

DEPFA ACS BANK

Condensed Unaudited Interim Financial Statements as at 30 June 2009

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Directors and other information

Board of Directors

Ms. J. Hoggett (British) (resigned 17 June 2009)
Dr. J. Bourke*
Mr. P. Ryan*
Mr. C. Dunne* (Chairman) (appointed 20 May 2009)
Mr. S. Rio (French) (appointed 20 May 2009)
Mr. K.L. Walsh (appointed 13 July 2009)

* Non-Executive

Audit Committee

Dr. J. Bourke
Mr. P. Ryan

Secretary & Registered Office

Ms. E. Tiernan
1 Commons Street
Dublin 1
Ireland

Solicitors

Arthur Cox
Earlsfort Centre
Earlsfort Terrace
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Auditors

KPMG
Chartered Accountants and Registered Auditor
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Cover Assets Monitor

AIB International Financial Services Ltd
AIB International Centre
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Ireland

Registered Number

354382

Management discussion

DEPFA ACS BANK 6-month 2009 report

In the first six months of 2009, DEPFA ACS BANK ("the Bank") recorded an increase in net interest income, rising by 9.4% to €58 million compared with €53 million for the similar period in 2008.

Net fee and commission expense of €-1 million (June 2008: €-1 million) is mainly attributable to brokerage and custodian fees.

Net trading income recorded a loss of €-7 million to June 2009 compared to a profit of €4 million to June 2008. This result is due to marking to market derivatives that do not qualify for hedge accounting.

Net income from hedge relationships amounted to €-6 million (June 2008: €-2 million), relating to hedge ineffectiveness on fair value hedges.

General administrative expenses decreased from €-8 million in June 2008 to €-3 million in June 2009. The decline is attributable to lower planned variable compensation and continues to reflect the downsizing process which is accompanying the process of restructuring the DEPFA Group ("the Group").

Total assets decreased by 4.2%, to €92 billion in June 2009 from €96 billion in December 2008. The Bank continues to focus on ensuring that it has a diversified asset base with high quality average credit ratings.

Forecast Report

Company-specific conditions:

The Bank is part of the DEPFA Group ("the Group") which comprises DEPFA BANK plc and its subsidiaries. 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"). There has been no change in ownership of the Bank in 2008 and 2009.

Access to the liquidity support and to additional capital by the Bank can only be made through the Bank's ultimate parent company, HRE Holding. In the absence of this continuing support from the parent company, for both current and future funding requirements, the Bank would not be in a position to continue in operational existence as a going concern.

The forecasts relating to the future development of the HRE Group are estimates which have been made on the basis of all information available at present. If the assumptions underlying these forecasts fail to materialize, or if risks (such as those addressed in the risk report) occur to an extent which has not been calculated, the actual results may differ considerably from the results which are currently expected.

The existence of most companies in the HRE Group continued to be threatened in the first half of 2009.

The HRE Group assumes that it is a going concern and will continue in operation under the following described conditions (external factors / internal factors). Based on present information, the Management Board considers it currently as predominantly probable that these conditions are in existence or will occur.

External factors:

- The HRE Group will receive further essential liquidity support from SoFFin in respect of terms and total volume. Moreover, the HRE Group will receive necessary capital support from SoFFin to strengthen its capital base. These supports will be granted under reasonable conditions.
- The capital market environment will begin to stabilize from 2010 to 2012, particularly if there is no further serious deterioration of the financial market crisis from unforeseeable consequences, for instance triggered by external shocks such as the collapse of numerous major states or major banks and the crisis of the real estate markets does not result in defaults of loans and securities to an extent which would pose a threat to existence of the Group.
- The interbank market and other short-term unsecured refinancing markets as well as the long-term secured and unsecured refinancing markets will start to recover from 2010. The ratings of the companies in the HRE Group will stabilize or slightly increase. The support by the syndicate from the German financial sector and the Deutsche Bundesbank with the involvement of the German Federal Government as well as SoFFin can be covered by own funding in the following years.

Internal factors:

- The HRE Group succeeds in regaining the confidence of customers and successfully writes new business subject to adequate volumes and adequate margins.
- There are no delays or obstructions of the implementation of the restructuring of the HRE Group that aims to improve efficiency, profitability and streamlining of business processes.
- Work-out or restructuring of non-performing loans throughout the HRE Group can be implemented as currently scheduled.

On 28 March 2009, SoFFin confirmed to HRE Holding and to Deutsche Pfandbriefbank AG (formerly Hypo Real Estate Bank AG) that it intends to stabilize the HRE Holding in a sustainable manner by way of adequate recapitalization and Deutsche Pfandbriefbank AG by further extensions of guarantees.

The precondition for the intended recapitalization of the HRE Group by SoFFin is the acquisition of complete control (100%) over HRE Holding by SoFFin or the German Federal Government.

As the first step towards recapitalizing the HRE Group, SoFFin took up 20 million HRE Holding shares on 28 March 2009 for a price of € 3.00 per share, with shareholders' subscription rights excluded. As the second step of recapitalization of the HRE Group, the shareholders adopted a resolution regarding a capital increase of around € 2.96 billion in return for a cash contribution at the extraordinary general meeting held on 2 June 2009. The shares were issued at the nominal value of € 3.00 specified in the articles of incorporation. Only SoFFin was permitted to take up the new shares out of the capital increase, and the statutory shareholders' subscription rights were excluded. After taking up all shares out of the capital increase on 5 June 2009, SoFFin now holds 90% of the Company's share capital, and will initiate a squeeze-out procedure under the German Law on Stock Companies (Aktienrecht) in order to be able to press on ahead with the restructuring process of the HRE Group after acquiring 100% of all shares.

The Management Board of HRE Holding has provided a commitment to SoFFin that it will take the steps necessary for implementing the recapitalization process. HRE Group is also assessing whether to transfer loans from its real estate business, which are either non-performing or no longer consistent with overall strategy, as well as significant parts of its asset portfolio and the structured security portfolio to a work-out entity.

Risks posing a threat to the continued existence of the Group as a going concern

The future existence of HRE Group is contingent upon the provision of equity to HRE Group and its subsidiaries sufficient to fulfil the supervisory regulations for own funds and sufficient to avoid a situation of insolvency. External liquidity support is necessary to avert insolvency due to illiquidity of the significant subsidiaries of HRE Group or HRE Holding itself. These liquidity supports must be available until HRE Holding and its subsidiaries raise sufficient liquidity on the money and capital markets by themselves and the described restructuring arrangements are implemented as scheduled.

To ensure the future existence of HRE Group it is particularly necessary that:

- SoFFin continues to provide sufficient support in the form of equity capital
- SoFFin and the Deutsche Bundesbank maintain their liquidity support and, if necessary, provide further liquidity assistance until such time as the HRE Group and principal subsidiaries raise liquidity in the capital markets themselves
- increased refinancing with sustainable conditions on the money and capital markets is possible
- the restructuring arrangements are implemented as scheduled
- the appropriate authorities do not take supervisory actions which are unforeseen and which would not permit the HRE Group to fully implement its recovery plan, as well as
- no legal reservations (especially EU-action) will be successfully enforced.

If some of the above criteria are not met, in particular if a crisis situation should occur, whose occurrence based on present information is currently not probable, there will be a negative effect on the net assets, financial position and results of the HRE Group and there will be doubts as to whether some or all companies in the HRE Group will be able to continue in operation as going concerns.

Regulation 8 (3) of the Transparency (Directive 2004/10/EC) Regulations 2007

In accordance with Regulation 8 (3) of the Transparency (Directive 2004/10/EC) Regulations 2007 the 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 Bank are noted in note 26 on page 22.

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

Each of the current directors, whose names are listed on page 3, confirm that to the best of our knowledge:

- (a) the condensed interim financial statements comprising the unaudited condensed income statement, the unaudited condensed statement of comprehensive income, the unaudited condensed statement of changes in equity, the unaudited condensed statement of financial position, the unaudited condensed statement of cash flows and related notes 1 to 30 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 condensed 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

Mr. K.L. Walsh
Director

Dr. J. Bourke
Director

5 August 2009

Independent Review Report to DEPFA ACS BANK (“the Bank”)

Introduction

We have been engaged by the Bank to review the unaudited condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2009 which comprises the Unaudited Condensed Income Statement, Unaudited Condensed Statement of Comprehensive Income, Unaudited Condensed Statement of Financial Position, Unaudited Condensed Statement of Changes In Equity, Unaudited Condensed Cash Flow Statement and the related explanatory notes (Notes 1 - 30). We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the unaudited condensed interim 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 Republic of Ireland’s Financial Regulator. 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 half-yearly financial report is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the TD Regulations and the Transparency Rules of the Republic of Ireland’s Financial Regulator.

As disclosed on page 14, the annual financial statements of the Bank are prepared in accordance with IFRS as adopted by the EU. The directors are responsible for ensuring that the unaudited condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

Our responsibility

Our responsibility is to express to the Bank a conclusion on the unaudited condensed set of financial statements in the half-yearly financial 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 half-yearly report for the six months ended 30 June 2009 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 Republic of Ireland’s Financial Regulator.

Emphasis of matter – Going Concern Basis of Accounting

In performing our review, we have considered the adequacy of the disclosures in the Management Discussion on pages 4 and 5 concerning the appropriateness of the going concern basis of accounting in the preparation of the unaudited condensed interim financial statements of the Bank for the period ended 30 June 2009.

The unaudited condensed interim financial statements have been prepared on a going concern basis which assumes that the Bank will continue in operation and meet its debts as they fall due for a minimum period of 12 months from the date of this report. Given its significance, we wish to draw the readers’ attention to the underlying assumptions underpinning the application of the going concern basis of accounting to the Bank’s unaudited condensed interim financial statements for the period ended 30 June 2009. Set-out below in our view are the key assumptions.

- The future existence of the Hypo Real Estate Group (“HREG”) is contingent on the provision of equity to HREG and its significant subsidiaries sufficient to fulfil the supervisory regulations for own funds and sufficient to avoid a situation of insolvency. External liquidity support is necessary to avert insolvency due to illiquidity of the significant subsidiaries of the HREG or Hypo Real Estate Holding AG (“HRE AG”) itself. These liquidity supports must be

available until the HREG and its significant subsidiaries raise sufficient liquidity on the money and capital market by themselves and the agreed restructuring arrangements are implemented and until the equity capital increase is performed as scheduled.

- To ensure the future existence of the HREG and its significant subsidiaries it is particularly necessary that:
 - the Financial Markets Stabilisation Fund (“SoFFin”) provides sufficient equity capital.
 - SoFFin and the Deutsche Bundesbank maintain their liquidity support and, if necessary, provide further liquidity assistance until such time as HREG and principal subsidiaries raise liquidity in the capital markets themselves.
 - increased refinancing with sustainable conditions in the money and capital markets is possible
 - the restructuring arrangements are implemented as scheduled
 - the appropriate authorities do not take supervisory actions which are unforeseen and which would not permit the HREG to fully implement its recovery plan, as well as
 - no legal reservations (especially EU-action) will be successfully enforced.
- If some of the above criteria are not met, in particular if a crisis situation should occur, whose occurrence based on present information is currently not probable, there will be a negative effect on the net assets, financial position and results of the HREG and there will be doubt as to whether some or all companies in the HREG will be able to continue in operation as going concerns.

Access to the liquidity support and to additional capital by the Bank can only be made through the Bank’s ultimate parent company, HRE Holding AG. In the absence of this continuing support from the parent company for both current and future funding requirements the Bank would not be in a position to continue in operational existence as a going concern. The unaudited condensed interim financial statements do not include the adjustments that would result if the Bank was unable to continue as a going concern.

KPMG
Chartered Accountants
2 Harbourmaster Place
IFSC
Dublin 1

5 August 2009

Condensed income statement - unaudited

		1 Jan – 30 June 2009 €m	1 Jan – 30 June 2008 €m As reclassified
Interest and similar income		1,362	1,467
Interest expense and similar expenses		-1,304	-1,414
Net interest income	3	58	53
Commission expense		-1	-1
Net fee and commission expense	4	-1	-1
Net trading income	5	-7	4
Net income from hedge relationships	6	-6	-2
Other operating income/expense	7	1	-
Total operating revenues		45	54
Provision for losses on loans and advances	12	-2	-
General administrative expenses	8	-3	-8
Pre-tax Profit		40	46
Taxes on income		-5	-6
Net income		35	40
Attributable to:			
Equity holders of the parent		35	40

The results above all relate to continuing operations.

Condensed statement of comprehensive income for the period from 1 January to 30 June – unaudited

	1 Jan – 30 June 2009			1 Jan – 30 June 2008		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Net income/loss	40	-5	35	46	-6	40
AFS reserve	7	-1	6	-86	11	-75
Total comprehensive income	47	-6	41	-40	5	-35
Attributable to the equity holders	47	-6	41	-40	5	-35

Disclosure of components of comprehensive income – unaudited

	1 Jan – 30 June 2009	1 Jan – 30 June 2008
Net income/Loss	35	40
AFS reserve	6	-75
Gains/(losses) arising in the period	6	-75
Reclassification adjustments for gains/losses included in profit or loss	-	-
Cash flow hedge reserve	-	-
Gains/(losses) arising in the period	15	-133
Reclassification adjustments for gains/losses included in profit or loss	-15	133
Total	41	-35

Condensed statement of financial position

	Note	Unaudited 30/06/2009 €m	Audited 31/12/2008 €m
ASSETS			
Cash reserves		25	31
Trading assets	9	1,208	1,301
Loans and advances to other banks	10	24,288	25,139
Loans and advances to customers	11	55,648	57,879
Allowances for losses on loans and advances	12	-2	-
Financial investments	13	7,687	8,239
Other assets	14	2,873	3,467
Deferred tax assets	15	10	11
Total assets		91,737	96,067
LIABILITIES			
Liabilities to other banks	16	32,534	34,623
Liabilities evidenced by certificates	17	52,362	52,773
Trading liabilities	18	1,223	1,388
Other liabilities	19	4,215	5,926
Current tax liabilities	20	18	13
Subordinated capital	21	629	629
Total liabilities		90,981	95,352
EQUITY			
Equity attributable to equity holders			
Share capital		510	510
Retained earnings		315	280
Other reserves – available-for-sale		-69	-75
Total equity		756	715
Total equity and liabilities		91,737	96,067

Condensed cash flow statement - unaudited

Cash and cash equivalents as of 1 January
Cash flow from operating activities
Cash flow from investing activities
Cash flow from financing activities
Cash and cash equivalents as of 30 June

1 Jan – 30 June	
2009 €m	2008 €m
31	22
374	195
-380	-361
-	170
25	26

Condensed statement of changes in equity - unaudited

€m

Balance at 1 January 2008
Total comprehensive income
Balance at 30 June 2008

Share capital	Retained earnings	Available-for-sale reserve	Equity
510	191*	-	701*
-	40	-78	-38
510	231	-78	663

€m

Balance at 1 January 2009
Total comprehensive income
Balance at 30 June 2009

Share capital	Retained earnings	Available-for-sale reserve	Equity
510	280	-75	715
-	35	6	41
510	315	-69	756

* As restated for the change in accounting policy disclosed in the financial statements for the year ended 31 December 2008.

Notes to the condensed interim financial statements – unaudited

1. General Information

The condensed interim financial statements for the six months ended 30 June 2009 are unaudited but have been reviewed by the auditor whose report is set out on page 8. 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 DEPFA ACS BANK ("the Bank"). The statutory financial statements for the financial year ended 31 December 2008 were annexed to the annual return and filed with the Registrar of Companies. The audit report under section 163 of the Companies Act 1990 on those statutory financial statements was unqualified but did contain an emphasis of matter relating to the going concern basis of accounting.

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

2. Basis of preparation

The 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 condensed interim financial statements has been prepared in accordance with the accounting policies set out in the last annual financial statements except for the adoption of:

- IAS 1 (Amendment) – Presentation of financial statements

As a result, the Bank now presents in the condensed statement of changes in equity, only all owner changes in equity. All non-owner changes in equity are now presented in the new primary statement, the condensed statement of comprehensive income. This presentation has been applied in these condensed interim financial statements as of and for the 6 month period ended 30 June 2009.

Comparative information has been re-presented so that it also is in conformity with the revised standard. The change in accounting policy only impacts on presentation.

The following are the other new standards that are effective for the financial year of the Bank ending on 31 December 2009 and that had no impact on the results or financial position of the Bank:

- IFRS 8 – Operating segments which has resulted in a change to the reporting segments of the Bank
- IAS 23 (Amendment) – Borrowing costs
- IFRS 2 (Amended) – Share based payments: Vesting conditions and cancellations
- Amendments to IFRS 7 Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments (not yet endorsed by the EU)
- IAS 27 (Amendment) – Cost of an investment in a subsidiary, jointly controlled entity or associate
- IAS 32 (Amendment) – Puttable financial instruments and obligations arising on liquidation
- Improvements to IFRS 2008
- IFRIC 12 – Service concession arrangements
- IFRIC 13 – Customer loyalty programmes
- IFRIC 15 – Construction of real estate
- IFRIC 16 – Hedges of a net investment in a foreign operation

The financial statements are prepared on a going concern basis as the directors have assumed that the Bank will continue in operation under the conditions described as external and internal factors below. This assumption is predicated on the fact that the HRE Group Management Board considers it highly probable that the conditions outlined below are in existence or will occur as expected. The forecast of the future development of the HRE Group is based on the strategic refocusing and restructuring adopted by the HRE Group Management Board in December 2008 which is described on pages 4 to 5.

External factors:

- The HRE Group will receive further essential liquidity support from SoFFin in respect of terms and total volume. Moreover, the HRE Group will receive necessary capital support from SoFFin to strengthen its capital base. These supports will be granted under reasonable conditions.
- The capital market environment will begin to stabilize from 2010 to 2012, particularly if there is no further serious deterioration of the financial market crisis from unforeseeable consequences, for instance triggered by external shocks such as the collapse of numerous major states or major banks and the crisis of the real estate markets does not result in defaults of loans and securities to an extent which would pose a threat to existence of the Group.
- The interbank market and other short-term unsecured refinancing markets as well as the long-term secured and unsecured refinancing markets will start to recover from 2010. The ratings of the companies in the HRE Group will stabilize or slightly increase. The support by the syndicate from the German financial sector and the Deutsche Bundesbank with the involvement of the German Federal Government as well as SoFFin can be covered by own funding in the following years.

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

Internal factors:

- The HRE Group succeeds in regaining the confidence of customers and successfully writes new business subject to adequate volumes and adequate margins.
- There are no delays or obstructions of the implementation of the restructuring of the HRE Group that aims to improve efficiency, profitability and streamlining of business processes.
- Work-out or restructuring of non-performing loans throughout the HRE Group can be implemented as currently scheduled.

If some of the above criteria are not met, in particular if a crisis situation should occur, whose occurrence based on present information is currently not probable, there will be a negative effect on the net assets, financial position and results of the HRE Group and there will be doubt as to whether some or all companies in the HRE Group will be able to continue in operation as going concerns.

Significant judgements made by management in applying the Bank's accounting policies and key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2008. The Bank's financial and risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended 31 December 2008.

- Presentation of Balance sheet and income statement

In order to harmonise the presentation of the financial statements of the Bank with that of its parent, the HRE Group, the Bank changed the presentation of its balance sheet and income statement for the year ended 31 December 2008. These presentation changes consisted only of reclassifications within assets, liabilities, and the income statement. There were no adjusting items and no accounting policy changes arising from the change in presentation. The reconciliation from the comparative income statement for the period ended 30 June 2008 under the 2008 interim report presentation to the 2009 presentation is outlined in Note 30 to the interim report.

3. Net interest income

	1 Jan – 30 June	
	2009	2008
	€m	€m
Interest and similar income		
Lending and money-market business	1,219	1,379
Fixed-income securities	143	88
	1,362	1,467
Interest expense and similar expenses		
Deposits	-494	-593
Liabilities evidenced by certificates	-785	-763
Derivatives	-14	-42
Subordinated capital	-11	-16
	-1,304	-1,414
Net interest income	58	53

4. Net fee and commission expense

	1 Jan – 30 June	
	2009	2008
	€m	€m
Fee and commission expense		
From lending operations	-1	-1
Net fee and commission expense	-1	-1

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.

5. Net trading income

	1 Jan – 30 June	
	2009	2008
	€m	€m
From interest rate instruments and related derivatives	-7	4
	-7	4

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

6. Net income from hedge relationships

	1 Jan – 30 June	
	2009	2008
	€m	€m
Result from fair value hedge accounting	-6	-2
Result from hedged items	-1,159	284
Result from hedging instruments	1,153	-286
	-6	-2

7. Other operating income/expense

	1 Jan – 30 June	
	2009	2008
	€m	€m
Net foreign exchange gains	1	-
Total other operating income/expense	1	-

8. General administrative expenses

	1 Jan – 30 June	
	2009	2008
	€m	€m
Personnel expenses		
Wages and salaries	-1	-2
Social security costs	-	-
Pension expenses and related employee benefit costs	-	-
Other general administrative expenses	-2	-6
	-3	-8

9. Trading assets

	30/06/2009	31/12/2008
	€m	€m
Standalone derivatives (non-trading book)	1,208	1,301
	1,208	1,301
Of which due from group companies	1,031	1,105

Standalone derivatives include mainly derivatives which are economically hedging but which do not meet the detailed hedge accounting criteria under IFRSs.

10. Loans and advances to other banks

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

	30/06/2009	31/12/2008
	€m	€m
Public sector loans	5,209	5,624
Other loans and advances	19,079	19,515
	24,288	25,139
Of which due from group companies	18,430	18,060

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

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

	30/06/2009	31/12/2008
	€m	€m
Repayable on demand	46	231
With agreed maturities		
Up to 3 months	9,673	12,816
from 3 months to 1 year	2,345	2,492
from 1 year to 5 years	5,938	2,461
from 5 years and over	6,286	7,139
	24,288	25,139

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

11. Loans and advances to customers

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

	30/06/2009	31/12/2008
	€m	€m
Public sector loans	55,648	57,879
	55,648	57,879
Of which due from group companies	-	-

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

	30/06/2009	31/12/2008
	€m	€m
With agreed maturities		
Up to 3 months	463	524
from 3 months to 1 year	808	1,520
from 1 year to 5 years	8,191	7,352
from 5 years and over	46,186	48,483
	55,648	57,879

12. Allowance for losses on loans and advances

Movement in allowance for losses on loans and advances:

	1 Jan – 30 June	2008
	2009	€m
	€m	€m
Collective provision for losses on loans and advances		
Balance at 1 January	-	-
Additions to collective provision	-2	-
Total collective provision for losses on loans and advances	-2	-

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

13. Financial investments

	30/06/2009	31/12/2008
	€m	€m
Available-for-sale financial investments	47	48
Debt securities and other fixed-income securities	47	48
Loans and Receivables financial investments	7,640	8,191
Debt securities and other fixed-income securities	7,640	8,191
	7,687	8,239

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

Financial investments, broken down by maturities

	30/06/2009 €m	31/12/2008 €m
With agreed maturities		
Up to 3 months	51	58
from 3 months to 1 year	158	99
from 1 year to 5 years	930	1,035
from 5 years and over	6,548	7,047
	7,687	8,239

In the financial statements for the year ended 31 December 2008, the Bank has made use of the IASB amendments to IAS 39 and IFRS 7 and reclassified financial assets as of 1 July 2008. The Bank reclassified debt securities and other fixed-income securities out of category “available-for-sale financial investments” into the category “LaR financial investments”. The Bank identified assets, eligible under the amendments, for which at 1 July 2008, it had a clear change of intent to hold for the foreseeable future rather than to exit or trade in the short-term. The following table summarises the carrying amount reclassified, the carrying amount and fair value as of 30 June 2009 as well as fair value gains and losses that would have been recognised in the available-for-sale reserve and income statement if the financial assets had not been reclassified:

Reclassifications €m	Into:			Effect if no assets had been reclassified (1 Jan 2009 – 30 June 2009)	
	1 July 2008	30 June 2009	Fair Value	Income Statement	Available-for-sale Reserve
	Loans and Receivables (LaR)				
Out of:	Carrying Amount	Carrying Amount	Fair Value		
Investment securities – available-for-sale	4,180	4,396	3,863	-	466

The effective interest rates and estimated amounts of cash flows expected to be recovered on reclassified assets at date of reclassification were as follows:

Out of:	Highest Effective Interest Rate	Lowest Effective Interest Rate	Weighted Average Effective Interest Rate	Estimated Cash Flows €m
Investment securities – available-for-sale	6.85%	0.25%	4.47%	7,481

14. Other assets

	30/06/2009 €m	31/12/2008 €m
Positive fair values from derivative financial investments		
Hedging derivatives (fair value hedges)	2,819	3,416
Other assets	54	51
	2,873	3,467
Of which due from group companies	2,086	2,701

15. Deferred tax assets

	30/06/2009 €m	31/12/2008 €m
Deferred tax assets	10	11
	10	11

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

16. Liabilities to other banks

Liabilities to other banks by maturities

	30/06/2009 €m	31/12/2008 €m
With agreed maturities		
Up to 3 months	26,693	30,774
from 3 months to 1 year	3,009	2,524
from 1 year to 5 years	1,523	4
from 5 years and over	1,309	1,321
	32,534	34,623
Of which due to group companies	23,395	24,703

17. Liabilities evidenced by certificates

By maturities:

	30/06/2009 €m	31/12/2008 €m
With agreed maturities		
up to 3 months	185	519
from 3 months to 1 year	2,530	1,659
from 1 year to 5 years	18,470	18,242
from 5 years and over	31,177	32,353
	52,362	52,773

18. Trading liabilities

	30/06/2009 €m	31/12/2008 €m
Standalone derivatives (non-trading book)	1,223	1,388
	1,223	1,388
Of which due to group companies	1,022	1,160

Standalone derivatives include mainly derivatives which are economically hedging but which do not meet the detailed hedge accounting criteria under IFRS.

19. Other liabilities

	30/06/2009 €m	31/12/2008 €m
Negative fair values from derivative financial investments		
Hedging derivatives (fair value hedges)	4,193	5,904
Other liabilities	22	22
	4,215	5,926
Of which due to group companies	2,876	4,049

20. Current tax liabilities

	30/06/2009 €m	31/12/2008 €m
Current tax liabilities	18	13
	18	13

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

21. Subordinated capital

	30/06/2009	31/12/2008
	€m	€m
Subordinated liabilities	629	629
	629	629
Of which due to group companies	629	629

The Bank has not had any defaults of principal, interest or redemption amounts during the period on its borrowed funds (2008: € nil).

Subordinated capital, broken down by maturities

	30/06/2009	31/12/2008
	€m	€m
With agreed maturities		
up to 3 months	-	-
from 3 months to 1 year	-	-
from 1 year to 5 years	-	-
from 5 years and over	629	629
	629	629

22. Assets and liabilities according to measurement categories

	30/06/2009	31/12/2008
	€m	€m
Loans and receivables	87,576	91,209
Available-for-sale	47	48
Cash reserves	25	31
Held for trading	1,208	1,301
Positive fair values from hedging derivatives	2,819	3,416
Other assets	62	62
Total assets	91,737	96,067
Financial liabilities at amortised cost	85,525	88,025
Held for trading	1,223	1,388
Negative fair values from hedging derivatives	4,193	5,904
Other liabilities	40	35
Total liabilities	90,981	95,352

23. Loans and advances past due but not impaired

At 30 June 2009, the following amounts were noted as being past due. However, no impairment provision was made against these past due amounts as the Bank does not consider that there is any issue regarding their recoverability. Such timing issues in receipts of payments due occur frequently in the normal course of business and do not, by themselves impair the quality of the receivable. The total book value in relation to the amounts has also been disclosed to put the size of the amounts in question into context.

Loans past due

Assets: past due but not impaired (due amounts)

	30/06/2009	31/12/2008
	€m	€m
Up to 3 months	-	1
From 3 months to 6 months	96	-
From 6 months to 1 year	-	1
From 1 year and over	-	-
Total	96	2

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

Assets: past due but not impaired (total investment)

Up to 3 months
From 3 months to 6 months
From 6 months to 1 year
From 1 year and over
Total

30/06/2009	31/12/2008
€m	€m
-	76
96	-
-	67
-	-
96	143

Carrying amount of the individually assessed impaired financial assets

Loans
Total

30/06/2009	31/12/2008
€m	€m
-	-
-	-

Carrying amount of loans and receivables

Carrying amount of loans and receivables that are neither impaired nor past due
Carrying amount of loans and receivables that are past due but not impaired
Carrying amount of individually assessed impaired financial loans and receivables
Total
Of which loans and advances to other banks
Of which loans and advances to customers

30/06/2009	31/12/2008
€m	€m
79,840	82,875
96	143
-	-
79,936	83,018
24,288	25,139
55,648	57,879

24. Commitments

Irrevocable loan commitments

30/06/2009	31/12/2008
€m	€m
395	1,177

25. Primary sales and repayments of debt securities including loans

Primary sales
Public sector covered bonds
Loans
Repayments
Public sector covered bonds
Total

30/06/2009	31/12/2008
€m	€m
3,100	3,433
1,520	-
4,620	3,433
2,826	6,950
2,826	6,950

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

26. Related party transactions

Balances due to and from group companies are disclosed in the notes to the balance sheet. The largest group into which the results of the Bank are consolidated is that headed by HRE Holding. Transactions with group companies consisted of:

	30/06/2009	30/06/2008
	€m	€m
Interest and similar income	109	105
Interest expense and similar expenses	-237	-377
Net fee and commission expense	-	-
Net income from financial investments	-	-
Other operating income/expense	-	-
General administrative expenses	-1	-6

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

Key management compensation

Key management consists solely of directors of the Bank. Key management compensation consists of short term benefits and post employment benefits. Ms Julia Hoggett, a director of the Bank, resigned her position as director on 17 June 2009 and received deferred bonus payments that had been recognised and disclosed in the financial statements up to 31 December 2008. On 21 July 2009, Ms Hoggett left her employment with the Bank.

27. Segmental reporting

The Bank's income and assets are entirely attributable to public sector financing. The Bank is solely located in Ireland. Therefore no segmental report is presented.

28. Regulatory Capital and Capital Adequacy Ratios in accordance with BIS

	30/06/2009	31/12/2008
	€m	€m
Core capital (Tier I)	824	790
Supplementary (Tier II)	605	585
Total Regulatory Capital	1,429	1,375

	30/06/2009	31/12/2008
BIS Risk Weighted Assets (€million)	9,630	9,213
Core capital ratio (Tier I)	8.6%	8.6%
Total capital ratio (Tier I +II)	14.8%	14.9%

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 Core Capital Ratio of 8.6% and a Total Capital Ratio of 14.8% the Bank exceed the minimum required ratios.

29. Subsequent events

There have been no significant events after the balance sheet date which require disclosure.

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

30. Reconciliation of the presentation of the 2008 comparative income statement from the 30 June 2008 interim report to the 2009 income statement presentation.

In order to harmonise the presentation of the financial statements of the Bank with that of its ultimate parent, the HRE Group, the Bank changed the presentation of its balance sheet and income statement for the year ended 31 December 2008. These presentation changes consisted only of reclassifications within assets, liabilities, and the income statement. There were no adjusting items and no accounting policy changes arising from the change in presentation. The reconciliation from the comparative income statement for the period ended 30 June 2008 under the 2008 interim report presentation to the 2009 presentation is outlined below:

2008 Presentation for Q2 2008 interim report						
Income Statement € m	Q2 2008 Per Prior Year Interim report	Gains on disposal of loans (a)	Hedge ineffectiveness (b)	Buybacks (c)	Q2 2008 Restated under HRE presentation	Income Statement € m
Net interest income	54	-10	-	9	53	Net interest income
Net fee and commission expense	-1	-	-	-	-1	Net fee and commission income
Net trading income	2	-	2	-	4	Net trading income
Gains less losses from financial assets	-10	10	-	-	-	Net income from financial investments
			-2	-	-2	Net income from hedge relationships
Other operating income	9	-	-	-9	-	Other operating income/expenses
Total operating income	54	-	-	-	54	Total operating revenues
Operating expenses	-8	-	-	-	-8	General administrative expenses
Operating profit / profit before taxation	46	-	-	-	46	Pre-tax profit
Taxation	6	-	-	-	6	Taxes on income
Profit for the period	40	-	-	-	40	Net income

(a) Gains on disposal of loans

Under the presentation in the Q2 2008 interim report, gains and losses on disposal of loans and receivables were reported under Gains less losses from financial assets. The current presentation reports these gains and losses under Net interest income.

(b) Hedge ineffectiveness

Under the presentation in the Q2 2008 interim report, all hedge ineffectiveness was reported under the Trading Result. The current presentation reports this result under Net income from hedge relationships.

(c) Buybacks

Under the presentation in the Q2 2008 interim report, gains and losses on buybacks of debt securities in issue were reported under Other operating income. The current presentation reports these gains and losses under Net interest income.