DEPFA BANK
DEPFA ACS BANK

Interim Report

30 June

2017

Contents

Directors and other information

Board of Directors

Mr. E.-A. Brockhaus[1)] (German) (Chairman) (resigned 27 April 2017)
Mr. G. Shanley (Chairman) (appointed 27 April 2017)
Mr. J. Dempsey[1)] (appointed 5 April 2017)
Ms. F. Flannery
Mr. F. Hellwig[1)] (German)
Dr. H. Horn (German)
Mr. C. Müller[1)] (German)
Mr. P. Ryan[1)] (resigned 31 March 2017)
Dr. P. Schad (German)
Ms. S. Webb[1)]

[1)] Non-Executive

Secretary & Registered Office

Ms. E. Tiernan
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 (Ireland) Ltd
2 Grand Canal Square
Dublin 2, 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 six month period ended 30 June 2017.

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

There was no change in the ownership of the Bank during the first half of 2017.

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 Bank continues to wind down its portfolios in a manner designed to maintain value. 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.

Going concern

The Directors continue to consider the appropriateness of the going concern assumption in the preparation of the unaudited condensed interim financial statements of DEPFA ACS BANK.

The Directors understand that the DEPFA Group including the Bank was transferred to FMS Wertmanagement AöR as a going concern and will continue its principal activities, being the wind down of its portfolios in a manner designed to maintain value. The Directors consider that the liquidity position of the DEPFA Group including the Bank is stable and that it continues to be in a position to meet its own funding requirements. The DEPFA Group is not currently dependent on additional funding from FMS Wertmanagement AöR and is expected to be able to meet its obligations as they fall due for a minimum period of one year from the date of this report. The Directors have also considered that the regulatory capital ratios are currently, and are expected to continue to be, significantly in excess of the required minimum ratios for a minimum period of one year from the date of this report.

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

Business review

Review of performance

The Bank has reported pre-tax income of €2 million for the first half of 2017, compared with a €–6 million pre-tax loss in the prior period. The improved result includes increases in Net interest income and Net fee and commission income/expense, as well as a decrease in General administrative expenses, offset by a decrease in Net trading expense/income and Net expense/income from hedge relationships.

Net interest income has increased from €10 million for the prior period to €18 million for the current period, primarily due to income earned on the sale/early repayment of certain assets. Net fee and commission income/expense has increased to €1 million for the current period, compared with €–1 million in the prior period, primarily due to the reduction in intragroup guarantees. Net trading expense/income has decreased to €–1 million for the current period, compared with €4 million in the prior period, predominantly due to the revaluation of stand-alone derivatives which do not satisfy the criteria if IAS 39 hedge accounting. General administrative expenses has decreased to €–16 million for the current period, compared with €–19 million in the prior period, mainly due to the reduction in intragroup recharges from DEPFA BANK plc and a reduction in the levy in relation to the Single Resolution Fund.

The result in 2017 compared with the previous period is detailed in the following table:

Income statement – unaudited

	Half Year ended on	
€m	**30.06.2017**	**30.06.2016**
Net interest income	18	10
Net fee and commission income/expense	1	–1
Net trading expense/income	–1	4
Net expense from financial investments	–	–
Net expense/income from hedge relationships	–1	1
Other operating expense	–	–
Total operating revenues	**17**	**14**
Reversals of/provisions for allowance for losses on loans and advances	1	–1
General administrative expenses	–16	–19
Pre-tax income/loss	**2**	**–6**
Taxes on income	–	–
Net income/loss	**2**	**–6**

Development in assets, liabilities and equity

Total assets of the Bank amounted to €14.2 billion at 30 June 2017, compared with €16.1 billion as at 31 December 2016. The total Bank liabilities amounted to €13.5 billion as at 30 June 2017, compared with €15.3 billion as at 31 December 2016. The DEPFA Group including the Bank does not currently operate any new business in line with the conditions imposed by the European Commission state aid approval.

The reduction on total assets in 2017 mainly relates to the maturity, early repayment and sale of certain assets classified under "Loans and advances to customers" and "Financial investments". Total maturities, early repayments and sales amounted to €1.3 billion. In addition, there was a decrease of €0.6 billion in the value of derivatives, which primarily arose as a result of fair value movements due to market-related changes such as foreign currency exchange rates and interest rates, as well as terminations and maturities in line with the wind down strategy of the Bank and the DEPFA Group.

The largest portion of the decline in total liabilities in 2017 relates to the maturity of certain liabilities classified under "Liabilities evidenced by certificates". Total maturities amounted to €1.1 billion. As was the case on the asset side, there was a decrease of €0.6 billion in the value of derivatives, which primarily arose as a result of fair value movements due to market-related changes such as foreign currency exchange rates and interest rates, as well as terminations and maturities in line with the wind down strategy of the Bank and the DEPFA Group.

Equity amounted to €699 million as at 30 June 2017 (31 December 2016: €857 million). The movement in equity is due to the net income for the period of €2 million, net of a dividend payment of €–160 million to the Bank's parent DEPFA BANK plc, applied against the distributable capital contribution.

Future development in earnings, assets, liabilities and equity of DEPFA ACS BANK

DEPFA ACS BANK has recorded pre-tax income of € 2 million for the first half of 2017. The 2017 net income includes net profits of €4 million (2016: € nil) from the early repayment and sale of assets. The extent of similar gains in future years will depend on market and other developments. 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 2017 decreased by €1.9 billion and total liabilities decreased by €1.8 billion. The decrease in total assets and liabilities also includes maturities, repayments and derivative terminations or restructurings as well as net decreases due to changes in foreign exchange rates and interest rates. Apart from changes due to developments in foreign exchange rates and interest rates, it is expected that total assets and total liabilities will decline in the second half of 2017 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 and total liabilities.

Opportunities, risks and uncertainties

The opportunities, risks and uncertainties facing the DEPFA Group including DEPFA ACS BANK for the remainder of the current financial year have not changed significantly from those disclosed in the 2016 Annual Report and are related mainly to European and global economic conditions, rating agency actions and liquidity risks.

Regulatory capital and capital adequacy ratios

Regulatory capital and capital adequacy ratios are produced in accordance with the Capital Requirements Directives 2013/36/EU and the Capital Requirements Regulation No 575/2013 (transcribed into Irish law under the European Union (Capital Requirements) Regulations 2014 (S.I. 158/2014 and S.I. 159/2014)). These directives and regulations are together referred to as CRD IV. Following the introduction of CRD IV on 1 January 2014 a number of transitional provisions apply both to the eligibility of capital instruments ("Grandfathering") and the phasing-in of deductions. Where figures are noted as "transitional" basis the transitional provisions have been applied, in comparison to the "fully loaded" basis where all figures reflect the fully implemented CRD IV rules.

The Bank is regulated by the Central Bank of Ireland, which applies a capital/risk framework for measuring capital adequacy based on the CRD IV. The Bank uses the CRD IV standardised approach to calculate the risk weighted assets ("RWA"). During 2016, under this framework, banks were required to maintain a minimum tier 1 capital ratio of 6.0% (2015: 6.0%) and a total capital ratio of 8.0% (2015: 8.0%) of RWA (known as Pillar One requirements) determined on a transitional basis. In addition, a number of capital buffers have been established under CRD IV. Of these, the capital conservation buffer is phased in from 2016 (0.625% for 2016 and increasing to 2.5% by 2019). The capital conservation buffer of 2.5% is designed to enable the Bank to withstand future periods of stress bringing the CET1 ratio requirement to 7.0% and the total capital ratio requirement to 10.5%.

Local regulators can also require countercyclical capital and systemic risk buffers to be held. These buffers aim to ensure that the capital requirements take account of the macro-financial environment in which banks operate. The countercyclical capital buffer ranges from 0.0% to 2.5% of RWA. The systemic risk buffer ranges from 0.0% to 3.0% of RWA, but can be higher in certain circumstances. These additional buffers do not currently have any impact on the Bank.

At 30 June 2017, with a tier 1 capital ratio of 105.22% (31 December 2016: 70.60%) and a total capital ratio of 149.96% (31 December 2016: 122.02%), the Bank exceeds the minimum required ratios (Tier 1 capital ratio 7.25% (2016: 6.625%), Total capital ratio 9.25% (2016: 8.625%)).

Regulatory capital

	CRD IV transitional basis	
€m	**30.06.2017**	**31.12.2016**
Common Equity Tier 1 capital ("CET1")	695	694
Total Tier 1 capital	695	694
Tier 2 capital	436	505
Total regulatory capital	**1,131**	**1,199**

Capital adequacy ratios

	CRD IV transitional basis	
	30.06.2017	**31.12.2016**
Risk weighted assets (€m)	754	983
CET1 capital ratio (%)	92.11%	70.60%
Tier 1 capital ratio (%)	92.11%	70.60%
Total capital ratio (Tier 1+2)	**149.96%**	**122.02%**

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

Regulatory capital	30.06.2017		31.12.2016	
	CRD IV basis		CRD IV basis	
€m	Transitional	Fully loaded	Transitional	Fully loaded
CET1 capital	695	694	694	694
Total Tier 1 capital	695	694	694	694
Tier 2 capital	436	434	505	434
Total capital	**1,131**	**1,128**	**1,199**	**1,128**

Capital adequacy ratios	30.06.2017		31.12.2016	
	CRD IV basis		CRD IV basis	
	Transitional	Fully loaded	Transitional	Fully loaded
Risk Weighted Assets (€m)	754	754	983	983
CET1 capital ratio (%)	92.11%	91.98%	70.60%	70.61%
Tier 1 capital ratio (%)	92.11%	91.98%	70.60%	70.61%
Total capital ratio (%)	**149.96%**	**149.55%**	**122.02%**	**114.81%**

Events after 30 June 2017

There have been no notable events after 30 June 2017.

Statement of directors' responsibilities

in respect of the unaudited condensed interim financial statements

Each of the Directors, whose names and functions are listed on page 1, confirm our responsibility for preparing the unaudited condensed interim financial statements in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007, the Transparency Rules of the Central Bank of Ireland and the Disclosures and with IAS 34 Interim Financial Reporting, as adopted by the EU, and to the best of each person's knowledge and belief:

(a) the unaudited condensed interim financial statements comprising the unaudited income statement, the unaudited statement of comprehensive income/loss, the unaudited statement of financial position, the unaudited statement of changes in equity, the unaudited cash flow statement and related notes 1 to 32 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

Gearóid Shanley	**Holger Horn**	**Fiona Flannery**	**Elaine Tiernan**
Director	Director	Director	Company Secretary

24 August 2017

Independent review report

on the unaudited condensed interim financial statements

Introduction

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 2017 which comprises the unaudited income statement, unaudited statement of comprehensive income/loss, unaudited statement of financial position, unaudited statement of changes in equity, unaudited cash flow statement and the related explanatory notes 1 to 32. The financial reporting framework that has been applied in their preparation is International Financial Reporting Standards as adopted by the EU ("IFRSs"). Our review was conducted in accordance with the Financial Reporting Council's ("FRCs") International Standard on Review Engagements ("ISRE") (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the unaudited condensed set of financial statements in the Interim Report for the six months ended 30 June 2017 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.

Basis of our report, responsibilities and restriction on use

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 in note 1, the annual financial statements of the Bank are prepared in accordance with IFRSs as adopted by the EU. The Directors are responsible for ensuring that the unaudited condensed set of financial statements included in this Interim Report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

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

We conducted our review having regard to the Financial Reporting Council's International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. 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.

We read the other information contained in the Interim Report to identify material inconsistencies with the information in the unaudited condensed set of financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the review. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 as amended ("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.

Ian Nelson

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

1 Harbourmaster Place
IFSC
Dublin 1, Ireland

24 August 2017

Unaudited condensed interim financial statements

Income statement – unaudited

Income statement – unaudited

€m	Note	Half Year ended on 30.06.2017	30.06.2016
Interest income and similar income		148	304
Interest expense and similar expenses		–134	–295
Net income from early repayment/sale of assets		4	–
Net income from early repayment of liabilities		–	1
Net interest income	5	**18**	**10**
Fee and commission income		7	1
Fee and commission expense		–6	–2
Net fee and commission income/expense	6	**1**	**–1**
Net trading expense/income	7	–1	4
Net expense/income from hedge relationships	8	–1	1
Total operating revenues		**17**	**14**
Reversals of/provisions for allowance for losses on loans and advances	13	1	–1
General administrative expenses	9	–16	–19
Pre-tax income/loss		**2**	**–6**
Taxes on income		–	–
Net income/loss		**2**	**–6**
Attributable to: Equity holders of the parent		2	–6

The notes on pages 21 to 47 are an integral part of these unaudited condensed interim financial statements.

Statement of comprehensive income/loss – unaudited

€m	Half Year ended on 30.06.2017 Before tax	Tax	Net of tax	Half Year ended on 30.06.2016 Before tax	Tax	Net of tax
Net income/loss for the period	**2**	–	**2**	**–6**	–	**–6**
Other comprehensive income						
Items that are or may be reclassified subsequently to income statement						
AfS reserve movement – net	–	–	–	1	–	1
Total other comprehensive income	–	–	–	**1**	–	**1**
Total comprehensive income/loss	**2**	–	**2**	**–5**	–	**–5**
Attributable to: Equity holders of the parent	2	–	2	–5	–	–5

Disclosure of components of comprehensive income/loss – unaudited

€m	Half Year ended on 30.06.2017	30.06.2016
Net income/loss for the period	**2**	**–6**
Other comprehensive income	–	**1**
Items that are or may be reclassified subsequently to income statement		
AfS reserve movement – net	–	1
Reclassification adjustments for gains/losses included in net income	–	*1*
Total comprehensive income/loss	**2**	**–5**

The notes on pages 21 to 47 are an integral part of these unaudited condensed interim financial statements.

Statement of financial position – unaudited

€m	Note	30.06.2017	31.12.2016
Assets			
Cash reserve		–	–
Trading assets	10	487	550
Loans and advances to other banks	11	926	967
Loans and advances to customers	12	4,088	5,233
Allowance for losses on loans and advances	13	–2	–3
Financial investments	14	7,406	7,746
Other assets	15	1,297	1,627
Total assets		**14,202**	**16,120**
Liabilities			
Liabilities to other banks	16	4,886	4,854
Liabilities to customers	17	10	–
Liabilities evidenced by certificates	18	6,354	7,884
Trading liabilities	19	529	652
Other liabilities	20	1,102	1,244
Current tax liabilities		4	4
Subordinated capital	21	618	625
Total liabilities		**13,503**	**15,263**
Equity			
Equity attributable to equity holders			
Share capital	22	510	510
Retained earnings	23	151	149
Capital contribution	24	40	200
Other reserves – AfS	25	–2	–2
Total equity		**699**	**857**
Total equity and liabilities		**14,202**	**16,120**

The notes on pages 21 to 47 are an integral part of these unaudited condensed interim financial statements.

Statement of changes in equity – unaudited

€m	Share capital	Retained earnings	Capital contribution	Other reserves Unrealised gains/losses on available-for-sale investments	**Total equity**
Balance at 1 January 2016	**510**	**114**	**200**	**–12**	**812**
Net loss for the period	–	–6	–	–	–6
Net changes in available-for-sale investments, net of tax	–	–	–	1	1
Total recognised comprehensive loss	**–**	**–6**	**–**	**1**	**–5**
Balance at 30 June 2016	**510**	**108**	**200**	**–11**	**807**
Balance at 1 January 2017	**510**	**149**	**200**	**–2**	**857**
Net income for the period	–	2	–	–	2
Net changes in available-for-sale investments, net of tax	–	–	–	–	–
Total recognised comprehensive income	**–**	**2**	**–**	**–**	**2**
Dividend paid out of capital contribution	–	–	–160	–	–160
Balance at 30 June 2017	**510**	**151**	**40**	**–2**	**699**

The notes on pages 21 to 47 are an integral part of these unaudited condensed interim financial statements.

Cash flow statement – unaudited

Cash flow statement – unaudited

€m	Half Year ended on 30.06.2017	30.06.2016
Cash flows from operating activities		
Pre-tax income/loss for the period	**2**	**–6**
Adjustments for non-cash movements:		
Net change in accrued interest income and expense	–1	–20
Reversals of/provisions for allowance for losses on loans and advances	–1	1
Income on sale of investment securities and early repayment of loans	–4	–
Income from early repayment of liabilities	–	–1
Other non cash items (including amortisations)	–14	–2
Net decrease in loans and advances to other banks	41	6
Net decrease in loans and advances to customers	1,046	159
Net decrease in other assets	6	1
Net increase/(decrease) in liabilities to other banks	33	–206
Net increase/(decrease) in liabilities to customers	7	–3
Net decrease in liabilities evidenced by certificates	–1,228	–565
Net increase/(decrease) in other liabilities	13	–17
Net increase in derivatives	96	59
Net cash from operating activities	**–4**	**–594**
Cash flows from investing activities		
Purchase of investment securities	–	–
Sale/maturity of investment securities	164	594
Net cash from investing activities	**164**	**594**
Cash flows from financing activities		
Dividend paid out of capital contributions	–160	–
Net cash from financing activities	**–160**	–
Net increase/(decrease) in cash and cash equivalents	–	–
Cash and cash equivalents at the beginning of the period	–	–
Cash and cash equivalents at the end of the period	–	–
Included in the cash flows from operating activities for the period are the following amounts:		
Interest income received	196	297
Interest expense paid	–183	–308

The notes on pages 21 to 47 are an integral part of these unaudited condensed interim financial statements.

Notes to the unaudited condensed interim financial statements

(1) 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 2017 are unaudited but have been reviewed by the auditor whose report is set out on pages 13 and 14. The financial information presented herein does not amount to statutory financial statements that are required by the Companies Act 2014 to be annexed to the annual return of the Bank. The statutory financial statements for the financial year ended 31 December 2016 will be filed with the Registrar of Companies along with the annual return by 13 September 2017. 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 Hypo Real Estate Group (“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 19 December 2014 the entire ordinary share capital of DEPFA BANK plc, the parent of the Bank, was acquired by FMS Wertmanagement AöR, a German State Agency established by the Federal Republic of Germany and to which the DEPFA Group transferred non strategic positions in 2010. Prior to this date, and since 2 October 2007, the entire ordinary share capital of DEPFA BANK plc was held by Hypo Real Estate Holding AG (“HRE Holding”), the parent entity of the HRE Group. FMS Wertmanagement AöR was established in 2010 as the Federal Republic of Germany’s winding up institution for the nationalised HRE Group. FMS Wertmanagement AöR is under the direct ownership of the German Financial Markets Stabilisation Fund / German Finanzmarktstabilisierungsfonds (“SoFFin”), which is managed by the Federal Agency for Financial Market Stabilisation (“FMSA”).

There was no change in the ownership of the Bank during the first half of 2017.

The Bank continues to wind down its portfolios in a manner designed to maintain value.

The annual financial statements of the Bank are prepared in accordance with International Financial Reporting Standards (“IFRSs”) as adopted by the European Union (“EU”).

(2) 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 financial statements, included in the 2016 Annual Report available at www.depfa.com.

The unaudited condensed interim financial statements are prepared on a going concern basis. The Directors continue to consider the appropriateness of the going concern assumption in the preparation of the unaudited condensed interim financial statements.

The Directors understand that the DEPFA Group including the Bank was transferred to FMS Wertmanagement AöR as a going concern and will continue its principal activities, being the wind down of its portfolios in a manner designed to maintain value. The Directors consider that the liquidity position of the DEPFA Group including the Bank is stable and that it continues to be in a position to meet its own funding requirements. The DEPFA Group is not currently dependent on additional funding from FMS Wertmanagement AöR and is expected to be able to meet its obligations as they fall due for a minimum period of one year from the date of this report. The Directors have also considered that the regulatory capital ratios are currently, and are expected to continue to be, significantly in excess of the required minimum ratios for a minimum period of one year from the date of this report.

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

Initially adopted standards, interpretations and amendments Standards, interpretations and amendments adopted with an initial application date of 1 January 2017 comprise the Annual Improvements to IFRSs 2014–2016 Cycle, Disclosure Initiative (Amendments to IAS 7) and Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12). These amendments have no impact on these unaudited condensed interim financial statements.

IFRS 9 Financial instruments
IFRS 9 “Financial instruments” is the new accounting standard for financial instruments. It is effective from 1 January 2018 and replaces IAS 39 from that date. IFRS 9 introduces a number of very significant changes which will impact on the performance and financial position of the DEPFA Group including DEPFA ACS BANK. It will change the rules for classification and measurement, hedge accounting and impairment. Unless early adopted, the standard is effective for accounting periods beginning 1 January 2018. The principal changes between IFRS 9 and IAS 39, which are of relevance to the DEPFA Group including DEPFA ACS BANK as well as a description of the DEPFA Group’s approach to the determination of Expected Credit Losses are set out on pages 64 to 67 of the DEPFA ACS BANK 2016 Annual Report.

The DEPFA Group including DEPFA ACS BANK established a programme during 2015 which is jointly led by the Finance and Risk functions. The governance structure includes a Steering Committee responsible for overseeing the impact assessment and implementation of the requirements of the standard and is mandated to approve key decisions, model change specifications and implementation strategies. The project Steering Committee reports to the Executive Director Committee on a regular basis and updates are regularly provided to the Board and Audit Committee. The IFRS 9 programme is sponsored jointly by the Chief Executive Officer and Chief Risk Officer.

In relation to classification and measurement, the DEPFA Group including DEPFA ACS BANK has identified that certain assets which are currently measured at amortised cost are likely to be required to be measured at fair value based on their contractual cash flow characteristics. An assessment of the business models in which the assets are held has been completed and will be updated prior to the effective date of the new standard. However, the extent of the impact on the DEPFA Group's and DEPFA ACS BANK's financial statements due to changed classifications arising from the classification and measurement requirements will depend on changes in the portfolio, market conditions and the business models in place at the date of transition. Consequently, the quantitative impact arising from the classification and measurement requirements cannot be reliably estimated at this phase of the implementation programme.

In 2017, the development of a bespoke IT solution for calculating the Expected Credit Losses under IFRS 9 was largely completed and is currently in testing and is running parallel to the IAS 39 provision calculation process. Reporting will commence using the new solution in 2018. Depending on the development of both the DEPFA Group's asset portfolio and credit conditions, it can be expected that impairment charge calculations under IFRS 9 could be more volatile than under IAS 39. There may also be an increase in the total level of impairment allowances, since all financial assets in scope of the impairment calculation will be assessed for at least 12-month Expected Credit Loss and the population of financial assets to which lifetime Expected Credit Losses applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39. However, the scale of these impacts should be considered in the context of the overall high credit quality of the DEPFA Group's portfolio. Given the certain judgmental areas remaining to be concluded upon and also the remaining development activity required during the testing phase, the quantitative impact of transition to the impairment requirements cannot be reliably estimated at this phase of the implementation programme. The DEPFA Group including DEPFA ACS BANK will provide more detailed and specific disclosures as the programme progresses and reliable estimates become available.

DEPFA ACS BANK does not expect changes in hedge accounting rules to have a significant effect on the Bank's financial statements.

(3) Critical accounting estimates and judgements

There has been no significant change since the last annual financial statements to the policies and estimates which may involve a higher degree of judgement and complexity (as disclosed on pages 79 to 80 of the DEPFA ACS BANK 2016 Annual Report).

(4) Business segments

The internal reporting structure of the DEPFA Group is organised into the following primary business segments, which reflect the basis on which the DEPFA Group was managed by the DEPFA BANK plc Board of Directors (being the chief operating decision maker) during 2017 and 2016:

- DEPFA ACS BANK
- DEPFA 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 DEPFA Pfandbrief Bank International S.A. includes the assets and liabilities in the DEPFA 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.

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

(5) Net interest income

Net interest income

€m	Half Year ended on 30.06.2017	30.06.2016
Interest income and similar income		
Lending and money-market business and government subscribed debt	108	183
Derivatives (net interest income)	40	121
	148	**304**
Interest expense and similar expenses		
Deposits and liabilities evidenced by certificates	–129	–288
Subordinated capital	–5	–7
	–134	**–295**
Income from early repayment/sale of assets	**4**	–
Income from early repayment of liabilities	–	**1**
Total	**18**	**10**

Total interest income for financial assets that are not at fair value through profit or loss, amount to €108 million in 2017 (2016: €183 million). Total interest expenses for financial liabilities that are not at fair value through profit or loss amount to €134 million in 2017 (2016: €295 million).

Net interest income includes gains from the early repayment/sale of assets of €4 million in 2017 (2016: € nil). These assets were included on the statement of financial position in "Loans and advances to customers" and represented a nominal amount of €851 million (2016: € nil).

Net interest income also includes gains from the buyback of ACS that were redeemed before maturity at prevailing market levels on a reverse enquiry basis, along with ACS which were terminated before their maturity date of € nil in 2017 (2016: €1 million). These liabilities were included on the statement of financial position in "Liabilities evidenced by certificates" and represented a nominal amount of €138 million (2016: €66 million).

(6) Net fee and commission income/expense

Net fee and commission income/expense

€m	Half Year ended on 30.06.2017	30.06.2016
Fee and commission income		
From lending operations	7	1
	7	**1**
Fee and commission expense		
From lending operations	–6	–2
	–6	**–2**
Total	**1**	**–1**

Fee and commission income totalled €7 million in 2017, mostly as a result of commission income received from an external counterparty in relation to loans classified as “Loans and advances to customers” (2016: €1 million).

Fee and commission expense totalled €–6 million in 2017, mostly as a result of commission costs incurred for the financial guarantees related to specific assets, payable to DEPFA BANK plc and FMS Wertmanagement AöR (2016: €–2 million).

(7) Net trading expense/income

Net trading expense/income

€m	Half Year ended on 30.06.2017	30.06.2016
From interest rate instruments and related interest and foreign exchange derivatives	–1	4
Total	**–1**	**4**

Net trading expense/income relates to the revaluation of stand-alone derivatives which do not satisfy the criteria of IAS 39 hedge accounting.

(8) Net expense/income from hedge relationships

Net expense/income from hedge relationships

€m	Half Year ended on 30.06.2017	30.06.2016
Result from fair value hedge accounting		
Result from hedged items	29	–130
Result from hedging instruments	–30	131
Total	**–1**	**1**

(9) General administrative expenses

General administrative expenses

€m	Half Year ended on 30.06.2017	30.06.2016
Personnel expenses	–	–
Wages and salaries	–	–
Other general administrative expenses	**–16**	**–19**
Total	**–16**	**–19**

General administrative expenses for 2017 were €–16 million (2016: €–19 million) and mainly comprised recharges from other DEPFA Group entities for services provided of €–9 million (2016: €–10 million), along with the levy to the Single Resolution Fund of €–6 million (2016: €–8 million).

The average number of persons employed by the Bank during the period was 5 (2016: 5).

(10) Trading assets

Trading assets

€m	30.06.2017	31.12.2016
Stand-alone derivatives (banking book)	487	550
Total	**487**	**550**
Of which transacted with Group companies	327	308

Amounts transacted with Group companies in the DEPFA ACS BANK statement of financial position comprise derivatives transacted with other entities in the DEPFA Group and FMS Wertmanagement AöR.

Stand-alone derivatives include derivatives which are economically hedging but which do not meet the detailed hedge accounting criteria under IFRSs.

(11) Loans and advances to other banks

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

€m	30.06.2017	31.12.2016
Public sector loans	53	53
Other loans and advances	873	914
Total	**926**	**967**
Of which due from Group companies	700	732

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

Other loans and advances primarily comprises cash collateral balances in relation to derivative transactions, loans to Group companies and nostro balances.

Loans and advances to other banks broken down by maturities as follows: €m	30.06.2017	31.12.2016
Repayable on demand	873	914
With contractual maturities		
up to 3 months	–	–
from 3 months to 1 year	53	53
from 1 year to 5 years	–	–
from 5 years and over	–	–
Total	**926**	**967**

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

There were no "Loans and advances to other banks" past due but not impaired and no assets impaired in 2017 and 2016.

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

(12) Loans and advances to customers

Loans and advances to customers broken down by type of business as follows: €m	30.06.2017	31.12.2016
Public sector loans	3,993	5,161
Other loans and advances	95	72
Total	**4,088**	**5,233**
Of which due from Group companies	95	72

Balances due from Group companies in the DEPFA ACS BANK statement of financial position include amounts receivable from other entities in the DEPFA Group and FMS Wertmanagement AöR.

Other loans and advances comprises mainly of cash collateral placed in relation to derivative transactions and cash placed with FMS Wertmanagement AöR.

The above LaR amount includes €245 million (31 December 2016: €892 million) on which financial guarantees have been received from FMS Wertmanagement AöR.

Loans and advances to customers broken down by maturities as follows: €m	**30.06.2017**	**31.12.2016**
Repayable on demand	95	79
With contractual maturities		
up to 3 months	63	45
from 3 months to 1 year	250	208
from 1 year to 5 years	696	910
from 5 years and over	2,984	3,991
Total	**4,088**	**5,233**

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

There were no “Loans and advances to customers” past due but not impaired and no assets impaired in 2017 and 2016.

(13) Allowance for losses on loans and advances

The Bank has no specific allowance for losses on loans and advances.

Movement in allowance for losses on loans and advances:

Incurred but not reported allowance for losses on loans and advances €m	**2017**	**2016**
At 1 January	**–3**	**–2**
Reversals of/provisions for incurred but not reported allowance	1	–1
At 30 June/31 December	**–2**	**–3**

The total allowance for losses on loans and advances relates to public sector loans.

(14) Financial investments

Financial investments broken down by type as follows: €m	**30.06.2017**	**31.12.2016**
AfS financial investments	**7**	–
Debt securities and other fixed-income securities	7	–
LaR financial investments	**7,399**	**7,746**
Debt securities and other fixed-income securities	7,399	7,746
Total	**7,406**	**7,746**
Of which due from Group companies	2,047	2,047

Balances due from Group companies in the DEPFA ACS BANK statement of financial position include amounts receivable from other entities in the DEPFA Group and FMS Wertmanagement AöR.

Financial investments broken down by maturities as follows: €m	30.06.2017	31.12.2016
With contractual maturities		
up to 3 months	130	14
from 3 months to 1 year	9	179
from 1 year to 5 years	2,903	2,877
from 5 years and over	4,364	4,676
Total	**7,406**	**7,746**

There were no "Financial investments" past due but not impaired and no assets impaired in 2017 and 2016.

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

(15) Other assets

Other assets €m	30.06.2017	31.12.2016
Hedging derivatives – positive fair value (micro fair value hedge)	1,290	1,614
Other assets	7	13
Total	**1,297**	**1,627**
Of which due from Group companies	1,171	1,378

Balances due from Group companies in the DEPFA ACS BANK statement of financial position include amounts receivable from other entities in the DEPFA Group and FMS Wertmanagement AöR.

(16) Liabilities to other banks

Liabilities to other banks broken down by maturities as follows: €m	30.06.2017	31.12.2016
Repayable on demand	1,151	1,284
With contractual maturities		
up to 3 months	2,782	3,204
from 3 months to 1 year	953	366
from 1 year to 5 years	–	–
from 5 years and over	–	–
Total	**4,886**	**4,854**
Of which due to Group companies	4,713	4,667

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

Included under “Liabilities to other banks” are amounts due under repurchase agreements.

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

(17) Liabilities to customers

Liabilities to customers broken down by maturities as follows:

€m	30.06.2017	31.12.2016
From 5 years and over	10	–
Total	**10**	–
Of which due to Group companies	–	–

Liabilities to customers comprises uncollateralised guaranteed investment contracts (“GICs”), which were transferred from the DEPFA Group entity San Sabia Capital Corporation during the first half of 2017.

(18) Liabilities evidenced by certificates

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

€m	30.06.2017	31.12.2016
Public sector bonds	6,354	7,884
Total	**6,354**	**7,884**
Of which due to Group companies	2,442	1,312

Balances due to Group companies in the DEPFA ACS BANK statement of financial position include amounts payable to FMS Wertmanagement AöR.

Liabilities evidenced by certificates broken down by maturities as follows:

€m	30.06.2017	31.12.2016
With contractual maturities		
up to 3 months	215	180
from 3 months to 1 year	331	1,292
from 1 year to 5 years	2,483	2,599
from 5 years and over	3,325	3,813
Total	**6,354**	**7,884**

(19) Trading liabilities

Trading liabilities €m	30.06.2017	31.12.2016
Stand-alone derivatives (banking book)	529	652
Total	**529**	**652**
Of which transacted with Group companies	344	425

Amounts transacted with Group companies in the DEPFA ACS BANK statement of financial position comprise derivatives transacted with other entities in the DEPFA Group and FMS Wertmanagement AöR.

Stand-alone derivatives include derivatives which are economically hedging but which do not meet the detailed hedge accounting criteria under IFRSs.

(20) Other liabilities

Other liabilities €m	30.06.2017	31.12.2016
Hedging derivatives – negative fair value (micro fair value hedge)	1,041	1,196
Other liabilities	61	48
Total	**1,102**	**1,244**
Of which due to Group companies	1,026	994

Balances due to Group companies in the DEPFA ACS BANK statement of financial position include amounts payable to other entities in the DEPFA Group and FMS Wertmanagement AöR.

(21) Subordinated capital

Subordinated capital €m	30.06.2017	31.12.2016
Subordinated liabilities	618	625
Total	**618**	**625**
Of which due to Group companies	618	625

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

Subordinated capital broken down by maturities as follows: €m	30.06.2017	31.12.2016
With contractual maturities	**428**	**435**
from 5 years and over	428	435
No fixed maturity	**190**	**190**
Total	**618**	**625**

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

Subordinated liabilities € m Issuer maturity	Interest rate	30.06.2017	31.12.2016
DEPFA Finance N.V., 8.6.2030	Euribor + 0.8849%	50	50
DEPFA Finance N.V., 30.10.2028	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, 28.6.2031	Euribor + 0.285%	75	75
DEPFA Finance N.V., 21.3.2032	Euribor + 1.94%	170	170
DEPFA BANK plc, 15.10.2029	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.

(22) Share capital

The total authorised number of ordinary shares at 30 June 2017 was 1,000,000,000 (31 December 2016: 1,000,000,000) with a par value of €1 each per share (31 December 2016: €1 each per share). 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 2016	510,000,000	510	–	**510**
At 30 June 2017	510,000,000	510	–	**510**

(23) Retained earnings

Retained earnings

€m	**2017**	**2016**
At 1 January	**149**	**114**
Net income for the period/year	2	35
At 30 June / 31 December	**151**	**149**

(24) Capital contribution

Capital contribution

€m	**2017**	**2016**
At 1 January	**200**	**200**
Dividend paid to parent company	–160	–
At 30 June / 31 December	**40**	**200**

(25) Other reserves – AfS

Other reserves

€m	**30.06.2017**	**31.12.2016**
Unrealised losses from available-for-sale investment securities	–2	–2
Total	**–2**	**–2**

Unrealised losses from available-for-sale investment securities

€m	**2017**	**2016**
At 1 January	**–2**	**–12**
Net change in fair value, net of tax	–	1
Net amount transferred to income statement, net of tax	–	9
At 30 June / 31 December	**–2**	**–2**

(26) Derivative financial instruments

Derivative financial instruments €m	30.06.2017	31.12.2016
Assets		
Trading assets (note 10)	487	550
Other assets (note 15)	1,290	1,614
Total assets	**1,777**	**2,164**
Liabilities		
Trading liabilities (note 19)	529	652
Other liabilities (note 20)	1,041	1,196
Total liabilities	**1,570**	**1,848**

The fair values of derivative instruments held are set out below.

Volume of derivatives at 30 June 2017	Notional amount				Fair value	
	Remaining maturities					
€m	Less than 1 year	1 to 5 years	More than 5 years	**Total**	Positive fair values	Negative fair values
Interest based transactions						
Interest rate swaps	1,111	6,391	10,619	18,121	1,758	1,461
Total	**1,111**	**6,391**	**10,619**	**18,121**	**1,758**	**1,461**
Foreign currency based transactions						
Interest rate/currency swaps	395	813	51	1,259	13	108
Spot and forward currency transactions	337	–	–	337	6	1
Total	**732**	**813**	**51**	**1,596**	**19**	**109**
Total	**1,843**	**7,204**	**10,670**	**19,717**	**1,777**	**1,570**

Volume of derivatives at 31 December 2016	Notional amount				Fair value	
	Remaining maturities					
€m	Less than 1 year	1 to 5 years	More than 5 years	**Total**	Positive fair values	Negative fair values
Interest based transactions						
Interest rate swaps	2,211	6,159	11,899	20,269	2,127	1,698
Total	**2,211**	**6,159**	**11,899**	**20,269**	**2,127**	**1,698**
Foreign currency based transactions						
Interest rate/currency swaps	363	787	52	1,202	30	147
Spot and forward currency transactions	898	–	–	898	7	3
Total	**1,261**	**787**	**52**	**2,100**	**37**	**150**
Total	**3,472**	**6,946**	**11,951**	**22,369**	**2,164**	**1,848**

Derivatives counterparties	30.06.2017		31.12.2016	
€m	Positive fair values	Negative fair values	Positive fair values	Negative fair values
OECD banks and financial institutions	1,777	1,570	2,164	1,848
Total	**1,777**	**1,570**	**2,164**	**1,848**

Derivatives with Group companies included in the above are:

Derivatives with Group companies	30.06.2017		31.12.2016	
€m	Positive fair values	Negative fair values	Positive fair values	Negative fair values
OECD banks and financial institutions	1,491	1,316	1,674	1,372
Total	**1,491**	**1,316**	**1,674**	**1,372**

Fair values appear as sum of positive and negative amounts per contract, from which no pledged security has been deducted and no legally enforceable netting agreements are in place.

(27) Transfers of financial assets and collateral pledged or held

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

Transferred financial assets that are not derecognised in their entirety

Sale and repurchase agreements

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

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

Carrying amounts of transferred financial assets		
€m	30.06.2017	31.12.2016
Financial investments	2,525	411
Total	**2,525**	**411**

Carrying amounts of associated liabilities		
€m	30.06.2017	31.12.2016
Liabilities to other banks	2,326	381
Total	**2,326**	**381**

Transferred assets that are derecognised in their entirety

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

Other pledges and charges on assets

DEPFA ACS BANK operates an arrangement for secured lending with the Central Bank of Ireland ("CBI") under a Framework Agreement which implements the CBI's collateral management system for Eurosystem Credit Operations. Under the terms of the Framework Agreement, in April 2014, DEPFA ACS BANK executed a deed of charge granting to the CBI: (i) a first fixed charge over all of its present and future rights, title, interest and benefit in and to the Counterparty Collateral Account Assets (as defined therein); and (ii) a first floating charge over all its present and future rights, title, interest and benefit in and to the Other Collateral Pool Assets (as defined therein). This fixed and floating charge also contains a negative pledge provision whereby during the subsistence of the security, otherwise than with the prior written consent of the CBI, DEPFA ACS BANK shall not: (a) create or attempt to create or permit to arise or subsist any encumbrance on or over the charged assets or any part thereof; and (b) sell, transfer, lend or otherwise dispose of any of the fixed charge assets or any part thereof or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time; and (c) otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of any of the floating charge assets or any part thereof or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

The Bank has granted certain charges to FMS Wertmanagement AöR on positions which the Bank has derecognised but where the Bank remains as counterparty of record.

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

(28) 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.

Asset and liability designations in the tables below are as follows:
AC – financial assets and liabilities carried at amortised cost.
FV – financial assets and liabilities carried at fair value.

Fair value of financial assets and liabilities at 30 June 2017

€m	Carrying value	Fair value	Fair value hierarchy level Level 1	Level 2	Level 3
Assets					
Cash reserve (AC)	–	–	–	–	–
Trading assets (FV)	487	487	–	468	19
Loans and advances to other banks (AC)	926	923	873	50	–
Loans and advances to customers (net of allowance) (AC)	4,086	4,031	95	3,282	654
Financial investments (AC)	7,406	7,417	266	6,467	684
Category – available-for-sale (FV)	*7*	*7*	*7*	–	–
Category – LaR (AC)	*7,399*	*7,410*	*259*	*6,467*	*684*
Other assets – Hedging derivatives (FV)	1,290	1,290	–	1,287	3
Total	**14,195**	**14,148**	**1,234**	**11,554**	**1,360**
Liabilities					
Liabilities to other banks (AC)	4,886	4,886	2,560	2,326	–
Liabilities to customers (AC)	10	10	–	–	10
Liabilities evidenced by certificates (AC)	6,354	6,216	620	176	5,420
Trading liabilities (FV)	529	529	–	529	–
Other liabilities – Hedging derivatives (FV)	1,041	1,041	–	1,036	5
Subordinated capital (AC)	618	477	–	–	477
Total	**13,438**	**13,159**	**3,180**	**4,067**	**5,912**
Other items					
Contingent liabilities & loan commitments	125	4	–	–	–

Fair value of financial assets and liabilities at 31 December 2016

€m	Carrying value	Fair value	Fair value hierarchy level Level 1	Level 2	Level 3
Assets					
Cash reserve (AC)	–	–	–	–	–
Trading assets (FV)	550	550	–	550	–
Loans and advances to other banks (AC)	967	964	914	50	–
Loans and advances to customers (net of allowance) (AC)	5,230	5,064	72	3,758	1,234
Financial investments – (AC)	7,746	7,720	305	6,105	1,310
Category – available-for-sale (FV)	–	–	–	–	–
Category – LaR (AC)	*7,746*	*7,720*	*305*	*6,105*	*1,310*
Other assets – Hedging derivatives (FV)	1,614	1,614	–	1,611	3
Total	**16,107**	**15,912**	**1,291**	**12,074**	**2,547**
Liabilities					
Liabilities to other banks (AC)	4,854	4,854	4,474	380	–
Liabilities to customers (AC)	–	–	–	–	–
Liabilities evidenced by certificates (AC)	7,884	7,706	646	39	7,021
Trading liabilities (FV)	652	652	–	652	–
Other liabilities – Hedging derivatives (FV)	1,196	1,196	–	1,189	7
Subordinated capital (AC)	625	435	–	–	435
Total	**15,211**	**14,843**	**5,120**	**2,260**	**7,463**
Other items					
Contingent liabilities & loan commitments	125	8	–	–	–

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

Financial assets and liabilities according to measurement categories

€m	30.06.2017	31.12.2016
Assets		
Loans and receivables (net)	12,411	13,943
Available-for-sale	7	–
Held-for-trading	487	550
Cash reserve	–	–
Derivatives	1,290	1,614
Total	**14,195**	**16,107**
Liabilities		
Held-for-trading	529	652
Financial liabilities at amortised cost	11,868	13,363
Derivatives	1,041	1,196
Total	**13,438**	**15,211**

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price). The fair values were determined as of the reporting date based on the market information available and on valuation methods described here.

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

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

For positions measured at fair value in the statement of financial position, there have been no transfers of fair value instruments from Level 2 to Level 1 in either 2017 or 2016. Similarly, there have been no transfers of fair value instruments from Level 1 to Level 2 in either 2017 or 2016.

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

Changes in Level 3 instruments	Financial assets			Financial liabilities		
€m	Trading assets	Hedging derivatives	**Total**	Trading liabilities	Hedging liabilities	**Total**
At 1 January 2016	**12**	–	**12**	**10**	**29**	**39**
Comprehensive income recognised in Income Statement	–	–	–	–	–	–
Terminations	–	–	–	–	–	–
Change due to transfer to FMS Wertmanagement AöR	–	–	–	–	–	–
Reclassifications into Level 3	–	3	3	–	–	–
Reclassifications out of Level 3	–12	–	–12	–10	–22	–32
At 31 December 2016	–	**3**	**3**	–	**7**	**7**
At 1 January 2017	–	**3**	**3**	–	**7**	**7**
Comprehensive income recognised in Income Statement	–4	–	–4	–	–2	–2
Terminations	–	–	–	–	–	–
Change due to transfer to FMS Wertmanagement AöR	–	–	–	–	–	–
Reclassifications into Level 3	23	–	23	–	–	–
Reclassifications out of Level 3	–	–	–	–	–	–
At 30 June 2017	**19**	**3**	**22**	–	**5**	**5**

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.

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

The valuation process is performed by Risk Management & Control in conjunction with the Finance department. The Finance department provides accounting-related data. These include:
- Identification data, such as business identification numbers or International Securities Identification Numbers (“ISINs”)
- Static data such as counterparties and maturities
- Accounting-relevant data, including nominals, accruals, unamortised fees and hedge accounting effects

The Risk Management & Control function provides additional information used as inputs to the fair value measurement, such as interest rates, credit spreads and market prices. For certain financial instruments the function also provides information on internal ratings and loss given default (“LGD”). For positions that are measured on the statement of financial position at fair value, the fair values are calculated and determined directly by Risk Management & Control. For positions that are not measured on the statement of financial position at fair value the data is collected by the Finance department and checked for completeness. The Finance department calculates the fair values of the financial instruments using the valuation methods determined by Risk Management & Control. Following the valuation, the Finance department performs a quality check on the results.

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

Measurement of Level 2 instruments at 30 June 2017

€m	Fair Value Assets	Fair Value Liabilities	Measurement methods	Observable parameters
Financial assets/liabilities at fair value	**1,755**	**1,565**		
Trading assets/trading liabilities	**468**	**521**		
	429	486	DCF models	FX rate
				Yield curve
	39	35	Option pricing models	Yield curve
				Recovery rate
				FX rate
				CDS spread
Fair value hedge derivatives	**1,287**	**1,044**		
	931	849	DCF models	Seasonality
				Yield curve
	356	195	Option pricing models	Cap volatilities
				Correlation
				FX rate
				FX volatilities
				Swaption volatilities
				Yield curve

Measurement of Level 2 instruments at 31 December 2016

€m	Fair Value Assets	Fair Value Liabilities	Measurement methods	Observable parameters
Financial assets/liabilities at fair value	**2,161**	**1,841**		
Trading assets/trading liabilities	**550**	**652**		
	508	614	DCF models	FX rate
				Yield curve
	42	38	Option pricing models	Yield curve
				Recovery rate
				CDS spread
Fair value hedge derivatives	**1,611**	**1,189**		
	1,118	968	DCF models	Seasonality
				Yield curve
	493	221	Option pricing models	Cap volatilities
				Correlation
				FX rate
				FX volatilities
				Swaption volatilities
				Yield curve

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

Measurement of Level 3 instruments at 30 June 2017

€m	Fair Value Assets	Fair Value Liabilities	Measurement methods	Observable parameters	Non-observable parameters	Parameter range (weighted average)
Financial assets/liabilities at fair value	**22**	**5**				
Trading assets/trading liabilities	19	–	DCF models	Yield curve	EUR-EO3M beyond 30.06.2047	1.53%
Fair value hedge derivatives	3	5	Option price models	Yield curve	ATM-Cap-Vola EUR-NO6M beyond 30.06.2047	0.51%
					ATM-Cap-Vola USD-NO3M beyond 30.06.2037	0.65%
				Correlation	ATM-Swaption-Vola EUR-EO6M beyond 30.06.2017	30.30%
					FX-Vola JPY/USD beyond 30.06.2027	12.20%
				FX Rate	FX-Vola EUR/CHF beyond 30.06.2027	8.24%
				FX volatilities		
				Swaption volatilities		

Measurement of Level 3 instruments at 31 December 2016

€m	Fair Value Assets	Fair Value Liabilities	Measurement methods	Observable parameters	Non-observable parameters	Parameter range (weighted average)
Financial assets/liabilities at fair value	**3**	**7**				
Trading assets/trading liabilities	–	–	Option price models			
Fair value hedge derivatives	3	7	Option price models	Yield curve	ATM-Swaption-Vola EUR-EO6M beyond 30.12.2016	58.30%
					FX-Vola EUR/CHF beyond 30.12.2026	12.95%
				Correlation	FX-Vola EUR/USD beyond 30.12.2026	12.16%
					FX-Vola JPY/USD beyond 30.12.2026	14.62%
				FX Rate	Historical FX-FX correlations beyond 30.12.2016	21.53%
				FX volatilities		
				Swaption volatilities		

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

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

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

(29) Contingent liabilities

Contingent liabilities €m	30.06.2017	31.12.2016
Guarantees	125	125

The above amounts represent nominal exposures on financial guarantees provided by the Bank to its parent DEPFA BANK plc.

(30) Exchange rates as at 30 June 2017

European Central Bank exchange rates as at 30 June 2017 were:

Exchange rates €1 =		30.06.2017	31.12.2016
Great Britain	GBP	0.87933	0.85618
Japan	JPY	127.75000	123.40000
United States of America	USD	1.14120	1.05410
Switzerland	CHF	1.09300	1.07390

(31) Related party transactions

(a) Key management compensation

Key management consists solely of Directors of the Bank. All Key management personnel are paid by DEPFA BANK plc.

There have been no loans to members of the Board in 2017 and 2016, nor are there any loans outstanding to members of the Board at 30 June 2017 (31 December 2016: € nil).

(b) Financial guarantees from related parties

FMS Wertmanagement AöR has provided financial guarantees on assets classified as "Loans and advances to customers" with a carrying value of €245 million as at 30 June 2017 (31 December 2016: €892 million). The financial guarantee transactions are entered into on an arm's length basis.

(c) Balances and transactions with DEPFA Group companies and the FMS Wertmanagement AöR Group

FMS Wertmanagement AöR and its subsidiaries outside of the DEPFA Group ("the FMS Wertmanagement AöR Group") are considered direct related parties since 19 December 2014.

Balances due to and from DEPFA Group companies and the FMS Wertmanagement AöR Group as at 30 June 2017 and 31 December 2016 are disclosed in the notes to the statement of financial position.

Transactions with DEPFA Group companies and the FMS Wertmanagement AöR Group for the half year ended 30 June 2017 and for the half year ended 30 June 2016 included in the income statement categories below consisted of:

Bank transactions with direct related parties

	Half Year ended on	
€m	**30.06.2017**	**30.06.2016**
Interest income and similar income	46	114
Interest expense and similar expenses	–59	–82
Net fee and commission expense	–6	–1
Net expense from financial investments	–	–
General administrative expenses	–9	–10

The amounts above arise on intercompany borrowing, lending, financial guarantees and transfers of assets between the Bank and DEPFA Group companies and the FMS Wertmanagement AöR Group for the half year ended 30 June 2017 and 30 June 2016. The amounts above also arise on hedging derivatives, as well as recharges for certain services provided. All related party transactions are entered into on an arm's length basis.

In addition, the "Net trading expense/income" and "Net expense/income from hedge relationships" includes derivative transactions traded on an arm's length basis with DEPFA Group companies and the FMS Wertmanagement AöR Group, which are used to hedge certain of the Bank's assets and liabilities and to offset other derivative positions.

Also included in the amount above for "Interest expense and similar expenses" are amounts arising on liability instruments issued by the Bank and which have been acquired by the FMS Wertmanagement AöR Group. The liabilities issued are included in the statement of financial position under "Liabilities evidenced by certificates".

(d) Other related party transactions

As a result of the DEPFA Group's ownership by HRE Holding up to 19 December 2014 and since that date by the FMS Wertmanagement AöR Group, the DEPFA Group including DEPFA ACS BANK 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). The DEPFA Group including DEPFA ACS BANK has availed of the exemptions in IAS 24: Related Party Disclosures from disclosing transactions and outstanding balances with entities that are related parties because they are under the control of the Federal Republic of Germany. Business relations with public sector entities are carried out on an arm's length basis.

(32) Events after the reporting date

There have been no notable events after 30 June 2017.

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