Deutsche Bank

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Amsterdam, 23 mei 2008

Betreft: Depfa Finance N.V.

Mijne dames/heren,

Te uwer informatie treft u bijgaand aan de vastgestelde jaarrekening 2007.

Met vriendelijke groet,

Deutsche International Trust Company N.V.

Bijlage

DEPFA FINANCE N.V.
Directors' Report and Financial Statements

31 December 2007

Contents

Directors and other information

Managing Directors
W. Holohan
M.R.H.B. Hoogeweegen
R. Ton
J.W. Termijtelen

Supervisory Directors
S. Krick
Dr. C. Alting (resigned 1 February 2008)

Auditors
PricewaterhouseCoopers
Thomas R. Malthusstraat 5
1066 JR Amsterdam
P.O. Box 90357
1006 BJ Amsterdam
The Netherlands

Directors' Report

Company's activities during the year

In 2007, DEPFA Finance N.V. ("the Company") continued its activities as a finance company.

Details on the funds obtained are included in the financial statements (notes 14 and 17).

The funds have been fully used to finance the operations of the parent company, DEPFA Deutsche Pfandbriefbank AG, Frankfurt, and other DEPFA Group companies.

Risk Management

For details on financial risk management reference is made to the financial statements note 3.

Result for the year

The net result for the year amounted to €1,053 thousand compared to € 439 thousand for 2006.

Appropriation of Result

The board proposes to transfer the total result of €1,053 thousand to the retained earnings.

Future outlook

In 2008, DEPFA Finance N.V. intends to continue its finance activities.

Amsterdam, 14 March 2008

The Managing Directors
W. Holohan
M.R.H.B. Hoogeweegen
R. Ton
J.W. Termijtelen

The Supervisory Director
S. Krick

Income statement

	Note	Year ended 31 December 2007 € 000	2006 € 000
Interest income	5	88,088	67,037
Interest expense	5	(85,926)	(65,310)
Net interest income		**2,162**	**1,727**
Fees and commission expense	6	(917)	(921)
Foreign exchange gains and losses	7	30	(32)
Operating expenses	8	(43)	(150)
Operating profit/Profit before income tax		**1,232**	**624**
Income tax expense	9	(179)	(185)
Profit for the year		**1,053**	**439**
Attributable to:			
Equity holders of the company		**1,053**	**439**
Earnings per share attributable to the equity holders of the Company (€ per share):	10		
- basic		10,530	4,390
- diluted		10,530	4,390

The notes on pages 8 to 19 are an integral part of these financial statements.

Balance sheet

	Note	As at 31 December	
		2007	2006
		€ 000	€ 000
CURRENT ASSETS			
Cash and cash equivalents	11	989	1,397
Other assets	12	-	34
NON CURRENT ASSETS			
Loans and advances to banks	13	1,600,816	1,071,969
Total assets		**1,601,805**	**1,073,400**
CURRENT LIABILITIES			
Debt securities in issue	14	369,383	361,659
Other liabilities	15	12	81
Income tax liabilities	16	5	-
NON CURRENT LIABILITIES			
Other borrowed funds	17	1,228,146	708,454
Total liabilities		**1,597,546**	**1,070,194**
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	18	46	46
Retained earnings	19	4,213	3,160
Total equity		**4,259**	**3,206**
Total equity and liabilities		**1,601,805**	**1,037,400**

The notes on pages 8 to 19 are an integral part of these financial statements

Statement of changes in equity

€ 000	Share capital	Retained earnings	Shareholders Equity
Balance at 1 January 2006	**46**	**2,721**	**2,767**
Profit for the year	-	439	439
Balance at 31 December 2006	**46**	**3,160**	**3,206**
Profit for the year	-	1,053	1,053
Balance at 31 December 2007	**46**	**4,213**	**4,259**

The notes on pages 8 to 19 are an integral part of these financial statements.

Cash Flow Statement

	Note	2007 € 000	2006 € 000
Cash flows from operating activities			
Operating profit/Profit before tax		**1,232**	**624**
Adjustments for non-cash movements:			
Foreign exchange gain/(loss)		30	(32)
Net decrease in accrued interest income		(20,034)	(282)
Net increase in accrued interest expenditure		19,763	216
Other non cash items		(125)	6
Net (increase)/decrease in loans and advances to banks		(501,088)	220,188
Net increase/(decrease) in other assets		28	(28)
Net (decrease)/increase in other liabilities		(69)	11
Tax Paid		(167)	(185)
Net cash (outflow)/inflow from operating activities		**(500,430)**	**220,518**
Cash flows from financing activities			
New issues/(repayments) of other borrowed funds		500,000	(220,000)
Net cash inflow/(outflow) from financing activities		**500,000**	**(220,000)**
Net (decrease)/increase in cash and cash equivalents		**(430)**	**518**
Cash and cash equivalents at the beginning of the year		**1,397**	**897**
Effect of exchange rate changes on cash and cash equivalents		22	-18
Cash and cash equivalents at the end of the year	**11**	**989**	**1,397**

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

	2007 € 000	2006 € 000
Interest income received	68,054	66,755
Interest expense paid	66,163	65,094

The notes on pages 8 to 19 are an integral part of these financial statements.

Notes to the financial statements

1. General information

DEPFA Finance N.V. is a company incorporated in The Netherlands on 14 February 1992 and has its statutory seat in Amsterdam, The Netherlands. DEPFA Finance N.V. is a wholly owned subsidiary of DEPFA Deutsche Pfandbriefbank AG, Frankfurt, Germany.

DEPFA Deutsche Pfandbriefbank AG, Frankfurt, is a subsidiary of Hypo Real Estate Holding AG, Germany. The accounts of DEPFA Finance N.V. are included in the consolidated financial statements of Hypo Real Estate Holding AG, Germany.

The principal activity of DEPFA Finance N.V. is to act as a finance company.

2. Summary of significant accounting policies

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

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and also comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code. The financial Statements are prepared under the historical cost convention.

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Standards, amendment and interpretations effective in 2007:

IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Company's financial instruments, or the disclosures relating to taxation and trade and other payables.

IFRIC 8, 'Scope of IFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This standard does not have any impact on the Company's financial statements.

IFRIC 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Company's financial statements.

Standards, amendments and interpretations effective in 2007 but not relevant:

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Company's operations:

IFRS 4, 'Insurance contracts';

IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies'; and IFRIC 9, 'Re-assessment of embedded derivatives'.

Prospective Accounting Standards:

The Company has chosen not to early adopt the following standard and interpretations that were issued but not yet effective for accounting periods beginning on 1 January 2007:

- IFRS 8, Operating segments (effective 1 January 2009)
- IFRIC 11, IFRS 2 Group Treasury Share Transactions (effective 1 March 2007)
- IFRIC 12, Service Concession Arrangements (effective 1 January 2009)
- IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008)
- IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009)
- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction (effective from 1 January 2008).

The Company is currently considering the impact of these accounting standards on its financial statements. Once adopted, it does not expect that they will have a material impact on the Company's financial position.

Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Company's financial statements are presented in euros, which is the Company's functional and presentation currency.

Foreign Currency Translation

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

Interest income and expense

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

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

Fee and commission expense

Fees and commissions which are not part of the effective interest rate calculation are generally recognised on an accrual basis when the service has been provided.

Financial assets

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

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

Financial assets are initially recognised at fair value plus transaction costs. Financial Assets are derecognised when the rights to receive cash flows from the financial assets have expired or when the company 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 Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Company 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 balances with less than three months' maturity from the date of acquisition, including cash and non restricted balances with central banks, and loans and advances to banks, excluding amounts due from Group companies.

Taxation

Current tax payable on profits, based on the applicable tax law, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Issued debt and borrowings

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 Company purchases its own debt, it is derecognised from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is recognised in the income statement.

Issued debt and borrowings are recognised initially at fair value, net of transaction costs incurred. They are 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.

Share capital

(a) *Share issue costs*
Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(b) *Dividends on ordinary shares*
Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders or paid (if declared by the directors).

3. Financial risk management

Strategy in using financial instruments

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

These financial instruments involve to varying degrees, exposure to loss in the event of a default by a counterparty ("credit risk") and exposure to future changes in interest and exchange rates ("market risk").

The Company has issued debt at both fixed and floating rates and for varying maturities. The interest rate risk on these positions is matched by offsetting financial assets receivable from DEPFA Group companies.

The Company did not enter into any derivative transactions in 2007 or 2006.

CREDIT RISK

The Company takes on exposure to credit risk, which 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. Significant changes in the economy, or in the health of a particular segment that represents a concentration in the Company's portfolio, could result in losses that are different from those provided for at the balance sheet date.

The Company's major credit exposure is to Group Companies. No impairment provisions are required at year end 31 December 2007 (2006: nil).

None of the financial assets is either past due or impaired.

The credit exposure by country is analysed below:

€ 000	31.12.07	31.12.06
Ireland	921,070	585,617
Germany	680,035	422,458
Canada	519	-
Netherlands	124	-
United Kingdom	57	-
Cyprus	-	65,325
Total assets	**1,601,805**	**1,073,400**

The credit rating of the non-current loans and advances to banks is analysed below:

€ 000	31.12.07	31.12.06
A+/Negative/A-1	921,070	649,581
A/Negative/A-1	679,746	422,388
Total	**1,600,816**	**1,071,969**

MARKET RISK

Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements.

Two of the principal components of market risk for the Company are currency risk and fair value interest rate risk.

Currency risk

The Company matches the foreign currency exposure on financial instruments by matching financial assets and liabilities. The table below summarises the Company's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Company's assets and liabilities at carrying amounts, categorised by currency.

€ 000	31.12.07	31.12.06
Assets:		
EUR	1,462,086	941,578
CAD	139,662	131,766
DKK	57	56
Total	**1,601,805**	**1,073,400**
Liabilities:		
EUR	1,458,494	938,770
CAD	139,052	131,424
Total	**1,597,546**	**1,070,194**

€ 000		
Total gap by currency:		
EUR	3,592	2,808
CAD	610	342
DKK	57	56
Total	**4,259**	**3,206**

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 Company matches the fair value interest rate risk exposure of all financial assets and liabilities.

The majority of the Company's interest earning assets are entered into at a fixed rate of interest. The fair value interest rate risk of fixed interest rate positions is mitigated by matching financial assets and liabilities. The Company therefore does not hold any open fixed interest rate positions and deems its interest rate risk to be nil.

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. Due to the dynamic nature of the underlying businesses, the Company maintains flexibility in funding by maintaining availability under committed credit lines.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

€000	Up to 3 months	3-12 Months	1-5 years	Over 5 years	Total
As at 31 December 2007					
Debt securities in issue	-	391,705	-	-	391,705
Other borrowed funds	-	68,302	273,207	2,419,142	2,760,651
Total liabilities	**-**	**460,007**	**273,207**	**2,419,142**	**3,152,356**

€000	Up to 3 months	3-12 Months	1-5 years	Over 5 years	Total
As at 31 December 2006					
Debt securities in issue	-	24,067	383,622	-	407,689
Other borrowed funds	-	39,828	159,311	1,397,813	1,596,952
Total liabilities	**-**	**63,895**	**542,933**	**1,397,813**	**2,004,641**

The table below analyses the Company's assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

€000	Repayable on Demand	Up to 3 months	3-12 Months	1-5 years	Over 5 years	Total
As at 31 December 2007						
Assets						
Cash and cash equivalents	989	-	-	-	-	989
Loans and advances to banks	-	2,842	369,506	-	1,228,468	1,600,816
Total assets	**989**	**2,842**	**369,506**	**-**	**1,228,468**	**1,601,805**
Liabilities						
Debt securities in issue	-	-	369,383	-	-	369,383
Other borrowed funds	-	-	-	-	1,228,146	1,228,146
Total liabilities	**-**	**-**	**369,383**	**-**	**1,228,146**	**1,597,529**
Net liquidity gap	**989**	**2,842**	**123**	**-**	**322**	**4,276**

€000	Repayable on Demand	Up to 3 months	3-12 Months	1-5 years	Over 5 years	Total
As at 31 December 2006						
Assets						
Cash and cash equivalents	1,397	-	-	-	-	1,397
Loans and advances to banks	-	1,856	-	361,659	708,454	1,071,969
Total assets	**1,397**	**1,856**	**-**	**361,659**	**708,454**	**1,073,366**
Liabilities						
Debt securities in issue	-	-	-	361,659	-	361,659
Other borrowed funds	-	-	-	-	708,454	708,454
Total liabilities	**-**	**-**	**-**	**361,659**	**708,454**	**1,070,113**
Net liquidity gap	**1,397**	**1,856**	**-**	**-**	**-**	**3,253**

Fair values of financial assets and liabilities

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

	€ 000			
	Carrying value		Fair value	
	2007	2006	2007	2006
Financial assets				
Loans and advances to banks	1,601,805	1,073,366	1,361,694	1,058,021
Financial liabilities				
Debt securities in issue	369,383	361,659	372,884	376,926
Other borrowed funds	1,228,146	708,454	984,534	677,842

a) *Loans and advances to banks*

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

b) *Debt securities in issue*
The aggregate fair values are calculated based on quoted market prices. For those notes where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

c) *Other borrowed funds*

The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

CAPITAL RISK MANAGEMENT

The Company's objective when managing capital is to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

4. Critical accounting estimates

The Company 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 Company 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.

The calculation of the specific provisions is based on discounted cash flows. Certain aspects of this process may require estimation, such as the amounts and timing of future cash flows.

At year end, in the opinion of the directors, no provisions are required. The Company considers this to be appropriate based on information available at the time. However, actual losses may differ as a result of changes in the timing and amounts of cash flows or other economic events.

5. Net interest income

	2007 € 000	2006 € 000
Interest income		
Loans and advances	88,088	67,037
	88,088	**67,037**
Interest expense		
Debt securities	(24,813)	(25,004)
Other borrowings	(61,113)	(40,306)
	(85,926)	**(65,310)**

6. Fees and commission expense

	2007 € 000	2006 € 000
Fees and commission expense	(917)	(921)
	(917)	**(921)**

The fees are payable to the parent company, DEPFA Deutsche Pfandbriefbank AG, for provision of a guarantee relating to the settlement of interest and principal on debt issues.

7. Foreign exchange gains and losses

Foreign exchange gains and losses amounted to € 30 thousand in 2007 compared to -€ 32 thousand in 2006.

8. Operating expenses

	2007 € 000	2006 € 000
Administrative expenses:		
Professional and Consulting	(18)	(81)
Recharges from other group companies	(25)	(41)
Marketing and Advertising	-	(17)
Personnel	-	(11)
	(43)	**(150)**

The company has no employees other than the Directors.

9. Income tax expense

	2007 € 000	2006 € 000
Current tax	(179)	(185)
	(179)	**(185)**

In 2007, the tax on the Company's profit before tax differed from the theoretical amount that would arise using the basic tax rate as follows:

	2007 € 000	2006 € 000
Profit before tax	1,232	624
Tax calculated at a tax rate of 25.5% (2006: 29.6%)	(314)	(185)
Adjustments in respect of previous years	135	-
Income tax expense	**(179)**	**(185)**

10. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

There is no difference between the basic and diluted earnings per share as the Company has no share options or convertible debt outstanding.

	2007	2006
Profit attributable to equity holders of the Company (€ thousands)	1,053	439
Weighted average number of ordinary shares in issue	100	100
Basic earnings per share (expressed in € per share)	10,530	4,390
Diluted earnings per share (expressed in € per share)	10,530	4,390

11. Cash and cash equivalents

	2007	2006
	€ 000	€000
Cash and cash equivalents	989	1,397
	989	**1,397**

12. Other assets

	2007	2006
	€ 000	€000
Other receivables	-	34
	-	**34**

13. Loans and advances to banks

	2007	2006
	€ 000	€000
Loans and advances due from Group companies	1,600,816	1,071,969
	1,600,816	**1,071,969**

14. Debt securities in issue

	2007	2006
	€ 000	€ 000
Debt securities in issue	369,383	361,659
	369,383	**361,659**

Debt securities in issue at 31 December 2007 consist of:

ISIN	Currency	Coupon	Nominal	Maturity
FR0000108904	FRF	6.375%	1,500,000,000	18 November 2008
XS0047234819	CAD	7.250%	200,000,000	01 December 2008

Debt securities in issue at 31 December 2006 consist of:

ISIN	Currency	Coupon	Nominal	Maturity
FR0000108904	FRF	6.375%	1,500,000,000	18 November 2008
XS0047234819	CAD	7.250%	200,000,000	01 December 2008

The parent company, DEPFA Deutsche Pfandbriefbank AG, guarantees the settlement of interest and principal.

15. Other liabilities

	2007 €000	2006 € 000
Accrued expenses	12	81
	12	**81**

16. Income tax liabilities

	2007 €000	2006 € 000
Taxation	5	-
	5	**-**

17. Other borrowed funds

	2007 € 000	2006 € 000
Subordinated debt from Group companies	1,228,146	708,454
	1,228,146	708,454

The other borrowed funds are subordinated in right of payment to other creditors of the Company and rank in priority to the equity holders of the Company.

Other borrowed funds at 31 December 2007 consist of:

Nominal	Currency	Coupon	Maturity
400,000,000	EUR	6.5%	30 October 2028
300,000,000	EUR	EURIBOR+ 0.8349%	8 June 2030
500,000,000	EUR	5.029%	31 March 2032

Other borrowed funds at 31 December 2006 consist of:

Nominal	Currency	Coupon	Maturity
400,000,000	EUR	6.5%	30 October 2028
300,000,000	EUR	EURIBOR+ 0.95625%	8 June 2030

18. Share capital

The authorised share capital at year end was 500 ordinary shares of €453.78 each, of which 100 shares have been issued. All shares were issued at par and are fully paid.

	2007 € 000	2006 € 000
At January 1	46	46
At December 31	**46**	**46**

19. Retained earnings

	2007 € 000	2006 € 000
At January 1	3,160	2,721
Profit for year	1,053	439
At December 31	**4,213**	**3,160**

20. Related party transactions

Key Management Compensation

	2007	2006
	€	€
For services as a director	7,367	9,540
	7,367	**9,540**

The company employs four Managing Directors, all being part of the Management Board and the Statutory Board, and considered to be key management of the Company. The remuneration above relates solely to the Managing Directors. The Supervisory Directors receive no remuneration.

There are no loans to directors at 31 December 2007 (31 December 2006: nil)

Balances due to and from group companies are disclosed in the notes to the balance sheet. Transactions with group companies consisted of:

	2007	2006
	€ 000	€ 000
Interest income	87,899	67,039
Interest expense	(61,113)	(38,075)
Fee and commission expense	(917)	(920)
Operating expenses	(30)	(41)

The amounts above arise on intercompany borrowings and lending, as well as recharges for certain services provided.

21. Segmental reporting

The Company has only one reporting segment and therefore no segmental reporting is required.

22. Ultimate parent company

DEPFA Deutsche Pfandbriefbank AG, a company registered in Germany, is the parent company of the Company. DEPFA Deutsche Pfandbriefbank AG is a wholly owned subsidiary of Hypo Real Estate Holding AG, a company registered in Germany. Copies of the financial statements of Hypo Real Estate Holding AG can be obtained from The Secretary, Hypo Real Estate Holding AG, Unsoldstr. 2, D-80538 Munich, Germany.

23. Events after the balance sheet date

There were no significant events after the balance sheet date which require disclosure.

24. Approval of financial statements

The Financial Statements were approved by the Directors on 14 March 2008.

Other information

Profit appropriation according to the Articles of Association

The articles of Association of the Company provide that the General Meeting shall determine the appropriation of the net income for the year. Distribution of profits shall be made after adoption of the annual accounts if permissible under the law given the contents of the annual accounts.

The General Meeting may resolve to make interim distributions and / or distributions at the expense of any reserve of the Company. Distributions may be made only up to an amount that does not exceed the amount of the Distributable Equity.

Post balance sheet events

There were no significant events after the balance sheet date which require disclosure.

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To Managing Directors, Supervisory Board and the General Meeting of Shareholders of DEPFA Finance N.V.

Auditor's report

Report on the financial statements

We have audited the accompanying financial statements 2007 of DEPFA Finance N.V., Amsterdam as set out on pages 4 to 18 which comprise the balance sheet as at 31 December 2007, the profit and loss account, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

The directors' responsibility

The directors of the company are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Depfa Finance N.V. as at 31 December 2007, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, 19 March 2008
PricewaterhouseCoopers Accountants N.V.

(Originally signed by A. Zoon RA)

A.H. Zoon