

Program Information

Deutsche Pfandbriefbank AG

PROGRAM INFORMATION

Type of Information:	Program Information
Date of Announcement:	27 June 2014
Issuer Name:	Deutsche Pfandbriefbank AG (the " Issuer ")
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Type of Securities:	Bonds (the " Bonds ")
Scheduled Issuance Period:	28 June 2014 to 27 June 2015
Maximum Outstanding Issuance Amount:	JPY500 billion
Address of Website for Announcement:	http://www.tse.or.jp/rules/probond/index.html
Status of Submission of Annual Securities Reports or Issuer Filing Information:	None

Notes to Investors:

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

Program Information shall constitute Specified Securities Information stipulated in Article 27-31, Paragraph 1 of the FIEA.

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

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

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

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

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

PART I. SECURITIES INFORMATION

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

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

I-1 Bonds to be newly Issued

(1) Conditions of Bonds

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

(2) Credit ratings for the Bonds

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

I-2 Underwriting of Bonds and Entrustment of Bond Administration

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

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

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

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

I-3 Use of Proceeds from New Issuance

(1) Amount of Proceeds from New Issuance

Undetermined.

(2) Use of Proceeds

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

I-4 Other

(1) RISK FACTORS IN RESPECT OF THE BONDS

RISKS RELATING TO THE BONDS

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

General Risks Relating to the Bonds

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In case of financial difficulties of the Issuer certain measures may be implemented on the basis of the German Bank Restructuring Act (*Restrukturierungsgesetz*) which may adversely affect the rights of the holders of Bonds.

The extended supervisory competences of the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*, "**BaFin**") of RStruktG were implemented in the German Banking Act (*Kreditwesengesetz*, the "**KWG**") and the restructuring procedure (*Sanierungsverfahren*) and the reorganisation procedure (*Reorganisationsverfahren*) were implemented in the German Bank Reorganisation Act (*Kreditinstitute-Reorganisationsgesetz*, the "**KredReorgG**").

In particular, in case the financial difficulties of the Issuer are threatening its existence (*Bestandsgefährdung*) which, in turn, causes a threat to the financial system (*Systemgefährdung*) BaFin may issue a transfer order by which certain business parts are transferred to a separate legal entity ("**Good Bank**") while others remain with the Issuer. Whereas Sec. 48d KWG provides for a compensation claim of the creditors remaining with the Issuer against the Good Bank, the creditors need to demonstrate that they receive less than they would have in absence of the transfer order. There is to date no precedent as to the calculation of this compensation claim.

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

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

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

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

In connection with the Bank Resolution and Recovery Directive there is the risk that due to the coming "bail-in system" from 1 January 2016 and the related absorption of losses, holders of Bonds may face the risk to fully lose their invested capital and related rights.

An EU Directive which defines a framework for the recovery and resolution of credit institutions and investment firms (Bank Recovery and Resolution Directive, "BRRD") has been published in the official journal of the EU on 12 June 2014. However, many of the provisions of the BRRD require technical standards and implementing acts to be adopted giving further detail on the requirements, and the BRRD will also need to be implemented in each member state of the EU before it becomes applicable. As a result, the impact of the BRRD cannot currently be predicted. The member states need to apply the provisions of the BRRD as implemented in their national laws from 1 January 2015 onwards. An exception applies to the "bail-in system" which member states are required to apply from 1 January 2016 onwards.

The "bail-in system" generally empowers the relevant resolution authority to extend the maturity, write down, including if need be to write down to zero, or to cancel subordinated liabilities (including those qualifying as Tier 2 instruments alike the subordinated bonds of the Issuer) and, also, unsubordinated liabilities (excluding, amongst others, Pfandbriefe) of the institution or to convert such liabilities into instruments of ownership like e.g. shares 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. Further, the bail-in system provides for a pre-defined hierarchy of bank creditors for absorbing losses. To improve a crisis-ridden bank's recovery prospects and foster general economic stability, bail-in tools may apply at least until 8% of its total assets have been fully absorbed. Consequently, 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 bail-in tools. Potential investors in Bonds should therefore take into consideration that, in the event of a crisis of the Issuer and thus already prior to any liquidation or insolvency or such procedures being instigated, they will to a particular extent be exposed to a risk of default and that it is likely that they will suffer an irrevocable partial or full loss of their invested capital, or that the Bonds will be subject to a conversion into one or more equity instruments (e.g. common equity) of the Issuer. Such regulatory measures may release the Issuer from its obligations under the conditions of the related Bonds and may neither entitle the holder to demand early redemption of the Bonds, nor to exercise any other rights in this respect.

The BRRD goes beyond the German Bank Restructuring Act in so far as the German Bank Restructuring Act does not provide for a bail-in mechanism as envisaged by the BRRD.

Risks Relating to Fixed Rate Bonds

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

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

Risks Relating to Floating Rate Bonds

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

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

(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 each country of which they are residents.

The following is 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 the position of holders of Bonds other than in relation to withholding tax in the jurisdictions referred to above, nor with the withholding tax treatment of payments on all forms of Bonds which may be issued under the Program.

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

EU Savings Directive

On 3 June 2003 the Council of the European Union approved the directive 2003/48/EC regarding the taxation of interest income which has to be applied by the member states as from 1 July 2005. Accordingly, each EU Member State must require paying agents (within the meaning of the directive) established within its territory to provide to the

competent authority of this state details of the payment of interest made to any individual resident in another EU Member State as the beneficial owner of the interest. The competent authority of the EU Member State of the paying agent (within the meaning of the directive) is then required to communicate this information to the competent authority of the EU Member State of which the beneficial owner of the interest is a resident.

For a transitional period, Belgium, Austria and Luxembourg, have opted instead to withhold tax from interest payments within the meaning of the directive at a rate of 35 per cent. (applicable to interest payments from 1 July 2011 onward). In April 2013, the Luxembourg government has publicly announced that Luxembourg will replace the current withholding tax regime with respect to the EU Savings Directive with an automatic information exchange mechanism as of 1 January 2015.

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

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.

Individuals who are subject to church tax may apply in writing to the German Disbursing Agent for this tax to be withheld as a surcharge to the withholding tax. Individuals subject to church tax but declining the application have to include their savings income in their tax return and will then be assessed to church tax. For German credit institutions an electronic information system as regards church withholding tax will presumably apply in respect of interest received after 31 December 2014, with the effect that 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 which case the obligation to include savings income in the tax return for church tax purposes will persist.

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 husband and wife the application can only be filed for savings income of both spouses.

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 husband and wife). Similarly, no withholding tax will be levied if the relevant investor has submitted a certificate of non-assessment (*Nichtveranlagungs-Bescheinigung*) issued by the relevant local tax office to the German Disbursing Agent. Further, with regard to investors holding the Bonds as business assets, no withholding tax will be levied on capital gains from the redemption, sale or assignment of the Bonds if (a) the Bonds are held by a corporation or (b) the proceeds from the Bonds qualify as income of a domestic business and the investor notifies this to the German Disbursing Agent by use of the officially required form.

Non-residents

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

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

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

Japanese taxation

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

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

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

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

(3) **TRANSFER AND SELLING RESTRICTIONS**

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

GENERAL

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

UNITED STATES

The Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S ("**Regulation S**") under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Each Manager severally represents that it has offered and sold the Bonds, and agrees that it will offer and sell the Bonds (i) as part of their distribution at any time, and (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date (the "**restricted period**"), only in accordance with Regulation S. Accordingly, neither it or 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 restricted period a confirmation or notice to substantially the following effect:

"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, Bonds will be initially offered

only to Professional Investors (*Tokutei Touseika*) as defined in Article 2, paragraph 31 and subject to Articles 34-2 to 34-4 of the FIEA. Secondly, the Bonds shall not be sold, transferred or otherwise disposed to any person other than Professional Investors, Etc. (*Tokutei Touseika tou*) as defined in Article 2, paragraph 3, Item 2 (b) (2) of the FIEA, except for the transfer of the Bonds to the following:

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

SELLING RESTRICTIONS UNDER THE PROSPECTUS DIRECTIVE

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

- (1) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (2) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 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 (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State; and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

(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 Manager shall have responsibility for this.

II. TERMS AND CONDITIONS OF SECONDARY DISTRIBUTION TO PROFESSIONAL INVESTORS

Not Applicable.

III. OTHER MATTERS

Credit Ratings for the Program

In respect of this Program, a rating of (P)Baa2 was assigned from Moody's Deutschland GmbH on 23 June 2014 and a rating of BBB was assigned from Standard & Poor's Credit Market Services Europe Limited on 23 June 2014. Those rating firms have not been registered under Article 66-27 of the FIEA.

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

Moody's has Moody's Japan K.K. (registration number: Commissioner of Financial Services Agency (kakuzuke) No. 2) and Standard & Poor's has Standard & Poor's Ratings Japan K.K. (registration number: Commissioner of Financial Services Agency (kakuzuke) No. 5) within their respective groups as registered credit rating firms under Article 66-27 of the FIEL, and Moody's and Standard & Poor's are specified affiliated corporations (as defined in Article 116-3, Paragraph 2 of the Cabinet Office Ordinance) of the respective registered credit rating firms above. The assumptions, significance and limitations of the credit ratings given by Moody's and Standard & Poor's are made available on the respective websites of (i) Moody's Japan K.K., at "Assumptions, Significance and Limitations of Credit Ratings" posted under "Related to Explanations of Unregistered Credit Ratings" in the column titled "Use of Ratings by Unregistered Firm" on the page appearing after clicking "Credit Rating Business" on Moody's website in the Japanese language (https://www.moody.com/pages/default_ja.aspx), and (ii) Standard & Poor's Ratings Japan K.K., at "Assumptions, Significance and Limitations of Credit Ratings" posted under "Information on Unregistered Ratings" (<http://www.standardandpoors.com/ratings/unregistered/jp/jp>) in the column titled "Library and Related to Regulation" on its website (<http://www.standardandpoors.com/home/jp/jp>), respectively, 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 2012 and 2013:

		2013	2012
Operating performance according to IFRS			
Pre-tax profit/loss	in Euro million	165	124
Net income/loss	in Euro million	160	69
Balance sheet figures			
		31.12.2013	31.12.2012
Total assets	in Euro billion	73.9	97.1
Equity (excluding revaluation reserve)	in Euro billion	3.4	3.2
Equity	in Euro billion	3.5	3.3

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 2013).

Following the approval of the European Commission of the state aid provided to Hypo Real Estate Group, the business model of the Issuer has been reviewed by the Stabilisation Fund (*Sonderfonds Finanzmarktstabilisierung* – the "SoFFin"), the German Financial Markets Stabilization Agency (*Bundesanstalt für Finanzmarktstabilisierung* – the "FMSA") and the German Ministry of Finance (*Bundesfinanzministerium*). As at the date of this Program Information, the Issuer has no reason to believe that after possible further reviews these stakeholders disapprove, or further restrict, the Issuer's business model as defined by the European Commission.

There has been no significant change in the financial position of the Issuer and its consolidated subsidiaries while there has been a change in the trading position of the Issuer due to changes in interest rate levels since the end of the last financial period for which audited financial information has been published (31 December 2013). Trading assets and trading liabilities mostly comprise of derivatives that Hypo Real Estate Group sold to its clients and the back-to-back hedges it transacted in the interbank market. The gross values of these derivative assets and liabilities are impacted by market movements. Due to the offsetting nature of the business, the net position is small and has not changed materially.

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 AND HYPO REAL ESTATE GROUP

The business model of the Issuer and its subsidiaries and of Hypo Real Estate Holding and its subsidiaries, in general can entail risk factors that may affect the Issuer's ability to fulfil its obligations under the Bonds issued under the Program. According to the group-wide risk management system and risk controlling system, these risk factors can be divided into credit risk, market risk, liquidity risk, operational risk, business risk and real estate risk. In addition and within these risks, there are further risks that cannot be quantified (including strategic risks, reputational risks and regulatory risks) and risks related to these categories, but are referring to the current market conditions and the specific situation of Hypo Real Estate Group.

The Issuer and Hypo Real Estate Group are 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, replacement, repayment, issuer, country, concentration, and performance 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 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 hedge. The counterparty risk comprises the replacement and the repayment risks.

Issuer risk considers 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.

Performance risk is the risk that the bank makes a payment or delivers a sold financial asset to a counterparty, but does not receive the payment request or the sold financial asset, respectively.

The Issuer and Hypo Real Estate Group are exposed to market risks, i.e. the risk of loss of value arising in particular from general interest rate risk, foreign currency risk, inflation risk, credit spread risk and collateral currency risk.

Market risk is defined as the risk of loss of value resulting from the fluctuation of market prices of financial instruments. The transactions of the Issuer and Hypo Real Estate Group are mainly exposed to general interest rate risk, foreign currency risk, inflation risk and credit spread risk, the latter reflecting the potential changes in the present value of positions as a result of changes in the corresponding credit spreads. In addition, there may be also collateral currency risk which arises if the currency of a basis transaction deviates from the currency of the collateral.

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

Liquidity risk is defined as the risk of not being able to meet the extent and deadlines of existing or future payment obligations in full or on time. This would for instance be the case if – as indeed has happened at Hypo Real Estate Group in the course of the financial crisis in 2008/2009 – there were no longer sufficient external refinancing sources. The situation on the capital markets is still to a high degree unpredictable. The funding markets remain susceptible to disruption. For example, the debt crisis in some European countries could result in a major loss of confidence and sharply reduced sales on the issuing 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 and Hypo Real Estate Group's liquidity situation could be negatively impacted, despite the existence of an appropriate cushion. A further consequence might be a conscious reduction in the volume of new business.

The Issuer and Hypo Real Estate Group are exposed to operational risks including the risk of failure to (properly) implement processes, of technology failures, of human error or of external events, not only resulting from continuing enhancement and changes in IT environment, which have and may further lead to losses of the Issuer and Hypo Real Estate Group.

Operational risks are associated with most aspects of Hypo Real Estate Group's and the Issuer's business, and comprises numerous widely differing risks. Hypo Real Estate Group and the Issuer define operational risk as the risk of losses caused by processes which are not satisfactory or which have not even been implemented, human error, technology failure or external events. The definition of operational risk includes legal risks, but excludes strategic and reputation risks.

Major operational risks result from the continuing enhancements of Hypo Real Estate Group as well as of the Issuer. This comprises also ongoing changes in IT environment. Operational risks are attributable in particular to the high number of manually recorded transactions as well as the high number of different processing and monitoring systems.

Until the current restructuring process will be completed, Hypo Real Estate Group as well as the Issuer could suffer losses and expect that there will be an increased level of susceptibility to faults with regard to the manual processes and controls which are carried out for ensuring data consistency and data integrity.

Even though the servicing functions to FMS Wertmanagement have ceased to be rendered as of 1 October 2013 it cannot be excluded that due to the contractual arrangements obligation of the Issuer might arise even after September 2013 that may affect the financial and earnings position of the Issuer.

There is also a significant reliance on know-how of key personnel in order to monitor the continuing enhancements on the one hand and for operating daily business on the other. This is particularly important in view of the existing system landscape as well as manual processes and controls. Employees in key positions could leave. This could impact the development in assets, financial position and earnings of the Issuer and Hypo Real Estate Group. The Issuer and Hypo Real Estate Group will be exposed to such risk especially following the decision to transfer DEFPA to FMS Wertmanagement.

Even though it is assumed that, as a result of various measures taken by the Issuer and Hypo Real Estate Group, the risk of legal action taken by employees in relation to bonus payments has been considerably reduced, the Issuer may still face the risk of legal proceedings and may, therefore, be exposed to substantial payments and litigation costs.

Future significant write-downs of receivables may negatively affect the Issuer's and Hypo Real Estate Group's financial position.

Write-downs were only required for a small number of individual exposures in 2012 and 2013. However, it cannot be ruled out that receivables may have to be significantly written down in future. The need to recognise write-downs primarily depends on the economic situation of the financed properties, although it could also be the result of a general crisis in individual markets, such as the real estate markets of various countries.

The Issuer and Hypo Real Estate Group bear the risk of failing proceeds for new business and increased funding costs which may negatively affect the Issuer's and Hypo Real Estate Group'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 Hypo Real Estate Group and 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 Issuer and Hypo Real Estate Group are exposed to real estate risk in relation to the valuation of its real estate portfolio and a potential decline of the value of the real estate portfolio.

Since 2012, in connection with a risk bearing assessment the Issuer distinguishes an own risk category for real estate risk in connection with the assessment of the value of its real estate portfolios. It describes the risk of a potential decline in the value of the real estate portfolio of the Issuer. Generally the Issuer does not invest directly in real estate. In exceptional situations it may be possible that the Issuer acquires real estate in connection with rescue activities and, thus, bears real estate risk.

The Keep Well Statement does not grant any rights of action in case of failure of the Issuer to make payments under the Bonds to the holders of the Bonds.

The Keep Well Statement (as defined in "DEUTSCHE PFANDBRIEFBANK AG – 2. INFORMATION ABOUT THE ISSUER – Integration into Hypo Real Estate Group and Keep Well Statement" below), according to which Hypo Real Estate Holding ensures that the Issuer is able to meet its contractual obligations (except in the case of political risk), does not constitute a guarantee. Therefore, it does not give holders of the Bonds issued by the Issuer under this Program any right of action against Hypo Real Estate Holding in the event that the Issuer defaults with regard to payments to be made under such Bonds.

The Issuer and Hypo Real Estate Holding bear the risk of downgrading of the ratings assigned to it which may have a negative effect on the funding opportunities, on triggers and termination rights within derivatives and other contracts and on access to suitable hedge counterparties and thus on its liquidity, financial position, net assets and results of operation.

The Issuer and Hypo Real Estate Holding are generally exposed to the risk that the ratings assigned to it by rating agencies could be downgraded. A downgrade could have negative effects on the funding opportunities of the Issuer and would typically increase the costs of refinancing. Furthermore, a downgrade could have a negative impact on triggers and termination rights within derivatives and other contracts and on access to suitable hedge counterparties. They could thereby have negative implications for the liquidity, financial position, net assets and result of operations of the Issuer. 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. For the credit ratings assigned to this Program, see Part I – III. "OTHER MATTERS" above.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency as deemed appropriate. Ratings are based in current information furnished to the rating agencies by the Issuer and information obtained by the rating agencies from other sources. Because ratings may be changed, superseded or withdrawn as a result of changes in, or unavailability of, such information at any time, a prospective purchaser should verify the current long-term and short-term ratings of the Issuer and/or of the Bonds, as the case may be, before purchasing the Bonds. Rating agencies may change their methodology at any time. A change in the rating methodology may have an impact on the ratings of the Issuer or this Program or on the Bonds issued or to be issued under this Program. For the evaluation and usage of ratings, please refer to the rating agencies' pertinent criteria and explanations, the relevant terms of use are to be considered. Ratings should not substitute personal analysis.

Rating agencies continue to adapt their methodologies and models in order to assess, amongst other factors, the changing macro-economic environment and the potential impact of the European sovereign debt crisis. These include the new European legislative initiatives to centralise supervision of large banks and to support bank resolution and bail-in of senior unsecured creditors. These measures alongside the specific rating drivers for the Issuer and its Pfandbriefe could lead to rating changes. Ratings could also be impacted by a change in ownership structure due to the Issuer's planned reprivatisation. Downgrades of Issuer, Pfandbrief- and/or Bond-Ratings could have a negative impact, particularly on the Issuer's funding conditions, on triggers and termination rights within derivatives and other contracts and on access to suitable hedge counterparties and hence on its financial position and profitability.

The current ratings *inter alia* consider, to varying degrees, the likelihood of external support in a crisis scenario by the German government, which is the ultimate owner of the Issuer via Hypo Real Estate Holding. In the case of the Issuer, following the European Commission's decision on the state-aid received by Hypo Real Estate Group in July 2011, the continued evidence of a functioning business model will be one of the decisive factors for the evaluation of the Issuer, also against the background of the planned reprivatisation. Besides the existing linkages of Pfandbrief ratings to the senior unsecured ratings, particularly the Issuer's ratings of Public Sector Pfandbriefe may also be affected by the deterioration of some sovereign ratings.

The Issuer and Hypo Real Estate Group are 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 and Hypo Real Estate Group's business conditions and opportunities.

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

Since 2007, international capital markets have been affected by ongoing turbulence which were accompanied by high market volatility and reduced liquidity. The disruptions have resulted in a sweeping reduction of available financing and have led to some financial institutions being subject to financial distress.

The mixed performance of the economical conditions in the western industrialised countries in 2012 has had an impact on the development of business in the banking sector. The fact that the sovereign debt crisis has become more serious has had an even greater impact on the overall banking sector. The rating downgrades of many European countries which are currently the focus of attention (e.g. Greece, Portugal, Italy, Spain, Ireland and Cyprus) and the USA were reflected in volatility on the financial markets. Banks with large portfolios of bonds of countries which are currently at the focus of attention have been viewed particularly critically.

Some European countries in the business year 2013 were only able to obtain funds with the support of international aid programmes. If the debt crisis of some countries deteriorates any further and claim waivers on bonds of other countries become necessary, or if public creditors become insolvent, the Issuer might also have to recognise considerable impairments on loans and advances and securities. These impairments might increase if, due to interrelationships or market turmoil, the crisis in individual countries negatively affects other creditors which are currently considered to be solvent.

The comprehensive assessment conducted by the European Central Bank prior to the implementation of the Single Supervisory Mechanism may lead to higher regulatory capital requirements of the Issuer and of Hypo Real Estate Group which may have a negative impact on the net assets, financial position and result of operations of the Issuer and of Hypo Real Estate Group.

Prior to the implementation of the Single Supervisory Mechanism (SSM) the European Central Bank will carry out a so called "Comprehensive Assessment" in 2014. The Comprehensive Assessment includes several steps, namely risk assessment, balance sheet assessment and a stress test. Hypo Real Estate Group and consequently also the Issuer were named as one of 128 institutions which have to participate in this bank assessment. Depending on the results, the European Central Bank could require Hypo Real Estate Group to increase the level of own funds held, which could in turn affect the Issuer's capital requirements. Furthermore, the markets may be volatile prior to the publication of the results which may have a negative effect on the refinancing of the Issuer. The Comprehensive Assessment may have a negative impact on the net assets, financial position and earnings of the Issuer and of Hypo Real Estate Group.

The Issuer and Hypo Real Estate Group may be exposed to increased regulations and measures, including increased capital requirements and requirements in relation to the clearing of derivatives transactions which may lead to additional costs and may materially affect the Issuer's and Hypo Real Estate Group's business and results of operation.

As a response to the crisis in the financial markets most jurisdictions have imposed increased regulations and implemented measures to prevent future financial crisis or diminish their effects; such implemented or planned regulations and measures may lead to additional costs, materially affecting business and results of operations of the Issuer and Hypo Real Estate Group. The risk-bearing capacity concept has been further developed in order to ensure that the specific regulatory requirements will still be met in future. A risk-bearing capacity calculation based on a going-concern assumption has been implemented to provide a more realistic view of the sustainability of the business model of the Issuer.

Furthermore, the Basel Committee on Banking Supervision issued the Basel III rules text, which sets out, *inter alia*, stricter rules in relation to capital requirements by increasing the minimum capital ratio. The framework contains furthermore a leverage ratio which is an equity ratio independent from the risk weighting of assets as well as new standards to measure liquidity. For the Issuer and Hypo Real Estate Group these rules may involve an increasing need for equity and liquidity and may have a negative impact on profitability.

Additionally, the European Market Infrastructure Regulation (EMIR) and related implementing regulations, need to be applied by the Issuer. As a consequence, processes need to be established that allow central clearing of OTC derivatives and posting of collateral as well as compliance with related capital requirements and reporting obligations.

Further regulation could exacerbate such negative effects. In order to prevent from a future financial crisis, legislators may decide on additional charges and taxes, for example the introduction of taxes on financial market transactions. The new rules may have a negative impact on the net assets, financial position and result of operations of the Issuer and of Hypo Real Estate Group.

The Issuer and Hypo Real Estate Group generally face risks of failure to properly implement the European Commission's decision regarding state aid provided to Hypo Real Estate Group, particular risks may arise in connection with the planned transfer of DEPFA to, and its wind down under, FMS Wertmanagement which may also have an adverse impact on Hypo Real Estate Group's operational stability and the planned subsequent reprivatization of the Issuer.

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

Particular risks may arise in connection with the planned wind down of DEPFA and the planned subsequent reprivatization of the Issuer. Hypo Real Estate Group started the selling process for the reprivatization of DEPFA in 2013. On 13 May 2014, the FMSA's inter-ministerial Steering Committee (which decides on measures related to the SoFFin) and an extraordinary general meeting of Hypo Real Estate Holding have decided not to sell DEPFA, but to prepare the take over and wind down of DEPFA by FMS Wertmanagement. The transfer of DEPFA to, and its wind down under, FMS Wertmanagement might have an adverse impact on the operational stability of Hypo Real Estate Group, in particular on DEPFA, but also on the Issuer. As a result of FMSA's decision, it cannot be excluded that employees of DEPFA or the Issuer terminate their employment contracts and, thus, that important know how cannot be maintained. Some employees have already given notices of termination. Furthermore, the decision might also lead to reduced motivation of staff. Overall, the decision to wind down DEPFA may also have a negative impact on the Issuer's envisaged reprivatization. If the reprivatization of the Issuer is not executed by 31 December 2015, an appointed divestiture trustee (*Veräußerungstreuhänder*) will divest the Issuer at no minimum price to a purchaser, provided that the European Commission has approved the purchaser and the final and binding purchase agreement. The divestiture or any alternative ideas of the shareholder in consultation with the European Commission may have a negative impact on the assets, financial position and earnings of the Issuer.

The business model of the Issuer may not be sustainable in the future due to the restrictions imposed by the European Commission.

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

The Issuer and Hypo Real Estate Group continue to bear risks related to FMS Wertmanagement despite the transfer of assets and liabilities and the termination of the servicing activities, not least due to the exposure associated with related back-to-back derivatives.

Following the transfer of assets and liabilities and non-strategic business lines to FMS Wertmanagement the balance sheet total of Hypo Real Estate Group as at 31 December 2011 was (and continued to be as at 31 December 2013) lower than it was the case at the end of 2010, the decline of which was mainly attributable to a further reduction of the opposite effects, resulting for instance from the handling of

refinancing arrangements or the transfer of risks by way of back-to-back derivatives, which had increased the total assets when positions were transferred to FMS Wertmanagement in October 2010. At the end of 2011 (and subsequently), FMS Wertmanagement was no longer reliant on refinancing funds which the Issuer passed through from central banks since FMS Wertmanagement received the refinancing funds from the affiliated entity DEPFA Group and consequently, the volume of reverse repos (i.e. loans and advances to costumers) declined. However, Hypo Real Estate Group and the Issuer may be negatively affected by FMS Wertmanagement due to the outstanding back-to-back derivatives which have not yet been replaced by direct business relations between FMS Wertmanagement and the external customers (novation of derivatives). Furthermore, in the course of transfer of certain assets which had been booked in the Issuers' mortgage coverpool until August 2013, FMS Wertmanagement granted acknowledgements of debt (*abstrakte Schuldversprechen*) to the Issuer to replace assets in the Issuer's coverpools for Pfandbrief issuances. In addition certain credit risks of assets were transferred by means of guarantees provided by FMS Wertmanagement so that Hypo Real Estate Group ultimately retains a counterparty risk with regard to FMS Wertmanagement in connection with these positions.

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

The Issuer and Hypo Real Estate Group are exposed to the risk of impairments in relation to loans and advances, in particular in case of a general crisis affecting individual real estate markets.

Even though the situation on the real estate markets improved in 2013, it is, nevertheless, possible that significant impairment losses will have to be recognised in relation to loans and advances in the future. These impairment losses depend primarily on the economic situation of the financed object. However, a further factor can also be a general crisis affecting individual real estate markets.

Due to the membership to Hypo Real Estate Group the Issuer is exposed to reputational risks.

Membership to Hypo Real Estate Group has had a negative impact on the image of the Issuer and its subsidiaries in recent years. Even if success has already been achieved as a result of the Issuer re-entering markets, it is possible that there may be negative consequences for meeting targets of the Issuer and its subsidiaries.

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 and of Hypo Real Estate Group.

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. Litigation which is currently pending and litigation which might become pending in future might have a considerably negative impact on the results of operations of the Issuer and of Hypo Real Estate Group.

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

The Issuer and Hypo Real Estate Group are exposed to the risk of default in the cover pools for the Pfandbriefe, the separate pools of specified qualifying assets to cover the aggregate principal amount of the outstanding Pfandbriefe (each a "Cover Pool"), which could adversely affect the Issuer's and Hypo Real Estate Group's net assets, financial position and result of operations, and may result in the insufficiency of funds to meet the obligations under the Pfandbriefe.

As regards new business the Issuer focuses on Pfandbrief-eligible new business in the Real Estate

Finance and Public Investment Finance segment with a regional focus on Europe. Therefore the assets contained in the Cover Pools also comprise loans to local governments and municipalities. The ability of such borrowers, including local governments and municipalities, to meet their payment obligations will be affected by their levels of indebtedness, social spending obligations, interest rates and tax revenue collections, each of which can be adversely affected by a deterioration of general economic conditions. Deteriorating economic conditions could therefore have a material adverse effect on the credit quality of the assets in the Cover Pool.

Furthermore, unfavourable regional economic conditions may also have a negative impact on the Cover Pools, since assets originated or situated in these areas may experience higher rates of loss. Adverse economic conditions may affect the ability of borrowers to make payments relating to claims contained in the relevant Cover Pool. Such occurrences may accordingly have an adverse impact on the fair market value of certain assets included in the Cover Pool. In the Public Investment Finance segment currently the focus is on Germany and France. In addition, the Issuer operates in further selected European countries such as Belgium, Denmark, Finland, Italy, Luxembourg, The Netherlands, Norway, Sweden, Spain as well as Central and Eastern Europe. In the segment Real Estate Finance the Issuer focuses on financing investments in European Pfandbrief-eligible markets. Germany, France, United Kingdom and Spain are core markets. However, due to the currently strained economic conditions in Spain, only limited business is planned in this region. The Issuer concentrates in Germany on eight regions (e.g. Munich, Hamburg, Berlin) which have been identified as areas with ideal potential based on size and growth of gross domestic product (GDP) and population. Furthermore, the Issuer focuses on other selected European regions, in which the Issuer has been active in the past and which offer a stable legal and political environment. This is especially the case for Sweden, Poland and the Czech Republic which are considered additional markets. Countries such as the Benelux, Austria, Switzerland, other and Central and Eastern European countries (e.g. Slovakia) are served on an opportunistic basis or in line with cross-border portfolio financing.

Changes to the method of valuation of financial instruments may adversely impact the earning of the Issuer and of Hypo Real Estate Group.

The methods of valuation of financial instruments are continuously developed further in the market. For instance, the market conventions for the valuation of derivatives changed particularly by the use of overnight interest rate curves in 2013. Comparable adjustments may have negative consequences on the financial position, net assets and results of operation of the Issuer and of Hypo Real Estate Group.

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. This further development might have an impact on the risk-assessment analysis in the going-concern approach and in the gone-concern approach. A further factor of influence on the risk-assessment in the gone-concern approach is the development of market values of assets and liabilities. If hidden liabilities increase due to changes in the market value, the core capital could drop below the required capital ratio.

The planned introduction of a financial transaction tax might make certain business activities of the Issuer and of Hypo Real Estate Group unprofitable.

The introduction of a financial transaction tax is being planned or discussed in several countries in the European Union. According to the current proposal the purchase and sale of fungible securities or options and other financial instruments are to be taxed. This contribution could negatively affect the profit of the Issuer and of Hypo Real Estate Group and could make certain business activities of the Issuer and of Hypo Real Estate Group unprofitable.

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 2012 and 31 December 2013 were KPMG AG Wirtschaftsprüfungsgesellschaft (formerly KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft 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*) pursuant to section 8a of the FMStFG and a public law institution. The transfer was effected by way of a split-off under the Transformation Act (*Umwandlungsgesetz*), which has been entered into the commercial register of both, the Issuer and FMS Wertmanagement, on 2 December 2010 and thereby becoming legally effective, as well as by certain other methods of transfer (for details see PART IV – I "OUTLINE OF COMPANY – HYPO REAL ESTATE GROUP – 2. INFORMATION ABOUT HYPO REAL ESTATE GROUP – Overview of Measures for Stabilising Hypo Real Estate Group" below).

The Issuer has its registered office at Freisinger Str. 5, 85716 Unterschleißheim, Germany. Its telephone

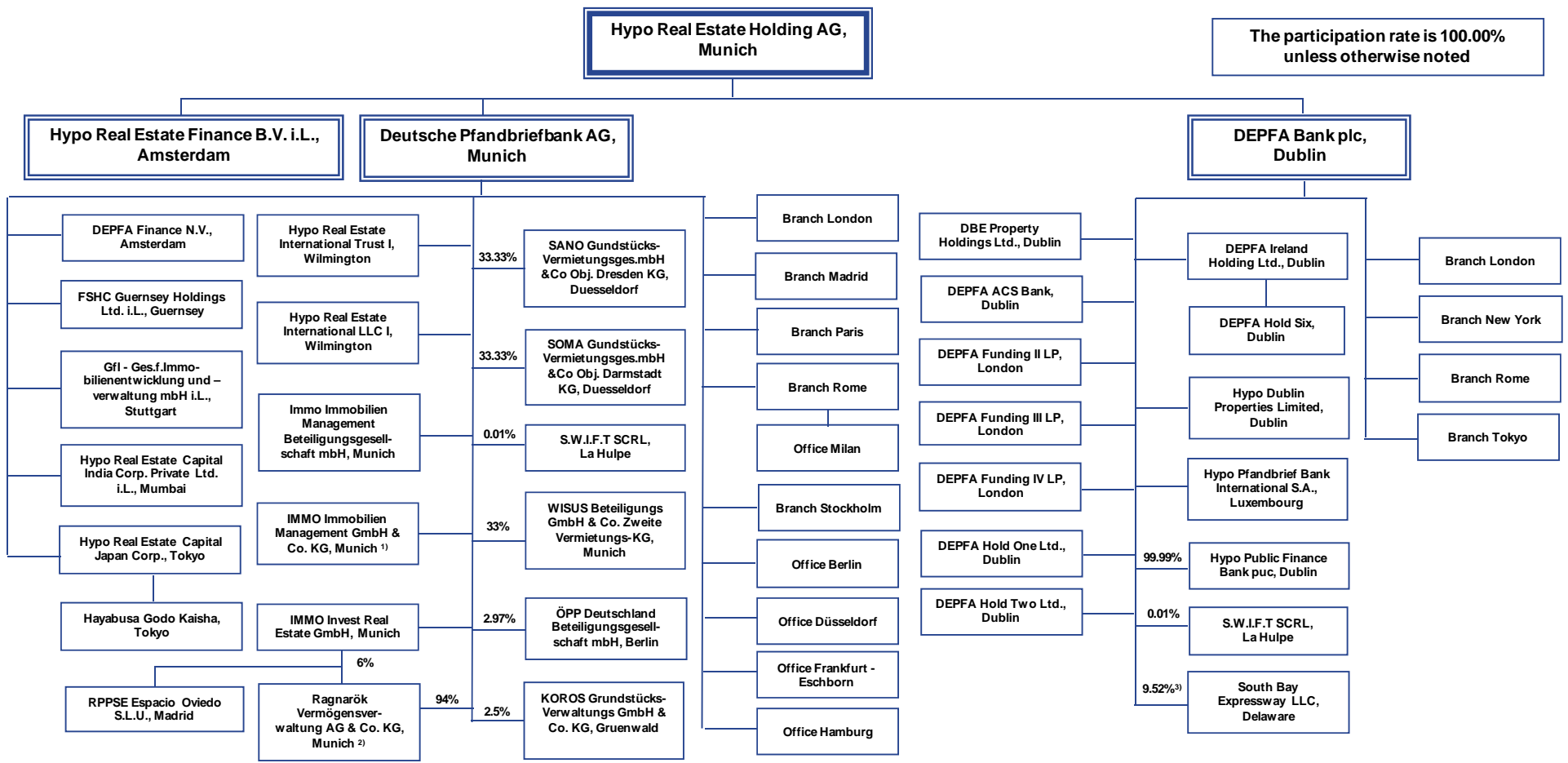
number is +49 89 2880 0.

Integration into Hypo Real Estate Group and Keep Well Statement

The Issuer is part of Hypo Real Estate Group. Hypo Real Estate Group includes the parent company Hypo Real Estate Holding, its subsidiaries DEPFA and DEPFA's subsidiaries, affiliates and associated companies, the Issuer including its subsidiaries, affiliates and associated companies and Hypo Real Estate Finance B.V.i.L. For further information regarding Hypo Real Estate Group see Part IV – I "OUTLINE OF COMPANY – HYPO REAL ESTATE GROUP" below.

For further information about restructurings of Hypo Real Estate Group see Part IV – I "OUTLINE OF COMPANY – HYPO REAL ESTATE GROUP – 2. INFORMATION ABOUT HYPO REAL ESTATE GROUP – Strategic Reorganisation and Corporate Strategy of Hypo Real Estate Group" below.

As at 31 May 2014, the legal structure of Hypo Real Estate Group and the Issuer in particular is as follows:



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

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

3) Economically DEPFA Bank plc holds 1.34% and FMS Wertmanagement AöR holds 8.18%

Hypo Real Estate Holding, which is the parent company of the Issuer, has published a keep well statement as regards the Issuer in the financial statements of Hypo Real Estate Holding AG for the business year 2013 (the "**Keep Well Statement**"), according to which Hypo Real Estate Holding ensures that the Issuer is able to meet its contractual obligations (except in the case of political risk):

"Für die Deutsche Pfandbriefbank AG trägt die Hypo Real Estate Holding AG, abgesehen vom Fall des politischen Risikos, dafür Sorge, dass sie ihre vertraglichen Verpflichtungen erfüllen kann."

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

Strategic Reorganisation of Hypo Real Estate Group and Impact on the Issuer

Since 2009, the Issuer forms the strategic core bank of Hypo Real Estate Group. With the positive decision of the European Commission on 18 July 2011 regarding the approval of the state aid of the Federal Republic of Germany for Hypo Real Estate Group, it simultaneously recognised the viability of the business model of the Issuer as a specialist bank for real estate finance and public investment finance (for details see Part IV – I "OUTLINE OF COMPANY – HYPO REAL ESTATE GROUP – 2. INFORMATION ABOUT HYPO REAL ESTATE GROUP – Approval of State Aid Measures by the European Commission" below).

As a condition imposed by the European Commission the Issuer has to be reprivatized until the end of 2015 (for details see Part IV – I "OUTLINE OF COMPANY – HYPO REAL ESTATE GROUP – 2. INFORMATION ABOUT HYPO REAL ESTATE GROUP – Strategic Reorganisation and Corporate Strategy of Hypo Real Estate Group" below).

Recent Events

Following the transfer from DEPFA Group to FMS Wertmanagement the Issuer intends to transfer the Issuer's subsidiary DEPFA Finance N.V, Amsterdam, to DEPFA and to repay a loan which was provided to it by DEPFA Finance N.V. The repayment of the loan which is subject to the prior consent of BaFin is expected to result in an extraordinary profit for the Issuer.

Following the decision on the planned wind down of DEPFA, the Supervisory Board of the Issuer agreed on 3 June 2014 to the request of Manuela Better to release her from her duties as Chief Executive Officer of the Issuer and has entrusted Andreas Arndt with the coordination of the Management Board's work, until further notice.

3. BUSINESS OVERVIEW

The Issuer operates new business in two business segments: Real Estate Finance and Public Investment Finance. There are also the additional reporting segment Value Portfolio which comprises all non-strategic assets and activities and the reporting column Consolidation & Adjustments. The Consolidation & Adjustments column is used to reconcile the total segment results with the consolidated results. In addition to consolidations, this item comprises certain expenses and income which cannot be allocated to the respective operating segments.

It should be noted that following the approval of the European Commission of the state aid provided to Hypo Real Estate Group (for details see Part IV – I "OUTLINE OF COMPANY – HYPO REAL ESTATE GROUP – 2. INFORMATION ABOUT HYPO REAL ESTATE GROUP – Approval of State Aid Measures by the European Commission" below) the business model is restricted as a consequence of conditions imposed by the European Commission as further specified below. Growth for the next few years has been limited in line with the approval of the European Commission, and new business must generate a defined minimum return. The Issuer no longer operates new business in pure public budget financing. The covenants are applicable until the Issuer is reprivatized, and are applicable at least until December 2013.

Real Estate Finance

In the Real Estate Finance segment the Issuer targets professional national and international real estate investors (such as real estate companies, institutional investors, real estate funds and also small and medium enterprises (SME) customers and customers with a regional focus in Germany). The focus of the Issuer is on less volatile real estate classes, such as offices, retail sector, residential housing and logistics. The Issuer targets medium to large financing and offers its customers local expertise for the most important target markets Germany, Great Britain, France and Scandinavia and other selected countries in Central and Eastern Europe as well as transnational know how. The predominant part of the provided financing relates to investment loans, i.e. loans for purchase of existing property, which generates cash flow. Development financing is of significant less importance and limited to non-speculative projects.

In 2013, new business of the Issuer in the Real Estate Finance segment amounted to Euro 7.0 billion. As expected, this is over the level of new business in 2012 (Euro 4.9 billion). As of 31 December 2012, measured on the basis of exposures the real estate sector financing portfolio amounted to Euro 22.5 billion (compared to Euro 23.5 billion as of 31 December 2012).

Public Investment Finance

In the Public Investment Finance segment new business is exclusively generated in public investment financing. The Issuer will only be active on the secondary market if this is necessary for rounding off or improving the portfolio structure. In the field of public investment finance, the Issuer offers its customers medium- to long-term financing which is always Pfandbrief-eligible. The focus of the financing activities is on public sector facilities, municipal housing, energy supply and disposal services, healthcare, care of the elderly and education facilities. Besides the public investment financing the Issuer is active in the area of state guaranteed export financing. The financing arrangements are provided to public sector borrowers, companies with a public sector or private legal form as well as special purpose vehicles with a public guarantee.

The regional focus is on European countries with good ratings in which lending operations can be refinanced by way of issuing Pfandbriefe – at present, the Issuer is focussing particularly on Germany and France. In addition, the Issuer also operates in other selected European countries (see also "RISK FACTORS – 1.RISKS RELATING TO THE ISSUER AND HYPO REAL ESTATE GROUP – *There is the risk of default in the cover pools for Pfandbriefe, this may in particular related to unfavourable regional economic conditions that may have a negative impact on the Cover Pools*" above).

In 2013, new business of the Issuer in the Public Investment Finance segment amounted to Euro 1.2 billion. This exceeds the level of new business in 2012 (Euro 0.7 billion). As of 31 December 2013, measured on the basis of exposures the public sector financing portfolio amounted to Euro 32.9 billion (compared to Euro 28.9 billion as of 31 December 2012).

Value Portfolio

The Value Portfolio segment comprises non-strategic portfolios of the Issuer and its consolidated subsidiaries and parts of the transactions entered into with FMS Wertmanagement as counterparty. Furthermore, it reflects earnings and expenses in relation to services rendered to DEPFA and FMS Wertmanagement. The existing non-strategic 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. Beside the budget finance portfolio there is another relatively small portfolio of non-strategic assets that includes asset classes which do not involve a substantial risk for the Issuer.

The strategic decline of Euro 5.1 billion in the exposure as of 31 December 2013 compared with 31 December 2012 was mainly attributable to the decrease of the exposure of almost all countries especially in Germany and USA. In the remaining portfolio as of 31 December 2013 (in total Euro 23.6 billion), the regional focus is also on Germany.

Funding

Under the German Pfandbrief Act (*Pfandbriefgesetz*), all banks that have a licence pursuant to section 2 of the German Pfandbrief Act are allowed to issue special covered bonds, so-called Pfandbriefe. There are two important sources of funding, the Mortgage Pfandbrief (*Hypothekendarlehen*) and the Public Pfandbrief (*Öffentlicher Pfandbrief*). Additional sources of funding are the Ship Pfandbrief (*Schiffspfandbrief*) and the Aircraft Pfandbrief (*Flugzeugpfandbrief*). The principal of and interest on these bonds have to be covered at all times by a pool of assets supervised by an independent cover pool monitor. For this purpose Pfandbrief Banks use independent registers: e.g. Mortgage Pfandbriefe are backed by qualified mortgage loans and Public Pfandbriefe are backed by certain claims against public sector entities. Though the assets are listed in special registers, they remain on the Issuer's balance sheet. The Issuer funds the assets which are not eligible for any of the registers by using senior unsecured bonds or other funding instruments (see "GERMAN PFANDBRIEFE AND THE GERMAN PFANDBRIEF MARKET" below).

In 2013, the capital markets were characterised by the low interest rate environment, expansionary monetary policy and uncertainty as to how the central banks planned to proceed. In summer 2013, worries about overcoming the sovereign debt crisis resurfaced after Cyprus was bailed out, increasing market volatility. The risk premium for securities placed on the primary market improved again. In 2013, for the first time since the start of the crisis, the Issuer was successful in placing a bond with a maturity of 15 years. Overall, risk premium for Pfandbriefe and unsecured bonds declined. Furthermore smaller private placements of certificates of indebtedness (*Schuldscheindarlehen*) of the Issuer were also well received by German investors.

The funding of loans is carried out largely with matching maturities and primarily via the German Pfandbrief market; the funding is supplemented by unsecured funding activities. The Issuer issues Mortgage Pfandbriefe and Public Pfandbriefe and is measured on the basis of the outstanding volume one of the largest issuer of Pfandbriefe in Germany (source: Association of German Pfandbriefbanks (vdp), The Pfandbrief 2013/2014 - Facts and Figures about Europe's Covered Bond Benchmark). Issues regularly take place on the international capital market in benchmark format and in the form of bilateral private placements. Private placements can take the form of either bearer securities or registered securities in accordance with the requirements of the investors. Maturity and interest structure can be negotiated individually. In accordance with the lending business the Pfandbriefe are mostly denominated in Euros, but also in other currencies.

The unsecured refinancing takes place by means of certificates of indebtedness (*Schuldscheindarlehen*) and bearer bonds.

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.

In 2013, the Issuer also started a retail deposit business taking in deposits from overnight to ten years via online platform "pbb direct". Since the start in March 2013, deposit volumes grew up to approximately Euro 620 million by year-end 2013 and exceeded Euro 1 billion in March 2014.

Employees

As at 31 December 2013, the Issuer had 852 employees compared to 1044 employees as at 31 December 2012 (in headcounts as calculated pursuant to the German Commercial Code).

4. ORGANISATIONAL STRUCTURE

Dependency of the Issuer within Hypo Real Estate Group

Hypo Real Estate Holding holds 100 per cent. of the shares in the Issuer. In accordance with Section 17 para. 2 of the German Stock Corporation Law (*Aktiengesetz*), it is assumed that a majority-owned

enterprise is dependent on the company holding the majority interest and the majority in voting rights.

Subsidiaries and Equity Interests

A list of the Issuer's consolidated subsidiaries and equity participations in other companies as of 31 December 2013, specifying the name of the subsidiary or other company and the Issuer's equity interest, is contained in the Deutsche Pfandbriefbank Consolidated Financial Information 2013 (as defined in "8. HISTORICAL FINANCIAL INFORMATION" below. Also 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 2013).

Following the approval of the European Commission of the state aid provided to Hypo Real Estate Group, the business model of the Issuer has been reviewed by the SoFFin, the FMSA and the German Ministry of Finance (*Bundesfinanzministerium*). As at the date of this Program Information, the Issuer has no reason to believe that after possible further reviews these stakeholders disapprove, or further restrict, the Issuer's business model as defined by the European Commission.

6. ADMINISTRATIVE, MANAGEMENT, AND SUPERVISORY BODIES

The corporate bodies of the Issuer are:

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

The Management Board

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

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

<u>Name and Position</u>	<u>Other Mandates</u>
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Andreas Arndt	
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Member of the Management Board (Chief Financial Officer)	
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Member of the Management Board of Hypo Real Estate Holding AG, Munich, Germany
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Wolfgang Groth	
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Member of the Management Board	
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Member of the Management Board of Hypo Real

(Group Treasurer)

Estate Holding AG, Munich, Germany
Non-Executive Director of DEPFA BANK plc.,
Dublin, Ireland
Non-Executive Director of Hypo Public Finance
Bank puc, Dublin, Ireland

Andreas Schenk

Member of the Management Board
(Chief Risk Officer)

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

Dr. Bernhard Scholz

Member of the Management Board
(Real Estate Finance and Public Investment
Finance)

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

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

The Supervisory Board

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

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

Name and Position

Other Mandates

Dr. Bernd Thiemann

Chairman of the Supervisory Board
(Former Chairman of the Management
Board of
DG Bank AG)

Chairman of the Supervisory Board of Hypo Real Estate
Holding AG, Munich, Germany
Member of the Supervisory Board of Deutsche EuroShop
AG, Hamburg, Germany
Member of the Supervisory Board of VHV
Lebensversicherung AG, Hannover, Germany
Member of the Supervisory Board of VHV Vereinigte
Hannoversche Versicherung a.G., Hannover, Germany
Member of the Supervisory Board of Hannoversche
Direktversicherung AG, Hannover, Germany
Deputy Chairman of the Supervisory Board of WAVE
Management AG, Hamburg, Germany
Member of the Supervisory Board of IVG Immobilien
AG, Bonn, Germany
Member of the Supervisory Board of Würth Finance
International B.V., Amsterdam, The Netherlands
Deputy Chairman of the Supervisory Board of M.M.
Warburg & Co KGaA, Hamburg, Germany

Dagmar P. Kollmann

Deputy Chairperson of the Supervisory Board
(Entrepreneur)

Deputy Chairperson of the Supervisory Board of Hypo
Real Estate Holding AG, Munich, Germany
Member of the Supervisory Board of Bank Gutmann
Aktiengesellschaft, Vienna, Austria
Member of the Advisory Board of Landeskreditbank
Baden-Württemberg – Förderbank (L-Bank),
Karlsruhe/Stuttgart, Germany
Member of the Supervisory Board of KfW IPEX-Bank

GmbH, Frankfurt, Germany
Member of the Supervisory Board of Deutsche Telekom AG, Bonn, Germany
Member of the Supervisory Board of Unibail-Rodamco SE, Paris, France (since 23.04.2014)

Dr. Günther Bräunig

(Member of the Management Board of KfW)

Member of the Supervisory Board of Hypo Real Estate Holding AG, Munich, Germany
Member of the Strategic Committee of AFT – Agence France Trésor, Paris, France
Chairman of the Advisory Council of True Sale International GmbH, Frankfurt/Main, Germany

Dr. Christian Gebauer Rochholz^{*)}

(Employee Representative)

None

Georg Kordick^{*)}

(Employee Representative)

None

Dr. Ludger Schuknecht

(Head of the Department responsible for Fundamental Issues of Finance Policy and Economics (*Abteilung Finanzpolitische und volkswirtschaftliche Grundsatzfragen*) at the Federal Ministry of Finance, Berlin)

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

Heike Theißing^{*)}

(Employee Representative)

None

Dr. Hedda von Wedel

(Retired President of the Bundesrechnungshof)

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

Dr. Jeromin Zettelmeyer

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

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

^{*)} Employee representative according to the One Third-Participation Act (*Drittelbeteiligungsgesetz*).

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

The General Meeting of Shareholders

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

Conflicts of Interest

The members of the Management Board and the members of the Supervisory Board of the Issuer have additional positions as described above which may potentially result in conflicts of interest between

their duties towards the Issuer and their private and other duties. Furthermore, in connection with the issue of Bonds a potential conflict of interest will be indicated in the relevant Specified Securities Information.

7. MAJOR SHAREHOLDERS

The Issuer is wholly-owned (100 per cent.) by Hypo Real Estate Holding. Hypo Real Estate Holding has pledged the shares in the Issuer as security to the Federal Republic of Germany.

8. HISTORICAL FINANCIAL INFORMATION

Historical Financial Information

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

For the financial year ended 31 December 2012, the Issuer has published its consolidated financial information including the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the cash flow statement, the notes and the auditor's report (together the "**Deutsche Pfandbriefbank Consolidated Financial Information 2012**"). The Deutsche Pfandbriefbank Consolidated Financial Information 2012 is incorporated by reference (see "DOCUMENTS INCORPORATED BY REFERENCE" below).

For the financial year ended 31 December 2013, the Issuer has published its unconsolidated financial information including the income statement, the balance sheet, the notes and the auditor's report (together the "**Deutsche Pfandbriefbank Unconsolidated Financial Information 2013**"). The Deutsche Pfandbriefbank Unconsolidated Financial Information 2013 is incorporated by reference (see "DOCUMENTS INCORPORATED BY REFERENCE" below).

The Deutsche Pfandbriefbank Unconsolidated Financial Information 2013 have been prepared on the basis of the German generally accepted accounting principles ("**German GAAP**"). The Deutsche Pfandbriefbank Consolidated Financial Information 2013 and the Deutsche Pfandbriefbank Consolidated Financial Information 2012 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 Deutsche Pfandbriefbank Consolidated Financial Information 2013 and have issued an unqualified opinion (*uneingeschränkter Bestätigungsvermerk*).

Interim and other Financial Information

The Issuer has not published interim financial information since the date of its last published audited financial statements.

Legal and Arbitration Proceedings

The issuer received contractually agreed compensation of Euro 6 million for a former French financing arrangement, which has since been repaid in full. In 2013 the client has brought an action before the

Paris commercial court for repayment of the fee, which it believes to be unreasonable.

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 profit participation certificates issued by the predecessor institutions participated in significant losses due to the net losses for the period incurred since 2008, and to the Issuer's net accumulated losses since this time. These reduced the amounts repaid and, as a result, no interest was paid. Individual plaintiffs 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 capital components must be used to calculate loss participation and whether replenishment is required if the Issuer records a net gain for the period or a net retained profit. The contested profit participation certificates had an aggregate principal amount of Euro 260 million (of which proceedings involving a principal amount of Euro 12.5 million were pending). The plaintiffs' repayment claims may increase up to the full amount or in part as a result of these actions

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

Significant Change in Issuer's Financial Position or Trading Position

There has been no significant change in the financial position of the Issuer and its consolidated subsidiaries while there has been a change in the trading position of the Issuer due to changes in interest rate levels since the end of the last financial period for which audited financial information has been published (31 December 2013). Trading assets and trading liabilities mostly comprise of derivatives that Hypo Real Estate Group sold to its clients and the back-to-back hedges it transacted in the interbank market. The gross values of these derivative assets and liabilities are impacted by market movements. Due to the offsetting nature of the business, the net position is small and has not changed materially.

9. MATERIAL CONTRACTS

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

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

With effect from 1 November 2009, the Issuer and its affiliated group companies outsourced operation of its entire world-wide IT infrastructure to Fujitsu Services GmbH. This measure covers the operation of the data centres, the servers, the networks and other services.

Two framework agreements (*Rahmenverträge*) have been entered into with the SoFFin: On 24 August 2010, a framework agreement (*Rahmenvertrag*) between Hypo Real Estate Holding, the Issuer and the SoFFin relating to the capitalisation measures granted by the SoFFin (the SoFFin's shareholding and silent partnerships); and, on 30 September 2010, a framework agreement (*Rahmenvertrag*) between Hypo Real Estate Holding, the Issuer, FMSA, FMS Wertmanagement and the SoFFin relating to the establishment of the deconsolidated environment (*Abwicklungsanstalt*). Both framework agreements

refer to the obligations of Hypo Real Estate Holding and of the Issuer in relation to the granted stabilisation measures, in particular as regards business policy, the European Union state aid proceedings, the compensation policy as well as penalties and possible compensation claims for damages in connection with the establishment of the deconsolidated environment (*Abwicklungsanstalt*). The Issuer assumes joint and several liability for all payment obligations of its subsidiaries resulting from the transaction agreements which have been transferred as part of the process of transferring assets to FMS Wertmanagement

On 30 September 2010, FMS Wertmanagement and the Issuer concluded a co-operation agreement as regards the asset management by the Issuer of all portfolios transferred by Hypo Real Estate Group to FMS Wertmanagement. This agreement was terminated by 30 September 2013 due to the conditions imposed by the European Commission in its state aid decision. Following the termination of the servicing, Hypo Real Estate Holding and FMS Wertmanagement have entered into agreements specifying final obligations of the parties (for more details see Part IV – I "OUTLINE OF COMPANY – HYPO REAL ESTATE GROUP – 2. INFORMATION ABOUT HYPO REAL ESTATE GROUP – Relationship with FMS Wertmanagement" below).

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, which has come into force on 19 July 2005 and was lastly amended on 28 August 2013.

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 authorised 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 under directive 2006/48/EC;
- (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 under directive 2006/48/EC 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) equalisation 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 (x) 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 (y) 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.

The German Public Sector and Mortgage Pfandbrief Market

In 2012 the volume of Pfandbriefe outstanding receded by 10 per cent., from Euro 586 billion in 2011 to Euro 525 billion. This is to be explained by net repayments of Public Sector Pfandbriefe totaling Euro 55 billion. The volume of Public Sector Pfandbriefe outstanding consequently fell in 2012, from Euro 356 billion to Euro 301 billion. The volume of Mortgage Pfandbriefe outstanding slightly fell by Euro 8 billion to Euro 216 billion. New issues of Mortgage Pfandbriefe totaled Euro 38.5 billion.

GENERAL DESCRIPTION OF THE PROGRAM

AUTHORISATION

The establishment of this 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 involved in the Issue/Offer

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

Restriction on Distribution

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

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

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

Confirmation by the Issuer

The Issuer hereby confirms that the 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 the 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 hereby also 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 the 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 the Tokyo Stock Exchange's website: www.tse.or.jp/rules/probond/index.html.

Completeness

The 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 the 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 the Program Information.

Significance of Delivery

Neither the delivery of the 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 the Program Information is true subsequent to the date upon which the Program Information has been most recently amended or that any other information supplied in connection with the Program is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. This does not affect the obligation of the Issuer to file an amendment to the Program Information with the Tokyo Stock Exchange under regulations thereof.

Exclusion

Neither the 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 the 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 the Program Information or any Specified Securities Information should subscribe for or purchase any Bonds. Each recipient of the 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 2013 which is included in the Issuer's 2013 Annual Report for the year ended 31 December 2013 published on 3 April 2014 which is available at the Issuer's website: <http://www.pfandbriefbank.com/en/investor-relations/financial-reports.html>.
- Deutsche Pfandbriefbank Consolidated Financial Information 2012 which is included in the Issuer's 2012 Annual Report for the year ended 31 December 2012 published on 7 March 2013 which is available at the Issuer's website: <http://www.pfandbriefbank.com/en/investor-relations/financial-reports.html>.
- Deutsche Pfandbriefbank Unconsolidated Financial Information 2013 which is appended as Appendix I. to the Issuer's Base Prospectus dated 7 May 2014 relating to Euro 50,000,000,000 Debt Issuance Programme which is available at the Issuer's website: http://www.pfandbriefbank.com/fileadmin/user_upload/downloads/investor_relations/issuance_programs/DIP_2014_Base_Prospectus.pdf.

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: www.tse.or.jp/rules/probond/index.html.

II FINANCIAL CONDITIONS

1. Financial Statements

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

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 2012, prepared in accordance with IFRS, together with the audit report as of 20 March 2013 in relation to the Consolidated Statements of Financial Position, Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statements of Changes in Equity, Consolidated Statement of Cash Flows and Notes for the financial year from 1 January to 31 December 2012 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 2013, 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 62 to the consolidated financial statements for the year ended 31 December 2013. 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 56 to the consolidated financial statements for the year ended 31 December 2013.

PART IV INFORMATION ON GUARANTOR ETC OF THE COMPANY

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

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

I OUTLINE OF COMPANY

SELECTED HISTORICAL KEY FINANCIAL INFORMATION

The following table sets forth selected financial information of Hypo Real Estate Group extracted from the audited consolidated financial statements for the financial years ended 31 December 2012 and 2013:

		2013	2012
Operating performance according to IFRS			
Pre-tax profit/loss	in Euro million	109	182
Net income/loss	in Euro million	160	122
Balance sheet figures		31.12.2013	31.12.2012
Total assets	in Euro billion	122.5	169.0
Equity (excluding revaluation reserve) ¹⁾	in Euro billion	6.4	6.3
Equity ¹⁾	in Euro billion	6.3	6.2

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

There has been no material adverse change in the prospects of Hypo Real Estate Holding since the date of its last published audited financial statements (31 December 2013). With respect to the review of the business model of the Issuer see Part II – 1 "OUTLINE OF COMPANY - SELECTED HISTORICAL KEY FINANCIAL INFORMATION" above.

There has been no significant change in the financial position of Hypo Real Estate Group while there has been a change in the trading position of Hypo Real Estate Holding due to changes in interest rate levels since the end of the last financial period for which audited financial information have been published (31 December 2013). Trading assets and trading liabilities mostly comprise of derivatives that Hypo Real Estate Group sold to its clients and the back-to-back hedges it transacted in the interbank market. The gross values of these derivative assets and liabilities are impacted by market movements. Due to the offsetting nature of the business, the net position is small and has not changed materially.

HYPO REAL ESTATE GROUP

1. STATUTORY AUDITORS

The independent auditors of Hypo Real Estate Holding for the financial years ended 31 December 2012 and 31 December 2013 were KPMG, Ganghoferstraße 29, 80339 München, Germany.

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

2. INFORMATION ABOUT HYPO REAL ESTATE GROUP

General Information

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

In 2003, Hypo Real Estate Holding was established as a new company by way of a spin-off from HVB AG. The spin-off comprised HVB AG's entire interest in its wholly-owned subsidiary and spin-off vehicle DIA GmbH which held HVB AG's shareholdings in its then three German mortgage bank subsidiaries, Hypo Real Estate Bank, WestHyp and Württembergische Hypothekenbank AG, as well as in Hypo Real Estate International, Dublin and several other non-German subsidiaries. In connection with corporate restructurings in anticipation of the spin-off, HVB AG funded DIA GmbH with shareholders' equity in an amount of approximately Euro 3,712 million. As a result of the spin-off, each holder of shares in HVB AG was entitled to receive one share in Hypo Real Estate Holding for every four shares in HVB AG held by such shareholder. In 2007, Hypo Real Estate Holding acquired DEPFA and as a result of the acquisition, DEPFA became a wholly-owned subsidiary of Hypo Real Estate Holding.

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

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

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

Structure of Hypo Real Estate Group

Within Hypo Real Estate Group, Hypo Real Estate Holding is a strategic and financial holding company which does not have any banking operation and employees itself.

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

Overview of Measures for Stabilising Hypo Real Estate Group

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

Approval of State Aid Measures by the European Commission

On 18 July 2011, the European Commission approved the state aid for Hypo Real Estate Group. With its positive decision, the European Commission has also accepted the viability of the business model of the Issuer as a specialist bank for real estate finance and public sector investment finance. The decision of the European Commission relates to all aid elements granted to Hypo Real Estate Group since the autumn of 2008, i.e. capitalisations, guarantee lines and the transfer of items to the deconsolidated environment FMS Wertmanagement, and requires appropriate compensation measures.

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

- The European Commission restricted the scope of business activities of Hypo Real Estate Group. The Issuer is restricted to operating in the business segments of real estate finance and public investment finance which is a sub-segment of the public finance business, in Germany and other selected European countries (for details see "3. OVERVIEW OF BUSINESS SEGMENTS" below). In addition, the European Commission restricted the growth of interest-bearing assets, and set certain conditions in order to secure profitability of new business, and in order to prevent from competitive distortion. As planned and in accordance with the conditions imposed by the European Commission, the banks within the DEPFA Group will not originate any new business until being reprivatized.
- The conditions imposed by the European Commission led to a substantial reduction of the balance sheet total of the Issuer when compared with the situation at the end of 2008, when the consolidated balance sheet total (in accordance with IFRS) of Hypo Real Estate Group stood at around Euro 420 billion. Over time, the balance sheet total is set to further decline due to the phase-out of public-sector budget finance, however, the reduction will be offset in the medium-term by new business.
- Furthermore, the European Commission imposed certain conditions upon the Federal Republic of Germany regarding the medium-term reprivatization of the Issuer until the end of 2015, and of the entities (or assets) of the DEPFA Group until the end of 2014.
- Hypo Real Estate Group is only allowed to make interest and profit-participation payments for certain instruments to third parties outside the Group under certain conditions. In relation to profit related instruments (other than those granted by the SoFFin), the European Commission set – among others – the condition that the capital contribution granted as a silent participation

(*stille Einlage*) by the SoFFin in the amount of Euro 1 billion in 2009 has to be redeemed, before the Issuer is allowed to make voluntary interest and profit participation payments for those instruments. As of 31 December 2012, the silent contribution was written down by Euro 53 million to Euro 129 million according to German GAAP (*HGB*).

- The conditions applied to a series of equity linked capital instruments which were in place at 30 September 2010 and which were not provided by the SoFFin. As a result of further conditions, no distributable profits will accrue in the DEPFA Group until reprivatization.
- Furthermore, as regards the servicing of the FMS Wertmanagement portfolio which the Issuer and other subsidiaries of Hypo Real Estate Group jointly perform, notwithstanding short-term follow-up work and supervision of the handover process to a new service provider, the Issuer is only allowed to render these services throughout the term of the current contract which expired at the end of September 2013. The Issuers' subsidiary Hypo Real Estate Capital Japan Corporation will continue servicing the Japanese real-estate portfolio of FMS Wertmanagement.

Strategic Reorganisation and Corporate Strategy of Hypo Real Estate Group

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

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

Within the next few years, growth has to be limited in line with the approval of the European Commission and new business must generate a defined minimum return. The Issuer no longer operates new business in the area of public investment finance as pure budget financing. The covenants are applicable until the Issuer is reprivatized.

In August 2013 Hypo Real Estate Holding initiated the selling process for 100 percent of the registered share capital of its subsidiary DEPFA. On 13 May 2014, the FMSA's inter-ministerial Steering Committee (which decides on measures related to the SoFFin) and an extraordinary general meeting of Hypo Real Estate Holding have decided not to sell DEPFA, but to prepare the take over and wind down of DEPFA by FMS Wertmanagement. The transfer to FMS Wertmanagement will be conducted according to the (economic) terms and conditions Hypo Real Estate Holding had negotiated with the external bidder (for risks relation to the process see PART II – I "OUTLINE OF COMPANY – RISK FACTORS – *The Issuer and Hypo Real Estate Group generally face risks of failure to properly implement the European Commission's decision regarding state aid provided to Hypo Real Estate Group, particular risks may arise in connection with the planned transfer of DEPFA to, and its wind down under, FMS Wertmanagement which may also have an adverse impact on Hypo Real Estate Group's operational stability and the planned subsequent reprivatization of the Issuer.*" above).

Of particular relevance for the strategy of Hypo Real Estate Group is also the contractual relationship with FMS Wertmanagement (see "Relationship with FMS Wertmanagement" below).

Relationship with FMS Wertmanagement

In connection with the transfer of assets to FMS Wertmanagement the Issuer entered into a contractual commitment to provide services for FMS Wertmanagement (the "**Co-operation Agreement**"). This commitment has been terminated with effect as of 30 September 2013. Except for the Japanese real-estate portfolio of FMS Wertmanagement which will be serviced by the Issuer's subsidiary Hypo Real Estate Capital Japan Corporation, the servicing will now be provided by FMS Wertmanagement Service GmbH, an independent servicing company established by FMS Wertmanagement, as well as other third party servicers engaged by FMS Wertmanagement. In connection with the termination of the agreement around 250 employees of the Issuer have been transferred to FMS Wertmanagement Service GmbH and the Issuer entered into an agreement with FMS Wertmanagement pursuant to which certain after-sales support is provided by either party on a cost-plus basis pertaining to, *inter alia*, compliance issues, the mutual provision of information, support in areas where the party requested to service is the only party able to do so, and to areas where legal and/or regulatory provisions require the interaction of both parties. In addition, on 17 December 2013 the Issuer, Hypo Real Estate Holding and FMS Wertmanagement have entered into a settlement agreement including a final payment obligation in a lower two-digit million Euro amount of the Issuer towards FMS Wertmanagement in order to settle potential damage claims of FMS Wertmanagement under the Co-operation Agreement, any and all past, current and future claims for re-imbursment of costs with respect to upgrades of assets that have only been transferred to FMS Wertmanagement by way of sub-participation, back-to-back derivative or financial guarantee until now as well as a payment obligation of the Issuer in connection with the transfer of employees to FMS Wertmanagement Service GmbH. The Issuer has made provisions for the final settlement payment in the prior financial reporting period. Since this agreement is beneficial for Hypo Real Estate Holding, Hypo Real Estate Holding has reimbursed the Issuer for any disadvantages. This reimbursement has directly increased the Issuer's equity capital in 2014. In addition, the issuer, Hypo Real Estate Holding and DEPFA have entered into "back-to-back" settlement agreements in January and February 2014.

Recent Events

Following the decision on the planned wind down of DEPFA, the Supervisory Board of Hypo Real Estate Holding agreed on 3 June 2014 to the request of Manuela Better to release her from her duties as Chief Executive Officer and has entrusted Andreas Arndt with the coordination of the Management Board's work, until further notice.

DEPFA shall be transferred to FMS Wertmanagement in the second half of the year 2014. After such transfer DEPFA no longer belong to the Hypo Real Estate Group.

3. OVERVIEW OF BUSINESS SEGMENTS

Hypo Real Estate Group distinguishes three operating segments: Strategic business in commercial real estate financing is pooled in the Real Estate Finance segment, and strategic public sector financing is pooled in the Public Investment Finance segment. Non-strategic business that had not been transferred to FMS Wertmanagement is included in the "Value Portfolio" segment that primarily comprises assets and liabilities of DEPFA sub-group. A "Consolidation & Adjustments" column is used to reconcile the total segments results with the consolidated results; in addition to consolidations, this item comprises certain expenses and income which cannot be allocated to the respective operating segments.

Following the decision by the European Commission, Hypo Real Estate Group's new business through the Issuer focussed on commercial real estate finance, the focus being on investment financing in the Pfandbrief-eligible European markets, in particular Germany, Great Britain and France, and public investment finance, the regional focus being on European countries with good ratings in which lending operations can be refinanced by way of issuing Pfandbriefe – at present concentrating mainly on Germany and France. New business has only been taken on at the Issuer, and only in Real Estate Finance and Public Investment Finance. For the business strategies of these two segments see PART II – I "OUTLINE OF COMPANY – DEUTSCHE PFANDBRIEFBANK AG –3. BUSINESS

OVERVIEW" above.

4. TREND INFORMATION RELATING TO HYPO REAL ESTATE GROUP

There has been no material adverse change in the prospects of Hypo Real Estate Holding since the date of its last published audited financial statements (31 December 2013). With respect to the review of the business model of the Issuer see PART II – I "OUTLINE OF COMPANY – DEUTSCHE PFANDBRIEFBANK AG – 5. TREND INFORMATION" above.

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

The corporate bodies of Hypo Real Estate Holding are:

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

The Management Board

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

As at the date of this Program Information, members of the Management Board are the same as for the Issuer.

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

The Supervisory Board

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

Name and Position	Other Mandates
Dr. Bernd Thiemann Chairman of the Supervisory Board (Former Chairman of the Management Board of DG Bank AG)	Chairman of the Supervisory Board of Deutsche Pfandbriefbank AG, Munich, Germany Member of the Supervisory Board of Deutsche EuroShop AG, Hamburg, Germany Member of the Supervisory Board of VHV Leben AG, Hannover, Germany Member of the Supervisory Board of VHV Vereinigte Hannoversche Versicherung a.G., Hannover, Germany Deputy Chairman of the Supervisory Board of WAVE Management AG, Hamburg, Germany Member of the Supervisory Board of IVG Immobilien

AG, Bonn, Germany
Deputy Chairman of the Advisory Board of Adolf Würth GmbH & Co KG, Künzelsau, Germany
Member of the Shareholders' Committee of M.M. Warburg & Co KGaA, Hamburg, Germany
Deputy Chairman of the Advisory Board of Odewald & Compagnie Gesellschaft für Beteiligungen mbH, Berlin, Germany

Dagmar P. Kollmann

Deputy Chairperson of the Supervisory Board (Chairman of the Partners Committee of Kollmann GmbH)

Deputy Chairperson of the Supervisory Board of Deutsche Pfandbriefbank AG, Munich
Member of the Supervisory Board of Bank Gutmann Aktiengesellschaft, Vienna, Austria
Member of the Advisory Board of Landeskreditbank Baden-Württemberg – Förderbank (L-Bank), Karlsruhe/Stuttgart, Germany
Member of the Supervisory Board of KfW IPEX-Bank GmbH, Frankfurt, Germany
Member of the Supervisory Board of Deutsche Telekom AG, Bonn, Germany
Member of the Supervisory Board of Unibail-Rodamco SE, Paris, France (since 23.04.2014)

Dr. Günther Bräunig

(Member of the Management Board of KfW)

Member of the Supervisory Board of Deutsche Pfandbriefbank AG, Munich, Germany
Member of the Conseil d'Orientation of OSEO, Paris, France
Chairman of the Advisory Council of True Sale International GmbH, Frankfurt/Main, Germany

Dr. Ludger Schuknecht

(Head of the Department responsible for Fundamental Issues of Finance Policy and Economics (*Abteilung Finanzpolitische und volkswirtschaftliche Grundsatzfragen*) at the Federal Ministry of Finance, Berlin)

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

Dr. Hedda von Wedel

(Retired President of the Bundesrechnungshof)

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

Dr. Jeromin Zettelmeyer

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

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

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

General Meeting of Shareholders

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

Conflicts of Interest

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

Board practices

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

Hypo Real Estate Holding, which is an entity that is completely owned by the Federal Republic of Germany, applies the Public Corporate Governance Code as adopted by the Federal Government on 1 July 2009 (*Public Corporate Governance Kodex des Bundes*) in accordance with the principle "comply or explain". Both, the Management Board and the Supervisory Board of Hypo Real Estate Holding, have adopted a resolution in this respect. As at the date of this Program Information, the latest published version of the compliance statement issued by the Management Board and the Supervisory Board of Hypo Real Estate Holding with respect to the Public Corporate Governance Code is dated 26 February 2014.

It should be noted that pursuant to the German Bank Restructuring Act provisions with respect to the compensation of members of the boards and other employees have been inserted into the FMStFG as of 31 December 2010 and, thus, are applicable also to the members of the boards and other employees of Hypo Real Estate Group and the Issuer.

6. MAJOR SHAREHOLDERS OF HYPO REAL ESTATE HOLDING

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

7. HISTORICAL FINANCIAL INFORMATION OF HYPO REAL ESTATE GROUP

Historical Financial Information

For the financial year ended 31 December 2013, Hypo Real Estate Holding has published its consolidated financial information including the income statement, the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows, the notes and the auditor's report (the "**Hypo Real Estate Group Financial Information 2013**").

The Hypo Real Estate Group Financial Information 2013 is appended as Appendix II. to the Issuer's Base Prospectus dated 7 May 2014 relating to Euro 50,000,000,000 Debt Issuance Programme which is available at the Issuer's website:

http://www.pfandbriefbank.com/fileadmin/user_upload/downloads/investor_relations/issuance_programs/DIP_2014_Base_Prospectus.pdf.

For the financial year ended 31 December 2013, Hypo Real Estate Holding has published its unconsolidated financial information including the balance sheet, income statement, the notes and the auditor's report (together the "**Hypo Real Estate Holding Financial Information 2013**").

The Hypo Real Estate Holding Financial Information 2013 is appended as Appendix III. to the Issuer's Base Prospectus dated 7 May 2014 relating to Euro 50,000,000,000 Debt Issuance Programme which is available at the Issuer's website:

http://www.pfandbriefbank.com/fileadmin/user_upload/downloads/investor_relations/issuance_programs/DIP_2014_Base_Prospectus.pdf.

For the financial year ended 31 December 2012, Hypo Real Estate Holding has published its consolidated financial information including the income statement, the statement of financial position, the statement of changes in equity, the cash flow statement, the notes and the auditor's report (together with the selected financial information the "**Hypo Real Estate Group Financial Information 2012**").

The Hypo Real Estate Group Financial Information 2012 is appended as Appendix II. to the Issuer's Base Prospectus dated 7 May 2013 relating to Euro 50,000,000,000 Debt Issuance Programme which is available at the Issuer's website:

http://www.pfandbriefbank.com/fileadmin/user_upload/downloads/investor_relations/issuance_programs/DIP_Prospectus_2013_130507.pdf.

The Hypo Real Estate Group Financial Information 2012 and the Hypo Real Estate Group Financial Information 2013 have been prepared on the basis of IFRS. The Hypo Real Estate Holding Financial Information 2013 have been prepared on the basis of German GAAP.

Auditing of Historical Financial Information

The statutory auditors of Hypo Real Estate Holding (see 1. "STATUTORY AUDITORS" above) have audited the Hypo Real Estate Group Financial Information 2012, the Hypo Real Estate Group Financial Information 2013 and the Hypo Real Estate Holding Financial Information 2013 and have issued an unqualified opinion (*uneingeschränkter Bestätigungsvermerk*) in each case.

Interim and other Financial Information

Hypo Real Estate Holding has not published interim financial information since 31 December 2013.

Legal and Arbitration Proceedings

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

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

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

Since 2008, claims have been asserted in court against Hypo Real Estate Holding for alleged misconduct with respect to information, in particular in connection with the expected effects of the sub-prime crisis, the requirement to write down CDOs, the ad hoc release dated 15 January 2008 and DEPFA's liquidity situation. A total of 246 claims with an amount in dispute totalling approximately Euro 949 million were pending before the Regional Court I in Munich as at 31 December 2013. To the extent that the conciliation proceedings (*Güteverfahren*) initiated in the past were not continued after their failure as regular court proceedings (in which case they are included in the above), the limitation

period for the claims asserted has expired. To date, there has only been one case of a judgement handed down by the court of first instance in which the plaintiff was awarded Euro 4,189.68, or around 40% of the original claim. An appeal was filed against this verdict. A capital markets test case has been pending at the Munich Higher Regional Court since September 2010 due to an order for referral from the Regional Court I in Munich. The first oral proceedings and evidentiary hearings were held in February 2014. The court announced its intention to continue the oral proceedings and if applicable, the evidentiary hearings in May 2014. The court issued its preliminary opinion in an informative decision (*Hinweisbeschluss*), according to which material parts of the aims of the petition are unfounded. The court currently assumes that Hypo Real Estate Holding would have had to issue an ad hoc disclosure on the effects of the US subprime crisis in summer or fall 2007 at the latest.

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

An action is currently pending before the High Court of England and Wales relating to credit default swap transactions with Kommunale Wasserwerke Leipzig GmbH (KWL). The parties to the proceedings are DEPFA Bank, UBS and KWL. The former managing directors of KWL are alleged to have exceeded their powers when entering into the transactions. DEPFA is asserting claims of approximately USD 116 million against KWL. UBS is asserting claims of USD 83 million against DEPFA in connection with related back-to-back swaps. DEPFA has filed a counterclaim demanding repayment of the USD 33 million already paid to UBS.

An employee and a former employee of DEPFA's Rome branch (as well as employees from three other banks) were convicted of fraud against the city of Milan in connection with derivatives transactions entered into between the banks and the city of Milan between 2005 and 2007. They received suspended sentences. The verdict was handed down on 19 December 2012. DEPFA was fined Euro 1 million. A further Euro 24 million was confiscated as the proceeds of the offence. The criminal proceedings began in May 2010 at the criminal court in Milan as the court of first instance. The public prosecution authorities had accused the defendants that the derivatives transactions contained hidden fees to the benefit of the banks, which led to an unjust gain by the banks to the detriment of the city of Milan. DEPFA and the other banks were accused of failing to maintain suitable organisational controls to prevent offences by its employees in accordance with Italian Act number 231 regarding the administrative liability of companies. DEPFA and the employees filed an appeal, which was heard by the court of appeal in Milan from 31 January 2014 to 7 March 2014. The court of appeal delivered its verdict on 7 March 2014, acquitting all the accused persons and banks of the charges in full. As a result, the provisions recognised by Hypo Real Estate Group in connection with the legal proceedings were reversed.

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

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

There has been no significant change in the financial position of Hypo Real Estate Group while there has been a change in the trading position of Hypo Real Estate Holding due to changes in interest rate levels since the end of the last financial period for which audited financial information have been published (31 December 2013). Trading assets and trading liabilities mostly comprise of derivatives that Hypo Real Estate Group sold to its clients and the back-to-back hedges it transacted in the interbank market. The gross values of these derivative assets and liabilities are impacted by market movements. Due to the offsetting nature of the business, the net position is small and has not changed materially.

8. MATERIAL CONTRACTS ENTERED INTO BY HYPO REAL ESTATE HOLDING

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

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

Deutsche Pfandbriefbank AG

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

CONDITIONS OF BONDS

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

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

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

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

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

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

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

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

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

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

2. Restriction on Transfer of Bonds

(1) Restriction on Transfer

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

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

(2) Matters Notified to the Bondholders and Other Offerees

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

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

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

3. Status of the Bonds

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

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

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

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

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

5. Book-Entry Transfer Institution

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

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

6. Interest

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

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

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

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

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

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

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

In these Conditions of Bonds;

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

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

In these Conditions of Bonds;

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

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

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

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

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

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

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

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

7. Redemption and Purchase

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

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

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

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

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

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

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

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

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

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

8. Payment

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

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

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

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

9. Taxation

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

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

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

10. Events of Default

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

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

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

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

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

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

11. Bondholders' Meetings

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

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

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

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

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

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

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

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

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

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

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

12. Registration Book

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

13. Prescription

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

14. Public Notices

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

15. Currency Indemnity

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

16. Governing Law and Jurisdiction

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

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

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

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

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

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

17. Modifications and Amendments

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

18. Further Issues

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