DEPFA FUNDING II LP
Annual Report and Accounts

31 December 2009

CONTENTS

Introduction

DEPFA Funding II LP ("the Partnership") is a United Kingdom Limited Partnership established by a Limited Partnership Agreement dated 23 October 2003 ("the Partnership Agreement"). DEPFA BANK plc, a company registered in Ireland, is the General Partner.

The purpose of the Partnership is to raise and provide finance and financial support to DEPFA BANK plc ("the Guarantor and General Partner") and other subsidiaries of Hypo Real Estate Holding AG ("HRE Holding") (together, "the HRE Group"). The business of the partnership, as administered by, or on behalf of, the General Partner will include the following:

- Acquiring and holding the Partnership's assets;
- Monitoring the Partnership's assets and determining whether they continue to be suitable; and
- Functions necessary or incidental thereto.

Summary of the Partnership's activities

The Partnership has issued €400,000,000 6.5% Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities. The Preferred Securities entitle holders to receive non-cumulative preferential cash distributions subject to certain conditions including the discretion of the Board of Directors of the Guarantor and General Partner. The proceeds of these securities have been lent to DEPFA Finance NV, a HRE Group company.

Payment under this hybrid capital instrument is only contractually required if creditors of an equal ranking receive interest payments. During 2009 the last equal ranking liability was repaid by the Group and accordingly the Group no longer has a contractual obligation to make interest payments under the hybrid capital instrument. Accordingly the carrying amount of this instrument has been reclassified to equity from subordinated capital.

Dividends

A dividend of €26,000,000 was paid to DEPFA BANK plc on 30 October 2009. No further dividends are proposed in respect of the year ended 31 December 2009.

Going concern

In the financial year 2009, the German Financial Markets Stabilisation Fund/German Finanzmarktstabilisierungsfonds ("SoFFin") recapitalised the HRE Group initially with a total of around € 6 billion; HRE Holding received proceeds of € 3 billion by way of two capital increases in March and in June 2009. In November 2009, HRE Group received a further € 3 billion. With the decision of 13 November 2009, the EU Commission declared that the further recapitalisation tranche for HRE Group was provisionally (i.e. until the final decision is taken with regard to the restructuring plan) consistent with the aid regulations of the EC treaty.

The existence of companies in the HRE Group including DEPFA BANK plc and its subsidiary entities, including DEPFA Funding II LP, continued to be threatened in the whole business year 2009.

The HRE Group continues to assume that it is a going concern and will continue in operation under the following described conditions (external factors/internal factors).

The Annual Report and Accounts are prepared on a going concern basis as the directors of the General Partner have assumed that the Partnership will continue in operation under the conditions described as external and internal factors below.

This assumption is predicated on the fact that based on present information, the HRE Group Management Board considers it predominantly probable that these conditions are in existence or will occur.

External factors:

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

Internal factors:

- The HRE Group further succeeds in regaining the confidence of customers and successfully writes new business subject to adequate volumes and adequate margins.
- There are no significant delays or obstructions of the implementation of the restructuring of the HRE Group that aims to improve efficiency, profitability and streamlining of business processes.
- Work-out or restructuring of non-performing loans throughout the HRE Group can be implemented as currently scheduled.
- The HRE Group has been given the possibility of streamlining assets without a severe impact on value and of transferring balance sheet items by way of establishing a deconsolidated environment.
- The HRE Group is able to hire and keep staff in key positions despite specific restrictions, for example, on compensation.

On 28 March 2009, SoFFin confirmed in writing to HRE Holding and to Deutsche Pfandbriefbank AG (formerly Hypo Real Estate Bank AG) that it intended to stabilise HRE Holding in a sustainable manner by way of adequate recapitalisation and Deutsche Pfandbriefbank AG by further sufficient extensions of guarantees. SoFFin renewed its statement of intent on 6 November 2009. In particular, SoFFin has confirmed that it will provide adequate capital to ensure at least the continued existence of HRE Holding and its main subsidiaries as going concerns as well as the necessary viable business model, particularly that of Deutsche Pfandbriefbank AG. The support which the HRE Group overall receives from the German Federal Government depends on the result of a final review as to whether a deconsolidated environment will be established for non-strategic or non-performing assets of the HRE Group. In addition, SoFFin will provide further guarantees to assure the liquidity of HRE Holding. These and possible further measures are conditional on meeting the aid law requirements of the EU Commission.

As the first step towards recapitalising the HRE Group, SoFFin took up 20 million HRE Holding shares on 28 March 2009 for a legal minimum price of € 3.00 per share, with shareholders' subscription rights excluded. As the second step of recapitalisation of the HRE Group, the shareholders adopted a resolution regarding a capital increase of around € 2.96 billion in return for a cash contribution at the Extraordinary General Meeting held on 2 June 2009. 986.5 million shares were issued at the nominal value and legal minimum price of € 3.00 specified in the articles of incorporation. Only SoFFin was permitted to take up the new shares out of the capital increase, and the statutory shareholders' subscription rights were excluded. After the registration of the capital increase on 8 June 2009, SoFFin held 90% of HRE Holding share capital. On 5 October 2009, a resolution for transferring the shares of the minority shareholder to SoFFin was adopted at an Extraordinary General Meeting. The Amtsgericht (local court) in Munich entered the transfer resolution on the commercial register on 13 October 2009, so that SoFFin became the only shareholder of HRE Holding. As a third step in the recapitalisation process, the HRE Group received a further capital contribution of a total of € 3.0 billion from SoFFin in November 2009. This tranche consists of a silent participation of € 1.0 billion to Deutsche Pfandbriefbank AG, a contribution of € 1.3 billion to the reserve of Deutsche Pfandbriefbank AG and a contribution of € 0.7 billion to the reserve of HRE Holding.

HRE Holding and Deutsche Pfandbriefbank AG have provided a commitment to SoFFin that they will take the steps necessary for implementing the recapitalisation process.

Risks threatening the future existence of the HRE Group:

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

To ensure the future existence of HRE Holding and its significant subsidiaries as a going concern it is particularly necessary that:

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

General Partner's Statement – continued

Ownership

The Partnership is part of the DEPFA Group ("the Group") which comprises DEPFA BANK plc and its subsidiaries. On 2 October 2007 the entire ordinary share capital of DEPFA BANK plc, the General Partner of the Partnership, was acquired by Hypo Real Estate Holding AG ("HRE Holding"), the parent entity of the Hypo Real Estate Group ("the HRE Group").

There has been no change in the ownership of the Partnership during 2009.

Events after 31 December 2009

On 21 January 2010, following liaison with SoFFin, the HRE Group submitted an application to the German Financial Markets Stabilisation Agency ("FMSA") for the establishment of a deconsolidated environment aimed at reducing assets in a value preserving manner. The HRE Group intends to transfer balance sheet items no longer strategically required for the HRE Group's realignment to this deconsolidated environment. The transfer, which is set to cover HRE Group assets worth up to € 210 billion, is scheduled to take place during the second half of 2010, once all necessary approvals have been obtained from the responsible corporate bodies and institutions. There is no legal right to the establishment of the deconsolidated environment. FMSA has the discretionary authority to establish it.

On 5 March 2010 the Guarantor and General Partner stated that it did not expect the Partnership to make any coupon payments in 2010.

Apart from the above, there have been no other notable events after 31 December 2009.

Auditors

The auditors, KPMG, have indicated their willingness to continue in office.

Signed on behalf of DEPFA BANK plc:

Cyril Dunne **Noel Reynolds**

23 June 2010

Statement of the General Partner's Responsibilities

Under the Limited Partnership Agreement the General Partner is required to prepare and approve Annual Report and Accounts of the Partnership in respect of each accounting year. The General Partner has elected to prepare the Annual Report and Accounts under the applicable law and in accordance with International Financial Reporting Standards ("IFRSs"), both as issued by the International Accounting Standards Board ("IASB") and subsequently adopted by the European Union ("EU").

In preparing the Annual Report and Accounts the General Partner is required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards, as specified in accordance with International Financial Reporting Standards ("IFRSs") and IFRIC interpretations endorsed by the European Union as set out in the Partnership Agreement, have been followed, subject to any material departures disclosed and explained in the Annual Report and Accounts; and
- In accordance with the Transparency (Directive 2004/109/EC) (the Transparency Regulations), the General Partner is required to include in its report a fair review of the business and a description of the principal risks and uncertainties facing the Partnership and a responsibility statement relating to these and other matters included below; and
- Prepare the Annual Report and Accounts on a going concern basis, unless it is inappropriate to presume that the Partnership will continue in business.

The General Partner confirms that these Annual Report and Accounts comply with the above requirements.

Additionally the General Partner has a general responsibility for taking reasonable steps to safeguard the assets of the Partnership and to prevent and detect fraud and other irregularities.

Responsibility Statement, in accordance with the Transparency Regulations

Each of the directors of the General Partner, whose names and functions are listed on page 20 confirm that to the best of each person's knowledge and belief:

- The Partnership Annual Report and Accounts, 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 Partnership at 31 December 2009 and its profit for the year then ended;
- The General Partner's Statement includes a fair review of the development and performance of the business and the position of the Partnership, together with a description of the principal risks and uncertainties they face.

Signed on behalf of DEPFA BANK plc:

Cyril Dunne **Noel Reynolds**

23 June 2010

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DEPFA FUNDING II LP

We have audited the financial statements ("financial statements") of DEPFA Funding II LP ("LP") for the year ended 31 December 2009 which comprise of the Income Statement, the Statement of comprehensive income, the Statement of financial position, the Cash Flow Statement, the Statement of changes in General Partner's funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the partnership's members, as a body, in accordance with section 235 of the Companies Act 1985, as required by regulation 4 of the Partnerships and Unlimited Companies (Accounts) Regulations 1993. Our audit work has been undertaken so that we might state to the partnership'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 partnership and the partnership's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of partners and auditors

The partners' responsibility for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU is set out in the Statement of the General Partner's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared as if the requirements of Part VII of the Companies Act 1985 applied to them as required by the Partnerships and Unlimited Company (Accounts) Regulations 1993. We also report to you whether in our opinion the information given in the General Partner's Statement is consistent with the financial statements.

We also report to you if, in our opinion, the partnership has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding partners' remuneration and transactions with the partnership is not disclosed.

We read the General Partner's Statement and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the partners in the preparation of the financial statements, and of whether the accounting policies are appropriate to the partnership's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the partnership's affairs as at 31 December 2009 and of its profit for the year then ended;
- the financial statements have been properly prepared as if the requirements of Part VII of the Companies Act 1985 applied to them as required by the Partnerships and Unlimited Company (Accounts) Regulations 1993; and
- the information given in the General Partner's Statement is consistent with the financial statements.

Emphasis of Matter – Going Concern Basis of Accounting

In forming our opinion which is not qualified we have considered the adequacy of the disclosures in the "Going concern" section on page 2 and 3 of the general partner's statement and in note 2 to the financial statements on pages 13 and 14 concerning the appropriateness of going concern basis of accounting in the preparation of the financial statements of the LP for the year ended 31 December 2009.

The financial statements have been prepared on a going concern basis which assumes that the LP will continue in operation and meet its debts as they fall due for a minimum period of 12 months from the date of this report. Given its significance, we wish to draw the readers' attention to the underlying assumptions underpinning the application of the going concern basis of accounting to the LP's financial statements for the year ended 31 December 2009. Set-out below in our view are the key assumptions.

The future existence of the Hypo Real Estate Group ("HREG") depends on the assumption that sufficient equity will be provided to HREG and their subsidiaries to fulfil the supervisory regulations for own funds and sufficient to avoid a situation of insolvency. External liquidity support is necessary to avert insolvency due to illiquidity of the significant subsidiaries of the HREG or Hypo Real Estate Holding AG ("HRE AG") itself. These liquidity supports must be available until HREG and its subsidiaries raise sufficient liquidity on the money and capital markets by themselves and the agreed restructuring arrangements are implemented as scheduled.

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

- The Financial Markets Stabilisation Fund ("SoFFin") continues to provide sufficient equity capital;
- SoFFin and the Deutsche Bundesbank maintain their liquidity support and, if necessary, provide further liquidity assistance until such time as HRE AG and it's principal subsidiaries raise liquidity in the capital markets themselves;
- Increased refinancing with sustainable conditions on the money and capital markets is possible;
- The restructuring arrangements will be implemented as scheduled;
- The appropriate authorities do not take regulatory actions which are unforeseen and which would not permit the HREG to fully implement its recovery plan; as well as
- no legal reservations (especially EU legal actions) will be successfully enforced.

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

KPMG
Chartered Accountants
Registered Auditor
1 Harbourmaster Place
IFSC
Dublin 1
Ireland

23 June 2010

Income statement

	Note	Year ended 31 December	
		2009	**2008**
		€	**€**
Interest and similar income	4	25,928,967	25,941,033
Interest expense and similar charges	4	-	(21,453,362)
Net interest income	4	**25,928,967**	**4,487,671**
Profit for the year		**25,928,967**	**4,487,671**

The notes on pages 13 to 19 are an integral part of these accounts.

Signed on behalf of DEPFA BANK plc:

Cyril Dunne **Noel Reynolds**

23 June 2010

Statement of comprehensive income

	2009 €			2008 €		
	Before tax	**Tax**	**After tax**	**Before tax**	**Tax**	**After tax**
Net income	25,928,967	-	25,928,967	4,487,671	-	4,487,671
Total	**25,928,967**	**-**	**25,928,967**	**4,487,671**	**-**	**4,487,671**
Attributable to the equity holders	25,928,967	-	25,928,967	4,487,671	-	4,487,671

Disclosure of components of comprehensive income

	2009 **€**	**2008** **€**
Net income	25,928,967	4,487,671
Total	**25,928,967**	**4,487,671**

The notes on pages 13 to 19 are an integral part of these financial statements.

Statement of financial position

	Note	As at 31 December 2009 €	2008 €
ASSETS			
Loans and advances to customers	5	407,318,674	407,389,707
Other receivables		1	1
Total assets		**407,318,675**	**407,389,708**
LIABILITIES			
Preferred securities issued	6	-	402,902,036
Total liabilities		**-**	**402,902,036**
GENERAL PARTNER'S FUNDS AND OTHER EQUITY			
Capital contribution account		1	1
Preferred securities issued		402,902,036	-
Income account		4,416,638	4,487,671
Total equity	7	**407,318,675**	**4,487,672**
Total liabilities and general partner's funds and other equity		**407,318,675**	**407,389,708**

The notes on pages 13 to 19 are an integral part of these accounts.

Signed on behalf of DEPFA BANK plc:

Cyril Dunne **Noel Reynolds**

23 June 2010

Statement of changes in General Partner’s funds and Other Equity

For the year ended 31 December 2009

€	Capital Contribution	Preferred securities issued	Income Account	Total General Partner’s funds and Other Equity
Balance at 1 January 2008	**1**	**-**	**-**	**1**
Income for the year	-	-	4,487,671	4,487,671
Balance at 31 December 2008	1	-	4,487,671	4,487,672
Income for the year	-	-	25,928,967	25,928,967
Reclassification of hybrid capital	-	402,902,036	-	402,902,036
Dividend paid in the year	-	-	(26,000,000)	(26,000,000)
Balance at 31 December 2009	**1**	**402,902,036**	**4,416,638**	**407,318,675**

The notes on pages 13 to 19 are an integral part of these accounts.

Cash Flow Statement

For the year ended 31 December 2009

	Note	2009 €	2008 €
Cash flows from operating activities			
Profit on ordinary activities before taxation		25,928,967	4,487,671
Adjustments for non-cash movements:			
Net decrease/(increase) in accrued interest income		71,033	(12,261)
Net decrease in accrued interest expense		-	(4,475,410)
Tax paid		-	-
Net cash from operating activities		**26,000,000**	**-**
Cash flows from financing activities			
Dividend paid		(26,000,000)	-
Net cash from financing activities		**(26,000,000)**	**-**
Cash and cash equivalents at the beginning of the year		**-**	**-**
Effect of exchange rate changes on cash and cash equivalents		-	-
Cash and cash equivalents at the end of the year		**-**	**-**

Included in the cash flows for the year are the following amounts:

	2009 €	2008 €
Interest income received	26,000,000	26,000,000
Interest expense paid	-	(26,000,000)

The notes on pages 13 to 19 are an integral part of these accounts.

Notes to the annual report and accounts

1. The Partnership

(a) Establishment of the Partnership

DEPFA Funding II LP Limited Partnership ("the Partnership") is a United Kingdom Limited Partnership, established by a Limited Partnership Agreement dated 23rd October 2003 ("the Partnership Agreement"). The Preferred Securities Issued of the Partnership are listed on the Luxembourg Stock Exchange and the Official Segment of the stock market of Euronext Amsterdam N.V.

The General Partner, Manager and Guarantor of the Partnership is DEPFA BANK plc, which is responsible for the management, operation and administration of the affairs of the Partnership in accordance with the Partnership Agreement.

The Limited Partner as at 31 December 2009 is The Bank of New York Depository (Nominees) Limited.

(b) Business of the Partnership

The business of the Partnership is as set out in the General Partner's Statement on page 2.

(c) Duration of the Partnership

The Partnership has no specific duration.

On 2 October 2007 the entire ordinary share capital of DEPFA BANK plc, the General Partner of the Partnership, was acquired by Hypo Real Estate Holding AG ("HRE Holding"), the parent entity of the Hypo Real Estate Group ("the HRE Group").

As part of the recapitalisation of the HRE Group, the German Financial Markets Stabilisation Fund/German Finanzmarktstabilisierungsfonds ("SoFFin") became the only shareholder of Hypo Real Estate Holding AG on 13 October 2009.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these accounts are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

Basis of preparation

These accounts have been prepared in accordance with International Financial Reporting Standards ("IFRSs") on a historical cost basis using accounting policies in accordance with the Partnership Agreement. In accordance with the Partnership Agreement, the currency used for reporting purposes is Euro.

The accounts are prepared on a going concern basis as the directors have assumed that the Partnership will continue in operation under the conditions described as external and internal factors below.

This assumption is predicated on the fact that based on present information, the HRE Group Management Board considers it predominantly probable that these conditions are in existence or will occur.

External factors:

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

Internal factors:

- The HRE Group further succeeds in regaining the confidence of customers and successfully writes new business subject to adequate volumes and adequate margins.
- There are no significant delays or obstructions of the implementation of the restructuring of the HRE Group that aims to improve efficiency, profitability and streamlining of business processes.
- Work-out or restructuring of non-performing loans throughout the HRE Group can be implemented as currently scheduled.
- The HRE Group has been given the possibility of streamlining assets without a severe impact on value and of transferring balance sheet items by way of establishing a deconsolidated environment.
- The HRE Group is able to hire and keep staff in key positions despite specific restrictions, for example, on compensation.

On 28 March 2009, SoFFin confirmed in writing to HRE Holding and to Deutsche Pfandbriefbank AG (formerly Hypo Real Estate Bank AG) that it intended to stabilise HRE Holding in a sustainable manner by way of adequate recapitalisation and Deutsche Pfandbriefbank AG by further sufficient extensions of guarantees. SoFFin renewed its statement of intent on 6 November 2009. In particular, SoFFin has confirmed that it will provide adequate capital to ensure at least the continued existence of HRE Holding and its main subsidiaries as going concerns as well as the necessary viable business model, particularly that of Deutsche Pfandbriefbank AG. The support which the HRE Group overall receives from the German Federal Government depends on the result of a final review as to whether a deconsolidated environment will be established for non-strategic or non-performing assets of the HRE Group. In addition, SoFFin will provide further guarantees to assure the liquidity of HRE Holding. These and possible further measures are conditional on meeting the aid law requirements of the EU Commission.

Notes to the annual report and accounts – continued

As the first step towards recapitalising the HRE Group, SoFFin took up 20 million HRE Holding shares on 28 March 2009 for a legal minimum price of € 3.00 per share, with shareholders' subscription rights excluded. As the second step of recapitalisation of the HRE Group, the shareholders adopted a resolution regarding a capital increase of around € 2.96 billion in return for a cash contribution at the Extraordinary General Meeting held on 2 June 2009. 986.5 million shares were issued at the nominal value and legal minimum price of € 3.00 specified in the articles of incorporation. Only SoFFin was permitted to take up the new shares out of the capital increase, and the statutory shareholders' subscription rights were excluded. After the registration of the capital increase on 8 June 2009, SoFFin held 90% of HRE Holding share capital. On 5 October 2009, a resolution for transferring the shares of the minority shareholder to SoFFin was adopted at an Extraordinary General Meeting. The Amtsgericht (local court) in Munich entered the transfer resolution on the commercial register on 13 October 2009, so that SoFFin became the only shareholder of HRE Holding. As a third step in the recapitalisation process, the HRE Group received a further capital contribution of a total of € 3.0 billion from SoFFin in November 2009. This tranche consists of a silent participation of € 1.0 billion to Deutsche Pfandbriefbank AG, a contribution of € 1.3 billion to the reserve of Deutsche Pfandbriefbank AG and a contribution of € 0.7 billion to the reserve of HRE Holding.

HRE Holding and Deutsche Pfandbriefbank AG have provided a commitment to SoFFin that they will take the steps necessary for implementing the recapitalisation process.

The preparation of Annual Report and Accounts in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Partnership's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Annual Report and Accounts are disclosed in Note 3.

The accounting and valuation methods as of 31 December 2009 are the same as those applied in the Annual Report and Accounts for 2008.

Standards, amendment, and interpretations effective in 2009

The following relevant standards, amendments and interpretation have been endorsed by the EU but are not effective for the year ended 31 December 2009 and have not been applied in preparing the Annual Report and Accounts:

- Revised IFRS 3: Business Combinations and Amended IAS 27: Consolidated and Separate Financial Statements. Effective date – 1 July 2009;
- Amendments to IAS 39 Eligible Hedged Items. Effective date – 1 July 2009;
- IFRIC 17: Distributions of Non-cash Assets to Owners: Effective date – 1 July 2009
- IAS 32 Amendment: Classification of Rights Issues: Effective date – 1 February 2009

The impact of the above amendments and interpretations are not expected to have a material impact on the Partnership.

Impact of new and amended standards

The following significant standards and amendments to standards became effective during 2009:

IAS 1 Presentation of Financial Statements - The statement of comprehensive income is required by the revised IAS 1 that has been applied for the first time in 2009. This statement starts from profit/(loss) for the period, presents items of income and expense which were not recognised in the net profit or loss, in compliance with international financial reporting standards. These items relate to changes in the fair value and impairment of available-for-sale financial assets and changes in the currency translation reserve.

IFRS 7 Financial Measurement Disclosures - On 5 March 2009, the International Accounting Standards Board (IASB) issued Improving Disclosures about Financial Instruments: Disclosures. The amended IFRS 7 requires that for financial instruments measured at fair value on the statement of financial position, fair value measurements are disclosed by the source of inputs, using a three level hierarchy. The Partnership does not have any financial instruments measured at fair value on the statement of financial position.

Functional and presentation currency

Items included in the accounts of the Partnership are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Partnership's accounts are presented in euro, which is the Partnership's functional and presentation currency.

Foreign Currency Translation

Foreign currency transactions are translated into Euro using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Interest income and expense

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Partnership 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.

Notes to the annual report and accounts – continued

Financial assets

The Partnership classifies its financial assets as loans and receivables, as determined by management in accordance with the rules set out in IFRS.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets.

Financial assets are initially recognised at fair value plus transaction costs. Financial Assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the Partnership has transferred substantially all risks and rewards of ownership.

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Impairment of financial assets

The Partnership assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Partnership uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

Cash and cash equivalents

For the purposes of the cash flow statement, "Cash and cash equivalents" comprise of cash reserves with central banks other than mandatory reserve deposits.

Income Tax

Taxation has not been recorded in these accounts as any tax liabilities that may arise, on income or capital, will be borne by the individual Partners comprising the Partnership. Accordingly, no provision for taxation is made in this Annual Report and Accounts.

Issued debt

The classification of instruments as a financial liability or an equity instrument is dependent upon the substance of the contractual arrangement. Instruments which carry a contractual obligation to deliver cash or another financial asset to another entity are classified as financial liabilities and are presented under debt securities in issue or other borrowed funds as appropriate. The dividends on these instruments are recognised in the income statement as interest expense. If the Partnership purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of the liability and the consideration paid is included in other operating income or operating expenses.

Issued debt is recognised initially at fair value, net of transaction costs incurred. It is subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Expenses

Auditor's remuneration and all other administrative expenses of the Partnership are borne by the Partnership's Manager and General Partner, DEPFA BANK plc.

Notes to the annual report and accounts – continued

3. Risk management

(a) Strategy in using financial instruments

The Partnership is party to various types of financial instruments in the normal course of business.

The Partnership has issued perpetual preferred securities whereby the holders are entitled to receive non cumulative preferential cash distributions at a fixed rate of 6.5% per annum, subject to certain conditions including the discretion of the Board of Directors of the Guarantor and General Partner. To the extent that such cash distributions are made, these are offset by a fixed rate financial asset receivable from a HRE Group company.

The Partnership did not enter into any derivative transactions in 2009 or 2008.

(b) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts owed in full when due. Impairment provisions are provided for losses that have been incurred at the reporting date.

The Partnership's sole credit exposure comprises a subordinated loan to DEPFA Finance N.V., a HRE Group Company. No impairment provisions are required at year end 31 December 2009 (2008: nil).

The financial asset is neither past due nor impaired.

The credit exposure of financial assets by country is analysed below:

	31.12.09	**31.12.08**
Netherlands	407,318,674	407,389,707
Total assets	**407,318,674**	**407,389,707**

(c) Currency risk

All the Partnership's assets and liabilities are denominated in Euro.

(d) Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Partnership's interest earning assets are entered into at a fixed rate of interest. The Partnership's assets are primarily funded by the Preferred Securities which entitle holders to a fixed rate of interest subject to certain conditions including the discretion of the Board of Directors of the Guarantor.

Except to the extent to which payments on the liabilities are not made due to the conditions including the discretion of the Board of Directors of the Guarantor the interest rate risk of the Partnership is considered insignificant.

(e) Liquidity risk

Prudential liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

The Partnership's assets comprise a single loan funded by the Perpetual Preferred Securities. No additional assets are expected to require funding in the foreseeable future and as such the Partnership's liquidity risk is deemed insignificant.

As described above the Partnership is required to make fixed rate payments at an annual rate of 6.5% on the Preferred Securities subject to certain conditions including the discretion of the Board of Directors of the Guarantor. The Preferred Securities are perpetual and therefore have no fixed maturity date.

Capital risk management

The Partnership is not subject to any externally imposed capital requirements.

4. Net interest income

	2009	2008
	€	€
Interest income		
Financial assets of the category loans and receivables	25,928,967	25,941,033
Total interest income	**25,928,967**	**25,941,033**
Interest expense		
Other financial liabilities measured at amortised cost	-	(21,453,362)
Total interest expense	**-**	**(21,453,362)**

Interest income on impaired loans amounted to nil (2008: nil).

As described in note 6, the Guaranteed Non voting Non-cumulative Perpetual Preferred Securities have been reclassified to equity from subordinated capital in 2009. Accordingly no interest expense arises on this instrument in 2009.

5. Loans and advances to customers

	2009	2008
	€	€
Other Loans and advances to other group undertakings	402,831,003	402,902,036
Accrued interest receivable on loans and advances to other group undertakings	4,487,671	4,487,671
	407,318,674	**407,389,707**

All of the above relates to amounts due from other HRE Group undertakings.

The average effective interest rate for the above transaction is 6.43%.

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

	2009	2008
	€	€
from 5 years and over	407,318,674	407,389,707
	407,318,674	**407,389,707**

6. Preferred Securities Issued

	2009	2008
	€	€
Preferred securities issued	-	402,902,036
	-	**402,902,036**

The partnership has issued €400,000,000 6.5% Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities. The Preferred Securities will entitle holders to receive non-cumulative preferential cash distributions, subject to certain conditions including the discretion of the Board of Directors of the Guarantor and General Partner. Payment under this hybrid capital instrument is only contractually required if creditors of an equal ranking receive interest payments. During 2009 the last equal ranking liability was repaid by the Group and accordingly the Group no longer has a contractual obligation to make interest payments under the hybrid capital instrument. Accordingly the carrying amount of this instrument has been reclassified to equity from subordinated capital.

Preferred securities issued are broken down by maturity as follows:

	2009	2008
	€	€
No stated maturity	-	402,902,036
	-	**402,902,036**

Notes to the annual report and accounts – continued

7. General Partner's Funds and Other Equity

	2009	2008
	€	€
Capital contribution	1	1
Retained income at start of period	4,487,671	-
Preferred securities reclassified to equity	402,902,036	-
Income for the year	25,928,967	4,487,671
Dividend paid in the year	(26,000,000)	-
	407,318,675	**4,487,672**

8. Fair values of financial assets and liabilities

The following table summarises the carrying amounts and fair values of financial assets and liabilities not presented on the Partnership's statement of financial position at their fair value. Bid prices are used to estimate fair values of assets, whereas offer prices are applied for liabilities.

	Carrying value		Fair value	
	2009	2008	2009	2008
€				
Financial assets				
Loans and advances to customers	407,318,674	407,389,707	238,180,308	91,064,720
Financial liabilities				
Preferred securities issued	-	402,902,036	-	99,622,471

1) Loans and advances to customers

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates for loans and advances with similar credit characteristics to determine fair value.

2) Preferred securities issued

The fair values are calculated based on quoted market prices.

9. Related party transactions

Balances due to and from related parties are disclosed in the notes to the statement of financial position. DEPFA BANK plc, the General Partner and Guarantor, is a related party of the Partnership.

The key management of the Partnership received no remuneration from the Partnership during the year.

As a result of HRE Holding being controlled by SoFFin, the Bank is considered 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.

Transactions with related parties consist of:

	2009	2008
	€	€
Interest and similar income – DEPFA Finance NV	25,928,967	25,941,033

10. Ultimate controlling party

DEPFA BANK plc, a company registered in Ireland, is the general partner of the Partnership. The largest group into which the results of the Partnership are consolidated is that headed by Hypo Real Estate Holding AG. The smallest group into which the results of the Partnership are consolidated is that headed by DEPFA BANK plc. DEPFA BANK plc is a wholly owned subsidiary of Hypo Real Estate Holding AG, a company registered in Germany. Copies of the financial statements of DEPFA BANK plc can be obtained from The Secretary, DEPFA BANK plc. 1 Commons Street, Dublin 1, Ireland. Copies of the financial statements of Hypo Real Estate Holding AG can be obtained from The Secretary, Hypo Real Estate Holding AG, Freisinger Str. 5, 85716 Unterschleisseim, Germany.

Notes to the annual report and accounts – continued

11. Events after 31 December 2009

On 21 January 2010, following liaison with SoFFin, the HRE Group submitted an application to the German Financial Markets Stabilisation Agency ("FMSA") for the establishment of a deconsolidated environment aimed at reducing assets in a value preserving manner. The HRE Group intends to transfer balance sheet items no longer strategically required for the HRE Group's realignment to this deconsolidated environment. The transfer, which is set to cover HRE Group assets worth up to € 210 billion, is scheduled to take place during the second half of 2010, once all necessary approvals have been obtained from the responsible corporate bodies and institutions. There is no legal right to the establishment of the deconsolidated environment. FMSA has the discretionary authority to establish it.

On 5 March 2010 the Guarantor and General Partner stated that it did not expect the Partnership to make any coupon payments in 2010.

Apart from the above, there have been no other notable events after 31 December 2009.

12. Commitments

The Partnership had no commitments as at 31 December 2009 (31 December 2008: nil).

13. Approval of annual report and accounts

The Annual Report and Accounts were approved by the General Partner on 23 June 2010.

OTHER INFORMATION

Manager and General Partner

DEPFA BANK Plc,
1 Commons Street,
Dublin 1.
Ireland

Directors of the Manager and General Partner

Board of Directors

Ms. M. Better (German)

Dr. J. Bourke*

Mr. J.W. Campbell (British) (resigned 8 April 2009)

Mr. C. Dunne

Dr. M. Fell* (German) (Deputy Chairman) (resigned 20 January 2009)

Ms. F. Flannery (appointed 15 April 2010)

Dr. K. Franzmeyer*(German) (Deputy Chairman) (appointed 24 February 2009)

Mr. T. Glynn (American)

Mr. D. Grehan* (appointed 12 June 2009)

Mr. A. Kearns* (appointed 22 December 2009)

Mr. F. Krings*(German) (appointed 5 February 2009)

Mr. N. Reynolds (appointed 21 January 2010)

Mr. S. Rio (French) (appointed 6 February 2009)

Mr. P. Ryan* (resigned 23 December 2009)

Mr. A. von Uslar-Gleichen* (German) (appointed 14 December 2009)

Dr. H. Walter* (German) (appointed 14 December 2009)

Dr. A. Wieandt* (German) (Chairman) (appointed 5 February 2009, resigned 25 March 2010)

* Non-Executive

Auditors

KPMG
1 Harbourmaster Place
IFSC
Dublin 1
Ireland