

DEPFA FUNDING III LP Annual Report and Accounts

31 December 2008

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General Partner's Statement

Introduction

DEPFA Funding III LP ("the Partnership") is a United Kingdom Limited Partnership established by a Limited Partnership Agreement dated 6 June 2005 ("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 (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 €300,000,000 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.

Going concern

The financial markets crisis, which became decidedly worse in the course of 2008, led to the complete or partial collapse of some capital and financing markets in September 2008, particularly in the aftermath of the collapse of Lehman Brothers. The crisis and the related shortage of liquidity threatened the existence of most companies in the HRE Group, including DEPFA BANK plc and its subsidiary entities. As a result, the HRE Group entered into negotiations with the Deutsche Bundesbank, a syndicate from the German financial sector, Bundesanstalt für Finanzdienstleistungsaufsicht ("BaFin – the German Federal Financial Supervisory Authority") and the German Federal Government and the Financial Markets Stabilisation Fund ("SoFFin") in relation to the provision of liquidity to the HRE Group. The going concern status of DEPFA Funding III LP and the DEPFA BANK plc group is inextricably linked to that of the HRE Group.

The HRE Group assumes that it is a going concern and will continue in operation under the following described conditions (external factors / internal factors). Based on present information, the HRE Group Management Board considers it currently as predominantly probable that these conditions are in existence or will occur. The forecast of the future development of the HRE Group is based on the strategic refocusing and restructuring adopted by the HRE Group Management Board in December 2008.

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.
- The capital market 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 of the HRE Group will stabilise or slightly increase. The support by the syndicate from the German financial sector and the Deutsche Bundesbank with the involvement of the German Federal Government as well as SoFFin can be covered by own funding in the following years.

General Partner's Statement - continued

Internal factors:

- The HRE Group succeeds in regaining the confidence of customers and successfully writes new business subject to adequate volumes and adequate margins.
- There are no delays or obstructions to 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.

On 28 March 2009, SoFFin confirmed to Hypo Real Estate Holding AG ("Holding") and to Hypo Real Estate Bank AG that it intends to stabilise the HRE Group in a sustainable manner by way of adequate recapitalisation and, for this purpose, intends to acquire an equity participation in Holding.

The precondition for the intended recapitalisation of the HRE Group by SoFFin is the acquisition of complete control (100%) over Holding by SoFFin or the German Federal Government.

As a first step in the direction of recapitalising the HRE Group, SoFFin acquired 20 million Holding shares before the end of March for a price of € 3.00 per share, whereby shareholders' subscription rights were excluded.

The Management Board of Holding has provided a commitment to SoFFin that it will take the steps necessary for implementing the recapitalisation.

Risks threatening the future existence of the HRE Group:

The future existence of the HRE Group is contingent upon the provision of equity to the HRE Group and its 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 Holding itself. These liquidity supports must be available until the HRE Group and its subsidiaries raise sufficient liquidity on the money and capital markets by themselves and the described restructuring arrangements are implemented as scheduled.

To ensure the future existence of the HRE Group, 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 the HRE Group and 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 are implemented as scheduled
- the appropriate authorities do not take supervisory 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-action) will be successfully enforced.

If some of the above criteria are not met, in particular if a crisis situation should occur, whose occurrence based on present information is currently not probable, there will be a negative effect on the net assets, financial position and results of the HRE Group and there will be doubts as to whether some or all companies in the HRE Group will be able to continue in operation as going concerns.

Post balance sheet events

Events after the balance sheet date concerning the steps to stabilise the HRE Group and the Partnership are described in the "Going concern" section above.

On 27 March 2009 the Guarantor and General Partner determined that the Partnership will not make payments on its Preferred Securities on the next Distribution Payment Date scheduled 8 June 2009. The effects of this decision, being the reversal of the interest accrual on the Preferred Securities, have been reflected in these Accounts.

Apart from the above, there have been no other notable events after 31 December 2008.

General Partner's Statement - continued

Auditors

PricewaterhouseCoopers resigned as auditors on 20 May 2008 and KPMG, Chartered Accountants, were appointed in their place to fill the vacancy. The auditors, KPMG, have indicated their willingness to continue in office.

Signed on behalf of DEPFA BANK plc:

C. Dunne

S. Rio

09 June 2009

Statement of the General Partner's Responsibilities

Under the Limited Partnership Agreement the General Partner is required to prepare and approve financial statements of the Partnership in respect of each accounting year. The General Partner has elected to prepare the financial statements 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 22 confirm that to the best of each person's knowledge and belief:

- The Partnership financial statements, prepared in accordance with IFRSs as adopted by the EU give a true and fair view of the assets, liabilities and financial position of the Partnership at 31 December 2008 and its loss 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:

C. Dunne

S. Rio

09 June 2009

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

We have audited the financial statements ("financial statements") of DEPFA Funding III LP ("LP") for the year ended 31 December 2008 which comprise of the Income Statement, the Balance Sheet, 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 2008 and of its loss 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.

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

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 pages 2 and 3 of the general partner's statement and note 2 to the financial statements on pages 12 and 13 concerning the appropriateness of the going concern basis of accounting in the preparation of the financial statements of the LP for the year ended 31 December 2008.

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 2008. 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 equity will be provided to the HREG and its 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 HREG or Hypo Real Estate Holding AG ("HRE AG") itself. These liquidity supports must be available until the HREG and its subsidiaries raise sufficient liquidity on the money and capital markets by themselves and the described restructuring arrangements are implemented as scheduled.

To ensure the future existence of HREG 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 HREG and 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 are implemented as scheduled
- the appropriate authorities do not take supervisory 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-action) will be successfully enforced.

If some of the above criteria are not met, in particular if a crisis situation should occur, whose occurrence based on present information is currently not probable, there will be a negative effect on the net assets, financial position and results of the HREG and there will be doubt as to whether some or all companies in the HREG will be able to continue in operation as going concerns.

KPMG

Chartered Accountants

Registered Auditor

1 Harbourmaster Place

IFSC

Dublin 1

Ireland

09 June 2009

Income statement

	Note	Year ended 31 December	
		2008	2007
		€	€
Interest and similar income	4	16,899,345	15,405,657
Interest expense and similar charges	4	<u>(8,539,599)</u>	<u>(15,405,657)</u>
Net interest income	4	8,359,746	-
Net Trading Income	5	(11,523,684)	(207,156)
Loss on ordinary activities		<u>(3,163,938)</u>	<u>(207,156)</u>
Loss for the year		<u>(3,163,938)</u>	<u>(207,156)</u>

The notes on pages 12 to 21 are an integral part of these accounts.

Signed on behalf of DEPFA BANK plc:

C. Dunne

S. Rio

09 June 2009

Balance sheet

	Note	As at 31 December	
		2008	2007
		€	€
ASSETS			
Loans and advances to customers	6	300,900,780	301,048,465
Derivative financial instruments	7	278,779	27,146
Other receivables		2	2
Total assets		301,179,561	301,075,613
LIABILITIES			
Derivative financial instruments	7	54,247,144	26,675,955
Preferred securities issued	8	250,201,399	274,504,702
Total liabilities		304,448,543	301,180,657
GENERAL PARTNER'S FUNDS			
Capital contribution account	9	1	1
Income account		(3,268,983)	(105,045)
Total equity		(3,268,982)	(105,044)
Total liabilities and general partner's funds		301,179,561	301,075,613

The notes on pages 12 to 21 are an integral part of these accounts.

Signed on behalf of DEPFA BANK plc:

C. Dunne

S. Rio

09 June 2009

Statement of changes in General Partner's funds

€	Capital	Income Account	Total General Partner's funds
	Contribution		
Balance at 1 January 2007	1	102,111	102,112
Loss for the year	-	(207,156)	(207,156)
Balance at 31 December 2007	1	(105,045)	(105,044)
Loss for the year	-	(3,163,938)	(3,163,938)
Balance at 31 December 2008	1	(3,268,983)	(3,268,982)

The notes on pages 12 to 21 are an integral part of these accounts.

Cash Flow Statement

Note	2008 €	2007 €
Cash flows from operating activities		
Operating loss	(3,163,938)	(207,156)
Adjustments for non-cash movements:		
Net decrease/(increase) in accrued interest income	147,685	(126,615)
Net (decrease)/increase in accrued interest expense	(8,507,431)	126,615
Other non cash items	11,523,684	207,156
Net cash from operating activities	-	-
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:

	2008 €	2007 €
Interest income received	17,047,030	15,279,042
Interest expense paid	(17,047,030)	(15,279,042)

The notes on pages 12 to 21 are an integral part of these accounts.

Notes to the annual report and accounts

1. The Partnership

(a) Establishment of the Partnership

DEPFA Funding III LP Limited Partnership ("the Partnership") is a United Kingdom Limited Partnership, established by a Limited Partnership Agreement dated 6 June 2005 ("the Partnership Agreement"). The Preferred Securities Issued of the Partnership are listed on the Official Market of the Frankfurt Stock Exchange and Eurolist by Euronext Amsterdam.

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 2008 is BT Globenet 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.

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 ("IFRS") on a historical cost basis, as modified by the revaluation of certain financial assets and liabilities and derivatives, 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 Hypo Real Estate Group ("the HRE Group") will continue in operation under the conditions described as external and internal factors below. This assumption is predicated on the fact that the HRE Group Management Board considers it highly probable that the conditions outlined below are in existence or will occur as expected.

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.
- The capital market 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 of the HRE Group will stabilise or slightly increase. The support by the syndicate from the German financial sector and the Deutsche Bundesbank with the involvement of the German Federal Government as well as SoFFin can be covered by own funding in the following years.

Notes to the annual report and accounts - continued

Internal factors:

- The HRE Group succeeds in regaining the confidence of customers and successfully writes new business subject to adequate volumes and adequate margins.
- There are no delays or obstructions to the implementation of the restructuring of the HRE group that aims to improve efficiency, profitability and streamlining of the business processes.
- Work-out or restructuring of non-performing loans throughout the HRE group can be implemented as currently scheduled.

The preparation of 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 accounts are disclosed in Note 3.

The accounting and valuation methods as of 31 December 2008 are the same as those applied in the accounts for 2007.

Standards, amendments, and interpretations effective in 2008

The interpretation IFRIC 11 (IFRS 2 – Group and treasury share transactions) has been applied for the first time in 2008. The interpretation addresses how to apply IFRS 2 to accounting for share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group (e. g. equity instruments of its parent). It also provides guidance on whether share-based payment arrangements, in which suppliers of goods or services of an entity are provided with equity instruments of the parent's equity should be accounted for as cash-settled or equity-settled in the entity's accounts. This interpretation does not affect the Partnership.

The interpretation IFRIC 14, applied for the first time in 2008, deals with the interaction between minimum funding requirements and the limit for measuring defined benefit assets and liabilities according to IAS 19. The interpretation sets general guidelines on how to determine the limit of the surplus that can be recognised as an asset. The interpretation also explains how statutory and contractual minimum funding requirements affect assets or liabilities of a plan. The interpretation does not affect the Partnership.

Published IFRS and interpretation that are not yet mandatory and which were not subject to early adoption.

The following material new or amended standards and interpretation have not been applied early:

- IFRS 2 (Share-based Payment: Vesting Conditions and Cancellations)
- IFRS 8 (Operating Segments)
- IAS 1 (Presentation of Financial Statements: A revised Presentation, revised 2007)
- IAS 23 (Borrowing Costs, revised 2007)
- IFRIC 13 (Customer Loyalty Programmes)

The amendments to IFRS 2 clarify the definition of vesting conditions and the accounting treatment of cancellations by the counterparty to a share-based arrangement. The standard is effective for annual periods beginning on or after 1 January 2009. The amendments will not have an impact on the Partnership.

The standard IFRS 8 specifies how an entity should report information about its operating segments. The standard also sets out disclosure requirements about products and services, geographical areas and major customers. This standard will be according to the effective date applied for the first time in annual accounts for periods beginning on or after 1 January 2009 and will not have an impact on the Partnership.

IAS 1 (revised) mainly modifies the presentation of owner changes in equity and of comprehensive income and requires in certain circumstances the disclosure of the statement of financial position of two comparative periods. The standard is effective for annual periods beginning on or after 1 January 2009. The revised standard will change the structure of disclosure in the accounts of Hypo Real Estate Group but will not affect the recognition, measurement or disclosure of specific transactions and other events required by other IFRSs.

Notes to the annual report and accounts - continued

The revised IAS 23 regulates that borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the acquisition or construction costs of that asset. Other borrowing costs are recognised as an expense. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Qualifying assets are of minor relevance for the Partnership. Therefore the standard will not have an impact on the net assets, financial position and results of the Partnership. The standard is effective for annual periods beginning on or after 1 January 2009.

The interpretation IFRIC 13 addresses accounting by the entity that grants award credits to its customers. IFRIC 13 should have been applied for annual periods beginning on or after 1 July 2008, but is up to now not endorsed by the EU. As the Partnership does not have such award credit programs, IFRIC 13 would not have had an impact on the net assets, financial position and results of the Partnership.

In 2008, the Partnership has not applied amendments of the following standards as they are not endorsed by the EU:

- IFRS 1 a IAS 27 (Cost of an Investment in a Subsidiary, Jointly-controlled Entity or Associate)
- IFRS 3 (Business Combinations, revised 2008)
- IAS 27 (Consolidated and Separate Financial Statements)
- IAS 32 and IAS 1 (Puttable Financial Instruments and Obligations Arising on Liquidation)
- IAS 39 (Financial Instruments: Recognition and Measurement: Eligible Hedged Items)

Moreover, the IASB initiated an annual improvements project and issued in May 2008 a collection of amendments to IFRSs. These amendments have not yet been endorsed by the EU. Most of the amendments are effective for annual periods beginning on or after 1 January 2009. The amendments will probably not have a material impact on the net assets, financial position and results of the Partnership.

In May 2008, the IASB published amendments to IFRS 1 and IAS 27 dealing with the measurement of the cost of investments in subsidiaries, jointly controlled entities and associates when adopting IFRSs for the first time. The amendments are effective for annual periods beginning on or after 1 July 2009 and will have no impact on the Partnership.

IFRS 3 (revised) reconsiders the application of acquisition accounting for business combinations. Major changes relate to the measurement of non-controlling interests, the accounting for business combinations achieved in stages as well as the treatment of contingent consideration and acquisition related costs. The standard should be applied prospectively for annual periods beginning on or after 1 July 2009. The impact for the Partnership is dependent on future business combinations.

Major changes of IAS 27 relate to the accounting for transactions which do not result in a change of control as well as to those leading to a loss of control. The standard is prospectively effective for annual periods beginning on or after 1 July 2009. The impact for the Partnership is dependent on future transactions.

The amendments to IAS 32 and IAS 1 require to classify puttable financial instruments as equity when specific conditions are met. The standard is effective for annual periods beginning on or after 1 January 2009. Based on the current balance sheet positions, the amendment will not have an impact for the Partnership.

The amendment of IAS 39 clarifies how the existing principles underlying hedge accounting should be applied. Addressed are the designation of a one-sided risk in a hedged item and the designation of inflation as a hedged risk. The standard is effective for annual periods beginning on or after 1 January 2009. No impacts on the Partnership are expected.

The amendments to IFRIC 9 and IAS 39, which are effective for annual periods ending on or after 30 June 2009, clarify the treatment of embedded derivatives for entities that make use of the reclassification amendment issued in October 2008.

The amendment to IFRS7 Financial Instruments: Disclosures, which is effective for annual periods beginning on or after 1 January 2009, introduces a three-level hierarchy for fair value measurement disclosures and requires entities to provide additional disclosures about the relative reliability of fair value measurements.

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.

Notes to the annual report and accounts - continued

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.

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 balance sheet 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 balance sheet 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 and balances with central banks.

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.

Notes to the annual report and accounts - continued

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 balance sheet 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.

Derivatives

Derivatives consist of interest rate swaps and purchased options.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate.

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Hedge accounting

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Partnership designates derivatives as hedges of the fair value of recognised assets or liabilities.

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

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

For fair value hedges, changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The ineffective portion is included in the trading result with the remainder of the fair value movement on the underlying and the derivative being included in interest.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to the expected maturity.

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 debt at an initial fixed rate, converting to a floating rate in June 2009. Payments of interest are subject to certain conditions including the discretion of the Board of Directors of the Guarantor. The fair value interest rate risk on this interest rate position is hedged using an interest rate derivative.

Notes to the annual report and accounts – continued

(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 balance sheet date.

The Partnership has credit exposures on a subordinated loan to DEPFA Finance N.V. and a swap with DEPFA BANK plc. Both DEPFA Finance N.V. and DEPFA BANK plc are HRE Group Companies. No impairment provisions are required at year end 31 December 2008 (2007: nil).

The financial asset is neither past due nor impaired.

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

	31.12.08	31.12.07
Netherlands	300,900,780	301,048,465
Ireland	278,779	27,146
Total assets	301,179,559	301,075,611

(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 hedges the fair value interest rate risk exposure by using interest rate swaps.

The Partnership's interest earning assets are entered into at a floating rate of interest. The Partnership's liabilities comprise the Preferred Securities which entitle holders to initially a fixed rate of interest, converting to a structured floating rate in June 2009, subject to certain conditions including the discretion of the Board of Directors of the Guarantor.

The fair value interest rate risk of the Preferred Securities has been hedged by an interest rate swap.

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 certain interest payments 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.

Notes to the annual report and accounts - continued

(g) Gains and losses from fair value adjustments for recognised assets and liabilities

The following table details the gains and losses from fair value adjustments relating to derivatives and from hedge accounting:

	2008		
	€		
	Hedge Accounting	Financial instruments at fair value through P&L	Total fair value adjustments
Loans and advances to customers	-	-	-
Derivative financial instruments	-	251,633	251,633
Total assets	-	251,633	251,633
Preferred securities issued	12,393,303	-	12,393,303
Total liabilities	12,393,303	-	12,393,303
Hedging instruments*	(13,036,996)	(11,131,624)	(24,168,620)
Net equity	(643,693)	(10,879,991)	(11,523,684)

	2007		
	€		
	Hedge Accounting	Financial instruments at fair value through P&L	Total fair value adjustments
Loans and advances to customers	-	-	-
Derivative financial instruments	-	(11,166)	(11,166)
Total assets	-	(11,166)	(11,166)
Preferred securities issued	4,601,809	-	4,601,809
Total liabilities	4,601,809	-	4,601,809
Hedging instruments	(4,797,799)	-	(4,797,799)
Net equity	(195,990)	(11,166)	(207,156)

* The hedging instruments are fair value hedges of the interest rate risk on the Preferred securities.

During 2008 the Partnership discontinued the application of hedge accounting on its hedging instrument. The fair value change of the derivative since the discontinuation of the hedge relationship was €11,131,624.

CAPITAL RISK MANAGEMENT

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

4. Net interest income

	2008	2007
	€	€
Interest income		
Financial assets of the category loans and receivables	16,899,345	15,405,657
Total interest income for items not at fair value	16,899,345	15,405,657
Interest expense		
Other financial liabilities measured at amortised cost	(9,122,951)	(21,000,000)
Derivatives (net interest income)	583,352	5,594,343
Total interest expense for items not at fair value	(8,539,599)	(15,405,657)

Interest income on impaired loans amounted to nil (2007: nil).

The Guarantor and General Partner does not expect that distributions will be made on the Preferred Securities during 2009. Therefore no interest on the Preferred Securities has been accrued at 31 December 2008

Notes to the annual report and accounts - continued

5. Net trading income

The trading result of €11,523,684 loss (2007: €207,156 loss) consists of hedge ineffectiveness loss of €643,693, a mark to market loss on a swap of €11,131,624 and the mark to market profit on a purchased call option of €251,633.

6. Loans and advances to customers

	2008	2007
	€	€
Other loans and advances to customers	300,000,000	300,000,000
Accrued interest receivable on loans and advances	900,780	1,048,465
Advances to other group undertakings	300,900,780	301,048,465

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

The effective interest rate for the above transaction is 3 month Euribor plus 0.8349%.

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

	2008	2007
	€	€
from 5 years and over	300,900,780	301,048,465
	300,900,780	301,048,465

7. Derivative financial instruments

	31 December 2008		31 December 2007	
	Contract amount	Fair Value	Contract amount	Fair Value
	€	€	€	€
Interest rate swap	300,000,000	(54,247,144)	300,000,000	(26,675,955)
Purchased call option	300,000,000	278,779	300,000,000	27,146
		(53,968,365)		(26,648,809)
Amounts include:				
Due to other group undertakings		(53,968,365)		(26,648,809)

8. Preferred Securities Issued

	2008	2007
	€	€
Preferred securities issued	250,201,398	262,594,701
Accrued interest payable	-	11,910,000
Limited partner contribution	1	1
	250,201,399	274,504,702

The partnership has issued €300,000,000 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. The interest rate on the issue is 7% for the first 3 years up to Jun 2009, and CMS 10 Year + .1% thereafter.

Preferred securities issued are broken down by maturity as follows:

	2008	2007
	€	€
No stated maturity	250,201,399	274,504,702
	250,201,399	274,504,702

Notes to the annual report and accounts - continued

9. General Partners' Capital Account

	2008	2007
	€	€
Capital contribution	1	1
(Loss)/Profit brought forward	(105,045)	102,111
Loss for the year	(3,163,938)	(207,156)
	(3,268,982)	(105,044)

10. 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 balance sheet 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	
	2008	2007	2008	2007
Financial assets				
Loans and advances to customers	300,900,780	301,048,465	50,385,854	221,453,673
Financial liabilities				
Preferred securities issued	250,201,399	274,504,702	69,359,646	194,910,000

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.

11. Related party transactions

Balances due to and from related parties are disclosed in the notes to the balance sheet. 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.

Transactions with related parties consist of:

	2008	2007
	€	€
Interest income – DEPFA Finance NV	16,899,345	15,405,657
Derivative (net interest income) – DEPFA BANK plc	583,352	5,594,343

Notes to the annual report and accounts - continued

12. 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, IFSC, 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, Unsoldstr. 2, D-80538 Munich, Germany.

13. Events after the balance sheet date

Events after the balance sheet date concerning the steps to stabilise the HRE Group and the Partnership are described in the "Going concern" section of the General Partner's Statement on pages 2 and 3.

On 3 March 2009 the General Partner determined that the Partnership will not make payments on its Preferred Securities on the next Distribution Payment Date scheduled 8 June 2009. The effects of this decision, being the reversal of the interest accrual on the Preferred Securities, have been reflected in these Accounts.

Apart from the above, there have been no other notable events after 31 December 2008.

14. Commitments

The Partnership had no commitments as at 31 December 2008 (2007: nil).

15. Approval of annual report and accounts

The Annual Report and Accounts were approved by the General Partner on 09 June 2009.

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

- Dr. A. Wieandt* (German) (Chairman) (appointed 5 February 2009)
- Mr. G. Funke* (German) (Chairman) (resigned 7 October 2008)
- Dr. M. Fell* (German) (Deputy Chairman) (resigned 20 January 2009)
- Dr. K. Franzmeyer*(German) (appointed 24 February 2009)
- Ms. M. Better (German) (appointed 1 October 2008)
- Dr. J. Bourke*
- Mr. A. Cameron (British) (resigned 31 March 2008)
- Mr. J.W. Campbell (British) (resigned 27 April 2009)
- Mr. C. Dunne
- Mr. T. Glynn (American)
- Mr. B. Heide-Ottosen (Danish) (resigned 29 September 2008)
- Mr. F. Krings*(German) (appointed 5 February 2009)
- Mr. P. Leatherdale (British) (resigned 29 September 2008)
- Mr. A. Readinger (American) (resigned 13 March 2008)
- Mr. S. Rio (French) (appointed 6 February 2009)
- Mr. P. Ryan*
- Ms. B. von Oesterreich*(German) (resigned 8 December 2008)

* Non-Executive

Auditors

KPMG
1 Harbourmaster Place
IFSC
Dublin 1
Ireland