  - Changing requirements of the rating agencies regarding the necessary surplus in the cover pools.
- Litigation, which is currently pending and litigation which may occur in future, might have a considerably negative impact on the results of the DEPFA Group including the Bank.
- The HRE Group and its subsidiaries, including the DEPFA Group, have initiated projects for optimising processes and IT infrastructure. Some of these have already been successfully completed, whereas others are still ongoing. Despite the projects, the DEPFA Group including the Bank is exposed to operational risks, such as its reliance on key positions, and a higher level of staff fluctuation. These risks may result in material losses.
- The ongoing development of national and international regulatory requirements may have an impact on the structure of assets and liabilities and may thus also affect the development in earnings. For instance, the modified obligations regarding more stringent liquidity requirements presented by the Basel Committee on Banking Supervision (Basel III) might have a negative impact on profitability, or profitability might be reduced by stricter capital requirements. In addition, there may also be an impact on existing regulatory and economic parameters, requiring for example a change in capital backing.
- The possibility of introducing a tax on financial market transactions continues to be discussed in most of the countries in the European Union. The aim is to introduce a tax on purchase and sales of transferable securities or options and other financial instruments. Such a tax may have a negative impact on the profitability of the DEPFA Group including the Bank.

Regulatory capital and capital adequacy ratios

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

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

There were no breaches by the Bank of the capital ratios during 2013 (2012: no breaches).

With a Tier 1 capital ratio of 24.06 % (31 December 2012: 21.30 %) and a Total capital ratio of 44.34 % (31 December 2012: 39.32 %) the Bank exceeds the minimum required ratios.

Regulatory capital € m	**30 June 2013**	**31 December 2012**
Tier I capital	564	564
Tier II supplementary capital	476	477
Total regulatory capital	**1,040**	**1,041**

Capital adequacy ratios	**30 June 2013**	**31 December 2012**
Risk weighted assets (€ m)	2,345	2,648
Tier I capital ratio (%)	24.06 %	21.30 %
Total capital ratio (Tier I + II)	**44.34 %**	**39.32 %**

Events after 30 June 2013

There have been no notable events after 30 June 2013.

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

Each of the current directors, whose names are listed on page 6, confirms that to the best of their knowledge:

(a) the unaudited condensed interim financial statements comprising the unaudited income statement, the unaudited statement of comprehensive income, the unaudited statement of financial position, the unaudited statement of changes in equity, the unaudited cash flow statement and related notes 1 to 39 have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

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

(i) Regulation 8(2) of the Transparency (Directive 2004/109/EC) Regulations 2007, being an indication of important events that have occurred during the first six months of the financial year and their impact on the set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

(ii) Regulation 8(3) of the Transparency (Directive 2004/109/EC) Regulations 2007, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

On behalf of the Board

John Bourke
Director

Noel Reynolds
Director

1 August 2013

Independent review report on the unaudited condensed interim financial statements

We have been engaged by DEPFA ACS BANK ("the Bank") to review the unaudited condensed financial statements in the Interim Report for the six months ended 30 June 2013 which comprises the unaudited income statement, unaudited statement of comprehensive income, unaudited statement of financial position, unaudited statements of changes in equity, unaudited cash flow statement and the related explanatory notes 1 to 39. We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the unaudited condensed financial statements.

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

Directors' responsibilities

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

As disclosed on page 28, the annual financial statements of the Bank are prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU. The directors are responsible for ensuring that the unaudited condensed financial statements included in this Interim Report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the unaudited condensed financial statements in the Interim Report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU, the TD Regulations and the Transparency Rules of the Central Bank of Ireland.

Frank Gannon

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

1 Harbourmaster Place
IFSC
Dublin 1, Ireland

1 August 2013

Unaudited condensed interim financial statements

Income statement – unaudited

Income statement – unaudited € m	Note	For Half Year Ended on 30 June 2013	For Half Year Ended on 30 June 2012
Interest income and similar income		514	636
Interest expense and similar expenses		–501	–601
Income from buyback of liabilities		38	33
Net interest income	5	**51**	**68**
Fee and commission expense/income	6	–11	14
Net fee and commission expense/income		**–11**	**14**
Net trading income	7	3	2
Net expense from financial investments	8	–1	–5
Net income from hedge relationships	9	12	9
Other operating income	10	–	1
Other operating expense	10	–	–2
Total operating revenues		**54**	**87**
Reversal of / provision for losses on loans and advances	17	1	–2
General administrative expenses	11	–7	–7
Pre-tax income		**48**	**78**
Taxes on income	12	–6	–10
Net income		**42**	**68**
Attributable to:			
Equity holders of the parent		42	68

The notes on pages 28 to 51 are an integral part of these unaudited condensed interim financial statements.

Statement of comprehensive income – unaudited	Half Year Ended on 30 June 2013			Half Year Ended on 30 June 2012		
€ m	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
Net income for the period	48	–6	42	78	–10	68
Other comprehensive income						
Items that are or may be reclassified subsequently to income statement						
AfS reserve movement – net	1	–	1	1	–	1
Total other comprehensive income	**1**	**–**	**1**	**1**	**–**	**1**
Total comprehensive income	**49**	**–6**	**43**	**79**	**–10**	**69**
Attributable to:						
Equity holders of the parent	49	–6	43	79	–10	69

Disclosure of components of comprehensive income € m	Half Year Ended on 30 June 2013	Half Year Ended on 30 June 2012
Net income for the period	42	68
Other comprehensive income	**1**	**1**
Items that are or may be reclassified subsequently to income statement		
AfS reserve movement – net	1	1
Gains arising during the year	1	1
Cash flow hedge reserve – net	–	–
Losses arising during the year	–	2
Reclassification adjustments for gains included in income statement	–	–2
Total comprehensive income	**43**	**69**

The notes on pages 28 to 51 are an integral part of these unaudited condensed interim financial statements.

Statement of financial position – unaudited

Statement of financial position – unaudited € m	Note	30 June 2013	31 December 2012
Assets			
Cash reserve	13	15	16
Trading assets	14	852	1,266
Loans and advances to other banks	15	4,421	3,616
Loans and advances to customers	16	12,223	13,264
Allowance for losses on loans and advances	17	−4	−5
Financial investments	18	17,231	19,264
Other assets	19	3,566	4,771
Deferred tax assets	20	3	3
Total assets		**38,307**	**42,195**
Liabilities			
Liabilities to other banks	21	5,741	6,105
Liabilities to customers	22	371	646
Liabilities evidenced by certificates	23	27,468	29,676
Trading liabilities	24	763	1,127
Provisions	25	3	3
Other liabilities	26	2,718	3,432
Current tax liabilities	27	2	1
Subordinated capital	28	641	648
Total liabilities		**37,707**	**41,638**
Equity			
Equity attributable to equity holders			
Share capital	29	510	510
Retained earnings	30	107	65
Other reserves – AfS	31	−17	−18
Total equity		**600**	**557**
Total equity and liabilities		**38,307**	**42,195**

The notes on pages 28 to 51 are an integral part of these unaudited condensed interim financial statements.

Statement of changes in equity – unaudited

Statement of changes in equity – unaudited € m	Share capital	Retained earnings	Other reserves – unrealised gains/losses on available-for-sale securities	**Total equity**
Balance at 1 January 2012	**510**	**43**	**–20**	**533**
Net income for the period	–	68	–	68
Net change in available-for-sale investments, net of tax	–	–	1	1
Total recognised comprehensive income	**–**	**68**	**1**	**69**
Balance at 30 June 2012	**510**	**111**	**–19**	**602**
Balance at 1 January 2013	**510**	**65**	**–18**	**557**
Net income for the period	–	42	–	42
Net change in available-for-sale investments, net of tax	–	–	1	1
Total recognised comprehensive income	**–**	**42**	**1**	**43**
Balance at 30 June 2013	**510**	**107**	**–17**	**600**

The notes on pages 28 to 51 are an integral part of these unaudited condensed interim financial statements.

Cash flow statement – unaudited

Cash flow statement – unaudited € m	**Half Year Ended on 30 June 2013**	**Half Year Ended on 30 June 2012**
Cash flows from operating activities		
Pre-tax income	**48**	**78**
Adjustments for non-cash movements:		
Foreign exchange gain	–	−1
Net decrease in accrued interest income	51	208
Net decrease in accrued interest expenditure	−50	−194
Reversals of/provision for losses on loans and advances	−1	2
Loss on sale of investment securities and loans	1	5
Income from buyback of liabilities	−38	−33
Other non cash items	−3	–
Net (increase)/decrease in loans and advances to other banks	−866	926
Net decrease in loans and advances to customers	728	223
Net decrease/(increase) in other assets	1	−53
Net (decrease)/increase in liabilities to other banks	−289	2,610
Net decrease in amounts due to customers	−274	−672
Net decrease in liabilities evidenced by certificates	−871	−3,398
Net decrease in other liabilities	−6	−36
Net increase/(decrease) in trading derivatives	94	−237
Tax paid	−5	−2
Net cash from operating activities	**−1,480**	**−574**
Cash flows from investing activities		
Sale/maturity of investment securities	1,480	574
Net cash from investing activities	**1,480**	**574**
Net increase/(decrease) in cash and cash equivalents	**–**	**–**
Cash and cash equivalents at the beginning of the year (Note 13)	**–**	**–**
Effect of foreign exchange rate changes on cash and cash equivalents	**–**	–
Cash and cash equivalents at the end of the year (Note 13)	**–**	**–**
Included in the cash flows for the year are the following amounts:		
Interest income received	565	844
Interest expense paid	−551	−795

The notes on pages 28 to 51 are an integral part of these unaudited condensed interim financial statements.

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01 General information

DEPFA ACS BANK ("the Bank") is part of the DEPFA Group ("the DEPFA Group"), which comprises DEPFA BANK plc and its subsidiaries.

The unaudited condensed interim financial statements for the six months ended 30 June 2013 are unaudited but have been reviewed by the auditor whose report is set out on page 19. The financial information presented herein does not amount to statutory financial statements that are required by Regulation 7 (3) of the European Communities (Credit Institutions: Accounts) Regulation 1992 to be annexed to the annual return of the Bank. The statutory financial statements for the financial year ended 31 December 2012 will be filed with the Registrar of Companies along with the annual return by 13 September 2013. The audit report on those statutory financial statements was unqualified and did not contain any matters to which attention was drawn by way of emphasis of matter.

The Bank's primary purpose is the issuance of asset covered securities ("ACS") in accordance with the Irish Asset Covered Securities Act, 2001 as amended by the Asset Covered Securities (Amendment) Act 2007 ("the Legislation"). Accordingly, the principal activities of the Bank are the management of public sector assets and the ongoing administration of ACS in accordance with the Legislation, subject to the conditions imposed by the European Commission's approval, on 18 July 2011, of the state aid in relation to the stabilisation measures granted to the HRE Group by the Federal Republic of Germany. The ACS are secured by a cover pool of public sector assets ("the cover pool") which also includes cover pool asset hedge contracts. The jurisdictions of the public sector entity with the financial obligation under the assets are restricted by the Legislation to member countries of the European Economic Area, US, Canada, Japan, Switzerland, Australia and New Zealand.

The Bank is regulated by the Central Bank of Ireland and has a full banking licence. In addition, the Bank is a designated credit institution as defined under the Legislation.

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

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

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

The annual financial statements of the Bank are prepared in accordance with International Financial Reporting Standards ("IFRSs").

Accounting policies

02 Summary of significant accounting policies

Basis of preparation The unaudited condensed interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU. The financial information contained in the unaudited condensed interim financial statements has been prepared in accordance with the accounting policies set out in the last annual financial statements, subject to the revisions arising below.

Initially adopted standards, interpretations and amendments The following standards, interpretations and amendments were initially adopted in the first half of 2013:

- Amendments to IAS 1 Presentation of Items of Other Comprehensive Income
- Amendments to IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets
- IAS 19 (revised 2011) Employee Benefits
- IFRS 13 Fair Value Measurement

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

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

IAS 19 revised the approach for recognising actuarial gains or losses on defined benefit pension schemes, and also requires increased disclosure requirements. There were no impacts on these unaudited condensed interim financial statements because the Bank did not have any defined benefit obligations.

IFRS 13 sets out requirments for measuring the fair value of assets and liabilities as well as requiring extended disclosures. Material new requirements of IFRS 13 concern, for example, the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between independent market participants (exit price). In addition, IFRS 13 extends the disclosures in relation to the fair value hierarchy. In the current unaudited condensed interim financial statements the initial application of IFRS 13 resulted in effects on the determination of fair values of financial instruments to be measured at amortised costs which are disclosed in the note fair values of financial instruments. According to IFRS 13.24, the fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market under current market conditions (exit price). The Bank takes into account the requirement to apply exit prices by using secondary market inputs for primary valuations or alternatively using such inputs for validation. This has effects mainly on the fair values of the financial liabilities of the Bank. Referring to IFRS 13 in connection with IAS 34.16 A (j) the extended disclosures are described in note 32 "Fair values of financial assets and liabilities".

Standards, interpretations and amendments, which are not yet mandatorily applicable The following standards, interpretations and amendments are initially applicable in the EU for financial years beginning on or after 1 January 2014:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- Amendments to IAS 27 Separate Financial Statements
- Amendments to IAS 28 Investments in Associates and Joint Ventures

These standards were not applied earlier by the Bank.

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

Change in estimate According to IAS 8.34, an accounting estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. In the first half of 2013, the DEPFA Group including DEPFA ACS BANK changed the estimate of Credit Value Adjustments ("CVA"), which are part of the measurement of derivatives. The changes lead to the use of more accurate market based parameters for determining the default risk of the DEPFA Group and of the counterparties without credit default swaps ("CDS"). The total income statement effect from CVA including the change in estimate amounted to € 2m in the period.

03 Transfer of non strategic positions to FMS Wertmanagement

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

Further details regarding the transfer of the positions are available in the Bank's financial statements as at 31 December 2012.

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

In addition, the HRE Group has also concluded back-to-back derivatives with FMS Wertmanagement; these have been used to transfer the market risks of existing derivatives, whereas the counterparty risk was retained by the HRE Group. These back-to-back derivatives have resulted in a significant increase in the derivative positions of the HRE Group as of 1 October 2010.

An "upgrade" of the transfer methods is in process for the transactions which have so far not resulted in a derecognition, in order to meet the derecognition requirements at a later date. Some of the transactions which did not originally result in a derecognition have already been "upgraded" and derecognised.

As part of the process of transferring the positions, Deutsche Pfandbriefbank AB ("pbb") assumed responsibility for managing the transferred portfolios for FMS Wertmanagement as part of a co-operation agreement, whereby pbb also uses services of other subsidiaries of the HRE Group for rendering this service. The co-operation agreement will be terminated at the latest by the end of September 2013.

The transfer of positions, which reduced total assets, continues to be partially offset by the main remaining counter effects described below:

a) In the case of some assets, it was not possible for beneficial ownership to be transferred to FMS Wertmanagement, which meant that the criteria for derecognition were not satisfied. Furthermore, in the case of derivatives, back-to back transactions were used to transfer the market price risks of the derivative to FMS Wertmanagement by way of taking out a derivative with identical conditions, whereas the counterparty risks were retained by the DEPFA Group. This meant that it was not possible for the original position to be derecognised. Instead, the back-to back transaction resulted in an increase in total assets and total liabilities.

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

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

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

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

A first instalment of € 800 million became due and payable by the DEPFA Group in September 2011 of which € 106 million was payable by the Bank. A second instalment of € 167 million became due and payable by the DEPFA Group in November 2011 of which € 13 million was payable by the Bank. No further payments are due from the Bank as the FMSA issued a decree, on 6 March 2012, for the final instalment of the payment condition, € 623 million, to be paid by DEPFA BANK plc in March 2012, which was duly paid by DEPFA BANK plc. All instalments were paid on their due dates.

The purchase price adjustment did not affect the income statement.

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

Pro forma statement of financial position € m	Per statement of financial position 30 June 2013	30 June 2013 FMS WM counter effects	30 June 2013 Post FMS WM counter effects	Per statement of financial position 31 December 2012	31 December 2012 FMS WM counter effects	31 December 2012 Post FMS WM counter effects
Assets						
Cash reserve	15	–	15	16	–	16
Trading assets	852	356	496	1,266	666	600
Loans and advances to other banks	4,421	371	4,050	3,616	646	2,970
Loans and advances to customers	12,223	–	12,223	13,264	–	13,264
Allowance for losses on loans and advances	−4	–	−4	−5	–	−5
Financial investments	17,231	–	17,231	19,264	–	19,264
Other assets	3,566	–	3,566	4,771	–	4,771
Deferred tax assets	3	–	3	3	–	3
Total assets	**38,307**	**727**	**37,580**	**42,195**	**1,312**	**40,883**
Liabilities and equities						
Liabilities to other banks	5,741	–	5,741	6,105	–	6,105
Liabilities to customers	371	371	-	646	646	–
Liabilities evidenced by certificates	27,468	–	27,468	29,676	–	29,676
Trading liabilities	763	356	407	1,127	666	461
Provisions	3	–	3	3	–	3
Other liabilities	2,718	–	2,718	3,432	–	3,432
Current tax liabilities	2	–	2	1	–	1
Subordinated capital	641	–	641	648	–	648
Total liabilities	**37,707**	**727**	**36,980**	**41,638**	**1,312**	**40,326**
Share capital	510	–	510	510	–	510
Retained earnings	107	–	107	65	–	65
Other reserves – AfS	−17	–	−17	−18	–	−18
Total equity	**600**	**–**	**600**	**557**	**–**	**557**
Total equity and liabilities	**38,307**	**727**	**37,580**	**42,195**	**1,312**	**40,883**

Segment reporting

04 Business segments

The internal reporting structure of the DEPFA Group was reorganised on 1 January 2012 into the following primary business segments which reflect the basis on which the DEPFA Group is managed by the Board of Directors (being the chief operating decision maker) during 2013 and 2012:

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

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

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

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

As DEPFA ACS BANK is now recognised as a separate segment within the DEPFA Group no segmental analysis is being presented in these unaudited condensed interim financial statements.

Notes to the income statement

05 Net interest income

Net interest income € m	Half Year Ended on 30 June 2013	Half Year Ended on 30 June 2012
Interest income and similar income		
Lending and money-market business	340	445
Fixed-income securities and government subscribed debt	62	68
Derivatives (net interest income)	112	123
Total	**514**	**636**
Interest expense and similar expenses		
Deposits	–133	–186
Liabilities evidenced by certificates	–360	–406
Subordinated capital	–8	–9
Total	**–501**	**–601**
Income from buyback of liabilities	**38**	**33**
Net interest income	**51**	**68**

Interest income on impaired loans was € nil in 2013 (2012: € nil).

Net interest income includes gains from the buyback of ACS that were redeemed before maturity at prevailing market levels on a reverse enquiry basis, of € 38 million in 2013 (2012: € 33 million). These liabilities were included on the statement of financial position in “Liabilities evidenced by certificates” and represented a nominal amount of € 226 million (2012: € 146 million).

06 Net fee and commission expense/income

Net fee and commission expense/income € m	Half Year Ended on 30 June 2013	Half Year Ended on 30 June 2012
Fee and commission expense/income		
From lending operations	–11	14
Net fee and commission expense/income	**–11**	**14**

Net fee and commission expense totalled €–11 million in 2013, mostly as a result of commission costs incurred for the guarantees related to specific assets from DEPFA BANK plc and Hypo Public Finance Bank. The commission income of € 14 million in the prior period was mostly income generated on the termination at market value of guarantees provided by DEPFA BANK plc related to specific assets of the Bank.

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

07 Net trading income

Net trading income € m	**Half Year Ended on 30 June 2013**	**Half Year Ended on 30 June 2012**
From interest rate instruments and related interest and foreign exchange derivatives	3	2
Total	**3**	**2**

Net trading income totalled € 3 million in 2013 (2012: € 2 million), with € 1 million (2012: € 2 million) relating to marking to market derivatives that do not qualify for hedge accounting. Trading income also includes € 2 million (2012: € nil) in derivative valuation effects relating to counterparty risk parameters including both the credit risk of the counterparty and the Bank's own credit risk.

08 Net expense from financial investments

Net expense from financial investments € m	**Half Year Ended on 30 June 2013**	**Half Year Ended on 30 June 2012**
Expense on sale of financial investments	−1	−5
Total	**−1**	**−5**

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

09 Net income from hedge relationships

Net income from hedge relationships € m	**Half Year Ended on 30 June 2013**	**Half Year Ended on 30 June 2012**
Result from fair value hedge accounting	**12**	**9**
Result from hedged items	331	−141
Result from hedging instruments	−319	150
Total	**12**	**9**

10 Other operating income/Other operating expense

Other operating income € m	**Half Year Ended on 30 June 2013**	**Half Year Ended on 30 June 2012**
Other operating income		
Foreign exchange gains	–	1
Total other operating income	**–**	**1**

Other operating expense € m	**Half Year Ended on 30 June 2013**	**Half Year Ended on 30 June 2012**
Other operating expense		
Other	–	−2
Total other operating expense	**–**	**−2**

Other operating expense for 2012 is due to provisions for IT projects relating to the separation of IT systems of € −2 million.

11 General administrative expenses

General administrative expenses € m	Half Year Ended on 30 June 2013	Half Year Ended on 30 June 2012
Personnel expenses	**–1**	**–1**
Wages and salaries	–1	–1
Other general administrative expenses	**–6**	**–6**
Total	**–7**	**–7**

General administrative expenses for 2013 were €–7 million (2012: €–7 million) and mainly comprised of recharges from other DEPFA Group entities for services provided.

The average number of persons employed by the Bank during the period was 8 (2012: 8).

The cost-income ratio is the ratio of general administrative expenses and total operating revenues.

Cost-income ratio in % is:

Cost-income ratio	Half Year Ended on 30 June 2013	Half Year Ended on 30 June 2012
Cost-income ratio	13 %	8 %

12 Taxes on income

Taxes on income € m	Half Year Ended on 30 June 2013	Half Year Ended on 30 June 2012
Current tax	–6	–10
Total	**–6**	**–10**

Notes to the statement of financial position

13 Cash reserve

Cash reserve € m	**30.06.2013**	**31.12.2012**
Mandatory reserve deposits with central banks	15	16
Total	**15**	**16**

Cash and cash equivalents comprise of cash reserves with central banks other than mandatory reserve deposits. Cash and cash equivalents at 30 June 2013 were € nil (31 December 2012: € nil).

14 Trading assets

Trading assets € m	**30.06.2013**	**31.12.2012**
Stand-alone derivatives (banking book)	852	1,266
Total	**852**	**1,266**
Of which due from Group companies	378	425

Stand-alone derivatives include derivatives related to FMS Wertmanagement counter effects as described in note 3 to the unaudited condensed interim financial statements, as well as derivatives which are economically hedging but which do not meet the detailed hedge accounting criteria under IFRSs.

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

15 Loans and advances to other banks

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

Loans and advances to other banks broken down by type of business € m	**30.06.2013**	**31.12.2012**
Public sector loans	1,403	1,525
Other loans and advances	3,018	2,091
Total	**4,421**	**3,616**
Of which due from Group companies	2,585	1,516

Other loans and advances to other banks mainly consist of collateral balances for derivatives and placements with other entities in the HRE Group.

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

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

Loans and advances to other banks broken down by maturities		
€ m	30. 06. 2013	31. 12. 2012
Repayable on demand	1,333	1,947
With agreed maturities		
up to 3 months	1,607	64
from 3 months to 1 year	1,080	13
from 1 year to 5 years	342	1,526
from 5 years and over	59	66
Total	**4,421**	**3,616**

There were no assets past due but not impaired and no assets impaired in 2013 and 2012.

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

16 Loans and advances to customers

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

Loans and advances to customers broken down by type of business		
€ m	30. 06. 2013	31. 12. 2012
Public sector loans	12,223	13,264
Total	**12,223**	**13,264**

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

Loans and advances to customers broken down by maturities		
€ m	30. 06. 2013	31. 12. 2012
With agreed maturities		
up to 3 months	640	722
from 3 months to 1 year	958	602
from 1 year to 5 years	2,199	2,939
from 5 years and over	8,426	9,001
Total	**12,223**	**13,264**

Loans and advances to customers – past due but not impaired There were no assets past due but not impaired and no assets impaired in 2013 and 2012.

17 Allowance for losses on loans and advances

Movement in allowance for losses on loans and advances:

Allowance for losses on loans and advances		
€ m	30. 06. 2013	31. 12. 2012
Portfolio allowance for losses on loans and advances		
At January 1	**–5**	**–2**
(Releases of)/additions to portfolio allowance	1	–3
Total	**–4**	**–5**

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

Allowance for losses on loans and advances broken down by type of business

€m	30.06.2013	31.12.2012
Public sector loans	−4	−5
Total	**−4**	**−5**

18 Financial investments

Financial investments

€m	30.06.2013	31.12.2012
LaR financial investments	**17,231**	**19,264**
Debt securities and other fixed-income securities	17,231	19,264
Total	**17,231**	**19,264**

Financial investments broken down by maturities

€m	30.06.2013	31.12.2012
With agreed maturities		
up to 3 months	156	437
from 3 months to 1 year	598	758
from 1 year to 5 years	5,303	6,153
from 5 years and over	11,174	11,916
Total	**17,231**	**19,264**

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

On 30 September 2008, the Bank reclassified retrospectively as of 1 July 2008 financial investments out of the category available-for-sale of €4.18 billion.

Since the date of reclassification, the Bank's financial assets with a (reclassified) carrying amount of approximately €0.305 billion matured.

The reclassification of AfS assets did not cause a disclosure change of current interest income as it is still shown under net interest income.

Since the date of reclassification, Bank securities with a reclassified carrying amount of €2.437 billion were transferred to FMS Wertmanagement or sold. A net loss of €23.933 million was realised on sold securities.

At the date of reclassification the effective interest rate for the reclassified AfS assets which remain in the statement of financial position of the Bank was between 5.75 % and 1.79 % (2012: 5.75 % and 1.79 %).

The following table summarises the carrying amounts and fair values as of 30 June 2013 as well as fair value gains and losses that would have been recognised at 30 June 2012 if the financial assets had not been reclassified.

Reclassified assets – as at 30. 06. 2013	into: Financial investments LaR			Effect in reporting period if no assets would have been reclassified (01. 01. 2013 to 30. 06. 2013)
			30. 06. 2013	
€ m	Reclass date	Carrying amount	Fair value	Changes in AfS reserve (after taxes)
out of: AfS financial investments	01. 07. 2008	2,274	2,153	23

Reclassified assets - as at 31.12.2012	into: Financial investments LaR			Effect in reporting period if no assets would have been reclassified (01. 01. 2012 to 30. 06. 2012)
			31. 12. 2012	
€ m	Reclass date	Carrying amount	Fair value	Changes in AfS reserve (after taxes)
out of: AfS financial investments	01. 07. 2008	2,234	2,102	13

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

The carrying amount of the financial investments that are neither past due nor impaired is € 17 billion (2012: € 19 billion).

19 Other assets

Other assets € m	30. 06. 2013	31. 12. 2012
Positive fair values from derivative financial instruments		
Hedging derivatives (micro fair value hedge)	3,564	4,768
Other assets	2	3
Total	**3,566**	**4,771**
Of which due from Group companies	3,051	4,099

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

20 Deferred tax assets

Deferred tax assets € m	30. 06. 2013	31. 12. 2012
Deferred tax assets	3	3
Total	**3**	**3**

The deferred tax assets arise on financial investments formerly classified as available-for-sale.

21 Liabilities to other banks

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

Liabilities to other banks broken down by maturities

€ m	30.06.2013	31.12.2012
Repayable on demand	1,995	2,869
With agreed maturities		
up to 3 months	3,658	644
from 3 months to 1 year	–	–
from 1 year to 5 years	33	2,553
from 5 years and over	55	39
Total	**5,741**	**6,105**
Of which due to Group companies	5,455	3,238

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

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

22 Liabilities to customers

Liabilities to customers broken down by maturities

€ m	30.06.2013	31.12.2012
Repayable on demand	371	646
Total	**371**	**646**

23 Liabilities evidenced by certificates

Liabilities evidenced by certificates broken down by type of business

€ m	30.06.2013	31.12.2012
Public sector bonds	27,468	29,676
Total	**27,468**	**29,676**

Liabilities evidenced by certificates decreased by € 2.2 billion from € 29.7 billion as of 31 December 2012 to € 27.5 billion as of 30 June 2013. This reduction reflected changes in fair value due to hedge accounting as well as the run off in outstanding debt and the buyback of certain asset covered securities, at prevailing market levels on a reverse enquiry basis.

Liabilities evidenced by certificates broken down by maturities

€ m	30.06.2013	31.12.2012
With agreed maturities		
up to 3 months	3,675	114
from 3 months to 1 year	424	3,897
from 1 year to 5 years	12,029	12,797
from 5 years and over	11,340	12,868
Total	**27,468**	**29,676**

24 Trading liabilities

Trading liabilities € m	30.06.2013	31.12.2012
Stand-alone derivatives (banking book)	763	1,127
Total	**763**	**1,127**
Of which due to Group companies	691	941

Stand-alone derivatives include derivatives related to FMS Wertmanagement counter effects as described in note 3 to the unaudited condensed interim financial statements, as well as derivatives which are economically hedging but which do not meet the detailed hedge accounting criteria under IFRSs.

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

25 Provisions

Provisions € m	30.06.2013	31.12.2012
Other provisions	3	3
Total	**3**	**3**

Other provisions contain obligations in connection with IT separation.

26 Other liabilities

Other liabilities € m	30.06.2013	31.12.2012
Negative fair values from derivative financial instruments		
Hedging derivatives (micro fair value hedge)	2,710	3,419
Other liabilities	8	13
Total	**2,718**	**3,432**
Of which due to Group companies	1,852	2,340

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

27 Current tax liabilities

Current tax liabilities € m	30.06.2013	31.12.2012
Current tax liabilities	2	1
Total	**2**	**1**

28 Subordinated capital

Subordinated capital

€ m	30.06.2013	31.12.2012
Subordinated liabilities	**641**	**648**
Of which due to Group companies	641	648

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

Subordinated capital balances are broken down by maturities as follows:

€ m	30.06.2013	31.12.2012
With agreed maturities		
from 5 years and over	641	648
Total	**641**	**648**

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

Subordinated liabilities

€ m	Interest rate	30.06.2013	31.12.2012
DEPFA Finance N.V., 08/06/30	Euribor + 0.8849 %	50	50
DEPFA Finance N.V., 30/10/28	6.55 %	60	60
DEPFA Ireland Holding Limited, perpetual note	Euribor + 0.425 %	130	130
DEPFA Ireland Holding Limited, perpetual note	Euribor + 0.72 %	60	60
DEPFA Ireland Holding Limited, 28/06/31	Euribor + 0.285 %	75	75
DEPFA Finance N.V., 21/03/32	5.099 % until 2017, thereafter Euribor + 1.94 %	170	170
DEPFA BANK plc, 15/10/29	Euribor + 0.325 %	70	70
Total		**615**	**615**

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.

29 Share capital

The authorised share capital at year end was 1,000,000,000 (2012: 1,000,000,000) ordinary shares of € 1 each. 510,000,000 shares were issued at par and are fully paid.

Share capital

€ m	Number of Shares in issue	Ordinary Shares	Share premium	**Total**
At 31 December 2012	510,000,000	510	–	510
At 30 June 2013	510,000,000	510	–	510

30 Retained earnings

Retained earnings

€ m	2013	2012
At 1 January	**65**	**43**
Net income for period	42	62
Dividends	–	–40
At 30 June/31 December	**107**	**65**

31 Other reserves – AfS

Unrealised losses from available-for-sale investment securities

€ m	2013	2012
At 1 January	**–18**	**–20**
Net gains/losses from changes in fair value, net of tax	1	2
At 30 June/31 December	**–17**	**–18**

Notes to the financial instruments

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

Fair values of financial assets and liabilities		30 June 2013		31 December 2012
€ m	Carrying value	Fair value	Carrying value	Fair value
Assets				
Cash reserve	15	15	16	16
Trading assets	852	852	1,266	1,266
Loans and advances to other banks	4,421	4,422	3,616	3,612
Loans and advances to customers	12,219	11,225	13,259	11,873
Financial investments	17,231	16,578	19,264	18,368
Other assets - derivatives	3,564	3,564	4,768	4,768
Total	**38,302**	**36,656**	**42,189**	**39,903**
Liabilities				
Liabilities to other banks	5,741	5,740	6,105	6,105
Liabilities to customers	371	371	646	646
Liabilities evidenced by certificates	27,468	24,890	29,676	25,708
Trading liabilities	763	763	1,127	1,127
Other liabilities - derivatives	2,710	2,710	3,419	3,419
Subordinated capital	641	182	648	315
Total	**37,694**	**34,656**	**41,621**	**37,320**
Other items	**Contract amount**	**Fair value**	**Contract amount**	**Fair value**
Contingent liabilities & loan commitments	285	39	185	38

The carrying amounts reflect the maximum exposure to credit risk of the assets and the maximum amount on the statement of financial position the entity could have to pay of the other items according to IFRS 13.

a) Loans and advances to other banks and customers Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market interest rates, as adjusted for movements in credit to determine fair value. As many of these positions are not traded on an active market, judgement is required as to the appropriate credit adjustment.

b) Liabilities to other banks and customers The fair value of floating rate placements and overnight deposits is estimated to be their carrying amount due to the short term nature of these investments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

c) Liabilities evidenced by certificates The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity for a similar credit rating.

d) Subordinated capital The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

Financial assets and liabilities according to measurement categories		
€ m	30 June 2013	31 December 2012
Loans and receivables (net)	33,871	36,139
Held-for-trading	852	1,266
Cash reserve	15	16
Derivatives (hedging)	3,564	4,768
Total	**38,302**	**42,189**
Held-for-trading	763	1,127
Financial liabilities at amortised cost	34,221	37,075
Derivatives (hedging)	2,710	3,419
Total	**37,694**	**41,621**

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

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

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

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

Fair value hierarchy	30 June 2013				31 December 2012			
€ m	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Assets								
Financial assets at fair value through P&L								
Trading assets	852	–	768	84	1,266	–	1,183	83
Hedging derivatives	3,564	–	3,564	–	4,768	–	4,768	–
Total assets	**4,416**	**–**	**4,332**	**84**	**6,034**	**–**	**5,951**	**83**
Liabilities								
Financial liabilities at fair value through P&L								
Trading liabilities	763	–	679	84	1,127	–	1,044	83
Hedging derivatives	2,710	–	2,689	21	3,419	–	3,397	22
Total liabilities	**3,473**	**–**	**3,368**	**105**	**4,546**	**–**	**4,441**	**105**

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

The following table presents the changes in Level 3 instruments for the year:

Changes in Level 3 instruments		**Financial assets**			**Financial liabilities**
€ m	**Trading assets**	**Total**	**Trading liabilities**	**Hedging derivatives**	**Total**
Balance at 1 January 2012	**78**	**78**	**78**	**7**	**85**
Comprehensive income recognised in income statement	5	5	5	–3	2
Change due to transfer to FMS Wertmanagement	–	–	–	–	–
Reclassifications into Level 3	–	–	–	18	18
Balance at 31 December 2012	**83**	**83**	**83**	**22**	**105**
Balance at 1 January 2013	**83**	**83**	**83**	**22**	**105**
Comprehensive income recognised in income statement	1	1	1	–1	–
Change due to transfer to FMS Wertmanagement	–	–	–	–	–
Reclassifications into Level 3	–	–	–	–	–
Balance at 30 June 2013	**84**	**84**	**84**	**21**	**105**

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

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

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

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

Sensitivities of Level 3 instruments		**30 June 2013**		**31 December 2012**
€ m	**Favourable changes**	**Unfavourable changes**	**Favourable changes**	**Unfavourable changes**
Derivatives	–	–	–	–
Total	**–**	**–**	**–**	**–**

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

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

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

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

- The fair values of certain financial instruments reported at nominal values are almost identical to their carrying amounts. These include for example cash reserve, receivables and liabilities without fixed interest rates and which mature in the short-term. Differences between the carrying amount and the fair value of these financial instruments are not material.
- Quoted market prices are applied for exchange traded derivatives and where available for securities and quoted debt instruments. The fair value of the debt instruments, for which no active market price is available, is determined as the present value for future expected cash flows, on the basis of related benchmark interest curves and credit spreads.
- The fair value of interest rate swap and cross currency swap agreements are determined on the basis of discounted future expected cash flows. The market interest rates applicable for the remaining maturity of the financial instruments are used for the purpose of the calculation. The fair value of forward exchange transactions is determined on the basis of current forward rates.
- Options are valued using exchange rate quotations or recognised models for determining option prices. For simple European options, the current Black-Scholes models (currency and index instruments) or lognormal models (interest instruments) are used as the valuation models. In the case of more exotic instruments, the interest rates are simulated via one and multidimensional term structure models with use of the current interest rate structure as well as caps or swaption volatilities as parameters relevant for valuation purposes. One and multi-factor models are used for interest-currency products.

Other notes

33 Contingent liabilities and commitments

Other commitments

€ m	30.06.2013	31.12.2012
Guarantees	285	185

The above amounts represent nominal exposures.

34 Contingent assets

Other commitments € m	**30.06.2013**	**31.12.2012**
Guarantees and letters of credit	1,003	1,255

The above table refers to nominal values of guaranteed assets. The guarantees are provided by DEPFA BANK plc and Hypo Public Finance Bank.

35 Exchange rates as at 30 June 2013

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

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

36 Related party transactions

(a) Key management compensation

Key management consists solely of directors of the Bank. Key management compensation consists of short term benefits and post employment benefits.

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

There has been no compensation paid for loss of office to key management for the period ended 30 June 2013 (2012: nil).

(b) Balances and transactions with HRE Group companies

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

Non derivative transactions with Group companies € m	**Half Year Ended on 30 June 2013**	**Half Year Ended on 30 June 2012**
Interest and similar income	164	176
Interest expense and similar expenses	–9	–79
Net fee and commission expense	–10	15
Other operating income	–	–
General administrative expenses	–5	–5

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

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

(c) Other related party transactions

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

The DEPFA Group has various relationships with its sister company FMS Wertmanagement, for example, due to the synthetic transfer of positions. The relationships are described in note 3 "Transfer of non strategic positions to FMS Wertmanagement".

37 Credit risk exposure to certain European countries

The following table provides an overview of the Bank's sovereign exposure of selected European countries:

Bank's direct sovereign exposure of selected European countries as at 30 June 2013

			Book value							
€ m	Counterparty	IAS 39 measurement category	Repayable on demand	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	From 5 years and over	**Total**	**Notional value**	**Fair value**
Ireland	Sovereign	LaR	–	–	15	–	–	**15**	15	15
	Sub-sovereign	LaR	–	103	–	–	8	**111**	111	109
	State-guaranteed	LaR	–	–	–	–	–	–	–	–
Italy	Sovereign	LaR	–	–	–	1,476	10	**1,486**	1,182	1,447
	Sub-sovereign	LaR	–	–	2	142	419	**563**	504	469
	State-guaranteed	LaR	–	5	–	–	–	**5**	5	5
Spain	Sovereign	LaR	–	–	–	21	–	**21**	19	20
	Sub-sovereign	LaR	–	8	106	312	2,546	**2,972**	2,780	2,388
	State-guaranteed	LaR	–	–	–	–	191	**191**	191	183
Slovenia	Sovereign	LaR	–	–	–	–	–	**–**	–	–
	Sub-sovereign	LaR	–	–	–	–	–	**–**	–	–
	State-guaranteed	LaR	–	–	–	–	497	**497**	497	256
Belgium	Sovereign	LaR	–	–	–	–	684	**684**	500	637
	Sub-sovereign	LaR	–	–	25	40	250	**315**	292	292
	State-guaranteed	LaR	–	–	–	–	1,154	**1,154**	895	990

Bank's direct sovereign exposure of selected European countries as at 31 December 2012

			Book value							
€ m	Counterparty	IAS 39 measurement category	Repayable on demand	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	From 5 years and over	**Total**	**Notional value**	**Fair value**
Ireland	Sovereign	LaR	–	–	16	–	–	**16**	16	16
	Sub-sovereign	LaR	–	100	109	–	8	**217**	216	215
	State-guaranteed	LaR	–	–	–	–	–	**–**	–	–
Italy	Sovereign	LaR	–	–	–	1,520	11	**1,531**	1,200	1,467
	Sub-sovereign	LaR	–	–	1	161	485	**647**	575	521
	State-guaranteed	LaR	–	–	–	–	–	**–**	–	–
Spain	Sovereign	LaR	–	–	–	25	–	**25**	22	22
	Sub-sovereign	LaR	–	–	129	284	2,642	**3,055**	2,843	2,153
	State-guaranteed	LaR	–	–	–	–	217	**217**	217	198
Slovenia	Sovereign	LaR	–	–	–	–	–	**–**	–	–
	Sub-sovereign	LaR	–	–	–	–	–	**–**	–	–
	State-guaranteed	LaR	–	–	–	–	532	**532**	532	249
Belgium	Sovereign	LaR	–	–	–	–	706	**706**	500	656
	Sub-sovereign	LaR	–	–	–	40	282	**322**	292	293
	State-guaranteed	LaR	–	–	–	–	1,232	**1,232**	915	1,071

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

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

The exposure to selected European countries shown in the table contains loans and advances and securities. State-guaranteed contains for example loans and advances to banks and corporations which are guaranteed by sovereigns or sub-sovereigns. As of 30 June 2013 the Bank did not have any credit default swaps whose underlyings are linked to sovereigns, sub-sovereigns and state-guaranteed exposures of the countries shown above.

The fair values of the exposure to selected European countries were determined by applying the measurement methods disclosed in the note 32 "Fair values of financial assets and liabilities".

38 Dividends per share

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

Dividends of € nil, € nil per share, were paid during the period to 30 June 2013 (31 December 2012: € 40 million, € 0.07843 per share).

39 Events after the reporting date

There have been no notable events after 30 June 2013.

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