

DEPFA GROUP
Interim Report
30 June 2011

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Directors and other information

Board of Directors

Ms. M. Better* (German) (Chairman)
Dr. J. Bourke*
Mr. C. Dunne
Ms. F. Flannery
Mr. T. Glynn (American)
Mr. D. Grehan*
Mr. W. Groth* (German) (appointed 28 February 2011)
Mr. A. Kearns*
Mr. N. Reynolds
Mr. S. Rio (French)
Mr. A. von UsLAR-Gleichen* (German)
Dr. H. Walter* (German)

* Non-Executive

Audit Committee

Dr. J. Bourke (Chairman)
Mr. A. Kearns
Dr. H. Walter

Secretary & Registered Office

Ms. E. Tiernan
1 Commons Street
Dublin 1, Ireland

Solicitors

Arthur Cox
Earlsfort Centre, Earlsfort Terrace
Dublin 2, Ireland

Auditors

KPMG
1 Harbourmaster Place
IFSC, Dublin 1, Ireland

Registered Number

348819

Management discussion

The directors of DEPFA BANK plc ("the Bank" or "DEPFA") present their management discussion and the consolidated unaudited interim financial statements ("the interim report") as at 30 June 2011.

Principal activities

The Bank and its subsidiary undertakings ("the Group" or "the DEPFA Group"), operating in Ireland and in other parts of the world, is positioned to provide a comprehensive range of banking, financial and related services subject to the conditions imposed by the European Commission's recently approved state aid proceedings in relation to the stabilisation measures granted to the Hypo Real Estate Group ("the HRE Group") by the Federal Republic of Germany.

Ownership

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 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 2011.

Ratings

The bank ratings of DEPFA BANK plc and its rated subsidiaries remained unchanged in the first half of 2011 and up to the date of signing the consolidated unaudited interim financial statements, however the following changes regarding covered bond and subordinated debt ratings occurred:

Moody's concluded its review of the Asset Covered Securities issued by DEPFA ACS BANK and confirmed the Aa3 rating. Standard & Poor's lowered the rating of Hypo Pfandbrief Bank International S.A.'s Lettres de Gage from AA to AA-, removed them from CreditWatch negative and assigned a stable outlook.

Moody's published the results of its review of subordinated debt issued by German banks and DEPFA BANK plc. The rating for subordinated debt issued by DEPFA BANK plc is now B3 with stable outlook. Standard & Poor's has downgraded the Lower Tier 2 ratings of DEPFA BANK plc and DEPFA ACS BANK from BBB- to BB-.

The EU Commission's final approval of state aid announced on 18 July 2011 had no immediate implications for the ratings of DEPFA Group members.

Based on the rating methodologies applied, the DEPFA Group entities' ratings benefit inter alia from linkages between DEPFA and FMS Wertmanagement resulting from the transfer of assets to and the provision of related services for FMS Wertmanagement. Under the current circumstances, the Group considers the maximum rating level has been achieved for these banks.

The current bank and covered bond ratings are shown in the table below.

Overview of the rating of DEPFA BANK plc and its rated subsidiaries including DEPFA ACS BANK and Covered Bonds up to the date of signing the unaudited interim financial statements

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

(1) Hypo Pfandbrief Bank International S.A. and its Lettres de Gage are only rated by Standard & Poor's.

(2) Rating Watch Negative

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 is reflected in results. In the first half of 2011, the DEPFA Group has reported a pre-tax profit of € 144m.

In the period from 1 January to 30 June 2010 the pre-tax result was negative at € -345 million. However, the income statement of this period included effects from the non strategic positions which were transferred to FMS Wertmanagement in October 2010. The results of operations also reflected the volatility of the Halcyon and Pegasus trading portfolio prior to its transfer to FMS Wertmanagement as well as other stabilisation and restructuring measures.

The operating revenues in the first half of 2011 amounted to € 196 million and were significantly higher than the corresponding previous year figure of € -211 million. The increase in operating revenues is mainly attributable to lower net commission fee and expenses and positive net trading income, which in the previous year were still affected by the costs of the SoFFin guarantees and the negative volatility of the Halcyon and Pegasus trading portfolio.

Net interest income of € 168 million was higher than the corresponding previous year figure of € 154 million. A positive effect attributable to profits was € 141 million from the buyback of DEPFA ACS BANK asset covered securities that were redeemed before maturity at prevailing market levels on a reverse enquiry basis (2010: € nil). On the other hand a negative effect on net interest income was attributable to the reduction in the volume of interest bearing assets due to the transfer of assets to FMS Wertmanagement.

Net fee and commission expense of € -10 million was considerably lower than the corresponding previous year figure of € -190 million. The figure for the first half of 2011 contains fees paid to FMS Wertmanagement for guarantees received on assets not yet transferred and still recognised on the statement of financial position. In the previous year, net fee and commission expense included the costs incurred for the guarantees in connection with the liquidity support measures provided by SoFFin (€ -193 million). This liquidity support ceased on 1 October 2010.

Net trading income of €10 million improved considerably compared to the corresponding previous year figure of € -230 million. The improvement is attributable mainly to the transfer of non-strategic portfolios including the Halcyon and Pegasus portfolio and customer derivatives to FMS Wertmanagement. The losses in 2010 incurred on the Halcyon and Pegasus portfolio due to the development of spreads within the CMBS market amounted to € -113 million and higher default risk of customer derivatives amounted to € -106 million. The 2011 figure of € 10 million is mainly attributable to stand-alone derivatives which do not satisfy the criteria of IAS 39 for hedge accounting (2010: € -11m).

Net income from financial investments amounted to € -34 million (2010: € 75 million), as a result of the disposal of financial assets. The net gain from financial investments for the previous year was mainly attributable to net gains of €64 million which were generated by the sale of financial assets and net releases to portfolio-based allowances in relation to financial assets of € 11 million.

The net income from hedge relationships amounted to € 7 million (2010: € -29 million). This mainly related to hedge inefficiencies within the range of 80 % to 125 % permitted under IAS 39, which resulted in income of € 6 million (2010: € -14 million). Assets designated at Fair Value through Profit or Loss ("dFVTPL") and related derivatives resulted in €1m (2010: € -15 million).

The balance of other operating income/expense amounted to € 55 million (2010: € 9 million) and mainly consisted of income of € 42 million from intergroup recharges to Deutsche Pfandbriefbank AG in relation to asset servicing provided on the positions transferred to FMS Wertmanagement. Currency translation (in particular USD) also resulted in income of €9m (2010: €7m) and other income amounted to €4m (2010: €2m).

The provisions for losses on loans and advances amounted to a credit of €19 million (2010: € -54 million charge). This is composed of net specific provision write backs of €15 million (2010: €34 million) and a collective loan loss provision release of € 4 million (2010: charge of € -88 million).

General administrative expenses have declined to € -72 million, compared with € -81 million in the first half of 2010. Personnel expenses have increased to € -29 million compared to € -22 million in the previous year. The increase is mainly attributable to the release in 2010 of prior year accruals for discretionary payments. Other general administrative expenses amounted to € -43 million and were lower than the corresponding previous year figure of € -59 million. The cost reduction was mainly due to higher consultancy and IT fees incurred in 2010 in connection with the project to transfer non-strategic positions to FMS Wertmanagement.

Other income/expenses amounted to € 1 million (2010: € 1 million) and is attributable to the net release of provisions created for the strategic refocusing and restructuring of the DEPFA Group.

Pre-tax profit amounted to € 144 million (2010: € -345 million).

Taxes on income amounted to € -12 million (2010: € 1 million).

Net profit after taxes amounted to € 132 million in the first half 2011 (2010: net loss € -344 million).

Development in assets

Total assets of the Group amounted to € 110 billion as of 30 June 2011, and were thus € 34 billion (23.61%) lower than the corresponding figure at the end of the previous year (31 December 2010: € 144 billion).

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

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 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 of the statement of financial position total.

FMS Wertmanagement had to provide collateral for the new derivatives which were taken out between FMS Wertmanagement and the Group (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 Group currently handles certain refinancing functions for FMS Wertmanagement, for instance with the ECB or in bilateral repo transactions. The refinancing funds are passed on to FMS Wertmanagement. The Group receives a claim against FMS Wertmanagement, which increases the balance sheet total.

The counter effects concerning the transfer of positions to FMS Wertmanagement on the Group are set out in note 4 of the notes to the consolidated unaudited interim financial statements.

These counter effects were reduced further in the first half of 2011 in line with overall strategy.

FMS Wertmanagement refinanced its operations on a standalone basis to a much greater extent in the first half of the year. Accordingly, the Group only had to pass on a reduced volume of refinancing to FMS Wertmanagement. Overall, the volume of reverse repos declined from € 36.7 billion at the end of the previous year to € 26.4 billion as of 30 June 2011, resulting in a decline in loans and advances to customers. The back-to-back derivatives were to a certain extent replaced by direct business relations between FMS Wertmanagement and the external customers (novation of derivatives). In addition, the market value of the back-to-back derivatives also declined as a result of the higher level of market interest rates. Overall, the volume of back-to-back derivatives amounted to € 7.7 billion as of June 2011, compared with € 16.7 billion as of 31 December 2010. The decline is reflected in trading assets. The lower derivatives and reverse repos with FMS Wertmanagement has meant that there has also been a decline in the need for collateral, which has resulted in a further decline in the statement of financial position total.

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

The total assets would also have declined even without the decline in the counter effects resulting from the transfer of positions to FMS Wertmanagement. This was due to net repayments and sales. Market-related factors also had the effect of reducing total assets. The fact that the Euro strengthened against the US Dollar, the Japanese Yen and Sterling resulted in lower carrying amounts of the foreign currency positions translated into Euros. In addition, the higher level of interest rates resulted in a decline of the market value of the derivatives, which was also reflected in a decline in total assets.

Development in financial position

The total Group liabilities amounted to € 106 billion as of 30 June 2011, compared with € 140 billion as of 31 December 2010, a reduction of € 34 billion (24.29%). 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.

All covered bonds, senior unsecured and subordinated debt instruments issued by the Group remained on the statement of financial position following the transfer of positions to FMS Wertmanagement.

Liabilities evidenced by certificates decreased by € 6 billion from € 44 billion as of 31 December 2010 to € 38 billion as of 30 June 2011. This reduction reflected the run off in outstanding debt, of €5 billion, as well as the buyback of certain unlisted asset covered securities in DEPFA ACS BANK of € 1 billion mostly during the first quarter of 2011 at prevailing market levels on a reverse enquiry basis.

Equity amounted to € 3.7 billion as of 30 June 2011 (31 December 2010: € 3.6 billion). The increase compared with the end of the previous year is mainly attributable to the positive result in the first half of 2011.

During 2009, the Board of DEPFA BANK plc determined that Tier 1 instruments would not be serviced in 2009. Accordingly, it was necessary for the carrying amount of these hybrid capital instruments to be reclassified to equity preferred securities from subordinated capital during 2009.

On 4 March 2011 the Board of DEPFA BANK plc determined that the Tier 1 issuing vehicle, DEPFA Funding IV LP would not make payments on its € 500,000,000 Preferred Securities (XS0291655727) on the next distribution date scheduled for 21 March 2011.

On 20 May 2011 the Board of DEPFA BANK plc determined that the Tier 1 issuing vehicle, DEPFA Funding III LP would not make payments on its € 300,000,000 Preferred Securities (DE000A0E5U85) on the next distribution date scheduled for 8 June 2011.

Going concern

On 18 July 2011 the European Commission approved the state aid for the HRE Group. With its positive decision the material factors of uncertainty in relation to the going concern assumption which were known at the date of signing the 31 December 2010 year end consolidated financial statements no longer exist. These factors were:

- The continuing existence of HRE Holding and its subsidiaries was dependent upon the European Commission approving the support measures which were implemented by SoFFin.
- The ability of HRE Holding and its major subsidiaries to continue as going concerns was dependent upon the European Commission not imposing any conditions which would not permit the HRE Group to implement an economically sustainable business plan and in particular would not undo the regulatory effectiveness of the capital support measures.

The consolidated unaudited interim financial statements are prepared on a going concern basis.

Events after the statement of financial position date

On 18 July 2011, the Federal Republic of Germany reached formal agreement with the European Commission with regard to the state aid proceedings which the European Commission initiated in relation to the stabilisation measures granted to the HRE Group by the Federal Republic of Germany. The approval procedure has thus been completed; the decision of the European Commission is expected to be published in the official Gazette of the European Commission in the course of the next few weeks. The HRE Group has thus obtained the legal and planning certainty necessary for its proper operation.

The decision of the European Commission relates to all elements of aid granted to the HRE Group since the autumn of 2008, i.e. capitalisations, guarantee lines and the transfer of assets to the deconsolidated environment FMS Wertmanagement and requires the HRE Group to take appropriate compensation measures, in particular a reduction of total assets of Deutsche Pfandbriefbank Group. This aim is reached to a large extent.

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

With its positive decision, the European Commission has also accepted the viability of the business model of Deutsche Pfandbriefbank AG as a specialist bank for real estate finance and public sector investment finance. The consequence for Deutsche Pfandbriefbank AG is that it is now positioned as the strategic core bank of the HRE Group. It operates new business in real estate finance and public investment finance. Deutsche Pfandbriefbank AG will discontinue traditional public finance activities as pure budget financing. It has restricted its regional area of activity to selected countries in Europe. The growth of Deutsche Pfandbriefbank AG will be limited. These requirements have been recognised correspondingly in business planning. The agreed guidelines are applicable up to the point at which Deutsche Pfandbriefbank AG will be reprivatised, but will be applicable at least until the end of 2013. The existing contractual links with the deconsolidated environment FMS Wertmanagement (in particular servicing and refinancing) will be terminated at the latest by the end of September 2013. The entities of the DEPFA Group are free to provide services to FMS Wertmanagement after 30 September 2013.

Both the Deutsche Pfandbriefbank Group and the DEPFA Group may be sold in the medium-term. The complete reprivatisation of the DEPFA Group is a medium-term objective. Measures have already been initiated to sever the links between the companies of the DEPFA Group and the other companies of the HRE Group.

In addition, the European Commission has imposed a payment condition in relation to the aid proceedings, namely the complete fulfilment of the payment of € 1.59 billion, as set out in note 33 of the notes to the unaudited consolidated interim financial statements, to avoid distortions of competition in connection with the utilisation of the deconsolidated environment. In consequence, this payment condition will result in a subsequent purchase price adjustment in the companies of the HRE Group which transferred assets to FMS Wertmanagement. On the basis of data collected, the payment condition will probably mainly relate to the DEPFA Group, however depending on the future development, the entities of the Deutsche Pfandbriefbank Group may also be required to pay. The exercise by FMSA of its right to impose a payment condition by the issuance of one or more decrees will result in the payment condition being recognised in equity at that time and consequently will have no impact on the income statement.

Furthermore, the European Commission has set conditions for interest and profit participation payments the HRE Group makes to third parties outside the HRE Group for certain instruments and until further notice. These conditions apply to a series of profit related capital instruments, which existed on 30 September 2010 and which were not provided by SoFFin. As a result of further conditions, in line with the "burden-sharing" principle specified by the European Commission, from the time at which the payment condition of € 1.59 billion is completely settled up to the time of privatisation, the DEPFA Group will, subject to certain conditions, have to pay further annual fees to the Federal Republic of Germany. Profits of the Deutsche Pfandbriefbank Group will be used to repay the silent participation to SoFFin.

Apart from the above, there have been no other notable events after 30 June 2011.

Future development in assets, financial position and earnings

The Group has reported a profit of the first half of 2011. However, the profit has benefited from special factors such as the profits from the buy back of asset covered securities. From its current point of view, the Board of Directors expects the Group to be profitable and that a positive result will be generated for 2011. As a requirement in line with the "burden-sharing" principle specified by the European Commission, from the time at which the payment condition of € 1.59 billion is completely settled up to the time of privatisation, the DEPFA Group will, subject to certain conditions, have to pay further annual fees to the Federal Republic of Germany.

Total assets in the first half of 2011 declined appreciably due to the diminishing counter effects of the transfer of positions to FMS Wertmanagement. The volume of counter effects will probably continue to decline in the future. Accordingly, some of the assets for which the opportunities and risks have previously been transferred synthetically will be transferred in full. Changes of debtor (novations) will be carried out in the case of other instruments. In addition, FMS Wertmanagement will refinance its operations on a standalone basis to an even greater extent and will thus no longer require the Group to pass on funds. Therefore, total assets are expected to decline considerably for the year 2011. However, the actual extent of the reduction in total assets is still uncertain and is not entirely within the control of the Group. In addition, market-related factors such as changes in exchange rates and market interest rates can also have an impact on total assets.

Opportunities and risks

The developments in net assets, financial position and earnings which have occurred since the transfer of assets to FMS Wertmanagement are in line with the existing strategy of the DEPFA Group. The conclusion of the approval process is a further milestone for the restructuring and refocusing of the Group with the aim of reprivatisation.

However, it is also possible that the net assets, financial position and results of operations might be adversely affected by certain factors. The extent of these potential effects is influenced particularly by the occurrence or non-occurrence of the following risks, or the extent to which such risks might materialise:

- FMSA reserves the right, due to considerations of competition neutrality, to impose a payment condition for the stabilisation measure which must not exceed € 1.59 billion. A possible payment obligation might have a considerably negative impact on the financial position of the DEPFA Group, but will not pose a threat to the continued existence of the DEPFA Group as a going concern, due to the conditions attached to any fixing for any such payment obligation.
- In line with the "burden-sharing" principle specified by the European Commission, the DEPFA Group will, subject to certain conditions, have to pay further annual fees to the Federal Republic of Germany, which might have a negative impact on the financial position of the Group but will not at the time of such payment pose a threat to the continued existence of the DEPFA Group as a going concern.
- Although there has been a certain improvement, the situation on some markets continues to be difficult and the macro-economic situation is uncertain. High fiscal deficits mean that some countries might experience considerable refinancing problems or might require external aid to obtain refinancing. It is possible that some countries might not be able to service their interest and repayment obligations. In such a case, also as a result of the consequent economic turmoil, it may be necessary to recognise considerable impairments in relation to securities or loans.
- According to the EU Rating Act as per September 2009 external ratings for the purposes of the calculation of capital requirements can only be used in banks in the future if the respective rating agencies are registered in accordance with the EU Rating Act and are supervised by the responsible supervisors. If agencies prepare ratings outside of the EU the regulation in the third country must meet European standards. The registration process of the rating agencies Fitch Ratings, Moody's and Standard&Poors as well as the check of the regulatory standards of several third countries are still ongoing. Negative effects on the financial situation of the DEPFA group can arise from a refusal of the registration or the absence of the approval of third country regulations as a higher regulatory capital requirement could arise on certain positions.
- The further development of national and international regulatory requirements can have an effect on the structure of assets and liabilities and can therefore affect the development of income. For example, arising from the introduction of changed requirements from the Basel Committee on Banking Supervision (Basel III) the profitability could be negatively affected by higher liquidity or capital demands. In addition, the calculation of regulatory and economic ratios which are already mandatory today could be affected, which could also lead to additional requirements.

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

Each of the current directors, whose names are listed on page 2, confirms that to the best of their knowledge:

- (a) the consolidated unaudited interim financial statements comprising the unaudited consolidated income statement, the unaudited consolidated statement of comprehensive income, the unaudited disclosure of components of comprehensive income, the unaudited consolidated statement of financial position, the unaudited condensed consolidated cash flow statement, the unaudited consolidated statement of changes in equity and related notes 1 to 38 have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.
- (b) the interim management discussion includes a fair review of the information required by:
 - (i) Regulation 8(2) of the Transparency (Directive 2004/109/EC) Regulations 2007, being an indication of important events that have occurred during the first six months of the financial year and their impact on the set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - (ii) Regulation 8(3) of the Transparency (Directive 2004/109/EC) Regulations 2007, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

On behalf of the Board

John Bourke
Director

Noel Reynolds
Director

29 July 2011

Independent review report on consolidated unaudited interim financial statements

Introduction

We have been engaged by DEPFA BANK plc ("the Bank") to review the consolidated unaudited set of financial statements in the Interim Report for the six months ended 30 June 2011 which comprises the unaudited consolidated income statement, unaudited consolidated statement of comprehensive income, unaudited consolidated statement of financial position, unaudited consolidated statements of changes in equity, unaudited condensed consolidated cash flow statement and the related explanatory notes (notes 1-38). 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 consolidated 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 ("CBI"). 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 14, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The directors are responsible for ensuring that the unaudited consolidated 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 consolidated 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 consolidated unaudited set of financial statements in the Interim Report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU, the TD Regulations and the Transparency Rules of the Central Bank of Ireland.

Frank Gannon
For and on behalf of KPMG
Chartered Accountants statutory audit firm.
1 Harbourmaster Place
IFSC
Dublin 1

29 July 2011

Consolidated income statement – unaudited

for the period from 1 January to 30 June

	Note	As restated *	
		01.01-30.06 2011 € m	01.01-30.06 2010 € m
Interest and similar income	5	1,225	2,569
Interest expense and similar expenses	5	-1,057	-2,415
Net interest income		168	154
Fee and commission income	6	2	10
Fee and commission expense	6	-12	-200
Net fee and commission expense		-10	-190
Net trading income / (expense)	7	10	-230
Net (expense) / income from financial investments	8	-34	75
Net income / (expense) from hedge relationships	9	7	-29
Other operating income	10	55	9
Total operating revenues		196	-211
Provision for losses on loans and advances	18	19	-54
General administrative expenses	11	-72	-81
Other income	12	1	1
Pre-tax profit/(loss)		144	-345
Taxes on income	13	-12	1
Net profit/(loss) for the period		132	-344
Attributable to:			
Equity holders of the parent		132	-344

* Details of the reclassification of 2010 comparatives are set out in note 36, section (b), of the notes to the consolidated unaudited interim financial statements.

Consolidated statement of comprehensive income - unaudited

for the period from 1 January to 30 June

€ m	01.01-30.06.2011			01.01-30.06.2010		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Net profit/(loss)	144	-12	132	-345	1	-344
AFS reserve movement net	8	-	8	-2,494	181	-2,313
Exchange translation differences	-1	-	-1	-8	-	-8
Total comprehensive income	151	-12	139	-2,847	182	-2,665
Attributable to the equity holders	151	-12	139	-2,847	182	-2,665

Disclosure of components of comprehensive income – unaudited

for the period from 1 January to 30 June

	01.01-30.06	01.01-30.06
	2011	2010
	€ m	€ m
Net profit/(loss)	132	-344
AFS reserve	8	-2,313
Gains / (losses) arising in the period	8	-2,316
Reclassification adjustments for gains included in profit or loss	-	3
Cash flow hedge reserve	-	-
(Losses) / gains arising in the period	-12	110
Reclassification adjustments for gains / (losses) included in profit or loss	12	-110
Exchange translation differences	-1	-8
Total	139	-2,665

Consolidated statement of financial position - unaudited

As at 30 June 2011 and 31 December 2010

	Note	30.06.2011 € m	As restated * 31.12.2010 € m
ASSETS			
Cash reserve		406	2,283
Trading assets	15	14,301	24,740
Loans and advances to other banks	16	12,479	21,565
Loans and advances to customers	17	47,789	56,859
Allowance for losses on loans and	18	-81	-100
Financial investments	19	31,104	33,845
Property, plant and equipment		1	1
Intangible assets		18	19
Other assets	20	3,657	4,655
Income tax assets	21	107	128
Current tax assets		2	6
Deferred tax assets		105	122
Total assets		109,781	143,995
LIABILITIES			
Liabilities to other banks	22	32,487	39,803
Liabilities to customers	23	16,714	25,856
Liabilities evidenced by certificates	24	37,783	44,288
Trading liabilities	25	13,569	24,618
Provisions	26	80	96
Other liabilities	27	4,216	4,524
Income tax liabilities	28	152	169
Current tax liabilities		51	46
Deferred tax liabilities		101	123
Subordinated capital	29	1,072	1,072
Total liabilities		106,073	140,426
EQUITY			
Equity attributable to equity holders			
Share capital		106	106
Share premium		1,142	1,142
Capital reserve		1,500	1,500
Preferred securities	30	1,136	1,136
Retained earnings		-124	-256
Other reserves		-52	-59
AfS		-51	-59
Currency translation		-1	-
Total equity		3,708	3,569
Total equity and liabilities		109,781	143,995

* Details of the reclassification of 2010 comparatives are set out in note 36, section (a), of the notes to the consolidated unaudited interim financial statements.

Condensed consolidated cash flow statement – unaudited

for the period from 1 January to 30 June

	30.06.2011 € m	30.06.2010 € m
Cash and cash equivalents as of 1 January	2,206	1,100
Cash flow from operating activities	-3,764	-2,692
Cash flow from investing activities	1,947	1,182
Cash flow from financing activities	-	550
Effect of exchange rate changes on cash and cash equivalents	-11	-1
Cash and cash equivalents as of 30 June	378	139

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

Consolidated statement of changes in equity – unaudited

for the period from 1 January to 30 June

€ m	Share capital	Share premium	Preferred securities	Capital reserve	Retained earnings	AfS reserve	Currency translation	Equity
Balance at 1 January 2011	106	1,142	1,136	1,500	-256	-59	-	3,569
Total comprehensive income	-	-	-	-	132	8	-1	139
Capital contribution	-	-	-	-	-	-	-	-
Balance at 30 June 2011	106	1,142	1,136	1,500	-124	-51	-1	3,708

€ m	Share capital	Share premium	Preferred securities	Capital reserve	Retained earnings	AfS reserve	Currency translation	Equity
Balance at 1 January 2010	106	1,142	1,136	600	406	-1,846	4	1,548
Total comprehensive income	-	-	-	-	-344	-2,313	-8	-2,665
Capital contribution	-	-	-	550	-	-	-	550
Balance at 30 June 2010	106	1,142	1,136	1,150	62	-4,159	-4	-567

The transfer of AfS assets to FMS Wertmanagement, as set out in note 4 of the notes to the consolidated unaudited interim financial statements, had a material positive impact on the AfS reserve. 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 AfS and former AfS assets which are transferred at their corresponding carrying amount adjusted for the related AfS revaluation reserve balance in equity.

Notes to the consolidated unaudited interim financial statements

1. General information

The consolidated interim financial statements for the six months ended 30 June 2011 are unaudited but have been reviewed by the auditor whose report is set out on page 9. 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 BANK plc ("the Bank" or "DEPFA"). The statutory financial statements for the financial year ended 31 December 2010 will be filed with the Registrar of Companies along with the annual return by 13 September 2011. 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 consolidated annual financial statements of DEPFA BANK plc (its statutory financial statements as referred to above) are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU.

The Bank and its subsidiary undertakings ("the Group" or "the DEPFA Group"), operating in Ireland and in other parts of the world, provide a comprehensive range of banking, financial and related services subject to the conditions imposed by the European Commission's recently approved state aid proceedings in relation to the stabilisation measures granted to the Hypo Real Estate Group ("the HRE Group") by the Federal Republic of Germany.

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 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 2011.

On 18 July 2011, the Federal Republic of Germany reached formal agreement with the European Commission with regard to the aid proceedings which the European Commission initiated in relation to the stabilisation measures granted to the HRE Group by the Federal Republic of Germany. The approval procedure has thus been completed; the decision of the European Commission is expected to be published in the official Gazette of the European Commission in the course of the next few weeks. The HRE Group has thus obtained the legal and planning certainty necessary for its proper operation.

The decision of the European Commission relates to all elements of aid granted to the HRE Group since the autumn of 2008, i.e. capitalisations, guarantee lines and the transfer of assets to the deconsolidated environment FMS Wertmanagement, and requires the HRE Group to take appropriate compensation measures, in particular a reduction of total assets of Deutsche Pfandbriefbank Group. This aim is reached to a large extent.

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

With its positive decision, the European Commission has also accepted the viability of the business model of Deutsche Pfandbriefbank AG as a specialist bank for real estate finance and public sector investment finance. The consequence for Deutsche Pfandbriefbank AG is that it is now positioned as the strategic core bank of the HRE Group. It operates new business in real estate finance and public investment finance. Deutsche Pfandbriefbank AG will discontinue traditional public finance activities such as pure budget financing. It has restricted its regional area of activity to selected countries in Europe. The growth of Deutsche Pfandbriefbank AG will be limited. These requirements have been recognised in business planning. The agreed guidelines are applicable up to the point at which Deutsche Pfandbriefbank AG will be reprivatised, but will be applicable at least until the end of 2013. The existing contractual links with the deconsolidated environment FMS Wertmanagement (in particular servicing and refinancing) will be terminated at the latest by the end of September 2013. The companies of the DEPFA Group are free to provide services to FMS Wertmanagement after 30 September 2013.

Both the Deutsche Pfandbriefbank Group and the DEPFA Group may be sold in the medium-term. The complete reprivatisation of the DEPFA Group is a medium-term objective. Measures have already been initiated to sever the links between the companies of the DEPFA Group and the other companies of the HRE Group.

2. Basis of preparation

The consolidated unaudited 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 consolidated unaudited interim financial statements has been prepared in accordance with the accounting policies set out in the last annual financial statements, except as explained below.

Notes to the consolidated unaudited interim financial statements – (continued)

In accordance with IAS 8.14 (b), there has been a change in the way of recognising all remaining securities which were allocated to the IAS 39 measurement category loans and receivables. In the past, some of these securities which were recognised as loans and receivables (LaR) were disclosed as loans and advances to other banks and loans and advances to customers. In future, these holdings will be disclosed completely as financial assets. In accordance with IAS 8.19 (b), the change has been carried out retrospectively, which means that the previous year figures have been adjusted accordingly. Financial assets have increased by € 20.8 billion as of 31 December 2010 (31 December 2009: € 72.4 billion); loans and advances to other banks have declined by € 2.9 billion (31 December 2009: € 10 billion) and loans and advances to customers have declined by € 17.9 billion (31 December 2009: € 62.4 billion).

The Group shows profits or losses from the sale of receivables in net interest income and effects from the sale of financial assets are shown in net income from financial investments. As a result of the LaR securities being reclassified under financial assets (whereas they had previously been shown under receivables), it is also necessary to adjust the way in which profits and losses from the sale of such positions are reported. These effects are therefore no longer shown in net interest income and have to be shown in net income from financial investments.

The sale of LaR securities in the first half of 2010 resulted in net income of € 75 million, of which €61m was shown in net interest income. The net income from financial investments as of 30 June 2010 has thus improved by € 61 million to the detriment of net interest income. The Group has retrospectively adjusted the figures in accordance with IAS 8.14 (b), as set out in note 36 of the notes to the consolidated unaudited interim financial statements.

3. Operating segments

The HRE Group continued to use the segment structure established in 2010 as part of the strategic refocusing process.

There are three operating segments:

- Real Estate Finance segment - which contains the strategic business in commercial real estate financing,
- Public Sector Finance segment - which contains strategic public sector financing business,
- “Value Portfolio” segment - which contains all non-strategic business, which is to be reduced without imposing excessive strain on existing value.

The DEPFA Group is considered part of the non strategic business of the HRE Group and is included in the Value Portfolio segment of the HRE Group. The DEPFA Group has withdrawn completely from new business in all segments.

The DEPFA Group continued to be organised into three segments, which were established in 2010:

- Value Management Europe/Rest of World
- Value Management America
- Infrastructure Finance

These segments have been used as the basis of managing the DEPFA Group from the start of 2010.

The operating segment Value Management Europe/Rest of World incorporates the traditional public finance lending business of the Group in the form of bond and loan financing with public sector authorities, geographically located outside of the Americas. As in 2010, no new business has been conducted in this segment in 2011.

The operating segment Value Management Americas incorporates the traditional public sector finance lending business of the Group in the form of bond and loan financing with public sector authorities typically located in the USA and Canada. This segment also included the majority of trading assets and trading liabilities as well as income from securitisations and customer derivatives as well as specific guaranteed investment contracts (“GIC”) business. As in 2010, no new business has been conducted in this segment in 2011.

The operating segment Infrastructure Finance relates to the financing of infrastructure projects, focusing on essential infrastructure e.g. roads, bridges, tunnels and public buildings. The majority of assets in this segment were originally intended for full transfer to the deconsolidated environment, however various legal and transactional issues impeded the transfer of these assets and therefore they remain recognised within this operating segment, although a number of guarantee arrangements have been put in place for a certain number of these assets. As in 2010, no new business has been conducted in this segment in 2011.

The segment report of the Group is based on the internal controlling instruments and the management information system which is prepared in accordance with IFRS as adopted by the EU. Income and expenses are allocated to appropriate cost centres, whereby portfolio structures are used as the basis for allocating income. General administrative expenses are allocated to the appropriate cost centres in the segment. The segments generated only Group external income, and did not generate any income with other segments of the Group. Accordingly, there are no issues of consolidation between the segments. The management information is based on the accounting and valuation methods of the consolidated financial statements prepared in accordance with IFRS as adopted by the EU. Accordingly, reconciliation with the accounting and valuation methods used in the consolidated financial statements is not necessary.

Notes to the consolidated unaudited interim financial statements – (continued)

01.01-30.06.2011				
€ m	Value Management Europe/Rest of world	Value Management America	Infrastructure Finance	Group
Net interest income	118	42	8	168
Non interest revenues	40	-13	1	28
Total Revenues	158	29	9	196
Total Expenditure	-48	-16	-7	-71
Provision for loss on loans and advances	19	-	-	19
Profit before tax	129	13	2	144
Taxation				-12
Profit for the period				132
Total Assets	73,246	31,079	5,456	109,781

01.01-30.06.2010				
€ m	Value Management Europe/Rest of world	Value Management America	Infrastructure Finance	Group
Net interest income	6	87	61	154
Non interest revenues	-78	-242	-45	-365
Total Revenues	-72	-155	16	-211
Total Expenditure	-52	-17	-11	-80
Provision for loss on loans and advances	-28	32	-58	-54
Profit/(Loss) before tax	-152	-140	-53	-345
Taxation				1
Loss for the period				-344
Total Assets	157,310	58,572	24,359	240,241

4. Transfer of non strategic positions to FMS Wertmanagement

In January 2010, the HRE Group submitted an application to the 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.

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 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 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.

Notes to the consolidated unaudited interim financial statements – (continued)

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 AfS and former AfS assets which were 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.

The transfer resulted in capital effects recognised in equity as of 1 October 2010. The effect was attributable to deconsolidation effects and also to valuation differences between the carrying amounts shown in the IFRS financial statements and the corresponding carrying amounts shown in the separate financial statements prepared in accordance with local accounting regulations.

As part of the process of transferring the positions, Deutsche Pfandbriefbank AG also assumed responsibility for managing the transferred portfolios for FMS Wertmanagement as part of a co-operation agreement, whereby Deutsche Pfandbriefbank AG 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 companies of the DEPFA Group are free to provide services to FMS Wertmanagement after 30 September 2013.

In addition, Deutsche Pfandbriefbank has provided a commitment to FMS Wertmanagement that it will implement certain IT functionalities. Companies of the HRE Group are also considering whether to transfer legal and economic ownership of certain portfolios to FMS Wertmanagement for those cases in which the transfer to FMS Wertmanagement has so far not resulted in a derecognition.

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 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 of the statement of financial position total.
- (b) FMS Wertmanagement had to provide collateral for the new derivatives which were taken out between FMS Wertmanagement and the 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 Group currently handles certain refinancing functions for FMS Wertmanagement, for instance with the ECB or in bilateral repo transactions. The refinancing funds are passed on to FMS Wertmanagement. The Group receives a claim against FMS Wertmanagement, which increases the statement of financial position total.

Notes to the consolidated unaudited interim financial statements – (continued)

The effects of all counter effects ("FMSWM Counter Effects") on the 31 December 2010 and 30 June 2011 statements of financial positions are shown below in the pro forma statements of financial position:

Assets	30.06.2011	30.06.2011 FMSWM	30.06.2011 Post FMSWM
	€ m	Counter Effects	Counter Effects
Cash Reserve	406	-	406
Trading Assets	14,301	7,683	6,618
Loans and advances to other banks	12,479	8,649	3,830
Loans and advances to customers	47,789	29,778	18,011
Allowance for losses on loans and advances	-81	-	-81
Financial investments	31,104	5,601	25,503
Property, plant and equipment	1	-	1
Intangible assets	18	-	18
Other assets	3,657	-	3,657
Income tax assets	107	-	107
Total assets	109,781	51,711	58,070

Liabilities and equity	30.06.2011	30.06.2011 FMSWM	30.06.2011 Post FMSWM
	€ m	Counter Effects	Counter Effects
Liabilities to other banks	32,487	27,939	4,548
Liabilities to customers	16,714	16,088	626
Liabilities evidenced by certificates	37,783	-	37,783
Trading Liabilities	13,569	7,684	5,885
Provisions	80	-	80
Other liabilities	4,216	-	4,216
Income tax liabilities	152	-	152
Subordinated Capital	1,072	-	1,072
Liabilities	106,073	51,711	54,362
Share capital	106	-	106
Share premium	1,142	-	1,142
Capitla reserve	1,500	-	1,500
Preferred securities	1,136	-	1,136
Retained earnings	-124	-	-124
Other reserves	-52	-	-52
Available-for-sale	-51	-	-51
Currency translation	-1	-	-1
Equity	3,708	-	3,708
Total liabilities and equity	109,781	51,711	58,070

Assets	As restated * 31.12.2010	31.12.2010 FMSWM	31.12.2010 Post FMSWM
	€ m	Counter Effects	Counter Effects
Cash Reserve	2,283	-	2,283
Trading Assets	24,740	16,733	8,007
Loans and advances to other banks	21,565	17,096	4,469
Loans and advances to customers	56,859	40,251	16,608
Allowance for losses on loans and advances	-100	-	-100
Financial investments	33,845	5,919	27,926
Property, plant and equipment	1	-	1
Intangible assets	19	-	19
Other assets	4,655	-	4,655
Income tax assets	128	-	128
Total assets	143,995	79,999	63,996

Liabilities and equity	31.12.2010	31.12.2010 FMSWM	31.12.2010 Post FMSWM
	€ m	Counter Effects	Counter Effects
Liabilities to other banks	39,803	38,135	1,668
Liabilities to customers	25,856	25,131	725
Liabilities evidenced by certificates	44,288	-	44,288
Trading Liabilities	24,618	16,733	7,885
Provisions	96	-	96
Other liabilities	4,524	-	4,524
Income tax liabilities	169	-	169
Subordinated Capital	1,072	-	1,072
Liabilities	140,426	79,999	60,427
Share capital	106	-	106
Share premium	1,142	-	1,142
Capitla reserve	1,500	-	1,500
Preferred securities	1,136	-	1,136
Retained earnings	-256	-	-256
Other reserves	-59	-	-59
Available-for-sale	-59	-	-59
Currency translation	-	-	-
Equity	3,569	-	3,569
Total liabilities and equity	143,995	79,999	63,996

* Details of the reclassification of 2010 comparatives are set out in note 36 section (a), of the notes to the unaudited interim financial statements.

Notes to the consolidated unaudited interim financial statements – (continued)

5. Net interest income

	01.01-30.06 2011 € m	01.01-30.06 2010 € m
Interest income and similar income		
Lending and money-market business	1,082	1,623
Derivatives (net interest income)	20	-
Fixed-income securities	123	946
	1,225	2,569
Interest expense and similar expenses		
Deposits	-444	-700
Liabilities evidenced by certificates	-602	-813
Derivatives (net interest expense)	-	-894
Subordinated capital	-11	-8
	-1,057	-2,415
Net interest income	168	154

Total interest income for financial assets that are not at fair value through profit or loss, amount to € 1.2 billion (2010: € 2.6 billion). Total interest expenses for financial liabilities that are not at fair value through profit or loss amount to € 1 billion (2010: € 1.5 billion).

6. Net fee and commission expense

	01.01-30.06 2011 € m	01.01-30.06 2010 € m
Fee and commission income		
From customer derivatives	-	-
From other lending operations	2	10
	2	10
Fee and commission expense		
From lending operations	-12	-200
	-12	-200
Net fee and commission expense	-10	-190

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

No expense is included for liquidity support measures in 2011 (2010: € 163 million).

None of the above fee and commission income arose on instruments that have been designated at fair value through profit or loss.

7. Net trading income / (expense)

	01.01-30.06 2011 € m	01.01-30.06 2010 € m
from interest rate instruments and related derivatives	13	-95
from credit risk instruments and related derivatives	-5	-117
from foreign exchange trading	2	-18
	10	-230

Notes to the consolidated unaudited interim financial statements – (continued)

8. Net (expense) / income from financial investments

	01.01-30.06 2011 € m	01.01-30.06 2010 € m
Income from financial investments	25	94
Expense from financial investments	-59	-19
	-34	75

Net (expense) / income from financial assets is due to the disposal of financial assets and can be split by financial instrument category as follows:

	01.01-30.06 2011 € m	01.01-30.06 2010 € m
Investment in Group undertaking	-	-
Loans and receivables at amortised cost	-34	73
Available-for-sale financial investments	-	2
	-34	75

9. Net income / (expense) from hedge relationships

	01.01-30.06 2011 € m	01.01-30.06 2010 € m
Result from fair value hedge accounting	6	-14
Result from hedged items	-327	-5,692
Result from hedging instruments	333	5,678
Result from assets designated at fair value through P&L ("dFVTPL") and related derivatives	1	-15
Result from dFVTPL assets	-64	129
Result from derivatives related to dFVTPL assets	65	-144
	7	-29

10. Other operating income

	01.01-30.06 2011 € m	01.01-30.06 2010 € m
Other operating income		
Recharge income from other group companies	46	3
Net foreign exchange gains	9	7
Total other operating income	55	10
Other operating expenses		
Other	-	-1
Total other operating expenses	-	-1
Total other operating income	55	9

The recharge income from other group companies includes income of € 42 million (2010: € nil) from intergroup recharges to Deutsche Pfandbriefbank AG in relation to asset servicing provided on the positions transferred to FMS Wertmanagement.

Notes to the consolidated unaudited interim financial statements – (continued)

11. General administrative expenses

	01.01-30.06 2011 € m	01.01-30.06 2010 € m
Personnel expenses	-29	-22
Wages and salaries	-24	-14
Social security costs	-3	-6
Pension expenses and related employee benefit costs	-2	-2
Other general administrative expenses	-40	-57
Depreciation/amortisation	-3	-2
On software	-2	-1
On other	-1	-1
	-72	-81

The average number of employees in the DEPFA Group in period to 30 June 2011 was 384 (June 2010: 414).

Cost-income ratio in % is:

01.01-30.06 2011	01.01-30.06 2010
36%	> 100%

12. Other income

	01.01-30.06 2011 € m	01.01-30.06 2010 € m
Net writeback of restructuring provision	1	1
	1	1

Attributable to the net release of provisions created for the strategic refocusing and restructuring of the DEPFA Group

13. Taxes on income

	01.01-30.06 2011 € m	01.01-30.06 2010 € m
Current tax	-20	-1
Deferred tax	8	2
	-12	1

14. Net gains / (losses)

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

	01.01-30.06 2011 € m	01.01-30.06 2010 € m
As shown in net interest income		
Loans and receivables	-2	-3
Financial liabilities at amortised cost	142	-
As shown in net (expense)/income from financial investments		
Loans and receivables	-34	73
Available for sale	-	2
	106	72

Notes to the consolidated unaudited interim financial statements – (continued)

15. Trading assets

	30.06.2011 € m	31.12.2010 € m
Debt securities and other fixed-income securities		
Bonds and notes	33	40
Issued by public-sector borrowers	33	40
Issued by other borrowers	-	-
Thereof:		
Listed	33	40
Unlisted	-	-
Positive fair values from derivative financial instruments (trading book)	424	772
Interest-based and foreign-currency-based transactions	372	641
Others	52	131
Other trading assets	-	-
Standalone derivatives (non-trading book)	13,844	23,928
Total Trading assets	14,301	24,740
Of which due from Group companies	626	1,031

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

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

16. Loans and advances to other banks

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

	30.06.2011 € m	As restated * 31.12.2010 € m
Public sector loans	3,449	6,079
Other loans and advances	9,030	15,486
	12,479	21,565
Of which due from Group companies	445	468

Balances due from group companies in the Group 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:

	30.06.2011 € m	As restated * 31.12.2010 € m
Repayable on demand	7,880	13,078
With agreed maturities		
Up to 3 months	1,031	1,309
from 3 months to 1 year	147	105
from 1 year to 5 years	1,724	1,606
from 5 years and over	1,697	5,467
	12,479	21,565

* Details of the reclassification of 2010 comparatives are set out in note 36, section (a), of the notes to the consolidated unaudited interim financial statements.

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

Notes to the consolidated unaudited interim financial statements – (continued)

17. Loans and advances to customers

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

	30.06.2011 € m	As restated * 31.12.2010 € m
Public sector	16,263	17,226
Other loans and advances	31,526	39,633
	47,789	56,859

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

	30.06.2011 € m	As restated * 31.12.2010 € m
Repayable on demand	21	-
With agreed maturities		
Up to 3 months	28,858	35,921
from 3 months to 1 year	1,997	1,687
from 1 year to 5 years	5,702	7,043
from 5 years and over	11,211	12,208
	47,789	56,859

* Details of the reclassification of 2010 comparatives are set out in note 36, section (a), of the notes to the consolidated unaudited interim financial statements.

18. Allowance for losses on loans and advances

Movement in allowance for losses on loans and advances:

	30.06.2011 € m	31.12.2010 € m
Specific allowance for losses on loans and advances		
Balance at 1 January	-18	-295
Application of provision	15	77
Foreign exchange retranslation	-	-26
Change due to transfer to FMS Wertmanagement	-	226
Total specific allowance for losses on loans and advances	-3	-18

	30.06.2011 € m	31.12.2010 € m
Collective provision for losses on loans and advances		
Balance at 1 January	-82	-276
Release of portfolio allowance	4	-37
Change due to transfer to FMS Wertmanagement	-	231
Total collective provision for losses on loans and advances	-78	-82

Total provision for losses on loans and advances	-81	-100
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The total allowance for losses on loans and advances is made up as follows:

	30.06.2011 € m	31.12.2010 € m
Public sector and infrastructure loans	-81	-100
	-81	-100

Interest accrued on impaired loans at 30 June 2011 was € nil (31 December 2010: € nil)

Notes to the consolidated unaudited interim financial statements – (continued)

19. Financial Investments

	30.06.2011 € m	As restated * 31.12.2010 € m
AfS financial investments	140	110
Equity securities and other variable-yield securities	-	-
Debt securities and other fixed-income securities	140	110
dFVTPL financial instruments	3,272	3,405
Debt securities and other fixed-income securities	3,272	3,405
LaR financial instruments	27,692	30,330
Debt securities and other fixed-income securities	27,692	30,330
Total	31,104	33,845

Financial investments, broken down by maturities:

	30.06.2011 € m	As restated * 31.12.2010 € m
Repayable on demand	1,155	91
With agreed maturities		
Up to 3 months	1,237	246
from 3 months to 1 year	391	1,573
from 1 year to 5 years	8,203	8,497
from 5 years and over	20,118	23,438
Total	31,104	33,845

* Details of the reclassification of 2010 comparatives are set out in note 36, section (a), of the notes to the consolidated unaudited interim financial statements.

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

On 30 September 2008, the Group reclassified retrospectively as of 1 July 2008 trading assets out of the category held-for-trading amounting to € 3.4 billion and financial investments out of the category available-for-sale of € 44.26 billion. In addition, trading assets of € 0.75 billion were reclassified prospectively into financial investments of the category loans and receivables on 1 October 2008.

Since the date of reclassification, the Group's financial assets with a (reclassified) carrying amount of approximately € 4.3 billion became due. Thereof € 3.06 billion relate to reclassified AfS financial investments and € 1.24 billion relate to reclassified trading assets.

Interest income for the Group reclassified trading instruments is now shown under net interest income; before reclassification interest income was shown in net trading income. In 2011, net interest income contains € 7 million (2010: € 58.1 million) of interest income for reclassified trading instruments. The reclassification of AfS assets did not cause a disclosure change of current interest income as it is still shown under net income from financial investments.

In 2011 Group securities with a reclassified carrying amount of € 430 million were sold due to the decided reduction of portfolios. Thereby a net income of € 5.1 million was realised.

At the date of reclassification the effective interest rate for the trading assets of the Group was between 5.07% and 3.37% (2010: 5.07% and 3.37%). For AfS assets of the Group was between 7.12% and 0.5% (2010: 7.12% and 0.5%).

Notes to the consolidated unaudited interim financial statements – (continued)

The following table summarises the carrying amounts and fair values as of 30 June 2011 as well as fair value gains and losses that would have been recognised at 30 June 2010 if the financial assets had not been reclassified.

Reclassifications	into: Financial investments LaR		Effect in reporting period if no assets had been reclassified		
	Reclass date	30.06.2011		Date of reclassification to 30.06.2011	
		Carrying amount	Fair value	Income statement	AfS reserve (after taxes)
€ m					
out of:					
HfT financial investments	1 Jul 08	-	-	-	-
	1 Oct 08	181	184	-3	-
		181	184	-3	-
out of:					
AfS financial investments	1 Jul 08	8,996	8,607	-	60
Total		9,177	8,791	-3	60

Reclassifications	into: Financial investments LaR		Effect in reporting period if no assets had been reclassified		
	Reclass date	31.12.2010		Date of reclassification to 31.12.2010	
		Carrying amount	Fair value	Income statement	AfS reserve (after taxes)
€ m					
out of:					
HfT financial investments	1 Jul 08	-	-	-	-
	1 Oct 08	272	278	-6	-
		272	278	-6	-
out of:					
AfS financial investments	1 Jul 08	9,238	8,828	-	46
Total		9,510	9,106	-6	46

20. Other assets

	30.06.2011	31.12.2010
	€ m	€ m
Positive fair values from derivative financial instruments	3,440	4,332
Hedging derivatives (fair value hedges)	3,215	4,061
Derivatives hedging dFVTPL financial instruments	225	271
Other assets	217	323
	3,657	4,655
Of which due to Group Companies	9	22

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

21. Income tax assets

	30.06.2011	31.12.2010
	€ m	€ m
Current tax assets	2	6
Deferred tax assets	105	122
	107	128

Notes to the consolidated unaudited interim financial statements – (continued)

22. Liabilities to other banks

Liabilities to other banks by maturities:

	30.06.2011 € m	31.12.2010 € m
Repayable on demand	627	361
With agreed maturities		
up to 3 months	29,403	35,831
from 3 months to 1 year	1,119	1,053
from 1 year to 5 years	438	1,514
from 5 years and over	900	1,044
	32,487	39,803
Of which due to Group Companies	-	-

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

Balances due to Group Companies in the Group statement of financial position include amounts payable to other entities in the HRE Group.

23. Liabilities to customers

Liabilities to customers by maturities:

	30.06.2011 € m	31.12.2010 € m
Repayable on demand	7,390	14,174
With agreed maturities		
up to 3 months	49	309
from 3 months to 1 year	-	66
from 1 year to 5 years	36	28
from 5 years and over	9,239	11,279
	16,714	25,856
Of which due to Group Companies	-	-

Balances due to Group Companies in the Group statement of financial position include amounts payable to other entities in the HRE Group.

24. Liabilities evidenced by certificates

By maturities:

	30.06.2011 € m	31.12.2010 € m
With agreed maturities		
up to 3 months	99	2,568
from 3 months to 1 year	4,683	2,995
from 1 year to 5 years	13,250	16,787
from 5 years and over	19,751	21,938
Total	37,783	44,288

Notes to the consolidated unaudited interim financial statements – (continued)

25. Trading liabilities

	30.06.2011 € m	31.12.2010 € m
Negative fair values from derivative financial instruments (trading book)	397	763
Of which:		
Interest-based and foreign-currency-based transactions	351	634
Credit-related transactions	46	129
Other trading liabilities	122	228
Standalone derivatives (banking book)	13,050	23,627
Total	13,569	24,618
Of which due to Group companies	402	751

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

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

26. Provisions

	30.06.2011 € m	31.12.2010 € m
Provisions for pensions and similar obligation	1	1
Restructuring provisions	46	49
Other provisions	33	46
	80	96

Development of the restructuring and other provisions:

	30.06.2011 Restructuring € m	30.06.2011 Other € m	31.12.2010 Restructuring € m	31.12.2010 Other € m
At 1 January	49	46	61	8
Additions	-	-	7	46
Reversals	-1	-	-10	-
Amounts used	-2	-13	-9	-8
At period end	46	33	49	46

27. Other liabilities

	30.06.2011 € m	31.12.2010 € m
Negative fair values from derivative financial instruments	3,872	4,212
Hedging derivatives	3,785	4,175
Micro fair value hedge	3,804	4,183
Cash flow hedge	-19	-8
Derivatives hedging dFVTPL financial instruments	87	37
Other liabilities	340	308
Deferred income	4	4
Total	4,216	4,524
Of which due to Group Companies	207	254

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

Notes to the consolidated unaudited interim financial statements – (continued)

28. Income tax liabilities

	30.06.2011 € m	31.12.2010 € m
Current tax liabilities	51	46
Deferred tax liabilities	101	123
Total	152	169

29. Subordinated capital

Breakdown

	30.06.2011 € m	31.12.2010 € m
Subordinated liabilities	1,072	1,072
Total	1,072	1,072
Of which due to Group Companies	-	-

Subordinated capital, broken down by maturities

	30.06.2011 € m	31.12.2010 € m
With agreed maturities		
up to 3 months	-	-
from 1 year to 5 years	510	508
from 5 years and over	562	564
	1,072	1,072

Balances due from Group companies in the Group financial position include amounts payable to other entities in the HRE Group.

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

Subordinated liabilities

	Interest rate %	30.06.2011 € m	31.12.2010 € m
DEPFA Bank plc, 26/03/24	5.40%	20	20
DEPFA Bank plc, 08/07/14	CPI - Index Linked%	10	10
DEPFA Bank plc, 15/12/15	Euribor + 0.70%	500	500
Hypo Public Finance Bank, perpetual note	Euribor + 1%	360	360
Hypo Public Finance Bank, 28/11/16	Euribor + 0.52%	40	40
Hypo Public Finance Bank, 21/12/16	Euribor + 0.52%	110	110
Hypo Public Finance Bank, 18/05/26	6.80%	25	25
		1,065	1,065

Notes to the consolidated unaudited interim financial statements – (continued)

30. Preferred securities

	30.06.2011 € m	31.12.2010 € m
Hybrid capital instruments	1,136	1,136
	1,136	1,136

The hybrid capital instruments are analysed by nominal, maturity and interest rate below:

Hybrid capital instruments	Interest rate %	30.06.2011 € m	31.12.2010 € m
DEPFA Funding II LP, perpetual note	6.50%	400	400
DEPFA Funding III LP, perpetual note	7% until 2008, thereafter CMS 10 yr + 0.1%	300	300
DEPFA Funding IV LP, perpetual note	5.029% until 2017, thereafter Euribor +1.87%	500	500
		1,200	1,200

Hybrid capital instruments in particular include issues in the form of preferred shares placed by specifically established special purpose entities. These instruments differ from conventional supplementary capital in that they are subject to more stringent conditions in terms of maturity. In addition, hybrid capital instruments are not repaid until after supplementary capital (subordinated liabilities and participating certificates outstanding) in the event of bankruptcy. In contrast to traditional components of core capital, the claim to a share of profit, which depends on the existence of profit, takes the form of a fixed or variable interest payment in the case of hybrid capital instruments. Moreover, hybrid capital can be issued both with unlimited maturity and repayable in the long-term.

Since the first quarter of 2009, certain hybrid issues of the Group have had to be recognised as equity instruments in accordance with IAS 32.16. The classification of financial instruments as capital instruments or debt instruments depends on whether the Group has a contractual obligation to make payments from an issued financial instrument. The Group has issued subordinated debt in the form of undated bonds via its issuance vehicles DEPFA Funding II LP, DEPFA Funding III LP and DEPFA Funding IV LP. These hybrid capital instruments only have to make interest payments if creditors of equal ranking receive an interest payment. After the last equal-ranking liability was repaid in the first quarter of 2009, the Group no longer has a contractual obligation to make interest payments after this time.

Accordingly, it was necessary for the carrying amount of these hybrid capital instruments (€ 1,136 million) to be reclassified to equity from subordinated capital.

On 4 March 2011 the Board of DEPFA BANK plc determined that the Tier 1 issuing vehicle, DEPFA Funding IV LP would not make payments on its € 500,000,000 Preferred Securities (XS0291655727) on the next distribution date scheduled for 21 March 2011.

On 20 May 2011 the Board of DEPFA BANK plc determined that the Tier 1 issuing vehicle DEPFA Funding III LP would not make payments on its € 300,000,000 Preferred Securities (DE000A0E5U85) on the next distribution date scheduled for 8 June 2011.

Notes to the consolidated unaudited interim financial statements – (continued)

31. 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 Group'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	
	30.06.2011	As restated 31.12.2010	30.06.2011	As restated 31.12.2010
	€ m	€ m	€ m	€ m
ASSETS				
Cash reserve	406	2,283	406	2,283
Trading assets	14,301	24,740	14,301	24,740
Loans and advances to other banks	12,479	21,565	12,341	21,425
Category LaR	12,479	21,565	12,341	21,425
Loans and advances to customers (net of allowance)	47,708	56,759	46,053	55,095
Category LaR	47,708	56,759	46,053	55,095
Category dFVTPL	-	-	-	-
Financial investments	31,104	33,845	29,694	32,090
Category available-for-sale	140	110	140	110
Category dFVTPL	3,272	3,405	3,272	3,405
Category LaR	27,692	30,330	26,282	28,575
Property, plant and equipment	1	1	1	1
Intangible assets	18	19	18	19
Other assets	3,657	4,655	3,657	4,655
Derivatives	3,440	4,332	3,440	4,332
Other assets	217	323	217	323
Income tax assets	107	128	107	128
Total assets	109,781	143,995	106,578	140,436
LIABILITIES				
Liabilities to other banks	32,487	39,803	32,418	39,722
Liabilities to customers	16,714	25,856	16,734	25,850
Liabilities evidenced by certificates	37,783	44,288	32,913	38,636
Trading liabilities	13,569	24,618	13,569	24,618
Provisions	80	96	80	96
Other liabilities	4,216	4,524	4,216	4,524
Derivatives	3,877	4,212	3,877	4,212
Other liabilities	339	312	339	312
Income tax liabilities	152	169	152	169
Subordinated capital	1,072	1,072	579	516
Total liabilities	106,073	140,426	100,661	134,131
Other items				
	Contract amount		Fair value	
	2011	2010	2011	2010
Contingent liabilities & loan commitments	337	417	-29	-26

In the case of certain positions which had not been physically transferred to FMS Wertmanagement but which had been synthetically transferred to FMS Wertmanagement by way of a financial guarantee as of the statement of financial position date, the hidden reserves and hidden charges are as follows:

Notes to the consolidated unaudited interim financial statements – (continued)

The above table has taken account of the financial guarantees for calculating the fair values (economic view). If these financial guarantees were to be disregarded, the item loans and advances to customers would show a fair value which was € 912 million lower, and a contingent receivable from the financial guarantee of € 912 million would have to be shown. This is also applicable for the position irrevocable loan commitments, for which the value would decline by € 24 million if a financial guarantee is not taken into consideration.

In addition, as part of the process of transferring positions to FMS Wertmanagement, the HRE Group has been provided with liquidity facilities for which the fair value in the above table has been shown with the carrying amount as part of an economic view (because these facilities are not realisable). If these were to be valued in the same way as an unsecured liability position of DEPFA, the fair value of the position Liabilities to customers would be €4,003 lower (2010: € 4,353 million).

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

a) Liabilities to other banks/Liabilities to customers 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.

b) 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.

c) Deposits and borrowings 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.

d) 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.

There have been no significant transfers between levels of the IFRS 7 fair value hierarchy, of the fair value of financial instruments, in the period since 31 December 2010.

Assets and liabilities according to measurement categories:

	30.06.2011	31.12.2010
	€ m	€ m
Loans and receivables (net)	87,879	108,654
Available-for-sale	140	110
Held-for-trading	14,301	24,740
dFVTPL assets	3,272	3,405
Cash reserves	406	2,283
Derivatives	3,440	4,332
Other assets	343	471
Total assets	109,781	143,995
Held-for-trading	13,569	24,618
Financial liabilities at amortised cost	88,056	111,019
Derivatives	3,872	4,212
Other liabilities	576	577
Total liabilities	106,073	140,426

Notes to the consolidated unaudited interim financial statements – (continued)

32. Loans and advances past due but not impaired

At 30 June 2011, nil amount was noted as being past due (31 Decemeber 2010: € nil).

	30.06.2011 € m	31.12.2010 € m
Assets: past due but not impaired (due amount)		
Past due but not impaired less than 90 days	-	-
Past due but not impaired betw een 3 months and 6 months	-	-
Past due but not impaired betw een 6 months and 1 year	-	-
Past due but not impaired greater than 1 year	-	-
Total	-	-
Assets: past due but not impaired (total investment)		
Past due but not impaired less than 90 days	-	-
Past due but not impaired betw een 3 months and 6 months	-	-
Past due but not impaired betw een 6 months and 1 year	-	-
Past due but not impaired greater than 1 year	-	-
Total	-	-
Carrying amount of the individually assessed impaired financial assets		
Loans	-	11
Total	-	11

Carrying amounts of loans and receivables

	30.06.2011 € m	31.12.2010 € m
Carrying amount of loans and receivables that are neither impaired nor past due	60,265	78,395
Carrying amount of loans and receivables that are past due but not impaired	-	-
Carrying amount of individually assessed impaired financial loans and receivables	-	11
Total	60,265	78,406
Of w hich loans and advances to other banks	12,479	21,565
Of w hich loans and advances to customers	47,786	56,841

33. Contingent liabilities and commitments

	30.06.2011 € m	31.12.2010 € m
Contingent Liabilities		
Guarantees and indemnity agreements		
Loan guarantees	80	94
Other Com mitments		
Irrevocable loan commitments		
Lending business	257	323
Total	337	417

Notes to the consolidated unaudited interim financial statements – (continued)

Transfer of non-strategic positions to FMS Wertmanagement

Within the context of the transfer of non strategic positions of the HRE Group to FMS Wertmanagement, the FMSA reserves the right to impose a payment condition for the stabilisation measure in accordance with Section 8a (4) No. 8 FMStFG against the HRE Group for payment to FMS Wertmanagement; this figure must not exceed € 1.59 billion to achieve neutrality in compensation. The purpose of this payment condition is to restore neutrality in terms of competition. The payment condition can also be fixed in several notices. However, the extent of the payment condition must be fixed in such a way that, after the condition has been fixed, the regulatory Tier 1 capital ratio of the bank entities within the HRE subgroups Deutsche Pfandbriefbank AG and the DEPFA Group do not fall below 15 % in each entity as of 31 March 2011. In addition, the fixing of the payment condition must not result in the sub-groups or their parent companies:

- becoming insolvent, illiquid or result in a negative going concern assumption,
- relevant regulatory capital ratios, major credit limits or other legal or regulatory requirements being violated,
- their rating falling below investment grade, or
- the purchase price, taking account of the payment condition, falling below the market value of the transferred positions.

The European Commission has imposed a payment condition in relation to the aid proceedings, namely the complete fulfilment of the payment of € 1.59 billion to avoid distortions of competition in connection with the utilisation of the deconsolidated environment. In consequence, this payment condition has resulted in a subsequent purchase price adjustment in the companies of the HRE Group which transferred assets to FMS Wertmanagement. On the basis of data collected, the payment condition will probably mainly relate to the DEPFA Group, however depending on the future development, the entities of the Deutsche Pfandbriefbank Group may also be required to pay. The exercise by FMSW of its right to impose a payment condition by the issuance of one or more decrees will result in the payment condition being recognised in equity at that time and consequently will have no impact on the income statement.

34. Related party transactions

Balances due to and from group companies are disclosed in the notes to the consolidated unaudited 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 (Including disposal group) consisted of:

	01.01-30.06 2011 € m	01.01-30.06 2010 € m
Interest and similar income	74	60
Interest expense and similar charges	-25	-306
Commission expense	-	-195
Net trading income	-	-
Other operating income	41	3
General administrative expenses	-20	-29

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.

As a result of HRE Holding being controlled by SoFFin, a special estate of the German Federal Government (according to section 2 FMStFG), the Group is a state-controlled entity and a related party with other entities which are subject to the control, joint control or significant influence of the Federal Republic of Germany (government-related entities). FMS Wertmanagement is also subject to the control of the Federal Republic of Germany and is thus a related party of the HRE Group. Business relations with public sector entities are carried out on an arm's length basis. Fees payable in respect of liquidity support facilities provided by SoFFin, the Deutsche Bundesbank and the German Financial Sector are set out in note 6 of the notes to the consolidated unaudited interim financial statements.

Key management compensation

Key management consists of the Board of Directors. Key management compensation consists of short term benefits and post employment benefits.

There have been no loans to members of the Board in 2011 and 2010, nor are there any loans outstanding to members of the Board at 30 June 2011 (31 December 2010: € nil).

There has been no compensation paid for loss of office to key management for the period ended 30 June 2011 (2010: € nil).

Notes to the consolidated unaudited interim financial statements – (continued)

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

	30.06.2011	31.12.2010
	€ m	€ m
Regulatory capital		
Tier I capital	3,673	3,673
Tier II (Supplementary) capital	989	992
Total regulatory capital	4,662	4,665
Capital adequacy ratios		
BIS Risk Weighted Assets (€ million)	6,263	7,235
Tier I capital ratio	58.65%	50.76%
Total capital ratio (Tier I +II)	74.43%	64.48%

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 1 capital ratio of 58.65% and a total capital ratio of 74.43% the Group exceeds the minimum required ratios of 4% and 8.5% respectively.

Capital ratios were not breached at either a Company or Group level during 2011.

Notes to the consolidated unaudited interim financial statements – (continued)

36. Reconciliation of the restated comparatives with the interim statement of financial position and the interim income statement

(a) Reconciliation of the presentation of the 2010 statement of financial position from the 2010 audited financial statements to the 2010 comparatives in the 2011 consolidated unaudited interim statement of financial position.

In accordance with IAS 8.14 (b), there has been a change in the way of recognising the securities which were allocated to the IAS 39 measurement category loans and receivables. In the past, some of these securities which were recognised as loans and receivables (LaR) were disclosed as loans and advances to other banks and loans and advances to customers. In future, these holdings will be disclosed completely as financial assets. In accordance with IAS 8.19 (b), the change has been carried out retrospectively, which means that the previous year figures have been adjusted accordingly. Financial assets have increased by € 20.8 billion as of 31 December 2010 (31 December 2009: € 72.4 billion); loans and advances to other banks have declined by € 2.9 billion (31 December 2009: € 10 billion) and loans and advances to customers have declined by € 17.9 billion (31 December 2009: € 62.4 billion).

The Group shows profits or losses from the sale of receivables in net interest income. On the other hand, effects from the sale of financial assets are shown in the net income from financial investments. As a result of the LaR securities being reclassified under financial assets (whereas they had previously been shown under receivables), it is also necessary to adjust the way in which profits and losses from the sale of such positions are reported. These effects are therefore no longer shown in net interest income and have to be shown in net income from financial investments.

The sale of LaR securities in the first half of 2010 resulted in net income of € 75 million, of which €61m was shown in net interest income. The net income from financial investments as of 30 June 2010 has thus improved by € 61 million to the detriment of net interest income. The Group has retrospectively adjusted the figures in accordance with IAS 8.14 (b), as can be seen below.

	2010 Financial Statements	Reclassification - LaR Securities	2011 Presentation of 2010 comparative
Assets € m			
Cash reserve	2,283	-	2,283
Trading assets	24,740	-	24,740
Loans and advances to other banks	24,511	-2,946	21,565
Loans and advances to customers	74,750	-17,891	56,859
Allowance for losses on loans and advances	-100	-	-100
Financial investments	13,008	20,837	33,845
Property, plant and equipment	1	-	1
Intangible assets	19	-	19
Other assets	4,655	-	4,655
Income tax assets	128	-	128
Current tax assets	6	-	6
Deferred tax assets	122	-	122
Total assets	143,995	-	143,995

Notes to the consolidated unaudited interim financial statements – (continued)

b) Reconciliation of the presentation of the 2010 consolidated unaudited interim income statement from the 2010 consolidated unaudited interim financial statements to the 2010 comparatives in the 2011 consolidated unaudited interim income statement.

In addition to reclassification of LaR securities, as detailed in (a) above, the consolidated unaudited interim income statement comparatives have also been reclassified due to one segment treated as discontinued operations in 2010. As at 30 June 2010 the segment Infrastructure Finance was treated as discontinued operations. With effect from 1 October 2010, the HRE Group transferred loans and securities to FMS Wertmanagement. The complete Infrastructure Finance segment was not transferred and as a result was no longer classified as discontinued operations. The Group has retrospectively adjusted the figures, as can be seen below:

€ m	2010 Interim Financial Statements	Reclassification - Discontinued operations	Reclassification - LaR Securities	2011 Presentation of 2010 Interim comparative
Continuing operations				
Interest and similar income	2,506	141	-78	2,569
Interest expense and similar expenses	-2,352	-80	17	-2,415
Net interest income	154	61	-61	154
Commission income	5	5	-	10
Commission expense	-170	-30	-	-200
Net fee and commission expense	-165	-25	-	-190
Net trading expense / income	-225	-5	-	-230
Net income / expense from financial investments	14	-	61	75
Net expenses from hedge relationships	-14	-15	-	-29
Other operating income/expense	9	-	-	9
Total operating revenues	-227	16	-	-211
Provision for losses on loans and advances	4	-58	-	-54
General administrative expenses	-81	-	-	-81
Other income/expenses	1	-	-	1
Of which restructuring expenses	1	-	-	1
Pre-tax loss	-303	-42	-	-345
Taxes on income	1	-	-	1
Net loss for the period from continuing operations	-302	-42	-	-344
Discontinued operations				
Net (loss)/profit for the period from discontinued operations*	-42	42	-	-
Net loss for the period	-344	-	-	-344
Attributable to:				
Equity holders of the parent	-344	-	-	-344

Notes to the consolidated unaudited interim financial statements – (continued)

37. Credit risk exposure to certain European countries

The following table provides an overview of the direct sovereign exposure of selected European countries:

€ m	Carrying Value	Fair Value	Carrying Value	Fair Value
	30.06.2011		31.12.2010	
Ireland	352	352	1,975	1,975
Italy	2,068	1,980	2,240	2,141
Spain	356	289	370	291
	2,776	2,621	4,585	4,407

All of the above positions are included in the IFRS measurement category loans and receivables. The DEPFA Group 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 Group did not have any sovereign credit risk exposure to either Greece or Portugal as at 30 June 2011 (31 December 2010: nil).

38. Events after the statement of financial position date

On 18 July 2011, the Federal Republic of Germany reached formal agreement with the European Commission with regard to the state aid proceedings which the European Commission initiated in relation to the stabilisation measures granted to the HRE Group by the Federal Republic of Germany. The approval procedure has thus been completed; the decision of the European Commission is expected to be published in the official Gazette of the European Commission in the course of the next few weeks. The HRE Group has thus obtained the legal and planning certainty necessary for its proper operation.

The decision of the European Commission relates to all elements of aid granted to the HRE Group since the autumn of 2008, i.e. capitalisations, guarantee lines and the transfer of assets to the deconsolidated environment FMS Wertmanagement and requires the HRE Group to take appropriate compensation measures, in particular a reduction of total assets of Deutsche Pfandbriefbank Group. This aim is reached to a large extent.

The consequence of the decision of the European Commission is that the companies within the DEPFA Group will not conduct any new business until they are reprivatized. This is not applicable for measures carried out as part of bank, risk and refinancing management which is necessary for regulatory purposes and which has the aim of maintaining value and also within the framework of managing the cover pools.

With its positive decision, the European Commission has also accepted the viability of the business model of Deutsche Pfandbriefbank AG as a specialist bank for real estate finance and public sector investment finance. The consequence for Deutsche Pfandbriefbank AG is that it is now positioned as the strategic core bank of the HRE Group. It operates new business in real estate finance and public investment finance. Deutsche Pfandbriefbank AG will discontinue traditional public finance activities as pure budget financing. It has restricted its regional area of activity to selected countries in Europe. The growth of Deutsche Pfandbriefbank AG will be limited. These requirements have been recognised correspondingly in business planning. The agreed guidelines are applicable up to the point at which Deutsche Pfandbriefbank AG will be reprivatized, but will be applicable at least until the end of 2013. The existing contractual links with the deconsolidated environment FMS Wertmanagement (in particular servicing and refinancing) will be terminated at the latest by the end of September 2013. The entities of the DEPFA Group are free to provide services to FMS Wertmanagement after 30 September 2013.

Both the Deutsche Pfandbriefbank Group and the DEPFA Group may be sold in the medium-term. The complete reprivatization of the DEPFA Group is a medium-term objective. Measures have already been initiated to sever the links between the companies of the DEPFA Group and the other companies of the HRE Group.

In addition, the European Commission has imposed a payment condition in relation to the aid proceedings, namely the complete fulfilment of the payment of € 1.59 billion, as set out in note 33 of the notes to the unaudited consolidated interim financial statements, to avoid distortions of competition in connection with the utilisation of the deconsolidated environment. In consequence, this payment condition will result in a subsequent purchase price adjustment in the companies of the HRE Group which transferred assets to FMS Wertmanagement. On the basis of data collected, the payment condition will probably mainly relate to the DEPFA Group, however depending on the future development, the entities of the Deutsche Pfandbriefbank Group may also be required to pay. The exercise by FMSA of its right to impose a payment condition by the issuance of one or more decrees will result in the payment condition being recognised in equity at that time and consequently will have no impact on the income statement.

Notes to the consolidated unaudited interim financial statements – (continued)

Furthermore, the European Commission has set conditions for interest and profit participation payments the HRE Group makes to third parties outside the HRE Group for certain instruments and until further notice. These conditions apply to a series of profit related capital instruments, which existed on 30 September 2010 and which were not provided by SoFFin. As a result of further conditions, in line with the "burden-sharing" principle specified by the European Commission, from the time at which the payment condition of € 1.59 billion is completely settled up to the time of privatisation, the DEPFA Group will have to pay further annual fees to the Federal Republic of Germany; the precise form of this payment still has to be agreed in contractual form between the affected companies of the DEPFA Group and the Federal Republic of Germany. Profits of the Deutsche Pfandbriefbank Group will be used to repay the silent participation to SoFFin.

Apart from the above, there have been no other notable events after 30 June 2011.