DEPFA ACS BANK

Interim Report
30 June 2012

Content

Economic review

The first half of 2012 has continued to be dominated by the Euro area debt crisis. The weak ending to 2011 followed through into 2012 but was alleviated to a large extent by some indications of brightening growth prospects across the globe and signs that some key risks appeared to be receding. In particular, the success of the ECB's long-term liquidity operations ("LTRO") and the resolution of the Greek debt restructuring reduced the likelihood of a catastrophic outcome for the Euro zone, leading to greater optimism in the first quarter of 2012. However, such optimism was short lived and towards the end of the quarter focus started to re-emerge on some of the more vulnerable countries in the Euro area, with concerns over Spain and its banking sector most prominent.

These concerns were then reinforced in the second quarter by a marked deterioration in the macroeconomic landscape after relatively solid GDP readings in the first quarter. Political developments in Greece also dominated. A failure to form a government in Greece following the elections in early May and the potential for an anti-programme government increased fears that the government may be cut off from official funding and eventually leave the Euro area. These fears dissipated towards the end of the quarter as a pro-bailout coalition was formed following the second election.

Increased concerns relating to Spain's banking system eventually culminated in the announcement of financial support from the EU of up to € 100 billion. The first stress test results indicated that € 62 billion would be needed under an adverse scenario. Most importantly, the EU summit at the end of the second quarter led to an agreement that, following the establishment of a European bank supervisor, European Stability Mechanism ("ESM") funds could be used to directly recapitalise banks subject to state aid rules and an establishment of a Memorandum of Understanding ("MoU"). Moreover, this mechanism could be used retroactively, which will benefit existing programme countries.

Policy developments

Policy in the first half of 2012 remained focused on attempts to solve the Euro area debt crisis. At the end of February, the ECB allotted almost € 530 billion to around 800 banks in its second LTRO operation which was judged as successful in alleviating funding pressures for both banks and sovereigns whose debt was purchased by banks. Meanwhile, the ECB's bond purchase program (Securities Markets Program) halted activity in early February due to ECB concerns that it might be compromising its mandate as well as its balance sheet.

It was also agreed that the European Financial Stability Facility ("EFSF") would temporarily run alongside the ESM for a period of one year (until mid 2013). The total lending capacity will be € 700 billion (€ 500 billion new lending capacity) with the process of paid-in capital accelerating quicker than previously planned. One of the most noteworthy policy developments in the first half of 2012 was the aforementioned decision that ESM funds could be provided directly to banks without landing on the sovereign's balance sheet. It was also agreed that ESM funds could be used to purchase sovereign debt where necessary whilst only attaching limited conditionality (existing commitments) under a MoU. Much of the final detail still has to be agreed but these developments have generally been interpreted as positive for the creditworthiness of the more vulnerable EMU states.

Interest rates from all major monetary authorities remained unchanged and at historically low levels with the weakness in the second quarter leading to much speculation of monetary easing in the form of interest rate cuts for the ECB and additional quantitative easing for the US Federal Reserve, the Bank of England and the Bank of Japan. The US Federal Reserve also cut its growth forecasts in the second quarter, noting significant risks to the economy and extended its "Operation Twist" (selling short-term debt and buying longer term debt) to year end.

Financial market developments

Financial market conditions remained volatile in the first half of 2012. The first quarter generally brought with it improved conditions due to conducive policy developments (especially the ECB's LTRO) and the high participation rate in the Greek restructuring which ran relatively smoothly. Overall, this led to a stronger Euro, stronger equity markets and tighter credit spreads. The latter was directly affected by the ECB's LTRO due to banks taking advantage of the natural carry trade which was presented (especially in Italy and Spain). These positive market movements were reversed in the second quarter however due to concerns over Spain and especially concerns that Greece might exit the Euro area. As a result, equity markets fell sharply in the Euro area and the Euro reached its lowest level in almost two years, falling below $1.24 against the US dollar ($1.33 at the end of the first quarter). Increased risk aversion also led to a sharp deceleration of capital flows, especially to emerging markets.

Sovereign spreads widened significantly, especially in Spain where concerns over the solvency of the banking system and its implications for the sovereign reinforced already negative sentiment relating to upward revisions to deficits and liquidity support for local governments. Some of these concerns were alleviated by the announcement of the EU banking sector support towards the end of the quarter, especially the possibility that this support may not be incorporated into the sovereign's balance sheet. This combined with a somewhat benign outcome to Greece's second election led to a late rally in the second quarter which helped alleviate some of the heavy losses which occurred earlier in the quarter. This was reflected in the ITRAXX Western Europe Sovereign index which finished the first quarter at 269bps but widened to almost 330bps during the second quarter before falling quickly to 283bps at the end of the quarter. Meanwhile, the debt of core Europe benefited from increasing risk aversion, with German yields in particular continuing to reach record lows. Negative yields were seen in the t-bill market, whilst two year yields traded tighter than their Japanese counterpart for the first time on record.

Banking sector

Despite the glut of banking sector funding needs in the first half of 2012, liquidity conditions for banks improved significantly, helped in no small measure by the ECB's second LTRO operation as well as the extension of collateral eligibility. Given that some maturing short-term refinancing operations were rolled into this operation, additional liquidity generated by the € 530 billion allotment is estimated at € 300 billion. Not surprisingly, ECB deposits hit a new record. Liquidity conditions have also been boosted by the ECB's full allotment policy for their refinancing operations, including a new three-month facility. Moreover, it has indicated it will continue this full allotment policy at least until the end of 2012 and for as long as necessary. At the end of the second quarter, the three-month Euribor fell below 0.65% from about 1.60% in the fourth quarter of 2011. The implied rate on Euribor futures contracts expiring in December has dropped towards 0.40% on the expectation that abundant liquidity and interest rates cuts are likely to push Euribor rates further down. Easy liquidity conditions were also seen in the OIS-Euribor spread (barometer of financial stress), which fell below 40 bps in the first quarter, having been almost 100bps at the turn of the year. Despite increased risk aversion in the second quarter, the OIS-Euribor spread remained at or below 40 bps for almost all of the second quarter, reaffirming the super easy liquidity conditions. However, on an individual basis, some banks have seen liquidity conditions tighten.

Despite generally stable liquidity conditions, some stress could be discerned on the credit risk side in the second quarter. After compressing significantly in the first quarter (again driven by the LTRO), bank CDS spreads widened significantly in quarter two as concerns about liquidity were replaced by capital concerns. Having gone as low as 180bps towards the end of quarter one, the Markit iTraxx Europe Senior Financial Index increased to over 300bps in the second quarter before finishing the quarter at 260bps. As well as concerns over the periphery, the market was also hit by a raft of downgrades across the sector. Moody's in particular were very active and downgraded 15 major global banks, citing significant exposure to the volatility and risk of outsized losses inherent to capital market activities. Senior bank debt continues to get significant support from the European authorities. However, the authorities announced in early June that such implicit support cannot be counted on in future as they provided some details of a bank resolution regime, which will come into effect from 2018. In this way, they are attempting to break the negative feedback loop that currently exists between sovereigns and their respective banking sectors.

Public sector

Public sector debt remained at the forefront of the current crisis over the first half of 2012. The first quarter was a relatively positive quarter for public sector debt with the ECB's LTRO increasing demand for sovereign debt at the short end of the curve (especially in Italy and Spain). Spreads generally tightened as risk premia diminished. However, this trend was short lived and reversed in quarter two as debt sustainability concerns returned. As economic conditions deteriorated, it has become less likely that many European governments are going to meet their 2012 targets. Eurostat published official budget deficit and debt data for 2011 which showed that the Euro area average budget deficit fell to 4.1% (6.2% in 2010) and the Euro area government debt-to-GDP ratio increased to 87.2% (85.3% in 2010). The European Commission's Spring forecasts estimate that the average Euro area budget deficit will fall to 3.2% in 2012 and 2.9% in 2013, while government debt will reach 92.6% of GDP by 2013. Disappointing economic growth indicators in quarter two imply significant downside risks to these estimates. In this context, there has been a subtle shift away by European authorities from pure austerity policy measures towards a more growth orientated policy stance.

The Spanish public sector was a key source of market concern in the second quarter. As well as contingent liabilities emanating from the banking sector, the market remained concerned by budgetary overruns, especially at a sub-sovereign level. Although greater confidence in the banking sector should follow from the announcement of Euro-group financial support for the recapitalisation programme, the sovereign continues to face major challenges, such as weak growth and high unemployment, which could ultimately force it to look for a more extensive economic programme.

Despite the increasing strain on the public sector, the vast majority of entities continued to service their debt as scheduled, often with the aid of enhanced support at a sovereign level. The occurrence of private sector involvement ("PSI") and the open discussion of a potential Greek exit imply that the negative market dynamics relating to all peripherals are likely to persist in the absence of major policy initiatives at an EU level. The fact that there are not sufficient rescue funds readily available for multi-year fully-fledged programmes for Spain (and especially Italy) only reinforces the negative sentiment and implies that credit risks remain elevated. This has also been reflected by the rating agencies, where the downward rating migration has continued through the first half of 2012 especially for European sovereigns with subsequent implications for all public sector entities related to these names. Although the majority of EMU member states have seen some form of negative rating action in the first half of 2012, the periphery remained the main focus of the rating agencies. Spain has seen some of the largest downgrades in the first half of 2012 as its rating was lowered by 5 notches by Moody's (Baa3), 4 notches by S&P (BBB+) and 5 notches by Fitch (BBB).

Directors and other information

Board of Directors
Ms. M. Better* (German)
Dr. J. Bourke*
Ms. F. Flannery
Mr. T. Glynn (American)
Mr. A. Kearns*
Mr. N. Reynolds
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Management discussion

The directors of DEPFA ACS BANK ("the Bank") present herewith their management discussion and the unaudited condensed interim financial statements ("the interim report") as at 30 June 2012.

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 the Bank is held by DEPFA BANK plc. In 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 has been no change in ownership of the Bank during 2012.

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.

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.

Ratings

The senior unsecured ratings assigned by the three mandated rating agencies, Fitch Ratings, Moody's and Standard & Poor's, to the Bank remained unchanged in the first half of 2012. These ratings consider, to varying degrees, the likelihood of external support in a crisis scenario by the Federal republic of Germany, which is the ultimate owner of the Bank via its ultimate parent HRE Holding.

With regard to covered bond ratings which are also driven by the senior unsecured ratings the following changes took place during the first half of 2012: Standard & Poor's downgraded DEPFA ACS BANK's Asset Covered Securities to BBB Stable Outlook from AA. Fitch Ratings downgraded DEPFA ACS BANK's Asset Covered Securities rating to A from AAA.

DEPFA Group entities' ratings inter alia still benefit from linkages between the DEPFA Group and FMS Wertmanagement resulting from the transfer of positions and the related services for FMS Wertmanagement.

Senior Unsecured Ratings and Covered Bond Ratings of DEPFA ACS BANK

	Fitch Ratings		Moody's		Standard & Poor's	
	30.06.12	31.12.11	30.06.12	31.12.11	30.06.12	31.12.11
Long-term Rating	BBB+	BBB+	Baa3	Baa3	BBB	BBB
Outlook	Negative	Negative	Stable	Stable	Stable	Stable
Short-term Rating	F2	F2	P-3	P-3	A-2	A-2
Asset Covered Securities	A	AAA(1)	Aa3	Aa3	BBB	AA(1)

(1) Rating Watch negative / Credit Watch Negative

Management discussion (cont.)

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

Business Review

Development in earnings

In recent years, the DEPFA Group, as part of the HRE Group has undergone a process of strategic restructuring and has improved its portfolio structure. The success of this process along with the once off effects in the first half of 2012 is reflected in the results. In the first half of 2012, DEPFA ACS BANK has reported pre-tax income of € 78 million.

In the first six months of 2012, the Bank recorded a decrease in net interest income, decreasing by 58% to € 68 million compared with € 163 million for the similar period in 2011, primarily as a result of the reduced profits from the buyback of DEPFA ACS BANK asset covered securities that were redeemed before maturity at prevailing market levels on a reverse enquiry basis € 33 million (2011: € 141 million).

Net fee and commission income / (expense) amounted to € 14 million (2011: € -1 million). The commission income in the current 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 / (expense) recorded income of € 2 million to June 2012 compared to an expense of € -4 million to June 2011. This result is due to marking to market derivatives that do not qualify for hedge accounting.

Net expense from financial investments amounted to € -5 million (2011: € -32 million), relating to the loss on the sale of financial assets. This was compounded by gains generated by the redemption of liabilities shown under net interest income.

Net income / (expense) from hedge relationships amounted to € 9 million (2011: € -1 million), mainly relating to hedge ineffectiveness within the range of 80 % to 125 % permitted under IAS 39.

Other operating expense amounted to € -1 million (2011: € -6 million). The current year figure includes IT project cost provisions of € -2 million. The 2011 figure predominantly relates to foreign exchange revaluation losses.

Provision for losses on loans and advances amounted to € -2 million (2011: € nil). The 2012 figure related to the collective provision, as there are no specific provisions on any of the Bank's positions.

General administrative expenses were € -7 million for the period to June 2012, unchanged on the June 2011 figure.

Pre-tax income for the period amounted to € 78 million (2011: € 112 million). Taxes on income amounted to € -10 million (2011: € -12 million).

Net income for the period amounted to € 68 million (2011: € 100 million).

Development in assets

Total assets decreased by 3%, to € 47 billion in June 2012 from € 49 billion in December 2011.

The decline is primarily due to a reduction of the counter effects which had increased total assets in the course of the transfer of positions to FMS Wertmanagement.

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, 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 Bank. This meant that it was not possible for the original position to be de-recognised. Instead, the back-to-back transactions resulted in an increase of the statement of financial position total.

FMS Wertmanagement provides 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.

Furthermore, because FMS Wertmanagement does not have a banking status, the Bank facilitated certain refinancing functions for FMS Wertmanagement, for instance with the ECB or in bilateral repo transactions. The refinancing funds were passed on to FMS Wertmanagement. The Bank received a claim against FMS Wertmanagement, which increased the statement of financial position total.

Management discussion (cont.)

The total counter effects on the Bank are described in detail in note 4 of the notes to the unaudited condensed interim financial statements.

These counter effects were reduced in the first half of 2012, in line with overall strategy.

The back-to-back derivatives continue 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 €1.6 billion as at 30 June 2012 compared with €2.4 billion as at 31 December 2011. 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.

Development in liabilities and equity

Total liabilities decreased by 4%, to € 47 billion in June 2012 from € 48 billion in December 2011.

As was the case on the asset side of the statement of financial position the decline is mainly attributable to the same reduction in counter effects with FMS Wertmanagement.

Liabilities evidenced by certificates decreased by € 3 billion from € 34 billion in December 2011 to € 31 billion in June 2012. This reduction reflected the run off in outstanding debt, of € 3 billion, as well as the buyback of certain unlisted asset covered securities in DEPFA ACS BANK of € 146 million at prevailing market levels on a reverse enquiry basis.

The shareholders' equity amounted to € 602 million as of 30 June 2012, compared with € 533 million as of 31 December 2011, an increase of € 69 million. The movement in equity in the period is a combination of the profit of € 65 million and the reduction in the AfS reserve of € 1 million.

Events after the statement of financial position date

There have been no notable events after 30 June 2012.

Development in earnings, assets, liabilities and equity

DEPFA ACS BANK has reported a profit for the first half of 2012 with a pre-tax income of € 78 million. However, the extent of the 2012 profit has benefited from once-off effects such as the profits from the redemption of ACS on a reverse enquiry basis, net of losses from sales of financial investments and loans and receivables. The Bank cannot expect in future to benefit from one-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.

Due to a requirement in line with the principle of burden sharing required by the European Commission, from the time at which the payment condition of € 1.59 billion is completely settled up to the time of reprivatisation, the DEPFA Group including DEPFA ACS BANK will, subject to certain conditions, have to pay further annual fees to the Federal Republic of Germany. The payment condition was completely settled on 14 March 2012. The terms and conditions of any such fees still have to be agreed between the affected companies of the DEPFA Group and the Federal Republic of Germany.

Total assets in 2012 declined, mainly due to the diminishing counter effects of the transfer of certain non strategic positions to FMS Wertmanagement. The extent of counter effects will continue to decline in future. For instance, changes of borrowers are carried out for some instruments (novations). Even excluding the FMS Wertmanagement counter effects, it is expected that total assets will decline in 2012 and 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 exchange rates and interest rates can also have an impact on total assets.

Management discussion (cont.)

Opportunities, risks and uncertainties within the DEPFA Group including DEPFA ACS BANK

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

At present, a project is being carried out to separate the Deutsche Pfandbriefbank Group ("the pbb Group") and the DEPFA Group. As a result of the separation, it will be easier to distinguish the two sub-groups which improves the chances of a successful reprivatisation.

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 2011 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 might become insolvent in an orderly or disorderly manner. In these cases, the DEPFA Group including 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.
- Due to the financial crisis, the situation in the refinancing markets has undergone considerable change in recent years. Firstly, it has become more difficult to place issues in the market. Secondly, the debt crisis affecting some European countries has been one of the factors which has resulted in a major loss of confidence and significantly lower turnover on the interbank market, i.e. the market in which banks lend money to each other. If the problems affecting the refinancing markets continue or become more serious, there may be negative consequences for 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 rating drivers for the Bank and its covered bonds, could lead to rating changes. Downgrades to Bank and/or covered bond ratings could have a negative impact particularly on the Bank's re-financing capacity and hence on its 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 however is dependent on:
    - The future development of the discounts for repo refinancing on the market and with the central banks.
    - Collateral requirements as a result of changing market parameters (including interest rates, foreign currency rates and basis for calculation).
    - Changing requirements of the rating agencies regarding the necessary surplus in the cover pools.
- Litigation which is currently pending and litigation which may occur in future might have a considerably negative impact on the results of the HRE Group and the DEPFA Group 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 is exposed to operational risks, such as its reliance on key positions, and a higher level of staff fluctuation. These risks may result in material losses. The risks may also become relevant for the service obligations assumed by the HRE Group and the DEPFA Group for the on-going operation of FMS Wertmanagement.
- The ongoing development of national and international regulatory requirements may have an impact on the structure of assets and liabilities and may thus also affect the development in earnings. For instance, the modified obligations regarding more stringent liquidity requirements presented by the Basel Committee on Banking Supervision (Basel III) 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.
- In accordance with the EU Rating Ordinance of September 2009, external ratings can in future be used in banks for calculating capital requirements only if the corresponding rating agencies are registered in line with the EU Rating Ordinance and if they are regulated by the relevant regulatory authorities. If agencies issue ratings outside the European Union, regulation in the other country must correspond to the European standards. Whereas the registration processes for instance of the major rating agencies have been concluded, the process of checking the regulatory standards of various other countries is still ongoing. If the regulations of other countries are not recognised, this may have a negative impact on the financial situation of the DEPFA Group including the Bank because this would result in a higher requirement for backing with regulatory capital.
- The possibility of introducing a tax on financial-market transactions is being discussed in most of the countries in the European Union. The aim is to introduce a tax on purchases and sales of transferrable securities or options and other financial instruments. Such a tax might have a negative impact on the profitability of the DEPFA Group including the Bank.

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

Each of the current directors, whose names are listed on page 5, 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 34 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

Dr. J. Bourke	**Mr. N. Reynolds**
Director	**Director**

27 July 2012

Independent review report on unaudited condensed interim financial statements of DEPFA ACS BANK

Introduction

We have been engaged by DEPFA ACS BANK ("the Bank") to review the unaudited condensed set of financial statements in the Interim Report for the six months ended 30 June 2012 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 1-34. 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 set of 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 financial report in accordance with the TD Regulations and the Transparency Rules of the Central Bank of Ireland.

As disclosed on page 17, 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 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

Our responsibility is to express to the Bank a conclusion on the unaudited set of 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 set of financial statements in the Interim Report for the six months ended 30 June 2012 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
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Dublin 1

27 July 2012

Income statement – unaudited

for the period from 1 January to 30 June

	Note	1 Jan – 30 June 2012 €m	1 Jan – 30 June 2011 €m
Interest and similar income		636	709
Interest expense and similar expenses		-601	-687
Income from buyback of liabilities		33	141
Net interest income	5	**68**	**163**
Net fee and commission income / (expense)		14	-1
Net fee and commission income / (expense)	6	**14**	**-1**
Net trading income / (expense)	7	2	-4
Net expense from financial investments	8	-5	-32
Net income / (expense) from hedge relationships	9	9	-1
Other operating expense	10	-1	-6
Total operating revenues		**87**	**119**
Provision for losses on loans and advances	16	-2	-
General administrative expenses	11	-7	-7
Pre-tax income		**78**	**112**
Taxes on income		-10	-12
Net income for the period		**68**	**100**
Attributable to:			
Equity holders of the parent		68	100

The notes on pages 17 to 31 are an integral part of these unaudited condensed interim financial statements.

Statement of comprehensive income – unaudited

for the period from 1 January to 30 June

€ m	**1 Jan – 30 June 2012**			**1 Jan – 30 June 2011**		
	Before tax	**Tax**	**After tax**	**Before tax**	**Tax**	**After tax**
Net income for the period	78	-10	68	112	-12	100
AFS reserve	1	-	1	9	-1	8
Total comprehensive income	**79**	**-10**	**69**	**121**	**-13**	**108**
Attributable to the equity holders	79	-10	69	121	-13	108

Disclosure of components of comprehensive income – unaudited

for the period from 1 January to 30 June

	1 Jan – 30 June 2012	**1 Jan – 30 June 2011**
	€ m	**€ m**
Net income for the period	68	100
AFS reserve	1	8
Gains arising in the period	1	8
Cash flow hedge reserve	-	-
Gains/(losses) arising in the period	2	-12
Reclassification adjustments for gains/(losses) included in profit or loss	-2	12
Total comprehensive income	**69**	**108**

The notes on pages 17 to 31 are an integral part of these unaudited condensed interim financial statements.

Statement of financial position – unaudited

As at 30 June 2012 and 31 December 2011

	Note	30/06/2012	31/12/2011
		€ m	**€ m**
ASSETS			
Cash reserves		13	13
Trading assets	13	2,265	3,452
Loans and advances to other banks	14	4,164	5,116
Loans and advances to customers	15	14,314	14,400
Allowance for losses on loans and advances	16	-4	-2
Financial investments	18	21,284	21,442
Other assets	19	5,140	4,456
Deferred tax assets		3	3
Total assets		**47,179**	**48,880**
LIABILITIES			
Liabilities to other banks	20	7,355	4,699
Liabilities to customers	21	1,663	2,335
Liabilities evidenced by certificates	22	31,049	34,023
Trading liabilities	23	2,315	3,313
Provisions	24	2	-
Other liabilities	25	3,537	3,328
Current tax liabilities	26	12	5
Subordinated capital	27	644	644
Total liabilities		**46,577**	**48,347**
EQUITY			
Equity attributable to equity holders			
Share capital		510	510
Retained earnings		111	43
Other reserves - AfS		-19	-20
Total equity		**602**	**533**
Total equity and liabilities		**47,179**	**48,880**

The notes on pages 17 to 31 are an integral part of these unaudited condensed interim financial statements.

Statement of changes in equity - unaudited

for the period from 1 January to 30 June

€ m	Share capital	Retained earnings	Available-for-sale reserve	Equity
Balance at 1 January 2012	510	43	-20	533
Total comprehensive income	-	68	1	69
Balance at 30 June 2012	**510**	**111**	**-19**	**602**

€ m	Share capital	Retained earnings	Available-for-sale reserve	Equity
Balance at 1 January 2011	510	119	-31	598
Total comprehensive income	-	100	8	108
Balance at 30 June 2011	**510**	**219**	**-23**	**706**

The notes on pages 17 to 31 are an integral part of these unaudited condensed interim financial statements.

Cash flow statement - unaudited

for the period from 1 January to 30 June

	1 Jan – 30 June	
	2012 € m	**2011 € m**
Cash flows from operating activities		
Pre-tax profit	**78**	**112**
Adjustments for non-cash movements:		
Foreign exchange (gain)/loss	-1	6
Net decrease in accrued interest income	208	298
Net decrease in accrued interest expense	-194	-238
Provisions for losses on loans and advances	2	-
Losses on sale of investment securities and loans	5	32
Income from buyback of liabilities	-33	-141
Other non cash items	-	-45
Net decrease in loans and advances to other banks	926	21,363
Net decrease/(increase) in loans and advances to customers	223	-66
Net increase in other assets	-53	-1
Net increase/(decrease) in liabilities to other banks	2,610	-18,255
Net decrease in liabilities to other banks	-672	-1,069
Net decrease in liabilities evidenced by certificates	-3,398	-4,000
Net decrease in other liabilities	-36	-93
Net (decrease)/increase in trading derivatives	-237	149
Tax (paid)/received	-2	1
Net cash from operating activities	**-574**	**-1,947**
Cash flows from investing activities		
Sale/maturity of investment securities	574	1,947
Net cash from investing activities	**574**	**1,947**
Cash flows from financing activities		
Dividends paid	-	-
Net cash from financing activities	**-**	**-**
Net increase in cash and cash equivalents	**-**	**-**
Cash and cash equivalents at the beginning of the year	**-**	**-**
Effect of exchange rate changes on cash and cash equivalents	-	-
Cash and cash equivalents at the end of the year	**-**	**-**

Included in the cash flows for the year are the following amounts:

	2012 € m	**2011 € m**
Interest income received	844	1,007
Interest expense paid	-795	-925

The notes on pages 17 to 31 are an integral part of these unaudited condensed interim financial statements.

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

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 2012 are unaudited but have been reviewed by the auditor whose report is set out on page 11. The financial information presented herein does not amount to statutory financial statements that are required by Section 7 of the Companies (Amendment) Act, 1986 to be annexed to the annual return of the Bank. The statutory financial statements for the financial year ended 31 December 2011 will be filed with the Registrar of Companies along with the annual return by 13 September 2012.

On 2 October 2007 the entire ordinary share capital of the Bank was acquired by Hypo Real Estate Holding AG ("HRE Holding"), the parent entity of the Hypo Real Estate Group ("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 has been no change in the ownership of the Bank during 2012.

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

2. 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, as no newly effective IFRS requirements had an impact on existing policies.

3. Operating segments

The internal reporting structure of the DEPFA Group was re-organised on 1 January 2012 into the following reportable primary business segments which reflect the basis on which the DEPFA Group is managed by the Board of Directors (being the chief operating decision maker) during 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 the unaudited interim financial statements.

4. 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 assets and liabilities of the HRE Group and its direct and indirect subsidiaries to a deconsolidated environment. This application was approved by the FMSA, and the deconsolidated environment FMS Wertmanagement was established on 8 July 2010. The transferred positions mainly comprised financial instruments as defined in IAS 39.

Notes to the unaudited condensed interim financial statements (cont.)

At the end of September 2010, the HRE Group concluded the agreements necessary for the transfer with FMS Wertmanagement. The positions were transferred to FMS Wertmanagement with legal and/or economic effect as of 1 October 2010; however, no legal and/or economic transfer was originally intended for some of the positions to be transferred. Instead, they were backed by a financial guarantee of FMS Wertmanagement; any legal and/or economic transfer in this respect will only take place at a later date. The transfer was a non-cash transaction between companies under common control.

The positions were transferred to FMS Wertmanagement by way of a spin-off for inclusion in an existing company in accordance with Section 8a (8) FMStFG in conjunction with Section 123 (2) No. 1 as follows: Deutsche Pfandbriefbank AG ("pbb") and also HRE Holding AG spun off parts of their assets to FMS Wertmanagement and received compensation claims in return; in addition, SoFFin – as a further consideration – also received a stake in the share capital of FMS Wertmanagement of € 1 million.

The assets and liabilities of the subsidiaries were transferred to HRE Holding AG by way of singular succession (Einzelrechtsnachfolge) and the resultant pending agreements were subsequently spun off to FMS Wertmanagement.

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 position of the HRE Group as of 1 October 2010.

An "upgrade" of the transfer methods is being considered 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.

Each of the positions were transferred at the corresponding carrying amount of the transferor company in accordance with the accounting requirements which were applicable for the individual financial statements of the respective company with the exception of available-for-sale ("AfS") and former AfS assets which are transferred at their corresponding carrying amount adjusted for the related AfS revaluation reserve balance in equity.

The amount of the compensation claim which the HRE Group as well as the other transferring subsidiaries received from FMS Wertmanagement as of 1 October 2010 was calculated as the difference between the carrying amount of the assets transferred by the respective company and the transferred liabilities.

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

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

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

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

c) FMS Wertmanagement does not have a banking status - therefore the Bank facilitated certain refinancing functions for FMS Wertmanagement, for instance with the ECB or in bilateral repo transactions. The refinancing funds were passed on to FMS Wertmanagement. The Bank received a claim against FMS Wertmanagement, which increased total assets and liabilities. The Bank ceased to provide these facilities to FMS Wertmanagement in the first half of 2011.

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.

Notes to the unaudited condensed interim financial statements (cont.)

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

A first instalment of € 800 million became due and payable in September 2011 and a second instalment of € 167 million became due and payable in November 2011. A final instalment of € 623 million became due and payable in March 2012. All instalments were paid on their due dates.

The purchase price adjustment did not affect the income statement.

Due to a requirement in line with the principle of burden sharing required by the European Commission, from the time at which the payment condition of € 1.59 billion is completely settled up to the time of reprivatisation, the DEPFA Group including DEPFA ACS BANK will, subject to certain conditions, have to pay further annual fees to the Federal Republic of Germany. The payment condition was completely settled on 14 March 2012. The terms and conditions of any such fees still have to be agreed between the affected companies of the DEPFA Group and the Federal Republic of Germany.

The effects of all counter effects ("FMSWM Counter Effects") at 30 June 2012 and 31 December 2011 on the statement of financial position of the Bank level are shown below in the pro forma statement of financial position:

	30/06/2012	30/06/2012 FMSWM Counter Effects	30/06/2012 Post FMSWM Counter Effects	31/12/2011	31/12/2011 FMSWM Counter Effects	31/12/2011 Post FMSWM Counter Effects
	€ m	**€ m**	**€ m**	**€ m**	**€ m**	**€ m**
Assets						
Cash reserves	13	-	13	13	-	13
Trading assets	2,265	1,650	615	3,452	2,443	1,009
Loans and advances to other banks	4,164	1,663	2,501	5,116	2,335	2,781
Loans and advances to customers	14,314	-	14,314	14,400	-	14,400
Allowance for losses on loans and advances	-4	-	-4	-2	-	-2
Financial investments	21,284	-	21,284	21,442	-	21,442
Other assets	5,140	-	5,140	4,456	112	4,344
Deferred tax assets	3	-	3	3	-	3
Total assets	**47,179**	**3,313**	**43,866**	**48,880**	**4,890**	**43,990**
Liabilities and equity						
Liabilities to other banks	7,355	-	7,355	4,699	-	4,699
Liabilities to customers	1,663	1,663	-	2,335	2,335	-
Liabilities evidenced by certificates	31,049	-	31,049	34,023	-	34,023
Trading liabilities	2,315	1,650	665	3,313	2,443	870
Provisions	2	-	2	-	-	-
Other liabilities	3,537	-	3,537	3,328	112	3,216
Current tax liabilities	12	-	12	5	-	5
Subordinated capital	644	-	644	644	-	644
Liabilities	**46,577**	**3,313**	**43,264**	**48,347**	**4,890**	**43,457**
Share capital	510	-	510	510	-	510
Retained earnings	111	-	111	43	-	43
Other reserves – AfS	-19	-	-19	-20	-	-20
Equity	**602**	**-**	**602**	**533**	**-**	**533**
Total liabilities and equity	**47,179**	**3,313**	**43,866**	**48,880**	**4,890**	**43,990**

Notes to the unaudited condensed interim financial statements (cont.)

5. Net interest income

	1 Jan – 30 June 2012 € m	2011 € m
Interest and similar income		
Lending and money-market business	445	576
Derivatives	123	55
Fixed-income securities	68	78
	636	**709**
Interest expense and similar expenses		
Liabilities to other banks	-186	-196
Liabilities evidenced by certificates	-406	-482
Subordinated capital	-9	-9
	-601	**-687**
Income from buyback of liabilities	**33**	**141**
Net interest income	**68**	**163**

Interest income on impaired loans was € nil in 2012 (2011: € 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 € 33 million in 2012 (2011: € 141 million).

6. Net fee and commission income / (expense)

	1 Jan – 30 June 2012 € m	2011 € m
Fee and commission income / (expense)		
From lending operations	14	-1
Net fee and commission income / (expense)	**14**	**-1**

Net fee and commission income totalled € 14 million in the period (2012: € -1 million expense), mostly a result of commission income generated on the cancellation of guarantees related to specific assets from DEPFA BANK plc.

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.

7. Net trading income / (expense)

	1 Jan – 30 June 2012 € m	2011 € m
From interest rate and foreign exchange derivatives	2	-4
	2	**-4**

8. Net expense from financial investments

	1 Jan – 30 June 2012 € m	2011 € m
Loss on sale of financial investments	-5	-32
	-5	**-32**

Notes to the unaudited condensed interim financial statements (cont.)

9. Net income / (expense) from hedge relationships

	1 Jan – 30 June 2012 € m	1 Jan – 30 June 2011 € m
Result from fair value hedge accounting	9	-1
Result from hedged items	-141	365
Result from hedging instruments	150	-366
	9	**-1**

10. Other operating expense

	1 Jan – 30 June 2012 € m	1 Jan – 30 June 2011 € m
Net foreign exchange gains/(losses)	1	-6
Other operating expenses	-2	-
	-1	**-6**

Other operating expenses are due to provisions for IT projects relating to the separation of IT systems of € -2 million.

11. General administrative expenses

	1 Jan – 30 June 2012 € m	1 Jan – 30 June 2011 € m
Personnel expenses		
Wages and salaries	-1	-
Social security costs	-	-
Pension expenses and related employee benefit costs	-	-
Other general administrative expenses	-6	-7
	-7	**-7**

The average number of employees in the Bank in the six month period to 30 Jun 12 was 8 (2011: 8).

Cost-income ratio in % is:

	1 Jan – 30 June 2012	1 Jan – 30 June 2011
Cost-income ratio	8%	6%

12. Net gains/losses

The income statement contains the following income statement-related net gains/net losses from disposal/sale of loans and receivables and financial liabilities at amortised cost.

	1 Jan – 30 June 2012 € m	1 Jan – 30 June 2011 € m
As shown in net interest income		
Financial liabilities at amortised cost	33	141
As shown in net expense from financial investments		
Loans and receivables	-5	-32
	28	**109**

13. Trading assets

	30/06/2012 € m	31/12/2011 € m
Stand-alone derivatives (banking book)	2,265	3,452
	2,265	**3,452**
Of which due from Group companies	425	812

Stand-alone derivatives include derivatives related to FMS Wertmanagement counter effects as described in note 4 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.

14. Loans and advances to other banks

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

	30/06/2012 € m	31/12/2011 € m
Public sector loans	1,534	1,583
Other loans and advances	2,630	3,533
	4,164	**5,116**
Of which due from Group companies	1,270	2,115

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 banks are broken down by maturity as follows:

	30/06/2012 € m	31/12/2011 € m
Repayable on demand	1,360	1,335
With agreed maturities		
Up to 3 months	1,156	2,038
from 3 months to 1 year	31	25
from 1 year to 5 years	1,479	1,601
from 5 years and over	138	117
	4,164	**5,116**

There were no assets past due but not impaired and no assets impaired in 2012 or 2011.

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

15. Loans and advances to customers

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

	30/06/2012 € m	31/12/2011 € m
Public sector loans	14,314	14,400
	14,314	**14,400**

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

	30/06/2012	31/12/2011
	€ m	€ m
With agreed maturities		
Up to 3 months	43	86
from 3 months to 1 year	1,848	949
from 1 year to 5 years	3,161	3,945
from 5 years and over	9,262	9,420
	14,314	**14,400**

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

16. Allowance for losses on loans and advances

Movement in allowance for losses on loans and advances:

	30/06/2012	31/12/2011
	€ m	€ m
Collective provision for losses on loans and advances		
Balance at 1 January	-2	-1
Additions to collective provision	-2	-1
Change due to transfer to FMS-Wertmanagement	-	-
Total collective provision for losses on loans and advances	**-4**	**-2**

The total allowance for losses on loans and advances is made up of public sector loans only.

17. Loans and advances past due but not impaired

There were no assets past due but not impaired and no assets impaired in 2012 or 2011.

18. Financial investments

	30/06/2012	31/12/2011
	€ m	€ m
Loans and Receivables financial investments	**21,284**	**21,442**
Debt securities and other fixed-income securities	21,284	21,442
	21,284	**21,442**

Financial investments, broken down by maturities

	30/06/2012	31/12/2011
	€ m	€ m
With agreed maturities		
Up to 3 months	180	21
from 3 months to 1 year	1,481	955
from 1 year to 5 years	6,672	7,396
from 5 years and over	12,951	13,070
	21,284	**21,442**

The Bank has made use of the IASB amendments to IAS 39 and IFRS 7, published on 13 October 2008, and reclassified financial assets. The Bank identified assets, eligible under the amendments, for which at the reclassification date it had a clear change of intent to hold for the foreseeable future rather than to exit or trade in the short term and which had met the definition of loans and receivables according to IAS 39 (amongst others, 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 € 0.288 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 € 2.329 billion were transferred to FMS Wertmanagement or sold. A net loss of € 13.1 million was realised on its 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 5.93% and 1.79% (2011: 5.93% and 1.79%).

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

30 June 2012 Reclassifications	Into: Financial investments LaR			Effect in reporting period if no assets had been reclassified
	Reclass date	30 June 2012		30 June 2012
		Carrying amount € million	Fair value € million	Changes in AfS Reserve (after taxes) € million
Out of: AfS financial investments	1 July 2008	2,457	2,213	13

31 December 2011 Reclassifications	Into: Financial investments LaR			Effect in reporting period if no assets had been reclassified
	Reclass date	31 December 2011		31 December 2011
		Carrying amount € million	Fair value € million	Changes in AfS Reserve (after taxes) € million
Out of: AfS financial investments	1 July 2008	2,377	2,118	-82

19. Other assets

	30/06/2012 € m	31/12/2011 € m
Positive fair values from derivative financial investments		
Hedging derivatives (micro fair value hedges)	5,065	4,434
Other assets	75	22
	5,140	**4,456**
Of which due from Group companies	4,473	3,486

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

Notes to the unaudited condensed interim financial statements (cont.)

20. Liabilities to other banks

	30/06/2012 € m	31/12/2011 € m
Liabilities to other banks	7,355	4,699
	7,355	**4,699**
Of which due to Group companies	4,164	4,266

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

Liabilities to other banks by maturities

	30/06/2012 € m	31/12/2011 € m
Repayable on demand	3,048	2,932
With agreed maturities		
Up to 3 months	1,619	1,372
from 3 months to 1 year	-	368
from 1 year to 5 years	2,542	11
from 5 years and over	146	16
	7,355	**4,699**

21. Liabilities to customers

	30/06/2012 € m	31/12/2011 € m
Liabilities to customers – repayable on demand	1,663	2,335
	1,663	**2,335**

22. Liabilities evidenced by certificates

By type of business:	30/06/2012 € m	31/12/2011 € m
Public sector covered bonds	31,049	34,023
	31,049	**34,023**

By maturities:

	30/06/2012 € m	31/12/2011 € m
With agreed maturities		
up to 3 months	244	3,370
from 3 months to 1 year	878	791
from 1 year to 5 years	16,456	15,377
from 5 years and over	13,471	14,485
	31,049	**34,023**

23. Trading liabilities

	30/06/2012 € m	31/12/2011 € m
Stand-alone derivatives (banking book)	2,315	3,313
	2,315	**3,313**
Of which due to Group companies	1,425	2,073

Stand-alone derivatives include derivatives related to FMS Wertmanagement counter effects as described in note 4 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 statement of financial position include amounts payable to other entities in the HRE Group.

24. Provisions

	30/06/2012 € m	31/12/2011 € m
Other provisions	2	-
	2	**-**

25. Other liabilities

	30/06/2012 € m	31/12/2011 € m
Negative fair values from derivative financial investments		
Hedging derivatives (micro fair value hedge)	3,514	3,265
Other liabilities	23	63
	3,537	**3,328**
Of which due to Group companies	2,444	2,343

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

26. Current tax liabilities

	30/06/2012 € m	31/12/2011 € m
Current tax liabilities	12	5
	12	**5**

27. Subordinated capital

	30/06/2012 € m	31/12/2011 € m
Subordinated liabilities	644	644
Of which due to Group companies	**644**	**644**

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

Notes to the unaudited condensed interim financial statements (cont.)

The Bank has not had any defaults of principal, interest or redemption amounts during the period on its borrowed funds (2011: € nil).

Subordinated capital, broken down by maturities	**30/06/2012 € m**	**31/12/2011 € m**
With agreed maturities		
from 5 years and over	644	644
	644	**644**

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

		30/06/2012 Nominal € m	**31/12/2011 Nominal € m**
Subordinated liabilities			
DEPFA Finance NV, 08/06/30	Euribor + 0.8849%	50	50
DEPFA Finance NV, 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 NV, 21/03/32	5.099% until 2017, thereafter Euribor + 1.94%	170	170
DEPFA BANK plc, 15/10/29	Euribor + 0.325%	70	70
		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.

The Bank has not had any defaults of principal, interest or redemption amounts during the period on its subordinated capital (2011: nil).

28. Fair values of 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.

	Carrying Value		**Fair Value**	
	30/06/2012 € m	**31/12/2011 € m**	**30/06/2012 € m**	**31/12/2011 € m**
Financial assets				
Cash reserves	13	13	13	13
Trading assets	2,265	3,452	2,265	3,452
Loans and advances to other banks	4,164	5,116	4,156	5,096
Loans and advances to customers	14,310	14,398	12,426	12,562
Financial investments	21,284	21,442	19,919	19,903
Other assets	5,140	4,456	5,140	4,456
Deferred tax assets	3	3	3	3
Total assets	**47,179**	**48,880**	**43,922**	**45,485**
Financial liabilities				
Liabilities to other banks	7,355	4,699	7,352	4,698
Liabilities to customers	1,663	2,335	1,663	2,335
Liabilities evidenced by certificates	31,049	34,023	26,046	28,440
Trading liabilities	2,315	3,313	2,315	3,313
Provisions	2	-	2	-
Other liabilities	3,537	3,328	3,537	3,328
Current tax liabilities	12	5	12	5
Subordinated capital	644	644	185	226
Total liabilities	**46,577**	**48,347**	**41,112**	**42,345**

Notes to the unaudited condensed interim financial statements (cont.)

The carrying amounts reflect the maximum exposure to credit risk of the assets and the maximum amount on statement of financial position the entity could have to pay of the other items according to IFRS 7.

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

The fair value of floating rate placements and overnight deposits is their carrying amount. 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.

Assets and liabilities according to measurement categories:

	30/06/2012	31/12/2011
	€ m	**€ m**
Loans and receivables	39,762	40,958
Cash reserves	13	13
Derivatives	7,330	7,886
Other assets	74	23
Total assets	**47,179**	**48,880**
Financial liabilities at amortised cost	40,067	41,057
Derivatives	5,829	6,578
Other liabilities	681	712
Total liabilities	**46,577**	**48,347**

Notes to the unaudited condensed interim financial statements (cont.)

29. Contingent liabilities and commitments

	30/06/2012	31/12/2011
	€ m	**€ m**
Contingent Liabilities		
Loan Guarantees	**335**	**118**

The above amounts represent nominal exposures.

30. Contingent assets

	30/06/2012	31/12/2011
	€ m	**€ m**
Guarantees	**1,672**	**1,583**

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

31. Related party transactions

Balances due to and from Group companies are disclosed in the notes to the unaudited condensed interim financial statements. The largest group into which the results of the Bank are consolidated is that headed by HRE Holding. Transactions with Group companies included in the income statement categories below consisted of:

	30/06/2012	31/12/2011
	€ m	**€ m**
Interest and similar income	176	47
Interest expense and similar expenses	-79	-85
Net fee and commission income	15	-14
General administrative expenses	-5	-13

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

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

HRE has various relationships with the sister company FMS Wertmanagement, for example due to the fulfilment of funding function for FMS Wertmanagement, or due to the synthetic transfer of positions. The effects of these relationships are described in note 4.

Key management compensation

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

32. Regulatory capital and capital adequacy ratios in accordance with BIS

	30/06/2012	31/12/2011
Regulatory capital	**€ m**	**€ m**
Tier I capital	553	553
Tier II supplementary capital	471	468
Total regulatory capital	**1,024**	**1,021**

	30/06/2012	31/12/2011
Capital adequacy ratios		
BIS Risk Weighted Assets (€ million)	3,087	2,938
Tier 1 capital ratio	17.91%	18.82%
Total capital ratio (Tier I +II)	**33.17%**	**34.75%**

The regulatory capital and capital adequacy ratios were produced in accordance with the Bank for International Settlements' (BIS), Basel II Accord regulations to facilitate International comparisons (standardized approach).

With a Tier I Capital Ratio of 17.91% and a Total Capital Ratio of 33.17% the Bank exceeds the minimum required ratios.

33. Credit risk exposure to certain European countries

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

			30 June 2012							
			Carrying value							
In € million	**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	-	-	-	13	-	**13**	13	13
	Sub-sovereign	LaR	-	-	108	104	8	**220**	218	207
	State-guaranteed	LaR	-	-	-	-	-	**-**	-	-
Italy	Sovereign	LaR	-	-	409	1,561	12	**1,982**	1,642	1,832
	Sub-sovereign	LaR	-	-	1	136	546	**683**	610	546
	State-guaranteed	LaR	-	-	-	32	-	**32**	31	32
Spain	Sovereign	LaR	-	-	-	28	123	**151**	147	89
	Sub-sovereign	LaR	-	-	29	436	2,676	**3,141**	2,912	1,954
	State-guaranteed	LaR	-	-	-	-	252	**252**	251	196
Belgium	Sovereign	LaR	-	-	50	-	710	**760**	550	688
	Sub-sovereign	LaR	-	-	-	25	298	**323**	297	278
	State-guaranteed	LaR	-	-	-	-	1,207	**1,207**	915	966

Notes to the unaudited condensed interim financial statements (cont.)

			31 December 2011							
			Carrying value							
In € million	**Counterparty**	**IAS 39 - measure ment 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	-	-	-	13	-	**13**	13	13
	Sub-sovereign	LaR	-	103	108	12	-	**223**	221	192
	State-guaranteed	LaR	-	-	-	-	-	**-**	-	-
Italy	Sovereign	LaR	-	-	410	1,593	11	**2,014**	1,662	1,776
	Sub-sovereign	LaR	-	21	1	202	560	**784**	714	678
	State-guaranteed	LaR	-	-	-	53	-	**53**	51	52
Spain	Sovereign	LaR	-	-	-	-	151	**151**	147	89
	Sub-sovereign	LaR	-	-	29	380	2,731	**3,140**	2,959	2,249
	State-guaranteed	LaR	-	-	-	-	284	**284**	284	254
Belgium	Sovereign	LaR	-	-	71	-	675	**746**	570	681
	Sub-sovereign	LaR	-	-	-	25	296	**321**	297	259
	State-guaranteed	LaR	-	-	-	-	1,179	**1,179**	934	835

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. Allowance 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 2011 there was no such objective evidence.

The Bank did not have any sovereign credit risk exposure to Greece, Portugal or Hungary as at 30 June 2012 (31 December 2011: Nil).

The exposure to selected European countries shown in the table above contains loans and advances and securities. In addition, interest rate derivatives to sovereign and sub-sovereign counterparties are netted with collaterals resulting in nil exposure. Time lags in providing the collaterals and haircuts are not taken into account. State-guaranteed contains for example loans and advances to banks and corporations which are guaranteed by sovereigns or sub-sovereigns. As of 30 June 2012 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 28 "Fair values of financial assets and liabilities".

34. Events after the statement of financial position date

There have been no reportable events after 30 June 2012.