

## Press release

### EU Commission approves state aid for HRE

- pbb Deutsche Pfandbriefbank's business model, comprising real estate finance and public investment finance, confirmed
- Key conditions imposed by the approval already anticipated in HRE's restructuring process
- Better: This provides the basis for a successful presence on the credit and capital markets

**Munich, 18 July 2011** – The European Commission approved the state aid provided to the Hypo Real Estate Group (HRE) by the Federal Republic of Germany. With this positive decision, the EU Commission also recognised the viability of pbb Deutsche Pfandbriefbank's business model: a specialist bank for real estate finance and public investment finance. As a result of the re-alignment process which HRE has gone through during the last two years, the Group already largely complies with the restructuring requirements which the EU Commission has imposed as conditions for its approval. The bank now plans to swiftly conclude its restructuring, allowing it to fully concentrate on its clients and on the markets.

Manuela Better, CEO of Hypo Real Estate Holding AG and Deutsche Pfandbriefbank AG, welcomed the positive outcome of the Commission's decision: "Although the conditions imposed are very extensive, they offer sufficient potential for the success of the realigned pbb Deutsche Pfandbriefbank on the credit and capital markets. The bank has been profitable since the third quarter of 2010, and we also posted a profit for the second quarter of 2011 – as expected. We affirm our target new business volume of up to EUR 8 billion for the year 2011. Our goal is to prepare pbb Deutsche Pfandbriefbank for re-privatisation – which is also a requirement stipulated by the EU Commission."

### *Conditions imposed by the EU Commission, and their impact on HRE*

Firstly, the conditions imposed by the EU Commission relate to the **scope of HRE's business activities**. Specifically, the EU Commission has restricted pbb Deutsche Pfandbriefbank to operating in the business segments of real estate finance and public investment finance (the latter being a sub-segment of the public finance business), in Germany and other selected European countries. In addition, the EU Commission has restricted the growth of interest-bearing assets, and set certain conditions for profitability of new business, in order to prevent competitive distortions. As planned and in accordance with the conditions imposed by the EU Commission, the banks in the DEPFA sub-group will not originate any new business.

**pbb Deutsche Pfandbriefbank** will refrain from new business in the public-sector budget finance business. Whilst this portfolio will be run down over time, it will in the meantime continue to yield interest. The bank will continue its activities in dedicated financings of public investments, and in real estate finance – looking for continued growth in these strategic business segments. New business which the bank has originated so far this year already largely complies with the requirements set out by the EU Commission.

Moreover, the conditions imposed by the EU Commission will lead to a marked reduction of **total assets**, compared with the situation at the end of 2008, when HRE's consolidated total assets (in accordance with IFRS) stood at around EUR 420 billion. At the end of March 2011, consolidated total assets of pbb Deutsche Pfandbriefbank, the Group's strategic core bank, amounted to approximately EUR 102 billion (in accordance with IFRS, and adjusted for the extension effects on total assets, due to the transfer of assets to FMS Wertmanagement). Over time, total assets are set to decline due to the phase-out of public-sector budget finance, however, the reduction will be offset by new business.

Additionally, the Commission has imposed certain conditions upon the Federal Republic of Germany – as HRE's owner – regarding the medium-term **re-privatisation** of pbb Deutsche Pfandbriefbank, and of the entities (or assets) of the DEPFA sub-group.

Furthermore, the EU Commission has set conditions for **interest and profit-participation payments** HRE makes to third parties outside the Group for certain instruments and until further notice. These conditions apply to a series of profit related capital instruments, which existed on 30 September 2010 and which were not provided by the German Financial Markets Stabilisation Fund. As a result of further conditions, no distributable profits will accrue in the DEPFA sub-group until re-privatisation.

Finally, the EU Commission has specified conditions for the **servicing of the FMS Wertmanagement portfolio**, which pbb Deutsche Pfandbriefbank performs for FMS Wertmanagement, jointly with other HRE Group entities. Whilst pbb Deutsche Pfandbriefbank will not be permitted to render these services beyond the term of the current contract (which will expire in September 2013), DEPFA sub-group entities will be permitted to continue servicing the portfolio beyond this deadline.

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