DEPFA BANK

Annual Report
2015

Contents

Directors and other information

Board of Directors

Mr. P. Ryan[1)] (Chairman) (appointed 1 January 2015)
Mr. E.-A. Brockhaus[1)] (German)
Ms. F. Flannery
Mr. W. Groth[1)] (German) (resigned 31 March 2015)
Mr. F. Hellwig[1)] (German)
Dr. H. Horn (German)
Mr. A. Kearns[1)] (resigned 23 November 2015)
Mr. C. Müller[1)] (German)
Dr. C. Pleister[1)] (German) (appointed 7 April 2015)
Mr. N. Reynolds (resigned 1 September 2015)
Dr. P. Schad (German)
Dr. H. Walter[1)] (German) (resigned 4 February 2015)
Ms. S. Webb[1)] (appointed 30 October 2015)

1) Non-Executive

Audit Committee

Mr. W. Groth (resigned 31 March 2015)
Mr. A. Kearns (Chairman) (resigned 23 November 2015)
Mr. C. Müller (appointed 10 February 2015)
Dr. C. Pleister (Chairman) (appointed 10 April 2015; appointed as Chairman 23 November 2015)
Dr. H. Walter (resigned 4 February 2015)
Ms. S. Webb (appointed 30 October 2015)

Board Risk Committee

Mr. E.-A. Brockhaus (appointed 10 February 2015)
Ms. F. Flannery (resigned 1 October 2015)
Dr. H. Horn (resigned 1 October 2015)
Mr. A. Kearns (resigned 23 November 2015)
Mr. C. Müller (appointed 10 February 2015)
Dr. C. Pleister (appointed 23 April 2015)
Mr. N. Reynolds (resigned 1 September 2015)
Mr. P. Ryan (Chairman) (appointed 1 January 2015; appointed as Chairman 10 April 2015)
Dr. H. Walter (Chairman) (resigned 4 February 2015)
Ms. S. Webb (appointed 30 October 2015)

Nomination Committee

Mr. P. Ryan (Chairman) (appointed 22 June 2015; appointed as Chairman 30 July 2015)
Ms. F. Flannery (appointed 22 June 2015)
Mr. F. Hellwig (appointed 22 June 2015)
Mr. A. Kearns (appointed 22 June 2015; resigned 23 November 2015)
Dr. C. Pleister (appointed 22 June 2015)
Ms. S. Webb (appointed 30 October 2015)

Secretary & Registered Office
Ms. E. Tiernan
Ms. C. Doorey (resigned 19 February 2015)
1 Commons Street
Dublin 1, Ireland

Solicitors
Arthur Cox
Earlsfort Centre
Earlsfort Terrace
Dublin 2, Ireland

Auditors
KPMG
Chartered Accountants
Statutory Audit Firm
1 Harbourmaster Place
IFSC,
Dublin 1, Ireland

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 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. Ms. Flannery is a member of the Board of CMRF and sits on the Advisory Council of WXN. She holds a degree in Mathematics and English from National University of Ireland, Galway. She has a C. Dip. AF from the ACCA and is a Chartered Director. Ms. Flannery received the award for Management Professional of the Year 2015 from Image Publications.

Holger Horn (Chief Risk Officer)
Dr. Horn joined the Board in December 2014 as an Executive Director and Chief Risk Officer. He joined the DEPFA Group from FMS Wertmanagement AöR where he was a Member of the Managing Board responsible for Corporate & Asset Finance and Sales Advisory and served as Deputy CRO. Throughout his career at FMS Wertmanagement AöR, Dr. Horn was responsible for the management of various asset portfolios, such as Commercial Real Estate, Infrastructure & Asset Finance, as well as Public Sector Finance. Prior to this, Dr. Horn was Group Credit Officer at Fitch Ratings. Dr. Horn holds a PhD from Humboldt University in Berlin, where his thesis was "Political Systems and Economic Growth".

Peter Schad (Chief Operating Officer/Chief Legal Officer)
Peter Schad joined the Board in December 2014 as an Executive Director and Chief Legal Officer. He assumed the additional role of Chief Operating Officer on 1 September 2015. Dr. Schad is a lawyer with extensive experience in banking law. Prior to joining the DEPFA Group, Dr. Schad was Head of Legal and Compliance of FMS Wertmanagement AöR and in January 2012 took on additional responsibilities as Deputy Chief Operating Officer. Before joining FMS Wertmanagement AöR, Dr. Schad held various senior legal positions in the Hypo Real Estate Group. He holds a degree in law and a PhD in economics from the University of Stuttgart.

Chief Executive Review 2015

In 2015, the management team made significant advances with the implementation of a clear and targeted strategy of preserving the Bank's capital and winding down the balance sheet of DEPFA BANK plc and its subsidiaries. This involved operating in a value preserving manner whilst optimising our funding structure, as well as simplifying the corporate organisational structure. This progress was achieved with the significant support and backing of our parent FMS Wertmanagement AöR.

Over the past 12 months DEPFA BANK continued to align its structures with FMS Wertmanagement AöR to pursue our strategy in as efficient a manner as possible. The roll out of clear business objectives resulted in the successful delivery of key projects during the year and has enabled us to build on a strong foundation to deliver on targets in 2016.

Our focus remains on wind-down strategy execution, an important task in the coming years to contribute to the overall Group mandate to reduce the balance sheet in as efficient means possible. The results achieved so far have relied on my colleagues' professionalism and commitment and I would like to take this opportunity to thank them again for their efforts in making substantial progress on the attainment of our Shareholder's goals.

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 2015.

Ownership

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 ("SoFFin"), which is managed by the Federal Agency for Financial Market Stabilisation ("FMSA").

There was no change in the ownership of the Bank during 2015.

Principal activities

The DEPFA Group including DEPFA BANK plc, operating in Ireland and in other parts of the world, 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 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 2015 in respect of the year ended 31 December 2014 (2013: € nil). The Directors do not propose a dividend in respect of the year ended 31 December 2015.

Directors

The names of the Directors in office at the date of signing of the financial statements for the year ended 31 December 2015 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 Company Secretary, who served during the year and those in office at 31 December 2015 and of their spouses and minor children in the shares of the Bank or of any other DEPFA Group undertaking were € nil (31 December 2014: € nil).

No Directors held any options on shares of the Bank or of any other DEPFA Group undertaking at 31 December 2015 (31 December 2014: € 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 1 Commons Street, IFSC, Dublin 1, Ireland.

Subsidiary undertakings
Details of subsidiary undertakings are shown in note 48 to the financial statements. DEPFA Hold One Ltd, DEPFA Hold Two Ltd, DBE Property Holdings Ltd and DEPFA Dublin Properties Ltd are in liquidation since 10 December 2015. DEPFA Public Finance Bank entered into liquidation on 5 February 2016.

Branches outside the state
The DEPFA Group continues to operate branches within the meaning of Regulation 25 of the European Communities (Accounts) Regulations, 1993 and 2015, in Japan and the United States of America. The Rome branch of DEPFA BANK plc was closed on 20 March 2015. The London branch of DEPFA BANK plc was closed on 25 May 2015.

Auditors
The auditors, KPMG, Chartered Accountants, have indicated their willingness to continue in office in accordance with section 383(2) of the Companies Act 2014.

Major events

Tender offer on perpetual securities

As described in the "Events after 31 December 2014" section of the Annual Report of the DEPFA Group for 2014, in January 2015 FMS Wertmanagement AöR, the parent company of the DEPFA Group, launched a tender offer inviting holders of the following securities:

- €400,000,000 6.50% Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities (XS0178243332) issued by DEPFA Funding II LP (the "DEPFA II Securities");
- €300,000,000 Fixed Rate/Variable Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities (DE000A0E5U85) issued by DEPFA Funding III LP (the "DEPFA III Securities"); and
- €500,000,000 Fixed Rate/Floating Rate Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities (XS0291655727) issued by DEPFA Funding IV LP (the "DEPFA IV Securities"),

each guaranteed by DEPFA BANK plc (together, the "Preferred Securities"), to tender those securities for purchase by FMS Wertmanagement AöR. These Preferred Securities are classified as equity instruments in the financial statements of the DEPFA Group.

In the tender offer, which ended on 18 May 2015, 90.5% of the DEPFA II Securities, 87.9% of the DEPFA III Securities and 99.9% of the DEPFA IV Securities were tendered to and purchased by FMS Wertmanagement AöR.

At bondholder meetings on 20 May 2015 for each Preferred Securities issue, a clear majority in each case voted in favour of facilitating the purchase by DEPFA BANK plc of all Preferred Securities that were not tendered to and purchased by FMS Wertmanagement AöR. This allowed DEPFA BANK plc to buy the Preferred Securities that were not tendered for purchase at their respective purchase price, which was at a discount of €25 million to the carrying value, on 26 May 2015.

As a result of these transactions, the DEPFA Group equity was reduced by €44 million, being the consideration paid by DEPFA BANK plc for the Preferred Securities it acquired. The purchase by FMS Wertmanagement AöR of the Preferred Securities in the amounts described above had no impact on the equity of the DEPFA Group as the Preferred Securities remain in issue.

Going concern

Following the transfer of ownership of the DEPFA Group to FMS Wertmanagement AöR on 19 December 2014, 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 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.

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]

	31 December 2015			31 December 2014		
Banks in the DEPFA Group[2]	Fitch Ratings[5]	Moody's	Standard & Poor's	Fitch Ratings	Moody's	Standard & Poor's
Long-term rating	WR	Ba1	A–	BBB+	Baa3	A–
Outlook	WR	Stable	Stable	Negative	Negative	Stable
Short-term rating	WR	NP	A–2[4]	F2	P–3	A–2
Asset Covered Securities	WR	Aa2[4]	WR[6]	A[3]	Aa3	A–[4]
Lettres de Gage	–	–	WR[6]	–	–	A+[3]

[1] Ratings from mandated rating agencies
[2] DEPFA BANK plc ("DEPFA"), DEPFA ACS BANK, DEPFA Public Finance Bank, DEPFA Pfandbrief Bank International S.A. (collectively "the DEPFA Group").
[3] Negative outlook
[4] Stable outlook
[5] All Fitch Ratings withdrawn on 11 August 2015
[6] WR – Standard & Poor's DEPFA ACS BANK covered bonds and DEPFA Pfandbrief Bank International S.A. Lettres de Gage ratings withdrawn on 14 August 2015

The ratings assigned by the rating 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.

Review of performance

The pre-tax loss for 2015 was €–53 million compared to €–185 million loss in the previous year. The pre-tax loss in both years was affected significantly by once-off items.

Net gains from the buyback of DEPFA ACS BANK asset covered securities that were redeemed before maturity at prevailing market levels on a reverse enquiry basis and from early repayment of liabilities contributed €23 million in 2015 compared to €3 million in 2014 (reported in "Net interest income/expense"). In 2014, the DEPFA Group recorded a loss in "Net interest income/expense" of €–36 million (2015: € nil) on the partial termination of a loan, as well as losses on the disposal of financial investments of €–3 million (2015: € nil).

Taxes on income were positive in 2015 amounting to €4 million compared to €30 million in 2014. The 2014 amount was due mainly to the recognition of current and deferred tax assets and release of tax related provisions arising from the closure of certain tax audits. Overall, this resulted in a net loss for the year of €–49 million (2014: net loss €–155 million) after tax.

The result in 2015 compared with the previous year is detailed in the following table:

Consolidated income statement

€ m	2015	2014
Net interest income/expense	11	–55
Net fee and commission expense	–1	–2
Net trading income/expense	1	–66
Net expense from financial investments	–	–3
Net expense/income from hedge relationships	–2	4
Other operating income	13	2
Other operating expense	–	–1
Total operating revenues/losses	**22**	**–121**
Reversals of allowance for losses on loans and advances	4	17
General administrative expenses	–72	–90
Other expense/income	–7	9
Pre-tax loss	**–53**	**–185**
Taxes on income	4	30
Net loss	**–49**	**–155**

Net interest income/expense increased to €11 million compared to €–55 million in 2014. The increase was primarily attributable to the buyback of DEPFA securities and gains made from early repayment of liabilities totalling €23 million in 2015 (2014: €3 million). The 2014 result included a loss of €–36 million on the partial termination of a loan. Interest income mainly comprises interest earned on "Loans and advances to other banks", "Loans and advances to customers", "Financial investments" and derivatives. Interest expense mainly comprises interest incurred on "Liabilities to other banks", "Liabilities to customers" and "Liabilities evidenced by certificates".

Net fee and commission expense was €–1 million (2014: €–2 million) and includes guarantee fees paid to FMS Wertmanagement AöR relating to guarantees received on assets and charges from the Central Bank of Ireland under the deposit protection scheme.

Net trading income/expense of €1 million has increased compared to the previous year (2014: €–66 million). This includes €13 million (2014: €–32 million) in derivative valuation effects relating to counterparty risk parameters including both the credit risk of the counterparty, credit valuation adjustment ("CVA") of €1 million (2014: €12 million) and the DEPFA Group's own credit risk, debit valuation adjustment ("DVA") of €12 million (2014: €–44 million). Revaluation of stand-alone derivatives which did not satisfy the criteria of IAS 39 hedge accounting and other positions amounted to €–12 million (2014: €–34 million).

Net expense from financial investments was € nil in 2015 (2014: €–3 million). The expense is solely the result of the disposal of financial assets shown under "Financial investments".

Net expense/income from hedge relationships amounted to €–2 million (2014: €4 million). This represents hedge ineffectiveness within the range of 80% to 125% permitted in accordance with IAS 39.

Other operating income Other operating income consists mainly of foreign exchange gains, VAT refunds and other items.

Other operating expense amounted to € nil (2014: €–1 million). The 2014 result consisted mainly of foreign exchange losses and other items.

Reversals of allowance for losses on loans and advances amounted to €4 million (2014: €17 million) and relates solely to the release of incurred but not reported ("IBNR") allowances in both years. In accordance with IAS 39, IBNR allowances are created only for loans and receivables for which there have not yet been any indications of an individual impairment.

General administrative expenses General administrative expenses were €–72 million in 2015 (2014: €–90 million). Personnel expenses decreased to €–23 million compared to €–27 million in the previous year. The decrease was due to the reduction in headcount following a restructuring during 2015. The average headcount (185 people) reduced compared with the previous year (217 people). Other general administrative expenses, including depreciation, amounted to €–49 million (2014: €–63 million). This comprised IT costs €–24 million (2014: €–39 million), professional fees €–4 million (2014: €–6 million), office costs €–7 million (2014: €–8 million) and other admin expenditure €–14 million (2014: €–10 million). The ratio between general administrative expenses and total operating revenues was greater than 100% in 2015 and 2014.

Other expense/income amounted to €–7 million (2014: €9 million) and is mainly due to the net movement in provisions created for the strategic restructuring of the DEPFA Group.

Development in assets, liabilities and equity

Total assets of the DEPFA Group amounted to €37 billion at 31 December 2015 and were €12 billion lower than the corresponding figure at the end of the previous year (31 December 2014: €49 billion). The total DEPFA Group liabilities amounted to €35 billion as at 31 December 2015, compared with €47 billion as at 31 December 2014. The DEPFA Group does not currently operate any new business in line with the conditions imposed by the European Commission state aid approval.

The decline is mainly attributable to maturities and terminations in line with the wind down strategy of the DEPFA Group and market related changes such as foreign currency exchange rates and interest rates. The reduction in the FMS Wertmanagement AöR related counter effects amounted to €1.7 billion.

In addition to the decline in counter effects, the remaining assets decreased by a net €11 billion, which includes approximately €3 billion reduction due to asset maturities and €3 billion decrease in derivatives, which arose primarily as a result of market-related changes such as foreign currency exchange rates and interest rates as well as terminations in line with the wind down strategy of the DEPFA Group. Further reductions in assets in 2015 were attributable to €2 billion decrease in reverse repurchase agreements and €2 billion reduction in short term placements.

In addition to the decline in counter effects, the total liabilities decreased by a net €11 billion. The decline is primarily due to a €7 billion reduction in liabilities evidenced by certificates due to maturities and early repayment of liabilities. In addition there was a decrease of €3 billion in derivatives due to market value movements of derivatives, which arose primarily as a result of market-related changes such as foreign currency exchange rates and interest rates as well as terminations in line with the wind down strategy of the DEPFA Group. The reduction also includes €1 billion reduction in collaterals.

Equity amounted to €1.9 billion as at 31 December 2015 (31 December 2014: €2.0 billion). The total equity in the year was reduced by €95 million, of which €44 million was due to the effects of the acquisition by DEPFA BANK plc of certain Preferred Securities issued by the DEPFA Group's preferred securities issuing vehicles as described in the "Major events" section of this report. In compliance with the DEPFA Group's obligations in relation to the annual state aid compensation, €36 million was paid by DEPFA BANK plc in April 2014 in respect of the financial year 2013. No further provision is deemed necessary at 31 December 2015 for the financial year 2015. However, future developments could result in the requirement for additional provisions, although this is not currently expected.

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

The DEPFA Group has closed the year 2015 with a pre-tax loss of €–53 million. This loss includes net gains of €23 million from the early repayment of liabilities including the buyback of DEPFA ACS BANK asset covered securities on a reverse enquiry basis. The extent of similar gains in future years will depend on market and other developments. The loss also includes net trading income of €1 million of which €12 million related to the effect of changes in the DEPFA Group's own credit spread on derivative valuations. The DEPFA Group's future position may be negatively affected by further developments in these and other valuation parameters. The DEPFA Group's future position may also be adversely affected by higher additions to provisions for losses on loans and advances which may have to be incurred, or there may be other adverse factors such as serious turmoil in financial markets or the defaults of sovereign states.

Total assets in 2015 declined by €11.8 billion and total liabilities declined by €11.7 billion. The remaining FMS Wertmanagement AöR related counter effects of €0.6 billion will continue to decline in the future. The reduction in total assets and liabilities also includes maturities, repayments and derivative terminations or restructurings as well as net reductions due to changes in foreign exchange rates and interest rates. It is expected that total assets and liabilities will decline further in 2016 due to the fact that the DEPFA Group is not undertaking any new business. 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

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 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 closure of operations in all locations and a general decline in business volumes.

On a reverse enquiry basis, the DEPFA Group has redeemed certain liabilities before maturity in 2015 and 2014 which have realised profits. Such income 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:

- Some European countries continue to face challenges in raising funds without the support of international aid or support programmes. If the financing conditions of some countries deteriorate any further, a partial or complete claims waiver might become necessary for creditors, or 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. Also, the adoption of IFRS 9 in 2018 may lead to the recognition of higher impairment charges and changes in the measurement basis of certain assets. 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 is dependent on:
  - The future development of the discounts for repo refinancing in the market and with the central banks.
  - 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 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 positions and a higher level of staff fluctuation. 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.

Events after 31 December 2015

Tender Offer by FMS Wertmanagement AöR to acquire certain liability instruments issued by the DEPFA Group

On 19 January 2016, the parent of the DEPFA Group, FMS Wertmanagement AöR, invited holders of certain liability securities issued by the DEPFA Group entities DEPFA ACS BANK and DEPFA Pfandbrief Bank International S.A. to tender those securities for purchase by FMS Wertmanagement AöR.

Further to this invitation FMS Wertmanagement AöR announced on 1 February 2016 that the following securities had been validly tendered for purchase by FMS Wertmanagement AöR for settlement on 4 February 2016:

Securities validly tendered for purchase

Issuer	ISIN	Maturity date	Currency	Principal amount outstanding (nominal)	Principal amount validly tendered
DEPFA ACS BANK	DE000A0LPMX0	16/03/2037	USD	962,601,000	927,211,000
DEPFA ACS BANK	CA249575AG69	31/03/2025	CAD	300,000,000	297,419,000
DEPFA ACS BANK	CA249575AJ09	24/08/2035	CAD	350,000,000	349,450,000
DEPFA ACS BANK	DE000A0BCLA9	21/05/2019	EUR	1,000,000,000	551,300,000
DEPFA ACS BANK	CH0022738105	13/10/2017	CHF	266,645,000	191,940,000
DEPFA ACS BANK	CH0024021302	15/02/2019	CHF	200,000,000	140,640,000
DEPFA ACS Bank	CH0026116084	31/07/2031	CHF	200,000,000	195,640,000
DEPFA Pfandbrief Bank International S.A.	CH0026463577	31/08/2020	CHF	397,000,000	304,995,000

The principal amounts validly tendered were purchased and settled by FMS Wertmanagement AöR on 4 February 2016.

The above transactions have had no direct effect on the DEPFA Group as the liability securities are still in issue and held by FMS Wertmanagement AöR and have not been acquired by the DEPFA Group.

Payments on perpetual securities

On 6 March 2016 DEPFA BANK plc determined that the perpetual securities issuing vehicle DEPFA Funding IV LP, would not make payments on its €500,000,000 Preferred Securities (XS0291655727) on the next distribution payment date, scheduled for 21 March 2016.

Liquidation of DEPFA Public Finance Bank

DEPFA Public Finance Bank was placed in liquidation on 5 February 2016. There was no significant effect from this event on the DEPFA Group.

Apart from the above, there have been no other notable events after 31 December 2015.

This section provides information about:
(1) Organisation and principles of risk and capital management,
(2) Ongoing developments in risk management,
(3) Material risk types:
    (a) Credit risk;
    (b) Market risk;
    (c) Liquidity risk;
    (d) Operational risk;
    (e) Business risk and
(4) Internal capital adequacy assessment process ("ICAAP").

(1) Organisation and principles of risk and capital management

Organisation and committees[a)]

The DEPFA Group relies on its suite of risk management committees for the effective management, control and implementation of a robust 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 decisions in relation to all strategies and key issues of risk management and risk organisation.

For details of the DEPFA Group committees and their interactions please see the chart in the "Corporate governance statement" section of this report.

The DEPFA Board Risk Committee ("DEPFA BRC"), which considers strategic matters and oversees the portfolio and risk functions within the DEPFA Group, met on a quarterly basis during 2015.

The DEPFA BRC is responsible on behalf of the Board for:
- The effectiveness of the DEPFA Group's risk management organisation relative to the risk profile of the DEPFA Group.
- Ensuring the appropriateness of the policies for maintaining both the composition and level of capital at the DEPFA Group and subsidiary level to cover internal capital requirements and ensure regulatory capital compliance.

In addition, the DEPFA BRC reviews management's recommendations on risk and provides recommendations to the Board, in particular on the DEPFA Group's:
- Risk appetite
- Risk strategy
- Risk profile

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 consists of the Chief Executive Officer ("DEPFA Group CEO"), the Chief Risk Officer ("DEPFA Group CRO"), and the Chief Operating Officer ("DEPFA Group COO") of the DEPFA Group as well as the Head of Finance, the Head of Risk Analytics, the Head of Risk Control and the Head of Credit Portfolio Management.

---

a) Forms an integral part of the audited financial statements

The DEPFA Group MRC monitors the development of risk-bearing capacity, economic capital ("ECap") and compliance with limits as well as developments in the 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. In general, 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.

The DEPFA Group MRC is also responsible for the monitoring and management of the DEPFA Group's "Critical facilities", that is, those facilities that are deemed to have heightened credit risks. An early warning system is used to identify heightened credit risks at an early stage to ensure proactive management. If appropriate, individual measures are decided by the DEPFA Group MRC. As the committee convenes every month, other measures may need to be undertaken outside of scheduled meetings. As such, these and credit decisions are taken by the key personnel in line with the allocation of credit authority. If there are any objective indications of an impairment, the extent of the impairment is first determined and the result is presented in the DEPFA Group MRC. The DEPFA Group MRC reviews recommendations within the framework of a pre-defined set of allocated authorities and provides recommendations regarding the creation and reversal of provisions for losses on loans and advances and bonds as well as any necessary restructuring. Depending on the size of the provision, the recommendations made by the committee can require approval by the DEPFA BANK plc Executive Director Committee ("DEPFA EDC") and DEPFA BRC according to the relevant authority grid. The Board is also responsible for reviewing the adequacy of provisions for impairment losses and amounts written off.

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 limits and limit breaches.

The DEPFA Group MRC is responsible for the development of scenarios for integrated stress tests and for the methods, performance and monitoring of the stress tests on a DEPFA Group level. These tests are scenario based and take a holistic approach by incorporating the three elements of risk steering (ECap, regulatory capital and the cumulative total liquidity position). In these tests multiple risk parameters are consistently derived from specific macro economic scenarios and these parameters are subsequently used to derive the effects on ECap, regulatory capital and liquidity risk.

The DEPFA Group New Product Process Committee is a sub-committee of the DEPFA Group MRC and ensures that all products are managed and measured by the DEPFA Group's management information systems and are reviewed primarily on an annual basis. As the DEPFA Group is no longer initiating new business, a new product would generally only arise in the event of re-hedging or management of liquidity or regulatory risks.

The DEPFA Group Asset and Liability Committee ("DEPFA Group ALCO") is chaired by the Head of Finance and consists of the DEPFA Group CEO, the DEPFA Group CRO, the DEPFA Group COO/CLO as well as the Group Treasurer and the Head of Risk Control (also deputy chairman of the ALCO). The DEPFA Group ALCO holds regular meetings typically every 4 to 6 weeks. Its tasks comprise the monitoring of liquidity management, balance sheet structure management, as well as market risk management and management of the regulatory capital ratios. This committee is also responsible for preparing decision-making documents for liquidity and refinancing strategies which, following discussions in the DEPFA Group MRC, are provided to the DEPFA EDC or to the DEPFA BRC, who ultimately decide on the implementation.

All credit decisions outside of those relating to DEPFA's Critical Facilities (annual reviews, prolongations and material changes in credit relationships) are performed according to explicit credit authorities which are approved by the Board and are consistent with the prevailing business and risk strategy.

Risk Strategy and policies

The Risk Strategy is aligned to the Business Strategy. It 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
- Cumulative total liquidity position

Risk reporting

Risk reporting reflects the structure of the operating divisions. The DEPFA EDC members as well as the senior management and 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. There is a wide variety of reports to cover the different risks from each of the departments: Market Risk, Liquidity Risk, Operational Risk, Credit Risk Analytics, ICAAP, Valuations and Credit Risk Models as well as Credit Portfolio Management. Credit limits for example are reviewed and circulated daily to ensure that all business partner and country limits are monitored and reported. A summary of these daily reports is reported with other credit updates, e.g. Critical Facilities, changes in Exposure at Default ("EaD") and rating developments which are reported at least monthly.

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 Board; such special reports consider specific and acute risk issues for instance in relation to critical markets, products, counterparties and tailored stress tests.

Risk quantification and materiality

The DEPFA Group has set up a specific framework for considering the materiality of risks. This decision framework takes due consideration of impact. Risk materiality should be determined by systematic analysis of the potential impact on different metrics including:
- capital adequacy, profitability, liquidity, reputation, and regulatory compliance;
- the point of view of different stakeholder groups including; shareholder, investors, regulators, business partners, and employees.

(2) Ongoing developments in risk management

In April 2015, the Board approved the restructuring of its Risk Committees whereby its Watchlist Committee, Risk Provisioning Committee and Stress Testing Committee were merged into the DEPFA Group MRC. This reduced complexity and provided for a greater degree of centralisation and transparency of the key aspects relating to each committee which have now become standing items on the DEPFA Group MRC agenda. Given that DEPFA Group MRC voting members are made up of all DEPFA EDC members, the Head of Risk Control, the Head of Risk Analytics, the Head of Credit Portfolio Management and the Head of Finance, all relevant senior management are kept aware of all key aspects for the DEPFA Group. In addition, the DEPFA Credit Committee has been replaced by the formal sign-off by both the Chief Risk Officer and the Head of Credit Portfolio Management. Credit decisions are taken as per the defined Credit Authorities which have been approved by the Board. Risky and large concentrations of exposures (as defined in the Credit Authorities manual) are presented to the DEPFA EDC for approval whilst the exposures which are the largest consumers of economic capital are presented to the DEPFA BRC at least on an annual basis.

In 2015, the DEPFA Group restructured its Risk Management function which is now comprised of the three functions Credit Portfolio Management (formerly Credit Risk Management), Risk Analytics and Risk Control (formerly comprised under Risk Management and Control).

In accordance with the European Banking Authority ("EBA") Recommendation on the Development of Recovery Plans, the DEPFA Group also submitted its Recovery Plan to the Central Bank of Ireland during 2015. With respect to Risk Management, the following aspects were included in the Recovery Plan:
- The determination by the DEPFA Group of significant risk thresholds, in order to monitor the risk status using pre-defined risk thresholds or indicators.
- A methodology for the assessment of such indicators used in the Recovery Plan and their overall impact on the risk status.
- The design, selection and implementation of recovery options once indicators and/or predetermined risk thresholds have been met.
- The categorisation of the recovery options selected by the DEPFA Group and the assessment of their credibility and main impacts.
- The design of a scenario to test the feasibility, credibility and overall workability of the recovery options selected.

The DEPFA Group's Recovery Plan is incorporated and aligned into the overall risk framework including the Risk Strategy, Risk Appetite, Liquidity Contingency Policy, Risk Inventory, Internal Capital Adequacy Assessment Process ("ICAAP") and Stress Testing. All Recovery Plan indicators are reported at the monthly DEPFA Group MRC and ALCO committees.

Following the implementation of the Capital Requirements Directive in 2013 ("CRD IV"), the DEPFA Group has further enhanced its monitoring and reporting of the Liquidity Coverage Ratio ("LCR"), the Net Stable Funding Ratio ("NSFR") and leverage ratio to ensure compliance with new requirements under Basel III/CRD IV.

The DEPFA Group continues to monitor the ongoing developments in the regulatory requirements for liquidity ratios, leverage ratios and capital requirements and buffers.

(3) Material risk types

The DEPFA Group identifies the following material risk types for its business activities:
(a) Credit risk;
(b) Market risk;
(c) Liquidity risk;
(d) Operational risk and
(e) Business risk.

Economic capital is calculated for all material risk types with the exception of liquidity risk. Liquidity risk scenarios are taken into account in the course of stress tests in connection with the review of risk-bearing capacity at the DEPFA Group.

The following risk types of the DEPFA Group are not quantified but are mitigated by means of management actions, processes, reports, policies and guidelines:
- Strategic risks;
- Regulatory risks and
- Model risks.

(a) Credit risk

Definition[a)]

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 comprises business partner, issuer and country risk.

Business partner risks are defined as potential losses of value of trades, attributable to the default of the business partner. Where timely support is confirmed, embedded and beneficial, either within the transaction or within the legal structure of the business partner, credit risk is defined and quantified with respect to the credit risk of the supporter. With respect to credit risk, the following sub-categories are further distinguished:
- Settlement risk is defined as the risk that, when a trade is settled, the business partner fails to deliver the necessary consideration.
- Replacement risk is defined as the risk that, in the event of a business partner default, the contract has to be replaced on less favourable terms.

Issuer risk is the risk of the complete or partial loss of receivables from security investments due to the default of the issuer.

Country risks are broken down into transfer and conversion risks as well as default risks. Transfer and conversion risks may arise as a result of state intervention which limits or prevents the ability to obtain foreign currency or the cross-border capital transfer of an otherwise solvent debtor. Business partner risks may arise as a result of the default or the downgraded rating of a country in which the business partner is based.

[a)] Forms an integral part of the audited financial statements

Credit risk strategy[a)]
Credit risk strategy is informed by the policy to reduce existing portfolios of assets in a manner which poses minimum strain on capital and which is designed to maintain value.

Credit risk reporting[a)]
The DEPFA Group produces a comprehensive Risk Report on a monthly basis (the “DEPFA Group Risk Report”).

- The DEPFA Group Risk Report contains development of exposures as well as relevant credit risk management indicators such as the expected loss, as well as the unexpected loss via Economic Capital. The report produced shows the credit risk within the DEPFA Group, with emphasis on the overall bank risk and risk-bearing capacity. It reports limit utilisations of existing limits and also identifies risk concentrations.
- Details concerning the portfolio and risk parameters are extensively reported and are provided to the DEPFA Group MRC for oversight. Key indicators are relevant for management purposes, such as the development of the Exposure at Default (“EaD”), the Expected Loss (“EL”) and the Credit Economic Capital. These indicators are integrated in the DEPFA Group Risk Report and are discussed in detail at the DEPFA Group MRC.
- Decisions on limit maintenance, concentration levels, reviews of internal ratings, probabilities of default (“PD”), loss given defaults (“LGD”) and other major parameters are presented according to the delegation of Credit Authorities as approved by the Board.
- In the daily business of the DEPFA Group, additional reporting supports operational management with regard to the management and timely recognition of risks at the sub-portfolio level.
- Developments which may result in a major deterioration in the risk position of an individual exposure of the DEPFA Group are reported to a wider group by way of “Credit Issue Notes”.

Credit risk quantification via economic capital and risk weighted assets according to CRD IV
Credit portfolio model Unexpected loss forms the basis for determining the economic credit risk capital. The DEPFA Group uses a credit portfolio model which is described in greater detail in section (4) ICAAP.

Stress tests Stress tests help to anticipate effects of potential scenarios on the credit portfolio by applying stressed parameters to the credit portfolio model both from a Pillar I (regulatory capital) and Pillar II (economic capital) perspective. The stress tests for economic capital in credit risk (Pillar II) are described in greater detail in section (4) ICAAP.

CRD IV The DEPFA Group uses the standardised approach.

Credit risk: Monitoring and management[a)]
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 or issuer level
- Product level
- Country level
- Overall portfolio level

[a)] Forms an integral part of the audited financial statements

The DEPFA Group calculates credit risk regulatory capital requirements under the standardised approach outlined in the CRD IV. For the calculation of economic capital under Internal Capital Adequacy Assessment Process ("ICAAP"), the DEPFA Group uses EaD, PD and LGD models along with a credit portfolio model.

The primary targets of Credit Portfolio Management ("CPM") are:
- To maintain a low probability that certain potential default events will occur in the future;
- To minimise the severity of losses; and
- The transfer of risk to external third parties where appropriate.

Credit risk is actively managed to ensure preservation of value within single positions and on an overall portfolio basis. Continuous monitoring and reporting of credit risk supports the early detection of risk issues and risk mitigation.

The following measures are some of the key components of the credit risk management process:
- Detailed analysis of the business partner and the transaction, as well as supporters (including guarantors) if applicable, including a detailed analysis of the net revenues and debt servicing sources.
- Definition of processes for making credit decisions, including clear and comprehensive assignment of competencies.
- Standardised credit documentation.
- Standardised processes for managing engagements with business partners which have been classified under intensified management.
- CPM notify key personnel in the DEPFA Group of material risk-related changes to support early risk identification which can include the circulation of a "Credit Issue Note", which provides detailed information on the risk-related changes.

Monitoring and reporting of credit risk takes place at regular intervals at the business partner and the portfolio levels.

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 and credit rating. 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 for all existing business of the DEPFA Group.
- Regularly analysing the defined early warning indicators. In the event of a trigger, a credit reassessment (e.g. rating, guarantees) is carried out for the corresponding cases and appropriate measures are initiated. If deemed appropriate, the cases are also included in a monthly monitoring cycle and presented in the DEPFA Group MRC.
- Analysing the impairment triggers and the necessary impairment calculations if applicable are carried out and submitted to the DEPFA Group MRC for consideration. CPM draw up a restructuring plan or a workout plan for critical and impaired exposures. The decision regarding restructuring or workout takes account of scenario analyses of the potential developments of the business partner, the explicit support available, collateral or the current market conditions. These are presented and approved in the DEPFA Group MRC.

- All critical facilities are monitored by CPM and reported on a monthly basis to the DEPFA Group MRC with specific focus on where there have been material changes. A summary is also circulated to the DEPFA BRC.

Minimising risk using collateral, including guarantees

For the purpose of calculating the EaD on derivative positions, cash collateral is taken into consideration where eligible netting agreements are in place with the effect of reducing the level of exposure and hence explicitly the credit risk. For financing transactions, financial securities and cash received can also reduce credit risk to the business partner. Guarantees are also taken into consideration by way of credit risk substitution where the guarantee is deemed beneficial and timely (available before technical default occurs). This has the effect of reducing credit risks by aligning the ultimate risk to that of the guarantor. In practice for public sector borrowers, intervention often takes place before there is need to call on the guarantee which affirms the approach of aligning the credit risk with that of the guarantor.

Credit portfolio[a)]

EaD figures used throughout this report are based on the definition as set out in CRD IV.

The CRD IV term 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 following analysis represents the remaining portfolio in the DEPFA Group from a risk perspective ("Core Portfolio") and excludes the transactions where the economic risk has been transferred to FMS Wertmanagement AöR.

The DEPFA Group continued to upgrade such positions to FMS Wertmanagement AöR during 2015 as set out in note 5 to the financial statements.

The EaD of the core portfolio of the DEPFA Group from a risk perspective amounted to €25.2 billion as of 31 December 2015, which is a €5.2 billion reduction since 31 December 2014 (€30.4 billion). The total reduction was driven mainly by scheduled amortisations and maturities partially offset by increases due to foreign exchange effects and interest rate developments during the year.

[a)] Forms an integral part of the audited 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

€bn	31.12.2015	31.12.2014
EaD of Core Portfolio	**25.2**	**30.4**
EaD netting impacts (derivatives, repos and collateral)	11.5	18.0
Difference between IFRS and EaD measurement basis	–	0.1
IFRS Balance Sheet	**36.7**	**48.5**

Expected Loss (“EL”)

The EL for a period of one year is a key management parameter for the portfolio. It is calculated for the entire portfolio, with the exception of trading book positions and positions for which a specific loan loss provision (“SLLP”) has been assigned.

The EL, which is calculated using PD, LGD and EaD, reduced to €2.5 million as of 31 December 2015 (31 December 2014: €3.7 million). This fall is largely due to improvements in ratings.

Country risk[a)]

Allocations to regions in the table below are based on the geographic location of the respective risk. Germany, Spain, Belgium and the US account for €16.7 billion, 66% of the DEPFA Group’s total exposure at the end of December 2015 (2014: €19.6 billion, 64%). The reduction is mainly due to maturities, scheduled amortisations in the lending portfolios as well as some sales, partly offset by changes in foreign exchange and interest rates.

DEPFA Group portfolio: Break-down according to region[a)]

EaD in €bn	31.12.2015	31.12.2014
Austria	1.3	1.4
Belgium	2.2	2.4
Emerging Markets[1)]	0.3	0.7
France	1.2	1.3
Germany	5.9	8.0
Ireland	0.7	0.5
Italy	0.6	0.6
Japan	0.3	0.4
Netherlands	1.1	1.3
Other Europe	1.2	1.7
Other Rest of World	0.9	1.5
Scandinavia	0.5	0.8
Spain	2.2	2.7
UK	0.4	0.6
US	6.4	6.5
Total	**25.2**	**30.4**

1) As per IMF definition

a) Forms an integral part of the audited financial statements

All country limits comply with a set of maximum country limits derived and calibrated with a VaR style credit portfolio model. In addition, an independent risk assessment is performed by a team of economists (Country Analysis Team) within the DEPFA Group who provide expert judgement in relation to the associated risks of maintaining exposures within a particular framework.

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.

US exposure is the highest concentration within the portfolio. 74% of the US exposure is AAA rated. The US exposure continued to reduce, albeit offset slightly due to the EUR / USD depreciation.

Exposure to Spain continues to represent an important component of the core balance sheet of the DEPFA Group but reduced by 20% during the year mainly due to maturities. During 2015 there were a number of rating upgrades in Europe which positively impacted the portfolio such as Spain, Italy and Slovenia reflecting improved fundamentals and a strong financing environment. Weaknesses remain however and close monitoring continues. Due to the public sector nature of all exposures within these countries, none of the portfolio is in arrears and all counterparties continue to perform within expectations.

Rating structure[a)]

While the DEPFA Group applies the standardised approach for CRD IV purposes, it does however use its own internal rating models. Based on the global economic environment, 2015 saw an improvement of rating levels in line with the external rating environment. For securitisations, the rating is derived or mapped from the second best external rating.

Overall there was a decrease in AAA rated exposures due mainly to a decrease in FMS Wertmanagement AöR money market exposures during the year. There was a significant move from AA– to AA mainly driven by rating upgrades to Belgian counterparties. Also there was an increase in A– from BBB+ linked to improvements in Spain.

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

EaD in € bn	31.12.2015	31.12.2014
AAA	9.9	12.1
AA+	1.9	3.1
AA	3.4	1.6
AA–	1.9	4.4
A+	3.1	2.4
A	0.6	0.7
A–	2.1	1.2
BBB+	1.4	2.4
BBB	0.3	1.8
BBB–	0.4	0.5
Sub Investment Grade	0.2	0.2
Total	**25.2**	**30.4**

[a)] Forms an integral part of the audited financial statements

Borrower classification[a)]

The following table sets out the portfolio by borrower classification according to the DEPFA Group's internal borrower classification. Financial institutions reduced due to scheduled maturities. Public Sector Entity ("PSE") also reduced relatively more than other segments, due to maturities, in addition to some changes to borrower classifications into Sovereign (Indirect).

DEPFA Group portfolio: Borrower classification

EaD in € bn	31.12.2015	31.12.2014
Corporation	0.3	0.3
Financial Institutions	2.2	2.8
Public Sector Entity (Direct)	4.9	7.3
Public Sector Entity (Indirect)	3.4	3.4
Regional Government (Direct)	2.8	3.8
Regional Government (Indirect)	1.9	2.1
Sovereign (Direct)	2.5	2.8
Sovereign (Indirect)	2.4	2.5
Structured Finance	4.2	4.2
Supranational	0.6	1.2
Total	**25.2**	**30.4**

Structured products[a)]

Further information regarding the following sub portfolios is disclosed below:

- State-backed and partially guaranteed securities;
- Structured entities inside and outside the group of consolidated companies.

The table below refers to nominals of guaranteed securities.

Overview of state-backed and partially guaranteed securities

			31.12.2015			31.12.2014
Product category	Nominal value € bn	Carrying value € bn	Fair value € bn	Nominal value € bn	Carrying value € bn	Fair value € bn
State-guaranteed structured securities €2.7 billion						
CDOs/ABS guaranteed by European states (mainly Germany (€2.920 billion) and the Federal State of Lower Austria (€0.577 billion)	2.7	2.7	2.7	2.8	2.8	2.8
State-backed structured securities €1.1 billion						
ABS for financing the state-backed US Social Housing Program	0.1	0.1	0.1	0.2	0.2	0.2
ABS for financing privately constructed buildings and facilities in the public interest for which interest payments and redemption payments are covered by public sector charges, and other government related ABS	1.0	1.2	1.1	1.0	1.2	1.1
Tranched securities which securitise state guaranteed (97%) US student loans €3.4 billion						
Securities which securitised student loans (FFELP[1)] student loans), of which at least 97% are guaranteed by the US State	3.4	3.3	3.1	3.4	3.3	3.2
Total	**7.2**	**7.3**	**7.0**	**7.4**	**7.5**	**7.3**

[1)] Federal Family Educational Loan Program

[a)] Forms an integral part of the audited financial statements

The carrying value of the above positions, all of which are included in "Financial investments" on the statement of financial position, represents the maximum exposure to credit risk of these assets.

Review of structured products

2015 saw a significant increase in downgrade risk Although Student loan ABS ("SLABS") transactions held within the DEPFA Group are backed by pools of loans that carry US Department of Education ("DoE") default insurance under the Federal Family Education Loan Program ("FFELP"), over half were placed on negative watch by the rating agencies through the year. This stems from the lower trend in repayment rates of FFELP student loans in recent years compared with historical norms as a result of slower prepayment rates during the recession and the fact that more borrowers are using deferment, forbearance or federal income-driven repayment plans. Due to this lower than expected rate of repayment, Moody's and Fitch Ratings are reviewing their methodology and assumptions for FFELP ABS and have indicated that some bonds may see multi-notch downgrades, even into sub investment grade territory, as a result of increased risk of missing legal final maturity dates, which is defined as an event of default under the trust documents. Notably, Standard & Poor's has taken a different approach as the rating agency believes it is too early to assess the final impact of the slowdown in the rate of repayment. Despite the payment slowdown, the rating agencies expect that existing FFELP bondholders will ultimately receive full repayment of principal and interest, although the timing of the recoveries will depend on the transaction structure.

2016 rating outlook is negative Although the extent and timing of the downgrades is still uncertain (dependant on finalisation of methodology and potential remedial measures), there is expected to be significant negative rating action for the DEPFA Group's portfolio in 2016. As of the end of December 2015, there was over €1.8 billion of the DEPFA Group's student loan transactions on negative watch by at least one rating agency. As a result, there is potential for a significant increase in risk weightings for individual transactions, with those transactions on negative watch from two rating agencies most at risk (6 transactions with an EaD of €426 million at year end). Fitch Ratings has also indicated that, all else being equal, the transactions with shorter legal maturities will see the bigger downgrades. As a result of these developments, the DEPFA Group had 7 transactions (total EaD of €645 million) on "Facilities in Focus" at year end 2015.

Underlying credit characteristics remain strong Despite the heightened downgrade risk in the portfolio, the credit characteristics of the underlying pools are still strong and are further protected by credit enhancement offered by the US federal government. Therefore, the risk of ultimate loss on these positions remains very low (as confirmed by the rating agencies). Helping offset the declines in prepayments and repayments more recently are an improving labour market, expansion of debt consolidation programmes, an ongoing seasoning of portfolios and recent issuer actions to mitigate these risks. The servicers responsible for the administration of student loans, especially Navient, are conscious of the impact of significant rating downgrades and are taking steps to support the notes. Historically, default rates, deferment and forbearance levels on FFELP loan pools have been positively correlated to the US unemployment rate. After declining from 7.4% in 2013 to 6.2% in 2014 and 5.3% in 2015 current consensus forecasts suggest a further reduction to 4.8% in 2016. This is credit positive for FFELP-backed SLABS as it should drive down default rates, along with deferment and forbearance levels. An improving employment and stronger economic activity should also lead to increased over-collateralisation levels due to improved recovery rates. An additional benefit to the FFELP-backed SLABS transactions held within the DEPFA Group is that the majority of the transactions are pre-2007 securitisations, which means that they contain a higher proportion of borrowers who graduated into a stronger job market and have already established their professional careers.

Strength of the US Government It is currently projected that the US economy will continue to perform relatively strongly in 2016 and that GDP will grow by approximately 2.4%, a similar level to 2014 and 2015. The Federal debt burden is also forecasted to decline for the first time in almost a decade. Risk for the federal government's rating therefore remains low.

Early Warning System and Non-performing exposures [a)]

The 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 (in particular before a contractual event of default occurs). This enables the DEPFA Group to start to take the necessary measures as early as possible to steer the risk and maximise value.

As of 31 December 2015 the DEPFA Group had no non-performing loans.

Impairments and provisions [a)]

Individual allowances All assets excluding the limited number of positions in the trading book can potentially be tested to determine whether they are impaired. In a first step it is determined whether there is an objective indication of an impairment. Following this, the extent of impairment is calculated as the difference between the current book value and the present value of all expected future cash flows discounted at the original effective interest rate of the asset. The following are major objective indications of an impairment:

- Considerable financial difficulties of the borrower;
- Overdue contractual interest payments or principal repayments or other breaches of contract;
- Increased probability that the borrower will become insolvent or will undergo a restructuring process; and
- Re-negotiations as a result of financial difficulties.

In the case of financial assets classified as available-for-sale ("AfS") the impairment is determined with reference to the market price.

The following factors in particular are taken into consideration for determining the actual amount of the impairment:

- The total exposure of the DEPFA Group to the borrower;
- The amount and timing of the expected interest payments and principal repayments;
- If applicable, the recoverable amount of collateral and the probability of successful recovery;
- The probable amount of costs for collecting outstanding amounts; and
- If available, the market price of the asset.

[a)] Forms an integral part of the audited financial statements

Incurred but not reported ("IBNR") allowances are calculated using risk parameters such as PD and LGD. The resultant expected loss in relation to a time horizon of one year is scaled using an IFRS-compliant conversion factor to the period which on average is required for identifying the impairment event.

Impairment process The impairment of all credit risks is approved by the DEPFA Group MRC and, depending on the amount, approval may also be required by the DEPFA EDC and DEPFA BRC. Such approval is preceded by a multiple stage process which is applicable in all subsidiaries throughout the DEPFA Group. The following processes have been implemented for identifying, analysing and measuring the credit risk:

- Annual review with re-rating (PD, LGD and EL) including review of supporter (including guarantor) and collateral;
- Where appropriate, covenant monitoring with a check to determine whether the specified covenants are being met;
- System monitoring on the basis of overdue items (interest, principal repayments and costs); and
- Early warning system to identify critical exposures that require close monitoring.

The DEPFA Group has a process in place to deal with non-performing loans. According to this process, non-performing exposures are reviewed at least once per year in order to determine whether it is necessary to adjust the provisions for losses on loans and advances. The Board must also review the adequacy of provisions for impairment losses and amounts written off. An overview of the development of allowances for losses on loans and advances can be found in note 20 to the financial statements.

Reversals of allowance for losses on loans and advances in the income statement amounted to €4 million (2014: €17 million). This relates to a release of IBNR allowances of €4 million in 2015 (2014: €17 million). In accordance with IAS 39, IBNR allowances are created only for loans and receivables for which there have not yet been any indications of an individual impairment. There is no specific loan loss provision as at the reporting date (2014: € nil).

With regard to the analysis of the impairments, it has to be borne in mind that provisions for losses on loans and advances do not include impairments in relation to exposures reported as derivatives or trading assets. Accordingly, defaults of business partners in relation to such exposures would mainly be recognised in "Net trading income/expense".

Direct write-ups, impairments and IBNR allowances for financial investments – income statement effects

Income statement effects (shown under reversals of allowance for losses on loans and advances) €m	**31.12.2015**	**31.12.2014**
IBNR allowances	–1	2
Total	**–1**	**2**

(b) Market risk

Definition[a)]

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;
- Tenor basis and FX Basis risk;
- Foreign exchange risk and
- Credit spread risk.

Organisation of market risk management[a)]

In line with the principles of the DEPFA Group's risk structure, the trading and banking book 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[a)]

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 and the economic profit and loss monitoring are performed daily.
3. Hedging of interest rate and foreign exchange risk.

Market risk, monitoring, management and reporting[a)]

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 trading and banking book 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 the daily operational 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.

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.

[a)] Forms an integral part of the audited financial statements

Furthermore, three 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
- VaR limits and
- Economic profit and loss movements

Market risks and the associated limits 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. VaR limits are reviewed annually and approved by the DEPFA BRC.

The market risk is monitored by a combination of VaR limits for all trading book and banking book positions. The sensitivities are also monitored by Market Risk. The daily management of the market risk positions is carried out in front office.

The market risk VaR (10-day holding period; 99% confidence level) for the DEPFA Group amounted to €3.6 million as of 31 December 2015 (31 December 2014: €7 million).

During 2015, the market risk VaR limit for the DEPFA Group was reduced to €15 million.

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 limits at year end:

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

€m	31.12.2015	31.12.2014
Total VaR[1]	**4**	**7**
Cross currency basis VaR	2	1
Interest rate VaR	1	7
Foreign exchange VaR	1	1
Limit	**15**	**25**
% utilisation	**24%**	**29%**

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

No VaR limit breach occurred during 2015.

The VaR assessment is complemented by further instruments such as sensitivity analysis as well as stress and back testing.

Sensitivity analysis Sensitivity analysis quantifies the impact of a specified change in individual market parameters on the value of the positions of the DEPFA Group. For instance, the interest rate sensitivity provides an indication of the change in economic present value which results from an isolated change of one basis point in the zero rates which are relevant for measurement purposes.

Back testing The quality of the risk measuring methods which are used is constantly monitored and optimised where appropriate by way of the daily comparison of VaR values and actual changes in present values which subsequently occur. For the quantitative assessment of the risk model, the DEPFA Group has used the traffic signal system of the Basel Capital Accord. In this process, the statistical (negative) outliers determined as part of the back testing process are counted within a period of 250 trading days. Overall, four outliers were observed for DEPFA Group during the past 12 months; these were mainly attributable to the market movements of interest rates. The risk model of the DEPFA Group is thus within an acceptable range.

Stress testing Stress scenarios show the market risk under extreme conditions compared to the VaR measurement which simulates the market risk under "normal" market conditions and is not to be understood as a standard for a potential loss in a market climate which is disadvantageous for the position of the DEPFA Group. At the DEPFA Group, uniform hypothetical stress scenarios throughout the DEPFA Group are calculated on a monthly basis for key risk drivers (interest rates, foreign currency rates) across all books. Historical stress scenarios are also simulated. An upward parallel shift of 200 bps in the interest rate curve would result in a decrease as at 31 December 2015 of approximately €29 million in the market value for all books of the DEPFA Group (2014: increase of €55 million).

Market risk reports [a)]

Market Risk prepares extensive market risk reports at the DEPFA Group level daily for various recipients:

- The daily market risk report is circulated to the DEPFA Group's senior management. It shows market risk VaR, limit utilisations and economic performance at the DEPFA Group level and also at various levels of detail.
- Daily sensitivity reports comprise analysis of the main risk factors at various sub portfolio levels and are made available to risk management and front office personnel as well as to the DEPFA Group's senior management.

[a)] Forms an integral part of the audited financial statements

Development of the relevant market risk types[a)]

General interest rate risk The total interest rate risk of the DEPFA Group amounted to approximately €1.44 million VaR as of 31 December 2015 (compared with €6.97 million as of 31 December 2014). On average, the interest rate risk of approximately €2.7 million for 2015 (max. €7.4 million; min. €0.5 million) was at a lower level than the previous year (average VaR for 2014 €5.0 million; max. €7.3 million; min. €2.7 million). Non-linear interest rate risks are insignificant.

The aggregate sensitivity of the DEPFA Group to interest rates affecting "Net trading income/expense" at 31 December 2015 was € nil (31 December 2014: €490 thousand) per basis point rise. In 2015, DEPFA Group has reduced interest rate sensitivity significantly by closing out open interest rate positions. New interest rate sensitivity triggers are in place and monitored closely (€+/–10,000 for portions of the curve (time buckets) as well as for the total sensitivity by currency).

Credit spread risk The credit spread risk reflects the potential change in the present value of positions as a result of changes in credit spreads. Risk measuring systems for determining credit spread risks exist for all relevant positions of the DEPFA Group. Most of the credit spread risk is attributable to assets eligible as cover for Asset Covered Securities and Lettres de Gage. Limits for credit spread risk are only applied for positions in the trading book and AfS positions. Limits for credit spread risk are not applied to LaR positions. However, sensitivities are calculated for all asset positions, including LaR positions.

Due to the business model of the DEPFA Group, the security holdings in the Asset Covered Securities and Lettres de Gage cover pools account for the majority of the DEPFA Group's positions which are sensitive to credit spread changes. The credit spread sensitivity of the overall portfolio (including the security holdings classified as LaR) amounted to €–13.0 million at the end of December 2015 to a one basis point increase in all credit spreads; of this figure, only €–0.05 million was attributable to the trading books (corresponding figures at the end of 2014 €–15.5 million, trading books €–0.05 million).

Foreign currency risk and other market risks The VaR on the foreign currency risk amounted to €1.0 million as of 31 December 2015; the corresponding figure as at 31 December 2014 was €1.0 million. The general strategy of the DEPFA Group is to hedge foreign currency risks on an IFRS basis as far as possible.

The DEPFA Group is not exposed to equity or commodity risks and inflation risks are hedged.

Concentration risk is currently measured via concentration of risk factors in the VaR calculation.

[a)] Forms an integral part of the audited financial statements

(c) Liquidity risk

Definition[a)]

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.

The DEPFA Group manages the funding and liquidity on a consolidated basis.

The DEPFA BRC is responsible for developing a strategy for the ongoing management of liquidity risk across the DEPFA Group and its entities, ensuring that it is consistent with the risk tolerance of the DEPFA Group. The Board is responsible for appointing the DEPFA Group ALCO and approving the DEPFA Group liquidity policies as well as DEPFA Group liquidity limits as proposed by DEPFA Group MRC.

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 limits and limit breaches, while the DEPFA Group ALCO responsibilities include defining liquidity strategy and monitoring of current liquidity positions and if necessary recommending the activation of liquidity contingency plans.

Liquidity Risk within the Risk Control function is responsible for identifying, monitoring, analysing and reporting 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)]

A risk tolerance system is used to limit the liquidity risk. Risk tolerance is integrated in the liquidity management process by means of triggers (limit system) in order to ensure a "survival period" in stress conditions. The limits applicable for risk tolerance are regularly determined and adjusted. 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 DEPFA BRC and is monitored daily.

Liquidity risk, monitoring, management and reporting[a)]

Liquidity Risk as part of the Risk Control function identifies, monitors, analyses and reports liquidity risk at the DEPFA Group level. Monitoring liquidity risks is facilitated by the daily reporting of the projected cumulative liquidity position, the monitoring of the liquidity buffer and of key liquidity metrics, and by ensuring a defined escalation process is in place. A liquidity contingency plan has been approved in this context, which outlines potential liquidity trigger events, and sets out the procedures for the management of liquidity events or a series of events or challenges that could potentially be presented.

[a)] Forms an integral part of the audited financial statements

Liquidity management reports are prepared daily on a consolidated basis and reported to the DEPFA Group senior management and Treasury front office. Liquidity reports corresponding to three scenarios are produced daily:

- Constant market and funding environment ("Base scenario");
- a more conservative bank specific risk scenario ("Risk scenario"); and
- a combined idiosyncratic and market wide liquidity shock event ("Stress scenario" – similar to the market conditions post Lehman default).

To produce the liquidity reports, contractual cash flows are combined with assumptions for contingent cash flows and the funding capacity of liquid assets. Assumptions of non-contractual cash flows reflect the scenario underpinning the report and are subject to regular back testing.

Limits are defined for these three scenarios at a DEPFA Group level. For the Base scenario, limits are defined out to ten years. For the Risk and Stress scenarios, limits are defined out to two years.

In addition to the daily calculated scenarios, the DEPFA Group has established additional liquidity stress testing, which simulates possible effects of a macro-economic, fiscal and political crisis on the liquidity situation of the DEPFA Group.

Additionally, under the regulatory "Requirements for the management of Liquidity Risk", the Central Bank of Ireland ("CBI") adopts a maturity mismatch approach whereby the DEPFA Group is required to analyse its cash inflows and outflows, bucketing them into pre-defined time bands as per their residual contractual maturity. The DEPFA Group must ensure and formally report monthly that it has sufficient available liquidity to cover 100 percent of outflows over the next 8 days and 90 percent of outflows over the subsequent 9 to 30 days.

Furthermore the DEPFA Group, in accordance with regulatory requirements outlined in CRD IV measures monitors and reports the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR") on a DEPFA Group basis. These are key tools applied by the bank in order to monitor its liquidity and funding position at a consolidated level and by significant currency.

The LCR is formally reported on a monthly basis. It is designed to promote short term resilience, ensuring that a financial institution has sufficient high quality liquid assets to survive a significant stress scenario lasting for one month. The DEPFA Group ensures that it maintains an adequate liquidity buffer to meet its liquidity needs and its regulatory requirements.

The NSFR is due to be implemented in 2018, but is already monitored on a quarterly basis by regulatory authorities in advance of formal limit adoption. Definitive requirements are still under review.

The NSFR is designed to promote resilience over a longer time horizon by creating additional incentives for banks to fund their activities with more stable sources of funding on an ongoing basis.

Development of the risk position

The DEPFA Group's one month cumulative liquidity position under the Base scenario amounted to €2.8 billion as at 31 December 2015 (31 December 2014: €4.3 billion).

The DEPFA Group continued to exceed all minimum liquidity ratio regulatory requirements from the CBI and other regulatory authorities during 2015 including CRD IV liquidity metrics. With respect to the CBI maturity mismatch report, the DEPFA Group was compliant during 2015 reporting ratios of 746% and 501% for sight to 8 days and over 8 days to 1 month respectively at 31 December 2015 (31 December 2014: 628% and 243%). The DEPFA Group reported an LCR of 667% (31 December 2014: 1,193%) and an NSFR of 117% at 31 December 2015 (31 December 2014: 116%).

The liquidity situation of the DEPFA Group vis a vis 2014 is in line with the reduction in the balance sheet size and remains stable. The DEPFA Group continues to expect that it will meet all contractual and regulatory obligations going forward.

The liquidity requirements for 2016, are dependent on:

- Collateral requirements as a result of changing market parameters (includes interest rates, foreign currency rates). The DEPFA Group has a policy which ensures all derivative contracts with major financial institutions are covered by a Credit Support Annex ("CSA"). Changes in the underlying market parameters could result in posting or receiving additional liquidity under such contracts; Changing requirements of the rating agencies regarding the necessary surplus in the coverpools; and
- The future development of the discounts for repo refinancing on the market and with the central banks.

(d) 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 risks are associated with most aspects of the DEPFA Group's business activities and comprise numerous widely differing risks.

Operational risk strategy

The DEPFA Group's primary aims are the early identification, recording, assessment, monitoring, prevention and mitigation of operational risk, as well as timely and comprehensive management reporting. The DEPFA Group does not attempt to completely eliminate operational risk but to minimise unexpected loss by limiting the operational risks of the DEPFA Group to a reasonable level. 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

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.

The DEPFA Group uses the following group-wide processes and method for management, measurement, monitoring and reporting of operational risks:

- Key Risk Indicator ("KRI") reporting – provide potential early warning of increased risk associated with non-attainment of control objectives;
- Operational Risk Self-Assessments ("ORSAs") – based on the identification of threats to business processes, the impact of those threats and the subsequent evaluation of controls in place to mitigate the risk; mitigation plans for high-rated risks are monitored by the Operational Risk department;
- Risk event management – the collection, reporting and analysis of internal risk event data enables the DEPFA Group to identify weak controls, ineffective processes or activities and system deficiencies; and ensures that the DEPFA Group takes appropriate action to mitigate any exposures; and
- New products – the New Product Process Committee ensures that all products can be managed and measured by the DEPFA Group's management information systems.

This consolidated information is used in order to determine the operational risk profile of the DEPFA Group.

Operational risk events are reported by Operational Risk to senior management and the DEPFA Group MRC on a monthly basis.

Risk measurement

The standardised approach for operational risk is followed for regulatory capital purposes. The capital requirement of the DEPFA Group for operational risks under this approach is €7.1 million as of 31 December 2015 (€15.2 million as of 31 December 2014).

The economic capital for operational risk amounted to €17 million as of 31 December 2015 (31 December 2014: €19 million).

Major operational risks of the DEPFA Group

The main operational risk faced by DEPFA Group in 2015 is the significant reliance on key staff and the risk of loss of key personnel resulting in potential resource and knowledge issues.

While the levels of staff turnover within the DEPFA Group remained stable throughout 2015, this risk still remains high.

(e) Business risk

The DEPFA Group's definition of business risk is "the risk of loss of profits due to changes in the external business environment that damage the underlying economics of the DEPFA Group". The main business risk that has been identified for the DEPFA Group is the risk of higher funding costs. It is a component of the ECap Pillar II calculation.

Funding costs may increase for the following three reasons:
- Higher funding requirement;
- Increase in the unsecured funding rate; and
- Counterparty exercises call optionality on liability hedging derivatives. Rehedging the liability may result in increased funding costs.

As part of the liquidity risk measurement, the increased funding requirement which would occur in conjunction with certain market events is simulated every month under a stress scenario. For funding rates, stressed credit spreads are used in the calculation of the potential funding cost. The DEPFA Group prudently assumes that the higher funding rate and the greater funding requirement happen simultaneously.

Business risk is not capitalised under Pillar 1.

(4) Internal capital adequacy assessment process ("ICAAP")

Economic capital and monitoring the risk-bearing capacity

Economic capital ("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 standard used by the DEPFA Group for the quantification of the potential losses, over a one year horizon, is that level of losses that the probability of exceeding it is less than 0.05%. This is a lower probability than that associated with the default of a financial institution with a high long-term credit rating from the external rating agencies (e.g. A– at Standard & Poor's).

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 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 IFRS, 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. These components are suitable for absorbing potential losses and acting as a risk buffer. Capital adequacy is achieved provided the level of AFR is over and above the economic capital.

The results of the capital adequacy assessment and stress testing are regularly presented to the DEPFA Group MRC, the Board and senior management, who take appropriate measures where necessary.

Result of the ICAAP of the DEPFA Group

Economic capital according to risk types and available financial resources €m	**31.12.2015**	**31.12.2014**	Change
Credit risk	365	534	–169
Market risk	38	45	–7
Operational risk	17	19	–2
Business Risk	1	–	+1
Total before diversification effect	**421**	**598**	**–177**
Total after diversification effect	**417**	**594**	**–177**
Available financial resources (AFR)	2,197	2,985	–788
Capital buffer	1,780	2,391	–611

The capital buffer has decreased by €611 million. This is mainly because of a reduction in AFR due to maturing subordinated debt.

Credit risk is the most significant risk type on the basis of the ICAAP and accounts for over 86% of the undiversified economic capital.

There is a significant economic capital buffer of nearly €1.78 billion over a one-year time horizon as of 31 December 2015 (31 December 2014: €2.4 billion). In terms of economic capital, the DEPFA Group was adequately capitalised throughout 2015.

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. In line with the common market standard, 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 2015 is explained in the following paragraphs:

Credit risk For calculating credit risk 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 may be generated. The credit risk economic capital is defined as the difference between the 99.95th percentile of the simulated loss distribution and the mean of this distribution. 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 €365 million as of 31 December 2015 (31 December 2014: €534 million) excluding diversification benefits due to correlation with other risk types. The decline relates to credit rating upgrades and amortisation in the portfolio.

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.

Operational risk The calculation of economic capital for operational risk is based on the standardised approach (past gross income figures are taken as indicators of operational risk) in accordance with Basel II. However for estimation of ICAAP, operational risk the standardised approach 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%). In 2015 a floor has been introduced 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 2016 the amount of business risk economic capital allocated is only €1 million.

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 several ad-hoc scenarios tailored specifically to its portfolio.

This concludes the “Risk management” section of the Directors’ report.

Regulatory capital and capital adequacy ratios

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

The DEPFA Group is regulated by the Central Bank of Ireland, which applies a capital/risk framework for measuring capital adequacy based on the CRD IV. The DEPFA Group uses the CRD IV standardised approach to calculate the RWA. During 2015, under this framework, banks were required to maintain a minimum tier 1 capital of 6.0% (2014: 5.5%) and a total capital of 8.0% (2014: 8.0%) of RWA (known as Pillar One requirements) determined on a transitional basis.

Under the framework following a Supervisory Review and Evaluation Process ("SREP"), the Central Bank of Ireland has imposed additional requirements on the DEPFA Group resulting in minimum capital requirements higher than those calculated under Pillar One. The additional requirements are only applicable to total own funds and are based on a combination of the Pillar One calculations and certain individual economic risk calculations which are described in the "Risk management" section of the Directors' report, (4) ICAAP. The DEPFA Group's capital was in excess of the Pillar One and SREP requirements under CRD IV requirements in 2015.

There were no breaches by the Bank of the capital ratios during 2015 (2014: no breaches). At 31 December 2015 the Bank's total capital ratio exceeds the minimum required ratio at 24.00% (31 December 2014: 22.64%).

At 31 December 2015, with a tier 1 capital ratio of 33.04% (31 December 2014: 27.22%) and a total capital ratio of 50.92% (31 December 2014: 42.39%), the DEPFA Group exceeds the minimum required ratios at group level on a transitional basis (Tier 1 capital ratio 6.0%, (2014: 5.5%), Total capital ratio 8.0% (2014: 8.0%)).

Regulatory capital

	CRD IV transitional basis	
€m	**31.12.2015**	**31.12.2014**
Common Equity Tier 1 capital ("CET1")	801	842
Total Tier 1 capital	1,318	1,481
Tier 2 capital	713	826
Total regulatory capital	**2,031**	**2,307**

Capital adequacy ratios

	CRD IV transitional basis	
	31.12.2015	**31.12.2014**
Risk weighted assets (€ m)	3,988	5,441
CET 1 capital ratio (%)	20.08%	15.48%
Tier 1 capital ratio (%)	33.04%	27.22%
Total capital ratio (Tier 1+2)	**50.92%**	**42.39%**

CRD IV, on a fully loaded basis, requires a minimum total capital ratio at a legal entity level of 8%, with a minimum CET1 ratio of 4.5% and a minimum tier 1 capital ratio of 6.0%. A number of capital buffers have been established under CRD IV. Of these, the Capital Conservation buffer will be phased in from 2016 (0.625% for 2016 and increasing to 2.5% by 2019). The capital conservation buffer of 2.5% is designed to withstand future periods of stress bringing the CET1 requirement to 7.0%. The capital conservation buffer also increases the total capital ratio requirement to 10.5%.

In addition, the local regulators can impose additional institution-specific buffers – Countercyclical Capital Buffer, the G-SII Buffer and the O-SII Buffer. These buffers aim to ensure that the capital requirements take account of the macro-financial environment in which banks operate. The purpose of the countercyclical capital buffer is to counteract the effects of the economic cycle on banks' lending activity, ensuring that banks accumulate during periods of economic growth a sufficient capital base to absorb losses in stressed periods. The countercyclical capital buffer ranges from 0.0% to 2.5% of RWA, the calculation of which is entity specific and calculated as a weighted average of the countercyclical buffer rates that apply in the countries where their credit exposures are located. Transition provisions apply, which set out the 'phase in' arrangements from 2014 to 2019.

Local regulators may also introduce a Systemic Risk Buffer of CET1 for the financial sector or one or more subsets of the sector, in order to prevent and mitigate long term non-cyclical systemic or macroprudential risks with the potential of serious negative consequences to the financial system and the real economy. This buffer will range from 0.0% to 3.0% of RWAs, but can be higher in certain circumstances.

These additional buffers do not currently have any impact on the DEPFA Group.

CRD IV introduced new eligibility requirements for inclusion of capital instruments in CET1, additional Tier 1 and Tier 2 capital.

The DEPFA Group has Alternative Capital Instruments ("ACI's") which are non-standard forms of capital that are generally referred to in the market as hybrid capital. Their inclusion in regulatory capital is impacted by the CRD IV requirements. The hybrid instruments of the DEPFA Group are 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 depends on whether the DEPFA Group has a contractual obligation to make payments from an issued financial instrument. These instruments are subordinated debt issued in the form of undated bonds via the issuance vehicles DEPFA Funding II LP, DEPFA Funding III LP and DEPFA Funding IV LP on which the DEPFA Group has no contractual obligation to make interest payments.

Under CRD IV these hybrid instruments no longer qualify for inclusion in Tier 1 regulatory capital. CRD IV contains transitional provisions which permit the grandfathering of existing instruments with a phase out of qualifying amounts from 1 January 2014 to 1 January 2022.

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

Regulatory capital		31.12.2015		31.12.2014
		CRD IV basis		CRD IV basis
€m	Transitional	Fully loaded	Transitional	Fully loaded
CET1 capital	801	776	842	812
Total Tier 1 capital	1,318	776	1,481	812
Tier 2 capital	713	849	826	946
Total capital	**2,031**	**1,625**	**2,307**	**1,758**

Capital adequacy ratios		31.12.2015		31.12.2014
		CRD IV basis		CRD IV basis
	Transitional	Fully loaded	Transitional	Fully loaded
Risk Weighted Assets (€m)	3,988	3,988	5,441	5,441
CET1 capital ratio (%)	20.08%	19.47%	15.48%	14.92%
Tier 1 capital ratio (%)	33.04%	19.47%	27.22%	14.92%
Total capital ratio (%)	**50.92%**	**40.75%**	**42.39%**	**32.31%**

Central Bank of Ireland Corporate Governance Code ("the Code")

DEPFA BANK plc is regulated by the Central Bank of Ireland ("CBI") and is subject to the requirements of the CBI's Corporate Governance Code for Credit Institutions and Insurance Undertakings, renamed the Corporate Governance Requirements for Credit Institutions with effect from 11 January 2016. DEPFA BANK plc is not required to comply with the additional disclosure requirements for major institutions.

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 corporate governance framework
- Changes to the DEPFA Group capital structure
- Major changes to the DEPFA Group corporate structure
- Changes to 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
- 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. 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 six scheduled meetings during 2015 and eight additional out-of-course meetings.

Attendance at Board meetings

	Board (Regular)		Board (Out-of-course)	
	A	B	A	B
Mr. P. Ryan[1] (Chairman) (appointed 1 January 2015)	6	6	8	7
Mr. E.-A. Brockhaus[1] (German)	6	6	8	5
Ms. F. Flannery	6	6	8	8
Mr. W. Groth[1] (German) (resigned 31 March 2015)	2	–	2	1
Mr. F. Hellwig[1] (German)	6	6	8	6
Dr. H. Horn (German)	6	6	8	8
Mr. A. Kearns[1] (resigned 23 November 2015)	5	4	7	7
Mr. C. Müller[1] (German)	6	6	8	8
Dr. C. Pleister[1] (German) (appointed 7 April 2015)	4	4	6	5
Mr. N. Reynolds (resigned 1 September 2015)	4	3	6	5
Dr. P. Schad (German)	6	6	8	5
Dr. H. Walter[1] (German) (resigned 4 February 2015)	–	–	–	–
Ms. S. Webb[1] (appointed 30 October 2015)	1	1	1	–

[1] Non-executive

Column A indicates the number of meetings held during 2015 which the Director was eligible to attend.
Column B indicates the number of meetings attended by each Director during 2015.

Membership

At 31 December 2015 there were six non-executive Directors and three executive Directors. The names of the Directors appear in the table above. Three of the non-executive Directors in office as at 31 December 2015 are considered to have been independent: Dr. Christopher Pleister, Mr. Pat Ryan and Ms. Susan Webb. 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. Extrapolations and forecasts are also prepared. 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

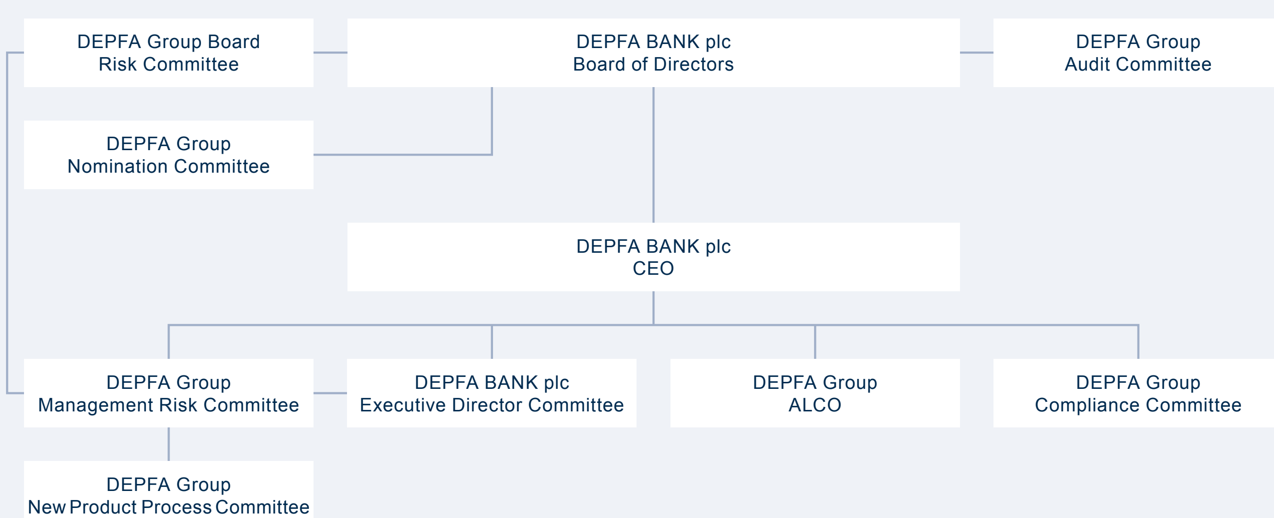
The role of the Chairman is to lead the Board, encourage critical discussions, challenge mindsets and promote effective communication between executive and non-executive Directors.

Chief Executive Officer

The Board has delegated responsibility for DEPFA BANK plc's operations, the execution of its strategy and responsibility for its compliance and performance to the Chief Executive Officer ("DEPFA BANK plc CEO"). The DEPFA BANK plc 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 ("DEPFA EDC"), to which the Board has authorised the Chief Executive Officer to appoint and sub-delegate certain matters.

Standing committees of the Board of Directors and management committees of the Chief Executive Officer

as at 31 December 2015



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 compliance with applicable rules and regulations.

Performance evaluation

The Board evaluated its own performance during the year, under the guidance of the Chairman. Each Director completed a questionnaire, the results of which were collated and presented for discussion at a Board meeting. The questionnaire was supplemented by individual meetings between the Chairman and each Director. Arising from the evaluation, a number of modifications were made to further strengthen the Board's functioning.

Induction and professional development

There is an induction process for new Directors. The induction is designed to familiarise Directors with the Company and its operations and comprises the provision of relevant briefing material and a programme of meetings with the heads of divisions and senior management. During 2015, briefings in relation to Directors Duties, Anti-Money Laundering, the current Regulatory Environment and the Internal Capital Adequacy Assessment Process were held for the benefit of the Directors.

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, in greater depth than would be practicable at Board meetings, matters for which the Board retains responsibility. The composition of such Committees is reviewed annually by the Board. A description of these Committees, each of which operates under Terms of Reference approved by the Board, is given below. Their membership is listed on page 1.

Audit Committee

The purpose of the Audit Committee is to carry out the following duties:

- Monitor the effectiveness of the internal control systems;
- Oversee the financial reporting process;
- 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 purpose of the Board Risk Committee is to carry out the following duties:

- Consider and recommend to the Board the DEPFA Group's Risk Appetite;
- Consider and recommend to the Board the DEPFA Group's Risk Strategy;
- Review on behalf of the Board the DEPFA Group's risk profile;
- Monitor the effectiveness of the DEPFA Group's risk management organisation relative to the risk profile of the DEPFA Group;
- Monitor the effectiveness of the process for monitoring compliance with applicable laws and regulations; and
- 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.

Nomination Committee

The purpose of the Nomination Committee is to carry out the following duties:

- Review and make recommendations to the Board on appointments to the Board;
- Review and make recommendations to the Board on the membership of Board Committees;
- Review succession planning at Director and Senior Management levels; and
- Review the Board's Diversity and Appointment policies.

The Nomination Committee met on five occasions in 2015, and considered topics including the re-appointment of the Chairman in accordance with the Central Bank of Ireland's Corporate Governance Requirements and the appointment of a new Director and Succession Planning. Appointments to the Board are made in accordance with the DEPFA BANK plc Appointments Policy and Diversity Policy. DEPFA BANK plc recognises the benefits of having a diverse Board. In considering Board appointments the Nomination Committee considers the benefits of all aspects of diversity in the skills, experience, expertise, background, race, gender, knowledge and other qualities of Directors. The Committee will prepare a comprehensive job description, taking into account the existing skills, knowledge, experience and diversity of the Board and the anticipated time commitment. The typical process for the appointment of a Director will involve 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 will be made to the Board by the Committee.

This concludes the Directors' report.

On behalf of the Board

Fiona Flannery	**Christopher Pleister**	**Pat Ryan**	**Elaine Tiernan**
Director	Director	Director	Company Secretary

24 March 2016

Statement of directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and applicable law including Article 4 of the IAS Regulation. The Directors have elected to prepare the Company financial statements in accordance with IFRS as adopted by the EU and as applied in accordance with the Companies Act 2014.

Under company law the Directors must not approve the Group and Company 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 Company and of the Group and Company's profit or loss for that year.

In preparing each of the Group and Company financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with both IFRS as adopted by the EU and IFRS as issued by the International Accounting Standards Board; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are also required by the Transparency (Directive 2004/109/EC) Regulations 2007 (the "Transparency Regulations"), to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the DEPFA Group.

The Directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the assets, liabilities, financial position and profit or loss of the Group and Company and which enable them to ensure that the financial statements of the Group and company comply with the provisions of the Companies Act 2014. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The directors are also responsible for preparing a Directors' Report that complies with the provisions of the Companies Act 2014.

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

On behalf of the Board

Fiona Flannery	**Christopher Pleister**	**Pat Ryan**	**Elaine Tiernan**
Director	Director	Director	Company Secretary

24 March 2016

Responsibility statement, in accordance with the Transparency Regulations

Each of the Directors in office, whose names and functions are listed on page 1 confirm that, to the best of each person's knowledge and belief:

- the DEPFA Group 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 at 31 December 2015 and its net loss for the year then ended;
- the Parent Company separate financial statements, prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the Companies Act 2014, give a true and fair view of the assets, liabilities and financial position of the Parent Company at 31 December 2015; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the DEPFA Group and Parent Company, together with a description of the principal risks and uncertainties that they face.

On behalf of the Board

Fiona Flannery	**Christopher Pleister**	**Pat Ryan**	**Elaine Tiernan**
Director	Director	Director	Company Secretary

24 March 2016

Independent Auditor's Report to the Members of DEPFA BANK plc

We have audited the financial statements ("financial statements") of DEPFA BANK plc for the year ended 31 December 2015 which comprise; the Consolidated Income Statement, the Consolidated Statement of Comprehensive Loss/Income, the Consolidated Statement of Financial Position, the Company Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated and Company Cash Flow Statements and the related notes. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2014. Our audit was conducted in accordance with International Standards of Auditing (ISAs) (UK and Ireland).

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

In our opinion:

- the Group financial statements give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2015 and of its loss for the year then ended;
- the Company statement of financial position gives a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2015;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union, as applied in accordance with the provisions of the Companies Act 2014; and
- the Group financial statements and Company financial statements 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.

2 Our separate opinion in relation to IFRS as issued by the IASB is unmodified

As explained in note 2 to the financial statements, the Group in addition to complying with its legal obligation to comply with IFRS as adopted by the European Union, has also complied with the IFRS as issued by the International Accounting Standards Board ("IASB"). In our opinion the Group financial statements comply with IFRS as issued by the IASB

3 Our conclusions on other matters on which we are required to report by the Companies Act 2014 are set out below

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 financial statements to be readily and properly audited and the financial statements are in agreement with the accounting records.

In our opinion the information given in the Directors' report is consistent with the financial statements and the description in the Corporate Governance Statement of the main features of the internal control and risk management systems in relation to the process for preparing the Group financial statements is consistent with the Group financial statements.

In addition we report, in relation to information given in the Corporate governance statement on pages 44 to 49, that:

- based on knowledge and understanding of the company and its environment obtained in the course of our audit, no material misstatements in the information identified above have come to our attention;
- based on the work undertaken in the course of our audit, in our opinion:
  - the description of the main features of the internal control and risk management systems in relation to the process for preparing the Group financial statements, and information relating to voting rights and other matters required by the European Communities Takeover Bids (Directive 2004/25/EC) Regulations 2006 and specified by the Companies Act 2014 for our consideration, are consistent with the financial statements and have been prepared in accordance with the Companies Act 2014; and
  - the Corporate Governance Statement contains the information required by the Companies Act 2014.

4 We have nothing to report in respect of matters on which we are required to report by exception

ISAs (UK & Ireland) require that we report to you if, based on the knowledge we acquired during our audit, we have identified information in the Annual Report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In addition, the Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of Directors' remuneration and transactions required by sections 305 to 312 of the Act are not made.

Basis of our report, responsibilities and restrictions on use

As explained more fully in the Statement of directors' responsibilities set out on page 50, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK & Ireland). Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors.

An audit undertaken in accordance with ISAs (UK & Ireland) involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group and Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Whilst an audit conducted in accordance with ISAs (UK & Ireland) is designed to provide reasonable assurance of identifying material misstatements or omissions it is not guaranteed to do so. Rather the auditor plans the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the financial statements as a whole. This testing requires us to conduct significant audit work on a broad range of assets, liabilities, income and expense as well as devoting significant time of the most experienced members of the audit team, in particular the engagement partner responsible for the audit, to subjective areas of the accounting and reporting.

Our report is made solely to the Company's members, as a body, in accordance with section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

N. Marshall

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

1 Harbourmaster Place
IFSC
Dublin 1, Ireland

24 March 2016

Financial statements

Consolidated income statement

Consolidated income statement €m	Note	For year ended on 31.12.2015	For year ended on 31.12.2014
Interest income and similar income		816	993
Interest expense and similar expenses		–828	–1,015
Net income from early repayment of liabilities		23	3
Loss on partial termination of loans		–	–36
Net interest income/expense	**7**	**11**	**–55**
Fee and commission income		–	2
Fee and commission expense		–1	–4
Net fee and commission expense	**8**	**–1**	**–2**
Net trading income/expense	9	1	–66
Net expense from financial investments	10	–	–3
Net expense/income from hedge relationships	11	–2	4
Other operating income	12	13	2
Other operating expense	12	–	–1
Total operating revenues/losses		**22**	**–121**
Reversals of allowance for losses on loans and advances	20	4	17
General administrative expenses	13	–72	–90
Other expense/income	14	–7	9
Pre-tax loss		**–53**	**–185**
Taxes on income	15	4	30
Net loss		**–49**	**–155**
Attributable to: Equity holders of the parent		–49	–155

The notes on pages 62 to 148 are an integral part of these consolidated financial statements.

On behalf of the Board

Fiona Flannery
Director

Christopher Pleister
Director

Pat Ryan
Director

Elaine Tiernan
Company Secretary

24 March 2016

Consolidated statement of comprehensive loss/income

Consolidated statement of comprehensive loss/income

€m	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
			2015			**2014**
Net loss	**–53**	**4**	**–49**	**–185**	**30**	**–155**
Other comprehensive loss/income						
Items that are or may be reclassified subsequently to income statement						
AfS reserve movement – net	4	–2	2	4	–3	1
Exchange differences	–4	–	–4	10	–	10
Total other comprehensive loss/income	**–**	**–2**	**–2**	**14**	**–3**	**11**
Total comprehensive loss	**–53**	**2**	**–51**	**–171**	**27**	**–144**
Attributable to:						
Equity holders of the parent	–53	2	–51	–171	27	–144

Disclosure of components of comprehensive loss/income

€m	2015	2014
Net loss	**–49**	**–155**
Other comprehensive loss/income	**–2**	**11**
Items that are or may be reclassified subsequently to income statement		
AfS reserve movement – net	2	1
Reclassification adjustments for gains/losses included in net income	2	1
Exchange differences	–4	10
Total comprehensive loss	**–51**	**–144**

The notes on pages 62 to 148 are an integral part of these consolidated financial statements.

On behalf of the Board

Fiona Flannery
Director

Christopher Pleister
Director

Pat Ryan
Director

Elaine Tiernan
Company Secretary

24 March 2016

Consolidated statement of financial position

Consolidated statement of financial position			
€m	Note	**31.12.2015**	**31.12.2014**
Assets			
Cash reserve	16	695	502
Trading assets	17	6,257	9,577
Loans and advances to other banks	18	3,395	6,523
Loans and advances to customers	19	6,567	9,282
Allowance for losses on loans and advances	20	–6	–10
Financial investments	21	15,950	18,055
Property, plant and equipment		4	4
Intangible assets		4	7
Other assets	22	3,847	4,532
Income tax assets	15/23	3	51
Current tax assets		*3*	*46*
Deferred tax assets		*–*	*5*
Total assets		**36,716**	**48,523**
Liabilities			
Liabilities to other banks	24	3,763	4,050
Liabilities to customers	25	1,037	1,530
Liabilities evidenced by certificates	26	20,894	27,518
Trading liabilities	27	6,373	9,794
Provisions	28	9	18
Other liabilities	29	2,188	2,561
Income tax liabilities	15/30	3	6
Current tax liabilities		*1*	*1*
Deferred tax liabilities		*2*	*5*
Subordinated capital	31	570	1,072
Total liabilities		**34,837**	**46,549**
Equity			
Equity attributable to equity holders			
Share capital	32	106	106
Share premium	32	1,142	1,142
Capital reserve	33	1,500	1,500
Preferred securities	34	1,067	1,136
Retained earnings	35	–1,902	–1,878
Other reserves	36	–34	–32
AfS		*–36*	*–38*
Currency translation and other		*2*	*6*
Total equity		**1,879**	**1,974**
Total equity and liabilities		**36,716**	**48,523**

The notes on pages 62 to 148 are an integral part of these consolidated financial statements.

On behalf of the Board

Fiona Flannery
Director

Christopher Pleister
Director

Pat Ryan
Director

Elaine Tiernan
Company Secretary

24 March 2016

Company statement of financial position

€m	Note	31.12.2015	31.12.2014
Assets			
Cash reserve	16	683	490
Trading assets	17	10,944	15,114
Loans and advances to other banks	18	5,796	9,318
Loans and advances to customers	19	290	543
Allowance for losses on loans and advances	20	–4	–6
Financial investments	21	1,771	1,436
Property, plant and equipment		4	4
Intangible assets		4	7
Other assets	22	181	246
Income tax assets	23	3	53
Current tax assets		*3*	*52*
Deferred tax assets		*–*	*1*
Total assets		**19,672**	**27,205**
Liabilities			
Liabilities to other banks	24	4,713	5,823
Liabilities to customers	25	1,233	1,744
Liabilities evidenced by certificates	26	1,019	2,109
Trading liabilities	27	10,894	15,150
Provisions	28	9	17
Other liabilities	29	140	155
Income tax liabilities	30	–	1
Current tax liabilities		*–*	*–*
Deferred tax liabilities		*–*	*1*
Subordinated capital	31	1,169	1,673
Total liabilities		**19,177**	**26,672**
Equity			
Equity attributable to equity holders			
Share capital	32	106	106
Share premium	32	1,142	1,142
Capital reserve	33	2,403	2,403
Retained earnings	35	–3,158	–3,125
Other reserves	36	2	7
AfS		*–*	*1*
Currency translation and other		*2*	*6*
Total equity		**495**	**533**
Total equity and liabilities		**19,672**	**27,205**

The notes on pages 62 to 148 are an integral part of these consolidated financial statements.

On behalf of the Board

Fiona Flannery	**Christopher Pleister**	**Pat Ryan**	**Elaine Tiernan**
Director	Director	Director	Company Secretary

24 March 2016

Statement of changes in equity

Consolidated statement of changes in equity – Group

€m	Share capital	Share premium	Capital reserve	Preferred securities	Retained earnings	Other reserves: Unrealised gains/losses on available-for-sale investments	Other reserves: Accumulated effects of currency translations and other	**Total equity**
Balance at 1 January 2014	**106**	**1,142**	**1,500**	**1,136**	**–1,723**	**–39**	**–4**	**2,118**
Net loss for the year	–	–	–	–	–155	–	–	–155
Net changes in available-for-sale investments, net of tax	–	–	–	–	–	1	–	1
Net changes in currency translation reserve	–	–	–	–	–	–	10	10
Total recognised comprehensive loss	**–**	**–**	**–**	**–**	**–155**	**1**	**10**	**–144**
Balance at 31 December 2014	**106**	**1,142**	**1,500**	**1,136**	**–1,878**	**–38**	**6**	**1,974**
Balance at 1 January 2015	**106**	**1,142**	**1,500**	**1,136**	**–1,878**	**–38**	**6**	**1,974**
Net loss for the year	–	–	–	–	–49	–	–	–49
Net changes in available-for-sale investments, net of tax	–	–	–	–	–	2	–	2
Net changes in currency translation reserve	–	–	–	–	–	–	–4	–4
Total recognised comprehensive loss	**–**	**–**	**–**	**–**	**–49**	**2**	**–4**	**–51**
Transactions with equity holders								
Buyback of preferred securities	–	–	–	–69	25	–	–	–44
Balance at 31 December 2015	**106**	**1,142**	**1,500**	**1,067**	**–1,902**	**–36**	**2**	**1,879**

Statement of changes in equity – Company

€m	Share capital	Share premium	Capital reserve	Retained earnings	Other reserves: Unrealised gains/losses on available-for-sale investments	Other reserves: Accumulated effects of currency translations and other	**Total equity**
Balance at 1 January 2014	**106**	**1,142**	**2,403**	**–3,010**	**1**	**8**	**650**
Net loss for the year	–	–	–	–115	–	–	–115
Net changes in available-for-sale investments, net of tax	–	–	–	–	–	–	–
Net changes in currency translation reserve	–	–	–	–	–	–2	–2
Total recognised comprehensive loss	**–**	**–**	**–**	**–115**	**–**	**–2**	**–117**
Balance at 31 December 2014	**106**	**1,142**	**2,403**	**–3,125**	**1**	**6**	**533**
Balance at 1 January 2015	**106**	**1,142**	**2,403**	**–3,125**	**1**	**6**	**533**
Net loss for the year	–	–	–	–33	–	–	–33
Net changes in available-for-sale investments, net of tax	–	–	–	–	–1	–	–1
Net changes in currency translation reserve	–	–	–	–	–	–4	–4
Total recognised comprehensive loss	**–**	**–**	**–**	**–33**	**–1**	**–4**	**–38**
Balance at 31 December 2015	**106**	**1,142**	**2,403**	**–3,158**	**–**	**2**	**495**

The notes on pages 62 to 148 are an integral part of these consolidated financial statements.

Cash flow statement

Consolidated and Company cash flow statement

		Group		Company	
€m	Note	2015	2014	2015	2014
Cash flows from operating activities					
Pre-tax loss		**–53**	**–185**	**–36**	**–143**
Adjustments for non-cash movements:					
Depreciation and amortisation of tangible and intangible assets		4	4	4	4
Foreign exchange (gains)/losses		–8	3	–	–2
Net change in accrued interest income and expense		–9	–39	–	–11
Reversals of allowance for losses on loans and advances		–4	–17	–2	–16
Loss on sale of investment securities and loans		–	3	43	43
Income from early repayment of liabilities		–23	–3	–	–
Other non cash items		–23	–74	–19	–175
Net decrease/(increase) in loans and advances to other banks		3,185	–1,356	3,605	–853
Net decrease in loans and advances to customers		2,550	2,388	255	1,982
Net decrease/(increase) in other assets		3	2	–3	–40
Net (decrease)/increase in liabilities to other banks		–303	–1,007	–1,129	403
Net decrease in amounts due to customers		–518	–2,661	–536	–2,483
Net (decrease)/increase in liabilities evidenced by certificates		–6,611	–1,142	–1,137	58
Net decrease in other liabilities		–9	–131	–13	–107
Net (increase)/decrease in trading assets and other receivables		–	–	–	–
Net (decrease)/increase in derivatives and trading liabilities		–227	42	–21	110
Tax received		46	–	52	–
Net cash from operating activities		**–2,000**	**–4,173**	**1,063**	**–1,230**
Cash flows from investing activities					
Acquisition/contributions to subsidiary		–	–5	–241	–
Net purchase/sale/maturity of investment securities		2,739	3,488	–127	543
Purchase of property, plant and equipment		–1	–4	–1	–4
Sale of property, plant and equipment		–	–	–	–
Purchase of intangible assets		–	–2	–	–2
Net cash from investing activities		**2,738**	**3,477**	**–369**	**537**
Cash flows from financing activities					
Repayment of subordinated liabilities		–500	–10	–500	–10
Buyback of preferred securities		–44	–	–	–
Annual state aid compensation		–	–36	–	–36
Net cash from financing activities		**–544**	**–46**	**–500**	**–46**
Net decrease in cash and cash equivalents		**194**	**–742**	**194**	**–739**
Cash and cash equivalents at the beginning of the year	16	**482**	**1,224**	**482**	**1,221**
Cash and cash equivalents at the end of the year	16	**676**	**482**	**676**	**482**
Included in the cash flows from operating activities for the year are the following amounts:					
Interest income received		1,115	1,184	475	299
Interest expense paid		–1,136	–1,245	–418	–342
Dividends received from Group entities		–	–	79	35

The notes on pages 62 to 148 are an integral part of these consolidated financial statements.

Notes to the financial statements

(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 and in other parts of the world, 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.

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 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 ("SoFFin"), which is managed by the Federal Agency for Financial Market Stabilisation ("FMSA").

There was no change in ownership of the Bank during 2015.

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.

The Rome branch of DEPFA BANK plc was closed on 20 March 2015. The London branch of DEPFA BANK plc was closed on 25 May 2015. The closure of the New York and Tokyo branches is planned for 2016. These branch closures do not have a significant impact on the results or financial position of the DEPFA Group.

(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 2015 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. Following the announcement that the ownership of the DEPFA Group would be transferred by HRE Holding to FMS Wertmanagement AöR and the subsequent execution of that transfer on 19 December 2014, the Directors have considered 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 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.

Recent accounting pronouncements The IASB have issued the following standards, policies, interpretations and amendments which were effective for the DEPFA Group for the first time in the year ended 31 December 2015:

- Annual Improvements to IFRSs 2011–2013 Cycle

These have been considered by the directors and have not had a significant impact on the DEPFA Group's consolidated financial statements.

Amendments and annual improvements The following are amendments to existing standards and interpretations that are EU endorsed and effective for the DEPFA Group's financial year from 1 January 2016:

- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Amendments to IAS 1: Disclosure Initiative
- Annual improvements to IFRSs 2012–2014 Cycle
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IFRS 11: Accounting for Acquisitions of Interest in Joint Operations
- Amendments to IAS 16 and IAS 41: Bearer Plants
- Amendments to IAS 19: Defined Benefit Plans: Employee Contributions
- Annual Improvements to IFRSs 2010–2012 Cycle

The Directors do not believe that the above amendments will have a significant impact on the DEPFA Group's consolidated financial statements.

New IFRSs and amendments not yet EU endorsed The following provides a brief outline of IFRSs which have not yet been EU endorsed:

- IFRS 15: Revenue from Contracts with Customers (effective for the DEPFA Group's 2017 consolidated financial statements)
- IFRS 9: Financial Instruments (effective for the DEPFA Group's 2018 consolidated financial statements)
- IFRS 14: Regulatory Deferral Accounts
- IFRS 16: Leases
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities – Applying the Consolidation
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 7: Disclosure Initiative

The above standards and amendments have not yet been EU endorsed. These standards and amendments will be applied for the purposes of the Group and Company financial statements with effect from their respective effective dates.

Other than IFRS 9, the DEPFA Group has not fully assessed the effects of these new standards and changes on its financial statements but does not expect significant impacts.

IFRS 9 Financial instruments
IFRS 9, 'Financial instruments' is the new accounting standard for financial instruments. It is effective from 1 January 2018 and replaces IAS 39 from that date. IFRS 9 introduces a number of very significant changes which will impact on the performance and financial position of the DEPFA Group. It will change the rules for classification and measurement, hedge accounting and impairment. Unless early adopted, the standard is effective for accounting periods beginning 1 January 2018. The principal changes between IFRS 9 and IAS 39, which are of relevance to the DEPFA Group are set out below:

Classification and measurement IFRS 9 introduces a different basis for determining the measurement categories of financial assets. The new standard requires banks to assess both their business model within which the asset is held, as well as the contractual cash flow characteristics of the particular asset. The classification and measurement categories are similar to those existing under IAS 39 rules, i.e. amortised cost, fair value through other comprehensive income and fair value through profit and loss.

A financial asset qualifies to be measured at amortised cost only if two criteria are met; firstly the asset must be part of a portfolio whose business model is to hold the assets for the collection of contractual cash flows only and secondly, the contractual terms result in cash flows that are solely payments of principal and interest. If an asset does not meet both of these criteria, then it is measured at fair value either through other comprehensive income or through profit and loss depending on the business model in which it is managed.

The DEPFA Group is conducting a detailed review of contractual cash flow characteristics across its portfolio. It expects that upon adoption of IFRS 9 there will be assets which are currently measured at amortised cost that will require measurement at fair value based on their cash flow characteristics. An assessment of the business models in which the assets are held has been completed and will be updated prior to the effective date of the new standard. The extent of the impact to the DEPFA Group's financial statements due to classification will depend on changes in the portfolio and the business models in place at the date of transition.

Impairment Under IFRS 9 banks are required to track and assess changes in credit risk on financial instruments since origination and determine whether the credit risk on those financial instruments has increased significantly since initial recognition. Under the IFRS 9 expected credit loss ("ECL") model, the change in credit risk should be based on the risk of default occurring and not changes in the amount of expected credit losses which may be expected on a financial instrument.

The standard outlines a 3-stage model for impairment based on changes in credit quality since initial recognition:

Stage 1 – includes financial instruments that have not had a significant increase in credit risk since initial recognition. For these assets, 12-month ECL is recognised. 12-month ECL is the ECL that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12 months. Therefore all assets in scope will have an impairment provision equal to at least 12-month ECL.

Stage 2 – includes financial instruments that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL is recognised, being the ECL 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 calculated on the net carrying amount of the asset.

IFRS 9 introduces the requirement to calculate ECL, which enables a more progressive approach to recognising credit loss than the current IAS 39 incurred loss model. Under IAS 39 a financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment ("a loss event"). Losses as a result of a future event ("expected losses") no matter how likely are not recognised. In contrast the IFRS 9 impairment model looks to the movement in the credit risk of an asset since its origination and requires recognition of expected loss when there is a significant increase in credit risk even where a loss event has not yet occurred.

The objective of the impairment requirements in IFRS 9 are to recognise lifetime ECL for all financial instruments for which there has been a significant increase in credit risk since initial recognition. This will result in earlier recognition of losses than under the previous 'incurred model'. Under the IFRS 9 impairment model the credit assessment is based on a relative increase in credit risk since initial recognition rather than the identification of an absolute point of credit risk at which an entity considers that the risk of default is likely.

The assessment of credit risk, and the estimation of ECL under IFRS 9 is required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment incorporates forward looking information in comparison to the incurred loss model of IAS 39.

Depending on the development of both the DEPFA Group's asset portfolio and credit conditions, it can be expected therefore that the resulting impairment charge could be more volatile. There may also be an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

Hedge accounting The requirements under IAS 39 for applying hedge accounting are simplified under IFRS 9 and are more closely aligned with the risk management activities of an entity, including enhanced disclosure requirements. A greater variety of hedging instruments and hedged risks are also permitted under IFRS 9 compared to IAS 39.

At this time, the DEPFA Group does not expect changes in hedge accounting rules to have a significant effect on the Group financial statements.

IFRS 9 implementation project in the DEPFA Group The DEPFA Group established a programme during 2015 which is jointly led by the Finance and Risk functions. The governance structure includes a Steering Committee responsible for overseeing the impact assessment and implementation of the requirements of the standard and is mandated to approve key decisions, model change specifications and implementation strategies. The project Steering Committee reports to the Executive Directors Committee on a regular basis and at least monthly. The IFRS 9 programme is sponsored jointly by the CEO and CRO.

An initial IFRS 9 impact assessment of the business processes, models and financial reporting processes was completed in 2015 which identified the key data and systems issues which are affected by implementation of the new standard. Key work streams within the implementation stage of the programme include classification & measurement, impairment, hedge accounting and data & systems.

Given the extent and complexity of design activity required to implement IFRS 9, in particular the number of significant judgemental areas to be concluded upon, the quantitative impact of transition to IFRS 9 on the DEPFA Group's stock of impairment provisions and its capital at initial application cannot be reliably estimated at this phase of the programme. The DEPFA group will provide more detailed and specific disclosure as the programme progresses, and reliable estimates of impact become available.

Change in estimate According to IAS 8.34, an accounting estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. In May 2014, following the announcement that the DEPFA Group will be transferred by HRE Holding to FMS Wertmanagement AöR, the DEPFA Group changed the estimate of Debit Valuation Adjustments ("DVA"), which are a part of the measurement of derivatives. The change arose from an observable change in the market based parameters used for determining the default risk of the DEPFA Group following the announcement. There was no income statement effect due to this change of estimate in 2015. The total income statement effect in 2014 arising from DVA including the change in estimate amounted to €–44 million.

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, 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 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".

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 normally 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.

In these consolidated financial statements, statement of financial position items of foreign operations, whose functional currency is not Euro, are translated using the closing rates at reporting date for the financial statements. For translating the expenses and income of these foreign operations, the average rates are used where this is a reasonable approximation to the actual transacted rates in place throughout the year. Differences resulting from the translation of the financial statements of the foreign operations are treated without any impact on the income statement and are shown in "Other reserves". The DEPFA Group of consolidated companies does not include any companies from high-inflation countries.

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 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 future 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.

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

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.

Commitment fees, together with related direct costs, for loan facilities where draw down is probable are deferred and recognised as an adjustment to the effective interest rate on the loan once drawn. Commitment fees in relation to facilities where draw down is not probable are recognised over the term of the commitment in "Net fee and commission expense".

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

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 and derecognition 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. In accordance with the derecognition requirements of IAS 39, a financial asset is derecognised when substantially all risks and rewards 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 IAS 39 are not fulfilled.

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

Categories pursuant to IAS 39 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.

For subsequent measurement according to IAS 39, all financial instruments must be classified according to this standard, recognised in the statement of financial position and measured according to its categorisation.

(a) Designated at fair value through profit or loss ("dFVTPL") If certain conditions are satisfied, financial assets or liabilities can be classified at fair value through profit or loss when they are initially recognised. A designation can be made, if the use of the valuation category means that an accounting mismatch is either avoided or considerably reduced, if the management and performance measurement of a portfolio of financial instruments are based on the fair values or if the instrument contains a separable embedded derivative.

No financial assets or liabilities were classified as dFVTPL in financial years 2015 or 2014.

(b) Held-for-trading A financial asset or a financial liability is held-for-trading if it is:
- acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- a derivative (except for a derivative that is a designated and effective hedging instrument).

Held-for-trading financial instruments are measured at fair value. Changes in fair value are recognised in the income statement. Held-for-trading financial instruments are stated under "Trading assets" and "Trading liabilities". Interest and the refinancing costs for the trading instruments, are shown in "Net trading income/expense".

If there is a difference between transaction price and fair value at trade date and the difference results from unobservable data that have a significant impact on the valuation of a financial instrument, the difference (so-called day one profit) is not recognised immediately in the income statement but is recognised over the life of the transaction. The remaining difference is treated directly in the income statement when the inputs become observable, when the transaction matures or is closed out. The DEPFA Group has had no such transaction during 2015 or 2014.

The DEPFA Group classifies certain derivatives and debt securities in the held-for-trading category.

(c) Loans and receivables ("LaR") are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables include bonded notes.

Loans and receivables are recognised in the line items "Loans and advances to other banks", "Loans and advances to customers" and "Financial investments" and are measured at amortised cost using the effective interest rate. Interest income from loans and receivables are shown in "Net interest income/expense". 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 income/expense". Such net gains and net losses are shown in "Net expense from financial investments" for financial investments. Impairments are shown under "Reversals of allowance for losses on loans and advances" for loans and advances and in "Net expense from financial investments" for financial investments.

(d) Held-to-maturity ("HtM") investments are non-derivative financial assets, with fixed or determinable payments and fixed maturity, that are quoted on an active market and that an entity has the positive intention and ability to hold to maturity. HtM financial investments are measured at amortised cost.

No financial assets were classified as HtM in financial years 2015 or 2014.

(e) Available-for-sale ("AfS") assets are those non-derivative financial assets, that are designated as available-for-sale and which are not categorised as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

AfS financial assets other than investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at fair value. Changes in fair value are recognised through other comprehensive income and then retained in a separate item of equity (AfS reserve) not affecting income until the asset is sold, withdrawn or otherwise disposed, or if an impairment is established for the financial asset in accordance with IAS 39.58 et seq., so that the cumulative loss previously recorded in other comprehensive income is then reclassified to the income statement. AfS investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost. If the objective evidence for the impairment of an AfS debt instrument is no longer present, the impairment must be reversed to the income statement. Impairments for an AfS equity instrument which have been recognised in the income statement are not permitted to be reversed through the income statement.

AfS financial assets are disclosed under "Financial investments". Interest income from AfS assets, which are debt securities, is stated under the position "Net interest income/expense". Net gains and net losses generated by the disposal of AfS financial instruments, in addition to changes in value as a result of impairment or write-ups to be recognised in the income statement are shown under "Net expense from financial investments".

(f) Financial liabilities are those non-derivative financial liabilities that are not classified as fair value through profit or loss.

Financial liabilities are measured at amortised cost. Financial liabilities that are not securitised 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 capital". Interest expense from financial liabilities are shown under the line item "Interest expense and similar expenses". In addition, the line item "Net interest income/expense" includes net gains and net losses attributable to repurchases or extinguishments of financial liabilities before maturity.

Embedded derivatives Derivatives may be embedded in another contractual arrangement (a host contract). The DEPFA Group accounts for an embedded derivative separately from the host contract when the host contract 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.

Classes IFRS 7 requires disclosures according to classes of financial instruments. The DEPFA Group mainly defined the IAS 39 measurement categories, loan commitments, financial guarantees, hedging derivatives and cash reserve as classes.

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 41 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 amortisation calculated to recognise in the income statement, the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising as determined at the statement of financial position date. 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 "Fee and commission income".

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 "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.

Derivative financial instruments and hedge accounting

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

Derivatives are measured at fair value. Changes in fair value are recognised in the income statement if the derivatives are not utilised in cash flow hedge accounting. The valuation results from stand-alone derivatives are shown in "Net trading income/expense" and from hedging derivatives in "Net expense/income from hedge relationships" together with the fair value changes of hedged items. The interest from all derivatives is disclosed in the position "Net interest income/expense". 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 or firm commitments (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 2015 or 2014.

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 or cash flows 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 for the period.

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 statement of financial position 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/income from hedge relationships”
- The carrying amount of an underlying non-AfS hedged item is adjusted by the fair value change attributable to the hedged risks and is recognised in “Net expense/income from hedge relationships”. If the underlying transaction is an AfS financial asset, the fair value change attributable to hedged risk is re-classified from other comprehensive income to “Net expense/income from hedge relationships”

The DEPFA Group uses fair value hedge accounting for micro-hedge relationships. Fair value hedge accounting for a portfolio of interest risks is not used. Ineffectiveness within the range permitted under IAS 39 is shown in the line “Net expense/income from hedge relationships”. Regression analysis is mainly used to measure effectiveness. The dollar offset method is applied in some cases 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 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 IFRS. 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”.

Offsetting financial instruments Financial assets and liabilities 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 2015 or 31 December 2014.

Impairment of financial assets Where financial assets are not measured at fair value through profit or loss, they must be tested for impairment. At each reporting date the DEPFA Group assesses, on a case-by-case basis, whether there is objective evidence of impairment. In order to determine if there is such objective evidence the following indicators of impairment are assessed:

- significant financial difficulties of the business partner;
- overdue contractual payments of either principal or interest or other breaches of contract;
- increased probability that the business partner will enter bankruptcy or other financial reorganisation;
- renegotiations due to economic problems; and
- when available, the market price of the asset indicating evidence of impairment.

Two types of impairment allowances are established: individual allowances and incurred but not reported ("IBNR") allowances.

Allowances for loans and advances are disclosed in a separate account, "Allowances for losses on loans and advances" rather than directly reducing the carrying amount of the assets. The income is shown under "Reversals of allowance for losses on loans and advances" in the income statement.

For impairment of financial investments the impairment charge is shown under "Net expense from financial investments" in the income statement.

Where subsequent measurement of financial assets is based on fair value through profit or loss, any impairments, in effect, are taken into account in determining their fair value.

The DEPFA Group records an impairment on loans and advances as well as financial investments if there is objective evidence of impairment.

In determining allowances on individually assessed accounts, the following factors are especially considered:

- the DEPFA Group's aggregate exposure to the business partner;
- the amount and timing of expected interest and redemption payments;
- the realisable value of collateral and likelihood of successful repossession;
- the likely deduction of any costs involved in recovering amounts outstanding; and
- the market price of the asset, if available.

Financial assets carried at amortised cost for which no evidence of impairment has been specifically identified on an individual basis are grouped according to their credit risk for the purpose of calculating the IBNR allowances.

All assets are individually assessed for impairment and therefore there is no requirement for collective impairment.

The IBNR allowances cover losses which have been incurred but have not yet been identified on loans subject to individual assessment. The parameters used to determine IBNR provisions are updated regularly and adjusted if necessary. The IBNR allowance is determined after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics;
- a judgement whether current economic conditions and credit conditions improved or deteriorated compared to the past;
- the estimated period between impairment occurring and being identified; and
- state of the current economic cycle.

Leases The leases entered into by the DEPFA Group are operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Provisions 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 operates two types of pension schemes – defined benefit schemes and defined contribution schemes. The defined benefit schemes relate only to former employees.

A defined contribution scheme is a pension plan under which the DEPFA Group pays fixed contributions into a separate fund. In these plans, the DEPFA Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. 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 OCI. The DEPFA Group determines the net interest expense (income) on the net defined benefit liability (asset) 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 (asset), taking into account any changes in the net defined benefit liability (asset) 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 defined contribution plans, the DEPFA Group pays contributions to privately administered pension plans on a mandatory, contractual or voluntary basis. The DEPFA Group has no further payment obligations once the contributions have been paid. The contributions are recognised as 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.

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.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the DEPFA Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred income tax related to the fair value re-measurement of available-for-sale investments and cash flow hedges, which are charged or credited through other comprehensive income, is also credited or charged directly to other comprehensive income and may be subsequently recognised in the income statement together with the related gain 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. In addition, borrowers' note loans and registered bonds as well as public sector bonds, to the extent they are used for trading purposes, are stated under other trading assets.

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.

Loans and advances "Loans and advances to other banks" and "Loans and advances to customers" are measured under IAS 39 with their amortised cost of purchase if they are not categorised dFVTPL or AfS or an underlying transaction of a fair value hedge. As of 31 December 2015 and as of 31 December 2014, the DEPFA Group did not have loans and advances which are categorised as AfS or dFVTPL.

Allowances for losses on loans and advances are shown under a separate line item, "Reversals of allowance for losses on loans and advances" in the income statement. Fair value changes attributable to hedged risks on loans and advances in qualifying fair value hedge relationships are shown under "Net expense/income from hedge relationships". All other income and expenses from loans and advances, including net gains and net losses, are shown under the position "Net interest income/expense" in the income statement.

Financial investments LaR and AfS securities are stated under "Financial investments". AfS financial assets are stated at their fair value. Changes in fair value of AfS financial assets are recognised in other comprehensive income thereby not affecting income statement until the asset is sold, disposed of, or if an impairment is established for the financial asset in accordance with IAS 39.58 et seq., in which case the cumulative gain or loss previously recorded in other comprehensive income is then taken to the income statement. IBNR allowances are not created for AfS financial assets. AfS financial assets which are hedged effectively against market price risks are recognised within the framework of fair value hedge accounting whereby fair value changes attributable to hedged risks are reclassified from other comprehensive income to the income statement under "Net expense/income from hedge relationships". LaR financial investments are measured at amortised cost. Individual allowances on LaR financial investments are directly deducted from the carrying amount of the assets. In the financial years 2015 and 2014, the DEPFA Group did not have any HtM financial assets.

Allowances for losses on loans and advances and provisions for contingent liabilities and other commitments

Allowances for losses on loans and advances are created if there is objective evidence that it will not be possible for the entire amount which is due in accordance with the original contractual conditions to be recovered. Allowances for losses on loans and advances are calculated mainly on the basis of expectations with regard to loan defaults, the structure and quality of the loan portfolio, as well as macro-economic parameters on an individual and portfolio basis.

Individual allowances For all recognisable default risks, the extent of the allowance for losses on loans and advances is calculated as the difference between the carrying amount of the asset and the present value of the expected future cash flows. The latter is calculated on the basis of the original financial effective interest rate in the case of fixed income instruments and on the basis of the interest rate at impairment date in the case of variable income instruments. Market rate changes do not have any effect in this respect. The increase in the present value of an adjusted receivable (so-called unwinding) which occurs over a period of time is shown as interest income.

Incurred but not reported allowances Under IAS 39.64, loans for which there is no objective indication of the need for an allowance on an individual basis are grouped together to form risk-inherent portfolios. IBNR allowances are set aside for these portfolios; these allowances are calculated based on current events and information with regard to significant changes with detrimental consequences which have occurred in the market, economic, legal or technological environment, as well as historical default rates.

Allowances for losses on loans and advances are broken down into allowances relating to loans and advances, provisions for contingent liabilities and other commitments such as irrevocable loan commitments. An allowance relating to loans and advances is shown as a negative item on the assets side of the statement of financial position, whereas a provision for contingent liabilities and other commitments is shown on the liability side of the statement of financial position. In the income statement, all effects are shown in "Reversals of allowance for losses on loans and advances" apart from time-related increases in the present value of impaired receivables, which are shown under the position "Net interest income/expense".

Property, plant and equipment Property, plant and equipment are normally shown initially at cost of purchase. 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 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 extent of the amortised cost of purchase. 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. 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 underlying transactions of an effective fair value hedge and which are not classified as dFVTPL are stated at amortised cost. The DEPFA Group has not designated any liabilities under the category dFVTPL. Fair value changes attributable to hedged risks on liabilities in qualifying fair value hedge relationships are shown under “Net expense/income 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 income/expense” in the income statement.

Sale and repurchase agreements Securities sold subject to repurchase agreements ("repos") are carried as assets as before 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 Refinancing positions of the trading portfolio measured at fair value are stated under trading liabilities. In addition, trading liabilities also 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 flexi-time credits and 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 capital In the event of bankruptcy or liquidation, subordinated capital may only be repaid after all non-subordinated creditors have been satisfied. Subordinated capital of the DEPFA Group encompasses subordinated liabilities and hybrid capital instruments.

Pursuant to IAS 32, the subordinated capital 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

The risk management disclosures are contained as indicated in the "Risk management" section of the Directors' report.

(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:

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. In 2014 the DEPFA Group implemented a refinement to the derivative valuation models in relation to counterparty risk parameters.

Collateralised derivative instruments are generally valued applying discount factors derived from OIS rates and consider counterparty risk parameters, except for derivatives which are part of the FMS Wertmanagement AöR counter effects described in note 5 to the financial statements. All derivatives are measured at fair value, however in determining the fair value of these derivatives, it has been determined that OIS rates and counterparty risk parameters are not relevant inputs to the fair valuation.

The DEPFA Group is required to fully transfer these positions to FMS Wertmanagement AöR. On this basis the DEPFA Group considers that the principal market for these positions is the bilateral market between the DEPFA Group and FMS Wertmanagement AöR. The transfers will be based on valuation principles consistent with those applied in the 31December 2009 financial statements of the DEPFA Group. The DEPFA Group therefore values these positions applying parameters consistent with those to be applied in determining the values at which they are expected to be fully transferred to FMS Wertmanagement AöR, that is, applying Euribor/Libor discounting and without considering counterparty risk parameters.

Allowance for losses on loans and advances The loan portfolio of the DEPFA Group is reviewed at least annually in order to identify any impairment losses on loans and advances. It is necessary to assess whether the estimated future cash flows of a loan portfolio are lower than the contractual flows. For this purpose, it is necessary to make judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or economic conditions that correlate with defaults on assets in the portfolio. The methods and assumptions, concerning the assessments of the extent and timing of the payment streams, are reviewed regularly to reduce any differences between estimated and actual defaults. In addition, the determination of IBNR provisions is based on a loss identification period as well as the expected loss based on statistical data.

Hedge accounting Relationships between underlyings 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 or the cash flow 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 continuously 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.

(5) Transfer of non strategic positions to FMS Wertmanagement AöR

In 2010, as part of the stabilisation measures granted by the Federal Republic of Germany to the HRE Group of which the DEPFA Group was then a part, the DEPFA Group transferred certain non strategic financial instrument positions to FMS Wertmanagement AöR, the German State Agency established in 2010 as the Federal Republic of Germany's winding up institution for the nationalised HRE Group and which is now the direct parent of the DEPFA Group.

The transfer, which was accounted for as a transaction between companies under common control, consisted of the direct sale or sub-participation of certain positions to FMS Wertmanagement AöR which led to the derecognition of those positions as well as other partial transfer methods which did not achieve immediate derecognition under IAS 39. Examples of transfers not achieving derecognition include credit risk transfers by financial guarantee or the concluding of back to back derivative transactions to transfer the market risk of derivatives but where the DEPFA Group retained the counterparty risk.

The transferred positions for which derecognition was not achieved has led to greater volumes of positions reported on the statement of financial position than would have been the case if full derecognition had been achieved. An "upgrade" process of the transfer methods for these positions has continued since 2010 and most positions have since been derecognised by the DEPFA Group following their full transfer to FMS Wertmanagement AöR.

However, as at 31 December 2015, certain positions still remain on the DEPFA Group statement of financial position. As at 31 December 2015 these statement of financial position counter effects, comprised "back-to-back" derivatives and related cash collateral. The following table summarises the statement of financial position items which include counter effects at 31 December 2015 and 31 December 2014:

FMS Wertmanagement AöR counter effects

	Group		Company	
€m	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Assets				
Trading assets	451	1,359	438	1,340
Loans and advances to other banks	230	1,028	226	1,009
Total	**681**	**2,387**	**664**	**2,349**
Liabilities				
Liabilities to customers	230	1,028	226	1,009
Trading liabilities	451	1,359	438	1,340
Total	**681**	**2,387**	**664**	**2,349**

Due to a requirement in line with the principle of burden sharing required by the European Commission in relation to the state aid proceedings, the DEPFA Group, subject to certain conditions, is required to pay certain annual fees to the Federal Republic of Germany, the terms and conditions of which were agreed in March 2013. The DEPFA Group makes full provision for the expected future amounts of such fees which are accounted for directly in equity. No provision is considered necessary at 31 December 2015 (31 December 2014: € nil). However, future developments could result in the requirements for additional provisions.

(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 2015 and 2014:
- DEPFA ACS BANK
- DEPFA Pfandbrief Bank International S.A. (formerly Hypo Pfandbrief Bank International S.A.)
- DEPFA BANK plc and other

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

The business segment DEPFA Pfandbrief Bank International S.A. includes the assets and liabilities in the DEPFA Pfandbrief Bank International S.A. cover pool as well as other ancillary business in that entity.

DEPFA BANK plc and other includes all other business in the DEPFA Group including asset servicing provided by the DEPFA Group on the positions transferred to FMS Wertmanagement AöR and 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. Other than the following items, the segments generated only the DEPFA Group external income and did not generate any income with other segments of the DEPFA Group. Accordingly, there are no further issues of consolidation between the segments.
- Included in the line item “Net interest income/expense” for the segment DEPFA ACS BANK is €245 million (2014: €283 million) relating to derivative interest and other interest payable to and receivable from the segment DEPFA BANK plc and other. The corresponding net expense is also reported in the line item “Net interest income/expense” in the segment DEPFA BANK plc and other.
- Included in the line item “Net interest income/expense” for the segment DEPFA Pfandbrief Bank International S.A. is €28 million (2014: €32 million) relating to derivative interest and other interest payable to and receivable from the segment DEPFA BANK plc and other. The corresponding net expense is also reported in the line item “Net interest income/expense” in the segment DEPFA BANK plc and other.
- Included in the line item “Net fee and commission expense/income” for the segment DEPFA ACS BANK is €–13 million (2014: €–9 million) relating to financial guarantees provided by the segment DEPFA BANK plc and other. The corresponding income is also reported in the line item “Net fee and commission expense/income” in the segment DEPFA BANK plc and other.
- Gains or losses included in the line item “Net expense/income from financial investments” from inter segment transfers for the segment DEPFA ACS BANK amounted to €–10 million (Nominal: €327 million) (2014: €–7 million (Nominal: €227 million)).

- Gains or losses included in the line item “Net expense/income from financial investments” from inter segment transfers for the segment DEPFA Pfandbrief Bank International S.A. amounted to €–22 million (Nominal: €337 million) (2014: €–7 million (Nominal: €188 million). Gains or losses included in the line item “Net interest income/expense” from inter segment transfers for the segment DEPFA Pfandbrief Bank International S.A. amounted to € nil (Nominal: € nil) (2014: €–1 million (Nominal: €90 million)).
- Included in the line item “General administrative expenses” for the segment DEPFA ACS BANK is €–21 million (2014: €–38 million) relating to charges from the segment DEPFA BANK plc and other. The corresponding income is also reported in the line item “General administrative expenses” in the segment DEPFA BANK plc and other.
- Included in the line item “General administrative expenses” for the segment DEPFA Pfandbrief Bank International S.A. is €–4 million (2014: €–2 million) relating to charges from the segment DEPFA BANK plc and other. The corresponding income is also reported in the line item “General administrative expenses” in the segment DEPFA BANK plc and other.

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.

Income/expense by segments

				1.1.–31.12.2015
€m	DEPFA ACS BANK	DEPFA Pfandbrief Bank International S.A.	DEPFA BANK plc and other	**Group**
Net interest income/expense	33	5	–27	11
Net fee and commission expense/income	–13	–	12	–1
Net trading income/expense	2	–	–1	1
Net expense/income from financial investments	–10	–22	32	–
Net income/expense from hedge relationships	–	1	–3	–2
Other operating income	3	1	9	13
Other operating expense	–	–	–	–
Total operating revenues/losses	**15**	**–15**	**22**	**22**
Reversals of allowance for losses on loans and advances	1	–	3	4
General administrative expenses	–27	–8	–37	–72
Other expense	–	–	–7	–7
Pre-tax loss	**–11**	**–23**	**–19**	**–53**
Taxes on income	2	1	1	4
Net loss	**–9**	**–22**	**–18**	**–49**
Material non-cash items other than depreciation and amortisations				
Net decrease in accrued interest income	200	10	89	299
Net decrease in accrued interest expense	–184	–9	–115	–308
Statement of financial position by segments				
Assets	24,721	2,869	9,126	36,716
Liabilities	23,909	2,737	8,191	34,837

Income/expense by segments

€m	DEPFA ACS BANK	DEPFA Pfandbrief Bank International S.A.	DEPFA BANK plc and other	Group
				1.1.–31.12.2014
Net interest income/expense	38	5	–98	–55
Net fee and commission expense/income	–9	–	7	–2
Net trading income/expense	1	–6	–61	–66
Net expense/income from financial investments	–10	–7	14	–3
Net expense/income from hedge relationships	–1	–	5	4
Other operating income	1	1	–	2
Other operating expense	–	–	–1	–1
Total operating revenues/losses	**20**	**–7**	**–134**	**–121**
Reversals of allowance for losses on loans and advances	2	–	15	17
General administrative expenses	–40	–7	–43	–90
Other income	–	–	9	9
Pre-tax loss	**–18**	**–14**	**–153**	**–185**
Taxes on income	–	3	27	30
Net loss	**–18**	**–11**	**–126**	**–155**
Material non-cash items other than depreciation and amortisations				
Net decrease in accrued interest income	70	5	116	191
Net decrease in accrued interest expense	–74	–5	–151	–230
Statement of financial position by segments				
Assets	30,740	3,303	14,480	48,523
Liabilities	30,121	3,202	13,226	46,549

For the purpose of the DEPFA Group geographical segments, a distinction is made between "Ireland", "Germany", "Rest of Europe" and "America/Asia" 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 from external customers by geographical region is presented below:

Revenue from external customers by region

€m		Ireland	UK	The Netherlands	Luxembourg	Rest of Europe	America/Asia	Group
Total operating revenues	2015	–13	37	–20	–15	–	33	22
	2014	–132	40	–22	–7	–5	5	–121
Non-current assets	31.12.2015	8	–	–	–	–	–	8
	31.12.2014	11	–	–	–	–	–	11

(7) Net interest income/expense

Net interest income/expense

€m	2015	2014
Interest income and similar income		
Lending and money-market business and government subscribed debt	502	670
Derivatives (net interest income)	314	323
	816	**993**
Interest expense and similar expenses		
Deposits and liabilities evidenced by certificates	–817	–981
Subordinated capital	–11	–34
	–828	**–1,015**
Net income from early repayment of liabilities	**23**	**3**
Loss on partial termination of loans	**–**	**–36**
Total	**11**	**–55**

Total interest income for financial assets that are not at fair value through profit or loss, amount to €502 million in 2015 (2014: €670 million). Total interest expense for financial liabilities that are not at fair value through profit or loss amount to €–828 million in 2015 (2014: €–1,015 million).

Net interest income includes gains from the buyback and other early repayment of liabilities before maturity of €23 million (2014: €3 million). These liabilities were included on the statement of financial position in "Liabilities evidenced by certificates".

Net interest income in 2014 included a loss of €–36 million (2015: € nil) on the partial termination of a loan to former sister entity, Deutsche Pfandbriefbank AG ("pbb"). The partially terminated loan is included in the statement of financial position in "Loans and advances to other banks".

(8) Net fee and commission expense

Net fee and commission expense

€m	2015	2014
Fee and commission income		
From lending operations	–	2
	–	**2**
Fee and commission expense		
From lending operations	–1	–4
	–1	**–4**
Total	**–1**	**–2**

Net fee and commission expense in 2015 includes €–1 million (2014: € nil) as a result of commission costs incurred for the financial guarantees related to specific assets from FMS Wertmanagement AöR.

(9) Net trading income/expense

Net trading income/expense

€m	2015	2014
From interest rate instruments and related interest and foreign exchange derivatives	1	–66
Total	**1**	**–66**

Included in net trading expense is a net amount of €13 million (2014: €–32 million) in derivative valuation effects relating to counterparty risk parameters including both the credit risk of the counterparty, credit valuation adjustment (“CVA”) of €1 million (2014: €12 million) and the DEPFA Group’s own credit risk, debit valuation adjustment (“DVA”) of €12 million (2014: €–44 million). Revaluation of stand-alone derivatives which do not satisfy the criteria of IAS 39 hedge accounting and other positions amounted to €–12 million (2014: €–34 million).

The significant change in DVA in 2014 included a change in accounting estimate following an observable change in the market based parameters used for determining the default risk of the DEPFA Group. This followed the announcement that the DEPFA Group would remain under indirect ownership of the Federal Republic of Germany.

(10) Net expense from financial investments

Net expense from financial investments

€m	2015	2014
Expense from financial investments	–	–3
Total	**–**	**–3**

Net expense from financial investments comprises gains and losses from disposals of financial investments and relate solely to instruments classified as Loans and receivables.

(11) Net expense/income from hedge relationships

Net expense/income from hedge relationships

€m	2015	2014
Result from fair value hedge accounting		
Result from hedged items	278	–1,025
Result from hedging instruments	–280	1,029
Total	**–2**	**4**

(12) Other operating income/other operating expense

Other operating income

€m	2015	2014
Other operating income		
Foreign exchange gains	8	–
Other	5	2
Total	**13**	**2**

Other operating income consists of €3 million (2014: € nil) from a VAT refund and €2 million (2014: €2 million) due to other items. Also included in other operating income is foreign exchange gains of €8 million (2014: €–3 million, included in other operating expense).

Other operating expense

€m	2015	2014
Other operating expense		
Foreign exchange losses	–	–3
Other	–	2
Total	**–**	**–1**

(13) General administrative expenses

General administrative expenses

€m	2015	2014
Personnel expenses	**–23**	**–27**
Wages and salaries	–19	–21
Social security costs	–2	–3
Pension expenses and related employee benefit costs	–2	–3
Other general administrative expenses	**–45**	**–59**
Depreciation/amortisation	**–4**	**–4**
On software	–3	–4
On property, plant and equipment	–1	–
Total	**–72**	**–90**

Other general administrative expenses also include auditors' remuneration of €0.6 million (2014: €0.8 million) and operating lease rentals of €7 million (2014: €8 million).

The average number of persons employed by the DEPFA Group during the year was 185 (2014: 217).

Pension expenses and related employee benefit costs include €–2 million defined contribution pension plan expenses (2014: €–3 million).

(14) Other expense/income

Other expense/income € m	2015	2014
Additions to/reversals of restructuring provision	–7	10
Other	–	–1
Total	**–7**	**9**

Other expense is mainly due to the net movement in provisions created for the strategic restructuring of the DEPFA Group.

(15) Taxes on income

Taxes on income € m	2015	2014
Current tax arising on current year results	–2	–2
Current tax arising on prior year results	5	29
Deferred tax arising on current year results	–	–1
Deferred tax arising on prior year results	1	4
Total	**4**	**30**

Current tax amounted to €3 million (2014: €27 million). The 2014 amount was significantly affected by the recognition of tax assets offset by current year tax charges.

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	2015	2014
Pre-tax loss	–53	–185
Applicable (legal) tax rate as % in Ireland	12.50%	12.50%
Expected (computed) tax effect	7	23
Tax effects:		
Arising from tax rate differences	–2	–
Arising from non deductible items	–2	–4
Tax losses not recognised as deferred tax assets	–5	–18
Arising from the write up of deferred taxes	1	–
Arising from prior years and other periodical effects	5	29
Accounted taxes on income/expense	**4**	**30**
Group tax ratio as %	7.55%	16.11%

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

Development of deferred taxes

	Group		Company	
€m	**2015**	**2014**	**2015**	**2014**
Deferred taxes recognised in the statement of financial position	–2	–	–	–
Difference to prior year thereof:				
Recognised in income statement	–	3	–	–
Recognised in equity	–	–3	–	–
Other	–2	–	–	–

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

Deferred tax assets and liabilities

	Group		Company	
€m	**2015**	**2014**	**2015**	**2014**
Financial investments	–5	2	–	–
Liabilities to other banks/customers	117	132	–	–
Other assets and liabilities	54	68	–	1
Loss carryforwards	11	5	–	–
Netting	–177	–202	–	–
Total deferred tax assets	**–**	**5**	**–**	**1**
Loans and advances to other banks/customers (including loan loss allowances)	2	5	–	–
Financial investments	32	38	–	1
Other assets and liabilities	134	152	–	–
Provisions	11	12	–	–
Netting	–177	–202	–	–
Total deferred tax liabilities	**2**	**5**	**–**	**1**

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 2015 the Group had total unused tax losses on which deferred tax assets have not been recognised of €1,754 million (31 December 2014: €1,723 million).

At 31 December 2015 the Company had unused tax losses on which deferred tax assets have not been recognised of €1,704 million (31 December 2014: €1,705 million).

The tax losses have no expiry date.

(16) Cash reserve

Cash reserve

€m	Group 31.12.2015	Group 31.12.2014	Company 31.12.2015	Company 31.12.2014
Balances with central banks other than mandatory reserve deposits	676	482	676	482
Mandatory reserve deposits with central banks	19	20	7	8
Total	**695**	**502**	**683**	**490**

Mandatory reserve deposits are restricted and are required to be held based on certain regulatory requirements.

(17) Trading assets

Trading assets

€m	Group 31.12.2015	Group 31.12.2014	Company 31.12.2015	Company 31.12.2014
Listed debt securities and other fixed-income securities	50	46	50	46
Positive fair values from derivative financial instruments (trading book)	6	58	6	58
Stand-alone derivatives (banking book)	6,201	9,473	10,888	15,010
Total	**6,257**	**9,577**	**10,944**	**15,114**
Of which transacted with Group companies	380	1,275	1,962	3,230

Amounts transacted with Group companies 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 related to FMS Wertmanagement AöR counter effects as described in note 5 to the financial statements, as well as derivatives which are economically hedging but which do not meet the detailed hedge accounting criteria under IFRSs.

(18) Loans and advances to other banks

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

€m	Group 31.12.2015	Group 31.12.2014	Company 31.12.2015	Company 31.12.2014
Public sector loans	330	410	–	–
Other loans and advances	3,065	6,113	5,796	9,318
Total	**3,395**	**6,523**	**5,796**	**9,318**
Of which due from Group companies	–	–	3,427	3,954

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

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

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

	Group		Company	
€m	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Repayable on demand	2,667	3,518	4,457	5,411
With contractual maturities				
up to 3 months	271	2,437	1,256	3,638
from 3 months to 1 year	235	66	–	183
from 1 year to 5 years	79	340	4	6
from 5 years and over	143	162	79	80
Total	**3,395**	**6,523**	**5,796**	**9,318**

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

There were no assets past due but not impaired and no assets impaired in 2015 and 2014.

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

(19) Loans and advances to customers

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

	Group		Company	
€m	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Public sector loans	6,567	9,062	290	323
Other loans and advances	–	220	–	220
Total	**6,567**	**9,282**	**290**	**543**
Of which due from Group companies	–	1,720	290	512

Balances due from Group companies 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.

Loans and advances to customers broken down by maturities as follows:

	Group		Company	
€m	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Repayable on demand	7	10	–	–
With contractual maturities				
up to 3 months	49	1,808	24	241
from 3 months to 1 year	180	378	1	2
from 1 year to 5 years	1,517	1,311	–	–
from 5 years and over	4,814	5,775	265	300
Total	**6,567**	**9,282**	**290**	**543**

There were no assets past due but not impaired and no assets impaired in 2015 and 2014.

(20) Allowance for losses on loans and advances

Movement in allowance for losses on loans and advances:

Specific allowance for losses on loans and advances

	Group		Company	
€m	2015	2014	2015	2014
At 1 January	–	**–69**	–	**–69**
Transfer to FMS Wertmanagement AöR	–	69	–	69
At 31 December	–	–	–	–

Incurred but not reported allowance for losses on loans and advances

	Group		Company	
€m	2015	2014	2015	2014
At 1 January	**–10**	**–31**	**–6**	**–27**
Amounts used	–	4	–	4
Reversals of incurred but not reported allowance	4	17	2	17
At 31 December	**–6**	**–10**	**–4**	**–6**
Total allowance for losses on loans and advances	**–6**	**–10**	**–4**	**–6**

Amounts recoverable under financial guarantees

	Group		Company	
€m	2015	2014	2015	2014
At 1 January	–	**69**	–	**69**
Transfer to FMS Wertmanagement AöR	–	–69	–	–69
At 31 December	–	–	–	–

On 3 February 2014, the guaranteed loans to which the recovery of losses relate were legally transferred to FMS Wertmanagement AöR resulting in their derecognition on the same date. The related financial guarantee was also terminated on the same date. No gains or losses arose on the transfers or the termination of the financial guarantee.

Interest accrued on impaired loans at 31 December 2015 was € nil (2014: € nil).

Carrying amounts of loans and receivables

Carrying amounts of loans and receivables

	Group		Company	
€m	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Carrying amount of loans and receivables that are neither impaired nor past due	9,962	15,805	6,086	9,861
Carrying amount of loans and receivables that are past due but not impaired	–	–	–	–
Carrying amount of individually assessed impaired loans and receivables	–	–	–	–
Total	**9,962**	**15,805**	**6,086**	**9,861**
Of which loans and advances to other banks	3,395	6,523	5,796	9,318
Of which loans and advances to customers	6,567	9,282	290	543

The above table includes specific allowances for losses on loans and advances and recovery of losses under financial guarantees. IBNR allowances for losses on loans and advances are excluded.

The allowances for losses on loans and advances were exclusively created for the measurement category loans and receivables.

Ratio of allowances to total lending

Ratio of allowances to total lending

	Group		Company	
€m	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Loan loss allowances (net of recovery of losses under financial guarantees)	–6	–10	–4	–6
Volume of total lending	9,956	15,795	6,082	9,855
Allowances to total lending	**–0.06%**	**–0.06%**	**–0.07%**	**–0.06%**

There were no assets past due but not impaired and no assets impaired in 2015 and 2014.

(21) Financial investments

Financial investments broken down by type as follows:

	Group		Company	
€m	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
AfS financial investments	**144**	**20**	**188**	**20**
Preferred securities issued by Group entity	–	–	44	–
Debt securities and other fixed-income securities	144	20	144	20
Group undertakings	–	–	**1,238**	**1,041**
Shares in Group undertakings	–	–	1,238	1,041
LaR financial investments	**15,806**	**18,035**	**345**	**375**
Debt securities and other fixed-income securities	15,806	18,035	345	375
Total	**15,950**	**18,055**	**1,771**	**1,436**
Of which due from Group companies	2,052	2,055	44	–

Balances due from Group companies on 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 above LaR amount includes €156 million (31 December 2014: € nil) on which financial guarantees have been received from FMS Wertmanagement AöR.

Development of Shares in Group undertakings Company

€m	**2015**	**2014**
At 1 January	**1,041**	**1,035**
Additions	240	49
Impairments	–43	–43
At 31 December	**1,238**	**1,041**

The Company has recognised impairment losses on the carrying value of its investments in certain subsidiaries. The impairment losses 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 supplied at 31 December 2015 was 5.5% (31 December 2014: 10.8%).

Financial investments broken down by maturities as follows:		Group		Company
€m	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Unspecified maturity – shares in Group undertakings	–	–	1,238	1,041
With contractual maturities				
up to 3 months	522	464	28	26
from 3 months to 1 year	927	1,486	116	12
from 1 year to 5 years	3,933	4,760	–	20
from 5 years and over	10,568	11,345	389	337
Total	**15,950**	**18,055**	**1,771**	**1,436**

Debt securities and other fixed income securities broken down by counterparty type as follows:		Group		Company
€m	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Bonds and debt securities				
By public issuers	13,481	15,443	489	375
By other issuers	2,469	2,612	–	20
Total	**15,950**	**18,055**	**489**	**395**

There were no assets past due but not impaired and no assets impaired in 2015 and 2014.

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

The carrying amount of the AfS and LaR financial investments that are neither past due nor impaired comes to €16.0 billion (2014: €18.1 billion) for the DEPFA Group and €1.8 billion (2014: €1.4 billion) for the Company.

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

On 30 September 2008, the DEPFA Group reclassified retrospectively as of 1 July 2008 trading assets out of the category held-for-trading amounting to €3.4 billion (Company: €3.4 billion) and financial investments out of the category available-for-sale of €44.26 billion (Company: €33.75 billion). In addition, trading assets of €0.75 billion (Company: €0.75 billion) were reclassified prospectively into financial investments of the category loans and receivables on 1 October 2008.

Since the date of reclassification, the DEPFA Group's financial assets with a (reclassified) carrying amount of approximately €7.136 billion (Company: €2.795 billion) matured. Thereof, €5.720 billion (Company: €1.380 billion) relate to reclassified AfS financial investments and €1.415 billion (Company: €1.415 billion) relate to reclassified trading assets.

Interest income for the DEPFA Group and Company reclassified trading instruments is now shown under net interest income; before reclassification interest income was shown in net trading income. In 2015, net interest income contains €1.3 million (2014: €1.7 million) of interest income for reclassified trading instruments. The reclassification of AfS assets did not cause a disclosure change of interest income as it is still shown under "Net interest expense/income".

Since the date of reclassification, Group securities with a reclassified carrying amount of €37.659 billion (Company: €34.861 billion) were transferred to FMS Wertmanagement AöR or sold. A net loss of €–54.86 million (Company: €5.40 million gain) was realised on the sold securities since the dates of reclassification.

At the date of reclassification the effective interest rate for the reclassified trading assets of the DEPFA Group which remain on the statement of financial position was between 5.07% and 5.04% (2014: 5.07% and 5.04%) and of the Company was between 5.07% and 5.04% (2014: 5.07% and 5.04%). The effective interest rate for AfS assets of the DEPFA Group was between 6.35% and 0.95% (2014: 6.35% and 0.51%) and of the Company was between 6.35% and 5.04% (2014: 6.35% and 5.04%).

The following tables summarise the carrying amounts and fair values as of 31 December 2015 as well as fair value gains and losses that would have been recognised in 2015 if the financial assets had not been reclassified.

Group reclassifications 2015

	into: Financial investments LaR			Effect in reporting period if no assets would have been reclassified (2015)	
		31.12.2015			
€m	Reclass date	Carrying amount	Fair value	Income statement	Changes in AfS reserve (after taxes)
out of: HfT financial investments	1.7.2008	–	–	–	–
	1.10.2008	30	30	–	–
		30	**30**	–	–
out of: AfS financial investments	1.7.2008	4,538	4,409	–	36
Total		**4,568**	**4,439**	–	**36**

Company reclassifications 2015

	into: Financial investments LaR			Effect in reporting period if no assets would have been reclassified (2015)	
		31.12.2015			
€m	Reclass date	Carrying amount	Fair value	Income statement	Changes in AfS reserve (after taxes)
out of: HfT financial investments	1.7.2008	–	–	–	–
	1.10.2008	30	30	–	–
		30	**30**	–	–
out of: AfS financial investments	1.7.2008	119	133	–	1
Total		**149**	**163**	–	**1**

Group reclassifications 2014		into: Financial investments LaR		Effect in reporting period if no assets would have been reclassified (2014)	
		31.12.2014			
€m	Reclass date	Carrying amount	Fair value	Income statement	Changes in AfS reserve (after taxes)
out of: HfT financial investments	1.7.2008	–	–	–	–
	1.10.2008	27	27	–	–
		27	**27**	–	–
out of: AfS financial investments	1.7.2008	5,087	5,023	–	45
Total		**5,114**	**5,050**	–	**45**

Company reclassifications 2014		into: Financial investments LaR		Effect in reporting period if no assets would have been reclassified (2014)	
		31.12.2014			
€m	Reclass date	Carrying amount	Fair value	Income statement	Changes in AfS reserve (after taxes)
out of: HfT financial investments	1.7.2008	–	–	–	–
	1.10.2008	27	27	–	–
		27	**27**	–	–
out of: AfS financial investments	1.7.2008	131	147	–	2
Total		**158**	**174**	–	**2**

(22) Other assets

Other assets	Group		Company	
€m	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Hedging derivatives – positive fair values (micro fair value hedge)	3,843	4,525	120	189
Other assets	4	7	61	57
Total	**3,847**	**4,532**	**181**	**246**
Of which due from Group companies	1	–	66	62

Balances due from Group companies 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.

(23) Income tax assets

Income tax assets

€m	Group 31.12.2015	Group 31.12.2014	Company 31.12.2015	Company 31.12.2014
Current tax assets	3	46	3	52
Deferred tax assets	–	5	–	1
Total	**3**	**51**	**3**	**53**

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 15 to the financial statements.

(24) Liabilities to other banks

Liabilities to other banks broken down by maturities as follows:

€m	Group 31.12.2015	Group 31.12.2014	Company 31.12.2015	Company 31.12.2014
Repayable on demand	3,760	4,050	3,986	4,172
With contractual maturities				
up to 3 months	3	–	727	1,651
from 3 months to 1 year	–	–	–	–
from 1 year to 5 years	–	–	–	–
from 5 years and over	–	–	–	–
Total	**3,763**	**4,050**	**4,713**	**5,823**
Of which due to Group companies	–	–	1,188	2,078

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

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

(25) Liabilities to customers

Liabilities to customers broken down by maturities as follows:

€m	Group 31.12.2015	Group 31.12.2014	Company 31.12.2015	Company 31.12.2014
Repayable on demand	230	1,046	226	1,027
With contractual maturities				
up to 3 months	–	–	28	61
from 3 months to 1 year	436	–	436	–
from 1 year to 5 years	17	21	189	193
from 5 years and over	354	463	354	463
Total	**1,037**	**1,530**	**1,233**	**1,744**
Of which due to Group companies	665	1,045	861	1,242

Balances due to Group companies 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.

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

(26) Liabilities evidenced by certificates

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

€m	Group 31.12.2015	Group 31.12.2014	Company 31.12.2015	Company 31.12.2014
Debt securities in issue				
Public sector bonds	20,048	25,712	173	303
Other debt securities	846	1,806	846	1,806
Total	**20,894**	**27,518**	**1,019**	**2,109**

Liabilities evidenced by certificates broken down by maturities as follows:

€m	Group 31.12.2015	Group 31.12.2014	Company 31.12.2015	Company 31.12.2014
With contractual maturities				
up to 3 months	178	3,685	91	204
from 3 months to 1 year	4,986	1,869	86	203
from 1 year to 5 years	5,958	9,504	359	622
from 5 years and over	9,772	12,460	483	1,080
Total	**20,894**	**27,518**	**1,019**	**2,109**

(27) Trading liabilities

Trading liabilities

€m	Group 31.12.2015	Group 31.12.2014	Company 31.12.2015	Company 31.12.2014
Negative fair values from derivative financial instruments (trading book)	33	75	33	75
of which: Interest based and foreign currency based transactions	33	75	33	75
Other trading liabilities	22	76	9	64
Stand-alone derivatives (banking book)	6,318	9,643	10,852	15,011
Total	**6,373**	**9,794**	**10,894**	**15,150**
Of which transacted with Group companies	156	153	3,587	4,198

Amounts transacted with Group companies 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 related to FMS Wertmanagement AöR counter effects as described in note 5 to the financial statements, as well as derivatives which are economically hedging but which do not meet the detailed hedge accounting criteria under IFRSs.

(28) Provisions

Provisions

€m	Group 31.12.2015	Group 31.12.2014	Company 31.12.2015	Company 31.12.2014
Pensions and similar obligations	2	2	2	2
Restructuring	6	5	6	5
IT Separation	–	4	–	3
Other	1	7	1	7
Total	**9**	**18**	**9**	**17**

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.

Discount rate and valuation parameters

The principal actuarial assumptions used were as follows:

Discount rate and valuation parameters

%	Group 31.12.2015	Group 31.12.2014	Company 31.12.2015	Company 31.12.2014
Discount rate	2.25	2.00	2.25	2.00
Rate of increase in pension obligations	1.75	1.75	1.75	1.75
Rate of increase in future compensation and vested rights	1.75	1.75	1.75	1.75
Rate of increase over career	0–1.50	0–1.50	0–1.50	0–1.50

Development of pension obligations

Pension obligations

€m	Group 2015	Group 2014	Company 2015	Company 2014
At 1 January	**2**	**1**	**2**	**1**
Total expense	–	–	–	–
Transfer to Group company	–	–	–	–
Change in financial assumptions	–	1	–	1
At 31 December	**2**	**2**	**2**	**2**

Expenses in relation to defined benefit schemes were € nil (2014: € nil).

The vast majority of employees have defined contribution plans. This means a defined percentage of fixed salary is paid into externally managed pension funds for employees as part of defined contribution pension schemes. The actuarial report received in relation to the details above was as at 31 December 2015 and is not available for public inspection.

Expenses in respect of contribution-based plans amounted to €–2 million (2014: €–3 million).

Development of restructuring and other provisions

Provisions – Group				2015				2014
€m	Restructuring	FMS WM related	IT Separation	Other	Restructuring	FMS WM related	IT Separation	Other
At 1 January	**5**	**–**	**4**	**7**	**17**	**33**	**27**	**13**
Additions	7	–	–	–	2	–	–	2
Transfer	–	–	–	–	–	–	–	–
Releases	–1	–	–	–1	–12	–2	–	–
Amounts used	–5	–	–4	–5	–3	–31	–23	–8
Unwind of discount	–	–	–	–	1	–	–	–
At 31 December	**6**	**–**	**–**	**1**	**5**	**–**	**4**	**7**

Provisions – Company				2015				2014
€m	Restructuring	FMS WM related	IT Separation	Other	Restructuring	FMS WM related	IT Separation	Other
At 1 January	**5**	**–**	**3**	**7**	**16**	**33**	**20**	**13**
Additions	7	–	–	–	2	–	–	2
Transfer	–	–	–	–	–	–	–	–
Releases	–1	–	–	–1	–11	–2	–	–
Amounts used	–5	–	–3	–5	–3	–31	–17	–8
Unwind of discount	–	–	–	–	1	–	–	–
At 31 December	**6**	**–**	**–**	**1**	**5**	**–**	**3**	**7**

Restructuring provisions mainly relate to obligations relating to the strategic management and restructuring of the DEPFA Group. The main components of the expenses are personnel expenses including severance payments, expenses for closure of locations and expenses for consulting.

FMS WM related provisions contain obligations related to the transfer of assets and liabilities to FMS Wertmanagement AöR.

IT Separation provisions contain obligations in connection with the separation of the DEPFA Group's IT infrastructure from that of the HRE Group. This provision was fully utilised during 2015.

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 and to obligations arising from the sale of certain receivables 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.

(29) Other liabilities

Other liabilities

€m	Group 31.12.2015	Group 31.12.2014	Company 31.12.2015	Company 31.12.2014
Hedging derivatives – negative fair values (micro fair value hedge)	2,176	2,540	115	118
Other liabilities	12	21	25	37
Total	**2,188**	**2,561**	**140**	**155**
Of which due to Group companies	8	–	–	–

Balances due to Group companies 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.

(30) Income tax liabilities

Income tax liabilities

€m	Group 31.12.2015	Group 31.12.2014	Company 31.12.2015	Company 31.12.2014
Current tax liabilities	1	1	–	–
Deferred tax liabilities	2	5	–	1
Total	**3**	**6**	–	**1**

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 15 to the financial statements.

(31) Subordinated capital

Subordinated capital

	Group		Company	
€m	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Subordinated liabilities	570	1,072	1,169	1,673
Total	**570**	**1,072**	**1,169**	**1,673**
Of which due to Group companies	510	510	1,143	1,146

Balances due to Group companies 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 capital broken down by maturities as follows:

	Group		Company	
€m	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
With contractual maturities	**210**	**712**	**809**	**1,313**
from 3 months to 1 year	–	500	–	500
from 1 year to 5 years	150	150	150	150
from 5 years and over	60	62	659	663
No fixed maturity	**360**	**360**	**360**	**360**
Total	**570**	**1,072**	**1,169**	**1,673**

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

Subordinated liabilities

€ m		Group		Company	
Issuer maturity	Interest rate	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
DEPFA BANK plc, 26.03.2024	5.40%	20	20	20	20
DEPFA BANK plc, 22.07.2014	CPI – Index Linked %	–	–	–	–
DEPFA BANK plc, 15.12.2015	Euribor +0.70%	–	500	–	500
DEPFA BANK plc, perpetual note	Euribor +1.00%	360	360	360	360
DEPFA BANK plc, 28.11.2016	Euribor +1.02%	40	40	40	40
DEPFA BANK plc, 21.12.2016	Euribor +1.02%	110	110	110	110
DEPFA Pfandbrief Bank International S.A., 18.5.2026	6.80%	25	25	–	–
DEPFA BANK plc, 30.10.2028	6.55%	–	–	280	280
DEPFA BANK plc, 08.06.2030	Euribor +0.88%	–	–	250	250
DEPFA BANK plc, 21.03.2032	5.099% until 2017, thereafter Euribor +1.94%	–	–	90	90
Total		**555**	**1,055**	**1,150**	**1,650**

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.

(32) Share capital and share premium

The total authorised number of ordinary shares at year end was 16,666,333,330 (2014: 16,666,333,330) with a par value of €0.30 per share (2014: €0.30 per share). All issued shares are fully paid.

The total authorised number of non-cumulative redeemable preference shares at year end was 10,000,000 (2014: 10,000,000) with a par value of €0.01 per share (2014: €0.01 per share). No non-cumulative redeemable preference shares have been issued to date.

Share capital and share premium – Group and Company €m	Number of Shares in issue	Ordinary Shares	Share premium	**Total**
At 31 December 2014	353,019,720	106	1,142	**1,248**
At 31 December 2015	353,019,720	106	1,142	**1,248**

(33) Capital reserve

Capital reserve		Group		Company
€m	**2015**	**2014**	**2015**	**2014**
At 1 January and at 31 December	**1,500**	**1,500**	**2,403**	**2,403**

The Capital reserve at 2015 and 2014 for Group and Company includes €1,500 million of capital contributions received from the former parent company, Hypo Real Estate Holding AG. These capital contributions are considered distributable. The Company Capital reserve at 2015 and 2014 includes other reserves of €903 million which are not considered distributable.

(34) Preferred securities

Preferred securities

€m	Group 31.12.2015	Group 31.12.2014	Company 31.12.2015	Company 31.12.2014
Hybrid capital instruments	1,067	1,136	–	–
Total	**1,067**	**1,136**	–	–

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

Hybrid capital instruments

Nominal € m	Interest rate	Group 31.12.2015	Group 31.12.2014
DEPFA Funding II LP, perpetual note	6.50%	362	400
DEPFA Funding III LP, perpetual note	7% until 2008, thereafter CMS 10 yr +0.1%	264	300
DEPFA Funding IV LP, perpetual note	5.029% until 2017, thereafter Euribor +1.87%	499	500
Total		**1,125**	**1,200**

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

The above hybrid instruments of the DEPFA Group are recognised as equity instruments in accordance with IAS 32.16. The classification of financial instruments as equity instruments or debt instruments depends on whether the DEPFA Group has a contractual obligation to make payments from an issued financial instrument. The above instruments are subordinated debt issued in the form of undated bonds via the issuance vehicles DEPFA Funding II LP, DEPFA Funding III LP and DEPFA Funding IV LP on which the DEPFA Group has no contractual obligation to make interest payments.

Accordingly, the carrying amount of these hybrid capital instruments is classified as equity.

FMS Wertmanagement AöR, the parent company of the DEPFA Group, launched a tender offer inviting holders of Perpetual Preferred Securities issued by DEPFA Funding II LP, DEPFA Funding III LP and DEPFA Funding IV LP to tender those securities for purchase by FMS Wertmanagement AöR.

In the tender offer, which ended on 18 May 2015, 90.5% of the DEPFA Funding II LP Preferred Securities, 87.9% of DEPFA Funding III LP Preferred Securities and 99.9% of DEPFA Funding IV LP Preferred Securities were tendered to and purchased by FMS Wertmanagement AöR.

At bondholder meetings on 20 May 2015 for each Preferred Securities issue, a clear majority in each case voted in favour of facilitating the purchase by DEPFA BANK plc of all three Preferred Security issues at the respective purchase price which was at a discount of €25 million to the carrying value. This allowed DEPFA BANK plc to buy the Preferred Securities that were not tendered for purchase at their respective purchase price on 26 May 2015.

On 6 March 2015 DEPFA BANK plc determined that the perpetual Preferred Securities issuing vehicle, DEPFA Funding IV LP, would not make payments on its €500,000,000 Preferred Securities (XS0291655727) on the next distribution payment date scheduled for 21 March 2015.

Similarly, on 22 May 2015 DEPFA BANK plc determined that DEPFA Funding III LP would not make payments on its €300,000,000 Preferred Securities (DE000A0E5U85) on the next distribution payment date scheduled for 8 June 2015.

On 15 October 2015 DEPFA BANK plc determined that DEPFA Funding II LP would not make payments on its €400,000,000 Preferred Securities (XS0178243332) on the next distribution payment date scheduled for 30 October 2015.

(35) Retained earnings

Retained earnings

		Group		Company
€m	**2015**	**2014**	**2015**	**2014**
At 1 January	**–1,878**	**–1,723**	**–3,125**	**–3,010**
Net loss	–49	–155	–33	–115
Discount on buyback of preferred securities	25	–	–	–
At 31 December	**–1,902**	**–1,878**	**–3,158**	**–3,125**

(36) Other reserves

Other reserves

		Group		Company
€m	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Unrealised losses/gains from available-for-sale investment securities	–36	–38	–	1
Accumulated currency translation reserve and other	2	6	2	6
Total	**–34**	**–32**	**2**	**7**

Unrealised losses/gains from available-for-sale investment securities

		Group		Company
€m	**2015**	**2014**	**2015**	**2014**
At 1 January	**–38**	**–39**	**1**	**1**
Net gains/losses transferred to net loss/income, net of tax	2	1	–1	–
At 31 December	**–36**	**–38**	**–**	**1**

Accumulated currency translation reserve and other

		Group		Company
€m	**2015**	**2014**	**2015**	**2014**
At 1 January	**6**	**–4**	**6**	**8**
Net gains transferred to income statement	–15	–	–15	–
Net gains/losses from currency translation	11	10	11	–2
At 31 December	**2**	**6**	**2**	**6**

(37) 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	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
USD	7,609	8,319	3,655	5,052
JPY	2,071	1,445	2,632	–27
GBP	669	1,701	604	1,785
CHF	1,582	1,744	420	904
Others	1,050	1,729	550	–22
Total	**12,981**	**14,938**	**7,861**	**7,692**

Foreign currency liabilities

		Group		Company
€m	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
USD	7,643	8,287	3,691	5,013
JPY	2,069	1,448	2,628	–20
GBP	668	1,702	605	1,786
CHF	1,560	1,720	421	908
Others	1,050	1,723	550	–21
Total	**12,990**	**14,880**	**7,895**	**7,666**

As described in the "Risk management" section of the Directors' report, the general strategy of the DEPFA Group is to hedge foreign currency risks as far as possible. The negative amounts in the above table arise due to the effect of cross currency derivatives.

(38) Undiscounted cash flows of financial liabilities

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	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
up to 3 months	**4,744**	**4 ,222**	**5,621**	**2,563**
Of which from derivatives	349	466	439	680
Of which from non derivatives	4,395	3,756	5,182	1,883
from 3 months to 1 year	**6,841**	**9,142**	**2,042**	**7,438**
Of which from derivatives	818	1,013	1,254	1,364
Of which from non derivatives	6,023	8,129	788	6,074
from 1 year to 5 years	**10,473**	**15,042**	**5,203**	**6,579**
Of which from derivatives	3,347	4,023	4,375	5,299
Of which from non derivatives	7,126	11,019	828	1,280
from 5 years and over	**16,960**	**24,379**	**8,678**	**14,221**
Of which from derivatives	4,842	8,582	6,380	10,528
Of which from non derivatives	12,118	15,797	2,298	3,693

The management of liquidity risk is described in the “Risk management” section of the Directors’ report.

(39) Derivative financial instruments

Derivative financial instruments

€m	Group 31.12.2015	Group 31.12.2014	Company 31.12.2015	Company 31.12.2014
Assets				
Trading assets (note 17)	6,207	9,531	10,894	15,068
Other assets (note 22)	3,843	4,525	120	189
Total assets	**10,050**	**14,056**	**11,014**	**15,257**
Liabilities				
Trading liabilities (note 27)	6,351	9,718	10,885	15,086
Other liabilities (note 29)	2,176	2,540	115	118
Total liabilities	**8,527**	**12,258**	**11,000**	**15,204**

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 trading purposes or 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 fixed-rate securities, loans extended, promissory note loans and debt securities in issue. 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 securities, loans extended and debt securities in issue. However, some derivatives used for risk management purposes do not qualify for hedge accounting and are therefore classified as part of the "trading portfolio" 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

Interest rate swaps involve the exchange of fixed and variable rate interest payments between two parties at specified times based on a common nominal amount and maturity date. The nominal amounts are normally not exchanged.

Cross currency swaps have nominal amounts in two different currencies. The interest is paid in these two currencies. An exchange of the nominal amount often takes place at the beginning and at the end of the contract.

Interest rate and foreign currency risks reflect the material risks associated with such contracts. Where these are OTC transactions, counterparty default risk also exists.

Interest rate options are contracts that allow the purchaser to enter into contracts on financial instruments or to buy or sell an underlying variable, at a specified price at a specified point of time. The option writer is obligated to buy, sell or enter into a financial instrument if the purchaser chooses to exercise the option. Option contracts purchased or written by the DEPFA Group include caps and floors which are interest rate hedging instruments, as the agreed payment covers the difference in interest between the agreed interest rate and the market rate. Exposure to current and future movements in interest rates and the ability of the counterparties to meet the terms of the contracts represent the primary risks associated with interest rate options.

Forward foreign exchange contracts involve an agreement to exchange two currencies at a specific price and date agreed in advance. Exposure to changes in foreign currency exchange rates and foreign interest rates and the counterparty default risk are the primary risks associated with 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 from time to time. The fair values of derivative instruments held are set out below.

Volume of derivatives – Group at 31 December 2015				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	6,272	15,192	37,170	58,634	9,384	8,155
Call options	–	71	–	71	1	–
Put options	–	71	119	190	–	1
Total	**6,272**	**15,334**	**37,289**	**58,895**	**9,385**	**8,156**
Foreign currency based transactions						
Interest rate/currency swaps	2,152	1,235	646	4,033	655	306
Spot and forward currency transactions	2,525	–	–	2,525	10	65
Total	**4,677**	**1,235**	**646**	**6,558**	**665**	**371**
Total	**10,949**	**16,569**	**37,935**	**65,453**	**10,050**	**8,527**

Volume of derivatives – Group at 31 December 2014

€m	Notional amount – Remaining maturities: Less than 1 year	1 to 5 years	More than 5 years	Total	Fair value: Positive fair values	Negative fair values
Interest based transactions						
Interest rate swaps	11,117	17,145	46,765	75,027	13,449	11,913
Call options	–	91	–	91	2	–
Put options	–	71	119	190	–	2
Total	**11,117**	**17,307**	**46,884**	**75,308**	**13,451**	**11,915**
Foreign currency based transactions						
Interest rate/currency swaps	889	2,045	1,266	4,200	592	310
Spot and forward currency transactions	2,325	–	–	2,325	13	33
Total	**3,214**	**2,045**	**1,266**	**6,525**	**605**	**343**
Total	**14,331**	**19,352**	**48,150**	**81,833**	**14,056**	**12,258**

Volume of derivatives – Company at 31 December 2015

€m	Notional amount – Remaining maturities: Less than 1 year	1 to 5 years	More than 5 years	Total	Fair value: Positive fair values	Negative fair values
Interest based transactions						
Interest rate swaps	9,007	19,536	42,134	70,677	10,145	9,968
Call options	–	71	–	71	1	–
Put options	–	71	119	190	–	1
Total	**9,007**	**19,678**	**42,253**	**70,938**	**10,146**	**9,969**
Foreign currency based transactions						
Interest rate/currency swaps	5,693	3,438	2,113	11,244	839	936
Spot and forward currency transactions	4,404	–	–	4,404	29	95
Total	**10,097**	**3,438**	**2,113**	**15,648**	**868**	**1,031**
Total	**19,104**	**23,116**	**44,366**	**86,586**	**11,014**	**11,000**

Volume of derivatives – Company at 31 December 2014

€m	Notional amount – Remaining maturities: Less than 1 year	1 to 5 years	More than 5 years	Total	Fair value: Positive fair values	Negative fair values
Interest based transactions						
Interest rate swaps	19,586	22,811	53,493	95,890	14,337	14,167
Call options	–	91	–	91	2	–
Put options	–	71	119	190	–	2
Total	**19,586**	**22,973**	**53,612**	**96,171**	**14,339**	**14,169**
Foreign currency based transactions						
Interest rate/currency swaps	1,977	6,372	2,549	10,898	851	987
Spot and forward currency transactions	5,735	–	–	5,735	67	48
Total	**7,712**	**6,372**	**2,549**	**16,633**	**918**	**1,035**
Total	**27,298**	**29,345**	**56,161**	**112,804**	**15,257**	**15,204**

Derivatives counterparties – Group	31.12.2015		31.12.2014	
€m	Positive fair values	Negative fair values	Positive fair values	Negative fair values
OECD banks and financial institutions	10,050	8,490	14,056	12,224
Other companies	–	37	–	34
Total	**10,050**	**8,527**	**14,056**	**12,258**

Derivatives with FMS Wertmanagement AöR included in the above are:

Derivatives with Group companies – Group	31.12.2015		31.12.2014	
€m	Positive fair values	Negative fair values	Positive fair values	Negative fair values
OECD banks and financial institutions	380	165	1,275	153
Total	**380**	**165**	**1,275**	**153**

Derivatives counterparties – Company	31.12.2015		31.12.2014	
€m	Positive fair values	Negative fair values	Positive fair values	Negative fair values
OECD banks and financial institutions	11,014	10,963	15,257	15,170
Other companies	–	37	–	34
Total	**11,014**	**11,000**	**15,257**	**15,204**

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

Derivatives with Group companies – Company	31.12.2015		31.12.2014	
€m	Positive fair values	Negative fair values	Positive fair values	Negative fair values
OECD banks and financial institutions	367	156	3,241	4,198
Total	**367**	**156**	**3,241**	**4,198**

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

(40) 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.

As described in note 5 to the financial statements, in addition to the transfer of financial assets in the ordinary course of business, in 2010 the HRE Group, including the DEPFA Group, transferred certain non strategic positions to FMS Wertmanagement AöR.

Transferred financial assets that are not derecognised

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

	Group		Company	
€m	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Financial investments	–	–	8	8
Total	**–**	**–**	**8**	**8**

Carrying amounts of associated liabilities

	Group		Company	
€m	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Liabilities to other banks	–	–	8	7
Total	**–**	**–**	**8**	**7**

In addition to the above assets that are transferred, the DEPFA Group and the Company has also pledged assets with a carrying amount of €406 million (2014: €302 million) in relation to certain Guaranteed Investment Contract liabilities.

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: €14 million) as of 31 December 2015 (2014: €2.260 billion (Company: €2.604 billion)). 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

During 2010, DEPFA BANK plc migrated to the TARGET 2 system, which is a wholesale payment infrastructure for credit institutions across Europe. TARGET 2 is a real time gross settlement system for large volume interbank payments in Euro.

As a result of this migration, on 5 February 2010, a first floating charge was placed 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 participants 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.

The CBI implemented a new collateral management system for Eurosystem Credit Operations with effect from 26 May 2014.

Related to this, on 7 April 2014 DEPFA BANK plc granted 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 as described in note 5 to the financial statements.

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.

(41) 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 2015

€m	Carrying value	Fair value	Fair value hierarchy level Level 1	Level 2	Level 3
Assets					
Cash reserve (AC)	695	695	695	–	–
Trading assets (FV)	6,257	6,257	49	6,026	182
Loans and advances to other banks (AC)	3,395	3,394	2,918	6	470
Loans and advances to customers (net of allowance) (AC)	6,561	6,254	7	2,898	3,349
Financial investments (AC)	15,950	15,445	1,707	8,553	5,185
Category – available-for-sale (FV)	*144*	*144*	*122*	*22*	–
Category – LaR (AC)	*15,806*	*15,301*	*1,585*	*8,531*	*5,185*
Other assets – Hedging derivatives (FV)	3,843	3,843	–	3,843	–
Total	**36,701**	**35,888**	**5,376**	**21,326**	**9,186**
Liabilities					
Liabilities to other banks (AC)	3,763	3,763	3,763	–	–
Liabilities to customers (AC)	1,037	1,087	230	422	435
Liabilities evidenced by certificates (AC)	20,894	19,991	4,125	4,143	11,723
Trading liabilities (FV)	6,373	6,373	–	6,207	166
Other liabilities – Hedging derivatives (FV)	2,176	2,176	–	2,147	29
Subordinated capital (AC)	570	398	–	–	398
Total	**34,813**	**33,788**	**8,118**	**12,919**	**12,751**
Other items					
Contingent liabilities & loan commitments	7	–	–	–	–

Fair value of financial assets and liabilities – Group at 31 December 2014

€m	Carrying value	Fair value	Fair value hierarchy level Level 1	Level 2	Level 3
Assets					
Cash reserve (AC)	502	502	502	–	–
Trading assets (FV)	9,577	9,577	46	9,372	159
Loans and advances to other banks (AC)	6,523	6,477	4,069	1,901	507
Loans and advances to customers (net of allowance) (AC)	9,272	8,884	1,509	3,186	4,189
Financial investments	18,055	17,692	2,923	10,137	4,632
Category – available-for-sale (FV)	*20*	*20*	*20*	–	–
Category – LaR (AC)	*18,035*	*17,672*	*2,903*	*10,137*	*4,632*
Other assets – Hedging derivatives (FV)	4,525	4,525	–	4,520	5
Total	**48,454**	**47,657**	**9,049**	**29,116**	**9,492**
Liabilities					
Liabilities to other banks (AC)	4,050	4,050	4,050	–	–
Liabilities to customers (AC)	1,530	1,591	1,045	546	–
Liabilities evidenced by certificates (AC)	27,518	26,854	8,451	4,157	14,246
Trading liabilities (FV)	9,794	9,794	–	9,645	149
Other liabilities – Hedging derivatives (FV)	2,540	2,540	–	2,517	23
Subordinated capital (AC)	1,072	865	–	–	865
Total	**46,504**	**45,694**	**13,546**	**16,865**	**15,283**
Other items					
Contingent liabilities & loan commitments	22	–	–	–	–

Fair value of financial assets and liabilities – Company at 31 December 2015

€m	Carrying value	Fair value	Fair value hierarchy level Level 1	Level 2	Level 3
Assets					
Cash reserve (AC)	683	683	683	–	–
Trading assets (FV)	10,944	10,944	50	10,698	196
Loans and advances to other banks (AC)	5,796	5,774	5,671	14	89
Loans and advances to customers (net of allowance) (AC)	286	313	25	–	288
Financial investments	1,771	1,808	240	206	1,362
Category – available-for-sale (FV)	*188*	*188*	*122*	*22*	*44*
Category – investments in Group companies (AC)	*1,238*	*1,238*	–	–	*1,238*
Category – LaR (AC)	*345*	*382*	*118*	*184*	*80*
Other assets – Hedging derivatives (FV)	120	120	–	120	–
Total	**19,600**	**19,642**	**6,669**	**11,038**	**1,935**
Liabilities					
Liabilities to other banks (AC)	4,713	4,713	4,713	–	–
Liabilities to customers (AC)	1,233	1,274	246	430	598
Liabilities evidenced by certificates (AC)	1,019	980	–	237	743
Trading liabilities (FV)	10,894	10,894	–	10,712	182
Other liabilities – Hedging derivatives (FV)	115	115	–	115	–
Subordinated capital (AC)	1,169	905	–	–	905
Total	**19,143**	**18,881**	**4,959**	**11,494**	**2,428**
Other items					
Contingent liabilities & loan commitments	470	28	–	–	–

Fair value of financial assets and liabilities – Company at 31 December 2014

€m	Carrying value	Fair value	Fair value hierarchy level Level 1	Level 2	Level 3
Assets					
Cash reserve (AC)	490	490	490	–	–
Trading assets (FV)	15,114	15,114	46	14,902	166
Loans and advances to other banks (AC)	9,318	9,327	7,013	2,219	95
Loans and advances to customers (net of allowance) (AC)	537	567	21	220	326
Financial investments	1,436	1,476	147	1,319	10
Category – available-for-sale (FV)	*20*	*20*	*20*	–	–
Category – investments in Group companies (AC)	*1,041*	*1,041*	–	*1,041*	–
Category – LaR (AC)	*375*	*415*	*127*	*278*	*10*
Other assets – Hedging derivatives (FV)	189	189	–	184	5
Total	**27,084**	**27,163**	**7,717**	**18,844**	**602**
Liabilities					
Liabilities to other banks (AC)	5,823	5,823	5,823	–	–
Liabilities to customers (AC)	1,744	1,811	1,080	553	178
Liabilities evidenced by certificates (AC)	2,109	2,060	–	602	1,458
Trading liabilities (FV)	15,150	15,150	–	14,993	157
Other liabilities – Hedging derivatives (FV)	118	118	–	117	1
Subordinated capital (AC)	1,673	1,245	–	–	1,245
Total	**26,617**	**26,207**	**6,903**	**16,265**	**3,039**
Other items					
Contingent liabilities & loan commitments	876	14	–	–	–

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	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Assets				
Loans and receivables (net)	25,762	33,830	6,427	10,230
Available-for-sale	144	20	188	20
Investment in Group entities	–	–	1,238	1,041
Held-for-trading	6,257	9,577	10,944	15,114
Cash reserve	695	502	683	490
Derivatives	3,843	4,525	120	189
Total	**36,701**	**48,454**	**19,600**	**27,084**
Liabilities				
Held-for-trading	6,373	9,794	10,894	15,150
Financial liabilities at amortised cost	26,264	34,170	8,134	11,349
Derivatives	2,176	2,540	115	118
Total	**34,813**	**46,504**	**19,143**	**26,617**

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 (2014: € nil) and for the Company (2014: € nil). There have been transfers of fair value instruments from Level 1 to Level 2 for the DEPFA Group of €22 million (2014: € nil) and for the Company of €22 million (2014: € nil).

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

Changes in Level 3 financial assets – Group

€m	Financial assets: Trading assets	Hedging derivatives	Total
At 1 January 2014	**74**	**2**	**76**
Comprehensive income recognised in Income Statement	76	4	**80**
Purchases	–	–	**–**
Terminations	–	–	**–**
Change due to transfer to FMS Wertmanagement AöR	–74	–	**–74**
Settlements	–	–	**–**
Reclassifications into Level 3	83	–	**83**
Reclassifications out of Level 3	–	–1	**–1**
At 31 December 2014	**159**	**5**	**164**
At 1 January 2015	**159**	**5**	**164**
Comprehensive income recognised in Income Statement	23	–3	**20**
Purchases	–	–	**–**
Terminations	–	–	**–**
Change due to transfer to FMS Wertmanagement AöR	–	–	**–**
Settlements	–	–	**–**
Reclassifications into Level 3	–	–	**–**
Reclassifications out of Level 3	–	–2	**–2**
At 31 December 2015	**182**	**–**	**182**

Changes in Level 3 financial liabilities – Group

€m	Financial liabilities: Trading liabilities	Hedging derivatives	Total
At 1 January 2014	**74**	**38**	**112**
Comprehensive income recognised in Income Statement	74	–8	**66**
Purchases	–	–	**–**
Terminations	–	–9	**–9**
Change due to transfer to FMS Wertmanagement AöR	–74	–	**–74**
Settlements	–	–9	**–9**
Reclassifications into Level 3	75	11	**86**
Reclassifications out of Level 3	–	–	**–**
At 31 December 2014	**149**	**23**	**172**
At 1 January 2015	**149**	**23**	**172**
Comprehensive income recognised in Income Statement	23	–4	**19**
Purchases	–	–	**–**
Terminations	–6	–	**–6**
Change due to transfer to FMS Wertmanagement AöR	–	–	**–**
Settlements	–	–	**–**
Reclassifications into Level 3	–	11	**11**
Reclassifications out of Level 3	–	–1	**–1**
At 31 December 2015	**166**	**29**	**195**

Changes in Level 3 financial assets – Company

€m	Financial assets			Available for sale	
	Trading assets	Hedging derivatives	**Total**	Financial investments	**Total**
At 1 January 2014	**97**	**3**	**100**	–	–
Comprehensive income recognised in Income Statement	68	3	**71**	–	**–**
Purchases	–	–	**–**	–	**–**
Terminations	–10	–	**–10**	–	**–**
Change due to transfer to FMS Wertmanagement AöR	–74	–	**–74**	–	**–**
Settlements	–	–	**–**	–	**–**
Reclassifications into Level 3	85	–	**85**	–	**–**
Reclassifications out of Level 3	–	–1	**–1**	–	**–**
At 31 December 2014	**166**	**5**	**171**	–	–
At 1 January 2015	**166**	**5**	**171**	–	–
Comprehensive income recognised in Income Statement	21	–4	**17**	–	**–**
Purchases	–	–	**–**	44	**44**
Terminations	–	–	**–**	–	**–**
Change due to transfer to FMS Wertmanagement AöR	–	–	**–**	–	**–**
Settlements	–	–	**–**	–	**–**
Reclassifications into Level 3	10	–	**10**	–	**–**
Reclassifications out of Level 3	–1	–1	**–2**	–	**–**
At 31 December 2015	**196**	–	**196**	**44**	**44**

Changes in Level 3 financial liabilities – Company

€m	Financial liabilities		
	Trading liabilities	Hedging derivatives	**Total**
At 1 January 2014	**97**	**9**	**106**
Comprehensive income recognised in Income Statement	67	–6	**61**
Purchases	–	–	**–**
Terminations	–10	1	**–9**
Change due to transfer to FMS Wertmanagement AöR	–74	–	**–74**
Settlements	–	–8	**–8**
Reclassifications into Level 3	77	5	**82**
Reclassifications out of Level 3	–	–	**–**
At 31 December 2014	**157**	**1**	**158**
At 1 January 2015	**157**	**1**	**158**
Comprehensive income recognised in Income Statement	21	–	**21**
Purchases	–	–	**–**
Terminations	–6	–1	**–7**
Change due to transfer to FMS Wertmanagement AöR	–	–	**–**
Settlements	–	–	**–**
Reclassifications into Level 3	11	–	**11**
Reclassifications out of Level 3	–1	–	**–1**
At 31 December 2015	**182**	–	**182**

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 the with Finance department. The Finance department provides accounting-related data. These include:

- Identification data, such as business identification numbers or International Securities Identification Numbers ("ISINs")
- Static data such as counterparties and maturities
- Accounting-relevant data, including nominals, accruals, unamortised fees and hedge accounting effects

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

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

Measurement of Level 2 instruments – Group at 31 December 2015

€m	Fair Value Assets	Fair Value Liabilities	Measurement methods	Observable parameters
Financial assets/liabilities at fair value	**9,891**	**8,354**		
Trading assets/trading liabilities	**6,026**	**6,207**		
	5,574	5,751	DCF models	Cap volatilities
				Credit spread
				Seasonality
				Recovery rate
				FX rate
				Swaption volatilities
				Yield curve
	452	456	Option pricing models	Cap volatilities
				CDS spread
				Correlation
				FX rate
				FX volatilities
				Recovery rate
				Seasonality
				Swaption volatilities
				Yield curve
Financial investments	**22**	–	DCF models	Yield curve
				Credit spread
				FX rate
Fair value hedge derivatives	**3,843**	**2,147**		
	3,378	1,820	DCF models	Cap volatilities
				Seasonality
				Yield curve
	465	327	Option pricing models	Cap volatilities
				Correlation
				FX rate
				Seasonality
				FX volatilities
				Swaption volatilities
				Yield curve

Measurement of Level 2 instruments – Group at 31 December 2014	**Fair Value**			
€m	Assets	Liabilities	Measurement methods	Observable parameters
Financial assets/liabilities at fair value	**13,892**	**12,162**		
Trading assets/trading liabilities	**9,372**	**9,645**		
	8,796	9,052	DCF models	Cap volatilities
				Credit spread
				Seasonality
				FX rate
				Swaption volatilities
				Yield curve
	576	593	Option pricing models	Cap volatilities
				CDS spread
				Correlation
				Dividend
				Fixing
				FX rate
				FX volatilities
				Seasonality
				Swaption volatilities
				Fixing volatilities
				Yield curve
Fair value hedge derivatives	**4,520**	**2,517**		
	3,966	2,140	DCF models	Cap volatilities
				Seasonality
				Yield curve
	554	377	Option pricing models	Cap volatilities
				Correlation
				FX rate
				FX volatilities
				Swaption volatilities
				Yield curve
				Swaption volatilities
				Yield curve

Measurement of Level 2 instruments – Company at 31 December 2015

€m	Fair Value Assets	Fair Value Liabilities	Measurement methods	Observable parameters
Financial assets/liabilities at fair value	**10,840**	**10,827**		
Trading assets/trading liabilities	**10,698**	**10,712**		
	9,795	9,802	DCF models	Cap volatilities
				Credit spread
				Seasonality
				Recovery rate
				FX rate
				Swaption volatilities
				Yield curve
	903	910	Option pricing models	Cap volatilities
				CDS spread
				Correlation
				FX rate
				FX volatilities
				Recovery rate
				Seasonality
				Swaption volatilities
				Yield curve
Financial investments	**22**	–	DCF models	Yield curve
				Credit spread
				FX rate
Fair value hedge derivatives	**120**	**115**		
	73	114	DCF models	Yield curve
	47	1	Option pricing models	Cap volatilities
				Correlation
				FX rate
				FX volatilities
				Swaption volatilities
				Yield curve

Measurement of Level 2 instruments – Company at 31 December 2014

€m	Fair Value Assets	Fair Value Liabilities	Measurement methods	Observable parameters
Financial assets/liabilities at fair value	**15,086**	**15,110**		
Trading assets/trading liabilities	**14,902**	**14,993**		
	13,800	13,869	DCF models	Cap volatilities
				Credit spread
				Seasonality
				FX rate
				Swaption volatilities
				Yield curve
	1,102	1,124	Option pricing models	Cap volatilities
				CDS spread
				Correlation
				Dividend
				Fixing
				FX rate
				FX volatilities
				Seasonality
				Swaption volatilities
				Fixing volatilities
				Yield curve
Fair value hedge derivatives	**184**	**117**		
	120	111	DCF models	Cap volatilities
				Fixing
				Seasonality
				Swaption volatilities
				Yield curve
	64	6	Option pricing models	Cap volatilities
				Correlation
				FX rate
				FX volatilities
				Swaption volatilities
				Yield curve

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

Measurement of Level 3 instruments – Group at 31 December 2015	Fair Value					
€m	Assets	Liabilities	Measurement methods	Observable parameters	Non-observable parameters	Parameter range (weighted average)
Financial assets/liabilities at fair value	**182**	**195**				
Trading assets/trading liabilites	182	166	Option price models	Swaption volatilities	ATM-Cap-Vola GBP-XO6M beyond 30/12/2035	31.88%
				Correlation	EUR-EONIA beyond 30/12/2065	1.48%
				Seasonality	FX-Vola EUR/CHF beyond 30/12/2025	0.00%
				FX volatilities	GBP-XO3M beyond 30/12/2065	1.82%
					GBP-XO6M beyond 30/12/2065	2.01%
				Cap volatilities	GBP-XOIS beyond 30/12/2065	2.14%
				Yield curve	Index-inflation correlations	20.00%
				FX rate		
Fair value hedge derivatives	–	29	Option price models	Yield curve	ATM-Cap-Vola EUR-EO6M beyond 30/12/2045	28.90%
					ATM-Swaption-Vola EUR-EO6M beyond 30/12/2045	36.00%
				Cap volatilities	FX-Vola EUR/CHF beyond 30/12/2025	12.32%
					FX-Vola EUR/USD beyond 30/12/2025	11.81%
				Correlation	FX-Vola JPY/AUD beyond 30/12/2016	13.02%
					FX-Vola JPY/USD beyond 30/12/2025	2.57%
					Historical FX-FX correlations	0.00%
				FX rate	Historical index-FX correlations	– 4.46%
					Historical index-index correlations	16.8% to 19.4%
				FX volatilities	Index-inflation correlations	0.00%
				Swaption volatilities		

Measurement of Level 3 instruments – Group at 31 December 2014

€m	Fair Value Assets	Fair Value Liabilities	Measurement methods	Observable parameters	Non-observable parameters	Parameter range (weighted average)
Financial assets/liabilities at fair value	**164**	**172**				
Trading assets/trading liabilities	159	144	Option pricing models	Swaption volatilities	ATM-Cap-Vola GBP-XO6M beyond 31.12.2034	36.70%
				Correlation	EUR-EONIA beyond 31.12.2064	1.41%
				Seasonality	FX-Vola EUR/CHF beyond 31.12.2024	8.79%
				FX volatilities	GBP-XO3M beyond 05.01.2065	2.20%
				Cap volatilities	GBP-XOIS beyond 05.01.2065	2.30%
				FX rate	Index-inflation correlations	20% to 98%
	–	5	DCF models		ATM-Cap-Vola CAD-XO3M beyond 31.12.2024	23.90%
				Yield curve	ATM-Swaption-Vola CAD-XO3M beyond 31.12.2034	16.79%
					CPIUK Cap Volatility beyond 31.12.2044	9.66%
					USD-XO6M beyond 31.12.2039	2.83%
Fair value hedge derivatives	5	23	Option pricing models	Yield curve	ATM-Swaption-Vola EUR-EO6M beyond 31.12.2044	22.20%
					ATM-Cap-Vola JPY-XO6M beyond 31.12.2024	68.14%
				Cap volatilities	ATM-Cap-Vola USD-XO3M beyond 31.12.2034	30.48%
					ATM-Swaption-Vola AUD-XO6M beyond 31.12.2027	22.34%
				Correlation	EUR-EO6M beyond 31.12.2064	1.53%
					EUR-EONIA beyond 31.12.2064	1.41%
				Seasonality	FX-Vola EUR/GBP beyond 31.12.2024	9.66%
					FX-Vola JPY/AUD beyond 31.12.2015	10.95%
				FX rate	FX-Vola JPY/CAD beyond 31.12.2024	15.58%
					FX-Vola JPY/USD beyond 31.12.2024	15.58%
				FX volatilities	Historical index-FX correlations	–16.31% to 9.95%
					Historical index-index correlations	–9.45% to 38.80%
				Swaption volatilities	FX-Vola EUR/CHF beyond 31.12.2024	8.79%
					FX-Vola EUR/USD beyond 31.12.2024	10.55%

Measurement of Level 3 instruments – Company at 31 December 2015	Fair Value					
€m	Assets	Liabilities	Measurement methods	Observable parameters	Non-observable parameters	Parameter range (weighted average)
Financial assets/liabilities at fair value	**240**	**182**				
Trading assets/trading liabilites	196	182	Option price models	Swaption volatilities	ATM-Cap-Vola EUR-EO6M beyond 30/12/2045	28.90%
					ATM-Cap-Vola GBP-XO6M beyond 30/12/2035	31.88%
				Correlation	ATM-Swaption-Vola EUR-EO6M beyond 30/12/2045	36.00%
					EUR-EONIA beyond 30/12/2065	1.48%
				Seasonality	FX-Vola EUR/CHF beyond 30/12/2025	6.16%
					FX-Vola EUR/USD beyond 30/12/2025	11.81%
				FX volatilities	FX-Vola JPY/AUD beyond 30/12/2016	13.02%
					FX-Vola JPY/USD beyond 30/12/2025	12.85%
				Cap volatilities	GBP-XO3M beyond 30/12/2065	1.81%
					GBP-XO6M beyond 30/12/2065	2.01%
				Yield curve	GBP-XOIS beyond 30/12/2065	2.14%
					Historical index-index correlations	19.49%
				FX rate	Index-inflation correlations	6.67%
Fair value hedge derivatives	–	–	Option price models	Yield curve	ATM-Swaption-Vola EUR-EO6M beyond 30/12/2045	36.00%
					Historical index-FX correlations	–12.62% to 2.61%
					Historical index-index correlations	16.82% to 19.49%
				Correlation		
				FX rate		
				FX volatilities		
				Swaption volatilities		
Financial investments	44	–	DCF models	Yield curve		

Measurement of Level 3 instruments – Company at 31 December 2014

€m	Fair Value Assets	Fair Value Liabilities	Measurement methods	Observable parameters	Non-observable parameters	Parameter range (weighted average)
Financial assets/liabilities at fair value	**171**	**158**				
Trading assets/trading liabilities	166	152	Option pricing models	Cap volatilities	ATM-Cap-Vola GBP-XO6M beyond 31.12. 2034	36.70%
					EUR-EONIA beyond 31.12. 2064	1.41%
				Seasonality	FX-Vola EUR/CHF beyond 31.12. 2024	8.79%
					FX-Vola EUR/USD beyond 31.12. 2024	10.55%
				Correlation	FX-Vola JPY/AUD beyond 31.12. 2015	10.95%
					FX-Vola JPY/USD beyond 31.12. 2024	15.58%
				FX rate	GBP-XO3M beyond 05.01.2065	2.20%
					GBP-XOIS beyond 05.01.2065	2.30%
				FX volatilities	Historical index-FX correlations	–16.31% to 8.71%
					Historical index-index correlations	–7.31% to 38.78%
				Yield curve	Index-inflation correlations	20% to 98%
	–	5	DCF models		ATM-Cap-Vola CAD-XO3M beyond 31.12. 2024	23.90%
				Yield curve	ATM-Swaption-Vola CAD-XO3M beyond 31.12. 2034	16.79%
					CPIUK Cap Volatility beyond 31.12. 2044	9.66%
					USD-XO6M beyond 31.12. 2039	2.83%
Fair value hedge derivatives	5	1	Option pricing models		ATM-Cap-Vola JPY-XO6M beyond 31.12. 2024	68.14%
				Cap volatilities	ATM-Cap-Vola USD-XO3M beyond 31.12. 2034	30.48%
					ATM-Swaption-Vola AUD-XO6M beyond 31.12. 2027	22.34%
				Correlation	EUR-EO6M beyond 31.12. 2064	1.53%
					EUR-EONIA beyond 31.12. 2064	1.41%
				FX rate	FX-Vola EUR/GBP beyond 31.12. 2024	9.66%
					FX-Vola JPY/AUD beyond 31.12. 2015	10.95%
				FX volatilities	FX-Vola JPY/CAD beyond 31.12. 2024	15.58%
					FX-Vola JPY/USD beyond 31.12. 2024	15.58%
				Swaption volatilities	Historical index-FX correlations	–16.31% to 9.95%
					Historical index-index correlations	–9.45% to 6.08%
				Yield curve	ATM-Swaption-Vola EUR-EO6M beyond 31.12. 2044	22.20%

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

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					
Loans and Receivables (LaR)	**Quoted prices in active markets**	Quoted prices for proxy trades	**Discounted cash flow models**	Credit spreads	Internal rating classes
	Discounted cash flow models	Credit spreads		Benchmark interest rates	Recovery rates
		Benchmark interest rates		Risk free interest rate	Expected remaining time to maturity
		Risk free interest rate		Future cash flows	Expected future cash flows
		Future cash flows			Adjustment to proxies
Liability					
Financial liabilities (measured at amortised cost)	**Discounted cash flow models**	Future cash flows	**Discounted cash flow models**	Future cash flows	Expected future cash flows
		Credit spreads		Credit spreads	Credit spreads
		Quoted prices for proxy trades		Benchmark interest rates	

By definition, the fair value of Level 3 instruments is dependent on unobservable market data inputs. The following table presents the sensitivity of the fair value of the DEPFA Group Level 3 instruments measured at fair value through P&L to the relevant unobservable market data e.g. correlations or estimated volatility. Sensitivities are quantified according to the DEPFA Group Market Risk Methodology documentation.

Sensitivities of Level 3 instruments

	Group				Company			
	31.12.2015		**31.12.2014**		**31.12.2015**		**31.12.2014**	
€m	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Assets								
Financial assets at fair value through P&L								
Trading assets	1	–1	2	–2	2	–2	2	–2
Loans and advances to customers	–	–	–	–	–	–	–	–
Financial investments	–	–	–	–	–	–	–	–
Derivatives	–	–	–	–	–	–	–	–
Available-for-sale	–	–	–	–	–	–	–	–
Financial investments	–	–	–	–	–	–	–	–
Total assets	**1**	**–1**	**2**	**–2**	**2**	**–2**	**2**	**–2**
Liabilities								
Financial liabilities at fair value through P&L								
Trading liabilities	1	–1	2	–2	2	–2	2	–2
Derivatives	1	–1	1	–1	–	–	–	–
Total liabilities	**2**	**–2**	**3**	**–3**	**2**	**–2**	**2**	**–2**

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.

The above favourable and unfavourable changes are calculated independently of each other.

(42) Offsetting financial assets and liabilities

The following tables sets 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 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" represent the carrying value of non-cash collateral (in "Financial instruments") and cash collateral received.

Assets – Group 2015 €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	10,040	–	10,040	–5,897	–3,989	154
Reverse repurchase securities borrowing and similar agreements	–	–	–	–	–	–
Total	**10,040**	**–**	**10,040**	**–5,897**	**–3,989**	**154**

Assets – Group 2014 €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	14,036	–	14,036	–8,627	–5,096	313
Reverse repurchase securities borrowing and similar agreements	2,096	–	2,096	–2,096	–	–
Total	**16,132**	**–**	**16,132**	**–10,723**	**–5,096**	**313**

Assets – Company 2015 €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	10,972	–	10,972	–6,666	–4,211	95
Reverse repurchase securities borrowing and similar agreements	14	–	14	–14	–	–
Total	**10,986**	**–**	**10,986**	**–6,680**	**–4,211**	**95**

Assets – Company 2014 €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	15,187	–	15,187	–9,720	–5,199	268
Reverse repurchase securities borrowing and similar agreements	2,440	–	2,440	–2,440	–	–
Total	**17,627**	**–**	**17,627**	**–12,160**	**–5,199**	**268**

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, 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" represent the carrying value of non-cash collateral (in "Financial instruments") and cash collateral pledged.

Liabilities – Group 2015				Related amounts not set off in statement of financial position		
€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	Financial instruments	Cash collateral pledged	Net amount
Derivatives	8,490	–	8,490	–5,897	–2,576	17
Repurchase securities borrowing and similar agreements	–	–	–	–	–	–
Total	**8,490**	**–**	**8,490**	**–5,897**	**–2,576**	**17**

Liabilities – Group 2014				Related amounts not set off in statement of financial position		
€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	Financial instruments	Cash collateral pledged	Net amount
Derivatives	12,207	–	12,207	–8,627	–3,446	134
Repurchase securities borrowing and similar agreements	–	–	–	–	–	–
Total	**12,207**	**–**	**12,207**	**–8,627**	**–3,446**	**134**

Liabilities – Company 2015				Related amounts not set off in statement of financial position		
€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	Financial instruments	Cash collateral pledged	Net amount
Derivatives	10,975	–	10,975	–6,666	–4,351	–42
Repurchase securities borrowing and similar agreements	–	–	–	–	–	–
Total	**10,975**	**–**	**10,975**	**–6,666**	**–4,351**	**–42**

Liabilities – Company 2014				Related amounts not set off in statement of financial position		
€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	Financial instruments	Cash collateral pledged	Net amount
Derivatives	15,166	–	15,166	–9,720	–5,346	100
Repurchase securities borrowing and similar agreements	–	–	–	–	–	–
Total	**15,166**	**–**	**15,166**	**–9,720**	**–5,346**	**100**

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

€m			2015			2014
	Trading	Other	**Total**	Trading	Other	**Total**
Assets						
Total recognised financial assets above	6,205	3,835	10,040	9,522	4,514	14,036
Derivatives not in enforceable netting arrangements	2	8	10	9	11	20
Per note 39 to the financial statements	**6,207**	**3.843**	**10,050**	**9,531**	**4,525**	**14,056**
Liabilities						
Total recognised financial liabilities above	6,351	2,139	8,490	9,709	2,498	12,207
Derivatives not in enforceable netting arrangements	–	37	37	9	42	51
Per note 39 to the financial statements	**6,351**	**2,176**	**8,527**	**9,718**	**2,540**	**12,258**

Derivative amounts recognised in the statement of financial position – Company

€m			2015			2014
	Trading	Other	**Total**	Trading	Other	**Total**
Assets						
Total recognised financial assets above	10,860	112	10,972	15,009	178	15,187
Derivatives not in enforceable netting arrangements	34	8	42	59	11	70
Per note 39 to the financial statements	**10,894**	**120**	**11,014**	**15,068**	**189**	**15,257**
Liabilities						
Total recognised financial liabilities above	10,860	115	10,975	15,048	118	15,166
Derivatives not in enforceable netting arrangements	25	–	25	38	–	38
Per note 39 to the financial statements	**10,885**	**115**	**11,000**	**15,086**	**118**	**15,204**

(43) Contingent liabilities and commitments

(a) Contingent liabilities and loan commitments

Contingent liabilities and other commitments

	Group		Company	
€m	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Contingent liabilities				
Guarantees and indemnity agreements				
Loan guarantees	7	22	442	851
Other commitments				
Irrevocable loan commitments				
Liquidity facility	–	–	28	25
Total	**7**	**22**	**470**	**876**

The above amounts represent nominal exposures.

Due to a requirement in line with the principle of burden sharing required by the European Commission in relation to the state aid proceedings, the DEPFA Group may, subject to certain conditions, have to pay annual fees to the Federal Republic of Germany, the terms and conditions of which were agreed in March 2013. The DEPFA Group makes full provision for the expected future amounts of such fees which are accounted for directly in equity. No provision is considered necessary at 31 December 2015 (2014: € nil), however, future developments could result in the requirements for additional provisions.

Legal and arbitration proceedings

The DEPFA Group is exposed to potential risks arising from litigation and other proceedings in which it is currently involved. In particular, risks may arise from the following proceedings and where considered necessary, appropriate provisions have been recorded.

Through the initiation and intermediation of UBS, in March 2007 DEPFA BANK plc (“DEPFA”) entered into two Credit Default Swaps (“CDS”) with Kommunale Wasserwerke Leipzig GmbH (“KWL”) governed by English law ISDA documentation whereby KWL sold protection to DEPFA on a pool of corporate and financial CDS (the Front Swaps). The notional of the exposure was $116 million. The DEPFA Group sold the identical protection on to UBS Limited (the Back Swaps). The reference portfolio subsequently became highly impaired and KWL defaulted on the CDS payments.

Legal action began in April 2014 before the High Court in England. The main points were: KWL disputed the validity of the transactions; the DEPFA Group claimed $116 million from KWL; and UBS claimed $83 million from the DEPFA Group. Judgement was handed down in the UK High Court on 4 November 2014. The judge ruled in favour of the DEPFA Group. The principal finding in respect of the DEPFA Group was that UBS fraudulently misrepresented the transaction to the DEPFA Group, such that the DEPFA Group was entitled to rescind the Back Swaps between the DEPFA Group and UBS. The judge also ruled that the Front Swaps between KWL and the DEPFA Group were valid and sought an undertaking from the DEPFA Group that they would not seek to enforce the Front Swaps against KWL to gain an impermissible windfall.

In October 2015, UBS won the right, in the Court of Appeal, to appeal the judgement. The appeal is expected to be heard in early 2017.

Certain other 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.

(b) Operating lease commitments

Where a Group company is the lessee, the future minimum lease payments up to the earliest break date under building operating leases are as follows:

Future minimum lease payments

		Group		Company
€m	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Up to 12 months	4	4	4	3
Greater than 1 year but less than 5 years	10	13	10	10
Over 5 years	–	1	–	–
Total	**14**	**18**	**14**	**13**

The DEPFA Group has also entered into sub-leases (operating leases) as sub-lessors of certain of the buildings subject to operating leases above. The future minimum lease payments to be received under non-cancellable building operating leases are as follows:

Future minimum lease receipts

		Group		Company
€m	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Up to 12 months	1	1	1	1
Greater than 1 year but less than 5 years	3	4	3	4
Total	**4**	**5**	**4**	**5**

(44) Exchange rates as at 31 December 2015

European Central Bank exchange rates as at 31 December 2015 were:

Exchange rates

€1 =		**31.12.2015**	**31.12.2014**
Great Britain	GBP	0.73395	0.77890
Japan	JPY	131.07000	145.23000
United States of America	USD	1.08870	1.21410
Switzerland	CHF	1.08350	1.20240

(45) Capital management

The DEPFA Group's objectives when managing capital, which is a broader concept than the "equity" presented on the statement of financial position, are:

- to comply with the capital requirements set by the regulators of the banking markets where the entities within the DEPFA Group operate;
- to safeguard the DEPFA Group's ability to continue as a going concern; and
- to maintain a strong capital base to support the strategy of the DEPFA Group.

Capital adequacy and the use of regulatory capital are monitored daily by the DEPFA Group's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives & Regulations, as implemented by the Central Bank of Ireland (the "Authority"), for supervisory purposes. The required information is filed with the Authority on a quarterly basis.

During 2015 the Authority required each bank or banking group to maintain a ratio of total regulatory capital to the risk-weighted asset (the "Total capital ratio") at or above the agreed minimum of 8% (2014: 8%) for the DEPFA Group or 8% (2014: 8%) for the Bank and to maintain additional levels of own funds if required under the Supervisory Review and Evaluation Process. In addition, those individual banking subsidiaries or similar financial institutions not incorporated in the European Union are directly regulated and supervised by their local banking supervisor, the requirements of which may differ from country to country.

The DEPFA Group's regulatory capital is divided into two tiers:

- Tier 1 capital – share capital (net of any book values of the treasury shares), qualifying minority interests arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings; and
- Tier 2 capital – qualifying subordinated capital instruments.

During 2014 and 2015 the risk-weighted assets were measured using the CRD IV standardised approach. The calculation reflects an estimate of credit, market and other risks associated with each asset and counterparty taking into account any eligible collateral or guarantees and the contingent nature of the potential losses.

There were no breaches by the DEPFA Group or the Bank of the capital requirements during 2015 (2014: no breaches).

Further details on the DEPFA Groups regulatory capital are provided in the "Regulatory capital and capital adequacy ratios" section of the Directors' report.

(46) Group auditors' fee (excluding VAT)

Group auditors' fee (excluding VAT)		
€'000	2015	2014
Audit of Parent Company accounts	226	234
Other assurance services	155	184
Tax advisory services	120	95
Other non-audit services	53	269
Total	**554**	**782**

Other assurance services include fees for the audit of subsidiary companies. Fees paid to KPMG overseas not included in the table above were €193,000 (2014: €141,000) excluding VAT.

(47) Related party transactions

(a) Key management compensation

Group and Company		
€	2015	2014
Short-term employee benefits	2,185,126	1,754,412
Post employment benefits	180,250	81,592
Termination benefits	350,000	500,000
Total	**2,715,376**	**2,336,004**

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		
€	2015	2014
Directors' fees	318,146	360,400
Other remuneration	2,047,230	1,475,604
Termination benefits	350,000	500,000
Total	**2,715,376**	**2,336,004**

There have been no loans to members of the Board in 2015 and 2014, nor are there any loans outstanding to members of the Board at 31 December 2015 (31 December 2014: € nil).

(b) Letters of comfort and guarantees to related parties

DEPFA BANK plc, as the parent company of the DEPFA Group, has issued a letter of comfort to DEPFA ACS BANK. This letter of comfort provides that the Bank will provide financial support to DEPFA ACS BANK, to the extent that it is unable to fulfil its contractual obligations.

DEPFA BANK plc has executed a guarantee whereby it has irrevocably and unconditionally guaranteed the performance by DEPFA Pfandbrief Bank International S.A. of all its obligations issued up to 31 May 2010.

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

Due to the change of ownership of the DEPFA Group on 19 December 2014, HRE Group companies are considered direct related parties up to that date.

FMS Wertmanagement AöR is considered a direct related party since 19 December 2014.

Balances due to and from FMS Wertmanagement AöR as at 31 December 2015 and 31 December 2014 are disclosed in the notes to the statement of financial position.

Transactions with FMS Wertmanagement AöR for the year ended 31 December 2015 and transactions with HRE Group companies up to the date of change in ownership included in the income statements categories below consisted of:

Group's transactions with FMS Wertmanagement AöR and HRE Group companies

€m	2015	2014
Interest income and similar income	–	36
Interest expense and similar expenses	–5	–30
Net fee and commission expense	–1	–
Other operating income	1	1
General administrative expenses	–	–23

The amounts above arise on intercompany borrowing, lending and transfers of assets between the Bank and FMS Wertmanagement AöR for the year ended 31 December 2015, and between the Bank and other HRE Group entities for the year ended 31 December 2014. The amounts above also arise on hedging derivatives, as well as recharges for certain services provided. All related party transactions are entered into on an arm's length basis.

In addition, the "Net trading income/expense" and "Net expense/income from hedge relationships" includes derivative transactions traded on an arm's length basis with FMS Wertmanagement AöR and HRE Group entities, 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, FMS Wertmanagement AöR and with HRE Group companies up to the date of change of ownership, included in the income statement categories below consisted of:

Company's transactions with FMS Wertmanagement AöR, HRE and DEPFA Group companies €m	**2015**	**2014**
Interest income and similar income	383	109
Interest expense and similar expenses	–691	–423
Net fee and commission expense	3	4
Other operating income	25	41
General administrative expenses	1	–22

The amounts above arise on intercompany borrowing and lending and transfers of assets between DEPFA BANK plc and other DEPFA Group entities as well as recharges for certain services provided.

Included in the amount above for interest expense and similar expenses are amounts arising on a committed liquidity facility for €500 million provided by FMS Wertmanagement AöR to the DEPFA Group, the terms of which were agreed on 24 November 2015. 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 2015, the DEPFA Group had drawn €448 million (2014: € nil) under the facility, which is included in the statement of financial position under "Liabilities to customers".

In addition the Company has traded derivative transactions on an arm's length basis with HRE 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) Financial guarantees from related parties

FMS Wertmanagement AöR have provided financial guarantees on assets classified as "Financial investments" with a carrying value at 31 December 2015 of € 156 million (31 December 2014: € nil). The financial guarantee transactions are entered into on an arm's length basis.

(e) 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 FMS Wertmanagement AöR, 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 FMS Wertmanagement AöR, for example, due to the synthetic transfer of positions. The relationships are described in note 5 to the financial statements, "Transfer of non strategic positions to FMS Wertmanagement AöR".

Following the termination of the formal servicing arrangement between the DEPFA Group, pbb and FMS Wertmanagement AöR on 30 September 2013, DEPFA BANK plc and FMS Wertmanagement AöR executed an "After Sales Agreement" in October 2013 to continue to provide a limited form of servicing between the DEPFA Group entities and FMS Wertmanagement AöR in respect of the positions that were economically transferred by the DEPFA Group to FMS Wertmanagement AöR 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.

(48) 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 2015 were:

Group undertakings

Name	Principal Activity	Country of Incorporation	Registered Office	Share in Capital	Class of Share
DEPFA ACS BANK	Issuance and ongoing administration of Asset Covered Securities	Ireland	1 Commons Street, Dublin 1, Ireland	100%	Ordinary
DEPFA Ireland Holding Ltd	Holding company	Ireland	1 Commons Street, Dublin 1, Ireland	100%	Ordinary
DEPFA Funding II LP	Special purpose vehicle for Tier 1 capital raising	UK	c/o Law Debenture, 5th Floor, 100 Wood Street, London EC2V 7EX, UK	100%	N/A – General Partner Contribution
DEPFA Funding III LP	Special purpose vehicle for Tier 1 capital raising	UK	c/o Law Debenture, 5th Floor, 100 Wood Street, London EC2V 7EX, UK	100%	N/A – General Partner Contribution
DEPFA Funding IV LP	Special purpose vehicle for Tier 1 capital raising	UK	c/o Law Debenture, 5th Floor, 100 Wood Street, London EC2V 7EX, UK	100%	N/A – General Partner Contribution
DEPFA Hold Six	Holding company	Ireland	1 Commons Street, Dublin 1, Ireland	100%	Ordinary
DEPFA Finance N.V.	Funding vehicle	Netherlands	De Entree 99–197, 1101 HE, Amsterdam, the Netherlands	100%	Ordinary
DEPFA Public Finance Bank[1]	Public Finance Banking and Capital Markets activities	Ireland	1 Commons Street, Dublin 1, Ireland	100%	Ordinary
DEPFA Pfandbrief Bank International S.A.	Public Finance Banking	Luxembourg	8–10 Rue Jean Monnet, 2099 Luxembourg	100%	Ordinary
San Sabia Capital Corporation	Funding vehicle	USA	c/o Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, New Castle County, Delaware 19808, USA	0%	N/A

[1] In liquidation since 5 February 2016

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.

Of its consolidated entities in the table above, the DEPFA Group considers San Sabia Capital Corporation ("San Sabia") to be a structured entity. San Sabia is a special purpose bankruptcy-remote company incorporated in the State of Delaware in the United States. San Sabia has issued uncollateralised guaranteed investment contracts ("GICs") to eligible investors, the proceeds of which are invested in reverse repos with DEPFA BANK plc. San Sabia's share capital is owned in its entirety by GSS Holding, Inc, a Delaware company. Pursuant to an administrative agreement, DEPFA BANK plc, through its New York branch, administers the Company's operations and also acts as Referral Agent for GIC investors and investments. DEPFA BANK plc also provides liquidity support in return for a fee to the consolidated structured entity above. Although it is not obligated to enter into and renew this liquidity support, DEPFA BANK plc continues to do so in consideration of its role in the set-up of the structured entity and the DEPFA Group's reputation. DEPFA BANK plc serves as the sole borrower of funds raised by San Sabia and provides commitments to San Sabia that it will continue the practice of borrowing funds raised by San Sabia at rates sufficient to permit San Sabia to meet its ordinary course contractual obligations. As a consequence of the above relationships the DEPFA Group has determined that it controls San Sabia and the entity is therefore consolidated. It is the intention that no further GICs will be entered into in the future by San Sabia.

The following table summarises the carrying amounts of San Sabia positions in the consolidated statement of financial position:

Carrying value €m	2015	2014
Assets		
Loans and advances to other banks	3	2
Liabilities		
Trading liabilities	14	13

The DEPFA Group considers itself a sponsor of a structured entity when it facilitates the establishment of the entity. As at 31 December 2015 and 31 December 2014, 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 Nominal value €m	31.12.2015 Interest of the DEPFA Group	31.12.2015 Total nominal issued by entity	31.12.2014 Interest of the DEPFA Group	31.12.2014 Total nominal issued by entity
Delta Spark Limited	218	701	246	791
Total	**218**	**701**	**246**	**791**

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”.

In addition, the DEPFA Group has investments in Asset Backed Securities (“ABS”) issued by third party structured entities as set out in the “Structured products” disclosures, included in the “Risk management” section of the Directors’ report.

(49) Dividends per share

Final dividends are not accounted for until they have been ratified at the Annual General Meeting.

No dividends were paid during the period to 31 December 2015, € nil per share (31 December 2014: € nil).

No dividend is proposed for the year ended 31 December 2015.

(50) Events after the reporting date

Tender Offer by FMS Wertmanagement AöR to acquire certain liability instruments issued by the DEPFA Group

On 19 January 2016, the parent of the DEPFA Group, FMS Wertmanagement AöR, invited holders of certain liability securities issued by the DEPFA Group entities DEPFA ACS BANK and DEPFA Pfandbrief Bank International S.A. to tender those securities for purchase by FMS Wertmanagement AöR.

Further to this invitation FMS Wertmanagement AöR announced on 1 February 2016 that the following securities had been validly tendered for purchase by FMS Wertmanagement AöR for settlement on 4 February 2016:

Securities validly tendered for purchase

Issuer	ISIN	Maturity date	Currency	Principal amount outstanding (nominal)	Principal amount validly tendered
DEPFA ACS BANK	DE000A0LPMX0	16/03/2037	USD	962,601,000	927,211,000
DEPFA ACS BANK	CA249575AG69	31/03/2025	CAD	300,000,000	297,419,000
DEPFA ACS BANK	CA249575AJ09	24/08/2035	CAD	350,000,000	349,450,000
DEPFA ACS BANK	DE000A0BCLA9	21/05/2019	EUR	1,000,000,000	551,300,000
DEPFA ACS BANK	CH0022738105	13/10/2017	CHF	266,645,000	191,940,000
DEPFA ACS BANK	CH0024021302	15/02/2019	CHF	200,000,000	140,640,000
DEPFA ACS BANK	CH0026116084	31/07/2031	CHF	200,000,000	195,640,000
DEPFA Pfandbrief Bank International S.A.	CH0026463577	31/08/2020	CHF	397,000,000	304,995,000

The principal amounts validly tendered were purchased and settled by FMS Wertmanagement AöR on 4 February 2016.

The above transactions have had no direct effect on the DEPFA Group as the liability securities are still in issue and held by FMS Wertmanagement AöR and have not been acquired by the DEPFA Group.

Payments on perpetual securities

On 6 March 2016 DEPFA BANK plc determined that the perpetual securities issuing vehicle DEPFA Funding IV LP, would not make payments on its €500,000,000 Preferred Securities (XS0291655727) on the next distribution payment date, scheduled for 21 March 2016.

Liquidation of DEPFA Public Finance Bank

DEPFA Public Finance Bank was placed in liquidation on 5 February 2016.

Apart from the above, there have been no other notable events after 31 December 2015.

(51) 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.

(52) Approval of financial statements

The financial statements were approved by the Directors on 24 March 2016.

Appendix
Disclosures required under CRD IV and country by country reporting

Introduction
DEPFA is a public limited company incorporated and domiciled in the Republic of Ireland. DEPFA is subject to the requirements of the Capital Requirements Directive 2013/36/EU (CRD) and the Capital Requirements Regulation EU 57512014 (CRR), together known as CRD IV. Under this directive DEPFA is required to comply with the provisions of the Capital Requirements (Country by Country Reporting) Regulations 2013.

Basis of preparation
The table below presents the DEPFA Group's 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 2015.

Turnover
Turnover consists of operating revenues generated by the DEPFA Group as part of its principal business activities.

Employees
Represents the average number of full time equivalent employees at 31 December 2015.

Income tax paid
Represents total corporation tax charged or credited for the year ending 31 December 2015.

CRD IV disclosure requirements as at 31 December 2015
€m

Country	Nature of activities	Turnover	Average number of full time employees	Profit/loss before tax	Tax on profit/loss
Ireland	Banking or related activity	9	144	–75	3
USA	Banking or related activity	27	14	19	1
Great Britain	Banking or related activity	37	–	37	–
Luxembourg	Banking or related activity	–15	14	–23	1
Japan	Banking or related activity	7	13	1	–1
Netherlands	Banking or related activity	–20	–	–20	–

The return on assets as at 31 December 2015, as required by CRD Article 90 (Public disclosure of return on assets), is –0.13% and is calculated as net loss divided by total assets.

Independent Auditor's Report to the Directors of DEPFA BANK plc

We have audited the accompanying Country-by-Country ("CBC") financial information of DEPFA BANK plc as at year ended 31 December 2015 pursuant to the European Union (Capital Requirements) Regulations, 2014 ("the Regulation") which is required to be audited by Article 77 of those Regulations. The CBC financial information set out on page 149 (collectively "the CBC financial information"), is prepared on a consolidated basis. The financial reporting framework that has been applied in the preparation of the CBC financial information is Irish law and International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Opinions and conclusions arising from our audit

1 Our opinion on the CBC financial information is unmodified

In our opinion the CBC financial information as at 31 December 2015:
- is prepared in all material respects in accordance with the basis of preparation set out on page 149; and
- discloses the items of CBC financial information required to be published, having applied the relevant principles of IFRS, by Article 77 of the European Union (Capital Requirements) Regulations, 2014.

2 Our opinion on the CBC financial information is accompanied by an emphasis of matter – basis of preparation

In forming our opinion on the CBC financial information, which is unmodified, we have considered the adequacy of the disclosure made in the basis of preparation concerning the definitions applied by the Company to the items of CBC financial information required to be published. Article 77 of the European Union (Capital Requirements) Regulations, 2014 does not set out definitions of the items of CBC financial information to be disclosed. The Company has applied definitions to the items of CBC financial information which, other than as set out in the basis of preparation, are consistent with the definitions of those items in accordance with IFRS and of those items in the Company's annual statutory financial statements.

Basis of our report, responsibilities and restrictions on use

The directors are responsible for the preparation and fair presentation of the CBC financial information in accordance with the requirements of the European Union (Capital Requirements) Regulations, 2014 relevant to preparing such CBC financial information, and for such internal control as management determines is necessary to enable the preparation of the CBC financial information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to audit and express an opinion on the CBC financial information in accordance with Irish law and International Standards on Auditing. Those standards require us to comply with the independence and other ethical requirements of the Code of Ethics for Members issued by the Institute of Chartered Accountants in Ireland and plan and perform the audit to obtain reasonable assurance about whether the financial information is free from material misstatement.

An audit undertaken in accordance with ISAs involves obtaining evidence about the amounts and disclosures in the CBC financial information. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statement, whether caused by fraud or error.

In making those assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the CBC financial information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by management, as well as evaluating the overall presentation of the CBC financial information.

Whilst an audit conducted in accordance with ISAs is designed to provide reasonable assurance of identifying material misstatements or omissions it is not guaranteed to do so. Rather the auditor plans the audit to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality for the CBC financial information as a whole. This testing requires us to conduct significant audit work on a broad range of the financial information as well as devoting significant time of the most experienced members of the audit team, in particular the engagement partner responsible for the audit, to subjective areas of the accounting and reporting.

Our report is made solely to the Company's directors, as a body, in accordance with our engagement letter to provide a report pursuant to section 77 of the European Union (Capital Requirements) Regulation, 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report on CBC financial information and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's directors as a body, for our audit work, for this report, or for the opinions we have formed.

N. Marshall

for and on behalf of
KPMG
Chartered Accountants

1 Harbourmaster Place
International Financial Services Centre
Dublin 1, Ireland

24 March 2016

DEPFA BANK plc
1 Commons Street
Dublin 1, Ireland
Phone: +353 1 792 2222
Fax: +353 1 792 2211
www.depfa.com