

Roadshow Presentation

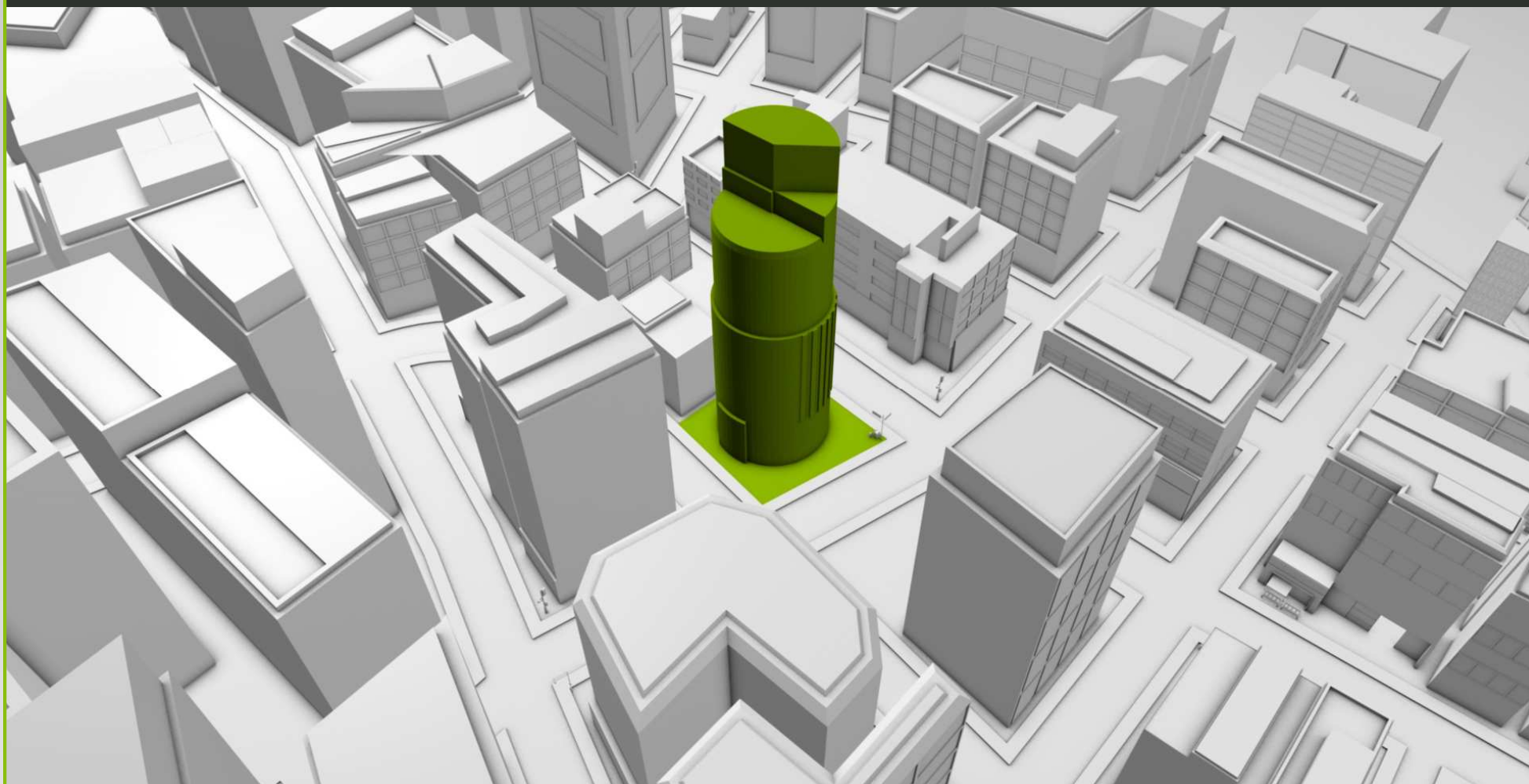
February 2011

Transfer of assets as key milestone for re-positioning

PUBLIC SECTOR FINANCE  
REAL ESTATE FINANCE

pbb

DEUTSCHE  
PFANDBRIEFBANK



# Transfer of EUR ~173 bn<sup>1</sup> (nominal, excl. derivatives) non-strategic assets and risk positions from HRE Group to FMS Wertmanagement (FMS-WM) as of Oct 1, 2010



## HRE Group before transfer

### ■ HRE Group entities fully interlinked

- Liquidity support for DEPFA provided via pbb (SoFFin liquidity guarantees)

### ■ Liquidity position not manageable

- High impact from market volatility (e.g. interest rates, FX effects, credit spreads) on funding/liquidity position
- HRE Group totally depending on liquidity support provided by the German government/SoFFin via liquidity guarantees

### ■ Equity position volatile

- High credit spread volatility of large portion of portfolio (e.g. sovereign exposures)
- High loan-loss provisioning on real estate loans

**Target:**  
Establish pbb as a  
reliable business partner,  
which has a sustainable business  
model with independent  
funding

## HRE Group after transfer

### Three separated and manageable balance sheets with different objectives

#### pbb

- Strategic core bank with improved balance sheet structure
  - Significantly de-risked and de-leveraged
  - Liquidity support by the German government/SoFFin no longer required
  - Focus on new business origination (Public Sector and Real Estate Finance)

#### DEPFA

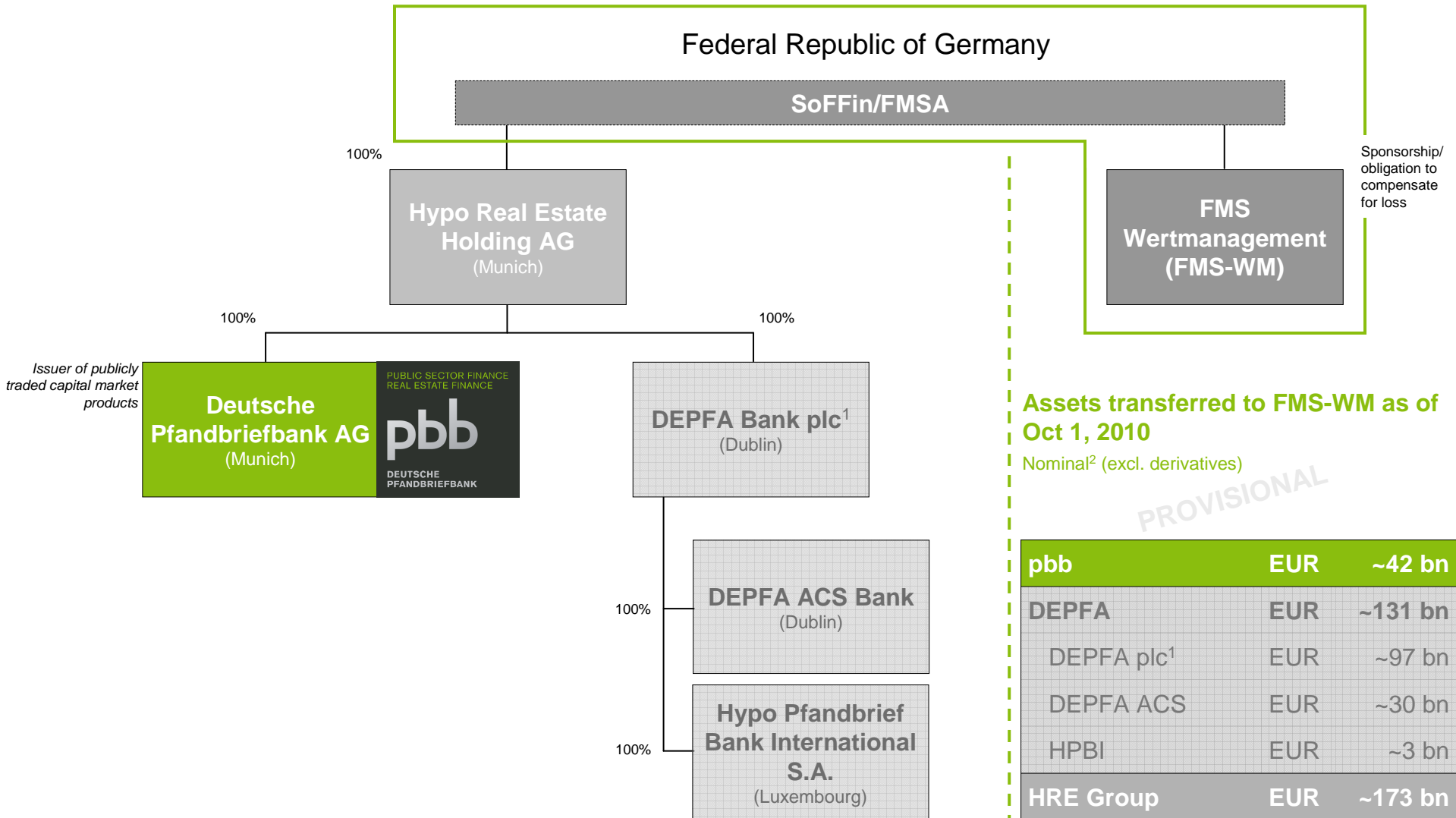
- Significantly de-risking and downsizing in place with structurally improved balance sheet and no material impact from interest rates, FX effects and asset-liability mismatches
  - Servicing of portfolios transferred to FMS-WM via SLA
  - Management of ACS and LdG cover pools
  - No new financing business

#### FMS-WM

- Non-strategic assets and risk positions transferred from HRE Group to FMS-WM
- Backing by SoFFin (AAA-rated, 0% risk-weighting) and German GAAP (HGB) accounting allows for asset reduction in a value-preserving manner

<sup>1</sup> Nominal, excl. derivatives, undrawn lines or repo transactions; based on simulation as of 09/2010

# pbb Deutsche Pfandbriefbank – the strategic core bank within HRE Group



Note: Figures may not add up due to rounding 1 Incl. Hypo Public Finance Bank and branches 2 Nominal, excl. derivatives, undrawn lines or repo transactions; based on simulation as of 09/2010

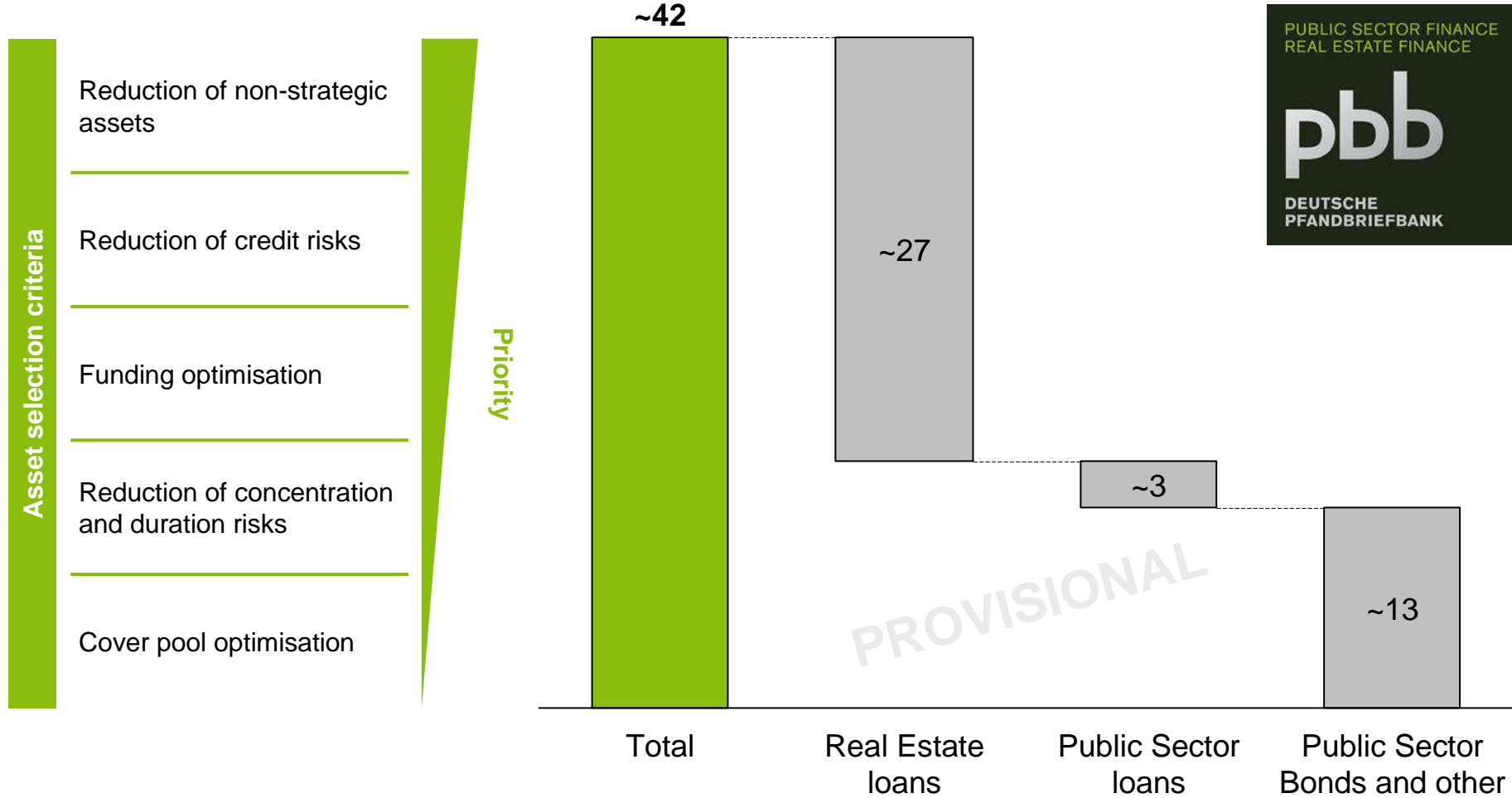
## The asset transfer is the key milestone for the stabilisation of HRE Group and consequently pbb

- ✓ FMS-WM allowed HRE Group to dispose of non-strategic assets and risk positions and facilitates the envisaged balance sheet reduction – assets transferred at book value
- ✓ Improved balance sheet structure – significantly reduced impact from market volatility and credit spread movements
- ✓ Liquidity support by the German government/SoFFin no longer required – all SoFFin guaranteed bonds transferred to FMS-WM
- ✓ The transfer enables pbb to re-position as a largely de-risked bank, re-emerge as a reliable business partner and strong issuer in the German Pfandbrief market
- ✓ Enhanced ability to re-privatise pbb

# Transfer of EUR ~42 bn from pbb to FMS-WM



Nominal<sup>1</sup> (excl. derivatives)  
EUR billion



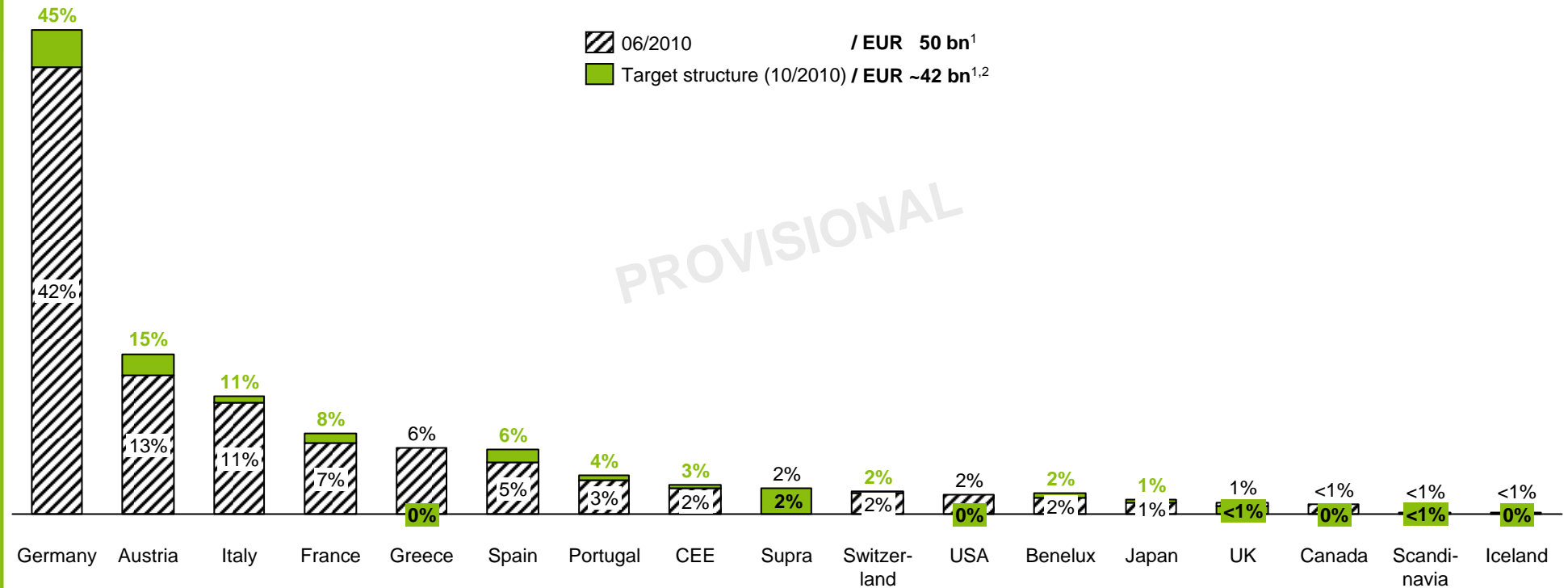
Note: Figures may not add up due to rounding 1 Excl. derivatives, undrawn lines or repo transactions; based on simulation as of 09/2010

## Public Sector cover pool

EUR ~5 bn assets transferred to FMS-WM as of Oct 1, 2010 – restructuring of cover pool completed by end of Oct 2010

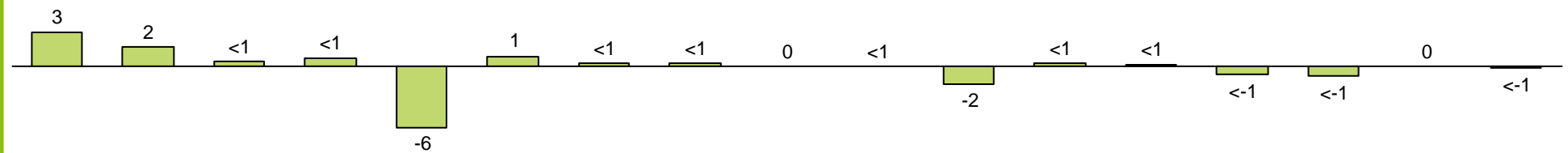
### Public Sector cover pool – cover funds by regions

Nominal



### Change

%-points



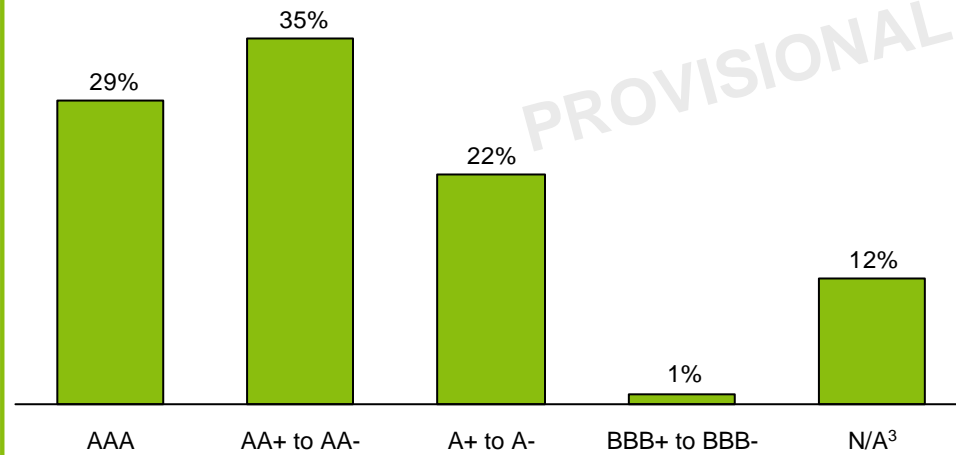
Note: Figures may not add up due to rounding 1 Excl. additional cover assets (substitute collateral) 2 Incl. EUR ~5 bn transferred to FMS-WM and EUR ~2 bn maturities since 06/2010

# Public Sector cover pool Target structure as of end of Oct 2010



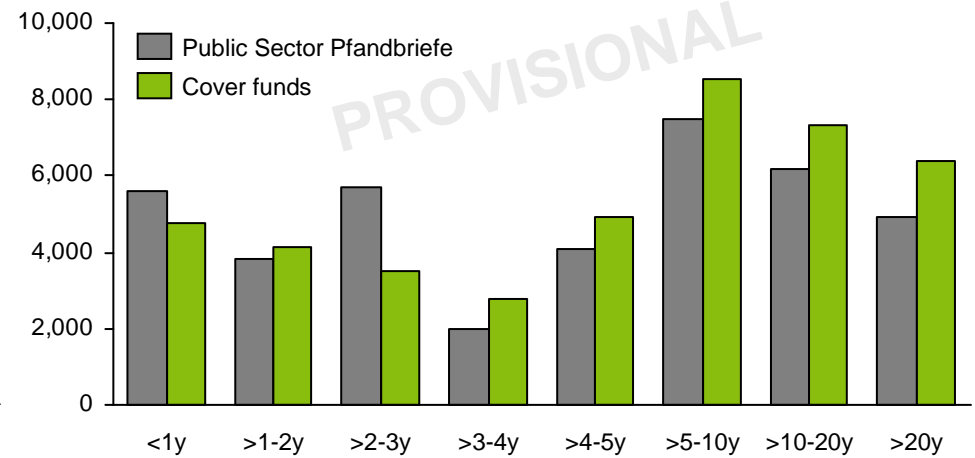
## Cover funds by ratings

Target structure (10/2010): EUR ~42 bn<sup>1,2</sup> (Nominal)



## Maturity profile

Target structure (10/2010), EUR billions



Note: Figures may not add up due to rounding

1 Excl. additional cover assets (substitute collateral)

2 Incl. EUR ~5 bn transferred to FMS-WM and EUR ~2 bn maturities since 06/2010

3 >50% Etablissement Public de Financement et de Restructuration (EPFR) with no external rating (internally AAA-rated); remainder non-rated Public Sector

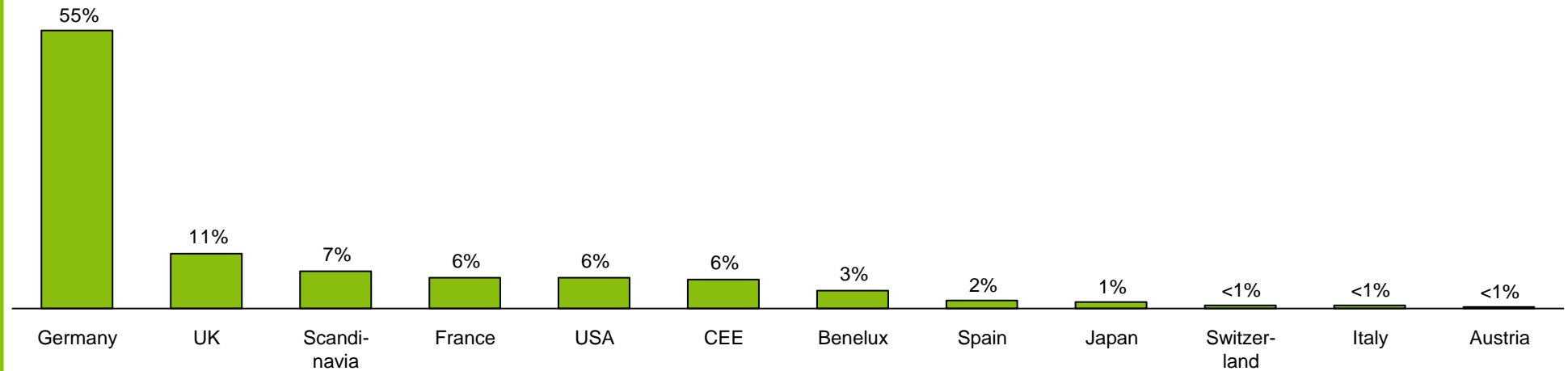
## Mortgage cover pool

No changes to the cover funds as EUR ~8 bn asset risk has been transferred synthetically  
 – assets remain within cover pool



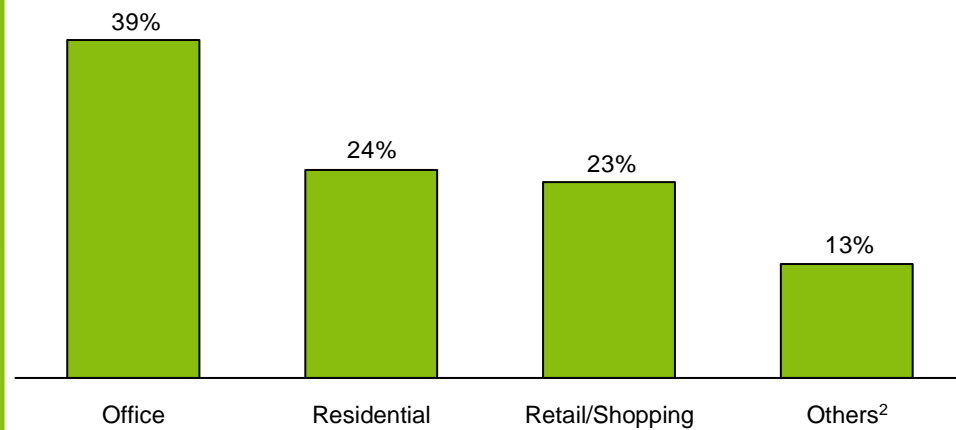
### Cover funds by regions (09/2010)

EUR 22 bn<sup>1</sup> (Nominal)



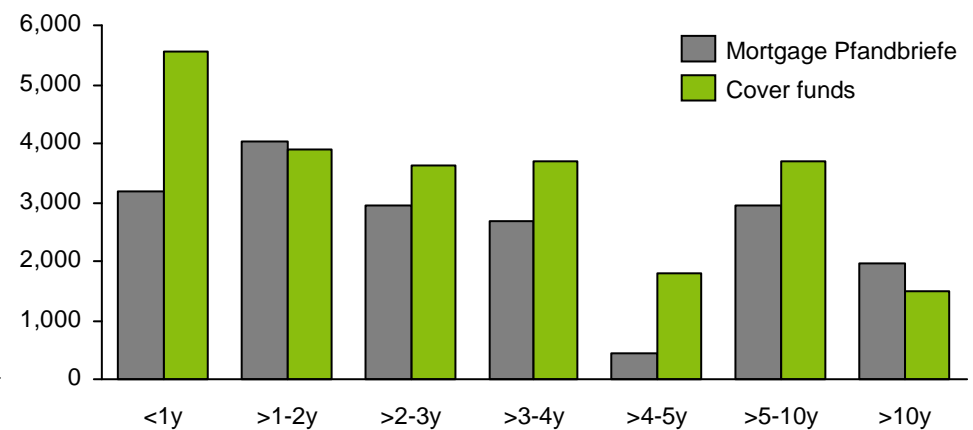
### Cover funds by property types (09/2010)

EUR 22 bn<sup>1</sup> (Nominal)



### Maturity profile<sup>3</sup> (09/2010)

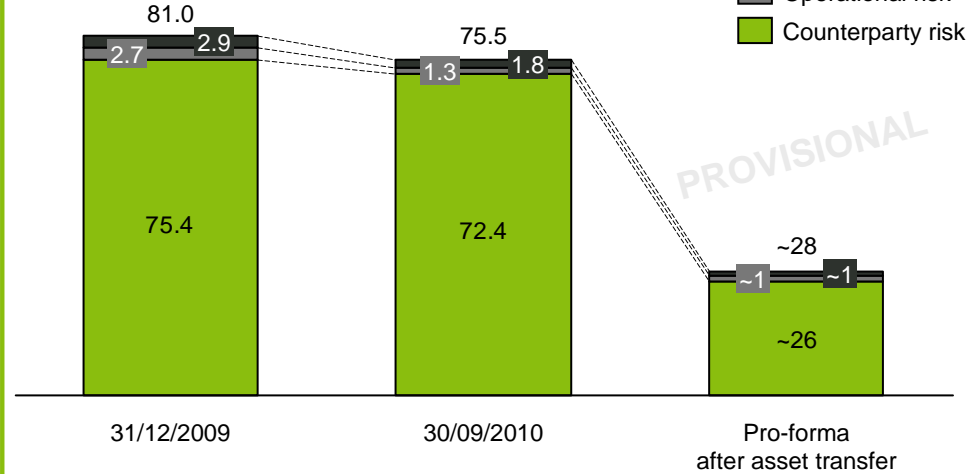
EUR billions



Note: Figures may not add up due to rounding 1 Excl. additional cover assets (substitute collateral) 2 Incl. Industrial/Logistics 3 Assets to interest reset date; liabilities to legal maturity

## Risk-weighted assets (RWA)

EUR billions



PROVISIONAL

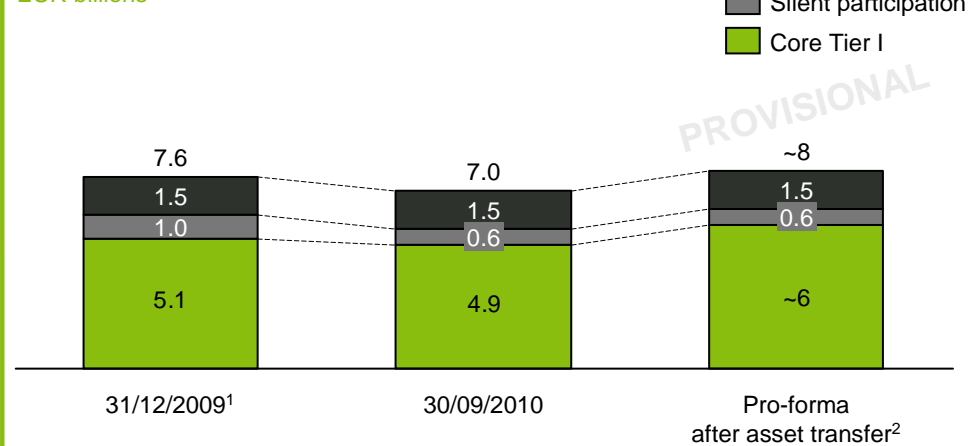
- As of Sep 30, 2010, RWA reduced to EUR 75.5 bn, primarily due to sale of assets and FX effects
- Tier I capital as of Sep 30, 2010 (not yet including 9M/2010 loss) decreased due to the recognition of the year-end losses/adjustments 2009 as well as an increase in EL short-fall during 2010, which to a great extent was offset by capital injections from SoFFin

Capital ratios (SolV)	31/12/2009	30/09/2010
Own funds ratio	10.8%	10.9%
Tier I ratio	9.4%	9.3%
Core Tier I ratio	6.3%	6.4%

- After the asset transfer to FMS-WM, HRE significantly de-risked
  - Reduction of RWAs by EUR ~48 bn and increase of core Tier I capital due to significantly lower EL short-fall
  - Pro-forma Tier I ratio expected to be >15%, including year-end losses/adjustments 2010 as well as possible payment requirements to the Financial Markets Stabilisation Agency (FMSA)
- So far, SoFFin provided EUR 7.42 bn recapitalisation to HRE (30/09/2010) – in total, SoFFin has approved a capital support for HRE of EUR 9.95 bn. FMS-WM will be capitalised with up to EUR 3.87 bn

## Tier I capital (SolV, German GAAP/HGB)

EUR billions



PROVISIONAL

1 Excl. year-end losses/adjustments 2009    2 Excl. year-to-date losses/adjustments 2010 and extraordinary items

## Business model and strategy

- ✓ **Focus on Pfandbrief eligible Public Sector and Real Estate business with Pfandbrief as main funding instrument**
- ✓ **Target markets for Public Sector and Real Estate identified**
- ✓ **Business strategies for respective markets defined with regional presence in core markets**
- **Rebuilding franchise based on existing customer relationships and usage of synergies between PSF and REF**

## Business model and strategy

### New business model and strategy derived from in-depth market and competitor analysis



#### Public Sector Finance

##### Market

- EUR ~150 bn market volume p.a. identified to be within reach of pbb in target countries
- Focus on municipalities and selected regional states with sufficient margins
- Additional market potential through financing of state-guaranteed PSE<sup>1</sup> and PPP<sup>2</sup>-projects

#### Business model and strategy

- Focus on primary market origination in core countries Germany and France as well as further selected European countries
- Sales offices in Germany, France, Spain and Italy
- Intensify sales capacity/relationship approach towards municipalities in strategic countries
- Analyse further products (e.g. deposits)

<sup>1</sup> Public Sector Entities    <sup>2</sup> Public Private Partnerships

#### Real Estate Finance

##### Market

- EUR ~100 bn market volume p.a. identified to be within reach of pbb in target countries
- Focus on property types office, retail, logistics/ distribution and residential

#### Business model and strategy

- Focus on investment loans in core countries Germany, UK and France as well as further selected European countries
- Sales offices in Germany, UK, France and Spain
- Key account approach for further strategic countries

## Funding

## Funding strategy

Conservative funding profile with limited funding gaps and the German Pfandbrief as main funding instrument



- ✓ Pfandbrief as main funding instrument (Public Sector Pfandbrief and Mortgage Pfandbrief)
- ✓ pbb not dependent on liquidity support by the German government/SoFFin for existing portfolio and new business going forward
- ✓ Conservative funding profile with limited funding gaps
- ✓ Market depths for planned issuance volumes existing – funding costs expected to improve along with a de-risked and transparent company profile
- ✓ Funding plan secures refinancing of planned balance sheet growth of ~5% p.a.

## Liquidity support by the German government/SoFFin no longer required – transfer of all SoFFin guaranteed bonds to FMS-WM as of Oct 1, 2010

- ✓ **Transfer of all (EUR 124 bn) SoFFin guaranteed bonds to FMS-WM**
  - As of Oct 15, 2010 liquidity guarantees already reduced by EUR 23.5 bn
    - EUR 20 bn necessary to cover a possible, temporary liquidity shortfall during the transfer
    - EUR 3.5 bn for additional market fluctuations
  - EUR 100.5 bn guaranteed bonds now remaining at FMS-WM should be phased out gradually and by the middle of next year at the latest – it is planned to replace them with issuances of FMS-WM
  
- ✓ **Bilateral repo and central bank funding remains in place for FMS-WM and will be reduced over time**
  - FMS-WM as non-bank has no direct central bank access – this will be bridged by pbb/DEPFA which increases the balance sheet of HRE Group entities due to the pass-through structure
  - Central bank funding of FMS-WM – and consequently the pass-through via HRE Group – envisaged to be reduced over time
  
- ✓ **No covered bonds and unsecured instruments transferred**
  
- ✓ **No transfer of public sub-ordinated instruments**

## Funding plan

New funding comprising ~80% of Public Sector and Mortgage Pfandbriefe – funding plan secures refinancing of planned balance sheet growth of ~5% p.a.



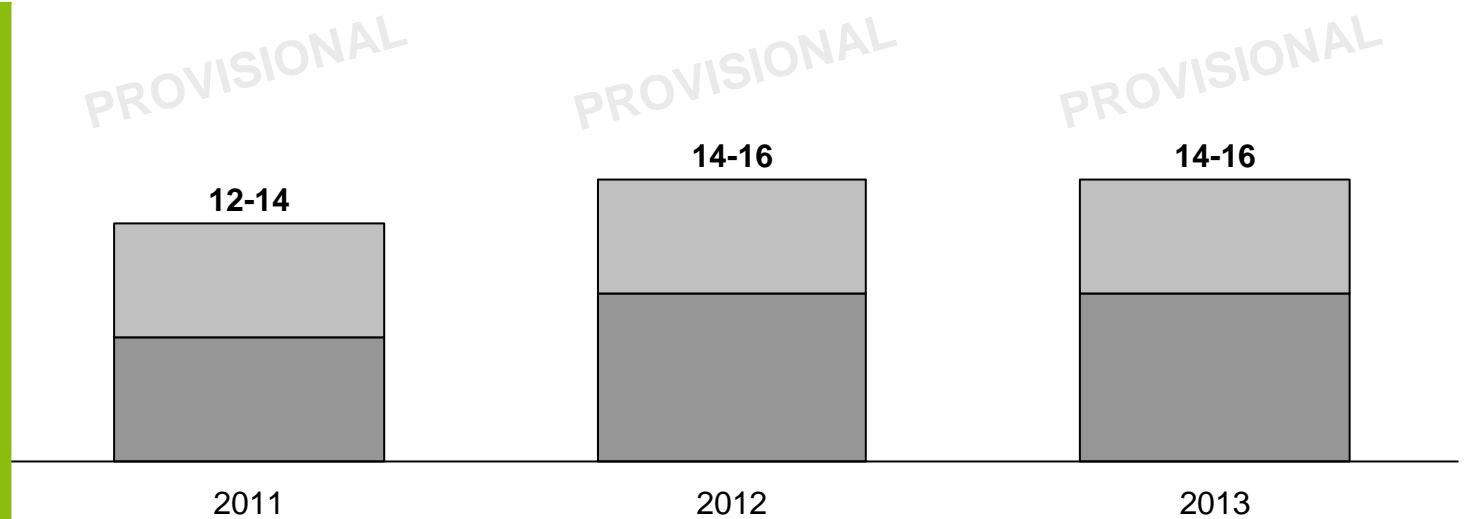
### New issuances EUR billion

	2011	2012	2013
Public Sector Pfandbriefe	5-6	6-7	7-8
Mortgage Pfandbriefe	3-4	5-6	7-8
Senior unsecured	1-2	2-3	3-4
<b>Total</b>	<b>9-12</b>	<b>13-16</b>	<b>17-20</b>
<b>Central bank repo (stock<sup>1</sup>)</b>	<b>1-2</b>	<b>0.5-1</b>	<b>2-3</b>
<b>Bi-/Tri-party repo (stock)</b>	<b>3-4</b>	<b>3-4</b>	<b>3-4</b>

### New business

EUR billion, commitments

- Public Sector Finance
- Real Estate Finance



Note: Figures may not add up due to rounding 1 Excl. pass-through refinancing for FMS Wertmanagement

## Rating overview Deutsche Pfandbriefbank AG



Fitch	
Public Sector Covered Bonds	AAA
Mortgage Covered Bonds	AA+ (Rating Watch negative)
Long Term	A- (Outlook stable)
Short Term	F1
Individual Rating	D

Moody's	
Public Sector Covered Bonds	Aaa
Mortgage Covered Bonds	Aa1
Long Term	A3 (Outlook stable)
Short Term	P-1
Bank Financial Strength Rating	E+ (Outlook positive)

S&P	
Public Sector Covered Bonds	AA+ (Outlook stable)
Mortgage Covered Bonds	AA+ (Outlook stable)
Long Term	BBB (Outlook stable)
Short Term	A-2

Note: The above list does not include all ratings

## Summary and Outlook

- ✓ The asset transfer to FMS Wertmanagement was the key milestone to establish pbb Deutsche Pfandbriefbank as new bank with a clearly defined business model and focused strategy
- ✓ pbb significantly de-risked and de-leveraged
- ✓ Conservative funding profile with limited funding gaps – pbb not dependent on liquidity support by the German government/SoFFin any more
- ✓ Improved P&L and improved capital ratios
- ✓ Enhanced ability to re-privatise pbb

- ➔ After the asset transfer to FMS-WM as of Oct 1, pbb expected to be profitable in Q4 – however, full-year result 2010 will still show a loss
- ➔ Furthermore, as already stated pbb expected to be profitable in 2011
- ➔ The Tier I ratio<sup>1</sup> is expected to be >10%
- ➔ The funding plan secures refinancing of planned balance sheet growth of ~5% p.a.
- ➔ pbb to be re-privatised in medium-term future

<sup>1</sup> Assumption: no further HRE intra-group transactions

✓ EU state aid process

- All support measures HRE Group received from the German government have been temporarily authorised by the European Commission (EC) under EU State aid rules
- The EC will take a final view on the compatibility of these measures with EU state aid rules in the context of its ongoing investigation into the restructuring of HRE Group

Status of process

- Scope of required aid (liquidity guarantees/capitalisation) described and substantiated
- Model of an 'Abwicklungsanstalt' defined and respective implications described – due diligence of portfolios that have been transferred to FMS-WM ongoing
- Further specific questions under discussion

Current state of discussions

- In principle, model of an 'Abwicklungsanstalt' regarded as favorable for restructuring
- Substantial compensatory measures offered by the German government, inter alia
  - Balance sheet reduction (in particular by transferring assets to FMS-WM)
  - Reduction of market presence by closure of office locations – business focused on European core markets
  - Agreements on behavior and own contribution (e.g. restriction on acquisition of competitors, no advertisement with governmental aid)
  - Medium-term re-privatisation of core bank
- Final definition of individual measures currently under review

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- By participating in this presentation or by accepting any copy of the slides presented, you agree to be bound by the noted limitations.
- This presentation provides provisional information and only a rough picture of the effects on HRE Group and consequently pbb resulting from the asset transfer to FMS Wertmanagement (FMS-WM) as of Oct 1, 2010. However, figures and information will only then be finalised when the final accounts as of the transfer date have been completed, and this is not yet the case.

The volumes, graphs and portfolio splits are based on simulation runs as of end of March and September 2010. In particular: derivatives, hedge-adjustments, accrued interest, undrawn lines, repo transactions, repayments, prolongations, new business, fluctuations of market prices and currency exchange rates, rating migrations and other factors might not be fully included.

The asset transfer can bear tax and legal risks. These risks are not in detail assessable and hence can only be included in the current planning to the degree as those risks are already known or agreed upon and which units and countries will be impacted.

For the purpose of this presentation pbb means pbb sub-group and DEPFA means DEPFA sub-group.

All support measures HRE Group received from the German government are subject to final approval by the European Commission (EC) under EU State aid rules.

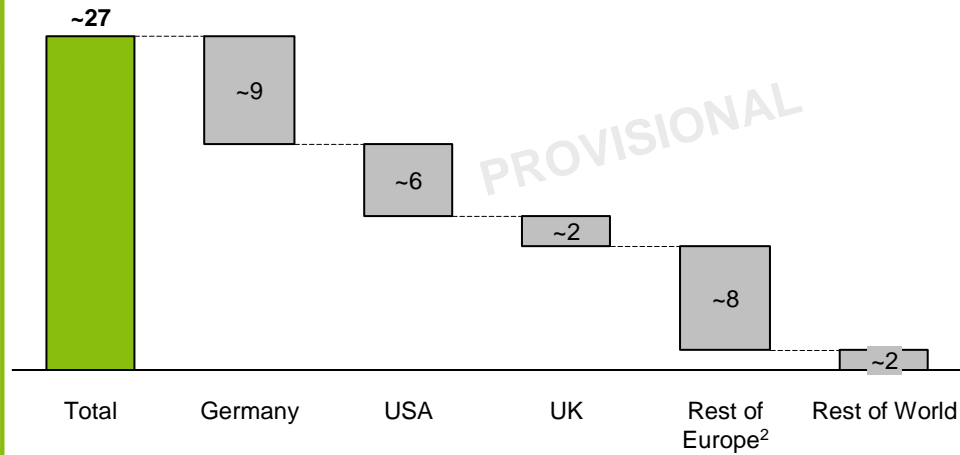
## Appendix 1 – Portfolio

**pbb Deutsche Pfandbriefbank (sub-group)**  
**Transfer of EUR ~42 bn from pbb to FMS-WM as of Oct 1, 2010**



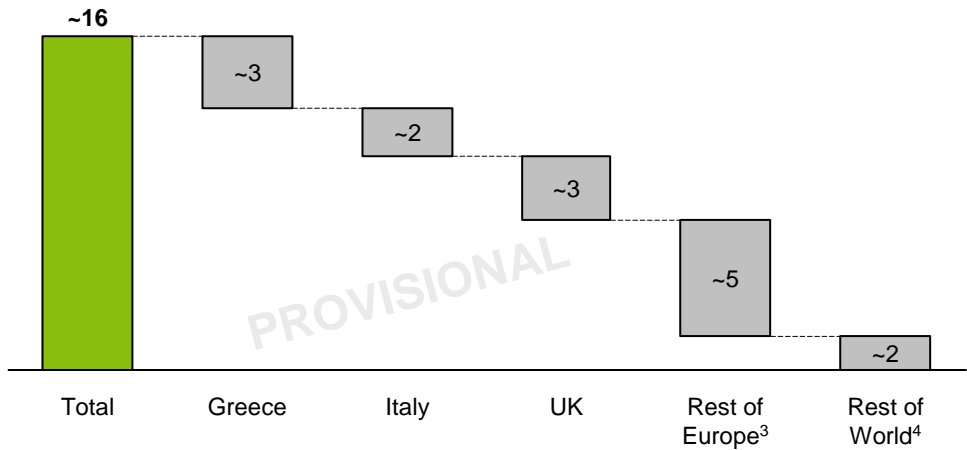
**Real Estate loans / by regions**

Nominal<sup>1</sup> (excl. derivatives), based on simulation as of 09/2010, EUR billion



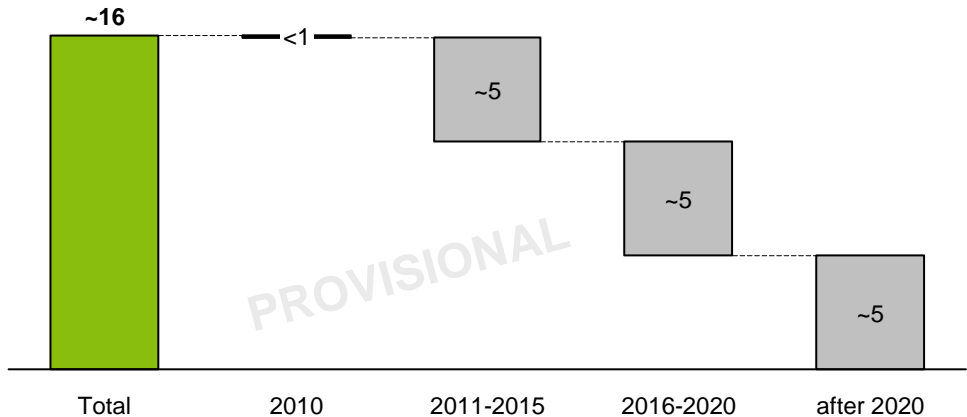
**Non-Real Estate portfolio / by regions**

Nominal<sup>1</sup> (excl. derivatives), based on simulation as of 09/2010, EUR billion



**Non-Real Estate portfolio / by planned contractual maturities**

Nominal<sup>1</sup> (excl. derivatives), based on simulation as of 09/2010, EUR billion



Note: Figures may not add up due to rounding

1 Excl. derivatives, undrawn lines or repo transactions

2 Incl. Spain EUR ~1 bn, Italy EUR <1bn, Portugal EUR <1 bn

3 Incl. Spain EUR ~1 bn, Ireland EUR ~1 bn, Germany EUR ~1 bn, Portugal EUR <1 bn

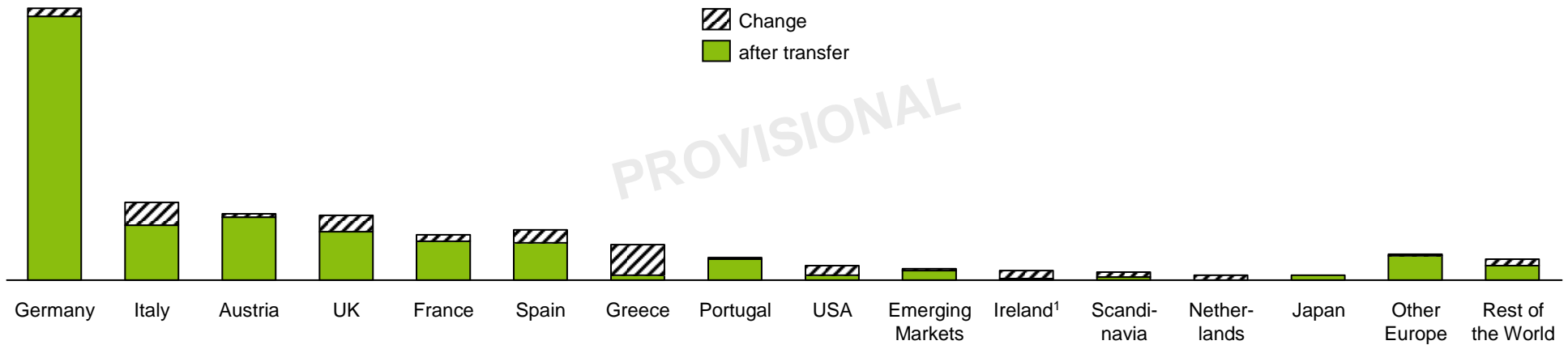
4 Incl. USA EUR ~1 bn

pbb Deutsche Pfandbriefbank (sub-group)  
Non-Real Estate portfolio



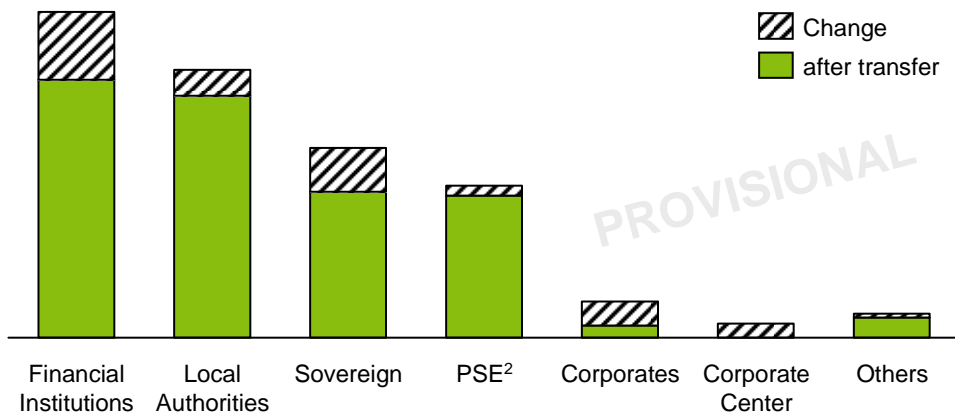
Non-Real Estate exposure / by regions

EaD, based on simulation as of 03/2010, EUR



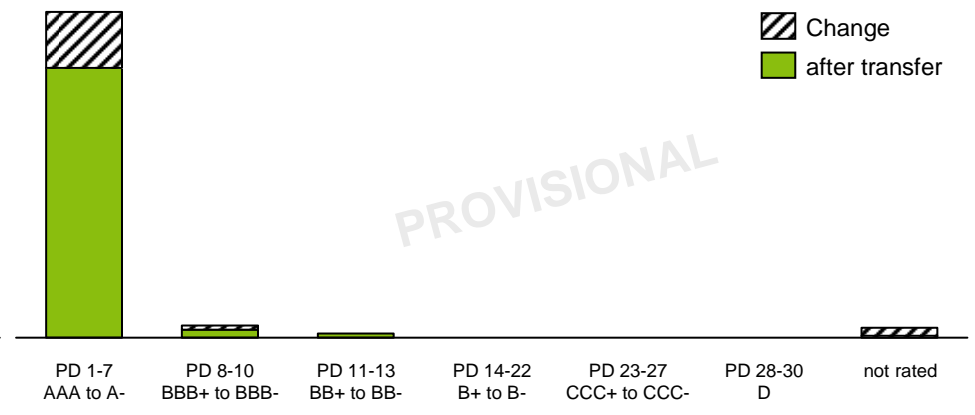
Non-Real Estate exposure / by counterparties

EaD, based on simulation as of 03/2010, EUR



Non-Real Estate exposure / by PD classes

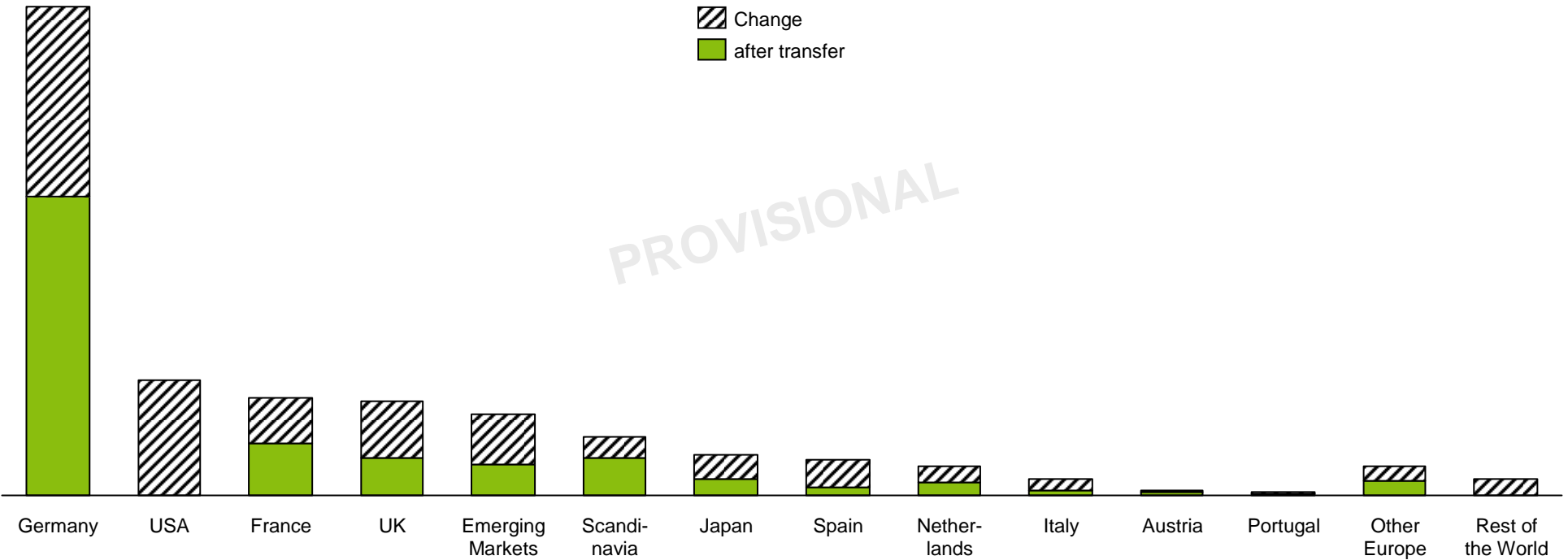
EaD, based on simulation as of 03/2010, EUR



1 Excl. intra-group exposure 2 Public Sector Entities

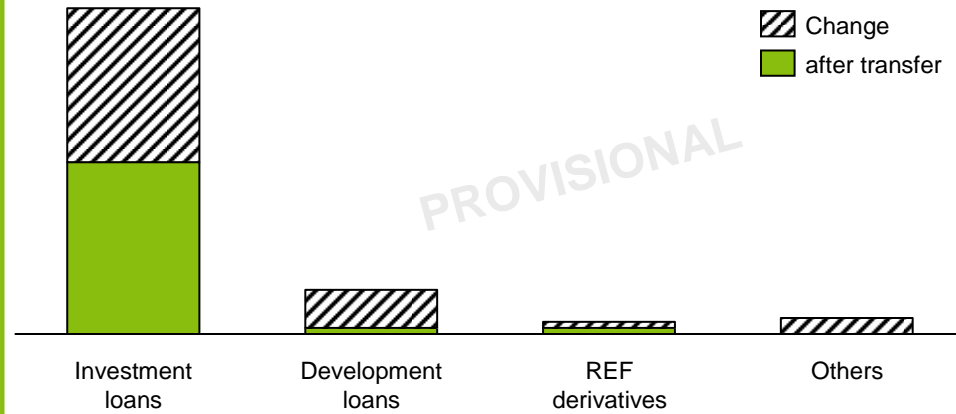
**REF exposure / by regions**

EaD, based on simulation as of 03/2010, EUR



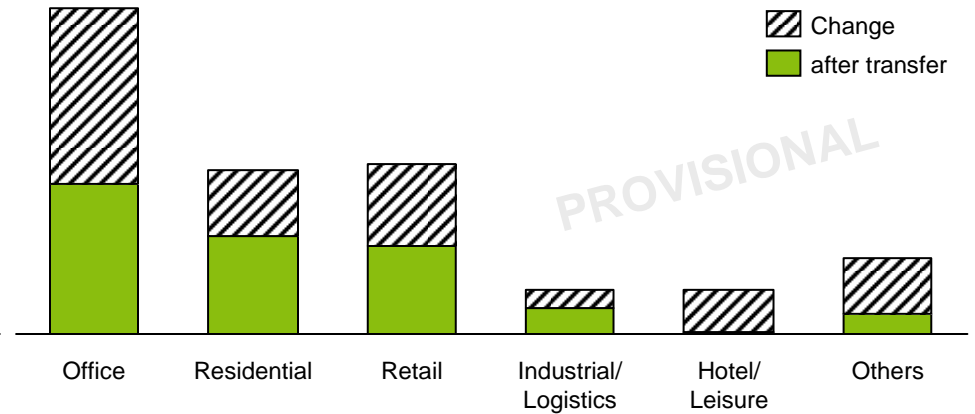
**REF exposure / by loan types**

EaD, based on simulation as of 03/2010, EUR



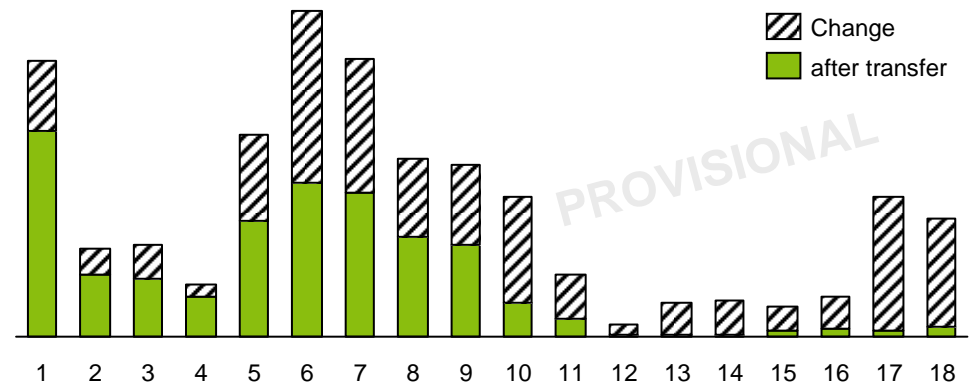
**REF exposure / by property types**

EaD, based on simulation as of 03/2010, EUR



**REF exposure / by EL classes**

EaD, based on simulation as of 03/2010, EUR

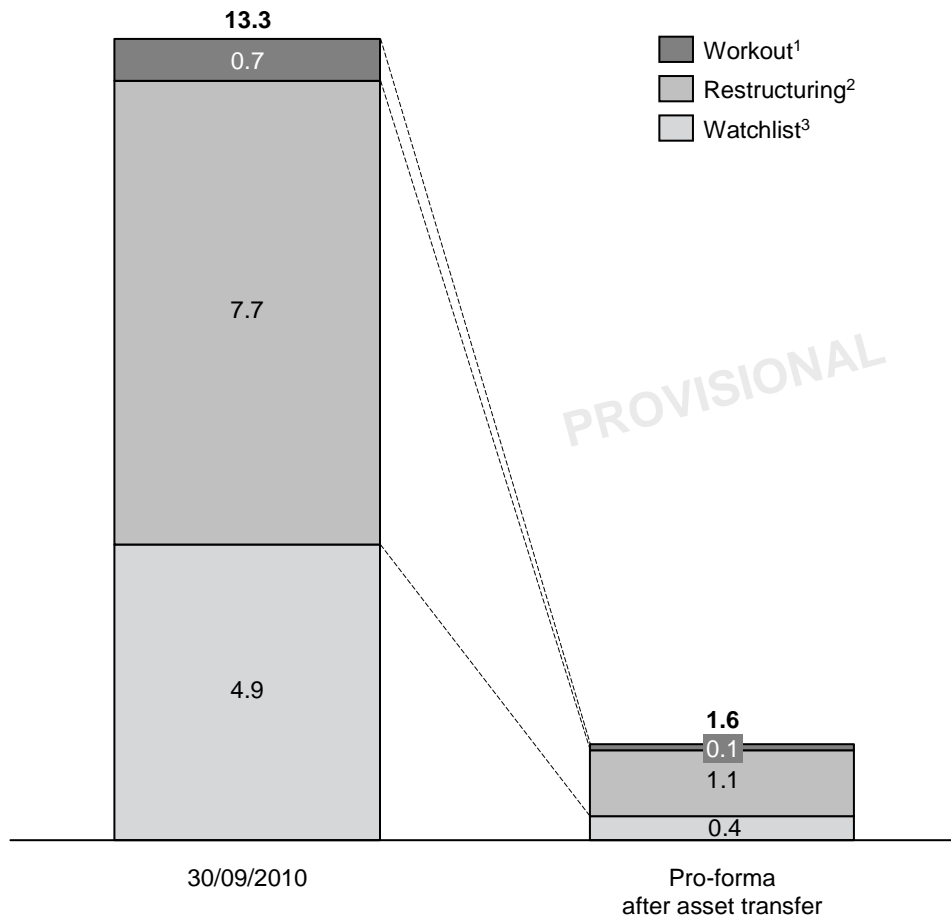


pbb Deutsche Pfandbriefbank (sub-group)  
**Problem & watchlist loans**



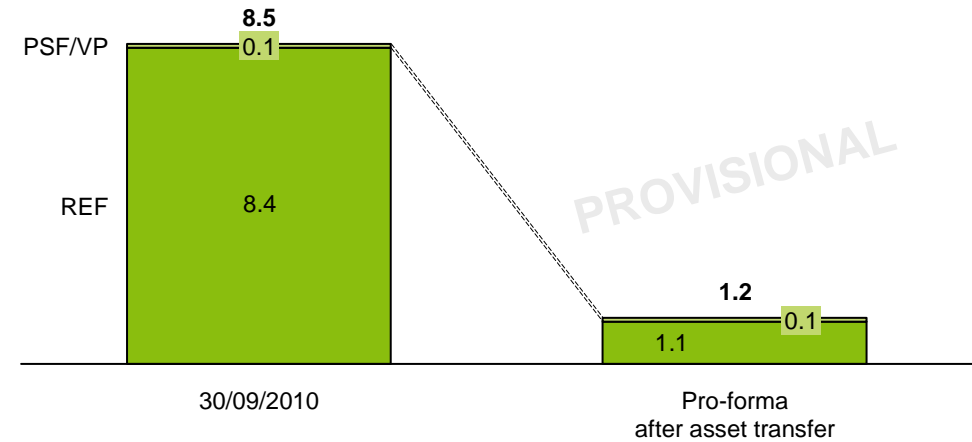
**Total problem & watchlist loans**

EaD, EUR billions



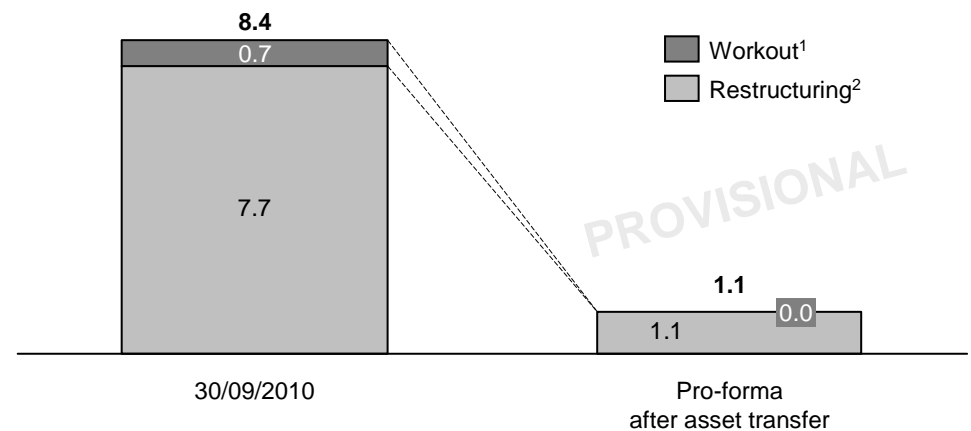
**Total problem loans**

EaD, by business segments, EUR billions



**REF: Problem loans**

EaD, EUR billions



Note: Figures may not add up due to rounding

1 No signs that the deal will recover soon, compulsory measures necessary

2 Payments more than 90 days overdue or criteria acc. to respective policy apply

3 Payments more than 60 days overdue or other criteria acc. to respective policy apply

## Appendix 2 – Business model and strategy

# Public Sector Finance

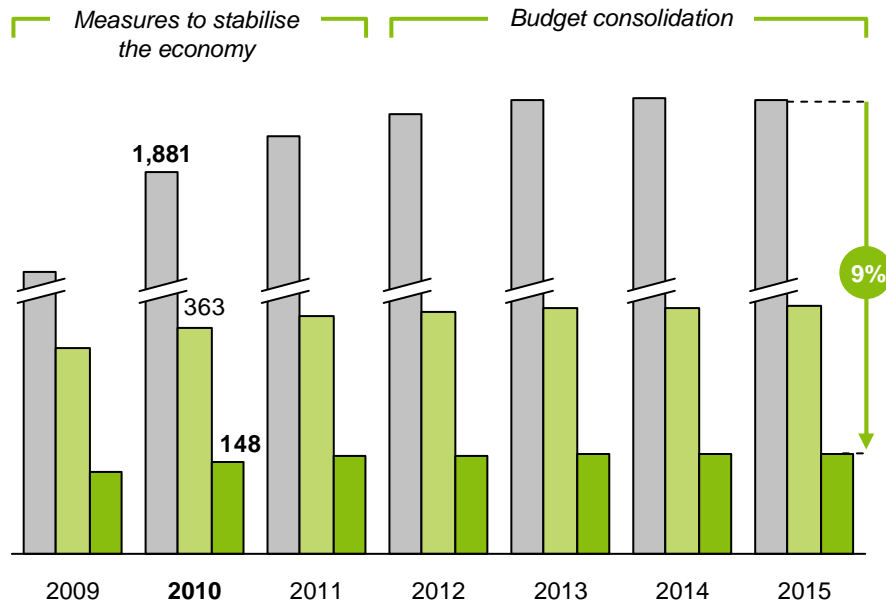
EUR ~150 bn market volume p.a. identified to be within reach of pbb in target countries  
 – new business focus on municipalities and selected regions with sufficient margins



## Gross new borrowings<sup>1</sup>

EUR billion

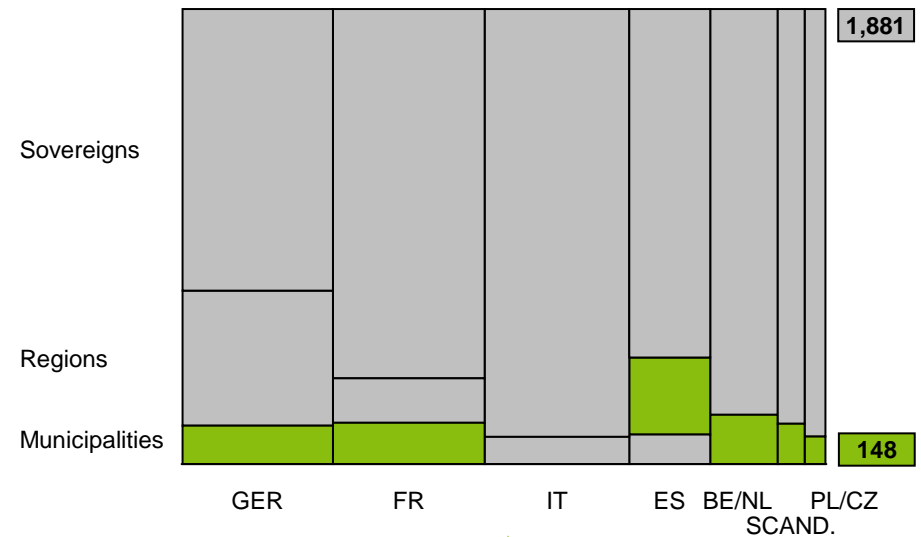
- Total market
- Regions/Municipalities
- Target market



## Gross new borrowings<sup>1</sup>

2010, EUR billion

- Total market
- Target market



<sup>1</sup> Germany, France, Italy, Spain, Belgium, Netherlands, Scandinavia, Poland, Czech Republic

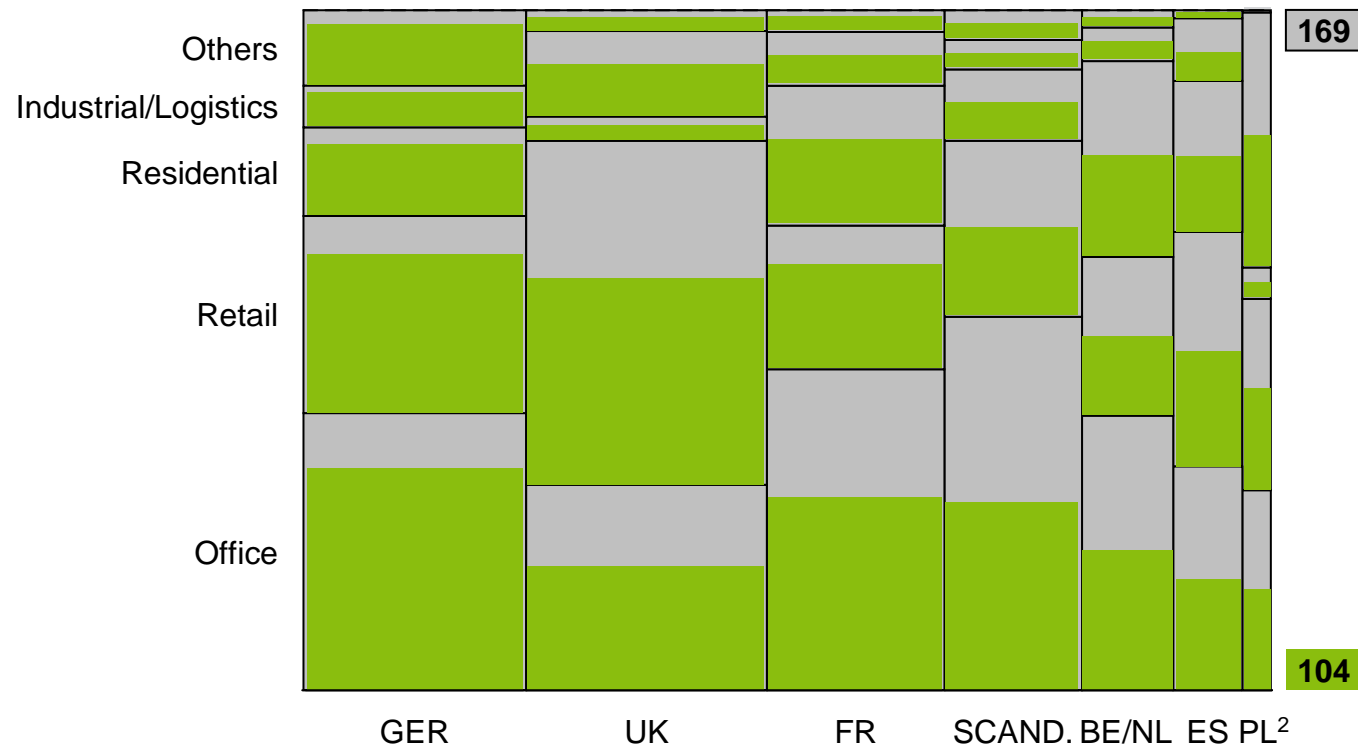
# Real Estate Finance

EUR ~100 bn market volume p.a. identified to be within reach of pbb in target countries



**Market volume<sup>1</sup>**  
2009, EUR billion

Total market  
 Target market



<sup>1</sup> Germany, UK, France, Scandinavia, Belgium, Netherlands, Spain, Poland    <sup>2</sup> Exemplary for CEE

# New business (Examples)

## Public Sector Finance

## Real Estate Finance

Spain	
Borrower:	Comunidad Auto. De Aragon
Borrower type:	Region
Rating:	AA
Origination date:	Jun 2010
WAL <sup>1</sup> :	10 yrs
Loan amount:	EUR 75 mio



Germany <sup>2</sup>	
Property:	Ruhr-Park Shopping Center
Location:	Bochum
Sponsor:	Perella Weinberg Real Estate Fund I LP
Purpose:	Acquisition & Repositioning
Origination date:	Sep 2010
Loan amount:	EUR 250 mio <sup>3</sup>
Term	5 yrs
Lettable area/No. of tenants:	120,000 sqm/120 shops and 1 multiplex

Germany	
Borrower:	Mindener Entwicklungs- und Wirtschaftsförderungsgesellschaft
Borrower type:	Public Sector Related Entity
Origination date:	Aug 2010
WAL <sup>1</sup> :	5.4 yrs
Loan amount:	EUR 2 mio



1 Weighted Average Life 2 Press release, Oct 12, 2010: <http://www.pfandbriefbank.com/en/press.html> 3 Total commitment; loan amount depending on investment phase / 50% underwriting (co-financing with Eurohypo)

## Appendix 3 – Funding

## The Pfandbrief market

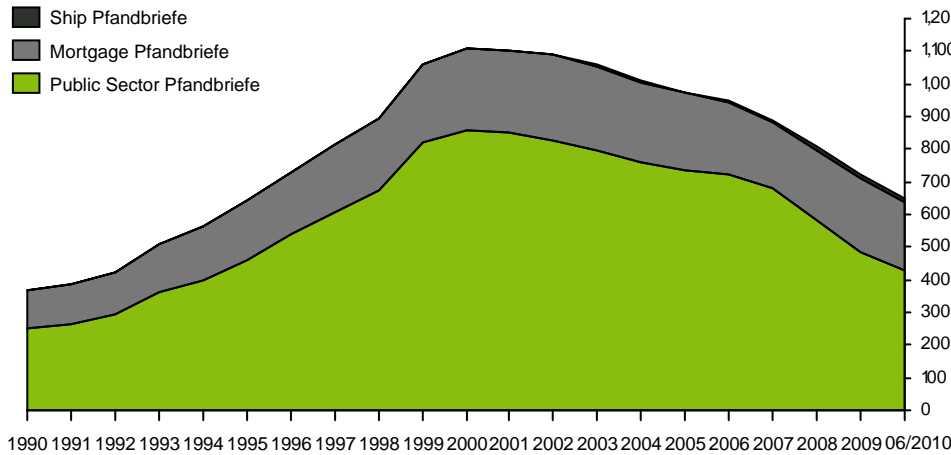
Germany's second-largest market for fixed-income securities, with EUR ~650 bn volume outstanding – pbb is TOP 2 market player



### Total Pfandbriefe outstanding

Nominal, EUR billion

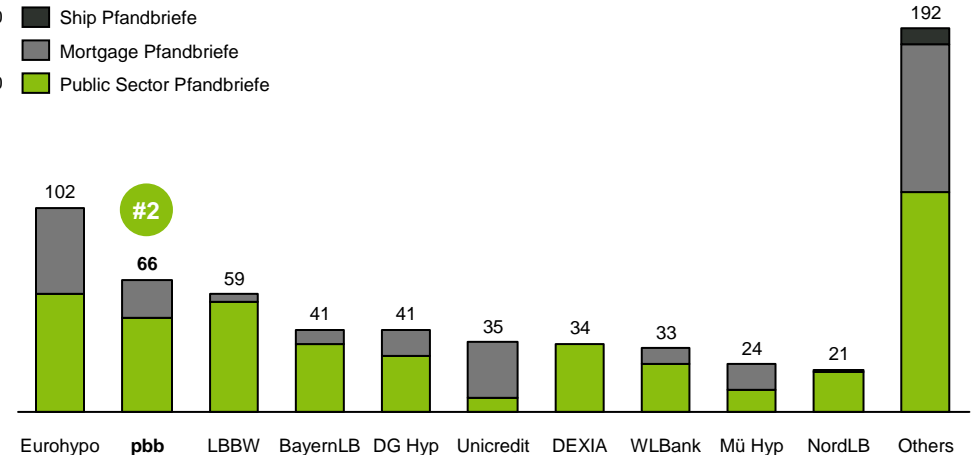
- Ship Pfandbriefe
- Mortgage Pfandbriefe
- Public Sector Pfandbriefe



### Total Pfandbriefe outstanding

Nominal, 06/2010, EUR billion

- Ship Pfandbriefe
- Mortgage Pfandbriefe
- Public Sector Pfandbriefe



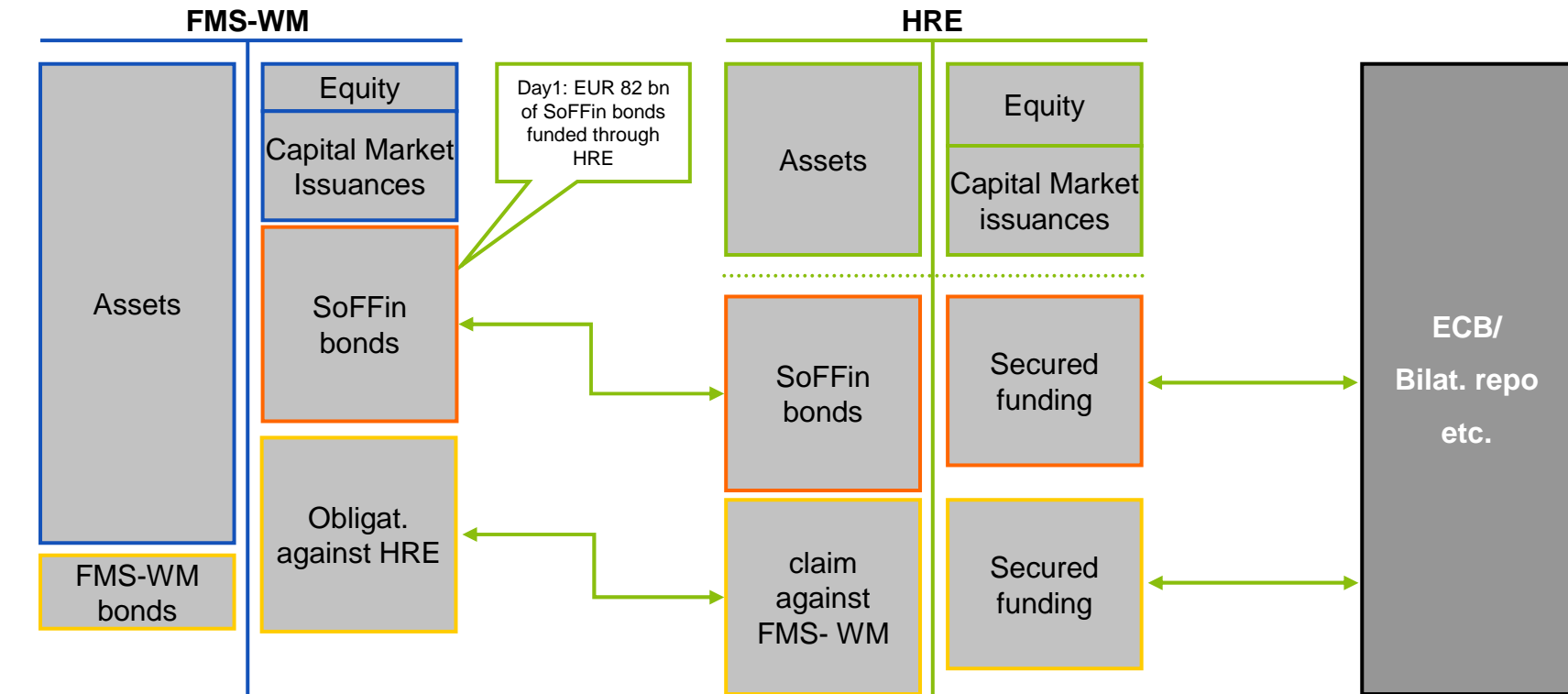
- The Pfandbrief market is Germany's second-largest market for fixed-income securities, with EUR ~650 billion volume outstanding
- Its market volume and its crisis-remoteness make the Pfandbrief an important element of Germany as a financial centre
  - **ECB eligibility of Pfandbriefe** Pfandbriefe are eligible as collateral within the scope of open-market operations with the European Central Bank (ECB)
  - **Liquidity through the repo market** Given the high standards of safety, Pfandbrief issuers and investors can also tap the repo market to create liquidity

- pbb ist TOP 2 player in the German Pfandbrief market (Public Sector + Mortgage Pfandbriefe) with a market share of ~10% based on total Pfandbriefe outstanding as of 06/2010
- Even after transfer of EUR ~5 bn assets to FMS-WM and restructuring of the Public Sector cover pool pbb remains TOP 2 market player

Source: German Pfandbriefbank Association (vdp)

HRE provides ECB funding for FMS-WM  
 ECB funding – and consequently the pass-through via HRE – will be reduced over time

- SIMPLIFIED STRUCTURE -



- FMS-WM as non-bank has no direct access to the ECB
- No contractual obligation by HRE to provide this service

Liquidity

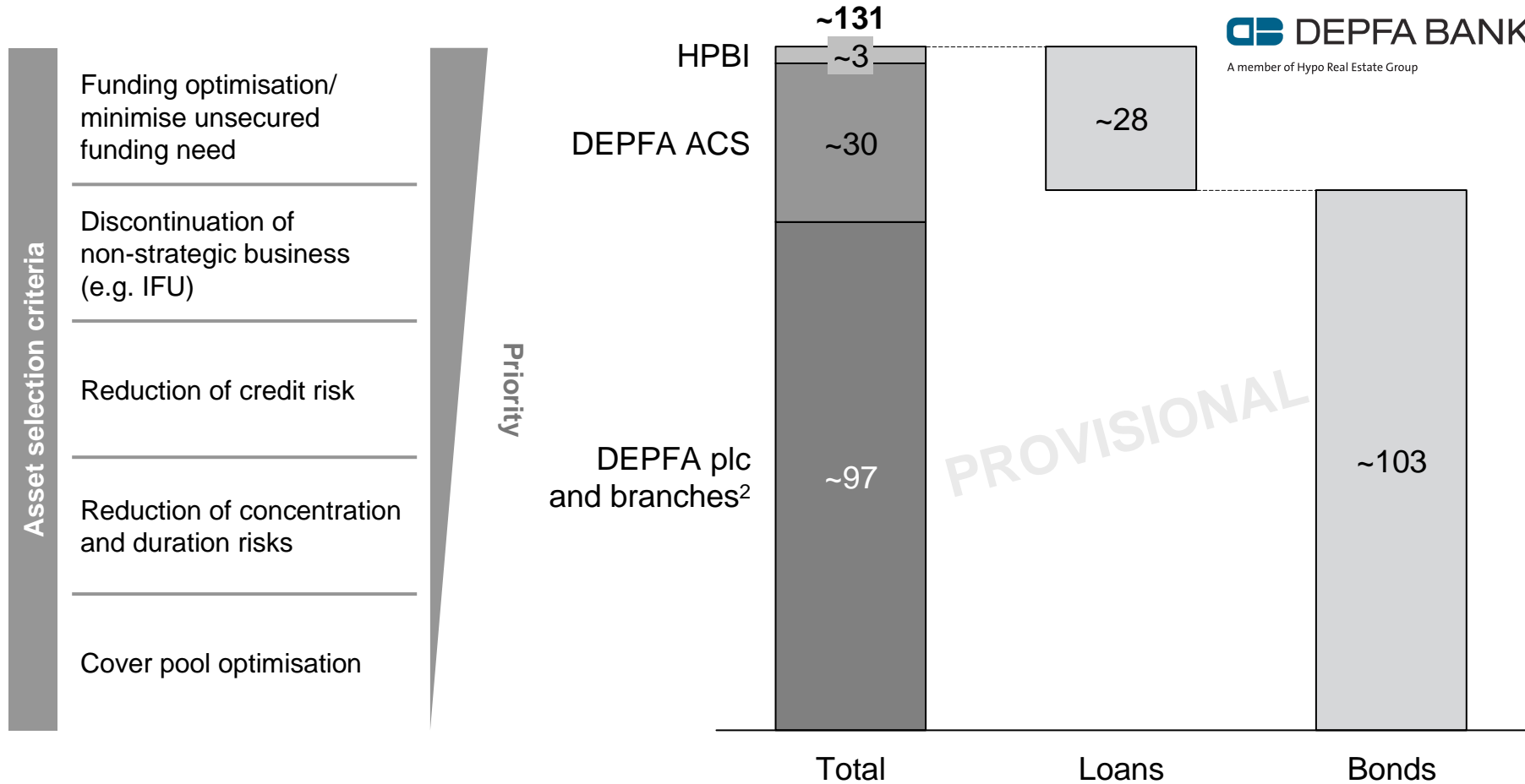
## Appendix 4 – DEPFA (sub-group)

# DEPFA (sub-group)

Transfer of EUR ~131 bn from DEPFA to FMS-WM as of Oct 1, 2010

Nominal<sup>1</sup> (excl. derivatives), based on simulation as of 09/2010

EUR billion



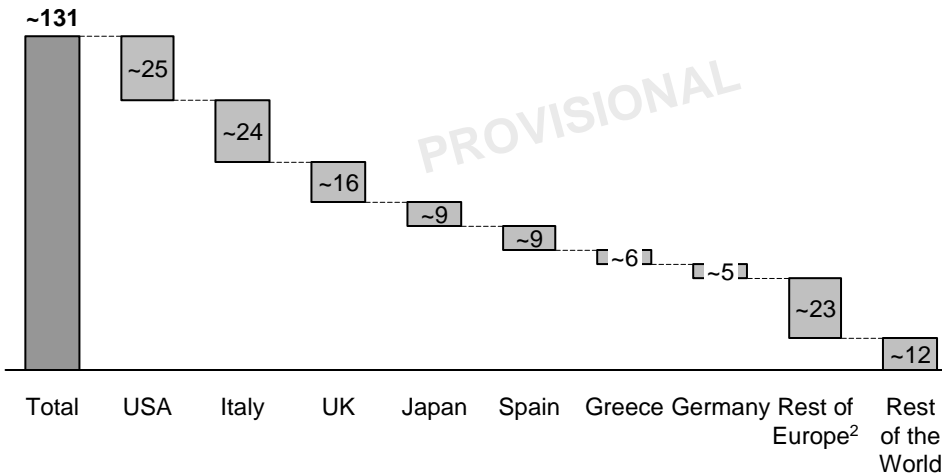
Note: Figures may not add up due to rounding 1 Excl. derivatives, undrawn lines or repo transactions 2 Incl. Hypo Public Finance Bank

## DEPFA (sub-group)

Transfer of EUR ~131 bn from DEPFA to FMS-WM as of Oct 1, 2010

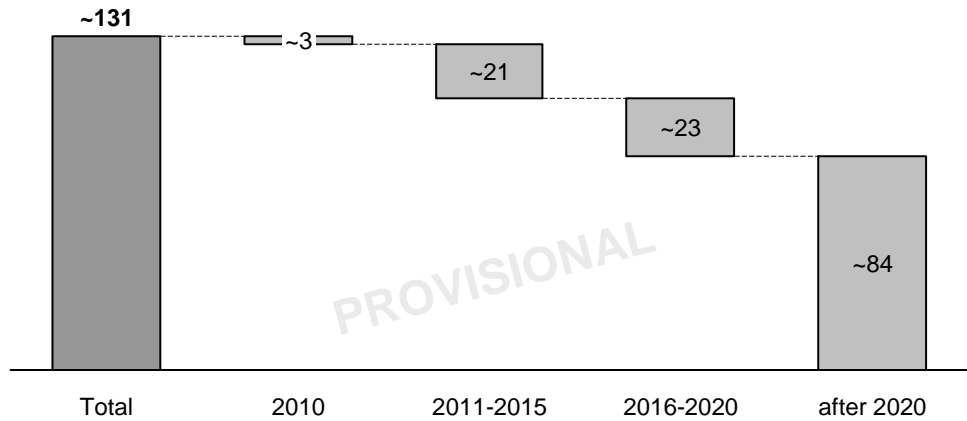
### DEPFA portfolio / by regions

Nominal<sup>1</sup> (excl. derivatives), based on simulation as of 09/2010, EUR billion



### DEPFA portfolio / by planned contractual maturities

Nominal<sup>1</sup> (excl. derivatives), based on simulation as of 09/2010, EUR billion

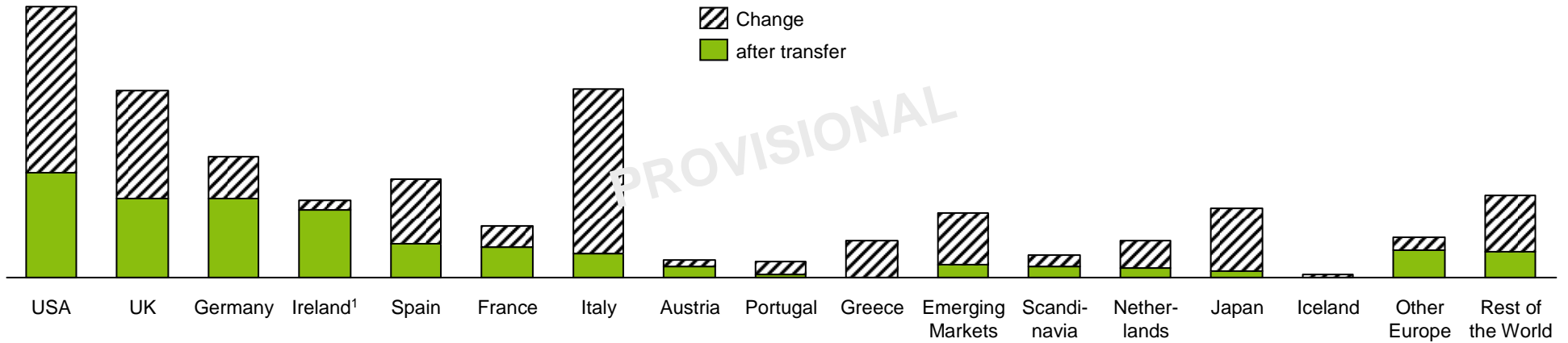


Note: Figures may not add up due to rounding  
<sup>1</sup> Excl. derivatives, undrawn lines or repo transactions  
<sup>2</sup> Incl. Ireland EUR ~3 bn, Portugal EUR ~2 bn

# DEPFA (sub-group) Total portfolio

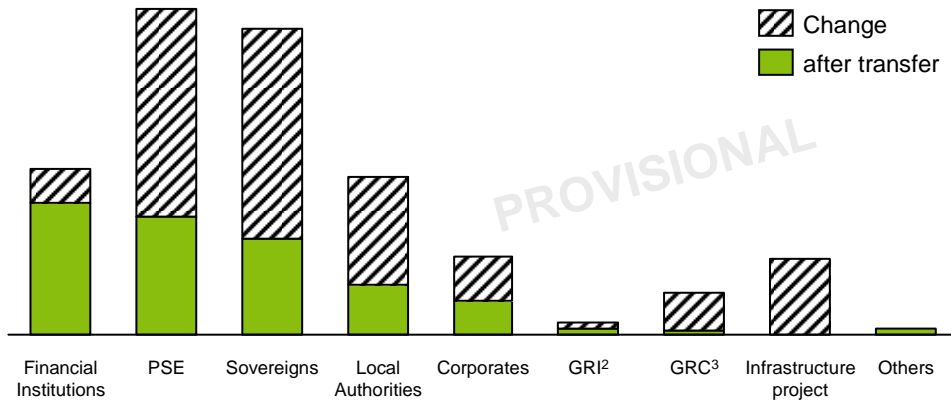
## Total exposure / by regions

EaD, based on simulation as of 03/2010, EUR



## Total exposure / by counterparties

EaD, based on simulation as of 03/2010, EUR



1 Incl. exposure to Irish Central bank

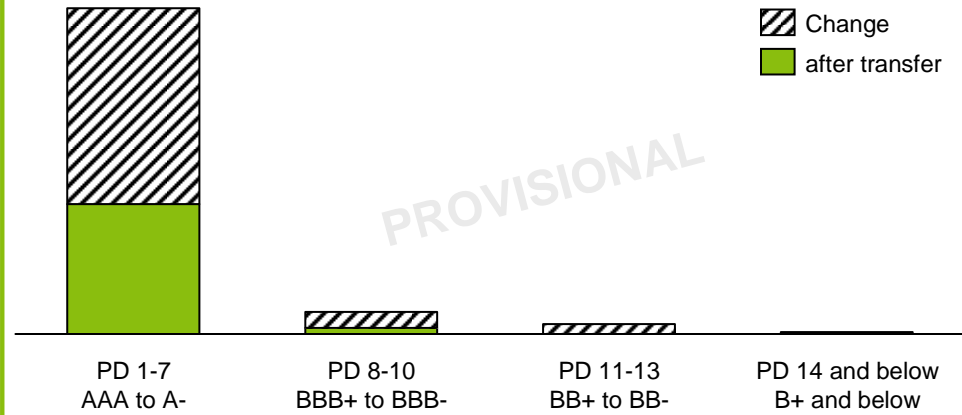
2 Government Related Institutions

3 Government Related Companies

# DEPFA (sub-group) Total portfolio

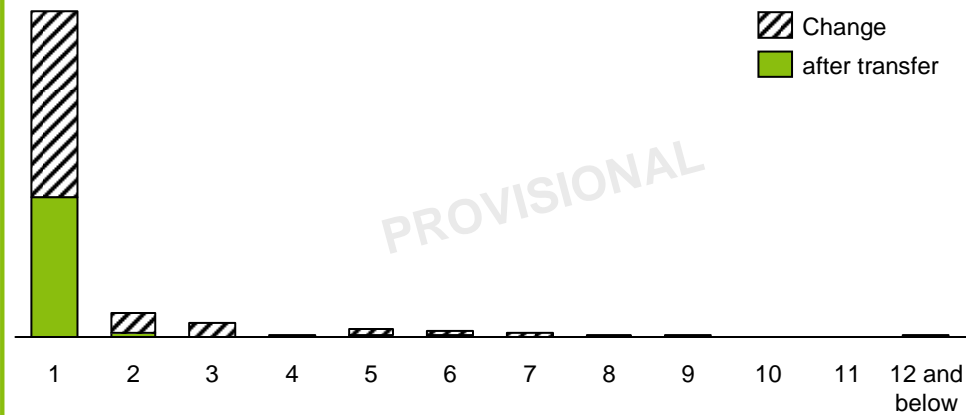
## Total exposure / by PD classes

EaD, based on simulation as of 03/2010, EUR



## Total exposure / by EL classes

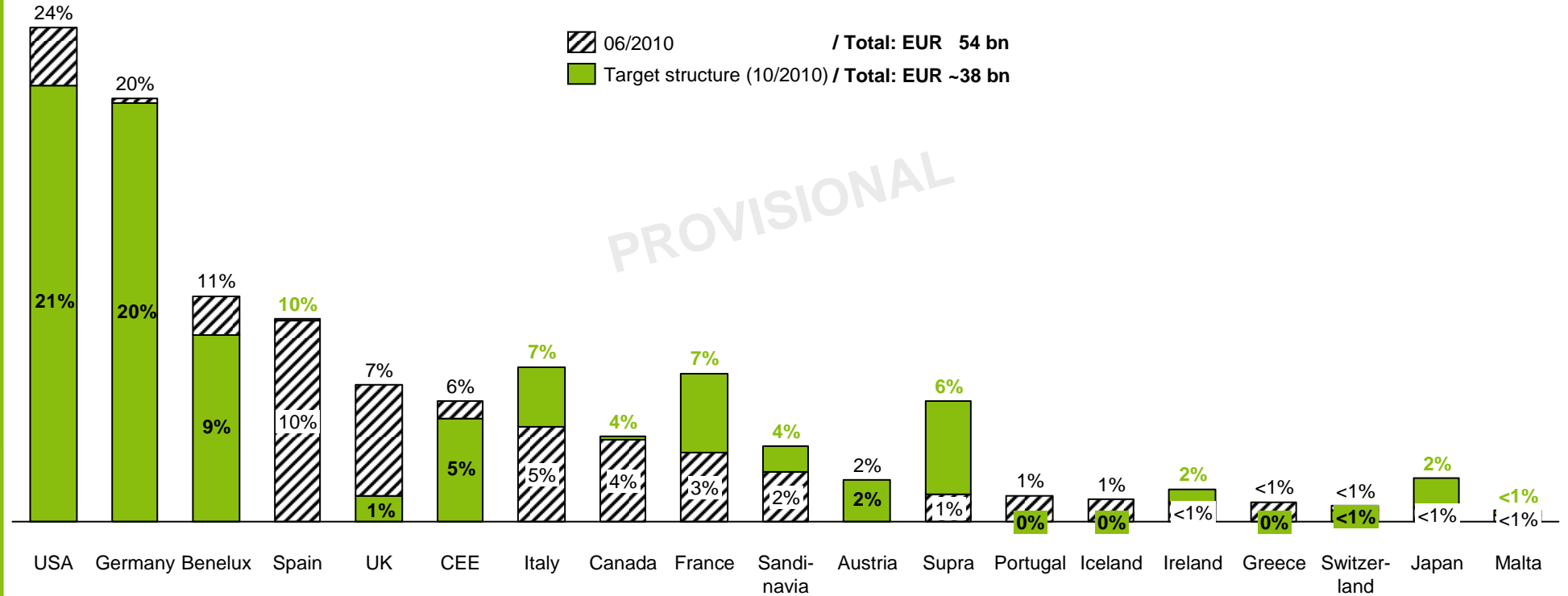
EaD, based on simulation as of 03/2010, EUR



# DEPFA ACS Bank ACS cover pool

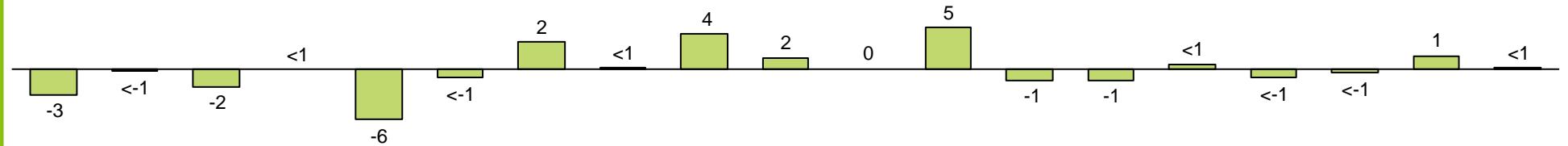
## ACS cover pool / by regions

Nominal, 06/2010



## Change

%-points

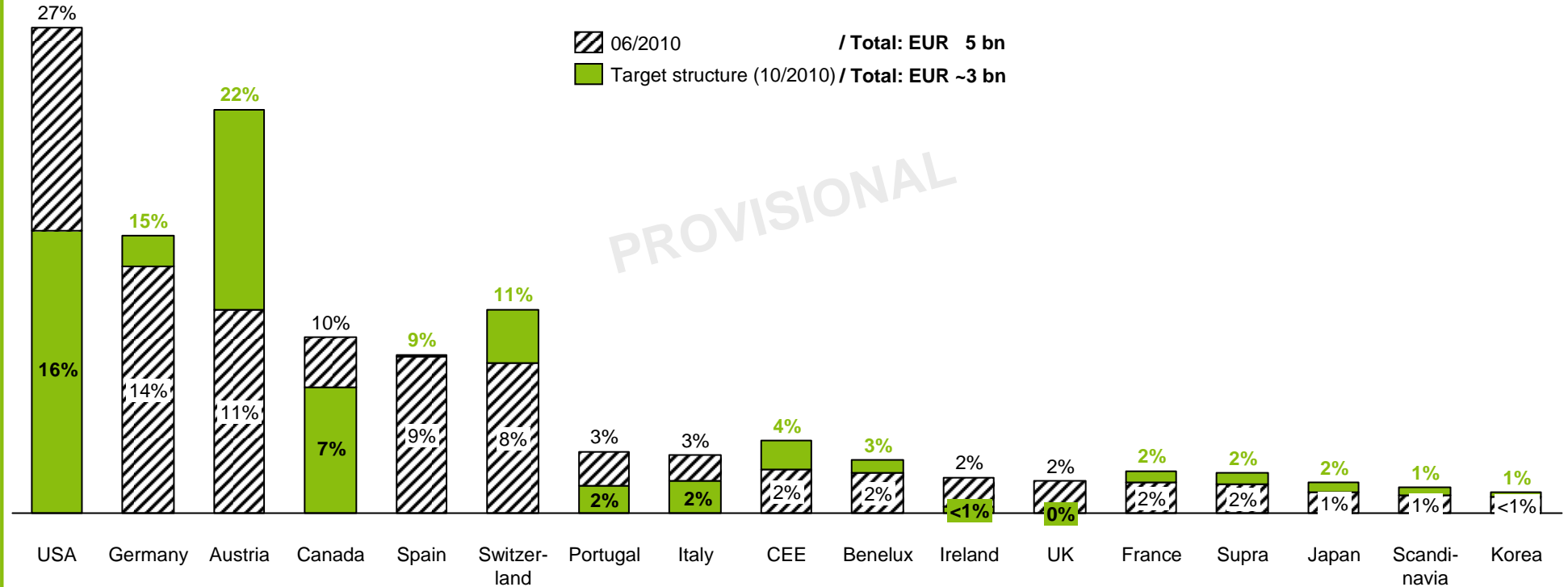


Note: Figures may not add up due to rounding

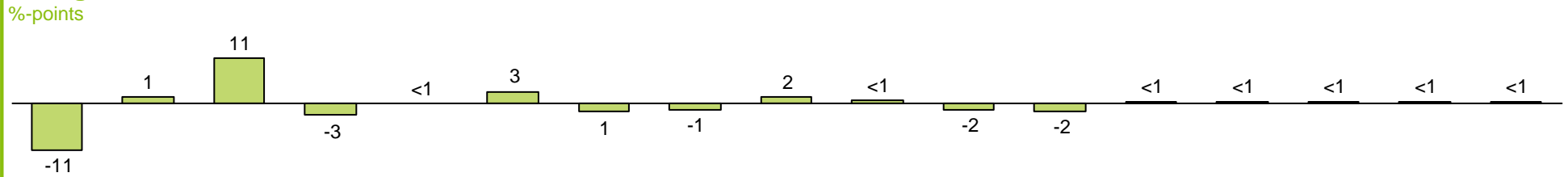
# HPBI Public Sector (LdG) cover pool

## HPBI Public Sector cover pool / by regions

Nominal, 06/2010



## Change



Note: Figures may not add up due to rounding

## DEPFA (sub-group) Cornerstones of new business model and Outlook

### Cornerstones of business model

- ✓ No new banking business planned
- ✓ Significant de-risking and downsizing in place after asset transfer with structurally improved balance sheet
  - Significantly reduced impact from market volatility on funding position
  - Significantly reduced impact from credit spread movements on equity base
  - Asset-liability mismatches largely eliminated

### Outlook

- ➔ Portfolios transferred to FMS-WM are serviced by DEPFA (incl. Asset Management)
- ➔ Servicing of ACS and LdG cover pools remains with DEPFA ACS Bank and HPBI
- ➔ After the transfer, improved P&L for remaining business<sup>1</sup> – Tier I ratio of >10% on DEPFA sub-group level

<sup>1</sup> Excl. extraordinary items