DEPFA BANK

Annual Report

DEPFA BANK plc

2019

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Directors and other information

Board of Directors

Mr. C. Müller[1] (German) (appointed Chairman 9 August 2019)
Mr. J. Dempsey[2]
Ms. C. Falkner[1] (German) (appointed 12 September 2019)
Ms. F. Flannery
Mr. F. Hellwig[1] (German) (resigned 31 March 2019)
Dr. C. Pleister[2] (German)
Mr. E. Quinn[2] (appointed 23 April 2019)
Mr. G. Shanley
Mr. E. Wartenweiler (Swiss)
Ms. S. Webb[2]
Mr. S. Winkelmeier[1] (German) (resigned 30 June 2019)

[1] Non-Executive Director
[2] Independent Non-Executive Director

Audit Committee

Dr. C. Pleister (Chairman)
Mr. C. Müller (resigned 9 August 2019)
Mr. E. Quinn (appointed 23 April 2019)
Ms. S. Webb

Board Risk Committee

Mr. J. Dempsey (Chairman)
Ms. C. Falkner (appointed 12 September 2019)
Mr. C. Müller
Dr. C. Pleister
Ms. S. Webb
Mr. S. Winkelmeier (resigned 30 June 2019)

Nomination Committee

Dr. C. Pleister (Chairman)
Mr. J. Dempsey
Mr. C. Müller (appointed 9 August 2019)
Ms. S. Webb
Mr. S. Winkelmeier (resigned 30 June 2019)

Remuneration Committee

Dr. C. Pleister (Chairman)
Mr. J. Dempsey
Mr. C. Müller (appointed 9 August 2019)
Mr. S. Winkelmeier (resigned 30 June 2019)

Secretary
Ms. G. Lyons

Registered Office
Block 5, Irish Life Centre
Abbey Street Lower
Dublin 1, Ireland
D01 P767

Solicitors
Arthur Cox
Ten Earlsfort Terrace
Dublin 2, Ireland
D02 T380

Independent Auditors
PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
One Spencer Dock
North Wall Quay
Dublin 1, Ireland
D01 X9R7

Registered Number
348819

Executive team – Director profiles

Fiona Flannery (Chief Executive Officer)
Ms. Flannery was appointed Chief Executive Officer of DEPFA BANK plc in December 2014. Prior to this, she served as Executive Director, Chief Risk Officer at DEPFA BANK plc since April 2010. Ms. Flannery is a senior banker with over 25 years' experience in the industry across a broad range of risk and strategic functions. She has held several senior positions within DEPFA BANK plc prior to her appointment to the Board, including Head of Credit Risk & Credit Advisory and Global Head of Public Finance Risk Management. Prior to joining DEPFA BANK plc, she worked in various other financial institutions. She holds a degree in Mathematics and English from National University of Ireland, Galway and a Masters in Business (Leadership & Management Practice) from UCD Michael Smurfit Graduate Business School. She has a C. Dip. AF from the ACCA and is a Chartered Director.

Gearóid Shanley (Chief Financial Officer/Chief Operating Officer)
Mr. Shanley joined the Board in September 2016 as an Executive Director and Chief Financial Officer. Prior to this he served as Head of Finance at DEPFA BANK plc since 2011. Mr. Shanley is a senior banker with over 25 years' experience in the industry and has held various senior finance roles in DEPFA BANK plc since 1998. Prior to joining DEPFA BANK plc, Mr. Shanley worked in Allied Irish Bank Group as a Client Services manager in the Capital Markets division. Mr. Shanley is a Fellow of the Institute of Chartered Accountants in Ireland and has extensive experience in financial reporting and International Financial Reporting Standards ("IFRSs").

Edwin Wartenweiler (Chief Risk Officer)
Mr. Wartenweiler joined the Board in November 2018 as an Executive Director and Chief Risk Officer. He has a distinguished career spanning over 30 years, primarily spent with Credit Suisse and UBS, where he was a member of the Executive Board and Chief Risk Officer ("CRO") of UBS Switzerland AG. He also held the position of CRO and member of the Management Board of HSH Nordbank AG from 2012 to 2015, where he was responsible for the stabilisation of the bank and the preparation for a sale of the entity. Prior to this role, Mr. Wartenweiler worked for FMS Wertmanagement AöR (DEPFA BANK plc's ultimate parent company), where his position was to establish risk processes in the Federal government's winding-up institution for the nationalised Hypo Real Estate Holding AG (HRE Group). Prior to this role, Mr. Wartenweiler held various positions at Credit Suisse, Zurich, where he was MD of Global Credit Management and Head Credit Unit. Mr. Wartenweiler has completed the Executive Program in Stanford University and the Top Executive Program of Credit Suisse at Harvard Business School.

Chief Executive Review 2019

The DEPFA Group's strategic purpose, as set out following the purchase of the DEPFA Group by FMS Wertmanagement AöR in December 2014, as a wind-down institution, has continued to be met and I am pleased to report the following key milestones reached during 2019:

- Reduction of the balance sheet of the DEPFA Group from €15.4 billion at end 2018 to €8.9 billion at end 2019, representing a reduction of 42% during 2019 and a total of 82% since the change in ownership at end 2014.
- Simplification of the DEPFA Group legal structure and corporate organisational footprint with the liquidation and closure of group entities during 2019. This includes the return of the banking licence for DEPFA Pfandbrief Bank International S.A., Luxembourg and the closure and placement into voluntary liquidation of a further 4 non-strategic corporate legal entities. This brings the number of non-strategic corporate legal entity closures to eight, the sum of branches closed to four and the quantity of banking licences returned to two since 2014.
- The reduction of the balance sheet and shrinking corporate footprint has also resulted correspondingly in a decrease in employee numbers. As of the end of 2019, headcount has been reduced by 49% in the past five years.
- These actions have led to a reduction in General Administration Expenses of 41% since end-2014, further improving the efficiency of the DEPFA Group and maximising the benefit of the wind-down to our shareholder.

The success of the targeted wind down of the DEPFA Group's balance sheet during 2019 occurred as a result of a number of successful acceleration projects executed during the year, including a number of strategic asset sales as well as asset and liability management exercises, including the buyback and redemption programmes of covered bonds and registered notes held by FMS Wertmanagement AöR.

The legal structure has been simplified further when DEPFA Pfandbrief Bank International S.A., which no longer engaged in banking matters, surrendered its banking licence to the CSSF in Luxembourg. Approval to revoke this was received from the ECB in November 2019 with the legal entity renamed DEPFA International S.A. and the company's purpose amended to that of a Holding Company.

The bank's implementation of these value enhancing initiatives continue to yield positive results in reducing the DEPFA Group's derivatives, loans and securities portfolio. This program has had a substantial effect on balance sheet compression throughout the DEPFA Group and has resulted in a reduced risk exposure as the total amount of risk-weighted assets has decreased by 37.6% in 2019, thus supporting continued improvement in already robust capital ratios.

The success in meeting our strategic objectives has only been possible due to the capabilities, motivation and professionalism of our staff and I would like to thank them for their continued commitment in the delivery of DEPFA's mandate. We will continue to further invest in our work practices to ensure DEPFA remains an attractive place to work.

Fiona Flannery, CEO

Directors' report

The Directors of DEPFA BANK plc ("the Bank", "the Company" or "DEPFA") present their report and the audited Group consolidated and Company's separate financial statements ("the financial statements") for the year ended 31 December 2019.

Ownership

There was no change in the ownership of the Bank during 2019.

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

Principal activities

The DEPFA Group including DEPFA BANK plc, operating in Ireland, Luxembourg and the Netherlands, provides a range of banking, financial and related services, subject to the conditions imposed by the European Commission's approval, on 18 July 2011, of the state aid in relation to the stabilisation measures granted to the HRE Group by the Federal Republic of Germany.

DEPFA BANK plc continues to wind down its portfolios in a manner designed to maintain value.

DEPFA BANK plc is regulated by the Central Bank of Ireland and has a full banking licence.

Dividends

No dividends were paid in 2019 in respect of the year ended 31 December 2018 (2018: € nil).

Directors

The names of the Directors in office at the date of signing of the financial statements for the year ended 31 December 2019 are set out on page 1. All changes to the Board of Directors during the year and up to the date of signing are also included on page 1.

Directors' and Secretary's interest in the share capital

The interests of the Directors and the Company Secretary, who served during the year and those in office at 31 December 2019 and of their spouses and minor children in the shares of the Bank, of any other DEPFA Group undertaking or of the parent company were € nil (31 December 2018: € nil).

No Director held any options on shares of the Bank, of any other DEPFA Group undertaking or of the parent company at 31 December 2019 (31 December 2018: € nil).

Political donations

The Electoral Act, 2012 requires companies to disclose all political donations over €200 in aggregate made during the financial year. The Directors, on enquiry, have satisfied themselves that no such donations have been made by the Bank during the financial year.

Adequate Accounting records

The Directors have taken appropriate measures to secure compliance with the Bank's obligation to keep adequate accounting records through the use of appropriate systems and procedures and employment of competent persons. The accounting records are kept at Block 5, Irish Life Centre, Abbey Street Lower, Dublin 1, Ireland.

Subsidiary undertakings

Details of subsidiary undertakings are shown in note 43 to the financial statements. DEPFA Funding II LP and DEPFA Funding III LP were liquidated during the year with a dissolution date of 21 November 2019.

DEPFA International S.A. (formerly DEPFA Pfandbrief Bank International S.A.), received approval from the European Central Bank (the "ECB") on 27 November 2019 to surrender its banking licence effective as of 28 November 2019. Following this decision, capital amounting to €67,970,000 was transferred to DEPFA BANK plc on 4 December 2019, followed by a dividend payment of €4,000,000 to DEPFA BANK plc on 23 December 2019. The current business assumption of DEPFA International S.A. is that it will enter in to liquidation during 2020.

Branches outside the state

In 2019, the DEPFA Group did not operate branches within the meaning of Regulation 25 of the European Communities (Accounts) Regulations, 1993 and 2015.

Independent Auditors

PricewaterhouseCoopers has expressed willingness to be re-appointed in accordance with Section 383(2) of the Companies Act 2014.

The Directors have taken all steps that they ought to have taken to make themselves aware of all audit information and to establish that auditors are aware of all such information and, so far as the Directors are aware, there is no relevant audit information of which the auditors are unaware, in accordance with section 330 (1) – (3) of the Companies Act 2014.

Directors' Compliance statement

As required by section 225 of the Companies Act 2014, the Directors acknowledge that they are responsible for securing the Bank's compliance with its "relevant obligations" (as defined in that legislation). The Directors further confirm that a compliance policy statement has been drawn up, and that appropriate arrangements and structures have been put in place that are, in the Directors' opinion, designed to secure material compliance with the relevant obligations. A review of those arrangements and structures has been conducted in respect of the financial year to which this report relates.

Going concern

The Directors continue to consider the appropriateness of the going concern assumption in the preparation of the financial statements.

The Directors understand that the DEPFA Group was transferred to FMS Wertmanagement AöR as a going concern and will continue its principal activities, being the wind down of its portfolios in a manner designed to maintain value. The Directors consider that the liquidity position of the DEPFA Group is stable and that it continues to be in a position to meet its own funding requirements. The DEPFA Group is not currently dependent on additional funding from FMS Wertman-

agement AöR and is expected to be able to meet its obligations as they fall due for a minimum period of one year from the date of this report. The Directors have also considered that the regulatory capital ratios are currently, and are expected to continue to be, significantly in excess of the required minimum ratios for a minimum period of one year from the date of this report.

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

Related party transactions

The consolidated income statement and the statement of financial position of the DEPFA Group contain related party transactions. See note 42 to the financial statements for further details.

Ratings

Senior unsecured and covered bonds ratings of the DEPFA Group are shown in the table below:

Senior unsecured and covered bonds ratings of banks in the DEPFA Group[1)]

Banks in the DEPFA Group[2)]	31 December 2019		31 December 2018	
	Moody's	Standard & Poor's	Moody's	Standard & Poor's
Long-term rating	A2	A–	A2	A–
Outlook	Positive	Negative[3)]	Positive	Stable
Short-term rating	P–1	A–2	P–1	A–2
Asset Covered Securities	–	–	–	–

[1)] Ratings from mandated rating agencies
[2)] DEPFA BANK plc (“DEPFA”), DEPFA ACS BANK DAC (collectively “the DEPFA Group”)
[3)] Standard & Poor’s changed DEPFA’s outlook to negative from stable on 24 September 2019 after FMS Wertmanagement AöR announced its intention to explore a potential sale of the bank

The ratings assigned by the ratings agencies do not necessarily represent the opinion of DEPFA BANK plc or any of the banks in the DEPFA Group. The rating agencies may alter or withdraw their ratings at any time. For the evaluation and usage of ratings, please refer to the rating agencies relevant criteria and explanations, terms of use, copyrights and disclaimers. Ratings should not substitute individual analysis. Ratings do not constitute any recommendation to purchase, hold or sell securities issued by any of the banks in the DEPFA Group.

Events after 31 December 2019

On 19 March 2020, the Board recommended a dividend of €150 million to be paid on 31 March 2020 to FMS Wertmanagement AöR, subject to shareholders approval.

The emergence and spread of Covid-19 has resulted in directives and recommendations by the Irish government and health services affecting the extent to which DEPFA Group employees can attend and work in the Group’s business premises. In addition there has been a significant impact on financial markets with longer term macroeconomic implications of the emergence and spread of Covid-19 and the extent of the impact on global economic conditions are uncertain. This could have an adverse impact on the DEPFA Group, primarily from the impacts on the DEPFA Group’s credit exposures. The DEPFA Group continues to monitor developments.

Other than above,there have been no other notable events after 31 December 2019.

Major events

Asset/Liability management ("ALM") transactions with FMS Wertmanagement AöR

In June 2019, the DEPFA Group executed an asset/liability management ("ALM") transaction with FMS Wertmanagement AöR, which has had a significant impact on the income statement and statement of financial position of the DEPFA Group.

On 7 June 2019, DEPFA ACS BANK DAC acquired from FMS Wertmanagement AöR global notes and registered notes with a nominal amount of approximately €1.3 billion and a book value of €1.9 billion.

Details of the global notes purchased, which were all listed, with a nominal total of €70 million are set out in the table below:

ISIN	Maturity date	Issuance currency	Amount purchased	Principal amount outstanding (nominal)	Listing
CH0026116084	31/07/2031	CHF	625,000	3,735,000	Switzerland
XS0258836914	25/04/2025	EUR	10,000,000	–	London
US249575AN19/DE000A0LPMX0	16/03/2037	USD	10,150,000	17,240,000	Dublin
XS0259466695	06/07/2031	EUR	15,000,000	–	Dublin
XS0259885316	06/07/2036	EUR	15,000,000	–	Dublin
XS0217803914	30/06/2021	EUR	20,000,000	–	Luxembourg

On 7 June 2019, DEPFA ACS BANK DAC transferred financial assets with a nominal amount of approximately €1.3 billion and a book value of €1.7 billion to FMS Wertmanagement AöR.

On 7 June 2019, DEPFA BANK plc transferred financial assets with a nominal of €249 million and a book value of €269 million to FMS Wertmanagement AöR.

Also, on 7 June 2019, DEPFA BANK plc and DEPFA ACS BANK DAC entered into certain derivative transactions with FMS Wertmanagement AöR with the effect of closing the risk positions on derivatives in those entities which were previously used to hedge the liabilities purchased and assets transferred.

All of the transactions referred to above on 7 June 2019 were transacted on an arm's length basis at fair value and resulted in a net cash settlement from FMS Wertmanagement AöR to the DEPFA Group of €135 million.

The effects of the above transactions resulted in a loss in the DEPFA Group consolidated income statement of €–45 million. The above transactions also resulted in the following impacts on the statements of financial position and income statements of the DEPFA Group and Company:

Asset/Liability management transaction with FMS Wertmanagement AöR – Group – June 2019

€m	Book value	Settlement value	(Loss)/gain recorded in income statement
Assets			
Loans and advances to customers	602	577	–25
Financial investments	1,443	1,400	–43
Total	**2,045**	**1,977**	**–68**
Liabilities			
Liabilities evidenced by certificates	–1,865	–1,842	23
Total	**–1,865**	**–1,842**	**23**
Total	**180**	**135**	**–45**

Asset/Liability management transaction with FMS Wertmanagement AöR – Company – June 2019

€m	Book value	Settlement value	Gain recorded in income statement
Assets			
Loans and advances to customers	37	38	1
Financial investments	232	232	–
Total	**269**	**270**	**1**

On 21 November 2019, the DEPFA Group executed a transaction with FMS Wertmanagement AöR to repay the Perpetual Preferred Securities issued by the issuing vehicles, DEPFA Funding II LP and DEPFA Funding III LP.

The total perpetual preferred securities issued by DEPFA Funding II LP had a nominal value of €400 million, of which FMS Wertmanagement AöR held €361,897,000 following a tender offer in 2015. The remaining €38,103,000 nominal value were held by DEPFA BANK plc.

The total perpetual preferred securities issued by DEPFA Funding III LP had a nominal value of €300 million, of which FMS Wertmanagement AöR held €263,554,000 following a tender offer in 2015. The remaining €36,446,000 nominal value were held by DEPFA BANK plc.

The terms of the perpetual preferred securities do not include contractual obligations to make interest or principal payments and accordingly their carrying amount was classified as equity.

The 21 November 2019 transaction comprised the repayment of the perpetual preferred securities and other subordinated debt at fair value which was funded by the DEPFA Group by the sale at fair value of two financial assets included in "Financial investments" and seven financial assets included in "Loans and advances to customers" with a combined nominal value of €1,048 million and book value of €1,082 million. The execution of this transaction resulted in a reduction of DEPFA Group preferred securities of €584 million, an equity loss of €–34 million (Company: € nil) on the repayment of the perpetual preferred securities, included in "Retained earnings/

(accumulated losses)", and a DEPFA Group income statement loss of €–18 million (Company: €40 million) on the sale of the financial assets, included in "Net loss on asset/liability management transactions with FMS Wertmanagement AöR". The impacts on the statements of financial position and income statement of the DEPFA Group of the transaction above are shown in the table below:

Asset/Liability management transaction with FMS Wertmanagement AöR – Group – November 2019

€m	Book value	Settlement value	Loss recorded in income statement	Loss recorded directly in retained earnings
Assets				
Loans and advances to customers	596	575	–21	–
Financial investments	486	489	3	–
Total	**1,082**	**1,064**	**–18**	–
Liabilities				
Subordinated debt	–360	–360	–	–
Equity				
Preferred securities	–584	–618	–	–34
Total	**–944**	**–978**	–	**–34**
Total	**138**	**86**	**–18**	**–34**

Asset/Liability management transaction with FMS Wertmanagement AöR – Company – November 2019

€m	Book value	Settlement value	Gain recorded in income statement
Assets			
Loans and advances to customers	201	219	18
Financial investments	44	74	30
Total	**245**	**293**	**48**
Liabilities			
Liabilities to customers	–60	–60	–
Subordinated debt	–893	–901	–8
Total	**–953**	**–961**	**–8**
Total	**–708**	**–668**	**40**

The repayment of the preferred securities also resulted in the repayment at fair value on an arm's length basis of certain intragroup senior unsecured and subordinated loans between the Group companies DEPFA BANK plc, DEPFA ACS BANK DAC and DEPFA Finance N.V., as follows:

DEPFA Funding II LP transaction – internal loans

Lender	Borrower	Loan type	**Nominal €**	**Repayment amount €**
DEPFA Finance N.V.	DEPFA ACS BANK DAC	Subordinated debt	60,000,000	63,445,922
DEPFA Finance N.V.	DEPFA BANK plc	Subordinated debt	280,000,000	296,080,970
DEPFA Finance N.V.	DEPFA BANK plc	Senior unsecured	60,000,000	61,043,949
DEPFA Finance N.V.	DEPFA Funding II LP	Subordinated debt	–400,000,000	–422,725,477

DEPFA Funding III LP transaction – internal loans

Lender	Borrower	Loan type	Nominal €	Repayment amount €
DEPFA Finance N.V.	DEPFA ACS BANK DAC	Subordinated debt	50,000,000	48,981,863
DEPFA Finance N.V.	DEPFA BANK plc	Subordinated debt	250,000,000	244,909,314
DEPFA Finance N.V.	DEPFA Funding III LP	Subordinated debt	–300,000,000	–293,071,709

Also on 21 November 2019, the DEPFA Group terminated the related derivative transactions at carrying value.

The repayment of the DEPFA Funding II LP preferred securities resulted in the dissolution of DEPFA Funding II LP and the distribution of its surplus of €53,073,605 to the general partner, DEPFA BANK plc.

The repayment of the DEPFA Funding III LP preferred securities resulted in a capital contribution of €14,709,053 by the general partner, DEPFA BANK plc and, ultimately, the dissolution of DEPFA Funding III LP.

Also on 21 November 2019, the DEPFA Group entity DEPFA BANK plc repaid to FMS Wertmanagement AöR subordinated loans with a nominal value of €360 million. This transaction, which was on a reverse enquiry basis and is consistent with the wind down strategy of the DEPFA Group, was executed on an arm's length basis at fair value and resulted in no impact on the income statement at the DEPFA Group and Company levels.

On 18 December 2019 the DEPFA Group executed a further transaction with FMS Wertmanagement AöR whereby financial assets with a nominal amount of €1.4 billion and a book value of €1.4 billion were transferred at fair value on an arm's length basis to FMS Wertmanagement AöR in exchange for cash. These financial assets were included on the statement of financial position in "Financial investments". Also on 18 December 2019, the DEPFA Group terminated the related derivative transactions at carrying value. The execution of this transaction resulted in a DEPFA Group income statement gain of €20 million on the sale of the financial assets.

Capital reorganisation

In the first half of 2019, DEPFA BANK plc ("the Company"), the parent company of the DEPFA Group, completed a restructuring of its capital. The following steps, which individually and together had no net effect on the Company's or the DEPFA Group's total equity, were executed:

- On 20 March 2019 the Company applied €902,451,868 of its non-distributable capital reserve to the issuance and paying up in full of 3,008,172,893 ordinary shares of €0.30 each allotted as fully paid bonus shares to FMS Wertmanagement AöR as the sole shareholder of the Company.
- On 2 May 2019, following the registration of an order of the High Court dated 1 May 2019 from a motion originated by the Company:
  - the Company's share capital was reduced by €902,451,868 by the cancellation of 3,008,172,893 ordinary shares of €0.30 each;
  - the Company's share premium account was reduced by €1,141,980,516 to € nil;
  - the reserves resulting from such cancellation and reduction are to be treated as profits available for distribution as defined by section 117 of the Companies Act 2014 and, accordingly, are applied to the "Retained earnings/(accumulated losses)" of the Company; and
  - the Company transferred €1,022,053,580 from the distributable capital contribution reserve to offset accumulated losses.

The Company notified and, where relevant, received the prior approval of the Central Bank of Ireland for the above steps.

The table below shows the impacts of the capital reorganisation at the DEPFA Group and Company level.

Group

€m	Share capital	Share premium	Capital reserve	Preferred securities	Retained earnings/ (accumulated losses)	Total equity
Balance at 1 January 2019	**106**	**1,142**	**1,500**	**584**	**–1,771**	**1,561**
Net loss for the year	–	–	–	–	–95	–95
Total recognised comprehensive loss	**–**	**–**	**–**	**–**	**–95**	**–95**
Repayment of preferred securities	–	–	–	–584	–34	–618
Transactions with equity holders	**–**	**–**	**–**	**–584**	**–34**	**–618**
Capital reorganisation (issue of Bonus Shares)	903	–	–	–	–903	–
Capital reduction:						
Cancellation of Bonus Shares	–903	–	–	–	903	–
Transfer from share premium to accumulated losses	–	–1,142	–	–	1,142	–
Transfer from capital contribution to accumulated losses	–	–	–1,022	–	1,022	–
Balance at 31 December 2019	**106**	**–**	**478**	**–**	**264**	**848**

Company

€m	Share capital	Share premium	Capital reserve	Retained earnings/ (accumulated losses)	Total equity
Balance at 1 January 2019	**106**	**1,142**	**2,403**	**–3,067**	**584**
Net income for the year	–	–	–	165	165
Total recognised comprehensive income	**–**	**–**	**–**	**165**	**165**
Capital reorganisation (issue of Bonus Shares)	903	–	–903	–	–
Capital reduction:					
Cancellation of Bonus Shares	–903	–	–	903	–
Transfer from share premium to accumulated losses	–	–1,142	–	1,142	–
Transfer from capital contribution to accumulated losses	–	–	–1,022	1,022	–
Balance at 31 December 2019	**106**	**–**	**478**	**165**	**749**

DEPFA Pfandbrief Bank International S.A. licence surrender

DEPFA International S.A. (formerly DEPFA Pfandbrief Bank International S.A.), received approval from the European Central Bank (the "ECB") on 27 November 2019 to surrender its banking licence effective as of 28 November 2019. Following this decision, capital amounting to €67,970,000 was transferred to DEPFA BANK plc on 4 December 2019, followed by a dividend payment of €4,000,000 to DEPFA BANK plc on 23 December 2019. The current business assumption of DEPFA International S.A. is that it will enter in to liquidation during 2020.

Review of performance

The pre-tax loss in 2019 was €–95 million compared to a loss of €–36 million in the previous year. The pre-tax loss in 2019 was significantly influenced by the net loss of €–63 million (2018: € nil) on the ALM transactions with FMS Wertmanagement AöR.

Net interest expense in 2019 of €–5 million (2018: income of €9 million) includes losses from the buyback and other early repayment of liabilities before maturity of €–6 million (2018: €–9 million). These liabilities were included on the statement of financial position in "Liabilities to customers", "Liabilities evidenced by certificates" and "Subordinated debt". Also, included in net interest income in 2018 was €10 million (2019: € nil) relating to the adjustment of the carrying value of certain loans arising from revisions to the estimate of future cash flows.

The net trading income of €4 million increased compared to the previous year net trading loss of €–7 million. Included in 2019 net trading income is a net amount of €3 million (2018: €–10 million) in derivative valuation effects relating to counterparty risk parameters including both the credit risk of the counterparty, credit valuation adjustment ("CVA") of €8 million (2018: €–3 million) and the DEPFA Group's own credit risk, debit valuation adjustment ("DVA") of €–5 million (2018: €–7 million).

In June 2019, the DEPFA Group executed an asset/liability management ("ALM") transaction with FMS Wertmanagement AöR, which resulted in a loss in the DEPFA Group consolidated income statement of €–45 million. On 21 November 2019, the DEPFA Group executed a transaction with FMS Wertmanagement AöR to repay the Perpetual Preferred Securities issued by the issuing vehicles, DEPFA Funding II LP and DEPFA Funding III LP. The transaction resulted in a loss in the DEPFA Group consolidated income statement of €–18 million

Net income from financial investments in 2019 was €21 million (2018: €19 million), of which €1 million (2018: €10 million) relates to the sale of financial investments used as collateral for guaranteed investment contracts ("GICs") and €20 million (2018: € nil) relates to the asset sales, discussed in further detail in the "Major events" section. General administrative expenses reduced in 2019 to €–53 million compared to €–58 million in 2018, mainly due to a reduction in the Single Resolution Fund levy to €–5 million compared to €–8 million in 2018. In addition personnel expenses decreased to €–17 million compared to €–18 million in the previous year. The average headcount (111 people) reduced compared with the previous year (122 people).

The result in 2019 compared with the previous year is detailed in the following table:

Consolidated income statement

€m	2019	2018
Net interest (expense)/income	–5	9
Net fee and commission expense	–	–
Net trading income/(expense)	4	–7
Net income from financial investments	21	19
Net income/expense from hedge relationships	1	–2
Net expense from other financial instruments at FVTPL	–	–1
Net loss on asset/liability management transactions with FMS Wertmanagement AöR	–63	–
Other operating income	2	2
Other operating expense	–1	–
Total operating (expenses)/revenues	**–41**	**20**
Movement in credit impairment provisions	1	3
General administrative expenses	–53	–58
Other expense	–2	–1
Pre-tax loss	**–95**	**–36**
Taxes on income	–	2
Net loss	**–95**	**–34**

Development in assets, liabilities and equity

Total assets of the DEPFA Group amounted to €8.9 billion at 31 December 2019 and were €6.5 billion lower than the corresponding figure at the end of the previous year (31 December 2018: €15.4 billion). The total DEPFA Group liabilities amounted to €8.0 billion as at 31 December 2019, compared with €13.8 billion as at 31 December 2018. The DEPFA Group does not operate any new business in line with the conditions imposed by the European Commission state aid approval.

The decline includes effects attributable to the ALM transactions and the asset sales, as described in the "Major events" section of this report, which led to a reduction in total assets of €4.4 billion and in total liabilities of €4.3 billion.

In addition to the effects from the ALM transactions and asset sales, the remaining assets decreased by a net €2.1 billion. This included a reduction in derivative assets (included in trading assets and other assets) of €0.8 billion, due to a derivative compression programme introduced in the second half of 2019, which was offset by an increase of €0.7 billion primarily as a result of market-related changes such as foreign currency exchange rates and interest rates as well as other terminations in line with the wind down strategy of the DEPFA Group. A corresponding reduction of derivative liabilities is reflected in trading liabilities and other liabilities. The movement in total assets also includes a €2.1 billion reduction due to asset maturities, prepayments and movements in fair value, which is offset by a €0.1 billion increase in collateral related to derivative transactions.

In addition to the effects from the ALM transactions, the total liabilities decreased by a net €1.5 billion. This decline includes a €1.5 billion reduction in “Liabilities to customers”, “Liabilities evidenced by certificates” and “Subordinated debt”, due to maturities and early repayment of liabilities, and a reduction in the facilities provided by FMS Wertmanagement AöR to the DEPFA Group. In addition there was a decrease of €0.1 billion in derivative liabilities as described above. The reduction is offset by a €0.1 billion increase in collateral related to derivative transactions.

Equity amounted to €0.9 billion as at 31 December 2019 (31 December 2018: €1.6 billion). The total equity in the year decreased by €0.7 billion, which is primarily due to the effects from the ALM transactions, as described in the “Major events” section of this report.

Future development in earnings, assets, liabilities and equity of the DEPFA Group

The DEPFA Group has closed the year 2019 with a pre-tax loss of €–95 million. This loss includes a loss of €–63 million on the ALM transactions, as described in the “Major events” section of this report. The DEPFA Group’s future position may be adversely affected by higher additions to Expected Credit Losses (“ECL”) on loans and advances, or there may be other adverse factors such as serious turmoil in financial markets or the defaults of sovereign states.

Total assets in 2019 decreased by €6.5 billion and total liabilities decreased by €5.8 billion. The reduction includes effects from the ALM transactions, maturities, repayments and derivative terminations or restructurings as well as changes due to fair value movement on derivatives arising from changes in foreign exchange rates and interest rates. Apart from changes due to the effect of developments in foreign exchange rates and interest rates, it is expected that total assets and liabilities will continue to decline further in 2020 due to the fact that the DEPFA Group is not undertaking any new business. In the second half of 2019, the DEPFA Group initiated a derivative compression programme in conjunction with FMS Wertmanagement AöR which led to a balance sheet reduction of €0.8 billion. This programme is planned to continue with FMS Wertmanagement AöR throughout the financial years 2020 and 2021. The derivative compressions, which are managed to ensure no significant change to the DEPFA Group’s market risk position, are likely to result in a reduction in Risk Weighted Assets (“RWAs”). However, the development in total assets is not fully subject to the control of the DEPFA Group. Market-related factors such as changes in foreign currency exchange rates and interest rates can also have an impact on total assets and liabilities.

Opportunities, risks and uncertainties

Covid-19

The emergence and spread of the coronavirus (Covid-19) has resulted in directives and recommendations by the Irish government and health services affecting the extent to which DEPFA Group employees can attend and work in the Group's business premises. The DEPFA Group has implemented robust and tested operational measures to adhere to the directives and recommendations of the Irish government to minimise and avoid social contact. The measures implemented allow that the DEPFA Group can continue to operate its business effectively during the restrictions imposed by the Irish government and health services.

The longer term macroeconomic implications of the emergence and spread of Covid-19 and the extent of the impact on global economic conditions remain uncertain and could have an adverse impact on the DEPFA Group, primarily from the impacts on the DEPFA Group's credit exposures. The DEPFA Group continues to monitor developments.

Other opportunities, risks and uncertainties

The DEPFA Group considers that the direct impacts of Brexit on the DEPFA Group are low given the low level of exposures in the DEPFA Group to the UK. The longer term macroeconomic implications of Brexit and related impacts on asset prices and global economic conditions remain uncertain and could have an adverse impact on the DEPFA Group. The DEPFA Group continues to monitor the situation.

The developments in earnings, assets, liabilities and equity in recent years are in line with the existing strategy of the DEPFA Group. Following the decision on its ownership status and the subsequent transfer of ownership to FMS Wertmanagement AöR on 19 December 2014, the DEPFA Group continues to focus on the process of optimising the value of its portfolios. The DEPFA Group has continued to make significant progress with its mandate to wind-down its portfolio and is not undertaking any new business. The continuation of this restricted business model for the DEPFA Group will inevitably lead over time to the reduction and a general decline in business volumes. In recent years, on a reverse enquiry basis, the DEPFA Group has redeemed certain liabilities before maturity which have realised income/losses. Such income/losses may also be generated in the future depending on investor behaviour and market conditions.

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

- If the financing conditions of some countries significantly deteriorate, sovereign debtors may become insolvent in an orderly or disorderly manner. In these cases the DEPFA Group, in its capacity as a provider of public sector finance, may also have to recognise considerable impairments on loans and advances and on financial investments. These impairments may increase if the negative effect of the economic difficulties of certain countries spreads to other countries which are currently considered to be solvent.
- Potential rating agency downgrades to bank and/or covered bond ratings could have a negative impact on the DEPFA Group's re-financing capacity, on triggers and termination rights within derivative and other contracts and on access to suitable hedge counterparties and hence on the future financial position and profitability.
- The methods for measurement of financial instruments will continue to evolve in the market. For example, market conventions may change the valuation and pricing of derivatives. Such adjustments may have a negative impact on the results of the DEPFA Group.
- While the actual liquidity situation for the DEPFA Group remains stable and the DEPFA Group continues to expect that it will meet all contractual and regulatory obligations going forward, the extent of liquidity requirements in the future could be affected by:
  - The future development of the discounts for repo refinancing in the market.
  - Collateral requirements as a result of changing market parameters (including interest rates, foreign currency exchange rates and basis for calculation).
  - Changing requirements of the rating agencies or other external bodies regarding the necessary over-collateralisation in the cover pools.
  - Changes in market rates including interest rates can have a positive or adverse effect on the profitability of the DEPFA Group.
- Litigation which is currently pending and litigation which may occur in future might have a negative impact on the results of the DEPFA Group.
- The DEPFA Group is exposed to operational risks, such as its reliance on key outsourced providers, key personnel and a potentially higher level of staff turnover. These risks may result in material losses.
- The ongoing development of national and international regulatory requirements and their related costs may have an impact on the structure of assets and liabilities and may thus also affect the development in earnings.

Credit portfolio

The CRD IV EaD represents an estimate of the exposure amount for each transaction the DEPFA Group would lose as a result of a business partner default. For non-derivatives it is approximately equivalent to the IFRS book value as well as any committed undrawn position which the business partner could utilise. In the case of derivatives, the EaD is based on net market values and collateral posted or received and a regulatory add-on, which constitutes a buffer in the event of future potential increases of the market value.

The EaD of the core portfolio of the DEPFA Group from a risk perspective amounted to €1,950 million as of 31 December 2019 (31 December 2018: €8,782 million). The total reduction of €6,832 million was driven mainly by the ALM transactions and asset sales (as described in note 5 to the financial statements).

The total portfolio analysed is reconciled to the total assets as disclosed in the statement of financial position as follows:

DEPFA Group total portfolio

€m	31.12.2019	31.12.2018
Core Portfolio	**1,950**	**8,782**
Netting impacts (derivatives, repos and collateral)	6,938	6,626
IFRS Balance Sheet	**8,888**	**15,408**

Country risk

Allocations to regions in the table below are based on the geographic location of the respective risk. Germany, Ireland, France, the US and Spain represent the largest exposures, accounting for €1,489 million, or 76% of the DEPFA Group's total exposure at the end of December 2019.

DEPFA Group portfolio: Break-down according to region

EaD €m	31.12.2019	31.12.2018
Austria	24	399
Belgium	116	1,080
Emerging Markets[1]	–	88
France	187	354
Germany	511	4,216
Ireland	507	191
Other Europe	216	881
Other Rest of World	39	86
Scandinavia	43	55
Spain	139	488
UK	23	103
US	145	841
Total	**1,950**	**8,782**

[1] As per IMF definition and Japan part of the rest of the world

German exposure (26% of total) remains the highest concentration within the portfolio, with 45% of the German exposure rated AAA. This is down from 95% last year reflecting a significant AAA rated bond maturity during the year as well as asset sales. The second largest concentration is Ireland, which is dominated by exposure to the Central Bank of Ireland and accounted for 26% of the total, followed by France at 10% of the portfolio.

Due to the public sector nature of all exposures within these countries, none of the portfolio is in arrears and all business partners continue to perform within expectations.

Country limits comply with a set of maximum country limits derived and calibrated with a Value at Risk ("VaR") style credit portfolio model. The country limits ensure that the additional capital requirement caused by full limit utilisation does not exceed the headroom as defined by the ECap process. In addition, an independent risk assessment is performed by CPM who provide expert judgement in relation to the associated risks of maintaining exposures within a particular jurisdiction.

The Directors consider the information provided below, along with the Risk Management information provided in note 3 of the financial statements, which provides information about the organisation and principles of risk management in the DEPFA Group as well as the material risk types to which the DEPFA Group is exposed. This section focuses on the Internal capital adequacy assessment process applied in the DEPFA Group.

Internal capital adequacy assessment process (“ICAAP”)

Economic capital and monitoring the risk-bearing capacity

The assessment of internal capital adequacy is based on the concept of Economic Capital (“ECap”). ECap is the amount of capital required by a bank to cover the material risks to which it is exposed. It is defined as “the quantity of capital required by a bank in order to cover the potential unexpected losses over a time horizon of one year at a certain level of statistical confidence”. The approach used by the DEPFA Group aims at protecting senior bondholders in an extreme loss event. Therefore a confidence level of 99.95% is chosen in the calculation of economic capital over a one year horizon.

As is market standard for commercial banks, liquidity risk is not explicitly included in the DEPFA Group’s economic capital calculations as capital is not considered to be an appropriate mitigant for liquidity risk. However, liquidity risk is identified as a material risk and is measured, monitored and reported separately on a regular basis.

In evaluating the capital adequacy of the DEPFA Group, the amount of economic capital is compared with the Available Financial Resources (“AFR”) of the DEPFA Group in a one year timeframe. Included in the AFR are the customary components such as the shareholders’ equity, in accordance with International Financial Reporting Standards (“IFRSs”), subordinated capital with a holding period of at least one year, as well as the planned net income or loss for the next twelve months. In calculating the planned net income or loss for inclusion in the AFR, only planned losses are used for reasons of prudence. These components are suitable for absorbing potential losses and acting as a risk buffer. A net interest income (“NII”) Buffer, which is a deduction in the AFR calculation protects against future interest rate changes which might impact NII and is not already captured by the Market Risk economic capital calculation. The DEPFA Group is considered to be adequately capitalised provided the level of AFR exceeds the economic capital.

The results of the capital adequacy assessment and stress testing are regularly presented to the DEPFA Group Management Risk Committee (“MRC”) and the Board. Appropriate action is taken where necessary.

Result of the ICAAP of the DEPFA Group

Economic capital according to risk types and available financial resources €m	31.12.2019	31.12.2018	Change
Credit risk	18	107	–89
Market risk	16	26	–10
Operational risk	16	16	–
Business Risk	–	–	–
Total before diversification effect	**50**	**149**	**–99**
Total after diversification effect	**49**	**147**	**–98**
Available financial resources (AFR)	768	1,810	–1,042
Capital buffer	719	1,663	–944

In terms of economic capital, the DEPFA Group was adequately capitalised throughout 2019. There is a significant economic capital buffer of €719 million over a one-year time horizon as of 31 December 2019 (31 December 2018: €1,663 million). The capital buffer has decreased by €944 million. The change mainly relates to the redemption of capital instruments which reduced the AFR. Credit risk is the most significant risk type and accounts for 36% of the undiversified economic capital compared to 72% in 2018.

The Economic Capital results at year end 2019 reflect the Methodology approved by the Board in 2019.

Method used for the individual risk types

The economic capital of each risk type is determined using a quantitative approach and aggregated to form an overall measure of the Bank's risks, taking account of specific correlations. The risk types are measured for a period of one year and at a confidence level derived from the target rating of the ICAAP (in this case: 99.95%).

The method of calculating the economic capital for the individual risk types for 2019 is outlined in the following paragraphs:

Credit risk For calculating credit risk economic capital at the portfolio level, the DEPFA Group uses a credit portfolio model following the asset value approach. In this model correlated rating migrations and borrower defaults are simulated and the resulting changes in the values are calculated. After a large number of simulations a loss distribution is generated. The credit risk economic capital is defined as the difference between the 99.95th percentile of the simulated loss distribution and the expected loss. Moreover, the loss distribution of the credit portfolio allows the attribution of the potential losses (economic capital) to individual obligors based on the calculation of the expected shortfall associated with individual obligors. The risk-adjusted allocation of the credit risk capital measured in this way to the individual obligors constitutes a major module in the risk-oriented management of the credit portfolio.

Within the framework of risk-bearing capacity analysis of the DEPFA Group, the credit risk economic capital amounts to €18 million as of 31 December 2019 (31 December 2018: €107 million). The decline mainly relates to a reduced credit portfolio as described in the "Major events" section of this report.

Market risk Market risk economic capital is calculated using a methodology known as history preserving resampling. This involves creating a loss distribution from monthly historic measurements of market risk factors and calculating the associated changes in portfolio values. The required economic capital figure is the 99.95th percentile of this distribution. The market risk economic capital is €16 million as of 31 December 2019 (31 December 2018: €26 million). The decrease was mainly due to reduced sensitivity in the portfolio. The market risk economic capital model in conjunction with the NII Buffer captures Interest Rate Risks in the Banking Book. DEPFA has no regulatory Trading Book.

Operational risk The calculation of economic capital for operational risk is based on the standardised approach specified in the Capital Requirements Directive ("CRD"). However the operational risk economic capital calculation is made more conservative by also taking into account planned total operating revenues figures. The capital requirement specified by the regulator is also scaled to reflect the higher confidence level (from 99.9% to 99.95%). A floor is maintained to ensure that the operational risk economic capital is not underestimated.

Business risk The calculation of the economic capital for business risk reflects the risk arising from higher projected funding costs. As the DEPFA Group is anticipated to have a secure funding position during 2020 no business risk economic capital is allocated.

Stress tests Stress tests in relation to the economic capital are used in order to obtain a better understanding of the sensitivity of the results to the changes in risk parameters. The DEPFA Group carries out stress tests as an instrument for appropriate economic capital management.

In addition, the DEPFA Group runs ad-hoc scenarios tailored specifically to its portfolio.

Regulatory capital and capital adequacy ratios

The DEPFA Group is regulated by the Central Bank of Ireland and regulatory capital and capital adequacy ratios are produced in accordance with the Capital Requirements Directive 2013/36/EU (as amended, where applicable by Directive (EU) 2019/878) and the Capital Requirements Regulation No 575/2013 (as amended, where applicable, by Regulation (EU) 2019/876). These directives and regulations are together referred to as "the capital requirements".

Following the introduction of the capital requirements on 1 January 2014 a number of transitional provisions apply both to the eligibility of capital instruments ("Grandfathering") and the phasing-in of deductions. Where figures are noted as "transitional" basis the transitional provisions have been applied, in comparison to the "fully loaded" basis where all figures reflect the fully implemented regulations.

The DEPFA Group uses the standardised approach to calculate risk weighted assets ("RWA"). The capital requirements establish a minimum total capital ratio of 8.0%, with a minimum common equity Tier 1 ("CET1") ratio of 4.5% and a minimum tier 1 capital ratio of 6.0%. A number of capital buffers have been established under the capital requirements. Of these, the capital conservation buffer of 2.5% is designed to enable the Bank to withstand future periods of stress bringing the CET1 ratio requirement to 7.0% and the total capital ratio requirement to 10.5%. The capital conservation buffer has been phased in since 2016 with the full buffer of 2.5% applicable since 1 January 2019.

In addition, national competent authorities can require countercyclical capital, systemic risk, and Other Systemically Important Institution ("O-SII") buffers to be held. These buffers aim to ensure that the capital requirements take account of the macro-financial environment in which banks operate. The countercyclical capital buffer can range from 0% to 2.5% of RWA. From July 2019, a countercyclical capital buffer of 1.0% applies in Ireland which does have an impact on DEPFA Group's minimum capital requirement. The systemic risk buffer ranges from 0% to 3% of RWA but can be higher in certain circumstances. This buffer does not apply to the DEPFA Group. From November 2019, the Central Bank of Ireland no longer designates DEPFA Group as an O-SII so the O-SII buffer does not apply. In prior years when DEPFA Group was designated an O-SII, the Central Bank of Ireland set an O-SII buffer of 0%, taking into consideration DEPFA Group's wind down status.

Under the capital requirements, national competent authorities can, following a Supervisory Review and Evaluation Process ("SREP"), impose an additional capital requirement on banks which is referred to as a Pillar 2 Requirement ("P2R"). A SREP review will include stress tests and based on the competent authorities' assessment of these stress test results, Pillar 2 Guidance ("P2G") can also be issued to banks which represents an additional level of capital to be maintained as a buffer to withstand stressed situations. The Central Bank of Ireland's most recent SREP review of DEPFA Group was concluded during 2018 and based on DEPFA Group's portfolio as at 31 December 2016. Following this SREP the Central Bank of Ireland has imposed a P2R on the DEPFA Group of the higher of €216 million or 10.65% of RWA. In addition, the Central Bank of Ireland has also issued a P2G of 0.265% of RWA. The P2G amount is included in the DEPFA Group's internal monitoring of regulatory capital and capital planning processes. If the DEPFA Group's capital falls, so that the P2G level is not met this does not represent a regulatory breach, however DEPFA Group will immediately notify the Central Bank of Ireland. The Central Bank of Ireland has recently commenced a further SREP review. The outcome of this SREP review may amend the P2R and P2G applicable to the DEPFA Group.

At 31 December 2019, with CET 1 capital of €840 million, a Tier 1 capital ratio of 152.35% and a Total capital ratio of 153.22% (31 December 2018: €964 million, 137.56% and 222.32%), the DEPFA Group exceeds its minimum capital requirements. Regulatory capital has reduced following the redemption of regulatory capital instruments in November 2019 as described in the "Major Events" section of this report. Following an application from DEPFA Group, the Central Bank of Ireland gave its approval in advance of this redemption of Additional Tier 1 and Tier 2 capital instruments.

The CET 1 and Tier 1 capital ratios at 31 December 2019 have increased compared to 31 December 2018. This is primarily due to the reduction in RWA following the transfer of financial assets to FMS Wertmanagement AöR and derivative compression activity undertaken during 2019 as also described in the "Major events" section of this report.

Regulatory capital

	Transitional basis	
€m	**31.12.2019**	**31.12.2018**
Common Equity Tier 1 capital ("CET 1")	840	964
Total Tier 1 capital	840	1,214
Tier 2 capital	5	748
Total regulatory capital	**845**	**1,962**

Capital adequacy ratios

	Transitional basis	
	31.12.2019	**31.12.2018**
Risk weighted assets (€ m)	551	883
CET 1 capital ratio (%)	152.35%	109.23%
Tier 1 capital ratio (%)	152.35%	137.56%
Total capital ratio (Tier 1+2) (%)	**153.22%**	**222.32%**

The capital requirements introduced new eligibility criteria for inclusion of capital instruments in CET 1, Additional Tier 1 and Tier 2 capital. DEPFA Group had Alternative Capital Instruments ("ACIs") which were non-standard forms of capital that are generally referred to in the market as hybrid capital instruments. The hybrid capital instruments of the DEPFA Group were recognised as equity instruments in the financial statements in accordance with IAS 32.16. The classification of financial instruments as capital instruments or debt instruments depended on whether the DEPFA Group had a contractual obligation to make payments from an issued financial instrument. These instruments were subordinated debt issued in the form of undated bonds via the issuance vehicles DEPFA Funding II LP and DEPFA Funding III LP on which the DEPFA Group has no contractual obligation to make principal or interest payments. These hybrid instruments did not qualify for inclusion as Additional Tier 1 regulatory capital under the capital requirements, however transitional provisions permitted the grandfathering of these instruments with amounts to be phased out of Tier 1 capital from 1 January 2014 to 1 January 2022. On 21 November 2019, these hybrid capital instruments were fully redeemed as described in the "Major Events" section of this report.

In December 2017, the capital requirements were amended to give banks the option to phase-in the impact on regulatory capital of transitioning to expected credit loss provisioning under IFRS 9. The DEPFA Group decided not to adopt these transitional provisions. Accordingly, the regulatory capital position at 31 December 2019 and 31 December 2018 reflects the full impact of IFRS 9 under both transitional and fully loaded bases.

The following tables outline the fully loaded capital/capital ratios with the transitional capital/ capital ratios as above for comparison.

Regulatory capital

	31.12.2019		31.12.2018	
€m	Transitional	Fully loaded	Transitional	Fully loaded
CET 1 capital	840	840	964	964
Total Tier 1 capital	840	840	1,214	964
Tier 2 capital	5	–	748	998
Total capital	**845**	**840**	**1,962**	**1,962**

Capital adequacy ratios

	31.12.2019		31.12.2018	
	Transitional	Fully loaded	Transitional	Fully loaded
Risk weighted assets (€m)	551	551	883	885
CET 1 capital ratio (%)	152.35%	152.35%	109.23%	109.23%
Tier 1 capital ratio (%)	152.35%	152.35%	137.56%	109.23%
Total capital ratio (%)	**153.22%**	**152.35%**	**222.32%**	**222.32%**

Central Bank of Ireland Corporate Governance Requirements

DEPFA BANK plc is regulated by the Central Bank of Ireland ("CBI") and is subject to the CBI's Corporate Governance Requirements for Credit Institutions 2015. The Bank is not required to comply with the additional obligations on High Impact designated credit institutions.

European Banking Authority ("EBA") Governance Guidelines

Up until 4 December 2019, DEPFA was classified by the CBI as an "Other Systemically Important Institutions" (or "O-SII"), as such DEPFA was required to adhere to the more stringent requirements for Significant Institutions contained in the EBA Guidelines on Internal Governance under Directive 2013/36/EU, (EBA/GL/2017/11) (the "EBA Internal Governance Guidelines"), the Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body and key function holders under Directive 2013/36/EU and Directive 2014/65/EU (EBA/GL/2017/12) (the "EBA Suitability Guidelines") and the EBA Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013 (EBA/GL/2015/22) (the "EBA Remuneration Guidelines") (collectively the "EBA Governance Guidelines"). While DEPFA is no longer considered an O-SII and by extension a Significant Institution under the EBA Governance Guidelines, DEPFA, on request from the CBI, has committed to continue to adhering to the Significant Institution provisions of the EBA Governance Guidelines until at least year end 2020; in particular that there would be no changes made to the Risk Management Structures put in place to meet the obligations of being an O-SII. The EBA Governance Guidelines places additional governance requirements on the Bank and its subsidiaries.

The Board

Role

The Board is responsible for effective, prudent and ethical oversight of the Company, setting business strategy and ensuring that risk and compliance are properly managed. There is a comprehensive schedule of matters specifically reserved for decision by the Board which includes, without limitation:

- Approval of overall strategic plan;
- Approval of risk strategy (including Risk Appetite Statement);
- Approval of the strategy for the on-going management of liquidity risks including the Liquidity Contingency Policy and the approval of the Liquidity Risk Policy;
- Approval of corporate governance framework;
- Changes to the DEPFA Group capital structure;
- Major changes to the DEPFA Group corporate structure;
- Changes to senior management and control structure;
- Material capital expenditure above €1 million;
- Changes to the structure, size and composition of the Board;
- Appointment of the Chairman or Chief Executive Officer;
- Terms of reference, membership and chairmanship of Board committees; and
- Changes or amendments to the terms of the delegated authority of the Chief Executive Officer

The role of the Chairman, which is non-executive, is separate from the role of the Chief Executive Officer ("CEO"). There is a procedure in place to enable the Directors to take independent professional advice, at the DEPFA Group's expense. The Company's parent company, for the benefit of all DEPFA Group entities including the Company, holds insurance cover to protect Directors and officers against liability arising from legal actions brought against them in the course of their duties.

Meetings

The Chairman sets the agenda for each Board meeting. The Directors are provided in advance with relevant papers to enable them to consider the agenda items and are encouraged to participate fully in the Board's deliberations. Executive management attend Board meetings and make regular presentations. The Board held 7 scheduled meetings during 2019 (2018: 7) and 3 additional extraordinary meetings (2018: 3).

Attendance at Board meetings	Board (Regular)		Board (Extraordinary)	
	A	B	A	B
Mr. C. Müller [1] (German) (appointed Chairman 9 August 2019)	7	7	3	3
Mr. S. Winkelmeier [1] (German) (Chairman) (resigned 30 June 2019)	3	3	1	1
Mr. J. Dempsey [2]	7	7	3	3
Mr. C. Falkner [1] (German) (appointed 12 September 2019)	2	2	2	2
Ms. F. Flannery	7	7	3	3
Mr. F. Hellwig [1] (German) (resigned 31 March 2019)	2	2	–	–
Dr. C. Pleister [2] (German)	7	7	3	3
Mr. E. Quinn [2] (appointed 23 April 2019)	5	5	3	2
Mr. G. Shanley	7	7	3	3
Mr. E. Wartenweiler (appointed 21 November 2018)	7	7	3	3
Ms. S. Webb [2]	7	7	3	3

[1] Non-Executive director
[2] Independent Non-Executive director

Column A indicates the number of meetings held during 2019 which the Director was eligible to attend.
Column B indicates the number of meetings attended by each Director during 2019.

Membership

At 31 December 2019 there were six non-executive Directors (2018:6) and three executive Directors (2018: 3). The names of the Directors appear in the table above. Four of the non-executive Directors in office as at 31 December 2019 are considered to have been independent: Dr. Christopher Pleister, Mr. Joseph Dempsey, Ms. Susan Webb and Mr. Eamonn Quinn. (2018: 3). Non-executive Directors are appointed so as to maintain an appropriate balance on the Board and to ensure a sufficiently wide and relevant mix of backgrounds, skills and experience to provide strong and effective leadership and control of the Company. All changes to the Board of Directors during the year and up to the date of signing are also included on page 1.

Internal control and risk management system with regard to the accounting process

The internal control and risk management system with regard to the accounting process comprises the principles, procedures and measures designed to assure the effectiveness and efficiency of accounting and also to ensure compliance with the relevant legal regulations. The aim of the risk management system with regard to the accounting process is to identify and evaluate risks which may oppose the objective of ensuring that the financial statements comply with the relevant

rules, to limit risks which have been identified and to check the impact of such risks on the financial statements and also the way in which these risks are presented. The internal control system with regard to the accounting process is an integral component of the DEPFA Group's overall risk management system and is designed, by way of implementing controls, to provide adequate assurance that the financial statements which are prepared comply with the relevant rules despite the risks which have been identified.

However, an internal control and risk management system with regard to the accounting process cannot provide absolute assurance regarding success in attaining the associated objectives. As is the case with all discretionary decisions, any decisions relating to the establishment of appropriate systems may also be incorrect as a result of faults, errors, changes in ambient variables or deliberate violations and criminal actions. These risks mean that it is not possible with absolute assurance to identify or prevent misstatements in the financial statements.

In the DEPFA Group, the internal control and risk management system with regard to the accounting process is reflected in the organisation structure and procedures. In terms of the structure organisation, the accounting process comprises the Board, the DEPFA BANK plc Audit Committee and the Finance department.

The Directors are responsible for preparing the Directors' report and the DEPFA Group and parent company financial statements in accordance with applicable law and regulations. In conjunction with the obligation to maintain a DEPFA Group-wide internal control and risk management system, the Board also bear responsibility for monitoring an adequate and effective internal control and risk management system with regard to the accounting process.

The Board has established an audit committee that operates within specific terms of reference approved by the Board. The internal audit department supports the Board in its control function by way of independent audits.

The DEPFA Finance department is responsible for preparing the consolidated financial statements in accordance with IFRSs as adopted by the EU. The companies of the DEPFA Group prepare their financial statements in accordance with the respective local legal requirements. For DEPFA Group accounting purposes, the financial statements are harmonised in relation to uniform accounting policies in accordance with IFRSs. Each company included in the consolidated financial statements reports its statement of financial position, income statement and notes via the consolidation software to a central department in Finance. In Finance, the data of the foreign currency companies is translated into Euro by means of the consolidation software. In addition, this is where the data is checked for plausibility, analysed and consolidated.

The accounting process is based on standardisation of processes and software. In addition, the four-eyes principle is mandatory for major transactions. Data and EDP systems are protected against unauthorised access. In addition, certain relevant information is made available only to employees who actually require such information for their work. Where necessary, results are agreed on an individual entity and DEPFA Group-wide basis.

In addition to the system-based measures, the DEPFA Group has also implemented manual and non-system-based procedures. For instance, a standard process is used to check whether the reported data is correct and complete. For this purpose, variance analysis in the form of actual versus budget comparisons is carried out. The consolidated statement of financial position and

the consolidated income statement are also established on a monthly basis and some positions are also established on a daily basis. A better understanding is achieved as a result of the continuous and frequent analysis of figures. Mandatory accounting principles applicable throughout the DEPFA Group are defined and communicated. These procedures comprise the analysis and interpretation of the new and existing IFRSs and interpretations in order to permit uniform accounting and evaluation throughout the DEPFA Group. Generally recognised valuation methods are used. The methods which are used and also the underlying parameters are regularly checked and, where necessary, adjusted. Schedules are also defined in order to permit a timely response in the event of deadline problems.

Chairman

The role of the Chairman can be summarised as follows; to lead the Board, encourage critical discussions, challenge mindsets and promote effective communication between executive and non-executive Directors.

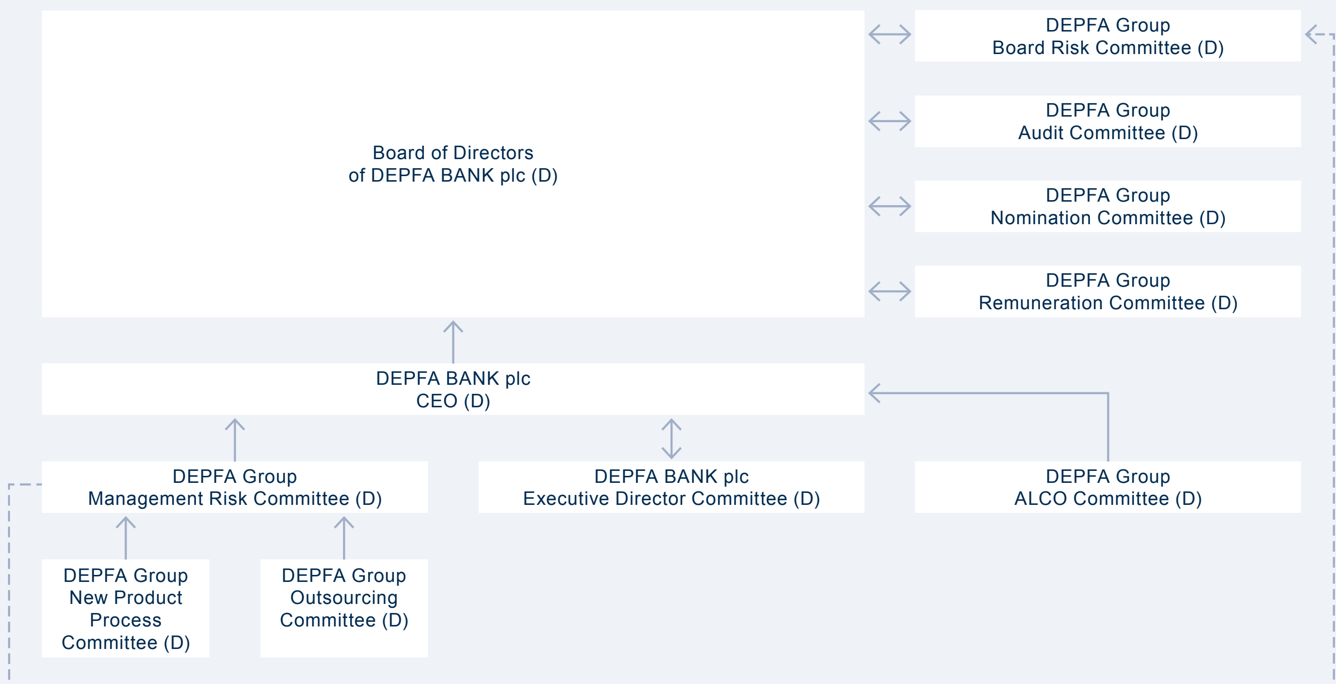
Chief Executive Officer

The Board has delegated responsibility for the Bank's operations, the execution of its strategy and responsibility for its compliance and performance to the Chief Executive Officer ("CEO"). The CEO is authorised by the Board to establish management committees to support her in carrying out her functions, including a DEPFA BANK plc Executive Director Committee (the "DEPFA EDC"), to which the Board has authorised the Chief Executive Officer to appoint and sub-delegate certain matters.

Governance structure DEPFA BANK plc

as at 31 December 2019

(D) = Decision making body
Recommendation / proposal / information



Company Secretary
The Directors have access to the advice and services of the Company Secretary who is responsible for ensuring that Board procedures are followed and that there is compliance with applicable rules and regulations regarding Company Law and Corporate Governance.

Performance evaluation
The CBI Corporate Governance Requirements, the EBA Suitability Guidelines and the EBA Internal Governance Guidelines set out the regulatory requirements for boards to formally review their own performance at least annually. In 2018 this performance evaluation was carried out by an external consultant for DEPFA BANK plc, DEPFA ACS BANK DAC, DEPFA International S.A. and also the Board Committees. The results of which were presented to the Board in October 2018. It is recommended that the performance evaluation is carried out by an external consultant every three years. For 2019 the Company Secretary on behalf of the Chairman of the Board, conducted the Board performance review following the completion of a review and a re-design of the Board Effectiveness review process.

The results of the annual Board Effectiveness Review were presented to the Board at the 12 December 2019 Board meeting, having been considered by the DEPFA BANK plc Nomination Committee.

In line with the EBA Suitability Guidelines (which came into effect on 30 June 2018) DEPFA completed an assessment of the individual and collective suitability of its members of the Board. The assessment indicated a reasonable level of individual and collective suitability to the current business model and strategy and showed that Board time commitment was generally in line when compared to EBA benchmarking.

Induction and professional development
There is an induction process for new Directors. The induction is designed to familiarise Directors with the Bank and its operations and comprises the provision of relevant briefing material and a programme of meetings with the heads of divisions and senior management. In line with the introduction and implementation of the EBA Suitability Guidelines on 30 June 2018 DEPFA introduced a new Induction and Training Policy and Procedure for members of the Board. In line with the new Induction and Training Policy and Procedures each new Board appointment receives comprehensive and tailored induction materials. All Induction materials in 2019 were provided within the timelines specified in the EBA Suitability Guidelines.

During 2019, for the benefit of the Directors, training sessions were held on:

I) the rules, requirements and legislation that apply to ACS Credit Institutions;
II) Directors Independence of Mind;
III) Cyber Security;
IV) Recovery Planning;
V) Fitness and Probity and Individual Accountability Regime; and
VI) Anti Money Laundering.

In addition, some Directors participated in various briefings and seminars provided by professional or industry bodies relating to Corporate Governance, Audit and specific topics relating to Banking.

Board Committees

The Board is assisted in the discharge of its duties by a number of Board Committees, whose purpose it is to consider specific Board matters, in greater depth than would be practicable at Board meetings; while matters are delegated to the Committees the Board retains responsibility for these. The composition of such Committees is reviewed annually by the Board as part of the annual Individual and Collective Suitability Assessment. A description of the current Board Committees, each of which operates under written Terms of Reference approved by the Board, is given below. The individual Board and Committees membership is listed on page 1.

Audit Committee

The principal purpose of the Committee is to review management's recommendations on audit related issues, and in particular:

- Monitor the effectiveness of the internal control systems;
- Oversee the financial reporting process and the financial statements narrative;
- Monitor the effectiveness of the DEPFA Group internal audit function;
- Manage the overall relationship with the external auditor; and
- Monitor the effectiveness of the IT systems.

Board Risk Committee

The principal purpose of the Committee is to review management's recommendations on risk related matters and in particular:

- To consider and recommend to the Board the DEPFA Group's Risk Appetite;
- To consider and recommend to the Board the DEPFA Group's Risk Strategy and corresponding limits set;
- To review on behalf of the Board the DEPFA Group's risk profile;
- To monitor the effectiveness of the DEPFA Group's Risk Management Function relative to the risk profile of the DEPFA Group;
- To advise the Board on the effectiveness of policies with respect to maintaining, on an ongoing basis, amounts, types and distribution of both internal capital and own funds adequate to cover the risks of the institution; and
- To monitor the effectiveness of the process for monitoring compliance with applicable laws and regulations.

Nomination Committee

The principal purpose of the Committee is to review management's recommendations on appointments and in particular:

- Support and advise the Board in ensuring it is comprised of individuals who are best able to discharge the duties and responsibilities of Directors and key function holders; and
- Advise on the composition, appointments, succession, suitability and effectiveness of the Board and key function holders within the DEPFA Group.

Appointments to the Board are made in accordance with the Bank's Appointment and Diversity Policies. The Bank recognises the benefits of having a diverse Board. In considering Board appointments the Bank's Nomination Committee considers the benefits of all aspects of diversity in skills, experience, expertise, background, race, gender, knowledge and other qualities of Directors. The Committee then prepares a comprehensive job description, taking into account the existing skills, knowledge, experience and diversity of the Board and the anticipated time

commitment and assesses the proposed candidate against this. The typical process for the appointment of a Director involves the identification of an appropriate pool of candidates, and following an interview process conducted by members of the Committee with the potential candidates, a final recommendation for appointment to the Board.

On 30 June 2018 and in line with the EBA Suitability Guidelines the Board set its percentage target representation for the underrepresented gender to a minimum of 20% of Board Membership. The target percentage representation was achieved on this date and has been maintained to date. This target is also considered as part of the Banks's recruitment and succession process. This target was reviewed as part of the annual review of the Board Diversity policy in November 2019 by the Nomination Committee. In line with Industry practice and taking the Banks likely future strategic initiatives into account the committee resolved to retain the target representation at 20%. Current percentage of the underrepresented gender in the Board stands at 33%.

Remuneration Committee

The principal purpose of the Committee is to review management's recommendations on remuneration and in particular:

- Support and advise the Board on matters relating to the remuneration of Directors and all employees who are deemed to have a material impact on the risk profile of the Bank; and
- Ensure that the remuneration practices of the Bank are aligned with the overall risk strategy, the interests of the shareholder and operate within the framework of all applicable legal and regulatory requirements.

This concludes the Directors' report.

On behalf of the Board

Gearóid Shanley	**Christopher Pleister**	**Christoph Müller**
Director	Director	Director

19 March 2020

Statement of directors' responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with Irish law and regulations.

Irish company law requires the Directors to prepare financial statements giving a true and fair view of the state of affairs of the Group and the Company and the profit or loss of the Group for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"), the European Union (Credit Institutions: Financial Statements) Regulations 2015 and with those parts of the Companies Act 2014 applicable to companies reporting under IFRS. Under Company law, the Directors shall not approve the Group and Company's financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Group and the Company at the financial year end date and of the profit or loss of the Group for the financial year and otherwise comply with the Companies Act 2014.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with applicable accounting standards, identify those standards and note the effect and the reasons for any material departure from those standards; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for ensuring that the Company keeps or causes to be kept adequate accounting records which correctly explain and record the transactions of the Company, enable at any time the assets, liabilities, financial position of the Company to be determined with reasonable accuracy, enable them to ensure that the financial statements and Directors' report comply with the Companies Act 2014 and enable the financial statements to be audited. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

Gearóid Shanley
Director

Christopher Pleister
Director

Christoph Müller
Director

19 March 2020

Responsibility statement, in accordance with the Transparency Regulations

The Directors confirm that, to the best of each Director's knowledge and belief:
- they have complied with the requirements in the Statement of directors' responsibilities on page 33 in preparing the financial statements;
- the consolidated financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities and financial position of the DEPFA Group and of the net loss of the Group;
- the Company financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities and financial position of the Company;
- the management report contained in the Business Review section of the Directors' report includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

On behalf of the Board

Gearóid Shanley
Director

Christopher Pleister
Director

Christoph Müller
Director

19 March 2020

Independent Auditors' Report to the Members of DEPFA BANK plc

1 Report on the audit of the financial statements

Opinion

In our opinion, DEPFA BANK plc's consolidated financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the group's and the company's assets, liabilities and financial position as at 31 December 2019 and of the group's loss and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2014; and
- have been properly prepared in accordance with the requirements of the Companies Act 2014 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report, which comprise:

- the Consolidated statement of financial position as at 31 December 2019;
- the Company statement of financial position as at 31 December 2019;
- the Consolidated income statement and Consolidated statement of comprehensive loss for the year then ended;
- the Consolidated and Company cash flow statements for the year then ended;
- the Consolidated and Company statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) ("ISAs (Ireland)") and applicable law. Our responsibilities under ISAs (Ireland) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

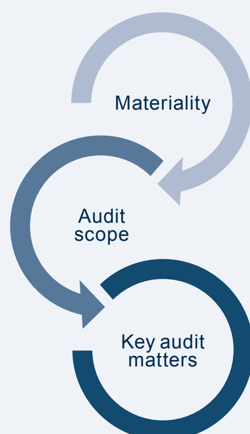
Independence We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, which includes IAASA's Ethical Standard as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by IAASA's Ethical Standard were not provided to the group or the company.

Other than those disclosed in note 41 to the financial statements, we have provided no non-audit services to the group or the company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview



Materiality
- €22 million (2018: €38 million) – Consolidated financial statements
- Based on C. 0.25% of Total Assets
- €20 million (2018: €32 million) – Company financial statements
- Based on 0.25% of Total Assets

Audit scope
- Our audit work addressed each of the Group's two main operating entities which are headquartered in Ireland; DEPFA BANK plc and DEPFA ACS BANK DAC
- We performed full scope audits of the complete financial information of DEPFA BANK plc and DEPFA ACS BANK DAC
- Audit coverage for material individual line items within the Consolidated income statement and Consolidated balance sheet is in excess of 90%

Key audit matters
- Valuation of Financial Instruments carried at fair value

The scope of our audit As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Valuation of Financial Instruments carried at fair value	
Refer to page 81 (Critical Accounting estimates and judgements), pages 58–59 (Significant Accounting Policies) and pages 116–123 (Note 37 to the Consolidated financial statements). The Group holds a number of complex financial instruments which are held at Fair Value through Profit and Loss (FVTPL). A significant proportion are valued using internal models which rely on a number of level 2 (observable) inputs. In addition, in accordance with IFRS 13, the fair value of derivative financial instruments is required to reflect the Group's own Credit Risk "DVA" and counterparty "CVA" credit risk. The methodology applied and inputs to the CVA/DVA calculation represent key judgements made by management. We consider the valuations of these financial instruments to be a key audit matter based on the materiality of these assets and liabilities and the judgement required when valuing these instruments.	We assessed the design and tested the operating effectiveness of controls over the end to end valuation process. With the assistance of our own internal valuation specialist we independently valued a sample of Financial instruments at FVTPL at level 1, 2 & 3. We compared the outputs from our testing to management's own valuation and where necessary we investigated and received supporting evidence from management for valuation differences that were outside our expected tolerance. Our internal valuation specialist considered and assessed management's methodology for calculating CVA and DVA, including an assessment of key judgemental inputs including comparing these assumptions to observable market data where available. We concluded that the fair value estimates made by management are reasonable.

How we tailored the audit scope We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group consists of a number of components, all of which are legal entities within the Group and are accounted for at the Group's head office in Dublin.

We identified two significant components for which a full scope audit was performed by the Group audit team. The components for which a full scope audit was performed were;
- DEPFA BANK plc; and
- DEPFA ACS BANK DAC.

At the Group level, this gave us the evidence we needed for our opinion on the financial statements as a whole. Audit coverage for material individual line items within the Consolidated income statement and Consolidated balance sheet falls in excess of 90%.

Materiality The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Consolidated financial statements	Company financial statements
Overall materiality	€22 million (2018: €38 million)	€20 million (2018: €32 million)
How we determined it	C. 0.25% of Total Assets	C. 0.25% of Total Assets
Rationale for benchmark applied	The Group's and Company's business plan is to continue to manage the orderly wind down of the balance sheet. The total assets of the Group and Company is one of the key metrics used to assess its performance. We concluded that setting materiality based on a % of total assets is the most appropriate benchmark taking into account the circumstances of the Group and the key users of the financial statements.	

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €1.1 million (group audit) (2018: €1.9 million) and €1 million (company audit) (2018: €1.6 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (Ireland) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's or the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' Report, we also considered whether the disclosures required by the Companies Act 2014 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (Ireland) and the Companies Act 2014 require us to also report certain opinions and matters as described below.

Directors' Report

- In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with the applicable legal requirements.
- Based on our knowledge and understanding of the group and company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Directors' Report.

Corporate governance statement

- In our opinion, based on the work undertaken in the course of the audit of the financial statements, the description of the main features of the internal control and risk management systems in relation to the financial reporting process included in the Corporate Governance Statement, is consistent with the financial statements and have been prepared in accordance with section 1373(2)(c).
- Based on our knowledge and understanding of the company and its environment obtained in the course of the audit of the financial statements, we have not identified material misstatements in the description of the main features of the internal control and risk management systems in relation to the financial reporting process included in the Corporate Governance Statement.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements As explained more fully in the Statement of Directors' Responsibilities set out on page 33, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the IAASA website at:
https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf

This description forms part of our auditors' report.

Use of this report This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with section 391 of the Companies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

2 Other required reporting

Companies Act 2014 opinions on other matters

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the company were sufficient to permit the company financial statements to be readily and properly audited.
- The company statement of financial position is in agreement with the accounting records.

Other exception reporting

Directors' remuneration and transactions Under the Companies Act 2014 we are required to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by sections 305 to 312 of that Act have not been made. We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the directors on 21 June 2018 to audit the financial statements for the year ended 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 31 December 2018 to 31 December 2019.

Fidelma Boyce

for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin

19 March 2020

Financial statements

Consolidated income statement

Consolidated income statement €m	Note	For year ended on 31.12.2019	For year ended on 31.12.2018
Interest income and similar income		89	178
Interest expense and similar expenses		–88	–160
Net expense from early repayment of liabilities		–6	–9
Net interest (expense)/income	7	**–5**	**9**
Net fee and commission expense		–	–
Net trading income/(expense)	8	4	–7
Net income from financial investments	9	21	19
Net income/(expense) from hedge relationships	10	1	–2
Net expense from other financial instruments at FVTPL		–	–1
Net loss on asset/liability management transactions with FMS Wertmanagement AöR	5	–63	–
Other operating income		2	2
Other operating expense		–1	–
Total operating (expenses)/revenues		**–41**	**20**
Movement in credit impairment provisions	11	1	3
General administrative expenses	12	–53	–58
Other expense	13	–2	–1
Pre-tax loss		**–95**	**–36**
Taxes on income	14	–	2
Net loss		**–95**	**–34**
Attributable to: Equity holders of the parent		–95	–34

The notes on pages 48 to 134 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive loss

Consolidated statement of comprehensive loss for the year ended on 31.12.2019			2019			2018
€m	Before tax	Tax	**Net of tax**	Before tax	Tax	**Net of tax**
Net loss	**–95**	**–**	**–95**	**–36**	**2**	**–34**
Total comprehensive loss	**–95**	**–**	**–95**	**–36**	**2**	**–34**
Attributable to:						
Equity holders of the parent	–95	–	–95	–36	2	–34

The notes on pages 48 to 134 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

Consolidated statement of financial position

€m	Note	At 31.12.2019	At 31.12.2018
Assets			
Cash and cash equivalents	15	507	220
Trading assets	16	5,330	4,809
Loans and advances to other banks	17	1,362	1,840
Loans and advances to customers (including amounts due from parent entity)	18	1,033	1,656
Financial investments	19	554	6,163
Property, plant and equipment		2	3
Intangible assets		–	–
Other assets	20	98	714
Income tax assets	14/21	2	3
Current tax assets		*2*	*2*
Deferred tax assets		*–*	*1*
Total assets		**8,888**	**15,408**
Liabilities			
Liabilities to other banks	22	1,490	1,305
Liabilities to customers (including amounts due to parent entity)	23	345	3,473
Liabilities evidenced by certificates	24	703	3,177
Trading liabilities	25	5,210	4,783
Provisions	26	8	6
Other liabilities	27	259	691
Income tax liabilities	14/28	–	2
Current tax liabilities		*–*	*–*
Deferred tax liabilities		*–*	*2*
Subordinated debt	29	25	410
Total liabilities		**8,040**	**13,847**
Equity			
Equity attributable to equity holders			
Share capital	30	106	106
Share premium	30	–	1,142
Capital reserve	31	478	1,500
Preferred securities	32	–	584
Retained earnings/(accumulated losses)	33	264	–1,771
Total equity		**848**	**1,561**
Total equity and liabilities		**8,888**	**15,408**

The notes on pages 48 to 134 are an integral part of these consolidated financial statements.

Gearóid Shanley
Director

Christopher Pleister
Director

Christoph Müller
Director

Geraldine Lyons
Company Secretary

19 March 2020

Company statement of financial position

€m	Note	At 31.12.2019	At 31.12.2018
Assets			
Cash and cash equivalents	15	412	190
Trading assets	16	5,225	5,682
Loans and advances to other banks	17	1,297	5,450
Loans and advances to customers (including amounts due from parent entity)	18	577	295
Financial investments	19	766	1,189
Property, plant and equipment		2	3
Intangible assets		–	–
Other assets	20	62	84
Income tax assets	21	2	2
Current tax assets		*2*	*2*
Deferred tax assets		*–*	*–*
Total assets		**8,343**	**12,895**
Liabilities			
Liabilities to other banks	22	1,594	1,606
Liabilities to customers (including amounts due to parent entity)	23	340	3,537
Liabilities evidenced by certificates	24	340	392
Trading liabilities	25	5,080	5,572
Provisions	26	6	5
Other liabilities	27	209	279
Income tax liabilities	28	–	–
Current tax liabilities		*–*	*–*
Deferred tax liabilities		*–*	*–*
Subordinated debt	29	25	920
Total liabilities		**7,594**	**12,311**
Equity			
Equity attributable to equity holders			
Share capital	30	106	106
Share premium	30	–	1,142
Capital reserve	31	478	2,403
Retained earnings/(accumulated losses)	33	165	–3,067
Total equity		**749**	**584**
Total equity and liabilities		**8,343**	**12,895**

The notes on pages 48 to 134 are an integral part of these consolidated financial statements.

Gearóid Shanley
Director

Christopher Pleister
Director

Christoph Müller
Director

Geraldine Lyons
Company Secretary

19 March 2020

Consolidated and Company statements of changes in equity

Consolidated statement of changes in equity for the year ended on 31.12.2019 – Group

€m	Share capital	Share premium	Capital reserve	Preferred securities	Retained earnings/ (accumulated losses)	**Total equity**
Balance at 1 January 2018	**106**	**1,142**	**1,500**	**1,067**	**–1,761**	**2,054**
Net loss for the year	–	–	–	–	–34	–34
Total recognised comprehensive loss	**–**	**–**	**–**	**–**	**–34**	**–34**
Repayment of preferred securities	–	–	–	–483	24	–459
Transactions with equity holders	**–**	**–**	**–**	**–483**	**24**	**–459**
Balance at 31 December 2018	**106**	**1,142**	**1,500**	**584**	**–1,771**	**1,561**
Balance at 1 January 2019	**106**	**1,142**	**1,500**	**584**	**–1,771**	**1,561**
Net loss for the year	–	–	–	–	–95	–95
Total recognised comprehensive loss	**–**	**–**	**–**	**–**	**–95**	**–95**
Repayment of preferred securities	–	–	–	–584	–34	–618
Transactions with equity holders	**–**	**–**	**–**	**–584**	**–34**	**–618**
Capital reorganisation (issue of Bonus Shares)	903	–	–	–	–903	–
Capital reduction						
Cancellation of Bonus Shares	–903	–	–	–	903	–
Transfer from share premium to retained earnings/ (accumulated losses)	–	–1,142	–	–	1,142	–
Transfer from capital contribution to retained earnings/ (accumulated losses)	–	–	–1,022	–	1,022	–
Balance at 31 December 2019	**106**	**–**	**478**	**–**	**264**	**848**

Statement of changes in equity for the year ended on 31.12.2019 – Company

€m	Share capital	Share premium	Capital reserve	Retained earnings/ (accumulated losses)	**Total equity**
Balance at 1 January 2018	**106**	**1,142**	**2,403**	**–3,048**	**603**
Net loss for the year	–	–	–	–19	–19
Total recognised comprehensive loss	**–**	**–**	**–**	**–19**	**–19**
Balance at 31 December 2018	**106**	**1,142**	**2,403**	**–3,067**	**584**
Balance at 1 January 2019	**106**	**1,142**	**2,403**	**–3,067**	**584**
Net income for the year	–	–	–	165	165
Total recognised comprehensive income	**–**	**–**	**–**	**165**	**165**
Capital reorganisation (issue of Bonus Shares)	903	–	–903	–	–
Capital reduction					
Cancellation of Bonus Shares	–903	–	–	903	–
Transfer from share premium to retained earnings/ (accumulated losses)	–	–1,142	–	1,142	–
Transfer from capital contribution to retained earnings/ (accumulated losses)	–	–	–1,022	1,022	–
Balance at 31 December 2019	**106**	**–**	**478**	**165**	**749**

The notes on pages 48 to 134 are an integral part of these consolidated financial statements.

Consolidated and Company cash flow statements

Consolidated and Company cash flow statements for the year ended on 31.12.2019		Group		Company	
€m	Note	2019	2018	2019	2018
Cash flows from operating activities					
Pre-tax (loss)/income		**–95**	**–36**	**165**	**–19**
Adjustments for non-cash movements:					
Depreciation and amortisation of tangible and intangible assets		3	3	3	3
Foreign exchange loss		–	–	–	–
Net change in accrued interest income and expense		–7	– 16	–16	–4
Credit impairment gain		–1	–3	–	–
Net (income)/loss on sale of investment securities and loans		–21	–19	–4	51
Net charge on subsidiary impairments		–	–	92	20
Net loss/(income) from early repayment of liabilities		6	9	6	–1
Net loss/(gain) on asset/liability management transactions with FMS Wertmanagement AöR		63	–	–41	–
Other non-cash items (including amortisations)		6	24	2	3
Net decrease in loans and advances to other banks[1]		481	474	4,159	794
Net decrease/(increase) in loans and advances to customers[1]		369	456	–282	175
Net decrease/ (increase) in other assets		–	–5	6	15
Net increase/(decrease) in liabilities to other banks[1]		186	–491	–10	–609
Net decrease in liabilities to customers[1]		–3,135	–402	–3,204	–554
Net decrease in liabilities evidenced by certificates[1]		–1,888	–712	–54	–39
Net (decrease)/increase in other liabilities		–2	–2	–3	4
Net (decrease)/increase in derivatives and trading liabilities[1]		–81	43	–72	42
Tax (paid)/received		–1	1	–	2
Net cash (used in)/generated from operating activities[2]		**–4,117**	**–676**	**747**	**–117**
Cash flows from investing activities					
Investment in subsidiary		–	–	–21	–
Repayment of subsidiary capital		–	–	68	43
Purchase of property and equipment		–	–2	–	–2
Net sale/maturity/(purchase) of investment securities[1]		5,405	1,010	329	88
Net cash generated from investing activities		**5,405**	**1,008**	**376**	**129**
Cash flows from financing activities					
Buyback of preferred securities[1]		–618	–459	–	–
Finance lease payments		–1	–1	–1	–1
Repayment of subordinated liabilities[1]	29	–380	–3	–898	–90
Net cash used in financing activities		**–999**	**–463**	**–899**	**–91**
Net increase/(decrease) in cash and cash equivalents		**289**	**–131**	**224**	**–79**
Cash and cash equivalents at the beginning of the year	15	**218**	**349**	**188**	**267**
Cash and cash equivalents at the end of the year	15	**507**	**218**	**412**	**188**
Included in the cash flows from operating activities for the year are the following amounts					
Interest income received		191	235	133	154
Interest expense paid		–197	–233	–178	–133
Dividends received from Group entities		–	–	261	108

[1] Included in the 2019 balance is the ALM transactions, which are described in further detail in note 5 to the financial statements.
[2] Included in net cash from operating activities are net cash flows with FMS Wertmanagement AöR under various transactions.

The notes on pages 48 to 134 are an integral part of these consolidated financial statements.

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(1) General information

DEPFA BANK plc ("the Bank", "the Company" or "DEPFA") is a provider of financial services to public sector clients worldwide. The Bank and its subsidiary undertakings ("the DEPFA Group"), operating in Ireland, Luxembourg and the Netherlands, provide a range of banking, financial and related services, subject to the conditions imposed by the European Commission's approval, on 18 July 2011, of the state aid in relation to the stabilisation measures granted to the Hypo Real Estate Group ("the HRE Group") by the Federal Republic of Germany. The DEPFA Group is regulated by the Central Bank of Ireland. Debt issued by the DEPFA Group is primarily listed on exchanges in Dublin, Frankfurt, London, Luxembourg and Zurich.

DEPFA Funding II LP and DEPFA Funding III LP were liquidated during the year both with a dissolution date of 21 November 2019. This is described in further detail in the "Major events" section of the Directors' report and in note 5 of the financial statements.

(2) Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these Group consolidated and Company separate financial statements ("the financial statements") are set out below.

International Financial Reporting Standards ("IFRSs") The DEPFA Group has prepared its financial statements for the year ended 31 December 2019 in line with EC Regulation No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 in accordance with IFRSs. These financial statements are based on IFRSs, which have been adopted in European Law by the European Commission as part of the endorsement process. With the exception of specific regulations relating to fair value hedge accounting for a portfolio hedge of interest risks in IAS 39 all mandatory IFRSs have been completely endorsed by the European Union ("EU"). The DEPFA Group does not apply this type of hedge accounting.

The IFRSs are standards and interpretations adopted by the International Accounting Standards Board ("IASB"). These are the IFRSs, the International Accounting Standards ("IAS") and the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") or the former Standing Interpretations Committee ("SIC").

Basis of preparation The consolidated and Parent Company financial statements have been prepared in accordance with EU endorsed IFRSs, IFRIC interpretations as endorsed by the EU and also the Companies Act 2014, applicable to companies reporting under IFRSs, as adopted by the EU.

The Company has availed of the exemption in Section 304 of the Companies Act 2014 from presenting to its members its Company income statement and related notes that form part of the Company financial statements.

The Group consolidated and Parent Company financial statements are prepared on a going concern basis. The Directors continue to consider the going concern assumption to be appropriate in the preparation of the financial statements.

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

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

New and amended standards adopted by the DEPFA Group The new or amended standards that became applicable during the current reporting period which had a material impact for the DEPFA Group are listed below.

International Financial Reporting Interpretation Committee ("IFRIC") 23 "Uncertainty over income tax treatments" IFRIC 23, which applies to all aspects of income tax accounting, clarifies how the recognition and measurement requirements of IAS 12 "Income Taxes" are applied where there is uncertainty over income tax positions. The DEPFA Group considers uncertain tax positions together or separately depending on which approach better predicts how the uncertainties will be resolved. Where the DEPFA Group concludes it is not probable that a tax authority will accept its assessment of an uncertain tax position, it reflects the effect of the uncertainty using either the "most likely amount" method or the "expected value" method, as appropriate for the particular uncertainty.

Amendments to IAS 1 and IAS 8 – Definition of Material On 31 October 2018, the IASB issued Amendments to IAS 1 and IAS 8 to clarify the definition of material and the definition used in the Conceptual Framework and the standards themselves. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. The amendments are effective for annual reporting periods beginning on or after 1 January 2020.

Amendments to References to Conceptual Framework in IFRS Standards Together with the revised "Conceptual Framework" published in March 2018, the IASB also issued 'Amendments to References to the Conceptual Framework in IFRS Standards'. Minor amendments were made to various standards to reflect the issue of the revised "Conceptual Framework" for Financial Reporting. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards.

Interest Rate Benchmark Reform ("IBOR") (Amendments to IFRS 9, IFRS 7 and IAS 39) The IASB has issued amendments to IFRS 9, IAS 39 and IFRS 7 that provide certain temporary reliefs from applying specific hedge accounting requirements in connection with the ongoing reform of the interbank offered rate (IBOR). The temporary reliefs relate to issues affecting financial reporting in the period before the replacement of an existing IBOR with an alternative interest rate (pre replacement issues) and have the effect that IBOR reform should not generally cause hedge accounting relationships to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement under both IAS 39 and IFRS 9.

The main exceptions relate to:

- the highly probable requirement and reclassifying the cumulative gain or loss recognised in other comprehensive income – Under IFRS 9 and IAS 39, a forecast transaction designated as the hedged item in a cash flow hedge must meet the ‘highly probable requirement’. IFRS 9 and IAS 39 also require amounts accumulated in the cash flow hedge reserve to be reclassified to profit or loss when the hedged future cash flows affect profit or loss. The relief provided by the amendments requires an entity to assume that the existing interest rate benchmark on which the hedged cash flows are based do not change as a result of the IBOR reform.
- prospective assessments – A hedging relationship qualifies for hedge accounting only if it is expected to be highly effective (IAS 39) or there is an economic relationship between the hedged item and the hedging instrument (IFRS 9). Under the amendments, an entity assumes that the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based is not altered by the IBOR reform.
- separately identifiable risk components – IFRS 9 and IAS 39 allow entities to designate only changes in the cash flows or fair value of an item attributable to a specific risk (i.e. a risk component) if that risk component is separately identifiable and reliably measurable. Under the amendments, entities shall apply the separately identifiable requirement only at the inception of a hedging relationship and are not required to continue this assessment over the life of the hedge.

The exceptions related to the highly probable requirement, reclassifying the cumulative gain or loss recognised in other comprehensive income (“OCI”) and prospective assessment will apply for a limited period ending on the earlier of the date when:

- the uncertainty arising from IBOR reform is no longer present; and
- the hedging relationships to which the exceptions apply are discontinued or, in the case of reclassifying the cumulative gain or loss recognised in OCI, when the entire cumulative gain or loss recognised in OCI with respect to discontinued hedging relationship has been reclassified to profit or loss.

The amendments apply for annual reporting periods beginning on or after 1 January 2020 and earlier application is permitted. The amendments were endorsed by the EU in January 2020. Having made the accounting policy choice allowed under IFRS 9 to continue to apply the hedge accounting requirements of IAS 39, the DEPFA Group has elected to early adopt the interest rate benchmark reform amendments to IFRS 7 and IAS 39. The adoption of these amendments did not result in any material adjustment to the amounts presented in the financial statements.

Consolidation

Subsidiaries The subsidiaries comprise all entities (including structured entities) from which the DEPFA Group is exposed to variable returns from its involvement with the entity and it has the ability to affect these returns through its power over the entity (control). Subsidiaries are fully consolidated from the date on which control, as defined above in accordance with IFRS 10, is transferred to the DEPFA Group and cease to be consolidated from the date that control ceases.

Except for “Common Control Transactions” (see below), the purchase method of accounting is used to account for the acquisition of subsidiaries. The fair value of the consideration paid for an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus the fair value of any pre-existing interest and the amount recognised as non-controlling interest. DEPFA BANK plc acquired its subsidiaries before the IASB revised IFRS 3 in 2008. The DEPFA Group chose not to restate the balances in 2008, as was permitted by IFRS 3.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. The financial statements and group reporting of all subsidiaries are drawn up to the year ended 31 December and the accounting policies applied in their preparation are consistent with the DEPFA Group accounting policies.

Non-controlling interests comprise minority shareholders' proportionate share in shareholders' equity and net income.

Investments in subsidiaries in the Company financial statements are measured at historic cost less impairment.

Common control transactions Under IFRS 3, common control transactions are business combinations involving businesses under common control. These transactions are accounted for at book value. Consequently, any differences between consideration paid/received and the book value are transferred directly to shareholders equity and no goodwill arises.

Segment reporting

An operating segment is a component of the DEPFA Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the DEPFA Group's other components, whose operating results are reviewed regularly by the DEPFA BANK plc Board of Directors (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance and for which discrete financial information is available. For detail on these disclosures please see note 6 to the financial statements, "Business segments".

Exceptional items

Certain items, by virtue of their nature and amount are disclosed separately in order for the user to obtain appropriate understanding of the financial information. These items would not ordinarily occur while carrying out normal business activities. Exceptional items include Asset/Liability management transactions and material restructuring costs.

Foreign currency translation

Currency translation is carried out in accordance with the requirements of IAS 21. On the relevant date for the financial statements, monetary items in a foreign currency are translated into the functional currency at the spot exchange rate at the end of the reporting period. Non-monetary items, which were stated in a foreign currency using historical cost of purchase, are stated using the exchange rate applicable at the point they were purchased.

Gains and losses on individual currency translations at the individual companies in the DEPFA Group are shown in the income statement under "Other operating income" or "Other operating expense".

The presentation currency of the DEPFA Group is the Euro, which is the functional currency of the Company and the majority of its subsidiaries. All financial information presented in Euro has been rounded to the nearest million, except where otherwise indicated.

Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate the DEPFA Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options), but does not consider expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

When the estimated future cash flows on a financial asset or a financial liability are revised, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Such adjustments are recognised in the income statement under "Interest income and similar income" or "Interest expense and similar expenses".

The interest element of all hedging derivatives is included in "Net interest (expense)/income".

Fee and commission expense

Fees and commissions which are not part of the effective interest rate calculation are generally recognised on an accruals basis when the service has been provided.

Fees in relation to financial guarantees are recognised on an accruals basis over the life of the guarantee and are recorded in "Net fee and commission expense".

Other advisory and service fees are recognised when the service has been provided.

Classification and measurement

Business Model Assessment The DEPFA Group assesses the business model for its financial assets at a portfolio level and considers that it has a single portfolio since this best reflects the manner in which the business is managed and in which information is provided to management.

The business model refers to how financial assets are managed to generate cash flows and the assessment is a matter of fact which must be assessed through the activities undertaken to achieve the business model. The following factors are considered applicable in the business model assessment:

- the risk management of the asset portfolios is consistent with a business model to hold assets to collect contractual cash flows, with management of credit risk being the key objective. Interest rate risk is mainly fully hedged and has not been and is not expected to be a factor in deciding on asset sales.
- the performance of the asset portfolio is measured and reported primarily using the metrics of net interest income and credit impairments. While fair values of assets are included in certain management reports periodically they are not a metric on which portfolio management decisions are based. This is consistent with a business model to hold assets to collect contractual cash flows.
- the Board approved business planning process applies a hold to collect business model.

- the frequency and volume of sales in prior periods and the reasons for such sales and expectations about future sales activity are assessed as part of the overall assessment of how the DEPFA Group's stated objective for managing financial assets is achieved and how cash flows are realised. The DEPFA Group has considered the Asset Liability Management ("ALM") transactions which have resulted in the transfer of significant volumes of assets and has assessed that these, while significant, are infrequent.

Based on the above factors the DEPFA Group has assessed that its financial asset portfolio has a business model whose objective is to hold financial assets in order to collect contractual cash flows.

The DEPFA Group assesses its business model on a bi-annual basis with updates provided to the Board of Directors. No significant change to the business was observed during 2019.

Assessment whether contractual cash flows are solely payments of principal and interest For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. This may change over the life of the financial asset (e.g. if there are repayments of principal). "Interest" is defined as consideration for the time value of money, the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs) as well as a profit margin.

In determining whether the contractual cash flows are solely payments of principal and interest, the DEPFA Group has assessed the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the DEPFA Group has considered:
- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the DEPFA Group's claim to cash flows from the specified asset, e.g. non-recourse asset arrangements;
- Features that modify consideration for the time value of money, e.g. periodic reset of interest rates; and
- Prepayment features: A prepayment feature is consistent with the SPPI criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding which may include reasonable compensation for early termination of the contract.

Based on the DEPFA Group's review of the contractual terms of the DEPFA Group's asset portfolio, most financial assets contain contractual cash flows which are solely payments of principal and interest. However, certain assets in the DEPFA Group's portfolio did not meet the SPPI criterion and as a result are measured at FVTPL under IFRS 9. The features of the instruments which did not meet the SPPI criterion include:
- Leveraged interest rate;
- Option to switch to structured interest rate;
- Constant maturity swap interest rate;
- Reverse floating rate;
- Structured CAP; and
- Dual currency cash flows.

Financial instruments

According to IAS 32, a financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Recognition The DEPFA Group recognises a financial asset or a financial liability on its statement of financial position when, and only when, it becomes party to the contractual provisions of the financial instrument. The purchases or sales of financial instruments are accounted for at trade date. Premiums and discounts appear in the position “Net interest (expense)/income” for the accounting period in question in line with the effective interest rate.

Initially, when a financial asset or financial liability is recognised, it is measured at its fair value, adjusted for initial direct costs where the item is not subsequently measured at fair value through profit or loss. Immediately after initial recognition, an ECL is recognised for financial assets measured at amortised cost, which results in an accounting loss being recognised in the income statement in “Movement on credit impairment provisions”.

Derecognition In accordance with the derecognition requirements of IFRS 9, a financial asset is derecognised when substantially all risks and rewards, and the contractual rights to receive the cash flows, from the assets have expired or have been transferred. If the significant risks and rewards associated with ownership of the transferred financial asset are neither transferred nor retained, and if the power of disposal continues to be exercised over the transferred asset, the asset must continue to be recognised to the extent of the continuing involvement. There are no transactions within the DEPFA Group which result in partial derecognition arising due to a continuing involvement.

In the case of repurchase agreements the assets transferred do not qualify for derecognition because the derecognition criteria of IFRS 9 are not fulfilled.

Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

Categories pursuant to IFRS 9 All financial instruments are recognised in the statement of financial position and measured according to the following measurement categories:

(a) Financial assets – Amortised cost (“AC”) Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (“SPPI”), and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL allowance recognised, and measured as described above.

Assets measured at AC in the DEPFA Group are recognised in the line items “Loans and advances to other banks”, “Loans and advances to customers” and “Financial investments”. Interest income from assets measured at amortised cost are shown in “Net interest income” using the effective interest rate. Realised market price related net gains and net losses attributable to prepayment penalties or to the sale of “Loans and advances to customers” and of “Loans and advances to other banks” are shown under the position “Net interest (expense)/income”. Net gains and net losses on financial investments are shown in “Net income from financial investments” and ECL movements are shown under “Movement on credit impairment provisions”.

(b) Financial assets – Fair value through other comprehensive income ("FVOCI")
Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at fair value through other comprehensive income ("FVOCI"). Movements in the carrying amount are taken through OCI, except for the recognition of expected credit losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in the income statement. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to the income statement and recognised in "Net income from financial investments". Interest income from these financial assets is included in "Net interest income" using the effective interest rate method. Any ECLs are shown under "Movement on credit impairment provisions".

No financial assets were classified as FVOCI in 2019 or 2018 in the DEPFA Group.

(c) Financial assets – Fair value through profit or loss ("FVTPL") Financial assets that do not meet the criteria for AC or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in the income statement under "Net trading (expense)/income" in the period in which it arises. Any gain or loss on debt securities, and associated derivatives, which were reclassified to FVTPL under IFRS 9 as a consequence of containing terms which do not meet the SPPI criterion, is recognised in the income statement under "Net expense from other financial instruments at FVTPL".

The DEPFA Group classifies all derivatives as FVTPL, as well as certain debt securities which were reclassified to FVTPL under IFRS 9 as a consequence of containing terms which do not meet the SPPI criterion, as set out in the "Classification and measurement" section above.

(d) Financial liabilities are classified as measured at amortised cost or at FVPTL.

Financial liabilities at FVTPL is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such at initial recognition.

Financial liabilities measured at amortised cost include liabilities that are not securitised or subordinated, which are recognised in the positions "Liabilities to other banks" and "Liabilities to customers". If these financial liabilities are securitised and not subordinated, they are disclosed in "Liabilities evidenced by certificates". Subordinated liabilities are shown in "Subordinated debt". Interest expense from financial liabilities measured at amortised cost are shown under the line item "Interest expense and similar expenses". In addition, the line item "Net interest (expense)/income" includes net gains and net losses attributable to repurchases or extinguishments of financial liabilities before maturity. Interest expense from financial liabilities held for trading are shown under the line item "Net trading income/'(expense)".

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires). Gains arising on settlement of intragroup liabilities are treated as normal activities and are classified within "Net interest (expense)/income".

Derivative financial instruments and hedge accounting

The DEPFA Group elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9.

Derivatives are used for trading and hedging purposes. They include, in particular, interest rate swaps, cross-currency swaps, interest rate options and foreign exchange forwards.

The derivatives in the DEPFA Group are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Changes in fair value are recognised in the income statement. The valuation results and net interest income from stand-alone derivatives are shown in “Net trading income/(expense)” and from hedging derivatives in “Net expense from hedge relationships” together with the fair value changes of hedged items. In the statement of financial position, stand-alone derivatives are disclosed under “Trading assets” when fair value is positive and “Trading liabilities” when fair value is negative. Hedging derivatives are disclosed under “Other assets” when fair value is positive and “Other liabilities” when fair value is negative.

Hedging derivatives

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument and if so, the nature of the item being hedged. The DEPFA Group designates certain derivatives as hedges of the fair value of recognised assets or liabilities (fair value hedge). The DEPFA Group has had no cash flow hedges (hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction) in 2019 or 2018.

Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The DEPFA Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The DEPFA Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

Fair value hedge Under IAS 39, with a fair value hedge, a stated asset, liability, off-balance-sheet fixed obligation or a precisely designated part of such an asset, liability or obligation, is hedged against the risk of a change in fair value which is attributable to a specific risk and could possibly have an effect on the income statement.

If the hedge of the fair value in the course of the reporting period satisfies the criteria of IAS 39.88, the hedge is stated in the DEPFA Group financial statements as follows:

- The net income or loss arising when the hedging instrument is revalued to its fair value (for a derivative hedging instrument), is recognised in “Net expense from hedge relationships”.
- The carrying amount of an underlying hedged item is adjusted by the fair value change attributable to the hedged risks and is recognised in “Net expense from hedge relationships”.

The DEPFA Group uses fair value hedge accounting for micro-hedge relationships. Fair value hedge accounting for a portfolio of interest rate risks is not used. Ineffectiveness is shown in the line “Net expense from hedge relationships”. Regression analysis is used to measure effectiveness. The dollar offset method is applied for quantifying the ineffectiveness. If the hedge relationship is terminated for reasons other than the derecognition of the hedged item, the

difference between the carrying amount of the hedged item at that point and the value at which it would have been carried, had the hedge never existed (the unamortised fair value adjustment), is amortised to the income statement in the line "Net interest income" over the remaining term of the hedged item. If the hedged item is derecognised, e.g. due to sale or repayment, the unamortised fair value adjustment is recognised immediately in the income statement.

Derivatives that do not qualify for hedge accounting

Some derivatives, while being economic hedges, do not meet the detailed hedge accounting criteria under IFRSs. Derivatives that do not qualify for hedge accounting are accounted for as part of the trading portfolio, with net income or loss recognised in "Net trading income/(expense)".

Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). In accordance with IFRS 9, the DEPFA Group accounts for an embedded derivative separately from the host contract when the host contract is a financial liability and is not itself carried at fair value through profit or loss and the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract. Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

Valuation methods

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement assumes that such a transaction takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability. Financial instruments which must be measured at fair value are valued on the basis of quoted market prices or other market prices, if they exist and the markets are active. If a price is not available from an active market, observable market prices from comparable financial instruments are used. If prices from comparable financial instruments are not available, valuation models are used that are based on observable market parameters. If these parameters are not observable at the markets, the valuation of the financial instruments is based on models with certain non-market-observable parameters. The valuation models used are market standard models. A description of these models and the products involved is given in note 37 to the financial statements, "Fair values of financial assets and liabilities".

Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments, to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantees given are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the DEPFA Group's liabilities under such guarantees issued are measured at the higher of the initial measurement, less income recognised in the income statement under IFRS 15, and the amount of the loss allowance. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is reported under "Net fee and commission expense".

Where the DEPFA Group is the holder of financial guarantees, the fee expense is recognised in the income statement on a straight line basis over the life of the guarantee under “Net fee and commission expense”. Recovery of losses on assets which are the subject of guarantees held are recognised at the same time as specific allowances for losses on those assets. In the event of a specific allowance for losses being released, the associated guarantee recoverable would also be released.

Offsetting financial instruments

Financial assets and liabilities, in accordance with IFRS 7, are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. The DEPFA Group has not offset any financial instruments at 31 December 2019 or 31 December 2018.

Impairment of financial assets

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument, whereas 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date. Further details on the stage allocation are provided in the note 3 of the financial statements.

The DEPFA Group recognises loss allowance at an amount equal to lifetime ECLs for financial assets for which credit risk has significantly increased since initial recognition (“Stage 2” and “Stage 3”). For assets for which there has not been a significant increase in credit risk (“Stage 1”), the DEPFA Group recognises 12-month ECLs.

These three stages are outlined below:
- **Stage 1** Includes financial instruments that have not had a significant increase in their credit risk since initial recognition. For these assets, a 12-month ECL is recognised (i.e. the portion of lifetime ECLs that represent default events that are possible within the 12 months after the reporting date).
- **Stage 2** Includes financial instruments that have had a significant increase in their credit risk since their initial recognition but there is no objective evidence of impairment. For these assets, lifetime ECL is recognised (i.e. the ECLs that result from all possible default events over the expected life of the financial instrument).
- **Stage 3** Includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL is recognised and interest revenue is recognised by applying the effective interest rate to the amortised cost of the financial asset, net of ECL (see ‘Credit Impaired Assets’).

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in detail below:
- Assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- Incorporating forward looking information into the measurement of ECLs.

The definition of credit impaired assets remains unchanged:
"A financial asset is impaired, and impairment losses are incurred, if there is objective evidence of impairment as a result of a loss event occurring, and that loss event has an impact on the financial asset's expected future cash flows that can be reliably estimated and/or the obligor is past due more than 90 days"

The Bank reviews its assets on an ongoing basis to check whether an impairment may have occurred based on a detailed table of segment-based impairment triggers including, but not limited to, the following:
- overdue contractual interest or principal repayments or other breaches of contract;
- considerable financial difficulties of the borrower;
- increased probability that the borrower will become insolvent or will undergo a restructuring process; and
- re-negotiations as a result of financial difficulties.

If an impairment trigger is breached, a detailed examination of the breach is undertaken. If there is found to be objective evidence of impairment, the asset is classified as Stage 3. DEPFA's Stage 3 impairment calculation of lifetime ECL involves a bespoke cash flow analysis that takes into account the following:
- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions of the credit in question.

All impairments must be approved by the DEPFA Group MRC and, depending on the amount, approval may also be required by the DEPFA EDC and DEPFA Board/Audit Committee.

Significant increases in credit risk Under IFRS 9, when determining whether the credit risk on a financial instrument has increased significantly since initial recognition ("SICR"), the DEPFA Group will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the DEPFA Group's historical experience, expert credit assessment and forward-looking information.

Before any ECL calculations can be performed, an exposure must be allocated to a Stage. In order to do that, an assessment must be made as to whether or not each exposure has had a SICR since recognition. In this regard, the following factors are considered:
- Low Credit Risk Simplification: IFRS 9 allows an important simplification which has been adopted by DEPFA. This approach means that for financial instruments with a low credit risk at the reporting date, it can be assumed that no significant deterioration in credit risk has occurred on this instrument. IFRS 9 notes that an 'investment grade' rating is an indicator for a low credit risk. DEPFA's portfolio, which largely consists of public sector and banking counterparties, is generally low credit risk.
- 30 Days Past Due: IFRS 9 also contains a rebuttable presumption that the credit risk on an exposure has increased significantly when contractual payments are more than 30 days past due. DEPFA does not rebut this presumption. A flag will be raised in DEPFA's ECL Tool where a contractual payment is 30 days past due and, in these cases, the position will be moved to Stage 2.

This assessment provides the basis for the final determination of whether there has been a significant increase in credit risk. This recommendation then needs to be approved through a prescribed governance process, as set out in the DEPFA Group's Impairment Policy.

Expected credit losses
Under IFRS 9, there is a "three-stage" model for impairment based on changes in credit quality since initial recognition as summarised below:
- A financial instrument that is not credit-impaired on initial recognition is classified in "Stage 1" and has its credit risk monitored by the DEPFA Group;
- If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to "Stage 2" but is not yet deemed to be credit-impaired; and
- If the financial instrument is credit-impaired, the financial instrument is then moved to "Stage 3".

The ECL, including details on all material movements throughout the year as detailed below, is shown on all assets measured at amortised cost on the statement of financial position included under "Loans and advances to other banks", "Loans and advances to customers" and "Financial investments". This includes details on the following:
- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EaDs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

In the income statement, all effects are shown in "Movement in credit impairment provisions", except when reclassed for ALM transactions.

Measurement of ECLs ECLs are a probability-weighted estimate of credit losses and are measured as follows:
- Financial assets that are not credit-impaired at the reporting date: the present value of cash shortfalls (Stage 1 and Stage 2) – i.e. the present value of the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the DEPFA Group expects to receive with a default probability factor applied; and
- Financial assets that are credit-impaired at the reporting date (Stage 3): the difference between the gross carrying amount and the present value of the estimated future cash flows.

Inputs into measurement of ECLs including forward looking information The key inputs into the measurement of ECLs are the term structures of the following variables:

- Probability of default ("PD") – the PD represents the likelihood of an obligor defaulting on either a 12-month or lifetime basis. The starting point for the PDs used in DEPFA is the internal rating PD models. The output of these models is an internal rating which is mapped to Point in Time ("PiT") PD curves. These PiT PD curves are created at rating, segment and country level using long term historic transition and default rates and macroeconomic forecasts taken from the International Monetary Fund ("IMF"). PDs are calculated for various scenarios and scenarios are assigned weights as part of this analysis to incorporate forward looking information.
- Loss given default ("LGD") – LGD represents the expectation of the extent of loss on a defaulted exposure. Different LGD models are applied across different segments. The Sovereign LGD model incorporates forward looking information through a debt balancing estimation where IMF World Economic Outlook ("WEO") sovereign forecasts for debt, GDP growth, primary and net balance and GDP deflators are used. As a consequence sovereign PiT LGDs vary over time depending on future forecasts. Both the Structured Finance and the non-US Sub-sovereign LGD models depend directly on the Sovereign LGD and so implicitly also move with the credit cycle over the exposure's lifetime.The vast majority of the DEPFA Group's exposure is covered by the aforementioned LGD models, while any other exposures use LGDs taken directly from the DEPFA Group's internal models.
- Exposure at default ("EaD") – for each exposure EaD is calculated based on the outstanding nominal, accrued interest and unamortised premium or discount at future monthly time intervals starting at the reporting date. EaD values are not generally adjusted for economic forecast information because these forward looking elements do not impact the contractual cash flows in the DEPFA Group's portfolio. The EaD can differ at the DEPFA Group and entity levels due to intragroup sales. Exposures are treated on an individual basis in the DEPFA Group's calculation.

ECLs are calculated at an exposure level by multiplying these components and discounting back to the reporting date using the original effective interest rate on the exposure.The ECL is calculated by a model using the above components.

Leases

Under IFRS 16 an asset (the right to use the leased item) and a financial liability to pay rentals are recognised on the statement of financial position.

The lease liability is measured at the present value of the remaining lease payments, discounted using the DEPFA Group's incremental borrowing rate at the commencement of the lease. Each lease payment is allocated between the liability and finance costs. The finance costs are included in the income statement in "Net Interest (expense)/income", over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The associated right-of-use asset is measured at the amount equal to the lease liability, adjusted for restoration costs of the premises. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight line basis. This depreciation is included in the income statement in "General administrative expenses".

Leased assets in the DEPFA Group comprise building leases. The DEPFA Group entered into new property leases in 2018. The new lease contracts expire in 2033.

Provisions

In accordance with IAS 37, the DEPFA Group recognises provisions when it has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The DEPFA Group recognises provisions applying these criteria for litigation risks, restructuring activities, onerous contracts and other obligations.

Cash and cash equivalents

For the purposes of the cash flow statement, "Cash and cash equivalents" comprise cash reserves including balances with central banks other than mandatory reserve deposits with original maturity of less than 3 months.

Employee benefits

Pension obligations The DEPFA Group has two types of pension scheme – a defined benefit scheme and a defined contribution scheme. The defined benefit scheme relates only to certain former Germany based employees.

A defined contribution scheme is a pension plan under which the DEPFA Group pays fixed contributions into separate investment funds. The value of the ultimate benefits payable from a defined contribution scheme depends on the amount of contributions paid, the investment return achieved less any fees and charges, and the cost of buying the benefits. According to IAS 19, a defined benefit scheme is a pension plan that is not a defined contribution scheme. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date. The defined benefit obligation, which is unfunded, is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, are recognised immediately in the income statement. The DEPFA Group determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The DEPFA Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

For the defined contribution plan, the DEPFA Group pays contributions to a privately administered pension plan on a contractual or voluntary basis. The DEPFA Group has no further payment obligations, other than those associated with scheme administration and consultancy, once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

Income tax

Current income tax payable on net income, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which net income arises.

In accordance with IAS 12, Deferred income tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable net income or loss.

The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable net income will be available against which these losses can be utilised.

Deferred income tax assets are recognised to the extent that it is probable that future taxable net income will be available against which the temporary differences can be utilised.

Deferred tax assets and deferred tax liabilities are offset on the statement of financial position where they arise in a group entity for which it has been determined that there is a legally enforceable right to set off current tax assets against current tax liabilities.

Trading assets

Trading assets comprise held-for-trading securities as well as positive market values of trading derivatives and of stand-alone derivatives in the banking book.

Trading assets are stated at their fair value. In the case of derivative and original financial transactions which are not listed on an exchange, internal price models based on cash value considerations and option price models are used as the basis of calculating the statement of financial position value. Valuation and realised net income and losses attributable to trading assets are stated under “Net trading income/(expense)” in the income statement.

Property, plant and equipment

Property, plant and equipment are recognised initially at cost of purchase, in accordance with IAS 16. The carrying amounts, if the assets are depreciable, are diminished by depreciation in accordance with the expected useful life of the assets applied on a straight line basis. In addition, property, plant and equipment is tested for impairment when an indicator of impairment exists. If the value of property, plant and equipment has additionally been diminished, an impairment is taken to the income statement. If the reasons for the impairment are no longer applicable, an amount is written back to the income statement, not exceeding the carrying value at which the asset would have been measured, if no impairment had been recognised. In the case of fittings in rented buildings, the contract duration taking account of extension options that are expected to be availed of is used as the basis of the depreciation period if it is shorter than the economic life.

Useful economic life	
Furniture, fixtures and office equipment	5 years
IT equipment	3 – 5 years
Other plant and operating equipment	5 years

Cost of purchase, which is subsequently incurred, is capitalised if an additional economic benefit accrues to the DEPFA Group. Measures which are designed to maintain the condition of the property, plant and equipment are recognised in the income statement of the financial year in which they arise.

Intangible assets

Computer software Software is an intangible asset with a finite useful life. Purchased software is stated at amortised cost of purchase. In accordance with IAS 38, the DEPFA Group capitalises internally generated software if it is probable that future economic benefits will flow to the DEPFA Group and the expenses can be measured reliably. Expenses eligible for capitalisation include external directly-attributable costs for materials and services, as well as personnel expenses for employees directly associated with an internally generated software project. Software is written down on a straight-line basis over an expected useful life of three to five years. In addition, intangible assets with a finite useful life have to be tested for impairment whenever there is an indication that the intangible asset may be impaired.

Other assets

Other assets mainly contain positive fair values from hedging derivative financial instruments.

Liabilities

Liabilities other than liabilities which are in designated hedge relationships and which are not classified as FVTPL are stated at amortised cost. Fair value changes attributable to hedged risks on liabilities in qualifying fair value hedge relationships are shown under “Net expense from hedge relationships”. All other income and expenses from liabilities, including net gains and net losses resulting from redemption of liabilities, are shown under the position “Net interest (expense)/income” in the income statement.

Sale and repurchase agreements

Securities sold subject to repurchase agreements ("repos") are carried as assets in the financial statements; the counterparty liability is included in "Liabilities to other banks" or "Liabilities to customers", as appropriate. Securities purchased under agreements to resell ("reverse repos") are recorded as "Loans and advances to other banks" or "Loans and advances to customers", as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Trading liabilities

Trading liabilities include negative market values of trading derivatives and of stand-alone derivatives of the banking book. Trading liabilities are recognised at their fair values. Valuation and realised income and losses attributable to trading liabilities are stated under "Net trading income/(expense)" in the income statement.

Other liabilities and provisions

Negative fair values from hedging derivative financial instruments and accrued liabilities are stated under "Other liabilities". Accrued liabilities include future expenditures, which are uncertain in terms of actual extent or timing, but less uncertain than is the case with provisions. These are liabilities for products or services which have been received or supplied and have not yet been paid for, invoiced by the supplier or formally agreed. This also includes short-term liabilities to employees, for instance vacation entitlements. The accrued liabilities have been stated in the amount likely to be utilised.

If the obligations listed at this point cannot be quantified with sufficient certainty on the reporting date for the financial statements and if the criteria specified in IAS 37 for establishing provisions are satisfied, these items must be stated under provisions.

Subordinated debt

In the event of bankruptcy or liquidation, subordinated debt may only be repaid after all non-subordinated creditors have been satisfied. Subordinated debt of the DEPFA Group encompasses subordinated liabilities and hybrid capital instruments.

Pursuant to IAS 32, the subordinated debt instruments issued by the DEPFA Group were classified as financial liabilities or equity instruments in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument. Financial liabilities are measured at amortised cost. The amortised costs are the amount at which the financial liability is measured at initial recognition minus principal payments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any expected reduction of interest and/or principal payments.

Share capital

(a) Share issue costs Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(b) Dividends on ordinary shares Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders or paid (if declared by the Directors). Dividends for the year that are declared after the reporting date are dealt with in the "Events after the reporting date" note.

(c) Own shares Where the Company or other members of the consolidated Group purchases the Company's equity share capital, the consideration paid is deducted from total equity as own shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in equity.

(3) Risk management

This note provides "Risk management" information together with details on the following material risk types:
(a) Organisation and principles of risk and capital management,
(b) Material risk types:
- (b.1) Credit risk;
- (b.2) Market risk;
- (b.3) Liquidity risk; and
- (b.4) Operational risk.

(a) Organisation and principles of risk management

Organisation and committees

The DEPFA Group relies on its suite of risk management committees for the management, control and implementation of a risk management framework. The DEPFA Group processes require risk identification, measurement, risk limiting and risk management. The Board of Directors of DEPFA BANK plc ("the Board") bears overall responsibility for the DEPFA Group's risk management system and is responsible for taking strategic decisions and decisions on key issues of risk management and risk organisation.

The DEPFA Board Risk Committee ("DEPFA BRC"), which considers strategic matters and oversees the portfolio and risk functions within the DEPFA Group, met seven times during 2019.

The terms of reference of the Committee is to review, on behalf of the Boards, management's recommendations on risk, in particular:
- To consider and recommend to the Boards the Group's Risk Appetite;
- To consider and recommend to the Boards the Group's Risk Strategy and corresponding thresholds (triggers and limits) set;
- To review on behalf of the Boards the Group's risk profile;
- To monitor the effectiveness of the Group's Risk Management Function relative to the risk profile of the Group;
- To advise the Boards on the effectiveness of policies with respect to maintaining internal capital and own funds adequate to cover the risks of the institution; and
- To monitor the effectiveness of the process for monitoring compliance with applicable laws and regulations.

The DEPFA Group Management Risk Committee ("DEPFA Group MRC") is concerned with the development and implementation of standards of risk management and control as well as the monitoring of portfolio developments. It is chaired by the Chief Risk Officer ("DEPFA Group CRO"), it also includes the Chief Executive Officer ("DEPFA Group CEO"), and the Chief Financial Officer/Chief Operating Officer ("DEPFA Group CFO/COO") of the DEPFA Group as well as the Head of Risk Analytics and the Head of Credit Risk Management & Risk Control.

The DEPFA Group MRC monitors the development of risk-bearing capacity, ECap and compliance with triggers and limits as well as developments in the DEPFA Group's asset portfolio. The DEPFA Group MRC supports the DEPFA BRC on topics arising from the risk functions as well as specific topics the Board may request. The DEPFA Group MRC meets on a monthly basis and approves guidelines and policies, methods for risk measurement and the related parameters, as well as methods of monitoring all risk types.

Risk Strategy and policies

The Risk Strategy describes the general approach for the mitigation and limitation of risk for the identified risk types. The DEPFA Group strategy and business model is to a large extent influenced by the conditions and commitments agreed between the European Commission and the Federal Republic of Germany during the finalisation of the state aid approval process in 2011 and this is reflected in its Risk and Business Strategies. In this context, the DEPFA Group is not allowed to initiate new business transactions other than those necessary for regulatory requirements or for reducing risk and transactions required as part of the liquidity management of the DEPFA Group.

Risk steering in the DEPFA Group is based on the following three key risk measures:
- Economic capital;
- Regulatory capital; and
- Liquidity Risk.

Risk reporting

Risk reporting reflects the structure of the operating divisions. The DEPFA Group's senior management and other relevant parties receive regular risk reports which include an overview as well as more detailed information concerning the risk situation for each risk type and other management information. The format and frequency of the reports is based on the required level of monitoring of key risks and risk concentrations. There is a wide variety of reports to cover the different risks from each of the departments: Market Risk, Liquidity Risk Control, Operational Risk, Credit Risk Analytics, ICAAP/Credit Risk Models, Valuations as well as Credit Portfolio Management.

DEPFA defines a limit (non credit) as a metric which requires escalation to the Board when a breach occurs. DEPFA defines a trigger as a metric which does not require escalation to the Board when a breach occurs but instead follows a lower level of escalation within the Bank. The Board will be informed of all breaches as part of the normal risk reporting process.

A monthly Risk Report is presented to the DEPFA Group MRC, along with periodic presentations which are prepared on an ad-hoc basis or at the request of the committee or the Board. Such special reports consider specific and acute risk issues, for instance in relation to critical markets, products, counterparties and tailored stress tests.

Key indicators relevant for management purposes such as the development of Exposure at Default ("EaD"), the Expected Credit loss ("ECL") under IFRS 9, and the unexpected loss via Economic Capital are integrated into the Risk Report and are presented to the DEPFA Group MRC. The report also contains the Group's Risk Appetite Indicators and Early Warning Indicators ("EWIs", which are part of the Recovery Plan), as well as an overview of DEPFA's Critical Facilities.

(b) Material risk types

The following is an overview of the material risk types:

(b.1) Credit risk

Definition

Credit Risk is defined as the risk of the partial or complete loss of the value of a receivable due to the default or downgrading of a business partner.

Credit Risk Measurement

The basis for the credit risk identification and the analysis process is the credit rating process, as well as the exposure evaluation. Credit risk measurement is based on three central risk parameters:

- Exposure at Default ("EaD")
- Probability of Default ("PD")
- Loss Given Default ("LGD")

Within the DEPFA Group a full suite of internal credit rating models are available, depending on the type of business partner and the type of exposure. These models are validated regularly and recalibrated as required. For each model a set of quantitative and qualitative factors is used in deriving the rating.

The model used to rate a business partner determines the associated business partner segment. DEPFA's PD Masterscale comprises 22 letter grades, including 10 investment grade classes, 9 sub-investment grade classes and 3 default classes.

Business partner risk

- Credit Default Risk: potential losses of value of trades, attributable to the default or downgrading of the business partner.
- Counterparty Risk (for financial institutions):
  - Settlement Risk: the risk that, when a trade is settled, the business partner fails to deliver the necessary consideration.
  - Replacement Risk: the risk that, in the event of a business partner default, the contract has to be replaced on less favourable terms.

Country risk

- Sovereign Risk: the risk associated with the future ability and willingness of sovereign governments to service their commercial financial obligations (or guaranteed obligations) in full and on-time.
- Transfer and Conversion Risk: the risk that a government or central bank will not allow foreign currency to leave the country, or that a government or central bank declares its currency as inconvertible.

Concentration risk the potential for loss of value of a portfolio caused by exposure concentrations to a single counterparty, sector or country.

There are no new business activities within DEPFA aside from engagement with financial counterparties for the purposes of treasury operations (derivatives hedging, money market placement etc.). The DEPFA Group's asset portfolio is primarily focused on the Public Sector.

Significant Increase in Credit Risk ("SICR")
Stage Allocation A key objective of the ECL model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments. IFRS 9 outlines a three-stage model for impairment based on changes in credit quality since initial recognition. The three stages are described in note 2 to these financial statements.

Before any ECL calculations can be performed, an exposure must be allocated to a Stage. In order to do that, an assessment must be made as to whether or not each exposure has had a significant increase in credit risk ("SICR") since recognition. In this regard, we consider the following Low Credit Risk Simplification and 30 Days Past Due, which are described in note 2 of the financial statements.

Quantitative Analysis The first part of the staging process is to assess whether an exposure has had a significant deterioration from a quantitative point of view. Quantitative triggers are applied to all relevant assets in DEPFA's portfolio, and are calibrated such that, unless breached, a significant increase in credit risk since initial recognition could not have occurred.
- If a quantitative trigger is breached, a check is performed as to whether the exposure is already identified as Stage 2 or Stage 3.
  - If so, then the classification is maintained.
  - If not, then a timely qualitative assessment is required to determine whether the exposure should be identified as Stage 2.
  - If no quantitative trigger is breached, a check is performed as to whether the exposure is already identified as Stage 1.
  - If so, then the classification is maintained.
  - If not, then a qualitative assessment is required to determine whether the exposure should return to Stage 1.
- Finally, a check is made as to whether the internal rating of the exposure has a Default rating. If so, the exposure is flagged as Stage 3.

Quantitative Assessment DEPFA has two quantitative triggers in place to determine if a significant increase in credit risk has occurred:
- **Current rating**
  - The first quantitative indicator is the exposure's current rating. This was chosen in order to capture as many credit quality effects as possible. As noted previously, DEPFA uses the low credit risk simplification approach. Therefore, if a financial instrument is investment grade quality at a reporting date, it can be assumed that no SICR has occurred.
  - In assessing the rating of an exposure against this threshold, the rating of the ultimate business partner is used, which takes any support relationships (typically guarantees) into account, provided that these support mechanisms are embedded since origination and that the support is deemed to be sufficiently strong (meets the conditions of Credit Risk Mitigation under the CRR).

- **Current rating**
  - The second quantitative indicator is the change in the Probability of Default (“PD”). After determining the segment, scenario weighting and country of risk of a business partner, the scenarios’ weights and PDs are used to find the current weighted average 12-month Point in Time (“PiT”) PD for each exposure.
  - DEPFA’s internal PDs have been estimated using an exponential scale and this scale has been used in setting the thresholds for determining a significant change in credit quality. As DEPFA uses the low credit risk simplification in IFRS 9, DEPFA has chosen the PD associated with investment grade exposures (by segment) as the threshold. Given the approach taken, the midpoint of the exponential PD curve between ratings BBB3 (the lowest investment grade rating) and BB1 (the highest non-investment grade rating) was determined to be a reasonable threshold.

Qualitative Assessment If either of the quantitative indicators above suggests that there has been a significant increase in credit risk, then a qualitative assessment of the instrument is undertaken by the Credit Portfolio Management team. This assessment provides the basis for the final determination of whether there has been a significant increase in credit risk. This assessment is undertaken on a DEPFA Group and legal entity basis and takes into account, inter alia and where applicable, the following elements:
- The degree to which the quantitative indicators have been breached.
- The driving forces behind the quantitative breaches.
- Confirmation of current and origination credit risk for all exposures to the borrower (internal and external).
- Change in 12 month and lifetime PD (relative and absolute).
- A fundamental analysis of the business partner (e.g. revenue, cash flows etc.)
- Other credit risk indicators (arrears, forbearance etc.)
- A sectoral analysis of the business partner (including macroeconomic environment and forecast).
- Forward looking information (forecasts, budgets, politics).
- Price of underlying credit (CDS, bond spreads, market valuation metrics).
- Other Indicators (e.g. risk appetite, recovery plan).
- Placement of borrower on critical facilities (intensified management).
- Support structures (and changes thereof).

On the basis of this analysis, an initial staging recommendation will be presented to the DEPFA Group MRC and will be approved according to a pre-defined set of allocated authorities.

Early Warning System
The existing early warning system of the DEPFA Group identifies heightened credit risk at an early stage and manages them proactively via its ‘Critical Facilities’ listing. This listing serves as the early identification mechanism for exposures that have heightened risk or are currently not developing as planned. This enables the DEPFA Group to start to take the necessary measures as early as possible to steer the risk and maximise value.

Various indicators are monitored on a borrower level through a list of segment based Critical Facilities trigger events, as well as on a portfolio basis through risk appetite and recovery plan indicators.

Credit Impaired Assets

A financial asset (or group of financial assets) is deemed to be impaired from a credit perspective if it meets DEPFA's definition of default.

Forward Looking Information

In order to incorporate forward looking information into its macro-economic variables and thus the ECL, DEPFA analyses the forecast data provided by external macroeconomic variable providers e.g. International Monetary Fund ("IMF"). Given the nature of DEPFA's portfolio a methodology for including forward looking information in the PDs has been built around the World Economic Outlook ("WEO") forecast which is published by the IMF.

IMF Macroeconomic variables are generally available for most countries from 1980 until the present day. Moreover, a diverse selection of variables is available from the IMF. DEPFA's methodology for calculating forward looking lifetime PDs is the successive multiplication of 12-month Point in Time ("PiT") Transition Matrices. These PiT matrices are created by taking long run average Through The Cycle ("TTC") matrices and adjusting them using PiT factors. The PiT factors are calculated using a logistic regression model where relevant variables from the IMF WEO are the independent variables. This allows for PiT factors to be calculated at country level based on IMF forecasts. Beyond the forecast horizon of the IMF the PiT factors are assumed neutral from a credit cycle perspective.

IFRS 9 requires that ECLs are calculated across multiple scenarios and appropriate weights applied to each scenario. In order to determine the PDs that should be applied in each scenario, an analysis of errors in previous IMF forecasts was undertaken. A distribution of these errors was built for each country which allows for the calculation of different PDs and weights in 6 scenarios for each country.

Change in Expected Credit Loss Allowances

The ECL at the DEPFA Group level at 31 December 2019 is €5,437 (31 December 2018: €8,706,136) and at the Company level at 31 December 2019 is €265 (31 December 2018: €428,873). There were no transfers between stages in 2019 at DEPFA Group or Company level.

Credit risk: Monitoring and management

Credit risk is mainly assessed in terms of credit exposure ("EaD"), default probabilities ("PD") and expected losses in case of default ("LGD"). Credit risk in the DEPFA Group is identified, measured and monitored at different levels:

- Individual business partner level;
- Product level;
- Country level; and
- Overall portfolio level.

The primary objectives of Credit Portfolio Management ("CPM") are to maintain a low probability that certain potential default events will occur in the future and to minimise the severity of losses. Continuous monitoring and management of credit risk supports the early detection of risk issues and risk mitigation requirements.

Each business partner is analysed at least annually through the annual review process taking into account expected and unexpected market conditions. The review analyses support structures (including guarantees), business developments, profitability, confirmation of adherence to legal covenants, regulatory treatment and credit ratings. The analysis includes details of existing exposures to the business partner as well as exposures to related entities (e.g. Group of Connected Clients).

The core processes of CPM include:
- Carrying out risk analysis (reviews, ratings, limit maintenance, ongoing monitoring) for all existing business of the DEPFA Group;
- Regularly analysing the defined Critical Facilities trigger events. In the event of a trigger breach, a credit reassessment is carried out for the corresponding cases and appropriate measures are initiated. If deemed appropriate, the cases are also included on DEPFA's Critical Facilities listing;
- Ongoing monitoring of the portfolio for significant increases in credit risk ("SICR") in line with IFRS 9 guidelines. Undertaking a qualitative assessment in the event of any quantitative triggers being breached and making staging recommendations to the DEPFA Group MRC;
- Ongoing monitoring of impairment triggers and, in the event of a breach, involvement in the required impairment calculations and submission to the DEPFA Group MRC for consideration;
- CPM draw up a restructuring plan or a workout plan for critical and impaired exposures. These are presented and approved at a minimum by the DEPFA Group MRC and potentially by higher levels of authority.

Rating structure

The balance sheet figures for the remaining financial assets in the core portfolio, excluding derivative, collateral and repo exposure as well as other assets not accounted for at amortised cost, are set out below:

DEPFA Group portfolio: Break-down according to internal ratings
Internal DEPFA Letter rating mapped to Standard & Poor's classes

€m	**31.12.2019**	**31.12.2018**
AAA	253	4,211
AA+	131	212
AA	–	1,624
AA–	665	99
A+	40	231
A	132	180
A–	133	698
BBB+	10	–
BBB	–	245
BBB–	–	10
Sub Investment Grade	–	315
Total	**1,364**	**7,825**

(b.2) Market risk

Definition

Market risk is defined as the risk of a loss of value resulting from the fluctuation of the market prices of financial instruments. Transactions of the DEPFA Group are mainly exposed to the following risk types:

- Interest rate risk (from both an Economic Valuation and Earnings Volatility perspective);
- Tenor basis and foreign exchange basis risk;
- Foreign exchange risk;
- Credit spread risk; and
- Vega risk (stemming from variations in interest rate volatility).

Organisation of market risk management

In line with the principles of the DEPFA Group's risk management structure, Value at Risk ("VaR") and Net Interest Income ("NII") sensitivity triggers at a DEPFA Group level are set by the Board as part of the DEPFA Risk Strategy. All positions are monitored by the Market Risk department within the Risk Analytics function which is separate from front office in the structure of the organisation right through to responsibility at the Board level.

Market risk strategy

The DEPFA Group adheres to the following guiding principles to manage market risk:

1. Business is permitted only in financial instruments that can be priced independently, which have successfully passed the New Product Process and for which the following aspects have been documented properly:
   - System representation;
   - Pricing methods;
   - Required market and model data; and
   - Risk monitoring methodology.
2. Risk monitoring including risk concentration is performed daily.
3. Management and hedging of inter alia interest rate and foreign exchange risk.

Market risk, monitoring, management and reporting

The DEPFA Group manages market risk through a three pillar approach which includes risk-awareness of the front office, monitoring of limits by Market Risk and an escalation procedure to the DEPFA EDC.

Furthermore, two parameters are monitored for the active management of market risks and compliance with all relevant guidelines is ensured:

- Key sensitivities: interest rate, tenor and FX basis and foreign exchange risks; and
- Value at Risk ("VaR") triggers.

The Market Risk function uses a variance-covariance approach to calculate the market risk VaR at the DEPFA Group level and sub-portfolio level on a daily basis. All live positions are taken into consideration for this purpose.

The correlations and volatilities which are used for this purpose are based on historical time series of the previous 250 trading days and are included in the calculation on an equally weighted basis. For daily risk management, the VaR relates to a holding period of ten days and a one-sided 99% confidence level. Individual market risk components, such as the interest rate, foreign exchange and basis spread VaR, are aggregated to form a total VaR.

Market risks and the associated triggers are controlled, managed and reported by Market Risk to senior management and front office on a daily basis and to the DEPFA Group MRC on a monthly basis. The DEPFA Group VaR and Net Interest Income ("NII") triggers are reviewed at least annually and approved by the Board.

The market risk is monitored by a combination of VaR and NII triggers for all positions. The sensitivities are also monitored by Market Risk and this includes monitoring interest rate sensitivities with triggers. The daily management of the market risk positions is carried out in front office.

The market risk VaR for the DEPFA Group amounted to €2.3 million as of 31 December 2019 (31 December 2018: €2.2 million).

During 2019, the market risk VaR trigger for the DEPFA Group was reduced from €8 million to €5.6 million. This was as a result of a recallibration of all triggers following the ALM transactions.

The following table illustrates the market risk VaR of the DEPFA Group as well as the VaR for the main risk types compared with the market risk triggers at year end:

Market risk VaR, VaR for the major risk types and market risk riggers

€m	31.12.2019	31.12.2018
Total VaR [1]	**2.3**	**2.2**
Cross currency basis VaR	0.2	0.6
Interest rate VaR	1.9	1.0
Foreign exchange VaR	0.0	0.5
Interest Rate Vega	0.3	1.4
Trigger	**5.6**	**8.0**
% utilisation	**41%**	**27%**

[1] VaR components are not additive to total VaR.

No VaR trigger breach occurred during 2019.

Development of the relevant market risk types

General interest rate risk The total interest rate risk of the DEPFA Group amounted to approximately €1.9 million VaR as of 31 December 2019 (compared with €1.0 million as of 31 December 2018). On average, the interest rate risk of approximately €1.6 million for 2019 (max. €3.3 million; min. €0.7 million) was at a slightly lower level than the previous year (average VaR for 2018 €2.2 million; max. €3.3 million; min. €0.3 million). The decrease in interest rate sensitivity was due to the ALM transactions.

The aggregate sensitivity of the DEPFA Group to interest rates affecting "Net trading (expense)/ income" at 31 December 2019 over all currencies and tenors was €–4,000 (31 December 2018: €–7,000) per basis point rise. The DEPFA Group has interest rate sensitivity triggers (for portions of the curve as well as for the total sensitivity by currency) which are monitored closely.

(b.3) Liquidity risk

Definition

Liquidity risk is defined as the risk of a credit institution not being able to meet its future on and off balance sheet payment obligations in a timely manner as they fall due, without incurring excessive cost, while continuing to fund its asset book.

Funding and Liquidity risk for the DEPFA Group is managed on a consolidated basis.

The Board of DEPFA BANK plc is responsible for developing a strategy for the ongoing management of liquidity and funding risk across the DEPFA Group and its entities, ensuring that it is consistent with the risk appetite framework and Recovery Plan of the DEPFA Group and meets all the regulatory requirements. The Board is responsible for defining the scope and responsibilities of the DEPFA Group ALCO, approving the DEPFA Group liquidity policies as well as the DEPFA Group liquidity Risk Appetite, limits and triggers as proposed by DEPFA Group MRC and recommended by DEPFA Group ALCO.

Liquidity Risk is one of the three steering mechanisms along with ECap and Regulatory Capital. All three steering pillars are considered essential in monitoring the financial profile of the bank and, before making key strategic decisions within DEPFA, the impact on these key steering pillars is considered. Risk calculations at both risk type and steering pillar level are underpinned by operational stability and there is an overarching operational risk element to the management of all risk types. The activities of the liquidity risk function are primarily aligned to achieve key steering objectives and monitoring of DEPFA Group's liquidity position and fulfilling regulatory liquidity requirements.

The DEPFA Group MRC is responsible for monitoring the DEPFA Group's liquidity risk in accordance with approved policies and procedures. It is also responsible for monitoring liquidity risk thresholds and associated breaches, while the DEPFA Group ALCO responsibilities include defining liquidity strategy, deciding on asset and liability policies, setting liquidity and foreign exchange triggers, monitoring of current liquidity positions and, if necessary, recommending the activation of liquidity contingency plans.

Liquidity Risk Control ("LRC") within the Credit Risk Management & Risk Control function is responsible for identifying, measuring, controlling, monitoring and reporting of liquidity and funding risk, thereby facilitating the management of funding and liquidity risk across all entities within the DEPFA Group.

Hedging and reduction of liquidity risk

A risk management framework is used to measure, monitor, control, report and limit liquidity risk. Risk management is integrated in the liquidity management process by means of Risk Appetite indicators, liquidity thresholds (limits and triggers), and Recovery Plan Early Warning Indicators ("EWIs"). The DEPFA Group establishes liquidity risk limits and triggers to control the existing liquidity risk exposures to help identify and target liquidity risks within the DEPFA Group. Furthermore, this framework creates an awareness of potential liquidity risks or funding gaps in foreign currencies.

All such thresholds are subject to a regular review process at least annually, but may occur more frequently if appropriate.

The Board has the overall responsibility for setting limit and trigger levels. In addition, the DEPFA Group maintains a "buffer" of high quality liquid assets for use in withstanding liquidity shocks and stress events. The necessary size and composition of this buffer is ultimately specified by the Board and is monitored daily.

Liquidity risk, monitoring, management and reporting

Liquidity Risk Control ("LRC") as part of the Credit Risk Management & Risk Control function identifies, monitors, analyses and reports liquidity and funding risk at the DEPFA Group level. LRC ensures that the Liquidity Risk Monitoring and Reporting framework is robust, understanding that it is imperative that the appropriate reporting tools are in place, and that the Management Information System ("MIS") is fit for purpose. Monitoring liquidity risks is facilitated by the reporting of the projected cumulative liquidity position, the monitoring of the liquidity buffer and of key liquidity metrics including Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR") against the pre-defined limits and triggers and by ensuring a defined escalation process is in place. A liquidity contingency plan is in place, which outlines potential liquidity events, and sets out the procedures for the management of liquidity events or a series of events or challenges that could potentially be presented.

Development of the risk position

The DEPFA Group and its shareholder FMS Wertmanagement AöR are closely aligning their liquidity management activities to ensure a stable liquidity position of the DEPFA Group in the context of the value-maximising wind-down. Therefore, although no funding was drawn at year end 2019, the DEPFA Group can source a significant portion of its unsecured and secured liquidity via FMS Wertmanagement AöR if required.

The liquidity requirements for 2020 are dependent (inter alia) on:

- Contractual flows;
- Potential additional outflows resulting from collateral requirements as a result of changing market parameters; and
- The possible impact from strategic initiatives.

The contractual undiscounted cash flows of the financial liabilities are analysed into the following remaining maturities:

Contractual undiscounted cash flows of the financial liabilities		Group		Company
€m	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**
up to 3 months	**1,884**	**4,998**	**1,978**	**5,197**
Of which from derivatives	124	228	121	237
Of which from non derivatives	1,760	4,770	1,857	4,960
from 3 months to 1 year	**988**	**1,226**	**829**	**687**
Of which from derivatives	656	514	657	569
Of which from non derivatives	332	712	172	118
from 1 year to 5 years	**2,088**	**3,255**	**1,859**	**2,704**
Of which from derivatives	1,836	2,166	1,759	2,314
Of which from non derivatives	252	1,089	100	390
from 5 years and over	**3,310**	**5,902**	**3,143**	**4,742**
Of which from derivatives	3,017	2,919	2,908	3,118
Of which from non derivatives	293	2,983	235	1,624

(b.4) Operational risk

Definition

The DEPFA Group defines operational risk as “the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events”. The definition includes legal risks but excludes strategic and reputational risks.

Operational risk is inherent in most aspects of the DEPFA Group’s business activities and comprises a large number of disparate risks.

Operational risk strategy

The DEPFA Group’s primary aims are the early identification, assessment, control, mitigation and monitoring of operational risk, timely and meaningful management reporting and escalation, as well as regular training. The DEPFA Group does not attempt to completely eliminate operational risk but to minimise unexpected loss by striving to keep the operational risks within the DEPFA Group’s risk appetite. The DEPFA Group’s approach is to ensure that it has sufficient information to make informed decisions about risk mitigation.

Operational risk monitoring, management and reporting

Operational risk management and control is organised around responsibilities within the first, second and third lines of defence.

The DEPFA Group maintains a centralised Operational Risk function as part of the Risk Control function that focuses on the coordination of consistent policy, tools and practices throughout the DEPFA Group for the management, measurement, monitoring and reporting of relevant operational risks.

Risk management and control

Operational Risk is controlled through a network of controls, procedures, reports and responsibilities. Within the DEPFA Group, each individual business area and management level takes responsibility for its own operational risks and provides adequate resources and procedures for the management of those risks.

Information and Communications Technology (“ICT”) and ICT Security Risk

The DEPFA Group Risk framework includes the management of risks arising from the inherent dependence on ICT and associated IT Security and Cyber security threats. The DEPFA Group has established a risk-based ICT and IT security approach which is aligned to the DEPFA Group Risk Management Strategy. The DEPFA Group ensures ICT related risks are identified and managed through a combination of controls, processes and awareness programs. The DEPFA Group oversees governance of IT outsourcing and services management focused on stability, efficiency and cost control.

IT/Cyber security is part of the DEPFA IT solution design and technical architecture. DEPFA IT security and IT infrastructure is built around a “defence in depth” model, recognising that no single security solution can protect the entire organisation from cyber threats. The general IT security threat landscape is managed by means of ongoing reviews, monitoring and an approach to protection across technology, operational processes and people.

Key operational risks of the DEPFA Group

The key operational risk faced by the DEPFA Group in 2019 continued to be the challenge of staff retention and the significant reliance on key staff resulting in potential resource, knowledge and ultimately operational stability issues.

(4) Critical accounting estimates and judgements

The Bank believes that, of its significant accounting policies and estimates, the following may involve a higher degree of judgement and complexity:

Impairment of financial assets

The implementation of IFRS 9 requires various assumptions and judgements to be applied in the determination of expected credit losses ("ECLs"). In particular, estimates and assumptions are required in assessing whether the credit risk of an asset has increased significantly since initial recognition and also in the incorporation of forward looking information into the measurement of ECLs. Changes in the underlying assumptions and estimates for these could have an impact on the level of ECLs recognised. See notes 2 and 3 of the financial statements for further details on the impairment of financial assets, specifically in relation to the calculation of the ECL.

Fair value of financial and derivative instruments

The fair value of financial instruments that are not quoted on active markets is calculated using valuation models. In the cases in which valuation models are used, a check is performed regularly to assess whether the valuation models provide a comparable standard for current market prices. For practical considerations, the valuation models can only take account of quantifiable factors (e.g. cash flows and discount rates) that also require estimates. Changes in assumptions relating to these factors might have an impact on the fair values of the financial instruments. See note 37 of the financial statements for further details.

Hedge accounting

Relationships between underlying and hedging instruments can be presented in the framework of hedge accounting. A relationship only qualifies for hedge accounting when certain conditions specified under IAS 39.88 are satisfied. One of these conditions is that the hedge has to be highly effective with regard to achieving compensation for the risks resulting from changes in the fair value in relation to the hedged risk, in line with the originally documented risk management strategy for this specific hedge.

The establishment of the effectiveness of the risk hedge and the assessment of the probability of occurrence of future cash flows depend on risk measuring methods, the parameters which are used and assumptions relating to the probability of occurrence. These methods and parameters are developed in line with the risk management objectives and strategies which means that a review in subsequent years may result in an assessment which differs from the original assessment.

Impairment of investment in subsidiaries (Company only)

Investment in subsidiaries in the Company financial statements are measured at cost and are subject to a review for impairment under IAS 36 "Impairment of assets" if there is an impairment trigger. The impairment review requires that the "value in use" of the subsidiary be determined and compared to the pre-impairment carrying amount.

Determining the "value in use" of a subsidiary requires making various assumptions about the timing and amount of future cashflows from the subsidiary as well as the discount rate to be applied to such cashflows reflecting inter-alia, the risk and uncertainty inherent in the subsidiary and its estimated cash flows. Changes in these assumptions could have an impact on the level of impairment required.

(5) Asset/liability management ("ALM") transactions with FMS Wertmanagement AöR

In June 2019, the DEPFA Group executed an asset/liability management ("ALM") transaction with FMS Wertmanagement AöR, which has had a significant impact on the income statement and statement of financial position of the DEPFA Group.

On 7 June 2019, DEPFA ACS BANK DAC acquired from FMS Wertmanagement AöR global notes and registered notes with a nominal amount of approximately €1.3 billion and a book value of €1.9 billion.

Details of the global notes purchased, which were all listed, with a nominal total of €70 million are set out in the table below:

ISIN	Maturity date	Issuance currency	Amount purchased	Principal amount outstanding (nominal)	Listing
CH0026116084	31/07/2031	CHF	625,000	3,735,000	Switzerland
XS0258836914	25/04/2025	EUR	10,000,000	–	London
US249575AN19/DE000A0LPMX0	16/03/2037	USD	10,150,000	17,240,000	Dublin
XS0259466695	06/07/2031	EUR	15,000,000	–	Dublin
XS0259885316	06/07/2036	EUR	15,000,000	–	Dublin
XS0217803914	30/06/2021	EUR	20,000,000	–	Luxembourg

On 7 June 2019, DEPFA ACS BANK DAC transferred financial assets with a nominal amount of approximately €1.3 billion and a book value of €1.7 billion to FMS Wertmanagement AöR.

On 7 June 2019, DEPFA BANK plc transferred financial assets with a nominal of €249 million and a book value of €269 million to FMS Wertmanagement AöR.

Also, on 7 June 2019, DEPFA BANK plc and DEPFA ACS BANK DAC entered into certain derivative transactions with FMS Wertmanagement AöR with the effect of closing the risk positions on derivatives in those entities which were previously used to hedge the liabilities purchased and assets transferred.

All of the transactions referred to above on 7 June 2019 were transacted on an arm's length basis at fair value and resulted in a net cash settlement from FMS Wertmanagement AöR to the DEPFA Group of €135 million.

The effects of the above transactions resulted in a loss in the DEPFA Group consolidated income statement of €–45 million. The above transactions also resulted in the following impacts on the statements of financial position and income statements of the DEPFA Group and Company:

Asset/Liability management transaction with FMS Wertmanagement AöR – Group – June 2019

€m	Book value	Settlement value	(Loss)/gain recorded in income statement
Assets			
Loans and advances to customers	602	577	–25
Financial investments	1,443	1,400	–43
Total	**2,045**	**1,977**	**–68**
Liabilities			
Liabilities evidenced by certificates	–1,865	–1,842	23
Total	**–1,865**	**–1,842**	**23**
Total	**180**	**135**	**–45**

Asset/Liability management transaction with FMS Wertmanagement AöR – Company – June 2019

€m	Book value	Settlement value	Gain recorded in income statement
Assets			
Loans and advances to customers	37	38	1
Financial investments	232	232	–
Total	**269**	**270**	**1**

On 21 November 2019, the DEPFA Group executed a transaction with FMS Wertmanagement AöR to repay the Perpetual Preferred Securities issued by the issuing vehicles, DEPFA Funding II LP and DEPFA Funding III LP.

The total perpetual preferred securities issued by DEPFA Funding II LP had a nominal value of €400 million, of which FMS Wertmanagement AöR held €361,897,000 following a tender offer in 2015. The remaining €38,103,000 nominal value were held by DEPFA BANK plc.

The total perpetual preferred securities issued by DEPFA Funding III LP had a nominal value of €300 million, of which FMS Wertmanagement AöR held €263,554,000 following a tender offer in 2015. The remaining €36,446,000 nominal value were held by DEPFA BANK plc.

The terms of the perpetual preferred securities do not include contractual obligations to make interest or principal payments and accordingly their carrying amount was classified as equity.

The 21 November 2019 transaction comprised the repayment of the perpetual preferred securities and other subordinated debt at fair value which was funded by the DEPFA Group by the sale at fair value of two financial assets included in “Financial investments” and seven financial assets included in “Loans and advances to customers” with a combined nominal value of €1,048 million and book value of €1,082 million. The execution of this transaction resulted in a reduction of DEPFA Group preferred securities of €584 million, an equity loss of €–34 million (Company: € nil) on the repayment of the perpetual preferred securities, included in “Retained earnings/(accumulated losses)”, and a DEPFA Group income statement loss of €–18 million (Company: €40 million) on the sale of the financial assets, included in “Net loss on asset/liability management transactions with FMS Wertmanagement AöR”. The impacts on the statements of financial position and income statement of the DEPFA Group of the transaction above are shown in the table below:

Asset/Liability management transaction with FMS Wertmanagement AöR – Group – November 2019

€m	Book value	Settlement value	Loss recorded in income statement	Loss recorded directly in retained earnings
Assets				
Loans and advances to customers	596	575	–21	–
Financial investments	486	489	3	–
Total	**1,082**	**1,064**	**–18**	**–**
Liabilities				
Subordinated debt	–360	–360	–	–
Equity				
Preferred securities	–584	–618	–	–34
Total	**–944**	**–978**	**–**	**–34**
Total	**138**	**86**	**–18**	**–34**

Asset/Liability management transaction with FMS Wertmanagement AöR – Company – November 2019

€m	Book value	Settlement value	Gain recorded in income statement
Assets			
Loans and advances to customers	201	219	18
Financial investments	44	74	30
Total	**245**	**293**	**48**
Liabilities			
Liabilities to customers	–60	–60	–
Subordinated debt	–893	–901	–8
Total	**–953**	**–961**	**–8**
Total	**–708**	**–668**	**40**

The repayment of the preferred securities also resulted in the repayment at fair value on an arm's length basis of certain intragroup senior unsecured and subordinated loans between the Group companies DEPFA BANK plc, DEPFA ACS BANK DAC and DEPFA Finance N.V., as follows:

DEPFA Funding II LP transaction – internal loans

Lender	Borrower	Loan type	**Nominal €**	**Repayment amount €**
DEPFA Finance N.V.	DEPFA ACS BANK DAC	Subordinated debt	60,000,000	63,445,922
DEPFA Finance N.V.	DEPFA BANK plc	Subordinated debt	280,000,000	296,080,970
DEPFA Finance N.V.	DEPFA BANK plc	Senior unsecured	60,000,000	61,043,949
DEPFA Finance N.V.	DEPFA Funding II LP	Subordinated debt	–400,000,000	–422,725,477

DEPFA Funding III LP transaction – internal loans

Lender	Borrower	Loan type	**Nominal €**	**Repayment amount €**
DEPFA Finance N.V.	DEPFA ACS BANK DAC	Subordinated debt	50,000,000	48,981,863
DEPFA Finance N.V.	DEPFA BANK plc	Subordinated debt	250,000,000	244,909,314
DEPFA Finance N.V.	DEPFA Funding III LP	Subordinated debt	–300,000,000	–293,071,709

Also on 21 November 2019, the DEPFA Group terminated the related derivative transactions at carrying value.

The repayment of the DEPFA Funding II LP preferred securities resulted in the dissolution of DEPFA Funding II LP and the distribution of its surplus of €53,073,605 to the general partner, DEPFA BANK plc.

The repayment of the DEPFA Funding III LP preferred securities resulted in a capital contribution of €14,709,053 by the general partner, DEPFA BANK plc and, ultimately, the dissolution of DEPFA Funding III LP.

Also on 21 November 2019, the DEPFA Group entity DEPFA BANK plc repaid to FMS Wertmanagement AöR subordinated loans with a nominal value of €360 million. This transaction, which was on a reverse enquiry basis and is consistent with the wind down strategy of the DEPFA Group, was executed on an arm's length basis at fair value and resulted in no impact on the income statement at the DEPFA Group and Company levels.

On 18 December 2019 the DEPFA Group executed a further transaction with FMS Wertmanagement AöR whereby financial assets with a nominal amount of €1.4 billion and a book value of €1.4 billion were transferred at fair value on an arm's length basis to FMS Wertmanagement AöR in exchange for cash. These financial assets were included on the statement of financial position in "Financial investments". Also on 18 December 2019, the DEPFA Group terminated the related derivative transactions at carrying value. The execution of this transaction resulted in a DEPFA Group income statement gain of €20 million on the sale of the financial assets.

(6) Business segments

The internal reporting structure of the DEPFA Group is organised into the following reportable primary business segments which reflect the basis on which the DEPFA Group is managed by the Board of Directors (being the chief operating decision maker) during 2019 and 2018:
- DEPFA BANK plc
- DEPFA ACS BANK DAC
- Consolidation and other

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

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

Consolidation and other includes all other business in the DEPFA Group including group consolidation effects.

The segment report of the DEPFA Group is based on the management information provided to the chief operating decision maker, which is prepared in accordance with IFRSs. 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 management information is based on the accounting and valuation methods of the consolidated financial statements, prepared in accordance with IFRSs. Accordingly, reconciliation with the accounting and valuation methods used in the consolidated financial statements is not necessary.

In the 2018 financial statements the consolidation effects were netted in the segment “DEPFA BANK plc and Other” and described in narrative format. To provide more clarity, the tables below, including comparative information, shows consolidation adjustments and eliminations separately in the segment “Consolidation and other”.

In the prior year, there was an additional operating segment for DEPFA Pfandbrief Bank International S.A.. However, the ceased activity and return of the licence in this entity means it is no longer a separate business segment. The 2018 business segment presentation has been revised for this.

Income/expense by segments

€m	DEPFA BANK plc	DEPFA ACS BANK DAC	Consolidation and other	**DEPFA Group**
	1.1.–31.12.2019			
Net interest income/(expense)	232	10	–247	–5
Net fee and commission income/(expense)	–1	–	1	–
Net trading expense	9	1	–6	4
Net income from financial investments	–86	21	86	21
Net income/(expense) from hedge relationships	2	–2	1	1
Net expense from other financial instruments at FVTPL	–	–	–	–
Net gain/(loss) on asset/liability management transactions with FMS Wertmanagement AöR	41	–23	–81	–63
Other operating income	17	–	–15	2
Other operating expense	–1	–	–	–1
Total operating revenues/(expenses)	**213**	**7**	**–261**	**–41**
Movement in credit impairment provisions	–	–	1	1
General administrative expenses	–47	–16	10	–53
Other expense	–1	–	–1	–2
Pre-tax income/(loss)	**165**	**–9**	**–251**	**–95**
Taxes on income	–	–	–	–
Net income/(loss)	**165**	**–9**	**–251**	**–95**
Material non-cash items other than depreciation and amortisations				
Net charge on subsidiary impairments	–92	–	92	–
Net change in accrued interest income and expense	–16	5	4	–7
Statement of financial position by segments				
Assets	8,343	1,525	–980	8,888
Liabilities	7,594	938	–492	8,040

Income/expense by segments

€m	DEPFA BANK plc	DEPFA ACS BANK DAC	Consolidation and other	**DEPFA Group**
	1.1.–31.12.2018			
Net interest income/(expense)	25	88	–104	9
Net fee and commission (expense)/income	–1	1	–	–
Net trading (expense)/income	–5	–3	1	–7
Net (expense)/income from financial investments	–11	9	21	19
Net (expense)/income from hedge relationships	–1	1	–2	–2
Net expense from other financial instruments at FVTPL	–	–1	–	–1
Other operating income	25	–	–23	2
Other operating expense	–	–	–	–
Total operating revenues/(losses)	**32**	**95**	**–107**	**20**
Movement in credit impairment provisions	–	–	3	3
General administrative expenses	–50	–25	17	–58
Other income	–1	–	–	–1
Pre-tax (loss)/income	**–19**	**70**	**–87**	**–36**
Taxes on income	–	–	2	2
Net (loss)/income	**–19**	**70**	**–85**	**–34**
Material non-cash items other than depreciation and amortisations				
Net charge on subsidiary impairments	–20	–	20	–
Net change in accrued interest income and expense	–7	–12	3	–16
Statement of financial position by segments				
Assets	12,895	8,463	–5,950	15,408
Liabilities	12,311	7,672	–6,136	13,847

For the purpose of the DEPFA Group geographical segments, a distinction is made between "Ireland", "the Netherlands" and "Luxembourg" based on the registered office or location of the respective Group company or branch office.

The calculation of results is based on the assumption that the DEPFA Group companies in the region are legally independent units responsible for their respective operations.

No single external customer generates more than 10% of gross revenues.

An analysis of revenue by geographical region is presented below:

Operating revenues and non-current assets by region

€m		Ireland	The Netherlands	Luxembourg	**Group**
Total operating (expenses)/revenues	2019	–38	–3	–	–41
	2018	19	2	–1	20
Non-current assets	31.12.2019	2	–	–	2
	31.12.2018	3	–	–	3

(7) Net interest (expense)/income

Net interest (expense)/income

€m	2019	2018
Interest income and similar income		
Lending and money-market business and government subscribed debt	68	125
Derivatives (net interest income)	21	53
	89	**178**
Interest expense and similar expenses		
Deposits and liabilities evidenced by certificates	–84	–155
Subordinated debt	–4	–5
	–88	**–160**
Net expense from early repayment of liabilities	**–6**	**–9**
Total	**–5**	**9**

Total interest income for financial assets at amortised cost amounts to €68 million in 2019 (2018: €125 million). Total interest expense for financial liabilities at amortised cost amounts to €–88 million in 2019 (2018: €–160 million).

Net interest income in 2018 included €10 million (2019: € nil) relating to the adjustment of the carrying value of certain loans arising from revisions to the estimate of future cash flows.

Net interest income also includes losses from the buyback and other early repayment of liabilities before maturity of €–6 million in 2019 (2018: €–9 million). These liabilities were included on the statement of financial position in "Liabilities to customers", "Liabilities evidenced by certificates" and "Subordinated debt".

The net interest income on derivatives relates to derivatives in hedge accounting relationships.

The reduction in net interest expense is primarily due to the effects of the transactions described in the "Major events" in note 5 of the financial statements.

There is no material impact from negative interest rates on the assets and liabilities of the DEPFA Group.

(8) Net trading income/(expense)

Net trading income/(expense)		
€m	2019	2018
From interest rate instruments and related interest and foreign exchange derivatives	4	–7
Total	**4**	**–7**

Included in net trading income is a net amount of €3 million in 2019 (2018: €–10 million) in derivative valuation effects relating to counterparty risk parameters including both the credit risk of the counterparty, credit valuation adjustment (“CVA”) of €8 million in 2019 (2018: €–3 million) and the DEPFA Group’s own credit risk, debit valuation adjustment (“DVA”) of €–5 million (2018: €–7 million).

Revaluation of stand-alone derivatives which do not satisfy hedge accounting criteria and other positions amounted to €1 million in 2019 (2018: €3 million).

(9) Net income from financial investments

Net income from financial investments		
€m	2019	2018
Net income from financial investments	21	19
Total	**21**	**19**

Net income from financial investments in 2019 of €21 million (2018: €19 million) is comprised of gains and losses from disposals of financial investments, and relate primarily to the sales which are discussed in further detail in the “Major events” section of the Directors’ report. These disposals relate solely to instruments classified as “Amortised cost”.

(10) Net income/(expense) from hedge relationships

Net income/(expense) from hedge relationships		
€m	2019	2018
Result from fair value hedge accounting		
Result from hedged items	18	71
Result from hedging instruments	–17	–73
Total	**1**	**–2**

The net expense from hedge relationships of €1 million in 2019 (2018: €–2 million) relates to hedge ineffectiveness. As described in note 2 of the financial statements, the DEPFA Group has elected to continue to apply the hedge accounting requirements of IAS 39 as permitted under IFRS 9.

(11) Movement in credit impairment provisions

Movement in credit impairment provisions

€m	2019	2018
Movement in credit impairment provisions	1	3
Total	**1**	**3**

Interest accrued on impaired loans at 31 December 2019 was € nil (31 December 2018: € nil).

There were no assets past due but not impaired and no assets impaired in 2019 and 2018.

(12) General administrative expenses

General administrative expenses

€m	2019	2018
Personnel expenses	**–17**	**–18**
Wages and salaries	–14	–14
Social security costs	–1	–2
Pension expenses and related employee benefit costs	–2	–2
Other general administrative expenses	**–33**	**–37**
Depreciation/amortisation	**–3**	**–3**
On software/property, plant and equipment	–1	–2
On right-of-use asset	–2	–1
Total	**–53**	**–58**

Other general administrative expenses includes auditor's remuneration of €–0.4 million inclusive of VAT to PricewaterhouseCoopers in 2019 (2018: €–0.5 million inclusive of VAT) and €–5 million (2018: €–8 million) levy in relation to the Single Resolution Fund. Also included are IT expenses of €–16 million (2018: €–15 million), professional fees of €–4 million (2018: €–3 million), office costs of €–4 million (2018: €–6 million) and market data expenses of €–3 million (2018: €–4 million).

The average number of persons employed by the DEPFA Group during 2019 was 111 (2018: 122).

Pension expenses and related employee benefit costs include €–2 million defined contribution pension plan expenses in 2019 (2018: €–2 million).

(13) Other expense

Other expense € m	2019	2018
Additions to restructuring provision	–2	–1
Total	**–2**	**–1**

Other expense is due to provisions created for the restructuring of the DEPFA Group, the 2019 expense fully relates to redundancy costs.

(14) Taxes on income

Taxes on income €m	2019	2018
Current tax	–1	–1
Deferred tax	1	3
Total	**–**	**2**

The differences between the expected (computed) taxes on income and the taxes on income actually shown are outlined in the following reconciliation:

Expected taxes on income and actual taxes on income €m	2019	2018
Pre-tax loss	–95	–36
Applicable legal tax rate as % in Ireland	12.50%	12.50%
Expected tax effect	12	5
Tax effects:		
Arising from tax rate differences	–	–1
Arising from the utilisation of losses forward	2	2
Arising from non deductible items	–8	–4
Arising from valuation adjustments and the non application of deferred taxes	–9	–2
Arising from the write up of deferred taxes	1	3
Arising from non taxable income	5	1
Tax losses not recognised as deferred tax assets	–3	–2
Accounted taxes on expense	**–**	**2**
Group tax ratio as %	0.00%	4.89%

Tax effects arising from prior years and other periodical effects includes the recognition of tax assets.

Development of deferred taxes

€m	Group		Company	
	2019	**2018**	**2019**	**2018**
Deferred taxes recognised in the statement of financial position	–	–1	–	–
Difference to prior year thereof:				
Recognised in income statement	1	3	–	–
Recognised in equity	–	–	–	–
Other	–	–	–	–

The deferred tax assets and liabilities of the DEPFA Group relate to the following items:

Deferred tax assets and liabilities

€m	Group		Company	
	2019	**2018**	**2019**	**2018**
Financial investments	–	–	–	–
Liabilities to other banks/customers	–	–	–	–
Other assets and liabilities	–	2	–	–
Loss carryforwards	–	2	–	–
Netting	–	–3	–	–
Total deferred tax assets	**–**	**1**	**–**	**–**
Loans and advances to other banks/customers (including ECL)	–	–	–	–
Financial investments	–	2	–	–
Other assets and liabilities	–	2	–	–
Provisions	–	1	–	–
Netting	–	–3	–	–
Total deferred tax liabilities	**–**	**2**	**–**	**–**

The deductible temporary differences giving rise to deferred tax assets are expected to reverse in the same periods and in the same tax jurisdiction as the taxable temporary differences giving rise to the deferred tax liabilities.

At 31 December 2019 the Group had total unused tax losses on which deferred tax assets have not been recognised of €2,061 million (31 December 2018: €1,997 million).

At 31 December 2019 the Company had unused tax losses on which deferred tax assets have not been recognised of €1,771 million (31 December 2018: €1,725 million).

The unused tax losses have no expiry date.

(15) Cash and cash equivalents

Cash and cash equivalents

€m	Group		Company	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
Balances with central banks other than mandatory reserve deposits	507	218	412	188
Mandatory reserve deposits with central banks	–	2	–	2
Total	**507**	**220**	**412**	**190**

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

Mandatory reserve deposits with central banks are restricted and are required to be held based on certain regulatory requirements. As a result they are excluded from the cash and cash equivalents balances included in the Group and Company cash flow statements.

(16) Trading assets

Trading assets

€m	Group		Company	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
Stand-alone derivatives	5,330	4,809	5,225	5,682
Total	**5,330**	**4,809**	**5,225**	**5,682**
Of which transacted with parent entity /Group companies	2,271	1,627	2,315	2,258

Amounts transacted with parent entity in the DEPFA Group statement of financial position comprise derivatives transacted with FMS Wertmanagement AöR and in the Company statement of financial position with other entities in the DEPFA Group and FMS Wertmanagement AöR.

Stand-alone derivatives include derivatives which are economically hedging but which do not meet the detailed hedge accounting criteria under IFRSs. The increase in trading assets is primarily as a result of market-related changes such as foreign currency exchange rates and interest rates.

(17) Loans and advances to other banks

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

€m	Group		Company	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
Loans and advances to other banks at amortised cost – gross carrying amount	1,362	1,840	1,297	5,450
less Expected credit losses (“ECL”)	–	–	–	–
Carrying amount	**1,362**	**1,840**	**1,297**	**5,450**
Of which due from Group companies	–	–	24	3,702

Balances due from Group companies in the Company statement of financial position include amounts receivable from other entities in the DEPFA Group and reduced from €3,702 million to €24 million mainly due to a reduction of reverse repos of €2.3 billion and other loans to Group companies.

Loans and advances to other banks at amortised cost includes cash collateral balances in relation to derivative transactions, reverse repos, loans to Group companies and nostro balances.

The ECL at Group level at 31 December 2019 is € nil (31 December 2018: € nil). This ECL at both dates relates to Stage 1 ("12-month ECL") only and there were no transfers between stages in 2019 or 2018.

The ECL at Company level at 31 December 2019 (31 December 2018: €–17,000) is € nil. This ECL at both dates relates to Stage 1 ("12-month ECL") only and there were no transfers between stages in 2019 or 2018.

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

	Group		Company	
€m	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**
Repayable on demand	1,362	1,840	1,277	2,199
With contractual maturities				
up to 3 months	–	–	20	3,251
Total	**1,362**	**1,840**	**1,297**	**5,450**

Cash collateral placed in relation to derivative transactions is classified as "Repayable on demand". The remainder of the "Repayable on demand" figure as at 31 December 2018 and 31 December 2019 relates to nostro balances.

Cash collateral balance at Group level reduced to €1,304 million at 31 December 2019 from €1,802 million at 31 December 2018. The cash collateral balance at Company level reduced to €1,251 million at 31 December 2019, compared to €2,184 million at 31 December 2018.

There were no "Loans and advances to other banks" past due but not impaired and no assets impaired in 2019 and 2018.

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

(18) Loans and advances to customers

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

	Group		Company	
€m	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**
Loans and advances to customers at amortised cost – gross carrying amount	1,028	1,659	577	295
less Expected credit losses ("ECL")	–	–9	–	–
Carrying amount	**1,028**	**1,650**	**577**	**295**
Loans and advances to customers at FVTPL (Mandatory)	5	6	–	–
Total	**1,033**	**1,656**	**577**	**295**
Of which due from parent entity/Group companies	638	86	547	43

Included in the total above at DEPFA Group level as at 31 December 2019 are assets with a carrying value of €190 million (31 December 2018: €869 million), which are in micro fair value hedges with associated hedge adjustment of €29 million (31 December 2018: €199 million) included in the

carrying value. Included in the total above at Company level as at 31 December 2019 are assets with a carrying value of €27 million (31 December 2018: €175 million), which are in micro fair value hedges with associated hedge adjustments of € nil included in the carrying value (31 December 2018: €–1 million).

Balances due from parent entity in the DEPFA Group statement of financial position include amounts receivable from FMS Wertmanagement AöR and in the Company statement of financial position with other entities in the DEPFA Group and FMS Wertmanagement AöR.

The ALM transactions with FMS Wertmanagement AöR, as described in note 5 to the financial statements, resulted in the derecognition of "Loans and advances to customers" with a carrying value of €602 million (Company: €37 million) on 7 June 2019 and with a carrying value of €596 million (Company: €201 million) on 21 November 2019.

Loans and advances to customers at amortised cost includes cash collateral placed in relation to derivative transactions and other cash placed with FMS Wertmanagement AöR of €638 million (Company: €547 million) as at 31 December 2019 (31 December 2018: €86 million (Company: €24 million)).

The ECL on loans and advances to customers is detailed in the table below:

Loans and advances to customers at amortised cost at 31 December 2019 – Group			Expected credit losses	
	Stage 1	Stage 2	Stage 3	
€m	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	**Total**
ECL at 1 January 2019	**–0.01**	**–8.65**	**–**	**–8.66**
Decrease due to derecognition (Maturities/Sales)	0.01	7.89	–	7.90
Changes to due change in credit risk (PDs/LGDs/EaDs)	–	0.76	–	0.76
Total movement of ECL during the year	**0.01**	**8.65**	**–**	**8.66**
ECL at 31 December 2019	**–**	**–**	**–**	**–**

The ECL at Company level at 31 December 2019 is € nil (31 December 2018: €–390 thousand). This ECL relates to Stage 1 ("12-month ECL") only and there were no transfers between stages in 2018.

The table below shows the gross carrying amounts of loans and advances to customers per IFRS 9 stages. The movement from prior year primarily relates to the ALM and other transactions with FMS Wertmanagement AöR as described in note 5 in the financial statements, as well as maturities and repayments.

Loans and advances to customers at amortised cost at 31 December 2019 – Group			Gross carrying amount	
€m	Stage 1	Stage 2	Stage 3	**Total**
Gross carrying amount at 31 December 2018	**1,344**	**315**	**–**	**1,659**
Gross carrying amount at 31 December 2019	**1,028**	**–**	**–**	**1,028**

Loans and advances to customers at FVTPL (Mandatory) includes financial assets that are classified as FVTPL (Mandatory) under IFRS 9 as they contain terms which do not meet the SPPI criterion.

Loans and advances to customers broken down by maturities as follows:	Group		Company	
€m	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**
Repayable on demand	638	75	547	23
With contractual maturities				
up to 3 months	–	–	–	15
from 3 months to 1 year	–	2	–	4
from 1 year to 5 years	198	50	27	28
from 5 years and over	197	1,529	3	225
Total	**1,033**	**1,656**	**577**	**295**

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

There were no "Loans and advances to customers" past due but not impaired and no assets impaired in 2019 and 2018.

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

(19) Financial investments

Financial investments broken down by type as follows:	Group		Company	
€m	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**
Amortised cost financial investments – carrying amount	**408**	**5,991**	**274**	**558**
Debt securities and other fixed-income securities – gross carrying amount	408	5,991	274	514
Preferred securities issued by Group entity	–	–	–	44
less Expected credit losses ("ECL")	–	–	–	–
Group undertakings	–	–	**492**	**631**
Shares in Group undertakings	–	–	492	631
FVTPL (Mandatory) financial investments	**146**	**172**	–	–
Debt securities and other fixed-income securities	146	172	–	–
Total	**554**	**6,163**	**766**	**1,189**
Of which due from parent entity/Group companies	–	2,050	492	675

Included in the total above at DEPFA Group level as at 31 December 2019 are assets with a carrying value of €238 million (31 December 2018: €5,307 million), which are in micro fair value hedges with associated hedge adjustments of €9 million (31 December 2018: €147 million) included in the carrying value. Included in the total above at Company level as at 31 December 2019 are assets with a carrying value of €206 million (31 December 2018: €412 million), which are in micro fair value hedges with associated hedge adjustments of €3 million included in the carrying value (31 December 2018: €1 million).

Balances due from parent entity in the DEPFA Group statement of financial position include amounts receivable from FMS Wertmanagement AöR and in the Company statement of financial position with other entities in the DEPFA Group and FMS Wertmanagement AöR.

The ALM transactions with FMS Wertmanagement AöR, as described in note 5 to the financial statements, resulted in the derecognition of "Financial investments" with a carrying value of €1,443 million (Company: €232 million) on 7 June 2019 and with a carrying value of €486 million (Company: €44 million) on 21 November 2019. The reduction in financial investments in 2019 also relates to a financial asset with a nominal value of €2,050 million which matured in July 2019 and the sale of financial assets with a nominal value of €1.4 billion at fair value on an arm's length basis to FMS Wertmanagement AöR in December 2019, as described in note 5 of the financial statements.

The ECL at Group level for year ended 31 December 2019 is €–2,857 (31 December 2018: €–52 thousand). This ECL relates to Stage 1 ("12-month ECL") only and there were no transfers between stages in 2019 or 2018.

The ECL at Company level for year ended 31 December 2019 is €–144 (31 December 2018: €–22 thousand). This ECL relates to Stage 1 ("12-month ECL") only and there were no transfers between stages in 2019 or 2018.

Development of Shares in Group undertakings Company

€m	2019	2018
At 1 January	**631**	**694**
Investment in subsidiary	21	–
Repayments of capital	–68	–43
Net increase in subsidiary impairments	–92	–20
At 31 December	**492**	**631**

The Company has recognised impairments on the carrying value of its investments in certain subsidiaries. The repayment of capital of €68 million (2018: €43 million) relates to a repayment from DEPFA International S.A. to DEPFA BANK plc on 4 December 2019. The impairments are determined based on the estimated future cash flows from the investments, discounted at pre-tax rates that reflect the time value of money and the risks specific to the investments. The discount rate applied at 31 December 2019 was 6.0% (31 December 2018: 6.0%).

Financial investments broken down by maturities as follows:

	Group		Company	
€m	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Unspecified maturity – shares in Group undertakings and preferred securities	–	–	492	675
With contractual maturities				
up to 3 months	87	94	68	71
from 3 months to 1 year	78	2,156	21	1
from 1 year to 5 years	372	897	185	270
from 5 years and over	17	3,016	–	172
Total	**554**	**6,163**	**766**	**1,189**

The DEPFA Group had entered into sale and repurchase agreements ("repos") in which the DEPFA Group sells a security and simultaneously agrees to repurchase it at a fixed price on a future date. The carrying amounts of these transferred financial assets as at 31 December 2019 was € nil (31 December 2018: €2,568 million). See note 36 for further details on these repo transactions.

The DEPFA Group has pledged assets with a carrying amount of €68 million (2018: €91 million) in relation to certain Guaranteed Investment Contract liabilities, of which €68 million (2018: €85 million) was pledged at Company level.

There were no "Financial investments" past due but not impaired and, apart from the investments in subsidiaries noted above, no assets impaired in 2019 and 2018.

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

(20) Other assets

Other assets

	Group		Company	
€ m	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**
Hedging derivatives – positive fair values (micro fair value hedge)	88	704	32	49
Right-of-use assets	6	8	6	8
Other assets	4	2	24	27
Total	**98**	**714**	**62**	**84**
Of which due from parent entity/Group companies	35	174	38	13

Balances due from parent entity in the DEPFA Group statement of financial position include amounts receivable from FMS Wertmanagement AöR and in the Company statement of financial position with other entities in the DEPFA Group and FMS Wertmanagement AöR.

Right-of-use assets comprise the Group and Company's lease interest in property leases entered into in 2018.

(21) Income tax assets

Income tax assets

	Group		Company	
€m	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**
Current tax assets	2	2	2	2
Deferred tax assets	–	1	–	–
Total	**2**	**3**	**2**	**2**

Deferred tax assets and deferred tax liabilities are offset on the statement of financial position where they arise in a Group entity for which it has been determined that there is a legally enforceable right to set off current tax assets against current tax liabilities.

The netting effects of applying such an offset are presented in note 14 to the financial statements.

(22) Liabilities to other banks

Liabilities to other banks broken down by maturities as follows:	Group		Company	
€m	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Repayable on demand	1,490	1,305	1,389	1,479
With contractual maturities				
up to 3 months	–	–	205	127
Total	**1,490**	**1,305**	**1,594**	**1,606**
Of which due to Group companies	–	–	205	451

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

"Liabilities to other banks" at Company level includes amounts due under repurchase agreements to DEPFA ACS BANK DAC. The carrying amounts of associated liabilities included under these repos as at 31 December 2019 was €205 million (31 December 2018: €nil). See note 36 for further details on these repo transactions.

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

(23) Liabilities to customers

Liabilities to customers broken down by maturities as follows:	Group		Company	
€m	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Repayable on demand	269	481	264	476
With contractual maturities				
up to 3 months	–	2,897	–	2,907
from 5 years and over	76	95	76	154
Total	**345**	**3,473**	**340**	**3,537**
Of which due to parent entity/Group companies	269	3,378	264	3,442

Included in the total above at DEPFA Group level as at 31 December 2019 are liabilities with a carrying value of €76 million (31 December 2018: €94 million), which are in micro fair value hedges with associated hedge adjustments of €13 million (31 December 2018: €18 million) included in the carrying value. Included in the total above at Company level as at 31 December 2019 are liabilities with a carrying value of €76 million (31 December 2018: €94 million), which are in micro fair value hedges with associated hedge adjustments of €13 million included in the carrying value (31 December 2018: €18 million).

Balances due to parent entity in the DEPFA Group statement of financial position include amounts payable to FMS Wertmanagement AöR and in the Company statement of financial position with other entities in the DEPFA Group and FMS Wertmanagement AöR.

"Liabilities to customers" includes amounts due under repurchase agreements. The carrying amounts of associated liabilities included under these repos as at 31 December 2019 was € nil

(Company: €205 million) (31 December 2018: €2,568 million (Company: €2,568 million)). See note 36 for further details on these repo transactions.

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

“Liabilities to customers” at 31 December 2019 at Group and Company level include € nil (2018: €478 million) due to the EUR and USD committed liquidity facilities provided by FMS Wertmanagement AöR. Also included at 31 December 2019 is € nil (2018: €2,418 million) due to the repo facility provided by FMS Wertmanagement AöR. All committed facilities provided by FMS Wertmanagement AöR are undrawn at 31 December 2019. These are explained in further detail in note 42 to the financial statements.

(24) Liabilities evidenced by certificates

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

€m	Group		Company	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
Debt securities in issue				
Debt securities in issue	703	3,177	340	392
Total	**703**	**3,177**	**340**	**392**
Of which due to parent entity	26	1,715	–	–

Included in the total above at DEPFA Group level as at 31 December 2019 are liabilities with a carrying value of €703 million (31 December 2018: €3,163 million), which are in micro fair value hedges with associated hedge adjustments of €59 million (31 December 2018: €556 million) included in the carrying value. Included in the total above at Company level as at 31 December 2019 are liabilities with a carrying value of €340 million (31 December 2018: €378 million), which are in micro fair value hedges with associated hedge adjustments of €9 million (31 December 2018: €7 million) included in the carrying value.

Balances due to parent entity in the DEPFA Group statement of financial position include amounts payable to FMS Wertmanagement AöR.

The ALM transaction with FMS Wertmanagement AöR, as described in note 5 to the financial statements, resulted in the derecognition of “Liabilities evidenced by certificates” with a carrying value of €1,865 million on 7 June 2019 at a Group level. There was no effect on the Company amounts.

Liabilities evidenced by certificates broken down by maturities as follows:

€m	Group		Company	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
With contractual maturities				
up to 3 months	–	127	–	22
from 3 months to 1 year	318	571	164	22
from 1 year to 5 years	210	818	57	213
from 5 years and over	175	1,661	119	135
Total	**703**	**3,177**	**340**	**392**

(25) Trading liabilities

Trading liabilities

€m	Group		Company	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
Stand-alone derivatives	5,210	4,776	5,080	5,572
Other trading liabilities	–	7	–	–
Total	**5,210**	**4,783**	**5,080**	**5,572**
Of which transacted with parent entity/Group companies	2,666	1,204	2,640	1,919

Amounts transacted with parent entity in the DEPFA Group statement of financial position comprise derivatives transacted with FMS Wertmanagement AöR and in the Company statement of financial position with other entities in the DEPFA Group and FMS Wertmanagement AöR.

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

(26) Provisions

Provisions

€m	Group		Company	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
Pensions and similar obligations	2	2	2	2
Restructuring	3	2	3	2
Legal and other	3	2	1	1
Total	**8**	**6**	**6**	**5**

Restructuring provisions mainly relate to obligations relating to the strategic management and restructuring of the DEPFA Group. The main components of the expenses in 2019 relate to strategic restructuring. These restructuring provisions are expected to be fully utilised in 2020.

The DEPFA Group has operated two types of pension schemes – defined benefit schemes and defined contribution schemes. The defined benefit schemes relate only to certain former employees. Provisions for pensions and similar obligations relate to defined benefit schemes for which former employees have a direct commitment from the DEPFA Group and a pension provision is created for this purpose. The pension obligation is unfunded.

(27) Other liabilities

Other liabilities

€m	Group		Company	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
Hedging derivatives – negative fair values (micro fair value hedge)	247	677	197	266
Lease liability – due within one year	1	1	1	1
Lease liability – due one year and over	5	7	5	7
Other liabilities	6	6	6	5
Total	**259**	**691**	**209**	**279**
Of which due to parent entity/Group companies	12	168	10	34

Balances due to parent entity in the DEPFA Group statement of financial position include amounts payable to FMS Wertmanagement AöR and in the Company statement of financial position with other entities in the DEPFA Group and FMS Wertmanagement AöR.

The lease liabilities will expire in 2033, with the first break clause being in 2023.

(28) Income tax liabilities

Income tax liabilities

€m	Group		Company	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
Current tax liabilities	–	–	–	–
Deferred tax liabilities	–	2	–	–
Total	–	**2**	–	–

Deferred tax assets and deferred tax liabilities are offset on the statement of financial position where they arise in a group entity for which it has been determined that there is a legally enforceable right to set off current tax assets against current tax liabilities.

The netting effects of applying such an offset are presented in note 14 to the financial statements.

(29) Subordinated debt

Subordinated debt

€m	Group 31.12.2019	Group 31.12.2018	Company 31.12.2019	Company 31.12.2018
Subordinated liabilities	25	410	25	920
Total	**25**	**410**	**25**	**920**
Of which due to parent entity/Group companies	–	360	–	895

Included in the total above at DEPFA Group level as at 31 December 2019 are liabilities with a carrying value of €25 million (31 December 2018: €50 million), which are in micro fair value hedges with associated hedge adjustments of €4 million (31 December 2018: €9 million) included in the carrying value. Included in the total above at Company level as at 31 December 2019 are liabilities with a carrying value of €25 million (31 December 2018: €25 million), which are in micro fair value hedges with associated hedge adjustments of €4 million (31 December 2018: €4 million) included in the carrying value.

The ALM transactions, as described in note 5 to the financial statements, resulted in the derecognition of "Subordinated debt" with a carrying value of €360 million (Company: €893 million) on 21 November 2019.

On 14 May 2019, DEPFA International S.A. executed a transaction to repay a subordinated liability before maturity. This liability had a nominal value of €20 million and there was a loss of €–4 thousand on the transaction.

Balances due to parent entity in the DEPFA Group statement of financial position include amounts payable to FMS Wertmanagement AöR and in the Company statement of financial position with other entities in the DEPFA Group and FMS Wertmanagement AöR.

Subordinated debt broken down by maturities as follows:

€m	Group 31.12.2019	Group 31.12.2018	Company 31.12.2019	Company 31.12.2018
With contractual maturities	**25**	**50**	**25**	**560**
from 1 year to 5 years	25	–	25	–
from 5 years and over	–	50	–	560
No fixed maturity	**–**	**360**	**–**	**360**
Total	**25**	**410**	**25**	**920**

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

Subordinated liabilities

€m		Group		Company	
Issuer, maturity	Interest rate	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**
DEPFA BANK plc, 26.03.2024	5.40%	20	20	20	20
DEPFA BANK plc, perpetual note	Euribor +1.00%	–	360	–	360
DEPFA International S.A., 18.05.2026	6.80%	–	20	–	–
DEPFA BANK plc, 30.10.2028	6.55%	–	–	–	280
DEPFA BANK plc, 08.06.2030	Euribor +1.06%	–	–	–	250
Total		**20**	**400**	**20**	**910**

With all subordinated liabilities, there can be no early repayment obligation on the part of the issuer. In the event of bankruptcy or liquidation, such liabilities may only be repaid after all non-subordinated creditors have been satisfied.

The table below sets out the changes in liabilities arising from financing activities between cash and non-cash items.

Changes in liabilities arising from financing activities – Group

€m	**2019**		**2018**	
	Subordinated debt	Interest on subordinated debt	Subordinated debt	Interest on subordinated debt
At 1 January	**410**	**2**	**414**	**2**
Cash flows				
Repayment of subordinated debt	–380	–	–3	–
Interest paid on subordinated debt	–1	–1	–	–
Non-cash changes				
Fair value hedge adjustments	–4	–	–1	–
At 31 December	**25**	**1**	**410**	**2**

Changes in liabilities arising from financing activities – Company

€m	**2019**		**2018**	
	Subordinated debt	Interest on subordinated debt	Subordinated debt	Interest on subordinated debt
At 1 January	**920**	**4**	**1,011**	**4**
Cash flows				
Repayment of subordinated debt	–890	–	–90	–
Interest paid on subordinated debt	–4	–3	–	–
Non-cash changes				
Fair value hedge adjustments	–1	–	–1	–
At 31 December	**25**	**1**	**920**	**4**

(30) Share capital and share premium

The total authorised number of ordinary shares at 31 December 2019 was 16,666,333,330 (31 December 2018: 16,666,333,323) with a par value of €0.30 per share (31 December 2018: €0.30 per share). The total authorised number of A ordinary shares at 31 December 2019 was nil (31 December 2018: 7) with a par value of €0.30 per share (31 December 2018: €0.30 per share). All issued shares are fully paid.

The total authorised number of non-cumulative redeemable preference shares at 31 December 2019 was 10,000,000 (31 December 2018: 10,000,000) with a par value of €0.01 per share (31 December 2018: €0.01 per share). No non-cumulative redeemable preference shares have been issued to date.

Share capital and share premium – Group and Company	Number of Shares in issue (in units)	Ordinary Shares €m	Share premium €m	**Total €m**
At 31 December 2018	353,019,720	106	1,142	**1,248**
At 31 December 2019	353,019,720	106	–	**106**

Capital reorganisation

In the first half of 2019, DEPFA BANK plc (“the Company”), the parent company of the DEPFA Group, completed a restructuring of its capital. The following steps, which individually and together had no net effect on the Company’s or the DEPFA Group’s total equity, were executed:

- On 20 March 2019 the Company applied €902,451,868 of its non-distributable capital reserve to the issuance and paying up in full of 3,008,172,893 ordinary shares of €0.30 each allotted as fully paid bonus shares to FMS Wertmanagement AöR as the sole shareholder of the Company.
- On 2 May 2019, following the registration of an order of the High Court dated 1 May 2019 from a motion originated by the Company:
  - the Company’s share capital was reduced by €902,451,868 by the cancellation of 3,008,172,893 ordinary shares of €0.30 each;
  - the Company’s share premium account was reduced by €1,141,980,516 to € nil;
  - the reserves resulting from such cancellation and reduction are to be treated as profits available for distribution as defined by section 117 of the Companies Act 2014 and, accordingly, are applied to the “Retained earnings/(accumulated losses)” of the Company; and
  - the Company transferred €1,022,053,580 from the distributable capital contribution reserve to offset accumulated losses.

The Company notified and, where relevant, received the prior approval of the Central Bank of Ireland for the above steps.

The table below shows the impacts of the capital reorganisation at the DEPFA Group and Company level .

Group €m	Share capital	Share premium	Capital reserve	Preferred securities	Retained earnings/ (accumulated losses)	**Total equity**
Balance at 1 January 2019	**106**	**1,142**	**1,500**	**584**	**–1,771**	**1,561**
Net loss for the year	–	–	–	–	–95	–95
Total recognised comprehensive loss	**–**	**–**	**–**	**–**	**–95**	**–95**
Repayment of preferred securities	–	–	–	–584	–34	–618
Transactions with equity holders	**–**	**–**	**–**	**–584**	**–34**	**–618**
Capital reorganisation (issue of Bonus Shares)	903	–	–	–	–903	–
Capital reduction:						
Cancellation of Bonus Shares	–903	–	–	–	903	–
Transfer from share premium to accumulated losses	–	–1,142	–	–	1,142	–
Transfer from capital contribution to accumulated losses	–	–	–1,022	–	1,022	–
Balance at 31 December 2019	**106**	**–**	**478**	**–**	**264**	**848**

Company €m	Share capital	Share premium	Capital reserve	Retained earnings/ (accumulated losses)	**Total equity**
Balance at 1 January 2019	**106**	**1,142**	**2,403**	**–3,067**	**584**
Net income for the year	–	–	–	165	165
Total recognised comprehensive income	**–**	**–**	**–**	**165**	**165**
Capital reorganisation (issue of Bonus Shares)	903	–	–903	–	–
Capital reduction:					
Cancellation of Bonus Shares	–903	–	–	903	–
Transfer from share premium to accumulated losses	–	–1,142	–	1,142	–
Transfer from capital contribution to accumulated losses	–	–	–1,022	1,022	–
Balance at 31 December 2019	**106**	**–**	**478**	**165**	**749**

(31) Capital reserve

Capital reserve		Group		Company
€m	**2019**	**2018**	**2019**	**2018**
At 1 January and at 31 December	**478**	**1,500**	**478**	**2,403**

The capital reserve at 31 December 2019 and 31 December 2018 relates to capital contributions received from the former parent company, Hypo Real Estate Holding AG. The capital contributions at 31 December 2019 are considered distributable.

The reduction in the capital reserve at Group and Company level is described in more detail in note 30 to the financial statements.

(32) Preferred securities

Preferred securities

€m	Group		Company	
	31.12.2019	**31.12.2018**	**31.12.2019**	**31.12.2018**
Hybrid capital instruments	–	584	–	–
Total	**–**	**584**	**–**	**–**
Of which due to parent entity	–	584	–	–

The movement in hybrid capital instruments relates to the ALM transaction on 21 November 2019, as described in note 5 to the financial statements, which resulted in the derecognition of "Preferred securities" with a carrying value of €584 million.

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

Hybrid capital instruments

Nominal € m	Interest rate	Group	
		31.12.2019	**31.12.2018**
DEPFA Funding II LP, perpetual note	6.50%	–	362
DEPFA Funding III LP, perpetual note	7% until 2008, thereafter CMS 10 yr +0.1%	–	264
Total		**–**	**626**

(33) Retained earnings/(accumulated losses)

Retained earnings/(accumulated losses)

€m	Group		Company	
	2019	**2018**	**2019**	**2018**
At 1 January	**–1,771**	**–1,759**	**–3,067**	**–3,052**
Net (loss)/income	–95	–34	165	–19
Adjustment to accumulated losses from adoption of IFRS 9 on 1 January 2018	–	–2	–	4
Capital reorganisation	–903	–	–	–
Capital reduction	3,067	–	3,067	–
Repayment of preferred securities	–34	24	–	–
At 31 December	**264**	**–1,771**	**165**	**–3,067**

The increase in retained earnings is described in more detail in note 30 to the financial statements.

(34) Foreign currency assets and liabilities

The following table represents the carrying value of foreign currency assets and liabilities including derivatives:

Foreign currency assets

	Group		Company	
€m	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**
USD	580	1,334	504	1,470
JPY	145	171	145	172
GBP	495	566	468	543
CHF	19	111	19	76
Others	295	272	308	165
Total	**1,534**	**2,454**	**1,444**	**2,426**

Foreign currency liabilities

	Group		Company	
€m	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**
USD	581	1,334	504	1,479
JPY	145	171	145	171
GBP	495	566	468	543
CHF	19	111	19	77
Others	295	272	308	165
Total	**1,535**	**2,454**	**1,444**	**2,435**

The general strategy of the DEPFA Group is to hedge foreign currency risks as far as possible.

(35) Derivative financial instruments

Derivative financial instruments

	Group		Company	
€m	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**
Assets				
Trading assets (note 16)	5,330	4,809	5,225	5,682
Other assets (note 20)	88	704	32	49
Total assets	**5,418**	**5,513**	**5,257**	**5,731**
Liabilities				
Trading liabilities (note 25)	5,210	4,776	5,080	5,572
Other liabilities (note 27)	247	677	197	266
Total liabilities	**5,457**	**5,453**	**5,277**	**5,838**

Derivatives are contracts or agreements whose values are determined on the basis of changes in an underlying variable, such as interest rates, foreign exchange rates, securities prices, financial and commodity indices or other variables. The timing of cash receipts and payments for derivatives is generally determined by contractual agreement. Derivatives are either standardised contracts traded on exchanges or over-the-counter ("OTC") contracts agreed individually by the parties to the contract. Futures and certain options are examples of standard exchange-traded derivatives. Forwards, swaps and other option contracts are examples of OTC derivatives. OTC derivatives are not freely tradable. In the normal course of business, however, they may be terminated or assigned to another counterparty if the current party to the contract agrees.

Derivatives may be used for risk management purposes. The DEPFA Group uses derivative financial instruments primarily as a means of hedging the risk associated with asset/liability management in the context of interest bearing transactions. Interest rate derivatives are primarily entered into to hedge the fair value interest rate risk in financial assets and financial liabilities. Derivatives are also entered into for the purpose of hedging foreign currency risks. Foreign exchange risks are primarily hedged by means of suitable fair value hedges for financial assets and financial liabilities denominated in foreign currency. However, some derivatives used for risk management purposes do not qualify for hedge accounting and are therefore classified as trading assets or trading liabilities in the DEPFA Group financial statements.

Derivatives used by the DEPFA Group include:
- Interest rate and cross currency swaps
- Interest rate options
- Forward foreign exchange contracts

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the DEPFA Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market factors such as interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly.

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

Volume of derivatives – Group at 31 December 2019	Notional amount				Fair value	
	Remaining maturities					
€m	Less than 1 year	1 to 5 years	More than 5 years	**Total**	Positive fair values	Negative fair values
Interest based transactions						
Interest rate swaps	3,069	5,043	20,075	28,187	5,364	5,205
Call options	–	75	9	84	–	–
Put options	–	119	–	119	–	–
Total	**3,069**	**5,237**	**20,084**	**28,390**	**5,364**	**5,205**
Foreign currency based transactions						
Interest rate/currency swaps	269	36	255	560	52	252
Spot and forward currency transactions	185	–	–	185	2	–
Total	**454**	**36**	**255**	**745**	**54**	**252**
Total	**3,523**	**5,273**	**20,339**	**29,135**	**5,418**	**5,457**

Volume of derivatives – Group at 31 December 2018	Notional amount				Fair value	
	Remaining maturities					
€m	Less than 1 year	1 to 5 years	More than 5 years	**Total**	Positive fair values	Negative fair values
Interest based transactions						
Interest rate swaps	6,873	8,126	25,465	40,464	5,476	5,149
Call options	–	–	85	85	–	–
Put options	–	119	–	119	–	–
Total	**6,873**	**8,245**	**25,550**	**40,668**	**5,476**	**5,149**
Foreign currency based transactions						
Interest rate/currency swaps	422	292	248	962	37	304
Spot and forward currency transactions	86	–	–	86	–	–
Total	**508**	**292**	**248**	**1,048**	**37**	**304**
Total	**7,381**	**8,537**	**25,798**	**41,716**	**5,513**	**5,453**

Volume of derivatives – Company at 31 December 2019	Notional amount				Fair value	
	Remaining maturities					
€m	Less than 1 year	1 to 5 years	More than 5 years	**Total**	Positive fair values	Negative fair values
Interest based transactions						
Interest rate swaps	3,132	5,158	19,265	27,555	5,169	5,021
Call options	–	75	9	84	–	–
Put options	–	119	–	119	–	–
Total	**3,132**	**5,352**	**19,274**	**27,758**	**5,169**	**5,021**
Foreign currency based transactions						
Interest rate/currency swaps	470	71	306	847	86	255
Spot and forward currency transactions	224	–	–	224	2	1
Total	**694**	**71**	**306**	**1,071**	**88**	**256**
Total	**3,826**	**5,423**	**19,580**	**28,829**	**5,257**	**5,277**

Volume of derivatives – Company at 31 December 2018	Notional amount				Fair value	
	Remaining maturities					
€m	Less than 1 year	1 to 5 years	More than 5 years	**Total**	Positive fair values	Negative fair values
Interest based transactions						
Interest rate swaps	9,554	8,515	28,833	46,902	5,594	5,528
Call options	–	–	85	85	–	–
Put options	–	119	–	119	–	–
Total	**9,554**	**8,634**	**28,918**	**47,106**	**5,594**	**5,528**
Foreign currency based transactions						
Interest rate/currency swaps	1,126	524	271	1,921	137	310
Spot and forward currency transactions	86	–	–	86	–	–
Total	**1,212**	**524**	**271**	**2,007**	**137**	**310**
Total	**10,766**	**9,158**	**29,189**	**49,113**	**5,731**	**5,838**

Derivatives counterparties – Group	**31.12.2019**		**31.12.2018**	
€m	Positive fair values	Negative fair values	Positive fair values	Negative fair values
OECD banks, financial institutions and other institutions	5,418	5,457	5,513	5,453
Total	**5,418**	**5,457**	**5,513**	**5,453**

Derivatives with FMS Wertmanagement AöR included in the above are:

Derivatives with Group companies – Group	**31.12.2019**		**31.12.2018**	
€m	Positive fair values	Negative fair values	Positive fair values	Negative fair values
Other institutions	2,306	2,677	1,801	1,394
Total	**2,306**	**2,677**	**1,801**	**1,394**

Derivatives counterparties – Company	31.12.2019		31.12.2018	
€m	Positive fair values	Negative fair values	Positive fair values	Negative fair values
OECD banks, financial institutions and other institutions	5,257	5,277	5,731	5,838
Total	**5,257**	**5,277**	**5,731**	**5,838**

Derivatives with DEPFA Group companies and FMS Wertmanagement AöR included in the above are:

Derivatives with Group companies – Company	31.12.2019		31.12.2018	
€m	Positive fair values	Negative fair values	Positive fair values	Negative fair values
OECD banks, financial institutions and other institutions	2,332	2,649	2,271	1,953
Total	**2,332**	**2,649**	**2,271**	**1,953**

The ALM transactions with FMS Wertmanagement AöR, as described in note 5 to the financial statements, resulted in the derecognition of derivatives with a net carrying value of €144 million on 7 June 2019 and a net carrying value of €45 million on 21 November 2019.

At the DEPFA Group level, there was a reduction in derivative assets (included in trading assets and other assets) of €0.8 billion (Company: €0.7 billion), due to a derivative compression programme introduced in the second half of 2019, which was offset by an increase of €0.7 billion primarily as a result of market-related changes such as foreign currency exchange rates and interest rates as well as other terminations in line with the wind down strategy of the DEPFA Group. A corresponding reduction of derivative liabilities is reflected in trading liabilities and other liabilities. This derivative compression programme is planned to continue until 2021.

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

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

Transferred financial assets that are not derecognised in their entirety

Sale and repurchase agreements

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

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

Carrying amounts of transferred financial assets

	Group		Company	
€m	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**
Financial investments	–	2,568	205	2,568
Total	**–**	**2,568**	**205**	**2,568**

Carrying amounts of associated liabilities

	Group		Company	
€m	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**
Liabilities to customers	–	2,418	205	2,418
Total	**–**	**2,418**	**205**	**2,418**

In addition to the above assets that are transferred, the DEPFA Group pledged assets in the coverpool with a carrying amount of €392 million (2018: €2,770 million) and has also pledged assets with a carrying amount of €68 million (2018: €91 million) in relation to certain Guaranteed Investment Contract liabilities, of which €68 million (2018: €85 million) was pledged at Company level.

Transferred assets that are derecognised in their entirety

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

Collateral held that may be sold or repledged

The fair value of collateral received that may be resold or pledged in the absence of default amounted to € nil (Company: € nil) as of 31 December 2019 (2018: € nil (Company: €2,468 million)). The DEPFA Group received the collateral as part of repurchase agreements and is principally obliged to return the collateral or similar assets to the grantor.

Other pledges and charges on assets

In 2010 DEPFA BANK plc granted a first floating charge in favour of the Central Bank of Ireland ("CBI") over all of DEPFA BANK plc's right, title, interest and benefit, present and future, in and to the balances then or at any time standing to the credit of DEPFA BANK plc's account held as a TARGET 2 participant with the CBI (the "Charged Account Property").

This floating charge contains provisions whereby during the subsistence of the security, otherwise than with the prior written consent of the CBI, DEPFA BANK plc shall not:

(a) create or attempt to create or permit to arise or subsist any encumbrance on or over the Charged Account Property or any part thereof; or
(b) otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the Charged Account Property or any part thereof or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

DEPFA BANK plc also operates an arrangement for secured lending with the CBI under a Framework Agreement which implements the CBI's collateral management system for Eurosystem Credit Operations.

Under the terms of the Framework Agreement, in April 2014, DEPFA BANK plc executed a deed of charge granting to the CBI (i) a first fixed charge over all of its present and future rights, title, interest and benefit in and to the Counterparty Collateral Account Assets (as defined therein) and (ii) a first floating charge over all its present and future rights, title, interest and benefit in and to the Other Collateral Pool Assets (as defined therein). This fixed and floating charge also contains a negative pledge provision whereby during the subsistence of the security, otherwise than with the prior written consent of the CBI, DEPFA BANK plc shall not:

(a) create or attempt to create or permit to arise or subsist any encumbrance on or over the charged assets or any part thereof; and
(b) sell, transfer, lend or otherwise dispose of any of the fixed charge assets or any part thereof or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time; and
(c) otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of any of the floating charge assets or any part thereof or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

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

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

(37) Fair values of financial assets and liabilities

The following table summarises the carrying amounts and fair values of those financial assets and liabilities presented on the DEPFA Group's statement of financial position.

Bid prices are used to estimate fair values of assets, whereas offer prices are applied for liabilities.

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

Fair value of financial assets and liabilities – Group at 31 December 2019			Fair value hierarchy level		
€m	Carrying value	Fair value	Level 1	Level 2	Level 3
Assets					
Cash and cash equivalents (AC)	507	507	507	–	–
Trading assets (FV)	5,330	5,330	–	5,330	–
Loans and advances to other banks (net of ECL) (AC)	1,362	1,362	1,362	–	–
Loans and advances to customers	1,033	1,032	638	387	7
Category – Amortised cost (net of ECL) (AC)	*1,028*	*1,027*	*638*	*382*	*7*
Category – FVTPL (Mandatory) (FV)	*5*	*5*	–	*5*	–
Financial investments	554	555	288	251	16
Category – Amortised cost (net of ECL) (AC)	*408*	*409*	*288*	*121*	–
Category – FVTPL (Mandatory) (FV)	*146*	*146*	–	*130*	*16*
Other assets – Hedging derivatives (FV)	88	88	–	88	–
Total	**8,874**	**8,874**	**2,795**	**6,056**	**23**
Liabilities					
Liabilities to other banks (AC)	1,490	1,490	1,490	–	–
Liabilities to customers (AC)	345	370	269	–	101
Liabilities evidenced by certificates (AC)	703	696	–	148	548
Trading liabilities (FV)	5,210	5,210	–	5,210	–
Other liabilities – Hedging derivatives (FV)	247	247	–	247	–
Subordinated debt(AC)	25	24	–	–	24
Total	**8,020**	**8,037**	**1,759**	**5,605**	**673**

Fair value of financial assets and liabilities – Group at 31 December 2018

€m	Carrying value	Fair value	Fair value hierarchy level Level 1	Level 2	Level 3
Assets					
Cash and cash equivalents (AC)	220	220	220	–	–
Trading assets (FV)	4,809	4,809	–	4,809	–
Loans and advances to other banks (net of ECL) (AC)	1,840	1,840	1,840	–	–
Loans and advances to customers	1,656	1,577	84	1,485	8
Category – Amortised cost (net of ECL) (AC)	*1,650*	*1,571*	*84*	*1,479*	*8*
Category – FVTPL (Mandatory) (FV)	*6*	*6*	*–*	*6*	*–*
Financial investments	6,163	6,146	601	5,131	414
Category – Amortised cost (net of ECL) (AC)	*5,991*	*5,974*	*601*	*4,974*	*399*
Category – FVTPL (Mandatory) (FV)	*172*	*172*	*–*	*157*	*15*
Other assets – Hedging derivatives (FV)	704	704	–	704	–
Total	**15,392**	**15,296**	**2,745**	**12,129**	**422**
Liabilities					
Liabilities to other banks (AC)	1,305	1,305	1,305	–	–
Liabilities to customers (AC)	3,473	3,500	960	2,419	121
Liabilities evidenced by certificates (AC)	3,177	3,140	471	227	2,442
Trading liabilities (FV)	4,783	4,783	–	4,776	7
Other liabilities – Hedging derivatives (FV)	677	677	–	677	–
Subordinated debt(AC)	410	292	–	–	292
Total	**13,825**	**13,697**	**2,736**	**8,099**	**2,862**

Fair value of financial assets and liabilities – Company at 31 December 2019

€m	Carrying value	Fair value	Fair value hierarchy level Level 1	Level 2	Level 3
Assets					
Cash and cash equivalents (AC)	412	412	412	–	–
Trading assets (FV)	5,225	5,225	–	5,225	–
Loans and advances to other banks (net of ECL) (AC)	1,297	1,297	1,277	17	3
Loans and advances to customers (net of ECL) (AC)	577	577	547	27	3
Financial investments	766	765	273	–	492
Category – investments in Group companies (AC)	*492*	*492*	*–*	*–*	*492*
Category – Amortised cost (net of ECL) (AC)	*274*	*273*	*273*	*–*	*–*
Other assets – Hedging derivatives (FV)	32	32	–	32	–
Total	**8,309**	**8,308**	**2,509**	**5,301**	**498**
Liabilities					
Liabilities to other banks (AC)	1,594	1,594	1,390	204	–
Liabilities to customers (AC)	340	365	264	–	101
Liabilities evidenced by certificates (AC)	340	337	–	87	250
Trading liabilities (FV)	5,080	5,080	–	5,080	–
Other liabilities – Hedging derivatives (FV)	197	197	–	197	–
Subordinated debt (AC)	25	24	–	–	24
Total	**7,576**	**7,597**	**1,654**	**5,568**	**375**

Fair value of financial assets and liabilities – Company at 31 December 2018			Fair value hierarchy level		
€m	Carrying value	Fair value	Level 1	Level 2	Level 3
Assets					
Cash and cash equivalents (AC)	190	190	190	–	–
Trading assets (FV)	5,682	5,682	–	5,682	–
Loans and advances to other banks (net of ECL) (AC)	5,450	5,450	2,199	2,298	953
Loans and advances to customers (net of ECL) (AC)	295	314	24	269	21
Financial investments	1,189	1,186	310	87	789
Category – investments in Group companies (AC)	*631*	*631*	*–*	*–*	*631*
Category – Amortised cost (net of ECL) (AC)	*558*	*555*	*310*	*87*	*158*
Other assets – Hedging derivatives (FV)	49	49	–	49	–
Total	**12,855**	**12,871**	**2,723**	**8,385**	**1,763**
Liabilities					
Liabilities to other banks (AC)	1,606	1,606	1,606	–	–
Liabilities to customers (AC)	3,537	3,560	964	2,418	178
Liabilities evidenced by certificates (AC)	392	386	–	78	308
Trading liabilities (FV)	5,572	5,572	–	5,572	–
Other liabilities – Hedging derivatives (FV)	266	266	–	266	–
Subordinated debt (AC)	920	769	–	–	769
Total	**12,293**	**12,159**	**2,570**	**8,334**	**1,255**

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

Financial assets and liabilities according to measurement categories	Group		Company	
€m	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**
Assets				
Investment in Group entities	–	–	492	631
Amortised cost	2,798	9,481	2,148	6,303
FVTPL (Mandatory)	5,481	4,987	5,225	5,682
Cash and cash equivalents	507	220	412	190
Derivatives – hedging	88	704	32	49
Total	**8,874**	**15,392**	**8,309**	**12,855**
Liabilities				
Held-for-trading at fair value	5,210	4,783	5,080	5,572
Financial liabilities at amortised cost	2,563	8,365	2,299	6,455
Derivatives – hedging	247	677	197	266
Total	**8,020**	**13,825**	**7,576**	**12,293**

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

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

Level 1 – inputs that are quoted market prices (unadjusted) in active markets for identical assets and liabilities that the entity can access at the measurement date.

Level 2 – inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation.

For positions measured at fair value in the statement of financial position, there have been no transfers of fair value instruments from Level 2 to Level 1 for the DEPFA Group (2018: € nil) or for the Company (2018: € nil). There have no been transfers of fair value instruments from Level 1 to Level 2 for the DEPFA Group (2018: € nil) or for the Company (2018: € nil).

The DEPFA Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred.

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

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

The Risk Management & Control function provides additional information used as inputs to the fair value measurement, such as interest rates, credit spreads and market prices. For certain financial instruments the function also provides information on internal ratings and loss given default (“LGD”).

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

Measurement of Level 2 instruments – Group at 31 December 2019	Fair value			
€m	Assets	Liabilities	Measurement methods	Observable parameters
Financial assets/liabilities at fair value	**5,553**	**5,457**		
Trading assets/trading liabilities	**5,330**	**5,210**		
	4,781	4,635	DCF models	Cap volatilities
				Seasonality
				FX rate
				Yield curve
	549	575	Option pricing models	CDS spread
				Correlation
				Recovery rate
				FX rate
				FX volatilities
				Seasonality
				Swaption volatilities
				Yield curve
Fair value hedge derivatives	**88**	**247**		
	73	247	DCF models	Seasonality
				Yield curve
	15	–	Option pricing models	Correlation
				FX volatilities
				Yield curve
Financial investments	**130**	**–**		
	18	–	DCF models	
	112	–	Option pricing models	FX rate
				FX volatilities
				Yield curve
Loans and advances to customers	**5**	**–**		
	5	–	DCF models	Yield curve

Measurement of Level 2 instruments – Group at 31 December 2018

€m	Fair value Assets	Fair value Liabilities	Measurement methods	Observable parameters
Financial assets/liabilities at fair value	**5,676**	**5,453**		
Trading assets/trading liabilities	**4,809**	**4,776**		
	4,156	4,096	DCF models	Cap volatilities
				Seasonality
				FX rate
				Yield curve
	653	680	Option pricing models	CDS spread
				Correlation
				Recovery rate
				FX rate
				FX volatilities
				Seasonality
				Swaption volatilities
				Yield curve
Fair value hedge derivatives	**704**	**677**		
	642	547	DCF models	Seasonality
				FX rate
				Yield curve
	62	130	Option pricing models	Correlation
				FX volatilities
				Yield curve
Financial investments	**157**	–		
	157	–	Option pricing models	FX rate
				FX volatilities
				Yield curve
Loans and advances to customers	**6**	**–**		
	6	–	DCF models	Yield curve

Measurement of Level 2 instruments – Company at 31 December 2019

€m	Fair value		Measurement methods	Observable parameters
	Assets	Liabilities		
Financial assets/liabilities at fair value	**5,257**	**5,277**		
Trading assets/trading liabilities	**5,225**	**5,080**		
	4,675	4,532	DCF models	Cap volatilities
				Seasonality
				FX rate
				Yield curve
	550	548	Option pricing models	Cap volatilities
				Correlation
				CDS spread
				Recovery rate
				FX rate
				FX volatilities
				Seasonality
				Swaption volatilities
				Yield curve
Fair value hedge derivatives	**32**	**197**		
	20	197	DCF models	Yield curve
	12	–	Option pricing models	FX volatilities
				Correlation
				Yield curve

Measurement of Level 2 instruments – Company at 31 December 2018

€m	Fair value		Measurement methods	Observable parameters
	Assets	Liabilities		
Financial assets/liabilities at fair value	**5,731**	**5,838**		
Trading assets/trading liabilities	**5,682**	**5,572**		
	4,845	4,734	DCF models	Cap volatilities
				Seasonality
				FX rate
				Yield curve
	837	838	Option pricing models	Cap volatilities
				Correlation
				CDS spread
				Recovery rate
				FX rate
				FX volatilities
				Seasonality
				Swaption volatilities
				Yield curve
Fair value hedge derivatives	**49**	**266**		
	36	266	DCF models	Yield curve
	13	–	Option pricing models	FX volatilities
				Correlation
				Yield curve

The estimated fair value of deposits and loans repayable on demand (such as cash, loans and advances to other banks and collateral balances) and the fair value of floating rate placements and overnight deposits at the reporting date is their carrying amount.

The table below outlines the valuation methodology of amortised cost positions categorised as Level 2 or Level 3.

Group and Company:
Disclosure Requirements for Financial Instruments (FIs) measured at amortised cost

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

By definition, the fair value of Level 3 instruments is dependent on unobservable market data inputs. There were no material movements in the sensitivity of Level 3 instruments during either 2019 or 2018.

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

(38) Offsetting financial assets and liabilities

The following tables set out the effect or potential effect of netting arrangements on the DEPFA Group's financial position. This includes the effect or potential effect of rights of set-off associated with the DEPFA Group's recognised financial assets and recognised financial liabilities that are subject to an enforceable master netting arrangement, irrespective of whether they are set off in accordance with paragraph 42 of IAS 32.

In the tables below the derivative values in "Gross amounts of recognised financial assets" represent the carrying value of asset derivatives positions on the statement of financial position where the derivative is subject to an enforceable master netting agreement and where the overall net position of derivatives included in that netting agreement before collateral is considered and if offsetting were applied would be an asset. The amounts reported under "Related amounts not set off in statement of financial position" represent the liability derivative positions and cash collateral balances which are also part of these master netting agreements, but do not qualify for offsetting on the statement of financial position.

The "Reverse repurchase securities borrowing" amounts in the Company tables represent the carrying value of amounts lent under reverse repurchase agreements ("repos") where the reverse repo is subject to an enforceable master netting agreement. These amounts are included in the statement of financial position under "Loans and advances to other banks". The amounts reported under "Related amounts not set off in statement of financial position" are limited to the carrying value of the reverse repo (in "Financial instruments") and cash collateral received.

Assets at 31 December 2019 Group				Related amounts not set off in statement of financial position		
€m	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
Derivatives	5,390	–	5,390	–3,535	–1,759	96
Total	**5,390**	**–**	**5,390**	**–3,535**	**–1,759**	**96**

Assets at 31 December 2018 Group				Related amounts not set off in statement of financial position		
€m	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
Derivatives	5,496	–	5,496	–3,562	–1,786	148
Total	**5,496**	**–**	**5,496**	**–3,562**	**–1,786**	**148**

Assets at 31 December 2019 Company €m	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in statement of financial position		
				Financial instruments	Cash collateral received	Net amount
Derivatives	5,228	–	5,228	–3,477	–1,653	98
Reverse repurchase securities borrowing and similar agreements	17	–	17	–17	–	–
Total	**5,245**	**–**	**5,245**	**–3,494**	**–1,653**	**98**

Assets at 31 December 2018 Company €m	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Related amounts not set off in statement of financial position		
				Financial instruments	Cash collateral received	Net amount
Derivatives	5,715	–	5,715	–3,614	–1,947	154
Reverse repurchase securities borrowing and similar agreements	2,298	–	2,298	–2,298	–	–
Total	**8,013**	**–**	**8,013**	**–5,912**	**–1,947**	**154**

In the tables below the derivative values in “Gross amounts of recognised financial liabilities” represent the liability derivatives positions on the statement of financial position where the derivative is subject to an enforceable master netting agreement and where the overall net position of derivatives included in that netting agreement before collateral is considered and if offsetting were applied would be a liability. The derivative amounts reported under “Related amounts not set off in statement of financial position” represent the asset derivative positions and cash collateral balances which are also part of these master netting agreements, but do not qualify for offsetting on the statement of financial position.

The “Repurchase securities borrowing” amounts represent the carrying value of amounts borrowed under repurchase agreements (“repos”) where the repo is subject to an enforceable master netting agreement. These amounts are included in the statement of financial position under “Liabilities to other banks”. The amounts reported under “Related amounts not set off in statement of financial position” are limited to the carrying value of the repo (in “Financial instruments”) and cash collateral pledged.

Liabilities at 31 December 2019 Group €m	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in statement of financial position: Financial instruments	Cash collateral pledged	Net amount
Derivatives	5,456	–	5,456	–3,535	–1,942	–21
Repurchase securities borrowing and similar agreements	–	–	–	–	–	–
Total	**5,456**	**–**	**5,456**	**–3,535**	**–1,942**	**–21**

Liabilities at 31 December 2018 Group €m	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in statement of financial position: Financial instruments	Cash collateral pledged	Net amount
Derivatives	5,450	–	5,450	–3,562	–1,863	25
Repurchase securities borrowing and similar agreements	2,418	–	2,418	–2,418	–	–
Total	**7,868**	**–**	**7,868**	**–5,980**	**–1,863**	**25**

Liabilities at 31 December 2019 Company €m	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in statement of financial position: Financial instruments	Cash collateral pledged	Net amount
Derivatives	5,278	–	5,278	–3,477	–1,798	3
Repurchase securities borrowing and similar agreements	205	–	205	–205	–	–
Total	**5,483**	**–**	**5,483**	**–3,682**	**–1,798**	**3**

Liabilities at 31 December 2018 Company €m	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Related amounts not set off in statement of financial position: Financial instruments	Cash collateral pledged	Net amount
Derivatives	5,839	–	5,839	–3,614	–2,184	41
Repurchase securities borrowing and similar agreements	2,418	–	2,418	–2,418	–	–
Total	**8,257**	**–**	**8,257**	**–6,032**	**–2,184**	**41**

The recognised derivative amounts reported in the above tables can be reconciled to the statement of financial position as follows:

Derivative amounts recognised in the statement of financial position – Group			2019			2018
€m	Trading	Other	**Total**	Trading	Other	**Total**
Assets						
Total recognised financial assets above	5,302	88	5,390	4,792	704	5,496
Derivatives not in enforceable netting arrangements	28	–	28	17	–	17
Per note 35 to the financial statements	**5,330**	**88**	**5,418**	**4,809**	**704**	**5,513**
Liabilities						
Total recognised financial liabilities above	5,209	247	5,456	4,773	677	5,450
Derivatives not in enforceable netting arrangements	1	–	1	3	–	3
Per note 35 to the financial statements	**5,210**	**247**	**5,457**	**4,776**	**677**	**5,453**

Derivative amounts recognised in the statement of financial position – Company			2019			2018
€m	Trading	Other	**Total**	Trading	Other	**Total**
Assets						
Total recognised financial assets above	5,196	32	5,228	5,666	49	5,715
Derivatives not in enforceable netting arrangements	29	–	29	16	–	16
Per note 35 to the financial statements	**5,225**	**32**	**5,257**	**5,682**	**49**	**5,731**
Liabilities						
Total recognised financial liabilities above	5,081	197	5,278	5,573	266	5,839
Derivatives not in enforceable netting arrangements	–1	–	–1	–1	–	–1
Per note 35 to the financial statements	**5,080**	**197**	**5,277**	**5,572**	**266**	**5,838**

(39) Contingent liabilities and commitments

Contingent liabilities and commitments

There were no contingent liabilities and commitments, other than those described below, at DEPFA Group and Company level as at 31 December 2019 or 31 December 2018.

Tax treatment of ALM transactions

The DEPFA Group continues to treat gains arising on the buyback of long term debt as a capital transaction and therefore not subject to corporation tax in Ireland. The treatment adopted has been fully disclosed to the Irish tax authorities who may consider that the gains arising should be subject to Irish corporation tax. The DEPFA Group continues to believe that all of the gains arising from these transactions are not subject to tax and hence that it is not probable that a liability will arise. No provisions have therefore been made. In the event that it is concluded that a different treatment should be applied by the DEPFA Group, a tax liability of approximately €7 million at DEPFA Group level (Company: € nil) would arise as at 31 December 2019.

Legal and arbitration proceedings

The DEPFA Group is exposed to potential risks arising from litigation and other proceedings and where considered necessary, appropriate provisions have been recorded. Certain structured loan or derivative transactions with public sector counterparties are already or may become the subject of litigation or other legal proceedings. The DEPFA Group considers that appropriate provision has been made for the obligations related to litigation and other legal risks. The provision amounts related to the litigation and other legal risks are not separately presented as, in the view of the Directors, to do so could be expected to prejudice the position of the DEPFA Group in relation to these issues.

(40) Exchange rates as at 31 December 2019

European Central Bank exchange rates as at 31 December 2019 were:

Exchange rates

€1 =		31.12.2019	31.12.2018
Great Britain	GBP	0.85080	0.89453
Japan	JPY	121.94000	125.85000
United States of America	USD	1.12340	1.14500
Switzerland	CHF	1.08540	1.12690

(41) Group auditors' fee (excluding VAT)

Group auditors' fee (excluding VAT)		
€'000	2019	2018
Audit of Parent Company financial statements	163	181
Other assurance services	240	155
Tax advisory services	–	8
Other non-audit services	6	6
Total	**409**	**350**

Disclosure of auditor's fees is made in accordance with Section 322 of the Companies Act which mandates the disclosure of fees in particular categories and that fees paid to the DEPFA Group auditor only (PricewaterhouseCoopers) for services provided to the DEPFA Group be disclosed in this format. All years presented are on that basis.

Other assurance services include fees for the audit of subsidiary companies. Fees paid to PricewaterhouseCoopers overseas not included in the table above for 2019 were €88,250 (2018: €139,453) excluding VAT.

(42) Related party transactions

(a) Key management compensation

Group and Company		
€	2019	2018
Short-term employee benefits	1,825,927	2,581,707
Post employment benefits	105,675	105,381
Total[1]	**1,931,602**	**2,687,088**

Key management is the Board of Directors of DEPFA BANK plc. Post employment benefits relate to two Directors.

Included above is Directors' compensation as follows:

Directors' compensation (Companies Act Disclosure)		
€	2019	2018
Directors' fees	295,179	225,000
Other remuneration[1]	1,636,423	2,462,088
Total	**1,931,602**	**2,687,088**

[1] Short-term employment benefits and other remuneration comprise of gross salary, employer pay related social insurance contribution, other short-term benefits, contractually entitled payments during notice period, expenses and post employment benefit.

There have been no loans to members of the Board in 2019 and 2018, nor are there any loans outstanding to members of the Board at 31 December 2019 (31 December 2018: € nil).

Other remuneration includes salaries and post employment benefits to Directors which are set out in the key management compensation table above.

(b) Letters of comfort and guarantees to related parties

DEPFA BANK plc, as the parent company of the DEPFA Group, has issued letters of comfort to DEPFA ACS BANK DAC, DEPFA Ireland Holding Limited and DEPFA Hold Six Unlimited Company. These letters of comfort acknowledge that the Bank will provide financial support to DEPFA ACS BANK DAC, DEPFA Ireland Holding Limited and DEPFA Hold Six Unlimited Company, to the extent that they are unable to fulfil their contractual obligations.

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

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

Balances due to and from the FMS Wertmanagement AöR Group as at 31 December 2019 and 31 December 2018 are disclosed in the notes to the statement of financial position.

Transactions with the FMS Wertmanagement AöR Group for the year ended 31 December 2019 included in the income statements categories below consisted of:

Group's transactions with the FMS Wertmanagement AöR Group

€m	2019	2018
Interest income and similar income	7	9
Interest expense and similar expenses	–36	–70
Net fee and commission expense	–	–2
Net income from financial investments	20	9
Net loss on asset/liability management transactions with the FMS Wertmanagement AöR Group	–63	–
General administrative expenses	–3	–2

The amounts above arise on intercompany borrowing, lending and transfers of assets between the Bank and the FMS Wertmanagement AöR Group and financial guarantees provided by the FMS Wertmanagement AöR Group to the DEPFA Group for the year ended 31 December 2019 and 31 December 2018. The amounts above also arise on hedging derivatives, as well as recharges for certain services provided. All related party transactions are entered into on an arm's length basis. There has been no change in the type of related party transactions undertaken by the DEPFA Group in 2019.

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

Company balances due to and from DEPFA Group companies are disclosed in the notes to the statement of financial position. Company transactions with DEPFA Group companies and the FMS Wertmanagement AöR Group included in the income statement categories below consisted of:

Company's transactions with the FMS Wertmanagement AöR Group and DEPFA Group companies

€m	2019	2018
Interest income and similar income	–21	–21
Interest expense and similar expenses	–37	–43
Dividends received from Group entities	261	108
Net expense from sale of loans	–	–62
Net fee and commission expense	–1	–2
Net gain on asset/liability management transactions with the FMS Wertmanagement AöR Group	41	–
Net expense from other financial instruments at FVTPL	–6	–4
Other operating income	16	23
General administrative expenses	–2	–1

The amounts above arise on intercompany borrowing and lending and transfers of assets between DEPFA BANK plc, the FMS Wertmanagement AöR Group and other DEPFA Group entities and the financial guarantees between DEPFA BANK plc and DEPFA ACS BANK DAC, as well as recharges for certain services provided.

Included in the amount above for "Interest expense and similar expenses" are amounts arising on committed liquidity facilities for USD nil (31 December 2018: USD290 million) and € nil (31 December 2018: €225 million) provided by the FMS Wertmanagement AöR Group to the DEPFA Group, the terms of which were agreed on 1 June 2016. These positions are included in the statement of financial position under "Liabilities to customers". The USD facility was terminated on 2 August 2019. The EUR facility was €460 million at 31 December 2019, and is available until 31 December 2025 and the commercial terms are considered to be at arm's length. The EUR facility provided by FMS Wertmanagement AöR had drawings of € nil at 31 December 2019 (31 December 2018: €479 million).

This also includes a repo facility which reduced from €4,200 million as at 31 December 2018 to €250 million from 19 December 2019 onwards. The facility is available for a term of 10 years and the commercial terms are considered to be at arm's length. At 31 December 2019, the DEPFA Group had drawn € nil (31 December 2018: €2,418 million) under the facility, which is included in the statement of financial position under "Liabilities to customers".

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

In addition the Company has traded derivative transactions on an arm's length basis with the FMS Wertmanagement AöR Group and DEPFA Group entities which are used to hedge certain assets and liabilities in the Company or those entities or are offset by the other derivatives in the Company.

(d) Other related party transactions

As a result of the DEPFA Group's ownership by HRE holding up to 19 December 2014 and since that date by the FMS Wertmanagement AöR Group, the DEPFA Group is a state-controlled entity and a related party with other enterprises which are subject to the control, joint control or significant influence of the Federal Republic of Germany (so-called government-related entities). The DEPFA Group has availed of the exemptions in IAS 24: Related Party Disclosures from disclosing transactions and outstanding balances with entities that are related parties because they are under the control of the Federal Republic of Germany. Business relations with all public sector entities are carried out on an arm's length basis.

The DEPFA Group has had various relationships with its parent the FMS Wertmanagement AöR Group, for example, due to the synthetic transfer of positions. As described in the "Major events" section of the Management discussion, on 7 June 2019 the DEPFA Group acquired global notes and registered notes from the FMS Wertmanagement AöR Group and transferred financial assets to the FMS Wertmanagement AöR Group. Also, on 21 November 2019 the DEPFA Group executed a transaction with FMS Wertmanagement AöR to repay the Perpetual Preferred Securities issued by the issuing vehicles, DEPFA Funding II LP and DEPFA Funding III LP. These relationships are described in note 5 to the financial statements.

Following the termination of the formal servicing arrangement between the DEPFA Group, Deutsche Pfandbriefbank AG ("pbb") and the FMS Wertmanagement AöR Group on 30 September 2013, DEPFA BANK plc and the FMS Wertmanagement AöR Group executed an "After Sales Agreement" in October 2013 to continue to provide a limited form of servicing between the DEPFA Group entities and the FMS Wertmanagement AöR Group in respect of the positions that were economically transferred by the DEPFA Group to the FMS Wertmanagement AöR Group in 2010 but where a DEPFA Group entity remains the legal counterparty of record. Costs incurred by either party in the delivery of such limited servicing are reimbursed on a "cost-plus" basis.

With effect from 1 March 2017 the DEPFA Group has entered into an on-going arrangement for the provision of operational support and payments services from FMS Wertmanagement Service GmbH ("FMS-SG"), a wholly owned subsidiary of the FMS Wertmanagement AöR Group. This arrangement was facilitated by the transfer to FMS-SG of 17 DEPFA Group employees under Transfer of Undertakings (Protection of Employment) Regulations ("TUPE"), and the on-going provision of services to the DEPFA Group by FMS-SG is reimbursed on a "cost-plus" basis. The costs of this servicing are included in "General administrative expenses".

(43) Group undertakings

Shares in DEPFA Group undertakings are included in the financial statements on a historical cost basis subject to periodic impairment reviews.

The DEPFA Group undertakings at 31 December 2019 were:

Group undertakings Name	Principal Activity	Country of Incorporation	Registered Office	Share in Capital	Class of Share
DEPFA ACS BANK DAC	Issuance and ongoing administration of Asset Covered Securities	Ireland	Block 5, Irish Life Centre, Abbey Street Lower, Dublin 1, Ireland, D01 P767	100%	Ordinary
DEPFA Ireland Holding Limited[1]	Holding company	Ireland	Grant Thornton, 13-18 City Quay, Dublin 2, Ireland, D02 ED70	100%	Ordinary
DEPFA Hold Six Unlimited Company[1]	Holding company	Ireland	Grant Thornton, 13-18 City Quay, Dublin 2, Ireland, D02 ED70	100%	Ordinary
DEPFA Finance N.V.[2]	Funding vehicle	Netherlands	Strawinskylaan 3127, 8th Floor, 1077 ZX, Amsterdam, the Netherlands	100%	Ordinary
DEPFA International S.A. (formerly known as DEPFA Pfandbrief Bank International S.A.)[3]	Holding company	Luxembourg	8–10 Rue Jean Monnet, 2099 Luxembourg	100%	Ordinary

[1] Liquidator appointed on 22 March 2019
[2] Liquidator appointed on 7 February 2020
[3] The current business assumption is that DEPFA International S.A. will enter in to liquidation during 2020

DEPFA Funding II LP and DEPFA Funding III LP were closed during the year with a dissolution date of 21 November 2019. This is described in further detail in note 5 of the financial statements.

None of the subsidiaries consolidated by the DEPFA Group have any material Non Controlling Interests (“NCIs”).

Structured entities are generally used for isolating assets and liabilities of operating companies so that they are not affected by insolvency and also, if necessary, to enable these assets, which are frequently used as collateral, to be disposed of more easily. The DEPFA Group uses special purpose entities for various purposes as part of its business operations, whereby the emphasis is clearly placed on risk reduction or for funding purposes. There are no longer any structured entities consolidated by the DEPFA Group.

The DEPFA Group considers itself a sponsor of a structured entity when it facilitates the establishment of the entity. As at 31 December 2019 and 31 December 2018, there are no structured entities sponsored by the DEPFA Group and in which it does not have an interest.

The DEPFA Group also has interests in structured entities of which it is not a sponsor and that it does not consolidate. The following overview sets out the nominal volume of the DEPFA Group’s interest in non-consolidated structured entities. The nominal amounts of the DEPFA Group’s interests are materially equivalent to the DEPFA Group’s carrying values which are presented in the category Financial investments on the statement of financial position. The carrying amounts of the positions represent the DEPFA Group’s maximum exposure to loss.

Transactions with non-consolidated structured entities	**31.12.2019**		**31.12.2018**	
Nominal value € m	Interest of the DEPFA Group	Total nominal issued by entity	Interest of the DEPFA Group	Total nominal issued by entity
Delta Spark Limited	103	332	132	425
Total	**103**	**332**	**132**	**425**

Delta Spark Limited is a structured entity established to securitise receivables purchased in relation to the Spanish Electricity Tariff Deficit 07/08. The receivables represent claims against the Spanish National Electric System ("CNE") which is considered sovereign risk. The DEPFA Group has invested in untranched notes issued by Delta Spark Limited in the amounts per the above table. Income from the notes is included in the income statement under "Interest income and similar income".

(44) Dividends per share

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

(45) Events after the reporting date

On 19 March 2020, the Board recommended a dividend of €150 million to be paid on 31 March 2020 to FMS Wertmanagement AöR, subject to shareholders approval.

The emergence and spread of Covid-19 has resulted in directives and recommendations by the Irish government and health services affecting the extent to which DEPFA Group employees can attend and work in the Group's business premises. In addition there has been a significant impact on financial markets with longer term macroeconomic implications of the emergence and spread of Covid-19 and the extent of the impact on global economic conditions are uncertain. This could have an adverse impact on the DEPFA Group, primarily from the impacts on the DEPFA Group's credit exposures. The DEPFA Group continues to monitor developments.

Other than above,there have been no other notable events after 31 December 2019.

(46) Ultimate parent company

FMS Wertmanagement AöR, a German State Agency, is the parent of the Bank. The largest and smallest group into which the results of the Bank are consolidated is that headed by DEPFA BANK plc.

(47) Approval of financial statements

The financial statements were approved by the Directors on 19 March 2020.

Appendix
Disclosures required under CRD IV on country by country reporting

Introduction
DEPFA is a public limited company incorporated and domiciled in the Republic of Ireland. The disclosures contained in this report have been prepared pursuant to the country-by-country reporting ("CBCR") requirements for specified institutions under the Capital Requirements Directive ("CRD IV"), which have been transposed into Irish legislation as Regulation 77 of Statutory Instrument 158 of 2014.

Basis of preparation
The table below presents the DEPFA Group's (excluding group consolidation effects) turnover, number of employees, profit or loss before tax, income tax paid and public subsidies received based on the geographic locations in which DEPFA operates. No public subsidies have been received by a group entity. These disclosures have been prepared in conjunction with and are based on the DEPFA Group's Annual Financial Statements which have been prepared in accordance with IFRS for the year ended 31 December 2019.

Turnover
Turnover consists of operating revenues/losses generated by the DEPFA Group (excluding group consolidation effects) as part of its principal business activities.

Employees
Represents the average number of full time equivalent employees at 31 December 2019.

Income tax charged
Represents total corporation tax charged or credited for the year ending 31 December 2019.

CRD IV disclosure requirements as at 31 December 2019

Country	Nature of activities	Average number of full time employees	Turnover €m	Profit/loss before tax €m	Tax on profit/loss €m
Ireland	Banking or related activity	108	221	156	–
Great Britain	Banking or related activity	–	–2	–3	–
Luxembourg	Banking or related activity	3	–	–5	–
Netherlands	Banking or related activity	–	–3	–3	–

The return on assets as at 31 December 2019, as required by CRD Article 90 (Public disclosure of return on assets), is –1.07% and is calculated as net income divided by total assets.

Report on the audit of the Country-by-Country Reporting Schedule

Opinion

In our opinion, DEPFA BANK plc's Country-by-Country Reporting Annex for the year ended 31 December 2019 has been properly prepared, in all material respects, in accordance with the Basis of Preparation set out therein.

We have audited the Country-by-Country Reporting Schedule for the year ended 31 December 2019.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) ("ISAs (Ireland)"), including ISA (Ireland) 800 and ISA (Ireland) 805, and applicable law. Our responsibilities under ISAs (Ireland) are further described in the Auditors' responsibilities for the audit of the Country-by-Country Reporting Schedule section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence We remained independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the Country-by-Country Reporting Schedule in Ireland, which includes IAASA's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter - Basis of preparation

In forming our opinion on the Country-by-Country Reporting Schedule, which is not modified, we draw attention to the Basis of Preparation. The Country-by-Country Reporting Schedule is prepared for the directors for the purpose of meeting the requirements of Regulation 77 of Statutory Instrument 158 of 2014. The Country-by-Country Reporting Schedule has therefore been prepared in accordance with a special purpose framework and, as a result, the Country-by-Country Reporting Schedule may not be suitable for another purpose.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (Ireland) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the Country-by-Country Reporting Schedule is not appropriate; or
- the directors have not disclosed in the Country-by-Country Reporting Schedule any identified material uncertainties that may cast significant doubt about the Bank's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Country-by-Country Reporting Schedule is authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Bank's ability to continue as a going concern.

Responsibilities for the Country-by-Country Reporting Schedule and the audit

Responsibilities of the directors for the Country-by-Country Reporting Schedule

The directors are responsible for the preparation of the Country-by-Country Reporting Schedule and for the appropriateness of the basis of preparation. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of the Country-by-Country Reporting Schedule that is free from material misstatement, whether due to fraud or error.

In preparing the Country-by-Country Reporting Schedule, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the Country-by-Country Reporting Schedule It is our responsibility to report on whether the Country-by-Country Reporting Schedule has been properly prepared in accordance with the Basis of Preparation.

Our objectives are to obtain reasonable assurance about whether the Country-by-Country Reporting Schedule as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Country-by-Country Reporting Schedule.

A further description of our responsibilities for the audit of the Country-by-Country Reporting Schedule is located on IAASA's website at:
https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf.

This description forms part of our auditors' report.

Use of this report This report, including the opinion, has been prepared for and only for the Bank's directors. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

Chartered Accountants and Statutory Auditors
Dublin
19 March 2020

DEPFA BANK plc
Block 5 Irish Life Centre, Abbey Street Lower
Dublin 1, D01 P767, Ireland
Phone: +353 1 792 2222
Fax: +353 1 792 2211
www.depfa.com