



powerSHARES®
Xchange Traded Funds™

2011 Semi-Annual Report to Shareholders

April 30, 2011

PowerShares KBW High Dividend Yield Financial Portfolio (KBWD)
PowerShares KBW International Financial Portfolio (KBWX)
PowerShares KBW Premium Yield Equity REIT Portfolio (KBWY)
PowerShares KBW Property & Casualty Insurance Portfolio (KBWP)

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Frequency Distribution of Discounts & Premiums

Since Inception through April 30, 2011

| Ticker | Fund Name | Inception | Trading Days | Closing Price Above NAV (bps) | | | | | |
|--------|---|-----------|--------------|-------------------------------|-------|-------|---------|---------|------|
| | | | | 0-24 | 25-49 | 50-99 | 100-149 | 150-199 | 200+ |
| KBWD | PowerShares KBW High Dividend Yield Financial Portfolio | 12/2/10 | 104 | 91 | 2 | 0 | 0 | 0 | 1 |
| KBWX | PowerShares KBW International Financial Portfolio | 12/2/10 | 104 | 70 | 0 | 0 | 1 | 0 | 0 |
| KBWY | PowerShares KBW Premium Yield Equity REIT Portfolio | 12/2/10 | 104 | 64 | 0 | 0 | 0 | 0 | 1 |
| KBWP | PowerShares KBW Property & Casualty Insurance Portfolio | 12/2/10 | 104 | 53 | 2 | 2 | 2 | 0 | 0 |

| Closing Price Below NAV (bps) | | | | | |
|-------------------------------|--------|--------|----------|----------|-------|
| -0-24 | -25-49 | -50-99 | -100-149 | -150-199 | -200+ |
| 10 | 0 | 0 | 0 | 0 | 0 |
| 32 | 0 | 1 | 0 | 0 | 0 |
| 39 | 0 | 0 | 0 | 0 | 0 |
| 31 | 1 | 4 | 1 | 2 | 6 |

Fees and Expenses

As a shareholder of a Fund of the PowerShares Exchange-Traded Fund Trust II, you incur a unitary management fee. The expense examples below are intended to help you understand your ongoing costs (in dollars) of investing in the Funds and to compare these costs with the ongoing costs of investing in other funds. The example is based on an investment of \$1,000 invested at the beginning of the period and held through the six-month (or shorter) period ended April 30, 2011.

In pursuing its investment objective, PowerShares KBW High Dividend Yield Financial Portfolio (the "Portfolio") may invest a portion of its assets in investment companies. The Portfolio indirectly bears a pro rata share of the fees and expenses of the investment companies in which the Portfolio invests. The effect of such expenses are included in the Portfolio's total return.

Actual Expenses

The first line in the following table provides information about actual account values and actual expenses. You may use the information in this line, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number in the first line under the heading "Expenses Paid During the Six-Month Period" to estimate the expenses you paid on your account during this period.

Hypothetical Example for Comparison Purposes

The second line in the following table provides information about hypothetical account values and hypothetical expenses based on each Fund's actual expense ratio and an assumed annualized rate of return of 5% per year before expenses, which is not the Fund's actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Funds and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only, and do not reflect any transactional costs such as sales charges and brokerage commissions. Therefore the second line in the table is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds. In addition, if these transactional costs were included, your costs would have been higher.

| | Beginning Account Value December 2, 2010 (Fund Inception) | Ending Account Value April 30, 2011 | Annualized Expense Ratio Based on the Number of Days in the Period | Expenses Paid During December 2, 2010 (Fund Inception) to April 30, 2011 ⁽¹⁾ |
|--|---|--|--|---|
| PowerShares KBW High Dividend Yield Financial Portfolio | | | | |
| Actual | \$1,000.00 | \$1,080.29 | 0.36% | \$1.53 |
| Hypothetical (5% return before expenses) | \$1,000.00 | \$1,023.01 | 0.36% | \$1.81 |
| PowerShares KBW International Financial Portfolio | | | | |
| Actual | \$1,000.00 | \$1,066.95 | 0.40% | \$1.69 |
| Hypothetical (5% return before expenses) | \$1,000.00 | \$1,022.81 | 0.40% | \$2.01 |
| PowerShares KBW Premium Yield Equity REIT Portfolio | | | | |
| Actual | \$1,000.00 | \$1,111.12 | 0.35% | \$1.51 |
| Hypothetical (5% return before expenses) | \$1,000.00 | \$1,023.06 | 0.35% | \$1.76 |
| PowerShares KBW Property & Casualty Insurance Portfolio | | | | |
| Actual | \$1,000.00 | \$1,073.85 | 0.36% | \$1.52 |
| Hypothetical (5% return before expenses) | \$1,000.00 | \$1,023.01 | 0.36% | \$1.81 |

⁽¹⁾ Expenses are calculated using the annualized expense ratio, which represents the ongoing expenses as a percentage of net assets for the period December 2, 2010 (Fund Inception) to April 30, 2011. Expenses are calculated by multiplying the Fund's annualized expense ratio by the average account value for the period; then multiplying the result by 150 and then dividing the result by 365. Hypothetical expenses are calculated by multiplying the Fund's annualized expense ratio by the average account value for the period; then multiplying the result by 181 and then dividing the result by 365.

Portfolio Composition

PowerShares KBW High Dividend Yield Financial Portfolio

Industry Breakdown (% of the Fund's Net Assets) as of April 30, 2011 (Unaudited)

| | |
|--------------------------------|------|
| REITS | 52.4 |
| Banks | 14.8 |
| Insurance | 11.9 |
| Investment Companies | 10.5 |
| Diversified Financial Services | 5.6 |
| Savings & Loans | 3.6 |
| Trucking & Leasing | 1.2 |
| Other assets less liabilities | 0.0 |

Schedule of Investments

PowerShares KBW High Dividend Yield Financial Portfolio

April 30, 2011 (Unaudited)

| Number of Shares | | Value | Number of Shares | | Value |
|--|--|------------------|---|-------------------------------------|---------------------|
| Common Stocks and Other Equity Interests—100.0% | | | Common Stocks and Other Equity Interests (Continued) | | |
| <i>Banks—14.8%</i> | | | <i>REITs — (Continued)</i> | | |
| 4,254 | Bank of Hawaii Corp. | \$ 207,553 | 38,954 | Annaly Capital Management, Inc. | \$ 694,939 |
| 8,110 | Bryn Mawr Bank Corp. | 163,417 | 84,954 | Anworth Mortgage Asset Corp. | 609,970 |
| 5,584 | City Holding Co. | 190,414 | 42,942 | Capstead Mortgage Corp. | 568,552 |
| 25,526 | CVB Financial Corp. | 248,623 | 185,729 | Chimera Investment Corp. | 752,202 |
| 22,734 | F.N.B. Corp. | 248,937 | 20,208 | Hatteras Financial Corp. | 574,109 |
| 11,168 | FirstMerit Corp. | 195,105 | 17,150 | Hospitality Properties Trust | 414,173 |
| 4,387 | Park National Corp. | 303,054 | 34,567 | Invesco Mortgage Capital, Inc. (-) | 786,054 |
| 14,624 | Renasant Corp. | 245,391 | 67,671 | MFA Financial, Inc. | 540,015 |
| 8,908 | Trustmark Corp. | 207,022 | 23,532 | PennyMac Mortgage Investment Trust | 431,106 |
| | | <u>2,009,516</u> | 10,769 | Sun Communities, Inc. | 414,391 |
| | | | 26,457 | Walter Investment Management Corp. | 471,464 |
| | | | | | <u>7,120,028</u> |
| <i>Diversified Financial Services—5.6%</i> | | | <i>Savings & Loans—3.6%</i> | | |
| 34,434 | BGC Partners, Inc., Class A | 332,288 | | First Niagara Financial Group, Inc. | 227,823 |
| 6,913 | Federated Investors, Inc., Class B | 178,217 | | New York Community Bancorp, Inc. | 256,005 |
| 47,596 | GFI Group, Inc. | 243,216 | 15,821 | | <u>483,828</u> |
| | | <u>753,721</u> | 15,422 | | |
| <i>Insurance—11.9%</i> | | | <i>Trucking & Leasing—1.2%</i> | | |
| 6,780 | Arthur J. Gallagher & Co. | 201,908 | | Textainer Group Holdings Ltd. | 169,711 |
| 12,231 | Fidelity National Financial, Inc., Class A | 188,847 | 4,786 | | |
| 6,780 | Harleysville Group, Inc. | 217,502 | | | |
| 24,861 | Maiden Holdings Ltd. (Bermuda) | 185,214 | | | |
| 4,520 | Marsh & McLennan Cos., Inc. | 136,866 | | | |
| 8,110 | Mercury General Corp. | 322,291 | | | |
| 4,786 | Safety Insurance Group, Inc. | 224,081 | | | |
| 3,324 | Willis Group Holdings PLC (Ireland) | 137,348 | | | |
| | | <u>1,614,057</u> | | | |
| <i>Investment Companies—10.5%</i> | | | Total Investments | | |
| 41,613 | Apollo Investment Corp. | 493,114 | | (Cost \$13,338,336)—100.0% | 13,570,593 |
| 24,994 | Ares Capital Corp. | 442,643 | | Other assets less liabilities—0.0% | 5,491 |
| 39,220 | PennantPark Investment Corp. | 483,975 | | | <u>\$13,576,084</u> |
| | | <u>1,419,732</u> | | | |
| <i>REITs—52.4%</i> | | | Net Assets—100.0% | | |
| 29,648 | American Capital Agency Corp. | 863,053 | | | |

See Notes to Financial Statements.

Schedule of Investments (Continued)

PowerShares KBW International Financial Portfolio

April 30, 2011 (Unaudited)

| Number of Shares | | Value | |
|---------------------|--|---------------------------|---|
| | Foreign Stocks and Other Equity Interests (Continued) | | Investment Abbreviations: ADR American Depositary Receipt |
| | <i>Japan—7.8%</i> | | Notes to Schedule of Investments: * Non-income producing security. |
| 15,888 | Mitsubishi UFJ Financial Group, Inc. ADR | \$ 75,786 | |
| 2,570 | Mizuho Financial Group, Inc. ADR | 8,198 | |
| 5,436 | Nomura Holdings, Inc. ADR | 27,724 | |
| 545 | ORIX Corp. ADR | 26,798 | |
| 11,676 | Sumitomo Mitsui Financial Group, Inc. ADR | 72,858 | |
| | | <u>211,364</u> | |
| | <i>Mexico—0.6%</i> | | |
| 598 | Desarrolladora Homex SAB de CV ADR* | 16,881 | |
| | <i>Netherlands—2.3%</i> | | |
| 3,035 | Aegon NV* | 24,159 | |
| 2,882 | ING Groep NV ADR* | 38,013 | |
| | | <u>62,172</u> | |
| | <i>South Korea—5.0%</i> | | |
| 936 | KB Financial Group, Inc. ADR | 49,880 | |
| 551 | Shinhan Financial Group Co. Ltd. ADR | 53,458 | |
| 823 | Woori Finance Holdings Co. Ltd. ADR | 33,356 | |
| | | <u>136,694</u> | |
| | <i>Spain—8.4%</i> | | |
| 9,614 | Banco Bilbao Vizcaya Argentaria SA ADR | 123,155 | |
| 8,556 | Banco Santander SA ADR | 106,095 | |
| | | <u>229,250</u> | |
| | <i>Switzerland—8.4%</i> | | |
| 725 | ACE Ltd. | 48,756 | |
| 2,079 | Credit Suisse Group AG ADR | 94,574 | |
| 4,262 | UBS AG* | 85,240 | |
| | | <u>228,570</u> | |
| | <i>United Kingdom—8.5%</i> | | |
| 2,356 | Aviva PLC ADR | 35,717 | |
| 2,187 | Barclays PLC ADR | 41,662 | |
| 1,017 | HSBC Holdings PLC ADR | 55,396 | |
| 9,378 | Lloyds Banking Group PLC ADR* | 37,043 | |
| 1,996 | Prudential PLC ADR | 51,577 | |
| 765 | Royal Bank of Scotland Group PLC ADR* | 10,672 | |
| | | <u>232,067</u> | |
| | Total Investments | | |
| | (Cost \$2,481,129)—100.0% | 2,716,965 | |
| | Other assets less liabilities—0.0% | 600 | |
| | Net Assets—100.0% | <u><u>\$2,717,565</u></u> | |

See Notes to Financial Statements.

Portfolio Composition

PowerShares KBW Premium Yield Equity REIT Portfolio

Industry Breakdown (% of the Fund's Net Assets) as of April 30, 2011 (Unaudited)

| | |
|-------------------------------|------|
| Health Care | 29.5 |
| Diversified | 15.5 |
| Office Property | 13.8 |
| Single Tenant | 11.8 |
| Shopping Centers | 11.5 |
| Warehouse/Industrial | 9.0 |
| Hotels | 4.5 |
| Manufactured Homes | 4.4 |
| Other assets less liabilities | 0.0 |

Schedule of Investments

PowerShares KBW Premium Yield Equity REIT Portfolio

April 30, 2011 (Unaudited)

| Number of Shares | Value | Number of Shares | Value |
|--|--|---|--|
| Real Estate Investment Trust, Common Stocks and Other Equity Interests—100.0% | | Real Estate Investment Trust, Common Stocks and Other Equity Interests (Continued) | |
| <i>Diversified—15.5%</i> | | <i>Shopping Centers—11.5%</i> | |
| 10,344 | Duke Realty Corp. \$ 157,746 | 7,404 | Equity One, Inc. \$ 146,747 |
| 3,757 | Entertainment Properties Trust 178,870 | 18,682 | Inland Real Estate Corp. 182,523 |
| 15,947 | Lexington Realty Trust 159,151 | 11,259 | Ramco-Gershenson Properties Trust 145,129 |
| 5,577 | Washington REIT 180,695 | 7,810 | Urstadt Biddle Properties, Inc., Class A 153,701 |
| 13,791 | Winthrop Realty Trust 167,285 | | <u>628,100</u> |
| | <u>843,747</u> | | <i>Single Tenant—11.8%</i> |
| | <i>Health Care—29.5%</i> | 8,115 | Agree Realty Corp. 189,810 |
| 34,220 | Cogdell Spencer, Inc. 207,031 | 10,561 | Getty Realty Corp. 268,355 |
| 3,854 | HCP, Inc. 152,695 | 7,005 | National Retail Properties, Inc. 184,512 |
| 2,945 | Health Care REIT, Inc. 158,353 | | <u>642,677</u> |
| 6,500 | Healthcare Realty Trust, Inc. 148,460 | | <i>Warehouse/Industrial—9.0%</i> |
| 5,989 | LTC Properties, Inc. 176,196 | 29,856 | DCT Industrial Trust, Inc. 173,463 |
| 18,378 | Medical Properties Trust, Inc. 226,784 | 3,350 | EastGroup Properties, Inc. 154,301 |
| 3,147 | National Health Investors, Inc. 153,039 | 10,154 | First Potomac Realty Trust 164,800 |
| 8,121 | OMEGA Healthcare Investors, Inc. 186,458 | | <u>492,564</u> |
| 4,569 | Universal Health Realty Income Trust 196,970 | | Total Investments |
| | <u>1,605,986</u> | | (Cost \$5,157,617)—100.0% |
| | <i>Hotels—4.5%</i> | | Other assets less liabilities—0.0% |
| 10,054 | Hospitality Properties Trust 242,804 | | <u>821</u> |
| | <i>Manufactured Homes—4.4%</i> | | Net Assets—100.0% |
| 6,293 | Sun Communities, Inc. 242,155 | | <u>\$5,450,292</u> |
| | <i>Office Property—13.8%</i> | | Investment Abbreviations: |
| 12,182 | Brandywine Realty Trust 154,711 | | REIT Real Estate Investment Trust |
| 8,832 | CommonWealth REIT 241,909 | | |
| 6,801 | Government Properties Income Trust 186,483 | | |
| 4,766 | Mack-Cali Realty Corp. 168,335 | | |
| | <u>751,438</u> | | |

See Notes to Financial Statements.

Statements of Assets and Liabilities

April 30, 2011 (Unaudited)

| | PowerShares KBW High Dividend Yield Financial Portfolio | PowerShares KBW International Financial Portfolio | PowerShares KBW Premium Yield Equity REIT Portfolio | PowerShares KBW Property & Casualty Insurance Portfolio |
|---|---|---|---|--|
| ASSETS: | | | | |
| Unaffiliated investments, at value | \$12,784,539 | \$2,716,965 | \$5,449,471 | \$2,677,821 |
| Affiliated investments, at value (Note 4) | 786,054 | — | — | — |
| Total investments, at value | <u>13,570,593</u> | <u>2,716,965</u> | <u>5,449,471</u> | <u>2,677,821</u> |
| Receivables: | | | | |
| Dividends | 8,498 | 12,739 | 15,240 | — |
| Foreign tax reclaims | — | 189 | — | — |
| Shares sold | — | — | 1,362,563 | — |
| Other assets | 2,182 | 102 | 422 | 625 |
| Total Assets | <u>13,581,273</u> | <u>2,729,995</u> | <u>6,827,696</u> | <u>2,678,446</u> |
| LIABILITIES: | | | | |
| Due to custodian | 1,547 | 6,007 | 6,398 | — |
| Payables: | | | | |
| Investments purchased | — | 5,548 | 1,369,866 | — |
| Accrued unitary management fees | 3,642 | 875 | 1,140 | 753 |
| Total Liabilities | <u>5,189</u> | <u>12,430</u> | <u>1,377,404</u> | <u>753</u> |
| NET ASSETS | <u>\$13,576,084</u> | <u>\$2,717,565</u> | <u>\$5,450,292</u> | <u>\$2,677,693</u> |
| NET ASSETS CONSIST OF: | | | | |
| Shares of beneficial interest | \$13,353,850 | \$2,470,285 | \$5,160,747 | \$2,435,321 |
| Undistributed net investment income (loss) | (1,399) | 14,662 | 6,163 | 1,617 |
| Undistributed net realized gain (loss) | (8,624) | (3,218) | (8,472) | 100,330 |
| Net unrealized appreciation | 232,257 | 235,836 | 291,854 | 140,425 |
| Net Assets | <u>\$13,576,084</u> | <u>\$2,717,565</u> | <u>\$5,450,292</u> | <u>\$2,677,693</u> |
| Shares outstanding (unlimited amount authorized, \$0.01 par value) | 550,000 | 100,000 | 200,000 | 100,000 |
| Net asset value | <u>\$ 24.68</u> | <u>\$ 27.18</u> | <u>\$ 27.25</u> | <u>\$ 26.78</u> |
| Share price | <u>\$ 24.72</u> | <u>\$ 27.19</u> | <u>\$ 27.26</u> | <u>\$ 26.79</u> |
| Unaffiliated investments, at cost | <u>\$12,564,121</u> | <u>\$2,481,129</u> | <u>\$5,157,617</u> | <u>\$2,537,396</u> |
| Affiliated investments, at cost | <u>\$ 774,215</u> | <u>\$ —</u> | <u>\$ —</u> | <u>\$ —</u> |
| Total investments, at cost | <u>\$13,338,336</u> | <u>\$2,481,129</u> | <u>\$5,157,617</u> | <u>\$2,537,396</u> |

See Notes to Financial Statements.

Statements of Operations

For the Period November 29, 2010* through April 30, 2011 (Unaudited)

| | PowerShares KBW High Dividend Yield Financial Portfolio | PowerShares KBW International Financial Portfolio | PowerShares KBW Premium Yield Equity REIT Portfolio | PowerShares KBW Property & Casualty Insurance Portfolio |
|---|---|---|---|--|
| INVESTMENT INCOME: | | | | |
| Unaffiliated dividend income | \$ 284,147 | \$ 34,513 | \$ 86,820 | \$ 39,360 |
| Affiliated dividend income (Note 4) | 37,441 | — | — | — |
| Foreign withholding tax | — | (4,038) | — | — |
| Total Income | <u>321,588</u> | <u>30,475</u> | <u>86,820</u> | <u>39,360</u> |
| EXPENSES: | | | | |
| Unitary management fees | 11,644 | 4,299 | 4,690 | 3,955 |
| Other expenses | 320 | 15 | 62 | 92 |
| Total Expenses | <u>11,964</u> | <u>4,314</u> | <u>4,752</u> | <u>4,047</u> |
| Net Investment Income | <u>309,624</u> | <u>26,161</u> | <u>82,068</u> | <u>35,313</u> |
| REALIZED AND UNREALIZED GAIN (LOSS): | | | | |
| Net realized gain (loss) from: | | | | |
| Investments | (24,774) | (5,605) | (12,764) | (11) |
| In-kind redemptions | 16,150 | 2,387 | 4,292 | 100,341 |
| Net realized gain (loss) | (8,624) | (3,218) | (8,472) | 100,330 |
| Net unrealized appreciation on investments .. | 232,257 | 235,836 | 291,854 | 140,425 |
| Net realized and unrealized gain | <u>223,633</u> | <u>232,618</u> | <u>283,382</u> | <u>240,755</u> |
| Net increase in net assets resulting from operations | <u>\$ 533,257</u> | <u>\$ 258,779</u> | <u>\$ 365,450</u> | <u>\$ 276,068</u> |

* Commencement of Investment Operations.

See Notes to Financial Statements.

Statements of Changes in Net Assets

For the Period November 29, 2010* through April 30, 2011 (Unaudited)

| | PowerShares KBW High Dividend Yield Financial Portfolio | PowerShares KBW International Financial Portfolio | PowerShares KBW Premium Yield Equity REIT Portfolio | PowerShares KBW Property & Casualty Insurance Portfolio |
|---|---|---|---|--|
| OPERATIONS: | | | | |
| Net investment income | \$ 309,624 | \$ 26,161 | \$ 82,068 | \$ 35,313 |
| Net realized gain (loss) | (8,624) | (3,218) | (8,472) | 100,330 |
| Net unrealized appreciation | 232,257 | 235,836 | 291,854 | 140,425 |
| Net increase in net assets resulting from operations | 533,257 | 258,779 | 365,450 | 276,068 |
| Undistributed net investment income (loss) included in the price of units issued and redeemed | 48,947 | — | 4,007 | (3,489) |
| DISTRIBUTIONS TO SHAREHOLDERS FROM: | | | | |
| Net investment income | (359,970) | (11,499) | (79,912) | (30,207) |
| SHAREHOLDER TRANSACTIONS: | | | | |
| Proceeds from shares sold | 14,616,039 | 3,738,836 | 6,399,045 | 5,009,888 |
| Value of shares repurchased | (1,213,242) | (1,268,551) | (1,234,291) | (2,578,056) |
| Net income (loss) equalization | (48,947) | — | (4,007) | 3,489 |
| Net increase in net assets resulting from shares transactions | 13,353,850 | 2,470,285 | 5,160,747 | 2,435,321 |
| Increase in Net Assets | 13,576,084 | 2,717,565 | 5,450,292 | 2,677,693 |
| NET ASSETS: | | | | |
| Beginning of period | — | — | — | — |
| End of period | <u>\$13,576,084</u> | <u>\$ 2,717,565</u> | <u>\$ 5,450,292</u> | <u>\$ 2,677,693</u> |
| Undistributed net investment income (loss) at end of period | \$ (1,399) | \$ 14,662 | \$ 6,163 | \$ 1,617 |
| CHANGES IN SHARES OUTSTANDING: | | | | |
| Shares sold | 600,000 | 150,000 | 250,000 | 200,000 |
| Shares repurchased | (50,000) | (50,000) | (50,000) | (100,000) |
| Shares outstanding, beginning of period | — | — | — | — |
| Shares outstanding, end of period | <u>550,000</u> | <u>100,000</u> | <u>200,000</u> | <u>100,000</u> |

* Commencement of Investment Operations.

See Notes to Financial Statements.

Financial Highlights

PowerShares KBW High Dividend Yield Financial Portfolio

For the Period
November 29, 2010*
through
April 30, 2011
(Unaudited)

PER SHARE OPERATING PERFORMANCE:

| | |
|---|----------------------|
| Net asset value at beginning of period | \$ 23.51 |
| Net investment income** | 0.91 |
| Net realized and unrealized gain on investments | 1.35 |
| Total from investment operations | 2.26 |
| Distributions to shareholders from: | |
| Net investment income | (1.09) |
| Net asset value at end of period | \$ 24.68 |
| Share price at end of period*** | \$ 24.72 |
| NET ASSET VALUE, TOTAL RETURN**** | 9.78% ^(a) |
| SHARE PRICE TOTAL RETURN**** | 9.95% ^(a) |
| RATIOS/SUPPLEMENTAL DATA: | |
| Net assets at end of period (000's omitted) | \$13,576 |
| Ratio to average net assets of: | |
| Expenses> | 0.36%† |
| Net investment income | 9.31%† |
| Portfolio turnover rate †† | 12% |
| Undistributed net investment income included in price of units issued and redeemed**# | \$ 0.14 |

PowerShares KBW International Financial Portfolio

For the Period
November 29, 2010*
through
April 30, 2011
(Unaudited)

PER SHARE OPERATING PERFORMANCE:

| | |
|---|-----------------------|
| Net asset value at beginning of period | \$24.70 |
| Net investment income** | 0.26 |
| Net realized and unrealized gain on investments | 2.33 |
| Total from investment operations | 2.59 |
| Distributions to shareholders from: | |
| Net investment income | (0.11) |
| Net asset value at end of period | \$27.18 |
| Share price at end of period*** | \$27.19 |
| NET ASSET VALUE, TOTAL RETURN**** | 10.54% ^(b) |
| SHARE PRICE TOTAL RETURN**** | 10.58% ^(b) |
| RATIOS/SUPPLEMENTAL DATA: | |
| Net assets at end of period (000's omitted) | \$2,718 |
| Ratio to average net assets of: | |
| Expenses | 0.40%† |
| Net investment income | 2.43%† |
| Portfolio turnover rate †† | 3% |
| Undistributed net investment income included in price of units issued and redeemed**# | \$ — |

* Commencement of Investment Operations.

** Based on average shares outstanding.

*** The mean between the last bid and ask prices.

**** Net asset value total return is calculated assuming an initial investment made at the net asset value at the beginning of the period, reinvestment of all dividends and distributions at net asset value during the period, and redemption on the last day of the period. Share price total return is calculated assuming an initial investment made at the share price at the beginning of the period, reinvestment of all dividends and distributions at share price during the period, and the sale at the share price on the last day of the period. Total investment returns calculated for a period of less than one year are not annualized.

> In addition to the fees and expenses which the Fund bears directly; the Fund indirectly bears a pro rata share of the fees and expenses of the investment companies in which the Fund invests. Estimated investment companies expenses are not expenses that are incurred directly by your Fund. They are expenses that are incurred directly by the investment companies and are deducted from the value of the funds your Fund invests in. The effect of the estimated investment companies expenses that you bear indirectly is included in your Fund's total return.

† Annualized.

†† Portfolio turnover rate is not annualized and does not include securities received or delivered from processing creations or redemptions.

The per share amount of equalization is presented to show the impact of equalization on distributable earnings per share.

(a) The net asset value total return from Fund Inception (December 2, 2010, first day of trading on the Exchange) to April 30, 2011 was 8.03%. The share price total return from Fund Inception to April 30, 2011 was 8.34%.

(b) The net asset value total return from Fund Inception (December 2, 2010, first day of trading on the Exchange) to April 30, 2011 was 6.70%. The share price total return from Fund Inception to April 30, 2011 was 6.82%.

See Notes to Financial Statements.

Financial Highlights (Continued)

PowerShares KBW Premium Yield Equity REIT Portfolio

For the Period
November 29, 2010*
through
April 30, 2011
(Unaudited)

PER SHARE OPERATING PERFORMANCE:

| | |
|---|-----------------------|
| Net asset value at beginning of period | \$24.96 |
| Net investment income** | 0.62 |
| Net realized and unrealized gain on investments | 2.30 |
| Total from investment operations | 2.92 |
| Distributions to shareholders from: | |
| Net investment income | (0.63) |
| Net asset value at end of period | \$27.25 |
| Share price at end of period*** | \$27.26 |
| NET ASSET VALUE, TOTAL RETURN**** | 11.87% ^(a) |
| SHARE PRICE TOTAL RETURN**** | 11.91% ^(a) |

RATIOS/SUPPLEMENTAL DATA:

| | |
|---|---------|
| Net assets at end of period (000's omitted) | \$5,450 |
| Ratio to average net assets of: | |
| Expenses | 0.35%† |
| Net investment income | 6.13%† |
| Portfolio turnover rate †† | 22% |
| Undistributed net investment income included in price of units issued and redeemed**# | \$ 0.03 |

PowerShares KBW Property & Casualty Insurance Portfolio

For the Period
November 29, 2010*
through
April 30, 2011
(Unaudited)

PER SHARE OPERATING PERFORMANCE:

| | |
|---|----------------------|
| Net asset value at beginning of period | \$24.75 |
| Net investment income** | 0.30 |
| Net realized and unrealized gain on investments | 2.03 |
| Total from investment operations | 2.33 |
| Distributions to shareholders from: | |
| Net investment income | (0.30) |
| Net asset value at end of period | \$26.78 |
| Share price at end of period*** | \$26.79 |
| NET ASSET VALUE, TOTAL RETURN**** | 9.51% ^(b) |
| SHARE PRICE TOTAL RETURN**** | 9.55% ^(b) |

RATIOS/SUPPLEMENTAL DATA:

| | |
|--|-----------|
| Net assets at end of period (000's omitted) | \$2,678 |
| Ratio to average net assets of: | |
| Expenses | 0.36%† |
| Net investment income | 3.13%† |
| Portfolio turnover rate †† | 2% |
| Undistributed net investment income (loss) included in price of units issued and redeemed**# | \$ (0.03) |

* Commencement of Investment Operations.

** Based on average shares outstanding.

*** The mean between the last bid and ask prices.

**** Net asset value total return is calculated assuming an initial investment made at the net asset value at the beginning of the period, reinvestment of all dividends and distributions at net asset value during the period, and redemption on the last day of the period. Share price total return is calculated assuming an initial investment made at the share price at the beginning of the period, reinvestment of all dividends and distributions at share price during the period, and the sale at the share price on the last day of the period. Total investment returns calculated for a period of less than one year are not annualized.

† Annualized.

†† Portfolio turnover rate is not annualized and does not include securities received or delivered from processing creations or redemptions.

The per share amount of equalization is presented to show the impact of equalization on distributable earnings per share.

(a) The net asset value total return from Fund Inception (December 2, 2010, first day of trading on the Exchange) to April 30, 2011 was 11.11%. The share price total return from Fund inception to April 30, 2011 was 11.37%.

(b) The net asset value total return from Fund Inception (December 2, 2010, first day of trading on the Exchange) to April 30, 2011 was 7.39%. The share price total return from Fund Inception to April 30, 2011 was 7.47%.

See Notes to Financial Statements.

Notes to Financial Statements

PowerShares Exchange-Traded Fund Trust II

April 30, 2011 (Unaudited)

Note 1. Organization

PowerShares Exchange-Traded Fund Trust II (the “Trust”) was organized as a Massachusetts business trust on October 10, 2006 and is authorized to have multiple series of portfolios. The Trust is an open-end management investment company registered under the Investment Company Act of 1940, as amended (the “1940 Act”). As of April 30, 2011, the Trust offered forty-five portfolios. This report includes the following portfolios:

| <u>Full Name</u> | <u>Short Name</u> |
|---|---|
| PowerShares KBW High Dividend Yield Financial Portfolio | “KBW High Dividend Yield Financial Portfolio” |
| PowerShares KBW International Financial Portfolio | “KBW International Financial Portfolio” |
| PowerShares KBW Premium Yield Equity REIT Portfolio | “KBW Premium Yield Equity REIT Portfolio” |
| PowerShares KBW Property & Casualty Insurance Portfolio | “KBW Property & Casualty Insurance Portfolio” |

Each portfolio (the “Fund” and collectively the “Funds”) represents a separate series of the Trust. The shares of the Funds are referred to herein as “Shares” or “Fund’s Shares.” Each Fund’s Shares are listed and traded on the NYSE Arca, Inc. (“NYSE Arca”).

The Funds’ market prices may differ to some degree from the net asset value (“NAV”) of the Shares of each Fund. Unlike conventional mutual funds, each Fund issues and redeems Shares on a continuous basis, at NAV, only in a large specified number of Shares, each called a “Creation Unit.” Creation Units are issued and redeemed generally in-kind for securities included in the relevant index. Except when aggregated in Creation Units by Authorized Participants, the Shares are not individually redeemable securities of the Funds.

The investment objective of each Fund is to seek investment results that correspond (before fees and expenses) generally to the price and yield performance of the following indices (each, an “Underlying Index”):

| <u>Fund</u> | <u>Index</u> |
|---|---|
| KBW High Dividend Yield Financial Portfolio | KBW Financial Sector Dividend Yield Index |
| KBW International Financial Portfolio | KBW Global ex-U.S. Financial Sector Index |
| KBW Premium Yield Equity REIT Portfolio | KBW Premium Yield Equity REIT Index |
| KBW Property & Casualty Insurance Portfolio | KBW Property & Casualty Index |

Note 2. Significant Accounting Policies

The preparation of the financial statements in accordance with Generally Accepted Accounting Principles (“GAAP”) in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements, including estimates and assumptions related to taxation. Actual results could differ from these estimates. In addition, the Funds monitor for material events or transactions that may occur or become known after the period-end date and before the date the financial statements are released to print.

A. Security Valuation

Securities, including restricted securities, are valued according to the following policies.

Notes to Financial Statements (Continued)

PowerShares Exchange-Traded Fund Trust II

April 30, 2011 (Unaudited)

A security listed or traded on an exchange (except convertible bonds) is valued at its last sales price or official closing price as of the close of the customary trading session on the exchange where the security is principally traded, or lacking any sales or official closing price on a particular day, the security may be valued at the closing bid price on that day. Securities traded in the over-the-counter market are valued based on prices furnished by independent pricing services or market makers. Listed options, if no closing price is available, are valued at the mean between the last bid and ask prices from the exchange on which they are principally traded. Options not listed on an exchange are valued by an independent source at the mean between the last bid and ask prices.

Investments in open-end registered investment companies not traded on an exchange are valued at the end of day NAV per share.

Debt obligations (including convertible bonds) and unlisted equities are fair valued using an evaluated quote provided by an independent pricing service. Evaluated quotes provided by the pricing service may be determined without exclusive reliance on quoted prices, and may reflect appropriate factors such as institution-size trading in similar groups of securities, developments related to specific securities, dividend rate, yield, quality, type of issue, coupon rate, maturity, individual trading characteristics and other market data. Short-term obligations, including commercial paper, having 60 days or less to maturity are recorded at amortized cost which approximates value. Securities with a demand feature exercisable with one to seven days are valued at par. Debt securities are subject to interest rate and credit risks. In addition, all debt securities involve some risk of default with respect to interest and/or principal payments.

Foreign securities (including foreign exchange contracts) are converted into U.S. dollar amounts using the applicable exchange rates as of the close of the London world markets. If market quotations are available and reliable for foreign exchange traded equity securities, the securities will be valued at the market quotations. Because trading hours for certain foreign securities end before the close of the New York Stock Exchange ("NYSE"), closing market quotations may become unreliable. If between the time trading ends on a particular security and the close of the customary trading session on the NYSE, events occur that are significant and make the closing price unreliable, the Fund may fair value the security. If the event is likely to have affected the closing price of the security, the security will be valued at fair value in good faith using procedures approved by the Board of Trustees. Adjustments to closing prices to reflect fair value may also be based on a screening process of an independent pricing service to indicate the degree of certainty, based on historical data, that the closing price in the principal market where a foreign security trades is not the current value as of the close of the NYSE. Foreign securities meeting the approved degree of certainty that the price is not reflective of current value will be priced at the indication of fair value from the independent pricing service. Multiple factors may be considered by the independent pricing service in determining adjustments to reflect fair value and may include information relating to sector indices, American depositary receipts and domestic and foreign index futures. Foreign securities may have additional risks including exchange rate changes, potential for sharply devalued currencies and high inflation, political and economic upheaval, the relative lack of issuer information, relatively low market liquidity and the potential lack of strict financial and accounting controls and standards.

Securities for which market prices are not provided by any of the above methods may be valued based upon quotes furnished by independent sources.

Securities for which market quotations are not readily available or are unreliable are valued at fair value as determined in good faith by or under the supervision of the Trust's officers following procedures

Notes to Financial Statements (Continued)

PowerShares Exchange-Traded Fund Trust II

April 30, 2011 (Unaudited)

approved by the Board of Trustees. Issuer specific events, market trends, bid/ask quotes of brokers and information providers and other market data may be reviewed in the course of making a good faith determination of a security's fair value.

Valuations change in response to many factors including the historical and prospective earnings of the issuer, the value of the issuer's assets, general economic conditions, interest rates, investor perceptions and market liquidity. Because of the inherent uncertainties of valuation, the values reflected in the financial statements may materially differ from the value received upon actual sale of those investments.

B. Other Risks

Replication Management Risk. Unlike many investment companies, the Funds do not utilize an investing strategy that seeks returns in excess of each Fund's respective Underlying Index. Therefore, a Fund would not necessarily sell a security unless that security is removed from its respective Underlying Index.

Non-Diversified Fund Risk. Each Fund is considered non-diversified and can invest a greater portion of assets in securities of individual issuers than a diversified fund. As a result, changes in the market value of a single investment could cause greater fluctuations in Share price than would occur in a diversified fund.

Non-Correlation Risk. Each Fund's return may not match the return of its Underlying Index for a number of reasons. For example, each Fund incurs operating expenses not applicable to its Underlying Index, and incurs costs in buying and selling securities, especially when rebalancing the securities holdings to reflect changes in the composition of its Underlying Index. In addition, the performance of each Fund and its Underlying Index may vary due to asset valuation differences and differences between each Fund's portfolio and its Underlying Index resulting from legal restrictions, cost or liquidity constraints.

Small and Medium Capitalization Company Risk. Investing in securities of small and medium capitalization companies involves greater risk than is customarily associated with investing in larger, more established companies. These companies' securities may be more volatile and less liquid than those of more established companies. These securities may have returns that vary, sometimes significantly, from the overall securities market. Often small and medium capitalization companies and the industries in which they are focused are still evolving and may make them be more sensitive to changing market conditions.

Equity Securities Risk. The prices of equity securities change in response to many factors including the historical and prospective earnings of the issuer, the value of its assets, general economic conditions, interest rates, investor perceptions and market liquidity.

Concentration Risk. To the extent a Fund concentrates its investments in an industry or group of industries, the value of the Fund's Shares may rise and fall more than the value of Shares of a fund that invests in a broader range of securities.

High Dividend Yield Securities Risk. The KBW High Dividend Yield Financial Portfolio's and the KBW Premium Yield Equity REIT Portfolio's investments in high yielding, dividend paying securities, at times, may be out of favor and underperform other market segments (e.g., growth stocks).

REIT Risk. The KBW High Dividend Yield Financial Portfolio's and the KBW Premium Yield Equity REIT Portfolio's investments in securities of real estate companies involve risks. Although the Funds will not invest in real estate directly, the REITs in which the Funds will invest will be subject to risks inherent

Notes to Financial Statements (Continued)

PowerShares Exchange-Traded Fund Trust II

April 30, 2011 (Unaudited)

in the direct ownership of real estate. These risks include, but are not limited to, the risk of a possible lack of mortgage funds and associated interest rate risks, overbuilding, property vacancies, increases in property taxes and operating expenses, changes in zoning laws, losses due to environmental damages and changes in neighborhood values and appeal to purchasers.

Financial Sector Risk. The KBW High Dividend Yield Financial Portfolio's and KBW International Financial Portfolio's investments in securities of the financial sector involve risks. The market value of securities of issuers in the financial sector can be affected by factors such as adverse regulatory or economic occurrences affecting the financial sector, availability of credit, fluctuations in asset values, unstable interest rates, increased competition, continuing consolidations and development of new products and structures. Furthermore, increased government involvement in financial institutions, including measures such as taking ownership positions in such institutions, could result in a dilution in the value of the shares held by shareholders in such institutions.

Risk of Investing in BDCs. The KBW High Dividend Yield Financial Portfolio's investments in business development companies ("BDCs") involve risks. The Investment Company Act of 1940, as amended (the "1940 Act"), imposes certain restraints upon the operations of a BDC. Generally, little public information exists for private and thinly traded companies and there is a risk that investors may not be able to make a fully informed investment decision. With investments in debt instruments, there is a risk that the issuer may default on its payments or declare bankruptcy. The limitations on a BDC's asset mix and leverage may prohibit the way that the BDC raises capital. BDCs generally invest in less mature private companies which involve greater risk than well-established publicly-traded companies. To the extent that the Fund invests a portion of its assets in BDCs, a shareholder in the Fund will bear not only his or her proportionate share of the expenses of the Fund, but also, indirectly the expenses of the BDCs.

Foreign Institutions Risk. For KBW International Financial Portfolio, foreign companies, in general, are not subject to the regulatory requirements of U.S. companies and, as such, there may be less publicly available information about these companies. Moreover, foreign companies are often subject to less stringent requirements regarding accounting, auditing, financial reporting and record-keeping than are U.S. companies, and therefore, not all material information regarding these companies will be available.

Property and Casualty Insurance Industry Risk. The KBW Property & Casualty Insurance Portfolio's investments in securities of property and casualty insurance companies involve risks. Property and casualty insurance companies can be significantly affected by many factors, including changes in interest rates, general economic conditions, the imposition of premium rate caps, competition and pressure to compete globally, including price and marketing competition, and other changes in government regulation or tax law. In addition, different segments of the insurance industry can be significantly affected by mortality and morbidity rates, environmental clean-up costs and catastrophic events such as natural disasters and terrorist acts.

C. Federal Income Taxes

Each Fund intends to comply with the provisions of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of the Fund's taxable earnings to its shareholders. As such, the Funds will not be subject to Federal income taxes on otherwise taxable income (including net realized gains) that is distributed to the shareholders. Therefore, no provision for Federal income taxes is recorded in the financial statements.

Notes to Financial Statements (Continued)

PowerShares Exchange-Traded Fund Trust II

April 30, 2011 (Unaudited)

Income and capital gain distributions are determined in accordance with Federal income tax regulations, which may differ from GAAP. These differences are primarily due to differing book and tax treatments for in-kind transactions, losses deferred due to wash sales, and passive foreign investment company adjustments, if any.

The Funds file tax returns in the United States Federal jurisdiction and certain other jurisdictions. Generally, a Fund is subject to examinations by such taxing authorities for up to three years after the filing of the return for the tax period.

D. Investment Income and Investment Transactions

Dividend income is recorded on the ex-dividend date, net of foreign taxes withheld, if any. Interest income is recorded on the accrual basis. Investment transactions are recorded on the trade date. Realized gains and losses from the sale or disposition of securities are calculated on the specific identified cost basis. Dividends and interest received by a Fund may give rise to withholding and other taxes imposed by foreign countries. Corporate actions (including cash dividends) are recorded net of non-reclaimable foreign tax withholdings on the ex-dividend date. Tax conventions between certain countries and the United States may reduce or eliminate such taxes.

E. Expenses

Each Fund has agreed to pay an annual unitary management fee to Invesco PowerShares Capital Management LLC (the "Adviser"). The Adviser has agreed to pay substantially all expenses of the Funds, including the cost of transfer agency, custody, fund administration, legal, audit and other services, except for distribution fees, if any, brokerage expenses, taxes, interest, litigation expenses, expenses of the investment companies that are paid indirectly as a result of share ownership of the investment companies in which KBW High Dividend Yield Financial Portfolio invests and other extraordinary expenses.

Expenses included for KBW High Dividend Yield Financial Portfolio, in the accompanying financial statements, reflect the expenses of the Fund and do not include any expenses of the investment companies in which it invests. The effects of the investment companies' expenses are included in the realized and unrealized gain/loss on the investments in the investment companies.

F. Dividends and Distributions to Shareholders

Each Fund declares and pays dividends from net investment income, if any, to its shareholders quarterly for the KBW International Financial Portfolio and KBW Property & Casualty Insurance, and monthly for the KBW Premium Yield Equity REIT Portfolio and KBW High Dividend Yield Financial Portfolio and records on ex-dividend date. Each Fund distributes net realized taxable capital gains, if any, generally annually in cash and records them on ex-dividend date. Such distributions on a tax basis are determined in conformity with income tax regulations which may differ from GAAP. Distributions in excess of tax basis earnings and profits, if any, are reported in such Fund's financial statements as a tax return of capital at fiscal period-end.

G. Equalization

All of the Funds use the accounting practice of equalization. This accounting method is used to keep the continuing shareholder's per Share equity in undistributed net investment income from being affected by the continuous sales and redemptions of capital Shares. Equalization is calculated on a per Share basis whereby a portion of the proceeds from the sales and cost of repurchases of capital Shares is applied to undistributed net investment income. The amount of equalization is disclosed in the Statements of

Notes to Financial Statements (Continued)

PowerShares Exchange-Traded Fund Trust II

April 30, 2011 (Unaudited)

Changes in Net Assets as undistributed net investment income (loss) included in the price of capital Shares issued or redeemed. The distributions to shareholders of amounts so applied may be deemed to be a return of capital for tax purposes to the extent that such distributions exceed taxable income.

Note 3. Investment Advisory Agreement and Other Agreements

The Trust has entered into an Investment Advisory Agreement with the Adviser pursuant to which the Adviser has overall responsibility as the Funds' investment adviser for the selection and ongoing monitoring of the Funds' investments, managing the Funds' business affairs and providing certain clerical, bookkeeping and other administrative services. As compensation for its services, each Fund has agreed to pay the Adviser an annual unitary management fee. The Adviser has agreed to pay substantially all expenses of the Funds, including the cost of transfer agency, custody, fund administration, legal, audit and other services, except for distribution fees, if any, brokerage expenses, taxes, interest, litigation expenses, expenses of the investment companies that are paid indirectly as a result of share ownership of the investment companies in which KBW High Dividend Yield Financial Portfolio invests and other extraordinary expenses. Each Fund (except for the KBW International Financial Portfolio) has agreed to pay the Adviser an annual unitary management fee of 0.35% of the Fund's average daily net assets. The KBW International Financial Portfolio has agreed to pay the Adviser an annual unitary management fee of 0.40% of the Fund's average daily net assets.

The Trust has entered into a Distribution Agreement with Invesco Distributors, Inc. (the "Distributor"), which serves as the distributor of Creation Units for each Fund. The Distributor does not maintain a secondary market in the Shares. The Distributor is an affiliate of the Adviser.

The Adviser has entered into a licensing agreement for each Fund with Keefe, Bruyette & Woods, Inc. (the "Licensor"). Each Underlying Index name trademark is owned by the Licensor. These trademarks have been licensed to the Adviser for use with the Funds. The Funds are not sponsored, endorsed, sold or promoted by the Licensor and the Licensor makes no representation regarding the advisability of investing in any of these Funds. The Trust has entered into a sub-licensing agreement under which each Fund may track its respective Index.

The Trust has entered into service agreements whereby The Bank of New York Mellon, a wholly-owned subsidiary of The Bank of New York Mellon Corporation, serves as the administrator, custodian, fund accountant and transfer agent for each Fund.

Note 4. Investments in Affiliates

The Fund's Adviser is a subsidiary of Invesco Ltd. and therefore, Invesco Mortgage Capital, Inc. is considered to be affiliated with the Fund. The table below shows the transactions in and earnings from the investment in Invesco Mortgage Capital, Inc. for the six-month period ended April 30, 2011.

KBW High Dividend Yield Financial Portfolio

| | Value 10/31/10 | Purchases at Cost | Proceeds from Sales | Change in Unrealized Appreciation | Realized Gain (Loss) | Value 04/30/11 | Dividend Income |
|---|-------------------|----------------------|------------------------|---|-------------------------|-------------------|--------------------|
| Invesco Mortgage Capital, Inc. | \$— | \$801,303 | \$(25,873) | \$11,839 | \$(1,215) | \$786,054 | \$37,441 |

Notes to Financial Statements (Continued)

PowerShares Exchange-Traded Fund Trust II

April 30, 2011 (Unaudited)

Note 5. Additional Valuation Information

GAAP 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, under current market conditions. GAAP establishes a hierarchy that prioritizes the inputs to valuation methods giving the highest priority to readily available unadjusted quoted prices in an active market for identical assets (Level 1) and the lowest priority to significant unobservable inputs (Level 3) generally when market prices are not readily available or are unreliable. Based on the valuation inputs, the securities or other investments are tiered into one of three levels. Changes in valuation methods may result in transfers in or out of an investment's assigned level:

Level 1 – Prices are determined using quoted prices in an active market for identical assets.

Level 2 – Prices are determined using other significant observable inputs. Observable inputs are inputs that other market participants may use in pricing a security. These may include quoted prices for similar securities, interest rates, prepayment speeds, credit risk, yield curves, loss severities, default rates, discount rates, volatilities and others.

Level 3 – Prices are determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period), unobservable inputs may be used. Unobservable inputs reflect the Fund's own assumptions about the factors market participants would use in determining fair value of the securities or instruments and would be based on the best available information.

As of April 30, 2011, the securities in each Fund were valued based on Level 1 inputs. The level assigned to the securities valuations may not be an indication of the risk or liquidity associated with investing in those securities. Because of the inherent uncertainties of valuation, the values reflected in the financial statements may materially differ from the value received upon actual sale of those investments. With respect to each Fund, during the six-month period ended April 30, 2011, there were no significant transfers between investment levels.

Note 6. Federal Income Tax

The amount and character of income and gains to be distributed are determined in accordance with income tax regulations, which may differ from GAAP. Reclassifications are made to the Fund's capital accounts to reflect income and gains available for distribution (or available capital loss carryforward) under income tax regulations. The tax character of distributions paid during the year and the tax components of net assets will be reported at the Fund's fiscal period-end.

Capital loss carryforward is calculated and reported as of a specific date. Results of transactions and other activity after that date may affect the amount of capital loss carryforward actually available for the Fund to utilize. The ability to utilize capital loss carryforward in the future may be limited under the Internal Revenue Code rules and related regulations based on the results of future transactions.

Notes to Financial Statements (Continued)

PowerShares Exchange-Traded Fund Trust II

April 30, 2011 (Unaudited)

Note 7. Investment Transactions

For the period ended April 30, 2011, the cost of securities purchased and proceeds from sales of securities, excluding short-term securities, money market funds and in-kind transactions, were as follows:

| | <u>Purchases</u> | <u>Sales</u> |
|---|------------------|--------------|
| KBW High Dividend Yield Financial Portfolio | \$982,800 | \$986,784 |
| KBW International Financial Portfolio | 84,053 | 75,492 |
| KBW Premium Yield Equity REIT Portfolio | 871,666 | 779,500 |
| KBW Property & Casualty Insurance Portfolio | 87,593 | 65,745 |

For the period ended April 30, 2011, in-kind transactions associated with creations and redemptions were as follows:

| | <u>Securities Received</u> | <u>Securities Delivered</u> |
|---|--------------------------------|---------------------------------|
| KBW High Dividend Yield Financial Portfolio | \$13,676,849 | \$ 325,905 |
| KBW International Financial Portfolio | 2,513,753 | 37,967 |
| KBW Premium Yield Equity REIT Portfolio | 5,313,780 | 239,857 |
| KBW Property & Casualty Insurance Portfolio | 4,991,738 | 2,577,884 |

Gains and (losses) on in-kind transactions are generally not considered taxable gains and (losses) for Federal income tax purposes.

At April 30, 2011, costs of investments for tax and financial reporting purposes were as follows:

| | <u>Cost</u> | <u>Net Unrealized Appreciation</u> | <u>Gross Unrealized Appreciation</u> | <u>Gross Unrealized (Depreciation)</u> |
|--|--------------|--|--|--|
| KBW High Dividend Yield Financial Portfolio | \$13,338,336 | \$232,257 | \$366,191 | \$(133,934) |
| KBW International Financial Portfolio ... | 2,481,129 | 235,836 | 300,588 | (64,752) |
| KBW Premium Yield Equity REIT Portfolio | 5,157,617 | 291,854 | 319,541 | (27,687) |
| KBW Property & Casualty Insurance Portfolio | 2,537,396 | 140,425 | 185,710 | (45,285) |

Note 8. Trustees' Fees

The Funds compensate each Trustee who is not an "interested person" as defined in the 1940 Act (an "Independent Trustee"). The Adviser, as result of the unitary management fee, pays for such compensation. The Non-Independent Trustees of the Trust do not receive any Trustees' fees.

The Trust has adopted a deferred compensation plan (the "Plan"). Under the Plan, an Independent Trustee who has executed a Deferred Fee Agreement (a "Participating Trustee") may defer receipt of all or a portion of his compensation ("Deferral Fees"). Such Deferral Fees are deemed to be invested in select PowerShares Funds. The Deferral Fees payable to the Participating Trustee are valued as of the date such Deferral Fees would have been paid to the Participating Trustee. The value increases with contributions or

Notes to Financial Statements (Continued)

PowerShares Exchange-Traded Fund Trust II

April 30, 2011 *(Unaudited)*

with increases in the value of the Shares selected, and the value decreases with distributions or with declines in the value of the Shares selected.

Note 9. Capital

Shares are created and redeemed by the Trust only in Creation Unit size aggregations of 50,000 Shares. Only Authorized Participants are permitted to purchase or redeem Creation Units from the Funds. Such transactions are generally permitted on an in-kind basis, with a balancing cash component to equate the transaction to the NAV per Share of each Fund of the Trust on the transaction date. Cash may be substituted equivalent to the value of certain securities generally when they are not available in sufficient quantity for delivery, not eligible for trading by the Authorized Participant or as a result of other market circumstances.

Note 10. Indemnifications

Under the Trust's organizational documents, its officers and Trustees are indemnified against certain liabilities arising out of the performance of their duties to the Trust. Each Independent Trustee is also indemnified against certain liabilities arising out of the performance of his duties to the Trust pursuant to an Indemnification Agreement between the Independent Trustee and the Trust. Additionally, in the normal course of business, the Trust enters into contracts with service providers that contain general indemnification clauses. The Trust's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Trust that have not yet occurred. However, based on experience, the Trust believes the risk of loss to be remote.

Board Considerations Regarding Approval of Investment Advisory Agreement for the New KBW Funds

At a meeting held on September 23, 2010, the Board of Trustees of the PowerShares Exchange-Traded Fund Trust II (the “Trust”), including the Independent Trustees, approved the Investment Advisory Agreement between Invesco PowerShares Capital Management LLC (the “Adviser”) and the Trust for the PowerShares KBW Premium Yield Equity REIT Portfolio, PowerShares KBW High Dividend Yield Financial Portfolio, PowerShares KBW International Financial Portfolio and PowerShares KBW Property & Casualty Insurance Portfolio (each, a “New Fund” and collectively, the “New Funds”).

The Trustees reviewed information from the Adviser describing: (i) the nature, extent and quality of services to be provided, (ii) the costs of services to be provided and estimated profits to be realized by the Adviser, (iii) the extent to which economies of scale may be realized as each New Fund grows, (iv) whether fee levels reflect any possible economies of scale for the benefit of Fund shareholders, (v) comparisons of services rendered and amounts paid to other registered investment companies and (vi) any benefits to be realized by the Adviser from its relationships with the New Funds. Based on all of the information considered and the conclusions reached, the Board, including the Independent Trustees, determined to approve the Investment Advisory Agreement for each New Fund. No single factor was determinative in the Board’s analysis.

Nature, Extent and Quality of Services. In evaluating the nature, extent and quality of the Adviser’s services, the Trustees reviewed information concerning the functions to be performed by the Adviser for each New Fund, information describing the Adviser’s current organization and staffing, including operations assistance provided by the Adviser’s parent organization, Invesco Ltd., and the background and experience of the persons who will be responsible for the day-to-day management of the New Funds, and considered the quality of services provided by the Adviser to other exchange-traded funds (“ETFs”). The Trustees also reviewed information related to the Adviser’s portfolio transaction policies and procedures, as well as reports on the correlation and tracking error between the underlying indexes and the performance of other ETFs for which the Adviser serves as investment adviser.

The Trustees also considered the services to be provided by the Adviser in its oversight of the New Funds’ administrator, custodian and transfer agent. They noted the significant amount of time and effort that had been devoted to this oversight function for the other ETFs and that was expected to be provided for the New Funds.

Based on their review, the Trustees concluded that the nature, extent and quality of services to be provided by the Adviser to each New Fund under the Investment Advisory Agreement were expected to be appropriate and reasonable.

Fees, Expenses and Profitability. The Trustees reviewed and discussed the information provided by the Adviser on each New Fund’s proposed advisory fee, as compared to the expense ratios of various comparable ETFs for each New Fund, as well as the average and median expense ratios of each New Fund’s respective Lipper peer group, which includes ETF and non-ETF funds. The Trustees noted the information compiled by the Adviser from Lipper Inc. databases on the expense ratios and advisory fees of various types of ETFs and open-end actively managed funds that they had received in connection with the 2010 contract renewal process for other ETFs for which the Adviser serves as investment adviser. The Trustees noted that the annual advisory fee to be charged to each New Fund was a unitary fee, and that the Adviser has agreed to pay all other expenses of the New Fund except brokerage commissions and other trading expenses, taxes, interest and extraordinary expenses. The Trustees noted that each New

Board Considerations Regarding Approval of Investment Advisory Agreement for the New KBW Funds (Continued)

Fund's unitary advisory fee generally was lower than or within an acceptable range of the expense ratios of the ETFs in its ETF universe, and was lower than the average and median expense ratios of each New Fund's Lipper peer group. The Trustees considered each New Fund's proposed advisory fee in light of the higher administrative, operational and management oversight costs. The Trustees also noted that each New Fund's licensing fee was payable out of the unitary fee to be charged to the New Fund. The Trustees also noted the Adviser's representation that each New Fund's advisory fee was competitive with those of its ETF peers. The Board concluded that the unitary advisory fee to be charged to each New Fund is reasonable and appropriate in light of the services expected to be provided.

In conjunction with their review of the unitary advisory fee, the Trustees also considered information provided by the Adviser on the costs of services for the New Funds and the fees to be paid by the Adviser. The Trustees considered information provided by the Adviser on its profitability, as well as any profits or losses realized by the Adviser from its relationship with other ETFs for which it serves as investment adviser. The Trustees noted the Adviser's statement that its costs of managing those ETFs generally exceed the amount payable as management fees under the investment advisory agreement for those funds. The Trustees concluded that the estimated profits to be realized by the Adviser with respect to the New Funds appeared to be reasonable in comparison with the cost of providing investment advisory services to the New Funds.

Economies of Scale and Whether Fee Levels Reflect These Economies of Scale. The Trustees reviewed the information provided by the Adviser as to the extent to which economies of scale may be realized as each New Fund grows and whether fee levels reflect economies of scale for the benefit of shareholders. The Trustees noted that any reduction in fixed costs associated with the management of the New Funds would be enjoyed by the Adviser, but that a unitary fee provides certainty in expenses for the New Funds. The Trustees considered whether the advisory fee rate for each New Fund is reasonable in relation to the projected asset size of the New Fund, and concluded that the flat advisory fee was reasonable and appropriate.

The Trustees noted that the Adviser had not identified any further benefits that it would derive from its relationships with the New Funds, and had noted that it does not have any soft-dollar arrangements.

Based on all of the information considered and the conclusions reached, the Board, including the Independent Trustees, determined to approve the Investment Advisory Agreement for each New Fund. No single factor was determinative in the Board's analysis.

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PROXY VOTING POLICIES AND PROCEDURES

A description of the Funds' proxy voting policies and procedures that the Funds use to determine how to vote proxies relating to portfolio securities is available, without charge and upon request, by calling (800) 983-0903. This information is also available on the Securities and Exchange Commission's ("Commission") website at www.sec.gov.

Information regarding how the Funds voted proxies for portfolio securities, if applicable, during the most recent 12-month period ended June 30, is also available, without charge and upon request, by (i) calling (800) 983-0903; or (ii) accessing the Trust's Form N-PX on the Commission's website at www.sec.gov.

QUARTERLY PORTFOLIOS

The Funds file their complete schedules of portfolio holdings with the Commission for the first and third quarters of each fiscal year on Form N-Q. The Trust's Form N-Qs are available on the Commission's website at www.sec.gov. The Trust's Form N-Qs may also be reviewed and copied at the Commission's Public Reference Room in Washington, DC; information on the operation of the Public Reference Room may be obtained by calling (800) SEC-0330.

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