

DEPFA FUNDING IV LP Annual Report and Accounts

31 December 2010

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General Partner's Statement

Introduction

DEPFA Funding IV LP ("the Partnership") is a United Kingdom Limited Partnership established by a Limited Partnership Agreement dated 17 March 2007 ("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.

The Limited Partner as at 31 December 2010 is BT Globenet Nominees Limited.

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").

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.

There has been no change in the ownership of the Partnership during 2010.

Summary of the Partnership's activities

The Partnership has issued €500,000,000 5.029% 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 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 € 15,533,471 was paid to DEPFA BANK plc on 30th June 2010. No further dividends are proposed in respect of the year ended 31 December 2010.

Major events in the HRE Group

Transfer of assets and liabilities to the deconsolidated environment FMS Wertmanagement

In January 2010, the HRE Group submitted an application to the Financial Markets Stabilisation Authority ("FMSA") for a stabilisation measure in accordance with section 8a (1) Clause 1 FMStFG (Establishment of a deconsolidated environment) in order to transfer certain positions of the HRE Group to a deconsolidated environment. The FMSA reached a positive decision regarding this application, and established the deconsolidated environment FMS Wertmanagement on 8 July 2010. The positions transferred consist of financial instruments as defined in IAS 39.

With effect from 1 October 2010, the HRE Group transferred (or arranged protection by way of financial guarantees of FMS Wertmanagement) loans and securities with an outstanding nominal volume (excluding commitments which had not been utilised) of approximately € 173 billion (by way of a legal and/or economic transfer). The transfer process comprised activities which were not strategically necessary for the refocusing of the HRE Group, as well as assets and liabilities from the Public Sector Finance portfolio and the Real Estate Finance portfolio, particularly of DEPFA BANK plc and Deutsche Pfandbriefbank AG. The Public Sector Finance portfolio comprises assets of public issuers or issuers related to the public sector with a high credit quality but with a currently low market valuation. Most of the transferred Real Estate Finance portfolio is affected by the currently difficult climate in this segment. The process also transferred assets of other HRE Group companies, in particular DEPFA ACS BANK, Dublin, Hypo Pfandbriefbank International, Luxembourg and Hypo Public Finance Bank, Dublin, as well as structured products and trading positions which are exposed to increased default risks and, where necessary, have been correspondingly impaired or whose changes in value have been included in net trading income. In total, more than 12,500 individual positions from almost 70 jurisdictions were transferred.

General Partner's Statement-continued

The liability securities with a volume of around € 124 billion at a HRE Group level which were guaranteed by SoFFin and issued by Deutsche Pfandbriefbank AG for obtaining liquidity for the HRE Group were also completely transferred to FMS Wertmanagement.

The transaction was provisionally approved by the EU Commission and included in the ongoing aid proceedings. It is expected that the proceedings will be concluded by mid-2011.

The transfer of assets and liabilities had no effect on the Partnership.

Going concern and risks threatening the existence of the HRE Group

The existence of companies in the HRE Group including DEPFA BANK plc and its subsidiary entities including DEPFA Funding IV LP continued to be threatened throughout the whole of 2010.

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 despite the material factors of uncertainty which are known at the date of signing and are described below.

This assumption is predicated on the fact that the HRE Group Management Board has prepared the HRE Group financial statements on a going concern basis.

With regard to the going concern assumption, material factors of uncertainty are known at the point at which the HRE Group consolidated financial statements were prepared in connection with events and conditions which cast doubts on the ability of HRE Holding and its major subsidiaries to continue as going concerns. The continuing existence of HRE Holding and its subsidiaries including DEPFA Funding IV LP as going concerns depends on the European Commission approving the support measures which have been implemented by SoFFin.

In addition, the ability of HRE Holding and its subsidiaries, including DEPFA Funding IV LP, to continue as going concerns is dependent upon the European Commission not imposing any conditions which would not permit HRE Holding and its subsidiaries, including DEPFA Funding IV LP, to implement an economically sustainable business plan and, in particular, does not undo the regulatory effectiveness of the capital support measures.

The Management Board of the HRE Group has engaged the services of an auditing firm to carry out an independent appraisal of the going concern assumption. In its prepared report this auditing firm concludes that it is more than likely that HRE Holding and its subsidiaries will be able to continue as going concerns in the period until 30 September 2012.

On 28 March 2009, SoFFin confirmed to HRE Holding and Deutsche Pfandbriefbank AG (formerly Hypo Real Estate Bank AG) that it intends to stabilise HRE Holding by way of adequate recapitalisation, and that it also intends to stabilise Deutsche Pfandbriefbank AG by way of providing further adequate guarantees. On 6 November 2009, SoFFin renewed this declaration of intent. In particular, SoFFin has confirmed that it will provide adequate capital in order to at least ensure the continued existence of HRE Holding and its major subsidiaries as going concerns and also to ensure the necessary viable business model, particularly Deutsche Pfandbriefbank AG. The support measures are conditional on the Aid Law requirements of the European Commission being fulfilled. The positive conclusion of these proceedings is expected by mid-2011.

Although major progress has been achieved with regard to stabilising and restructuring the HRE Group since the autumn of 2008, the HRE Group companies continued to be exposed to risks threatening their very existence throughout the whole of 2010 due to the material factors detailed above.

The forecasts relating to the future development of the HRE Group represent estimates which have been made on the basis of currently available information. If the assumptions underlying these forecasts fail to materialise or if risks (such as those addressed in the section risk management) occur to an extent which has not been calculated, the actual results may differ significantly from the currently expected results.

General Partner's Statement-continued

Events after 31 December 2010

On 4 March 2011 the Guarantor and General Partner determined that the Partnership would not make payments on its € 500,000,000 Preferred Securities (XS0291655727) on the next Distribution Payment Date scheduled for 21 March 2011.

Apart from the above, there have been no other notable events after 31 December 2010.

Auditors

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

Signed on behalf of DEPFA BANK plc:

Cyril Dunne

Noel Reynolds

13 April 2011

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 22 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 2010 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

13 April 2011

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

We have audited the financial statements ("financial statements") of DEPFA Funding IV LP ("LP") for the year ended 31 December 2010 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Cash Flow Statement, the Statement of Change 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 directors 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 on page 5.

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 partner's 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 directors 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 2010 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DEPFA FUNDING IV 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 and risks threatening the existence of the HRE Group" section of the General Partner's statement on page 3 and note 2 to the financial statements on page 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 2010.

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 key material uncertainties relating to the application of the going concern basis of accounting to the LP's financial statements for the year ended 31 December 2010. The key uncertainties are as follows:

- the continuing existence of Hypo Real Estate Group ("HREG") is dependent upon the European Commission approving the support measures which have been implemented by the German Financial Markets Stabilisation Fund/German Finanzmarktstabilisierungsfonds ("SoFFin") (as further set out in note 2 to the financial statements).
- the ability of the HREG to continue as a going concern is dependent upon the European Commission not imposing any conditions which would not permit the HREG to implement an economically sustainable business plan and, in particular, does not undo the regulatory effectiveness of the capital support measures.

The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

KPMG

Chartered Accountants

Registered Auditor

1 Harbourmaster Place

IFSC

Dublin 1

Ireland

13 April 2011

Income statement

For the year ended 31 December 2010

	Note	Year ended 31 December	
		2010 €	2009 €
Interest and similar income	5	25,508,451	25,283,873
Interest expense and similar charges	5	(12,944,710)	(4,551,231)
Net interest income	5	12,563,741	20,732,642
Net income from hedging relationships	6	(114,303)	243,171
Profit for the year		12,449,438	20,975,813

The notes on pages 13 to 21 are an integral part of these accounts.

Signed on behalf of DEPFA BANK plc:

Cyril Dunne

Noel Reynolds

13 April 2011

Statement of comprehensive income

	2010			2009		
	€			€		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Net income	12,449,438	-	12,449,438	20,975,813	-	20,975,813
Total	12,449,438	-	12,449,438	20,975,813	-	20,975,813
Attributable to the equity holders	12,449,438	-	12,449,438	20,975,813	-	20,975,813

Disclosure of components of comprehensive income

	2010	2009
	€	€
Net income	12,449,438	20,975,813
Total	12,449,438	20,975,813

The notes on pages 13 to 21 are an integral part of these accounts.

Statement of financial position

As at 31 December 2010

	Note	As at 31 December	
		2010	2009
		€	€
ASSETS			
Loans and advances to customers	7	538,693,518	520,223,927
Loans and advances to banks	8	33,829,241	40,352,220
Other receivables		2	2
Total assets		572,522,761	560,576,149
LIABILITIES			
Derivative financial instruments	9	60,073,321	45,042,676
Preferred securities issued	10	1	1
Total liabilities		60,073,322	45,042,677
GENERAL PARTNER'S FUNDS AND OTHER EQUITY			
Capital contribution account		1	1
Preferred securities issued		500,000,000	500,000,000
Income account		12,449,438	15,533,471
Total equity	11	512,449,439	515,533,472
Total liabilities and general partner's funds and other equity		572,522,761	560,576,149

The notes on pages 13 to 21 are an integral part of these accounts.

Signed on behalf of DEPFA BANK plc:

Cyril Dunne

Noel Reynolds

13 April 2011

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

For the year ended 31 December 2010

€	Capital Contribution	Preferred securities issued	Income Account	Total General Partner's funds and Other Equity
Balance at 1 January 2009	1	-	19,702,658	19,702,659
Income for the year	-	-	20,975,813	20,975,813
Reclassification of hybrid capital	-	500,000,000	-	500,000,000
Dividend paid in the year	-	-	(25,145,000)	(25,145,000)
Balance at 31 December 2009	1	500,000,000	15,533,471	515,533,472
Income for the year	-	-	12,449,438	12,449,438
Dividend paid in the year	-	-	(15,533,471)	(15,533,471)
Balance at 31 December 2010	1	500,000,000	12,449,438	512,449,439

The notes on pages 13 to 21 are an integral part of these accounts.

Cash Flow Statement

For the year ended 31 December 2010

Note	2010 €	2009 €
Cash flows from operating activities		
Profit on ordinary activities before taxation	12,449,438	20,975,813
Decrease/(increase) in loans and advances to banks	6,521,214	(40,339,894)
Net increase in accrued interest income	(45,750)	(12,326)
Other non cash items	(3,391,431)	(521,269)
Net increase in derivatives	-	45,042,676
Tax paid	-	-
Net cash from operating activities	15,533,471	25,145,000
Cash flows from financing activities		
Dividend paid	(15,533,471)	(25,145,000)
Net cash from financing activities	(15,533,471)	(25,145,000)
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:

	2010 €	2009 €
Interest income received	25,510,216	25,271,547
Interest expense paid	-	-

The notes on pages 13 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 IV LP Limited Partnership ("the Partnership") is a United Kingdom Limited Partnership, established by a Limited Partnership Agreement dated 13 March 2007 ("the Partnership Agreement"). The Preferred Securities Issued of the Partnership are listed on the Irish Stock Exchange.

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 2010 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.

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").

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.

There has been no change in the ownership of the Partnership since during 2010.

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 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 despite the material factors of uncertainty which are known at the date of signing and are described below.

This assumption is predicated on the fact that the HRE Group Management Board has prepared the HRE Group financial statements on a going concern basis.

With regard to the going concern assumption, material factors of uncertainty are known at the point at which the HRE Group consolidated financial statements were prepared in connection with events and conditions which cast doubts on the ability of HRE Holding and its major subsidiaries to continue as going concerns. The continuing existence of HRE Holding and its subsidiaries including DEPFA Funding IV LP as going concerns depends on the European Commission approving the support measures which have been implemented by SoFFin.

In addition, the ability of HRE Holding and its subsidiaries, including DEPFA Funding IV LP, to continue as going concerns is dependent upon the European Commission not imposing any conditions which would not permit HRE Holding and its subsidiaries, including DEPFA Funding IV LP, to implement an economically sustainable business plan and, in particular, does not undo the regulatory effectiveness of the capital support measures.

The Management Board of the HRE Group has engaged the services of an auditing firm to carry out an independent appraisal of the going concern assumption. In its prepared report this auditing firm concludes that it is more than likely that HRE Holding and its subsidiaries will be able to continue as going concerns in the period until 30 September 2012.

On 28 March 2009, SoFFin confirmed to HRE Holding and Deutsche Pfandbriefbank AG (formerly Hypo Real Estate Bank AG) that it intends to stabilise HRE Holding by way of adequate recapitalisation, and that it also intends to stabilise Deutsche Pfandbriefbank AG by way of providing further adequate guarantees. On 6 November 2009, SoFFin renewed this declaration of intent. In particular, SoFFin has confirmed that it will provide adequate capital in order to at least ensure the continued existence of HRE Holding and its major subsidiaries as going concerns and also to ensure the necessary viable business model, particularly Deutsche Pfandbriefbank AG. The support

Notes to the annual report and accounts – continued

measures are conditional on the Aid Law requirements of the European Commission being fulfilled. The positive conclusion of these proceedings is expected by mid-2011.

Although major progress has been achieved with regard to stabilising and restructuring the HRE Group since the autumn of 2008, the HRE Group companies continued to be exposed to risks threatening their very existence throughout the whole of 2010 due to the material factors detailed above.

The forecasts relating to the future development of the HRE Group represent estimates which have been made on the basis of currently available information. If the assumptions underlying these forecasts fail to materialise or if risks (such as those addressed in the section risk management) occur to an extent which has not been calculated, the actual results may differ significantly from the currently expected results.

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 4.

The accounting and valuation methods as of 31 December 2010 are the same as those applied in the financial statements for 2009.

IFRS and interpretations applied for the first time as well as changes of standards and interpretations

In the financial year 2010 the following new or revised standards and interpretations were initially applied:

- IFRS 1 (revised) First-time Adoption of IFRS
- IFRS 3 (revised) Business Combinations and IAS 27 (revised) Consolidated and Separate Financial Statements
- IAS 24 (revised) Related Party Disclosures
- IFRIC 12 Service Concession Arrangements
- IFRIC 17 Distributions of Non-Cash Assets to Owners
- Amendment to IFRS 2 Group Cash-settled Share-based Payment Transactions
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items
- Amendment to IFRS 1 Additional Exemptions for First-time Adopters
- Annual Improvements to IFRSs 2009

The initially applicable standards and interpretations above, as well as their revisions and amendment either did not have any material impacts on the Partnership or are not relevant for the Partnership.

Revisions and amendments of published and endorsed standards and interpretations, whose initial adoption is not mandatory and which are not adopted earlier

The following material amended and EU endorsed standards and interpretations have not been applied earlier by the Group:

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Amendment to IAS 32 Financial Instruments Presentation on Classification of Rights Issues
- Amendment to IFRS 1 Limited Exemptions from Comparative IFRS 7 Disclosures for First-time Adopters
- Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement

None of the above, if relevant to the Partnership, are expected to have any material impacts on the Partnership.

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

Notes to the annual report and accounts – continued

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 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

Notes to the annual report and accounts – continued

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 General Partner, Manager and Guarantor, DEPFA BANK plc.

Derivatives

Derivatives consist of interest rate swaps.

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 perpetual preferred securities whereby the holders are entitled to receive non cumulative preferential cash distributions at a fixed rate of 5.029% 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.

(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 2010 (2009: nil).

The financial asset is neither past due nor impaired.

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

	31.12.10	31.12.09
Netherlands	538,693,518	520,223,927
Ireland	33,829,241	40,352,220
Total assets	572,522,759	560,576,147

Notes to the annual report and accounts – continued

(c) Currency risk

All the Partnership's assets and liabilities are denominated in Euro, therefore there is no foreign currency risk.

(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 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 preferred securities are 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 5.029% 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.

The following table provides a maturity analysis of the cash flows contractually due on the financial liabilities of the Partnership as at 31 December 2010 and 31 December 2009. The analysis has been performed on the basis of gross cash flows due in the future. The effects of taking into account the time value of money by discounting these flows are not reflected.

€ 000	Up to 3 months	3-12 Months	1-5 years	Over 5 years	Total
As at 31 December 2010					
Derivatives financial instruments	3,801,250	11,403,750	60,820,000	37,865,000	113,890,000
Total liabilities	3,801,250	11,403,750	60,820,000	37,865,000	113,890,000

€ 000	Up to 3 months	3-12 Months	1-5 years	Over 5 years	Total
As at 31 December 2009					
Derivatives financial instruments	4,166,708	12,500,125	66,667,333	56,359,125	139,693,291
Total liabilities	4,166,708	12,500,125	66,667,333	56,359,125	139,693,291

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

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

	2010 €		2009 €	
	Hedge Accounting	Total fair value adjustments	Hedge Accounting	Total fair value adjustments
Loans and advances to customers	18,469,591	18,469,591	521,269	521,269
Total assets	18,469,591	18,469,591	521,269	521,269
Hedging instruments	(18,583,894)	(18,583,894)	(278,098)	(278,098)
Net equity	(114,303)	(114,303)	243,171	243,171

Notes to the annual report and accounts – continued

Capital risk management

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

4. Critical accounting estimates

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

Impairment provisions

Where there is a risk that the Partnership will not receive full repayment of the amount advanced, provisions are made in the financial statements to reduce the carrying value of loans and receivables to the amount expected to be recovered. The estimation of credit losses is inherently uncertain and depends on many factors such as general economic conditions, cash flows, structural changes and other external factors.

Going concern

These financial statements have been prepared on a going concern basis. The reasoning behind why the Partners have prepared the accounts on a going concern basis and a description of the factors that have given rise to this concern are contained in the "Basis of preparation" in note 2.

5. Net interest income

	2010 €	2009 €
Interest income		
Financial assets of the category loans and receivables	25,508,451	25,283,873
Total interest income	25,508,451	25,283,873
Interest expense		
Net interest expense on hedging derivative	(12,944,710)	(4,551,231)
Total interest expense	(12,944,710)	(4,551,231)

Interest income on impaired loans amounted to nil (2009: nil).

As described in note 10, 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 and 2010.

6. Net income from hedging relationships

	2010 €	2009 €
Result from fair value hedge accounting		
Result from hedged items	18,469,591	521,269
Result from hedging instruments	(18,583,894)	(278,098)
	(114,303)	243,171

7. Loans and advances to customers

	2010 €	2009 €
Other Loans and advances to other group undertakings	500,000,000	500,000,000
Accrued interest receivable on loans and advances to other group undertakings	19,702,658	19,702,658
Fair value adjustment arising from hedge accounting	18,990,860	521,269
	538,693,518	520,223,927

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

The effective interest rate for the above transaction is 5.029%.

Notes to the annual report and accounts – continued

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

	2010	2009
	€	€
From 5 years and over	538,693,518	520,223,927
	538,693,518	520,223,927

8. Loans and advances to banks

	2010	2009
	€	€
Other Loans and advances to other group undertakings	33,818,681	40,339,894
Accrued interest receivable on loans and advances to other group undertakings	10,560	12,326
	33,829,241	40,352,220

9. Derivative financial instruments

	31 December 2010		31 December 2009	
	Contract amount €	Fair Value €	Contract amount €	Fair Value €
Interest rate swap	500,000,000	(60,073,321)	500,000,000	(45,042,676)
	500,000,000	(60,073,321)	500,000,000	(45,042,676)
Amounts include:				
Due to other group undertakings	500,000,000	(60,073,321)	500,000,000	(45,042,676)

10. Preferred Securities Issued

	2010	2009
	€	€
Preferred securities issued	-	-
Limited partner contribution	1	1
	1	1

Preferred securities issued are broken down by maturity as follows:

	2010	2009
	€	€
No stated maturity	1	1
	1	1

11. General Partner's Funds and Other Equity

	2010	2009
	€	€
Capital contribution	1	1
Preferred securities reclassified to equity	500,000,000	500,000,000
Retained income at start of period	15,533,471	19,702,658
Income for the year	12,449,438	20,975,813
Dividend paid in the year	(15,533,471)	(25,145,000)
	512,449,439	515,533,472

The partnership has issued €500,000,000 5.029% 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.

Notes to the annual report and accounts – continued

In 2010 the Guarantor and General Partner stated that it did not expect the Partnership to make any Coupon payments in 2010. Accordingly, no coupon payment was made in 2010.

12. 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	
	2010	2009	2010	2009
Financial assets				
Loans and advances to customers	538,693,518	520,223,927	261,706,561	229,173,807
Loans and advances to banks	33,829,241	40,352,220	33,829,241	40,352,220
Financial liabilities				
Preferred securities issued	-	1	-	1

1) Loans and advances to customers

Loans and advances to customers are net of provisions for impairment. The estimated fair value of the 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) Loans and advances to banks

Loans and advances to banks are net of provisions for impairment. The estimated fair value of the 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.

3) Preferred securities issued

The fair values are calculated based on quoted market prices.

Assets and liabilities according to measurement categories:

	2010	2009
	€	€
Loans and receivables	572,522,759	560,576,147
Total assets	572,522,759	560,576,147
Financial liabilities at amortised cost	1	1
Derivatives	60,073,321	45,042,676
Total liabilities	60,073,322	45,042,677

The recognised fair values of financial instruments according to IFRS 7 correspond to the amounts at which an asset could be exchanged on the statement of financial position date between willing, competent business partners or the amount at which a liability could be settled between such business partners. The fair values were determined as of the statement of financial position date based on the market information available and on valuation methods described in note 2.

As per the amendment to IFRS 7 "Financial Instruments: Disclosures" issued in March 2009 all financial assets and liabilities of the Partnership that are measured at fair value should be grouped into the fair value hierarchies. The three-level hierarchy is based on the degree to which the input for the fair value measurement is observable.

Level 1 – quoted priced (unadjusted) in active markets for identical financial assets or financial liabilities.

Level 2 – inputs that are observable either directly or indirectly, other than quoted prices included within Level 1.

Level 3 – valuation techniques that include inputs that are not based on observable market data (unobservable inputs).

The following table shows financial assets and financial liabilities measured at fair value grouped into the fair value hierarchy:

Notes to the annual report and accounts – continued

Fair value hierarchy in €	31 December 2010			
	Total	Level 1	Level 2	Level 3
Liabilities				
Hedging derivatives	60,073,321	-	60,073,321	-
Total	60,073,321	-	60,073,321	-

Fair value hierarchy in €	31 December 2009			
	Total	Level 1	Level 2	Level 3
Liabilities				
Hedging derivatives	-45,042,676	-	-45,042,676	-
Total	-45,042,676	-	-45,042,676	-

There have been no transfers between any valuation Levels in the period.

13. 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, Manager 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:

	2010	2009
	€	€
Interest income – DEPFA Finance NV	25,145,000	25,145,000
Interest income – DEPFA BANK plc	363,451	138,873
Derivative (net interest expense) – DEPFA BANK plc	(12,944,710)	(4,551,231)

14. 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.

15. Events after 31 December 2010

On 4 March 2011 the Guarantor and General Partner determined that the Partnership would not make payments on its € 500,000,000 Preferred Securities (XS0291655727) on the next Distribution Payment Date scheduled for 21 March 2011.

Apart from the above, there have been no other notable events after 31 December 2010.

16. Commitments

The Partnership had no commitments as at 31 December 2010 (31 December 2009: nil).

17. Approval of annual report and accounts

The Annual Report and Accounts were approved by the General Partner on 13 April 2011.

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. C. Dunne
- Ms. F. Flannery (appointed 15 April 2010)
- Dr. K. Franzmeyer*(German) (Deputy Chairman) (resigned 6 December 2010)
- Mr. T. Glynn (American)
- Mr. W. Groth (German) (appointed 28 February 2011)
- Mr. D. Grehan*
- Mr. A. Kearns*
- Mr. F. Krings*(German) (resigned 6 December 2010)
- Mr. N. Reynolds (appointed 21 January 2010)
- Mr. S. Rio (French)
- Mr. A. von Uslar-Gleichen* (German)
- Dr. H. Walter* (German)
- Dr. A. Wieandt* (German) (Chairman) (resigned 25 March 2010)

* Non-Executive

Auditors

KPMG
1 Harbourmaster Place
IFSC
Dublin 1
Ireland