Program Information

Deutsche Pfandbriefbank AG

PROGRAM INFORMATION

Type of Information:	Program Information
Date of Announcement:	27 June 2016
Issuer Name:	Deutsche Pfandbriefbank AG (the "**Issuer**")
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Type of Securities:	Bonds (the "**Bonds**")
Scheduled Issuance Period:	28 June 2016 to 27 June 2017
Maximum Outstanding Issuance Amount:	JPY500 billion
Address of Website for Announcement:	http://www.jpx.co.jp/english/equities/products/tpbm/announcement/index.html
Status of Submission of Annual Securities Reports or Issuer Filing Information:	None

Notes to Investors:

1. The 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 general 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 (a) contains 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 is prepared pursuant to Rule 206, Paragraph 2 of the Special Regulations of Securities Listing Regulations Concerning Specified Listed Securities of Tokyo Stock Exchange (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 Hypo Real Estate Holding AG. References to the "**Hypo Real Estate Group**" (used in the context before the reprivatisation of the Issuer) are to Hypo Real Estate Holding, the Issuer (including its subsidiaries, affiliates and associated companies) and Hypo Real Estate Finance B.V.i.L. References to "**pbb Group**" are to the Issuer and its subsidiaries, affiliates and associated companies.

   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 shall be required to 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 an officer (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, the "**Definitions Cabinet Office Ordinance**")) 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*)) (as prescribed in Article 11-2, Paragraph 3 of the Definitions Cabinet Office Ordinance) 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(s), Etc. under their own name or another person's name (as prescribed in Article 11-2, Paragraph 2 of the Definitions Cabinet Office Ordinance); 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 (i) agreeing to comply with the restriction on transfer of the Bonds as set forth in note 6 above (in the case of a solicitation of an offer to acquire the Bonds to be newly issued), or (ii) entering into an agreement providing for the restriction on transfer of the Bonds as set forth in note 6 above 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 Rules 210 and 217 of the Special Regulations; and

(f) the Issuer Information, Etc. will be provided to the holders of the Bonds or made public pursuant to Article 27-32 of the FIEA.

8. This document contains future-oriented statements inter alia in the form of intentions, assumptions, expectations or 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 Toushika*) 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 S&P Global Ratings ("**Standard & Poor's**"). Such rating 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:

- Daiwa Securities Co. Ltd.;
- Nomura 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 the 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, and 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. 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 Act (*Einlagensicherungentschädigungsgesetz*) 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 tax on payments made to certain investors 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 certain payments made to (i) to certain holders that do not comply with specific information requests and (ii) foreign financial institutions unless such foreign financial institution payee agrees, among other things, to disclose the identity of certain account holders, including U.S. account holders, at the institution (or the institution's affiliates) and to annually report certain information about such accounts to the appropriate tax authorities. 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. This withholding currently applies to certain payments from sources within the United States and will apply to "foreign passthru payments" (a term not yet defined) no earlier than 1 January 2019. This withholding would potentially apply to Bonds issued by the Issuer after the date that is six months after the date that the term "**foreign passthru payment**" is defined in regulations published in the U.S.

Federal Register (the "**Grandfathering Date**"), or that are materially modified after such date. If Bonds are issued on or before the Grandfathering Date, and additional Bonds of the same series are issued after that date, the additional Bonds may not be treated as grandfathered.

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. 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.

The Issuer is treated as a Reporting FI within the meaning of FATCA pursuant to the US-Germany IGA and has registered with the IRS. The Issuer does not anticipate being obliged to withhold on payments made on the Bonds pursuant to FATCA or the IGA but there can be no assurance that the Issuer will not be required to withhold such amounts.

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 or the IGA with respect to payments on Bonds or on the proceeds of sale, such amount will be deducted from any interest, principal or other payments on the Bonds as required. 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 or the IGA 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 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 resolution tools 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 or its group.

The SAG provides resolution tools and powers which can be applied if, inter alia, the continued existence of the Issuer or its group is at risk (*Bestandsgefährdung*) and a resolution action is necessary in the public interest (*Öffentliches Interesse*). The resolution tools include the bail-in tool and the write down or conversion of capital instruments tool.

The bail-in tool and the write down or conversion of capital instruments tool empower the competent resolution authorities (in particular currently, in Germany, the Bundesanstalt für Finanzmarktstabilisierung – FSMA – and, on a European level, the Single Resolution Board) – 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 the Amounts Due (as defined in the Conditions of Bonds) on the 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; the write down or conversion of capital instruments tool may also be applied if not the Issuer itself, but the group of the Issuer meets the resolution requirements. The application of the bail-in tool and the write down or conversion of capital instruments tool may release the Issuer from its obligations under the terms and 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 provides for a pre-defined hierarchy of bank creditors (*Haftungskaskade*) for absorbing losses according to which own funds must first be written down or be converted, followed by instruments not qualifying as own funds instruments. With regard to the Bonds, it needs to be considered that the hierarchy of bank creditors in a resolution scenario for instruments other than own funds instruments follows the hierarchy in an insolvency scenario. In this context and in connection with the SRM Regulation, the German Parliament adopted the Resolution Mechanism Act dated 2 November 2015 (*Abwicklungsmechanismusgesetz*) on 24 September 2015. The Resolution Mechanism Act provides that in case of an insolvency or the continued existence of the Issuer or its group is at risk (*Bestandsgefährdung*) on or after 1 January 2017 certain debt instruments, including the Bonds under the Program, which provide for (i) a redemption and redemption amounts in cash not linked to the occurrence or non-occurrence of an event that is not known at the time of issue and (ii) for the payment of interest that is only dependent on a fixed or variable reference rate, will be satisfied only after other senior debt obligations have been satisfied. As a consequence, the risk of a write down or conversion increases for the holders of Bonds compared to holders of other senior obligations. Further, there is a risk that in connection with future amendments of the European or German banking recovery and resolution laws further insolvency priorities for eligible liabilities which are also relevant in a resolution scenario may be introduced by law and creditors of certain types of Bonds might be affected before creditors of other senior eligible liabilities. 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, if the continued existence of the Issuer or its group is at risk (*Bestandsgefährdung*) 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 in the event of resolution actions 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.

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 competent national or European 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, the SAG introduces certain early intervention powers enabling supervisory authorities, in addition to their 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.

The exercise of any such early intervention or resolution powers, or any suggestion, or perceived suggestion, of such exercise 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.

In case of financial difficulties, the Issuer may initiate a reorganisation proceeding (Reorganisationsverfahren) or restructuring proceeding (Sanierungsverfahren) on the basis of the German Bank Reorganisation Act (Kreditinstitute-Reorganisationsgesetz) 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).

The German Bank Reorganisation Act (*Kreditinstitute-Reorganisationsgesetz,* the "**KredReorgG**") provides for the possibility to implement reorganisation proceedings (*Reorganisationsverfahren*) which allow for a restructuring of the Issuer if it is 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 the 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.

Under certain conditions, alternatively to the measures under the KredReorG, the Issuer might 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 (*Finanzmarkstabilisierungsfondsgesetz,* "**FMStFG**").

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. It is possible that the yield of a fixed rate Bond at the time of the issuance is negative, in particular if the interest rate is zero per cent. or close to zero per cent. and/or if the issue price is higher than 100 per cent. of the principal amount.

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.

A Holder of a fixed rate Bond should also be aware that the Specified Securities Information may provide that the nominal interest rate of a fixed rate Bond is fixed at zero per cent. until the maturity date. Moreover, the Specified Securities Information may specify an issue price higher than 100 per cent. of the principal amount of the fixed rate Bonds. As a consequence, it is possible that the yield of the fixed rate Bonds at the time of the issuance is negative, in particular if the interest rate is zero per cent. or close to zero per cent.

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 the regulation and reform of benchmarks 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 disappear entirely, or have other consequences which cannot be predicted. Key international proposals for reform of "benchmarks" include IOSCO's Principles for Financial Market Benchmarks (July 2013) (the "**IOSCO Benchmark Principles**") and the proposed EU Regulation on indices used as benchmarks in certain financial instruments and financial contracts (the "**Proposed Benchmark Regulation**"). While the IOSCO Benchmark Principles are intended to provide a general framework of overarching principles applicable to benchmarks (such as principles in relation to quality, transparency and methodologies), the Proposed Benchmark Regulation seeks to introduce a general requirement of regulatory authorisation for benchmark administration and in particular a ban of use of "benchmarks" of unauthorised administrators. As a result of these proposals, market participants may be discouraged from continuing to administer or participate certain "benchmarks", or initiate amendments to the respective rules

and methodologies. Any such consequence or further consequential changes to LIBOR®, the EURIBOR® or the STIBOR® 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 a "benchmark".

(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 in particular a summary of the withholding tax treatment in 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 any specific facts or circumstances that may apply to a particular position of a holder of Bonds 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.

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, a difference arising from an amount received due to redemption of the Bonds exceeding the issue price thereof (the "**Premium**") and gains derived from the sale of the Bonds 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.

Interest on the Bonds, the Premium and gains derived from the sale of the Bonds received by individual non-residents of Japan or foreign corporations having no permanent establishment in Japan are not generally subject to Japanese taxation, provided, however, that the tax obligation of such individual non-residents of Japan or foreign corporation may be further 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 Toushika*) as defined in Article 2, paragraph 31 and subject to Articles 34-2 to 34-4 of the FIEA. Secondarily, the Bonds shall not be sold, transferred or otherwise disposed to any person other than Professional Investors, Etc. (*Tokutei Toushika 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 an officer (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, the "**Definitions Cabinet Office Ordinance**")) 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*)) (as prescribed in Article 11-2, Paragraph 3 of the Definitions Cabinet Office Ordinance) 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(s), Etc. under their own name or another person's name (as prescribed in Article 11-2, Paragraph 2 of the Definitions Cabinet Office Ordinance); 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 (1) to (3) 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.

(5) SPECIAL NOTES ON PRIMARY OFFERING FOR SUBSCRIPTION TO PROFESSIONAL INVESTORS

Under the Conditions of Bonds, the Bondholders are bound by the exercise of the German bail-in power (as defined in the Conditions of Bonds) and upon the exercise of the German bail-in power the rights of the Bondholders will be affected and varied in accordance therewith. Further investors should be aware that the Bondholders could suffer, among others, from the following consequences.

- Upon the exercise of the German bail-in power by the relevant German resolution authority with respect to the Bonds (unless, at the time that such repayment or payment, respectively, is scheduled to become due, such repayment or payment would be consistent with any provision made or action taken pursuant to such exercise and would be permitted to be made by the Issuer under the laws and regulations of the Federal Republic of Germany and the European Union applicable to the Issuer), the Issuer shall be released from its payment obligations (in relation to repayment of the principal amount, payment of interest and any other payments due) under the Bonds, to the extent that outstanding principal amounts under the Bonds have been subject to the exercise of the German bail-in power by the relevant German resolution authority.

- Any repayment of the principal amount and payments of interest on the Bonds made to the Bondholders after the exercise of the German bail-in power in the excess of the amount permitted to be paid by the Issuer under the laws and regulations of the Federal Republic of Germany and the European Union applicable to the Issuer, shall be null and void, and the Bondholders who received the payments shall return the received amounts to the Issuer immediately.

- No Bondholders shall be entitled, after the exercise of the German bail-in power, to set off any of their former rights and entitlements to repayment of the principal amount or payments of interest in respect of the Bonds against any other obligations which they may owe to the Issuer at that time, to the extent that those rights and entitlements in respect of the Bonds have been cancelled, reduced or converted by operation of the German bail-in power, unless, at the time that such set off, such set-off would be permitted to be made by the Bondholders under the laws and regulations of the Federal Republic of Germany and the European Union applicable to the Issuer.

The records, etc. under the Book-Entry Transfer System

It is not yet clear what procedures and timelines will need to be followed in connection with the exercise of the German bail-in power. It is possible that public notice of the exercise of the German bail-in power could be given immediately before or even after the effective date of such exercise. Also, even if the Issuer and/or the Fiscal Agent request the relevant book-entry transfer institution immediately upon the exercise of the German bail-in power to take necessary actions in accordance therewith the German bail-in power (including but not limited to mark-down of the value of the Bonds as recorded under the book-entry transfer system), a period of time may be required before implementation of such actions. As a result, there can be no assurance that mark-down of the value of Bonds as recorded under the book-entry transfer system and/or suspension of transfers through the book-entry transfer system will be implemented before or simultaneously with the effectiveness of any exercise of the German bail-in power, and there is a possibility that the Bonds have been already written down or converted and therefore the Issuer has been already released from its payment obligations under the Bonds even when there are still records of the Bonds in the case of the exercise of the German bail-in power. In addition, when the Bonds are converted into shares or other securities or obligations of the Issuer or any other person pursuant to the German bail-in power, the procedures for conversion and delivery of the shares, etc. may not be conducted within the framework of the book-entry transfer system.

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 on 2 June 2016. This rating firm has 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), 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 2014 and 2015:

		2015	2014
Operating performance according to IFRS			
Pre-tax profit/loss	in Euro million	195	54
Net income/loss	in Euro million	230	4

Balance sheet figures		**31.12.2015**	**31.12.2014***
Total assets	in Euro billion	66.8	74.9
Equity (excluding revaluation reserve)	in Euro billion	2.7	3.4
Equity	in Euro billion	2.7	3.5

The figures in this table are rounded.

* 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 2015).

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 December 2015).

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 business, liquidity, financial position, net assets and/or results of operations and as a consequence its 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, tax and litigation matters, and risks subsequent to the restructuring and privatisation 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, tenant and realisation 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.

Realisation risk with respect to defaulting clients is the risk that general and individual value adjustments change during the observation period or in case of liquidation a differing realisation occurs.

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 disincentivise customers from saving money through the holding deposits with the Issuer under its "pbb direkt" 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, in particular if no, insufficient or ineffective hedging arrangements have been made. Unpredictable currency exchange rate fluctuations also represent a notable market risk to the Issuer. For example, the discontinuation of the Swiss Franc cap versus the Euro in 2015 had significant repercussions on the financial sector including the Issuer. Future unexpected fluctuations (including those associated with similar developments or other developments such as the possibility of member states leaving the EU (e.g. "**Grexit**", "**Brexit**") which might have a negative impact on the euro or pound sterling) 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.

The transactions of the Issuer are furthermore exposed to basis risk (risk from changes in basis spreads), volatility risk (risk from changes of implied volatility) 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 its 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 the former Hypo Real Estate Group with its parent company Hypo Real Estate Holding AG 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 recent years, 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. During the sovereign debt crisis the ECB felt forced to act several times to stabilise the euro area's financial markets. Under its Security Markets Program ("**SMP**") the ECB bought government bonds from countries under pressure, including Italy and Spain, in the secondary market in the amount of Euro 210 billion between May 2010 and February 2012. In December 2011 and February 2012, the ECB provided banks with large amounts of special long-term financing. As a supplement to the European Stability Mechanism ("**ESM**"), the ECB introduced the Outright Monetary Transactions ("**OMT**") program in 2012 as the successor of the SMP, enabling, in principle, the unlimited purchase in the secondary market of government bonds of countries supported by an ESM program. In addition, since January 2015, the ECB has been buying government bonds of all countries of the European Monetary Union excluding Greece, on a regular basis independent of market conditions, under the framework of a general "quantitative easing" monetary policy. While this program's announced primary aim was not to support the market access of highly indebted countries, it did make it easier for governments to obtain financing at lower rates. Currently, there is also a third programme to buy covered bonds under a third covered bond purchase programme (CBPP3) in place launched in October 2014 by the Eurosystem. It aims to enhance the functioning of the monetary policy transmission mechanism, support financing conditions in the euro area, facilitate credit provision to the real economy and generate positive spillovers to other markets. The programme will last for at

least two years. However, there have been doubts whether some of the measures are within the legal mandate of the ECB; in addition, there are discussions regarding the political and economic effectiveness respectively adequateness of such measures. Therefore, it is possible that the ECB will in the future amend or reduce measures which have so far supported the markets in the Eurozone and in particular the refinancing opportunities of banks, including the Issuer. At the same time, it cannot be excluded that the ECB interventions may affect in particular 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. This may persist even after the ECB ceases to apply its policies which could cause Pfandbriefe spreads to widen again and consequently increase the refinancing costs of the Issuer. 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. 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-number high-volume 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, legal, tax, regulatory, social and other conditions. The cyclicality 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 in terms of the numbers of transactions (with only about 120 to 220 transactions per year) but high-volume (with, on average, about Euro 53 million per transaction). A failure to complete one or more large transactions could have a material adverse effect on the Issuer's full year or interim results, liquidity, net assets 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 cyberattacks 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.

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. 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.

The operational risk at the Issuer also includes reputational risks. Reputational risks are defined as the risk of losses due to events that may damage customers', shareholders', investors', supervisory authorities' or third parties' 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 and the Hypo Real Estate Group it belonged to. 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 and/or computer related crime, which could result in material losses of client or customer information, damage the Issuer's reputation and lead to regulatory penalties as well as criminal and other sanctions 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. However, it may be possible that the Issuer acquires real estate in connection with rescue activities and, thus, bears enhanced real estate risk. The Issuer may further be exposed to increased real estate risk in the future, if the Issuer expands its business to countries in which it did not do or ceased to do business in the past and is more dependent on third parties resulting from the lack of know how, representations and personnel in such countries.

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 relatively small number of individual exposures in recent years. However, even if the Issuer expects that allowances on losses for loans and advances will normalise (i.e. increase), it cannot be ruled out that significant allowances on losses for loans and advances will have to be recognised in the future even beyond a normalised level. 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.

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. Additionally, the legal framework for guarantees and warranties may change, which, for example, already occurred in Austria as regards guarantees issued by the state of Carinthia. 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 these risks materialise, they could have a material adverse effect on the Issuer's business, financial position 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 retain a positive cost-income ratio or the cost-income ratio investors expect the Issuer to have. The Issuer may also encounter difficulties to sell assets from the value portfolio ("**VP**" or "**Value Portfolio**") which is of a significant volume, provides for low or negative margins and long maturities and no new business is made in the VP. This may increase the pressure on the Issuer to find alternative business opportunities with higher margins, but potentially also higher risks.

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. This may compromise the development in earnings. Negative effects may also impact other market participants, which may have a positive or negative effect on the competition. In extreme cases, turbulences may arise on the market due to the interconnected nature of the markets. Furthermore low market interest rates may result in premature extensions of credit exposures, possibly pressuring future margins. The low interest rate environment may also trigger market exuberance in other asset classes. As such, the volatilities of real estate valuations may rise, irrespective of the quality of the underlying property.

The Issuer bears the risk of downgrading of the ratings assigned to it, its Pfandbriefe and its other debt instruments including subordinated instruments 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 case the Federal Republic of Germany sells or reduces its indirect holding in the Issuer, there is a risk of the occurrence of a rating downgrade.

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

A rating, solicited or unsolicited, is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, reduction or withdrawal at any time by the assigning rating agency. 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. Changes to specific rating drivers with regard to the Issuer or its Pfandbriefe as well as of other debt instruments including subordinated instruments issued by the Issuer or its affiliates may affect a rating agency's assessment and may hence lead to rating downgrades or changes in rating outlooks. 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 cannot serve as a substitute for 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 by the respective rating agency, and there is no obligation for the Issuer to apply for ratings at all, as there is also no obligation of rating agencies to provide ratings on the Issuer, its notes or other securities, unless a contractual obligation to do so is in place. 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, such as regulatory requirements and the potential impact of the European sovereign debt crisis. These include, but are not limited to, the new European legislative initiatives to centralise supervision of systemically important banks and to support bank resolution and bail-in of unsecured creditors, as well as potential future changes to regulatory requirements relating for example to the assessment of the amount of risk weighted assets etc. and, thus, capital ratios, leverage ratios, Minimum Requirement for Eligible Liabilities (MREL)/Total Loss-Absorbing Capacity (TLAC) and the like. As of the date of this document, the methodological changes that have been announced in this context were not fully finalised or have not yet been completely implemented.

Furthermore, changes to specific rating drivers with regard to the Issuer or its Pfandbriefe as well as of other debt instruments including subordinated instruments issued by the Issuer or its affiliates may affect a rating agency's assessment. This also includes the termination or reduction of the Federal Republic of Germany's indirect minority shareholding in the Issuer and against this background especially the continued positive development of the Issuer and its rating drivers in line with the rating agencies' expectations. In case the Federal Republic of Germany sells or reduces its indirect holding in the Issuer, there is a risk of the occurrence of a rating downgrade. Prior to the privatisation of the Issuer, rating agencies have been taking the view that, inter alia, due to the Issuer's shareholding structure with an indirect 100 per cent. ownership of the Federal Republic of Germany, extraordinary support of the Issuer from the German government would be available if needed and that the

Issuer's operations benefitted from the indirect state ownership. This justified, in the past, more favourable ratings.

Against this backdrop, Hypo Real Estate Holding, the Issuer, FMS and FMSA entered into a lock-up agreement (the "**Lock-up Agreement**") on or about 22 June 2015, which contains a commitment of Hypo Real Estate Holding as the selling shareholder to maintain at least 20 per cent. in the Issuer, subject to certain contractual limitations, for a period ending two years after the first day of trading of the shares of the Issuer on the Frankfurt Stock Exchange as of 16 July 2015. The Issuer expects that, upon the expiry of this lock-up period, the Federal Republic of Germany will aim at reducing its (indirect) holding in the Issuer. While the objective of the lock-up commitment is that the indirect shareholding of the Federal Republic of Germany continues to be both sufficient and required to maintain the Issuer's issuer credit rating at investment grade level, this cannot ensure that rating agencies acknowledge a rating uplift resulting from the indirect shareholding of the Federal Republic of Germany. Even if a rating agency acknowledges a rating uplift resulting from the indirect shareholding of the Federal Republic of Germany, this rating agency may change its view in the future. In addition, the rating uplift associated with the indirect shareholding of the Federal Republic of Germany may even not be sufficient to assign an investment grade rating. Furthermore, the parties to the Lock-up Agreement may amend or terminate (including, potentially, in case the indirect shareholding of the Federal Republic of Germany is not sufficient anymore to maintain the Issuer's issuer credit rating at investment grade level) the agreement or shares could be sold or otherwise transferred in breach of the lock-up commitment or the percentage of the indirect participation of the Federal Republic of Germany in the Issuer could decrease if capital increases occur in which the Federal Republic of Germany does not participate. In any of these cases, and no later than upon the expiry of the lock-up commitment two years after 16 July 2015, a rating uplift resulting from the indirect shareholding of the Federal Republic of Germany, if any, could fall away. Furthermore, it cannot be excluded that due to changes to the existing shareholder structure not only the rating uplift may no longer apply, but ratings may even be negatively affected depending for example on changes to the business model and strategy or other negative implications on rating drivers enforced by new shareholders.

With regard to the ratings of Pfandbriefe, rating agencies define, and regularly review, over-collateralisation requirements in order to assign their ratings. This may result in an increase of the over-collateralisation requirements and, in case no such collateral is provided, have a negative impact on the current ratings of the Pfandbriefe issued by the Issuer (which could result in higher refinancing costs). If additional collateral was to be provided in order to meet new over-collateralisation requirements, this would have to be refinanced by other, more expensive means of funding (i.e. the issuance of unsecured debt) and an increase of such over-collateralisation requirements could negatively impact the liquidity situation of the Issuer.

A rating downgrade of senior liabilities, especially below investment grade (also as the Bonds issued by the Issuer are then no longer eligible for collateral in return for liquidity offered by the ECB in its monetary policy operations), could have negative effects, on the funding opportunities of the Issuer and could significantly increase the costs of refinancing. Furthermore, a downgrade could have a negative impact on triggers and termination rights under derivatives and other contracts, and on the access to suitable hedge counterparties. A rating downgrade could also result in the Issuer being required to provide (additional) collateral due to contractual obligations (margin calls) and therefore lead to increased liquidity needs. Furthermore, a rating downgrade, especially below investment grade, could 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 and/or may lead to pressure on such Bonds and, thereby, negatively affect their price. 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 would prohibit the Issuer from pursuing its business strategy. The Issuer's 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 would have a material adverse effect on the Issuer.

The negative effects described above could also 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, even if unsolicited) 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).

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

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 turbulences 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 materialise, could have a material adverse effect on the Issuer's business, liquidy, financial position, net assets 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, liquidy, financial position, net assets and results of operations.

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

In the last few years, the number of geopolitical conflicts increased worldwide. In connection with those conflicts sometimes sanctions are imposed on certain countries, for example in the conflict in the Ukraine sanctions against Russia Any future intensification or expansion of these conflicts could have a negative effect on the markets and thus on the Issuer's business, liquidy, financial position, net assets and results of operations.

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 an 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 and 10 April 2016 in relation to HETA Asset Resolution AG ("**HETA**") to place a moratorium on the payments under HETA's debt securities and to apply a bail-in to these 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 amounts to Euro 21.7 billion as of 31 December 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. These risks arising from the European sovereign debt crisis may have, should they materialise, a material adverse effect on the Issuer's business, liquidy, financial position, net assets and results of operations.

Following the FMA's decision on HETA's debt securities in March 2015, the Issuer was forced to take a significant impairment (in an amount of EUR 197.5 million as of 31 December 2015) on its outstanding exposure to HETA (which amounts to nominal Euro 395 million as at the date of this Supplement). The Issuer has filed a lawsuit before the regional court (*Landgericht*) Frankfurt am Main against HETA for the redemption of the full nominal amount, omitted coupon payments, interest and compensation for damages and has served a third party notice to the Austrian Federal State of Carinthia. On 10 April 2016, the FMA decided to apply a bail-in, among others, to senior bonds of HETA creditors of 53.98% i.e. they will receive a quota of 46.02% out of HETA. Other measures announced by the FMA include the extension of the bonds' maturities to 31 December 2023 and the cancellation of interest payments as of 1 March 2015. The Issuer has filed appeals against the HETA moratorium and the bail-in decision with the Austrian financial markets supervisory authority. It is still to be awaited how the courts and the administrative authorities will decide upon the respective legal actions initiated by the Issuer. Even if the courts or administrative authorities will confirm the legal position of the Issuer it is uncertain at which point of time the respective payments will be made. This uncertainty even increases since such claims subject to German law will have to be enforced and recognized in Austria. Even if on 18 May 2016, creditors of HETA, including the Issuer, as well as the Republic of Austria, entered into a Memorandum of Understanding ("**MoU**") regarding the intended repayment of senior debt instruments issued by HETA to a large extent, a certain level of uncertainty persists since the redemption offer is subject to certain conditions.

Changes to the method of valuation of financial instruments may adversely impact the Issuer and its development in earnings.

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 uncollateralised derivatives may result in a change in the market conventions for valuing of derivatives. As of 1 January 2018, the Issuer will have to apply IFRS 9 Financial Instruments. Allowances recognised in accordance with IFRS 9 are likely to exceed the level of allowances recognised on loss events materialised in accordance with the current rule IAS 39 and the level of volatility of earnings is expected to exhibit a higher level of volatility due to the higher number of financial assets to be measured at fair value through profit or loss. Expenses incurred with the implementation of IFRS 9 will burden the Issuer's development in earnings until 2018.

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, national supervisory authorities like the BaFin have paid high attention to this issue, and the ECB which assumed responsibility for the supervision of the Issuer on 4 November 2014 will also focus thereon. In particular, the ECB is now responsible for reviewing the existing, already approved, current or future internal rating based approach (IRBA) models, i.e. models which banks may use to calculate the own funds which are required for certain credit exposures. As part of a sector-wide review, the ECB has started to also review some of

the models used by the Issuer. This may lead to different, stricter new requirements being imposed upon the Issuer (bearing in mind that the ECB is striving to harmonise the use of IRBA models on a European basis or even the return to the standardised approach as opposed to the IRBA approach), that may result in higher risk weighted assets and, as a consequence, higher capital requirements. Also, the new developments in the area of risk-assessment may also have an impact on the risk-assessment analysis in the pillar 2 going-concern approach and in the gone-concern approach, influence the assessment of market values for assets and liabilities and also result in a higher amount of risk weighted assets. 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, for example, 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 and Litigation

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 includes provisions for more stringent regulatory capital, liquidity standards, restrictions on compensation practices as well as recovery and resolution powers.

In particular, the implementation of the reform measures in 2010 (Basel III) are ongoing and will lead to higher requirements, particularly in terms of minimum capital requirement. In addition, further regulatory requirements are currently phased-in or envisaged to be implemented such as the Liquidity Coverage Ratio (LCR), which is currently phased in, and the Net Stable Funding Ratio (NSFR) and the Leverage Ratio (LR), which is a non-risk based measure designed to act as a supplement to risk based capital requirements, which will all 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 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**", together with the CRD IV, the "**CRD IV/CRR-package**")). 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, including with regard to the application and calibration of internal models, 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. In addition, the recovery and resolution regime allows authorities to set minimum requirements for own funds and eligible liabilities (MREL). This could require the Issuer to issue additional capital with sufficient loss absorbing quality. 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 change which may lead to changes regarding capital resources.

In addition, further regulatory measures are envisaged on the level of the Basel Committee on Banking Supervision of the Bank for International Settlement (BIS). The Basel Committee is working on several modifications of the Basel III rules, often referred to as Basel IV. Some of these revisions have already been finalised, including the revisions regarding minimum capital requirements for market risk and revisions to the securitization framework on the level of the Basel Committees; while others are still subject to discussions, including the revisions to the standardised measurement approach for operational risk, revisions to the standardised approach for credit risk and haircut floors for non-centrally cleared securities financing transactions. Also, the Basel Committee has announced to review 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. The amendments will need be to implemented into EU law over the next years. Once implemented, they will overall lead to a further increase of capital requirements. In particular, 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 which could therefore reduce new business in the PIF segment and its attractiveness.

The Regulation (EU) No 1022/2013 of 22 October 2013 and the Regulation (EU) No 1024/2013 of 15 October 2013 created 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 the European Banking Authority ("**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 EBA and the national competent authorities. The EBA has announced that it wishes to repeat such stress tests at regular intervals, and a first repetition was launched on 24 February 2016. 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 fulfil 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 strategy 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 is 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 and which has been implemented into German law by the Deposit Protection Act (*Einlagensicherungsgesetz*), which became effective on 3 July 2015. The revised Directive provides, amongst other things, 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. As contributions of each bank are determined on the basis of the individual risk profile and as such determinations are reviewed regularly, it is possible that the Issuer's contributions will increase and it might not be possible for the Issuer to pass on such additional expenses to the market due to the existing price competition. In addition, there is the risk that the Issuer decides to contribute to the rescue of banks that find themselves in economic difficulties, possibly in the form of posting collateral and similar efforts with a view to avoiding special contributions, in particular because the Deposit Protection Fund of the Association of German Banks (*Einlagensicherungsfonds des Bundesverbands deutscher Banken e.V.*) may under certain circumstances provide funding to its participating banks to avoid their failure. Moreover, there is a risk of any potential materially adverse price impact of any perceived increase in the likelihood that the Issuer would be required to make additional payments to the statutory deposit protection scheme. An increase of contributions could also result from an euro-area wide deposit insurance scheme (EDIS) for bank deposits which the European Commission has proposed as a third pillar of the Banking Union, but which is still subject to intense political discussions. Any of these cases may reduce the Issuer's otherwise available capital and increase its operating cots and, hence, negatively affect its business, financial position and earnings.

The SRM Regulation is closely connected with the BRRD which is implemented into German law by the Restructuring and Resolution Act (SAG). The resolution tools 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 having decision rights with regard to many of the functions assigned to national resolution authorities by the BRRD. For more details, 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. In connection therewith, it is to be considered also that pursuant to the German Resolution Mechanism Act dated 2 November 2015 (*Abwicklungsmechanismusgesetz*) in case of insolvency or in case the continued existence of the

Issuer or its group is at risk (*Bestandsgefährdung*) on or after 1 January 2017 certain debt instruments, will be satisfied only after other senior debt obligations. As a consequence, the risk of a write down or conversion increases for the holders of Bonds compared to holders of other senior obligations. Against this background, it is possible that Bonds may no longer be eligible for repo transactions with the relevant national central bank. This may affect the ability and costs of the Issuer to fund itself through senior unsecured debt issuances.

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 might be required to re-adjust its business plan that is subject to the SSM. 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.

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

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 fulfil 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 as part of the Pillar 2 regime. 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. On the basis of such assessments, the ECB has established a CET1 minimum ratio for the Issuer in excess of the requirements following from the CRD IV Package under Pillar 1. It is possible that the SREP ratio applicable to the Issuer may increase and that, furthermore, additional requirements for the capital structure, such as the (Minimum Requirement for Own Funds and Eligible Liabilities – (MREL) and the level of indebtedness (Leverage Ratio), which are currently under discussion, may be imposed upon the Issuer and may have a negative effect on the funding and business activities 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 contributions to the Single Resolution Fund (SRF) or a financial market transaction tax. Such levies or taxes could have a negative impact on the Issuer's total other comprehensive income for the period and render certain transactions unprofitable.

External tax audits may result in additional tax income and, thus, in higher tax expenses for previous periods.

External tax audits may result in additional taxable income, and thus in higher tax expenses for previous periods. For example if a tax audit does not deem the profit attribution between the Issuer's head office in Germany and a permanent establishment of the Issuer outside of Germany to be appropriate, this usually results in double taxation. To eradicate these double taxations, so-called mutual understandings are arranged between the competent financial authorities. The Issuer and its consolidated subsidiaries have recognised sufficient provisions to allow for the risk of double taxation, however, these provisions may not suffice.

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*) and it cannot be ruled out that additional legal actions will be pursued in this context.

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.

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

Risks Subsequent to the Restructuring and the Privatisation of the Issuer

The Issuer may have tax disadvantages, if it loses existing tax loss and interest carry forwards.

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*, KStG) 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 changes in the shareholder structure of the Issuer, net operating losses may forfeit in the amount of Euro 3.8 billion for corporate income tax purposes and Euro 3.8 billion for trade tax purposes (off-balance sheet). Furthermore, there is a risk that such net operating losses may have already been forfeited, in full or in part, as a consequence of the indirect acquisition of the Issuer by FMS due to its acquisition of 100% of the shares in HRE Holding in 2010, as it cannot be ruled out that Section 14 FMStFG, pursuant to which the Issuer considers the respective acquisition as being exempt from the provisions of Section 8c KStG, may be retroactively declared void, in particular because of a potential breach of EU law. The forfeiture of the net operating losses would, *inter alia*, result in a higher tax burden and a loss of deferred tax assets.

The Issuer continues to bear risks related to FMS Wertmanagement despite the transfer of assets and liabilities and the termination of the servicing activities

Even though assets, liabilities and derivatives of the Issuer have already been legally, economically and/or risk-wise transferred to FMS Wertmanagement in 2010 and, furthermore, the Issuer's 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 has already been terminated with effect of 30 September 2013, there remain certain interconnections with FMS Wertmanagement because of so-called after-sales support 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 pertaining to assets, liabilities and derivatives which have not yet been legally transferred to FMS Wertmanagement). 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 strategy and/or not in the best interest of the Issuer. Even though the servicing functions to FMS Wertmanagement, as well as those provided to DEPFA Group (DEPFA Bank plc together with its subsidiaries, the "**DEPFA Group**") and to Hypo Real Estate Holding AG have already ceased to be rendered (in each case except for ongoing after sales support), it cannot be excluded that due to the contractual arrangements obligations of the Issuer might arise even thereafter that may affect the financial and earnings position of the Issuer.

2. 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 2014 and 31 December 2015 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.

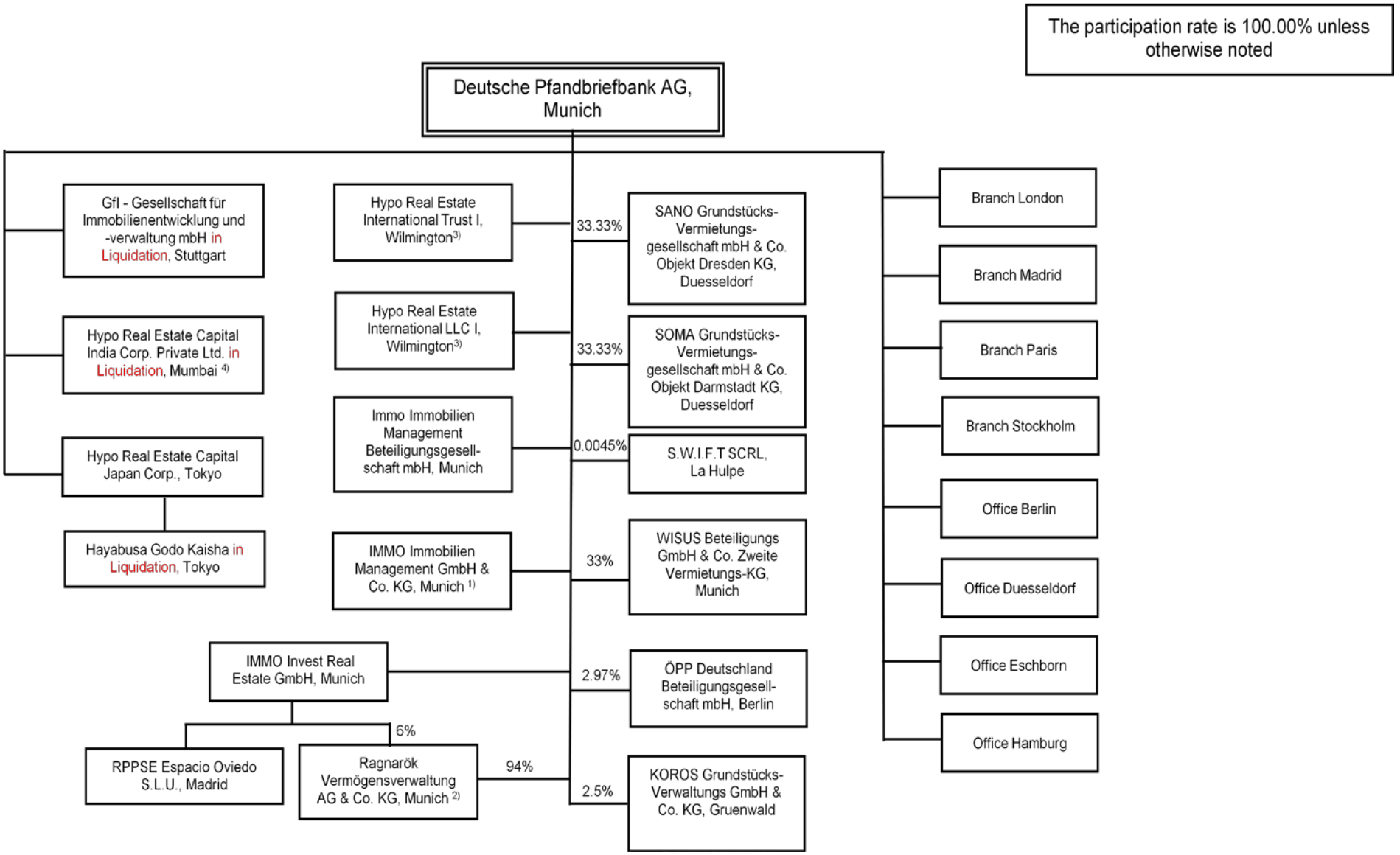
In June 2009, DEPFA Deutsche Pfandbriefbank was merged into Hypo Real Estate Bank. The merger agreement was concluded on 5 June 2009 and the merger was registered in the commercial register of DEPFA Deutsche Pfandbriefbank in Frankfurt on 10 June 2009 and in the commercial register of Hypo Real Estate 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 (Finanzmarkstabilisierungsfondsgesetz, "**FMStFG**"). 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.

Group structure of the Issuer

As at the date of this document, the legal structure of the Issuer is as follows:



1)General partner liability (Komplementärhaftung) of Immo Immobilien Management Beteiligungsgesellschaft mbH

2)General partner liability (Komplementärhaftung) of Deutsche Pfandbriefbank AG

3)Deutsche Pfandbriefbank AG holds 100% of the voting shares

4)HRE Holding AG holds one share out of 33,797,500 (remaining shares held by Deutsche Pfandbriefbank AG)

Privatisation of the Issuer and former membership in Hypo Real Estate Group

On 16 July 2015, the initial public offering (IPO) of the Issuer was completed by placing 107,580,245 shares of the Issuer with investors and 134,475,308 shares were admitted to trading on the Frankfurt Stock Exchange.

From 2009 to its privatisation, the Issuer had formed the strategic core bank of the former Hypo Real Estate Group. On 18 July 2011, the European Commission approved the state aid of the Federal Republic of Germany for Hypo Real Estate Group with its parent company Hypo Real Estate Holding AG. With its approval, the European Commission had imposed a number of conditions for its approval.

With the redemption of the silent participation (stille Einlage) granted by SoFFin on 6 July 2015 and following the Issuer's privatization, the restrictions on the Issuer imposed by the European Commission do no longer apply to the Issuer."

Relationship with FMS Wertmanagement, DEPFA and Hypo Real Estate Holding

In connection with the transfer of assets to FMS Wertmanagement in 2010 certain assets are still legally held by the Issuer. Thus, the Issuer could be obliged to implement an upgrade transfer of legal title (dingliche Rechtsinhaberschaft) to those assets which have been transferred to FMS Wertmanagement only economically in order to transfer full legal title to FMS Wertmanagement. Until then, the Issuer will forward incoming proceeds pertaining to those assets to FMS Wertmanagement, whereas the latter indemnifies the Issuer for any costs associated with those assets.

The Issuer also entered into an agreement with FMS Wertmanagement in June 2015 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 from Hypo Real Estate Holding to FMS Wertmanagement in August 2014, the Issuer entered into an agreement with DEPFA pursuant to which certain after-sales support is provided by either party on a cost-plus basis in October 2014. In connection with irrevocable and unconditional guarantees provided by the former Hypo Real Estate Bank International, a predecessor institute of the Issuer, to fulfill the liabilities of Hypo Public Finance Bank (now: DEPFA Public Finance Bank), Dublin, DEPFA has assumed an obligation to indemnify the Issuer accordingly should the Issuer be held liable vis-á-vis third parties under the guarantees (see "9. MATERIAL CONTRACTS" below).

In connection with its privatization, Hypo Real Estate Holding and the Issuer entered into an agreement pursuant to which certain after sales support is provided by either party on a cost-plus basis in June 2015.

Recent Events

The Issuer holds senior liabilities with a nominal value of Euro 395 million in total of HETA. On 10 April 2016, the FMA decided to apply a bail-in, among others, to senior bonds of HETA creditors of 53.98% i.e. they will receive a quota of 46.02% out of HETA. Other measures announced by the FMA include the extension of the bonds' maturities to 31 December 2023 and the cancellation of interest payments as of 1 March 2015. On 18 May 2016, creditors of HETA, including the Issuer, as well as the Republic of Austria, entered into a MoU regarding the intended repayment of senior debt instruments issued by HETA to a large extent, which is, however, subject to certain conditions. Based on this MoU, the parties confirmed their joint intention to achieve an amicable agreement regarding the restructuring of these HETA debt instruments. It is intended that the Carinthian Compensation Payment Fund (*Kärntner Ausgleichszahlungs-Fonds*) will make a buy-back offer to HETA creditors for the HETA debt instruments they hold (for details see "8. HISTORICAL FINANCIAL INFORMATION - Legal and Arbitration Proceedings" below).

3. BUSINESS OVERVIEW

The Issuer distinguishes operating segments. The segment report is prepared and set up in compliance with the regulations set out in IFRS 8. It includes the two strategic business segments of real estate finance ("**REF**") and public investment finance ("**PIF**"), as well as the non-strategic segment value portfolio ("**VP**"). Furthermore, the Issuer reports the consolidation & adjustment segment ("**C&A**"), which contains internal consolidation positions as well as certain parts of equity. Assets used for overall bank steering purposes (e.g. the liquidity portfolio) are reflected in this section. The profit contributions out of this segment are reconciled to the main areas of activity as described above.

Real Estate Finance

In the strategic 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, in particular in Germany, regionally oriented smaller and medium-sized enterprises (SME)) with a medium to long term investment orientation. The focus of the Issuer is on the financing of real estate classes, office buildings, the retail sector, residential housing, retail- and logistic real estate as well as hotels as addition to the portfolio. The Issuer concentrates on cover pool eligible medium to large financing transactions. Regionally, the Issuer offers its customers local expertise for its most important target markets Germany, Great Britain, France, Scandinavia (especially Sweden and Finland) and other selected countries in Central and Eastern Europe (in particular in Poland). In the other European markets the Issuer focuses on metropolitan areas which cover the biggest part of the respective national market. Additionally to the European markets, the Issuer may conclude single business transactions in the American real estate market to a limited extent in the future, whereby the issuer without local presence on its own part primarily participates in financing operations of strategic partners ("**syndication-in**"). The Issuer provides for transnational and multi-jurisdictional know how in this business segment. Issuer may choose the option to enter into financings in the US market, primarily as a syndication partner to other financial institutions. In the future the Issuer may moderately expand its engagement also to other CEE countries and to Italy. The predominant part of the provided financing relates to investment loans, i.e. loans for the acquisition of existing properties, which generate cash flow through rental income. Development financing is conducted very selectively and forms only a small part of the overall REF business. The issuer offers investment loans in all real estate markets where it is active, with a focus on the core locations of Germany, France and the United Kingdom. The Issuer engages also in property developments and bridge financing, structuring of portfolio financing (including cross-border transactions and multiple jurisdictions). It is underwriting loans with the view of selling portions in a syndication and distribution process and sells derivatives to its clients, enabling them to hedge interest rate and currency exchange rate risks.

In 2015, new business of the Issuer in the Real Estate finance segment amounted to Euro 10.4 billion. As expected, this is over the level of new business in 2014 (Euro 9.0 billion). As of 31 December 2015, measured on the basis of exposures the Real Estate sector financing portfolio amounted to Euro 25.8 billion (compared to Euro 24.3 billion as of 31 December 2014).

Public Investment Finance

In the segment of public investment finance, the Issuer offers its customers medium- to long-term financing for public investment projects. The focus of the financing activities is on public sector facilities, such as educational, sports and cultural facilities, municipal housing, administrative buildings, facilities of healthcare and care of elderly, energy supply and disposal services and road, rail and air infrastructure. Accordingly, besides the conventional loans the Issuer also offers financing operations in area of state guaranteed export financing, the financing of public-private partnerships ("**PPP**"), infrastructure financing as well as sale-and-lease back finance for public entities. 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 focusing particularly on Germany and France. In addition, the Issuer also operates in other selected European countries.

In 2015, new business of the Issuer in the public investment finance segment amounted to Euro 1.6 billion. This is over the level of new business in 2014, which was Euro 1.2 billion. As of 31 December 2015, measured on the basis of exposures the public sector financing portfolio amounted to Euro 8.3 billion (compared to Euro 7.8 billion as of 31 December 2014).

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.

Derivatives in both, the REF and PIF segment, are primarily offered in context with the loan products offered by the Issuer. In exceptional cases, stand-alone derivatives, paid up-front, may be offered, given that such provision of derivatives does not result in any other risks (in particular caps and floors).

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 also includes the public budget financing formerly reflected in the PSF segment, which includes low margin loans, bonds and certificates of indebtedness (Schuldscheine).

The exposure in the value portfolio declined as of 31 December 2015 (Euro 21.7 billion) compared to the exposure as of 31 December 2014 (Euro 26.2 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 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 license 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 (*Hypothekenpfandbrief*) 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 Section "GERMAN PFANDBRIEFE AND THE GERMAN PFANDBRIEF MARKET" below).

The trend of the previous years to even lower yields continued in the first quarter 2015. Only after the ECB commenced with its quantitative easing measures in March 2015, yields bottomed out. Though, a turn to lasting higher yields is not foreseeable. Therefore 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 got even worse compared to the years before as the low interest rate environment was accompanied by ever tighter spreads on covered bonds. These were the result of the "Covered Bond Purchase Program 3" (CBPP3). Uncertainty resulted from the implementation of the BRRD into national law. Depending on the implementation, unsecured bonds could lose the ECB eligibility.

In 2015, a new long-term funding volume of Euro 4.5 billion (2014: Euro 6.0 billion) was realized. Early repayments on the assets side and adequate liquidity allowed to reduce the capital market activities. Euro 2.2 billion (2014: Euro 2.6 billion) was attributable to new benchmark issues as well as increase in funds of existing public transactions. More than half of the long-term funding, approximately Euro 2.6 billion, was carried out via unsecured issues. Pfandbrief issues accounted for Euro 1.9 billion. Fixed-income issues dominated. Open interest rate positions are usually hedged by swapping fixed interest rates for floating rates. Overall, securitized

liabilities in 2015 amounted to Euro 42.6 billion (31 December 2014: Euro 47,8 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 2.6 billion as of 31 December 2015 (31 December 2014: Euro 1.5 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 2015, the Issuer had 824 employees compared to 844 employees as at 31 December 2014 (in headcounts as calculated pursuant to the German Commercial Code).

4. ORGANISATIONAL STRUCTURE

Subsidiaries and Equity Interests

A list of the Issuer's consolidated subsidiaries and equity participations in other companies as of 31 December 2015, specifying the name of the subsidiary or other company and the Issuer's equity interest, is contained in the Deutsche Pfandbriefbank Consolidated Financial Information 2015. The Deutsche Pfandbriefbank Consolidated Financial Information 2015 is incorporated by reference (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 2015).

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 document, members of the Management Board of the Issuer are:

Name and Position	Other Mandates
Andreas Arndt (Chief Executive Officer and Chief Financial Officer)	None
Thomas Köntgen (Deputy Chief Executive Officer) (Treasury and Real Estate Finance)	None
Andreas Schenk (Chief Risk Officer)	None
Dr. Bernhard Scholz (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 to be elected by the General Meeting of Shareholders and three are to be elected by the employees in accordance with the German One Third-Participation Act (*Drittelbeteiligungsgesetz*). As at the date of this document, members of the Supervisory Board of the Issuer are:

Name and Position	Other Mandates
Dr. Günther Bräunig Chairman of the Supervisory Board (Member of the Management Board of KfW)	KfW Frankfurt am Main, Germany, Member of the Management Board AFT – Agence France Trésor, Paris, France, Member of the Strategic Committee True Sale International GmbH, Frankfurt/Main, Germany, Chairman of the Advisory Council
Dagmar P. Kollmann Deputy Chairperson of the Supervisory Board (Entrepreneur)	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, Member of the Monopolies Commission
Dr. Thomas Duhnkrack (Entrepreneur)	Hauck & Aufhäuser Privatbankiers KGaA, Frankfurt am Main, Germany, Member of the Supervisory Board Lloyd Fonds AG, Hamburg, Germany, Deputy Chairman of the Supervisory Board
Dr. Christian Gebauer-Rochholz*) (Employee Representative)	None
Georg Kordick*) (Employee Representative)	None
Joachim Plesser (Consultant)	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
Oliver Puhl (Entrepreneur)	None
Heike Theißing*) (Employee Representative)	None
Dr. Hedda von Wedel	Deputy Chairman of Transparency International-Deutschland e.V., Berlin

*) 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 or a quorum of shares equivalent to at least Euro 500,000 of the Issuer's share capital, i.e. at least 176,767 shares, is met). The annual ordinary General Meeting of Shareholders has to be held 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 German Securities Trading Act (*Wertpapierhandelsgesetz*) requires investors in publicly-traded corporations whose direct or indirect investments in shares or options to acquire shares reach certain thresholds to notify both the corporation and the BaFin of such change immediately, however at the latest within four trading days. The minimum disclosure threshold is 3 per cent. of the corporation's issued voting share capital.

As at the date of this document, there are to the Issuer's knowledge and pursuant to the notifications the Issuer has received five shareholders holding, directly or indirectly, more than 3 and less than 5 per cent. and one shareholder holding, directly or indirectly, more than 5 per cent. and less than 10 per cent. of the Issuer's shares and one shareholding by the Federal Republic of Germany via the German Financial Markets Stabilization Fund (*Sonderfonds Finanzmarktstabilisierung*) and Hypo Real Estate Holding, holding indirectly, more than 10 per cent. of the Issuer's shares (in each case only counting direct or indirect holdings in shares, i.e. disregarding options to acquire shares).

Following the completion of the initial public offering (IPO), the Federal Republic of Germany will continue to maintain – subject to certain contractual limitations – an indirect shareholding – via the German Financial Markets Stabilization Fund (Finanzmarktstabilisierungsfonds - FMS) and Hypo Real Estate Holding – amounting to a minimum of 20 per cent. for a two year period based on respective lock up commitments.

The Issuer publishes the notifications pertaining to voting rights it received from investors on its website under www.pfandbriefbank.com in the "Investor Relations" section; the information may also be found on www.dgap.de.

8. HISTORICAL FINANCIAL INFORMATION

Historical Financial Information

For the financial year ended 31 December 2015, the Issuer 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 "**Deutsche Pfandbriefbank Consolidated Financial Information 2015**"). The Deutsche Pfandbriefbank Consolidated Financial Information 2015 is incorporated by reference (see "DOCUMENTS INCORPORATED BY REFERENCE" below).

For the financial year ended 31 December 2015, the Issuer has published unconsolidated financial information including the income statement, the balance sheet, the notes and the auditor's report (together the "**Deutsche Pfandbriefbank Unconsolidated Financial Information 2015**"). The Deutsche Pfandbriefbank Unconsolidated Financial Information 2015 is incorporated by reference (see "DOCUMENTS INCORPORATED BY REFERENCE" below).

For the financial year ended 31 December 2014, the Issuer 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 cash flow statement, the notes and the auditor's report (together the "**Deutsche Pfandbriefbank Consolidated Financial Information 2014**"). The Deutsche Pfandbriefbank Consolidated Financial Information 2014 is incorporated by reference (see "DOCUMENTS INCORPORATED BY REFERENCE" below).

The Deutsche Pfandbriefbank Unconsolidated Financial Information 2015 have been prepared on the basis of the German generally accepted accounting principles ("**German GAAP**"). The Deutsche Pfandbriefbank Consolidated Financial Information 2015 and the Deutsche Pfandbriefbank Consolidated Financial Information 2014 have been prepared on the basis of International Financial Reporting Standards ("**IFRS**").

Auditing of Historical Financial Information

The statutory auditors of the Issuer (see "1. STATUTORY AUDITORS" above) have audited the Deutsche Pfandbriefbank Consolidated Financial Information 2014, Deutsche Pfandbriefbank Consolidated Financial Information 2015 and the Deutsche Pfandbriefbank Unconsolidated Financial Information 2015 and have issued an unqualified opinion (uneingeschränkter Bestätigungsvermerk) in each case.

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 repayment claims amount up to Euro 9.4 million and additionally interest as from 2001 onwards. The District Court (*Landgericht*) Munich, however, rejected claims on such additional payment. Certain claimants filed an appeal against this ruling which is now pending at the Higher Regional Court (*Oberlandesgericht*) Munich.

The profit participation certificates issued by the predecessor institutions participated in significant losses due to the net losses respectively the Issuer's unappropriated retained losses since 2008. The redemption amounts have reduced and interest payment has been suspended. Individual investors therefore initiated legal proceedings, contesting in particular various individual clauses relating to loss participation and replenishment following loss participation. The key questions in this connection are which balance sheet items must be taken into account to calculate loss participation and whether replenishment is required if the Issuer records a net income, unappropriated retained earnings or any other income with regard to specific profit participation certificates. Courts have decided against the legal view of the Issuer. Some of the court decisions are legally binding. The disputed profit-participation certificates had a total nominal volume of Euro 239 million, out of which a nominal volume of Euro 44.1 million are subject to pending litigation. These proceedings may result in a partial or comprehensive increase in redemption claims, in the subsequent distribution of cancelled coupon payments and interest payment claims. Furthermore, profit-participation certificate holders with a two-digit million nominal value have extra-judicially asserted their rights of partial or full replenishment, subsequent distribution of cancelled coupon payments as well as interest payments, further claims could possibly follow. Whilst the Issuer endeavours to solve legal disputes by way of out-of-court settlements, it exploits the legal remedies at its disposal when needed.

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 took place 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.

The Issuer holds senior liabilities with a nominal value of Euro 395 million in total of HETA. Following the FMA moratorium decision on HETA's debt securities, the Issuer has filed a lawsuit before the regional court (*Landgericht*) Frankfurt am Main against HETA for the redemption of the full nominal amount, omitted coupon payments, interest and compensation for damages and has served a third party notice to the Austrian Federal State of Carinthia. On 10 April 2016, the FMA decided to apply a bail-in, among others, to senior bonds of HETA creditors of 53.98% i.e. they will receive a quota of 46.02% out of HETA. Other measures announced by the FMA include the extension of the bonds' maturities to 31 December 2023 and the cancellation of interest payments as of 1 March 2015. The Issuer has filed appeals against the HETA moratorium and the bail-in decision with the Austrian financial markets supervisory authority. On 18 May 2016, creditors of HETA, including the Issuer, as well as the Republic of Austria, entered into a MoU regarding the intended repayment of senior debt instruments issued by HETA to a large extent. Assuming this offer will – as planned – be made, accepted and therefore become effective, this would as of the date of the MoU result in a non-recurring pre-tax gain of approximately EUR 132 million for the Issuer, expected to be recognised during the financial year 2016. Based on this MoU, the parties confirmed their joint intention to achieve an amicable agreement regarding the restructuring of these HETA debt instruments. It is intended that the Carinthian Compensation Payment Fund will make a buy-back offer to HETA creditors for the HETA debt instruments they hold. The implementation of the MoU requires – among other conditions – on the one hand the creation of the necessary legislative framework and on the other hand the acceptance of the offer according to the quota required by law. In addition, the European Commission will have to examine the redemption offer. The Issuer has applied for suspension of the lawsuit before the regional court (*Landgericht*) Frankfurt am Main against HETA until end of October 2016.

Significant Change in Issuer's Financial Position

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 audited financial information has been published (31 December 2015).

9. MATERIAL CONTRACTS

Agreements relating to FMS Wertmanagement, DEPFA Group and Hypo Real Estate Holding

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 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) have been entered into. Both framework agreements referred 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 SoFFin, the FMSA and the Issuer entered into a new framework agreement which has become effective following the Issuer's privatization, i.e. on 20 July 2015, and which replaces the framework agreements dated 24 August 2010 and 30 September 2010 between the Issuer on one side and the FMSA and SoFFin on the other side (the "**New Framework Agreement**"). The New Framework Agreement governs solely the future relationship between the Issuer, the FMSA and SoFFin, i.e. vis-á-vis the FMS Wertmanagement the framework agreement dated 30 September 2010 remains in place. The New Framework Agreement is not the basis for granting new state aid measures but instead, the parties thereto agreed on the general conditions and

requirements for the continued utilization of the capitalization measures already granted and not repaid prior to the offering of the shares.

In connection with the transfer of assets to FMS Wertmanagement in 2010, certain assets are still legally held by the Issuer and, thus, may be "upgraded" in order to transfer full legal title to FMS Wertmanagement. Until then, the Issuer will forward incoming proceeds pertaining to those assets to FMS Wertmanagement, whereas the latter indemnifies the Issuer for any costs associated with those assets. The Issuer also 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 from Hypo Real Estate Holding to FMS Wertmanagement in August 2014, the Issuer entered into an agreement with DEPFA pursuant to which certain after-sales support is provided by either party on a cost-plus basis in October 2014.

In connection with its privatization, Hypo Real Estate Holding and the Issuer entered into an agreement pursuant to which certain after sales support is provided by either party on a cost-plus basis in June 2015.

The former Hypo Real Estate Bank International, a predecessor institute of the Issuer, has overtaken with the announcement as of 2 January 2006 an irrevocable and unconditional guarantee to fulfill all liabilities of Hypo Public Finance Bank (now: DEPFA Public Finance Bank), Dublin. By the fact that all shares of Hypo Public Finance Bank, Dublin were sold, the commitment was limited according to the guarantee contract to all liabilities, which existed until the date of sale of Hypo Public Finance Bank to DEPFA with effect as of 31 December 2007. Due to the current development in earnings, assets and financial position as well as the expected future development, in particular given the fact that Hypo Public Finance Bank is (indirectly) fully owned by the German state (via FMS Wertmanagement), the Issuer does not rule out a default of Hypo Public Finance Bank, Dublin but a default should be rather unlikely. However, should the Issuer be held liable vis-á-vis third parties under the guarantee vis-à-vis Hypo Public Finance Bank, Dublin referred to above, DEPFA has assumed an obligation to indemnify the Issuer based on a guarantee indemnity agreement between the Issuer and DEPFA dated 28/30 October 2014, accordingly.

DEPFA Finance N.V., Amsterdam, The Netherlands ("**DEPFA Finance**"), a former subsidiary of the Issuer, has granted two loans in the total amount of EUR 300 mln. to the Issuer in October 2003 and March 2007, one of which was accompanied by a hedging swap between the Issuer and DEPFA. 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, so that the total outstanding amount has been reduced to EUR 150 mln., and the Issuer and DEPFA agreed to partially terminate a hedging swap in relation to the partially repaid loan.

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

Material Outsourcing Agreements

As of the date of this document, the Issuer and its consolidated subsidiaries has stand-alone operations and has outsourced selected functions to third-party providers, of which the following 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.

Provider	Service
Fujitsu Services GmbH	IT Infrastructure Operations: Data Center, Mainframe, Managed Network, End User Computing
PROC-IT GmbH	Payroll and travel expenses based on SAP
Risk Integrated Services Limited	SFS LGD rating tool

Provider	Service
Sterci	Swift provider
XCOM AG and biw Bank für Investments und Wertpapiere AG	Technical and operational platform of retail deposit business (online with call center).

The material outsourcing agreements of pbb Group are briefly described below:

IT Outsourcing Agreement

With effect as of 1 November 2009, the Issuer outsourced the operation of its entire worldwide IT infrastructure (including the transfer of 48 employees of pbb Group) to Fujitsu Services GmbH. The underlying agreement has been replaced with a new outsourcing contract with effect as of 1 January 2015. Under the new outsourcing contract, the relevant hardware is now owned (and no longer leased) by the Issuer and provided to Fujitsu Services GmbH for use as part of the services. The agreement covers the operation of the data centers, the servers, the networks and other services.

Outsourcing of Payroll-Related Services

Pursuant to an agreement entered into on 26 March 2014, the Issuer outsourced certain payroll-related services to PROC-IT GmbH, such as the handling of travel expenses and SAP human resources maintenance.

Outsourcing Relating to a Risk Management Tool

Pursuant to an agreement entered into on 1 July 2012 (subsequently amended) with a term until 30 June 2017, the Issuer outsourced the LGD rating system in connection with risk management and control to Risk Integrated Services Ltd.

SWIFT Outsourcing

Pursuant to an agreement entered into on 23 March 2012 with an annual automatic renewal, the Issuer outsourced its SWIFT operation to a specialized provider, STERCI. The name of the provider changed to Bottomline due to a merger in 2013.

Outsourcing Relating to the "pbb direkt" Platform

Pursuant to an agreement entered into on 5/6 February 2012, the Issuer outsourced the technical and operational platform of its customer deposit business (call money and fixed-term deposits from retail customers) under the brand "pbb direkt" to XCOM AG (which is responsible for providing related IT services) and its subsidiary biw Bank für Investments und Wertpapiere AG (which provides back office services).

Lock-Up Agreement

Hypo Real Estate Holding, the Issuer, SoFFin and FMSA entered into a lock-up agreement on or around 22 June 2015 (the "**Lock-up Agreement**"), which contains a commitment of Hypo Real Estate Holding as the selling shareholder. The recitals to the Lock-up Agreement state as the basis for Hypo Real Estate Holding's and SoFFin's willingness to enter into a lock-up commitment vis-à-vis the Issuer that prior to the privatization of the Issuer the indirect shareholding of the Federal Republic of Germany in the Issuer has been taken into account for the purpose of determining its issuer credit rating, and that such indirect shareholding continues to be both sufficient and required for the Issuer to maintain the issuer credit rating at investment grade level. Under the Lock-up Agreement, Hypo Real Estate Holding is required to retain an ownership of at least 20.0 per cent. in the Issuer's share capital for a period of two years following the listing of the Issuer's shares, i.e. from 16 July 2015 onwards. The Lock-up agreement is subject to certain contractual limitations.

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. In connection with the Resolution Mechanism Act dated 2 November 2015 (*Abwicklungsmechanismusgesetz*) the German Pfandbrief Act was further amended. The new provisions provide amongst others with respect to the cover assets of Public Sector Pfandbriefe that certain claims against debtors seated outside the European Union for which a preferential right (*Vorrecht*) is not ensured shall not be counted towards the 10 per cent. threshold of the total volume of the claims for which such a right is ensured if the Pfandbrief bank may obtain complete financial compensation by an indemnifying body.

GENERAL DESCRIPTION OF THE PROGRAM

AUTHORISATION

The establishment of the Program was duly authorised by the relevant committee of the Issuer on 11 March 2014.

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 Issuer 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 Issuer and its affiliates in the ordinary course of business, as further specified in the applicable Specified Securities Information.

In particular, certain of the Managers and their affiliates may have positions, deal or make markets in the Bonds issued under the Program, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities. In addition, in the ordinary course of their business activities, the Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Issuer's affiliates. Certain of the Managers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Bonds issued under the Programme. Any such positions could adversely affect future trading prices of Bonds issued under the Programme. The Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Restriction on Distribution

The distribution of this Program Information and of any Specified Securities Information and the offering of the BondBonds 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 "(3) 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

This Program Information is valid for twelve month period as specified on the cover page (i.e. referred to as "Scheduled Issuance Period") and this Program Information and any amendment thereto as well as any Specified Securities Information reflect the status as of their respective dates of annoucement. 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. Notwithstanding this, the Issuer may be required 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 2015 which is included in the Issuer's 2015 Annual Report for the year ended 31 December 2015 published on 18 March 2016 which is available at the Issuer's website: https://www.pfandbriefbank.com/fileadmin/user_upload/downloads/investor_relations/reports/1604_pbb_Konzern_GB2015_en.pdf.

- 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: https://www.pfandbriefbank.com/fileadmin/user_upload/downloads/investor_relations/reports/1503_pbb_GB2014_en.pdf.

- Deutsche Pfandbriefbank Unconsolidated Financial Information 2015 which is appended as Appendix II to the Issuer's Base Prospectus dated 11 April 2016 relating to Euro 50,000,000,000 Debt Issuance Programme which is available at the Issuer's website: https://www.pfandbriefbank.com/fileadmin/user_upload/downloads/investor_relations/issuance_programs/DIP_2016_Base_Prospectus.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/announcement/index.html.

II FINANCIAL CONDITIONS

1. Financial Statements

The Issuer's consolidated financial statements for the year ended 31 December 2015, prepared in accordance with IFRS, together with the audit report as of 2 March 2016 in relation to the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Changes in Equity, Consolidated Statement of Cash Flows and Notes for the financial year from 1 January to 31 December 2015 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 2014, prepared in accordance with IFRS, together with the audit report as of 18 March 2015 in relation to the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement 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.

The Issuer's unconsolidated financial statements for the year ended 31 December 2015, 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.

(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 68 to the consolidated financial statements for the year ended 31 December 2015. 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 61 to the consolidated financial statements for the year ended 31 December 2015.

PART IV INFORMATION ON GUARANTOR ETC OF THE COMPANY

Not applicable.

Annex

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 in Japan 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 18, the Bonds shall not be sold, transferred or otherwise disposed of to any person other than the Professional Investors, Etc. (*Tokutei Toushika 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 an officer (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, the "Definitions Cabinet Office Ordinance")) 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*)) (as prescribed in Article 11-2, Paragraph 3 of the Definitions Cabinet Office Ordinance) 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(s), Etc. under their own name or another person's name (as prescribed in Article 11-2, Paragraph 2 of the Definitions Cabinet Office Ordinance); 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 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 (i) agreeing to comply with the restriction on transfer of the Bonds as set forth in Condition 2(1) above (in the case of a solicitation of an offer to acquire the Bonds to be newly issued), or (ii) entering into an agreement providing for the restriction on transfer of the Bonds as set forth in Condition 2(1) above 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 Rules 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 statutory provisions provide otherwise.

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. German bail-in power

(1) Notwithstanding any other term of the Bonds or any other agreements, arrangements, or understandings between the Issuer and any Bondholder, by its acquisition of the Bonds, each Bondholder (which, for the purposes of this Condition 16, includes each holder of a beneficial interest in the Bonds) acknowledges, accepts and agrees to be bound by:

(a) the effect of the exercise of the German bail-in power (as defined below) by the relevant German resolution authority, that may include and result in any of the following, or some combination thereof:

(i) the reduction of all, or a portion, of the Amounts Due (as defined below);

(ii) the conversion of all, or a portion, of the Amounts Due on the Bonds into shares, other securities or other obligations of the Issuer or another

person (and the issue to or conferral on the Bondholders of such shares, securities or obligations), including by means of an amendment, modification or variation of the terms of the Bonds;

(iii) the cancellation of the Bonds; or

(iv) the amendment or alteration of the maturity of the Bonds or amendment of the amount of interest payable on the Bonds, or the date on which the interest becomes payable, including by suspending payment for a temporary period; and

(b) the variation of the terms of the Bonds, if necessary, to give effect to the exercise of the German bail-in power by the relevant German resolution authority.

For these purposes:

"Amounts Due" means the principal amount of or outstanding amount, together with any accrued but unpaid interest, due on the Bonds.

"German bail-in power" means any write-down, conversion, transfer, modification, or suspension power existing from time to time under, and exercised in compliance with, any laws, regulations, rules or requirements in effect in the Federal Republic of Germany, relating to the transposition of Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms (BRRD) as amended from time to time, including but not limited to the German Law on Recovery and Resolution of Credit Institutions and Financial Groups (*Sanierungs- und Abwicklungsgesetz* – "SAG") as amended from time to time, Regulation (EU) No 806/2014 as amended from time to time and the instruments, rules and standards created under the SAG and Regulation (EU) No 806/2014, pursuant to which:

(a) any obligation of a regulated entity (or other affiliate of such regulated entity) can be reduced, cancelled, modified, or converted into shares, other securities, or other obligations of such regulated entity or any other person (or suspended for a temporary period); and

(b) any right in a contract governing an obligation of a regulated entity may be deemed to have been exercised.

A reference to a "regulated entity" is to any undertaking which is subject to the SAG as listed in section 1 of the SAG and includes, certain credit institutions, investment firms, and certain of their parent or holding companies.

(2) Upon the Issuer's becoming aware of the exercise of the German bail-in power by the relevant German resolution authority with respect to the Bonds, the Issuer shall notify in writing the Fiscal Agent or cause the Fiscal Agent to be notified, in writing as soon as possible thereafter. The Fiscal Agent shall give a public notice to the Bondholders on behalf of the Issuer as soon as practicable in accordance with Condition 14 of the German bail-in power being exercised.

Notwithstanding that the Issuer may be delayed in delivering or fail to deliver any of the notices to the Fiscal Agent referred to in this Condition, such delay or failure shall not affect the validity and enforceability of the German bail-in power.

(3) No repayment or payment of Amounts Due on the Bonds, will become due and payable or be paid after the exercise of any German bail-in power by the relevant German resolution authority if and to the extent such amounts have been reduced, converted, cancelled, amended or altered as a result of such exercise.

(4) Neither a reduction or cancellation, in part or in full, of the Amounts Due, the conversion thereof into another security or obligation of the Issuer or another person, as a result of the exercise of the German bail-in power by the relevant German resolution authority with respect to the Issuer, nor the exercise of the German bail-in power by the relevant German resolution authority with respect to the Bonds will constitute an Event of Default.

(5) All expenses necessary for the procedures under this Condition 16, including, but not limited to, those incurred by the Issuer and the Fiscal Agent shall be borne by the Issuer.

17. 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 17 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.

18. 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.

19. 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.