

## **Program Information**

**Deutsche Pfandbriefbank AG**

## PROGRAM INFORMATION

Type of Information:	Program Information
Date of Announcement:	26 June 2015
Issuer Name:	Deutsche Pfandbriefbank AG (the " <b>Issuer</b> ")
Name and Title of Representative:	Thomas Köntgen, Co-Chief Executive Officer
Address of Head Office:	Freisinger Str. 5, 85716 Unterschleissheim, Germany
Telephone:	+49-89-2880-0
Contact Person:	Attorney-in-Fact: Eiichi Kanda, Attorney-at-law Yu Nimura, Attorney-at-law  Clifford Chance Law Office (Gaikokuho Kyodo Jigyo) Akasaka Tameike Tower, 6th Floor, 17-7, Akasaka 2-Chome, Minato-ku, Tokyo 107-0052  Telephone: 81-3-5561-6600
Type of Securities:	Bonds (the " <b>Bonds</b> ")
Scheduled Issuance Period:	28 June 2015 to 27 June 2016
Maximum Outstanding Issuance Amount:	JPY500 billion
Address of Website for Announcement:	<a href="http://www.jpx.co.jp/english/equities/products/tpbm/announcement/index.html">http://www.jpx.co.jp/english/equities/products/tpbm/announcement/index.html</a>
Status of Submission of Annual Securities Reports or Issuer Filing Information:	None

### Notes to Investors:

1. TOKYO PRO-BOND Market is a market for professional investors, etc. (*Tokutei Toushika tou*) as defined in Article 2, Paragraph 3, Item 2 (b) (2) of the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**FIEA**") (the "**Professional Investors, Etc.**"). Bonds listed on the market ("**Listed Bonds**") may involve high investment risk. Investors should be aware of the listing eligibility and timely disclosure requirements that apply to issuers of Listed Bonds on the TOKYO PRO-BOND Market and associated risks such as the fluctuation of market prices and shall bear responsibility for their investments. Prospective investors should make investment decisions after having carefully considered the contents of this Program Information.
2. The regulatory framework for the TOKYO PRO-BOND Market is different in fundamental aspects from the regulatory framework applicable to other exchange markets in Japan. Investors should be aware of the rules and regulations of the TOKYO PRO-BOND Market, which are available on Japan Exchange Group, Inc. website.
3. Tokyo Stock Exchange, Inc. ("**Tokyo Stock Exchange**") does not express opinions or issue guarantees, etc. regarding the content of this Program Information (including but not limited to, whether this Program Information contains (a) a false statement or (b) lacks information on: (i) important matters that should be announced or (ii) a material fact that is necessary to avoid misleading content) and shall not be liable for any damage or loss.
4. This Program Information (excluding Program Information concerning securities enumerated in each item of Article 3 of the FIEA) includes information regarding necessary matters pursuant to Rule 206, Paragraph 2 of the Special Regulations of Securities Listing Regulations Concerning Specified Listed Securities (hereinafter referred to as the "**Special Regulations**") as information prescribed in Article 2, Paragraph 1, Item 1 of the

Cabinet Office Ordinance on Provision and Publication of Information on Securities, etc. Accordingly, this Program Information shall constitute Specified Securities Information stipulated in Article 27-31, Paragraph 1 of the FIEA.

5. "All references to "**Hypo Real Estate Holding**" are to the Issuer's parent company, Hypo Real Estate Holding AG. References to the "**Hypo Real Estate Group**" are to Hypo Real Estate Holding, the Issuer (including its subsidiaries, affiliates and associated companies) and Hypo Real Estate Finance B.V.i.L."

As used in this Program Information, the term "**billion**" means one thousand million (1,000,000,000).

In this Program Information, references to "**€**", "**EUR**," or "**Euro**" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

6. All prospective investors who purchase the Bonds should be aware that when they offer to purchase the Bonds, they shall be required to enter into and agree the terms of a transfer restriction agreement with the Issuer and/or the person making a solicitation. The terms of such transfer restriction agreement provide that prospective investors agree not to sell, transfer or otherwise dispose of the Bonds to be held by them to any person other than the Professional Investors, Etc., except for the transfer of the Bonds to the following:
  - (a) the Issuer or the Officer (meaning directors, company auditors, executive officers or persons equivalent thereto) thereof who holds shares or equity pertaining to voting rights exceeding 50% of all the voting rights in the Issuer which is calculated by excluding treasury shares or any non-voting rights shares (the "**Voting Rights Held by All the Shareholders, Etc.**" (*Sou Kabunushi Tou no Giketsuken*)) (as prescribed in Article 29-4, Paragraph 2 of the FIEA) of the Issuer under his/her own name or another person's name (the "**Specified Officer**" (*Tokutei Yakuin*)), or a juridical person (excluding the Issuer) whose shares or equity pertaining to voting rights exceeding 50% of the Voting Rights Held by All the Shareholders, Etc., are held by the Specified Officer (the "**Controlled Juridical Person, Etc.**" (*Hi-Shihai Houjin Tou*)) including a juridical person (excluding the Issuer) whose shares or equity pertaining to voting rights exceeding 50% of the Voting Rights Held by All the Shareholders, Etc. are jointly held by the Specified Officer and the Controlled Juridical Person, Etc. (as prescribed in Article 11-2, Paragraph 1, Item 2 (c) of the Cabinet Office Ordinance on Definitions under Article 2 of the Financial Instruments and Exchange Act (MOF Ordinance No. 14 of 1993, as amended)); or
  - (b) a company that holds shares or equity pertaining to voting rights exceeding 50% of the Voting Rights Held by All the Shareholders, Etc. of the Issuer in its own name or another person's name.
7. When (i) a solicitation of an offer to acquire the Bonds or (ii) an offer to sell or a solicitation of an offer to purchase the Bonds (collectively, "**Solicitation of the Bond Trade**") is made, the following matters shall be notified from the person who makes such Solicitation of the Bond Trade to the person to whom such Solicitation of the Bond Trade is made:
  - (a) no securities registration statement (pursuant to Article 4, Paragraphs 1 through 3 of the FIEA) has been filed with respect to the Solicitation of the Bond Trade;
  - (b) the Bonds fall, or will fall, under the Securities for Professional Investors (*Tokutei Toushika Muke Yukashoken*) (as defined in Article 4, Paragraph 3 of the FIEA);
  - (c) any acquisition or purchase of the Bonds by such person pursuant to any Solicitation of the Bond Trade is conditional upon such person entering into an agreement providing for the restriction on transfer of the Bonds as set forth in note 6 above, (i) with each of the Issuer and the person making such Solicitation of the Bond Trade (in the case of a solicitation of an offer to acquire the Bonds to be newly issued), or (ii) with the person making such Solicitation of the Bond Trade (in the case of an offer to sell or a solicitation of an offer to purchase the Bonds already issued);
  - (d) Article 4, paragraphs 3, 5 and 6 of the FIEA will be applicable to such certain solicitation, offers and other activities with respect to the Bonds as provided in Article 4, paragraph 2 of the FIEA;
  - (e) the Specified Securities Information, Etc. (*Tokutei Shouken Tou Jouhou*) (as defined in Article 27-33 of the FIEA) with respect to the Bonds and the Issuer Information, Etc. (*Hakkosha Tou Jouhou*) (as defined in Article 27-34 of the FIEA) with respect to the Issuer have been or will be made available for the Professional Investors, Etc. by way of such information being posted on the website maintained by the TOKYO PRO-BOND Market (<http://www.jpx.co.jp/english/equities/products/tpbm/index.html> or any successor website), in accordance with Articles 210 and 217 of the Special Regulations; and
  - (f) the Issuer Information, Etc. will be provided to the Bondholders or made public pursuant to Article 27-32 of the FIEA.
8. This document contains future-oriented statements in the form of intentions, assumptions, expectations of

forecasts. These statements are based on the plans, estimates and predictions currently available to the management of the Issuer. Future-oriented statements therefore only apply on the day on which they are made. The Issuer does not undertake any obligation to update such statements in light of new information or future events. By their nature, future-oriented statements contain risks and factors of uncertainty. A number of important factors can contribute to actual results deviating considerably from future-oriented statements. Such factors include the condition of the financial markets in Germany, Europe and the USA, the possible default of borrowers or counterparties of trading companies, the reliability of the Issuer's principles, procedure and methods for risk management as well as other risks associated with the Issuer's business activity.

## **PART I. SECURITIES INFORMATION**

### **I. TERMS AND CONDITIONS OF PRIMARY OFFERING FOR SUBSCRIPTION TO PROFESSIONAL INVESTORS**

Information other than that listed below will be included in the applicable Specified Securities Information issued each time a primary offering for subscription of the Bonds is made to professional investors (*Tokutei Tousehika*) as defined in Article 2, Paragraph 31 and subject to Articles 34-2 to 34-4 of the FIEA (the "**Professional Investors**").

#### **I-1 Bonds to be newly Issued**

(1) Conditions of Bonds

The Bonds will be issued based on this Program under the conditions of the Bonds (the "**Conditions of Bonds**") substantially in the form as set forth in Annex (*Conditions of Bonds*) attached hereto (save as modified in the Specified Securities Information). All 'undetermined' items in the Conditions of Bonds will be determined before subscription by the investors and set out in the applicable Specified Securities Information.

(2) Credit ratings for the Bonds

The Issuer will request a rating with respect to the Bonds from Standard & Poor's Ratings Services ("**Standard & Poor's**") and DBRS Ratings ("**DBRS**"). Such ratings will be set out in the applicable Specified Securities Information to be subsequently disclosed.

#### **I-2 Underwriting of Bonds and Entrustment of Bond Administration**

Name of the main financial instrument firms (each a "**Manager**", and together the "**Managers**") that are expected to conclude a wholesale underwriting contract in connection with the Bonds:

- Barclays Securities Japan Limited;
- Daiwa Securities Co. Ltd.; and
- any other Managers specified in the applicable Specified Securities Information.

No commissioned company for bondholders will be appointed in respect of the Bonds.

The Issuer will appoint a fiscal agent and issuing and paying agent (collectively, the "**Fiscal Agent**") of the Issuer in connection with the Bonds. The identities of such agents will be set out in the applicable Specified Securities Information. For more information regarding duties and functions of the Fiscal Agent, please refer to the Conditions of Bonds.

#### **I-3 Use of Proceeds from New Issuance**

(1) Amount of Proceeds from New Issuance

Undetermined.

(2) Use of Proceeds

The net proceeds from each issue of Bonds will be used for general financing purposes of the Issuer.

#### **I-4 Other**

(1) RISK FACTORS IN RESPECT OF THE BONDS

## RISKS RELATING TO THE BONDS

Risk factors relating to the Bonds can be divided into the following categories.

### General Risks Relating to the Bonds

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- a) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Bonds, the merits and risks of investing in the relevant Bonds and the information contained or incorporated by reference in this Program Information and/or any amendment thereto and/or any applicable Specified Securities Information;
- b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation and the investment(s) it is considering, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio;
- c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Bonds, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- d) understand thoroughly the terms of the relevant Bonds and be familiar with the behaviour of any relevant indices and financial markets; and
- e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

***The Issuer's financial situation may deteriorate and the Issuer may become insolvent, in which case any payment claims under the Bonds are neither secured nor guaranteed by any deposit protection fund or governmental agency and the holder of Bonds may lose part or all of their invested capital (risk of total loss).***

Holders of the Bonds are exposed to the risk of deterioration of the Issuer's financial situation. Holders of the Bonds bear the credit risk of the Issuer. In the event of insolvency of the Issuer, holders of Bonds may lose part or all of their invested capital. In the event of the insolvency of the Issuer, any payment claims under the Bonds are neither secured nor guaranteed by the Deposit Protection Fund of the Association of German Banks (*Einlagensicherungsfonds des Bundesverbands deutscher Banken e.V.*) nor by the German Deposit Guarantee and Investor Compensation Act (*Einlagensicherungs- und Anlegerentschädigungsgesetz*) or other deposit protection fund or governmental agency.

***The Bonds may be listed or unlisted and no assurance can be given that a liquid secondary market for the Bonds will develop or continue. In an illiquid market, an investor may not be able to sell his Bonds at any time at fair market prices.***

Application may be made to list and trade Bonds to be issued under the Program on the TOKYO PRO-BOND Market of the Tokyo Stock Exchange. In addition, the Program provides that Bonds may be listed on an alternative market segment of the above stock exchanges or an alternative stock exchange or may not be listed at all. Regardless of whether the Bonds are listed or not, there can be no assurance that a liquid secondary market for the Bonds will develop or, if it does develop, that it will continue. The fact that the Bonds may be listed does not necessarily lead to greater liquidity as compared to unlisted Bonds. If the Bonds are not listed on any stock exchange, pricing information for such Bonds may, however, be more difficult to obtain which may affect the liquidity of the Bonds adversely. In an illiquid market, an investor might not be able to sell his Bonds at any time at fair market prices. The possibility to sell the Bonds might additionally be restricted by country specific reasons.

***The holder of Bonds is exposed to the risk of an unfavourable development of market prices of its Bonds which materialises if the holder sells the Bonds prior to the final maturity of such Bonds.***

The development of market prices of the Bonds depends on various factors, such as changes of market interest rate levels, the policy of central banks, overall economic developments, inflation rates or the lack of or excess demand for the relevant type of Bond. The holder of Bonds is therefore exposed to the risk of an unfavourable development of market prices of its Bonds which materialises if the holder sells the Bonds prior to the final maturity of such Bonds. If the holder decides to hold the Bonds until final maturity the Bonds will be redeemed at the amount set out in the applicable Specified Securities Information.

***If the Issuer has the right to redeem the Bonds prior to maturity, a holder of such Bonds is exposed to the risk that due to early redemption his investment will have a lower than expected yield.***

The applicable Specified Securities Information will indicate whether the Issuer may have the right to call the Bonds prior to maturity for reasons of taxation or at the option of the Issuer (optional call right). If the Issuer redeems any Bond prior to maturity, a holder of such Bond is exposed to the risk that due to early redemption his investment will have a lower than expected yield. The Issuer might exercise his optional call right if the yield on comparable Bonds in the capital market falls which means that the investor may only be able to reinvest the redemption proceeds in Bonds with a lower yield.

***Potential purchasers and sellers of the Bonds may be required to pay taxes or other documentary charges or duties in accordance with the laws and practices of the country where the Bonds are transferred or other jurisdictions.***

Potential purchasers and sellers of the Bonds should be aware that they may be required to pay taxes or other documentary charges or duties in accordance with the laws and practices of the country where the Bonds are transferred to or of other jurisdictions. In some jurisdictions, no official statements of the tax authorities or court decisions may be available for innovative financial bonds. In addition, potential purchasers are advised to ask for their own tax adviser's advice on their individual taxation with respect to the acquisition, sale and redemption of the Bonds. Only these advisors are in a position to duly consider the specific situation of the potential investor.

***The Issuer may, under certain circumstances, be required by FATCA to withhold U.S. tax on a portion of payments of principal and interest on the Bonds which are treated as "passthru payments" made to foreign financial institutions and additionally, the Issuer itself could be exposed to FATCA withholding tax on certain of its assets which would reduce the profitability, and, thus, the cash available to make payments under the Bonds.***

Under Section 1471 through 1474 of the U.S. Internal Revenue Code, as amended and the regulations promulgated thereunder ("FATCA"), the Issuer may, under certain circumstances, be required by FATCA to withhold U.S. tax on all or a portion of payments of principal and interest on the Bonds which are treated as "passthru payments" made to foreign financial institutions unless such foreign financial institution payee complies with applicable FATCA reporting requirements. In the absence of compliance with such information reporting obligations, the Issuer could be exposed to FATCA withholding tax on certain of its assets. The imposition of such FATCA withholding tax would reduce the profitability, and, thus, the cash available to make payments under the Bonds.

In order to be FATCA compliant, holders generally will be required to provide tax certifications and identifying information about themselves and certain of their beneficial owners, and, if applicable, a waiver of any laws prohibiting the disclosure of such information to a taxing authority. A payee financial institution generally would be required to enter into an agreement with the U.S. Internal Revenue Service and agree, among other things, to disclose the tax status of the account holders at the institution (or the institution's affiliates) and to annually report certain information about such

accounts. Payee financial institutions that are resident in a country that has entered into an intergovernmental agreement with the United States in connection with FACTA may be required to comply with such country's FATCA implementing laws in lieu of entering into an agreement with the U.S. Internal Revenue Service.

If the Issuer or any paying agent or account management institution through which payments on the Bonds are made is required to withhold under FATCA with respect to payments on Bonds or on the proceeds of sale, such withholding is not expected to begin prior to 1 January 2017. Such amount will be deducted from any interest, principal or other payments on the Bonds. In such an event neither the Issuer nor any paying agent or any other person is required to compensate such a deduction so that such a potential tax withholding would be to the expense of a holder. Prospective investors should seek advice with respect to the implication of withholding under FATCA from an independent tax advisor based on such taxpayer's particular circumstances.

***The lawfulness of the acquisition of the Bonds might be subject to legal restrictions which may affect the validity of the purchase.***

Potential purchasers of the Bonds should be aware that the lawfulness of the acquisition of the Bonds might be subject to legal restrictions (including but not limited to transfer restrictions) potentially affecting the validity of the purchase. Neither the Issuer, the Managers nor any of their respective affiliates has or assumes responsibility for the lawfulness of the acquisition of the Bonds by a prospective purchaser of the Bonds, whether under the laws of the jurisdiction of its incorporation or the jurisdiction in which it operates (if different). A prospective purchaser may not rely on the Issuer, the Managers or any of their respective affiliates in connection with its determination as to the legality of its acquisition of the Bonds.

***In case of financial difficulties, the Issuer may initiate a reorganisation proceeding (Reorganisationsverfahren) or restructuring proceeding (Sanierungsverfahren) on the basis of the German Bank Restructuring Act (Restrukturierungsgesetz) which may adversely affect the rights of the holders of Bonds. If the financial difficulties amount to the Issuer's insolvency, holders of Bonds may lose part or all of their invested capital (risk of total loss).***

In case of financial difficulties of the Issuer certain measures may be implemented on the basis of the German Bank Restructuring Act (*Restrukturierungsgesetz*, the "RStruktG") which may adversely affect the rights of the holders of Bonds. Extended supervisory competences of the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*, "BaFin") of RStruktG were implemented in the German Banking Act (*Kreditwesengesetz*, the "KWG") and the restructuring procedure (*Sanierungsverfahren*) and the reorganisation procedure (*Reorganisationsverfahren*) were implemented in the German Bank Reorganisation Act (*Kreditinstitute-Reorganisationsgesetz*, the "KredReorgG").

The KredReorgG provides for the possibility to implement reorganisation proceedings (*Reorganisationsverfahren*) which allow for a restructuring of the Issuer threatened in its existence on the basis of a reorganisation plan (*Reorganisationsplan*). The reorganisation plan may provide for haircuts, maturity extension, the conversion from debt into equity or other measures affecting creditors. Adoption of the plan requires majority votes within the affected groups of stakeholder. Conversion from debt into equity requires approval by each affected creditor.

The KredReorgG further provides for the possibility to implement restructuring proceedings (*Sanierungsverfahren*) which do not require a threat in the existence of the Issuer but a mere need for restructuring (*Sanierungsbedürftigkeit*) and allow for a restructuring of the Issuer on the basis of a restructuring plan (*Sanierungsplan*). While the restructuring plan may not directly provide for measures affecting creditors' rights, it may include the granting of privileged restructuring loans. As repayment of such restructuring loan would rank prior to old debt this might have indirect adverse effects on the position of holders of Bonds.

If the financial difficulties amount to the Issuer's insolvency, holders of Bonds may lose part or all of their invested capital.



It should be noted that alternatively to the measures under the KWG and the KredReorG, the Issuer may request a further transfer of non-strategic business (including corresponding liabilities) and risk positions to FMS Wertmanagement, a public law institution under the Federal Republic of Germany, pursuant to the measures provided by the Financial Market Stabilisation Act (*Finanzmarktstabilisierungsfondsgesetz*, "**FMSStFG**").

*In connection with the Bank Recovery and Resolution Directive which has been implemented in the Federal Republic of Germany by the Restructuring and Resolution Act with effect as of 1 January 2015, there is the risk that due to the proposed "bail-in resolution tool" contained therein and the related absorption of losses, holders of Bonds may face the risk to fully lose their invested capital and related rights.*

At European level, the EU institutions have enacted an EU Directive which defines a framework for the recovery and resolution of credit institutions and investment firms (Bank Recovery and Resolution Directive, "**BRRD**"). The BRRD has been implemented in the Federal Republic of Germany by the Restructuring and Resolution Act (Sanierungs- und Abwicklungsgesetz – "**SAG**"). The SAG came into force on 1 January 2015 and grants significant rights for intervention of BaFin and other competent authorities in the event of a crisis of credit institutions, including the Issuer.

The SAG provides for a so-called "**bail-in tool**" and other resolution tools and powers which can be applied if, inter alia, the continued existence of the Issuer is at risk (*Bestandsgefährdung*) and a resolution action is necessary in the public interest (*Öffentliches Interesse*).

The bail-in tool empowers the competent national resolution authority (in Germany currently the Bundesanstalt für Finanzmarktstabilisierung – FSMA) – besides other resolution powers and, under certain conditions and subject to certain exceptions – to permanently write down the value (including a write down to zero) of liabilities of the relevant financial institution, including bonds or their conversion into equity instruments (the "**Bail-in**") in order to recapitalise an institution that meets the requirements for resolution or to capitalise a bridge institution established to carry on parts of the business of the institution for a transitional period.

Furthermore, the SAG generally empowers the competent resolution authority to extend the maturity, write down, including if need be to write down to zero, or to cancel subordinated liabilities (including those qualifying as Tier 2 instruments alike the Subordinated Bonds of the Issuer) and, also, unsubordinated liabilities (excluding, amongst others, Pfandbriefe) of the institution or to convert such liabilities into instruments of ownership like e.g. shares.

Further, the SAG provides for a pre-defined hierarchy of bank creditors (*Haftungskaskade*) for absorbing losses. In this regard, there is a risk that future amendments of the German banking recovery and resolution laws with regard to the European banking resolution frameworks might lead to different insolvency related priority levels for senior debt liabilities. Holders of certain types of senior Bonds could therefore be exposed to a higher bail-in risk.

To improve a crisis-ridden bank's recovery prospects and foster general economic stability, resolution measures may apply. This may mean that, shareholders and many holders of bonds (such as holders of the Bonds) are at risk to fully lose their invested capital and related rights as a result of application of one or more resolution measures (**risk of total loss**).

Potential investors in Bonds should therefore take into consideration that, in the event of a crisis of the Issuer and thus already prior to any liquidation or insolvency or such procedures being instigated, they will to a particular extent be exposed to a risk of default and that it is likely that they will suffer a partial or full loss of their invested capital, or that the Bonds will be subject to a conversion into one or more equity instruments (e.g. common equity) of the Issuer. Such regulatory measures may release the Issuer from its obligations under the conditions of the related Bonds and may neither entitle the holder to demand early redemption of the Bonds, nor to exercise any

other rights in this respect.

The SAG further provides for the resolution powers of a (i) sale of business, (ii) transfer to a bridge institution and (iii) the separation of assets as well as certain other and ancillary power pursuant to which the National Resolution Authority is entitled to amend or alter Bonds (including the maturity dates and other payment dates as well as the amount of interest payable). It is likely that the exercise of the sale of business tool, the bridge institution tool, and/or the asset separation tool, results in a bank to split into a "good bank" and a "bad bank". The remaining "bad bank" will usually go into liquidation/insolvency and/or may be subject to a moratorium. Investors in debt securities which vest with the "bad bank" may face a significant decrease in the market value of their investment and a partial or total loss of the invested capital.

On the other hand, Investors in debt securities transferred to the "good bank" may face significant risks resulting from the untested nature of the SAG provisions executed by the national resolution authority, which may affect the market value as well as the volatility and liquidity of such debt securities. The creditworthiness of the "good bank" will depend – amongst other aspects – on how shares or other instruments of ownership, assets, rights, and liabilities will be split between the "good bank" and the "bad bank". Furthermore potentially applicable consideration payments (*Gegenleistung*) and/or compensation obligations (*Ausgleichsverbindlichkeiten*) will depend on how such split is affected.

Moreover, SAG introduces certain early intervention powers enabling BaFin, in addition to its powers under the German Banking Act, to intervene in the Institution's business and operations at an early stage to remedy the situation and to avoid a resolution of an institution.

Any such early intervention or resolution powers might significantly impact the market value or liquidity of such Bonds, and their volatility. Investors in Bonds may lose all or part of their invested capital.

***Future amendments of the German banking recovery and resolution laws may introduce different insolvency priority levels for senior debt liabilities by law with retrospective effect. Therefore, in the event of an insolvency, claims of holders of certain types of Bonds will be satisfied only after holders of other senior liabilities. Accordingly, the risk of a Bail-In in case of a resolution increases.***

In the context of future amendments of the German banking recovery and resolution laws with regard to the European banking resolution frameworks, in particular the SRM and the BRRD, different insolvency related priority levels for senior debt liabilities may be mandatorily introduced by law and with retrospective effect. Therefore, in the event of an insolvency, claims of holders of certain types of Bonds will be satisfied only after creditors of other senior liabilities. Accordingly, the risk of a Bail-In increases in case of a resolution for such holders of Bonds.

### **Risks Relating to Fixed Rate Bonds**

***A holder of a Fixed Rate Bond is exposed to the risk that the price of such Bond falls as a result of changes in the market interest rate.***

Fixed Rate Bonds bear a fixed interest income throughout the entire term of the Bonds. A holder of a Fixed Rate Bond is exposed to the risk that the price of such Bond falls as a result of changes in the market interest rate. While the nominal interest rate of a Fixed Rate Bond as specified in the applicable Specified Securities Information is fixed throughout the entire term of such Bond, the current interest rate on the capital market ("**market interest rate**") typically changes on a daily basis. As the market interest rate changes, the price of a Fixed Rate Bond also changes, but in the opposite direction. If the market interest rate increases, the price of a Fixed Rate Bond will typically fall until the yield of such Bond is approximately equal to the market interest rate of comparable issues. If the market interest rate falls, the price of a Fixed Rate Bond typically increases until the yield of such Bond is approximately equal to the market interest rate. If the holder of a Fixed Rate Bond holds such Bond until maturity, changes in the market interest rate will be of no relevance to the holder as the Bond

will be redeemed at a specified redemption amount, usually the principal amount of such Bond.

### **Risks Relating to Floating Rate Bonds**

*A holder of a Floating Rate Bond is exposed to the risk of fluctuating interest rate levels which make it impossible to determine the yield of Floating Rate Bonds in advance and to the risk of uncertain interest income.*

Floating Rate Bonds bear a variable interest income. A holder of a Floating Rate Bond is exposed to the risk of fluctuating interest rate levels and uncertain interest income. Fluctuating interest rate levels make it impossible to determine the yield of Floating Rate Bonds in advance. Interest on Floating Rate Bonds may be payable plus or minus a margin.

Even though the relevant reference rate can be zero or even negative the floating interest rate can never be negative, i.e. less than zero. However, if the relevant reference rate is negative, it will still form the basis for the calculation of the interest rate. This means that a positive margin – if applicable – may be lost in whole or in part when such positive margin is added to a negative reference rate. In such case the floating interest rate for the relevant interest period might be zero and the holder of a Floating Rate Bond might not receive any interest during such interest period.

*A holder of Floating Rate Bonds is exposed to the risk that changes to the reference rates as a result of international, national or other proposals for reform or other initiatives or investigations, could have a material adverse effect on the market value of and yield on any Bonds linked to such a reference rate.*

If, on any day on which a valuation or determination in respect of a reference rate is to be made, the relevant reference rate is not available, then the calculation agent will determine the floating rate using a methodology as further specified in the provision on the determination of the relevant screen page in the conditions for Floating Rate Bonds. There is a risk that the determination of the floating rate using any of these methodologies may result in a lower interest rate payable to the holders of the Bonds than the use of other methodologies. Notwithstanding these alternative arrangements, the discontinuance of the relevant reference rate may adversely affect the market value of the Bonds. The Euro Interbank Offered Rate (EURIBOR), the London Interbank Offered Rate (LIBOR) or the Stockholm Interbank Offered Rate (STIBOR) or another reference rate as specified in the relevant Specified Securities Information, which are deemed benchmarks, are subject of recent national, international and other regulatory guidance and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, or have other consequences which cannot be predicted. There are numerous other proposals, initiatives and investigations which may impact 'benchmarks'. For example, there are ongoing global investigations into the setting of foreign exchange rate 'benchmarks', which may result in further regulation around the setting of foreign exchange rates.

## (2) TAXATION

The following is a general discussion of certain German and Japanese tax considerations that apply or might apply in connection with the purchase, holding or transfer of the Bonds. It does not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase Bonds, and, in particular, does not consider any specific facts or circumstances that may apply to a particular purchaser. It relates only to persons who are the absolute beneficial owners of the Bonds and may not apply to certain classes of holders. In addition, these comments may not apply where interest on the Instruments is deemed to be the income of any other person for tax purposes. As the German and Japanese taxation of the Bonds depends upon the relevant Specified Securities Information, the following should only be regarded as a generic overview.

**Prospective purchasers of Bonds are advised to consult their own tax advisors as to the tax consequences of the purchase, ownership and disposition of Bonds,**

**including the effect of any state or local taxes, under the tax laws of Germany and Japan of which they are residents.**

The following is a summary of the withholding tax treatment in the EU, Germany and Japan at the date hereof in relation to the payments on the Bonds which may be issued under this Program. It is not exhaustive, and, in particular, does not deal with the position of holders of Bonds other than in relation to withholding tax in the jurisdictions referred to above, nor with the withholding tax treatment of payments on all forms of Bonds which may be issued under the Program.

The Issuer does not assume responsibility for the withholding of taxes at the source.

### **EU Savings Directive/International Exchange of Information**

On 3 June 2003 the Council of the European Union approved the directive 2003/48/EC regarding the taxation of interest income which has to be applied by the member states as from 1 July 2005. Accordingly, each EU Member State must require paying agents (within the meaning of the directive) established within its territory to provide to the competent authority of this state details of the payment of interest made to any individual resident in another EU Member State as the beneficial owner of the interest. The competent authority of the EU Member State of the paying agent (within the meaning of the directive) is then required to communicate this information to the competent authority of the EU Member State of which the beneficial owner of the interest is a resident.

For a transitional period, Belgium and Austria have opted instead to withhold tax from interest payments within the meaning of the EU Savings Directive at a rate of 35 per cent. (applicable to interest payments from 1 July 2011 onward). A similar transitional period was agreed for Luxembourg. However, by the law of 25 November 2014 Luxembourg abolished the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the EU Savings Directive.

On March 24, 2014 the European Council adopted a directive which has to be implemented by the EU Member States into national law by January 1, 2016 and must be applied as of January 1, 2017. The directive broadened the scope of the EU Savings Directive, by including new types of savings income and products that generate equivalent income (e.g. income from investment funds and life insurance contracts). Moreover, the tax authorities, by using a "look-through" approach, will be required to take steps to identify who is benefiting from interest payments.

Besides this, further measures in the field of information exchange are promoted at international as well as at EU-level.

On 29 October 2014, 51 jurisdictions including Germany (so called "**Early Adopters**") signed a multilateral competent authority agreement called "**Berliner Erklärung**" according to which they commit themselves to implement the "**OECD Common Reporting Standard**". This group of participants has expanded to 52 as of March 2015. In the meantime, further jurisdictions committed themselves to a later implementation. Starting in 2017 among the Early Adopters, potentially taxation-relevant information on financial accounts held in a participating state by residents of another participating state will be exchanged initially and retroactively for the year 2016 between the participating states.

In the territory of the European Union, the EU Member States will also exchange respective information which could be relevant for taxation from that time onward based on the directive 2014/107/EU amending the directive 2011/16/EU regarding the mandatory automatic exchange of information in the field of taxation ("**Mutual Assistance Directive**"). The directive 2014/107/EU was adopted by the ECOFIN Council on 9 December 2014.

For an implementation of both measures further steps will have to be undertaken at the domestic level. Moreover, the interaction between the EU-Savings Directive, the OECD Common Reporting Standards and the Mutual Assistance Directive is currently unclear. In the long term it is anticipated that the EU-Savings Directive will be abolished, whereby a transitional application with respect to not member states of the

EU is possible. Prospective purchasers of Bonds are advised to consult their own tax advisors in relation to the further developments.

## **German Taxation**

### *Tax Residents*

In principle, only persons (individuals and incorporated entities) who are tax resident in Germany (in particular, persons having a residence, habitual abode, seat or place of management in Germany) are subject to German withholding tax with respect to payments under debt instruments such as the Bonds, subject to the following.

German withholding tax will be levied at a flat withholding tax rate of 26.375 per cent. (including solidarity surcharge (*Solidaritätszuschlag*)) on interest and on proceeds from the sale of the Bonds if the Bonds are held in a custodial account which the relevant investor maintains with a German branch of a German or non-German credit or financial services institution or with a German securities trading business or a German securities trading bank (a "**German Disbursing Agent**"). If the Bonds are redeemed, repaid, assigned or contributed into a corporation by way of a hidden contribution (*verdeckte Einlage*), such transaction is treated like a sale.

If an investor sells or redeems the Bonds, the tax base is, in principle, the difference between the acquisition costs and the proceeds from the sale or redemption of the Bonds reduced by expenses directly and factually related to the sale or redemption. Where the Bonds are acquired and/or sold in a currency other than Euro, the sales/redemption price and the acquisition costs have to be converted into Euro on the basis of the foreign exchange rates prevailing on the sale or redemption date and the acquisition date respectively. If the Bonds have not been held in the custodial account maintained with the German Disbursing Agent since their acquisition and the acquisition costs of the Bonds are not proven to the German Disbursing Agent in the form required by law (e.g. if the Bonds had been transferred from a non-EU custodial account prior to the sale), withholding tax is applied to 30 per cent. of the proceeds from the sale or redemption of the Bonds.

When computing the tax base for withholding tax purposes, the German Disbursing Agent has to deduct any negative savings income (*negative Kapitalerträge*) or paid accrued interest (*Stückzinsen*) in the same calendar year or unused negative savings income of previous calendar years.

For individuals who are subject to church tax, church tax will be collected by the German Disbursing Agent by way of withholding unless the investor has filed a blocking notice (*Sperrvermerk*) with the German Federal Central Tax Office (*Bundeszentralamt für Steuern*). In the latter case, the investor has to include the savings income in the tax return and will then be assessed to church tax.

With regard to individuals holding the Bonds as private assets, any withholding tax levied shall, in principle, become definitive and replace the income taxation of the relevant investor. If no withholding tax has been levied other than by virtue of a withholding tax exemption certificate (*Freistellungsauftrag*) and in certain other cases, the relevant investor is nevertheless obliged to file a tax return, and the savings income will then be taxed within the tax assessment procedure. However, the separate tax rate for savings income applies in most cases also within the assessment procedure. In certain cases, the investor may apply to be assessed on the basis of its personal tax rate if such rate is lower than the above tax rate. Such application can only be filed consistently for all savings income within the assessment period. In case of jointly assessed married couples and partners in accordance with the registered partnership law (*Gesetz über die Eingetragene Lebenspartnerschaft*) the application can only be filed for savings income of both spouses/partners.

With regard to other investors, German withholding tax is a prepayment of (corporate) income tax and will be credited or refunded within the tax assessment procedure.

No German withholding tax will be levied if an individual holding the Bonds as private assets has filed a withholding tax exemption certificate (*Freistellungsauftrag*) with the German Disbursing Agent, but only to the extent the savings income does not

exceed the exemption amount shown on the withholding tax exemption certificate. Currently, the maximum exemption amount is EUR 801 (EUR 1,602 in the case of jointly assessed married couples and partners in accordance with the registered partnership law (*Gesetz über die Eingetragene Lebenspartnerschaft*)). Similarly, no withholding tax will be levied if the relevant investor has submitted a certificate of non-assessment (*Nichtveranlagungs-Bescheinigung*) issued by the relevant local tax office to the German Disbursing Agent. Further, with regard to investors holding the Bonds as business assets, no withholding tax will be levied on capital gains from the redemption, sale or assignment of the Bonds if (a) the Bonds are held by a corporation or (b) the proceeds from the Bonds qualify as income of a domestic business and the investor notifies this to the German Disbursing Agent by use of the officially required form.

#### *Non-residents*

Non-residents of Germany are, in general, exempt from German income taxation, unless the respective payments qualify as taxable income from German sources within the meaning of Section 49 of the German Income Tax Act, e.g. if the Bonds are held in a German permanent establishment or through a German permanent representative.

In this case a holder will be subject to limited taxation in Germany and income tax (or corporation income tax, as the case may be) and solidarity surcharge on the respective income may become due. Such limited tax liability may be assessed by withholding tax. Under certain circumstances non-residents may benefit from tax reductions or tax exemptions available under double taxation treaties, entered into with Germany, if any.

In addition, interest income and capital gains may be subject to trade tax if the Bonds belong to a German permanent establishment of the holder.

#### **Japanese taxation**

Interest on the Bonds and a difference arising from an amount received due to redemption of the Bonds exceeding the issue price thereof (the "**Premium**") received by individual residents of Japan and Japanese corporations will be generally subject to Japanese taxation in accordance with the existing Japanese tax laws and regulations.

Gains derived from the sale of the Bonds will be added to gross revenue if the seller is a Japanese corporation, while if the seller is an individual resident in Japan, such gains will not be subject to Japanese taxation except for certain exceptional cases. Notwithstanding the foregoing, if the sale is made by an individual resident of Japan on or after 1 January 2016, gains derived from the sale of the Bonds will generally be subject to Japanese taxation.

Interest and the Premium on the Bonds received by individual non-residents of Japan or foreign corporations are not generally subject to Japanese taxation.

If the sale of the Bonds is made by an individual non-resident of Japan or a foreign corporation within Japan, any gains derived from such sale are not generally subject to Japanese taxation, except if such seller is a foreign corporation which has a permanent establishment in Japan, provided, however, that the tax obligation of such foreign corporation may be limited or exempted under applicable tax convention. Notwithstanding the foregoing, if the sale is made by an individual non-resident of Japan who has a permanent establishment within Japan on or after 1 January 2016, gains derived from the sale of the Bonds will generally be subject to Japanese taxation, provided, however, that the tax obligation of such individual non-resident may be limited or exempted under applicable tax convention.

### (3) **TRANSFER AND SELLING RESTRICTIONS**

The following transfer and selling restrictions will be included in a subscription agreement between the Issuer and the Managers relating to the Bonds. These selling restrictions may be modified by the subscription agreement, *inter alia*, following a change in a relevant law, regulation or directive. Any such modification will be set out in the applicable Specified Securities Information issued in respect of the issue of Bonds to which it relates or in the Specified Securities Information.

## GENERAL

The initial offering of the Bonds by the Managers will be made in Japan and in certain other countries and/or regions in compliance with the applicable laws of Japan and such other countries and/or regions.

## UNITED STATES

The Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S ("**Regulation S**") under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Each Manager severally represents that it has offered and sold the Bonds, and agrees that it will offer and sell the Bonds (i) as part of their distribution at any time, and (ii) otherwise, until 40 days after the later of the commencement of the offering and the closing date (the "**distribution compliance period**"), only in accordance with Rule 903 of Regulation S. Accordingly, neither it or any of its affiliates (as defined in Rule 405 under the Securities Act) nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts (as defined in Rule 902(c) under the Securities Act) with respect to the Bonds, and it and they have complied and will comply with the offering restriction requirements of Regulation S. Each Manager severally agrees that, at or prior to confirmation of sale of the Bonds, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases the Bonds from it during the distribution compliance period a confirmation or notice in substantially the following form:

"The Bonds covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, except in either case in accordance with Regulation S ("**Regulation S**") under the Securities Act. Terms used above have the meanings given to them by Regulation S."

Terms used in this paragraph have the meanings given to them by Regulation S.

## JAPAN

The Bonds have not been and will not be registered under Article 4, paragraph 1 of the FIEA in reliance upon the exemption from the registration requirements since the offering constitutes the private placement to professional investors only under Article 2, Paragraph 3, Item 2 (b) of the FIEA. Accordingly, the Bonds will be initially offered only to Professional Investors (*Tokutei Tousehika*) as defined in Article 2, paragraph 31 and subject to Articles 34-2 to 34-4 of the FIEA. Secondly, the Bonds shall not be sold, transferred or otherwise disposed to any person other than Professional Investors, Etc. (*Tokutei Tousehika tou*) as defined in Article 2, paragraph 3, Item 2 (b) (2) of the FIEA, except for the transfer of the Bonds to the following:

- (a) the Issuer or the Officer (meaning directors, company auditors, executive officers or persons equivalent thereto) thereof who holds shares or equity pertaining to voting rights exceeding 50% of the Voting Rights Held by All the Shareholders, Etc. (*Sou Kabunushi Tou no Giketsuken*) (as prescribed in Article 29-4, Paragraph 2 of the FIEA) of the Issuer under his/her own name or another person's name (the "**Specified Officer**" (*Tokutei Yakuin*)), or to a juridical person (excluding the Issuer) whose shares or equity pertaining to voting rights exceeding 50% of the Voting Rights Held by All the Shareholders, Etc., are held by the Specified Officer (the "**Controlled Juridical Person, Etc.**" (*Hi-Shihai Houjin Tou*) including a juridical person (excluding the Issuer) whose shares or equity pertaining to voting rights exceeding 50% of the Voting Rights Held by All the Shareholders, Etc. are jointly held by the Specified Officer and the Controlled Juridical Person, Etc. (as prescribed in Article 11-2, Paragraph 1, Item 2 (c) of the Cabinet Office Ordinance on Definitions under Article 2 of the Financial Instruments and Exchange Act (MOF Ordinance No. 14 of 1993, as amended)); or

- (b) a company that holds shares or equity pertaining to voting rights exceeding 50 % of the Voting Rights Held by All the Shareholders, Etc. of the Issuer in its own name or another person's name.

#### **SELLING RESTRICTIONS UNDER THE PROSPECTUS DIRECTIVE**

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each a "**Relevant Member State**"), each Manager represents and agrees that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of the Bonds to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of the Bonds to the public in that Relevant Member State:

- (1) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (2) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Manager or Managers nominated by the Issuer for any such offer; or
- (3) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of the Bonds referred to in (2) to (4) above shall require the Issuer or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of the Bonds to the public" in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that member state by any measure implementing the Prospectus Directive in that member state; the expression "Prospectus Directive" means Directive 2003/71/EC (as amended, including Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

#### (4) GENERAL

No action has been taken in any jurisdiction that would permit a public offering of any of the Bonds, or possession or distribution of the Program Information or any other offering material or any Specified Securities Information, in any country or jurisdiction where action for that purpose is required. Any person shall comply with all relevant laws and directives in each jurisdiction in which it purchases, offers, sells, or delivers Bonds or has in its possession or distributes the Program Information or any other offering material and will obtain any consent, approval or permission required by it for the purchase, offer or sale by it of the Bonds under the laws and directives in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, in all cases at its own expense, and neither the Issuers nor any other Manager shall have responsibility for this.

## **II. TERMS AND CONDITIONS OF SECONDARY DISTRIBUTION TO PROFESSIONAL INVESTORS**

Not Applicable.

## **III. OTHER MATTERS**



## Credit Ratings for the Program

In respect of this Program, a rating of BBB was assigned from Standard & Poor's Credit Services Europe Limited on 25 June 2015 and a rating of A (low) was assigned from DBRS Ratings Limited on 23 June 2015. These rating firms have not been registered under Article 66-27 of the FIEA.

Unregistered credit rating firms are not subject to any supervision of the Financial Services Agency of Japan or regulations applicable to credit rating firms, including obligations to disclose information, nor obligated to publicize information regarding such matters as listed in Article 313, Paragraph 3, Item 3 of the Ordinance of the Cabinet Office Concerning Financial Instruments Business, Etc. (the "**Cabinet Office Ordinance**").

Standard & Poor's has Standard & Poor's Ratings Japan K.K. (registration number: Commissioner of Financial Services Agency (kakuzuke) No. 5) within its group as a registered credit rating firm under Article 66-27 of the FIEA, and Standard & Poor's is a specified affiliated corporation (as defined in Article 116-3, Paragraph 2 of the Cabinet Office Ordinance) of the registered credit rating firm above. The assumptions, significance and limits of the credit rating given by Standard & Poor's are made available in the Japanese language on the websites of Standard & Poor's Ratings Japan K.K., at "Assumptions, Significance and Limits of Credit Ratings" posted under "Information on Unregistered Ratings" in the column titled "Library and Related to Regulation" on its website ([http://www.standardandpoors.com/ja\\_JP/web/guest/home](http://www.standardandpoors.com/ja_JP/web/guest/home)), which are made available for the public on the Internet.

## **PART II. CORPORATE INFORMATION**

### **I OUTLINE OF COMPANY**

#### **SELECTED HISTORICAL KEY FINANCIAL INFORMATION**

The following table sets forth selected financial information of the Issuer extracted from the audited consolidated financial statements for the financial years ended 31 December 2013 and 2014:

		<b>2014</b>	<b>2013*</b>
<b>Operating performance according to IFRS</b>			
Pre-tax profit/loss	in Euro million	54	165
Net income/loss	in Euro million	4	160
<b>Balance sheet figures</b>			
		<b>31.12.2014**</b>	<b>31.12.2013***</b>
Total assets	in Euro billion	approx. 74.9	approx. 74.6
Equity (excluding revaluation reserve)	in Euro billion	3.4	3.4
Equity	in Euro billion	approx. 3.5	approx. 3.5

\* Adjustment due to retrospective IFRS 10 first time adoption.

\*\* Adjustment in accordance with IAS 8.14 et seq.

\*\*\* Adjustment due to retrospective IFRS 10 first time adoption and adjusted due to IAS 8.42.

The following table sets forth selected financial information of Deutsche Pfandbriefbank extracted from the unaudited consolidated interim financial statements for the three-month period ended 31 March 2015:

		<b>For the three month period ended 31 March 2015</b>	<b>For the three month period ended 31 March 2014</b>
<b>Operating performance according to IFRS</b>			
Pre-tax profit/loss	in Euro million	51	38
Net income/loss	in Euro million	39	43
<b>Balance sheet figures</b>			
		<b>31.03.2015</b>	<b>31.12.2014*</b>
Total assets	in Euro billion	approx. 75.4	approx. 74.9
Equity (excluding revaluation reserve)	in Euro billion	3.4	3.4
Equity	in Euro billion	approx. 3.6	approx. 3.5

\* Adjustment in accordance with IAS 8.14 et seq.

There has been no material adverse change in the prospects of the Issuer since the date of its last published audited financial statements (31 December 2014).

Together with the Stabilisation Fund (*Sonderfonds Finanzmarktstabilisierung* – the "SoFFin") and the German Financial Markets Stabilization Agency (*Bundesanstalt für Finanzmarktstabilisierung* – the "FMSA") Hypo Real Estate Holding is currently evaluating the options for the Issuer's reprivatation, which may have an impact on its current business model, in particular, but not limited to, if as a result of the potential reprivatation new owner(s) will cause the Issuer to amend its business model or if the rating of the Issuer and/or the Bonds changes.

In order to comply with the European Commission's decision on state aid measures granted to Hypo Real Estate Group, the Issuer has to be reprivatated until the end of 2015.

On 17 February 2015, Hypo Real Estate Holding's intention to sell its participation in the Issuer was published. Pursuant to the announcement, Hypo Real Estate Holding intends to sell up to 100% of the share capital in the Issuer. It is further stated that parallel to this sale process, Hypo Real Estate Holding is preparing an initial public offering of its participation as an alternative means of sale.

On 10 June 2015, the Issuer published the decision to prepare the listing of part of its shares in the "Prime Standard" segment of the Frankfurt Stock Exchange, and that its sole shareholder, Hypo Real Estate Holding, does not further pursue the sale process of the Issuer for the time being. Subject to market conditions the initial public offering ("**IPO**") is scheduled to take place during July 2015 and the intention is to place a minimum stake of 75.1 per cent. of the share capital of the Issuer, with the Federal Republic of Germany – indirectly via Hypo Real Estate Holding – holding at least a 20 per cent. stake in the Issuer for a two-year period based on respective lock up commitments.

Except for the information in this paragraph there has been no significant change in the financial position of the Issuer and its consolidated subsidiaries since the end of the last financial period for which interim financial information has been published (31 March 2015). The Issuer realised an extraordinary profit of Euro 39 million resulting from a sale of an office building in Japan in April 2015, which was owned by the consolidated subsidiary Hayabusa Godo Kaisha, Japan. This positive one-off effect was partly compensated by a further addition to the provisions made for certain legal proceedings initiated by former holders of participation certificates (*Genussscheine*).

## RISK FACTORS

The following is a disclosure of risk factors that are material with respect to the Issuer and the Bonds issued under this Program and may affect the Issuer's ability to fulfil its obligations under the Bonds and of risk factors that are related to the Bonds issued under the Program. Prospective purchasers of Bonds should consider these risk factors, together with the other information in this Program Information and the applicable Specified Securities Information, before deciding to purchase Bonds issued under the Program.

Prospective purchasers of Bonds are also advised to consult their own tax advisors, legal advisors, accountants or other relevant advisors as to the risks associated with, and consequences of, the purchase, ownership and disposition of Bonds, including the effect of any laws of each country in which they are resident. In addition, investors should be aware that the risks described may correlate and thus intensify one another.

### 1. RISKS RELATING TO THE ISSUER

The business model of the Issuer and its subsidiaries in general can entail risk factors that may affect the Issuer's ability to fulfil its obligations under the Bonds issued under the Program. Those risk factors may be further distinguished into general risks affecting the Issuer, including credit risk, market risk, liquidity risk, operational risk and real estate risk, risks relating to regulatory, legal and tax matters, and risks relating to the restructuring and planned reprivatization of the Issuer.

#### General Risks Relating to the Issuer and the Industry in which the Issuer Operates

*The Issuer is exposed to the risks of an unexpected default of a business partner or an impairment of the value of assets resulting from the downgrading of a country or business partner and can be distinguished into credit, counterparty default, issuer, country, concentration, fulfilment and tenant risks.*

Credit risk considers credits and traditional credit products. It refers particularly to the borrowers' capability to fulfil their financial obligations and to the value of security in case of a default of a borrower. Decreases of the fair value due to rating changes are taken into consideration when calculating the credit risk.

Counterparty default risk is the risk of an imminent unexpected default or decrease of the fair value of a claim or a derivative, the cause of which are a deterioration of the credit worthiness of a counterparty or a deterioration of the hedging situation. The counterparty default risk comprises the replacement and the repayment risks.

Issuer risk is defined as the risk in relation to bonds and other securities. It particularly refers to the issuers' capability to fulfil their financial obligations and to the value of security in case of a default of an issuer. Decreases of the fair value due to rating changes are taken into consideration when calculating the issuer risk.

Country risks arise from the value changes of foreign commitments due to country-specific political and economic conditions. It is basically the risk arising from business activities in certain countries. The country risk comprises the conversion, transfer, and sovereign default risks.

Concentration risk is the risk of cluster formation with regards to a risk factor or counterparty or a highly correlated group of risk factors or counterparties, respectively.

Fulfilment risk is defined as the risk that the Issuer makes a payment or delivers an asset which has been sold to a counterparty, but does not receive a payment or the purchased asset, respectively.

Tenant risk describes the risk that losses in rental income for properties will negatively influence the respective borrowers' debt service capacity. In addition, it includes the secondary concentration risk (tenant cluster risk), which arises when one and the same tenant is involved in multiple properties funded by the Issuer.

*The Issuer is exposed to market risks, in particular risks associated with volatility in credit spreads, interest rates and foreign currency exchange rates which may have a negative effect on the Issuer's assets, financial position and results of operation.*

The Issuer is exposed to market risks associated with volatility in credit spreads, interest rates, foreign currency exchange rates and other volatilities leading to changes in the present value of, and/or net income arising from, positions even though the Issuer does not have any significant trading book positions. Market risk is defined as the risk of loss of value resulting from the fluctuation of market prices of financial instruments.

For example, it cannot be ruled out that the credit quality of a financial instrument held by the Issuer may decrease. In this case, the credit spread is likely to widen which would lead to a fall of such instrument's market price and have a negative effect on the assets of the Issuer. Particular market risks also arise from the interest rate environment and potential changes to it. While historically low interest rates reduce the Issuer's funding costs, they could have negative effects on some of the portfolios held by the Issuer, such as the liquidity reserve investments and positions held in the cover pools. Furthermore, low interest rates may also disincentivize customers from saving money through the holding deposits with the Issuer under its pbb direct brand, which will reduce the effectiveness of this source of funding. the Issuer's margins may also be affected by a continued low interest rate environment which is putting pressure on deposit net interest margins throughout the industry. Furthermore, in the event of sudden large or frequent increases in interest rates, the Issuer may not be able to reprice its rates in time, which may negatively affect margins and overall revenue in the short term. This risk exists in particular if the maturities of the Issuer's assets on one hand and its liabilities on the other hand do not match. Unpredictable currency exchange rate fluctuations also represent a notable market risk to the Issuer. For example, the recent discontinuation of the Swiss Franc cap versus the Euro had significant repercussions on the financial sector including the Issuer. Future unexpected fluctuations (be they associated with similar developments or other developments) may also have a direct effect on the Issuer. the Issuer strives toward limiting its exposure to market risks by way of hedging arrangements. However, the Issuer's hedging strategy may prove insufficient or ineffective and is also exposed to counterparty risks.

If any of these risks materialise, they could have a material adverse effect on the Issuer's liquidity, financial position, net assets and results of operations.

The transactions of the Issuer are furthermore exposed to inflation risk (risk from changes in inflation indices), basis risk (risk from changes in basis spreads) and concentration risk (risk of additional losses due to one-sided portfolio mix; accounted for by using correlations between risk factors when determining value at risk).

***The Issuer is exposed to liquidity risks, i.e. the risk of being unable to meet their liquidity requirements, in particular in case of a disruption of funding markets, which may negatively affect their ability to fulfil their due obligations.***

Liquidity risk is defined as the risk of not being able to meet the extent and deadlines of existing or future payment obligations in full or on time. This would for instance be the case if – as indeed has happened at Hypo Real Estate Group in the course of the financial crisis in 2008 / 2009 – there were no longer sufficient external refinancing sources to provide the required amount of capital. Even if the funding markets further improved in 2014, the situation on the capital markets is still to a high degree unpredictable and readily available external refinancing sources may become – also within a very short time period – insufficient and/or more expensive. The funding markets remain susceptible to disruption, as can be seen by the interventions of the ECB. The ECB interventions may also affect Pfandbriefe, the Issuer's main source of funding. The frequent purchase of Pfandbriefe has led to a tightening of Pfandbriefe spreads. It cannot be ruled out that in view of this effect the interest of other investors in Pfandbriefe may decline which may persist even after the ECB ceases to apply its policies. Furthermore, a potential new downturn of the European economy could jeopardise the recovery of some member states from the debt crisis and result in a new loss of confidence and sharply reduced transaction volumes on the issuance markets or the interbank market. Interest rate movements could also affect market liquidity. If the funding markets were to be disrupted by such events, the Issuer's liquidity situation could be negatively impacted, despite the existence of an appropriate cushion. A consequence might be a conscious reduction in the volume of new business.

***The Issuer is exposed to risks resulting from its cyclical and low-volume high-value business model.***

The industry in which the Issuer operates has historically been cyclical, with significant fluctuations in operating results due to periodical changes in transaction volumes, changing levels of capacity and general economic and social conditions. The cyclicity of the sectors and assets which the Issuer finances through its real estate finance and public investment finance activities are driven by economic trends and have, in the past, often followed certain patterns over longer periods. However, cyclical patterns are increasingly difficult to predict and it cannot be ruled out that they may not prove to be true for the future and/or that the Issuer may wrongly assess or anticipate those cyclical patterns. In each case

this may result in material adverse effects on the Issuer's business, financial position and results of operations.

Besides, the Issuer's business is generally low-volume in terms of the numbers of transactions (with only about 120 to 160 transactions per year) but high-value (with, on average, about Euro 50 million per transaction). A failure to complete one or more large transactions could have a material adverse effect on the Issuer's full year results and financial position.

***The Issuer is exposed to operational risks including the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events, reputational risk, the risk of cyber attacks and the risk of potential failings of key outsourcing suppliers.***

Operational risks are associated with most aspects of the Issuer's business, and comprise numerous widely differing risks. The Issuer defines operational risk as the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events. The definition of operational risk includes legal, model, conduct, reputational and outsourcing risks.

Major operational risks result from the continuing enhancements of the Issuer. This comprises also changes in IT environment. Operational risks are attributable for instance to manually recorded transactions as well as the high number of different processing and monitoring systems. Operational changes occur also due to the continuously developing regulatory environment which affects numerous processes, also IT process with respective risks involved.

Even though the servicing functions to FMS Wertmanagement have ceased to be rendered as of 1 October 2013 and those concerning DEPFA Group have ceased to be rendered as of 1 January 2015 (in each case except for ongoing after sales support) it cannot be excluded that due to the contractual arrangements obligation of the Issuer might arise even after September 2013 or December 2014, respectively, that may affect the financial and earnings position of the Issuer.

A further operational risk results from the reliance on key employees who hold risk-taking positions as well as other employees with particular know-how. This is particularly important in view of the existing system landscape as well as manual processes and controls. Employees in key positions could leave. Also, the Issuer might fail to retain or attract qualified management and employees essential for the Issuer's business. This could impact the development in assets, financial position and earnings of the Issuer.

Since the financial year 2014, the operational risk at the Issuer also includes reputational risks. Reputation risks are defined as the risk of losses due to events that may damage customers', shareholders', investors' or supervisory authorities' trust in the Issuer or its products and services on offer. This also includes a negative perception of the Issuer by the public due to bad press, which can have different sources including the history of the Issuer. The Issuer's image has been stressed by its affiliation to Hypo Real Estate Group in recent years. Negative consequences for the achievements of the Issuer's objectives cannot be ruled out and may fundamentally affect the business activities of the Issuer. The Issuer's definition of reputational risks also includes a negative perception of the Issuer by its employees.

The Issuer's operational systems are subject to an increasing risk of cyber-attacks and other internet crime, which could result in material losses of client or customer information, damage the Issuer's reputation and lead to regulatory penalties and financial losses.

Furthermore, the Issuer is exposed to operational risks related to potential failings of key outsourcing suppliers.

***The Issuer is exposed to real estate risk in relation to the valuation of its real estate loan portfolio and a potential decline of the value of the underlying real estate portfolio.***

The Issuer distinguishes an own risk category for real estate risk in connection with the assessment of the value of its real estate loan portfolios. It describes the risk of a potential decline in the value of the real estate portfolio which underlies the respective real estate loan portfolio of the Issuer due to a deterioration of the general real estate situation or a negative change of specific features of individual properties resulting from vacancies, changed usage options, construction damages, investment requirements etc. Generally, the Issuer does not invest directly in real estate. In exceptional situations it may be possible that the Issuer acquires real estate in connection with rescue activities and, thus, bears real estate risk.

***The Issuer may be exposed to significant allowances on losses for loans and advances, as well as to the risk that the relevant collaterals may not be sufficient.***

Allowances on losses for loans and advances were only required for a small number of individual exposures in recent years. However, it cannot be ruled out that significant allowances on losses for loans and advances will have to be recognised in the future. The need to recognise allowances on losses for loans and advances primarily depends on the economic situation of the financed objects, although it could also be the result of a general crisis in individual markets, such as the real estate markets of various countries. In such a case, this could lead to overcapacity in the market and devaluation in the Issuer's portfolio. Additionally, the legal framework for guarantees and warranties may change.

The Issuer is also exposed to the risk that collateral granted to it as security is or could become insufficient to cover the full loan amount. Such risk could arise due to an overestimation of the value of the collateral when the loan was initially granted or as a result of a subsequent decrease in value (e.g. following a decline in local rent levels, a reduced demand for the financed assets, the bursting of real estate "bubbles" or a general crisis affecting individual real estate markets or due to the specific circumstances of the collateral realisation (such as fire sales)). Furthermore, the Issuer may be or become unable to successfully enforce its collateral rights due to local laws, such as in Italy. This would complicate the repossession or the sale of collateral and could thus inhibit the Issuer's ability to recover any outstanding amounts.

If any of the above risks materialise, this could have a material adverse effect on the Issuer's business, financial condition and results of operations.

***The Issuer bears the risk of failing proceeds for new business and increased funding costs which may negatively affect the Issuer's financial position.***

Business risk comprises several underlying risk categories which mainly consist of strategic risk and the risk of fluctuations in costs/income, and thus to a certain extent also comprises liquidity risk. The materialisation of the business risk for the Issuer may result from failing proceeds for new business and from increased funding costs which on turn may result from both increased funding needs and increase of the unsecured refinancing rate. The planned profitability of the Issuer is based on an adequate growth and high portfolio profitability. If the envisaged development of the size and the margins cannot be achieved because of, for instance, increasing competition in the market, the Issuer will not be able to reach the required cost-income ratio.

***If market interest rate levels remained at the current low level in the long term or further decrease, negative impacts on the earnings situation of the Issuer cannot be excluded and market turmoils may arise.***

The market interest rate level is currently on a very low level. If the market interests rates remained this low in the long term or even further decreased, negative impacts on several of the Issuer's portfolios, such as for instance the investment of the liquidity reserve and the investment of own funds, cannot be excluded. Thereby, the earnings situation may be affected. Negative effects may also impact other market participants, which may affect competition negatively or positively. In extreme cases, due to the interconnectedness, market turmoils may arise.

***The Issuer bears the risk of downgrading of the ratings assigned to it which may have a negative effect on the Issuer's funding opportunities, on triggers and termination rights within derivatives and other contracts and on access to suitable hedge counterparties and thus on the Issuer's business, liquidity situation and its development in assets, financial position and earnings. In particular, besides the rating pressure resulting from the implementation of the bail-in regime in Europe, a potential change of ownership in connection with the envisaged reprivatization of the Issuer increases the risk of the occurrence of a multiple-notch rating downgrade. The application of changed Covered Bond Rating Criteria may result in downgrades of Pfandbrief-Ratings.***

The Issuer is generally exposed to the risk that the ratings assigned to it by rating agencies could be downgraded.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency as deemed appropriate. Ratings are based on current information furnished to the rating agencies by the Issuer and information obtained by the rating agencies from other sources. Because ratings may be changed, superseded or withdrawn as a result of changes in, or unavailability of, such information at any time, a prospective purchaser should verify the current long-term and short-term ratings of the Issuer and/or of the Bonds, as the case may be,

before purchasing the Bonds. Rating agencies may change their methodology at any time. A change in the rating methodology may have an impact on the ratings of the Issuer or this Program or on the Bonds issued or to be issued under this Program. For the evaluation and usage of ratings, please refer to the rating agencies' pertinent criteria and explanations, the relevant terms of use are to be considered. Ratings should not substitute personal analysis. The credit ratings assigned to the Bonds at the request or with the cooperation of the Issuer by rating agencies from time to time will be set out in the relevant Specified Securities Information relating to such issue. Following termination of a rating mandate, the Issuer will no longer apply for such ratings to be assigned to Bonds to be issued under the Program. For the credit ratings assigned to this Program, see Part I - III. "OTHER MATTERS" above.

Rating agencies continue to adapt their methodologies and models in order to assess, amongst other factors, the changing macro-economic environment, external requirements on banks and the potential impact of the European sovereign debt crisis. These include the new European legislative initiatives to centralise supervision of systemically important banks and to support bank resolution and bail-in of unsecured creditors. As of the date of this Program, the methodological changes that have been announced in this context were not fully finalised or have not yet been completely implemented, but such implementations are expected in the course of the year. These changes may particularly affect the senior unsecured ratings of the Issuer and may lead to a rating downgrade of the Issuer. Whilst strong reductions or even elimination of systemic support uplift is conceivable for banks operating under bail-in regimes, the possible extent of rating downgrades of the Issuer depends on the respective degree of systemic support uplift taken into account in the Issuers' current senior unsecured ratings and the rating agencies' ultimate dealings with this topic. Against the aforementioned background and beyond, methodological amendments with regards to covered bond ratings were also announced or implemented, which may lead to increased over-collateralisation requirements, and in the absence of provision of such, have a negative impact on the ratings of Pfandbriefe issued by the Issuer upon their application. Application is expected in due course. With regard to the ratings of Pfandbriefe, rating agencies define, and regularly review, over-collateralisation requirements in order to assign a certain rating. This supplemental collateral has to be refinanced by the issuance of other means of funding (i. e. unsecured debt) and increasing of such over-collateralisation could negatively impact the liquidity situation of the Issuer. Furthermore, changes to specific rating drivers with regards to the Issuer or its Pfandbriefe as well as the reprivatisation of the Issuer which is planned until year-end 2015 may result in rating changes of the Issuer, the Bonds and/or Pfandbriefe.

In general, reprivatisation can – depending on, amongst other things, the future ownership structure, the new owners' creditworthiness and strategy – have a neutral, positive or negative rating effect. Due to the existing linkages, changes to issuer ratings can correspondingly affect the Pfandbrief-ratings. The current ratings inter alia consider, to varying degrees, external support elements by the German government, which is the ultimate owner of the Issuer via Hypo Real Estate Holding. Besides the rating pressure resulting from the implementation of the bail-in regime in Europe, a potential change of ownership in connection with the envisaged reprivatisation of the Issuer increases the risk of the occurrence of a multiple-notch rating downgrade.

Downgrades of the Issuer's and/or Pfandbrief-ratings could have a negative impact (also as the Bonds are then no longer eligible for collateral in return for liquidity offered by the European Central Bank ("ECB") in its monetary policy operations), particularly on the funding opportunities of the Issuer in terms of both, reduced volume feasible to be issued and increased costs of refinancing. Furthermore, a downgrade could have a negative impact on triggers and termination rights within derivatives and other contracts, on access to suitable hedge counterparties and might also prohibit certain investors from investing in, or holding the Bonds issued by the Issuer and thereby limit the basis of available and cost efficient funding for the Issuer. A rating downgrade could also result in the Issuer being required to provide (additional) collateral due to contractual obligations (margin calls) and therefore in increased liquidity needs. The negative effects described above could even be the result of a "split" rating (where a rating downgrade is not carried out simultaneously by all relevant rating agencies and one long-term rating remains at investment grade level while the other(s) are sub-investment grade) or in the event that the Issuer or its Bonds were assigned a rating by one rating agency only (where the other ratings have for example been withdrawn). Hence, any of these cases may compromise the Issuer's business, liquidity situation and its development in assets, financial position and earnings. Especially in the case of sub-investment grade ratings, the Issuer may be facing severe difficulties to write new business in the absence of sufficient or affordable funding. This could prohibit the Issuer from pursuing its business strategy. The Issuer's current business model and strategy are based on the assumption that the Issuer's senior unsecured liabilities remain rated at investment grade level. Thus, in particular if none of the mandated long-term senior unsecured ratings are at investment grade level, this could have a material adverse effect on the Issuer.

*The Issuer is exposed to risks in relation to the conditions in the international financial markets and*



***the global economy which may have a negative impact on the Issuer's business conditions and opportunities.***

Macro-economic developments may have a negative impact on the business conditions and opportunities of the Issuer.

Since 2007, international capital markets have been affected by ongoing turbulence which were accompanied by high market volatility and reduced liquidity. The disruptions have resulted in a sweeping reduction of available financing and have led to some financial institutions, including the Issuer, being subject to financial distress (see above under "*The Issuer is exposed to liquidity risks, i.e. the risk of being unable to meet their liquidity requirements, in particular in case of a disruption of funding markets, which may negatively affect their ability to fulfil their due obligations.*").

This has led to recessions throughout numerous countries in Europe and around the world, weak economic growth and a considerable increase in insolvencies across different business sectors compared to pre-crisis levels. The ensuing sovereign debt crisis had an even greater impact on the overall banking sector and, in particular, on banks that were active in public budget financing. The rating downgrades of many European countries, such as Greece, Portugal, Italy, Spain, Ireland and Cyprus and the United States were reflected in volatility on the financial markets (for details on how the sovereign debt crisis affects the issuer see under "*The Issuer has been and will continue to be directly affected by the European sovereign debt crisis, and it may be required to take impairments on its exposures to the sovereign debt and other financial instruments which benefit from a state guarantees or similar instruments, such as its claims against HETA Asset Resolution AG*" below).

Historically low interest rates across financial markets have, among other things, led to a noticeable euphoria among market participants giving rise to concerns that market participants underestimate the likelihood and severity of risks, such as a break-up of the Eurozone, an escalation of geopolitical tension, severe disruptions of currency exchange rates or a decline in confidence in the ability of the ECB to safeguard financial stability or a decline in confidence in the ability of the member states of the European Union (EU) to achieve the required rebalancing and adjustment required in their economies. The low interest rates at which ECB has been and currently still is providing liquidity to the market might lead to an inflation of asset values and/or an increase of currency depreciation, but also lead to a further spread tightening which could affect revenues and profitability of real estate lenders. Furthermore, a sudden change in the ECB's policies could undermine market confidence and destabilise the financial markets. All these risks endanger the financial stability which, if they materialize, could have a material adverse effect on the Issuer's business, financial position and results of operations.

Due to the high level of interdependence between financial institutions, liquidity problems of one institution or a default of such institution may negatively affect other financial institutions which are currently considered to be solvent. Even the doubted, or perceived lack of, creditworthiness of a counterparty may already lead to market-wide liquidity problems and losses or defaults by the Issuer or by other institutions. This risk is sometimes referred to as "systemic risk" and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom the Issuer interacts. Such risks could have a material adverse effect on the Issuer's ability to raise new funding as well as on its business, financial position, results of operations and opportunities in general.

***Geopolitical conflicts may adversely impact the markets and the Issuer's profitability and business opportunities in general.***

In the year 2014, the number of geopolitical conflicts increased worldwide. Any future intensification or expansion of these conflicts could have a negative effect on the markets and thus on the Issuer's business, financial position, results of operations and opportunities in general.

***The Issuer has been and will continue to be directly affected by the European sovereign debt crisis, and it may be required to take impairments on its exposures to sovereign debt and other financial instruments which benefit from state guarantees or similar instruments, such as its claims against HETA Asset Resolution AG.***

Several European countries were and still are only able to obtain funds with the support of international aid programs in recent years. If the debt crisis of certain countries deteriorates and creditors would be obliged to accept a haircut on other countries' bonds or if public sector debtors become insolvent, the Issuer might also have to recognise considerable allowances for losses on loans and advances and securities. These allowances might increase if, due to interrelationships or market turmoils, the crisis in individual countries spreads to debtors currently considered to be solvent.

Recent events in Greece and a continued weak economic recovery in the Eurozone outside of Germany, highlight the risk that the sovereign debt crisis may reignite. This risk has been further illustrated by the decision of the Austrian Financial Market Authority ("FMA") dated 1 March 2015 in relation to HETA Asset Resolution AG ("HETA") to place a moratorium on the payments under HETA's debt securities. These debt securities are subject to a letter of indemnity issued by the Austrian federal state of Carinthia. This may trigger doubts as to the reliability of public guarantees and similar instruments, such as the letter of indemnity issued by the Austrian federal state of Carinthia. Institutions like the Issuer holding sovereign debt and/or debt guaranteed by sovereign or public sector entities are particularly exposed to the effects of the sovereign debt crisis as they might be required to take significant impairments on their instruments and could eventually be confronted with debtors' defaults. While the Issuer no longer provides budget financing to governments, the legacy sovereign debt exposure in Issuer's value portfolio ("VP" or "Value Portfolio") amounts to Euro 22,2 billion as of 31 March 2015. In connection with its activities in public investment finance ("PIF"), the Issuer may further be exposed to risks relating to the creditworthiness of sovereigns, local governments and municipalities. Any restructuring of outstanding sovereign debt, other financial instruments which benefit from public guarantees and similar instruments may result in potential losses for the Issuer, for instance as a result of "haircuts" based on collective action clauses pursuant to Article 12(3) of the Treaty establishing the European Stability Mechanism. Following the FMA's decision on HETA's debt securities, the Issuer was forced to take a significant impairment on its outstanding exposure to HETA (which amounts to nominal Euro 395 million as at the date of this Program Information) and another impairment in the amount of Euro 79 million in the results of the first quarter 2015. It cannot be ruled out that further considerable impairments may be required in the future in connection with decision and/or actions by resolution agencies or supervisors.

These risks arising from the European sovereign debt crisis may have, should they materialise, a material adverse effect on the Issuer's business, financial position and results of operations.

***Pending litigation and litigation which might become pending in the future might have a considerably negative impact on the results of operations of the Issuer.***

Due to the nature and international character of its business activities and the variety of the relevant laws and regulations the Issuer is involved in litigation, arbitration and regulatory proceedings in some countries. Legal disputes which are currently pending or could become pending in future could have a materially adverse impact on the results of operations and the equity ratio of the Issuer. It is impossible to determine or predict the outcome of litigation which the Issuer is facing or will be facing in the future.

The Issuer is – among others – party to several proceedings before different German courts initiated by former holders of profit participation certificates (*Genussscheine*).

Furthermore, the Issuer is exposed to requests from former commercial customers seeking compensation payments for loan handling fees (*Kreditbearbeitungsentgelte*) and may be exposed to further requests in the future.

Due to constantly changing laws and unforeseen developments in the market the Issuer's standardised documentation may become unfit for purpose. This may become particularly relevant in relation to consumer protection legislation, such as the French Consumer Code (*Code de la consommation*) and article L. 313-4 of the French Financial and Monetary code (*Code monétaire et financier*), which could override contractually agreed interest rates if the interest rate is not clearly indicated in the written documentation produced in the course of agreeing the loan and may lead to future pending litigation.

***The Issuer is exposed to the risk of default in the cover pools for Pfandbriefe, this may in particular be related to unfavourable regional economic conditions that may have a negative impact on the cover pools.***

The Issuer is exposed to the risk of default in the cover pools for the Pfandbriefe, the separate pools of specified qualifying assets to cover the aggregate principal amount of the outstanding Pfandbriefe (each a "Cover Pool"), which could adversely affect the Issuer's net assets, financial position and result of operations, and may result in the insufficiency of funds to meet the obligations under the Pfandbriefe. Assets in the Cover Pools include real estate finance loans which are exposed to the economic situation of the financed object which can deteriorate. The assets also include loans and bonds issued by public sector entities. The ability of sovereign backed entities or entities backed by other public sector entities (such as local or regional governments) to meet payment obligations may be undermined by a relapse of the sovereign debt crisis, a risk which is highlighted by recent developments in Greece as well as in Austria with FMA's moratorium decision relating to publicly guaranteed HETA debts.

***Changes to the method of valuation of financial instruments may adversely impact the Issuer.***

The methods of valuation of financial instruments are continuously developed further in the market. For instance, the growing use of funding valuation adjustments with respect to the valuation of uncollateralized derivatives may result in a change in the market conventions for valuing of derivatives. Such and comparable adjustments may have a material adverse effect on the Issuer's business, assets, financial position and results of operations.

***Changes to the risk-assessment concept may have an adverse impact on the capital ratio of the Issuer.***

The risk-assessment concept is continuously developed further in cooperation with the competent supervisory authority. In the past, BaFin has paid high attention to this issue. It is likely that the regulatory focus on risk management will continue. This further development and new regulatory requirements might have an impact on the risk-assessment analysis in the going-concern approach and in the gone-concern approach and influence the assessment of market values for assets and liabilities. A further factor of influence on the risk-assessment in the gone-concern approach is the development of market values of assets and liabilities. If hidden liabilities increase due to changes in the market value, the core capital could drop below the required capital ratio.

### **Risks Relating to Regulatory, Legal and Tax Matters**

***Legislative changes, changes in the regulatory environment as well as investigations and proceedings by regulatory authorities may adversely affect the business of the Issuer. If the Issuer fails to address, or appears to fail to address, appropriately any changes or initiatives in banking regulation, its reputation could be harmed and its results of operations and financial condition may be adversely affected.***

In response to the financial crisis and sovereign debt crisis governments, regulatory authorities and the European Union, among others, have made and continue to make proposals to reform the regulatory framework of financial institutions. Many of these proposals have already been implemented and further significant changes are likely. This creates uncertainty for the Issuer as well as for the financial industry as a whole. The wide range of legislative proposals include provisions for more stringent regulatory capital, liquidity standards, restrictions on compensation practices as well as recovery and resolution powers.

The Basel Committee on Banking Supervision of the Bank for International Settlement (BIS) is also reviewing the so-called zero-risk weighting rule pursuant to which financial institutions are not required to hold substantial or any capital against sovereign debt of certain issuers. If the zero-risk weighting rule were to be abolished, the Issuer would face additional capital requirements, particularly for its assets in the PIF and VP segment.

In particular, the implementation of the reform measures in 2010 (Basel III), developed by the Basel Committee to the New Basel Capital Accord on capital requirements for financial institutions (Basel II) are ongoing and will lead to higher requirements, particularly in terms of minimum capital requirement. In addition, further regulatory requirements are envisaged to be implemented such as the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) which will be of great importance to credit institutions such as the Issuer in the future. Within the EU, the new requirements have been implemented on the basis of a package of amendments to the Capital Requirements Directive (by virtue of EU Directive 2013/36/EU, as amended or replaced from time to time, the "**CRD IV**" and the related German implementation law, Gesetz zur Umsetzung der Richtlinie 2013/36/EU über den Zugang zur Tätigkeit von Kreditinstituten und die Beaufsichtigung von Kreditinstituten und Wertpapierfirmen und zur Anpassung des Aufsichtsrechts an die Verordnung (EU) Nr. 575/2013 über Aufsichtsanforderungen an Kreditinstitute und Wertpapierfirmen (CRD IV-Umsetzungsgesetz)) and a regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 646/2012 (as amended, supplemented or replaced from time to time, the "**CRR**"). Given the fact that the CRD IV/CRR-package is subject to further specification by implementing measures and competent regulatory bodies still have to develop their understanding of the interpretation of related provisions, the full impact of those regulatory requirements is subject to ongoing review, implementations and revisions. This can lead to higher liquidity and own funds requirements as well as a more stringent large exposure regime and additional risk management requirements. As a consequence the Issuer's capital calculation, funding activities and its ability to offer loans may be adversely affected. Additionally, currently valid economic and regulatory indicators may be implemented which may lead to changes regarding capital resources.

The Regulation (EU) No 1022/2013 of 22 October 2013 and the Regulation (EU) No 1024/2013 of 15 October 2013 create a single supervisory mechanism for the supervision of banks and other credit institutions ("**SSM**") for a number of EU member states including Germany. Under the SSM, the ECB

has been given specific tasks related to financial stability and banking supervision and the existing Regulation (EC) No 1093/2010 on the establishment of EBA has been aligned with the modified framework for banking supervision. The SSM became fully operational on 4 November 2014. Within the SSM, ECB directly supervises significant banking groups in the euro area, including the Issuer.

In advance to the start date of the SSM, the ECB conducted a comprehensive assessment of 130 major European banks (including the Issuer) in close cooperation with the European Banking Authority ("**EBA**") and the national competent authorities, which consisted of a supervisory risk assessment, an asset quality review ("**AQR**") and a stress test (jointly referred to as the "**Comprehensive Assessment**"). On 26 October 2014, the ECB has published the results of the Comprehensive Assessment. As regards the Issuer, no shortfall of capital in relation to the capital thresholds set (8 per cent. common equity tier 1 for the baseline scenario and 5.5 per cent. for the adverse scenario) has been found in the stress tests conducted as part of the Comprehensive Assessment. The EBA has announced that it wishes to repeat such stress tests at regular intervals. The outcome of such future stress tests is uncertain; depending on the financial position of the Issuer, they may require the Issuer to increase its own funds, which would negatively affect its business, financial status and operating results. As regards the monitoring by the ECB see also the risk factor "*Based on EBA guidelines published in December 2014, the ECB may demand a higher capitalisation and higher capital ratios of the Issuer in the future. This could impact the development in assets, financial position and earnings of the Issuer and, in turn, might have a significant negative impact on the ability of the Issuer to fulfill its obligations in relation to Bonds.*" (below).

Further, the EU institutions have established a single resolution mechanism (the "**SRM**") forming part of the EU's plans to establish a European banking union. The SRM has been introduced by Regulation (EU) No. 806/2014 of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 (the "**SRM Regulation**"). Under the SRM, a single resolution process applies to all banks established in EU member states participating in the SSM (that is, all member states in the Eurozone and other member states participating in the SSM). Within the SRM, the Issuer will be obliged to contribute to a joint bank resolution fund for all members of the Banking Union.

Additionally, on 12 June 2014 the Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes (recast) was published in the Official Journal of the European Union. The revised Directive will, amongst other things, provide for prompter payouts. Generally the funds available for reimbursing depositors in times of difficulty must reach 0.8 per cent. of covered deposits by 3 July 2024, and banks will be required to contribute to the funds according to their risk profiles, with those exercising riskier activities contributing more. These changes may, once finalised and implemented in Germany, expose the Issuer to additional, and possibly considerable, costs, the extent of which cannot be foreseen at this time.

The SRM Regulation is closely connected with the BRRD which is implemented into German law by the Restructuring and Resolution Act (SAG). The resolution mechanisms available to the single resolution board ("**SRB**") and the Commission under the SRM Regulation are intended to correspond to those set out in the BRRD, with the SRB taking on many of the functions assigned to national resolution authorities by the BRRD. In this respect, please see the risk factor "*In connection with the Bank Recovery and Resolution Directive which has been implemented in the Federal Republic of Germany by the Restructuring and Resolution Act with effect as of 1 January 2015, there is the risk that due to the proposed "bail-in resolution tool" contained therein and the related absorption of losses, holders of Bonds may face the risk to fully lose their invested capital and related rights*" under PART I – I-4 "Other – (1) RISK FACTORS IN RESPECT OF THE BONDS" above.

Implementation of such regulatory changes has already resulted in and future implementation of further changes may continue to increase the cost of compliance as well as other costs for the Issuer and other financial institutions which may affect their result of operations. Depending on the type of regulatory changes, the regulatory aspects could lead to reduced levels of activity for financial institutions or otherwise significantly impact on the Issuer's business, financial condition and results of operations.

If the Issuer fails to address, or appears to fail to address, appropriately any changes or initiatives in banking regulation, its reputation could be harmed and it could be subject to additional legal and litigation risk such as an increase in the number of claims and damages, enforcement actions, administrative fines and penalties. The Issuer's results of operations may be adversely affected if the Issuer or any of the financial institutions with which it does business receive negative results in stress tests.

***Based on EBA guidelines published in December 2014, the ECB may demand a higher capitalisation and higher capital ratios of the Issuer in the future. This could impact the development in assets, financial position and earnings of the Issuer and, in turn, might have a significant negative impact on the ability of the Issuer to fulfill its obligations in relation to Bonds.***

With its "Guidelines for common procedures and methodologies for the supervisory review and evaluation process" (SREP Guidelines) in December 2014, the EBA proposed a uniform procedure to be used by the ECB in reviewing and assessing credit institutions. The key areas of focus are credit, market value, and operational risks, interest rate fluctuation risks in the investment book, risks of excessive indebtedness, liquidity risks and their management. Minimum ratios have been provided for monitoring purposes. In particular, it is possible that additional requirements for the capital structure (Minimum Requirement for Own Funds and Eligible Liabilities – MREL) and the level of indebtedness (Leverage Ratio) currently under discussion may have a negative effect on the funding and business activity of the Issuer and its consolidated subsidiaries. Also existing regulatory and economic parameters could be impacted resulting among others in a change in the capitalisation. The ECB is permanently assessing this and adjusting respective ratios applicable. This could impact the development in assets, financial position and earnings of the Issuer. This, in turn, might also have a significant negative impact on the ability of the Issuer to fulfill its obligations in relation to Bonds issued pursuant to this Program Information.

***The planned introduction of additional bank levies and of a financial transaction tax might make certain business activities of the Issuer unprofitable.***

Additional bank levies are planned or under discussion in most EU countries. For example the introduction of a European bank resolution fund within the SRM or a financial market transaction tax. Such taxes could have a negative impact on the Issuer's total other comprehensive income for the period and render certain transactions unprofitable.

#### **Risks Relating to the Restructuring and the Planned Reprivatisation of the Issuer**

***The Issuer generally faces risks of failure to properly implement the European Commission's decision regarding state aid provided to Hypo Real Estate Group, particular risks may arise in connection with the planned reprivatisation of the Issuer.***

Following the approval of the European Commission of the state aid provided to Hypo Real Estate Group, which has been granted on 18 July 2011, the conditions that are imposed on Hypo Real Estate Group and the Issuer are definitive, but still need to be complied with in the future. If Hypo Real Estate Group does not meet the conditions, further conditions may be imposed by the European Commission, which could also lead to a reopening of the case before the European Commission and, in the worst case, to a negative decision by the European Commission.

Two of the conditions were the reprivatisation or wind-down of DEPFA until the end of 2014 and the reprivatisation of the Issuer until the end of 2015.

Following the transfer of DEPFA to FMS Wertmanagement which became effective on 19 December 2014, the reprivatisation of the Issuer has started. The announcement of Hypo Real Estate Holding's intention to sell its participation in the Issuer was published on 17 February 2015. If, by 31 December 2015, the reprivatisation of the Issuer by private sale or by an initial public offering is not executed or (if executed) does not meet the conditions imposed by the European Commission for the reprivatisation, a divestiture trustee (*Veräußerungstreuhänder*), which will be appointed by the European Commission, will divest the Issuer to a purchaser, provided that the European Commission has approved the purchaser and the final and binding purchase agreement. The divestiture or any alternative ideas of the shareholder in consultation with the EU Commission may have a negative impact on the assets, financial position and earnings of the Issuer. The Issuer bears the risk also that employees may terminate their employment contract if they assume that the reprivatisation is not successful and potentially wound down by FMS Wertmanagement.

It cannot be ruled out that third parties may seek to challenge the compliance with the European Commission's state aid decision (including by or in respect of the Issuer) and the commitments stipulated therein. If such challenge were successful, this could result in an obligation to repay any state aid the Issuer received. This could have a material adverse effect on the Issuer's business, financial position and results of operations.

***It is planned that Hypo Real Estate Holding's Keep Well Statement in relation to the Issuer will be terminated which may lead to a loss of business and funding opportunities of the Issuer and holders***

*of Bonds would not benefit from the Keep Well Statement if the Bonds are issued after the termination. Even if Bonds are issued prior to the termination holders of such Bonds do not have a direct claim for payment under the Bonds against Hypo Real Estate Holding unless the Issuer has become insolvent.*

Hypo Real Estate Holding has issued a Keep Well Statement (*Patronatserklärung*) (as defined in "DEUTSCHE PFANDBRIEFBANK AG – 2. INFORMATION ABOUT THE ISSUER – Integration into Hypo Real Estate Group and Keep Well Statement" below), according to which Hypo Real Estate Holding ensures that the Issuer is able to meet its contractual obligations (except in the case of political risk). The Keep Well Statement is for the benefit of the Issuer only. In connection with the envisaged sale of Hypo Real Estate Holding's participation in the Issuer, it is planned that Hypo Real Estate Holding will terminate the Keep Well Statement. Currently, the Keep Well Statement is an essential condition for the waiver pursuant to Art. 7 of the Capital Requirements Regulation (EU No 575/2013, "CRR") pursuant to which the Issuer has been exempt from certain regulatory requirement at the level of the Issuer. For risks in relation to the withdrawal of the exemption pursuant to Art. 7 CRR see separate in the following.

As a consequence of the termination of the Keep Well Statement, the Issuer may lose business and funding opportunities which it previously enjoyed. This loss could arise because the Issuer's business partners took the existence of the Keep Well Statement into consideration, counting on support of the Issuer from Hypo Real Estate Holding and, hence, from its ultimate parent, the Federal Republic of Germany, if needed. The loss of business and funding opportunities (including the opportunity to obtain funding at favorable conditions) arising from the Issuer and its consolidated subsidiaries no longer benefitting from Keep Well Statement may have a material adverse impact on its business, financial position and results of operations.

In case of a termination, liabilities of the Issuer created after termination would not benefit from the Keep Well Statement and holder of Bonds issued after the termination would not be protected. However, even if liabilities are created prior to the termination, creditors cannot rely on the fact that the Keep Well Statement is applicable until the end of the term of the respective obligation of the Issuer because Hypo Real Estate Holding may exercise an extraordinary termination right with respect to the Keep Well Statement before the Bonds have matured.

In any case it should be taken into account that the Keep Well Statement does not constitute a guarantee. Therefore, prior to an insolvency of the Issuer it does not give holders of the Bonds issued by the Issuer under this Program a direct claim against Hypo Real Estate Holding to demand payment under the Bonds in the event that the Issuer is not in compliance with its obligations under the Bonds.

*If in connection with the planned reprivatisation, the exemption pursuant to Art 7 CRR ceases to apply, then this could result in additional capital requirements or a limitation of business activities and, consequently, could have a negative impact on the Issuer's development in assets, financial position and earnings.*

Pursuant to the waiver provision in Art. 7 CRR, the Issuer is amongst others exempted from determining its own funds and tier 1 capital ratios as well as determining and monitoring respectively its limits on large exposures. During the course of the planned reprivatisation, the Issuer will be separated from Hypo Real Estate Holding. In this context the exemption pursuant to Art. 7 CRR will presumably cease to apply. This could result in additional capital requirements or a limitation of business activities (for instance, due to lower limits on large exposures), which could have a negative impact on the Issuer's development in assets, financial position and earnings.

*The Issuer may have tax disadvantages, if it loses existing tax loss and interest carryforwards.*

The Issuer and certain of its German subsidiaries have significant current tax losses and tax losses carried forward (together "**net operating losses**") as well as interest carried forward and corresponding deferred tax assets which have, however, not been subject to any tax audit yet. Subject to certain limitations, Section 8c of the German Corporate Income Tax Act (*Körperschaftsteuergesetz*) generally provides for a pro rata elimination of net operating losses in cases where more than 25 per cent. and up to 50 per cent. of the shares in a corporation have been acquired directly or indirectly while net operating losses are stated to be eliminated completely where more than 50 per cent. of the shares in a corporation have been acquired directly or indirectly within a five-year period by one individual shareholder or a group of shareholders acting in concert, or if a comparable event occurs. Section 8c of the German Corporate Income Tax Act applies mutatis mutandis to interest carried forward. Depending on the ultimate change in the shareholder structure of the Issuer as a consequence of the offering, net operating losses may forfeit in the amount of Euro 3.6 million (off-balance sheet), which would result in a higher

tax rate and a write off of deferred tax assets.

***Due to the restrictions imposed by the European Commission the business model of the Issuer may not be sustainable as long as the Issuer is still in the reprivatisation process.***

The conditions imposed by the European Commission include, *inter alia*, restrictions not only to the growth of the Issuer as a whole, but also to the growth of the two business segments of the Issuer that each are subject to individual restrictions. As a consequence, as long as the Issuer is still in the reprivatisation process, the business model of the Issuer may not be sustainable due to restrictions to certain countries, clients and financing models, leaving not enough business potential in order to meet client demand and, thus, being less attractive for clients in comparison to banks that can operate without similar restrictions

***The Issuer continues to bear risks related to FMS Wertmanagement despite the transfer of assets and liabilities and the termination of the servicing activities, not least due to the exposure associated with related back-to-back derivatives***

Following the transfer of assets and liabilities and non-strategic business lines and the transfer of DEPPFA to FMS Wertmanagement the balance sheet total of Hypo Real Estate Group is significantly lower than it was the case at the end of 2010, the decline of which was mainly attributable to a further reduction of the opposite effects, resulting for instance from the handling of refinancing arrangements or the transfer of risks by way of back-to-back derivatives, which had increased the total assets when positions were transferred to FMS Wertmanagement in October 2010. At the end of 2011 (and subsequently), FMS Wertmanagement was no longer reliant on refinancing funds which the Issuer passed through from central banks since FMS Wertmanagement received the refinancing funds from the affiliated entity DEPPFA Group and consequently, the volume of reverse repos (i.e. loans and advances to customers) declined. However, the Issuer may be negatively affected by FMS Wertmanagement due to outstanding back-to-back derivatives as far as those derivatives have not yet been replaced by direct business relations between FMS Wertmanagement and the external customers (novation of derivatives). Furthermore, in the course of transfer of certain assets which had been booked in the Issuer's mortgage coverpool until August 2013, FMS Wertmanagement granted acknowledgements of debt (*abstrakte Schuldversprechen*) to the Issuer to replace assets in the Issuer's coverpools for Pfandbrief issuances. In addition, certain credit risks of assets were transferred by means of guarantees provided by FMS Wertmanagement so that Hypo Real Estate Group ultimately retains a counterparty risk with regard to FMS Wertmanagement in connection with these positions. It is intended that those guaranteed assets will be upgraded, so that they are no longer guaranteed by FMS Wertmanagement but legally and/or economically transferred to FMS Wertmanagement. In either case, certain derivatives associated to such assets will be transferred to FMS Wertmanagement by way of back-to-back derivatives, so that the Issuer may again be negatively affected by FMS Wertmanagement due to outstanding back-to-back derivatives as long as those derivatives have not been replaced by direct business relations between FMS Wertmanagement and the external customers (novation of derivatives).

Even though the contractual commitment to continue to provide services for FMS Wertmanagement in defined areas (in particular servicing, refinancing as well as finance and regulatory reporting) as part of the approved outsourcing of assets to FMS Wertmanagement have been terminated due to restrictions of the EU-Commission with effect of 30 September 2013, there remain certain interconnections with FMS Wertmanagement pertaining to, *inter alia*, compliance issues, the mutual provision of information, support in areas where the party requested to service is the only party able to do so, and to areas where legal and/or regulatory provisions require the interaction of both parties (e.g. ongoing "upgrade" obligations). It cannot be excluded that this requires considerable resources of the Issuer and may involve operational risks. In addition, given that, since 1 October 2013, FMS Wertmanagement services those assets directly and indirectly through its subsidiary FMS Wertmanagement Service GmbH, it cannot be excluded that damage to the client relationships and the reputation of the Issuer occurs if the management of FMS Wertmanagement and/or FMS Wertmanagement Service GmbH take decisions on the servicing of the assets transferred to it which are contrary to the Issuer's or Hypo Real Estate Group's strategy and/or not in the best interest of the Issuer or Hypo Real Estate Group. This risk might even further increase due to the fact that FMS Wertmanagement is in the process of selling FMS Wertmanagement Service GmbH and, as a result of such sale, the legal and factual influence of Hypo Real Estate Group and/or FMS Wertmanagement on FMS Wertmanagement Service GmbH's servicing and management of such assets will be reduced.

## **2. RISKS RELATING TO HYPO REAL ESTATE GROUP**

The risk factors in relation to the Issuer either directly or indirectly also apply to Hypo Real Estate Group.

### **3. RISKS RELATING TO THE BONDS**

See PART I – I-4 "Other – (1) RISK FACTORS IN RESPECT OF THE BONDS" above.



## DEUTSCHE PFANDBRIEFBANK AG

In June 2009, the Issuer was formed through the merger of DEPFA Deutsche Pfandbriefbank AG ("**DEPFA Deutsche Pfandbriefbank**") into Hypo Real Estate Bank Aktiengesellschaft ("**Hypo Real Estate Bank**").

### 1. STATUTORY AUDITORS

The independent auditors of the Issuer for the financial years ended 31 December 2013 and 31 December 2014 were KPMG AG Wirtschaftsprüfungsgesellschaft ("**KPMG**"), Ganghoferstraße 29, 80339 München, Germany.

KPMG is a member of the German certified public accountants association (Wirtschaftsprüferkammer).

### 2. INFORMATION ABOUT THE ISSUER

#### General Information

The Issuer acts under its legal name "Deutsche Pfandbriefbank AG". Since 2 October 2009, the Issuer has been operating under the commercial name "pbb Deutsche Pfandbriefbank" as well as with a new logo and new corporate design.

The Issuer is incorporated as a stock corporation (Aktiengesellschaft) under the laws of the Federal Republic of Germany. It is registered with the commercial register (Handelsregister) in Munich under No. HRB 41054.

The Issuer has been formed through a series of mergers.

In 2001 Nürnberger Hypothekenbank AG and Süddeutsche Bodencreditbank AG, were merged into Bayerische Handelsbank AG. The merger became effective upon registration in the commercial register in Munich on 3 September 2001 (for accounting purposes with retroactive effect as of 1 January 2001). At this time the legal name of the Issuer was "HVB Real Estate Bank AG". On 30 September 2003, the name was changed to "Hypo Real Estate Bank Aktiengesellschaft". On 3 November 2003, Westfälische Hypothekenbank AG, a former subsidiary of Hypo Real Estate Bank, was merged into Hypo Real Estate Bank (for accounting purposes with retroactive effect as of 1 January 2003).

Upon registration in the commercial register in Munich on 27 November 2008, Hypo Real Estate Bank International Aktiengesellschaft ("**Hypo Real Estate Bank International**"), a former affiliated company, was merged into Hypo Real Estate Bank. For accounting purposes the merger became effective retroactively as of 1 January 2008.

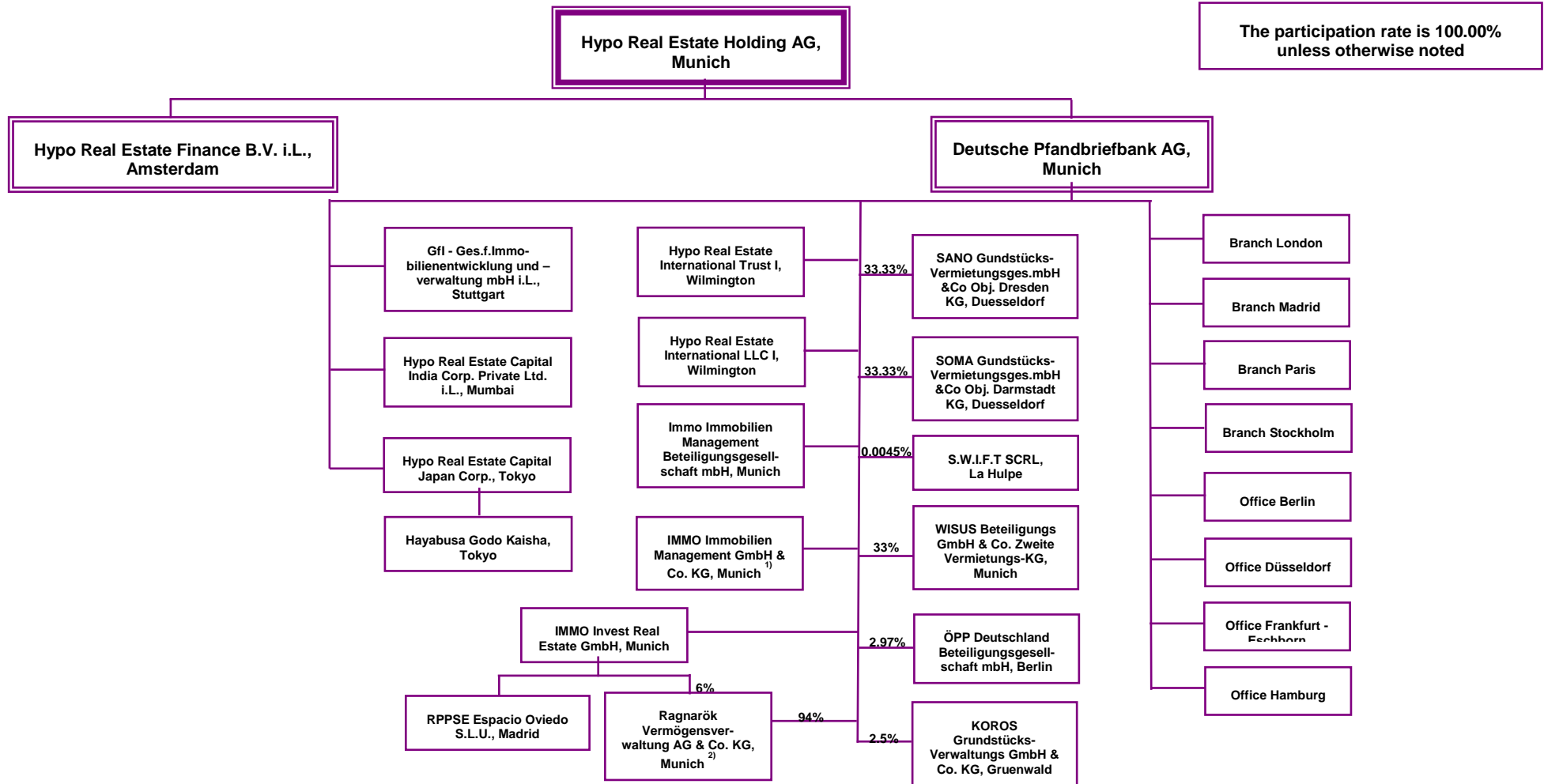
In June 2009, DEPFA Deutsche Pfandbriefbank was merged into Hypo Real Estate Bank. The merger agreement was concluded on 5 June 2009 and the merger was registered in the commercial register of DEPFA Deutsche Pfandbriefbank in Frankfurt on 10 June 2009 and in the commercial register of Hypo Real Estate Bank in Munich on 29 June 2009. For accounting purposes the merger became effective retroactively as of 1 January 2009. Following a name change, which was resolved in the context of the merger and which was also entered into the commercial register of Hypo Real Estate Bank in Munich on 29 June 2009, the Issuer operates under the legal name "Deutsche Pfandbriefbank AG".

With effect as of 1 October 2010, the Issuer transferred certain assets and liabilities and non-strategic business lines to FMS Wertmanagement, a deconsolidated environment (Abwicklungsanstalt) established by the German Financial Markets Stabilisation Agency (Bundesanstalt für Finanzmarktstabilisierung) pursuant to section 8a of the Financial Market Stabilisation Act (Finanzmarktstabilisierungsfondsgesetz, "**FMSStFG**"). The transfer was effected by way of a split-off under the Transformation Act (Umwandlungsgesetz).

The Issuer has its registered office at Freisinger Str. 5, 85716 Unterschleißheim, Germany. Its telephone number is +49 89 2880 0.

## **Integration into Hypo Real Estate Group and Keep Well Statement**

The Issuer is part of Hypo Real Estate Group. As at 31 May 2015, the legal structure of Hypo Real Estate Group and the Issuer was as follows:



1) General partner liability (Komplementärhaftung) of Immo Immobilien Management Beteiligungsgesellschaft mbH  
 2) General partner liability (Komplementärhaftung) of Deutsche Pfandbriefbank AG

Hypo Real Estate Holding, which is the parent company of the Issuer, has published a keep well statement as regards the Issuer in the financial statements of Hypo Real Estate Holding (the "**Keep Well Statement**"), according to which Hypo Real Estate Holding ensures that the Issuer is able to meet its contractual obligations (except in the case of political risk):

*"Für die pbb trägt die HRE Holding, abgesehen vom Fall des politischen Risikos, dafür Sorge, dass sie ihre vertraglichen Verpflichtungen erfüllen kann."*

In connection with envisaged sale of Hypo Real Estate Holding's participation in the Issuer it is intended that in the course of the reprivatization Hypo Real Estate Holding will terminate the Keep Well Statement (see also "Sale of Hypo Real Estate Holding's Participation in the Issuer" in this section below).

The Keep Well Statement is not and should not be regarded as equivalent to a guarantee by Hypo Real Estate Holding for the payment of any indebtedness, liability or obligation of the Issuer (including any Bonds to be issued by the Issuer under this Program).

### **Strategic Reorganisation of Hypo Real Estate Group and Approval of State Aid Measures by the European Commission**

Since 2009, the Issuer forms the strategic core bank of Hypo Real Estate Group. With the positive decision of the European Commission on 18 July 2011 regarding the approval of the state aid of the Federal Republic of Germany for Hypo Real Estate Group, it simultaneously recognised the viability of the business model of the Issuer as a specialist bank for real estate finance and public investment finance.

The decision of the European Commission relates to all aid elements granted to Hypo Real Estate Group since the autumn of 2008, i.e. capitalisations, guarantee lines and the transfer of items to the deconsolidated environment FMS Wertmanagement, and requires appropriate compensation measures.

With the approval by the European Commission of the state aid provided to Hypo Real Estate Group by the Federal Republic of Germany, the European Commission imposed a number of conditions for its approval, most of which Hypo Real Estate Group already complied with.

The European Commission restricted the scope of business activities of Hypo Real Estate Group. The Issuer is restricted to operating in the business segments of real estate finance and public investment finance which is a sub-segment of the public finance business, in Germany and other selected European countries (for details see 3 "Business Overview" below). In addition, the European Commission restricted the growth of interest-bearing assets, and set certain conditions in order to secure profitability of new business, and in order to prevent from competitive distortion.

The conditions imposed by the European Commission led to a substantial reduction of the balance sheet total of the Issuer when compared with the situation at the end of 2008, when the consolidated balance sheet total (in accordance with IFRS) of Hypo Real Estate Group stood at around Euro 420 billion. Over time, the balance sheet total is set to further decline due to the phase-out of public-sector budget finance, however, the reduction will be offset in the medium-term by new business.

Furthermore, the European Commission imposed certain conditions upon the Federal Republic of Germany regarding the medium-term reprivatization of the Issuer until the end of 2015.

Hypo Real Estate Group is only allowed to make interest and profit-participation payments for certain instruments to third parties outside the Group under certain conditions. In relation to profit related instruments (other than those granted by SoFFin), the European Commission set – among others - the condition that the capital contribution granted as a silent participation (stille Einlage) by SoFFin in the amount of Euro 1 billion in 2009 has to be redeemed, before the Issuer is allowed to make voluntary interest and profit participation payments for those instruments. As of 31 December 2014, the silent participation amounted to Euro 92 million according to German GAAP (HGB).

The conditions applied to a series of equity linked capital instruments which were in place at 30 September 2010 and which were not provided by the SoFFin. As a result of further conditions, no distributable profits will accrue in the DEPFA Group until reprivatization.

Furthermore, as regards the servicing of the FMS Wertmanagement portfolio which the Issuer and other subsidiaries of Hypo Real Estate Group jointly perform, notwithstanding short-term follow-up work and supervision of the handover process to a new service provider, the Issuer is only allowed to render these services throughout the term of the current contract which expired at the end of September 2013. The Issuers' subsidiary Hypo Real Estate Capital Japan Corporation continues servicing the Japanese real-estate portfolio of FMS Wertmanagement.

### **Strategic Realignment of Hypo Real Estate Group**

On 19 December 2008, the Management Board and the Supervisory Board of Hypo Real Estate Holding adopted a resolution regarding the strategic realignment and restructuring of Hypo Real Estate Group. Since then, Hypo Real Estate Group has adjusted its business model to sustainable changed conditions on the capital markets and the increasing challenges in the real estate business. The objective of the strategic realignment was to reposition the Issuer as part of Hypo Real Estate Group as a specialist for real estate and public sector finance in Germany and Europe with a funding strategy focused on Pfandbrief issuance. Part of the reorganisation plan was also the simplification of the corporate structure of Hypo Real Estate Group.

This strategy was confirmed by the decision of the European Commission dated 18 July 2011. As a fundamental element of the corporate strategy of Hypo Real Estate Group, the Issuer – as the strategic core bank within Hypo Real Estate Group – operates Pfandbrief-eligible new business in the area of commercial real estate finance and public investment finance in Europe. The major factors of success in the new business strategy of both areas are the customer relations, which formed the basis of the new business which was concluded in 2011. The individual loan transactions are selected within the context of a conservative refinancing strategy. The focus is on a consistent risk analysis and concentration on business with an adequate risk/reward ratio.

In line with the approval of the European Commission growth is limited and new business must generate a defined minimum return. The Issuer no longer operates new business in the area of public sector finance as pure budget financing. These covenants are applicable until the Issuer is reprivatized.

In August 2013, Hypo Real Estate Holding initiated the selling process for 100 per cent. of the registered share capital of its subsidiary DEPFA. On 13 May 2014, the FMSA's inter-ministerial Steering Committee (which decides on measures related to the SoFFin) and an extraordinary general meeting of Hypo Real Estate Holding have decided not to sell DEPFA on the market, but to prepare the acquisition and wind down of DEPFA by FMS Wertmanagement. Following consent of the Irish and the Luxembourg regulatory authorities, the transfer to FMS Wertmanagement has been effected on 19 December 2014. It was conducted according to the (economic) terms and conditions Hypo Real Estate Holding had negotiated with the external bidder.

Following the signing of the share purchase agreement regarding the transfer of DEPFA Group to FMS Wertmanagement the Issuer has transferred its subsidiary DEPFA Finance N.V., Amsterdam, to DEPFA.

### **Relationship with FMS Wertmanagement and DEPFA**

In connection with the transfer of assets to FMS Wertmanagement the Issuer entered into a contractual commitment to provide services for FMS Wertmanagement (the "**Co-operation Agreement**"). This commitment has been terminated with effect as of 30 September 2013. Except for the Japanese real-estate portfolio of FMS Wertmanagement which is still serviced by the Issuer's subsidiary Hypo Real Estate Capital Japan Corporation and which is expected to end at the beginning of the third quarter of 2015, the servicing is being provided by FMS Wertmanagement Service GmbH, an independent servicing company established by FMS Wertmanagement, as well as other third party servicers engaged by FMS Wertmanagement. The Issuer entered into an agreement with FMS Wertmanagement

pursuant to which certain after-sales support is provided by either party on a cost-plus basis pertaining to, inter alia, compliance issues, the mutual provision of information, support in areas where the party requested to service is the only party able to do so, and to areas where legal and/or regulatory provisions require the interaction of both parties. In connection with the transfer of DEPFA to FMS Wertmanagement in August 2014, Hypo Real Estate Holding and the Issuer entered each into agreements with DEPFA pursuant to which certain after-sales support is provided by either party on a cost-plus basis in October 2014. Further agreements are in place as regards trademark purchase and assignments, guarantee indemnifications, IP licenses, back-2-back-servicing agreements pertaining to the servicing of FMS Wertmanagement and IT services provided by the Issuer to DEPFA. In October 2014, Hypo Real Estate Holding and the Issuer on the one hand and DEPFA BANK plc., DEPFA ACS Bank, Hypo Pfandbrief Bank International, S.A., and Hypo Public Finance Bank on the other hand entered also into a mutual claim settlement agreement.

### **Sale of Hypo Real Estate Holding's Participation in the Issuer**

On 17 February 2015, Hypo Real Estate Holding's intention to sell its participation in the Issuer and the period of time by the end of which written statements of interests in participating in the sale process must be submitted was published (for details see under [www.dgap.de](http://www.dgap.de)). Pursuant to the announcement, Hypo Real Estate Holding intended to sell up to 100 per cent. of the share capital in the Issuer in an open, transparent and non-discriminatory bidding process, in accordance with the European Commission's state aid decision (for more details on the decision see "Information about the Issuer – Strategic Reorganisation of Hypo Real Estate Group and Approval of State Aid Measures by the European Commission" above). It was further stated that parallel to this sale process, Hypo Real Estate Holding is preparing an initial public offering of its participation as an alternative means of sale. Hypo Real Estate Holding reserved the right, without advance notice and without giving reasons, to change or discontinue the sale process and/or the initial public offering at any time.

In the announcement, a further statement was made that SoFFin expects its silent participation in the Issuer in the amount of Euro 1 billion to be fully repaid to it prior to the closing of the sale process or the initial public offering which may have a material impact on the financial position of the Issuer. In particular, the envisaged repayment of the silent participation would result in a reduction of the Issuer's total capital. Except for representations and warranties which are customary for a share and purchase agreement, it is stated that neither Hypo Real Estate Holding nor the SoFFin or any other entity directly or indirectly linked to the Federal Republic of Germany aims for maintaining and/or providing existing and/or new guarantees or other support measures to the buyer and/or the Issuer after the Issuer's potential reprivatization. In addition, in the announcement the intention is laid down that contractual obligations between the Issuer on the one hand and Hypo Real Estate Holding, the SoFFin and/or other entities directly or indirectly linked to the Federal Republic of Germany, on the other hand, are reduced as much as possible.

On 10 June 2015, the Issuer published the decision to prepare the listing of part of its shares in the "Prime Standard" segment of the Frankfurt Stock Exchange, and that its sole shareholder, Hypo Real Estate Holding, does not further pursue the sale process of the Issuer for the time being.

The decision was made by extraordinary general shareholder meetings of the Issuer and of Hypo Real Estate Holding and following prior approval by the FMSA's inter-ministerial Steering Committee (*Lenkungsausschuss*) which decides on stabilisation measures, policy issues, matters of particular importance or conditions regarding SoFFin measures.

Subject to market conditions the IPO is scheduled to take place during July 2015 and the intention is to place a minimum stake of 75.1 per cent. of the share capital of the Issuer, with the Federal Republic of Germany – indirectly via Hypo Real Estate Holding – holding at least a 20 per cent. stake in the Issuer for a two-year period based on respective lock up commitments. Within the IPO no capital increase, i.e. no issuance of new shares, is planned. Furthermore, the intention was confirmed that the Issuer will redeem the Euro 1 billion silent participation of the SoFFin within the course of the IPO at nominal value.

In connection with the envisaged IPO of the Issuer, it is intended that Hypo Real Estate Holding will

terminate the Keep Well Statement (*Patronatserklärung*), which was issued in favor of the Issuer (for details see under "Integration into Hypo Real Estate Group and Keep Well Statement" above). In such case, liabilities of the Issuer created after termination would thus not fall under the Keep Well Statement.

### **Recent Events**

On 12 January 2015, Standard & Poor's placed the ratings of the Issuer's Pfandbrief programs and certain of its individual issue ratings "under criteria observation".

On 3 February 2015, Standard & Poor's changed the outlook assigned to the Issuer's long-term counterparty credit rating from "negative" to "developing"

With respect to the announcement of Hypo Real Estate Holding's intention to sell its participation in the Issuer published on 17 February 2015 see under "Sale of Hypo Real Estate Holding's Participation in the Issuer" above.

In connection with the implementation of the new bank rating methodology, Moody's Investor Service ("**Moody's**") placed the ratings of the Issuer on review on 17 March 2015.

Pursuant to a Management Board resolution taken on 15 April 2015, the Issuer has made provisions amounting to Euro 79 million in the results of the first quarter 2015 for its receivables against Heta Asset Resolution AG.

On 27 April 2015, Standard & Poor's placed the Issuer ratings and certain of its individual issue ratings "under criteria observation".

On 19 May 2015, Fitch Ratings ("**Fitch**") withdrew the ratings assigned to the Issuer following the Issuer's termination of the mandate for unsecured ratings on 12 May 2015. Prior to the withdrawal and in connection with Fitch's global review of sovereign support, Fitch downgraded the Issuer's long-term Issuer default rating and senior debt ratings to "BBB" from "A-" and placed them on Rating Watch Negative. Its short-term Issuer default rating was downgraded to "F2" from "F1" and placed on Rating Watch Negative.

Also on 12 May 2015, the Issuer terminated its rating relationship with Moody's for unsecured ratings; the termination was effective 11 June 2015. On 19 June 2015, together with the publication of a downgrade of the long-term senior unsecured ratings of the Issuer to "Ba1" (stable outlook) and the short-term senior unsecured rating to Non-Prime, Moody's qualified the unsecured ratings assigned to the Issuer as unsolicited. A decision from Moody's to withdraw the unsecured ratings or to continue these on an unsolicited basis has yet to be made.

As a consequence of the terminations, the Issuer will no longer apply for respective ratings by Fitch and Moody's for notes to be issued under the Program after the date of this Program Information.

The Issuer mandated DBRS to assign Unsecured Ratings to the Issuer on 12 May 2015. DBRS has been providing mandated (solicited) ratings since 19 May 2015. On 20 May 2015, against the background of the BRRD and as part of an EU-wide rating action, DBRS placed the Issuer's Senior Unsecured long-term debt rating of "A (low)" and its short-term debt rating of "R-1 (low)" under review negative.

On 9 June 2015, following the rating review resulting from the introduction of the BRRD and the application of its new criteria with regards to Additional Loss-Absorbing Capacity (ALAC), Standard & Poor's affirmed the counterparty credit ratings assigned to the Issuer. The outlook remains developing. These ratings are no longer under criteria observation.

With respect to the publication of the decision to prepare an IPO of the Issuer on 10 June 2015 see "Sale of Hypo Real Estate Holding's Participation in the Issuer" above.

### 3. BUSINESS OVERVIEW

With effect from 1 January 2014, the Issuer reorganised the reporting structure of the internal reporting system. The segment report to be prepared and set up for internal control in compliance with the regulations set out in IFRS 8 now includes the three business segments of real estate finance ("**REF**"), public investment finance ("**PIF**") and value portfolio ("**VP**"). The key change compared to the previous year is the dissolution of the former Public Sector Finance ("**PSF**") segment and the creation of the new PIF segment. The non-strategic existing business portfolio in non-earmarked financing to the public sector (budget financing) formerly allocated to the PSF segment is now allocated to the VP segment. The new PIF segment includes the strategic public sector investment financing of the Issuer and its consolidated subsidiaries. The REF and PIF segments thus comprise the strategic activities, and the VP segment the non-strategic activities of the Issuer and its consolidated subsidiaries customer business. There is an additional segment consolidation and adjustment not further explored below which consists primarily of treasury activities, including liquidity buffers and other assets used for overall bank steering as well as the investment of its equity and which reconciles the aggregated segment results to the consolidated results.

It should be noted that following the approval of the European Commission of the state aid provided to Hypo Real Estate Group (for details see "Strategic Reorganisation of Hypo Real Estate Group and Approval of State Aid Measures by the European Commission" above) the business model is restricted as a consequence of conditions imposed by the European Commission as further specified below. Growth for the next few years has been limited in line with the approval of the European Commission, and new business must generate a defined minimum return. The covenants are applicable until the Issuer is reprivatised.

#### *Changes in Segmentation with Effect from 1 January 2015*

With effect from 1 January 2015, public investment finance business attributable to Italy has been classified as non-strategic activities. For this reason, a portfolio with a notional amount of €1.3 billion was reclassified in accordance with IFRS 8 from the strategic PIF to the nonstrategic VP.

In addition, the method of allocating the IFRS capital to the segments was changed at the beginning of the financial year 2015. Significant changes to the previous approach are as follows:

- IFRS equity is fully allocated to the operating segments and C&A, respectively, without disclosing the surplus equity as had been done under the previous approach; and
- IFRS equity is now allocated to the operating segments and C&A proportionally, along the allocation of the diversified economic capital according to the gone-concern approach for the purposes of the risk management. As a consequence, the Issuer expects to achieve a higher level of synchronization between risk and profit management.

While the Issuer's gone-concern economic capital is calculated by applying a confidence level of 99.9%, the allocation of diversified economic capital is based on the loss distribution across the segments in an expected shortfall approach with a confidence level of 99.0%. The selected confidence level allows for a balanced consideration of credit spread-induced market and cluster risks.

#### *Real Estate Finance*

In the business segment real estate finance the Issuer targets professional national and international real estate investors (such as real estate companies, institutional investors, real estate funds and also small and medium enterprises ("**SME**") customers and customers with a regional focus in Germany) with a medium to long term investment orientation. The focus of the Issuer is on less volatile real estate classes, such as offices, retail sector, residential housing and logistics. The Issuer concentrates on medium to large financing transactions and offers its customers local expertise for the most important target markets Germany, Great Britain, France and other selected European countries as well as



transnational know how. The predominant part of the provided financing relates to investment loans, i.e. loans for purchase of existing property, which generate cash flow. Development financing is of significant less importance and limited to non-speculative projects.

In 2014, new business of the Issuer in the Real Estate finance segment amounted to Euro 9.0 billion. As expected, this is over the level of new business in 2013 (Euro 7.0 billion). As of 31 December 2014, measured on the basis of exposures the Real Estate sector financing portfolio amounted to Euro 24.3 billion (compared to Euro 22.2 billion as of 31 December 2013).

#### *Public Investment Finance*

In the segment of public investment finance, the Issuer offers its customers medium- to long-term financing which is always Pfandbrief-eligible. The focus of the financing activities is on public sector facilities, municipal housing, energy supply and disposal services, healthcare, care of the elderly and education facilities. Besides the public investment financing the Issuer is active in the area of state guaranteed export financing. The financing arrangements are provided to public sector borrowers, companies with a public sector or private legal form as well as special purpose vehicles with a public guarantee.

The regional focus is on European countries with good ratings in which lending operations can be refinanced by way of issuing Pfandbriefe and with an established, functioning and improving infrastructure. At present, the Issuer is focussing particularly on Germany and France. In addition, the Issuer also operates in other selected European countries (see also in "RISK FACTORS – 1, Risks relating to the Issuer – *The Issuer is exposed to the risk of default in the cover pools for Pfandbriefe, this may in particular be related to unfavourable regional economic conditions that may have a negative impact on the cover pools*" above).

In 2014, new business of the Issuer in the public investment finance segment amounted to Euro 1.2 billion. This corresponds to the level of new business in 2013. As of 31 December 2014, measured on the basis of exposures the public sector financing portfolio amounted to Euro 9.2 billion (compared to Euro 8.4 billion as of 31 December 2013).

The existing portfolio of public budget financing has been mostly refinanced with Public Sector Pfandbriefe (to a large extent on a matching maturity basis) and to a small amount via repos, and is expected to be run down as planned.

#### *Value Portfolio*

With regard to the value portfolio, the Issuer pursues a run-down strategy. The segment value portfolio includes all non-strategic assets and activities of the Issuer and its consolidated subsidiaries, following the European Commission's decision. The value portfolio mainly includes the public budget financing formerly reflected in the PSF segment and certain real estate and public finance assets (including Italian assets that were transferred from its PIF portfolio as of 1 January 2015 following the closure of the Rome branch) as well as the IT services provided to DEPFA. The re-segmentation aims at the clear separation of the segments existing at the time into strategic and non-strategic segments.

The exposure in the value portfolio slightly declined as of 31 December 2014 (Euro 24.8 billion) compared to the exposure as of 31 December 2013 (Euro 25.0 billion).

#### *Funding*

The funding of the Issuer is centered on Pfandbriefe and is supplemented with senior unsecured securities, retail deposits, money market instruments as well as subordinated and hybrid capital instruments. All of the financing tools are aimed at matching the maturities and lending activities. The key market for the Issuer's funding activities is Germany.

Under the German Pfandbrief Act (*Pfandbriefgesetz*), all banks that have a licence pursuant to section 2 of the German Pfandbrief Act are allowed to issue special covered bonds, so-called Pfandbriefe.

There are two important sources of funding, the Mortgage Pfandbrief (*Hypothekendarpfandbrief*) and the Public Pfandbrief (*Öffentlicher Pfandbrief*). Additional sources of funding under the German Pfandbrief Act – not used by the Issuer – are the Ship Pfandbrief (*Schiffspfandbrief*) and the Aircraft Pfandbrief (*Flugzeugpfandbrief*). The principal of and interest on these bonds have to be covered at all times by a pool of assets supervised by an independent cover pool monitor. For this purpose Pfandbrief Banks use independent registers: e.g. Mortgage Pfandbriefe are backed by qualified mortgage loans and Public Pfandbriefe are backed by certain claims against public sector entities. Though the assets are listed in special registers, they remain on the Issuer's balance sheet. The Issuer funds the assets which are not eligible for any of the registers by using senior unsecured bonds or other funding instruments (see "German Pfandbriefe and the German Pfandbrief Market" below).

As in previous years, the low-interest environment prevailed as the "new normal" for market players in 2014. Driven by the monetary policy measures introduced by the central banks, the capital markets continued to be caught in the trade-off of excess liquidity in search for investment opportunities and low returns. From investors' point of view, the situation with the decline in the 10-year yield of approx. 100 basis points was significantly exacerbated resulting in the focus shifting towards longer terms and along the credit curve. This was evidenced by greater interest shown by investors in unsecured issues as well as capital transactions.

In 2014, a new long-term funding volume of Euro 6.0 billion (2013: Euro 7.7 billion) was realised. Early repayments on the assets side and adequate liquidity allowed to reduce the capital market activities. Euro 2.6 billion (2013: Euro 4.5 billion) was attributable to benchmark new issues as well as increase in funds of existing public transactions. Approximately two thirds of the long-term funding is carried out via Pfandbrief issues, whilst unsecured issues accounted for one third. Fixed-income issues pre-dominated. Open interest rate positions are usually hedged by swapping fixed interest rates for floating rates. Overall, securitised liabilities amounted to Euro 47.8 billion (31 December 2013: Euro 46.9 billion).

In addition to capital market funding, overnight and time deposit investments for private investors are offered to expand the unsecured funding base; the deposit volume of "pbb direkt" amounted to more than Euro 1.5 billion as of 31 December 2014 (31 December 2013: Euro 0.6 billion).

Investors in the debt instruments of the Issuer are mainly banks, funds and insurance companies but also central banks. Up to now, private investors are of minor importance.

#### *Employees*

As at 31 December 2014, the Issuer had 844 employees compared to 852 employees as at 31 December 2013 (in head-counts as calculated pursuant to the German Commercial Code).

## **4. ORGANISATIONAL STRUCTURE**

### **Dependency of the Issuer within Hypo Real Estate Group**

As of the date of this Program Information, Hypo Real Estate Holding holds 100 per cent. of the shares in the Issuer. In accordance with Section 17 para. 2 of the German Stock Corporation Law (*Aktiengesetz*), it is assumed that a majority-owned enterprise is dependent on the company holding the majority interest and the majority in voting rights. On the planned privatisation see "Sale of Hypo Real Estate Holding's Participation in the Issuer" above.

### **Subsidiaries and Equity Interests**

A list of the Issuer's consolidated subsidiaries and equity participations in other companies as of 31 December 2014, specifying the name of the subsidiary or other company and the Issuer's equity interest, is contained in the Deutsche Pfandbriefbank Consolidated Financial Information 2014 (see "DOCUMENTS INCORPORATED BY REFERENCE" below). These subsidiaries and other

companies primarily engage in real estate financing and related consultancy services and some of them are used for banking participation models (Bankenbeteiligungs-Modelle), refinancing solutions and other services. These subsidiaries are to a significant extent real estate companies holding real estate property.

## 5. TREND INFORMATION

There has been no material adverse change in the prospects of the Issuer since the date of its last published audited financial statements (31 December 2014).

Together with the Stabilisation Fund (*Sonderfonds Finanzmarktstabilisierung* – the "SoFFin") and the German Financial Markets Stabilization Agency (*Bundesanstalt für Finanzmarktstabilisierung* – the "FMSA"), Hypo Real Estate Holding is currently evaluating the options for the Issuer's reprivatisation, which may have an impact on its current business model, in particular, but not limited to, if as a result of the potential reprivatisation new owner(s) will cause the Issuer to amend its business model or if the rating of the Issuer and/or the Notes change. With respect to the announcement of Hypo Real Estate Holding's intention to sell its participation in the Issuer published on 17 February 2015 see "Sale of Hypo Real Estate Holding's Participation in the Issuer" above.

## 6. ADMINISTRATIVE, MANAGEMENT, AND SUPERVISORY BODIES

The corporate bodies of the Issuer are:

- (i) the Management Board (*Vorstand*);
- (ii) the Supervisory Board (*Aufsichtsrat*); and
- (iii) the General Meeting of Shareholders (*Hauptversammlung*).

### The Management Board

In accordance with the Articles of Association, the Management Board consists of two or more members. The Supervisory Board determines the number of the members of the Management Board and appoints the members of the Management Board. The Management Board represents the Issuer and is responsible for its management.

As at the date of this Program Information, members of the Management Board of the Issuer are:

Name and Position	Other Mandates
<b>Andreas Arndt</b> (Co-Chief Executive Officer)	None
<b>Thomas Köntgen</b> (Co-Chief Executive Officer) (Treasurer)	None
<b>Andreas Schenk</b> (Chief Risk Officer)	None
<b>Dr. Bernhard Scholz</b> (Real Estate Finance/Public Investment Finance)	None

The business address of the Management Board of the Issuer is Freisinger Str. 5, 85716 Unterschleissheim, Germany.

### The Supervisory Board

In accordance with the Articles of Association, the Supervisory Board consists of nine members of whom six are elected by the General Meeting of Shareholders and three are elected by the employees in accordance with the German One Third-Participation Act (*Drittelbeteiligungsgesetz*).

As at the date of this Program Information, members of the Supervisory Board of the Issuer are:

Name and Position	Other Mandates
<p><b>Dr. Günther Bräunig</b> Chairman of the Supervisory Board (Member of the Management Board of KfW)</p>	<p>Hypo Real Estate Holding AG, Munich, Germany, Chairman of the Supervisory Board AFT – Agence France Trésor, Paris, France, Member of the Strategic Committee True Sale International GmbH, Frankfurt/Main, Germany, Chairman of the Advisory Council</p>
<p><b>Dagmar P. Kollmann</b> Deputy Chairperson of the Supervisory Board (Entrepreneur)</p>	<p>Hypo Real Estate Holding AG, Munich, Germany, Deputy Chairperson of the Supervisory Board Bank Gutmann Aktiengesellschaft, Vienna, Austria, Member of the Supervisory Board Landeskreditbank Baden-Württemberg – Förderbank (L-Bank), Karlsruhe/Stuttgart, Germany, Member of the Advisory Board KfW IPEX-Bank GmbH, Frankfurt, Germany, Member of the Supervisory Board Deutsche Telekom AG, Bonn, Germany, Member of the Supervisory Board Unibail-Rodamco SE, Paris, France, Member of the Supervisory Board, (since 23 April 2014)</p>
<p><b>Dr. Christian Gebauer-Rochholz</b><sup>*)</sup> (Bank Employee)</p>	<p>None</p>
<p><b>Georg Kordick</b><sup>*)</sup> (Employee Representative)</p>	<p>None</p>
<p><b>Joachim Plesser</b> (Former member of the Management Board of Eurohypo AG)</p>	<p>Hypo Real Estate Holding AG, Munich, Germany, Member of the Supervisory Board Commerz Real Investmentgesellschaft mbH, Wiesbaden, Germany, Member of the Supervisory Board Deutsche Immobilien Chancen Beteiligungs-AG, Frankfurt, Germany, Member of the Supervisory Board Pandion AG, Köln, Germany, Chairman of the Supervisory Board Accumulata Immobilien Development GmbH,</p>

München, Germany, Member of the Advisory Board  
GEG German Estate Group AG, Frankfurt, Germany,  
Member of the Supervisory Board

**Dr. Ludger Schuknecht**

(Head of the Department responsible for Fundamental Issues of Finance Policy and Economics, and International Finance and Monetary Policy (*Abteilung finanzpolitische und volkswirtschaftliche Grundsatzfragen, internationale Finanz- und Währungspolitik*) at the Federal Ministry of Finance, Berlin)

Hypo Real Estate Holding AG, Munich, Germany,  
Member of the Supervisory Board  
Deutsche Gesellschaft für Internationale  
Zusammenarbeit (GIZ) GmbH, Bonn/Eschborn,  
Germany,  
Member of the Supervisory Board

**Heike Theißing<sup>\*)</sup>**

(Employee Representative)

None

**Dr. Hedda von Wedel**

(Retired President of the Bundesrechnungshof)

Hypo Real Estate Holding AG, Munich, Germany,  
Member of the Supervisory Board

**Dr. Jeromin Zettelmeyer**

(Head of the Economic Policy Department (*Abteilung Wirtschaftspolitik*) at the Federal Ministry for Economic Affairs and Energy)

Hypo Real Estate Holding AG, Munich, Germany,  
Member of the Supervisory Board  
Member of the Supervisory Board of DB Netz AG

<sup>\*)</sup> Employee representative according to the One Third-Participation Act (*Drittelbeteiligungsgesetz*).

The business address of the Supervisory Board of the Issuer is Freisinger Str. 5, 85716 Unterschleissheim, Germany.

**The General Meeting of Shareholders**

The General Meeting of Shareholders is called by the Management Board or, as provided by law, by the Supervisory Board or by the shareholders (provided that a quorum of at least 5 per cent. of the share capital is met) within the first eight months of every financial year of the Issuer. The voting right of each common bearer share entitles the holder to one vote.

**Conflicts of Interest**

The members of the Management Board and the members of the Supervisory Board of the Issuer have additional positions as described above which may potentially result in conflicts of interest between their duties towards the Issuer and their private and other duties. Furthermore, in connection with the issue of Bonds a potential conflict of interest will be indicated in the relevant Specified Securities Information.

**7. MAJOR SHAREHOLDERS**

The Issuer is wholly-owned (100 per cent.) by Hypo Real Estate Holding. On the planned reprivatization see "Sale of Hypo Real Estate Holding's Participation in the Issuer" above.

## 8. HISTORICAL FINANCIAL INFORMATION

### Historical Financial Information

For the financial year ended 31 December 2014, the Issuer has published its consolidated financial information including the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows, the notes and the auditor's report (the "**Deutsche Pfandbriefbank Consolidated Financial Information 2014**"). The Deutsche Pfandbriefbank Consolidated Financial Information 2014 is incorporated by reference (see "DOCUMENTS INCORPORATED BY REFERENCE" below).

For the financial year ended 31 December 2013, the Issuer has published its consolidated financial information including the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the cash flow statement, the notes and the auditor's report (together the "**Deutsche Pfandbriefbank Consolidated Financial Information 2013**"). The Deutsche Pfandbriefbank Consolidated Financial Information 2013 is incorporated by reference (see "DOCUMENTS INCORPORATED BY REFERENCE" below).

For the financial year ended 31 December 2014, the Issuer has published its unconsolidated financial information including the income statement, the balance sheet, the notes and the auditor's report (together the "**Deutsche Pfandbriefbank Unconsolidated Financial Information 2014**"). The Deutsche Pfandbriefbank Unconsolidated Financial Information 2014 is incorporated by reference (see "DOCUMENTS INCORPORATED BY REFERENCE" below).

The Deutsche Pfandbriefbank Unconsolidated Financial Information 2014 have been prepared on the basis of the German generally accepted accounting principles ("**German GAAP**"). The Deutsche Pfandbriefbank Consolidated Financial Information 2014 and the Deutsche Pfandbriefbank Consolidated Financial Information 2013 have been prepared on the basis of International Financial Reporting Standards ("**IFRS**").

### Auditing of Historical Financial Information

The statutory auditors of the Issuer (see "STATUTORY AUDITORS" above) have audited the Deutsche Pfandbriefbank Consolidated Financial Information 2014 and have issued an unqualified opinion (*uneingeschränkter Bestätigungsvermerk*).

### Interim and other Financial Information

The Issuer has prepared consolidated interim financial statements including the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity (condensed), the statement of cash flows (condensed), the notes (condensed) and the review report for the three-month period ended 31 March 2015 (together the "**Deutsche Pfandbriefbank Unaudited Consolidated Interim Financial Information March 2015**"). The Deutsche Pfandbriefbank Consolidated Interim Financial Information March 2015 is incorporated by reference (see "DOCUMENTS INCORPORATED BY REFERENCE" below). The Deutsche Pfandbriefbank Consolidated Interim Financial Information March 2015 has been prepared on the basis of IFRS.

The Deutsche Pfandbriefbank Consolidated Interim Financial Information March 2015 is unaudited and has been subject to a review by the statutory auditors (*prüferische Durchsicht*) only. The statutory auditors of the Issuer have issued an unqualified review report (*Bescheinigung nach prüferischer Durchsicht*).

### Legal and Arbitration Proceedings

Legal disputes in which the Issuer or its subsidiaries have been involved during the last twelve months involve the following:

In award proceedings relating to the merger of three predecessor mortgage banks to form the Issuer in

2001, the new appraisal ordered by the court has resulted in an additional payment averaging Euro 1.00 per share. The potential re-payment claims amount up to Euro 9.4 million and additionally interest as from 2001 onwards.

Since the financial year 2008, the profit participation certificates participated in the Issuer's losses to a significant extent. As a result, the Issuer cancelled interest payments and reduced repayments of the principal amounts at the expiry of the relevant participation certificates (which, with regard to the disputed profit participation certificates, was between 1 June 2009 and 31 December 2012). For that reason, individual claimants initiated legal proceedings with regard to certain of the profit participation certificates contesting, in particular, those terms relating to loss participation and replenishment (*Wiederauffüllung*) and for the supplementary payment of cancelled interest payments. Many of the claimants submit that the capital components used to calculate loss participations should be different to the ones used by the Issuer and that a replenishment would depend on the issuer generating net income (*Jahresüberschuss*) but not on it generating balance sheet profits (*Bilanzgewinn*) for the period in question. With regard to the latter argument it should be noted that in the financial years since 2011, the Issuer had positive net income (*Jahresüberschuss*) but, due to loss carry forwards, no balance sheet profits (*kein Bilanzgewinn*). As of the date of this Program Information, the contested profit participation certificates belong to certain issuances with an aggregate principal amount of Euro 221 million (in total). Of such amount, the profit participation certificates held by the claimants had an aggregate principal amount of Euro 15.4 million of which the principal amount in dispute was Euro 6.3 million (in each case, as of 31 March 2015). In two cases, a binding judgment has already been rendered in favor of the claimants ordering the Issuer to pay around Euro 1 million plus interest. Furthermore, the Higher Regional Court (*Oberlandesgericht*) Munich and the District Court (*Landgericht* Cottbus have ruled in favor of claimants with a total amount in dispute of about Euro 3.9 million with, in the latter case, an appeal pending before the Higher Regional Court (*Oberlandesgericht*) Brandenburg. Furthermore, the Issuer has been informed that investors holding profit participation certificates of the Issuer in the nominal amount of around Euro 24 million and demanding a full replenishment, supplementary payment of cancelled interest payments and payment of interest thereon are allegedly prepared to take legal actions. As a result of these claims being made and considering that further holders of profit participation certificates may bring legal actions against the Issuer, the overall claim could in aggregate amount up to Euro 0.3 billion plus interest.

Following the decisions of the German Supreme Court in 2014 relating to the prohibition of loan documentation fees (*Kreditbearbeitungsentgelte*) in loan agreements with private customers, the Issuer is exposed to certain requests of former private customers seeking compensation payments for such fees. As of the date of this Program Information, several commercial customers have demanded compensation payments of loan documentation fees. In two cases notices to pay (*Mahnbescheide*) have been filed with local courts by such customers. In one case, a claim has been lodged with the District Court (*Landgericht*) Munich I.

In February 2014, the Issuer applied to the Federal Central Tax Office (*Bundeszentralamt für Steuern*) for the initiation of a mutual agreement procedure in accordance with the regulations set out in EU Arbitration Convention for the years 2006 to 2012. The subject matter of this mutual agreement procedure will be the attribution of tax income to the branch office in Paris, France. This application was made as an agreement regarding the allocation of taxable profit could not be reached between the German and French fiscal authorities in the context of negotiations regarding an "Advanced Pricing Agreement" and in the meanwhile a tax audit (*Betriebsprüfung*) for the Paris branch and, therefore, a double taxation of income may be possible. Depending on the outcome of the mutual agreement procedure, this could result in a tax expense or tax income of the Issuer and its subsidiaries.

Furthermore, several claimants sued the Issuer claiming Euro 3.98 million as damages for the alleged frustration of a purchase agreement due to the Issuer's refusal to release a land charge. The first instance ruling by the District Court (*Landgericht*) Munich I was favourable to the Issuer. An appeal brought by the plaintiffs before the Higher Regional Court of (*Oberlandesgericht*) Munich was dismissed by the court in March 2015.

The Issuer, together with Hypo Real Estate Holding, is seeking Euro 221 million in damages from four former members of the Management Board of the Issuer and Hypo Real Estate Holding. The Issuer and

Hypo Real Estate Holding have brought the claim before the District Court of Munich I. The basis of the claim is an alleged breach of duty regarding the lending decisions made for the "Two Orchards" and "Metrovacesa" projects. As of the date of this Program Information, the claim is at a preliminary hearing stage and a decision is not expected in the short-term.

Other than that, in the past twelve months the Issuer has not been involved in any governmental, legal or arbitration proceedings (including proceedings which, as far as the Issuer is aware, are pending or threatened), which according to the Management's estimates are likely to have, or have had in the recent past, significant effects on the Issuer's financial position or profitability.

### **Significant Change in Issuer's Financial Position**

Except for the information in this subsection there has been no significant change in the financial position of the Issuer and its consolidated subsidiaries since the end of the last financial period for which interim financial information has been published (31 March 2015).

A material gain resulted from the sale of an office building located in Japan in April 2015. The office building was owned by the consolidated subsidiary Hayabusa Godo Kaisha, Japan, which had originally been acquired as a result of a rescue acquisition. With the sale price exceeding the book value of the property, the Issuer realized an extraordinary profit of Euro 39 million before tax. This positive one-off effect was partly compensated by a further addition to the provisions made for certain legal proceedings initiated by former holders of participation certificates (*Genussscheine*).

## **9. MATERIAL CONTRACTS**

### **Agreements relating to State Aid Measures and the Provision of Services**

#### *FMS Wertmanagement*

On 30 September 2010, FMS Wertmanagement and the Issuer concluded a cooperation agreement (the "**Cooperation Agreement**") as regards the asset management by the Issuer of all portfolios transferred by the Entire Hypo Real Estate Group to FMS Wertmanagement. The Cooperation Agreement was terminated as of 30 September 2013, in line with the conditions imposed by the European Commission in its state aid decision.

Following the termination of the Cooperation Agreement, FMS Wertmanagement and the Issuer agreed that the activities previously carried out by the Issuer for FMS Wertmanagement were to be carried out by FMS-Wertmanagement Service GmbH and by external service providers, which were all staffed with former employees of the Issuer and its consolidated subsidiaries who were transferred based on business transfer agreements within the meaning of section 613a German Civil Code or the equivalent provision under the laws at our relevant international locations. To the extent that FMS Wertmanagement, the FMS-Wertmanagement Service GmbH and its servicers require support that only the Issuer can deliver, the Issuer continues to deliver after-sales support for the not yet settled positions transferred to the FMS Wertmanagement under an agreement dated 30 October/7 November 2013 ("**After Sales Agreement FMS-WM**") on a cost-plus basis. Such services may pertain to, inter alia, compliance issues, the mutual provision of information and support in areas where legal and/or regulatory provisions require the interaction of both parties. The initial term of the After Sales Agreement FMS-WM lasts until 31 December 2018, which shall be renewed automatically on a rolling basis for further one year periods, unless terminated by either party by giving six months' prior notice.

With regard to certain storage obligations concerning electronic data under the After Sales Agreement FMS-WM, the Issuer, FMS Wertmanagement and a law firm (as depository) entered into a deposit and safekeeping agreement ("**Deposit and Safekeeping Agreement**") in order to protect FMS Wertmanagement against a potential loss of relevant data with FMS Wertmanagement bearing the costs in connection therewith.



Hypo Real Estate Capital Japan Corp., Tokyo ("**HREC Japan**"), a subsidiary of the Issuer, continues to provide services for the Japanese real estate finance portfolio transferred to FMS Wertmanagement on the basis of a service agreement dated 12/18 July 2013 ("**Portfolio Management Agreement HREC Japan**").

#### *DEPFA Group*

In connection with the transfer of the share capital of DEPFA to FMS Wertmanagement, the Issuer entered into an after sales agreement with DEPFA in October 2014 ("**After Sales Agreements DEPFA**"), pursuant to which the Issuer provides certain after sales support to DEPFA on a cost-plus basis. The provisions of the After Sales Agreement DEPFA are generally comparable to the ones of the After Sales Agreement FMS Wertmanagement. However, the initial term lasts until 31 December 2024 which shall be renewed automatically on a rolling basis for further one year periods, unless terminated by either party by giving six months prior notice.

With effect as of 1 January 2015, the Issuer provides IT services to entities of the DEPFA Group on a cost-plus basis under a master agreement on IT operational services and related project work dated 18/20 November 2014 ("**Master Agreement IT Services**").

With regard to certain jointly developed intellectual property ("**IP**"), the Issuer and DEPFA entered into an IP license agreement on 4 August/5 September 2014 by which they agreed to grant each other a mutual royalty-free license pertaining to the IP and know-how ("**IP License Agreement**"). For a period of one year starting on 19 December 2014, they also agreed to support each other with regard to questions and clarifications regarding the IP.

The Issuer and DEPFA entered into an IP right purchase and assignment agreement on 4 August/5 September 2014 by which the Issuer sold and transferred certain IP rights to DEPFA which, in turn, undertook to respect the Issuer's use of the designation "Deutsche Pfandbriefbank" and/or "pbb" ("**IP-Right Purchase and Assignment Agreement**"). None of the assigned IP rights contained these designations.

#### *Hypo Real Estate Group*

Two framework agreements (*Rahmenverträge*) have been entered into with SoFFin: On 24 August 2010, a framework agreement (*Rahmenvertrag*) between Hypo Real Estate Holding, the Issuer and the SoFFin relating to the capitalisation measures granted by the SoFFin (the SoFFin's shareholding and silent partnerships); and, on 30 September 2010, a framework agreement (*Rahmenvertrag*) between Hypo Real Estate Holding, the Issuer, FMSA, FMS Wertmanagement and the SoFFin relating to the establishment of the deconsolidated environment (*Abwicklungsanstalt*). Both framework agreements refer to the obligations of Hypo Real Estate Holding and of the Issuer in relation to the granted stabilisation measures, in particular as regards business policy, the European Union state aid proceedings, the compensation policy as well as penalties and possible compensation claims for damages in connection with the establishment of the deconsolidated environment (*Abwicklungsanstalt*). The Issuer assumes joint and several liability for all payment obligations of its subsidiaries resulting from the transaction agreements which have been transferred as part of the process of transferring assets to FMS Wertmanagement.

The Issuer and Hypo Real Estate Holding have entered into an agreement on 31 March 2015 to settle claims of the parties in connection with the renting of the so called Lehel Carre. In 2007, Hypo Real Estate Holding has entered into a rental agreement for a business premises called the Lehel Carre located in the Munich. The execution of the rental agreement was also for the benefit of the issuer as it was intended that the issuer would move its several Munich offices into the Lehel Carre as well and terminate other premises in Munich and Stuttgart. It was intended that the issuer would use the majority of the rented space. In connection with the rental of the Lehel Carre the Issuer and Hypo Real Estate Holding also entered into a service agreement (Auftrag) with Hypo Real Estate Holding being the service provider and the obligation of the Issuer to compensate the service provider for any costs and expenses incurred herewith. Following the financial crises Hypo Real Estate Holding and the Issuer decided not to move into Lehel Carre but to Unterschleißheim. As an agreement with the lessor of the

Lehel Carre could not be reached to terminate the rent agreement could not be reached, it was agreed to sub-lease the premises for the remaining term of the lease to the extent possible. It was also agreed that the losses incurred by sub-leasing, or vacancy, will be borne pro rata by the parties and provisions will be established accordingly. With regard to the planned reprivatization of the Issuer the parties agreed to settle claims under the service agreement by payment of a compensation amount by the Issuer to Hypo Real Estate Holding. The agreement is subject to the approval of FMSA which is deemed to be provided if FMSA does not object to this agreement until 24 April 2015.

#### *Other*

The former Hypo Real Estate Bank International, a predecessor institute of the Issuer, has overtaken with the announcement as of 2 January 2006 irrevocable and unconditional guarantees to fulfill all liabilities of Hypo Public Finance Bank puc, Dublin. By the fact that all shares of Hypo Public Finance Bank puc, Dublin, were sold, the commitment was limited according to the guarantee contract to all liabilities, which existed until the date of sale. Due to the current development in earnings, assets and financial position as well as the expected future development, the Issuer does not rule out the default of Hypo Public Finance Bank puc, Dublin but a default should be rather unlikely.

The Issuer has committed itself to provide liquidity support to Hypo Real Estate Bank International LLC I in the event that this company is not able to fulfill its obligations at maturity.

DEPFA Finance N.V., Amsterdam, The Netherlands ("**DEPFA Finance**"), a former subsidiary of the Issuer, has granted two loans to the Issuer in October 2003 and March 2007. In July 2014, the Issuer sold and transferred its shares in DEPFA Finance to DEPFA. In this context, the Issuer partially repaid one of the loans and the Issuer and DEPFA agreed to partially terminate a hedging swap in relation to the partially repaid loan.

On 17 December 2013, the Issuer, Hypo Real Estate Holding and FMS Wertmanagement executed a settlement agreement ("**Settlement Agreement**") according to which the Issuer, inter alia, agreed to make a one-off payment of a one-digit million Euro amount to FMS Wertmanagement in order to settle any and all (current or future) reimbursement claims of FMS Wertmanagement arising from or in connection with an upgrade transfer of risk positions, irrespective of the legal basis, of a one-digit million Euro amount to FMS Wertmanagement in order to settle any potential damage claims of FMS Wertmanagement under the Cooperation Agreement, of a one-digit million Euro amount in order to settle a payment obligation of the Issuer in connection with the transfer of employees to FMS-Wertmanagement Service GmbH.

The settlement payment under the Settlement Agreement was made at the beginning of the financial year 2014.

In addition, the Issuer, Hypo Real Estate Holding, DEPFA and some other entities of DEPFA Group have entered into a settlement agreement in January and February 2014 by which DEPFA agreed to pay to the Issuer a settlement amount and the Issuer and Hypo Real Estate Holding waived claims under the Sub-Servicing Agreements and for an upgrade transfer of risk positions. Furthermore, in October/November 2014, Hypo Real Estate Holding and the Issuer on the one hand, and DEPFA and some of its subsidiaries (DEPFA ACS Bank, Hypo Pfandbrief Bank International, S.A. and Hypo Public Finance Bank puc) on the other hand, entered into a mutual claim settlement agreement to mutually settle (potential) liability claims under or in connection with various old servicing agreements by way of waivers ("**Mutual Claim Settlement Agreement**").

#### **Material Outsourcing Agreements**

As of the date of the Program Information, the Issuer and its consolidated subsidiaries has stand-alone operations and has outsourced selected functions to third-party providers, of which five outsourcing arrangements are assessed to be material according to the requirements laid down in BaFin's MaRisk circular. The outsourcing arrangements have been set-up and are also managed in compliance with legal and MaRisk requirements (including Section 25b of the German Banking Act (*Kreditwesengesetz*) and Section 9, General Part, of MaRisk as well as data protection considerations)

and are subject to regular audits.

### **Material Acquisitions and Divestitures**

By German law governed agreement on the transfer of the shares in DEPFA Finance dated 19 July 2014 in conjunction with a Dutch law governed deed of transfer dated 18 July 2014, the Issuer sold and transferred its shares in DEPFA Finance to DEPFA.

## GERMAN PFANDBRIEFE AND THE GERMAN PFANDBRIEF MARKET

*The following is a description of German Pfandbrief market and its regulations. Prospective investors of the Bonds should be noted that the Bonds to be issued under this Program will not be Pfandbriefe but unsecured senior debts of the Issuer.*

### Introduction

The Pfandbrief operations of the Issuer are subject to the German Pfandbrief Act (Pfandbriefgesetz) of 22 May 2005 as amended, which has come into force on 19 July 2005.

The German Pfandbrief Act has abolished the concept of specialist Pfandbrief institutions hitherto prevailing in respect of the existing mortgage banks and ship mortgage banks. It established a new and uniform regulatory regime for all German credit institutions with respect to the issuance of Pfandbriefe. Since 19 July 2005, all German credit institutions are permitted, subject to authorisation and further requirements of the German Pfandbrief Act, to engage in the Pfandbrief business and to issue Mortgage Pfandbriefe, Public Sector Pfandbriefe as well as Ship Pfandbriefe and Aircraft Pfandbriefe, and, from such date onwards, existing mortgage banks and ship mortgage banks are authorised to engage in most other types of banking transactions, eliminating the limitations in respect of the scope of their permitted business which existed in the past. The German Pfandbrief Act thus creates a level playing field for all German credit institutions including the Landesbanken, operating as universal banks and engaged in the issuance of Pfandbriefe.

German credit institutions wishing to take up the Pfandbrief business must obtain special authorisation under the German Banking Act (*Kreditwesengesetz* – the "**Banking Act**") from the Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* – the "**BaFin**") and, for that purpose, must meet some additional requirements as specified in the German Pfandbrief Act. According to the German Pfandbrief Act, credit institutions which were entitled to issue Pfandbriefe until 19 July 2005 are grandfathered with regard to their existing authorisation and become Pfandbrief Banks. However, this is only the case, if and as far as they had filed a comprehensive notification with the Competent Authority no later than by 18 October 2005. In the case of the Issuer the filing of the notification took place on 31 August 2005.

For the purpose of this summary, banks authorized to issue Pfandbriefe will generally be referred to as "**Pfandbrief Banks**" which is the term applied by the German Pfandbrief Act. The following description includes only a summary of the fundamental principles of the German law governing the Pfandbriefe. It does not purport itself to be conclusive and is qualified by the applicable German laws, rules and regulations.

### *Rules Applicable to all Types of Pfandbriefe*

Pfandbriefe issued by Pfandbrief Banks are debt securities issued under German law that must be secured ("**covered**") by mortgages or certain obligations of public sector debtors (or certain other qualifying assets) and whose terms must otherwise comply with the requirements and limitations imposed by the German Pfandbrief Act. Such compliance is monitored by the Competent Authority.

Pfandbriefe are medium- to long-term bonds and have, as a general rule, a term of two to ten years, but may also have a shorter or longer term. Pfandbriefe are recourse obligations of the issuing bank, and no separate vehicle is created for their issuance generally or for the issuance of any specific series of Pfandbriefe. Traditionally, Pfandbriefe have borne interest at a fixed rate, but Pfandbrief Banks are also issuing zero-coupon and floating rate Pfandbriefe, in some cases with additional features such as step-up coupons, caps or floors. Most issues of Pfandbriefe are denominated in Euro. A Pfandbrief Bank may, however, also issue Pfandbriefe in other currencies, subject to certain limitations. The terms of the Pfandbriefe may not provide for a right to redeem the Pfandbriefe at the option of the holders of the Pfandbriefe prior to their maturity.

Pfandbriefe may either be Mortgage Pfandbriefe, Public Sector Pfandbriefe, Ship Pfandbriefe or Aircraft Pfandbriefe. The aggregate principal amount of the outstanding Pfandbriefe issued by a Pfandbrief Bank must be covered by a separate pool of specified qualifying assets: a pool for Mortgage

Pfandbriefe only, a pool for Public Sector Pfandbriefe only, a pool covering all outstanding Ship Pfandbriefe only and a pool covering all outstanding Aircraft Pfandbriefe (each a "**Cover Pool**"). The aggregate principal amount of assets in each Cover Pool must at all times be at least equal to the aggregate principal amount of the outstanding Pfandbriefe covered by such Cover Pool. Moreover, the aggregate interest yield on any such Cover Pool must at all times be at least equal to the aggregate interest payable on all Pfandbriefe covered by such Cover Pool. In addition, the coverage of all outstanding Pfandbriefe with respect to principal and interest must also at all times be ensured on the basis of the net present value (*Barwert*). Finally, the net present value of the assets contained in the Cover Pool must exceed the total amount of liabilities from the corresponding Pfandbriefe and derivatives by at least 2 per cent. (*sichernde Überdeckung*). Such 2 per cent. excess cover must consist of highly liquid assets. The following assets qualify for inclusion in the excess cover:

- (i) debt securities of the Federal Republic of Germany, a special fund of the Federal Republic of Germany, a German state (*Land*), the European Communities, another member state of the European Union, another state of the European Economic Area, the European Investment Bank, the IBRD-World Bank, the Council of Europe Development Bank, or the European Bank for Reconstruction and Development, as well as under certain circumstances debt securities of Switzerland, the United States of America, Canada or Japan, if such countries satisfy certain requirements set out in Regulation EU No 575/2013 as of 23 June 2013;
- (ii) debt securities guaranteed by any of the foregoing entities; and
- (iii) credit balances maintained with the European Central Bank, the central banks of the member states of the European Union and/or under certain circumstances appropriate credit institutions based in one of the countries mentioned in (i) above, if certain requirements as set out in Regulation EU No 575/2013 are met.

In addition, to safeguard liquidity, a certain liquidity cushion must be established. Any Pfandbrief Bank must establish an appropriate risk management system meeting the requirements specified in detail in the German Pfandbrief Act and must comply with extensive quarterly and annual disclosure requirements, as set out in the German Pfandbrief Act.

Under the German Pfandbrief Act, each Pfandbrief Bank must keep a separate cover register (*Deckungsregister*) for each of its Cover Pools (*Deckungsmasse*) (i.e. one cover register for the Mortgage Pfandbriefe, one cover register for the Public Sector Pfandbriefe, one cover register for the Ship Pfandbriefe and one cover register for the Aircraft Pfandbriefe) and in which the assets included in each of the four Cover Pools are registered. In the case of the Issuer only Cover Pools for Mortgage Pfandbriefe and Public Sector Pfandbriefe exist.

In order to ensure that the Cover Pools provide adequate coverage for the outstanding Pfandbriefe, the registration is supervised and controlled by a Cover Pool monitor (*Treuhänder*) who is appointed by the Competent Authority after consultation with the Pfandbrief Bank. In addition, the Cover Pool monitor also monitors the Pfandbrief Bank's compliance with other provisions of the German Pfandbrief Act. Any issuance of Pfandbriefe may take place only upon prior certification by the Cover Pool monitor that the relevant Cover Pool provides adequate coverage for the Pfandbriefe to be issued and the assets to be used as cover are listed in the relevant cover register. The Pfandbrief Bank may remove any assets from the Cover Pool only with the prior permission of the Cover Pool monitor. Such permission shall only be granted if and insofar as the remaining registered assets still cover the aggregate principal amount of the outstanding Pfandbriefe and the liabilities arising from derivatives as well as the 2 per cent. excess cover (*sichernde Überdeckung*). Accordingly, the holders of Pfandbriefe benefit indirectly from the monitoring activities conducted by the Cover Pool monitor. Although there is no judicial or administrative precedent in this respect, German opinion of authority holds that the holders of Pfandbriefe may bring a claim in tort for damages resulting from a negligent violation of the Cover Pool monitor's duties under the German Pfandbrief Act. In addition, it has been held that the Cover Pool monitor owes no fiduciary duty to the holders of Pfandbriefe.

In addition to the monitoring conducted by the Cover Pool monitor, the Competent Authority conducts audits of each Cover Pool every two years. The Competent Authority also supervises the compliance of Pfandbrief Banks with the provisions of the German Pfandbrief Act, including approval of the principal

characteristics of the provisions of the loans and the resolution of disputes between the bank and the Cover Pool monitor. Furthermore, the Regulation on the Determination of the Mortgage Lending Value (*Beleihungswertermittlungsverordnung*) establishes a uniform method for determining the mortgage lending value for all German Pfandbrief Banks.

#### *Cover Pool for Mortgage Pfandbriefe*

In the case of Mortgage Pfandbriefe the Cover Pool is secured by mortgages (or portions thereof) which may serve as cover up to the initial 60 per cent. of the value of their underlying property as assessed by experts of the Pfandbrief Bank different from those who take part in the credit decision, claims under certain swap and derivative transactions that meet certain requirements and certain other assets (up to certain thresholds) may qualify for inclusion in the Cover Pool. In addition, the mortgaged property must be adequately insured against relevant risks. A mortgaged property must be situated in a state of the European Economic Area, Switzerland, the United States of America, Canada or Japan. Furthermore, the registered Cover Pool assets include all claims of the Pfandbrief Bank directed to the economic substance of the property. Other assets qualifying for inclusion in the Cover Pool for Mortgage Pfandbriefe include among others

- (i) equalization claims converted into bonds,
- (ii) subject to certain qualifications, those assets which may also be included in the 2 per cent. excess cover as described above, up to a total sum of 10 per cent. of the aggregate principal amount of outstanding Mortgage Pfandbriefe;
- (iii) subject to certain thresholds, the assets which may also be included in the Cover Pool for Public Sector Pfandbriefe referred to below, up to a total of 20 per cent. of the aggregate principal amount of outstanding Mortgage Pfandbriefe, whereby the assets pursuant to (i) above will be deducted; and
- (iv) claims arising under derivative transactions, i.e. derivatives summarised under a standardised master agreement including annexes regarding collateral (*Besicherungsanhänge*) and other agreements concluded under the master agreement, contracted with certain qualifying counterparties, provided that it is assured that the claims of the Pfandbrief Bank according to the master agreement will not be prejudiced in the event of the insolvency of the Pfandbrief Bank or any other Cover Pool maintained by it. The amount of the claims of the Pfandbrief Bank arising under derivatives which are included in the Cover Pool measured against the total amount of all assets forming part of the Cover Pool as well as the amount of the liabilities of the Pfandbrief Bank arising from such derivatives measured against the aggregate principal amount of the outstanding Mortgage Pfandbriefe plus the liabilities arising from derivatives may in either case not exceed 12 per cent., calculated in each case on the basis of the net present values.

#### *Cover Pool for Public Sector Pfandbriefe*

Under the German Pfandbrief Act the assets qualifying for the Cover Pool for Public Sector Pfandbriefe include among others monetary claims under certain loans, bonds or similar transactions

- (i) which are direct claims against
  - (a) any domestic territorial authority (*inländische Gebietskörperschaft*) or other qualifying public body or institution for which maintenance obligation (*Anstaltslast*) or a legally founded state guarantee obligation (*Gewährträgerhaftung*) or a state refinancing guarantee applies or which are legally entitled to raise fees, rates and other levies,
  - (b) other member states of the European Union or other states of the European Economic Area as well as their central banks (*Zentralnotenbanken*),
  - (c) regional administrations and territorial authorities of the countries mentioned in (b),

- (d) under certain circumstances, the United States of America, Japan, Switzerland and Canada as well as their central banks,
  - (e) under certain circumstances regional administrations and territorial authorities of the countries mentioned in (d),
  - (f) the European Central Bank as well as certain multilateral development banks and international organisations,
  - (g) public sector entities of member states of the European Union or of other states of the European Economic Area, and
  - (h) under certain circumstances public sector entities of certain countries mentioned in (d); or
- (ii) which are guaranteed in a certain manner by an entity referred to or mentioned in (i)(a) through (i)(f) above or certain insurers for export credits qualifying as a public sector entity according to (i)(g) above; or
  - (iii) which are, subject to certain conditions, either due by (a) a central government, central bank, regional administration or local territorial authority of a country mentioned in (i)(d) above, (b) a public sector entity of a country mentioned in (i)(d) above, (c) a multilateral development bank, or (d) an international organisation, or guaranteed by an institution mentioned in (a), (c) or (d) before.

In addition and subject to certain limitations and conditions, the Cover Pool for Public Sector Pfandbriefe may also include (i) equalisation claims converted into bonds, (ii) monetary claims against a suitable credit institution, and (iii) certain claims arising under certain derivative transactions as described above. The limitations applicable to Mortgage Pfandbriefe apply here as well. The registered Cover Pool assets include all claims of the Pfandbrief Bank directed to the economic substance of the Cover Pool assets.

#### *Additional regulatory requirements*

In addition to the provisions of the German Pfandbrief Act, Pfandbrief Banks, like other types of German banks, are subject to governmental supervision and regulation in accordance with the Banking Act. Supervision is primarily conducted by the Competent Authority. In addition, the Deutsche Bundesbank in its capacity as the German central bank also holds some supervisory powers. The Competent Authority has comprehensive powers to instruct German banks to take actions to comply with applicable laws and regulations. In addition, German banks, including Pfandbrief Banks, are required to submit extensive confidential reports to the Competent Authority and the Deutsche Bundesbank, which include disclosure of the statistical and operational aspects of the banks' businesses. Within the scope of their oversight and regulatory capacities, each of the Competent Authority and the Deutsche Bundesbank may take immediate action whenever required.

In addition, under the German Pfandbrief Act, the supervision of Pfandbrief Banks by the Competent Authority has gained significantly in importance, mainly the requirements concerning the transparency have increased, in particular, a time limit for publication of certain information pursuant to section 28 of the German Pfandbrief Act has recently been introduced.

#### *Status and protection of the holders of Pfandbriefe*

The holders of outstanding Pfandbriefe rank *pari passu* among themselves and have preferential claims with respect to the assets registered in the relevant cover register. With respect to other assets of a Pfandbrief Bank, holders of Pfandbriefe rank *pari passu* with unsecured creditors of the Pfandbrief Bank.

#### *Insolvency proceedings and measures under the Bank Restructuring Act*

In the event of the initiation of insolvency proceedings over the assets of a Pfandbrief Bank, none of the Cover Pools falls within the insolvency estate. If, however, simultaneously with or following the opening of insolvency proceedings over the assets of a Pfandbrief Bank, any of its Cover Pools becomes insolvent, insolvency proceedings will be instituted over the assets of such Cover Pool by the Competent Authority. In this case, holders of Pfandbriefe would have the first claim on the respective Cover Pool. Their preferential right would also extend to interest on the Pfandbriefe accrued after the commencement of insolvency proceedings. Furthermore, but only to the extent that holders of Pfandbriefe suffer a loss, holders of Pfandbriefe would also have recourse to any assets of the Pfandbrief Bank not included in the Cover Pools. As regards those assets, holders of Pfandbriefe would rank equal with other unsecured and unsubordinated creditors of the Pfandbrief Bank. One or two administrators (Sachwalter - each an "**Cover Pool Administrator**") will be appointed in the case of the insolvency of the Pfandbrief Bank to administer each Cover Pool for the sole benefit of the holders of Pfandbriefe. The Cover Pool Administrator will be appointed by the court having jurisdiction at the location of the head office of the Pfandbrief Bank at the request of the Competent Authority before or after the institution of insolvency proceedings. The Cover Pool Administrator will be subject to the supervision of the court and also of the Competent Authority with respect to the duties of the Pfandbrief Bank arising in connection with the administration of the assets included in the relevant Cover Pool. The Cover Pool Administrator will be entitled to dispose of the Cover Pool's assets and receive all payments on the relevant assets to ensure full satisfaction of the claims of the holders of Pfandbriefe. To the extent, however, that those assets are obviously not necessary to satisfy such claims, the insolvency administrator of the Pfandbrief Bank is entitled to demand the transfer of such assets to the insolvent estate.

Subject to the consent of the Competent Authority, the Cover Pool Administrator may transfer all or part of the cover assets and the liabilities arising from the Pfandbriefe issued against such assets to another Pfandbrief Bank.

On 9 December 2010, the German Pfandbrief Act has been amended (the amendment came into force on 1 January 2011) and has been further amended on 28 August 2013 (this amendment came into force 1 January 2014) in order to strengthen the protection of rights of holders of Pfandbriefe by integrating a provision which clarifies that measures that may be implemented on the basis of the German Bank Restructuring Act (*Kreditinstitute-Reorganisationsgesetz* - the "**Bank Restructuring Act**") or on the basis of the complementary provisions in sections 48a to 48s of the Banking Act that increase the powers of BaFin in case of financial difficulties of a credit institution do not apply to the Pfandbrief business of the respective credit institution, but only to the remaining part of the business of the respective credit institution.

In the course of the implementation of the BRRD into national law the German Pfandbrief Act was further amended with effect of 19 December 2014. Due to this amendment and in addition to the provisions regarding the excess cover (*sichernde Überdeckung*) referred to above, BaFin will in particular be empowered to order that a Pfandbrief Bank must meet additional cover requirements insofar as the recoverability of liabilities arising from Pfandbriefe outstanding and derivative transactions used as cover seems not to be ensured. Furthermore, BaFin will carry out audits of the assets forming part of any Cover Pool, regularly in bi-annual intervals. Any Pfandbrief Bank shall, upon request, furnish to BaFin information pertaining to its cover situation, including economic recoverability of such cover, and present supporting documentation. Each Pfandbrief Bank shall submit to BaFin within two weeks following the end of each quarter a report on their Cover Pools, in particular the recoverability thereof.

### **The German Public Sector and Mortgage Pfandbrief Market**

In 2014 the volume of Pfandbriefe outstanding receded by 11 per cent., from Euro 452.2 billion in 2013 to Euro 402.3 billion. In this regard, the volume of Public Sector Pfandbriefe outstanding consequently fell in 2014, from Euro 246 billion to Euro 206.5 billion. The volume of Mortgage Pfandbriefe outstanding declined from Euro 199.9 billion in 2013 to Euro 189.9 billion in 2014.



## **GENERAL DESCRIPTION OF THE PROGRAM**

### **AUTHORISATION**

The establishment of this Program was duly authorised by the relevant committee of the Issuer on 29 May 2015.

### **IMPORTANT NOTICE ABOUT THIS PROGRAM INFORMATION**

#### **Responsibility of the Issuer**

Deutsche Pfandbriefbank AG, Freisinger Straße 5, 85716 Unterschleissheim, Germany, accepts responsibility for the information contained in, or incorporated into this Program Information. The Issuer hereby declares that all information contained in this Program Information is true and accurate to the knowledge of the Issuer and that no material circumstances have been omitted.

The Issuer confirms that, where information has been sourced from a third party, this information has been accurately reproduced and that as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

#### **Interest of Natural and Legal Persons, including conflict of interests, involved in the Issue/Offer**

Certain Managers and their affiliates may be customers of, and borrowers from and creditors of the Issuers and its affiliates. In addition, certain Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for the Issuers and its affiliates in the ordinary course of business, as further specified in the applicable Specified Securities Information.

#### **Restriction on Distribution**

The distribution of this Program Information and of any Specified Securities Information and the offering of the Bonds in certain jurisdictions may be restricted by law. Neither the Issuer nor any of the Managers represents that this document may be lawfully distributed, or that the Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction or pursuant to an exemption available thereunder or assumes any responsibility for facilitating any such distribution or offering. Accordingly, the Bonds may not be offered or sold, directly or indirectly, and neither this document nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this document comes must inform themselves about, and observe, any such restrictions.

The Bonds have not been and will not be registered under Article 4, Paragraph 1 of the FIEA in reliance upon the exemption from the registration requirements since the offering constitutes the private placement to professional investors only under Article 2, Paragraph 3, Item 2 (b) of the FIEA.

The Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), and are subject to U.S. tax law requirements. Subject to certain exceptions, Bonds may not be offered, sold or delivered within the United States or to U.S. persons (For a description of certain restrictions on offers and sales of Bonds and on the distribution of the Program Information, see PART I – I-4 "TRANSFER AND SELLING RESTRICTIONS" above.).

#### **Confirmation by the Issuer**

The Issuer hereby confirms that this Program Information is true and accurate in all material respects and is not misleading; that any opinions and intentions expressed by it therein are honestly held and based on reasonable assumptions; that there are no other facts with respect to the Issuer, the omission of which would make this Program Information as a whole or any statement therein or opinions or

intentions expressed therein misleading in any material respect; and that all reasonable enquiries have been made to verify the foregoing.

In connection with the offer to specified investors and the admission of the Bonds to the TOKYO PRO-BOND Market respectively, the Issuer confirms that, if at any time while the Bonds are outstanding and listed on the TOKYO PRO-BOND Market of Tokyo Stock Exchange to the extent as required by the FIEA and the Tokyo Stock Exchange's regulations:

- (a) there is a significant new factor, or
- (b) a material mistake or inaccuracy

relating to the information included in this Program Information which is capable of affecting the assessment of the securities, the Issuer shall prepare an amendment to the Program Information. The amendment will be published after the approval by the competent authority on Japan Exchange Group, Inc. website: <http://www.jpx.co.jp/english/equities/products/tpbm/announcement/index.html>.

### **Completeness**

This Program Information should be read and construed with any amendment thereto and Specified Securities Information and with any other documents incorporated by reference and, in relation to any of the Bonds should be read and construed together with the relevant Specified Securities Information.

### **Exclusiveness**

No person has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Program Information or any other document entered into in relation to the Program or any information supplied by the Issuer or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Issuer, the Managers or any of them.

### **Responsibility of the Managers**

No representation or warranty is made or implied by the Managers or any of their respective affiliates, and neither the Managers nor any of their respective affiliates make any representation or warranty or accept any responsibility, as to the accuracy or completeness of the information contained in this Program Information.

### **Significance of Delivery**

Neither the delivery of this Program Information nor of any Specified Securities Information nor the offering, sale or delivery of any Bond shall, in any circumstances, create any implication that the information contained in this Program Information is true subsequent to the date upon which this Program Information has been most recently amended or that any other information supplied in connection with the Program is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. This does not affect the obligation of the Issuer to file an amendment to the Program Information with the Tokyo Stock Exchange under regulations thereof.

### **Exclusion**

Neither this Program Information nor any Specified Securities Information may be used for the purpose of an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such an offer or solicitation. Neither this Program Information nor any Specified Securities Information constitutes an offer or an invitation to subscribe for or purchase any Bonds and should not be considered as a recommendation by the Issuer or the Managers or any of them that any recipient of this Program Information or any Specified Securities Information should subscribe for or purchase any Bonds. Each recipient of this Program

Information or any Specified Securities Information shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference in, and form part of, this Program Information.

- Deutsche Pfandbriefbank Consolidated Financial Information 2014 which is included in the Issuer's 2014 Annual Report for the year ended 31 December 2014 published on 27 March 2015 which is available at the Issuer's website: <http://www.pfandbriefbank.com/en/investor-relations/financial-reports.html>.
- Deutsche Pfandbriefbank Consolidated Financial Information 2013 which is included in the Issuer's 2013 Annual Report for the year ended 31 December 2013 published on 3 April 2014 which is available at the Issuer's website: <http://www.pfandbriefbank.com/en/investor-relations/financial-reports.html>.
- Deutsche Pfandbriefbank Unconsolidated Financial Information 2014 which is appended as Appendix I to the Issuer's Base Prospectus dated 11 May 2015 relating to Euro 50,000,000,000 Debt Issuance Programme which is available at the Issuer's website: [http://www.pfandbriefbank.com/fileadmin/user\\_upload/downloads/investor\\_relations/issuance\\_programs/DIP\\_2015\\_Base\\_Prospectus\\_1505.pdf](http://www.pfandbriefbank.com/fileadmin/user_upload/downloads/investor_relations/issuance_programs/DIP_2015_Base_Prospectus_1505.pdf).
- Deutsche Pfandbriefbank Unaudited Consolidated Interim Financial Information March 2015 which is appended as Appendix IV to the Issuer's Base Prospectus dated 11 May 2015 relating to Euro 50,000,000,000 Debt Issuance Programme which is available at the Issuer's website: [http://www.pfandbriefbank.com/fileadmin/user\\_upload/downloads/investor\\_relations/issuance\\_programs/DIP\\_2015\\_Base\\_Prospectus\\_1505.pdf](http://www.pfandbriefbank.com/fileadmin/user_upload/downloads/investor_relations/issuance_programs/DIP_2015_Base_Prospectus_1505.pdf).

Following the publication of this Program Information, an amendment to this Program Information may be prepared by the Issuer. Statements contained in any such amendment (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Program Information or in a document which is incorporated by reference in this Program Information. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Program Information.

Copies of this Program Information, each set of Conditions of Bonds relating to Bonds which are admitted to trading on the TOKYO PRO-BOND Market are available on the TOKYO PRO-BOND Market's website: <http://www.jpx.co.jp/english/equities/products/tpbm/index.html>.

## **II FINANCIAL CONDITIONS**

### **1. Financial Statements**

The Issuer's consolidated financial statements for the year ended 31 December 2014, prepared in accordance with IFRS, together with the audit report as of 18 March 2015 in relation to the Consolidated Statements of Financial Position, Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statements of Changes in Equity, Consolidated Statement of Cash Flows and Notes for the financial year from 1 January to 31 December 2014 are incorporated in this Program Information by reference as stated in I "OUTLINE OF COMPANY – DOCUMENTS INCORPORATED BY REFERENCE" above.

### **2. Description of Major Assets and Liabilities**

See Notes to the Financial Statements, which are incorporated in this Program Information by reference as stated in I "OUTLINE OF COMPANY – DOCUMENTS INCORPORATED BY REFERENCE BY REFERENCE" above.

### **3. Other**

#### **(1) Other financials**

The Issuer's consolidated financial statements for the year ended 31 December 2013, prepared in accordance with IFRS, together with the audit report as of 19 March 2014 in relation to the Consolidated Statements of Financial Position, Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statements of Changes in Equity, Consolidated Statement of Cash Flows and Notes for the financial year from 1 January to 31 December 2013 are incorporated in this Program Information by reference as stated in I "OUTLINE OF COMPANY – DOCUMENTS INCORPORATED BY REFERENCE" above.

The Issuer's unconsolidated financial statements for the year ended 31 December 2014, prepared in accordance with German GAAP are incorporated in this Program Information by reference as stated in I "OUTLINE OF COMPANY – DOCUMENTS INCORPORATED BY REFERENCE" above.

The Issuer's unaudited consolidated interim financial statements for the three-month period ended 31 March 2015, prepared in accordance with IFRS are incorporated in this Program Information by reference as stated in I "OUTLINE OF COMPANY – DOCUMENTS INCORPORATED BY REFERENCE" above.

#### **(2) Subsequent events**

See I "OUTLINE OF COMPANY – DEUTSCHE PFANDBRIEFBANK AG – 2. INFORMATION ABOUT THE ISSUER – Recent Events" above.

#### **(3) Litigations**

See I "OUTLINE OF COMPANY – DEUTSCHE PFANDBRIEFBANK AG – 8. HISTORICAL FINANCIAL INFORMATION – Legal and Arbitration Proceedings" above.

**Part III            INFORMATION ON THE OTHER SECURITIES ISSUED BY THE COMPANY**

For the status of the Issuer's shareholders' equity, see Note 64 to the consolidated financial statements for the year ended 31 December 2014. The shares of the Issuer are not listed on any market of Tokyo Stock Exchange.

For the status of the Issuer's debt securities, see Note 58 to the consolidated financial statements for the year ended 31 December 2014.

## **PART IV INFORMATION ON GUARANTOR ETC OF THE COMPANY**

The following description is included since Hypo Real Estate Holding has published the Keep Well Statement, according to which Hypo Real Estate Holding ensures that the Issuer is able to meet its contractual obligations (except in the case of political risk).

The Keep Well Statement is not and should not be regarded as equivalent to a guarantee by Hypo Real Estate Holding for the payment of any indebtedness, liability or obligation of the Issuer (including any Bonds to be issued by the Issuer under this Program).

In connection with the envisaged sale of Hypo Real Estate Holding's participation in the Issuer, it is planned that Hypo Real Estate Holding will terminate the Keep Well Statement.

### **I OUTLINE OF COMPANY**

#### **SELECTED HISTORICAL KEY FINANCIAL INFORMATION**

The following table shows selected historical financial information regarding Hypo Real Estate Group, presented for the financial year 2014 and for the financial year 2013 and providing key figures that summarise the financial condition of Hypo Real Estate Group for such periods (in each case extracted from the financial statements contained in the respective annual report of Hypo Real Estate Group):

<b>Operating performance according to IFRS</b>		<b>2014</b>	<b>2013</b>
Pre-tax profit/loss	in Euro million	- 928	109
Net income/loss	in Euro million	- 964	160
<b>Balance sheet figures</b>		<b>31.12.2014</b>	<b>31.12.2013</b>
Total assets	in Euro billion	75.6	122.3
Equity (excluding revaluation reserve) <sup>1)</sup>	in Euro billion	4.2	6.4
Equity <sup>1)</sup>	in Euro billion	4.3	6.4

<sup>1)</sup> Contained as of 31 December 2013 hybrid capital instruments of the subsidiary DEPFA Bank plc which were part of the equity according to IAS 32.

There has been no material adverse change in the prospects of Hypo Real Estate Holding since the date of its last published audited financial information (31 December 2014). With respect to new trend information of the Issuer see Part II – 1 "OUTLINE OF COMPANY - SELECTED HISTORICAL KEY FINANCIAL INFORMATION" above.

There has been no significant change in the financial position of Hypo Real Estate Group while there has been a change in the trading position of Hypo Real Estate Holding due to changes in interest rate levels since the end of the last financial period for which audited financial information have been published (31 December 2014).

## HYPO REAL ESTATE GROUP

### 1. STATUTORY AUDITORS

The independent auditors of Hypo Real Estate Holding for the financial years ended 31 December 2013 and 31 December 2014 were KPMG, Ganghoferstraße 29, 80339 München, Germany.

KPMG is a member of the German certified public accountants association (*Wirtschaftsprüfungskammer*).

### 2. INFORMATION ABOUT HYPO REAL ESTATE GROUP

#### General Information

Hypo Real Estate Holding, with its registered office in Munich, was incorporated under the laws of the Federal Republic of Germany on 29 September 2003 with the legal name "Hypo Real Estate Holding AG". It is registered in the commercial register (*Handelsregister*) in Munich under No. HRB 149393.

In 2003, Hypo Real Estate Holding was established as a new company by way of a spin-off from HVB AG. The spin-off comprised HVB AG's entire interest in its wholly-owned subsidiary and spin-off vehicle DIA GmbH which held HVB AG's shareholdings in its then three German mortgage bank subsidiaries, Hypo Real Estate Bank, WestHyp and Württembergische Hypothekenbank AG, as well as in Hypo Real Estate International, Dublin and several other non-German subsidiaries. In connection with corporate restructurings in anticipation of the spin-off, HVB AG funded DIA GmbH with shareholders' equity in an amount of approximately Euro 3,712 million. As a result of the spin-off, each holder of shares in HVB AG was entitled to receive one share in Hypo Real Estate Holding for every four shares in HVB AG held by such shareholder. In 2007, Hypo Real Estate Holding acquired DEPFA and as a result of the acquisition, DEPFA became a wholly-owned subsidiary of Hypo Real Estate Holding. Following the completion of the transfer of DEPFA to FMS Wertmanagement with effect as of 19 December 2014, DEPFA is no longer a subsidiary of Hypo Real Estate Holding.

Hypo Real Estate Holding is incorporated as a public stock corporation (*Aktiengesellschaft*) under the laws of the Federal Republic of Germany.

Pursuant to section 2 of its articles of association the purpose of Hypo Real Estate Holding is to head an international group of companies which in particular operates in the area of real estate financing, real estate related banking, real estate business, public sector financing and any related financing, consulting, brokering and other services of any kind, as well as in other banking business. It may also hold interests in credit institutions, in particular covered bond banks (*Pfandbriefbanken*), as well as in financial services institutions. Excluded from the purpose is any business that requires licensing by the state; in particular the operation of banking business activities according to Section 1 para. 1 German Banking Act (*Kreditwesengesetz*) and the provision of financial services according to Section 1 para. 1a German Banking Act (*Kreditwesengesetz*). In addition, Hypo Real Estate Holding is entitled to conduct any transactions and activities which seem appropriate to serve the purpose of the company. It may establish, acquire, or participate in other companies. Hypo Real Estate Holding may change the structure of companies it holds interests in, combine them under common management, or limit itself to their administration or the disposal of their participations.

The registered office of Hypo Real Estate Holding is located at Freisinger Str. 5, 85716 Unterschleissheim, Germany. Its telephone number is +49 89 2880 0.

#### Structure of Hypo Real Estate Group

Within Hypo Real Estate Group, Hypo Real Estate Holding is a strategic and financial holding



company which does not have any banking operation and employees itself.

For further information on the structure of Hypo Real Estate Group see PART II – I "OUTLINE OF COMPANY – DEUTSCHE PFANDBRIEFBANK AG – 2. INFORMATION ABOUT THE ISSUER - Integration into Hypo Real Estate Group and Keep Well Statement" above.

### **Overview of Measures for Stabilising Hypo Real Estate Group**

In the course of the financial market crisis, Hypo Real Estate Group has received support measures in the form of liquidity and recapitalisation measures. Liquidity measures that were provided by SoFFin have been terminated as at the date of this Program Information. Recapitalisation measures have started with a legally non-binding declaration of intent by the SoFFin in 2009 and have been provided by means of capital contributions in cash (*Barkapitalerhöhung*) to Hypo Real Estate Holding AG, by way of payments to the capital reserves of Hypo Real Estate Holding AG and the Issuer, respectively, as well as by a silent participation (*stille Einlage*) of SoFFin in the Issuer. Furthermore, SoFFin acquired all shares in Hypo Real Estate Holding and certain assets as well as non-strategic operations of Hypo Real Estate Group have been transferred to a deconsolidated environment FMS Wertmanagement established by the German Financial Markets Stabilisation Agency (*Bundesanstalt für Finanzmarktstabilisierung*) on 30 September 2010. SoFFin's declaration of intent to support Hypo Real Estate Group terminated on 31 December 2013. Support measures granted until this date remain in place.

### **Approval of State Aid Measures by the European Commission**

On 18 July 2011, the European Commission approved the state aid for Hypo Real Estate Group. With its positive decision, the European Commission has also accepted the viability of the business model of the Issuer as a specialist bank for real estate finance and public sector investment finance (for details see PART II – I "OUTLINE OF COMPANY – DEUTSCHE PFANDBRIEFBANK AG – 2. INFORMATION ABOUT THE ISSUER - "Strategic Reorganisation of Hypo Real Estate Group and Approval of State Aid Measures by the European Commission" above).

### **Strategic Reorganisation and Corporate Strategy of Hypo Real Estate Group**

On 19 December 2008, the Management Board and the Supervisory Board of Hypo Real Estate Holding adopted a resolution regarding the strategic realignment and restructuring of Hypo Real Estate Group. Since then, Hypo Real Estate Group has adjusted its business model to sustainable changed conditions on the capital markets and the increasing challenges in the real estate business. A major step of the strategic realignment was also the transfer of DEPFA to FMS Wertmanagement (for details see PART II – I "OUTLINE OF COMPANY – DEUTSCHE PFANDBRIEFBANK AG – 2. INFORMATION ABOUT THE ISSUER - Strategic Realignment of Hypo Real Estate Group" above).

### **Relationship with FMS Wertmanagement and DEPFA**

Following the termination of the servicing of FMS Wertmanagement in September 2013, the Issuer, Hypo Real Estate Holding and FMS Wertmanagement have entered into agreements specifying final obligations of the parties (for more details see PART II – I "OUTLINE OF COMPANY – DEUTSCHE PFANDBRIEFBANK AG – 2. INFORMATION ABOUT THE ISSUER - Relationship with FMS Wertmanagement and DEPFA" above).

### **Sale of Hypo Real Estate Holding's participation in the Issuer**

With respect to the announcement of Hypo Real Estate Holding's intention to sell its participation in the Issuer published on 17 February 2015 and the envisaged termination of the Keep Well Statement in connection therewith see PART II – I "OUTLINE OF COMPANY – DEUTSCHE PFANDBRIEFBANK AG – 2. INFORMATION ABOUT THE ISSUER - Sale of Hypo Real Estate Holding's Participation in the Issuer" above.

With respect to the publication of the decision to prepare an IPO of the Issuer on 10 June 2015 see

PART II – I "OUTLINE OF COMPANY – DEUTSCHE PFANDBRIEFBANK AG – 2. INFORMATION ABOUT THE ISSUER - Sale of Hypo Real Estate Holding's Participation in the Issuer" above.

### **Recent Events**

For Hypo Real Estate Holding's intention to sell its participation in the Issuer and on other recent events as regards the Issuer, see PART II – I "OUTLINE OF COMPANY – DEUTSCHE PFANDBRIEFBANK AG – 2. INFORMATION ABOUT THE ISSUER - Recent Events" above.

### **3. OVERVIEW OF BUSINESS SEGMENTS**

As of beginning of 2014, Hypo Real Estate Group amended its segment structure. The Group distinguishes three operating segments: Strategic business in commercial real estate financing is pooled in the real estate finance segment, and strategic public investment financing is pooled in the public investment finance segment. Non-strategic business is included in the value portfolio segment. The "Consolidation & Adjustments" column is used to reconcile the total segments results with the consolidated results. At year end 2014 Hypo Real Estate Group additionally showed the income and expenses of DEPFA in a separate column discontinued operations as per IFRS 5.

For further information, on the business segments and on the business model restrictions of the Issuer see PART II – I "OUTLINE OF COMPANY – DEUTSCHE PFANDBRIEFBANK AG – 3. BUSINESS OVERVIEW".

### **4. TREND INFORMATION RELATING TO HYPO REAL ESTATE HOLDING**

There has been no material adverse change in the prospects of Hypo Real Estate Holding since the date of its last published audited financial information (31 December 2014). With respect to new trend information of the Issuer see PART II – I "OUTLINE OF COMPANY – DEUTSCHE PFANDBRIEFBANK AG – 5. TREND INFORMATION".

### **5. ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES OF HYPO REAL ESTATE HOLDING**

The corporate bodies of Hypo Real Estate Holding are:

- (i) the Management Board (*Vorstand*);
- (ii) the Supervisory Board (*Aufsichtsrat*); and
- (iii) the General Meeting of Shareholders (*Hauptversammlung*).

#### *The Management Board*

In accordance with the Articles of Association, the Management Board consists of two or more members. The Supervisory Board determines the number of the members of the Management Board and appoints the members of the Management Board. The Management Board represents Hypo Real Estate Holding and is responsible for its management.

As at the date of this Program Information, members of the Management Board of Hypo Real Estate Holding are:

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**Name and Position****Other Mandates**

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**Wolfgang Groth**

Non Executive Director of DEPFA Bank plc  
Chairman and Non Executive Director of DEPFA

ACS Bank  
Chairman and Non Executive Director of Hypo  
Public Finance Bank

**Thorsten Schwarting** None

The business address of the members of the Management Board is Freisinger Str. 5, 85716 Unterschleissheim, Germany.

*The Supervisory Board*

According to the Articles of Association, the Supervisory Board consists of six members. As at the date of this Program Information, members of the Supervisory Board of Hypo Real Estate Holding are:

<b>Name and Position</b>	<b>Other Mandates</b>
<b>Dr. Günther Bräunig</b> Chairman of the Supervisory Board (Member of the Management Board of KfW)	Deutsche Pfandbriefbank AG, Munich, Germany, Chairman of the Supervisory Board AFT – Agence France Trésor, Paris, France, Member of the Strategic Committee True Sale International GmbH, Frankfurt/Main, Germany, Chairman of the Advisory Council
<b>Dagmar P. Kollmann</b> Deputy Chairperson of the Supervisory Board (Entrepreneur)	Deutsche Pfandbriefbank AG, Munich, Deputy Chairperson of the Supervisory Board Bank Gutmann Aktiengesellschaft, Vienna, Austria, Member of the Supervisory Board Landeskreditbank Baden-Württemberg – Förderbank (L-Bank), Karlsruhe/Stuttgart, Germany, Member of the Advisory Board KfW IPEX-Bank GmbH, Frankfurt, Germany, Member of the Supervisory Board Deutsche Telekom AG, Bonn, Germany, Member of the Supervisory Board Unibail-Rodamco SE, Paris, France, Member of the Supervisory Board, (since 23 April 2014)
<b>Joachim Plesser</b> (Former member of the Management Board of Eurohypo AG)	Deutsche Pfandbriefbank AG, Munich, Germany, Member of the Supervisory Board Commerz Real Investmentgesellschaft mbH, Wiesbaden, Germany, Member of the Supervisory Board Deutsche Immobilien Chancen Beteiligungs-AG, Frankfurt, Germany, Member of the Supervisory Board Pandion AG, Köln, Germany, Chairman of the Supervisory Board Accumulata Immobilien Development GmbH, München, Germany, Member of the Advisory Board GEG German Estate Group AG, Frankfurt, Germany,

Member of the Supervisory Board

**Dr. Ludger Schuknecht**

(Head of the Department responsible for Fundamental Issues of Finance Policy and Economics, and International Finance and Monetary Policy (*Abteilung finanzpolitische und volkswirtschaftliche Grundsatzfragen, internationale Finanz- und Währungspolitik*) at the Federal Ministry of Finance, Berlin)

Deutsche Pfandbriefbank AG, Munich, Germany, Member of the Supervisory Board  
Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, Bonn/Eschborn, Germany, Member of the Supervisory Board

**Dr. Hedda von Wedel**

(Retired President of the Bundesrechnungshof)

Deutsche Pfandbriefbank AG, Munich, Germany, Member of the Supervisory Board

**Dr. Jeromin Zettelmeyer**

(Head of the Economic Policy Department (*Abteilung Wirtschaftspolitik*) at the Federal Ministry for Economic Affairs and Energy)

Deutsche Pfandbriefbank AG, Munich, Germany, Member of the Supervisory Board  
Member of the Supervisory Board of DB Netz AG

The business address of the Supervisory Board of Hypo Real Estate Holding is Freisinger Str. 5, 85716 Unterschleissheim, Germany.

*General Meeting of Shareholders*

The General Meeting of Shareholders, which is convened by the Management Board or, as provided by law, by the Supervisory Board, is held at the registered office of Hypo Real Estate Holding or at a German city with more than 10,000 inhabitants. The voting right of each common bearer share entitles the holder to one vote.

*Conflicts of Interest*

The members of the Management Board and the members of the Supervisory Board have additional positions as described above which may potentially result in conflicts of interest between their duties towards Hypo Real Estate Holding and their private and other duties.

*Board practices*

As at the date of this Program Information, members of the audit committee of Hypo Real Estate Holding are Dagmar Kollmann (Chairman), Dr. Günther Bräunig, Joachim Plessner and Dr. Hedda von Wedel. The audit committee is entitled to audit all business records, books or business data stored electronically, assets and liabilities of Hypo Real Estate Holding, and to obtain information relevant for its activities by auditors, the Management Board and internal audit as well as information on the Management Board by executive employees of Hypo Real Estate Holding.

Hypo Real Estate Holding, which is an entity that is completely owned by the Federal Republic of Germany, applies the Public Corporate Governance Code as adopted by the Federal Government on 1 July 2009 (Public Corporate Governance Kodex des Bundes) in accordance with the principle "comply or explain". Both, the Management Board and the Supervisory Board of Hypo Real Estate Holding, have adopted a resolution in this respect. As at the date of this Program Information, the latest published version of the compliance statement issued by the Management Board and the Supervisory Board of Hypo Real Estate Holding with respect to the Public Corporate Governance Code is dated 5 March 2015.

It should be noted that pursuant to the German Bank Restructuring Act provisions with respect to the compensation of members of the boards and other employees have been inserted into the FMSStFG as of

31 December 2010 and, thus, are applicable also to the members of the boards and other employees of Hypo Real Estate Group and the Issuer.

## 6. MAJOR SHAREHOLDERS OF HYPO REAL ESTATE HOLDING

As of the date of this Program Information, Hypo Real Estate Holding's share capital amounts to Euro 2,672,545,822 consisting of 1,217,628,600 ordinary bearer shares (notional no-par shares). Since 13 October 2009, Hypo Real Estate Holding is wholly-owned (100 per cent.) by the Federal Republic of Germany. In accordance with Section 17 para. 2 of the German Stock Corporation Law (*Aktiengesetz*), it is assumed that a majority-owned enterprise is dependent on the company holding the majority interest and the majority in voting rights.

## 7. HISTORICAL FINANCIAL INFORMATION OF HYPO REAL ESTATE GROUP

### Selected Financial Information

The following table shows selected historical financial information regarding Hypo Real Estate Group, presented for the financial year 2014 and for the financial year 2013 and providing key figures that summarise the financial condition of Hypo Real Estate Group for such periods (in each case extracted from the financial statements contained in the respective annual report of Hypo Real Estate Group):

		2014	2013
<b>Operating performance according to IFRS</b>			
Pre-tax profit/loss	in Euro million	- 928	109
Net income/loss	in Euro million	- 964	160
<b>Balance sheet figures</b>			
Total assets	in Euro billion	<b>31.12.2014</b> 75.6	<b>31.12.2013<sup>2) 3)</sup></b> 122.3
Equity (excluding revaluation reserve) <sup>1)</sup>	in Euro billion	4.2	6.4
Equity <sup>1)</sup>	in Euro billion	4.3	6.4

1) Contains hybrid capital instruments of the subsidiary DEPFA Bank plc which are part of the equity according to IAS 32.

2) Adjusted due to retrospective IFRS 10 first time adoption.

3) Adjusted due to IAS 8.42.

### Historical Financial Information

For the financial year ended 31 December 2014, Hypo Real Estate Holding has published consolidated financial information including the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows, the notes and the auditor's report (the "**Hypo Real Estate Group Financial Information 2014**"). The Hypo Real Estate Group Financial Information 2014 is appended as Appendix II. to the Issuer's Base Prospectus dated 11 May 2015 relating to Euro 50,000,000,000 Debt Issuance Programme which is available at the Issuer's website:

[http://www.pfandbriefbank.com/fileadmin/user\\_upload/downloads/investor\\_relations/issuance\\_programs/DIP\\_2015\\_Base\\_Prospectus\\_1505.pdf](http://www.pfandbriefbank.com/fileadmin/user_upload/downloads/investor_relations/issuance_programs/DIP_2015_Base_Prospectus_1505.pdf).

For the financial year ended 31 December 2014, Hypo Real Estate Holding has published its unconsolidated financial information including the balance sheet, income statement, the notes and the auditor's report (together the "**Hypo Real Estate Holding Financial Information 2014**"). The Hypo Real Estate Holding Financial Information 2014 is appended as Appendix III to the Issuer's Base Prospectus dated 11 May 2015 relating to Euro 50,000,000,000 Debt Issuance Programme which is available at the Issuer's website:

[http://www.pfandbriefbank.com/fileadmin/user\\_upload/downloads/investor\\_relations/issuance\\_programs/DIP\\_2015\\_Base\\_Prospectus\\_1505.pdf](http://www.pfandbriefbank.com/fileadmin/user_upload/downloads/investor_relations/issuance_programs/DIP_2015_Base_Prospectus_1505.pdf).

For the financial year ended 31 December 2013, Hypo Real Estate Holding has published consolidated financial information including the income statement, the statement of financial position, the statement of changes in equity the cash flow statement, the notes and the auditor's report (together with the selected financial information the "**Hypo Real Estate Group Financial Information 2013**"). The Hypo Real Estate Group Financial Information 2013 is appended as Appendix II. to the Issuer's Base Prospectus dated 7 May 2014 relating to Euro 50,000,000,000 Debt Issuance Programme which is available at the Issuer's website:

[http://www.pfandbriefbank.com/fileadmin/user\\_upload/downloads/investor\\_relations/issuance\\_programs/DIP\\_2014\\_Base\\_Prospectus.pdf](http://www.pfandbriefbank.com/fileadmin/user_upload/downloads/investor_relations/issuance_programs/DIP_2014_Base_Prospectus.pdf).

The Hypo Real Estate Group Financial Information 2013 and the Hypo Real Estate Group Financial Information 2014 have been prepared on the basis of IFRS. The Hypo Real Estate Holding Financial Information 2014 has been prepared on the basis of German GAAP.

#### **Auditing of Historical Financial Information**

The statutory auditors of Hypo Real Estate Holding ("STATUTORY AUDITORS" above) have audited the Hypo Real Estate Group Financial Information 2013, the Hypo Real Estate Group Financial Information 2014 and the Hypo Real Estate Holding Financial Information 2014 and have issued an unqualified opinion (*uneingeschränkter Bestätigungsvermerk*) in each case.

#### **Interim and other Financial Information**

Hypo Real Estate Holding has not published interim financial information since 31 December 2014.

#### **Legal and Arbitration Proceedings**

Hypo Real Estate Group is exposed to potential risks stemming from litigation and other proceedings in which it is currently involved. In particular, risks may arise from the following proceedings:

For details on legal and arbitration proceedings in which the Issuer is involved see Part II – I "OUTLINE OF COMPANY – DEUTSCHE PFANDBRIEFBANK AG – 8. HISTORICAL FINANCIAL INFORMATION – Legal and Arbitration Proceedings" above.

The investigations by the public prosecution authorities against former members of the Management Board are still ongoing. The imposition of fines on Hypo Real Estate Holding in this connection cannot be ruled out.

Since 2008, claims have been asserted in court against Hypo Real Estate Holding for an alleged misconduct of the company with respect to its information obligations. In particular, the company has been criticised for its information policy in connection with the expected effects of the sub-prime crisis, the requirement to write down CDOs, the ad hoc release dated 15 January 2008, as well as the financial situation of DEPFA Bank plc. Claims with an amount in dispute totalling to approximately Euro 957 million plus interest in the amount of 5 percentage points per annum above the base interest rate were pending before the Regional Court I of Munich.

Furthermore, a capital markets model case (*Kapitalanleger-Musterverfahren*) has been pending at the Munich Higher Regional Court. The first oral and evidentiary hearings were held in February 2014. On 15 December 2014, the Munich Higher Regional Court issued its model case ruling in which it

confirmed several breaches of obligations by the company. As such, the Court found that the company had published an untrue and incomplete press release with insider information on 3 August 2007 in which it had concealed its high financial risks arising from structured securities it held in the US subprime market. According to the Court, the company had been obliged to correct the untrue information by way of an ad hoc release. Furthermore, the company had been obliged to inform with an ad hoc release on 15 November 2007 at the latest about the expected effects of the subprime crisis. These breaches of obligations may establish damage claims of investors against Hypo Real Estate Holding under Sections 37b and 37c of the Securities Trading Act (WpHG). As a further breach of duties, the Court held that the listing prospectus dated 10 September 2007 had been incorrect in essential points since it had drawn a picture of the company being too optimistic.

The model case ruling of the Munich Higher Regional Court is not final and legally binding, yet. Hypo Real Estate Holding filed an appeal (*Rechtsbeschwerde*) against the ruling with the Federal Supreme Court. Should the Supreme Court confirm the ruling and the investors be successful in subsequent court proceedings based on the model case ruling, Hypo Real Estate Holding may be exposed to payment obligations in the amount of approximately Euro 957 million plus interest in the amount of 5 percentage points per annum above the base interest rate since 2009.

Proceedings by three plaintiffs in connection with the termination of the contracts of service of three members of the Management Board of Hypo Real Estate Holding are currently pending. The claims relate on the one hand to the payment of remuneration and on the other to a declaration that the termination of the contracts without notice and the revocation of pension commitments was invalid. The court has ordered expert opinions to be prepared on whether negligence was involved.

Other than that, in the past twelve months Hypo Real Estate Group has not been involved in any governmental, legal or arbitration proceedings with a volume of more than Euro 5 million (including proceedings which, as far as Hypo Real Estate Group is aware, are pending or threatened), which according to the Management's estimates are likely to have, or have had in the recent past, significant effects on Hypo Real Estate Group's financial position or profitability.

#### **Significant Change in Hypo Real Estate Group's Financial or Trading Position**

There has been no significant change in the financial or trading position of Hypo Real Estate Group since the end of the last financial period for which audited financial information has been published (31 December 2014).

### **8. MATERIAL CONTRACTS ENTERED INTO BY HYPO REAL ESTATE HOLDING**

On material contracts Hypo Real Estate Holding entered into together with the Issuer see Part II – I "OUTLINE OF COMPANY – DEUTSCHE PFANDBRIEFBANK AG – 9. MATERIAL CONTRACTS" above.

*The form of Conditions of Bonds that will apply in respect of the Bonds, subject to completion of applicable provisions and deletion of non-applicable provisions, is set out below.*

**Deutsche Pfandbriefbank AG**

**Japanese Yen TOKYO PRO-BOND Market Listed [Floating Rate] Bonds  
- [Insert Series No.] Series (20[●])**

**CONDITIONS OF BONDS**

These Conditions of Bonds shall apply to the issue of DEUTSCHE PFANDBRIEFBANK AG JAPANESE YEN TOKYO PRO-BOND MARKET LISTED [FLOATING RATE] BONDS - [●] SERIES (20[●]) (the "Bonds") pursuant to lawful authorization by Deutsche Pfandbriefbank AG (the "Issuer").

**1. Aggregate Principal Amount, Date of Issuance, Denomination and Form**

The aggregate principal amount of the Bonds is ¥[●].

The date of issuance of the Bonds is [●], 20[●].

The Bonds are issued in the denomination of ¥[100,000,000] each.

The Act on Book-Entry Transfer of Company Bonds, Shares, Etc. of Japan (Act No. 75 of 2001, as amended) (the "Book-Entry Transfer Act") shall apply to the Bonds and the transfer of and other matters relating to the Bonds shall be dealt with in accordance with the Book-Entry Transfer Act and the business regulations and other rules relating to book-entry transfer of corporate bonds, etc. (together with the business regulations, the "Business Rules") from time to time adopted by the Book-Entry Transfer Institution (as defined in Condition 5).

The certificates for the Bonds (the "Bond Certificates") shall not be issued except in such exceptional events as provided under the Book-Entry Transfer Act where the holders of the Bonds (the "Bondholders") may make a request for the issue of Bond Certificates. In the event that the Bond Certificates are issued, such Bond Certificates shall be only in bearer form with unmatured interest coupons and the Bondholders may not request that the Bond Certificates be exchanged for Bond Certificates in registered form or divided or consolidated.

If the Bond Certificates are issued, the manner of the calculation and payment of principal of and interest on the Bonds, the exercise of the rights under the Bonds by the Bondholders and the transfer of the Bonds, and all other matters in respect of the Bonds shall be subject to the then applicable Japanese laws and regulations and the then prevailing market practice in Japan. In the event of any inconsistency between the provisions of these Conditions of Bonds and the then applicable Japanese laws and regulations and the then



prevailing market practice in Japan, such Japanese laws and regulations and market practice shall prevail.

All expenses incurred in connection with the issue of the Bond Certificates shall be borne by the Issuer.

## **2. Restriction on Transfer of Bonds**

### **(1) Restriction on Transfer**

Subject to amendment and modification in accordance with Condition 17, the Bonds shall not be sold, transferred or otherwise disposed of to any person other than the Professional Investors, Etc. (*Tokutei Tousehika tou*) (the "Professional Investors, Etc."), as defined in Article 2, Paragraph 3, Item 2 (b) (2) of the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the "FIEA"), except for the transfer of the Bonds to the following:

- (a) the Issuer or the Officer (meaning directors, company auditors, executive officers or persons equivalent thereto) thereof who holds shares or equity pertaining to voting rights exceeding 50% of all the voting rights in the Issuer which is calculated by excluding treasury shares or any non-voting rights shares (the "Voting Rights Held by All the Shareholders, Etc." (*Sou Kabunushi Tou no Giketsuken*)) (as prescribed in Article 29-4, Paragraph 2 of the FIEA) of the Issuer under his/her own name or another person's name (the "Specified Officer" (*Tokutei Yakuin*)), or a juridical person (excluding the Issuer) whose shares or equity pertaining to voting rights exceeding 50% of the Voting Rights Held by All the Shareholders, Etc., are held by the Specified Officer (the "Controlled Juridical Person, Etc." (*Hi-Shihai Houjin Tou*)) including a juridical person (excluding the Issuer) whose shares or equity pertaining to voting rights exceeding 50% of the Voting Rights Held by All the Shareholders, Etc. are jointly held by the Specified Officer and the Controlled Juridical Person, Etc. (as prescribed in Article 11-2, Paragraph 1, Item 2 (c) of the Cabinet Office Ordinance on Definitions under Article 2 of the Financial Instruments and Exchange Act (MOF Ordinance No. 14 of 1993, as amended)); or
- (b) a company that holds shares or equity pertaining to voting rights exceeding 50% of the Voting Rights Held by All the Shareholders, Etc. of the Issuer in its own name or another person's name.

### **(2) Matters Notified to the Bondholders and Other Offerees**

When (i) a solicitation of an offer to acquire the Bonds or (ii) an offer to sell or a solicitation of an offer to purchase the Bonds (collectively, "Solicitation of the Bond Trade") is made, the following matters shall be notified from the person who makes such Solicitation of the Bond Trade to the person to whom such Solicitation of the Bond Trade is made:

- (a) no securities registration statement (pursuant to Article 4, Paragraphs 1 through 3 of the FIEA) has been filed with respect to the Solicitation of the Bond Trade;

- (b) the Bonds fall, or will fall, under the Securities for Professional Investors (*Tokutei Touseika Muke Yukashoken*) (as defined in Article 4, Paragraph 3 of the FIEA);
- (c) any acquisition or purchase of the Bonds by such person pursuant to any Solicitation of the Bond Trade is conditional upon such person entering into an agreement providing for the restriction on transfer of the Bonds as set forth in Condition 2(1), (i) with each of the Issuer and the person making such Solicitation of the Bond Trade (in the case of a solicitation of an offer to acquire the Bonds to be newly issued), or (ii) with the person making such Solicitation of the Bond Trade (in the case of an offer to sell or a solicitation of an offer to purchase the Bonds already issued);
- (d) Article 4, Paragraphs 3, 5 and 6 of the FIEA will be applicable to such certain solicitation, offers and other activities with respect to the Bonds as provided in Article 4, Paragraph 2 of the FIEA;
- (e) the Specified Securities Information, Etc. (*Tokutei Shouken Tou Jouhou*) (as defined in Article 27-33 of the FIEA) with respect to the Bonds and the Issuer Information, Etc. (*Hakkosha Tou Jouhou*) (as defined in Article 27-34 of the FIEA) with respect to the Issuer have been or will be made available for the Professional Investors, Etc. by way of such information being posted on the web-site maintained by the TOKYO PRO-BOND Market (<http://www.jpx.co.jp/english/equities/products/tpbm/index.html> or any successor website) in accordance with Articles 210 and 217 of the Special Regulations of Securities Listing Regulations Concerning Specified Listed Securities of the Tokyo Stock Exchange; and
- (f) the Issuer Information, Etc. will be provided to the Bondholders or made public pursuant to Article 27-32 of the FIEA.

### **3. Status of the Bonds**

The Bonds constitute unsecured and unsubordinated obligations of the Issuer ranking *pari passu* among themselves and *pari passu* with all other unsecured and unsubordinated obligations of the Issuer unless such obligations are given priority under mandatory provisions of statutory law.

### **4. Appointment of Fiscal Agent and Issuing and Paying Agent and Non-appointment of Commissioned Company for Bondholders**

(1) Sumitomo Mitsui Banking Corporation acts as the fiscal agent, and the issuing agent and paying agent [and reference agent] [*Applicable in the case of Floating Rate Bonds*] of the Issuer in respect of the Bonds (the "Fiscal Agent", unless the context otherwise requires, the term "Fiscal Agent" means an agent acting in all these capacities). The Fiscal Agent shall perform the duties and functions provided for in these Conditions of Bonds, the [Fiscal Agency Agreement] [*Applicable in the case of Fixed Rate Bonds*]/[Fiscal and Reference Agency Agreement] [*Applicable in the case of Floating Rate Bonds*] (the "Fiscal Agency Agreement") dated [●], 20[●] between the Issuer and the Fiscal Agent, and the Business

Rules. Except as otherwise provided in these Conditions of Bonds, the Fiscal Agent is acting solely as agent of the Issuer and does not assume any obligation towards or relationship of agency or trust for or with the Bondholders. A copy of the Fiscal Agency Agreement to which these Conditions of Bonds are attached shall be kept at the head office of the Fiscal Agent up to the expiry of 1 year after the redemption date and shall be made available for perusal or photocopying by any Bondholder during normal business hours. All expenses incurred for such photocopying shall be borne by the applicant therefor.

- (2) No commissioned company for bondholders is appointed in respect of the Bonds.
- (3) The Issuer may from time to time vary the appointment of the Fiscal Agent, provided that the appointment of the Fiscal Agent shall continue until a replacement fiscal agent, and issuing agent and paying agent (provided that such replacement fiscal agent, and issuing agent and paying agent shall be qualified to act as both issuing agent and paying agent pursuant to the Business Rules) shall be effectively appointed. In such case the Issuer shall give prior public notice thereof to the Bondholders.
- (4) The Issuer shall, without delay, appoint a replacement fiscal agent, and issuing agent and paying agent (provided that such replacement fiscal agent, and issuing agent and paying agent shall be qualified to act as both issuing agent and paying agent pursuant to the Business Rules) and give public notice to that effect to the Bondholders if the Book-Entry Transfer Institution notifies the Issuer that the Fiscal Agent will be disqualified from acting as a designated issuing agent or paying agent.

## **5. Book-Entry Transfer Institution**

In relation to the Bonds, Japan Securities Depository Center, Incorporated (the "Book-Entry Transfer Institution") acts as book-entry transfer institution (*furikae kikan*) under the Book-Entry Transfer Act.

In these Conditions of Bonds, all references to the Book-Entry Transfer Institution shall be deemed to include any successor book-entry transfer institution as designated by a competent minister pursuant to the Book-Entry Transfer Act.

## **6. Interest**

*[The language in the following 3 paragraphs shall apply for the Fixed Rate Bonds]*

The Bonds shall bear interest at the rate of [●]% per annum of their principal amount.

The Bonds shall bear interest from and including [●], 20[●] to and including [●], 20[●], payable in Japanese yen semi-annually in arrears on [●] and [●] of each year in respect of the 6-month period to and including each such date. Interest for any period of other than 6 months shall be payable for the actual number of days included in such period computed on the basis of a 365-day year. Each date set for payment of interest in this Condition 6 is hereinafter referred to as an "Interest Payment Date".

The Bonds shall cease to bear interest from but excluding the date on which they become due for redemption; provided, however, that should the Issuer fail to redeem any of the Bonds when due in accordance with these Conditions of Bonds, then interest accrued on

the principal amount of the Bonds then outstanding shall be paid in Japanese yen at the interest rate specified above for the actual number of days in the period from, but excluding, the due date to, and including, the date of the actual redemption of such Bonds, computed on the basis of a 365-day year. Such period, however, shall not exceed the date on which the Fiscal Agent (acting in its capacity of paying agent under the Business Rules, the "Paying Agent") allocates the necessary funds for the full redemption of the Bonds received by it among the relevant participants which have opened their accounts with the Book-Entry Transfer Institution to make book-entry transfer of the Bonds (*kiko kanyusha*) (the "Institution Participants"); provided that if such overdue allocation is not possible under the Business Rules, such period shall not exceed 14 days after the date on which the last public notice is given by the Fiscal Agent in accordance with Condition 8(3).

*[The following alternative language shall apply for the Floating Rate Bonds]*

- (1) (a) The Bonds shall bear interest from and including [●], 20[●] to but excluding [●], 20[●], payable in Japanese yen quarterly in arrears for the first time on [●], 20[●] and on each subsequent [●],[●],[●] and [●] of each year ending on [●], 20[●] in respect of the Interest Period (as defined below) ending on but excluding each such date; provided that, if any such date would otherwise fall on a day which is not a Tokyo Business Day (as defined below), the relevant due date for payment of interest shall be postponed to the next succeeding Tokyo Business Day unless it would thereby fall into the next calendar month, in which event such due date shall be brought forward to the immediately preceding Tokyo Business Day, and the interest shall be payable in respect of the Interest Period ending on but excluding the due date as modified pursuant to this proviso. Interest for any Interest Period or any part thereof shall be payable for the actual number of days included in such Interest Period or the applicable part on the basis of a 360-day year. Each date set for payment of interest in this Condition 6 is hereinafter referred to as an "Interest Payment Date".

In these Conditions of Bonds;

- (i) "Tokyo Business Day" means a day on which banks are open for business (including dealings in foreign exchange and foreign currency deposits) in Tokyo; and
- (ii) "Interest Period" means the period beginning on and including [●], 20[●] and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.
- (b) The Bonds shall bear interest on their principal amount at the rate per annum (the "Rate of Interest") from time to time determined as follows; provided that such Rate of Interest shall not be less than 0%:
- (i) At or prior to 10:00 a.m. (Tokyo time) on the Tokyo Business Day immediately following the Interest Rate Quotation Date (as defined below) (an "Interest Rate Determination Date"), the Issuer will

ascertain in respect of the relevant Interest Period the offered rate for 3-month Japanese Yen deposits in the London interbank market which appears on the Reuters Page LIBOR01 (as defined below) as of 11:00 a.m. (London time) on the second London Business Day (as defined below) before the first day of such Interest Period (or, in respect of the first Interest Period, on [●], 20[●]) (each such day being hereinafter referred to as an "Interest Rate Quotation Date"). The Rate of Interest for such Interest Period shall be the rate equal to [●]% per annum plus the above offered rate so ascertained by the Issuer.

In these Conditions of Bonds;

- (x) "London Business Day" means a day on which banks are open for business (including dealings in foreign exchange and foreign currency deposits) in London; and
  - (y) "Reuters Page LIBOR01" means the page designated as "LIBOR01" displayed on Reuters (or any successor service) which page displays the London interbank offered rate administered by ICE Benchmark Administration Limited (or any other person which takes over the administrator of that rate) for Japanese Yen deposits or such other page as may replace LIBOR01 on that service or other page on such other service as may be reasonably nominated by the Issuer as the information vendor, for the purpose of displaying rates comparable to the London interbank offered rate administered by ICE Benchmark Administration Limited (or any other person which takes over the administrator of that rate) for Japanese Yen deposits, which replacement shall be promptly notified by the Issuer to the Fiscal Agent in writing.
- (ii) If the above offered rate does not appear on the Reuters Page LIBOR01, or if such page is unavailable, in either case, as of 11:00 a.m. (London time) on any Interest Rate Quotation Date, the Issuer will request on the Interest Rate Determination Date the principal Tokyo office, if any, of each of the Reference Banks (as defined below) to provide the Issuer with the offered quotation (expressed as a rate per annum) for 3-month Japanese Yen deposits commencing on the second London Business Day following such Interest Rate Quotation Date offered by its principal London office to leading banks in the London interbank market at approximately 11:00 a.m. (London time) on such Interest Rate Quotation Date. In such case:
- (x) If on such Interest Rate Determination Date 6 or more Reference Banks provide the Issuer with such offered quotations, the Rate of Interest for such Interest Period shall be the rate equal to [●]% per annum plus the arithmetic mean (rounded, if necessary, to the nearest 5th decimal place with 5 or more in the 6th decimal place to be rounded upwards) of such offered

quotations (disregarding 2 of the lowest and 2 of the highest of such quotations), as ascertained by the Issuer.

- (y) If on such Interest Rate Determination Date not less than 2 but not more than 5 Reference Banks provide the Issuer with such offered quotations, the Rate of Interest for the relevant Interest Period shall be the rate equal to [●]% per annum plus the arithmetic mean (rounded, if necessary, to the nearest 5th decimal place with 5 or more in the 6th decimal place to be rounded upwards) of the quotations of those Reference Banks providing such quotations.
- (z) If on such Interest Rate Determination Date only 1 or none of the Reference Banks provides the Issuer with such offered quotations, the Issuer shall ascertain the offered rate for 3-month Japanese Yen deposits in the London interbank market which appears on the Reuters Page LIBOR01 as of 11:00 a.m. (London time) on the London Business Day most closely preceding the relevant Interest Rate Quotation Date (if the offered rate for 3-month Japanese Yen deposits in the London interbank market does not appear on the Reuters Page LIBOR01 or the Reuters Page LIBOR01 is unavailable on such day, on the preceding but closest London Business Day on which the offered rate appears). The Rate of Interest for the relevant Interest Period shall be the rate equal to [●]% per annum plus such rate so ascertained by the Issuer; provided that, if such London Business Day falls on or before the preceding Interest Rate Quotation Date, if any, the Rate of Interest shall be the Rate of Interest in effect for the last preceding Interest Period.

In these Conditions of Bonds, "Reference Bank" means a bank which provided its offered quotation used to calculate the offered rate for 3-month Japanese Yen deposits in the London interbank market which appeared on the Reuters Page LIBOR01 as of 11:00 a.m. (London time) on the London Business Day most closely preceding the Interest Rate Quotation Date in respect of the relevant Interest Rate Determination Date (if the offered rate for 3-month Japanese Yen deposits in the London interbank market does not appear on the Reuters Page LIBOR01 or the Reuters Page LIBOR01 is unavailable on such day, on the preceding but closest London Business Day on which the offered rate appears).

- (c) The Issuer shall, at approximately 10:00 a.m. (Tokyo time) on each Interest Rate Determination Date, calculate the amount of interest per currency unit for the relevant Interest Period (the "Interest Amount Per Currency Unit") with respect to the Bonds for the purpose of the Business Rules. The Interest Amount Per Currency Unit of each Interest Period shall be calculated, pursuant to the Business Rules, by multiplying the Rate of Interest by a fraction, the numerator of which is the actual number of days in the Interest Period concerned and the denominator of which is 360. The calculation of the Interest Amount Per Currency Unit for a part of any Interest Period shall be made for the actual number of days included in such part on the basis of a 360-day year.

The total amount of interest payable to each Bondholder shall be calculated in accordance with the Business Rules.

- (d) As soon as practicable after the determination of the Rate of Interest for any Interest Period, but no later than 5 Tokyo Business Days following the commencement of any Interest Period, the Issuer shall notify the Fiscal Agent in writing of such Rate of Interest and the relevant Interest Amount Per Currency Unit and Interest Payment Date; provided that public notices for these matters for any Interest Period need not be given. As soon as practicable after receiving such notice, the Fiscal Agent shall make such matters available for perusal by the Bondholders at the head office of the Fiscal Agent during normal business hours.
  - (e) If, after giving notice of any Rate of Interest, the relevant Interest Amount Per Currency Unit and Interest Payment Date pursuant to sub-paragraph (d) above, the relevant Interest Period is lengthened or shortened, the Issuer shall promptly determine what adjustment is appropriate. As soon as practicable after the determination of such adjustment, the Issuer shall notify the Fiscal Agent in writing of the Interest Amount Per Currency Unit and the Interest Payment Date, as amended pursuant to such adjustment; provided that public notices for such amendment need not be given. As soon as practicable after the date on which the Fiscal Agent receives such notice, the Fiscal Agent shall make such matters available for perusal by the Bondholders at the head office of the Fiscal Agent during normal business hours.
  - (f) Any Rate of Interest, Interest Amount Per Currency Unit or Interest Payment Date determined in accordance with the provisions of this Condition 6(1) shall (in the absence of manifest error) be final and binding upon all parties, including the Bondholders.
  - (g) Sumitomo Mitsui Banking Corporation acts as the Issuer's reference agent (the "Reference Agent") at its head office in Tokyo, Japan in respect of the Bonds. Pursuant to the Fiscal Agency Agreement, the Issuer shall entrust the Reference Agent with the performance of all of its obligations (other than those to give public notices) under this Condition 6(1) relating to the ascertainment, calculation and determination of any offered quotation or interest rate (including, but not limited to, the Rate of Interest and Interest Amount Per Currency Unit). The Reference Agent shall act solely on behalf of the Issuer and shall assume no obligation towards or relationship of agency or trust for or with the Bondholders. Any notice required to be given by the Issuer to the Fiscal Agent under this Condition 6(1) need not be given if and so long as the Fiscal Agent and the Reference Agent are one and the same bank. The Issuer may from time to time vary the appointment of the Reference Agent; provided that the appointment of the Reference Agent shall continue until a replacement reference agent shall be effectively appointed. In such case the Issuer shall give prior public notice thereof to the Bondholders.
- (2) The Bonds shall cease to bear interest from and including the date on which they become due for redemption; provided, however, that should the Issuer fail to redeem any of the Bonds when due in accordance with these Conditions of Bonds, then interest accrued on

the principal amount of the Bonds then outstanding shall be paid in Japanese Yen for the actual number of days in the period from, and including, the due date to, but excluding, the date of the actual redemption of such Bonds, computed on the basis of such actual number of days divided by 360 at the interest rate to be determined applying Condition 6(1) *mutatis mutandis* as if the Interest Payment Dates continued to occur after such due date. Such period, however, shall not exceed the date on which the Fiscal Agent (acting in its capacity of paying agent under the Business Rules, the "Paying Agent") allocates the necessary funds for the full redemption of the Bonds received by it among the relevant participants which have opened their accounts with the Book-Entry Transfer Institution to make book-entry transfer of the Bonds (*kiko kanyusha*) (the "Institution Participants"); provided that if such overdue allocation is not possible under the Business Rules, such period shall not exceed 14 days after the date on which the last public notice is given by the Fiscal Agent in accordance with Condition 8(2). The Issuer shall notify each interest rate so determined to the Fiscal Agent in writing in accordance with the provisions of Condition 6(1)(d), whereupon, in no later than 5 Tokyo Business Days following a relevant due date, the Fiscal Agent shall make such interest rate available for perusal by the Bondholders at the head office of the Fiscal Agent during normal business hours. Public notice for such interest rate need not be given.

## **7. Redemption and Purchase**

(1) Unless previously redeemed or purchased and cancelled, the Bonds shall be redeemed on [●], 20[●] at a price equal to 100% of the principal amount[, provided that, if such date would otherwise fall on a day which is not a Tokyo Business Day, the due date for redemption of the Bonds shall be postponed to the next succeeding Tokyo Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Tokyo Business Day] [*Applicable in the case of Floating Rate Bonds*].

(2) If as a result of any change in, or amendment to, the laws or regulations of the Federal Republic of Germany or any political subdivision or taxing authority thereto or therein affecting taxation or the obligation to pay duties of any kind, or any change in, or amendment to, an official interpretation or application of such laws or regulations, which amendment or change is effective on or after the date of issuance of the Bonds, the Issuer is required to pay Additional Amounts (as defined in Condition 9(1)) on the next succeeding Interest Payment Date, and this obligation cannot be avoided by the use of reasonable measures available to the Issuer, the Bonds may be redeemed, in whole but not in part, at the option of the Issuer, [at any time] [*Applicable in the case of Fixed Rate Bonds*]/[on any Interest Payment Date] [*Applicable in the case of Floating Rate Bonds*] at a price equal to 100% of the principal amount, together with interest (if any) accrued to [and including] [*Applicable in the case of Fixed Rate Bonds*]/[but excluding] [*Applicable in the case of Floating Rate Bonds*] the date fixed for redemption; provided, however, that no public notice of redemption as provided below may be given (i) earlier than 90 days prior to the earliest date on which the Issuer would be obligated to pay such Additional Amounts were a payment in respect of the Bonds then due, or (ii) if at the time such public notice is given, such obligation to pay such Additional Amounts or make such deduction or withholding does not remain in effect.

If the Issuer would be obliged to pay such Additional Amounts pursuant to Condition 9, but the laws or regulations of the Federal Republic of Germany or any political subdivision or taxing authority thereto or therein affecting taxation or the obligation to pay duties of any kind in force prohibit the Issuer from paying such Additional Amounts in full, then the Issuer



shall redeem (but subject to such laws) the Bonds then outstanding in whole, but not in part, at a price equal to 100% of the principal amount, together with interest (if any) accrued to [and including] [*Applicable in the case of Fixed Rate Bonds*]/[but excluding] [*Applicable in the case of Floating Rate Bonds*] the date fixed for redemption, as soon as practicable, but in no event later than 40 days after the later of (i) the date of the occurrence of the events giving rise to the obligation of the Issuer to pay such Additional Amounts or (ii) the date on which such laws or regulations become effective.

In the event of redemption to be made under this Condition 7(2), the Issuer shall deliver to the Fiscal Agent a certificate signed by its duly authorized officer stating (i) that the Issuer is or will be obliged to pay such Additional Amounts pursuant to Condition 9(1), (ii) that it elects or is obliged to redeem the Bonds pursuant to this Condition 7(2), (iii) the date for such redemption and (iv) that the conditions precedent to the right or obligation of the Issuer so to redeem under this Condition 7(2) have occurred (together with details of facts relating thereto), and a written opinion of independent legal advisers of recognized standing confirming the matters set forth in items (i) and (iv) above.

Such certificate and opinion shall be delivered to the Fiscal Agent at least 30 days prior to the proposed redemption date, and the Issuer shall give public notice to the Bondholders of such matters at least 14 days prior to the proposed redemption date. [Such proposed redemption date shall be a Tokyo Business Day (as defined in Condition 8(2)), and] [*Applicable in the case of Fixed Rate Bonds*] such delivery to the Fiscal Agent and public notice to the Bondholders shall be irrevocable.

Such certificate and opinion delivered by the Issuer to the Fiscal Agent pursuant to this Condition 7(2) shall be kept at the head office of the Fiscal Agent up to the expiry of 1 year after the redemption date and shall be made available for perusal or photocopying by any Bondholder during normal business hours. All expenses incurred for such photocopying shall be borne by the applicant therefor.

All other expenses necessary for the procedures under this Condition 7(2) shall be borne by the Issuer.

(3) The Issuer may at any time purchase the Bonds in the open market or otherwise and at any price. The Bonds purchased by the Issuer may, at the option of the Issuer, be held, resold or cancelled, except as otherwise provided for by applicable laws and in the Business Rules. If purchases are made by tender, tenders for the Bonds must be made available to all Bondholders alike.

(4) Except as otherwise provided in these Conditions of Bonds, the Issuer may not redeem the Bonds in whole or in part prior to the maturity thereof.

## **8. Payment**

(1) Payment of principal and interest in respect of the Bonds shall be made by the Paying Agent to the Bondholders, directly in cases when such Bondholders are the Institution Participants, and in other cases through the relevant account management institution (*kouza kanri kikan*) (the "Account Management Institution") with which such Bondholders have opened their accounts to have the Bonds recorded in accordance with the Book-Entry Transfer Act and the Business Rules. Notwithstanding the foregoing, at the time when the

Paying Agent allocated the necessary funds for the payment of principal of or interest on the Bonds received by it from the Issuer to the relevant Institution Participants, the Issuer shall be released from any obligation of such payment under these Conditions of Bonds.

[(2)] [If any due date for the payment of principal of or interest on the Bonds falls on a day which is not a day on which banks are open for business in Tokyo, Japan (the "Tokyo Business Day"), the Bondholders shall not be entitled to payment of the amount due until the next following Tokyo Business Day, nor shall they be entitled to the payment of any further or additional interest or other payment in respect of such delay.] [*Applicable in the case of Fixed Rate Bonds*]

[(2)/(3)] If the full amount of principal of or interest on the Bonds payable on any due date is received by the Paying Agent after such due date, the Fiscal Agent shall give public notice to the Bondholders to that effect and of the method of payment and the actual payment date as soon as practicable but not later than 14 days after the receipt of such amount by the Paying Agent. If at the time of such receipt either the method or the date of such payment or both are not determinable, the Fiscal Agent shall give public notice of such receipt and of the method and/or the date of such payment to the extent the same has been determined, and give at a later date public notice to the Bondholders of the method and/or the date of such payment as soon as practicable after the determination thereof. All expenses incurred in connection with the said public notice shall be borne by the Issuer.

## **9. Taxation**

(1) All payments of principal and interest in respect of the Bonds shall be made free and clear of, and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied or collected by or on behalf of the Federal Republic of Germany or any political subdivision or taxing authority thereto or therein affecting taxation or the obligation to pay duties of any kind unless such withholding or deduction is required by law. In such event, the Issuer shall pay such additional amounts of principal and interest (the "Additional Amounts") as shall be necessary in order that the net amounts received by the Bondholders, after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in the absence of such withholding or deduction. However the Issuer shall not be obliged to pay Additional Amounts with respect to taxes, duties or governmental charges which (i) are payable otherwise than by deduction or withholding from payments of principal or interest, (ii) are payable by reason of the Bondholder having, or having had, some personal or business connection with the Federal Republic of Germany and not merely by reason of the fact that payments in respect of the Bonds are, or for purposes of taxation are deemed to be, derived from sources in, or are secured in, the Federal Republic of Germany, (iii) are payable by reason of a change in law that becomes effective more than 30 days after (x) the date on which the relevant payment first becomes due, or (y) if the full amount payable on such due date has not been duly received by the Paying Agent on or prior to such due date, the date on which the last public notice has been duly given by the Fiscal Agent in accordance with [Condition 8(3)] [*Applicable in the case of Fixed Rate Bonds*]/[Condition 8(2)] [*Applicable in the case of Floating Rate Bonds*], whichever occurs later, or (iv) imposed on or in respect of any payment made in respect of a Bond pursuant to Sections 1471 to 1474 of the U.S. Internal Revenue Code of 1986, as amended ("FATCA"), any treaty, law, regulation or other official guidance enacted by the Federal Republic of Germany implementing FATCA, any intergovernmental agreement implementing FATCA or

any agreement between the Issuer and the United States of America or any authority thereof implementing FATCA.

(2) Any reference in these Conditions of Bonds to principal or interest shall be deemed also to refer to any Additional Amounts which may be payable in respect of principal or interest, respectively, under this Condition 9. All expenses necessary for the procedures under this Condition 9 shall be borne by the Issuer.

## **10. Events of Default**

The following will be Events of Default (each, an "Event of Default" with respect to the Bonds):

- (a) the Issuer fails to pay interest within 30 days from the relevant due date; or
- (b) the Issuer fails duly to perform any other obligation arising from the Bonds which failure is not capable of remedy or, if such failure is capable of remedy, such failure continues for more than 30 days after the first written notice thereof has been delivered to the Issuer at the head office of the Fiscal Agent by any Bondholder (at the time of giving such notice, such Bondholder shall present, at the head office of the Fiscal Agent, a certificate (a "Certificate") certifying holding of the relevant Bond and issued by the Book-Entry Transfer Institution or the relevant Account Management Institution); or
- (c) the Issuer announces its inability to meet its financial obligations or ceases its payments; or
- (d) a court opens insolvency proceedings against the Issuer or the Issuer applies for or institutes such proceedings or offers or makes an arrangement for the benefit of its creditors generally; or
- (e) the Issuer goes into liquidation unless this is done in connection with a merger, or other form of combination with another company and such company assumes all obligations contracted by the Issuer, as the case may be, in connection with this issue; or
- (f) any governmental order, decree or enactment shall be made in or by the Federal Republic of Germany whereby the Issuer is prevented from observing and performing in full its obligations as set forth in these Conditions of Bonds and this situation is not cured within 90 days.

If any Event of Default shall have occurred, any Bondholder may, at its option, by giving written notice by or on behalf of such Bondholder to the Issuer at the head office of the Fiscal Agent (at the time of giving such notice, such Bondholder shall present, at the head office of the Fiscal Agent, the Certificate), declare that any Bond(s) held by such Bondholder shall be forthwith due and payable, whereupon the same shall become immediately due and payable at a price equal to 100% of the principal amount together with interest (if any) accrued to [and including] [*Applicable in the case of Fixed Rate Bonds*]/[but excluding] [*Applicable in the case of Floating Rate Bonds*] such date, without further action or formality.

The right to declare the Bonds due shall terminate if the situation giving rise to it has been cured before the right is exercised.

If (x) any of the events specified in items (b) through (f) above has occurred or (y) any circumstance exists which would with the lapse of time or the giving of notice or both constitute any of such events, the Issuer shall, immediately or in case of (y) above immediately when such circumstance comes to the knowledge of the Issuer, notify the Fiscal Agent in writing of such event or circumstance and give public notice of the same to the Bondholders. If the event specified in item (a) above has occurred or any circumstance exists which would with the lapse of time constitute such event, the Issuer shall also immediately notify the Fiscal Agent in writing of such event or circumstance and give public notice of the same to the Bondholders.

All expenses necessary for the procedures under this Condition 10 shall be borne by the Issuer.

## **11. Bondholders' Meetings**

(1) The Issuer shall convene a Bondholders' meeting to consider any matters which relate to the interests of the Bondholders in the event: (i) that Bondholders holding one-tenth (1/10) or more of the aggregate principal amount of the Bonds (for the time being outstanding), acting either jointly or individually, so request in writing to the Fiscal Agent at its head office on behalf of the Issuer, provided that such Bondholders shall have presented to the Fiscal Agent at its head office the Certificates; or (ii) that the Issuer should deem it necessary to hold a Bondholders' meeting by giving written notice at least 35 days prior to the proposed date of the meeting to the Fiscal Agent.

When a Bondholders' meeting is to be convened, the Issuer shall give public notice to the Bondholders of the Bondholders' meeting at least 21 days prior to the date of such meeting; and ensure that the Fiscal Agent, on behalf of the Issuer, shall take the steps necessary for the convocation of the Bondholders' meeting and to expedite the proceedings thereof.

(2) The Bondholders may exercise their vote by themselves at the relevant Bondholders' meeting, by proxy, or in writing pursuant to the rules established by the Issuer or the Fiscal Agent on behalf of the Issuer. At any Bondholders' meeting, each Bondholder shall have voting rights in proportion to the aggregate principal amount of the Bonds (for the time being outstanding) held by such Bondholder; provided, however, that the Certificates shall have been presented to the Fiscal Agent at its head office, at least 7 days prior to the date set for such meeting and to the Issuer or the Fiscal Agent at such meeting, on the date thereof; and, provided, further, that the Bondholders shall not make an application for book-entry transfer or an application for obliteration of the Bonds unless the Bondholders return the relevant Certificate so issued to the Book-Entry Transfer Institution or the relevant Account Management Institution of such Bondholder.

(3) Resolutions at such Bondholders' meeting shall be passed by more than one-half (1/2) of the aggregate amount of voting rights held by the Bondholders who are entitled to exercise their voting rights (the "Voting Rights Holders") and present at such meeting; provided, however, that an Extraordinary Resolution (as defined below) is required with respect to the following items:

- (a) giving a grace of payment, an exemption from liabilities resulting from a default, or settlement, to be effected with respect to all the Bonds (other than the matters referred to in (b) below);
- (b) a procedural act to be made with respect to all the Bonds, or all acts pertaining to bankruptcy, corporate reorganization or similar proceedings; and
- (c) the election or dismissal of representative(s) of the Bondholders who may be appointed and entrusted by resolution of a Bondholders' meeting with decisions on matters to be resolved at a Bondholders' meeting (provided such representative(s) must hold one-thousandth (1/1,000) or more of the aggregate principal amount of the Bonds (for the time being outstanding)) (the "Representative(s) of the Bondholders") or an executor (the "Executor") who may be appointed and authorized by resolution of a Bondholders' meeting so as to execute the resolutions of the Bondholders' meeting, or the change in any matters entrusted to them.

"Extraordinary Resolution" means a resolution passed at a Bondholders' meeting by one-fifth (1/5) or more of the aggregate amount of the voting rights held by the Voting Rights Holders representing the aggregate principal amount of the Bonds (for the time being outstanding) and two-thirds (2/3) or more of the aggregate amount of the voting rights held by the Voting Rights Holders present at such meeting.

For the purposes of calculating the number of votes exercised at a Bondholders' meeting, the Bondholders who have exercised their votes by proxy or in writing shall be deemed to have attended and voted at such meeting.

(4) The resolution passed pursuant to this Condition 11 shall be binding on all the Bondholders whether present or not at such Bondholders' meeting to the extent permitted by the applicable Japanese law, and shall be carried out by the Representative(s) of the Bondholders or the Executor.

(5) For the purpose of this Condition 11, the Bonds then held by the Issuer or any holding company or subsidiary of it or any other subsidiary of such holding company shall be disregarded and deemed not to be outstanding.

(6) The Bondholders' meetings shall be held in Tokyo, Japan.

(7) All expenses necessary for the procedures under this Condition 11 shall be borne by the Issuer.

## **12. Registration Book**

The registration book for the Bonds shall be prepared, administered and kept by the Fiscal Agent at its head office on behalf of the Issuer.

### **13. Prescription**

The period of extinctive prescription shall be 10 years for the principal of the Bonds and 5 years for the interest on the Bonds.

### **14. Public Notices**

All public notices relating to the Bonds shall be published in a daily Japanese newspaper published in both Tokyo and Osaka reporting on general affairs. Direct notification to individual Bondholders need not be made. Such public notices to be given by the Issuer shall, upon the request and at the expense of the Issuer, be given by the Fiscal Agent on behalf of the Issuer. The Fiscal Agency Agreement provides that the Issuer shall request the Fiscal Agent in writing and at the expense of the Issuer to give such public notices on behalf of the Issuer whenever necessary under these Conditions of Bonds.

### **15. Currency Indemnity**

In the event of a judgment or order against the Issuer being rendered or issued by any court for the payment of the principal of or interest on the Bonds or any other amount payable in respect of the Bonds, and such judgment or order being expressed in a currency other than Japanese yen, any amount received or recovered in such currency by any Bondholder in respect of such judgment or order shall only constitute a discharge to the Issuer to the extent of the amount received or recovered by such Bondholder in Japanese yen and the Issuer undertakes to pay to such Bondholder the amount necessary to make up any deficiency arising or resulting from any variation in rates of exchange between (i) the date as of which any amount expressed in Japanese yen is (or is to be treated as) converted into such currency other than Japanese yen for the purposes of any such judgment or order, and (ii) the date or dates of discharge of such judgment or order (or part thereof). To the extent permitted by any applicable law, the above undertaking shall constitute a separate and independent obligation of the Issuer from its other obligations, shall give rise to a separate and independent cause of action against the Issuer, shall apply irrespective of any indulgence granted by any Bondholder from time to time and shall continue in full force and effect notwithstanding any judgment or order.

### **16. Governing Law and Jurisdiction**

The Bonds shall be governed by and construed in accordance with the laws of Japan.

Except as otherwise provided in these Conditions of Bonds, the place of performance of obligations pertaining to the Bonds is Tokyo, Japan.

The Issuer irrevocably consents to the nonexclusive jurisdiction of the Tokyo District Court, and any appellate court from thereof, and waives any immunity from the jurisdiction of such courts over any suit, action or proceeding that may be brought by the Bondholders in connection with the Bonds or these Conditions of Bonds. The Issuer irrevocably waives, to the fullest extent permitted by law, any objection to any suit, action or proceeding that may be brought in connection with the Bonds or these Conditions of Bonds in such courts on the grounds of venue or on the ground that any such suit, action or proceeding has been brought in an inconvenient forum. The Issuer agrees that final judgment in any such suit, action or proceeding brought in such court shall be conclusive and binding upon the Issuer and may be

enforced in any court to the jurisdiction of which the Issuer is subject by a suit upon such judgment.

The Issuer hereby appoints the representative director of Hypo Real Estate Capital Japan Corporation as the authorized agent of the Issuer upon whom process or any judicial or other court documents may be served in any legal or other court procedural action arising from or relating to the Bonds or these Conditions of Bonds that may be instituted in Japan; the Issuer hereby designates the address from time to time of Hypo Real Estate Capital Japan Corporation, currently at Otemachi 1st Square West Tower 10F, 5-1, Otemachi 1-chome, Chiyoda-ku, Tokyo 100-0004 Japan, as the address to receive such process or any judicial or other court documents; and the Issuer hereby agrees to take, from time to time and so long as any of the Bonds shall remain outstanding, any and all action (including the execution and filing of any and all documents and instruments) that may be necessary to effect and to continue such appointment and designation in full force and effect. If at any time such agent shall not, for any reason, serve as such authorized agent, the Issuer shall immediately appoint, and it hereby undertakes to take any and all action that may be necessary to effect the appointment of, a successor authorized agent in Tokyo, Japan, and the Issuer shall promptly notify the Fiscal Agent of the appointment of such successor agent and give public notice thereof.

Nothing in this Condition 16 shall affect the right of the Bondholders to institute legal or other court procedural action against the Issuer in any court of competent jurisdiction under applicable laws or to serve process or any judicial or other court documents in any manner otherwise permitted by law.

## **17. Modifications and Amendments**

To the fullest extent permitted by applicable law, certain modifications and amendments to these Conditions of Bonds may be made without the consent of any Bondholder, only for the purpose of curing any ambiguity, or of correcting or supplementing any defective provisions contained therein, adding covenants for the benefit of the Bondholders, removing or expanding the exemptions in the transfer restrictions in Condition 2, surrendering rights or powers conferred on the Issuer, effecting succession or assumption as a result of a merger or similar transaction, or in any other manner which the Issuer may deem necessary and desirable and which will not adversely affect the interest of the Bondholders or the Fiscal Agent. Any such modifications or amendments shall be notified to the Fiscal Agent immediately and public notice of the same shall be given at the expense of the Issuer and in accordance with Condition 14 as soon as practicable thereafter.

## **18. Further Issues**

The Issuer may from time to time without the consent of the Bondholders, create and issue further bonds (the "Further Bonds") with the same terms and conditions as the Bonds in all respects except for the amount and date of the first payment of interest thereon and/or the issue price so that such further issue shall be consolidated and form a single series with the outstanding Bonds, subject to the Business Rules. On and after the date of issue of the Further Bonds, provisions of these Conditions of Bonds shall be applied to the Further Bonds.