Investor/Analyst Presentation
Approval of state aid by the EU Commission

Hypo Real Estate GROUP

Final EU ruling on state aid, July 20, 2011

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EU Commission approves state aid for HRE

Highlights

- **pbb with clear growth path in strategic business areas following approval of business model**
  - Specialised lender for Real Estate and Public Investment Finance
  - Focus on Pfandbrief eligible business in Germany and other European countries
  - Public Budget Finance to be run down on balance sheet and to be replaced by higher margin Real Estate and Public Investment Finance business over time
- **DEPFA to be run as de-leveraged platform not conducting new business until re-privatisation**
- **Compensation measures largely realised**
  - Restructuring requirements largely met through realignment of the Group over the last two years
  - Balance sheet reduction mainly achieved through transfer of assets to FMS-WM and commitment not to conduct new business at DEPFA
- **Medium-term re-privatisation of pbb and DEPFA**
- **Compensation payment (relating to transfer of assets to FMS-WM) of EUR 1.59 bn required which will probably mostly materialise at the level of DEPFA sub-group. Further compensation for state aid imposed on pbb and DEPFA due to the EU's burden sharing requirements**
- **Distributions/profit participations on profit related capital instruments (other than those granted by SoFFin) not permitted until re-privatisation**

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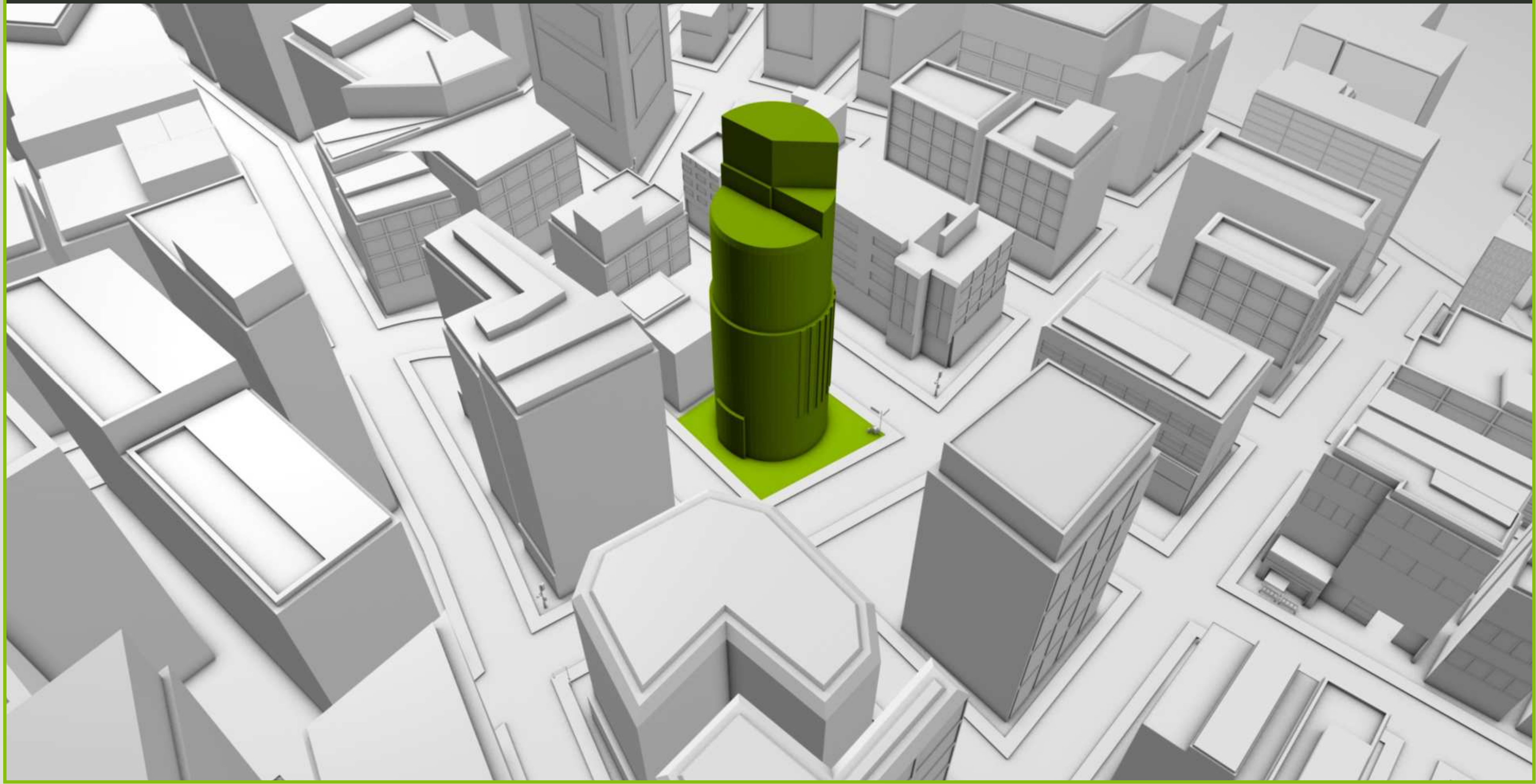
A specialised lender for Real Estate and Public Investment Finance

PUBLIC SECTOR FINANCE
REAL ESTATE FINANCE

DEUTSCHE
PFANDBRIEFBANK



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Clear growth path in strategic business areas following the EU state aid approval

DEUTSCHE PFANDBRIEFBANK

Business model approved

- Two strategic business segments: Real Estate (REF) and Public Investment Finance (PIF) with the German Pfandbrief as main funding instrument
- Regional focus on Germany and further European countries
- Higher margin REF and PIF business to replace Public Budget Finance business which is to be run down over time on balance sheet
- Potential to expand existing branch network by 3 additional offices in Germany and one in Sweden

Sufficient growth potential for REF and PIF

- Strategic interest bearing assets to grow – volume not used can be carried forward
- Stable development of balance sheet medium term
- Run-down of Public Budget Finance portfolio on balance sheet will continue to generate interest income

Main obligations remaining

- Retention of profits to pay back silent participation of SoFFin (EUR 1 bn)
- Medium-term re-privatisation target for pbb
- Strict organisational separation from FMS-WM by end of September 2013
- Distributions/profit participations on profit related capital instruments (except those granted by SoFFin) not permitted prior to re-privatisation
- Compensation payment of EUR 1.59 bn for the utilisation of FMS-WM which will probably mostly materialise at DEPFA

Compensation measures already largely fulfilled during restructuring over the last two years
Significant asset reduction achieved – no further asset transfer necessary/planned

After the EU's inherent confirmation of the business model, pbb can now fully focus on its customer business taking advantage of the current market environment

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Business model and strategy – Focus on Real Estate and Public Investment Finance while Public Budget Finance business will be run down over time

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Public Sector Finance (PSF)

Public Budget Finance | **Public Investment Finance**

Real Estate Finance (REF)

Run-down business | **Strategic business**

- Public Budget Finance to be run down, i.e. financing of central and regional governments as well as municipalities which are for the general and non-allocated household budget and which are therefore not allocated for a specific purpose with an asset and/or investment character

- Project related Public Investment Finance will remain, e.g. public infrastructure, basic social services, general standards of living

- REF business strategy remains largely unchanged – focus on investment loans

➡ **Focus on Pfandbrief eligible business in Germany and other European countries with the Pfandbrief as main funding instrument**

➡ **Synergies arise from the use of existing customer networks as well as homogenous acquisition, credit and back-office processes**

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Characteristics of strategic business activities

Real Estate Finance (REF)

Clients

- Professional national and international real estate investors (e.g. Real Estate companies, Institutional Investors, Real Estate Funds)
- Professional local mid-size real estate investors (‘Mittelstand‘)

Financing of…

Office | Residential | Retail | Logistics

Office
- Office buildings
- Office parks

Retail & Shopping
- Retail premises
- Shopping center

Residential Investments
- Residential buildings (multi-family homes)
- Mixed-use properties

Logistics/Distribution
- Storage
- Cargo premises
- Multifunctional industrial buildings

Lending criteria

- Investment loans
- Non-speculative development loans on selective basis
- Portfolio transactions
- Other: bridge loans, acquisition lines, client derivatives
- Deal size typically in the range of EUR 20-100 mio

Public Investment Finance (PIF)

Clients

- Pfandbrief eligible public borrowers (specific purpose with an asset and/or investment character)
- Pfandbrief eligible publicly guaranteed companies and special purpose entities

Financing of…

Social Supply | Basic Infrastructure

Municipal Facilities
- Social housing
- Administrative buildings
- Educational facilities

Services & Waste Disposal
- Energy supply
- Water supply/-disposal
- Waste disposal/-recovery

Health & Age
- Health care
- Hospitals
- Geriatric care

Networks & Grounds
- Road-, train- and air-traffic
- Motor and equipment pools

Lending criteria

- Financing on the basis of project cash flows and/or public guarantees or other public warranty
- Clear focus on direct customer/loan business
- Focus on non-sovereign entities (regions, municipalities) without access to capital markets to provide added-value to these customers

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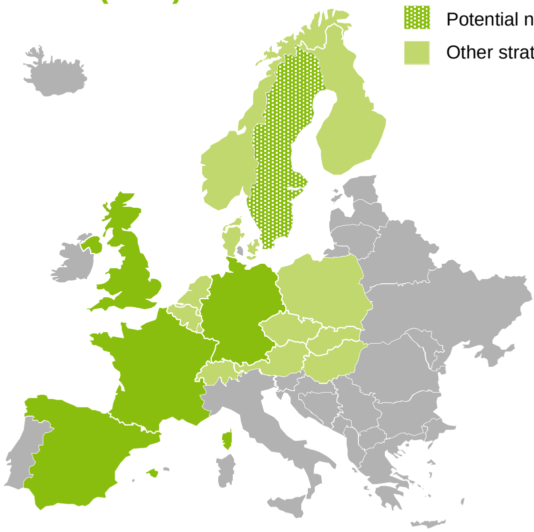
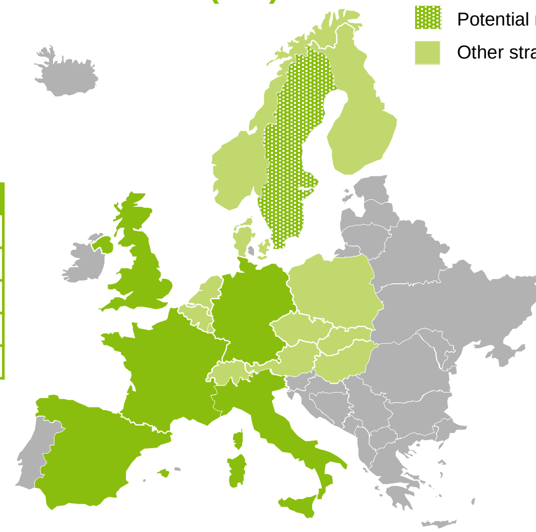
New business origination focused on Germany and other European countries – potential to expand local presence in Germany and in Sweden

Real Estate Finance (REF)



- Core countries with sales locations
- Potential new location in Sweden
- Other strategic countries

Public Investment Finance (PIF)



- Core countries with sales locations
- Potential new location in Sweden
- Other strategic countries

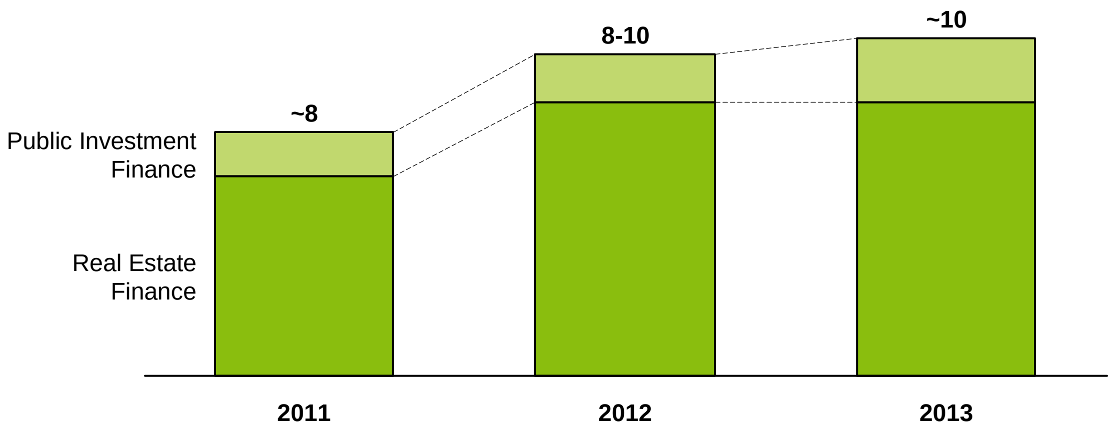
Core countries	Current sales locations
Germany	Unterschleissheim, Eschborn
UK	London
France	Paris
Italy	Rome
Spain	Madrid

- **Synergies arise from the use of existing customer networks in REF and PIF as well as homogenous acquisition, credit and back-office processes**
- **Local presence with increased importance, given the focus on smaller loan sizes in PIF as well as mid-size REF business**
- **Potential to expand existing branch network by 3 additional offices in Germany (Hamburg, Berlin, Rhine-Ruhr area) and one in Sweden (Stockholm)**
- **Extension and restructuring of existing loans in countries that are not in focus is possible, provided that this is required to preserve the value of the asset or to manage the cover pools**

Envisaged portfolio growth in strategic business areas will compensate for the decline in Public Budget Finance

Planned new business

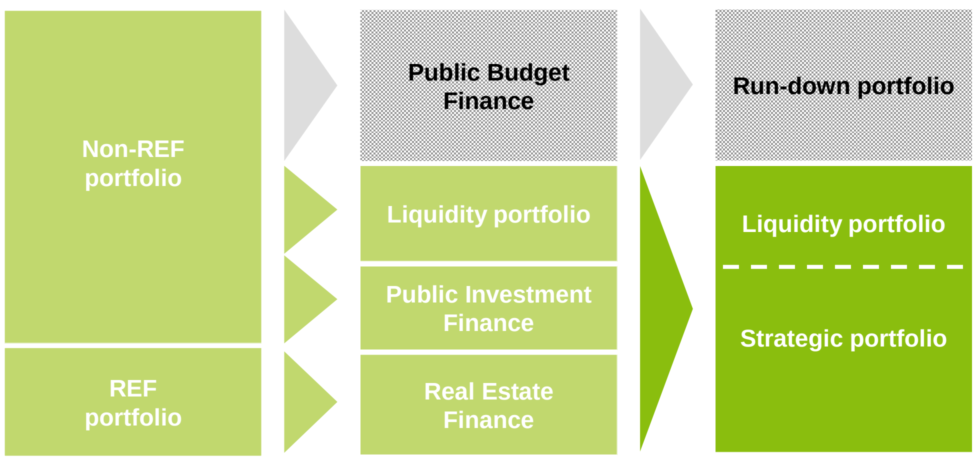
EUR billion

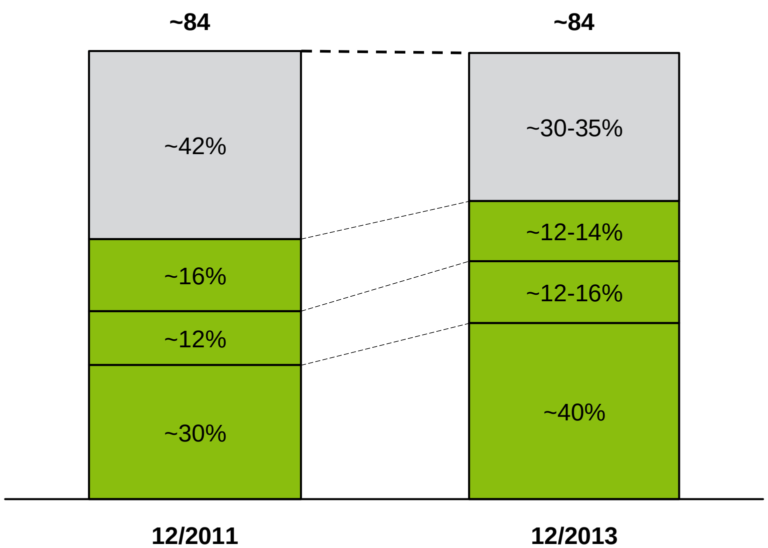


- Growth potential for strategic interest bearing assets (REF and PIF) – volumes not used can be carried forward
- Sufficient room for new business growth to take advantage of the current market environment
- Planned new business to increase from EUR 8 bn in 2011 to ca. EUR 10 bn in 2013. This is well below the new business limits and provides additional new business growth potential thereafter
- Total portfolio therefore stable until 2013 (as Public Budget Finance assets stay on balance) but set to grow thereafter as portfolio growth in strategic business areas will overcompensate for the decline in the Public Budget Finance
- To prevent a distortion of competition the EU has defined measures to ensure profitability on new business

Planned portfolio development

EUR billion / in%





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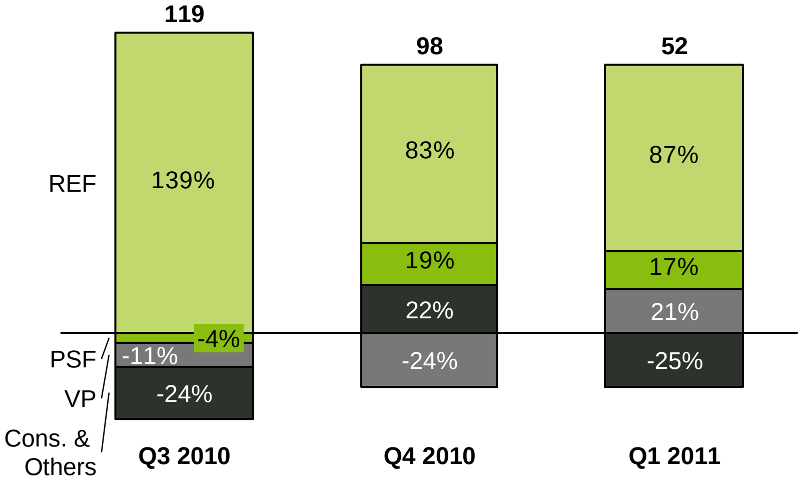
Positive impact on operating revenues from replacing Public Budget Finance business with higher-margin REF and PIF business

PBT

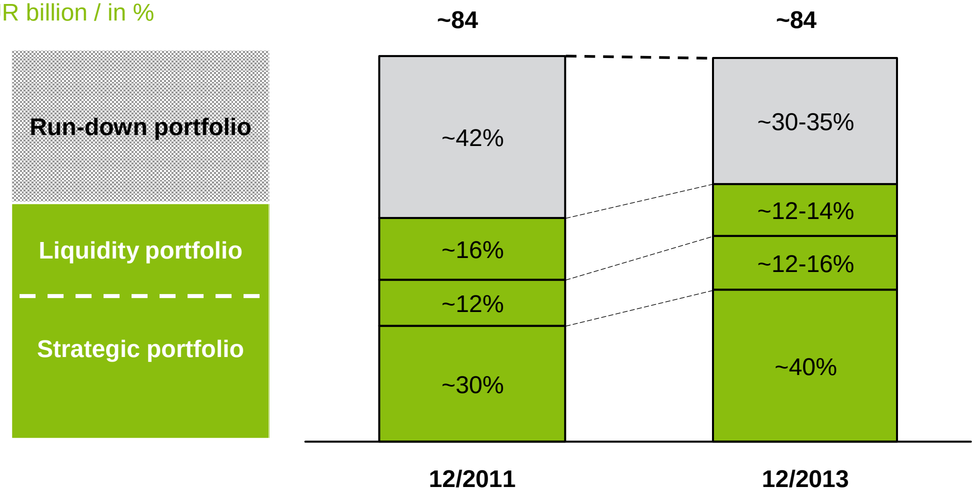
EUR Mio. / in %



- Profits mainly generated out of Real Estate Finance (REF) as business segment Public Sector Finance (PSF) includes mostly low-margin Public Budget Finance, which will be run down
- Continuous replacement of Public Budget Finance with higher margin REF and PIF business over time
- Balance sheet size will – like the portfolio size – remain stable until 2013 but show a continuous shift from Public Budget Finance to higher margin REF and PIF increasing the future operating revenue base
- pbb is the only strategic part of former HRE Group and has an operating balance sheet of EUR 102 bn as of 31/03/2011. This translates into a balance sheet reduction of 76% compared to HRE Group's balance sheet as of 31/12/2008. Excluding the Public Budget Finance portfolio the reduction would be about 85%

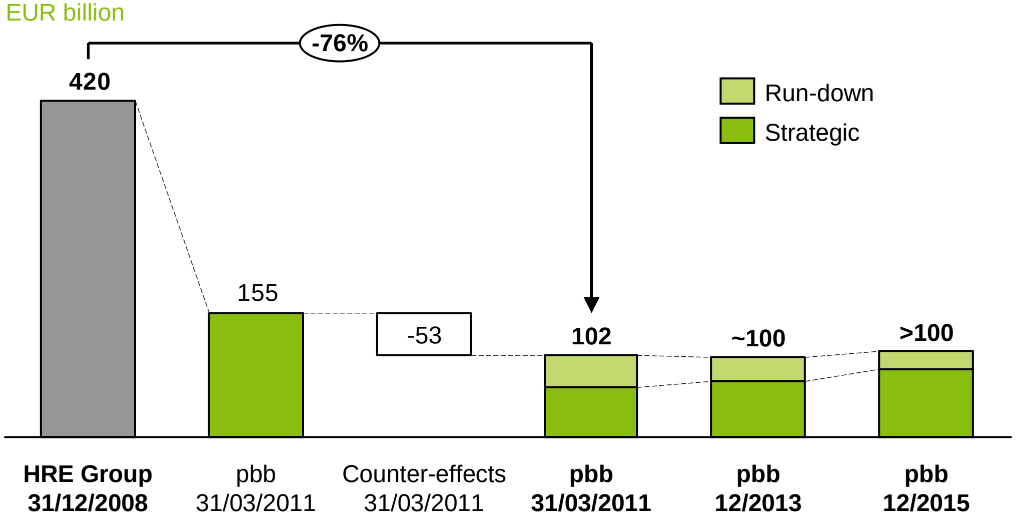
Planned portfolio development

EUR billion / in %



Balance sheet development

EUR billion



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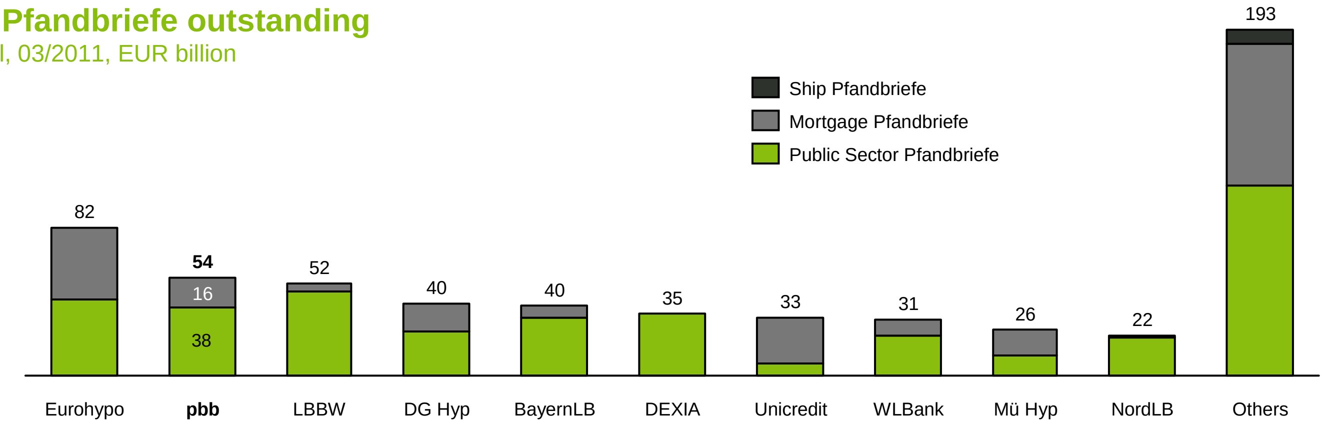
pbb to remain one of the largest issuers in the German Pfandbrief market – Pfandbrief issue in benchmark format planned in H2 2011

Total Pfandbriefe outstanding

Nominal, 03/2011, EUR billion



- **Outstanding public sector Pfandbrief volume expected to decline as new asset underwriting in Public Investment Finance will not compensate for maturities in Public Budget Finance**
- **Assets in the public sector cover pool will show a shift from sovereign to non-sovereign exposure**
- **pbb will remain one of the largest issuers of Pfandbriefe as the decline in the public sector cover pool assets is expected to be largely compensated by the increase of the mortgage cover pool assets**
- **Liquidity buffer in excess of EUR 10 bn in place to support gradual re-entrance into the Pfandbrief and unsecured capital market; funding volumes depending on new business**

Pfandbrief issuance in benchmark format planned in H2 2011

Source: German Pfandbrief Association (vdp)

DEPFA
Final EU ruling on state aid

DEPFA
Cornerstones

- DEPFA to be run as de-leveraged platform not conducting new business until re-privatisation
- Business activities only within the framework of maintaining value, refinancing and hedging of existing portfolios as well as fulfilling legal obligations
- No time limit for servicing of assets for FMS-WM
- DEPFA sub-group or its entities and/or credit portfolios of DEPFA plc to be re-privatised medium-term
- EU requires FMSA to stipulate a full payment of EUR 1.59 bn on HRE for the utilisation of FMS-WM which will probably mostly materialise at the level of DEPFA sub-group
- Additionally, the EU requires DEPFA sub-group to pay an annual fee until re-privatisation, limited by certain caps that provide for – inter alia – DEPFA neither having to record losses nor breaching regulatory or other statutory provisions
- Voluntary distributions/profit participations on profit related capital instruments not permitted prior to re-privatisation

Key take-aways

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- **EU ruling provides basis for pbb as a viable specialised lender for Real Estate and Public Investment Finance with focus on Germany and other European countries**
- **Run-down of Public Budget Finance to support future profitability as replaced by higher margin business over time**
- **pbb with low risk profile and sufficient capitalisation**
- **Comfortable liquidity position to support gradual re-entrance into the Pfandbrief market and unsecured capital markets**
- **Successful re-start of new business origination at attractive margins and with reduced risk appetite – strategic portfolio allowed to grow**
- **Medium-term re-privatisation target for pbb**

DEPFA

- **DEPFA stabilised and de-leveraged – no new business allowed prior to its re-privatisation**
- **Significantly improved balance sheet, P&L and funding profile after the asset transfer to FMS-WM**
- **Business activities only in the framework of maintaining value, refinancing and hedging of existing portfolios as well as fulfilling legal obligations**
- **DEPFA sub-group or its entities and/or credit portfolios of DEPFA plc to be re-privatised medium-term**

Compensation payment of EUR 1.59 bn required. Further compensation for state aid imposed on pbb (pay back of silent participation) and on DEPFA (annual fee)

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