

# Hypo Real Estate GROUP

**Hypo Real Estate International Trust I**  
**Wilmington, Delaware, United States of America**  
**(a wholly-owned subsidiary of Hypo Real Estate Bank International AG,**  
**Stuttgart, Federal Republic of Germany)**

**€ 350,000,000 Non-cumulative Trust Preferred Securities**  
**(Liquidation Preference Amount of € 50,000 per Trust Preferred Security)**

**Offering Price: 100 % of Liquidation Preference Amount**

Hypo Real Estate International Trust I, a statutory trust created under the laws of the State of Delaware, United States of America (the “**Trust**”), will offer for sale € 350,000,000 non-cumulative trust preferred securities (the “**Trust Preferred Securities**”), liquidation preference amount € 50,000 per security (the “**Liquidation Preference Amount**”). The Trust Preferred Securities represent preferred undivided beneficial ownership interests in the assets of the Trust. The Trust will issue one common security to Hypo Real Estate Bank International AG, a stock corporation (*Aktiengesellschaft*) organized under the laws of Germany (the “**Bank**”) or a wholly-owned subsidiary of the Bank. The Trust will use the proceeds from the sale of the Trust Preferred Securities and the common security to buy non-cumulative Class B Preferred Securities (the “**Class B Preferred Securities**”) issued by Hypo Real Estate International LLC I (the “**Company**”), a Delaware limited liability company. The Class B Preferred Securities will be the only assets of the Trust. The terms of the Trust Preferred Securities will be substantially identical to the terms of the Class B Preferred Securities. The Company will invest the proceeds from the sale of the Class B Preferred Securities in subordinated debt securities issued by the Bank.

Distributions, referred to as Capital Payments (as defined herein) are non-cumulative and will accrue on the Liquidation Preference Amount (i) from and including June 14, 2007 (the “**Issue Date**”) to but excluding June 14, 2017 (the “**Reset Date**”), at a fixed rate of 5.864% per annum, payable annually in arrears on June 14 of each year (including on the Reset Date) and (ii) for each Capital Payment Period (as defined herein) commencing on or after the Reset Date, at 3-month EURIBOR (as defined herein) for such Capital Payment Period plus 2.13% per annum, payable quarterly in arrears on March 14, June 14, September 14 and December 14 of each year. Capital Payments are subject to certain conditions, including that the Bank has an amount of Distributable Profits (as defined herein) for the preceding fiscal year at least equal to the Capital Payments.

The Trust Preferred Securities and the Class B Preferred Securities will not have a maturity date and will not be redeemable at any time at the option of the holder thereof. The Trust and the Company may redeem the Trust Preferred Securities and the Class B Preferred Securities, as the case may be, in whole, but not in part, on the Initial Redemption Date (as defined herein) scheduled to occur on June 14, 2017 or any Capital Payment Date (as defined herein) thereafter, or at any time upon the occurrence of certain tax and capital disqualification events as more fully described herein.

The Trust Preferred Securities are expected, on issue, to be assigned a rating of “BBB” by Standard & Poor’s (“S&P”), “A3” by Moody’s Investors Service (“Moody’s”) and “A-” by Fitch Ratings. The rating for the Trust Preferred Securities is derived from the ratings of the Bank. A rating is not a recommendation to buy, hold or sell securities, and may be subject to revision, suspension or withdrawal at any time by the rating agency.

Application has been made in order for the Trust Preferred Securities to be listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the regulated market of the Luxembourg Stock Exchange, which is an EU-regulated market within the meaning of Directive 2004/39/EC (the “**Luxembourg Stock Exchange**”).

**THESE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”) AND ARE BEING OFFERED AND SOLD ONLY OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN OFFSHORE TRANSACTIONS IN RELIANCE ON REGULATION S UNDER THE SECURITIES ACT (“REGULATION S”).**

**An investment in the Trust Preferred Securities involves certain risks. See “Risk Factors” beginning on page 28 for a discussion of certain factors that should be considered by prospective investors.**

Joint Lead Managers and Joint Bookrunners

**Deutsche Bank**  
Sole Structuring Advisor

**JPMorgan**

The date of this Prospectus is June 12, 2007.

This Prospectus will be published in electronic form on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)).

## RESPONSIBILITY STATEMENT

The Bank with its registered office in Büchsenstraße 26, 70174 Stuttgart, Federal Republic of Germany, assumes responsibility for the information contained in this prospectus (the "**Prospectus**"). To the best of the knowledge of the Bank the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. Each of the Company and the Trust with its respective registered office in Wilmington, Delaware accepts responsibility for the information contained in this Prospectus about itself and the description of the Company Securities (as defined herein) and the Trust Preferred Securities, respectively and to the best of their knowledge, the information is in accordance with the facts and does not omit anything likely to affect the import of such information. Neither the Company nor the Trust accepts responsibility for any other information contained in this Prospectus.

## NOTICE

Each of the Bank, the Company and the Trust further confirms (the Company and the Trust only in respect of itself and the Company Securities and the Trust Preferred Securities, respectively) the following:

- this Prospectus contains all information with respect to the Bank, the Company and the Trust, the Trust Preferred Securities, the Class B Preferred Securities and the Debt Securities (as defined herein) that is material in the context of the listing, issue and offering of the Trust Preferred Securities, including all information which, according to the particular nature of the Bank, the Company and the Trust and of the Trust Preferred Securities, the Class B Preferred Securities and the Debt Securities is necessary to enable investors and their investment advisors to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Bank, the Company and the Trust and of the rights attached to the Trust Preferred Securities, the Class B Preferred Securities and the Debt Securities;
- the statements contained in this Prospectus relating to the Bank, the Company and the Trust are in every material respect true and accurate and not misleading;
- the opinions and intentions expressed in this Prospectus with regard to the Bank, the Company and the Trust are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions;
- there are no other facts the omission of which would in the context of the issue and offering of the Trust Preferred Securities make any statement in this Prospectus misleading in any material respect; and
- reasonable enquiries have been made by the Bank, the Company and the Trust to ascertain such facts and to verify the accuracy of all such information and statements.

The Bank, the Trust and the Company have not authorized any person to provide any information or to make any representation not contained in this Prospectus. You must not rely on any information or representation not contained in this Prospectus as having been authorized by the Bank, the Trust or the Company or by the Joint Lead Managers (as defined herein). The delivery of this Prospectus at any time does not imply that the information contained herein is correct as of any time subsequent to its date.

This Prospectus comprises a prospectus for the purposes of (i) Article 5.3 of the Prospectus Directive and (ii) the relevant implementing measures in the Grand Duchy of Luxembourg and, in each case, for the purpose of giving information with regard to the Bank, the Company and the Trust.

This document is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”) or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “**relevant persons**”). The Trust Preferred Securities are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Trust Preferred Securities will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

This Prospectus does not constitute an offer of, or an invitation or solicitation by or on behalf of the Bank, the Trust, the Company or the Joint Lead Managers or any affiliate of any of them to subscribe for or purchase, any Trust Preferred Securities in any jurisdiction by any person to whom it is unlawful to make such an offer, invitation or solicitation in such jurisdiction. Applicable law in certain jurisdictions may restrict the distribution of this Prospectus and the offering or sale of the Trust Preferred Securities. The Bank, the Trust, the Company and the Joint Lead Managers require all recipients of this Prospectus to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers and sales of Trust Preferred Securities and distribution of this Prospectus, see “Subscription and Sale” below.

## **STABILIZATION**

IN CONNECTION WITH THE ISSUE OF THE TRUST PREFERRED SECURITIES, DEUTSCHE BANK AG, LONDON BRANCH ("DEUTSCHE BANK") AND J.P. MORGAN SECURITIES LTD. (TOGETHER, THE "STABILIZING MANAGERS") AS STABILIZING MANAGERS (OR ANY PERSON ACTING ON THEIR BEHALF) MAY OVER-ALLOT THE TRUST PREFERRED SECURITIES (PROVIDED THAT THE AGGREGATE PRINCIPAL AMOUNT OF THE SECURITIES ALLOTTED DOES NOT EXCEED 105 % OF THE AGGREGATE LIQUIDATION PREFERENCE AMOUNT OF THE TRUST PREFERRED SECURITIES (OR SUCH OTHER PERCENTAGE AS MAY BE APPLICABLE TO ANY SUCH ACTIONS) IN THE JURISDICTION WHERE SUCH ACTIONS ARE TO BE EFFECTED) OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE TRUST PREFERRED SECURITIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZING MANAGERS (OR PERSONS ACTING ON THEIR BEHALF) WILL UNDERTAKE STABILIZATION ACTION. ANY STABILIZATION ACTION MAY BEGIN AT ANY TIME AFTER THE ADEQUATE PUBLIC DISCLOSURE OF THE FINAL TERMS OF THE OFFER OF THE TRUST PREFERRED SECURITIES AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 CALENDAR DAYS AFTER THE DATE OF THE RECEIPT OF THE PROCEEDS OF THE ISSUE BY THE TRUST OR 60 CALENDAR DAYS AFTER THE DATE OF THE ALLOTMENT OF THE TRUST PREFERRED SECURITIES OR, AS THE CASE MAY BE, SUCH OTHER DATE(S) AS MAY BE APPLICABLE TO ANY SUCH ACTION IN THE JURISDICTION WHERE SUCH ACTIONS ARE TO BE EFFECTED. SUCH STABILIZING SHALL BE IN COMPLIANCE WITH ALL LAWS, REGULATIONS AND RULES OF ANY RELEVANT JURISIDITION.

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking statements relating to the business, financial performance and results of operations of the Bank and to the business segments in which the Bank operates. Forward-looking statements concern future circumstances and results and other circumstances that are not historical facts, and may be identified by words such as “believes,” “expects,” “predicts,” “intends,” “projects,” “plans,” “estimates,” “aims,” “foresees,” “anticipates,” “targets,” and similar expressions. Such statements only reflect the current views of the Bank with respect to future events and are subject to risks and uncertainties.

In this document, forward-looking statements include, among others, statements relating to:

- the implementation of the Bank’s strategic initiatives and management agenda;
- the development of aspects of the Bank’s results of operations;
- expectations of the impact of risks that affect the Bank’s business, including the risks of loss on our credit exposures and risks relating to changes in interest and currency exchange rates and in asset prices; and
- other statements relating to the Bank’s future business development and economic performance.

In addition, the Bank may from time to time make forward-looking statements in its annual and interim reports, offering circulars and prospectuses, press releases and other written materials. The Bank may also make oral forward-looking statements to third parties, including financial analysts.

By their very nature, forward-looking statements involve risks and uncertainties, both general and specific. These statements are based on current plans, estimates, projections and expectations. Prospective investors should therefore not place undue reliance on them. Forward-looking statements speak only as of the date made, and the Bank undertakes no obligation to update any of them in light of new information or future events.

A number of important factors could cause the Bank’s actual results to differ materially from those described in any forward-looking statements. These factors include, among others, the following:

- changes in general economic and business conditions;
- changes and volatility in currency exchange rates, interest rates and asset prices;
- changes in governmental policy and regulation, and political and social conditions;
- changes in the competitive environment;
- the success in achieving the objectives of the Bank’s current management agenda; and
- other factors, including those referred to elsewhere in this document and others that are not referred to in this document.

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## PROSPECTUS SUMMARY

*The following summary should be read as an introduction to the Prospectus. It contains a transaction overview, a summary of the terms of the Trust Preferred Securities and the Class B Preferred Securities, as well as information relating to Hypo Real Estate Bank International Group and this Offering. For a more complete description of the terms of the Trust Preferred Securities, the Class B Preferred Securities, the Initial Debt Securities and the Support Undertaking, see "Description of the Trust Securities," "Description of the Company Securities," "Description of the Initial Debt Securities" and "Description of the Support Undertaking," as well as "Distributable Profits of the Bank." For a description of the Trust, the Company and the Bank see "Hypo Real Estate International Trust I," "Hypo Real Estate International LLC I" and "Hypo Real Estate Bank International Group." Capitalized terms used in this Prospectus have the meanings as set forth under "Definitions." Except where specified otherwise, financial data of Hypo Real Estate Bank International Group presented herein or incorporated by reference is in accordance with International Financial Reporting Standards ("IFRS").*

*The following summary is qualified in its entirety by the detailed information and financial data presented elsewhere in this Prospectus or incorporated by reference and any decision to invest in the Trust Preferred Securities should be based on consideration of the Prospectus as a whole, including the documents incorporated by reference. Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the place of jurisdiction, have to bear the costs of translating the Prospectus, including the documents incorporated by reference, before the legal proceedings are initiated. Civil liability attaches to those persons who have tabled the summary including any translation thereof, and applied for its notification, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus.*

### Transaction Overview

Hypo Real Estate International Trust I (the "**Trust**") is a statutory trust formed under the Delaware Statutory Trust Act, as amended, and exists exclusively to

- issue the non-cumulative Trust Preferred Securities and one non-cumulative Trust Common Security,
- invest the gross proceeds thereof in the non-cumulative Class B Preferred Securities issued by Hypo Real Estate International LLC I (the "**Company**"), and
- engage in activities necessary or incidental thereto.

The Trust Securities will represent all of the ownership interests in the Trust. The Bank or a Hypo Real Estate Bank International Group Company will own the Trust Common Security.

In addition to the Class B Preferred Securities that the Trust will acquire, the Company will also issue to the Bank or a Hypo Real Estate Bank International Group Company the Company Common Security and the Class A Preferred Security (the "**Company Securities**"). The Company Securities will represent all of the ownership interests in the Company.

The Company will use the gross proceeds from the issuance of the Company Securities to acquire the Initial Debt Securities. The Bank will issue the Initial Debt Securities, which will have a Principal Amount of € 350,076,000 and a Maturity Date of June 14, 2037. The Initial Debt Securities will be subordinated to the claims of other creditors of the Bank pursuant to their terms. The income that the Company will receive from the Initial Debt Securities and any Substitute Debt Securities will be available for distribution, as appropriate, to the holders of the Class B Preferred Securities, the Class A Preferred Security and the Company Common Security.

In accordance with the Trust Agreement (as to be amended prior to the issuance of the Trust Securities) among the Trustees, the Bank and the Company, the Trust will pass through to the holders of the Trust Preferred Securities any periodic distributions declared (or deemed declared) and paid by the Company in accordance with the LLC Agreement (as to be amended prior to the issuance of the Company Securities) between the Bank and the Trust and received by the Trust on the Class B Pre-

ferred Securities. These Capital Payments on the Trust Preferred Securities will be limited to the amount of the Capital Payments on the Class B Preferred Securities.

Pursuant to the LLC Agreement, Capital Payments on the Class B Preferred Securities shall, for any given Capital Payment Period, be paid out of the excess of (i) the amounts paid on the Initial Debt Securities and the Substitute Debt Securities by the issuer thereof, or, after the Maturity Date, on Permitted Investments that the Company may then hold or, if applicable, under the Support Undertaking over (ii) any operating expenses of the Company not paid or reimbursed by the Bank during such Capital Payment Period.

Subject to the provisions of the LLC Agreement and the Trust Agreement, Capital Payments on the Class B Preferred Securities and the Trust Preferred Securities will accrue on the respective liquidation preference amount of € 50,000 thereof (i) from (and including) the Issue Date to (but excluding) the Reset Date at a fixed rate of 5.864% per annum, payable annually in arrears on June 14 in each year (including on the Reset Date) and (ii) for each Capital Payment Period commencing on or after the Reset Date, at the Floating Rate and be payable quarterly in arrears on March 14, June 14, September 14 and December 14 of each year.

For each Capital Payment Period ending prior to the Reset Date, Capital Payments will be calculated on the basis of the actual number of days elapsed, divided by the actual number of days (365 or 366) in the relevant Capital Payment Period. For each Capital Payment Period beginning on or after the Reset Date, Capital Payments will be calculated on the basis of the actual number of days elapsed in a 360-day year.

**You should note that if the Company does not declare (and is not deemed to have declared) a Capital Payment on the Class B Preferred Securities in respect of any Capital Payment Period, the Trust as the holder of the Class B Preferred Securities will have no right to receive a Capital Payment on the Class B Preferred Securities in respect of such Capital Payment Period, and the Company will have no obligation to make a Capital Payment in respect of such Capital Payment Period, whether or not Capital Payments on the Class B Preferred Securities are declared (or deemed to have been declared) and paid in respect of any future Capital Payment Period. In such a case, investors will not receive any corresponding Capital Payments on the Trust Preferred Securities in relation to such Capital Payment Period.**

For a summary of the terms of the Trust Preferred Securities and the Class B Preferred Securities, see "Description of the Trust Securities" and "Description of the Company Securities – Class B Preferred Securities."

The Bank and the Company will enter into the Support Undertaking for the benefit of the holders of the Class B Preferred Securities upon the terms set forth in Appendix A hereto. Pursuant to the Support Undertaking, the Bank undertakes to ensure, among other things, that

- the Company shall at all times be in a position to meet its obligations if and when such obligations are due and payable, including Capital Payments declared (or deemed declared) on the Class B Preferred Securities (plus Additional Amounts thereon, if any), and any payments due on redemption of the Class B Preferred Securities, and
- in liquidation or dissolution of the Company, the Company will have sufficient funds to pay the aggregate liquidation preference amount of the Class B Preferred Securities, including accrued and unpaid Capital Payments on the Class B Preferred Securities for the then current Capital Payment Period to, but excluding, the date of liquidation or dissolution and Additional Amounts, if any.

**You should note that the Support Undertaking does not constitute a guarantee or an undertaking of any kind that the Company will at any time have sufficient assets to declare a Capital Payment on the Class B Preferred Securities or another distribution. The Bank's obligations under the Support Undertaking will be subordinated to all senior and subordinated debt obligations of the Bank, will rank at least *pari passu* with each class of the most senior ranking preference shares, if any, that rank senior to the common stock of the Bank as to liquidation rights and with other instruments of the**



**Bank qualifying as Tier I regulatory capital, and will rank senior to any other preference shares and the interests in common stock of the Bank.**

The Trust as the holder of the Class B Preferred Securities will be a third-party beneficiary of the Support Undertaking. For a summary of the terms of the Support Undertaking, see “Description of the Support Undertaking.”

**The Class B Preferred Securities and the Trust Preferred Securities will not have any scheduled maturity date and will not be redeemable at any time at the option of the holders thereof.**

On or after the Initial Redemption Date, the Company may, at its option, redeem the Class B Preferred Securities, in whole (but not in part), on any Capital Payment Date at a redemption price per Class B Preferred Security equal to the liquidation preference amount thereof, plus any accrued and unpaid Capital Payments for the then current Capital Payment Period to but excluding the Redemption Date (the “**Redemption Price**”), plus Additional Amounts, if any. The Company may also, at any time, redeem the Class B Preferred Securities, in whole (but not in part), upon the occurrence of a Company Special Redemption Event (i) at the Redemption Price, in the case of a Gross-up Event or (ii) upon the occurrence of any other Company Special Redemption Event, the Early Redemption Price, plus, in each case, Additional Amounts, if any.

Subject to the provisions of the Trust Agreement, upon redemption of the Class B Preferred Securities, the Trust must apply the redemption price received in connection therewith to redeem the Trust Securities.

Upon the occurrence of a Trust Special Redemption Event or in the event of any dissolution, liquidation, winding up or termination of the Trust, holders of the Trust Preferred Securities will be entitled to receive a corresponding number of the Class B Preferred Securities. See “Description of the Trust Securities – Redemption.”

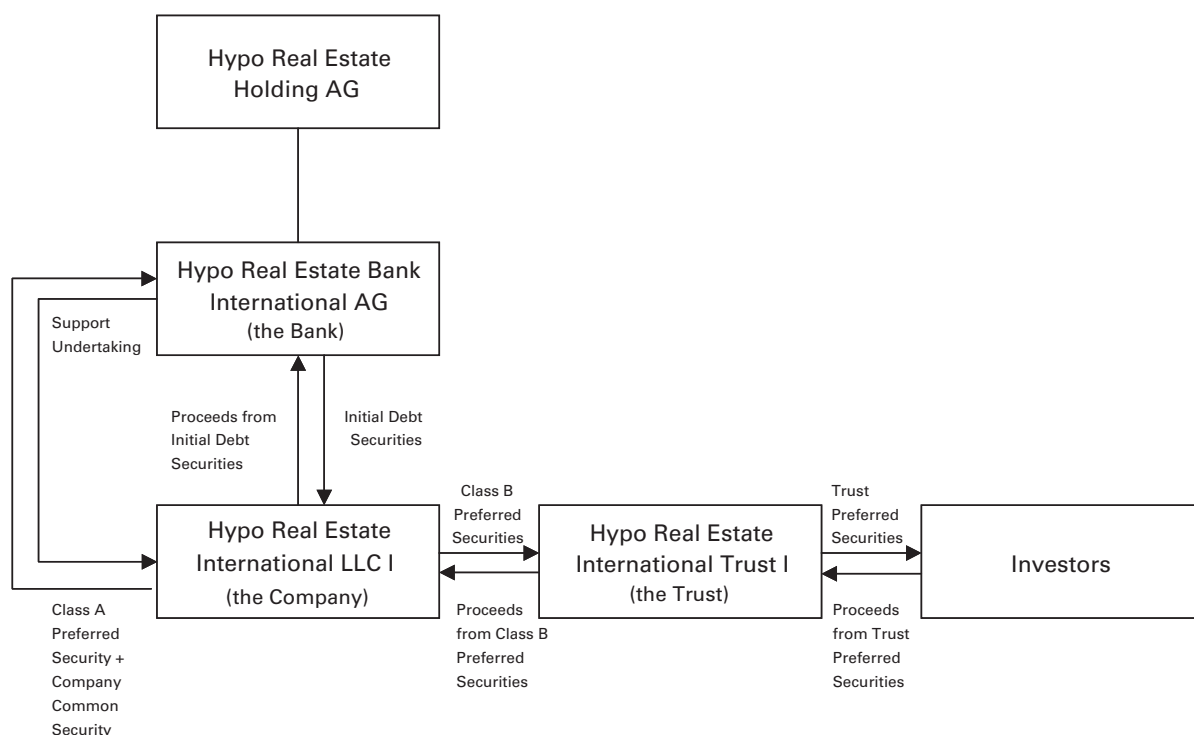
**Since the sole assets of the Trust consist of the Class B Preferred Securities and because the holders of the Trust Preferred Securities may receive the Class B Preferred Securities in certain circumstances, prospective purchasers of the Trust Preferred Securities are also making an investment decision with respect to the Class B Preferred Securities and, accordingly, should carefully review all of the information regarding the Class B Preferred Securities. See “Description of the Company Securities – Class B Preferred Securities” and “Risk Factors – Special Redemption Risks.”**

Concurrently with the purchase of the Trust Preferred Securities by the Joint Lead Managers as described under “Subscription and Sale”, the Company, the Trust and the Bank will engage in the following transactions:

- the Company will issue to the Bank the Company Common Security;
- the Company will issue to the Bank the Class A Preferred Security;
- the Trust will issue to the Bank the Trust Common Security;
- the Trust will issue the Trust Preferred Securities, which will be registered in the name of the Common Depositary, to the Joint Lead Managers, who will sell the Trust Preferred Securities to investors;
- the Company will issue to the Trust the Class B Preferred Securities; and
- the Company will acquire from the Bank the Initial Debt Securities.

As the holder of the Company Common Security, the Bank will elect the Board of Directors, which initially will consist of four directors.

The following diagram outlines the key relationships among the Company, the Trust and the Bank upon completion of the Offering.



## The Offering

<b>The Trust</b>	Hypo Real Estate International Trust I is a Delaware statutory trust formed for the purpose of issuing the Trust Preferred Securities and acquiring the Class B Preferred Securities.
<b>The Company</b>	Hypo Real Estate International LLC I, a Delaware limited liability company, is a subsidiary of the Bank. The sole assets of the Company will be the Debt Securities and Permitted Investments.
<b>The Bank</b>	Hypo Real Estate Bank International AG, a German stock corporation ( <i>Aktiengesellschaft</i> ).
<b>Trust Securities</b>	The Trust Common Security together with the Trust Preferred Securities. The Trust Common Security means one common security of the Trust and the Trust Preferred Securities means € 350,000,000 registered non-cumulative Trust Preferred Securities offered in the Offering as described below.
<b>Company Securities</b>	The Company Common Security and the Company Preferred Securities: the Class A Preferred Security and the Class B Preferred Securities
<b>Subject Matter of the Offering</b>	€ 350,000,000 registered non-cumulative Trust Preferred Securities with a Liquidation Preference Amount of € 50,000 per Trust Preferred Security. The terms of the Trust Preferred Securities will be substantially identical to the terms of the Class B Preferred Securities. The offering consists of an international offer in the form of private placements outside the United States in reliance on Regulation S. See "Subscription and Sale."
<b>Issue Price</b>	100% (equivalent to € 50,000 per Trust Preferred Security).

**Use of Proceeds**

The Trust will invest the gross proceeds from the sale of the Trust Securities in the Class B Preferred Securities. The Company will use the funds from the sale of the Class B Preferred Securities, together with funds contributed by the Bank in return for the Class A Preferred Security and in return for the Company Common Security, to make an investment in the Initial Debt Securities. Hypo Real Estate Group intends to treat the Class B Preferred Securities as consolidated Tier I regulatory capital. The Bank intends to use the proceeds from the sale of the Initial Debt Securities for general corporate purposes.

**The Bank's Support Undertaking**

The Bank will execute a Support Undertaking with the Company for the benefit of the Company and the holders of the Class B Preferred Securities under which it will agree that:

- the Company will at all times be in a position to meet its obligations if and when such obligations are due and payable, including Capital Payments declared (or deemed declared) on the Class B Preferred Securities, plus Additional Amounts thereon, if any, and any payment due on redemption of the Class B Preferred Securities, and
- in liquidation or dissolution, the Company will have sufficient funds to pay the liquidation preference amounts of the Class B Preferred Securities, plus accrued and unpaid Capital Payments for the then current Capital Payment Period to, but excluding, the date of liquidation or dissolution and Additional Amounts, if any.

**The Support Undertaking is not a guarantee of any kind that the Company will at any time have sufficient assets to declare a Capital Payment or other distribution.**

The Bank's obligations under the Support Undertaking will be subordinated to all senior and subordinated debt obligations of the Bank, will rank at least *pari passu* with the most senior ranking preference shares, if any, that rank senior to common stock of the Bank as to liquidation rights and with other instruments of the Bank qualifying as Tier I regulatory capital, and will rank senior to any other preference shares and the common stock of the Bank. The holders of the Class B Preferred Securities will be third party beneficiaries of the Support Undertaking.

If a holder of the Class B Preferred Securities has notified the Company that the Bank has failed to perform any obligation under the Support Undertaking, and such failure continues for 60 days or more after such notice is given, the holders of a majority in liquidation preference amount of the Class B Preferred Securities will have the right to elect the Independent Enforcement Director who will be required to enforce the rights of the Company under the Support Undertaking without prejudice to the rights of the holders of the Class B Preferred Securities thereunder.

The Bank will also undertake not to give any guarantee or similar undertaking with respect to, or enter into any other agreement relating to the support of, any other preference shares or similar securities of any other affiliated entity that would rank senior in any regard to the Support Undertaking unless the Support Undertaking is amended so that it ranks at least *pari passu* with and contains substantially equivalent rights of priority as to payment as any such other guarantee or other support agreement.

**Summary of the Terms of the Trust Preferred Securities and the Class B Preferred Securities****Form and Denomination**

The Trust Preferred Securities will be issued in registered book-entry form only, in denominations of € 50,000 Liquidation Preference Amount and will be evi-

denced by one or more global certificates deposited with the Common Depositary (except for special circumstances, in which definitive securities will be issued). See “Description of the Trust Securities – Form, Book-Entry Procedures and Transfer.”

#### **Maturity**

The Trust Preferred Securities and the Class B Preferred Securities will not have a maturity date and will not be redeemable at any time at the option of the holders thereof. The Company may, under certain circumstances, redeem the Class B Preferred Securities in whole, but not in part on any Capital Payment Date falling on or after June 14, 2017. See “Description of the Company Securities – Class B Preferred Securities – Redemption of the Class B Preferred Securities.”

#### **Capital Payments**

Subject to the terms of the Trust Agreement and LLC Agreement, as applicable, Capital Payments will accrue on the respective liquidation preference amounts of € 50,000 per Trust Preferred Security (the “**Liquidation Preference Amount**”) and € 50,000 per Class B Preferred Security as follows:

- from and including the Issue Date to but excluding the Reset Date, at a fixed rate of 5.864% per annum (the “**Fixed Rate**”), payable annually in arrears on June 14 of each year (including on the Reset Date) and
- for each Capital Payment Period commencing on or after the Reset Date, at 3-month EURIBOR plus 2.13% per annum (the “**Floating Rate**”), payable quarterly in arrears on each March 14, June 14, September 14 and December 14 of each year.

For each Capital Payment Period ending prior to the Reset Date, Capital Payments will be calculated on the basis of the actual number of days elapsed, divided by the actual number of days (365 or 366) in the relevant Capital Payment Period. For each Capital Payment Period beginning on or after the Reset Date, Capital Payments will be calculated on the basis of the actual number of days elapsed in a 360-day year.

#### **Declaration of Capital Payments**

The Company expects to pay Capital Payments on the Class B Preferred Securities out of payments with respect to interest received by the Company on the Debt Securities or Permitted Investments held by the Company from time to time.

**If the Company does not declare (and is not deemed to have declared) a Capital Payment on the Class B Preferred Securities in respect of any Capital Payment Period, holders of the Class B Preferred Securities will have no right to receive a Capital Payment on the Class B Preferred Securities in respect of such Capital Payment Period, and the Company will have no obligation to pay a Capital Payment on the Class B Preferred Securities in respect of such Capital Payment Period, whether or not Capital Payments on the Class B Preferred Securities are declared (or deemed to have been declared) and paid on the Class B Preferred Securities in respect of any future Capital Payment Period.**

Capital Payments on the Class B Preferred Securities are authorized to be declared and paid on any Capital Payment Date to the extent that:

- the Company has an amount of Operating Profits for the Capital Payment Period ending on the day immediately preceding such Capital Payment Date at least equal to the amount of such Capital Payments, and
- the Bank has Distributable Profits for the preceding fiscal year for which audited unconsolidated financial statements are available in an amount at least equal to (i) the aggregate amount of such Capital Payments and (ii) to the extent not yet reflected in the calculation of Distributable Profits for the preceding fiscal year, all capital payments, dividends or other distributions

on Parity Securities, if any, *pro rata* on the basis of Distributable Profits for such preceding fiscal year.

In determining the availability of sufficient Distributable Profits of the Bank related to any fiscal year to permit Capital Payments to be declared with respect to the Class B Preferred Securities, any Capital Payments already paid on the Class B Preferred Securities and any capital payments, dividends or other distributions already paid on Parity Securities, if any, on the basis of such Distributable Profits for such fiscal year will be deducted from such Distributable Profits (to the extent not yet reflected in the calculation of Distributable Profits).

**Distributable Profits of the Bank**

“Distributable Profits” of the Bank for any fiscal year means

- for so long as the profit-and-loss-pooling agreement (*Ergebnisabführungsvertrag*) between Hypo Real Estate Holding AG and the Bank is in effect (requiring the Bank to transfer in full the Transferred Profit to Hypo Real Estate Holding AG, and requiring Hypo Real Estate Holding AG to compensate in full the annual loss (*Jahresfehlbetrag*) of the Bank in any fiscal year to the extent not offset by any transfers from earnings reserves), the Transferred Profit for such fiscal year, as shown in the audited unconsolidated balance sheet of the Bank as of the end of such fiscal year, if any, plus transfers from earnings reserves not subject to the profit-and-loss pooling agreement, and
- if the profit-and-loss-pooling agreement between Hypo Real Estate Holding AG and the Bank is no longer in effect, the balance sheet profit (*Bilanzgewinn*) as of the end of such fiscal year, as shown in the audited unconsolidated balance sheet of the Bank as of the end of such fiscal year. Such balance sheet profit includes the annual surplus or loss (*Jahresüberschuss/Jahresfehlbetrag*), plus any profit carried forward from previous years, minus any loss carried forward from previous years, plus transfers from capital reserves and earnings reserves, minus allocations to earnings reserves, all as determined in accordance with the provisions of the German Stock Corporation Act (*Aktiengesetz*) and accounting principles generally accepted in the Federal Republic of Germany as described in the German Commercial Code (*Handelsgesetzbuch*) and other applicable German law then in effect.

In determining the availability of sufficient Distributable Profits of the Bank related to any fiscal year to permit Capital Payments to be declared with respect to the Class B Preferred Securities in respect to such fiscal year, any Capital Payments already paid on the Class B Preferred Securities and any capital payments, dividends or other distributions already paid on Parity Securities, if any, on the basis of such Distributable Profits for such fiscal year will be deducted from such Distributable Profits.

**Deemed Declaration of Capital Payments**

The Company will be deemed to have declared Capital Payments on the Class B Preferred Securities if the Bank or any of its Subsidiaries declares or pays any capital payments, dividends or other distributions on any Parity Securities (excluding payments by Subsidiaries of the Bank exclusively to the Bank or a wholly-owned subsidiary of the Bank). If such capital payment, dividend or other distribution on such Parity Securities was in the full stated amount payable on such Parity Securities in the then current fiscal year through the Capital Payment Date, then Capital Payments will be deemed declared at the Stated Rate in full for the then current fiscal year through such Capital Payment Date. If such capital payment, dividend or other distribution on such Parity Securities was only a partial payment of the amount so owing, the amounts of the Capital Payments deemed declared on the Class B Preferred Securities will be adjusted proportionally.

Further, notwithstanding the foregoing, if the Bank or any of its Subsidiaries or Hypo Real Estate Holding, the sole shareholder of the Bank, declares or pays any Junior Distributions, the Company will be deemed to have declared Capital Payments on the Class B Preferred Securities in amounts that vary according to how often the relevant Junior Securities pay capital payments, dividends or other distributions.

If the Bank or any of its Subsidiaries redeems, repurchases or otherwise acquires any Parity Securities or Junior Securities for any consideration subject to certain exceptions set forth in "Description of the Company Securities – Class B Preferred Securities – Capital Payments," the Company will be deemed to have declared Capital Payments on the Class B Preferred Securities at the Stated Rate in full for payment on the first Capital Payment Date falling contemporaneously with and/or immediately following the date on which such redemption, repurchase or other acquisition occurred.

**Prohibition of Capital Payments**

Even if the Company has sufficient Operating Profits and the Bank has sufficient Distributable Profits or the Company would otherwise be deemed to have declared Capital Payments, the Company will not be permitted to make Capital Payments on the Class B Preferred Securities on any Capital Payment Date (or a date set for redemption or liquidation) if on such date there is in effect an order of the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) (the "**BaFin**") (or any other relevant regulatory authority) prohibiting the Bank from making any distributions of profits (including to the holders of Parity Securities, if any).

**Payments of Additional Amounts**

All payments on the Class B Preferred Securities and the Trust Preferred Securities, as the case may be (including any amount payable in liquidation or repayment upon redemption thereof) will be made without deduction or withholding for or on account of Withholding Taxes, unless such deduction or withholding is required by law. In such event, the Company or the Trust, as the case may be, will pay, as additional Capital Payments, such additional amounts as may be necessary in order that the net amounts received by the holders of the Class B Preferred Securities and the Trust Preferred Securities, after such deduction or withholding, will equal the amounts that would have been received had no such deduction or withholding been required ("**Additional Amounts**"). However, no such Additional Amounts will be payable in respect of the Class B Preferred Securities and the Trust Preferred Securities:

- if and to the extent that the Company is unable to pay such Additional Amounts because such payment would exceed the Distributable Profits of the Bank for the preceding fiscal year (after subtracting from such Distributable Profits the amount of Capital Payments on the Class B Preferred Securities and, to the extent not yet reflected in the calculation of Distributable Profits, capital payments, dividends or other distributions on Parity Securities, if any, already paid on the basis of such Distributable Profits on or prior to the date on which such Additional Amounts will be payable);
- with respect to any amounts of Withholding Taxes that are payable by reason of the holder or beneficial owner of the Class B Preferred Securities (other than the Trust) or Trust Preferred Securities having some connection with any Relevant Jurisdiction other than by reason only of the mere holding of the Class B Preferred Securities or the Trust Preferred Securities;
- with respect to any amounts of Withholding Taxes if such deduction or withholding is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;



- with respect to any amounts of Withholding Taxes imposed on account of any inheritance, thrift, estate, personal property, sales or transfer taxes, or on account of any taxes that are payable otherwise than by withholding from payments in respect of the Class B Preferred Securities or the Trust Preferred Securities;
- with respect to any amounts of Withholding Taxes that can be avoided or reduced if the holder or beneficial owner of the Class B Preferred Securities (other than the Trust) or the Trust Preferred Securities makes a declaration of non-residence or other similar claim for exemption to the relevant tax authority or complies with any reasonable certification, documentation, information or other reporting requirement imposed by the relevant tax authority; *provided, however*, that the exclusion set forth in this clause shall not apply in respect of any certification, information, documentation or other reporting requirement if such requirement would be materially more onerous, in form, in procedure or in the substance of information disclosed, to the holder or beneficial owner of Class B Preferred Securities or Trust Preferred Securities than comparable information or other reporting requirements imposed under U.S. tax law, regulation and administrative practice (such as IRS Forms 1001, W-8 and W-9);
- if presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the Class B Preferred Securities or the Trust Preferred Securities to another paying agent in a Member State in the EU; or
- with respect to any amounts of Withholding Taxes that would not have been so imposed if the holder of the Class B Preferred Securities or the Trust Preferred Securities would have presented the relevant Class B Preferred Securities or Trust Preferred Securities for payment within 30 days of the date that payment was due or became available for payment, except to the extent that such holder would have been entitled to such Additional Amounts on presenting such Class B Preferred Securities or Trust Preferred Securities for payment on the last day of such period of 30 days.

## Redemption

If the Company redeems the Class B Preferred Securities, the Trust must redeem the Trust Preferred Securities. The Class B Preferred Securities are redeemable at the option of the Company, in whole but not in part, on the Initial Redemption Date and on each Capital Payment Date thereafter at the Redemption Price plus Additional Amounts, if any.

The Company will also have the right, at any time, to redeem the Class B Preferred Securities in whole but not in part, upon the occurrence of a Company Special Redemption Event (i) at the Redemption Price, in the case of a Gross-up Event or (ii) upon the occurrence of any other Company Special Redemption Event, the Early Redemption Price, plus, in each case, Additional Amounts, if any. The Company may exercise its right to redeem the Class B Preferred Securities only if it has:

- given at least 30 days' prior notice (or such longer period as required by the relevant regulatory authorities) to the holders of the Class B Preferred Securities of its intention to redeem the Class B Preferred Securities on the Redemption Date;
- simultaneously therewith received notice from the issuer of the Debt Securities of the redemption of an aggregate principal amount of Debt Securities equivalent to the liquidation preference amount of the Class B Preferred Securities; and
- obtained any required regulatory approvals. See "Description of the Company Securities – Class B Preferred Securities – Redemption of the Class B Preferred Securities."

The Class B Preferred Securities may only be redeemed for any reason if on the Redemption Date:

- the Company has sufficient funds (by reason of the Debt Securities, Permitted Investments or the Support Undertaking) to pay the Redemption Price or the Early Redemption Price, as the case may be, and to pay in full an amount corresponding to the Capital Payments accrued and unpaid as of the Redemption Date, plus Additional Amounts, if any;
- The Bank has an amount of Distributable Profits for the preceding fiscal year at least equal to the Capital Payments on the Class B Preferred Securities accrued and unpaid as of the Redemption Date or the excess, if any, of the Make-Whole Amount over the aggregate liquidation preference amount of the Class B Preferred Securities, as applicable, plus, in each case, Additional Amounts, if any;
- no order of the BaFin (or any other relevant regulatory authority) is in effect prohibiting the Bank from making any distributions of profits (including to the holders of Parity Securities, if any); and
- all required regulatory approvals have been obtained.

Upon the occurrence of a Trust Special Redemption Event or in the event of any voluntary or involuntary dissolution, liquidation, winding up or termination of the Trust, holders of Trust Securities will be entitled to receive a corresponding number of the Class B Preferred Securities, but, in the event of any such distribution of Class B Preferred Securities, the rights of the holder of the Trust Common Security will be subordinated to the rights of the holders of the Trust Preferred Securities. See "Description of the Trust Securities – Redemption."

**The Class B Preferred Securities and the Trust Preferred Securities will not have any scheduled maturity date and will not be redeemable at any time at the option of the holders thereof.**

## **Liquidation**

In the event of any voluntary or involuntary liquidation, dissolution, winding up or termination of the Trust, the holders of the Trust Preferred Securities will be entitled to receive a corresponding amount of the Class B Preferred Securities. The holders of the Trust Preferred Securities will effectively have a preference over the holder of the Trust Common Security with respect to distributions upon liquidation of the Trust.

Upon liquidation or dissolution of the Company, (i) the holder of the Class A Preferred Security will be entitled to receive the Debt Securities or Permitted Investments (including accrued and unpaid interest thereon) as its liquidation distribution and (ii) each holder of the Class B Preferred Securities will be entitled to receive the liquidation preference amount of such Class B Preferred Securities, plus accrued and unpaid Capital Payments in respect of the current Capital Payment Period up to, but excluding, the date of liquidation or dissolution and Additional Amounts, if any. The Company expects to pay the liquidation distribution to the holders of the Class B Preferred Securities out of funds received from the Bank under the Support Undertaking. Under the terms of the LLC Agreement and to the fullest extent permitted by law, the Company will not be dissolved until all obligations under the Support Undertaking have been paid in full pursuant to its terms.

## **Ranking of Trust Securities**

Payment of Capital Payments and other distributions and amounts on redemption of the Trust Securities will be made *pro rata* among the Trust Common Security and the Trust Preferred Securities based on the liquidation preferences thereof. However, upon the occurrence and during the continuance of a default under the Initial Debt Securities or the Support Undertaking, no payment of



Capital Payments or any other distributions or amounts on redemption will be made to the holder of the Trust Common Security, unless payment in full in cash of all accrued and unpaid Capital Payments on, and amounts on redemption of, the Trust Preferred Securities have been made or provided for, and all funds immediately available to the Property Trustee will first be applied to payment in full in cash of all Capital Payments or other amounts on redemption of, the Trust Preferred Securities then due and payable before any such funds are applied to any payment on the Trust Common Security.

**Ranking of Company Securities**

In the event of any voluntary or involuntary liquidation, dissolution, winding up or termination of the Company, the Class B Preferred Securities will rank junior to the Class A Preferred Security, and the Class B Preferred Securities will rank senior to the Company Common Security. Any payments made by the Bank pursuant to the Support Undertaking will be payable by the Company solely to the holders of the Class B Preferred Securities.

So long as any Class B Preferred Securities are outstanding and unless approved by the holders of at least 66 $\frac{2}{3}$ % in aggregate liquidation preference amount of the Class B Preferred Securities, voting separately as a class (excluding any Class B Preferred Securities held by the Bank or any of its affiliates, other than the Trust), the Company will not:

- amend, alter, repeal or change any provision of the LLC Agreement (including the terms of the Class B Preferred Securities) if such amendment, alteration, repeal or change would materially adversely affect the rights, preferences, powers or privileges of the Class B Preferred Securities,
- agree to modify or amend any provision of the Debt Securities, or waive any default in the payment of any amount under the Debt Securities, in any manner that would have a material adverse effect on the interests of the holders of the Class B Preferred Securities or
- effect any merger, consolidation, or business combination involving the Company, or any sale of all or substantially all of the assets of the Company, *provided* that any such merger, consolidation, or business combination involving the Company, or any sale of all or substantially all of the assets of the Company also must comply with the provisions of the LLC Agreement.

For a description of these provisions set forth in the LLC Agreement, see "Description of the Company Securities – Mergers, Consolidations and Sales."

**Further Issues**

Without the consent of all the holders of the Class B Preferred Securities (excluding any Class B Preferred Securities held by the Bank or any of its affiliates), the Company will not issue any additional securities of the Company ranking senior to or *pari passu* with the Class B Preferred Securities as to periodic distribution rights or rights on liquidation or dissolution of the Company. However, the Company may, from time to time, and without the consent of the holders of the Class B Preferred Securities, issue further Class B Preferred Securities having the same terms and conditions as the Class B Preferred Securities (in all respects except for the date of issue, the date as of which Capital Payments accrue, the issue price, and any other deviations required for compliance with law) so as to form a single series with the Class B Preferred Securities.

**Enforcement Rights**

A majority in liquidation preference amount of the Class B Preferred Securities will have the right to appoint an Independent Enforcement Director:

- upon the occurrence of any event causing a liquidation or dissolution of the Company, or

- if the Company fails to pay Capital Payments (plus Additional Amounts thereon, if any) as and when due on the Class B Preferred Securities at the Stated Rate in full for two consecutive Capital Payment Periods, or
- if the Property Trustee or a holder of the Class B Preferred Securities or a holder of the Trust Preferred Securities has notified the Company that the Bank has failed to perform any obligation under the Support Undertaking and such failure continues for 60 days after such notice is given.

Any Independent Enforcement Director so appointed will vacate office if, in such Independent Enforcement Director's sole determination: (i) Capital Payments (plus Additional Amounts thereon, if any) on the Class B Preferred Securities have been made on the Class B Preferred Securities at the Stated Rate in full by the Company for two consecutive Capital Payment Periods and (ii) the Bank is in compliance with its obligations under the Support Undertaking.

Upon the occurrence of an Enforcement Event, the Property Trustee will have the right to enforce certain rights of the holders of the Class B Preferred Securities. If the Property Trustee fails to enforce such rights under the Class B Preferred Securities, the holder of record of the Trust Preferred Securities, *i. e.* the Common Depositary, but not an investor in the Trust Preferred Securities, may directly institute legal proceedings against the Company to enforce the Property Trustee's rights under the Class B Preferred Securities without first instituting any legal proceeding against the Property Trustee, the Trust or any other person or entity. See "Description of the Trust Securities – Enforcement Events."

#### **Voting Rights**

Except as expressly required by applicable law, or except as provided for in the Trust Agreement or the LLC Agreement, the holders of the Trust Preferred Securities will not be entitled to vote on the affairs of the Trust or the Company. So long as the Trust holds any Class B Preferred Securities, the holders of the Trust Preferred Securities will have the right to direct the Property Trustee to enforce the voting rights attributable to such Class B Preferred Securities. The holders of the Trust Preferred Securities may waive these voting rights by written notice to the Property Trustee and in accordance with applicable laws. For more information, see "Description of the Trust Securities – Voting and Enforcement Rights."

The Class B Preferred Securities will have no voting rights except as expressly required by applicable law or except as indicated in the LLC Agreement. For more information, see "Description of the Company Securities – Class B Preferred Securities – Voting and Enforcement Rights."

#### **Listing**

Application has been made to list the Trust Preferred Securities on the Official List of the Luxembourg Stock Exchange.

#### **Clearing and Settlement**

Delivery of the Trust Preferred Securities will be made on or about June 14, 2007 to the Common Depositary. The Trust Preferred Securities will be delivered to investors, in book-entry form, against payment on the second business day following the Issue Date. Payment and delivery will be effected through the facilities of Euroclear and Clearstream. See "Description of the Trust Securities – Form, Book-Entry Procedures and Transfer."

#### **Principal Paying Agent**

Deutsche Bank AG, Frankfurt am Main

#### **Calculation Agent**

Deutsche Bank AG, Frankfurt am Main

#### **Quotation Agent**

Deutsche Bank AG, Frankfurt am Main

**Notices** For so long as the Trust Preferred Securities are listed on the Official List of the Luxembourg Stock Exchange, all notices concerning the Trust Preferred Securities will be published in a daily newspaper having general circulation in Luxembourg.

**Governing Law** The LLC Agreement, including the terms of the Class A Preferred Security and the Class B Preferred Securities, and the Trust Agreement, including the terms of the Trust Securities, will be governed by Delaware law. The Support Undertaking will be governed by the laws of the Federal Republic of Germany.

#### **Summary of the Terms of the Class A Preferred Security**

**Class A Preferred Security** The Company expects the Class A Preferred Security to receive capital payments only to the extent that (i) Capital Payments are not permitted to be paid on the Class B Preferred Securities in full on any Capital Payment Date due to insufficient Distributable Profits of the Bank or an order of the BaFin (or any other relevant regulatory authority) prohibiting the Bank from making any distributions of profits (including to the holders of Parity Securities, if any), and (ii) the Company has sufficient Operating Profits.

#### **Summary of the Terms of the Company Common Security**

**Company Common Security** Capital Payments may be declared and paid on the Company Common Security only if all Capital Payments on the Class B Preferred Securities, if any, in respect of the relevant Capital Payment Period have been declared and paid.

#### **Summary of the Terms of the Initial Debt Securities**

**Issuer** Hypo Real Estate Bank International AG.

**Maturity Date** June 14, 2037.

**Principal Amount** € 350,076,000, equal to the gross proceeds from the offer and sale of the Trust Securities and the resulting issuance of the Class B Preferred Securities plus the aggregate amounts contributed by the Bank for the Class A Preferred Security and the Company Common Security (as the same may be reduced by redemptions from time to time, the "*Principal Amount*").

**Interest Payments** Interest will accrue on the Principal Amount of the Initial Debt Securities as follows:

- for each Interest Payment Period ending prior to the Reset Date, at the Fixed Rate, payable annually in arrears on each Fixed Rate Payment Date, and
- for each Interest Payment Period commencing on or after the Reset Date, at the Floating Rate, payable quarterly in arrears on each Floating Rate Payment Date.

For each Interest Payment Period ending prior to the Reset Date, interest will be calculated on the basis of the actual number of days elapsed, divided by the actual number of days (365 or 366) in the relevant Interest Payment Period. For each Interest Payment Period beginning on or after the Reset Date, interest will be calculated on the basis of the actual number of days elapsed in a 360-day year.

The rate of interest payable on the Initial Debt Securities will be at least equal to the rate at which Capital Payments will accrue on the Class B Preferred Securities and the Trust Preferred Securities.

**Payment of Additional Amounts**

Payment of interest on the Initial Debt Securities and any repayment upon redemption thereof will be made without deduction or withholding for Withholding Taxes imposed by the Federal Republic of Germany or any political subdivision thereof or any other jurisdiction from which such payment is made unless such deduction or withholding is required by law. In such event, the Bank will pay as additional interest such amounts ("**Additional Interest Amounts**") as may be necessary in order that the net amounts received by the Company, after such withholding or deduction, will equal the amounts that would have been received had no such withholding or deduction been required; *provided*, that the obligation of the Bank (or the Bank as guarantor) to pay the Additional Interest Amounts will not apply:

- with respect to any amounts of Withholding Taxes that are payable by reason of the holder of the Initial Debt Securities having some connection with any Relevant Jurisdiction other than by reason only of the mere holding of the Initial Debt Securities;
- with respect to any amounts of Withholding Taxes if such deduction or withholding is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- with respect to any amounts of Withholding Taxes imposed on account of any inheritance, thrift, estate, personal property, sales or transfer taxes, or on account of any taxes that are payable otherwise than by withholding from payments in respect of the Initial Debt Securities.

**Ranking**

The obligations under the Initial Debt Securities will constitute direct, unconditional, unsecured and subordinated obligations of the Bank. In the event of dissolution, liquidation, bankruptcy, composition or other proceedings for the avoidance of bankruptcy of, or against, the Bank such obligations will be subordinated to the claims of all unsubordinated creditors of the Bank so that in any event no amounts shall be payable under such obligations until the claims of all unsubordinated creditors of the Bank shall have been satisfied in full.

**Redemption**

The Initial Debt Securities will not be redeemable prior to June 14, 2017 (the "**Initial Debt Redemption Date**"), except upon the occurrence of a Company Special Redemption Event (and the redemption of the Class B Preferred Securities) at a redemption price equal to:

- the Principal Amount of the Initial Debt Securities in the case of a Gross-up Event or
- upon the occurrence of any other Company Special Redemption Event, at the greater of
  - the Principal Amount of the Initial Debt Securities or
  - the Debt Make-Whole Amount,plus, in each case, any accrued and unpaid interest, plus Additional Interest Amounts, if any.

Exercise by the Bank of such redemption right is conditioned upon replacement of the Principal Amount to be redeemed by paying in other, at least equivalent own funds (*haftendes Eigenkapital*) within the meaning of the Ger-

man Banking Act (*Kreditwesengesetz*), or prior approval of the BaFin of such early redemption. Except as set forth under “– Substitution” below, the Initial Debt Securities may not be redeemed for any reason prior to maturity (except upon the occurrence of a Company Special Redemption Event) unless the Company has the right to, and has given notice that it will, redeem the Class B Preferred Securities in an amount equal to the Principal Amount of the Initial Debt Securities plus any accrued and unpaid interest up to, but excluding, the Debt Redemption Date, plus Additional Interest Amounts, if any. See “Description of the Initial Debt Securities.”

**Substitution**

At any time, the Bank will have the right to (i) substitute as obligor of the Debt Securities a Qualified Subsidiary, or (ii) replace the Debt Securities with Substitute Debt Securities issued by the Bank (including on behalf of a branch other than a U.S. branch) or by a Qualified Subsidiary (including on behalf of a branch other than a U.S. branch), in each case, with identical terms to those of the Initial Debt Securities; *provided*, in each case, that (a) such substitution or replacement does not result in a Company Special Redemption Event, (b) the Bank (if it is not itself the substitute obligor) guarantees on a subordinated basis the obligations of any such Qualified Subsidiary, and (c) for this purpose, a Qualified Subsidiary does not include a subsidiary organized under the laws of the United States of America or any of its states.

**Reinvestment**

The LLC Agreement provides that after the Maturity Date, if the Class B Preferred Securities have not been redeemed, the Company will invest in debt obligations of one or more Qualified Subsidiaries, unconditionally guaranteed by the Bank on a subordinated basis or in U.S. Treasury securities (together, “**Permitted Investments**”); *provided*, in each case, that such investment does not result in a Company Special Redemption Event.

**Governing Law**

The Initial Debt Securities will be governed by the laws of the Federal Republic of Germany.

## **SUMMARY IN RESPECT OF RISK FACTORS**

### **Risk Factors related to the Offering**

#### **Risks associated with the financial condition of the Bank and its affiliates**

There can be no assurances that the Bank will have sufficient Distributable Profits for the Company (and the Trust) to declare and pay Capital Payments at the Stated Rate in full. In case of an insolvency of the Bank, the Company will not have sufficient assets to pay the Liquidation Preference Amount, and holders of the Trust Preferred Securities may lose all or part of their investment.

#### **No Guaranteed Capital Payments**

The declaration of Capital Payments by the Company on the Class B Preferred Securities (and, accordingly, the payment of Capital Payments on the Trust Preferred Securities by the Trust) is limited by the terms of the LLC Agreement. The Board of Directors of the Company has discretion in declaring and making Capital Payments, except with respect to deemed declarations which are mandatory.

Even if the Bank has sufficient Distributable Profits and the Company has sufficient Operating Profits or the Company would otherwise be deemed to have declared Capital Payments, the Company will not be permitted to make Capital Payments on the Class B Preferred Securities on any Capital Payment Date if on such date there is in effect an order of the BaFin or any other relevant regulatory authority prohibiting the Bank from making any distributions of profits (including to the holders of Parity Securities, if any). To the extent the Company is not permitted to make Capital Payments on the Class B Preferred Securities on any Capital Payment Date, this will reduce the amount available to the Trust to make Capital Payments on the Trust Preferred Securities.

#### **Non-cumulative Capital Payments**

The right of the holders of the Trust Preferred Securities to receive Capital Payments is non-cumulative.

#### **No voting rights; relationships with the Bank and its affiliates**

The Bank will control the Company through its or a Hypo Real Estate Bank International Group Company's power, as holder of the Company Common Security, to elect a majority of the Board of Directors. Generally, the Trust, to the extent that it is the holder of the Class B Preferred Securities, will have no right to vote to elect members of the Board of Directors.

#### **The Bank is a wholly-owned subsidiary of Hypo Real Estate Holding**

The Bank is a wholly-owned subsidiary of Hypo Real Estate Holding. Accordingly, Hypo Real Estate Holding can adopt any shareholders' resolutions, including those relating to significant restructurings, such as a merger, spin-offs, split-ups, sale of substantially all of the Bank's assets. Hypo Real Estate Holding can also resolve on the liquidation of the Bank. The terms of the Class B Preferred Securities and the Trust Preferred Securities do not contain any provisions that would provide particular protection to the holders of the Trust Preferred Securities in such cases.

## **Special redemption risk**

### ***Redemption upon occurrence of a Company Special Redemption Event***

The Class B Preferred Securities (and, consequently, the Trust Preferred Securities) will be redeemable at any time at the option of the Company, in whole but not in part, upon the occurrence of a Company Special Redemption Event. A Company Special Redemption Event will arise if, as a result of certain changes in law, there are:

- changes in the tax status of the Company or the Trust,
- Additional Amounts or Additional Interest Amounts, as the case may be, become applicable to payments on the Class B Preferred Securities, the Trust Securities or the Debt Securities,
- the Bank is permitted to treat neither the Class B Preferred Securities nor, as the case may be, the Trust Preferred Securities, as Tier I regulatory capital on a consolidated basis, or
- the Company will be considered an “investment company” within the meaning of the 1940 Act.

### ***Liquidation of the Trust upon occurrence of a Trust Special Redemption Event***

If there has occurred a Tax Event, a Gross-up Event or an Investment Company Act Event, each solely with respect to the Trust, then the Trust will be dissolved and liquidated. Upon such dissolution and liquidation of the Trust, each holder of the Trust Preferred Securities will receive as its liquidation distribution a corresponding number of the Class B Preferred Securities. Upon such distribution, the Class B Preferred Securities might never be listed on any securities exchange or eligible for trading through Euroclear or Clearstream. Accordingly, and as a result of the potential tax liability accruing to holders of Class B Preferred Securities received on dissolution and liquidation of the trust, the Class B Preferred Securities may trade at a discount to the price of the Trust Preferred Securities for which they were exchanged.

## **The Support Undertaking is not a guarantee that Capital Payments will be made**

The Bank and the Company have entered into the Support Undertaking for the benefit of the Company and the holders of the Class B Preferred Securities. However, the Support Undertaking does not represent a guarantee (*Garantie*) from the Bank that the Company will be authorized to declare and make a Capital Payment for any Capital Payment Period. The obligations of the Bank under the Support Undertaking rank junior to all indebtedness of the Bank and *pari passu* with amounts payable to the holders of the most senior preference shares of the Bank, if any, that rank senior to the common stock of the Bank as to liquidation rights and with other instruments qualifying as Tier I regulatory capital.

## **No fixed redemption date**

There is no fixed redemption date for the Class B Preferred Securities and, hence, for the Trust Preferred Securities. Neither the Class B Securities nor the Trust Preferred Securities will be redeemable at the option of the holder thereof.

## **Regulatory restrictions on the Company's operations**

The Company is a subsidiary of the Bank. German bank regulatory authorities could make determinations in the future with respect to the Bank that could adversely affect the Company's ability to make Capital Payments in respect of the Class B Preferred Securities.



### **No prior public market**

There was no prior public market for the Trust Preferred Securities. Application has been made to admit the Trust Preferred Securities to trading and official quotation on the Luxembourg Stock Exchange's regulated market. The Trust Preferred Securities may trade at a discount to the price that the investor paid to purchase the Trust Preferred Securities. There can be no assurance that an active secondary market for the Trust Preferred Securities will develop. The liquidity and the market prices for the Trust Preferred Securities can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Bank and other factors that generally influence the secondary market prices of securities. Such fluctuations may significantly affect liquidity and market prices for the Trust Preferred Securities.

### **Risk Factors related to the Trust**

The Trust is a funding vehicle for the Hypo Real Estate Bank International Group. In the event that the Company fails to make a payment under the Class B Preferred Securities and the Bank fails to make a payment under the Support Undertaking, the Trust will not be in a position to meet its payment obligations under the Trust Preferred Securities.

### **Risk Factors related to the Company**

The Company is a funding vehicle for the Hypo Real Estate Bank International Group. In the event that the Bank fails to make a payment under the Debt Securities, the Company will not be in a position to meet its payment obligations under the Class B Preferred Securities and, in turn, unless sufficient payments are made by the Bank under the Support Undertaking, the Trust will not be in a position to meet its payment obligations under the Trust Preferred Securities.

### **Risk Factors related to the Bank**

The business of the Bank and of Hypo Real Estate Bank International Group entails risks that may affect the Bank's ability to fulfill its obligations, at all or in due time. If the Bank's procedures for identifying, monitoring, and managing risks are insufficient or inadequate, it could be exposed to material unanticipated losses that could have a material adverse effect on the Bank's business, results of operations and financial condition. This, in turn, could result in the Bank having insufficient Distributable Profits for the Company to declare and pay Capital Payments on the Class B Preferred Securities, or in the Bank not being able to satisfy its payment obligations to the Company under the Initial Debt Securities or the Support Undertaking.

In particular, the Bank is exposed to the following risks:

- The Bank is subject to credit risk. Credit risk comprises credit rating risk, collateral risk, counterparty risk, and country risk.
- The Bank is exposed to market risk related to potential losses which may be incurred as a result of changes in prices, price differentials, volatility or other parameters in financial markets.
- Furthermore the Bank is exposed to liquidity risk, operational risk and other risks, which comprise in particular business and strategic risk.



## SUMMARY OF HYPO REAL ESTATE ENTITIES

### Summary in respect of Hypo Real Estate Bank International Group

#### **Information about the Bank**

The Bank acts under its legal name "Hypo Real Estate Bank International Aktiengesellschaft". The head office of the Bank is located at Büchsenstraße 26, 70174 Stuttgart, Germany. Its telephone number is +49 711 20 96 0.

The Bank is a stock corporation (*Aktiengesellschaft*) under the laws of the Federal Republic of Germany. It was incorporated on November 28, 1867 with the legal name "Württembergische Hypothekbank Aktiengesellschaft". It was registered in the commercial register (*Handelsregister*) of Stuttgart on January 2, 1868 under No. HRB 103. In the course of a restructuring of Hypo Real Estate Group (which comprises Hypo Real Estate Holding AG together with its direct and indirect consolidated subsidiaries, affiliates and associated companies; together, the "Hypo Real Estate Group") at the end of the year 2005 the extraordinary shareholders' meeting of the Bank decided on December 16, 2005 to change the legal name of the Bank from "Württembergische Hypothekbank Aktiengesellschaft" to "Hypo Real Estate Bank International Aktiengesellschaft". The change became effective with the registration in the commercial register (*Handelsregister*) on January 2, 2006.

#### **Integration of the Bank into Hypo Real Estate Group**

With the effectiveness of a squeeze-out on July 21, 2005, the Bank has been a wholly-owned subsidiary of Hypo Real Estate Holding. As at the date of this Prospectus, Hypo Real Estate Group consists of the parent company Hypo Real Estate Holding and three independent subsidiary banks (and their subsidiaries, affiliates and associated companies):

- Hypo Real Estate Holding is a strategic and financial holding company which does not have any banking operations itself. Hypo Real Estate Holding is responsible for the business policy and the strategic management of Hypo Real Estate Group. All corporate centre functions relating to the group as a whole are concentrated in the holding company. This includes central active portfolio management and the pooling of risk strategy and risk management activities.
- The Bank conducts Hypo Real Estate Group's international real estate finance activities.
- Hypo Public Finance Bank, Dublin ("Hypo Public Finance Bank"), a subsidiary of the Bank, focuses on capital markets activities, public finance, asset-based and infrastructure finance, asset management mainly related to real estate products, and securitization.
- Hypo Real Estate Bank AG, Munich ("Hypo Real Estate Bank Munich"), focuses on the German real estate financing business of Hypo Real Estate Group.

#### **Business overview: Principal markets and activities**

The Bank currently conducts its business in two segments: The segment "Hypo Real Estate International" comprises commercial real estate financing mostly outside Germany, and the segment "Hypo Public Finance Bank" comprises business conducted through the Bank's subsidiary Hypo Public Finance Bank, an Irish domiciled company licensed by the Irish Financial Services Regulatory Authority, including asset finance and asset management.

The focus of the segment "Hypo Real Estate International" is the international real estate lending business. The Bank provides its customers with a comprehensive range of commercial real estate lending products – from classical Pfandbrief-based mortgages to large-volume investment banking products. Among other things, the offering comprises construction loans, term loans, senior and junior investment loans, mezzanine loans, letters of credit and guarantee structures, equity bridge loans, VAT bridge loans, PropCo/OpCo structures, acquisition bridge financing, committed take-out facilities, CMBS/RMBS origination and investment, and Shari'a-based finance.

The segment “Hypo Real Estate International” has a network of branches and subsidiaries in Europe, America and Asia. The global network comprises, inter alia, branches or subsidiaries in Hong Kong, France, Italy, Spain, Sweden, the Netherlands, Japan, the U.S.A. and the United Kingdom. The most important property financing markets of the Bank are commercial property markets and markets for large-volume residential properties in the United Kingdom, France and Scandinavia.

In the segment “Hypo Public Finance Bank”, Hypo Public Finance Bank together with its subsidiaries, focuses on activities in the U.S. and Europe, which include capital markets activities, public finance, asset-based and infrastructure finance, asset management mainly related to real estate products, and securitization. Hypo Public Finance Bank’s capital markets and treasury division comprises both credit markets and treasury activities as its core competencies. In addition to existing public finance activities, which includes municipal financing in the U.S., Hypo Public Finance Bank has established and expanded a public finance, asset-based and infrastructure finance platform in Europe and the U.S.

Hypo Public Finance Bank’s client base includes international public bodies, institutional investors, entrepreneurs and corporations. The product range comprises financing products for large volume and sophisticated entities and companies as well as the structuring of investment opportunities in public finance and capital markets instruments in direct or securitised form.

### **Summary in respect of the Company**

The Company is a limited liability company that was formed under the LLC Act on April 17, 2007 pursuant to an initial limited liability company agreement (as subsequently amended and restated, the “**LLC Agreement**”) and the filing of a certificate of formation of the Company with the Secretary of State of the State of Delaware. The location of the principal executive offices of the Company is c/o Deutsche Bank Trust Company Delaware, 1011 Centre Road, Suite 200, Wilmington, Delaware 19805, United States of America.

Pursuant to the LLC Agreement, the Company will issue two classes of preferred securities representing limited liability company interests in the Company, the Class A Preferred Security and the Class B Preferred Securities, and one class of common security representing limited liability company interests in the Company, the Company Common Security. The Property Trustee will initially hold 100 % of the issued and outstanding Class B Preferred Securities. A Hypo Real Estate Bank International Group Company will hold the issued and outstanding Company Common Security and the Class A Preferred Security.

The sole purposes of the Company are:

- to issue the Class A Preferred Security, the Class B Preferred Securities and the Company Common Security,
- to invest the proceeds thereof in the Initial Debt Securities,
- upon any redemption of the Initial Debt Securities prior to the Maturity Date, which does not involve a redemption of the Class B Preferred Securities, to accept Substitute Debt Securities issued by the Bank (including on behalf of a branch other than a U.S. branch) or by a Qualified Subsidiary (other than a U.S. Qualified Subsidiary) (including on behalf of a branch other than a U.S. branch) in replacement for the Initial Debt Securities, so long as any such reinvestment does not result in a Company Special Redemption Event,
- in the event of any default on the Debt Securities, to enforce its rights for payment of any overdue amounts,
- after the Maturity Date, if the Class B Preferred Securities have not been redeemed, to invest in Permitted Investments,
- to enter into and, in certain circumstances, to enforce the Support Undertaking for the sole benefit of the holders of the Class B Preferred Securities, and
- to engage in those other activities necessary or incidental thereto.

The Company may also, from time to time and without the consent of the holders of the Class B Preferred Securities, issue additional Class B Preferred Securities having the same terms and conditions as the Class B Preferred Securities (in all respects except for the issue date, the date from which Capital Payments accrue on the Class B Preferred Securities, the issue price, and any other deviations required for compliance with applicable law) so as to form a single series with the Class B Preferred Securities in consideration for Debt Securities of a principal amount equal to the aggregate liquidation preference amount of such additional Class B Preferred Securities.

### **Summary in respect of the Trust**

The Trust is a statutory trust formed under the Delaware Statutory Trust Act, as amended (the "Trust Act"), pursuant to the declaration of trust executed by the Company, as sponsor, the Property Trustee and the Delaware Trustee, and the filing of a certificate of trust with the Secretary of State of the State of Delaware on April 17, 2007. The location of the principal executive office of the Trust is c/o Deutsche Bank Trust Company Delaware, Hypo Real Estate International Trust I, 1011 Centre Road, Suite 200, Wilmington, Delaware 19805, United States of America, telephone +1 (302) 636-3301.

A Hypo Real Estate Bank International Group Company will be the holder of the Trust Common Security representing a capital contribution in respect thereof equal to € 50,000.

The Trust has been established as a special purpose vehicle. It will use the proceeds derived from the issuance of the Trust Securities to purchase the Class B Preferred Securities from the Company, and, accordingly, the assets of the Trust will consist solely of the Class B Preferred Securities. The Trust exists for the sole purposes of:

- issuing the Trust Securities representing undivided beneficial ownership interests in the Class B Preferred Securities,
- investing the proceeds from the issuance of the Trust Securities in the Class B Preferred Securities, and
- engaging in those other activities necessary or incidental thereto. The Trust may also, from time to time, issue additional Trust Preferred Securities, *provided* it receives from the Company an equal number of additional Class B Preferred Securities.

## **RISK FACTORS**

*An investment in the Trust Preferred Securities involves certain risks. An investor should carefully consider the following discussion, in conjunction with the other information contained in this Prospectus, before deciding whether an investment in the Trust Preferred Securities is suitable.*

### **Risk Factors related to the Offering**

#### **Risks associated with the financial condition of the Bank and its affiliates**

If the financial condition of the Bank or its affiliates were to deteriorate, then it could result in: (i) the Bank having insufficient Distributable Profits for the Company to declare and pay Capital Payments on the Class B Preferred Securities at the Stated Rate in full, or (ii) the Company receiving reduced payments from the Bank under the Initial Debt Securities or the Support Undertaking. This could reduce the amounts received by the Trust in respect of the Class B Preferred Securities, which, in turn, would reduce the amounts available to the Trust for periodic distributions to holders of the Trust Preferred Securities. In addition, if a voluntary or involuntary liquidation, dissolution or winding up of the Bank were to occur, holders of the Trust Preferred Securities may lose part or all of their investment.

#### **The Company is not required to make Capital Payments**

The declaration of Capital Payments by the Company on the Class B Preferred Securities (and, accordingly, the payment of Capital Payments on the Trust Preferred Securities by the Trust) is limited by the terms of the LLC Agreement. Although it is the policy of the Company to distribute the full amount of Operating Profits for each Capital Payment Period as Capital Payments to the holders of the Class B Preferred Securities, if the Bank has sufficient Distributable Profits, the Board of Directors of the Company has discretion in declaring and making Capital Payments. Notwithstanding the foregoing, however, the Company will be deemed to have authorized Capital Payments on the Class B Preferred Securities (and the Board of Directors of the Company shall have no discretion with regard to declaring Capital Payments) under certain circumstances involving payments made in respect of Parity Securities or Junior Securities. See “Description of Company Securities – Class B Preferred Securities – Capital Payments.”

In addition, even if the Bank has sufficient Distributable Profits and the Company has sufficient Operating Profits, the Company will not be permitted to make Capital Payments on the Class B Preferred Securities on any Capital Payment Date if on such date there is in effect an order of the BaFin or any other relevant regulatory authority prohibiting the Bank from making any distributions of profits (including to the holders of Parity Securities, if any). To the extent the Company is not permitted to make Capital Payments on the Class B Preferred Securities on any Capital Payment Date, this will reduce the amount available to the Trust to make Capital Payments on the Trust Preferred Securities. See “Description of the Company Securities – Class B Preferred Securities – Capital Payments” and “Description of the Trust Securities.”

#### **Capital Payments are non-cumulative**

The right of the holders of the Trust Preferred Securities to receive Capital Payments is non-cumulative. Accordingly, if the Trust does not have funds available for payment of a Capital Payment in respect of any Capital Payment Period, the holders of the Trust Preferred Securities will have no right to receive a Capital Payment in respect of such Capital Payment Period, and the Trust will have no obligation to pay a Capital Payment in respect of such Capital Payment Period, whether or not Capital Payments are paid in respect of any future Capital Payment Period.

## **The Bank is a wholly-owned subsidiary of Hypo Real Estate Holding**

The Bank is a wholly-owned subsidiary of Hypo Real Estate Holding. Accordingly, Hypo Real Estate Holding can adopt any shareholders' resolutions, including those relating to significant restructurings, such as a merger, spin-offs, split-ups, sale of substantially all of the Bank's assets. Hypo Real Estate Holding can also resolve on the liquidation of the Bank. The terms of the Class B Preferred Securities and the Trust Preferred Securities do not contain any provisions that would provide particular protection to the holders of the Trust Preferred Securities in such cases.

## **No voting rights; relationships with the Bank and its affiliates; certain conflicts of interest**

Either the Bank or a Hypo Real Estate Bank International Group Company will be the holder of the Company Common Security. Accordingly, the Bank will control the Company through its or a Hypo Real Estate Bank International Group Company's power to elect a majority of the Board of Directors. Generally, the Trust, to the extent that it is the holder of the Class B Preferred Securities, will have no right to vote to elect members of the Board of Directors. The only exception is that it will have the right to elect one independent member to the Board of Directors, the Independent Enforcement Director, upon the occurrence of any event causing a liquidation or dissolution of the Company or if (i) the Company fails to make Capital Payments (and any Additional Amounts thereon) on the Class B Preferred Securities at the Stated Rate in full as and when due for two consecutive Capital Payment Periods, or (ii) a holder of the Class B Preferred Securities has notified the Company that the Bank has failed to perform any obligation under the Support Undertaking and such failure continues for 60 days after such notice is given.

## **Special redemption risk**

### ***Redemption upon occurrence of a Company Special Redemption Event***

The Class B Preferred Securities (and, consequently, the Trust Preferred Securities) will be redeemable at any time at the option of the Company, in whole but not in part, upon the occurrence of a Company Special Redemption Event. Any such redemption will be (i) at the Redemption Price, in the case of a Gross-up Event or (ii) upon the occurrence of any other Company Special Redemption Event, the Early Redemption Price, plus, in each case, Additional Amounts, if any. A Company Special Redemption Event will arise if, as a result of certain changes in law, there are:

- changes in the tax status of the Company or the Trust,
- Additional Amounts or Additional Interest Amounts, as the case may be, become applicable to payments on the Class B Preferred Securities, the Trust Securities or the Debt Securities,
- the Bank is permitted to treat neither the Class B Preferred Securities nor, as the case may be, the Trust Preferred Securities, as Tier I regulatory capital on a consolidated basis or
- the Company will be considered an "investment company" within the meaning of the 1940 Act.

See "Description of the Trust Securities – Redemption."

### ***Liquidation of the Trust upon occurrence of a Trust Special Redemption Event***

If there has occurred a Tax Event, a Gross-up Event or an Investment Company Act Event, each solely with respect to the Trust, then the Trust will be dissolved and liquidated. Upon such dissolution and liquidation of the Trust, each holder of the Trust Preferred Securities will receive as its liquidation distribution a corresponding number of the Class B Preferred Securities. Upon such distribution, the Class B Preferred Securities might never be listed on any securities exchange or eligible for trading through Euroclear or Clearstream, and holders of the Class B Preferred Securities and their nominees would become subject to Form K-1 and nominee reporting requirements under the Code. The Company will report to the IRS on Form/Schedule K-1, the *pro rata* share in the Company's income, gain, loss, deduction or credit of each holder of the Class B Preferred Securities for the then prior calendar year, and potential tax liability will thereby accrue to holders of the Class B Preferred Securities.

ties received upon dissolution and liquidation of the Trust. Accordingly, the Class B Preferred Securities, which an investor may subsequently receive on dissolution and liquidation of the Trust, may trade at a discount to the price of the Trust Preferred Securities for which they were exchanged.

### **The Support Undertaking is not a guarantee that Capital Payments will be made**

The Bank and the Company have entered into the Support Undertaking for the benefit of the Company and the holders of the Class B Preferred Securities. However, the Support Undertaking does not represent a guarantee (*Garantie*) from the Bank that the Company will be authorized to declare and make a Capital Payment for any Capital Payment Period. Furthermore, the obligations of the Bank under the Support Undertaking rank junior to all indebtedness of the Bank with the effect that, if the Bank (and therefore the Company) were liquidated, holders of the Trust Preferred Securities would have the right to receive, if any, payments equal to the Liquidation Preference Amount, plus any accrued and unpaid Capital Payments for the then current Capital Payment Period to, but excluding, the date of liquidation, and Additional Amounts, if any, pursuant to the Support Undertaking *pari passu* with amounts payable to the holders of the most senior preference shares of the Bank, if any, and other instruments qualifying as Tier I regulatory capital. See “Description of the Support Undertaking.”

### **No prior public market**

There was no prior public market for the Trust Preferred Securities. Application has been made to admit the Trust Preferred Securities to trading and official quotation on the Luxembourg Stock Exchange’s regulated market. The Trust Preferred Securities may trade at a discount to the price that the investor paid to purchase the Trust Preferred Securities. There can be no assurance that an active secondary market for the Trust Preferred Securities will develop. The liquidity and the market prices for the Trust Preferred Securities can be expected to vary with changes in market and economic conditions, the financial condition and prospects of the Bank and other factors that generally influence the secondary market prices of securities. Such fluctuations may significantly affect liquidity and market prices for the Trust Preferred Securities.

### **Regulatory restrictions on the Company’s operations**

The Company is a subsidiary of the Bank. German bank regulatory authorities could make determinations in the future with respect to the Bank that could adversely affect the Company’s ability to make Capital Payments in respect of the Class B Preferred Securities. In addition, German and European Union regulatory authorities and regulatory authorities in other countries have regulatory authority over the Bank and/or the Bank’s subsidiaries. Under certain circumstances, any of such regulatory authorities could make determinations or take decisions in the future with respect to the Bank and/or any of the Bank’s subsidiaries or a portion of their respective operations or assets that could adversely affect the ability of any of them to, among other things, make distributions to their respective securityholders, engage in transactions with affiliates, purchase or transfer assets, pay their respective obligations or make any redemption or liquidation payments to their securityholders.

### **No fixed maturity date**

There is no fixed maturity date for the Class B Preferred Securities and, hence, for the Trust Preferred Securities. Neither the Class B Securities nor the Trust Preferred Securities will be redeemable at the option of the holder thereof. Even though the Class B Preferred Securities and the Trust Preferred Securities may be redeemed on the Initial Redemption Date, there can be no assurance that the Company will opt to redeem the Class B Preferred Securities on the Initial Redemption Date.



Whether or not the Company decides to redeem the Class B Preferred Securities will depend on a number of factors (most of which are outside the control of the Bank and the Company) including, for example:

- the regulatory capital position/requirements and the refinancing options of the Bank at such time;
- the regulatory assessment of the Class B Preferred Securities, the Debt Securities and/or the Trust Preferred Securities;
- whether the required prior consent of the BaFin has been obtained; and
- the interest rate and credit spread environment for hybrid capital instruments and general capital market conditions.

### **Risk Factors related to the Bank**

The business of the Bank and of Hypo Real Estate Bank International Group entails risks that may affect the Bank's ability to fulfill its obligations, at all or in due time. If the Bank's procedures for identifying, monitoring, and managing risks are insufficient or inadequate, it could be exposed to material unanticipated losses that could have a material adverse effect on the Bank's business, results of operations and financial condition. This, in turn, could result in the Bank having insufficient Distributable Profits for the Company to declare and pay Capital Payments on the Class B Preferred Securities, or in the Bank not being able to satisfy its payment obligations to the Company under the Initial Debt Securities or the Support Undertaking.

These risks relate to:

#### **Credit Risk**

Credit risks are losses from bad debts or from the deterioration of customers' credit ratings. Credit risks comprise credit rating risk, collateral risk, counterparty risk and country risk.

Credit rating risk refers to the fact that the rating applied to a counterparty, e.g. a mortgage borrower, which indicates its ability to fulfill timely payment of principal and interest, may deteriorate due to borrower-specific circumstances. In addition to the credit rating risk, the credit risk in the property financing business includes the collateral risk, which is attributable to the deterioration of the value of collateral, due to property specific reasons, market conditions or otherwise.

Counterparty risk refers to the risk of losses or a profit not realized as a result of non-payment by a business partner or a deterioration in its creditworthiness. With respect to the Bank possible losses may especially arise from interest rate and foreign currency derivative and forward transactions. Most of these transactions are carried out as hedge positions as part of asset/liability management. Credit risk with derivative, security and money market transactions exist with credit institutions, central banks and supranational institutions whose credit standing is regarded as above average on the basis of the assessment by external rating agencies and also according to internally-used rating procedures.

Country risk refers to the risk of possible transfer and conversion restrictions encountered with counterparties domiciled abroad. The country risk materializes when a borrower who is able and willing to pay cannot meet its payment obligations as a result of governmental currency or transfer restrictions. The location of the property securities is also important in this respect.

#### **Market Risk**

Market risk relates to potential losses which may be incurred as a result of changes in prices, price differentials, volatility or other parameters in financial markets.

## **Liquidity Risk**

Liquidity risk encompasses: (i) short-term liquidity risk which refers to the risk of insufficient liquidity for the performance of day-to-day payment obligations; (ii) structural liquidity risk which refers to the risk arising from an imbalance in the medium and long-term liquidity structure; and (iii) market liquidity risk which refers to the risk of insufficient liquidity in financial instruments, with the consequence that positions can be closed out only, if at all, at a significant loss.

## **Operational Risk**

Operational risk mainly results from inadequate or failed internal processes and systems, human failure or external events. Legal risks are also part of the operational risk.

## **Other Risks**

The Bank is also exposed to business and strategic risk. Business risk refers to a rapid and substantial decline in business opportunities with a corresponding decline in revenues. The business risk is related to the fact that the Bank's origination unit may not be able to provide a steady flow of new business. The commercial real estate lending business is subject to intense competition, while the number of financing transactions in any given year is limited. Furthermore, the Bank might stop its lending activities if it concludes that the financing terms in a particular market do not adequately reflect the risks. Strategic risk relates to the risk of incorrectly assessing main developments and trends in the Bank's main business areas.

In addition, the Bank assumes risks from Hypo Public Finance Bank, as the addressee of a guarantee agreement. Thus, risks of Hypo Public Finance Bank become risks of the Bank.

For a more detailed description of risk factors and related measures, please refer to the Risk Report contained in the Consolidated Financial Information 2006 (pages F-1 to F-14) and in the Interim Consolidated Financial Information March 2007 (pages J-1 to J-3, see Section "Incorporation by Reference").

### **Risk Factors related to the Trust**

The Trust is a funding vehicle for the Hypo Real Estate Bank International Group and has been established solely for the purpose of issuing the Trust Preferred Securities and the Trust Common Security and investing the proceeds from the issue in the Class B Preferred Securities, which are expected to constitute the sole assets of the Trust. In the event that the Company fails to make a payment under the Class B Preferred Securities and the Bank fails to make a payment under the Support Undertaking, the Trust will not be in a position to meet its payment obligations under the Trust Preferred Securities.

### **Risk Factors related to the Company**

The Company is a funding vehicle for the Hypo Real Estate Bank International Group and has been established solely for the purpose of issuing the Company Securities and investing the proceeds from the issue of the Class B Preferred Securities in the Initial Debt Securities, which are expected to constitute the sole assets of the Company. In the event that the Bank fails to make a payment under the Debt Securities, the Company will not be in a position to meet its payment obligations under the Class B Preferred Securities and, in turn, unless sufficient payments are made by the Bank under the Support Undertaking, the Trust will not be in a position to meet its payment obligations under the Trust Preferred Securities.



## DISTRIBUTABLE PROFITS OF THE BANK

The Company's authority to declare Capital Payments on the Class B Preferred Securities for any Capital Payment Period depends, among other things, on the Distributable Profits of the Bank for the preceding fiscal year.

The Bank is party to a profit-and-loss pooling agreement with its parent company, Hypo Real Estate Holding. The profit-and-loss pooling agreement is a requirement, among others, to establish a fiscal unity between the Bank and its parent company. Under the profit-and-loss pooling agreement, the Bank is required to transfer in full its surplus for any fiscal year during the term of the profit-and-loss pooling agreement, minus allocations to legal reserves (*gesetzliche Rücklage*), if any, plus transfers from earnings reserves established during the term of the profit-and-loss pooling agreement, which is herein referred to as the Transferred Profit. In return, Hypo Real Estate Holding is required under the profit-and-loss pooling agreement to compensate in full the annual loss, if any, of the Bank in any fiscal year to the extent not offset by any transfers from earnings reserves. The profit-and-loss pooling agreement has a fixed term until December 31, 2008 and is extended for one-year periods unless terminated with a six-month notice. It can be terminated at any time for important cause.

For as long as the profit-and-loss pooling agreement is in effect, the Distributable Profits of the Bank that determine whether or not the Company is permitted to make Capital Payments is defined as the Transferred Profit for any fiscal year as shown in the audited unconsolidated profit and loss statement of the Bank, if any, plus transfers from earnings reserves not subject to the profit-and-loss pooling agreement.

The following table sets forth, as of December 31, 2006 and 2005, the items derived from the Bank's audited unconsolidated balance sheet (on the basis of German GAAP) that affect the calculation of the Bank's Distributable Profits.

**The financial information presented in the following table is not indicative of the Bank's Distributable Profits, retained earnings and capital reserves in the future.**

	Year Ended December 31,	
	2005	2006
	(€ in millions)	
Transferred Profit . . . . .	68.88	283.28
Other earnings reserves. . . . .	216.26	216.26
Capital reserves and statutory reserve available to offset a loss . . . . .	472.43	2,037.24

## DESCRIPTION OF THE TRUST SECURITIES

*The Trust Securities will be issued pursuant to the terms of the Trust Agreement. The following summary sets forth the material terms and provisions of the Trust Securities. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the terms and provisions of the Trust Agreement and the Trust Act.*

### General

The Trust Securities will be issued in fully registered form without coupons, in denominations of € 50,000 Liquidation Preference Amount. The Trust Securities will not be issued in bearer form.

The Trust Agreement authorizes the Regular Trustees of the Trust to issue the Trust Securities, which represent undivided beneficial ownership interests in the assets of the Trust, which consist solely of Class B Preferred Securities. Title to the Class B Preferred Securities will be held by the Property Trustee for the benefit of the holders and beneficial owners of the Trust Securities. The Trust Agreement does not permit the Trust to acquire any assets other than the Class B Preferred Securities, issue any securities other than the Trust Securities or incur any indebtedness. However, the Company may, from time to time and without the consent of the Trust as the holder of the Class B Preferred Securities, issue additional Class B Preferred Securities having the same terms as the Class B Preferred Securities so as to form a single series with the Class B Preferred Securities (in all respects except for the issue date, the date as of which Capital Payments accrue on the Class B Preferred Securities, the issue price, and any other deviations required for compliance with applicable law). Accordingly, the Trust may also, from time to time and without the consent of the holders of the Trust Preferred Securities, issue additional Trust Preferred Securities having the same terms and conditions as the Trust Preferred Securities (in all respects except for the issue date, the date as of which Capital Payments accrue on the Trust Preferred Securities, the issue price, and any other deviations required for compliance with applicable law) so as to form a single series with the Trust Preferred Securities in consideration for receipt of additional Class B Preferred Securities equal to the aggregate Liquidation Preference Amount of such Trust Preferred Securities.

### Capital Payments

Subject to the terms of the Trust Agreement, Capital Payments will accrue on the Liquidation Preference Amount of each Trust Preferred Security

- for each Capital Payment Period ending prior to the Reset Date, at the Fixed Rate, payable annually in arrears on each Fixed Rate Payment Date and
- for each Capital Payment Period commencing on or after the Reset Date, at the Floating Rate, payable quarterly in arrears on each Floating Rate Payment Date.

For each Capital Payment Period ending prior to the Reset Date, Capital Payments will be calculated on the basis of the actual number of days elapsed, divided by the actual number of days (365 or 366) in the relevant Capital Payment Period. For each Capital Payment Period beginning on or after the Reset Date, Capital Payments will be calculated on the basis of the actual number of days elapsed in a 360-day year.

If any Capital Payment Date or any Redemption Date that occurs on or before the Reset Date falls on a day that is not a Business Day, the relevant payment will be payable on the first following Business Day without adjustment, interest or further payment as a result thereof. If any Capital Payment Date or any Redemption Date that occurs after the Reset Date falls on a day that is not a Business Day, such Capital Payment Date or Redemption Date shall be postponed to the next succeeding Business Day, unless it would thereby fall into the next calendar month, in which case such Capital Payment Date or Redemption Date shall be the immediately preceding Business Day.

For so long as the Trust Preferred Securities are listed on the Official List of the Luxembourg Stock Exchange, the Luxembourg Stock Exchange will be notified no later than the first day of each Capital

Payment Period, of the rate at which Capital Payments will accrue on the Trust Preferred Securities during such Capital Payment Period, of the beginning and ending dates of the relevant Capital Payment Period and the relevant Capital Payment Date.

Capital Payments on the Trust Preferred Securities are expected to be paid out of Capital Payments received by the Trust with respect to the Class B Preferred Securities. See “Description of the Company Securities – Class B Preferred Securities – Capital Payments.” If the Company does not declare (and is not deemed to have declared) a Capital Payment on the Class B Preferred Securities in respect of any Capital Payment Period, holders of the Class B Preferred Securities will have no right to receive a Capital Payment on the Class B Preferred Securities in respect of such Capital Payment Period, and the Company will have no obligation to pay a Capital Payment on the Class B Preferred Securities in respect of such Capital Payment Period, whether or not Capital Payments are declared (or deemed to be declared) and paid on the Class B Preferred Securities in respect of any future Capital Payment Period. In such a case, no Capital Payments will be made on the Trust Preferred Securities in respect of such Capital Payment Period.

Each declared Capital Payment will be payable to the holders of record of the Trust Preferred Securities as they appear on the books and records of the Trust at the close of business on the corresponding record date. The holder of record will be the Common Depositary, in whose name the Global Certificates will be registered. See “Form, Book-Entry Procedures and Transfer.” The record dates for the Trust Preferred Securities will be (i) so long as the Trust Preferred Securities remain in book-entry form, one Business Day prior to the relevant Capital Payment Date, and (ii) in all other cases, 15 calendar days prior to the relevant Capital Payment Date.

Such Capital Payments will be paid through the Property Trustee who will hold amounts received in respect of the Class B Preferred Securities in the Property Account for the benefit of the holders of the Trust Preferred Securities, subject to any applicable laws and regulations and the provisions of the Trust Agreement.

The right of the holders of the Trust Preferred Securities to receive Capital Payments is non-cumulative. Accordingly, if the Trust does not have funds available for payment of a Capital Payment in respect of any Capital Payment Period, the holders will have no right to receive a Capital Payment in respect of such Capital Payment Period, and the Trust will have no obligation to pay a Capital Payment in respect of such Capital Payment Period, whether or not Capital Payments are paid in respect of any future Capital Payment Period.

Except as described under “– Subordination of Trust Common Security” below, all Capital Payments and other payments to holders of the Trust Securities will be distributed among holders of record *pro rata*, based on the proportion that the aggregate liquidation amount of the Trust Securities held by each holder bears to the aggregate liquidation amount of all Trust Securities.

### **Payments of Additional Amounts**

All payments on the Trust Preferred Securities by the Trust (including any amount payable in liquidation or upon redemption thereof) will be made without deduction or withholding for or on account of Withholding Taxes unless such deduction or withholding is required by law. In such event, the Trust will pay, as additional Capital Payments, such Additional Amounts as may be necessary in order that the net amounts received by the holders of the Trust Preferred Securities will equal the amounts that otherwise would have been received had no such deduction or withholding been required. However, no such Additional Amounts will be payable in respect of the Trust Preferred Securities:

- if and to the extent that the Company is unable to pay corresponding amounts in respect of the Class B Preferred Securities because such payment would exceed the Distributable Profits of the Bank for the preceding fiscal year (after subtracting from such Distributable Profits the amount of the Capital Payments on the Class B Preferred Securities and, to the extent not yet reflected in the calculation of Distributable Profits, capital payments, dividends or other distributions on Parity Securities, if any, already paid on the basis of such Distributable Profits on or prior to the date on which such Additional Amounts will be payable);

- with respect to any amounts of Withholding Taxes that are payable by reason of the holder or beneficial owner of the Trust Preferred Securities having some connection with any Relevant Jurisdiction other than by reason only of the mere holding of the Trust Preferred Securities;
- with respect to any amounts of Withholding Taxes if such deduction or withholding is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;
- with respect to any amounts of Withholding Taxes imposed on account of any inheritance, thrift, estate, personal property, sales or transfer taxes, or on account of any taxes that are payable otherwise than by withholding from payments in respect of the Trust Preferred Securities;
- with respect to any amounts of Withholding Taxes that can be avoided or reduced if the holder or beneficial owner of the Trust Preferred Securities makes a declaration of non-residence or other similar claim for exemption to the relevant tax authority or complies with any reasonable certification, documentation, information or other reporting requirement imposed by the relevant tax authority; *provided*, however, that the exclusion set forth in this clause shall not apply in respect of any certification, information, documentation or other reporting requirement if such requirement would be materially more onerous, in form, in procedure or in the substance of information disclosed, to the holder or beneficial owner of Trust Preferred Securities than comparable information or other reporting requirements imposed under U.S. tax law, regulation and administrative practice (such as IRS Forms 1001, W-8 and W-9);
- if presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the Trust Preferred Securities to another paying agent in a Member State in the EU; or
- with respect to any amounts of Withholding Taxes that would not have been so imposed if the holder of the Trust Preferred Securities would have presented the relevant Trust Preferred Securities for payment within 30 days of the date that payment was due or became available for payment, except to the extent that such holder would have been entitled to such Additional Amounts on presenting such Trust Preferred Securities for payment on the last day of such period of 30 days.

### **Enforcement Events**

If, at any time, any of the following occurs (each, an “**Enforcement Event**”):

- non-payment of Capital Payments (plus Additional Amounts thereon, if any) on the Trust Preferred Securities or the Class B Preferred Securities at the Stated Rate in full as and when due, for two consecutive Capital Payment Periods; or
- a default by the Bank in respect of any of its obligations under the Support Undertaking,

then the Property Trustee will have the right to enforce its rights as holder of the Class B Preferred Securities, for the benefit of the holders of the Trust Securities, including:

- claims to receive Capital Payments (only if and to the extent declared or deemed to have been declared) (plus Additional Amounts thereon, if any) on the Class B Preferred Securities;
- appointment of an Independent Enforcement Director (to the extent that such Enforcement Event results from non-payment of Capital Payments on the Class B Preferred Securities for two consecutive Capital Payment Periods or the continuation of a failure by the Bank to perform any obligation under the Support Undertaking for a period of 60 days after notice thereof has been given to the Company by the Property Trustee or any holder of the Trust Preferred Securities or any holder of the Class B Preferred Securities); and
- assertion of the rights under the Support Undertaking as it relates thereto.

Pursuant to the Trust Agreement, the holder of the Trust Common Security will be deemed to have waived any Enforcement Event with respect to the Trust Common Security until all Enforcement

Events with respect to the Trust Preferred Securities have been cured, waived or otherwise eliminated. Until such Enforcement Events with respect to the Trust Preferred Securities have been so cured, waived or otherwise eliminated, the Property Trustee will be deemed to be acting solely on behalf of the holders of the Trust Preferred Securities and only the holders of the Trust Preferred Securities will have the right to direct the Property Trustee with respect to certain matters under the Trust Agreement. In the event of an Enforcement Event described in either of the first two bullet points above, holders of a majority in liquidation preference amount of the Class B Preferred Securities will have the right to appoint an Independent Enforcement Director. See “Description of the Company Securities – Class B Preferred Securities – Voting and Enforcement Rights.”

If the Property Trustee fails to enforce its rights under the Class B Preferred Securities after a holder of record of the Trust Preferred Securities has made a written request, such holder of record of the Trust Preferred Securities may directly institute a legal proceeding against the Company to enforce the Property Trustee’s rights under the Class B Preferred Securities without first instituting any legal proceeding against the Property Trustee, the Trust or any other person or entity.

### **Redemption**

If the Company redeems the Class B Preferred Securities, the Trust must redeem the Trust Preferred Securities. The Class B Preferred Securities are redeemable at the option of the Company, in whole but not in part, on any Capital Payment Date falling on or after the Initial Redemption Date at the Redemption Price plus Additional Amounts, if any. The Company will also have the right at any time to redeem the Class B Preferred Securities, in whole but not in part, upon the occurrence of a Company Special Redemption Event (i) at the Redemption Price, in the case of a Gross-up Event or (ii) upon the occurrence of any other Company Special Redemption Event, the Early Redemption Price, *plus*, in each case, Additional Amounts, if any.

The Company may exercise its right to redeem the Class B Preferred Securities only if it has:

- given at least 30 days’ prior notice (or such longer period as required by the relevant regulatory authorities) to the holders of the Class B Preferred Securities of its intention to redeem the Class B Preferred Securities on the Redemption Date,
- simultaneously therewith received notice from the issuer of the Debt Securities of the redemption of an aggregate principal amount of Debt Securities equivalent to the aggregate liquidation preference amount of the Class B Preferred Securities, and
- obtained any required regulatory approvals.

The Trust Agreement will provide that the Property Trustee will promptly give notice to the holders of the Trust Securities of the Company’s intention to redeem the Class B Preferred Securities on the Redemption Date.

The Class B Preferred Securities and the Trust Preferred Securities will not have any scheduled maturity date and will not be redeemable at any time at the option of the holders thereof.

Upon any redemption of the Class B Preferred Securities, the proceeds of such redemption will simultaneously be applied to redeem the Trust Preferred Securities. All Class B Preferred Securities or Trust Preferred Securities that are redeemed will be cancelled, and not reissued, following their redemption.

Upon the occurrence of a Trust Special Redemption Event or in the event of any voluntary or involuntary liquidation, dissolution, winding up or termination of the Trust, holders of Trust Securities will be entitled to receive a corresponding number of the Class B Preferred Securities, but, in the event of any such distribution of Class B Preferred Securities, the rights of the holder of the Trust Common Security will be subordinated to the rights of the holders of the Trust Preferred Securities.

If, at any time, a Trust Special Redemption Event occurs and is continuing, the Regular Trustees will, within 90 days following the occurrence of such Trust Special Redemption Event, dissolve the Trust upon not less than 30 nor more than 60 days’ notice to the holders of the Trust Securities and upon

not less than 30 nor more than 60 days' notice to, and consultation with Euroclear, Clearstream and the Property Trustee, with the result that, after satisfaction of the claims of creditors of the Trust, if any, Class B Preferred Securities would be distributed on a *pro rata* basis to the holders of the Trust Preferred Securities and the holder of the Trust Common Security in liquidation of such holders' interest in the Trust. However, if, at such time, the Trust has the opportunity to eliminate, within such 90-day period, the Trust Special Redemption Event by taking some ministerial action, such as filing a form or making an election, or some other similar reasonable measures, which in the sole judgment of the Bank will cause no adverse effect on the Company, the Trust, the Bank or the holders of the Trust Securities and will involve no material costs, then the Trust will pursue any such measure in lieu of dissolution.

On the date fixed for any distribution of the Class B Preferred Securities, upon dissolution of the Trust:

- the Trust Securities will no longer be deemed to be outstanding, and
- certificates representing Trust Securities will be deemed to represent Class B Preferred Securities having a liquidation preference amount equal to the Liquidation Preference Amount of, and bearing accrued and unpaid Capital Payments equal to accrued and unpaid Capital Payments on, the Trust Preferred Securities and the liquidation amount of the Trust Common Security until such certificates are presented to the Company or its agent for transfer or reissuance.

If the Class B Preferred Securities are distributed to the holders of the Trust Preferred Securities, the Bank will use its commercially reasonable efforts to cause the Class B Preferred Securities to be eligible for clearing and settlement through Euroclear or Clearstream, or a successor clearing agent and to be listed on the Official List of the Luxembourg Stock Exchange or such other securities exchange or other organization on which the Trust Preferred Securities are then listed.

### **Redemption Procedures**

The Trust shall provide irrevocable notice of any redemption of the Trust Preferred Securities at least 30 calendar days prior to the Redemption Date specified in such notice. If the Company has paid to the Property Trustee a sufficient amount of cash in connection with the related redemption of the Class B Preferred Securities, then, by 9:00 a.m., Central European time, the Trust will irrevocably deposit with the Principal Paying Agent funds sufficient to pay the amount payable on redemption of the Trust Preferred Securities. If notice of redemption will have been given and funds are deposited as required, then upon the date of such deposit, all rights of holders of the Trust Preferred Securities will cease, except the right of the holders of the Trust Preferred Securities to receive the redemption price, but without interest on such redemption price.

If any Redemption Date that occurs on or before the Reset Date falls on a day that is not a Business Day, the relevant payment will be payable on the first following Business Day without adjustment, interest or further payment as a result thereof. If any Redemption Date that occurs after the Reset Date falls on a day that is not a Business Day, such Redemption Date shall be postponed to the next succeeding Business Day, unless it would thereby fall into the next calendar month, in which case such Redemption Date shall be the immediately preceding Business Day.

### **Purchases of the Trust Preferred Securities**

Subject to applicable law (including, without limitation, applicable securities laws and the regulations of any stock exchange and the BaFin), the Bank or its subsidiaries may at any time and from time to time purchase outstanding Trust Preferred Securities by tender, in the secondary market or by private agreement. Such Trust Preferred Securities remain outstanding and may be resold. If the Bank or any of its affiliates offer or sell, or make a secondary market in, the Trust Preferred Securities, such actions may give rise to limitations with respect to resales in the United States or to U.S. persons of trust preferred securities previously sold in offshore transactions in reliance on Regulation S.



### **Subordination of the Trust Common Security**

Payment of Capital Payments and other distributions on, and amounts on redemption of, the Trust Securities will generally be made *pro rata* based on the liquidation amount of the Trust Securities. However, upon the liquidation of the Trust and upon the occurrence and during the continuance of a default under the Debt Securities or a failure by the Bank to perform any obligation under the Support Undertaking, holders of the Trust Preferred Securities will effectively have a preference over the holder of the Trust Common Security with respect to payments of Capital Payments and other distributions and amounts upon redemption or liquidation of the Trust, as no such payments on the Trust Common Security shall be made to the holder thereof unless payment in full has been made on the Trust Preferred Securities to the holders thereof.

In the case of any Enforcement Event, the holder of the Trust Common Security will be deemed to have waived any and all Enforcement Events until all Enforcement Events with respect to the Trust Preferred Securities have been cured, waived or otherwise eliminated. Until all Enforcement Events with respect to the Trust Preferred Securities have been so cured, waived or otherwise eliminated, the Property Trustee will act solely on behalf of the holders of the Trust Preferred Securities and not on behalf of the holder of the Trust Common Security, and only the holders of the Trust Preferred Securities will have the right to direct the Property Trustee to act on their behalf.

### **Liquidation Distribution upon Dissolution**

Pursuant to the Trust Agreement, the Trust will dissolve:

- upon the insolvency, liquidation or dissolution of the Bank,
- upon the consent of at least a majority of the outstanding Trust Securities, voting together as a single class, to dissolve the Trust,
- upon the distribution of all of the Class B Preferred Securities upon the occurrence of a Trust Special Redemption Event,
- upon the entry of a decree of a judicial dissolution of the Company or the Trust, or
- upon the redemption of all of the Trust Securities;

*provided that*, if a claim has been made under the Support Undertaking, the Trust shall not, to the fullest extent permitted by law, dissolve until (i) such claim has been satisfied and the proceeds therefrom have been distributed to the holders of the Trust Securities or (ii) the Class B Preferred Securities have been distributed to the holders of the Trust Securities.

In the event of any voluntary or involuntary liquidation, dissolution, winding up or termination of the Trust, the holders of the Trust Preferred Securities will be entitled to receive a corresponding amount of the Class B Preferred Securities. The holders of the Trust Preferred Securities will effectively have a preference over the holder of the Trust Common Security with respect to distributions upon liquidation of the Trust.

### **Statute of Limitations**

The prescription period for claims for the payment of Capital Payments, Additional Amounts and any redemption price payable on the Trust Preferred Securities is three years after the date on which the respective payment becomes due and payable.

### **Voting and Enforcement Rights**

Except as expressly required by applicable law, or except as provided for in the Trust Agreement or the LLC Agreement, the holders of the Trust Preferred Securities will not be entitled to vote on the affairs of the Trust or the Company. So long as the Trust holds any Class B Preferred Securities, the holders of the Trust Preferred Securities will have the right to direct the Property Trustee to enforce

the voting rights attributable to such Class B Preferred Securities. The holders of the Trust Preferred Securities may waive these voting rights by delivery of a written notice to the Property Trustee and in accordance with applicable laws.

Subject to the requirement of the Property Trustee obtaining a tax opinion as described below, the holders of a majority in liquidation amount of the Trust Preferred Securities (excluding Trust Preferred Securities held by the Bank or its affiliates) have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Property Trustee, and to direct the exercise of any trust or power conferred upon the Property Trustee under the Trust Agreement, including the right to direct the Property Trustee, as holder of the Class B Preferred Securities, to

- exercise the remedies available to it under the LLC Agreement as a holder of the Class B Preferred Securities, and
- consent to any amendment, modification or termination of the LLC Agreement or the Class B Preferred Securities where such consent will be required.

However, where a consent or action under the LLC Agreement would require the consent or act of the holders of more than a majority in liquidation preference amount of the Class B Preferred Securities affected thereby, only the holders of a percentage of the aggregate liquidation amount of the Trust Preferred Securities outstanding at least equal to the percentage of the liquidation preference amount of the Class B Preferred Securities required to so consent or act under the LLC Agreement may direct the Property Trustee to give such consent or take such action on behalf of the Trust. See "Description of the Company Securities – Class B Preferred Securities – Voting and Enforcement Rights." Except with respect to directing the time, method and place of conducting a proceeding for a remedy as described above, the Property Trustee will be under no obligation to take any of the actions described above unless the Property Trustee has obtained an opinion of independent tax counsel to the effect that as a result of such action, the Trust will not fail to be classified as a grantor trust for U.S. federal income tax purposes and that after such action each holder of the Trust Preferred Securities will continue to be treated as owning an undivided beneficial ownership interest in the Class B Preferred Securities.

Any required approval or direction of holders of the Trust Preferred Securities may be given at a separate meeting of holders of the Trust Preferred Securities convened for such purpose, at a meeting of all of the holders of the Trust Securities or pursuant to a written consent. The Regular Trustees will cause a notice of any meeting at which holders of the Trust Preferred Securities are entitled to vote, or of any matter upon which action by written consent of such holders is to be taken, to be made in the manner described below under "– Notices." Each such notice will include a statement setting forth the following information:

- the date of such meeting or the date by which such action is to be taken;
- a description of any resolution proposed for adoption at such meeting on which such holders are entitled to vote or of such matter upon which written consent is sought; and
- instructions for the delivery of proxies or consents.

No vote or consent of the holders of the Trust Preferred Securities will be required for the Trust to redeem and cancel Trust Preferred Securities or distribute Class B Preferred Securities in accordance with the Trust Agreement.

Notwithstanding the foregoing, any of the Trust Preferred Securities that are beneficially owned at such time by the Bank or any entity directly or indirectly controlled by, or under direct or indirect common control with, the Bank will in such case not be entitled to vote or consent and will, for the purposes of such vote or consent, be treated as if they were not outstanding. However, the Bank will be entitled to vote or consent with respect to any Trust Preferred Securities purchased or acquired by the Bank or its subsidiaries or affiliates in connection with transactions effected by or for the account of customers of the Bank or any of its subsidiaries or affiliates or in connection with the distribution or trading of or market-making in connection with such Trust Preferred Securities in the ordinary course of business. Certain persons (other than subsidiaries or affiliates of the Bank), excluding the Trust, to whom the Bank or any of its subsidiaries or affiliates have pledged Trust Preferred Securities



may vote or consent with respect to such pledged Trust Preferred Securities to the extent permitted by the terms of such pledge.

Holders of the Trust Preferred Securities will have no rights to appoint or remove the Regular Trustees, who may be appointed, removed or replaced solely by the Hypo Real Estate Bank International Group Company, as the holder of the Trust Common Security.

### Meetings of Holders

Meetings of the holders of any class of Trust Securities may be called at any time by the Regular Trustees (or as provided in the terms of the Trust Securities) to consider and act on any matter on which holders of such class of Trust Securities are entitled to act under the terms of the Trust Agreement, the terms of the Trust Securities, the LLC Agreement, the rules of any stock exchange on which Trust Preferred Securities are listed or admitted for trading, the Trust Act or other applicable law. The Regular Trustees shall call a meeting of the holders of such class if directed to do so by the holders of at least 10% in liquidation amount of the Trust Securities of such class outstanding. Such direction shall be given by delivering to the Regular Trustees one or more notices in writing stating that the signing holders of the Trust Securities wish to call a meeting and indicating the general or specific purpose for which the meeting is to be called. Any holders of the Trust Securities calling a meeting shall specify in writing the number and class of Trust Securities exercising the right to call a meeting and only those Trust Securities specified shall be counted for purposes of determining whether the required percentage set forth in the second sentence of this paragraph has been met.

### Merger, Consolidation or Amalgamation of the Trust

The Trust may not consolidate, amalgamate, merge with or into, or be replaced by, or convey, transfer or lease its properties and assets substantially as an entirety to, any corporation or other entity, except as described below. The Trust may, with the consent of a majority of the Regular Trustees and without the consent of the holders of the Trust Securities, the Property Trustee or the Delaware Trustee, consolidate, amalgamate, merge with or into, or be replaced by a trust organized as such under the laws of any State of the United States of America; *provided that*:

- if the Trust is not the survivor, such successor entity either
  - expressly assumes all of the obligations of the Trust to the holders of the Trust Securities or
  - substitutes for the Trust Securities other securities having substantially the same terms as the Trust Preferred Securities (the “**Successor Trust Securities**”) and the Trust Common Security, so long as the Successor Trust Securities rank the same as the Trust Preferred Securities with respect to Capital Payments, other distributions and rights upon liquidation, redemption or otherwise,
- the Company expressly acknowledges a trustee or another representative of such successor entity possessing the same powers and duties as the Property Trustee as the holder of the Class B Preferred Securities,
- the Successor Trust Securities are listed or any Successor Trust Securities will be listed upon notification of issuance, on any securities exchange or any other organization on which the Trust Preferred Securities are then listed or quoted,
- such merger, consolidation, amalgamation or replacement does not cause the Trust Preferred Securities (including the Successor Trust Securities) to be downgraded by any internationally recognized statistical rating organization in the United States of America,
- such merger, consolidation, amalgamation or replacement does not adversely affect the rights, preferences and privileges of the holders of the Trust Preferred Securities (including any Successor Trust Securities) in any material respect,
- such successor entity has purposes substantially identical to that of the Trust,
- the obligations of the Bank pursuant to the Support Undertaking will continue in full force and effect, and

- prior to such merger, consolidation, amalgamation or replacement, the Bank has received an opinion of an internationally recognized law firm in the United States of America experienced in such matters to the effect that following such merger, consolidation, amalgamation or replacement:
  - there will be no adverse effect to the rights, preferences and privileges of the holders of the Trust Preferred Securities (including the Successor Trust Securities) in any material respect,
  - neither the Trust nor such successor entity will be required to register under the 1940 Act,
  - the Trust (or such successor entity) will be classified as a grantor trust for U.S. federal income tax purposes, and
  - the Company will not be classified as an association or a publicly traded partnership taxable as a corporation for U.S. federal income tax purposes.

Notwithstanding the foregoing, the Trust will not, except with the consent of holders of 100% in Liquidation Preference Amount of the outstanding Trust Preferred Securities (excluding Trust Preferred Securities held by the Bank and its affiliates), consolidate, amalgamate, merge with or into, or be replaced by any other entity or permit any other entity to consolidate, amalgamate, merge with or into, or replace the Trust, if such consolidation, amalgamation, merger or replacement would cause the Trust or the successor entity not to be classified as a grantor trust for U.S. federal income tax purposes.

### **Modification of the Trust Agreement**

The Trust Agreement may only be modified and amended if approved by a majority of the Regular Trustees (and in certain circumstances the Property Trustee and the Delaware Trustee). In addition, any amendment that would

- materially adversely affect the powers, preferences or special rights of the Trust Securities, whether by way of amendment to the Trust Agreement or otherwise, or
- provide for the liquidation, dissolution, winding up or termination of the Trust other than pursuant to the terms of the Trust Agreement,

requires the approval of the holders of at least a majority in liquidation amount of the outstanding Trust Securities affected thereby (excluding Trust Securities held by the Bank and its affiliates), voting together as a single class. If any amendment or proposal would materially adversely affect only the Trust Preferred Securities or the Trust Common Security, then such amendment only requires the approval of the holders of a majority in the respective liquidation amount of the affected class.

The Trust Agreement may be amended without the consent of the holders of the Trust Securities to

- cure any ambiguity,
- correct or supplement any provision in the Trust Agreement that may be defective or inconsistent with any other provision of the Trust Agreement,
- add to the covenants, restrictions or obligations of the Bank,
- conform to any change in the 1940 Act or the rules or regulations thereunder,
- modify, eliminate and add to any provision of the Trust Agreement to such extent as may be necessary or desirable; *provided* in each case that no such amendment will have a material adverse effect on the rights, preferences or privileges of the holders of the Trust Securities or
- accomplish the issuance, from time to time and without the consent of the holders of the Trust Preferred Securities, of additional Trust Preferred Securities having the same terms and conditions as the Trust Preferred Securities (in all respects except for the issue date, the date from which Capital Payments accrue on the Trust Preferred Securities, the issue price and any other deviations required for compliance with applicable law) so as to form a single series with the Trust Preferred Securities in consideration for the receipt of Class B Preferred Securities equal to the aggregate Liquidation Preference Amount of such additional Trust Preferred Securities.

Notwithstanding the foregoing, no amendment or modification may be made to the Trust Agreement if such amendment or modification would

- cause the Trust to fail to be classified as a grantor trust for U.S. federal income tax purposes,
- cause the Company to be classified as an association or publicly traded partnership taxable as a corporation for such purposes,
- reduce or otherwise adversely affect the powers of the Property Trustee or
- cause the Trust or the Company to be required to register under the 1940 Act.

### **Form, Book-Entry Procedures and Transfer**

The Trust Preferred Securities will be issued in fully registered form without coupons, in denominations of € 50,000. The Trust Preferred Securities will initially be evidenced by one or more Temporary Global Certificates, which will be in registered form, registered in the name of, and deposited on or about the closing date with the Common Depositary for, Euroclear and Clearstream. Interests in such Temporary Global Certificates will be exchangeable, upon certification as described below, for interests in one or more Permanent Global Certificates, in fully registered form, no earlier than after the expiry of the 40th day after the later of the Issue Date and the completion of the distribution of the Trust Preferred Securities (the “**Restricted Period**”).

The Temporary Global Certificates and the Permanent Global Certificates are referred to as “**Global Certificates**”. Beneficial interests in such Global Certificates will be shown on, and transfers thereof will be effected through, records maintained by Euroclear and Clearstream and their respective participants. The Global Certificates (and any Trust Preferred Securities issued in exchange therefor) will be subject to certain restrictions on transfer set forth therein and in the Trust Agreement. During the Restricted Period, beneficial interests in the Temporary Global Certificates may be held only through Euroclear or Clearstream, unless delivery is made through the Restricted Global Certificates in accordance with the certification requirements described below. Interests in the Temporary Global Certificates may be exchanged, no earlier than 40 days after the later of the closing date and the completion of the distribution of the Trust Preferred Securities, for interests in the Permanent Global Certificates upon certification of non-U.S. beneficial ownership. No payment will be made in respect of an interest in the Temporary Global Certificates unless and until the beneficial owner of such interest has provided the required certification and such interest has been exchanged for an interest in the Permanent Global Certificates. See “Payments; Certifications by Holders of the Temporary Global Certificate.”

Investors may hold their interests in the Global Certificates through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such systems. The Global Certificates will be deposited with the Common Depositary. Except as provided below, owners of beneficial interests in a Global Certificate will not be entitled to have Trust Preferred Securities registered in their names, will not receive or be entitled to receive physical delivery of certificates in definitive form, and will not be considered holders thereof.

Subject to compliance with the transfer restrictions applicable to the Global Certificates described herein and in the Trust Agreement, cross-market transfers between direct or indirect account holders at a Euroclear or Clearstream participant (each, a “**Member Organization**”) holding interests in the Global Certificates will be effected in accordance with the normal rules and operating procedures of Euroclear or Clearstream, as applicable. Such cross-market transactions will require, among other things, delivery of instructions by such Member Organization to Euroclear or Clearstream, as the case may be, in accordance with the rules and procedures and within deadlines established by Euroclear or Clearstream, as the case may be. If the transaction complies with all relevant requirements, Euroclear or Clearstream, as the case may be, will then deliver instructions to its depositary to take action to effect final settlement on its behalf.

The information in this section concerning Euroclear and Clearstream has been obtained from sources that the Company and the Trust believe to be reliable, but the Company and the Trust take no responsibility for the accuracy thereof.

So long as Euroclear, Clearstream or the nominee of the Common Depositary is the registered holder of a Global Certificate, Euroclear, Clearstream or such nominee, as the case may be, will be considered the sole owner or holder of the Trust Preferred Securities represented by such Global Certificate for all purposes under the Trust Agreement and the Trust Preferred Securities. Payments in respect of Global Certificates will be made to Euroclear, Clearstream or such nominee, as the case may be, as the registered holder hereof. None of the Bank, the Company, the Trust, any agent or any affiliate of any of the above or any person by whom any of the above is controlled for the purposes of the Securities Act will have any responsibility or liability for (i) any aspect of Euroclear's, Clearstream's or any Member Organization's records relating to or payments made on account of beneficial ownership interests in the Global Certificates, or for maintaining, supervising or reviewing any of Euroclear's, Clearstream's or any Member Organization's records relating to the beneficial ownership interests in the Global Certificates or (ii) any other matter relating to the actions and practices of Euroclear, Clearstream or any Member Organization.

Distributions with respect to book-entry interests in the Trust Preferred Securities held through Euroclear or Clearstream will be credited, to the extent received by Euroclear or Clearstream from a paying agent, to the cash accounts of Euroclear or Clearstream customers in accordance with the relevant system's rules and procedures.

None of the Trust, the Property Trustee or the Common Depositary (or any registrar, paying agent or conversion agent under the Trust Agreement) will have any responsibility for the performance by Euroclear or Clearstream of their respective obligations under the rules and procedures governing their operations.

Although Euroclear and Clearstream have agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Certificates between Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. If Euroclear and Clearstream are at any time unwilling or unable to continue as depositary and a successor depositary is not appointed by the Trust within 90 days, the Trust will cause the Trust Preferred Securities to be issued in definitive form in exchange for the Global Certificates. Neither the Trust, the Company, the Common Depositary, the Bank nor any of their respective agents will have any responsibility for the performance by Euroclear and Clearstream, any Member Organization of their respective obligations under the rules and procedures governing their operations, including maintaining, supervising or reviewing the records relating to, or payments made on account or, beneficial ownership interests in the Global Certificate.

#### ***Definitive Certificates and the Exchange of Book-Entry Securities for Definitive Certificates***

A Global Certificate is exchangeable for Trust Preferred Securities in registered certificated form if Euroclear and Clearstream notify the Company that (i) they are unwilling or unable to continue as depositary for such Global Certificate, or (ii) they are ineligible to act as depositary and the Trust and the Company thereupon fail to appoint a successor depositary. In all cases, certificated Trust Preferred Securities delivered in exchange for any Global Certificates or beneficial interests therein will be registered in the names and issued in any approved denominations, requested by or on behalf of Euroclear or Clearstream, as the case may be (in accordance with its customary procedures).

Transfers of definitive certificates may be made in whole or in part in an authorized denomination upon the surrender of such definitive certificates, together with a form of transfer endorsed on it when completed and executed, at the specified office of a transfer agent. In the case of a transfer of only part of a definitive certificate, a new definitive certificate in respect of the balance not transferred will be issued to the transferor within three business days of receipt of such form of transfer, by uninsured post at the risk of the holder to the address of the holder, appearing in the Register. Each new definitive certificate to be issued upon a transfer of a definitive certificate will, within three business days of receipt of such form of transfer, be sent by uninsured post at the risk of the holder entitled to the definitive certificate to such address as may be specified in such form of transfer.

A certificate must be provided by or on behalf of a beneficial interest in the Temporary Global Certificates to Euroclear or Clearstream, as the case may be, certifying that the beneficial owner of the interest in Trust Preferred Securities represented thereby is not a U.S. Person, and Euroclear or Clear-

stream, as the case may be, must provide to the Common Depositary a certificate prior to, but in no case earlier than the expiration of the Restricted Period, (i) the payment of Capital Payments or amounts on redemption or any other payment with respect to such holder's beneficial interest in the Temporary Global Certificates and (ii) any exchange of such beneficial interest for a beneficial interest in the Permanent Global Certificates.

Capital Payments on the Trust Preferred Securities, and any amounts payable on redemption thereof, may be made through the office of the Luxembourg Paying and Transfer Agent if and for so long as the Trust Preferred Securities are listed on the Official List of the Luxembourg Stock Exchange.

Capital Payments on definitive certificates will be made to holders in whose names the certificates were registered at the close of business on the relevant record date. Any Capital Payments or other payments due thereon will be made by wire, transfer or by check mailed to the address of such holder as it appears on the register maintained by the Luxembourg Paying and Transfer Agent. The final payment on any definitive certificates, however, will be made only upon presentation, and surrender of such certificated security at the office of the Luxembourg Paying and Transfer Agent on a Payment Date that is both a Business Day and a day on which banks in the relevant place of presentation are open for presentation and payment of such securities and for dealings in foreign currencies.

The Trust Preferred Securities may not be purchased by or transferred to any employee benefit plan subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended, any plan or arrangement subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended, or any entity whose underlying assets include the assets of any such employee benefit plans, plans or arrangements.

#### ***Payments; Certifications by Holders of the Temporary Global Certificates***

On or after the expiration of the Restricted Period, a certificate may be provided by or on behalf of a holder of a beneficial interest in a Temporary Global Certificate to the registrar (the "**Registrar**") (or the Principal Paying Agent if other than the Registrar), certifying that the beneficial owner of the interest in such Temporary Global Certificate is not a U.S. Person. Unless such certificate is provided, (i) the holder of such beneficial interest will not receive any payments of Capital Payments, redemption price or any other payment with respect to such holder's beneficial interest in the Temporary Global Certificate, (ii) such beneficial interest may not be exchanged for a beneficial interest in a Permanent Global Certificate, and (iii) settlement of trades with respect to such beneficial interest will be suspended. In the event that any holder of a beneficial interest in such Temporary Global Certificate fails to provide such certification, exchanges of interests in the Temporary Global Certificate for interests in the Permanent Global Certificate and settlements of trades of all beneficial interests in such Temporary Global Certificate may be temporarily suspended. Notwithstanding the above, during any period during which a holder of a beneficial interest in a Temporary Global Certificate fails to provide such certification, Capital Payments will continue to accrue on the relevant Trust Preferred Securities.

All payments on the Trust Preferred Securities by the Trust, and any amount payable in liquidation or upon redemption thereof, will be made without withholding or deduction for or on account of Withholding Taxes unless such deduction or withholding is required by law. In such event, the Trust will pay, as additional Capital Payments, such Additional Amounts as may be necessary in order for the net amounts received by holders of the Trust Preferred Securities to equal the amounts that otherwise would have been received had no such deduction or withholding been required. However, no such Additional Amounts will be payable in respect of the Trust Preferred Securities under certain circumstances described in "– Payments of Additional Amounts."

#### ***Registrar, Transfer Agent and Paying Agents***

Deutsche Bank Aktiengesellschaft, Frankfurt am Main, will act as Registrar, Transfer Agent and Principal Paying Agent for the Trust Preferred Securities. Registration of transfers of the Trust Preferred Securities will be effected without charge by or on behalf of the Trust, but upon payment (with the



giving of such indemnity as the Trust or the Bank may require) in respect of any tax or other government charges which may be imposed in relation to it. In accordance with the Trust Agreement, notice of the appointment of a new Registrar, Transfer Agent or Principal Paying Agent will, as long as the Trust Preferred Securities are listed on the Official List of the Luxembourg Stock Exchange, be published in a daily newspaper of general circulation in Luxembourg. For so long as the Trust Preferred Securities are listed on the Official List of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, the Trust will maintain a Luxembourg Paying and Transfer Agent. The initial Luxembourg Paying and Transfer Agent will be Deutsche Bank Luxembourg S.A.

After such Trust Preferred Securities have been called for redemption, the Registrar/Transfer Agent will not be required to register or cause to be registered the transfer of such Trust Preferred Securities. Definitive certificates will not be issued except in the limited circumstances described under “– Definitive Certificates and – Exchange of Book-Entry Securities for Definitive Certificates.”

### **Information Concerning the Property Trustee**

Unless an Enforcement Event has occurred and is continuing, the Property Trustee undertakes to perform only such duties as are specifically set forth in the Trust Agreement. Upon the occurrence and continuance of any Enforcement Event known to the Property Trustee, the Property Trustee will exercise the rights and powers vested in it by the Trust Agreement, and use the same degree of care as a prudent person would exercise in the conduct of his or her own affairs. Subject to such provisions, the Property Trustee is under no obligation to exercise any of the powers vested in it by the Trust Agreement at the request of any holder of the Trust Preferred Securities, unless offered reasonable indemnity by such holder against the costs, expenses and liabilities which might be incurred thereby. The holders of the Trust Preferred Securities will not be required to offer such indemnity in the event such holders, by exercising their rights, direct the Property Trustee to take any action following an Enforcement Event.

### **Notices**

All notices or communications to a holder of the Trust Preferred Securities will be delivered, telecopied or mailed by first-class, registered or certified mail to such holder's address as shown on the books and records of the Trust.

Notices to the holders of the Trust Preferred Securities will be given by delivery of the relevant notice to Euroclear, Clearstream and any other relevant securities clearing system for communication by each of them to entitled participants, and so long as the Trust Preferred Securities are listed on the Official List of the Luxembourg Stock Exchange and the rules of such Exchange so require, in a daily newspaper of general circulation in Luxembourg (which is expected to be the *Tageblatt – Zeitung für Lëtzeburg*) or if such Luxembourg publication (the “**Luxembourg Publication**”) is not practicable, in one of the other leading English language newspapers being published on each day in morning editions whether or not it shall be published on Saturdays, Sundays or holidays.

So long as the Trust Preferred Securities are listed on the Official List of the Luxembourg Stock Exchange, the Luxembourg Stock Exchange will be notified as follows:

- for each Capital Payment Period, of the rate at which Capital Payments will accrue on the Trust Preferred Securities, and the Capital Payment Period and Capital Payment Date for such Capital Payments,
- ten Business Days prior to any Capital Payment Date if, for any Capital Payment Period, the Trust does not have sufficient funds for the Property Trustee to pay Distributions to the holders of Trust Securities on the respective Capital Payment Date, and without undue delay of the following events:
  - the occurrence of any Trust Special Redemption Event,
  - the redemption of any Trust Preferred Securities, and
  - the substitution, by the Bank, of Substitute Debt Securities for the Initial Debt Securities.

So long as the Trust Preferred Securities are listed on the Official List of the Luxembourg Stock Exchange, Luxembourg Publication will be made (i) ten Business Days prior to any Payment Date if, for any Capital Payment Period, the Trust does not have sufficient funds for the Property Trustee to make Capital Payments to the holders of Trust Securities, and without undue delay (ii) upon any change of the Luxembourg Paying and Transfer Agent, and (iii) of the substitution, by the Bank, of Substitute Debt Securities for the Initial Debt Securities.

#### **Governing Law**

The Trust Agreement and the Trust Securities will be governed by, and construed in accordance with, the laws of the State of Delaware, United States of America.

#### **Miscellaneous**

The Regular Trustees are authorized and directed to conduct the affairs of and to operate the Trust in such a way that the Trust will not be required to register under the 1940 Act and will not be characterized as other than a grantor trust for U.S. federal income tax purposes.



## DESCRIPTION OF THE COMPANY SECURITIES

*The following summary sets forth the material terms and provisions of the limited liability company interests of the Company, including the Class B Preferred Securities. This summary is qualified in its entirety by reference to the terms and provisions of the LLC Agreement.*

Upon the execution of the LLC Agreement, the Company will issue limited liability company interests consisting of the Company Common Security, the Class A Preferred Security and the Class B Preferred Securities. The Company Common Security and the Class A Preferred Security will initially be owned by the Bank and thereafter will be owned by a Hypo Real Estate Bank International Group Company. All of the Class B Preferred Securities will be owned by the Trust. The Bank undertakes to maintain direct or indirect ownership of the Class A Preferred Security and the Company Common Security so long as any Class B Preferred Securities remain outstanding.

### Company Common Security

Subject to the rights of the holders of the Class B Preferred Securities to appoint the Independent Enforcement Director, all voting rights are vested in the Company Common Security. The Company Common Security is entitled to one vote per security. Upon consummation of the Offering, a Hypo Real Estate Bank International Group Company will hold the Company Common Security.

Capital Payments may be declared and paid on the Company Common Security only if all Capital Payments on the Class B Preferred Securities, if any, in respect of the relevant Capital Payment Period have been declared and paid.

In the event of the voluntary or involuntary liquidation, dissolution, termination or winding up of the Company, after the payment of all debts and liabilities and after there have been paid or set aside for the holders of all the Company Preferred Securities the full preferential amounts to which such holders are entitled, the holder of the Company Common Security will be entitled to share equally and *pro rata* in any remaining assets.

### Class A Preferred Security

The Class A Preferred Security of the Company is non-voting. Capital payments on the Class A Preferred Security will be payable when, as and if declared by the Board of Directors; such a declaration will occur only to the extent the Board of Directors does not declare Capital Payments on the Class B Preferred Securities at the Stated Rate in full on any Capital Payment Date. The Company expects that the holder of the Class A Preferred Security will receive capital payments only to the extent that:

- Capital Payments are not permitted to be declared on the Class B Preferred Securities on any Capital Payment Date at the Stated Rate in full due to insufficient Distributable Profits of the Bank for the fiscal year preceding such Capital Payment Period or an order of the BaFin (or any other relevant regulatory authority) prohibiting the Bank from making any distribution of its profits (including to the holders of Parity Securities, if any), and
- the Company has sufficient Operating Profits.

The Company currently does not intend to pay capital payments on the Class A Preferred Security. The payment of capital payments on the Class A Preferred Security is not a condition to the payment of Capital Payments on the Class B Preferred Securities.

Upon the voluntary or involuntary liquidation, dissolution, winding up or termination of the Company, the Class B Preferred Securities will rank junior to the Class A Preferred Security, and the Class B Preferred Securities will rank senior to the Company Common Security. Any payments made by the Bank pursuant to the Support Undertaking will be payable by the Company solely to the holders of the Class B Preferred Securities. Accordingly, upon any liquidation, the holder of the Class A Preferred Security will be entitled to receive a liquidation distribution of the Debt Securities or Permitted Investments (including accrued and unpaid interest thereon). In the event of the liquidation of the

Company, the Independent Enforcement Director will enforce the Support Undertaking solely for the benefit of the holders of the Class B Preferred Securities and, with respect to the Company's rights under the Support Undertaking, the Class B Preferred Securities will rank senior to the Class A Preferred Security and payments thereunder will be distributed by the Company solely to the holders of the Class B Preferred Securities. For a description of the circumstances under which an Independent Enforcement Director may be elected, see "– Class B Preferred Securities – Voting and Enforcement Rights."

## **Class B Preferred Securities**

### ***General***

The Company will issue fully paid and non-assessable preferred limited liability company interests in the Company designated as Class B Preferred Securities pursuant to the LLC Agreement and will sell them to the Trust.

The Class B Preferred Securities will not have any scheduled maturity date, will not be redeemable at any time at the option of the holders thereof, will not be convertible into any other securities of the Company and will not be subject to any sinking fund or other obligation of the Company for their repurchase or redemption.

The LLC Agreement prohibits the Company, without the consent of all holders of the Class B Preferred Securities (excluding any Class B Preferred Securities held by the Bank or any of its affiliates), from issuing any debt securities or any further class or series of equity securities ranking senior to or *pari passu* with the Class B Preferred Securities as to periodic distribution rights or rights upon liquidation or dissolution of the Company. However, the Company may, from time to time, and without the consent of the holders of the Class B Preferred Securities, issue further Class B Preferred Securities having the same terms and conditions as the Class B Preferred Securities (in all respects except for the issue date, the date as of which Capital Payments accrue on the Class B Preferred Securities, the issue price, and any other deviations required for compliance with applicable law) so as to form a single series with the Class B Preferred Securities in consideration for Debt Securities of a principal amount equal to the aggregate liquidation preference amount of such additional Class B Preferred Securities.

### ***Capital Payments***

Capital Payments will accrue on the liquidation preference amount of € 50,000 per Class B Preferred Security as follows:

- for each Capital Payment Period ending prior to the Reset Date, at the Fixed Rate, payable annually in arrears on each Fixed Rate Payment Date, and
- for each Capital Payment Period commencing on or after the Reset Date, at the Floating Rate, payable quarterly in arrears on each Floating Rate Payment Date.

For each Capital Payment Period ending prior to the Reset Date, Capital Payments will be calculated on the basis of the actual number of days elapsed, divided by the actual number of days elapsed, divided by the actual number of days (365 or 366) in the relevant Capital Payment Period. For each Capital Payment Period beginning on or after the Reset Date, Capital Payments will be calculated on the basis of the actual number of days elapsed in a 360-day year.

If any Capital Payment Date or any Redemption Date that occurs on or before the Reset Date falls on a day that is not a Business Day, the relevant payment will be payable on the first following Business Day without adjustment, interest or further payment as a result thereof. If any Capital Payment Date or any Redemption Date that occurs after the Reset Date falls on a day that is not a Business Day, such Capital Payment Date or Redemption Date shall be postponed to the next succeeding Business Day, unless it would thereby fall into the next calendar month, in which case such Capital Payment Date or Redemption Date shall be the immediately preceding Business Day.

The Company expects to pay Capital Payments on the Class B Preferred Securities out of the Company's Operating Profits or from payments received under the Support Undertaking. The right of the holders of the Class B Preferred Securities to receive Capital Payments is non-cumulative. If the Company does not declare (and is not deemed to have declared) a Capital Payment on the Class B Preferred Securities in respect of any Capital Payment Period, holders of the Class B Preferred Securities will have no right to receive a Capital Payment on the Class B Preferred Securities in respect of such Capital Payment Period, and the Company will have no obligation to pay a Capital Payment on the Class B Preferred Securities in respect of such Capital Payment Period, whether or not Capital Payments are declared (or deemed to have been declared) and paid on the Class B Preferred Securities in respect of any future Capital Payment Period.

Capital Payments on the Class B Preferred Securities will only be authorized to be declared and paid on any Capital Payment Date to the extent that:

- the Company has an amount of Operating Profits for the Capital Payment Period ending on the day immediately preceding such Capital Payment Date at least equal to the amount of such Capital Payments, and
- the Bank has an amount of Distributable Profits for the preceding fiscal year for which audited unconsolidated financial statements are available at least equal to (i) the aggregate amount of such Capital Payments and (ii) to the extent not yet reflected in the calculation of Distributable Profits for the preceding fiscal year, all capital payments, dividends or other distributions on Parity Securities, if any, *pro rata* on the basis of Distributable Profits for such preceding fiscal year.

Notwithstanding the foregoing, if the Bank or any of its Subsidiaries declares or pays any capital payments, dividends or other distributions on any Parity Securities (excluding capital payments, dividends or other distributions by a subsidiary of the Bank exclusively to the Bank or a wholly-owned subsidiary of the Bank), the Company will be deemed to have declared Capital Payments on the Class B Preferred Securities on the first Capital Payment Date falling contemporaneously with or immediately after the date on which such capital payment, dividend or other distribution was declared or made. If such capital payment, dividend or other distribution on such Parity Securities was in the full stated amount payable on such Parity Securities in the then current fiscal year through the Capital Payment Date, then Capital Payments will be deemed declared at the Stated Rate in full for the then current fiscal year through such Capital Payment Date. If such capital payment, dividend or other distribution on such Parity Securities was only a partial payment of the amount so owing, the amount of the Capital Payment deemed declared on the Class B Preferred Securities will be adjusted proportionally.

Further, notwithstanding the foregoing, if the Bank, any of its Subsidiaries or Hypo Real Estate Holding, the sole shareholder of the Bank, declares or pays Junior Distributions, the Company will be deemed to have declared Capital Payments on the Class B Preferred Securities in amounts that vary according to how often the relevant Junior Securities pay capital payments, dividends or other distributions:

- for any Capital Payment Period ending prior to the Reset Date:
  - if such Junior Securities pay distributions annually, Capital Payments will be deemed declared for payment at the Stated Rate in full on the Capital Payment Date falling contemporaneously with or immediately following the date on which such capital payment, dividend or other distribution was made;
  - if such Junior Securities pay distributions semi-annually,
    - o if only one such distribution was made in the Capital Payment Period preceding the relevant Capital Payment Date, Capital Payments will be deemed declared for payment in one half of the amount that would be payable at the Stated Rate in full on the Capital Payment Date falling contemporaneously with and/or immediately following the date on which such capital payment, dividend or other distribution was made, or
    - o if two such distributions were made in such Capital Payment Period, Capital Payments will be deemed declared for payment at the Stated Rate in full on the Capital Payment Date falling contemporaneously with and/or immediately following the date of which such capital payment, dividend or other distribution was made; and

- if such Junior Securities pay distributions quarterly,
  - o if only one such distribution was made in the Capital Payment Period preceding the relevant Capital Payment Date, Capital Payments will be deemed to have been declared for payment in one quarter of the amount that would be payable at the Stated Rate in full on the Capital Payment Date falling contemporaneously with and/or immediately following the date on which such capital payment, dividend or other distribution was made, or
  - o if two such distributions were made in the Capital Payment Period preceding the relevant Capital Payment Date, Capital Payments will be deemed to have been declared for payment in one half of the amount that would be payable at the Stated Rate in full on the Capital Payment Date falling contemporaneously with and/or immediately following the date on which such capital payment, dividend or other distribution was made, or
  - o if three such distributions were made in the Capital Payment Period preceding the relevant Capital Payment Date, Capital Payments will be deemed to have been declared for payment in three quarters of the amount that would be payable at the Stated Rate in full on the Capital Payment Date falling contemporaneously with and/or immediately following the date on which such capital payment, dividend or other distribution was made, or
  - o if four such distributions were made in the Capital Payment Period preceding the relevant Capital Payment Date, Capital Payments will be deemed to have been declared for payment at the Stated Rate in full on the Capital Payment Date falling contemporaneously with and/or immediately following the date on which such capital payment, dividend or other distributions was made;
- for any Capital Payment Period commencing on or after the Reset Date:
  - if such Junior Securities pay distributions annually, Capital Payments will be deemed declared for payment at the Stated Rate in full on the first four Capital Payment Dates falling contemporaneously with or immediately following the date on which such capital payment, dividend or other distribution was made;
  - if such Junior Securities pay distributions semi-annually, Capital Payments will be deemed declared for payment at the Stated Rate in full on the first two Capital Payment Dates falling contemporaneously with and/or immediately following the date on which such capital payment, dividend or other distribution was made; and
  - if such Junior Securities pay distributions quarterly, Capital Payments will be deemed to have been declared for payment at the Stated Rate in full on the Capital Payment Date falling contemporaneously with and/or immediately following the date on which such capital payment, dividend or other distribution was made.

If the Bank or any of its Subsidiaries redeems, repurchases or otherwise acquires any Parity Securities or Junior Securities for any consideration except by conversion into or exchange for common stock of the Bank, the Company will be deemed to have declared Capital Payments on the Class B Preferred Securities at the Stated Rate in full for payment on the first Capital Payment Date falling contemporaneously with and/or immediately following the date on which such redemption, repurchase or other acquisition occurred.

Notwithstanding the foregoing, the Company will not be deemed to have declared Capital Payments on the Class B Preferred Securities in connection with any of the following redemptions, repurchases or other acquisitions of Parity Securities or Junior Securities:

- transactions effected by or for the account of customers of the Hypo Real Estate Group or in connection with the distribution, trading or market-making in respect of such securities,
- satisfaction by Hypo Real Estate Group of its obligations under any employee benefit plans or similar arrangements with or for the benefit of employees, officers, directors or consultants, or
- as a result of a reclassification of the interests in common stock of the Bank or any of its Subsidiaries or the exchange or conversion of one class or series of such interests for another class or series of such interests.

Even if the Company has sufficient Operating Profits and the Bank has sufficient Distributable Profits or the Company would otherwise be deemed to have declared Capital Payments, the Company will not be permitted to make Capital Payments on the Class B Preferred Securities on any Capital Payment Date (or a date set for redemption or liquidation) if on such date there is in effect an order of the BaFin (or any other relevant regulatory authority) prohibiting the Bank from making any distribution of profits (including to the holders of Parity Securities, if any). The Company will have no obligation to make up, at any time, any Capital Payments not paid in full by the Company as a result of insufficient Operating Profits of the Company, insufficient Distributable Profits of the Bank or an order of the BaFin (or any other relevant regulatory authority).

Each Capital Payment declared (or deemed to be declared) on the Class B Preferred Securities will be payable to the holders of record as they appear on the books and records of the Company at the close of business on the corresponding record date. The record dates for the Class B Preferred Securities will be:

- for those Class B Preferred Securities held by the Property Trustee, so long as the Trust Preferred Securities remain in book-entry form, and for Class B Preferred Securities held in book-entry form, one Business Day prior to the relevant Capital Payment Date, and
- in all other cases, 15 calendar days prior to the relevant Capital Payment Date.

### ***Payments of Additional Amounts***

All payments on the Class B Preferred Securities (including any amount payable in liquidation and any repayment upon redemption thereof) will be made without any deduction or withholding for or on account of Withholding Taxes, unless such deduction or withholding is required by law. The Company will pay, as additional Capital Payments, such Additional Amounts as may be necessary in order that the net amounts received by the holders of the Class B Preferred Securities and the Trust Preferred Securities, after any deduction or withholding for or on account of Withholding Taxes, will equal the amounts that would otherwise have been received in respect of the Class B Preferred Securities and the Trust Preferred Securities, respectively, in the absence of such withholding or deduction.

No such Additional Amounts, however, will be payable in respect of the Class B Preferred Securities:

- if and to the extent that the Company is unable to pay such Additional Amounts because such payment would exceed the Distributable Profits of the Bank for the preceding fiscal year (after subtracting from such Distributable Profits the amount of Capital Payments on the Class B Preferred Securities and, to the extent not yet reflected in the calculation of Distributable Profits, any capital payments, dividends or other distributions on Parity Securities, if any, already paid on the basis of such Distributable Profits on or prior to the date on which such Additional Amounts will be payable);
- with respect to any amounts of Withholding Taxes that are payable by reason of the holder or beneficial owner of the Class B Preferred Securities (other than the Trust) or Trust Preferred Securities having some connection with the Relevant Jurisdiction other than by reason only of the mere holding of the Class B Preferred Securities or the Trust Preferred Securities;
- with respect to any amounts of Withholding Taxes if such deduction or withholding is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;
- with respect to any amounts of Withholding Taxes imposed on account of any inheritance, thrift, estate, personal property, sales or transfer taxes, or on account of any taxes that are payable otherwise than by withholding from payments in respect of the Class B Preferred Securities or the Trust Preferred Securities;
- with respect to any amounts of Withholding Taxes that can be avoided or reduced if the holder or beneficial owner of the Class B Preferred Securities (other than the Trust) or the Trust Preferred



Securities makes a declaration of non-residence or other similar claim for exemption to the relevant tax authority or complies with any reasonable certification, documentation, information or other reporting requirement imposed by the relevant tax authority; provided, however, that the exclusion set forth in this clause shall not apply in respect of any certification, information, documentation or other reporting requirement if such requirement would be materially more onerous, in form, in procedure or in the substance of information disclosed, to the holder or beneficial owner of Class B Preferred Securities or Trust Preferred Securities than comparable information or other reporting requirements imposed under U.S. tax law, regulation and administrative practice (such as IRS Forms 1001, W-8 and W-9);

- if presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the Class B Preferred Securities or the Trust Preferred Securities to another paying agent in a Member State in the EU; or
- with respect to any amounts of Withholding Taxes that would not have been so imposed if the holder of the Class B Preferred Securities (other than the Trust) or Trust Preferred Securities would have presented the relevant Class B Preferred Securities or Trust Preferred Securities for payment within 30 days of the date that payment was due or became available for payment, except to the extent that such holder would have been entitled to such Additional Amounts on presenting such Class B Preferred Securities or Trust Preferred Securities for payment on the last day of such period of 30 days.

### ***Voting and Enforcement Rights***

The Class B Preferred Securities will have no voting rights except as expressly required by applicable law or except as indicated below. In the event the holders of the Class B Preferred Securities are entitled to vote as indicated below, each Class B Preferred Security shall be entitled to one vote on matters on which holders of the Class B Preferred Securities are entitled to vote. In the event that:

- the Company fails to pay Capital Payments (plus Additional Amounts thereon, if any) on the Class B Preferred Securities at the Stated Rate in full as and when due for two consecutive Capital Payment Periods; or
- a holder of the Class B Preferred Securities has notified the Company that the Bank has failed to perform any obligation under the Support Undertaking and such failure continues for 60 days after such notice is given,

then the holders of a majority in liquidation preference amount of the Class B Preferred Securities will have the right to appoint an Independent Enforcement Director.

The Independent Enforcement Director will be appointed by resolution passed by a majority in liquidation preference amount of the holders of the Class B Preferred Securities entitled to vote thereon, as described in the LLC Agreement, present in person or by proxy at a separate general meeting of the holders of the Class B Preferred Securities convened for that purpose (which will be called at the request of any holder of a Class B Preferred Security entitled to vote thereon) or by a consent in writing adopted by a majority in liquidation preference amount of the holders of the Class B Preferred Securities entitled to vote thereon. Any Independent Enforcement Director so appointed will vacate office if, in such Independent Enforcement Director's sole determination:

- the Capital Payments (plus Additional Amounts thereon, if any) on the Class B Preferred Securities have been made on the Class B Preferred Securities at the Stated Rate in full by the Company for two consecutive Capital Payment Periods; and
- the Bank is in compliance with its obligations under the Support Undertaking.

A majority in liquidation preference amount of the holders of the outstanding Class B Preferred Securities entitled to vote may remove the Independent Enforcement Director, with or without cause, at a meeting of the Company's securityholders, or of holders of the Class B Preferred Securities entitled to vote thereon, called for that purpose. If the office of the Independent Enforcement Director becomes vacant at any time during which the holders of a majority in liquidation preference amount of the Class B Preferred Securities are entitled to appoint an Independent Enforcement Director, the

holders of a majority in liquidation preference amount of the Class B Preferred Securities will appoint an Independent Enforcement Director as provided above.

The Independent Enforcement Director will be an additional member of the Board of Directors referred to above and will have the sole authority, right and power to enforce and settle any claim of the Company under the Support Undertaking. However, the Independent Enforcement Director will have no right, power or authority to participate in the management of the business and affairs of the Company by the Board of Directors except for:

- actions related to the enforcement of the Support Undertaking on behalf of the holders of the Class B Preferred Securities, and
- the distribution of amounts paid pursuant to the Support Undertaking to the holders of the Class B Preferred Securities.

No director, including the Independent Enforcement Director, will be a resident of, or have his customary place of abode in, the Federal Republic of Germany.

So long as any Class B Preferred Securities are outstanding, unless approved by the holders of at least 66<sup>2</sup>/<sub>3</sub> % in aggregate liquidation preference amount of the Class B Preferred Securities, voting separately as a class (excluding any Class B Preferred Securities held by the Bank or any of its affiliates, other than the Trust), the Company will not:

- amend, alter, repeal or change any provision of the LLC Agreement (including the terms of the Class B Preferred Securities) if such amendment, alteration, repeal or change would materially adversely affect the rights, preferences, powers or privileges of the Class B Preferred Securities,
- agree to modify or amend any provision of the Debt Securities, or waive any default in the payment of any amount under the Debt Securities, in any manner that would have a material adverse effect on the interests of the holders of the Class B Preferred Securities, or
- effect any merger, consolidation, or business combination involving the Company, or any sale of all or substantially all of the assets of the Company, *provided* that any such merger, consolidation, or business combination involving the Company, or any sale of all or substantially all of the assets of the Company also must comply with the requirements set forth under “– Mergers, Consolidations and Sales.”

Unless approved by the unanimous consent of all holders of the Class B Preferred Securities (excluding any Class B Preferred Securities held by the Bank or any of its affiliates), the Company will not issue any additional equity securities of the Company ranking senior to or *pari passu* with the Class B Preferred Securities as to periodic distribution rights or rights on liquidation or dissolution of the Company. However, the Company may, from time to time, and without the consent of the holders of the Class B Preferred Securities, issue additional Class B Preferred Securities having the same terms and conditions as the Class B Preferred Securities (or in all respects except for the issue date, the date from which Capital Payments accrue on the Class B Preferred Securities, the issue price, and any other deviations required for compliance with applicable law) so as to form a single series with the Class B Preferred Securities in consideration for Debt Securities of a principal amount equal to the aggregate liquidation preference amount of such additional Class B Preferred Securities.

Notwithstanding that holders of the Class B Preferred Securities may become entitled to vote or consent under any of the circumstances described in the LLC Agreement or in the by-laws of the Company (the “**Bylaws**”), the Bank, the Company or any of their respective affiliates (other than the Trust) will not be entitled to vote or consent, directly or indirectly, any of their respective Class B Preferred Securities. Such Class B Preferred Securities will be treated as if they were not outstanding for purposes of casting the relevant vote. However, the Bank, its subsidiaries or affiliates may vote or consent any of their respective Class B Preferred Securities if the Class B Preferred Securities were purchased or acquired by the Bank or its subsidiaries or affiliates in connection with transactions effected by or for the account of customers of the Bank or any of its subsidiaries or affiliates or in connection with the distribution or trading of or market-making in connection with such Class B Preferred Securities in the ordinary course of business. Certain persons (other than subsidiaries or affiliates of the Bank), excluding the Trust, to whom the Bank or any of its subsidiaries or affiliates have pledged



Class B Preferred Securities may vote or consent with respect to such pledged Class B Preferred Securities to the extent permitted by the terms of such pledge.

### ***Redemption of the Class B Preferred Securities***

The Class B Preferred Securities are redeemable at the option of the Company, in whole but not in part, on any Capital Payment Date falling on or after the Initial Redemption Date at the Redemption Price plus Additional Amounts, if any. The Company will also have the right, at any time, to redeem the Class B Preferred Securities, in whole but not in part, upon the occurrence of a Company Special Redemption Event (i) at the Redemption Price, in the case of a Gross-up Event or (ii) upon the occurrence of any other Company Special Redemption Event, the Early Redemption Price, *plus*, in each case, Additional Amounts, if any.

The Class B Preferred Securities may only be redeemed for any reason if on the Redemption Date:

- the Company has sufficient funds (by reason of the Debt Securities, Permitted Investments or the Support Undertaking) to pay the Redemption Price or the Early Redemption Price, as the case may be, and to pay in full an amount corresponding to the Capital Payments accrued and unpaid as of the Redemption Date, *plus*, Additional Amounts, if any;
- the Debt Securities have been redeemed;
- the Bank has an amount of Distributable Profits at least equal to the Capital Payments on the Class B Preferred Securities accrued and unpaid as of the Redemption Date or the excess, if any, of the Make-Whole Amount over the aggregate liquidation preference amount of the Class B Preferred Securities, as applicable, *plus* Additional Amounts, if any;
- no order of the BaFin (or any other relevant regulatory authority) is in effect prohibiting the Bank from making any distributions (including to the holders of Parity Securities, if any); and
- all required regulatory approvals have been obtained.

In the event that payment of any redemption price in respect of any Class B Preferred Securities is improperly withheld or refused and not paid, Capital Payments on such Class B Preferred Securities will continue to accrue from the Redemption Date to the date of actual payment of such redemption price.

Any redemption of the Class B Preferred Securities, whether on a Capital Payment Date on or after the Initial Redemption Date or upon the occurrence of a Company Special Redemption Event, will not require the vote or consent of any of the holders of the Class B Preferred Securities.

### ***Redemption Procedures***

The Board of Directors on behalf of the Company will deliver notice of any redemption of the Class B Preferred Securities (a “**Redemption Notice**”) by mail to the record holder of each Class B Preferred Security to be redeemed not fewer than 30 days before the date fixed for redemption, or such other time period as may be required by the relevant regulatory authorities. For purposes of the calculation of the Redemption Date and the dates on which notices are given pursuant to the LLC Agreement, a Redemption Notice will be deemed to be given on the day such notice is first mailed, by first-class mail, postage prepaid, to holders of the Class B Preferred Securities. Each Redemption Notice will be addressed to the holders of the Class B Preferred Securities at the address of each such holder appearing in the books and records of the Company. No defect in the Redemption Notice or in the mailing thereof with respect to any holder will affect the validity of the redemption proceedings with respect to any other holder.

If the Company gives a Redemption Notice (which notice shall be irrevocable) by 9:00 a. m., Central European time, on the Redemption Date, the Company will:

- if the Class B Preferred Securities are held in book-entry only form with Euroclear or Clearstream,

- deposit irrevocably with Euroclear or Clearstream funds sufficient to pay the Redemption Price and
- give Euroclear or Clearstream irrevocable instructions and authority to pay the redemption price in respect of the Class B Preferred Securities held through Euroclear or Clearstream, or
- if the Class B Preferred Securities are held in definitive form,
  - deposit with the Principal Paying Agent funds sufficient to pay the applicable redemption price and
  - give to the Principal Paying Agent irrevocable instructions and authority to pay such amounts to the holders of the Class B Preferred Securities, upon surrender of their certificates, by check, mailed to the address of the relevant holder of the Class B Preferred Securities appearing on the books and records of the Company on the Redemption Date.

However, for so long as the Property Trustee holds the Class B Preferred Securities, payment will be made by wire in same day funds to the holder of the Class B Preferred Securities by 9:00 a.m., Central European time, on the Redemption Date. Upon satisfaction of the foregoing conditions, then immediately prior to the close of business on the date of payment, all rights of the holders of the Class B Preferred Securities so called for redemption will cease, except the right of the holders to receive the redemption price, but without interest on the redemption price, and from and after the date fixed for redemption, such Class B Preferred Securities will not accrue Capital Payments or bear interest.

If any Redemption Date that occurs before the Reset Date falls on a day that is not a Business Day, the relevant payment will be payable on the first following Business Day without adjustment, interest or further payment as a result thereof. If any Redemption Date that occurs on or after the Reset Date falls on a day that is not a Business Day, such Redemption Date shall be postponed to the next succeeding Business Day, unless it would thereby fall into the next calendar month, in which case such Redemption Date shall be the immediately preceding Business Day.

#### ***Repurchase of Class B Preferred Securities.***

The Company may, subject to the LLC Act, from time to time repurchase or otherwise receive for cancellation outstanding Class B Preferred Securities from the Trust on such terms as an officer designated by the Board of Directors determines; *provided that*

- so long as Trust Preferred Securities of the Trust are outstanding, the Trust has repurchased or otherwise received for cancellation Trust Preferred Securities in a like aggregate Liquidation Preference Amount, on the same terms (including payment of Capital Payments at the Stated Rate through the same date) as the Class B Preferred Securities being repurchased,
- the Bank has repurchased or otherwise cancelled an aggregate principal amount of the Initial Debt Securities equal to the aggregate liquidation preference amount of the Class B Preferred Securities being repurchased or cancelled on the same terms (including payment of accrued interest on the Initial Debt Securities through the same date), as the repurchase or cancellation of the Class B Preferred Securities, and
- the Bank, the Trust and the Company have received all governmental authorizations required in connection with such transactions.

All Class B Preferred Securities so repurchased or otherwise received will be cancelled and no longer deemed to be outstanding.

### **Liquidation Distribution**

Upon liquidation of the Company, the holder of the Class A Preferred Security has a claim senior to that of the holders of the Class B Preferred Securities, and the holders of the Class B Preferred Securities have a claim senior to that of the holder of the Company Common Security. Any payments made by the Bank pursuant to the Support Undertaking will be payable by the Company solely to the holders of the Class B Preferred Securities. The holder of the Class A Preferred Security will be enti-

to receive the Debt Securities or Permitted Investments (including accrued and unpaid interest thereon) as its liquidation distribution.

Upon the voluntary or involuntary liquidation, dissolution or winding up of the Company, holders of the Class B Preferred Securities will, subject to the limitations described below, be entitled to receive the liquidation preference amount of such Class B Preferred Securities, *plus*, in each case, accrued and unpaid Capital Payments in respect of the current Capital Payment Period to, but excluding the date of liquidation, dissolution or winding up, and Additional Amounts, if any. The Company expects to pay the liquidation distribution to the holders of the Class B Preferred Securities out of funds received from the Support Undertaking. The holders of the Class B Preferred Securities will be entitled to receive their liquidation distribution before any distribution of assets is made to the holder of the Company Common Security. Under the terms of the LLC Agreement and to the fullest extent permitted by law, the Company will not be dissolved until all obligations under the Support Undertaking have been paid in full pursuant to its terms.

### **Mergers, Consolidations and Sales**

The Company may not consolidate, amalgamate, merge with or into, or be replaced by, or convey, transfer or lease its properties and assets substantially as an entirety to, any corporation or other body, except as described below. With the consent of the holders of the Class B Preferred Securities, the Company may consolidate, amalgamate, merge with or into, or be replaced by a limited partnership, limited liability company or trust organized as such under the laws of any state of the United States of America, *provided* that:

- such successor entity either expressly assumes all of the obligations of the Company under the Class B Preferred Securities or substitutes for the Class B Preferred Securities other securities having substantially the same terms as the Class B Preferred Securities (the “**Successor Company Securities**”) so long as the Successor Company Securities are not junior to any equity securities of the successor entity, with respect to participation in the profits, distributions and assets of the successor entity, except that they may rank junior to the Class A Preferred Security or any successor Class A Preferred Security to the same extent that the Class B Preferred Securities rank junior to the Class A Preferred Security;
- the Bank expressly acknowledges such successor entity as the holder of the Debt Securities and holds, directly or indirectly, all of the voting securities (within the meaning of Rule 3a-5 under the 1940 Act) of such successor entity;
- such consolidation, amalgamation, merger or replacement does not adversely affect the powers, preferences and other special rights of the holders of the Trust Preferred Securities or Class B Preferred Securities (including any Successor Company Securities) in any material respect;
- such successor entity has a purpose substantially identical to that of the Company;
- prior to such consolidation, amalgamation, merger or replacement, the Company has received an opinion of an internationally recognized law firm in the United States of America experienced in such matters to the effect that following such consolidation, amalgamation, merger or replacement:
  - such successor entity will be treated as a partnership, and will not be classified as an association or a publicly traded partnership taxable as a corporation, for U.S. federal income tax purposes,
  - the Trust will not be classified as other than a grantor trust for U.S. federal income tax purposes,
  - such successor entity will not be required to register under the 1940 Act, and
  - the limited liability of the holders of the Class B Preferred Securities will not be adversely affected; and
- the Bank provides an undertaking to the successor entity under the Successor Company Securities equivalent to that provided by the Support Undertaking with respect to the Class B Preferred Securities.

### **Book-Entry and Settlement**

If the Class B Preferred Securities are distributed to holders of the Trust Preferred Securities in connection with the involuntary or voluntary liquidation, dissolution, winding up or termination of the Trust, the Company and the Bank will use reasonable efforts to arrange for the Class B Preferred Securities to be issued in the form of one or more global certificates (each a “**Global Security**”) registered in the name of the nominee of Euroclear and Clearstream. As of the date of this Prospectus, the description herein of Euroclear and Clearstream’s book-entry system and practices as they relate to purchases, transfers, notices and payments with respect to the Trust Preferred Securities will apply in all material respects to any Class B Preferred Securities represented by one or more Global Securities.

### **Registrar and Transfer Agent**

Deutsche Bank Aktiengesellschaft, Frankfurt am Main, will also act as the registrar and transfer agent for the Class B Preferred Securities. Registration of transfers of the Class B Preferred Securities will be effected without charge by or on behalf of the Company, but upon payment (with the giving of such indemnity as the transfer agent for the Class B Preferred Securities may require) in respect of any tax or other governmental charges that may be imposed in relation to it. After such Class B Preferred Securities have been called for redemption, the transfer agent for the Class B Preferred Securities will not be required to register or cause to be registered the transfer of the Class B Preferred Securities.

### **Governing Law**

The LLC Agreement and the Class B Preferred Securities will be governed by, and construed in accordance with, the laws of the State of Delaware, United States of America.

### **Miscellaneous**

The Board of Directors is authorized and directed to conduct the affairs of the Company in such a way that (i) the Company will not be deemed to be required to register under the 1940 Act, and (ii) the Company will not be treated as an “association” or as a “publicly traded partnership” (within the meaning of Section 7704 of the Code) taxable as a corporation for U.S. federal income tax purposes. In this connection, the Board of Directors is authorized to take any action not inconsistent with applicable law or the LLC Agreement that the Board of Directors determines in its discretion to be necessary or desirable for such purposes, so long as such action does not adversely affect the interests of the holders of the Class B Preferred Securities.

The Class B Preferred Securities may not be purchased by or transferred to any employee benefit plan subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended, any plan or arrangement subject to Section 4975 of the Code, or any entity whose underlying assets include the assets of any such employee benefit plans, plans or arrangements.

## DESCRIPTION OF THE SUPPORT UNDERTAKING

*The following summary sets forth the material terms and provisions of the Support Undertaking. This summary is qualified in its entirety by reference to the terms and provisions of such agreement, which is included herein as Appendix A.*

The Bank and the Company will enter into the Support Undertaking prior to the issuance of the Class B Preferred Securities, pursuant to which the Bank will undertake that:

- the Company will at all times be in a position to meet its obligations if and when such obligations are due and payable, including Capital Payments declared (or deemed declared) on the Class B Preferred Securities and payments due upon redemption of the Class B Preferred Securities (plus, in each case, Additional Amounts thereon, if any),
- in liquidation or dissolution of the Company, the Company will have sufficient funds to pay the liquidation preference amounts of the Class B Preferred Securities, *plus* any accrued and unpaid Capital Payments for the then current Capital Payment Period up to, but excluding, the date of liquidation or dissolution, and Additional Amounts, if any, and
- it will not to give any guarantee or similar undertaking with respect to, or enter into any other agreement relating to the support of, any other preference shares or similar instruments of any other affiliated entity that would rank senior in any regard to the Support Undertaking, unless the Support Undertaking is amended so that it ranks at least *pari passu* with and contains substantially equivalent rights of priority as to payment as any such other guarantee or other support agreement.

So long as any Class B Preferred Securities remain outstanding, the Support Undertaking may not be modified or terminated without the consent of the holders of the Class B Preferred Securities except for such modifications that are not adverse to the interests of the holders of the Class B Preferred Securities.

**The Support Undertaking is not a guarantee of any kind that the Company will at any time have sufficient assets to declare a Capital Payment or other distribution.**

The Bank's obligations under the Support Undertaking will be subordinated to all senior and subordinated debt obligations of the Bank (including profit participation rights (*Genussrechte*)), will rank at least *pari passu* with each class of the most senior ranking preference shares, if any, that rank senior to the common stock of the Bank as to liquidation rights and with other instruments of the Bank qualifying as Tier I regulatory capital, and will rank senior to any other preference shares and common stock of the Bank.

The holders of the Class B Preferred Securities will be third-party beneficiaries of the Support Undertaking. As titleholder of the Class B Preferred Securities for the benefit of the holders of the Trust Securities, the Property Trustee will have the power to exercise all rights, powers and privileges with respect to the Class B Preferred Securities under the Support Undertaking. If a holder of the Class B Preferred Securities has notified the Company that the Bank has failed to perform any obligation under the Support Undertaking, and such failure continues for 60 days or more after such notice is given, the holders of a majority in liquidation preference amount of the Class B Preferred Securities (and, accordingly, the holders of the Trust Preferred Securities representing Class B Preferred Securities acting through the Property Trustee) will have the right to appoint the Independent Enforcement Director, who will be required to enforce the rights of the Company under the Support Undertaking.

The Company will distribute all payments under the Support Undertaking *pro rata* to holders of the Class B Preferred Securities until the holders of the Class B Preferred Securities receive the full amount payable under the Class B Preferred Securities. So long as the Trust holds Class B Preferred Securities, the Property Trustee will distribute such payments received by the Trust to the holders of the Trust Preferred Securities *pro rata*.

The Support Undertaking will be governed by the laws of the Federal Republic of Germany.

## DESCRIPTION OF THE INITIAL DEBT SECURITIES

*The following summary sets forth the material terms and provisions of the Initial Debt Securities. This summary is qualified in its entirety by reference to the terms and provisions of the Initial Debt Securities.*

### General

The Principal Amount of the Initial Debt Securities will be € 350,076,000 and will be equal to the sum of the aggregate liquidation preference amount of the Class B Preferred Securities *plus* certain amounts contributed by the Bank in return for the Class A Preferred Security and the Company Common Security. Together with the € 1,000 contributed by the Bank in return for the Class A Preferred Security and € 25,000 contributed by the Bank for the Company Common Security, the Company will use the proceeds from the issuance of the Class B Preferred Securities to purchase the Initial Debt Securities. The purchase of the Initial Debt Securities will occur contemporaneously with the issuance of the Class B Preferred Securities. The Initial Debt Securities will not be listed on any stock exchange.

The Initial Debt Securities will consist of an issue of subordinated notes issued by the Bank, which will mature on June 14, 2037 (the “**Maturity Date**”); *provided, however*, that the Initial Debt Securities will not include any obligation of the Bank shown as a liability on the books of a U.S. branch of the Bank.

Interest will accrue on the Principal Amount of the Initial Debt Securities as follows:

- for each Interest Payment Period ending prior to the Reset Date, at a rate at least equal to the Fixed Rate, payable annually in arrears on each Fixed Rate Payment Date, and
- for each Interest Payment Period commencing on or after the Reset Date, at a rate at least equal to the Floating Rate, payable quarterly in arrears on each Floating Rate Payment Date.

For each Interest Payment Period ending prior to the Reset Date, interest will be calculated on the basis of the actual number of days elapsed, divided by the actual number of days (365 or 366) in the relevant Interest Payment Period. For each Interest Payment Period beginning on or after the Reset Date, interest will be calculated on the basis of the actual number of days elapsed in a 360-day year.

If any Interest Payment Date or any Debt Redemption Date that occurs on or before the Reset Date falls on a day that is not a Business Day, the relevant payment will be payable on the first following Business Day without adjustment, interest or further payment as a result thereof. If any Interest Payment Date or any Debt Redemption Date that occurs after the Reset Date falls on a day that is not a Business Day, such Interest Payment Date or Debt Redemption Date shall be postponed to the next succeeding Business Day, unless it would thereby fall into the next calendar month, in which case such Interest Payment Date or Debt Redemption Date shall be the immediately preceding Business Day.

Payment of interest on the Initial Debt Securities and any repayment upon redemption thereof will be made without deduction or withholding for Withholding Taxes imposed by the Federal Republic of Germany or the jurisdiction of residence of any obligor of the Debt Securities or any other jurisdiction from which such payment is made or, in each case, any political subdivision or authority therein or thereof unless such deduction or withholding is required by law. In such event, the Bank or any other obligor will pay Additional Interest Amounts as may be necessary in order that the net amounts received by the Company will equal the amounts that otherwise would have been received had no such withholding or deduction been required. The obligation of the Bank or such obligor to pay such Additional Interest Amounts will not apply:

- with respect to any amounts of Withholding Taxes that are payable by reason of the holder of the Initial Debt Securities having some connection with any Relevant Jurisdiction other than by reason only of the mere holding of the Initial Debt Securities;
- with respect to any amounts of Withholding Taxes if such deduction or withholding is imposed on a payment to an individual and is required to be made pursuant to European Council Directive



2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

- with respect to any amounts of Withholding Taxes imposed on account of any inheritance, thrift, estate, personal property, sales or transfer taxes, or on account of any taxes that are payable otherwise than by withholding from payments in respect of the Initial Debt Securities.

The Initial Debt Securities will not be redeemable prior to June 14, 2017, except as set forth below. Subject to having obtained any required regulatory approvals, the Bank may cause the redemption of the Initial Debt Securities in whole but not in part prior to June 14, 2017, upon (i) the occurrence of a Company Special Redemption Event and the election of the Company to redeem the Class B Preferred Securities and (ii) at least 30 days' prior notice, at a redemption price equal to:

- the Principal Amount of the Initial Debt Securities in the case of a Gross-Up Event, or
- upon the occurrence of any other Company Special Redemption Event, at the greater of
  - the Principal Amount of the Initial Debt Securities or
  - the Debt Make-Whole Amount plus, in each case, accrued and unpaid interest and Additional Interest Amounts, if any.

Exercise of the Bank's redemption right, as described below, is conditioned upon replacement of the Principal Amount to be redeemed by paying in other, at least equivalent own funds (*haftendes Eigenkapital*) within the meaning of the German Banking Act (*Kreditwesengesetz*), or prior approval of the BaFin of such early redemption.

Subject to having obtained any required regulatory approvals and at its option, the Bank may also redeem the Initial Debt Securities, in whole but not in part, on any Interest Payment Date on or after the Initial Debt Redemption Date, upon at least 30 days' prior notice, *provided* that the Company is permitted under the LLC Agreement and has elected to redeem the Class B Preferred Securities. Such redemption of the Initial Debt Securities will be at a redemption price at least equal to the Principal Amount plus any accrued and unpaid interest up to, but excluding, the Debt Redemption Date and Additional Interest Amounts, if any.

In the event of any default in payment or the default in performance of any other covenant of the Bank on the Initial Debt Securities, the Company will enforce its rights for payment of any overdue amounts, but will not be able to accelerate the maturity of the Initial Debt Securities.

### **Subordination**

The Initial Debt Securities constitute direct, unconditional, unsecured and subordinated obligations of the Bank ranking *pari passu* with all other subordinated obligations of the Bank. Upon the dissolution, liquidation, bankruptcy, composition or other proceedings for the avoidance of bankruptcy of, or against, the Bank, such obligations will be subordinated to the claims of all unsubordinated creditors of the Bank so that in any event no amounts shall be payable under such obligations until the claims of all unsubordinated creditors of the Bank shall have been satisfied in full.

As the holder of the Initial Debt Securities, the Company will also agree by its acceptance thereof that it waives any rights it may have to set off claims under the Initial Debt Securities against claims the Bank may have against it. Pursuant to § 10, subparagraph (5a) of the German Banking Act (*Kreditwesengesetz*), if the Bank repurchases or repays the Initial Debt Securities prior to a date on which such repurchase or repayment is permitted under the terms thereof, notwithstanding any agreements to the contrary, any amounts so paid to a holder of the Initial Debt Securities must be returned to the Bank unless the Principal Amount is replaced with at least equivalent own funds (*haftendes Eigenkapital*) or prior approval of the BaFin has been granted.

The obligations of the Bank under the Initial Debt Securities may not be secured by any lien, security interest or other encumbrance on any property of the Bank or any other person. Except as permitted by applicable law, the Bank will not, directly or indirectly, acquire for its own account, finance for the



account of any other person the acquisition of, or accept as security for any obligation owed to it, any of the Initial Debt Securities. The Bank is also prohibited from amending the terms of the Initial Debt Securities to limit the subordination provisions or change the Initial Redemption Date to an earlier date.

### **Substitution**

At any time, the Bank will have the right to

- substitute as obligor of the Debt Securities any Qualified Subsidiary, or
- replace the Debt Securities with Substitute Debt Securities issued by the Bank (including on behalf of a branch other than a U.S. branch) or by a Qualified Subsidiary (including on behalf of a branch other than a U.S. branch, but excluding a subsidiary organized under the laws of the United States of America or any of its states),

in each case, with identical terms to those of the Initial Debt Securities and provided that the following conditions are met:

- such substitution or replacement does not result in a Company Special Redemption Event,
- the Bank, unless it itself is the substitute obligor, guarantees on a subordinated basis that ranks at least *pari passu* with the Initial Debt Securities the obligations of the substitute obligor (as provided below), and
- the Bank has obtained any required regulatory approvals.

In the event that the Bank is not the substitute obligor, the Bank shall guarantee the principal of and interest on the Substitute Debt Securities. The obligations of the Bank under such guarantee will be subordinated in the event of liquidation of the Bank to all obligations of the Bank that are not subordinated. All payments by the Bank under such guarantee will be made by the Bank without withholding or deduction for Withholding Taxes unless such deduction or withholding is required by law. In such event, the Bank or any other obligor will pay Additional Interest Amounts as may be necessary in order that the net amounts received by the Company will equal the amounts that otherwise would have been received had no such withholding or deduction been required; *provided* that the obligation of the Bank or such obligor to pay such Additional Interest Amounts shall not apply:

- with respect to any amounts of Withholding Taxes that are payable by reason of the holder of the Substitute Debt Securities having some connection with any Relevant Jurisdiction other than by reason only of the mere holding of the Substitute Debt Securities;
- with respect to any amounts of Withholding Taxes if such deduction or withholding is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;
- with respect to any amounts of Withholding Taxes imposed on account of any inheritance, thrift, estate, personal property, sales or transfer taxes, or on account of any taxes that are payable otherwise than by withholding from payments in respect of the Substitute Debt Securities.

### **Redemption and Reinvesting of Proceeds**

After the Maturity Date, if the Class B Preferred Securities have not been redeemed, the Company will invest the net proceeds from the repayment of the Debt Securities in Permitted Investments. The Company will attempt to purchase Permitted Investments on terms that are the best available in relation to providing funds for the payment of Capital Payments and the redemption of the Class B Preferred Securities:

- debt obligations of one or more Qualified Subsidiaries, unconditionally guaranteed by the Bank (which may act through a non-German branch), on a basis that ranks at least *pari passu* with the Initial Debt Securities or
- in United States Treasury securities.

### **Governing Law**

The Initial Debt Securities will be governed by the laws of the Federal Republic of Germany.

# HYPO REAL ESTATE INTERNATIONAL TRUST I

## General

Hypo Real Estate International Trust I is a statutory trust formed under the Trust Act, pursuant to the declaration of trust executed by the Company, as sponsor, the Property Trustee and the Delaware Trustee, and the filing of a certificate of trust with the Secretary of State of the State of Delaware on April 17, 2007. Such declaration of trust will be amended and restated in its entirety prior to the issuance of the Trust Preferred Securities to reflect the terms of the Trust Preferred Securities (as so amended and restated, the “**Trust Agreement**”). The place of registration and location of the principal executive office of the Trust is c/o Deutsche Bank Trust Company, Delaware, Hypo Real Estate International Trust I, 1011 Centre Road, Suite 200, Wilmington, Delaware 19805, United States of America, telephone +1 (302) 636-3301. The Delaware file number of the Trust is 4301616.

A Hypo Real Estate Bank International Group Company will be the holder of the Trust Common Security representing a capital contribution in respect thereof equal to € 50,000. The Trust Common Security will rank *pari passu*, and payments thereon will be made *pro rata*, with the Trust Preferred Securities, except that in liquidation and in certain circumstances described under “Description of the Trust Securities – Ranking of the Trust Common Security,” the rights of the holder of the Trust Common Security to periodic distributions and to payments and distributions upon liquidation, redemption and otherwise will be subordinated to the rights of the holders of the Trust Preferred Securities.

## Purpose

The Trust will use the proceeds derived from the issuance of the Trust Securities to purchase the Class B Preferred Securities from the Company, and, accordingly, the assets of the Trust will consist solely of the Class B Preferred Securities.

The Trust exists for the sole purposes of

- issuing the Trust Securities representing undivided beneficial ownership interests in the Class B Preferred Securities,
- investing the proceeds from the issuance of the Trust Securities in the Class B Preferred Securities, and
- engaging in those other activities necessary or incidental thereto.

The Trust may also, from time to time, issue additional Trust Preferred Securities, *provided* it receives from the Company an equal number of additional Class B Preferred Securities.

## Trustees

Pursuant to the Trust Agreement, there will be five trustees (the “**Trustees**”) of the Trust. Three of the Trustees will be individuals who are employees or officers of the Deutsche Bank Trust Company Delaware mandated by the Bank to provide such services (the “**Regular Trustees**”). The fourth Trustee (the “**Property Trustee**”) will be a financial institution that is unaffiliated with the Bank. The fifth Trustee will be the “**Delaware Trustee**”: Deutsche Bank Trust Company Americas, a New York banking corporation, will act as Property Trustee, and Deutsche Bank Trust Company Delaware, a Delaware banking corporation, will act as Delaware Trustee. The Trustees will perform their duties, until, in each case, they are removed or replaced by the holder of the Trust Common Security. The initial Regular Trustees will be Elizabeth B. Ferry, David Dwyer and Michelle Siwik. The Trustees have no conflict of interest between their duty to the Trust and/or their private interests and/or other duties. The address of all Regular Trustees is the principal executive office of the Trust, c/o Deutsche Bank Trust Company Delaware, 1011 Centre Road, Suite 200, Wilmington, Delaware 19805, United States of America.

## Assets

The Property Trustee will hold title to the Class B Preferred Securities for the benefit of the holders of the Trust Securities, and the Property Trustee will have the power to exercise all rights, powers and privileges with respect to the Class B Preferred Securities under the LLC Agreement.

## Property Account

In addition, the Property Trustee will maintain exclusive control of the Property Account to hold all payments made in respect of the Class B Preferred Securities for the benefit of the holders of the Trust Securities. As the holder of the Trust Common Security, a Hypo Real Estate Bank International Group Company will have the right to appoint, remove or replace any of the Trustees and to increase or decrease the number of Trustees, *provided* that at least one Trustee will be the Delaware Trustee, at least one Trustee will be the Property Trustee and at least one Trustee will be a Regular Trustee.

## Covenants of the Bank in relation to the Trust

For so long as the Trust Preferred Securities remain outstanding, the Bank will covenant:

- that the Trust Common Security will be held by a Hypo Real Estate Bank International Group Company,
- to cause the Trust to remain a statutory trust,
- to use its commercially reasonable efforts to ensure that the Trust will not be classified as other than a grantor trust for U.S. federal income tax purposes, and
- to the fullest extent permitted by law, not to permit the dissolution, liquidation, termination or winding-up of the Trust, unless a Trust Special Redemption Event or a Company Special Redemption Event occurs, or the Company is itself in liquidation and the regulatory approvals necessary therefor have been obtained.

## Voting Rights

The rights of the holders of the Trust Preferred Securities, including economic rights, rights to information and voting rights, are as set forth in the Trust Agreement and the Trust Act. See "Description of the Trust Securities."

Under the services agreement among the Trust, the Company and the Servicer (the "**Services Agreement**"), the Servicer will be obligated, among other things, to provide tax and other administrative services to the Trust and the Company.

## Legal Proceedings

The Trust is not currently and has not been since its formation the subject of any legal proceedings, which might have an impact on the Trust's financial situation for the future.

## Material Contracts

Other than the agreements in connection with the Transaction, the Trust has not entered into any material contracts that are not entered into in the ordinary course of the Trust's Business.

## Offices of the Property Trustee and the Delaware Trustee

The location of the offices of the Property Trustee is Deutsche Bank Trust Company Americas, 60 Wall Street -MSNYC 60-2710, New York, New York 10005, United States of America. The location of the offices of the Delaware Trustee is Deutsche Bank Trust Company Delaware, 1011 Centre Road, Suite 200, Wilmington, Delaware 19805, United States of America.

## Financial Year

The financial year of the Trust corresponds to the calendar year. Unless required by applicable law or regulations, the accounts of the Trust will not be audited.

## Financial Statements and Capitalization

The Trust has not prepared an opening balance sheet because it has not engaged in any business activities before the consummation of the sale of the Trust Preferred Securities and, therefore, any information to be included in an opening balance sheet other than the information included in the following capitalization table of the Trust would be of minor importance for the offer of the Trust Preferred Securities and would not influence the assessment of the financial position and prospectus of the Trust as set out in Art. 10(2)(c) of the Luxembourg Law on Prospectuses for Securities.

The following table sets forth the capitalization of the Trust as of the date hereof and as adjusted to reflect the consummation of the sale of the Trust Preferred Securities and the use of the proceeds therefrom as described under "General Information – Use of Proceeds."

### Capitalization of the Trust

	June 14, 2007	
	Actual	As Adjusted
	(€ in thousands)	
<b>Debt</b>		
Total debt. . . . .	0	0
<b>Securityholders' interests</b>		
Trust Preferred Securities; none issued and outstanding, actual; and 7,000 securities authorized, 7,000 securities issued and out- standing, as adjusted . . . . .	0	350,000
Trust Common Security; none issued and outstanding, actual; and 1 Trust Common Security authorized, 1 Trust Common Security issued and outstanding, as adjusted . . . . .	0	50
Total securityholders' interests . . . . .	0	350,050
<b>Total capitalization</b> <sup>(1)</sup> . . . . .	0	350,050

<sup>(1)</sup> There has been no material change in the capitalization of the Trust since its creation, except as disclosed in the above table.

# **HYPO REAL ESTATE INTERNATIONAL LLC I**

## **General**

Hypo Real Estate International LLC I is a limited liability company formed under the LLC Act on April 17, 2007 pursuant to an initial limited liability company agreement (as subsequently amended and restated, the “**LLC Agreement**”) and the filing of a certificate of formation of the Company with the Secretary of State of the State of Delaware. Pursuant to the LLC Agreement, the Company will issue two classes of preferred securities representing limited liability company interests in the Company, the Class A Preferred Security and the Class B Preferred Securities, and one class of common security representing limited liability company interests in the Company, the Company Common Security. The Property Trustee will initially hold 100% of the issued and outstanding Class B Preferred Securities. A Hypo Real Estate Bank International Group Company will hold the issued and outstanding Company Common Security and the Class A Preferred Security. The Delaware file number of the Company is 4335819.

## **Purpose**

The sole purposes of the Company are

- to issue the Class A Preferred Security, the Class B Preferred Securities and the Company Common Security,
- to invest the proceeds thereof in the Initial Debt Securities,
- upon any redemption of the Initial Debt Securities prior to the Maturity Date, which does not involve a redemption of the Class B Preferred Securities, to accept Substitute Debt Securities issued by the Bank (including on behalf of a branch other than a U.S. branch) or by a Qualified Subsidiary (other than a U.S. Qualified Subsidiary) (including on behalf of a branch other than a U.S. branch) in replacement for the Initial Debt Securities, so long as any such reinvestment does not result in a Company Special Redemption Event,
- in the event of any default on the Debt Securities, to enforce its rights for payment of any overdue amounts,
- after the Maturity Date, if the Class B Preferred Securities have not been redeemed, to invest in Permitted Investments,
- to enter into and, in certain circumstances, to enforce the Support Undertaking for the sole benefit of the holders of the Class B Preferred Securities, and
- to engage in those other activities necessary or incidental thereto.

The Company may also, from time to time and without the consent of the holders of the Class B Preferred Securities, issue additional Class B Preferred Securities having the same terms and conditions as the Class B Preferred Securities (in all respects except for the issue date, the date from which Capital Payments accrue on the Class B Preferred Securities, the issue price, and any other deviations required for compliance with applicable law) so as to form a single series with the Class B Preferred Securities in consideration for Debt Securities of a principal amount equal to the aggregate liquidation preference amount of such additional Class B Preferred Securities.

## **Covenants under the LLC Agreement**

For so long as the Class B Preferred Securities remain outstanding, the LLC Agreement provides that:

- the Company will remain a limited liability company and, to the fullest extent permitted by law, will not voluntarily or involuntarily liquidate, dissolve, wind up or be terminated, except as permitted by the LLC Agreement;



- the Bank and the Company will use commercially reasonable efforts to ensure that the Company will not be an association or a publicly traded partnership taxable as a corporation for U.S. federal income tax purposes;
- the Bank undertakes that a Hypo Real Estate Bank International Group Company will maintain sole ownership of the Company Common Security and the Class A Preferred Security; and
- a Hypo Real Estate Bank International Group Company may transfer the Company Common Security or the Class A Preferred Security only to another Hypo Real Estate Bank International Group Company.

Prior to such transfer, the Company must obtain an opinion of an internationally recognized law firm in the United States of America experienced in such matters to the effect that

- the Company will continue to be treated as a partnership, and not as an association or publicly traded partnership taxable as a corporation, for U.S. federal income tax purposes,
- such transfer will not cause the Company to be required to register under the 1940 Act, and
- such transfer will not adversely affect the limited liability of the holders of the Class B Preferred Securities.

### **Voting Rights**

The rights of the holders of the Class B Preferred Securities, including economic rights, rights to information and voting rights, are set forth in the LLC Agreement and the LLC Act. See “Description of the Company Securities – Class B Preferred Securities.”

### **Board of Directors; Independent Enforcement Director**

The Company’s business and affairs will be conducted by its Board of Directors, which initially will consist of four members, elected by the Bank as initial holder of the Company Common Security. However, in the event that:

- any event causing a liquidation or dissolution of the Company has occurred, or
- the Company fails to pay Capital Payments (including any Additional Amounts thereon, if any) as and when due on the Class B Preferred Securities at the Stated Rate in full for two consecutive Capital Payment Periods; or
- a holder of the Class B Preferred Securities has notified the Company that the Bank has failed to perform any obligation under the Support Undertaking and such failure continues for 60 days after such notice is given,

then the holders of a majority in liquidation preference amount of the Class B Preferred Securities will have the right to appoint an Independent Enforcement Director.

The Independent Enforcement Director’s term will end if, in such Independent Enforcement Director’s sole determination, Capital Payments have been made on the Class B Preferred Securities at the Stated Rate in full for two consecutive Capital Payment Periods and the Bank is in compliance with its obligations under the Support Undertaking.

### **Amendments to the LLC Agreement**

So long as any Class B Preferred Securities are outstanding and unless approved by the holders of at least 66<sup>2</sup>/<sub>3</sub>% in aggregate liquidation preference amount of the Class B Preferred Securities, voting separately as a class (excluding any Class B Preferred Securities held by the Bank or any of its affiliates, other than the Trust), the Company will not:

- amend, alter, repeal or change any provision of the LLC Agreement (including the terms of the Class B Preferred Securities) if such amendment, alteration, repeal or change would materially adversely affect the rights, preferences, powers or privileges of the Class B Preferred Securities,
- agree to modify or amend any provision of the Debt Securities, or waive any default in the payment of any amount under the Debt Securities, in any manner that would have a material adverse effect on the interests of the holders of the Class B Preferred Securities, or
- effect any merger, consolidation, or business combination involving the Company, or any sale of all or substantially all of the assets of the Company; *provided* that any such merger, consolidation, or business combination involving the Company, or any sale of all or substantially all of the assets of the Company also must comply with the requirements set forth under "Description of the Company Securities – Mergers, Consolidations and Sales."

### **Further Issues**

Unless approved by all the holders of the Class B Preferred Securities (excluding any Class B Preferred Securities held by the Bank or any of its affiliates), the Company will not issue any additional securities of the Company ranking senior to or *pari passu* with the Class B Preferred Securities as to periodic distribution rights or rights on liquidation or dissolution of the Company. However, from time to time, Company may issue additional Class B Preferred Securities in consideration for Debt Securities of a principal amount equal to the aggregate liquidation preference amount of such additional Class B Preferred Securities.

### **Permitted Investments**

After the Maturity Date of the Initial Debt Securities, if the Class B Preferred Securities have not been redeemed, the Company will invest in Permitted Investments. The Company will select for purchase Permitted Investments on terms that are the best available in relation to providing funds for the payment of Capital Payments, any Additional Amounts and the redemption price of the Class B Preferred Securities:

- debt obligations of one or more Qualified Subsidiaries of the Bank, unconditionally guaranteed by the Bank on a subordinated basis that rank at least *pari passu* with the Initial Debt Securities, or
- United States Treasury securities,

*provided*, in each case, that such investment does not result in a Company Special Redemption Event.

### **Services Agreement**

The Company will also enter into the Services Agreement with the Trust and the Servicer, under which the Servicer will be obligated, among other things, to provide tax and other administrative services to the Company and the Trust. The fees and expenses of the Trust and the Company, including any taxes, duties, assessments or governmental charges of whatever nature (other than Withholding Taxes) imposed by the Federal Republic of Germany, the United States of America or any other taxing authority upon the Company or the Trust, the fees and expenses of the Servicer, and all other obligations of the Company and the Trust (other than with respect to the Trust Securities or the Company Securities) will be paid by the Company.

### **Support Undertaking**

The holders of the Class B Preferred Securities are third-party beneficiaries of the Support Undertaking between the Bank and the Company. See “Description of the Support Undertaking.”

### **Legal Proceedings**

The Company is not currently and has not been since its formation the subject of any legal proceedings, which might have an impact on the Company’s financial position for the future.

### **Material Contracts**

Other than the agreements in connection with the Transaction, the Company has not entered into any material contracts that are not entered into in the ordinary course of the Company’s Business.

### **Directors; Principal Executive Office of the Company**

The initial directors of the Company will be Elizabeth B. Ferry, Edward A. Reznick, Michelle Siwik and David Dwyer. The initial officers of the Company will be Elizabeth B. Ferry, Edward A. Reznick, Michelle Siwik and David Dwyer. The location of the principal executive offices of the Company is Deutsche Bank Trust Company Delaware, 1011 Centre Road, Suite 200, Wilmington, Delaware 19805, United States of America.

### **Financial Year**

The financial year of the Company corresponds to the calendar year.

### **Capitalization**

The following table sets forth the capitalization of the Company as of the date hereof and as adjusted to reflect the consummation of the sale of the Trust Preferred Securities and the use of the proceeds therefrom as described under “General Information – Use of Proceeds.”

## Capitalization of the Company

	June 14, 2007	
	Actual	As Adjusted
	(€ in thousands)	
<b>Debt</b>		
Total long-term debt . . . . .	0	0
<b>Securityholders' equity</b>		
Class B Preferred Securities; none issued and outstanding, actual; and 7,001 Class B Preferred Securities authorized, 7,001 Class B Preferred Securities issued and outstanding, as adjusted. . . . .	0	350,050
Class A Preferred Security; none issued and outstanding, actual; and 1 Class A Preferred Security authorized, 1 Class A Preferred Security issued and outstanding, as adjusted . . . . .	0	1
Company Common Security, none issued and outstanding, actual; and 1 Company Common Security authorized, 1 Company Common Security issued and outstanding, as adjusted . . . . .	0	25
Total securityholders' interests . . . . .	0	350,076
<b>Total capitalization<sup>(1)</sup></b> . . . . .	<u>0</u>	<u>350,076</u>

(<sup>1</sup>) There has been no material change in the capitalization of the Company since its formation, except as disclosed in the above table.

## CAPITALIZATION OF THE BANK AND OF HYPO REAL ESTATE GROUP

The following tables show the audited consolidated and unconsolidated capitalization of the Bank as of December 31, 2006 and the reviewed consolidated capitalization of the Bank as of March 31, 2007. The regulatory capital of the Bank and of Hypo Real Estate Group is shown in accordance with the German Banking Act. For information on the financial condition of the Bank as of December 31, 2006 and March 31, 2007 respectively, refer to the historical financial information on the Bank and on Hypo Real Estate Group incorporated by reference, see Section "Incorporation by Reference".

### Capitalization of the Bank

	Decem- ber 31, 2006 (audited)	Decem- ber 31, 2006 (audited)	March 31, 2007 (reviewed)	(Adjusted to show the Completion of the Offering)	
	<b>Uncon- solidated German GAAP (HGB)</b>	<b>Consoli- dated IFRS</b>	<b>Consoli- dated IFRS</b>	<b>Uncon- solidated German GAAP (HGB)</b>	<b>Consoli- dated IFRS</b>
	(€ in millions)				
Amounts owed to other banks . . . . .	9,485	15,559	14,960	9,485	14,960
Amounts owed to customers . . . . .	7,087	5,797	6,680	7,087	6,680
Securitized liabilities . . . . .	36,066	48,695	52,373	36,066	52,373
Liabilities held for trading . . . . .	0	5,745	6,252	0	6,252
Other liabilities and accruals . . . . .	968	4,036	4,311	968	4,311
	<u>53,606</u>	<u>79,832</u>	<u>84,576</u>	<u>53,606</u>	<u>84,576</u>
<b>Equity/Subordinated liabilities/ Hybrid Capital</b>					
Nominal capital . . . . .	140	140	140	140	140
Trust preferred securities . . . . .	0	0	0	0	350
Capital reserve . . . . .	2,037	2,037	2,137	2,037	2,137
Fund for general banking risks . . . . .	41	0	0	41	0
Profit-participation certificates . . . . .	202	202	202	202	202
Subordinated liabilities . . . . .	984	1,044	1,042	1,334	1,042
	<u>3,404</u>	<u>3,423</u>	<u>3,521</u>	<u>3,754</u>	<u>3,871</u>
<b>Revenue reserves</b>					
Statutory reserve . . . . .	23	0	0	23	0
Other reserves . . . . .	193	0	0	193	0
Retained Earnings . . . . .	0	482	571	0	571
Revaluation Reserve . . . . .	0	- 364	- 397	0	- 397
Profit after profit transfer . . . . .	0	112	41	0	41
	<u>216</u>	<u>230</u>	<u>215</u>	<u>216</u>	<u>215</u>
<b>Total capitalization . . . . .</b>	<u>57,226</u>	<u>83,485</u>	<u>88,312</u>	<u>57,576</u>	<u>88,662</u>
<b>Contingent liabilities . . . . .</b>	1,398	1,502	1,057	1,398	1,057
<b>Other Commitments . . . . .</b>	7,734	8,162	6,807	7,734	6,807

## Regulatory capital ratios of the Bank pursuant to the German Banking Act

	March 31, 2007 unconsoli- dated	Adjusted to show the Completion of the Offe- ring
	(in € billion)	
Risk Assets as per Principle I . . . . .	35.79	35.79
Own funds . . . . .	3.67	4.02
Of which core capital . . . . .	2.51	2.51
Own funds ratio % . . . . .	10.2	11.2
Core capital ratio % . . . . .	7.0	7.0

Under the capital adequacy requirements of the German Banking Act, Hypo Real Estate Bank International Group, i.e. the Bank and its subsidiaries, is not itself subject to consolidated capital requirements, subject to certain limited exceptions (see Section "Regulation" under "Capital Adequacy Requirements"). Instead, Hypo Real Estate Group, which includes, among others, Hypo Real Estate Bank International Group, is subject to the capital adequacy requirements on a consolidated level.

## Regulatory capital ratios of the Hypo Real Estate Group pursuant to the German Banking Act

	March 31, 2007	Adjusted to show the completion of the Offe- ring
	(in € billion)	
Risk Assets as per Principle I . . . . .	67.66	67.66
Own funds . . . . .	6.56	6.91
Of which core capital . . . . .	4.57	4.92
Own funds ratio % . . . . .	9.0	9.5
Core capital ratio % . . . . .	6.8	7.3



# HYPO REAL ESTATE BANK INTERNATIONAL GROUP

## Gen on Hypo Real Estate Bank International Group

### ***Information about the Bank***

The Bank acts under its legal name “Hypo Real Estate Bank International Aktiengesellschaft”.

The Bank is a stock corporation (*Aktiengesellschaft*) under the laws of the Federal Republic of Germany. It was incorporated on November 28, 1867 with the legal name “Württembergische Hypothekenbank Aktiengesellschaft”. It was registered in the commercial register (*Handelsregister*) of Stuttgart on January 2, 1868 under No. HRB 103. In the course of a restructuring of Hypo Real Estate Group (which comprises Hypo Real Estate Holding AG together with its direct and indirect consolidated subsidiaries, affiliates and associated companies; together, the “Hypo Real Estate Group”) at the end of the year 2005 the extraordinary shareholders’ meeting of the Bank decided on December 16, 2005 to change the legal name of the Bank from “Württembergische Hypothekenbank Aktiengesellschaft” to “Hypo Real Estate Bank International Aktiengesellschaft”. The change became effective with the registration in the commercial register (*Handelsregister*) on January 2, 2006.

The head office of the Bank is located at Büchsenstraße 26, 70174 Stuttgart, Germany. Its telephone number is +49 711 20 96 0.

### ***Integration of the Bank into Hypo Real Estate Group***

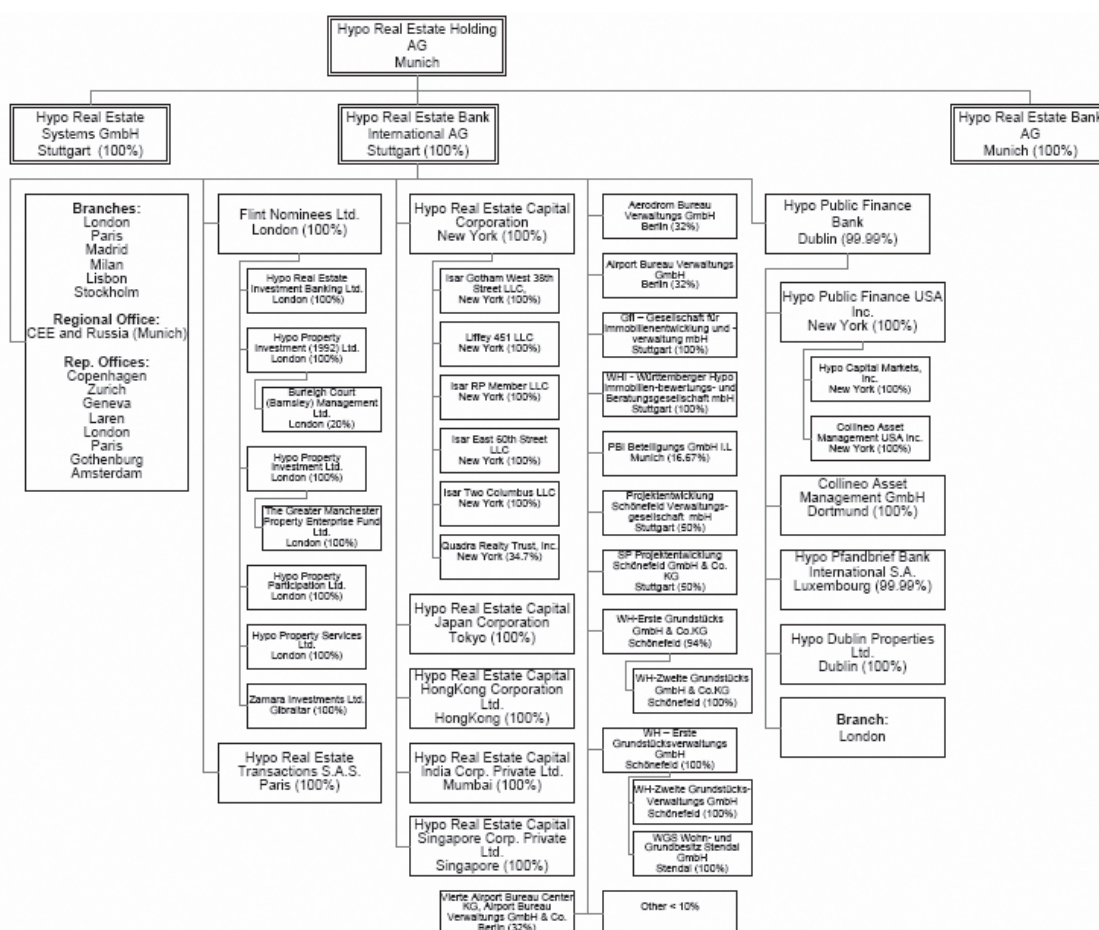
From 1922, the Bank was majority owned by Bayerische Hypotheken- und Wechsel-Bank AG and its successor Bayerische Hypo- und Vereinsbank AG (“HVB AG”). As of September 29, 2003, HVB AG spun off its foreign commercial real estate business and several of HVB AG’s subsidiaries into a new independent entity called “Hypo Real Estate Group”. The Bank thereby became majority owned by Hypo Real Estate Holding AG (“Hypo Real Estate Holding”). With the effectiveness of a squeeze-out of minority shareholders on July 21, 2005, the Bank became a wholly-owned subsidiary of Hypo Real Estate Holding.

As at the date of this Prospectus, Hypo Real Estate Group consists of the parent company Hypo Real Estate Holding and three independent subsidiary banks (and their subsidiaries, affiliates and associated companies):

- Hypo Real Estate Holding is a strategic and financial holding company which does not have any banking operations itself. Hypo Real Estate Holding is responsible for the business policy and the strategic management of Hypo Real Estate Group. All corporate centre functions relating to the group as a whole are concentrated in Hypo Real Estate Holding. This includes central active portfolio management and the pooling of risk strategy and management activities.
- The Bank conducts Hypo Real Estate Group’s international real estate finance activities.
- Hypo Public Finance Bank, Dublin (“Hypo Public Finance Bank”), a subsidiary of the Bank, focuses on capital markets activities, public finance, asset-based and infrastructure finance, asset management mainly related to real estate products, and securitization.
- Hypo Real Estate Bank AG, Munich (“Hypo Real Estate Bank Munich”), focuses on the German real estate financing business of Hypo Real Estate Group.

The sub-group Hypo Real Estate Bank International Group, i.e. the Bank and its consolidated subsidiaries, affiliates and associated companies, comprises the segments “Hypo Real Estate International” and “Hypo Public Finance Bank” within Hypo Real Estate Group.

As at the date of this Prospectus, the legal structure of Hypo Real Estate Bank International Group and its position within Hypo Real Estate Group is as follows:



## Business Overview

### ***Overview on Principal Activities***

The Bank currently conducts its business in two segments: The segment “Hypo Real Estate International” comprises commercial real estate financing mostly outside Germany, and the segment “Hypo Public Finance Bank” comprises business conducted through the Bank’s subsidiary Hypo Public Finance Bank, an Irish domiciled company licensed by the Irish Financial Services Regulatory Authority, including asset finance and asset management.

### ***Hypo Real Estate International***

#### ***Commercial Real Estate Financing***

The Bank’s focus is the international real estate lending business. The Bank provides its customers with a comprehensive range of commercial real estate lending products – from classic Pfandbrief-based mortgages to large-volume investment banking products. The Bank’s product offering is primarily geared to internationally active medium and large real estate investors and developers, as well as real estate trusts. Among other things, the offering comprises the following products and services, each tailored to the customer’s needs:

- construction loans: The Bank offers financing for every phase of real estate projects to developers. Construction loans are offered for both significant renovations and ground-up development;
- term loans: The Bank offers term loans to property investors, secured by mortgages on the asset. The loans may be kept on the Bank’s balance sheet or securitized (e.g. via commercial mortgage backed securities);
- senior and junior investment loans: Investors planning to purchase a property with a certain amount of equity (e.g. in the case of real estate funds) may seek to use senior debt financing. The debt may be provided by one or more banks in the form of a syndicated loan. Junior loans, on the other hand, are loans whose equity and servicing obligations are subordinated to those of the senior lender. These loans are charged at a higher interest rate tailored to the project risk;
- mezzanine loans: Clients often seek a financing form which is tailored to meet their specific needs in a flexible manner and which permits a high percentage of debt for their projects. With the customized mezzanine option, the Bank offers a financing module which bridges any gap between senior debt and equity;
- letters of credit and guarantee structures: The Bank offers a comprehensive range of financing instruments for project and corporate financing. In appropriate cases either a letter of credit or a third-party guarantee in support of the underlying real estate transaction is provided;
- equity bridge loans: An equity bridge loan enables a real estate investor to bridge the gap between the acquisition of a real estate project and the syndication of equity to a group of ultimate real estate investors (e.g. placement to private/institutional fund investors). The Bank works closely with its customers to optimize the funding for the needs of the project;
- VAT bridge loans: The Bank provides short-term bridge loans to professional real estate customers on asset acquisition to meet value-added tax payments due to be refunded in the short term;
- PropCo/OpCo structures: When non-real estate companies seek to dispose of their properties, they often split the business into a property company (PropCo) and the underlying operating business (OpCo). A team of experts at the Bank develops structured finance services for purchasers of the assets owned by the PropCo, but let to the OpCo;
- acquisition bridge financing: The Bank provides customized bridge loans;
- committed take out-facilities: Construction loan agreements sometimes require borrowers to have a pre-committed long-term loan to take-out the construction lender. In this context, the Bank agrees to grant a long-term loan on a property at a specific future date after completion of construction or for a forward purchase;

- CMBS/RMBS origination and investment: The Bank provides its customers with structured loan facilities intended for securitization (either commercial or residential –CMBS/RMBS); and
- Shari’a-based finance: The Bank uses its skills and previous experience with Shari’a-compliant financing structures to offer suitable products to investors from Islamic countries, principally those located in the Middle East.

As of March 31, 2007, the loan portfolio including loan commitments and securities amounted to € 51.8 billion, compared with € 53.5 billion as of December 31, 2006. Real estate financing business decreased by € 1.3 billion to € 37.7 billion. Of this figure, € 30.2 billion has been paid out (December 31, 2006: € 30.6 billion). The acquired new volume of business for real estate financing with professional investors and developers amounted to € 4.0 billion in the first quarter 2007, and is thus higher than the corresponding volume in the previous year period (€ 3.8 billion). Since the beginning of the year 2006, the real estate financing portfolio does no longer include the German portfolio of the former Württembergische Hypothekenbank which was transferred to Hypo Real Estate Bank Munich (see “Major Events”).

### *Principal Markets*

The Bank has a network of branches and subsidiaries in Europe, America and Asia. The global network comprises, inter alia, branches or subsidiaries in Hong Kong, France, Italy, Spain, Sweden, the Netherlands, Japan, the U.S.A. and the United Kingdom. The most important property financing markets of the Bank are commercial property markets and markets for large-volume residential properties in the United Kingdom, France and Scandinavia. The real estate financing portfolio broken down according to regions accounts for 78 % of European financing, primarily in the following countries: Great Britain, France, and Scandinavia. America and Asia account for 22 % of the portfolio. The portfolio break-down based on financed property types is dominated by office buildings and retail premises as well as commercial residential property. In the year 2006, the Bank continued its policy of expanding into new markets by establishing new subsidiaries in Mumbai (India) in the second quarter as well as in Singapore in the fourth quarter of the year 2006.

### *Public Sector Financing*

As of March 31, 2007 financing activities to the public sector amounted to approximately € 14.1 billion compared with approximately € 14.5 billion as of December 31, 2006. Important counterparties were the German Federal States (Länder). Another significant percentage of public sector financing has been granted to financial institutions such as “Landesbanken”, savings banks or special purpose financial institutions.

### *Funding of Commercial Real Estate Business*

Under the German Pfandbrief Act (*Pfandbriefgesetz*), all banks that have a licence pursuant to Article 2 Pfandbrief Act are permitted to issue special bonds, so-called Pfandbriefe. There are two important sources of funding: the Mortgage Pfandbrief (*Hypothekendarpfandbrief*) and the Public Sector Pfandbrief (*Öffentlicher Pfandbrief*). The principal of and interest on these bonds have to be covered at all times by a pool of assets supervised by an independent trustee. For this purpose mortgage banks use two independent registers: Mortgage Pfandbriefe (*Hypothekendarpfandbrief*) are backed by qualified mortgage loans and Public Sector Pfandbriefe (*Öffentlicher Pfandbrief*) are backed by public sector loans. Though the assets are listed in special registers, they remain in the Bank’s balance sheet. The Bank funds the assets which are not eligible for any of the registers by senior unsecured bonds (see Section “Regulation”).

In the segment “Hypo Real Estate International” the whole funding activities amounted to € 17.5 billion in the financial year 2006. Of this amount, *Pfandbriefe* accounted for € 4.2 billion and long-term unsecured issues accounted for € 6.8 billion. The Bank also issued a public *Jumbo Pfandbrief* (€ 1.5 billion) and a mortgage *Jumbo Pfandbrief* (€ 1.25 billion). With regard to the unsecured issues, two senior unsecured benchmarks were issued, one for € 1 billion with a term of five years and one for \$ 1 billion with a term of three years. Money market bonds with a total volume of € 3.95 billion were

placed on the market. There were further issues under the “*Certificats de Dépôts*” (CD) and the “Euro Commercial Paper” (CP) programme. A “US Commercial Paper” programme and a “Canadian Commercial Paper” programme were also established in order to expand the investor base in North America. To access Australian capital markets, an Australian Medium Term Note Programme was established in the year 2006. Risks resulting from issues of bonds in foreign currency were hedged by means of cross-currency swaps. In the first quarter 2007, funding activities in the segment “Hypo Real Estate International” amounted to € 12.1 billion. Of this amount, issues under the “US Commercial Paper” programme accounted for approximately € 1.1 billion.

### ***Hypo Public Finance Bank***

#### ***Products and Markets***

Hypo Public Finance Bank focuses, and will expand its activities in the U. S. and Europe on:

- capital markets activities;
- public finance;
- asset-based and infrastructure finance;
- asset management related to real estate products; and
- securitization.

In relation to Hypo Public Finance Bank’s European activities, it will continue to maintain a branch in London.

Hypo Public Finance Bank’s Capital Markets and Treasury division comprises both credit markets and treasury activities as its core competencies. Credit markets applies investment banking skills to structure and repackage credit risk including the management of public finance and real estate securitization business. The treasury activities focus on managing interest rate risk, with overall responsibility within Hypo Public Finance Bank for interest rate and FX-products and the liquidity management of Hypo Public Finance Bank.

In addition to existing public finance activities, which includes municipal financing in the U.S., Hypo Public Finance Bank has established and expanded a public finance, asset-based and infrastructure finance platform in Europe and the U.S. focusing on infrastructure and asset based financing out of the United Kingdom and the U.S. together with its existing Covered Bond programme in Luxembourg (undertaken via its Luxembourg subsidiary, Hypo Pfandbrief Bank International S.A.). The Hypo Public Finance Bank is continuing and extending the transaction-oriented business model using the structuring and credit expertise built up in its core entities.

Hypo Public Finance Bank’s client base includes international public bodies, institutional investors, entrepreneurs and corporations. The product range comprises financing products for large volume and sophisticated entities and companies as well as the structuring of investment opportunities in public finance and capital markets instruments in direct or securitised form. Hypo Public Finance Bank’s main products are:

- Structured public financing products, in particular focusing on infrastructure related products. Core products include construction/bridge finance, construction letters of credit, long term debt, residual value debt, high yielding subordinated debt, guarantees, derivatives, and project equity.
- Public financing products, including guaranteed investment contracts (GICs), deposits from U.S. based state and local governments, and acting as agent for Pallas Capital Corporation, a AAA rated specialised GIC issuing company.
- Securitisation products on public finance, infrastructure finance and commercial real estate. In addition products based on credit tenant lease structures are offered which involve the underwriting and placement of debt secured by property leased primarily to single tenants including municipal entities, private companies and companies with significant government ownership.

- Capital markets products focusing on the repackaging of credit risk as well as portfolio management including financing and warehousing multiple asset classes in total return structures.
- Structured products in the cash and derivatives markets for the structuring, trading and distribution of a wide variety of products covering market value, interest rate, currency, credit and political risks.
- Credit investment managing both on and off balance sheet portfolios of fixed income assets covering corporate bonds, asset backed securities, CMBS, credit default swaps, CDOs and CSOs.
- Syndication and placing of individual investments or parts of portfolios.
- Lending and related products, including asset-based lending, particularly to leasing companies, banks, brokers, finance companies, fund managers, insurance / reinsurance companies, public entities and corporations in the U.S., Europe, CEE and Bermuda.
- Rates products including treasury activities, making markets in interest rate products for Hypo Public Finance Bank's customers or customers of affiliates as well as the traditional products associated with Hypo Public Finance Bank's asset and liability management.
- Underwritings and offerings of securities through its NASD registered broker dealer subsidiary in the U.S., placing traditional and structured securities and the placement of securities to institutional investors out of its London Branch.

Hypo Public Finance Bank has an integrated business model, global in nature, with the regional units acting as one. This gives Hypo Public Finance Bank the advantage of using expertise gained in one market in developing other markets and building solutions that draw on expertise from a number of different fields and markets.

Credit and market risks are managed centrally in Dublin for all entities, ensuring that Hypo Public Finance Bank works as one single entity with a well managed and co-ordinated risk profile internally.

Hypo Public Finance Bank's U.S. based subsidiaries focus on U.S. based customers but work in tandem with its other locations. Through its Dortmund based asset manager, Collineo Asset Management GmbH, Hypo Public Finance Bank provides asset management services in both the U.S. and Europe. Through its Luxembourg subsidiary, Hypo Pfandbrief Bank International S.A., Hypo Public Finance Bank has access to the *Lettres de Gage* and covered bond market, a complimentary activity developing alongside its Public Finance build up.

#### *Funding of Hypo Public Finance Bank*

Hypo Public Finance Bank has access to a wide range of refinancing instruments and programmes. Accordingly, in the financial year 2006 € 1.6 billion was placed on the market under the € 15 billion MTN programme of Hypo Public Finance Bank. Overall, the fixed and variable interest tranches outstanding under this programme amounted to € 1.8 billion at the end of the financial year 2006 and to € 2.25 billion at the end of the first quarter 2007. In addition, the issued volume of the € 3 billion ECP programme amounted to € 0.6 billion as of December 31, 2006, and the corresponding amount for the € 2 billion CDP programme was € 0.5 billion. A five-year bearer debt instrument of € 500 million was also placed on the market in September. *Lettres de Gage Publiques* – the Luxembourg equivalent of the Public Sector Pfandbrief – are issued via Hypo Pfandbrief Bank International, a subsidiary of Hypo Public Finance Bank. The *Lettres de Gage Publiques* outstanding as of December 31, 2006 amounted to € 6.2 billion and as of March 31, 2007 to € 6.8 billion; € 3.2 billion was issued by Hypo Pfandbrief Bank International in the financial year 2006 and € 600 million in the first quarter 2007. Overall, in the first quarter 2007, funding activities in the segment "Hypo Public Finance Bank" amounted to € 1.2 billion.

#### **Major Events**

As a consequence of the restructuring of Hypo Real Estate Group at the beginning of 2006, the new segment "Hypo Real Estate International" was formed on January 1, 2006 combining the previous



segments “Hypo Real Estate International” and “Württembergische Hypothekenbank” of Hypo Real Estate Group. This new segment combines the know-how of the Pfandbrief-based international real estate financing business of Württembergische Hypothekenbank as well as the expertise of Hypo Real Estate Bank International in the international structured real estate financing business. For this purpose, all international real estate financing activities of the former Hypo Real Estate Bank International, Dublin, have been transferred to the Bank. As part of the restructuring process, German financing arrangements have been transferred from the Bank to Hypo Real Estate Bank Munich.

In the third quarter of 2006, the acquisition of a real estate financing portfolio from Allgemeine HypothekenBank Rheinboden AG was completed by way of transfer to the Bank. This portfolio comprises 140 international commercial real estate loans with a total commitment volume of € 3.3 billion.

In February 2007, Quadra Realty Trust, Inc. conducted an initial public offering of 16,670,000 shares at US\$ 15 per share. Quadra Realty Trust, Inc., is a commercial real estate financing company qualified as a real estate investment trust (REIT) for US American income tax purposes. The company is managed by Hypo Real Estate Capital Corporation, New York, a subsidiary of the Bank. As of March 31, 2007, Hypo Real Estate Capital Corporation, New York, holds a share of 34.7% in Quadra Realty Trust, Inc.

### ***Employees***

At March 31, 2007, the Bank had 494 employees and Hypo Real Estate Bank International Group 674 employees (including part-time employees on a full-time equivalent basis).

## **Organizational Structure**

### ***Subsidiaries and Equity Interests***

A list of the Bank’s consolidated subsidiaries and equity participations in other companies as of December 31, 2006, specifying the name of the subsidiary or other company and the Bank’s equity interest, is included in Consolidated Financial Information 2006 (as defined herein, pages F-72 to F-73, see Section “Incorporation by Reference”). These subsidiaries and other companies primarily engage in real estate financing and related advisory and other services.

### ***Dependency of the Bank within the Group***

Hypo Real Estate Holding holds 100% of the shares in the Bank. Between Hypo Real Estate Holding and the Bank a profit-and-loss-pooling agreement (*Ergebnisabführungsvertrag*) is in place, but no control agreement (*Beherrschungsvertrag*).

## **Trend Information**

### ***Statement of no material adverse change***

There has been no material adverse change in the prospects of the Bank since the date of its last published audited financial statements for the year ended December 31, 2006.

### ***Earnings and financial position***

In the financial year 2006, Hypo Real Estate Bank International Group fully met and partially exceeded expectations. In the first quarter 2007, Hypo Real Estate Bank International Group faced a decrease in net income before taxes in comparison to the first quarter 2006 (from € 112 million as of March 31, 2006 to € 100 million as of March 31, 2007), whereas the net income increased from € 64 million as of March 31, 2006 to € 72 million as of March 31, 2007. The decrease in net income before taxes is mainly related to the segment “Hypo Real Estate International” and reflects the decline in net income

from investments, the higher general administrative expenses and the slight increase in provisions for losses on loans and advances. At the same time, the business segment "Hypo Public Finance Bank" performed well benefiting from asset management business, new financing forms, off-balance-sheet business and expanded trading activities. The increase in the overall net income in the first quarter 2007 (despite the decrease of the net income before taxes) is related to the fact that the taxation of income generated in the segment "Hypo Public Finance Bank" is significantly lower than the taxation of income generated in the segment "Hypo Real Estate International" and that in the first quarter 2006 the contribution to the net income through the segment "Hypo Real Estate International" was comparatively higher. For the financial year 2007, the Bank expects the overall positive trend to continue, based on its growth initiatives (see "Strategic orientation of Hypo Real Estate Group") and under the following assumptions:

- a moderate macro-economic growth;
- a rate of inflation of approximately 2.5%;
- a slight strengthening of the Euro against the U.S. dollar and the Japanese yen, and a relative stability against British pounds sterling.

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

In the year 2007, Hypo Real Estate Group intends to implement a number of strategic initiatives to further improve profitability and optimize its risk profile. These initiatives include:

- Hypo Real Estate Group intends to also apply its financial engineering knowledge to other asset classes such as roads and mobile assets. Furthermore, the value chain is to be extended by expanding asset management, which comprises the management of finance risks mainly based on real estate as assets. Asset-based finance activities outside real estate financing, the activities at Capital Markets and asset management are pooled in the segment "Asset Finance und Asset Management", which corresponds with Hypo Public Finance Bank and its subsidiaries.
- The segments "Hypo Real Estate International" and "Hypo Real Estate Germany" will be combined to form the segment "Commercial Real Estate". The legal structure of the group with the Bank, Hypo Real Estate Bank Munich, and Hypo Public Finance Bank being the main banking subsidiaries will be retained regardless of the new segmentation. Thus, the international real estate business of Hypo Real Estate Group remains with the Bank.
- The distribution channels for financing which were set up in the year 2006 are intended to be established as a further value driver of Hypo Real Estate Group. This comprises for instance the expansion of securitisation, which will reduce the balance sheet volume and release equity for further growth. The aim is to allocate the group's equity consistently on the basis of the best yield opportunities.
- Group-wide portfolio management will be established in the Hypo Real Estate Holding in order to optimise the risk and earnings potential of Hypo Real Estate Group.

### **Administrative, Management and Supervisory Bodies**

The corporate bodies of the Bank are:

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

#### ***The Board of Directors***

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

As at the date of this Prospectus, members of the Board of Directors are:

<b>Name and Position</b>	<b>Functions</b>	<b>Other Mandates (*)</b>
Frank Lamby CEO	Speaker, General Secretariat, Internal Audit, Funding, Treasury, Capital Markets, Hypo Public Finance Bank, Hypo Pfandbrief Bank International/other subsidiaries, Asset Management	Member of the Board of Directors of Hypo Real Estate Holding AG, Munich Member of Supervisory Board of Hypo Real Estate Bank AG, Munich
Manuela Better	Platform Asia	–
Dr. Paul Eisele	–	–
Jürgen Fenk Deputy CEO	Platform US	Chairman of the Management Board of Hypo Real Estate Capital Corporation, New York Non-Executive Member of the Management Board of Flint Nominees Limited, London Non-Executive Member of the Management Board of Hypo Real Estate Capital Japan Corporation, Tokyo Chairman of the Management Board of Hypo Property Services Limited, London Chairman of the Management Board of Hypo Property Investment (1992) Limited, London Chairman of the Management Board of Hypo Property Participation Limited, London Chairman of the Management Board of Hypo Property Investment Limited, London Chairman of the Management Board of Hypo Real Estate Investment Banking Limited, London Director Hypo Real Estate Capital Hong Kong Corporation Limited, Hong Kong Chairman of the Management Board of The Greater Manchester Property Enterprise Fund Limited, London Vice Chairman of the Board of Quadra Realty Trust Inc., New York (US-REIT)
Frank Hellwig	Finance, Human Resources, Legal, Treasury Operations, IT, Credit Administration, Compliance, Anti Money Laundering, Data Protection, Facility Management	Member of Board of Directors of Hypo Real Estate Bank AG, Munich

<b>Name and Position</b>	<b>Functions</b>	<b>Other Mandates (*)</b>
Harin Thaker	Platform Europe and India, incl. Brokerage Business, Württemberger Hypo Immobilienbewertungs- und Beratungsgesellschaft mbH, Stuttgart	<p>Member of the Management Board of Hypo Property Participation Ltd., London</p> <p>Member of the Management Board of Zamara Investments Ltd., Gibraltar</p> <p>Member of the Management Board of Hypo Real Estate Investment Banking Ltd., London</p> <p>Member of the Management Board of Hypo Property Investment (1992) Ltd., London</p> <p>Member of the Management Board of The Greater Manchester Property Enterprise Fund Ltd., London</p> <p>Member of the Management Board of Hypo Property Services Ltd., London</p> <p>Member of the Management Board of Hypo Property Investment Ltd., London</p> <p>Member of Management Board of Glenpride Ltd., Middlesex</p> <p>Member of the Management Board of Flint Nominees Ltd., London</p> <p>Member of Management Board of Hypo Real Estate Capital India Corp. Private Ltd., Mumbai</p>
Bettina von Österreich	Risk Management, Risk Operating Office, Credit Risk Management, Risk Control	<p>Member of the Board of Directors of Hypo Real Estate Holding AG, Munich</p> <p>Non-Executive Member of the Management Board of Hypo Real Estate Capital Corporation, New York</p> <p>Non-Executive Member of the Management Board of Hypo Public Finance Bank, Dublin</p> <p>Member of Management Board of Quadra Realty Trust, Inc., New York (US-REIT)</p>

(\*) Mandates – Membership of other Supervisory Boards and comparable boards with a supervisory function in Germany and abroad.

The business address of the members of the Board of Directors is Büchsenstraße 26, 70174 Stuttgart, Germany.

### *The Supervisory Board*

In accordance with the Articles of Association, the Supervisory Board consists of six members, four of which are elected by the General Meeting of Shareholders and two of which are elected by the employees in accordance with the German OneThird Participation Act (*Drittelbeteiligungsgesetz*).

As at the date of this Prospectus, members of the Supervisory Board are:

<b>Name and Position</b>	<b>Other Mandates (*)</b>
Georg Funke Chairman (CEO of the Board of Directors of Hypo Real Estate Holding AG, Munich)	Chairman of the Supervisory Board of Hypo Real Estate Bank AG, Munich Chairman of the Management Board of Hypo Public Finance Bank Dublin, Dublin
Dr. Markus Fell 1st Deputy Chairman (Member of the Board of Directors of Hypo Real Estate Holding AG, Munich)	Deputy Chairman of the Supervisory Board of Hypo Real Estate Bank AG, Munich Director of Flint Nominees Ltd., London Non-Executive Member of the Management Board of Hypo Public Finance Bank Dublin, Dublin Chairman of the Supervisory Board of Hypo Real Estate Systems GmbH, Stuttgart
Dr. Helmut Bruchner (Chief Representative of Hypo Real Estate Holding AG, Munich)	–
Horst Hofmann (**) (Employee, Waiblingen)	–
Martina Peterhofen (Chief Representative of Hypo Real Estate Holding AG, Munich)	–
Wolfgang Schopf (**) (Employee, Schorndorf)	–

(\*) Mandates – Membership of other Supervisory Boards and comparable boards with a supervisory function in Germany and abroad.

(\*\*) Employee representative.

The business address of the members of the Supervisory Board is Büchsenstraße 26, 70174 Stuttgart, Germany.

### **General Meeting of Shareholders**

The General Meeting of Shareholders, which is called by the Board of Directors or, as provided by law, by the Supervisory Board, is held at the registered office of the Bank or at the seat of a stock exchange within the territory of the Federal Republic of Germany. An ordinary shareholder meeting takes place within the first eight months of every financial year of the Bank. Hypo Real Estate Holding is the sole shareholder of the Bank.

### **Conflicts of Interest**

The members of the Board of Directors have additional positions as described above which may potentially result in a conflict of interest between their duties towards the Bank and their private and other duties.

## **Major Shareholders**

After the squeeze-out of minority shareholders was entered into the commercial register and thus became effective on July 21, 2005, the Bank became wholly owned by Hypo Real Estate Holding.

## **Statutory Auditors**

For the financial year ended December 31, 2005 and December 31, 2006, the independent auditors of the Bank were KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Ganghoferstraße 29, 80339 München, Germany ("KPMG"). KPMG is a member of the German certified public accountants association (*Wirtschaftsprüfungskammer*).

## **Legal and Arbitration Proceedings**

Together with Hypo Real Estate Bank Munich, the Bank filed a suit for damages against HVB AG. In total the claim amounts to approximately € 62 million plus interest, the Bank itself claims approximately € 14.4 million plus interest. This claim originates from the time when Hypo Real Estate Bank Munich and the Bank had been subsidiaries of HVB AG. At this time, according to the tax authorities, HVB AG had debited the banks with allocations of trade income tax at amounts exceeding the amount paid to the tax authorities by HVB AG. With the exception of the above mentioned litigation, the Bank is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened), during a period covering the previous twelve months which may have or have had in the recent past, significant effects on the Bank's or Hypo Real Estate Bank International Group's financial position or profitability.

## **Significant change in the Bank's financial position**

Save as disclosed in this Prospectus, there has been no significant change in the Bank's financial position since the date of the Interim Consolidated Financial Information March 2007 of the Bank (March 31, 2007) up to the date of this Prospectus.

## **Material Contracts**

In the context of the restructuring of Hypo Real Estate Group at the end of the financial year ended December 31, 2005, the Bank entered into the following contracts that are not part of the ordinary course of the Bank's business:

- a contribution agreement with Hypo Public Finance Bank dated December 16, 2005 according to which Hypo Public Finance Bank transferred to the Bank its entire international real estate financing business;
- a guarantee agreement with Hypo Public Finance Bank dated December 16, 2005 according to which the Bank guarantees the due and punctual performance by Hypo Public Finance Bank of all its obligations, and agrees to pay, or cause to be paid, immediately and without deduction any sum or sums which are not duly and punctually paid by Hypo Public Finance Bank; and
- a transfer agreement with Hypo Real Estate Bank Munich dated December 16, 2005 and September 9, 2006 according to which the Bank transferred a loan portfolio governed by German law to Hypo Real Estate Bank Munich.

In addition, on December 16, 2005, the Bank agreed with Hypo Public Finance Bank that the Bank as the lender will make available to Hypo Public Finance Bank as the borrower a perpetual subordinated facility in the amount of € 200,000,000.

In October 2003, the Bank entered into a profit-and-loss-pooling agreement (*Ergebnisabführungsvertrag*) (as described above) with DIA Vermögensverwaltungs-GmbH. With the merger of DIA Vermö-



gensverwaltungs-GmbH into Hypo Real Estate Holding, Hypo Real Estate Holding succeeded into the legal position of DIA Vermögensverwaltungs-GmbH.

In July 2006, the Bank purchased a real estate financing portfolio containing loan commitments from Allgemeine HypothekenBank Rheinboden AG (as described above).

# REGULATION

## Banking Regulation and Supervision in the Federal Republic of Germany

### ***Bank Supervision and Principal Laws***

All banks in Germany, including the Bank, are subject to comprehensive governmental supervision and regulation by the Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht* – BaFin) in accordance with the German Banking Act (*Gesetz über das Kreditwesen* – KWG). Under the German Banking Act, banking and financial services institutions are required to have a license from the BaFin to conduct banking business or provide financial services in Germany. The BaFin supervises the operations of all banks in Germany, including the Bank, to ensure that they conduct their business in accordance with the provisions of the German Banking Act and other applicable German laws and regulations.

The German Banking Act and the rules and regulations adopted thereunder implement certain EU directives relating to banks, which in turn implement recommendations of the Basel Committee on Banking Supervision (the “Basel Committee”) at the Bank for International Settlements (BIS). The New Basel Capital Accord (“Basel II”) published in June 2004 requires higher levels of capital for those borrowers which present higher levels of credit risk, and vice versa. Moreover, an explicit capital charge is levied for a bank’s exposure to the risk of losses caused by failures in systems, processes or by staff or external disasters. Capital charges are aligned more closely to a bank’s own measures of its exposures to credit and operational risk. The second pillar provides for a supervisory review of the banks’ internal assessments of their overall risks to ensure that the management is exercising sound judgment and has set aside adequate capital for the risks. The third pillar focuses on market discipline through effective public disclosure to provide for sound banking practices.

Basel II has already been transposed into both European and German law. In September 2005, the European Parliament approved the Capital Requirements Directive. The member states have to apply the Capital Requirements Directive from January 1, 2007, with the most sophisticated approaches to credit risk and operational risk being available from 2008. In order to allow reasonable transition arrangements, institutions can continue to use the existing rules as an alternative until the end of 2007.

At the national level, Basel II was partly implemented in Germany by the new Minimum Requirements for Risk Management (*Mindestanforderungen an das Risikomanagement* – MaRisk) by the BaFin on December 20, 2005. Further steps have been taken by amending the German Banking Act and adopting a Solvency Regulation (*Solvabilitätsverordnung* – SolvV) complemented by an amended Large Exposure Regulation (*Großkredit- und Millionenkreditverordnung*). The German implementation legislation largely became effective on January 1, 2007 and, *inter alia*, amends the provisions governing the trading book. Banks have to meet many additional requirements, in particular with regard to documentation and monitoring. Further amendments affect the Liable Capital, introducing new definitions and calculations. Banks may decide to use more sophisticated risk measures such as the Internal Ratings Based Approach.

The Bank prepared its methods and processes intensively to meet the new Basel II requirements in a group-wide project and in autumn 2006 submitted an application to BaFin for permission to use the so-called Advanced Internal Rating Based Approach with effect from January 2008. The regulatory review, which has to be carried out before permission is granted, is to take place in the course of 2007. Therefore, the Bank is making use of the transitional provisions of the Solvency Regulation and continuing to use Principle I (*Grundsatz I*) instead of the Solvency Regulation in 2007.

### ***Cooperation by the BaFin and the German Central Bank***

The BaFin carries out its banking supervisory role in cooperation with the German Central Bank (*Deutsche Bundesbank*). The BaFin has the sole authority to issue administrative orders (*Verwaltungsakte*) and, after consultation with the German Central Bank, general regulations (*Verordnungen*).

The BaFin must obtain the German Central Bank's consent before it issues any general regulations in areas that require the German Central Bank's consent under the German Banking Act.

The German Central Bank is responsible for the ongoing monitoring of German banks. This comprises in particular the analysis of submitted reports and examinations for the purpose of determining capital adequacy and risk management. Enforcement measures against banks can only be taken by the BaFin.

### ***Consolidated Supervision***

The capital adequacy requirements, lending limits and the minimum requirements for risk management imposed by the German Banking Act must not only be met by a bank and its banking subsidiaries on an unconsolidated basis, but also by the banking group (*Institutgruppe*) or financial holding group (*Finanzholding-Gruppe*), such as Hypo Real Estate Group, as a whole. Under certain conditions a bank which is a subordinated undertaking (*nachgeordnetes Unternehmen*) of a banking group or a financial holding group is permitted to opt for an exemption from the requirement to prove compliance with the above-mentioned rules on an unconsolidated basis if

- (i) the senior institution holds more than 50% of the voting rights attaching to shares in the capital of the subordinated institution and/or is entitled to appoint and/or remove a majority of the board members of the subordinated institution; and
- (ii) the senior institution satisfies BaFin's requirements regarding the prudent management of the subordinated institution; and
- (iii) the measures of the senior institution for identification, evaluation, controlling, supervision and communication of risks cover the subordinated institution; and
- (iv) there is no current or foreseen material practical or legal impediment to the prompt transfer of own funds or to the repayment of liabilities by the senior institution; and
- (v) the senior institution has declared with BaFin's consent that it guarantees the current or future commitments of the subordinated institution, or if the risks in the subordinated institution are negligible.

The Bank has opted for such exemption so that, subject to limited exceptions, only Hypo Real Estate Group, i.e. the financial holding group as a whole, is required to comply on a consolidated level with the capital adequacy, lending limits and the minimum requirements for risk management imposed by the German Banking Act.

### ***Capital Adequacy Requirements***

The German Banking Act and the regulations promulgated thereunder contain certain capital adequacy requirements.

#### ***Adequate Own Funds***

Financial holding groups such as Hypo Real Estate Group are required to have adequate Own Funds (*Eigenmittel*) (defined below). According to the Solvency Regulation, a financial holding group has adequate Own Funds if it meets on a consolidated level the capital requirements for credit risks and the operational risk as well as for market risks at the end of each business day. Whether a financial holding group has adequate own funds shall be determined by aggregating the own funds of the undertakings belonging to the group including the shares of other shareholders and the items relevant under the Solvency Regulation, whereby the own funds of undertakings belonging to the group are deemed to comprise the items recognized under the German Banking Act.

The capital requirements for credit risks and operational risk are met if the total amounts for credit risks and operational risk, respectively, do not exceed the Modified Available Liable Capital (*modifiziertes verfügbares Eigenkapital*) (defined below). Further, the capital requirements for market risks are met if the aggregate amounts for market risk positions do not exceed the aggregate amount of

Modified Available Liab Capital, reduced by the capital requirements for credit risks and operational risk, and the Available Tier 3 Capital (*verfügbare Drittrangmittel*) (defined below) at the end of each business day.

#### *Definition of Modified Available Liab Capital and Own Funds*

Modified Available Liab Capital is calculated as follows:

- + Core Capital
  - + Supplementary Capital
- 
- = Liab Capital**
- Qualified investments and amounts exceeding the limits on large exposures covered by Liab Capital
  - value adjustment deficit amounts resulting from the difference between expected loss amounts and value adjustments/provisions for certain IRBA positions
  - expected loss amounts regarding certain IRBA equity investment positions
  - certain securitization positions with a risk weighting of 1,250 %
  - the amount of the value transferred plus possible replacement costs in case of free deliveries in connection with trading book transactions in securities as long as the contractual payment has not been made five business days after the due date
- 
- + Value adjustment surplus amounts up to a maximum of 0.6 % of risk-weighted IRBA positions
- 
- = Modified Available Liab Capital**

Own Funds are comprised of Tier 3 Capital and Liab Capital (*haftendes Eigenkapital*). Liab Capital, in turn, consists of Core Capital (*Kernkapital*) and Supplementary Capital (*Ergänzungskapital*), subject to certain deductions.

Pursuant to the German Banking Act, Core Capital in respect of a bank organized as a stock corporation (*Aktiengesellschaft*) consists principally of:

- (1) paid-in capital (*eingezahltes Grundkapital*);
- (2) capital reserves;
- (3) earnings reserves which are disclosed in the annual balance sheet;
- (4) net profits which are shown in audited interim financial statements and which will not be used for distribution or payment of taxes;
- (5) the fund for general banking risks (pursuant to Section 340g of the German Commercial Code, a bank may create a reserve fund from its after-tax retained earnings if advisable in its reasonable commercial judgment in light of the special risks inherent in the banking business); and
- (6) capital paid in by silent partners which meets certain conditions set forth in the German Banking Act, including subordination to all creditors and participation in the bank's losses;

less balance sheet losses, certain intangible assets and certain other items (including goodwill).

Pursuant to the German Banking Act, Supplementary Capital consists principally of:

- (1) uncommitted reserves for general banking risks (pursuant to Section 340f of the German Commercial Code, a bank may record on its balance sheet certain receivables and securities, which are neither investment securities nor part of the trading portfolio, at a lower value than that permitted for industrial and other non-banking corporations if the use of a lower value is advisable in its reasonable commercial judgment to safeguard against the special risks inherent in the banking business, provided that such reserves may not exceed 4 % of the book value of such receivables and securities);
- (2) preferred shares;

- (3) reserves pursuant to Section 6b of the German Income Tax Act (*Einkommensteuergesetz*), to a certain percentage and to the extent they relate to the disposal of real estate;
- (4) capital paid in consideration of profit participation rights (*Genussrechte*) which meets certain conditions set forth in the German Banking Act, including subordination to all creditors and participation in the subordinated undertaking's losses;
- (5) long-term subordinated debt (with a term of at least five years) meeting certain conditions set forth in the German Banking Act, including subordination to all non-subordinated creditors; and
- (6) certain revaluation reserves;

less certain deductions such as certain investments in banks or financial institutions.

In calculating Liabe Capital, Supplementary Capital may only be taken into account up to the amount of the Core Capital and consist of long-term subordinated debt of up to 50 % of the Core Capital.

Tier 3 Capital consists principally of:

- (1) net profits which would be realized if, at the end of a given day:
  - (a) all positions in the Trading Book were settled,
  - (b) all foreseeable expenses and distributions on capital were deducted, and
  - (c) all probable losses that would be incurred in the investment book in the event that the bank were to be liquidated were deducted;
- (2) short-term subordinated debt (with a term of at least two years but less than five years) that meets certain conditions set forth in the German Banking Act, including subordination to all non-subordinated creditors; and
- (3) positions which cannot be regarded as Supplementary Capital due to the limits prohibiting that the aggregate amount of Supplementary Capital exceeds the Core Capital and that the sum of long-term subordinated debt exceeds 50 % of the Core Capital.

In 2007, the Bank and the financial holding group have opted for a transitional provision of the Solvency Regulation allowing the bank and the group to continue to use Principle I instead of the Solvency Regulation. According to Principle I a bank has adequate Own Funds if it meets the requirements for the credit risks and the market risks. The capital requirements for the credit risks are met, if the ratio of a bank's Liabe Capital and its risk-adjusted assets (*gewichtete Risikoaktiva*) does not exceed 8 % at the end of each business day. The capital requirement for the market risks are met if at the close of each business day the sum of a bank's net risk-adjusted assets do not exceed the sum of the difference between its Liabe Capital and 8 % of its aggregate amount of risk-adjusted risk assets and its Tier 3 Capital.

### *Credit Risks and Operational Risk*

The Solvency Regulation provides that the capital requirements for credit risks be calculated by determining the risk-weighted value of a bank's or a financial holding group's credit risk positions following either the standardized approach or the internal ratings based approach (IRBA).

The standardized approach basically assigns credit risk positions to risk categories with different weightings and does not require banks to provide their own estimates of risks. While the standardized approach relies on given evaluations, it nonetheless incorporates enhanced risk-sensitivity by permitting the use of, for instance, external ratings by rating agencies.

In contrast, the internal ratings-based approach allows banks and financial holding groups to derive risk weightings from their internal ratings systems, but only upon prior approval by the BaFin. Hypo Real Estate Group has applied for the IRBA. If BaFin approves Hypo Real Estate Group's IRBA Hypo Real Estate Group will be able to rely on its own internal estimates of risk components in determining the capital requirement for a given exposure and thereby benefit from enhanced risk-sensitivity.

The risk components include measures of the probability of default, loss given default, the exposure at default and effective maturity.

The total amount for credit risks is the sum of all credit positions determined in accordance with the chosen approach and, in case of trading book institutions increased by the total amount for settlement risks, multiplied by 0.08.

Operational risk means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. Banks and financial holding groups can employ either the basic indicator approach, standardized approach or advanced measurement approach to determine the amount for operational risk. Hypo Real Estate Group has opted for the advanced measurement approach that is intended to be applied as of the year 2008.

Pursuant to Principle I which is applicable to Hypo Real Estate Group in 2007, a bank or financial holding group must maintain a ratio (the "Solvency Ratio") of Liable Capital to risk-adjusted assets (including financial swaps, financial forward transactions, options, and other off-balance-sheet items) of at least 8%.

Under Principle I, the risk-adjusted value of assets of a bank or a financial holding group (the sum of which is the denominator of the Solvency Ratio) is computed by assigning assets to one of five basic categories of relative credit risk (i.e. 0%, 10%, 20%, 50%, and 100%) depending on the debtor or the type of collateral securing the assets.

### *Market Risk*

The German Banking Act also requires market risk positions of banks and financial holding groups to be covered by adequate capital, i.e. the sum of the amounts for market risk positions must not exceed the aggregate amount of Modified Available Liable Capital, reduced by the capital requirements for credit risks and operational risk and the Available Tier 3 Capital (*verfügbare Drittrangmittel*) at the close of each business day.

Available Tier 3 Capital is defined as Tier 3 Capital, in case of trading book institutions (within the financial holding group this applies to Hypo Public Finance Bank; the Bank itself does not qualify for a trading book institution) reduced by the amounts exceeding certain limits on large exposures (see below) and other items.

Market risk positions are foreign exchange risk positions, commodity risk positions, trading book risk positions and other market risk positions. The risk-weighted values of such market risk positions and certain option positions must be computed in accordance with rules set forth in the Solvency Regulation, allowing the banks to choose between the use of standard methods or its own risk models.

According to Principle I, the market-risk positions of a bank are comprised of:

- (1) its foreign exchange positions;
- (2) its commodities positions;
- (3) certain of its trading book positions, including those involving counterparty risk, as well as interest-rate and share-market risk; and
- (4) its options transactions positions.

The market risk positions are net positions, risk-adjusted in accordance with the detailed rules set forth in Principle I. As of the close of each business day, the sum of the net risk-adjusted market-risk positions of a bank or a financial holding group must not exceed the sum of:

- the difference between its Regulatory Banking Capital and 8% of its aggregate amount of risk-adjusted risk assets; and
- its Tier 3 Capital.



## **Liquidity Requirements**

The German Banking Act and the regulations issued thereunder also contain liquidity requirements. According to the Regulation on the Liquidity of Banks (*Verordnung über die Liquidität der Institute – LiqV*), banks must compute a liquidity factor at the end of every calendar month. The liquidity factor is the quotient of liquid assets to payment obligations during four time bands: (1) one day to one month; (2) more than one month to three months; (3) more than three months to six months; and (4) more than six months to twelve months. The liquidity factor for the one-month time band must not be less than 1. The excess of liquid assets over payment obligations in one of the other time bands may be counted as liquid assets for the succeeding time band. The ratios between the respective liquid assets over the payment obligations in the other three time bands are calculated for observation purposes only. The liquidity factor and the observation ratios must be submitted by the 15th business day of the month following the reference date to the German Central Bank, which passes the reports on to the BaFin.

In lieu of the process to determine sufficient liquidity as described above, banks may make a permanent decision to use their own procedures for measuring and managing liquidity upon approval by the BaFin, if certain requirements are met and the BaFin confirms that the procedures are suitable for achieving the purpose of the LiqV. Among other things, the bank's own procedures must be adequate to measure and manage liquidity, taking into account the nature, scale and complexity of the bank's activities, and result in a more detailed picture of the bank's liquidity position than relying on the process of computing a liquidity factor set forth in the LiqV.

## **Limitation on Large Exposures**

The German Banking Act and the Large Exposure Regulation limit a bank's concentration of credit risks on an unconsolidated and a consolidated basis through restrictions on large exposures (*Großkredite*). Since Hypo Real Estate Group has opted for the exemption from the unconsolidated approach, the restrictions on large exposures have to be applied to the financial holding group on a consolidated basis only.

The financial holding group is subject to the large exposure rules applicable to trading book institutions. These rules contain separate restrictions for large exposures related to the investment book (investment book large exposures) and aggregate large exposures (aggregate book large exposures) of a bank or group of institutions.

Investment book large exposures are exposures incurred in the investment book and related to a single client (and persons affiliated with it) that equal or exceed 10% of a bank's or group's Liable Capital. Individual investment book large exposures must not exceed 25% of the bank's or group's Liable Capital (20% in the case of exposures to affiliates of the bank that are not consolidated for regulatory purposes).

Aggregate book large exposures are created when the sum of investment book large exposures and the exposures incurred in the trading book related to a client (and persons affiliated with it) (trading book large exposures) equals or exceeds 10% of the bank's or the group's own funds. The 25%-limit (20% in the case of unconsolidated affiliates), calculated by reference to a bank's or group's own funds, also applies to aggregate book large exposures.

In addition to the above limits, the total investment book large exposures must not exceed eight times the bank's or group's Liable Capital, and the aggregate book large exposures must not exceed in the aggregate eight times the bank's or group's own funds.

A bank or group of institutions may exceed the aforementioned ceilings only with the prior approval of the BaFin. In such a case, the bank or group is required to support the amount of the large exposure that exceeds the ceiling with Liable Capital (in the case of ceilings calculated with respect to Liable Capital) or with Own Funds (in the case of ceilings calculated with respect to Own Funds) on a one-to-one basis.

Furthermore, total trading book exposures to a single client (and persons affiliated with it) must not exceed five times the bank's or group's Own Funds, to the extent that such Own Funds are not required to meet the capital adequacy requirements with respect to the investment book. Total trading book exposures to a single client (and persons affiliated with it) in excess of the aforementioned limit are not permitted.

There is an additional overall lending limit to the effect that the total exposures to a single client, i.e. the aggregate portions of the borrower's aggregate credit position (credits that are allocated to the trading book or the investment book), that exceed 25% (or 20% in the case of a credit to the bank's unconsolidated affiliates) of the bank's or financial holding group's Own Funds ceiling for more than ten days must not, in the aggregate, exceed six times the bank's or financial holding group's Own Funds that are not required to cover risk positions in the investment book.

### ***Minimum Requirements for Risk Management***

On December 20, 2005, the BaFin issued the Minimum Requirements for Risk Management (*Mindestanforderungen an das Risikomanagement – MaRisk*). The MaRisk set forth a flexible framework for the risk management and a risk-oriented approach towards internal audits at credit institutions, taking into account the specific circumstances of the institution (e.g. size of the institution, scale of business, complexity of the activities performed, risk profile). The MaRisk are designed to ensure the establishment of appropriate internal governance structures, to provide a qualitative framework for the implementation of the Capital Requirements Directive, and to meet the qualitative requirements of the supervisory review process required by the so-called second pillar of Basel II.

### ***Enforcement Powers***

In order to secure compliance with the German Banking Act and the regulations issued thereunder, the BaFin and the German Central Bank may require information and documents from a bank and the BaFin may examine a bank without giving any particular reason. The BaFin may also require information and documents from members of a banking group (whether or not they are banks) and may examine such members (if they are banks) to the extent necessary to ascertain the correctness of information and data required for consolidated supervision. Examinations may also be conducted at a foreign member of the banking group that is part of a banking group if necessary to verify the accuracy of data and information required for consolidated supervision, but only to the extent permitted under the German Banking Act and the law of the domicile of such subsidiary. However, the BaFin has to initially address information requests to other competent authorities if the information required for supervising a banking group is available from such competent authority. In addition, the BaFin may attend meetings of the Bank's Board of Administration, its Management Board and its shareholders (and require such meetings to be convened).

If the BaFin discovers irregularities, it has a wide range of enforcement powers. The BaFin can challenge the qualifications of the bank's management. If the Own Funds of a bank or of a financial holding group are not adequate, or if the liquidity requirements are not met and if the bank or financial holding group has failed to remedy the deficiency within a period set by the BaFin, the BaFin may prohibit or restrict the distribution of profits or the extension of credit or instruct the bank or the senior institution of the financial holding group to adopt measures aimed at reducing risks insofar as they result from certain activities, products or the use of certain systems. If a financial holding company does not provide the senior institution the information required to prove that the financial holding group meets the consolidated capital adequacy requirements and the lending limits or BaFin considers by virtue of facts a person who in fact manages the financial holding company not to be trustworthy or not having the necessary professional qualifications BaFin may prohibit the exercise of the financial holding company's voting rights in respect of the senior institution and any subordinated undertakings and transfer these rights to a trustee with the effect that such undertakings are no longer regarded to be part of the financial holding group in respect of the capital adequacy requirements and lending limits.

If a bank is in danger of defaulting on its obligations to creditors, the BaFin may take emergency measures to avert default. In this connection, it may, *inter alia*: (1) issue instructions relating to the

management of the bank, (2) prohibit or restrict the acceptance of deposits and the extension of credit, (3) prohibit or restrict the management of the bank from carrying on their functions and (4) appoint supervisors. If these measures are inadequate, the BaFin may revoke the bank's license and, if appropriate, order that the bank be closed. To avoid the insolvency of a bank, the BaFin has the authority to prohibit payments and disposals of assets, suspend customer services, and prohibit the acceptance of payments other than the payment of debt owed to the bank. In addition, violations of the German Banking Act may result in criminal and administrative penalties.

### ***Powers of the European Central Bank***

The European Central Bank requires certain credit institutions, including the Bank, to hold minimum reserves on accounts maintained with their respective National Central Banks, which, in the case of the Bank, are held by the German Central Bank. These minimum reserves must equal a certain percentage of the credit institutions' liabilities resulting from certain deposits, plus the issuance of bonds.

### **Regulation pursuant to the German Pfandbrief Act**

In addition to the general rules and regulations contained in the German Banking Act, the Bank is subject also to the rules of the German Pfandbrief Act.

#### ***Overview***

The Pfandbrief Act (*Pfandbriefgesetz*) of May 27, 2005 has abolished the concept of specialist Pfandbrief institutions hitherto prevailing in respect of the existing mortgage banks and ship mortgage banks. It has established a new and uniform regulatory regime for all German credit institutions. Since July 19, 2005, all German credit institutions are permitted, subject to authorization and further requirements of the Pfandbrief Act, to engage in the Pfandbrief business and to issue Mortgage Pfandbriefe (*Hypothekendarpfandbriefe*), Public Sector Pfandbriefe (*Öffentliche Darpfandbriefe*) as well as Ship Mortgage Pfandbriefe, and, from such date onwards, existing mortgage banks and ship mortgage banks will be authorized 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 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.

For the purpose of this summary, banks authorized to issue Pfandbriefe will generally be referred to as "Pfandbrief Banks".

#### ***General Rules applicable to Pfandbriefe***

Pfandbriefe issued by Pfandbrief Banks are debt securities issued 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 Pfandbrief Act. Such compliance is monitored by the BaFin.

Pfandbriefe are usually medium- to long-term bonds and have, as a general rule, a term of two to ten years. Pfandbriefe are general obligations of the issuing bank, and no separate vehicle is created for their issuance in general or for the issuance of any specific series of Pfandbriefe.

Pfandbriefe may either be Mortgage Pfandbriefe (*Hypothekendarpfandbriefe*), Public Sector Pfandbriefe (*Öffentliche Darpfandbriefe*) or Ship Mortgage Pfandbriefe (*Schiffsdarpfandbriefe*). The aggregate principal amount of the outstanding Pfandbriefe issued by a Pfandbrief Bank must be covered by assets that qualify for use as cover under the provisions of the Pfandbrief Act. One single pool of assets covers outstanding Mortgage Pfandbriefe, a pool of assets covers all outstanding Public Sector Pfandbriefe, and another pool of assets covers all outstanding Ship Mortgage Pfandbriefe of the issuing bank. The aggregate principal amount of assets in any cover pool must at all times be at least equal to the aggregate principal amount of the outstanding Pfandbriefe issued against such cover pool. More-

over, 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 relating to the cover pool. In addition, the coverage of all outstanding Pfandbriefe with respect to principal and interest must at all times be ensured on the basis of the present value (*Barwert*). Finally, the present value of the assets contained in each cover pool must exceed the total amount of liabilities from the corresponding Pfandbriefe and derivatives by at least 2% (*sichernde Überdeckung*). Such 2% excess cover must consist of highly liquid assets.

Any Pfandbrief Bank must establish an appropriate risk management system meeting the requirements specified in detail in the Pfandbrief Act and must comply with extensive quarterly and annual disclosure requirements, as set out in the Pfandbrief Act.

Under the Pfandbrief Act, each Pfandbrief Bank must keep a separate cover register (*Deckungsregister*) for each of its cover pools (i. e. one cover register for the Mortgage Pfandbriefe, one cover register for the Public Sector Pfandbriefe and one cover register for the Ship Mortgage Pfandbriefe) and in which the assets included in each of the two cover pools are registered. In order to ensure that the cover pools provide adequate coverage for the outstanding Pfandbriefe, the registration is supervised and controlled by a trustee (*Treuhänder*) who is appointed by the BaFin after consultation with the Pfandbrief Bank. In addition, the trustee also monitors the Pfandbrief Bank's compliance with other provisions of the Pfandbrief Act. Together with the Pfandbrief Bank, the trustee has joint custody of the assets included in the cover pools and of any documents evidencing such assets. Any issuance of Pfandbriefe may take place only upon prior certification by the trustee 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 (*Deckungsregister*).

In addition to the monitoring conducted by the trustee, the BaFin conducts audits of each cover pool every two years. The BaFin also supervises the compliance of Pfandbrief Banks with the provisions of the Pfandbrief Act, including approval of the principal characteristics of the provisions of the loans and the resolution of disputes between the bank and the trustee. Furthermore, the Mortgage Lending Value Regulation (*Beleihungswertermittlungsverordnung*) establishes a uniform method for determining the mortgage lending value for all German Pfandbrief Banks for the first time.

## TAXATION

TO ENSURE COMPLIANCE WITH UNITED STATES TREASURY DEPARTMENT CIRCULAR 230, PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY PURCHASERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON PURCHASERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS BEING USED IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) PURCHASERS SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISOR ABOUT THE TAX CONSEQUENCES UNDER THEIR OWN PARTICULAR CIRCUMSTANCES OF INVESTING IN TRUST PREFERRED SECURITIES UNDER THE LAWS OF GERMANY, THE UNITED STATES AND ITS CONSTITUENT JURISDICTIONS, AND ANY OTHER JURISDICTION WHERE THEY MAY BE SUBJECT TO TAXATION.

### Taxation in the United States

The following is a summary of the principal U.S. federal income tax consequences relating to an investment in the Trust Preferred Securities by an investor that is a Non-U.S. Holder (as defined below). This summary does not address any U.S. tax consequences to a person who is a U.S. Holder (as defined below) or is subject to U.S. federal income tax on a net income basis. For purposes of this summary, a **“Non-U.S. Holder”** is a beneficial owner of Trust Preferred Securities other than a U.S. Holder. A **“U.S. Holder”** is a beneficial owner of Trust Preferred Securities that for U.S. federal income tax purposes is a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, an estate the income of which is subject to United States federal income taxation regardless of its source or a trust if (i) a U.S. court is able to exercise primary supervision over the trust’s administration and (ii) one or more United States persons have the authority to control all of the trust’s substantial decisions.

This summary addresses the tax consequences to a Non-U.S. Holder that acquires Trust Preferred Securities on their original issue at their original offering price (an **“Original Trust Preferred Securityholder”**). This summary does not address all tax consequences that may be applicable to a beneficial owner of the Trust Preferred Securities and does not address the tax consequences to a Non-U.S. Holder in special circumstances. This summary is based upon the Internal Revenue Code of 1986, as amended (the **“Code”**), Treasury Regulations, Internal Revenue Service (**“IRS”**) rulings and pronouncements and judicial decisions as of the date hereof, all of which are subject to change (possibly with retroactive effect).

Prospective investors are urged to consult with their tax advisors as to the U.S. federal income tax consequences of the purchase, ownership and disposition of trust preferred securities, as well as the effect of any state, local or foreign tax laws.

#### ***Tax Treatment of the Trust***

The Bank intends to treat the Trust as a grantor trust for U.S. federal income tax purposes. Assuming full compliance with the terms of the Trust Agreement, the Trust will not be an association taxable as a corporation or otherwise be subject to U.S. federal income tax.

#### ***Tax Treatment of the Company***

In purchasing the Trust Preferred Securities, each Original Trust Preferred Securityholder agrees with the Bank, the Company and the Trustees that the Bank, the Company, the Trustees and the Original Trust Preferred Securityholders will treat Original Trust Preferred Securityholders for all purposes as holders of an undivided interest in Trust assets, including the Class B Preferred Securities, and not as holders of a direct interest in the Bank or in any other person, and the following discussion is based on the assumption that such treatment will apply for U.S. federal income tax purposes. Assuming

full compliance with the LLC Agreement, the Company will not be taxable as a corporation and will not itself be subject to U.S. federal income tax. The Bank intends to treat the Company as a partnership for U.S. federal income tax purposes.

### ***Income and Withholding Tax***

The Company intends to operate so that it will not be treated as engaged in the conduct of a U.S. trade or business. Moreover, the Company intends to invest in securities that will be exempt from withholding of U.S. federal income tax when income attributable to such securities is distributed or allocated to beneficial holders of Class B Preferred Securities.

Accordingly, assuming full compliance with the terms of the LLC Agreement, a Non-U.S. Holder will not be subject to withholding of U.S. federal income tax on payments in respect of the Trust Preferred Securities. A Non-U.S. Holder also will not be subject to U.S. federal income tax on its allocable share of the Company's income unless such income is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States. A Non-U.S. Holder will not be subject to U.S. federal income or withholding tax on gain realized on the sale or exchange of the Trust Preferred Securities, unless (i) such gain is effectively connected with the conduct by the Non-U.S. Holder of a trade or business in the United States or (ii) in the case of gain realized by an individual Non-U.S. Holder, the Non-U.S. Holder is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

### ***Information Reporting and Backup Withholding***

In general, a Non-U.S. Holder who holds Trust Preferred Securities through a non-United States Bank or other non-United States financial institution that is a participant in Euroclear or Clearstream will not be required to provide certification of non-U.S. status for U.S. withholding purposes and will not be subject to any information reporting rules. In other contexts, however, including where a Non-U.S. Holder withdraws from the Trust and directly holds the Class B Preferred Securities, a Non-U.S. Holder in order to eliminate U.S. information reporting requirements and backup withholding tax will be required to comply with applicable certification procedures to establish the holder's non-U.S. status (by providing an IRS Form W-8BEN or other applicable form). The Trust will report to the IRS the amount of income allocated each year to each beneficial owner of Trust Preferred Securities, in accordance with applicable law.

## **German Taxation**

The following is a discussion of certain German tax considerations that may be relevant to a holder of Trust Preferred Securities that is a resident of Germany or for which income in respect of the Trust Preferred Securities is regarded as income from German sources, for example because such Trust Preferred Securities form part of the business property of a permanent establishment or facility maintained in Germany (a "**German Holder**"). The information contained in this summary is not to be construed as tax advice. It is based on an interpretation of the German tax laws as of the date hereof and is subject to change. Any such change may be applied retroactively and may adversely affect the tax consequences described herein. This summary does not purport to deal with all aspects of taxation that may be relevant to investors in the light of their individual circumstances. Prospective investors are advised to consult their own tax advisors with respect to the tax consequences of purchasing, holding, redeeming or disposing of Trust Preferred Securities.

### ***Income Taxation***

Capital Payments received by a German Holder with respect to the Trust Preferred Securities will be subject to German personal or corporate income tax (plus a solidarity surcharge thereon, which is currently levied at 5.5%), and, in the case of a German Holder who is an individual, may be subject to church tax. Upon the sale or redemption of the Trust Preferred Securities, a German Holder will also be required to include in its taxable income the difference between the amount realized on such sale or redemption and the cost of acquisition (or adjusted tax base) of the Trust Preferred Securities.



Income derived from the Trust Preferred Securities will also be subject to German municipal trade tax on income (*Gewerbeertragsteuer*) if the Trust Preferred Securities form part of the property of a German business establishment for trade tax purposes or are held by a German corporate investor.

A German Holder who is an individual and does not hold the Trust Preferred Securities as a business asset for tax purposes is entitled to an annual tax exempt allowance for investment income (*Sparer-Freibetrag*) in the amount of € 750 (€ 1.500 for married couples filing jointly). In addition, a German Holder is also entitled to a lump-sum deduction for investment income related expenses (*Werbungskosten-Pauschbetrag*) in the amount of € 51 (€ 102 for married couples filing jointly), unless a higher amount of expenses can be documented.

### **German Withholding Tax**

If the Trust Preferred Securities are kept in a custodial account maintained by a German Holder with a German bank or a German financial services institution, each as defined in the German Banking Act (*Gesetz über das Kreditwesen*) (including a German branch of a foreign bank or of a foreign financial services institution, but excluding a foreign branch of a German bank or German financial services institution) (a "**German Paying Agent**"), the German Paying Agent will generally be required to withhold tax on interest (*Zinsabschlagsteuer*) at a rate of 30% (plus solidarity surcharge thereon at a rate of 5.5%, resulting in an aggregate withholding tax rate of 31.65%) of the gross amount paid as income with respect to the Trust Preferred Securities. Upon the sale or redemption of the Trust Preferred Securities, a German Paying Agent will generally be required to withhold tax at an aggregate rate of 31.65% on:

- the excess of the sale or redemption proceeds of the Trust Preferred Securities over the holder's acquisition cost, if the Trust Preferred Securities have been acquired through or purchased from and have since been held in custody with such German Paying Agent, or
- an amount equal to 30% of the sale or redemption proceeds of the Trust Preferred Securities, if the Trust Preferred Securities have not been so held with such German Paying Agent.

Tax withheld by the German Paying Agent will be credited against the German Holder's final liability for personal or corporate income tax or refunded if in excess of such final tax liability.

Certain German holders of Trust Preferred Securities can take advantage of the annual tax exempt allowance for investment income (*Sparer-Freibetrag*) (as described above) by presenting a certificate of exemption (*Freistellungsauftrag*) to the German Paying Agent. In this case, the German Paying Agent will not withhold tax on investment income (including income derived from the Trust Preferred Securities) up to the amount shown in the certificate of exemption. Furthermore, the German Paying Agent will not withhold any tax, if the holder of Trust Preferred Securities submits to the German Paying Agent a certificate of non-assessment (*Nichtveranlagungsbescheinigung*) issued by the local tax office.

### **Gift and Inheritance Taxation**

The gratuitous transfer of the Trust Preferred Securities by a holder as a gift or by reason of death is subject to German gift or inheritance tax, based on the market value of the Trust Preferred Securities at the time of the transfer, if the holder of the Trust Preferred Securities or the recipient is a resident, or deemed to be a resident, of Germany. German gift or inheritance tax is also levied if the Trust Preferred Securities form part of the property of a permanent establishment or a facility maintained by the holder of the Trust Preferred Securities in Germany. Double taxation treaties may provide for exemptions from the domestic inheritance and gift tax regulations. It should be noted that following to a decision of the German Federal Constitutional Court on November 7, 2006, the gift and inheritance taxation is currently under discussion in Germany.

### **Other German Taxes**

There are no German transfer, stamp or other similar taxes which would apply to the sale or transfer of the Trust Preferred Securities.

### **Potential Changes by the envisaged Tax Reform Act 2008**

It should be noted that the German government currently prepares legislation which is expected to substantially change the taxation of companies as well as of investors, which, if finally enacted, would lead in part to significant changes with respect to the tax considerations discussed above. The Tax Reform Act 2008 (*Unternehmenssteuerreformgesetz 2008*) has passed the Lower House of German Parliament (*Bundestag*) on May 25, 2007 and the legislative process is expected to be finalized by summer 2007.

With respect to the taxation of holders of Trust Preferred Securities the following envisaged changes might become relevant:

Capital Payments received by a German holder with respect to the Trust Preferred Securities, as well as any gains upon the sale or redemption of the Trust Preferred Securities, would be subject to a final flat tax of 25% plus a solidarity surcharge thereon, which is currently levied at 5.5%, resulting in an aggregate tax burden of 26.375%, if the German holder is an individual and does not hold the Trust Preferred Securities as a business asset. An individual German holder may in addition be subject to church tax. Subject to an annual lump-sum allowance (*Sparer-Pauschbetrag*) for investment type income of € 801 (€ 1,602 for married couples filing jointly) German holders will not be entitled to deduct expenses incurred in connection with the investment in the Trust Preferred Securities from their income. In addition, German holders could not offset losses from the investment in the Trust Preferred Securities against other type of income (e.g., employment income). If the flat tax would lead to a higher tax burden in comparison to the current rules, the German holder would be entitled to opt for the current system. This part of the tax reform is expected to become effective as of January 1, 2009.

In case a German holder holds the Trust Preferred Securities as a business asset, the tax situation would remain unchanged. In case the German holder is a German corporate investor, the corporate income tax rate is expected to be reduced from currently 25% to 15% (in each case plus solidarity surcharge). Income derived from the Trust Preferred Securities would still be subject to German municipal trade tax on income (*Gewerbeertragsteuer*) if the Trust Preferred Securities form part of the property of a German business establishment for trade tax purposes or are held by a German corporate investor. As counter finance measures for the reduction of the corporate income tax rate, it is expected that the deductibility of trade tax as a business expense would be abolished and the deductibility of interest payments would generally be restricted. This part of the tax reform is expected to become effective as of January 1, 2008.

### **Taxation in Luxembourg**

The following is a general description of certain tax considerations, under the existing laws of Luxembourg as currently applied by the Luxembourg tax authorities, relating to a holding of Trust Preferred Securities. It does not purport to be a complete analysis of all tax considerations relating to the Trust Preferred Securities. Prospective purchasers of the Trust Preferred Securities should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of any other jurisdiction of acquiring, holding, redeeming and disposing of Trust Preferred Securities and receiving Capital Payments, Liquidation Preference Amounts and/or other amounts under the Trust Preferred Securities. This summary is based upon the law as in effect on the date hereof and is subject to any change in law that may take effect after such date, and may be retroactively applicable.

#### **Income tax**

A holder of a Trust Preferred Security who derives income from such Trust Preferred Security or who realizes a gain on the disposal or redemption thereof will not be subject to Luxembourg taxation on income or capital gains unless:

- such holder is, or is deemed to be, resident in Luxembourg; or

- such income or gain is attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in Luxembourg.

In those cases:

- if the holder is a natural person resident in Luxembourg, or a partnership held by natural persons resident in Luxembourg, income derived from a Trust Preferred Security will bear individual income tax at a progressive rate up to 38%, plus an unemployment fund contribution levied thereon at a rate of 2.5%. For holders who are natural persons resident in Luxembourg, the 10% tax withheld at source (see "Withholding Tax" below) constitutes a final taxation. Capital gains will only be taxable if they occur on a sale of Trust Preferred Securities which takes place up to six months after these were acquired; or
- if the holder is a legal entity subject to corporate income tax, such income or gain will bear corporate income tax and municipal business tax.

The combined rate for these two taxes is 29.63% in the City of Luxembourg.

### ***Withholding tax***

- No Luxembourg withholding tax is imposed on payments on the Trust Preferred Securities, except as provided under "European Union Savings Directive" below in respect of income paid or attributed to, or collected (in the cases foreseen by articles 4(2) and 11(5) of the Directive) for, a beneficial owner who is an individual resident in another Member State.
- Pursuant to the law of December 23, 2005, effective as of January 1, 2006, payments on the Trust Preferred Securities by a Luxembourg paying agent to a holder that is a natural person resident in Luxembourg will be subject to withholding tax at a rate of 10%.

### ***Net wealth tax***

Luxembourg net wealth tax will not be levied on a holder of a Trust Preferred Security unless such Trust Preferred Security is attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in Luxembourg.

Net wealth tax is levied annually at the rate of 0.5% on the net wealth of enterprises resident of Luxembourg.

### ***Estate and gift tax***

No Luxembourg inheritance tax is levied on the transfer of Trust Preferred Securities upon the death of a holder thereof in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes.

Luxembourg gift tax will be levied in the event that a gift of Trust Preferred Securities is made pursuant to a notarial deed signed before a Luxembourg notary.

### ***Other taxes***

It is not compulsory that the Trust Preferred Securities be filed, recorded or enrolled with any court, or other authority in Luxembourg or that registration tax, transfer tax, capital tax, stamp duty or any other similar tax or duty be paid in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including any foreign judgment in the courts of Luxembourg) of the Trust Preferred Securities, in accordance therewith, except that, in case of use of the Trust Preferred Securities, either directly or by way of reference (i) in a public deed, (ii) in a judicial proceeding in Luxembourg or (iii) before any other Luxembourg official authority (*autorité constituée*), registration may be ordered which implies the application of a fixed or an ad valorem registration duty and calculated on the amounts mentioned in the Trust Preferred Securities.

### **European Union Savings Directive**

Under the European Union Directive 2003/48/EU, adopted on June 3, 2003, on the taxation of savings income, each member state of the European Union is required to provide to the tax authorities of another member state details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other member state; however, for a transitional period, Austria, Belgium and Luxembourg will instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 %, unless during such period they elect otherwise. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries, and certain dependent or associated territories of certain member states, have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to an individual resident in a member state. In addition, the member states have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a member state to an individual resident in one of those territories.

Holders should note that no Additional Amounts will be payable in respect of Withholding Taxes imposed pursuant to (i) the European Union Directive on the taxation of savings income, (ii) any international treaty or understanding relating to such taxation and to which the United States, the European Union or Germany is a party, or (iii) any provision of law implementing, or complying with, or introduced to conform with, such Directive, regulation, treaty or understanding.

## SUBSCRIPTION AND SALE

Subject to the terms and conditions set forth in the Purchase Agreement to be entered into among the Bank, the Company, the Trust and the Joint Lead Managers, the Trust will agree to sell to the Joint Lead Managers and the Joint Lead Managers will agree to purchase the Trust Preferred Securities at a price of 100% (equivalent to € 50,000 per Trust Preferred Security) (the “**Issue Price**”).

The Trust Preferred Securities will be delivered to investors, in book-entry form, against payment on the second business day following the Issue Date. Payment and delivery will be effected through the facilities of Euroclear and Clearstream.

Pursuant to the Purchase Agreement, the Bank will (i) pay the Joint Lead Managers a combined management, underwriting and selling commission and (ii) reimburse the Joint Lead Managers for certain expenses of the Offering. Each of the Company, the Trust and the Bank has agreed to indemnify the Joint Lead Managers against certain liabilities.

The Joint Lead Managers or their affiliates have provided from time to time, and expect to provide in the future, investment services to the Bank and its affiliates, for which the Joint Lead Managers or their affiliates have received or will receive customary fees and commissions.

Certain of the Joint Lead Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and/or its affiliates in the ordinary course of business.

Other than disclosed in this Prospectus, there are no interests of natural and legal persons involved in the issue, including conflicting ones, that are material to the issue.

### **Selling Restrictions**

#### ***United States of America***

Each of the Joint Lead Managers has represented and agreed that, except as permitted by the Purchase Agreement, it will not offer or sell the Trust Preferred Securities within the United States of America or to, or for the account or benefit of, U.S. persons (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the closing date and the completion of the distribution of the Trust Preferred Securities, and it will send to each dealer to which it sells Trust Preferred Securities during the 40-day distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Trust Preferred Securities within the United States of America or to, or for the account or benefit of, U.S. persons.

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

In addition, until 40 days after the commencement of the offering, an offer or sale of the Trust Preferred Securities within the United States of America by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

The Trust Preferred Securities may not be purchased by or transferred to any employee benefit plan subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended, any plan or arrangement subject to Section 4975 of the Code, or any entity whose underlying assets include the assets of any such employee benefit plans, plan or arrangements.

#### ***United Kingdom***

Each of the Joint Lead Managers has represented, warranted and agreed that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000, as amended from time to time,

or any successor legislation, (“**FSMA**”)) received by it in connection with the issue or sale of any Trust Preferred Securities in circumstances in which section 21(1) of the FSMA does not apply to the Trust or the Company; and

- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Trust Preferred Securities in, from or otherwise involving the United Kingdom.

### ***General***

In addition to the specific restrictions set out above, each Joint Lead Manager agrees that it will observe all applicable provisions of law in each jurisdiction in or from which it may offer Trust Preferred Securities or distribute any offering material.



## **GENERAL INFORMATION**

### **Subject of this Prospectus**

The subject of this Prospectus are the € 350,000,000 non-cumulative Trust Preferred Securities, Liquidation Preference Amount € 50,000 per security, which represent preferred undivided beneficial ownership interests in the assets of Hypo Real Estate International Trust I, a statutory trust created under the laws of the State of Delaware, United States of America.

### **Use of Proceeds**

The Trust will invest the gross proceeds from the sale of the Trust Securities (aggregating € 350,050,000 including the € 50,000 proceeds from the sale of the Trust Common Security) in the Class B Preferred Securities. The Company will use the funds from the sale of the Class B Preferred Securities, together with certain funds contributed by the Bank in return for the Class A Preferred Security and the Company Common Security, to make an investment in the Initial Debt Securities.

The Bank intends to treat the Class B Preferred Securities as consolidated Tier I regulatory capital. The Bank intends to use the gross proceeds from the sale of the Initial Debt Securities for general corporate purposes.

The Bank will pay certain commissions to the Joint Lead Managers and reimburse the Joint Lead Managers for certain expenses in connection with the Offering. See "Subscription and Sale." The net proceeds to the Hypo Real Estate Bank International Group are expected to amount to approximately € 350,000,000.

### **Expenses Related to the Admission to Trading**

Expenses related to the admission to trading amount to € 3,500.

### **Clearing Codes**

The Trust Preferred Securities have been accepted for clearance through the facilities of Euroclear and Clearstream under the following clearance codes:

ISIN: XS0303478118

Common Code: 030347811

### **Issue Date**

The Trust Preferred Securities will be issued on June 14, 2007. The rights attached to the Trust Preferred Securities take effect as of such Issue Date.

### **Yield to Maturity**

There is no explicit yield to maturity. The Trust Preferred Securities do not carry a fixed date for redemption and the Trust and the Company are not obliged, and under certain circumstances are not permitted, to make payments on the Trust Preferred Securities and Class B Preferred Securities at the full stated rate.

### **Listing and Documents for Inspection**

An application has been made to the CSSF, as competent authority under the Prospectus Directive, for this Prospectus to be approved. An application has been made to the Luxembourg Stock Exchange for the Trust Preferred Securities issued under this Prospectus to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Official List of the Luxembourg Stock Exchange. At the date hereof it is not intended to list the Trust Preferred Securities on any other stock exchange.

For so long as the Trust Preferred Securities are listed on the Official List of the Luxembourg Stock Exchange, there will be a paying agent in the city of Luxembourg and Capital Payments and the redemption price, if any, shall be made payable in Euros at the offices of the Luxembourg Paying Agent.

At any time during the term of the Trust Preferred Securities, once available, the most recently available annual financial statements of the Trust and the Company, will be available for inspection and obtainable free of charge at the offices of the Principal Paying Agent. Unless required by applicable law or regulations, neither the Trust nor the Company will prepare interim financial statements.

In addition, the following documents will be available for inspection for the life of the Prospectus and obtainable, free of charge, at the offices of the Luxembourg Paying Agent:

- the Articles of Association (*Satzung*) of the Bank;
- the most recent Annual Report and Accounts of the Bank together with any subsequent published interim financial statement;
- the Annual Reports of the Bank containing its unconsolidated financial statements for the period ended December 31, 2005 and December 31, 2006;
- the Annual Report of the Bank containing its consolidated financial statements for the period ended December 31, 2006;
- the Interim Report of the Bank containing the reviewed consolidated financial statements for the period ended March 31, 2007;
- the Articles of Association (*Satzung*) of Hypo Real Estate Holding AG;
- the most recent Annual Report of Hypo Real Estate Holding AG together with any subsequent published interim financial statement;
- the Annual Reports of Hypo Real Estate Holding AG containing its consolidated financial statements for the period ended December 31, 2006;
- the Interim Report of Hypo Real Estate Holding AG containing the reviewed consolidated financial statements for the period ended March 31, 2007;
- the Amended and Restated Limited Liability Company Agreement and Certificate of Formation of the Company;
- the Amended and Restated Trust Agreement and Certificate of Trust of the Trust;
- the form for the Initial Debt Securities; and
- the Support Undertaking.

Copies of these documents as well as financial statements and interim financial statements of the Bank are also available at the office of the Bank, Büchsenstraße 26, 70174 Stuttgart, Federal Republic of Germany.

### **Internet Addresses**

The Internet address of the Bank is: [www.hyporealestate.com/eng/hrebi.html](http://www.hyporealestate.com/eng/hrebi.html). Information included on, or linked to or from, this Internet site does not form part of the Prospectus unless the Prospectus

explicitly provides otherwise with respect to a particular document that can be downloaded from the Bank's web site.

### **Notices**

Notices to the holders of the Trust Preferred Securities will be given by delivery of the relevant notice to Euroclear, Clearstream and any other relevant securities clearing system for communication by each of them to entitled participants, and so long as the Trust Preferred Securities are listed on the Official Market of the Luxembourg Stock Exchange and the rules of such Exchange so require, in a daily newspaper of general circulation in Luxembourg (which is expected to be the *Tageblatt – Zeitung für Lëtzeburg*) or if such Luxembourg Publication (the "**Luxembourg Publication**") is not practicable, in one of the other leading English language newspapers being published on each day in morning editions whether or not it shall be published on Saturdays, Sundays or holidays.

### **Paying Agents**

#### ***Principal Paying Agent***

Deutsche Bank Aktiengesellschaft  
Große Gallusstraße 10–14  
60272 Frankfurt am Main  
Germany

#### ***Luxembourg Paying Agent***

Deutsche Bank Luxembourg S.A.  
2 Boulevard Konrad Adenauer  
L-1115 Luxembourg

### **No Material Change**

Save as described herein, there has been no material adverse change in the prospects of the Bank since December 31, 2006 and no significant change in the financial position of the Bank since March 31, 2007. Furthermore, save as described herein, there has been no material adverse change in the prospects and no significant change in the financial or trading position of the Trust or the Company since their formation on April 17, 2007.

## INCORPORATION BY REFERENCE

### Historical Financial Information

The following documents are incorporated by reference in, and form part of, this Prospectus:

- (i) Hypo Real Estate Bank International AG's audited consolidated financial statements for the financial year ended December 31, 2006 (the "Consolidated Financial Information 2006", as published on the website of Hypo Real Estate Bank International AG ([www.hypointernational.com](http://www.hypointernational.com)) and on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)));
- (ii) Hypo Real Estate Bank International AG's audited unconsolidated financial statements for the financial year ended December 31, 2006 (the "Unconsolidated Financial Information 2006", as published on the website of Hypo Real Estate Bank International AG ([www.hypointernational.com](http://www.hypointernational.com)) and on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)));
- (iii) Hypo Real Estate Bank International AG's audited unconsolidated financial statements for the financial year ended December 31, 2005 (the "Unconsolidated Financial Information 2005", as published on the website of Hypo Real Estate Bank International AG ([www.hypointernational.com](http://www.hypointernational.com)) and on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)));
- (iv) Hypo Real Estate Group's audited consolidated financial statements for the financial year ended December 31, 2006 (the "Hypo Real Estate Group Consolidated Financial Information 2006", as published on the website of Hypo Real Estate Holding AG ([www.hyporealestate.com](http://www.hyporealestate.com)) and on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu)));
- (v) Hypo Real Estate Bank International AG's reviewed and unaudited interim consolidated financial statements as of March 31, 2007 (the "Interim Consolidated Financial Information March 2007", as published on the website of Hypo Real Estate Bank International AG ([www.hypointernational.com](http://www.hypointernational.com)) and on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu))); and
- (vi) Hypo Real Estate Group's reviewed and unaudited interim consolidated financial statements as of March 31, 2007 (the "Hypo Real Estate Group Interim Consolidated Financial Information March 2007", as published on the website of Hypo Real Estate Holding AG ([www.hyporealestate.com](http://www.hyporealestate.com)) and on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu))).

<b>Incorporated Section</b>	<b>Page Reference</b>
Consolidated Financial Information 2006	
Risk Report .....	F-1 to F-14
Income Statement .....	F-15
Balance Sheet .....	F-16
Cash Flow Statement .....	F-17
Explanatory Notes .....	F-18 to F-73
Auditor's Opinion .....	F-74
Unconsolidated Financial Information 2006	
Balance Sheet .....	G-1 to G-2
Profit and Loss Account .....	G-3 to G-4
Accounting and Valuation Principles .....	G-5 to G-7
Explanatory Notes on the Balance Sheet .....	G-7 to G-9
Explanatory Notes on the Profit and Loss Account .....	G-9 to G-10
Auditor's Opinion .....	G-11
Unconsolidated Financial Information 2005	
Balance Sheet .....	H-1 to H-2
Profit and Loss Account .....	H-3 to H-4
Accounting and Valuation Principles .....	H-5 to H-7
Explanatory Notes on the Balance Sheet .....	H-7 to H-10
Explanatory Notes on the Profit and Loss Account .....	H-10 to H-11
Auditor's Opinion .....	H-12 to H-13
Hypo Real Estate Group Consolidated Financial Information 2006	
Income Statement .....	I-1
Balance Sheet .....	I-2
Cash Flow Statement .....	I-3
Accounting and Valuation Principles, Explanatory Notes .....	I-4 to I-54
Auditor's Opinion .....	I-55
Interim Consolidated Financial Information March 2007	
Risk Report .....	J-1 to J-3
Income Statement .....	J-4
Balance Sheet .....	J-5
Cash Flow Statement .....	J-6
Notes .....	J-7 to J-24
Review Report .....	J-25
Hypo Real Estate Group Interim Consolidated Financial Information March 2007	
Income Statement .....	K-1
Balance Sheet .....	K-2
Statement of Changes in Equity and Cash Flow Statement .....	K-3
Notes .....	K-4 to K-17
Review Report .....	K-18

A copy of the documents incorporated herein by reference will be available free of charge from the offices of the Luxembourg Paying Agent.

## DEFINITIONS

**"1940 Act"** means the U.S. Investment Company Act of 1940, as amended.

**"3-month EURIBOR"** means, for any Capital Payment Period or Interest Payment Period commencing on or after June 14, 2017 the rate determined by the Calculation Agent on the day (the **"Floating Rate Reset Date"**) falling two Business Days prior to the first day of the relevant Capital Payment Period or Interest Payment Period and shall be the per annum rate published on Reuters Screen EURIBOR01 Page (or such other screen page of Reuters or such other information service that is designated as the successor to Reuters Screen EURIBOR01 Page for the purpose of displaying such rates (the **"Screen Page"**)) on the relevant Floating Rate Reset Date at or about 11:00 a.m. (Brussels time) as the rate offered in the interbank market in the Euro-zone for deposits in Euros for the relevant Capital Payment Period or Interest Payment Period. If such rate does not appear on the Screen Page, then the rate for such Capital Payment Period or Interest Payment Period shall be the arithmetic mean (rounded if necessary to the nearest one thousandth of a percentage point, with 0.0005 being rounded upwards), determined by the Calculation Agent, of the rates which four banks whose offered rates were used to determine such quotation when such quotation last appeared on the Screen Page (the **"Reference Banks"**) quote to prime banks in the interbank market in the Euro-zone at approximately 11:00 a.m. (Brussels time) on the relevant Floating Rate Reset Date for deposits in Euros for such Capital Payment Period or Interest Payment Period. If at least two such quotations are provided, the rate for such Capital Payment Period or Interest Payment Period will be the arithmetic mean of the quotations. If fewer than two quotations are provided as requested, the rate for such Capital Payment Period or Interest Payment Period will be the 3-month EURIBOR rate in effect on the Business Day immediately preceding the relevant Floating Rate Reset Date.

**"Additional Amounts"** means any additional amounts payable by the Company or the Trust pursuant to the terms of the Class B Preferred Securities and the Trust Preferred Securities as may be necessary in order that the net amounts received by the holders of the Class B Preferred Securities and the Trust Preferred Securities, after deduction or withholding for or on account of any Withholding Taxes, on payments thereon and any amount payable in liquidation or on repayment upon redemption thereof, will equal the amounts that otherwise would have been received had no such deduction or withholding been required.

**"Additional Interest Amounts"** means any additional interest amounts payable by the Bank or another obligor pursuant to the terms of the Debt Securities as may be necessary in order that the net amounts received by the Company as a result of deduction or withholding upon payment of interest on the Debt Securities or repayment upon redemption thereof will equal the amount that otherwise would have been received had no such deduction or withholding been required.

**"Adjusted Comparable Yield"** means the yield three Business Days prior to the relevant Redemption Date on the Euro benchmark security selected by the Quotation Agent, after consultation with the Bank, as having a maturity comparable to the Debt Remaining Life or the Remaining Life, as the case may be, that would be utilized, at the time of selection and in accordance with customary banking practice, in pricing new issues of corporate debt securities of comparable maturity.

**"Administrative Action"** means any judicial decision, official administrative pronouncement, published or private ruling, regulatory procedure, notice or announcement (including any notice or announcement of intent to adopt certain procedures or regulations) by any legislative body, court, governmental authority or regulatory body.

**"BaFin"** means the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*).

**"Bank"** means Hypo Real Estate Bank International AG, a stock corporation (*Aktiengesellschaft*) organized under the laws of Germany. The Bank is a wholly-owned subsidiary of Hypo Real Estate Holding.

**"Board of Directors"** means the board of directors of the Company.



**"Business Day"** means a day on which TARGET (the Trans-European Automated Real Time Gross Settlement Express Transfer System) is operating credit or transfer instructions in respect of payments in Euro.

**"Bylaws"** means the by-laws of the Company.

**"Calculation Agent"** means Deutsche Bank AG, Frankfurt am Main, Federal Republic of Germany.

**"Capital Payment Date"** means each Fixed Rate Payment Date and each Floating Rate Payment Date.

**"Capital Payment Period"** means the period from and including a Capital Payment Date (or, in the case of the first Capital Payment Period, the Issue Date) to, but excluding, the next succeeding Capital Payment Date.

**"Capital Payments"** means the periodic distributions on the Trust Preferred Securities and the Class B Preferred Securities.

**"Class A Preferred Security"** means the non-cumulative Class A Preferred Security evidencing a preferred ownership interest in the Company.

**"Class B Preferred Securities"** means the non-cumulative Class B Preferred Securities evidencing preferred ownership interests in the Company.

**"Clearstream"** means Clearstream Banking, société anonyme, Luxembourg.

**"Code"** means the United States Internal Revenue Code of 1986, as amended.

**"Common Depositary"** means Deutsche Bank AG, Frankfurt am Main, and its successors, in its capacity as Common Depositary for Euroclear and Clearstream.

**"Company"** means Hypo Real Estate International LLC I, a Delaware limited liability company.

**"Company Common Security"** means the voting common security representing an ownership interest in the Company.

**"Company Preferred Securities"** means the Class A Preferred Security and the Class B Preferred Securities.

**"Company Securities"** means the Company Common Security and the Company Preferred Securities.

**"Company Special Redemption Event"** means (i) a Regulatory Event, (ii) a Tax Event, (iii) a Gross-up Event or (iv) an Investment Company Act Event solely with respect to the Company.

**"Debt Redemption Date"** means the date fixed for redemption of the Initial Debt Securities.

**"Debt Securities"** means the Initial Debt Securities and the Substitute Debt Securities.

**"Debt Make-Whole Amount"** means the amount as determined by the Quotation Agent, equal to the sum of:

- the present value of a payment of the Principal Amount, discounted from the Initial Debt Redemption Date to the Debt Redemption Date, and
- the present values of all scheduled annual interest payments, including payments of interest that would accrue from the Debt Redemption Date to the next Interest Payment Date (if the Debt Redemption Date is not an Interest Payment Date),

at the Stated Rate during the Debt Remaining Life, discounted from such scheduled Interest Payment Date to the Debt Redemption Date, in each case on an annual basis (assuming a year consisting of 365 or 366 days, respectively) at a per annum rate equal to the applicable Adjusted Comparable Yield plus 0.5 %.

**“Debt Remaining Life”** means the period from the Debt Redemption Date to the Initial Debt Redemption Date.

**“Delaware Trustee”** means Deutsche Bank Trust Company Delaware.

**“Distributable Profits”** of the Bank for any fiscal year means

- for so long as the profit-and-loss-pooling agreement (*Ergebnisabführungsvertrag*) between Hypo Real Estate Holding AG and the Bank is in effect (requiring the Bank to transfer in full the Transferred Profit to Hypo Real Estate Holding AG, and requiring Hypo Real Estate Holding AG to compensate in full the annual loss (*Jahresfehlbetrag*) of the Bank in any fiscal year to the extent not offset by any transfers from earnings reserves), the Transferred Profit for such fiscal year, as shown in the audited unconsolidated profit and loss statement of the Bank as of the end of such fiscal year, if any, plus transfers from earnings reserves not subject to the profit-and-loss pooling agreement and
- if the profit-and-loss-pooling agreement between Hypo Real Estate Holding and the Bank is no longer in effect, the balance sheet profit (*Bilanzgewinn*) as of the end of such fiscal year, as shown in the audited unconsolidated balance sheet of the Bank as of the end of such fiscal year. Such balance sheet profit includes the annual surplus or loss (*Jahresüberschuss/Jahresfehlbetrag*), plus any profit carried forward from previous years, minus any loss carried forward from previous years, plus transfers from capital reserves and earnings reserves, minus allocations to earnings reserves, all as determined in accordance with the provisions of the German Stock Corporation Act (*Aktien-gesetz*) and accounting principles generally accepted in the Federal Republic of Germany as described in the German Commercial Code (*Handels-gesetzbuch*) and other applicable German law then in effect.

In determining the availability of sufficient Distributable Profits of the Bank related to any fiscal year to permit Capital Payments to be declared with respect to the Class B Preferred Securities in respect to such fiscal year, any Capital Payments already paid on the Class B Preferred Securities and any capital payments, dividends or other distributions already paid on Parity Securities, if any, on the basis of such Distributable Profits for such fiscal year will be deducted from such Distributable Profits.

**“Early Redemption Price”** means the greater of (i) the Redemption Price per Class B Preferred Security and (ii) the Make-Whole Amount, plus, in each case, Additional Amounts, if any.

**“Enforcement Event”** under the Trust Agreement with respect to the Trust Securities means the occurrence, at any time, of (i) non-payment of Capital Payments (plus Additional Amounts thereon, if any) on the Trust Preferred Securities or the Class B Preferred Securities at the Stated Rate in full as and when due, for two consecutive Capital Payment Periods or (ii) a default by the Bank in respect of any of its obligations under the Support Undertaking, *provided* that, pursuant to the Trust Agreement, the holder of the Trust Common Security will be deemed to have waived any Enforcement Event with respect to the Trust Common Security until all Enforcement Events with respect to the Trust Preferred Securities have been cured, waived or otherwise eliminated.

**“Euro”** and **“€”** mean the lawful currency of the member states of the European Union (including Germany) that have adopted the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union.

**“Euroclear”** means Euroclear Bank S.A./N.V., as operator of the Euroclear System.

**“Fixed Rate”** means the fixed coupon rate of 5.864 % per annum for the accrual of Capital Payments (or, in the case of the Initial Debt Securities, for the accrual of interest) for any Capital Payment Period (or, as applicable, any Interest Payment Period) ending prior to the Reset Date.

**“Fixed Rate Payment Date”** means June 14 of each year, from and including June 14, 2008, to and including the Reset Date.

**“Floating Rate”** means, for the accrual of Capital Payments (or, in the case of the Initial Debt Securities, for the accrual of interest) for any Capital Payment Period (or, as applicable, any Interest Payment Period) commencing on or after the Reset Date, 3-month EURIBOR (as defined herein) for such Capital Payment Period plus a margin of 2.13% per annum.

**“Floating Rate Payment Date”** means each March 14, June 14, September 14 and December 14 occurring after June 14, 2017.

**“Global Certificates”** means one or more global certificates representing the Trust Preferred Securities.

**“Global Securities”** means one or more global certificates representing the Class B Preferred Securities which the Company will use reasonable efforts to have issued and registered in the name of the Common Depositary if the Class B Preferred Securities are distributed to holders of the Trust Preferred Securities in connection with the involuntary or voluntary liquidation, dissolution, winding up or termination of the Trust.

**“Gross-up Event”** means the receipt by the Bank of an opinion of an internationally recognized law firm or other tax adviser in a Relevant Jurisdiction, experienced in such matters, to the effect that there is more than an insubstantial risk that the Trust, the Company, the Bank or the relevant obligor of the Debt Securities would be obligated to pay Additional Amounts or Additional Interest Amounts, as a result of:

- any amendment to, or clarification of, or change (including any announced prospective change) in, the laws or treaties (or any regulations promulgated thereunder) of a Relevant Jurisdiction or any political subdivision or taxing authority thereof or therein affecting taxation,
- any Administrative Action, or
- any amendment to, clarification of, or change in the official position or the interpretation of such Administrative Action or any interpretation or pronouncement that provides for a position with respect to such Administrative Action that differs from the theretofore generally accepted position,

in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification or change is made known, which amendment, clarification or change is effective, or which pronouncement or decision is announced, after the date of issuance of the Company Securities and the Trust Securities. However, none of the foregoing will constitute a Gross-up Event if the Bank (or the relevant obligor of the Debt Securities), the Trust or the Company may take reasonable measures under the circumstances to avoid such event.

**“Hypo Real Estate Group”** means Hypo Real Estate Holding and its consolidated subsidiaries (including, among others, the Hypo Real Estate Bank International Group).

**“Hypo Real Estate Holding”** means Hypo Real Estate Holding AG, the parent company of the Hypo Real Estate Group.

**“Hypo Real Estate Bank International Group”** means the Bank and its consolidated subsidiaries.

**“Hypo Real Estate Bank International Group Company”** means the Bank or a Qualified Subsidiary.

**“Independent Enforcement Director”** means the independent member of the Board of Directors elected by the holders of the Class B Preferred Securities under specified circumstances.

**“Initial Debt Redemption Date”** means June 14, 2017, which is the first day on which the Initial Debt Securities will be redeemable, in whole but not in part, by the Bank other than upon the occurrence of a Company Special Redemption Event or in the event of replacement with Substitute Debt Securities.

**“Initial Debt Securities”** means subordinated notes of the Bank to be acquired by the Company using the proceeds from the issuance of the Class B Preferred Securities, the Class A Preferred Security and the Company Common Security.

**“Initial Redemption Date”** means June 14, 2017, which is the first day on which the Class B Preferred Securities will be redeemable, in whole but not in part, at the option of the Company, other than upon the occurrence of a Company Special Redemption Event.

**“Interest Payment Date”** means, in respect of the Initial Debt Securities, each Fixed Rate Payment Date and each Floating Rate Payment Date.

**“Interest Payment Period”** means, in respect of the Initial Debt Securities, the period from and including an Interest Payment Date (or, in the case of the first Interest Payment Period, the Issue Date) to, but excluding, the next succeeding Interest Payment Date.

**“Investment Company”** means an investment company within the meaning of the 1940 Act.

**“Investment Company Act Event”** means the request and receipt by the Bank of an opinion of an internationally recognized U.S. law firm experienced in such matters to the effect that there is more than an insubstantial risk that the Company or the Trust is or will be considered an Investment Company as a result of (i) any judicial decision, pronouncement or interpretation (irrespective of the manner made known), or (ii) the adoption or amendment of any law, rule or regulation, or any notice or announcement (including any notice or announcement of intent to adopt such law, rule or regulation), by any U.S. legislative body, court, governmental agency, or regulatory authority, in each case after the date of issuance of the Company Securities and the Trust Securities.

**“IRS”** means the United States Internal Revenue Service.

**“Issue Date”** means June 14, 2007, the date of issue of the Trust Preferred Securities.

**“Issue Price”** means the initial offering price of 100% (equivalent to € 50,000 per Trust Preferred Security).

**“Joint Lead Managers”** means the financial institutions named as Joint Lead Managers on the cover page hereof.

**“Junior Distributions”** means capital payments, dividends or other distributions on Junior Securities (excluding capital payments, dividends or other distributions by a subsidiary of the Bank exclusively to the Bank or a wholly-owned subsidiary of the Bank and payment of the Transferred Profit by the Bank to Hypo Real Estate Holding).

**“Junior Securities”** means

- common stock of the Bank,
- each class of preference shares of the Bank ranking junior to Parity Securities of the Bank, if any, and any other instrument of the Bank ranking *pari passu* therewith or junior thereto,
- preference shares or any other instrument of any subsidiary of the Bank subject to any guarantee or support agreement of the Bank ranking junior to the obligations of the Bank under the Support Undertaking and
- common stock of Hypo Real Estate Holding, the sole shareholder of the Bank.

**“Liquidation Preference Amount”** means the Liquidation Preference Amount of € 50,000 per Trust Preferred Security.

**“LLC Act”** means the Delaware Limited Liability Company Act, as amended.

**“LLC Agreement”** means the amended and restated limited liability company agreement of the Company.

**“London Business Day”** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in the City of London.

**“Luxembourg Paying and Transfer Agent”** means Deutsche Bank Luxembourg S.A. and its successors in its capacity as paying agent and transfer agent (*Agent chargé du service financier*) in Luxembourg.

**“Make-Whole Amount”** means the amount as determined by the Quotation Agent, equal to the sum of:

- the present value of a payment of the liquidation preference amount of the Class B Preferred Securities, discounted from the Initial Redemption Date to the Redemption Date, and
- the present values of all scheduled annual Capital Payments (whether or not declared or deemed declared by the Company), including Capital Payments that would accrue from the Redemption Date to the next Capital Payment Date (if the Redemption Date is not a Capital Payment Date),

at the Stated Rate during the Remaining Life, discounted from such scheduled Capital Payment Date to the Redemption Date, in each case on an annual basis (assuming a year consisting of 365 or 366 days, respectively), at a per annum rate equal to the applicable Adjusted Comparable Yield plus 0.5%.

**“Maturity Date”** means, in respect of the Initial Debt Securities, June 14, 2037.

**“Member Organization”** means a direct or indirect account holder at a participant in Euroclear or Clearstream.

**“Non-U.S. Persons”** means persons who acquire Trust Preferred Securities in compliance with Regulation S.

**“Offering”** means the offering by Hypo Real Estate International Trust I of the Trust Preferred Securities.

**“Operating Profits”** of the Company for any Capital Payment Period means the excess of the amounts payable (whether or not paid) on the Debt Securities or, after the Maturity Date, on the Permitted Investments that the Company may then hold in accordance with the LLC Agreement during such Capital Payment Period, over any operating expenses of the Company not paid or reimbursed by the Bank or one of its branches or affiliates during such Capital Payment Period, plus any reserves.

**“Original Trust Preferred Securityholder”** means a person that acquires Trust Preferred Securities on their original issue at their original Issue Price.

**“Parity Securities”** means each class of the most senior ranking preference shares, if any, that rank senior to the common stock of the Bank as to liquidation rights or other instruments of the Bank qualifying as Tier I regulatory capital, and Parity Subsidiary Securities.

**“Parity Subsidiary Securities”** means preference shares or other instruments of any subsidiary of the Bank qualifying as consolidated Tier I regulatory capital, or any other instrument of any subsidiary of the Bank subject to any guarantee or support agreement of the Bank ranking *pari passu* with the obligations of the Bank under the Support Undertaking.

**“Permanent Global Certificates”** means permanent global certificates representing the Trust Preferred Securities.

**“Permitted Investments”** means investments by the Company in debt obligations or one or more Qualified Subsidiaries unconditionally guaranteed by the Bank on a subordinated basis or in U.S. Treasury securities; *provided*, in each case, that such investment does not result in a Company Special Redemption Event.

**“Potential Securityholder”** means the Bank or a Qualified Subsidiary.

**“Principal Amount”** means € 350,076,000 (equal to the gross proceeds from the issuance of the Class B Preferred Securities plus certain amounts contributed by the Bank for the Class A Preferred Security and the Company Common Security).

**“Principal Paying Agent”** means Deutsche Bank AG, Frankfurt am Main, and its successors, in its capacity as Principal Paying Agent with respect to the Trust Preferred Securities.

**“Property Account”** means a segregated non-interest bearing trust account in the name of and under the exclusive control of the Property Trustee.

**“Property Trustee”** means Deutsche Bank Trust Company Americas.

**“Purchase Agreement”** means the purchase agreement entered into among the Bank, the Company, the Trust and the Joint Lead Managers, pursuant to which the Trust agreed to sell to the Joint Lead Managers and the Joint Lead Managers agreed to purchase the Trust Preferred Securities.

**“Qualified Subsidiary”** means a subsidiary that is consolidated with the Bank for German bank regulatory purposes of which more than 50% of the outstanding voting stock or other equity interest entitled ordinarily to vote in the election of the directors or other governing body (however designated) and of which more than 50% of the outstanding capital stock or other equity interest is, at the time, beneficially owned or controlled directly or indirectly by the Bank, which subsidiary meets the definition of “a company controlled by its parent company” as defined in Rule 3a-5 under the 1940 Act.

**“Quotation Agent”** means Deutsche Bank AG, Frankfurt am Main and its successors.

**“Redemption Date”** means the date of redemption of the Class B Preferred Securities.

**“Redemption Notice”** means notice of any redemption of the Class B Preferred Securities.

**“Redemption Price”** means a redemption price per Class B Preferred Security equal to the liquidation preference amount thereof, plus any accrued and unpaid Capital Payments for the then current Capital Payment Period to but excluding the Redemption Date.

**“Regular Trustee”** means any of the three Trustees who are employees or officers of Deutsche Bank Trust Company Delaware that has been mandated by the Bank to provide such services.

**“Regulation S”** means Regulation S under the Securities Act.

**“Regulatory Event”** means the Bank or any other member of the Hypo Real Estate Group has received notice from the BaFin (or any other relevant regulatory authority) that as a result of:

- any amendment to, or change (including any change that has been adopted but not yet become effective) in, the applicable banking laws of the Federal Republic of Germany (or any rules, regulations, interpretations or administrative practice thereunder, including rulings of the relevant banking authorities) or the guidelines of the Basel Committee for Banking Supervision after June 12, 2007, or
- any other Administrative Action interpreting the applicable laws or regulations,

in each case effective after the date of the issuance of the Class B Preferred Securities and Trust Preferred Securities, Hypo Real Estate Group may not, or may no longer, treat either the Class B Preferred Securities or the Trust Preferred Securities (or securities substantially similar to the Class B Preferred Securities or Trust Preferred Securities) as Tier I regulatory capital for capital adequacy purposes on a consolidated basis.

**“Relevant Jurisdiction”** means the United States of America, Germany or the jurisdiction of residence of any obligor of the Debt Securities or any jurisdiction from which payments on the Trust Preferred Securities, the Class B Preferred Securities or the Debt Securities are made.



**“Remaining Life”** means the period from the Redemption Date to and including the Initial Redemption Date.

**“Reset Date”** means June 14, 2017.

**“Restricted Period”** means the period ending on the expiry of the 40th day after the later of the Issue Date and the completion of the distribution of the Trust Preferred Securities.

**“Securities Act”** means the United States Securities Act of 1933, as amended.

**“Servicer”** means Deutsche International Corporate Services (Delaware) LLC.

**“Services Agreement”** means the services agreement among the Trust, the Company and the Servicer.

**“Stated Rate”** means (i) for each Capital Payment Period or Interest Payment Period ending before the Reset Date, the Fixed Rate and (ii) for each Capital Payment Period or Interest Payment Period beginning on or after the Reset Date, the Floating Rate.

**“Subsidiary”** means any entity that is directly or indirectly controlled by the Bank.

**“Substitute Debt Securities”** means any debt securities issued in substitution for the Initial Debt Securities.

**“Successor Company Securities”** means other securities substituted for the Class B Preferred Securities having substantially the same terms as the Class B Preferred Securities.

**“Successor Trust Securities”** means other securities having substantially the same terms as the Trust Securities.

**“Support Undertaking”** means the support agreement between the Bank and the Company as set forth in Appendix A.

**“Tax Event”** means the receipt by the Bank of an opinion of an internationally recognized law firm or other tax adviser in a Relevant Jurisdiction, experienced in such matters, to the effect that there is more than an insubstantial risk that

- the Trust or the Company is or will be subject to more than a *de minimis* amount of taxes, duties or other governmental charges, or
- the Bank or any other obligor of the Debt Securities
  - may not, in the determination of its taxable income for the purposes of determining German corporate income tax in any year, deduct in full interest payments on the Debt Securities (except to the extent such interest payments are determined to be connected with income of a branch that is not subject to taxation in Germany), or
  - would be subject to tax or income of the Company under the rules of the German Foreign Taxation Act (*Außensteuergesetz*), other than in cases where the Capital Payments may not be declared by the Company,

as a result of

- any amendment to, or clarification of, or change (including any announced prospective change) in, the laws or treaties (or any regulations promulgated thereunder) of a Relevant Jurisdiction or any political subdivision or taxing authority thereof or therein affecting taxation,
- any Administrative Action, or
- any amendment to, clarification of, or change in the official position or the interpretation of such Administrative Action or any interpretation or pronouncement that provides for a position with respect to such Administrative Action that differs from the theretofore generally accepted position,

in each case, by any legislative body, court, governmental authority or regulatory body, irrespective of the manner in which such amendment, clarification or change is made known, which amendment, clarification or change is effective, or which pronouncement or decision is announced, after the date of issuance of the Company Securities and the Trust Securities. However, none of the foregoing will constitute a Tax Event if the Bank (or the relevant obligor of the Debt Securities), the Trust or the Company may take reasonable measures under the circumstances to avoid such event.

**“Temporary Global Certificates”** means temporary global certificates representing the Trust Preferred Securities.

**“Transferred Profit”** means the profit transferred pursuant to the profit-and-loss pooling agreement (*aufgrund des Gewinnabführungsvertrags abgeführte Gewinne*) of the Bank for any fiscal year, as shown in the audited unconsolidated profit and loss statement of the Bank for such fiscal year, equal to the annual surplus of the Bank for such fiscal year, minus allocations to legal reserves (*gesetzliche Rücklage*), if any, plus transfers from earnings reserves established during the life of the profit-and-loss pooling agreement.

**“Trust”** means Hypo Real Estate International Trust I, a statutory trust created under the laws of the State of Delaware, United States of America.

**“Trust Act”** means the Delaware Statutory Trust Act, as amended.

**“Trust Agreement”** means the declaration of trust among the Trustees and the Company, as sponsor, as amended and restated.

**“Trust Common Security”** means one common security of the Trust.

**“Trust Preferred Securities”** means € 350,000,000 registered non-cumulative Trust Preferred Securities offered in the Offering.

**“Trust Securities”** means the Trust Common Security together with the Trust Preferred Securities.

**“Trust Special Redemption Event”** means (i) a Tax Event solely with respect to the Trust, but not with respect to the Company, (ii) a Gross-up Event solely with respect to the Trust, but not with respect to the Company or (iii) an Investment Company Act Event solely with respect to the Trust, but not with respect to the Company.

**“Trustees”** means the trustees of the Trust, pursuant to the Trust Agreement.

**“U.S. Person”** has the meaning given to it in Regulation S, unless otherwise specified.

**“Withholding Taxes”** means any present or future taxes, duties or governmental charges of any nature whatsoever imposed, levied or collected by or on behalf of a Relevant Jurisdiction or any political subdivision or authority therein or thereof having the power to tax by way of withholding or deduction.

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## APPENDIX A: FORM OF SUPPORT UNDERTAKING

This support undertaking (the “**Agreement**”), dated June 14, 2007 is entered into between Hypo Real Estate Bank International AG, a German stock corporation (the “**Bank**”) and Hypo Real Estate Bank International LLC I, a Delaware limited liability company (the “**Company**”).

WITNESSETH:

WHEREAS, the Bank owns the Company Common Security (as defined below);

WHEREAS, pursuant to the LLC Agreement (as defined below), the Company will issue the Class A Preferred Security (as defined below) to the Bank, and the Class B Preferred Securities (as defined below) to the Trust (as defined below);

WHEREAS, pursuant to the Trust Agreement (as defined below), the Trust will issue the Trust Preferred Securities (as defined below) with the same terms as, and representing corresponding amounts of, the Class B Preferred Securities;

WHEREAS, the Company intends to use the proceeds from the issuance of the Class B Preferred Securities to purchase subordinated notes of the Bank;

WHEREAS, the Company may from time to time declare Capital Payments (as defined below) on the Class B Preferred Securities pursuant to and in accordance with the LLC Agreement; and

WHEREAS, the Bank wishes to undertake for the benefit of the Company and all current and future holders of the Class B Preferred Securities that (i) so long as Class B Preferred Securities remain outstanding, the Bank will maintain direct or indirect ownership of the Class A Preferred Security and the Company Common Security, (ii) the Company will at all times be in a position to meet its obligations when due and payable, including its obligation to pay Capital Payments and the Redemption Price (as defined below) or the Early Redemption Price (as defined below), as the case may be, plus, in each case, Additional Amounts (as defined below) thereon, if any, and (iii) in liquidation or dissolution, the Company will have sufficient funds to pay the Liquidation Preference Amount (as defined below), including accrued and unpaid Capital Payments for the then current Capital Payment Period up to, but excluding, the date of liquidation or dissolution, and Additional Amounts, if any.

NOW, THEREFORE, the parties agree as follows:

### Section 1. *Certain Definitions.*

“**Additional Amounts**” has the meaning specified in the LLC Agreement.

“**Agreement**” has the meaning specified in the preamble.

“**Bank**” has the meaning specified in the preamble.

“**Capital Payment Period**” has the meaning specified in the LLC Agreement.

“**Capital Payments**” means any capital payments or other distributions at any time after the date hereof declared by the Board of Directors of the Company (or deemed declared in accordance with the LLC Agreement), but not yet paid, on the Class B Preferred Securities.

“**Class A Preferred Security**” means the class of preferred limited liability company interests in the Company designated as Class A.

“**Class B Preferred Securities**” means the class of preferred limited liability company interests in the Company designated as Class B, with a liquidation preference amount of € 50,000 per security.

“**Company**” has the meaning specified in the preamble.

**"Company Common Security"** means the common limited liability company interest of the Company.

**"Early Redemption Price"** means the greater of (A) the Redemption Price per Class B Preferred Security and (B) the Make-Whole Amount.

**"Independent Enforcement Director"** means the independent member of the Board of Directors of the Company elected by the holders of the Class B Preferred Securities upon the occurrence of certain events in accordance with, and under the terms set forth in, the LLC Agreement.

**"Liquidation Preference Amount"** means the stated Liquidation Preference Amount of the Class B Preferred Securities and any other amounts due and payable under the LLC Agreement upon the voluntary or involuntary liquidation, dissolution, winding up or termination of the Company to the holders of the Class B Preferred Securities.

**"LLC Agreement"** means the limited liability company agreement of the Company dated as of April 17, 2007, as amended and restated as of June 14, 2007 and as the same may be further amended from time to time in accordance with its terms.

**"Make-Whole Amount"** has the meaning specified in the LLC Agreement.

**"Person"** means any individual, corporation, association, partnership (general or limited), joint venture, trust, estate, limited liability company, or other legal entity or organization.

**"Redemption Price"** has the meaning specified in the LLC Agreement.

**"Trust"** means Hypo Real Estate International Trust I, a Delaware statutory trust established pursuant to a declaration of trust dated as of April 17, 2007, as amended and restated in the amended and restated declaration of trust dated as of June 14, 2007 and as the same may be further amended from time to time in accordance with its terms (the **"Trust Agreement"**).

**"Trust Preferred Securities"** means the non-cumulative Trust Preferred Securities issued by the Trust.

## Section 2. *Support Undertaking.*

- (a) The Bank undertakes to ensure that the Company shall at all times be in a position to meet its obligations if and when such obligations are due and payable, including its obligations to pay Capital Payments declared or deemed declared on the Class B Preferred Securities and payments due upon redemption of the Class B Preferred Securities, plus, in each case, Additional Amounts thereon, if any.
- (b) The Bank undertakes to ensure that in the event of any liquidation or dissolution of the Company, the Company shall have sufficient funds to pay the Liquidation Preference Amount (including accrued and unpaid Capital Payments for the then current Capital Payment Period up to, but excluding, the date of liquidation or dissolution and Additional Amounts, if any).
- (c) The obligations of the Bank under this Section 2 shall be subordinated to all senior and subordinated debt obligations of the Bank (including profit participation rights (*Genussrechte*)), and will rank at least *pari passu* with each class of the most senior ranking preference shares, if any, that rank senior to the common stock of the Bank as to liquidation rights and with other instruments of the Bank qualifying as Tier 1 regulatory capital, and will rank senior to any other preference shares and common stock of the Bank.
- (d) This Agreement shall not constitute a guarantee or undertaking of any kind that the Company will at any time have sufficient assets, or be authorized pursuant to the LLC Agreement, to declare a Capital Payment or other distribution.

## Section 3. *Third Party Beneficiaries and Enforcement of Rights.*

- (a) The parties hereto agree that this Agreement is entered into for the benefit of the Company and all current and future holders of the Class B Preferred Securities and that the Company and any

holder of any such Class B Preferred Securities may severally enforce the obligations of the Bank under Section 2.

- (b) The parties hereto acknowledge that, as provided in the LLC Agreement, if a holder of Class B Preferred Securities has notified the Company that the Bank has failed to perform any obligation then due hereunder, and such failure continues for sixty (60) days or more after such notice is given, the holders of a majority in liquidation preference amount of the Class B Preferred Securities shall have the right to elect the Independent Enforcement Director who will be required to enforce the rights of the Company under this Agreement.

Section 4. *No Exercise of Rights.* The Bank shall not exercise any right of set-off, counterclaim or subrogation that it may have against the Company as long as any Class B Preferred Securities are outstanding.

Section 5. *Burden of Proof.* Any failure of the Company to pay Capital Payments, the Redemption Price, the Early Redemption Price or Liquidation Preference Amounts (or any part thereof), plus, in each case, Additional Amounts, if any, when due and payable, shall constitute prima facie evidence of a breach by the Bank of its obligation hereunder. The Bank shall have the burden of proof that the occurrence of such breach results neither from its negligent nor its intentional misconduct.

Section 6. *No Senior Support to Other Subsidiaries.* The Bank undertakes that it shall not give any guarantee or similar undertaking with respect to, or enter into any other agreement relating to the support or payment of any amounts in respect of, any other preference shares or similar instruments (or instruments ranking *pari passu* with or junior to preference shares or similar instruments) of any other affiliated entity that would in any regard rank senior in right of payment to the Bank's obligations under this Agreement, *unless* the parties hereto modify this Agreement so that the Bank's obligations under this Agreement rank at least *pari passu* with, and contain substantially equivalent rights of priority as to payment as, such guarantee or support agreement.

Section 7. *Continued Ownership of the Class A Preferred Security and the Company Common Security.* The Bank undertakes to maintain direct or indirect ownership of the Class A Preferred Security and the Company Common Security so long as any Class B Preferred Securities remain outstanding.

Section 8. *No dissolution of the Company.* Under the terms of the LLC Agreement and to the fullest extent permitted by law, the Bank shall not permit the Company to be dissolved until all obligations under this Agreement have been paid in full pursuant to its terms.

Section 9. *Modification and Termination.* So long as any Class B Preferred Securities remain outstanding, this Agreement may not be modified or terminated without the consent of 100% of the holders of the Class B Preferred Securities as provided in the LLC Agreement, except for such modifications that are not adverse to the interests of the holders of the Class B Preferred Securities.

Section 10. *No Assignment.* So long as any Class B Preferred Securities remain outstanding, the Bank shall not assign its rights or obligations under this Agreement to any Person without the consent of 100% of the holders of such Class B Preferred Securities.

Section 11. *Successors.* This Agreement will be binding upon successors to the parties.

Section 12. *Severability.* Should any provision of this Agreement be found invalid, illegal or unenforceable for any reason, it is to be deemed replaced by the valid, legal and enforceable provision most closely approximating the intent of the parties, as expressed in such provision, and the validity, legality and enforceability of the remainder of this Agreement will in no way be affected or impaired thereby.

Section 13. *Governing Law and Jurisdiction.* This Agreement shall be governed by and construed in accordance with, the laws of the Federal Republic of Germany and the parties irrevocably submit to the non-exclusive jurisdiction of the district court (*Landgericht*) in Stuttgart, Federal Republic of Germany.



IN WITNESS WHEREOF, the Bank and the Company have caused this Agreement to be duly executed and delivered by their respective authorized officers as of the date first written above.

**HYPO REAL ESTATE BANK INTERNATIONAL AG**

By:  
Name:  
Title:

By:  
Name:  
Title:

**HYPO REAL ESTATE INTERNATIONAL LLC I**

By:  
Name:  
Title:

By:  
Name:  
Title:

## **Names and Addresses**

### **Issuer**

Hypo Real Estate International Trust I  
c/o Deutsche Bank Trust Company Delaware  
1011 Centre Road, Suite 200  
Wilmington, Delaware 19805  
United States of America

### **Bank**

Hypo Real Estate Bank International AG  
Büchsenstraße 26  
70174 Stuttgart  
Federal Republic of Germany

### **Joint Lead Managers and Joint Bookrunners**

Deutsche Bank AG, London Branch  
Winchester House  
1 Great Winchester Street  
London EC2N 2DB  
United Kingdom

J. P. Morgan Securities Ltd.  
125 London Wall  
London EC2Y 5AJ  
United Kingdom

### **Principal Paying Agent**

Deutsche Bank Aktiengesellschaft  
Große Gallusstraße 10–14  
60272 Frankfurt am Main  
Germany

### **Listing and Paying Agent in Luxembourg**

Deutsche Bank Luxembourg S.A.  
2, Boulevard Konrad Adenauer  
L-1115 Luxembourg