

DEPFA FUNDING III LP

Condensed Unaudited
Interim Financial Statements
as at 30 June 2010

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General Partner and 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)
- Mr. T. Glynn (American)
- Mr. D. Grehan*
- Mr. A. Kearns*
- Mr. F. Krings*(German)
- 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

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. The income generated during the period comprises interest income from this loan. The interest expense in the period comprises borrowing costs on a loan from the 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.

Forecast Report

Partnership-specific conditions:

The Partnership is part of the DEPFA Group ("the Group") which comprises DEPFA BANK plc and its subsidiaries. In 2007 the entire ordinary share capital of DEPFA BANK plc, the parent of the Partnership, was acquired by Hypo Real Estate Holding AG ("HRE Holding"), the parent entity of the Hypo Real Estate Group ("the HRE Group"). There has been no change in ownership of the Partnership in 2009 and 2010.

The existence of companies in the HRE Group including DEPFA BANK plc and its subsidiary entities continued to be threatened in the first half of the year 2010.

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

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

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

General Partner's Statement - continued

External factors:

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

Internal factors:

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

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

As the first step towards recapitalising the HRE Group, SoFFin took up 20 million HRE Holding shares on 28 March 2009 for a legal minimum price of €3.00 per share, with shareholders' subscription rights excluded. As the second step of recapitalisation of the HRE Group, the shareholders adopted a resolution regarding a capital increase of around €2.96 billion in return for a cash contribution at the Extraordinary General Meeting held on 2 June 2009. 986.5 million shares were issued at the nominal value and legal minimum price of €3.00 specified in the articles of incorporation.

Only SoFFin was permitted to take up the new shares out of the capital increase, and the statutory shareholders' subscription rights were excluded. After the registration of the capital increase on 8 June 2009, SoFFin held 90% of HRE Holding share capital. On 5 October 2009, a resolution for transferring the shares of the minority shareholder to SoFFin was adopted at an Extraordinary General Meeting. The Amtsgericht (local court) in Munich entered the transfer resolution on the commercial register on 13 October 2009, so that SoFFin became the only shareholder of HRE Holding. As a third step in the recapitalisation process, the HRE Group received a further capital contribution of a total of €3.0 billion from SoFFin in November 2009. This tranche consists of a silent participation of €1.0 billion to Deutsche Pfandbriefbank AG, a contribution of €1.3 billion to the reserve of Deutsche Pfandbriefbank AG and a contribution of €0.7 billion to the reserve of HRE Holding.

As the fourth step of recapitalisation, the HRE Group received the commitment from the SoFFin for the next recapitalisation tranches of up to €1.85 billion on 30 April 2010. The capital will be paid in at least in two tranches into the additional paid-in capital of the HRE Group as required. The capital measure still has to be approved by the EU Commission. In the initial tranche, a figure of €1.4 billion was paid into the additional paid-in capital of HRE Holding on 20 May 2010.

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

General Partner's Statement - continued

Risks threatening the future existence of the HRE Group

The future existence of HRE Holding as a going concern is dependent on the assumption that sufficient equity will be provided to HRE Holding and its significant subsidiaries even in the event of defaults and impairments recognised in relation to receivables and securities as a result of the financial crisis affecting individual states and corporations, to fulfil regulatory capital requirements as well as to avoid a situation of sustained over-indebtedness. External liquidity support is necessary to avert insolvency due to illiquidity of the significant subsidiaries of the HRE Group Holding or HRE Holding itself. These liquidity supports must be available until HRE Holding and its significant subsidiaries raise sufficient liquidity on the money and capital market by themselves, the agreed restructuring arrangements are implemented as scheduled and the equity capital increase is performed as scheduled.

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

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

Events after the Balance sheet date

On 9 July 2010 DEPFA BANK plc, the General Partner of the Partnership, received a non refundable capital contribution from HRE Holding of €100 million. This non-refundable contribution qualifies as Regulatory Tier I Capital.

On 30 July 2010 DEPFA BANK plc, the General Partner of the Partnership, received a non refundable capital contribution from HRE Holding of €100 million. This non-refundable contribution qualifies as Regulatory Tier I Capital.

On 19 August 2010 DEPFA BANK plc, the General Partner of the Partnership, received a non refundable capital contribution from HRE Holding of €50 million. This non-refundable contribution qualifies as Regulatory Tier I Capital.

Apart from the above, there have been no other notable events after 30 June 2010.

Responsibility statement, in accordance with the transparency regulations

In accordance with Regulation 8(3) of the Transparency (Directive 2004/10/EC) Regulations 2007 the related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Partnership are noted in note 9 on page 19.

Statement of the General Partner in respect of the condensed unaudited interim financial statements

The General Partner, whose name is listed on page 2, confirms to the best of its knowledge:

- (a) the condensed interim financial statements comprising the unaudited condensed income statement, the unaudited condensed statement of comprehensive income, the unaudited condensed statement of financial position, the unaudited condensed statement of changes in General Partner's Funds, the unaudited condensed cash flow statement and related notes 1 to 12 have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.
- (b) the interim general partner's statement discussion includes a fair review of the information required by:
 - (i) Regulation 8(2) of the Transparency (Directive 2004/109/EC) Regulations 2007, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - (ii) Regulation 8(3) of the Transparency (Directive 2004/109/EC) Regulations 2007, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

Signed on behalf of the General Partner, DEPFA BANK plc:

C. Dunne

N. Reynolds

30 August 2010

Independent Review Report to DEPFA Funding III LP (“the Partnership”)

Introduction

We have been engaged by the Partnership to review the unaudited condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2010 which comprises the Unaudited Condensed Income Statement, Unaudited Condensed Statement of Comprehensive Income, Unaudited Condensed Statement of Financial Position, Unaudited Condensed Statement of Changes In General Partner's Funds, Unaudited Condensed Cash Flow Statement and the related explanatory notes (Notes 1 to 12). We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the unaudited condensed interim financial statements.

This report is made solely to the Partnership in accordance with the terms of our engagement to assist the Partnership in meeting the requirements of the Transparency (Directive 2004/109/EC) Regulations 2007 (“the TD Regulations”) and the Transparency Rules of the Republic of Ireland's Financial Regulator. Our review has been undertaken so that we might state to the Partnership those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

General Partner's responsibilities

The half-yearly financial report is the responsibility of, and has been approved by the General Partner. The General Partner is responsible for preparing the half-yearly financial report in accordance with the TD Regulations and the Transparency Rules of the Republic of Ireland's Financial Regulator.

As disclosed on page 15, the annual financial statements of the Partnership are prepared in accordance with IFRS as adopted by the EU. The General Partner is responsible for ensuring that the unaudited condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

Our responsibility

Our responsibility is to express to the Partnership a conclusion on the unaudited condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the unaudited condensed set of financial statements in the half-yearly report for the six months ended 30 June 2010 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU, the TD Regulations and the Transparency Rules of the Republic of Ireland's Financial Regulator.

Independent Review Report to DEPFA Funding III LP (“the Partnership”) - continued

Emphasis of matter – Going Concern Basis of Accounting

In forming our conclusion, which is not qualified, we have considered the adequacy of the disclosures in Note 2 concerning the appropriateness of the going concern basis of accounting in the preparation of the unaudited condensed consolidated interim financial statements of the Partnership for the period ended 30 June 2010.

The unaudited condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Partnership 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 Partnership's unaudited condensed interim financial statements for the period ended 30 June 2010. Set-out below in our view are the key assumptions.

The future existence of the Hypo Real Estate Group (“HREG”) is contingent on the provision of equity to HREG and its significant subsidiaries, even in the event of defaults and impairments of receivables and securities arising from the financial crisis of certain countries and municipalities, 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 significant subsidiaries raise sufficient liquidity on the money and capital market by themselves and the agreed restructuring arrangements are implemented and until the equity capital increase is performed as scheduled.

To ensure the future existence of the HREG and its significant subsidiaries it is particularly necessary that:

- the Financial Markets Stabilisation Fund (“SoFFin”) provides 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 in 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.

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

KPMG
Chartered Accountants
2 Harbourmaster Place
IFSC
Dublin 1

30 August 2010

Condensed Income statement – unaudited

For the period 1 Jan to 30 Jun 2010

	Note	01 Jan – 30 Jun 2010 €	01 Jan – 30 Jun 2009 €
Interest and similar income	3	2,291,116	7,119,543
Interest expense and similar charges	3	(209,330)	-
Net interest income	3	2,081,786	7,119,543
Net Trading Income	4	-	20,383,845
Profit on ordinary activities		2,081,786	27,503,388
Profit for the period		2,081,786	27,503,388

The notes on pages 15 to 20 are an integral part of these accounts.

The results above all relate to continuing operations.

Signed on behalf of the General Partner, DEPFA BANK plc:

C. Dunne

N. Reynolds

30 August 2010

Condensed statement of comprehensive income for the period from 1 January to 30 June – unaudited

	01 Jan – 30 Jun 2010			01 Jan – 30 Jun 2009		
	€			€		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Net income/loss	2,081,786	-	2,081,786	27,503,388	-	27,503,388
Total	2,081,786	-	2,081,786	27,503,388	-	27,503,388
Attributable to the equity holders	2,081,786	-	2,081,786	27,503,388	-	27,503,388

Disclosure of components of comprehensive income – unaudited

	01 Jan – 30 Jun 2010	01 Jan – 30 Jun 2009
	€	€
Net income/Loss	2,081,786	27,503,388
Total	2,081,786	27,503,388

Condensed statement of financial position – Unaudited

As at 30 June 2010

	Note	Unaudited 30 Jun 2010 €	Audited 31 Dec 2009 €
ASSETS			
Loans and advances to customers	5	300,295,531	300,310,580
Other receivables		2	2
Total assets		300,295,533	300,310,582
LIABILITIES			
Limited Partner contribution		1	1
Liabilities to other banks	6	40,225,469	42,322,304
Total liabilities		40,225,470	42,322,305
GENERAL PARTNER'S FUNDS			
Capital contribution account		1	1
Preferred securities issued		250,201,398	250,201,398
Income account		9,868,664	7,786,878
Total equity	7	260,070,063	257,988,277
Total liabilities and general partner's funds		300,295,533	300,310,582

The notes on pages 15 to 20 are an integral part of these accounts.

Signed on behalf of the General Partner, DEPFA BANK plc:

C. Dunne

N. Reynolds

30 August 2010

Condensed statement of changes in General Partner's funds - unaudited

For the period 1 Jan to 30 Jun 2010

€	Capital Contribution	Preferred securities issued	Income Account	Total General Partner's funds
Balance at 1 January 2009	1	-	(3,268,983)	(3,268,982)
Income for the period	-	-	27,503,388	27,503,388
Dividend paid	-	-	(14,758,097)	(14,758,097)
Reclassification of hybrid capital		250,201,398	-	250,201,398
Balance at 30 June 2009	1	250,201,398	9,476,308	259,677,707

€	Capital Contribution	Preferred securities issued	Income Account	Total General Partner's funds
Balance at 1 January 2010	1	250,201,398	7,786,878	257,988,277
Income for the period	-	-	2,081,786	2,081,786
Balance at 30 June 2010	1	250,201,398	9,868,664	260,070,063

The notes on pages 15 to 20 are an integral part of these accounts.

Condensed Cash Flow Statement – Unaudited

For the period 1 Jan to 30 Jun 2010

Note	1 Jan – 30 Jun 2010 €	1 Jan – 30 Jun 2009 €
Cash flows from operating activities		
Operating profit	2,081,786	27,503,388
Adjustments for non-cash movements:		
Net decrease in accrued interest income	15,049	499,257
Net (decrease)/increase in accrued interest expense	(1,784)	7,139,297
Net decrease in derivatives	-	(20,383,845)
Net (decrease) in liabilities to other banks	(2,095,051)	-
Net cash from operating activities	-	14,758,097
Cash flows from financing activities		
Dividends paid	-	(14,758,097)
Net cash from financing activities	-	(14,758,097)
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 period are the following amounts:

	Unaudited 1 Jan – 30 Jun 2010 €	Unaudited 1 Jan – 30 Jun 2009 €
Interest income received	2,306,165	7,119,543
Interest expense paid	211,114	-

The notes on pages 15 to 20 are an integral part of these accounts.

Notes to the condensed interim financial statements - unaudited

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 30 June 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 3.

(c) Duration of the Partnership

The Partnership has no specific duration.

(d) Condensed interim financial statements

The condensed interim financial statements for the six months ended 30 June 2010 are unaudited but have been reviewed by the auditor whose report is set out on pages 8 to 9.

2. Basis of preparation

The condensed interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU. The financial information contained in the condensed interim financial statements has been prepared in accordance with the accounting policies set out in the last annual financial statements except for the adoption of:

- IFRS 2 (Share-based Payment: Group Cash-settled Share-based Payment Transactions)
- IFRS 3 (Business Combinations, revised 2008)
- IAS 27 (Consolidated and Separate Financial Statements)
- IAS 39 (Financial Instruments: Recognition and Measurement: Eligible Hedged Items)
- IFRIC 17 (distributions of Non-Cash Assets to Owners)

The amendment to IFRS 2 has clarified the accounting treatment for share-based payments with a cash settlement within the Group. Because the Partnership has currently not provided any commitment with regard to share-based payments, this accordingly does not have any effect on the Partnership.

IFRS 3 (revised) has revised the way in which the way the acquisition method is applied in the case of business combinations. Major changes relate to the measurement of non-controlling interests, the accounting of business combinations achieved in stages and the treatment of contingent considerations and acquisition-related costs. The standard is applicable prospectively. There have so far not been any effects for the Partnership, and any such effects will depend in future on potential business combinations.

Major changes to IAS 27 comprise the recognition of transactions in which a company continues to retain control as well as transactions in which control is lost. The standard is applicable prospectively. There have so far not been any effects for the Partnership, and any such effects will depend in future on potential transactions.

The amendment to IAS 39 specifies how the existing principles for presenting hedges have to be applied. The changes address the designation of unilateral risks in an underlying and the designation of inflation as a separately identifiable risk. There have not been any effects on the hedge accounting of the Partnership.

The interpretation IFRIC 17 specifies how a company has to measure non-cash assets which it distributes as dividend to its owners. IFRIC 17 does not apply to distributions of a non-cash asset which in the final analysis is controlled by the same party or the same parties before and after the distributions. There have so far not been any effects for the Partnership.

IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” has also been amended in connection with IFRIC 17. The regulations of recognition, measurement and disclosure are applicable as well in relation to assets which satisfy the criteria for being classified as “held for sale”. There have so far not been any effects for the Partnership.

Notes to the condensed interim financial statements – unaudited (continued)

Going concern

The financial statements are prepared on a going concern basis as the directors have assumed that the DEPFA Group (“the Group”) will continue in operation under the conditions described as external and internal factors below. This assumption is predicated on the fact that based on present information, Hypo Real Estate Group (“the HRE Group”) Management Board considers it 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 which is described on pages 3 to 5.

External factors:

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

Internal factors:

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

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

As the first step towards recapitalising the HRE Group, SoFFin took up 20 million HRE Holding shares on 28 March 2009 for a legal minimum price of €3.00 per share, with shareholders’ subscription rights excluded. As the second step of recapitalisation of the HRE Group, the shareholders adopted a resolution regarding a capital increase of around €2.96 billion in return for a cash contribution at the Extraordinary General Meeting held on 2 June 2009. 986.5 million shares were issued at the nominal value and legal minimum price of €3.00 specified in the articles of incorporation.

Only SoFFin was permitted to take up the new shares out of the capital increase, and the statutory shareholders’ subscription rights were excluded. After the registration of the capital increase on 8 June 2009, SoFFin held 90% of HRE Holding share capital. On 5 October 2009, a resolution for transferring the shares of the minority shareholder to SoFFin was adopted at an Extraordinary General Meeting. The Amtsgericht (local court) in Munich entered the transfer resolution on the commercial register on 13 October 2009, so that SoFFin became the only shareholder of HRE Holding. As a third step in the recapitalisation process, the HRE Group received a further capital contribution of a total of €3.0 billion from SoFFin in November 2009. This tranche consists of a silent participation of €1.0 billion to Deutsche Pfandbriefbank AG, a contribution of €1.3 billion to the reserve of Deutsche Pfandbriefbank AG and a contribution of €0.7 billion to the reserve of HRE Holding.

Notes to the condensed interim financial statements – unaudited (continued)

As the fourth step of recapitalisation, the HRE Group received the commitment from the SoFFin for the next recapitalisation tranches of up to € 1.85 billion on 30 April 2010. The capital will be paid in at least in two tranches into the additional paid-in capital of the HRE Group as required. The capital measure still has to be approved by the EU Commission. In the initial tranche, a figure of € 1.4 billion was paid into the additional paid-in capital of HRE Holding on 20 May 2010.

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

Risks threatening the future existence of the HRE Group

The future existence of HRE Holding as a going concern is dependent on the assumption that sufficient equity will be provided to HRE Holding and its significant subsidiaries even in the event of defaults and impairments recognised in relation to receivables and securities as a result of the financial crisis affecting individual states and corporations, to fulfil regulatory capital requirements as well as to avoid a situation of sustained over-indebtedness. External liquidity support is necessary to avert insolvency due to illiquidity of the significant subsidiaries of the HRE Group Holding or HRE Holding itself. These liquidity supports must be available until HRE Holding and its significant subsidiaries raise sufficient liquidity on the money and capital market by themselves, the agreed restructuring arrangements are implemented as scheduled and the equity capital increase is performed as scheduled.

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

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

Estimates

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual may differ from these estimates.

In preparing the condensed interim financial statements, the significant judgements made by management in applying the Partnership's accounting policies and key sources of estimating uncertainty were the same as those that applied to the financial statements for the year ended 31 December 2009.

3. Net interest income

	1 Jan – 30 June	
	2010	2009
	€	€
Interest income		
Financial assets of the category loans and receivables	2,291,116	4,881,724
Derivatives (net interest income)	-	2,237,819
Total interest income	2,291,116	7,119,543
Interest expense		
Other financial liabilities	(209,330)	-
Total interest expense	(209,330)	-

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

As described in Note 7, the Preferred Securities issued have been reclassified to equity from subordinated capital in 2010. The Partnership's interest expense arises on a borrowing from the General Partner, DEPFA Bank plc. This borrowing was required as a result of the Partnership cancelling its only derivative contract in 2009, which at the date of cancellation had a negative mark to market.

Notes to the condensed interim financial statements – unaudited (continued)

4. Net trading income

The trading result in 2010 is nil (2009: €20,383,845 profit). During 2009 the Partnership's only derivative contract was cancelled and hence there is no trading result for 2010.

5. Loans and advances to customers

	30 Jun 2010	31 Dec 2009
	€	€
Other loans and advances to customers	300,000,000	300,000,000
Accrued interest receivable on loans and advances	295,531	310,580
	300,295,531	300,310,580

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:

	30 Jun 2010	31 Dec 2009
	€	€
from 5 years and over	300,295,531	300,310,580
	300,295,531	300,310,580

6. Liabilities to other banks

	30 Jun 2010	31 Dec 2009
	€	€
Liabilities to banks	40,225,469	42,322,304
	40,225,469	42,322,304
Of which due to group companies	40,225,469	42,322,304

Liabilities to other banks are broken down by maturity as follows:

	30 Jun 2010	31 Dec 2009
	€	€
Up to 3 months	40,225,469	42,322,304
	40,225,469	42,322,304

Notes to the condensed interim financial statements – unaudited (continued)

7. General Partner's Funds

	30 Jun 2010	31 Dec 2009
	€	€
Capital contribution	1	1
Profit/(loss) brought forward	7,786,878	(3,268,983)
Preferred securities issued	250,201,398	250,201,398
Profit/(loss) for the period	2,081,786	25,813,958
Dividend paid in the period	-	(14,758,097)
	260,070,063	257,988,277

For further detail on the classification of the Preferred securities issued as equity refer to Note 6.

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 interest rate on the issue is 7% for the first 3 years up to Jun 2009, and CMS 10 Year + .1% thereafter. 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, in the year ended 31 December 2009.

The Guarantor and General Partner does not expect that distributions will be made on the Preferred Securities during 2010.

8. Dividend Paid

There was no Dividend paid to the General Partner during the period (2009: €14,758,097).

9. 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:

	30 Jun 2010	30 Jun 2009
	€	€
Interest income – DEPFA Finance NV	2,291,116	4,881,724
Interest expense – DEPFA BANK plc	209,330	-
Derivative (net interest income) – DEPFA BANK plc	-	2,237,819
Derivative (trading income/loss) – DEPFA BANK plc	-	20,383,845

10. Events after the Balance sheet date

On 9 July 2010 DEPFA BANK plc, the General Partner of the Partnership, received a non refundable capital contribution from HRE Holding of €100 million. This non-refundable contribution qualifies as Regulatory Tier I Capital.

On 30 July 2010 DEPFA BANK plc, the General Partner of the Partnership, received a non refundable capital contribution from HRE Holding of €100 million. This non-refundable contribution qualifies as Regulatory Tier I Capital.

On 19 August 2010 DEPFA BANK plc, the General Partner of the Partnership, received a non refundable capital contribution from HRE Holding of €50 million. This non-refundable contribution qualifies as Regulatory Tier I Capital.

Apart from the above, there have been no other notable events after 30 June 2010.

Notes to the condensed interim financial statements – unaudited (continued)

11. Commitments

The Partnership had no commitments as at 30 June 2010 (2009: nil).

12. Approval of interim report and accounts

The Interim Report and Accounts were approved by the General Partner on 30 August 2010.