



Annual Report 2007

Hypo Pfandbrief Bank International S.A.

Annual Report 2007

Table of contents

Management report

- 04 | Business activity and general conditions
- 06 | Economic report
- 08 | Risk report
- 12 | Forecast report
- 13 | Other particulars

Annual accounts

- 16 | Balance sheet
- 18 | Profit and loss account
- 20 | Report of the Réviseur d'Entreprises

Notes

- 23 | Notes

Executive Bodies

- 34 | Executive Bodies



Management Report

1. Business activity and general conditions

1.1. General economic conditions In 2007, economic growth was robust worldwide, attaining 5.2 %, about the same as in the preceding year. The surprises in 2007 came from the geographical distribution of the growth. Whilst in Germany the growth rate of 2.7 % largely exceeded the forecasts for 2007 and in Luxembourg the growth rate of over 5 % matched the previous year's figure, the US economy grew at only 2.1 %, less dynamically than expected. The Asian economies grew by an average of 5.5 %, with China again taking the lead, with a growth rate of 11.4 %. In Luxembourg, the financial sector continued to be the most important buttress of the economy, although growth in this sector declined in 2007 owing to the crisis on the capital market. Further above-average growth rates were recorded in the property and corporate advice/services sector. Again in 2007, Luxembourg was in the leading position in the EU as regards per capita purchasing power.

Differences in sentiment are also reflected by a mixed picture on equities markets around the world. Worldwide, equities prices (on a dollar basis) moderately grew in 2007 by 7.1 % as compared with 2006. This is also true of the USA (+3.5 %) and Europe in general (+4.9 %), whilst the DAX progressed by 22.3 %. Depending on the index, the value of Chinese equities almost doubled, whilst Japanese equities lost just over 11 %.

At the macro-economic level, two developments stood in the forefront in 2007 – the massive rise in oil prices and the sub-prime crisis in the USA caused by falling prices on the property market.

In 2007, oil prices rose from just under USD 60 per barrel by about 58 % to almost USD 94. For the Eurozone, this price rise was somewhat mitigated by the concurrent appreciation of the Euro against the Dollar of almost 11%. This development also came as a surprise to all experts. Not least, as a result of the oil price increases which had already occurred in 2006, the predictions made at the end of 2006 for oil prices in 2007 were of between USD 60 and 65 per barrel. Against this background, economic developments in Europe proved to be nothing less than robust.

The end of the boom on the US property market basically did not come as a surprise to market participants. Market observers assumed that there had been a certain amount of overheating for some time on some sectors of the market. However, the massive repercussions on the international financial markets were a qualitatively new factor. This is ultimately attributable to two major causes. First, constantly low interest rates in the USA over a long period fostered the propensity to borrow and therefore led to a very high growth in lending. Secondly, US borrowers succeeded in passing their loans onto the international financial markets through structured financial market products (Asset Backed Securities, ABS's and Collateralised Debt Obligations, CDO's).

1.2. Branch-specific conditions As a result partly of markedly higher tax revenues in some European countries, in particular Germany, the demand for direct financing of public authorities declined. This was also reflected by the margins obtainable in the first half of the year. They continued to decline. The erosion of margins came to a standstill in the course of the second half of the year as a result of the impact of the subprime crisis and the associated marked decline in liquidity; to some extent, it also resulted in increasing credit spreads.

The trend of declining margins also continued initially in countries outside central Europe; here too there were marked increases in spreads to some extent in the second half of the year, depending on the borrower concerned.

The market for financing of public authorities was also subject to a further change in 2007. The trend for direct financing (budget financing) to fall off continued. Public financing under PPP transactions or with the help of securitisation transactions accounts for an increasing share. Credit institutions which can offer the whole range of public financing (budget, PPP, structured finance) principally benefit from this.

1.3. Business conditions specific to the Bank 2007 began at Hypo Pfandbrief Bank International S.A. with the continuation of the growth path taken in 2006. While maintaining a conservative risk policy, the Bank was able to

further extend its credit portfolio and pursue the diversification of its portfolio. On the refinancing side, it succeeded in obtaining new investors, primarily institutional investors such as insurers and pension funds.

In early summer, the general economic conditions also in public-sector lending markedly deteriorated. Triggered by the subprime crisis, liquidity dried up in virtually all markets, as a result of market participants' distrust in one another. This was also reflected to some extent in massive distortions, in particular on the money market.

Hypo Pfandbrief Bank International S.A. reacted to this phase of uncertainty on the markets by cutting back on credit business. Uncertainty among market participants also led to a decline in issue activity in the second half of 2007.

In the second half of the year, the Bank concentrated on ensuring the availability of liquidity at any time. In this connection, Hypo Pfandbrief Bank International S.A. benefited from its good contacts on the interbank money market. In view of the high quality of its covering holdings, the Bank was also in a position to satisfy the liquidity needs at any time within the framework of repurchase and tender transactions. It even proved possible to generate surplus liquidity for the Group. The fact that Hypo Pfandbrief Bank International S.A. had set great stock in the past not only on the quality but also on the liquidity (Repo/ECB eligibility) of its assets paid off yet again.

With the takeover of DEPFA Bank by the Hypo Real Estate Group in the summer of 2007, the area of public financing sharply gained in importance within the Group as a whole. This will also have repercussions on the business of Hypo Pfandbrief Bank International S.A. The first connecting factors in 2007 were liquidity management and capital market financing. Further steps will be taken when the integration has been brought to a conclusion.

As a result of the high quality of the covering holdings, public Pfandbriefe (lettres de gage publiques) of Hypo Pfandbrief Bank International S.A. continue to be rated AAA by the rating agency Standard&Poors. This rating

was confirmed in 2007. The counterparty rating for Hypo Pfandbrief Bank International S.A. was raised by Standard&Poors to A (from A-) in October 2007 and to A+ in December 2007 with a stable outlook. The short-term rating improved to A-1 (from A-2) with a stable outlook. In January 2008, the outlook was altered to negative. The comprehensive guarantee given by Hypo Public Finance Bank, Dublin, which has in the mean time become its sole shareholder, continues in being.

The Board of Directors of Hypo Pfandbrief Bank International S.A. held three meetings to discuss and decide on matters for which there is a reporting obligation under the Bank's Articles of Association and rules of procedure. The close intermeshing of Hypo Pfandbrief Bank International with Hypo Public Finance Bank/Hypo Real Estate Group has been continually pursued by the Board and the Management. Accordingly, for example, the accounting system of Hypo Pfandbrief Bank International S.A. has migrated to a uniform SAP platform, a new uniform front-office system and a Group-wide uniform procedure for Basle II (A-IRB approach and ICAAP) have been introduced and Group-wide divisional management control has been set in place. In designing the processes, account has been taken of statutory provisions and care has been taken to ensure that the organs of Hypo Pfandbrief Bank International S.A. are appropriately represented in the decision-making processes.

Following Mr Bub's retirement in June 2007, Dr Grassinger was elected by the members of the Board of Directors as Chairman of the Board of Directors. Mr Schmidt was appointed by the Board of Directors in March to succeed Mr Schulte as Managing Director – responsible above all for market activities.

2. Economic report

2.1. Development of the earnings position In the 2007 financial year, Hypo Pfandbrief Bank International S.A. continued to show a commendable development of results, realising an after-tax profit of € 7.3 million, thereby exceeding the previous year's result (€ 6.2 million) by 17.7 %.

Profit and loss account in tabular form			
in thousand €			
		31.12.2007	Previous year
Net interest income		11,717	9,242
Net commission income		-471	-380
Net income from financial operations		-744	-411
Staff costs	-1,753		-1,852
Other administrative expenses	-2,041		-2,680
Depreciation in respect of property, plant and equipment	-313		-69
Current expenses		-4,107	-4,601
Other operating income/expenses		447	556
Operating result before risk provisions		6,842	4,406
Capital gains/losses in respect of investment holdings		3,452	4,501
Risk provisions		-1,500	-1,000
Operating result after risk provisions		8,794	7,907
Taxes		-1,494	-1,708
Net income for the year		7,300	6,200

The higher trading volume enabled net interest income to be increased by 26.8 % as compared with the previous year. While pursuing a very conservative risk policy, the interest rate and spread trend was again used to achieve additional income from the sale of securities from the Bank's investment holdings.

As a result of the lower number of staff and synergy effects within the Group, management expenditure was reduced by 10.7 %. The cost-income ratio decreased to 28.5 % (previous year 34.1 %).

We intend to allocate the whole of the net income recorded for the year to the reserves in order to strengthen our capital base. It will therefore be proposed that the General Meeting allocate € 365 k to the legal reserve and € 6,935 k to the free reserves.

2.2. Development of the assets situation The balance-sheet total of Hypo Pfandbrief Bank International S.A. amounted as at 31 December 2007 to € 10,739 million, compared with € 9,295 million as at 31 December 2006.

Loans and advances, including securities, amount to € 9,666 million. This represents an increase of 16.8 % as compared with the previous year (€ 8,272 million).

In the year under review, the Bank acquired securitised securities and bonds of € 2,109 million (previous year € 3,238 million) including € 1,421 million (previous year € 2,968 million) of securities issued by public-sector borrowers or guaranteed by public institutions. As against this accrual, there were disposals in the form of redemptions, maturities and sales of € 1,239 million (previous year € 787 million). Derivatives were used to hedge against risks arising out of market changes.

All securities of third-party issuers are assigned to the investment portfolio, where they are valued in accordance with the mitigated lowest-value principle. Value adjustments on account of foreseeable persistent declines in value did not have to be made. As at 31 December 2007, for securities in the investment portfolio with a book value of € 3,549 million, lower market values amounting to € 3,438 million existed. Of these value differences, € 46.7 million was attributable to changes in credit spreads. The remaining differences in

value were covered by opposite interest rate derivatives positions.

In principle market prices or prices provided by brokers were used to value the securities. In the case of securities for which no active market was available, the prices were derived from comparable actively traded papers.

2.3. Development of the financial situation The capital structure of Hypo Pfandbrief Bank International S.A. continued to be solid as at 31 December 2007; all current commitments can be met. The liabilities also exhibit a balanced maturity structure.

The refinancing capital amounts to € 10,303 million. This is 15.8 % up on the previous year (€ 8,901 million).

Covered bearer and registered public-sector Pfandbriefe (lettres de gage publiques) were issued in a nominal value of € 1,338 million (previous year € 3,549 million). In addition, bearer bonds not requiring cover were issued to the extent of a nominal € 100 million (previous year € 30 million). As in the previous year, subordinated funds were not issued.

In addition to drawings in EUR, the Bank issued in CHF and USD. The bearer issues were floated within the framework of its MTN programme (Programme for the Issuance of Debt Instruments).

In the year under review, 12 issued Pfandbriefe for a nominal € 898.9 million and two senior unsecured issues for € 130 million fell due (previous year € 1,033.4 million), a bearer Pfandbrief (nom. € 10 million) and a registered paper (nom. € 20 million) were terminated in accordance with the terms of the certificates and a registered paper for € 28.7 million was repurchased before term and destroyed.

The limit of our commercial paper programme was utilised at the year's end with € 45 million (previous year € 110 million). The average maturity of the commercial papers issued over the course of the year amounted to 213 days. All new issues were denominated in EUR.

Balance-sheet own capital as at 31 December 2007 came to € 106.7 million as compared with € 100.5 million at the end of the previous year.

Banking supervisory data Also from the point of view of banking supervisory law, Hypo Pfandbrief Bank International S.A. showed a solid own capital endowment as at 31 December 2007. Liable own capital rose from € 134.5 million thanks to the capitalisation of the profit for 2006 to € 140.7 million. Risk assets increased from € 765.8 million to € 915.1 million. The own-capital ratio (minimum 8 %) stood at 15.4 % as at 31 December 2007 as compared with 17.6 % as at 31 December 2006; the core capital ratio was 11.7 % as compared with 13.1 % as at 31 December 2006.

Liquidity Hypo Pfandbrief Bank International S.A. has at all times complied with the liquidity principles laid down by supervisory law. The relevant ration is between the assets declared to be liquid and outstanding liabilities. Liquidity is deemed to be sufficient if the outstanding liabilities are covered by assets to the extent of at least 30 %. For the Bank, this ratio stood at the reporting date at 40.7 % (previous year 38.1 %).

3. Risk report

3.1. Organisation, responsibilities and tasks As a member of the Hypo Real Estate Group, Hypo Pfandbrief Bank International S.A. is integrated into the methods/processes of the Group's risk identification, measurement, limitation, control and management. In this context and that of local provisions, the Bank monitors risks independently. In that regard, major tasks lie with the risk control unit. This unit, which reports directly to a member of the management who is independent of portfolio and risk management, has kept pace with the Bank's growth and further developed the risk measurement and control systems accordingly in response to the constantly changing internal and external requirements. The main functions of this unit are:

- day-to-day risk measurement and monitoring of market, credit, counterparty, foreign exchange and liquidity risks, largely on the basis of the value-at-risk approach,

- daily determination of economic performance,
- independent monitoring of the parameters used to measure risk and performance,
- refinement and implementation of our risk control concepts (in particular ICAAP in accordance with Circular 07/301 of the CSSF).

The continual improvements made to our measurement and control systems and the integration into the risk control system of Hypo Public Finance Bank and the Hypo Real Estate Group mean that the Bank has high-performance risk control.

Accordingly, in 2007, the overall risk position was determined by aggregating all the major types of risks, described below, taking account of correlation effects in the context of the ICAAP. This is carried out, when possible and meaningful, by using a statistical methodology, namely a value-at-risk procedure. The aggregated overall risk position quantifies the unexpected risk of loss within a period of one year in Euro with differing levels of confidence.

The risk sustainability analysis was approached in two ways in 2007

- The creditor protection approach examines whether the determined overall risk position can be covered with a confidence level of 99.97 % with a conservatively defined aggregate risk cover consisting of own capital or components similar to own capital.

- Using the going concern approach, it is analysed whether, even after deducting the minimum capital basis in account with Principle I, the risk position calculated with a confidence level of 95 % can be covered with the remaining free risk cover.

Stress tests show risk sustainability in circumstances which are adverse for the Bank and in worst-case scenarios. Thus, it is examined in the regulatory stress test whether, despite the losses from all types of risks associated with the occurrence of an adverse macro-economic environment for it and the expected structural deterioration in the credit portfolio, the Bank is still in a position to comply with the minimum capital ratios required by Basle II. In the economic stress test, it is simulated whether creditor protection can be secured also in the event of very improbable worst-case scenarios, such as for example the default of the Bank's largest borrowers (credit risk concentration stress test). The Bank's funding and liquidity are also subjected to stress tests.

Load factors of over 100% and the capital ratios for 31 December 2007 show that risk sustainability is satisfied in all scenarios:

CAR (Capital Adequacy Ratio)		
CAR ICAAP as at 31 December 2007	Cover "Going concern"	Cover "Creditor protection"
ICAAP 95,00 %	318 %	
ICAAP 99,96 %		200 %
ICAAP 99,98 %		186 %
Economic stress test		
Stress test 1: Model stress test		240 %
Stress test 2: Risk concentration		121 %
Stress test 3: Capital market interest shock		191 %
Regulatory stress test		
	Kapitalquoten BIZ	
Core capital ratio	10.3 %	
Total capital ratio	13.9 %	

In order to monitor and control individual risks, the Bank has set out corresponding report channels and control measures by which, not only the Bank's Management and Board of Directors, but also other levels of the Hypo Real Estate Group, are informed. As a result of this integration into the Group, it is also ensured that developments, such as, for example, the introduction of Basle II – have been and will be implemented locally having regard to local provisions. The types of risks which are important to the Bank are explained below.

3.2. Risk measurement, control and management with respect to major types of risk in Hypo Pfandbrief Bank International S.A. **3.2.1. Address risks** Address risks may be broken down into credit, counterparty, issuer and country risks and refer in each case to the potential loss of value which may arise in the event of the default or a decrease in creditworthiness of borrowers, issuers of loans evidenced by promissory notes and securities or counterparties to money-market, securities and derivatives transactions.

The Bank's exposure to credit risks is restricted to public-sector borrowers and banks in OECD countries. The utilisation of all credit lines is available for each individual counterparty, and also in aggregated form, online on a market-value basis.

In the case of organisational measures and the functional separation of credit processes, not only is compliance with the legal conditions in Luxembourg ensured, but also the Bank, as a member of the Hypo Real Estate Group, acts in accordance with the German minimum requirements for risk management (MaRisk).

Counterparty risks designate possible losses in value of interest-rate and foreign-currency based derivatives and futures. Such transactions are concluded predominantly in order to hedge positions in the context of assets/liabilities management. The yardstick for counterparty risks used throughout the Group is a value-at-risk approach based on a market-valuation method using potential future replacement costs. Counterparty risks in derivatives, securities and money-market transactions exist with credit institutions, central banks and supranational institutions whose creditworthiness is to

be regarded as above average according to the assessment of external rating agencies and in-house rating procedures. In order to reduce derivatives-based counterparty risks, the Bank uses framework contracts with its business partners which enable the contracts covered by the framework contract to be set against a net claim in the event that the counterparty does not fulfil its obligations (so-called close-out netting). In order to reduce the risk further, where appropriate, security agreements are concluded which may lead to the termination of transactions in the event that the counterparty does not comply with a request to provide security.

The Hypo Real Estate Group designates as country risk the risk of potential transfer and conversion problems with contracting parties based abroad. The address risk consists in the possibility that a debtor which is in principle solvent and willing to pay will not be able to fulfil its payment obligations because it is not in a position to procure foreign exchange or to transfer assets to non-residents on account of state measures. Country risks are constantly monitored by risk control. Management of country risks by credit-risk management is carried out on the basis of country limits. Depending on the results of the in-house rating process of the Hypo Real Estate Group

- each individual country and
- groups of countries in specific rating corridors

are assigned ceilings restricting business activities. All country ratings and country limits are checked at least once a year by the Hypo Real Estate Group's Risk Management Committee. In addition, in-house risk assessments are regularly checked against the assessments of the major rating agencies.

3.2.2. Market risk By market risk is meant the potential loss which may arise as a result of changing prices on financial markets. In this connection, as in the case of all banks belonging to the Hypo Real Estate Group, total lending business, all own issues, the securities making up the investment and liquidity provision holdings and all transactions in derivatives are taken into account. The ensuing market risks consist predominantly of risks of changes in interest rates.

In this context, a distinction is made between general and specific interest rate risks (spread risks). The former measure the possible changes in the present value of positions in the event of shifts in the risk-free interest curve (swap curve). The measurement of spread risks takes account of possible changes in present value in the event that the credit spreads factored in the prices of securities and derivatives alter.

At Hypo Pfandbrief Bank International S.A., as in all banks belonging to the Hypo Real Estate Group, currency risks are hedged as extensively as possible and therefore are present only to a slight extent. For the purposes of the day-to-day quantification of market risk, Hypo Pfandbrief Bank International S.A. uses a value-at-risk approach which is uniform for the whole of the Hypo Real Estate Group. This determines a potential loss assuming a 10-day holding period of the position and a 99 % level of confidence. The period of consideration of historical data is 250 trading days. The value-at-risk is determined daily by local risk control and reported to Management, the Board of Directors and competent authorities of the Hypo Real Estate Group. With this system, the Bank is in a position at any time to manage the consequences of potential market fluctuations, such as, for example, interest-rate changes or currency rate fluctuations, in a timely manner and efficiently. The average exposure to interest rate risks was € 1.5 million in 2007 and to currency risks € 0.2 million.

The day-to-day determination, limitation and reporting of the value-at-risk and of the present value changes which have actually occurred are supplemented by regular back testing and stress testing. By comparing the value-at-risk values with the daily changes in present value which have actually occurred, the quality of the procedure used is constantly checked and optimised. This has confirmed the statistical assumptions used in our models. Whilst the value-at-risk measures the market risk in the case of “normal” market fluctuations, simulation of stress scenarios is used to measure also potential present value changes in the event of very extreme and extraordinary market movements so as to guarantee that the undertaking can continue at any time also in such cases. Even in such circumstances, the measured market risk moved within the “normal limits”.

3.2.3. Liquidity risk The principal aim of controlling liquidity risks is to guarantee the Bank’s unrestricted solvency at any time. In accordance with the in-house limit system, foreseeable incoming and outgoing payment flows and any liquidity-procuring measures, the so-called liquidity position, must be at least in balance at all times over the following five days. This position is determined daily on the basis of conservative precautionary deductions (“haircuts”), monitored by risk control and reported to Management and the group authorities responsible for risk supervision. These criteria are complied with at all times. Furthermore, in order to be able to recognise short-term refinancing needs at an early stage, a liquidity preview extended to 90 days is produced independent of trading, which serves as the basis for active and foresighted liquidity policy. In addition, every day a liquidity status is determined on the basis of a rolling thirty-day horizon and reported. This covers all future payment flows, together with the liquidity potential arising out of securities not used for cover, and enables precise liquidity control to be carried out.

Hypo Pfandbrief Bank International S.A. has connections with a number of well-performing banks within and outside the Hypo Real Estate Group in order to meet short-term liquidity requirements.

3.2.4. Operational risk In the Hypo Real Estate Group, operational risk is defined as the danger of losses caused by erroneous in-house practices, human error, technological failure or external events. This definition includes legal risks. Strategic risks, reputation risks and general transaction risks are not included.

Since all areas of the Group may be affected by operational risks, the Group has implemented a framework complying with Basle II for the purpose of the uniform identification and control of such risks, which has also been introduced in Hypo Pfandbrief Bank International S.A. The overarching group-wide framework includes the group policy for understanding and proactively engaging with this type of risk, together with roles and responsibilities and/or processes and instruments.

Identification, analysis and management come under the responsibility of the individual sectors of the Bank.

Operational risk events are therefore compiled decentrally in the loss data base in accordance with uniform group criteria. In particular the decentralised assessment of key risk indicators is used to identify early indicators for potential sources of risk in the Group. In order to assess sector-specific operational risks and possible management measures, technically-supported risk self-assessment is used.

At the end of 2007, the implementation and the internal auditing of Basle-II compliant risk management in the Hypo Real Estate Group was completed. The Hypo Real Estate Group was therefore in a position to indicate to banking supervision that as from 2008 all the banks employed the standard approach for calculating capital adequacy in accordance with Basle II.

3.2.5 Other risks Reputation risks, which arise for instance as a result of business conduct, through the conduct of customers of the Group or as a result of prominence given to risks of other types, may as a result of adverse publicity – whether or not well-founded – have a persistent negative impact on the value of the undertaking.

Already in 2005, Hypo Pfandbrief Bank International introduced corresponding compliance guidelines and subjected itself to the Code of Conduct of the Luxembourg Bankers' Association ABBL. In addition, with a view to limiting reputation risks, in 2007 the data protection provisions applicable throughout the Group and the Code of Conduct have been revised. Furthermore, the creation of a special Group Compliance sector, which in organisational terms is assigned to the Group Corporate Office and, as far as compliance matters are concerned, reports directly to the Group Board, testifies to the importance of reputation risk. Local compliance functions report to this office. At business level, credit principles and ethical standards which are applicable throughout the Group preclude certain transactions and/or business partners. With a view to having a uniform external image of the Group, press guidelines govern all staff members' relations with the press while involving the Group Corporate Communication Unit.

The introduction of new products and processes, the potential loss of important members of staff and possi-

ble data loss on data transfer constitute some examples of reorganisation and integration risks. As far as new products are concerned, Hypo Pfandbrief Bank International S.A. has established a new product process (NPP) together with Hypo Public Finance Bank. In connection with the integration of DEPFA Bank, an integration project to manage the aforementioned risks was set up at the beginning of the fourth quarter of 2007 at the level of the Hypo Real Estate Group which monitors the implementation by means of subprojects, identifies risks and works out proposed solutions. The Board of the holding company is informed at regular short intervals so as to be able promptly to introduce suitable risk-limitation measures, which are subsequently implemented in Hypo Pfandbrief Bank International S.A.

4. Forecast report

4.1. General economic situation 2007 itself made it very clear how problematic economic forecasting is. Financial market bubbles and geopolitical risks largely elude even a very well founded forecast. With this caveat, the Bank has nevertheless looked forward.

For 2008 an economic cooling off is predicted worldwide and for all major regions. For Germany and the Eurozone, real growth of approximately 2 % is expected, for the USA 1.5 % and for Asia an average of 4.8 %. China will continue to tear ahead. If the forecasted 10.1 % is achieved, this will mark China's sixth consecutive year of double-figure growth rates. The slight cyclical darkening will result in inflation rates falling somewhat worldwide; in 2007 the year-on-year average was at a moderate level. Lower growth will result in rising unemployment rates especially in the USA. In contrast, in the Eurozone and in Germany a continuing fall in unemployment rates is predicted. This would result in unemployment falling in Germany for the third consecutive year.

The distortions observed on the capital market as a result of the bursting of the property bubble in the USA in the summer of 2007 will still be perceptible in 2008. After the equities market had been unaffected by the subprime crisis for half a year, in January 2008 there were substantial price falls. These in turn resulted in a

number of institutions adopting even greater caution in their growth forecasts. International trade imbalances continue to be large. In the case of China, a current account surplus is expected of approximately 12 % of gross domestic product. Despite the massive devaluation of the dollar, the US current account deficit of 5.5 % will not decline significantly, but it will not grow any more. As a result of the past devaluation of the Dollar – by a total of almost 24 % against the Euro in 2006 and 2007 – the probability of a hard landing, i.e. of a sudden, very massive devaluation of the US dollar, has diminished.

4.2. Branch-specific situation The financial-market crisis which began in the summer of 2007 will accompany market participants still further into 2008. The decline in liquidity and the risk aversion of many market participants will lead to continuing persistence of spread volatility and consequently to widening credit spreads. This also affects the market for public finance, although how marked it will be will depend on the borrower and the structure of the financing. In addition, States' need for funds will also increase in budget financing, since as a result of declining growth rates there is likely to be a tendency for public finances to deteriorate owing to falling tax receipts and possible expenditure on short-term economic programmes.

As a result of the trend away from classical budget financing in favour of PPP transactions or structured financing for public projects, the trend towards increasingly large units will continue also on the part of the classical state financier. This trend, which was already perceptible in 2007, will step up further.

4.3. Situation specific to the undertaking As a result of the takeover of DEPFA Bank by the Hypo Real Estate Group in 2007, the public financing sector within the Group has been massively extended. This will be fully reflected in the business activities of Hypo Pfandbrief Bank International S.A. for the first time in 2008. In this connection, the Bank will pay particular attention to the manifold opportunities afforded by the Luxembourg law on Pfandbriefe. In particular, the upcoming new law will open up new business opportunities for Hypo

Pfandbrief Bank International S.A. The Bank intends to take advantage of these together with colleagues within the Group and as a member of the DEPFA sub-group.

As against this background, for 2008, Hypo Pfandbrief Bank International S.A. again expects to achieve a satisfactory result, with an interest rate result exceeding that for the previous year and a further constant low cost rate. The Bank currently assumes that the capital adequacy is sufficient despite the partly marked widening of credit spreads.

For the year 2008, Hypo Pfandbrief Bank International S.A. again expects to achieve a satisfactory result, with an interest rate result exceeding that for the previous year and a further constant low cost rate.

5. Other particulars

Hypo Pfandbrief Bank International S.A. is fully consolidated in the IAS/IFRS accounts of Hypo Real Estate Holding through Hypo Public Finance Bank, Dublin, and since 31 December 2007 additionally through DEPFA Bank PLC, Dublin.

After 31 December 2007, the earnings situation continues to be in accordance with expectations. Despite the persisting capital-market crisis, the Board of Directors and the Management see no reason to effect any value adjustments.

Other events of particular importance for the assets, financial and earnings position of the last financial year did not occur after the closure of the financial year.

28 February 2008
The Board of Directors



Annual Accounts

Balance sheet as at 31 December 2007

Assets		31.12.2007	Previous year
in €			
Cash in hand, balances at central banks and postal check offices		1,788	318
Treasury bills and other bills eligible for refinancing with central banks		532,258,376	–
Treasury bills and similar securities	532,258,376		–
Loans and advances to credit institutions		1,664,053,748	1,102,077,543
Municipal loans and loans guaranteed by public institutions	653,420,805		618,649,032
Other loans and advances	1,010,632,943		483,428,511
of which: payable on demand	70,308,864		85,273,334
Loans and advances to customers		289,444,180	806,928,966
Municipal loans and loans guaranteed by public institutions	289,431,680		787,380,197
Other loans and advances	12,500		19,548,769
Bonds and other fixed-interest securities		7,180,111,547	6,363,052,446
Public sector issuers	2,017,217,689		2,416,774,330
Other issuers	5,025,338,139		3,824,679,784
Own bonds	137,555,719		121,598,331
Property, plant and equipment		502,268	268,007
Other assets		59,550	102,387
Prepayments and accrued income		1,072,871,618	1,022,568,460
Total assets		10,739,303,075	9,294,998,126

Liabilities				
in €				
			31.12.2007	Previous year
Amounts owed to credit institutions			3,003,748,966	1,786,906,110
Issued public-sector registered Pfandbriefe		5,000,000		25,000,000
of which: with agreed maturity dates or periods of notice		5,000,000		25,000,000
Other liabilities		2,998,748,966		1,761,906,110
of which: payable on demand		148,509,190		1,104,918
of which: with agreed maturity dates or periods of notice		2,850,239,776		1,760,801,192
Amounts owed to customers			1,367,796,661	1,236,453,234
Other liabilities		1,367,796,661		1,236,453,234
Issued public-sector registered Pfandbriefe	1,367,796,661			1,236,453,234
of which: with agreed maturity dates or periods of notice	1,367,796,661			1,236,453,234
Debts evidenced by certificates			5,931,632,502	5,877,348,827
Issued bonds		5,886,632,502		5,767,348,827
Public sector Pfandbriefe	5,886,632,502			5,737,348,827
Other bonds	–			30,000,000
Other		45,000,000		110,000,000
Other liabilities			333,184	263,847
Accruals and deferred income			282,468,517	248,169,543
Provisions			5,301,403	5,134,723
Provisions for taxation		4,614,610		3,985,021
Other provisions		686,793		1,149,702
Subordinated liabilities			34,000,000	34,000,000
Subscribed capital			66,000,000	66,000,000
Offering premiums			15,000,000	15,000,000
Reserves			25,721,842	19,521,842
Profit for the financial year			7,300,000	6,200,000
Total liabilities			10,739,303,075	9,294,998,126

Profit and loss account

for the period from 1 January to 31 December 2007

Expenses				
in €			31.12.2007	Previous year
Interest paid and similar expenses			854,955,679	617,813,862
Commissions payable			934,330	676,515
Result from financial operations			744,033	410,716
General administrative expenses			3,793,930	4,531,751
Staff costs		1,753,230		1,851,776
of which: wages and salaries	1,537,964			1,599,631
of which: Social security	207,350			195,615
of which: relating to pensions	161,748			150,584
Other staff expenses	7,917			56,530
Other administrative expenses		2,040,700		2,679,975
Depreciation and value adjustment in respect of intangible assets and property, plant and equipment			312,787	69,344
Other operating expenses			87,765	327
Depreciation and value adjustment in respect of loans and advances and provisions for contingent liabilities and credit risks			1,500,000	1,000,000
Depreciation and value adjustment in respect of securities held as financial asset			1,120,758	202,500
Taxes on income from ordinary activity			1,494,221	1,708,329
Profit for the financial year			7,300,000	6,200,000
Total expenses			872,243,503	632,613,344

Income				
in €			31.12.2007	Previous year
Interest receivable and similar income			866,672,423	627,057,037
arising from fixed-interest securities		349,436,672		275,204,524
Commissions receivable			463,573	296,216
Other operating income			534,347	556,155
Income in respect of write-backs of value adjustments in respect of securities held as financial assets, in respect of participating interest and shares held in affiliated companies			4,573,160	4,703,936
of which: profits from the sale of fixed-interest securities held as financial assets		4,573,160		4,703,936
Total income			872,243,503	632,613,344

Report on the annual accounts Following our appointment by the General Meeting of the Board of Directors dated 14 February 2007, we have audited the accompanying annual accounts of Hypo Pfandbrief Bank International S.A., which comprise the balance sheet as at 31 December 2007 and the profit and loss account for the year then ended.

Board of Directors' responsibility for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the Réviseur d'Entreprises Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the Institut des Réviseurs d'Entreprises. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the judgement of the Réviseur d'Entreprises, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion In our opinion, the annual accounts give a true and fair view of the financial position of Hypo Pfandbrief Bank International S.A. as of 31 December 2007, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

Report on other legal and regulatory requirements The management report, which is the responsibility of the Board of Directors, is consistent with the annual accounts.

Luxembourg, 28 February 2008
KPMG Audit S.à r.l. – Réviseurs d'Entreprises

T. Feld C. Brüne

1. **General notes**
2. **Balance-sheet and valuation methods**
 - 2.1 | Fixed assets
 - Property, plant and equipment
 - Financial assets
 - 2.2 | Current assets
 - Bonds and other fixed-interest securities
 - Loans and advances
 - 2.3 | Liabilities/provisions
 - 2.4 | Acquisition or production costs of similar inventory items and all fungible assets, including securities
 - 2.5 | Currency conversion
 - 2.6 | Valuation of financial derivatives
3. **Notes on the asset items**
 - 3.1 | Presentation of assets as at 31 December 2007
 - 3.2 | Presentation of loans and advances and/or bonds and other fixed-interest securities vis-à-vis affiliated companies
 - 3.3 | Breakdown on the basis of standardised risk weightings
 - 3.4 | Information regarding the credit risk
 - 3.5 | Bonds and other fixed-interest securities (after deduction of value adjustments)
 - 3.6 | Other assets
 - 3.7 | Prepayments and accrued income
4. **Notes on the liability items**
 - 4.1 | Presentation of liabilities as at 31 December 2007
 - 4.2 | Presentation of amounts owed to affiliated companies or companies, in which a participating interest is held
 - 4.3 | Other liabilities
 - 4.4 | Accruals and deferred income
 - 4.5 | Provisions
 - 4.6 | Subordinated liabilities
 - 4.7 | Equity capital
 - 4.8 | Assets deposited as security for own liabilities
5. **Notes on the off-balance-sheet items**
6. **Notes on items of the profit and loss account**
 - 6.1 | Geographical origin of income
 - 6.2 | Result of financial operations
 - 6.3 | Other operating income
 - 6.4 | Auditor's fees
7. **Other explanatory notes**
 - 7.1 | Staff
 - 7.2 | Payments and loans to executive and supervisory bodies
 - 7.3 | Deposit guarantee system
 - 7.4 | Items not denominated in the balance-sheet currency
8. **Asset overview**
9. **Special information**
 - 9.1 | Statement of cover assets for public-sector Pfandbriefe
 - 9.2 | Additional breakdown
 - 9.2.1 | Cover assets
 - 9.2.2 | Cover holding for municipal loans
 - 9.2.3 | Statement of cover assets in terms of present value
 - 9.3 | Accrued and deferred items
 - 9.4 | Redemption of own public-sector Pfandbriefe
 - 9.5 | Interest arrears

Notes

1. General notes

Hypo Pfandbrief Bank International S.A. (HPBI) was founded on 27 July 1999 in Luxembourg under its original name of Pfandbrief Bank International S.A. (PBI). On 14 September 1999, a licence to operate the bank as a mortgage credit bank (banque d'émission de lettres de gage) under Luxembourg law was issued by the Minister of Finance of the Grand Duchy of Luxembourg.

The entry in the commercial register was made on 16 August 1999 under number 71104 (Section B). The legal basis for the operation of a mortgage credit bank is laid down in Articles 12-1 to 12-9 of the Law of 5 April 1993 on the financial sector (in its version in force at the time being).

The Bank was originally founded by Bayerische Hypo- und Vereinsbank AG (HVB) and its German mortgage bank subsidiaries, each with equal shares in the capital, under a holding scheme.

Within the framework of the reorganisation of the HVB Group in 2003, the commercial real estate business was spun off and bundled with other mortgage bank activit-

ies into Hypo Real Estate Group. In this transformation process, all shares in HPBI were taken over by Hypo Real Estate Bank International, Dublin. In a restructuring operation, Hypo Real Estate Bank International, Dublin, was renamed Hypo Public Finance Bank, Dublin, as of 1 January 2006.

All shares in the Bank are held by Hypo Public Finance Bank, Dublin. The Bank's subscribed capital is fully paid-up. The name of the Bank was changed with effect from 1 September 2004 to Hypo Pfandbrief Bank International S.A., in order to highlight the fact that it is part of the Hypo Real Estate Group.

Hypo Pfandbrief Bank International S.A. is integrated into the group accounts of Hypo Real Estate Holding AG as well as into the subgroup accounts of Hypo Public Finance Bank, Dublin and DEPPA Bank PLC, Dublin. The accounts are available at the registered offices of the respective companies in Munich and Dublin.

2. Balance sheet and valuation methods

The Bank's balance-sheet and valuation methods are in compliance with the rules in force in the Grand Duchy of Luxembourg, in particular the Law of 17 June 1992 regarding the financial statements and the consolidated financial statements of credit institutions ("the Law"). The breakdown of the balance sheet differs from that provided for in the Law since it is based on the recommendation of the Commission de Surveillance du Secteur Financier (CSSF) on the annual accounts of mortgage credit banks.

The capital currency is the Euro (€).

Value adjustments The bank pursues a policy of making specific charges in order to cover risks of loss and default in relation to existing claims.

In compliance with the tax provisions in force in Luxembourg, the option of a general charge for bad and doubtful debts has been used to secure against latent credit risks. The upper limit of 1.25 % of the risk-weighted address risks which must be observed in this regard is respected.

2.1 Fixed assets

Property, plant and equipment Property, plant and equipment are stated in the balance sheet at acquisition cost or production cost, less accumulated value adjustment. Property, plant and equipment depreciate over time,

which is taken into account by means of scheduled adjustments. The adjustments are tailored according to normal operating life. Pursuant to the new Luxembourg reporting requirements in 2008, the residual book values of the reporting software used to date of € 225 k was written off unscheduled in the reporting year.

Assets acquired with acquisition/production costs of up to a maximum amount of € 870 or with a useful life of less than one year are written off in full in the year of acquisition.

The adjustment rates applied as at the balance-sheet date are set out in the table below.

	Adjustment rate	Method
Office and business equipment	20.00 %	linear
IT (hardware/software)	33.33 %	linear

Financial assets Holdings of bonds and other fixed-interest securities intended to serve the business in the long term and fulfilling supervisory requirements are valued at acquisition cost or, in the case of foreseeable long-term depreciation, at the lower of the stock market or market price in connection with the so-called Beibehaltungsprinzip (valuation principle retaining previously established value adjustments). All securities of the cover fund are valued at acquisition cost. Securities hedged by interest-rate swaps (asset swaps) are also valued at acquisition cost.

Other fixed-interest securities are valued at the lower of the stock market or market price.

Premiums and discounts are apportioned pro rata temporis in the income statement over the residual maturity of the securities.

2.2 Current assets

Bonds and other fixed-interest securities Bonds and other fixed-interest securities which are not considered as financial assets are entered at acquisition cost and allocated in full to liquid assets.

The securities are valued on the basis of the strict lowest value principle in accordance with the Beibehaltungsprinzip. The values are then shown at the lower of the stock-market price as at the balance-sheet date or, if this cannot be established, the probable sales value or at the price which best reflects the value of the securities.

Redeemed own bonds hedged by asset swaps are valued at acquisition cost.

Loans and advances Loans and advances are shown at their nominal values. Interest accrued, but which is not yet due, is entered under prepayments and accrued income on the asset side of the balance sheet. Premiums and discounts are apportioned according to their maturity.

2.3 Liabilities / provisions

Liabilities are entered at their nominal or repayment amount, provisions at the amount required on the basis of a reasonable commercial judgement.

2.4 Acquisition or production costs of similar inventory items and all fungible assets, including securities

The Bank uses the weighted average price method to determine the acquisition cost.

2.5 Currency conversion

Assets and liabilities not denominated in Euro are converted into the capital currency at the mid spot rate on the balance-sheet date.

Income and expenditure in foreign currency are converted into the capital currency at the relevant current rate.

The effects arising from these valuation principles are shown in the income statement.

Covered spot and forward items are valued without effect on the income statement. The imparity principle is applied to the valuation results arising out of uncovered items.

2.6 Valuation of financial derivatives

Financial derivatives are recorded on the date of the conclusion of the transaction as off-balance-sheet items. They are valued at market prices on the relevant trading date having regard to the imparity principle unless they are used to hedge the Bank's market risks.

Notes

3. Notes on the asset items

3.1 Presentation of assets as at 31 December 2007

Maturity schedule in thousand €	Treasury bills eligible for refinancing with central banks		Loans and advances to credit institutions (including central bank balances)		Loans and advances to customers	
	31.12.2007	Previous year	31.12.2007	Previous year	31.12.2007	Previous year
Payable on demand	–	–	70,309	85,273	13	13
Up to 3 months	10,226	–	690,324	283,578	30,217	25,564
Over 3 months and up to 1 year	116,468	–	325,434	33,518	–	–
Over 1 year and up to 5 years	275,564	–	307,553	292,361	168,563	501,781
Over 5 years	130,000	–	270,434	407,348	90,651	279,571
Total	532,258	–	1,664,054	1,102,078	289,444	806,929
of which: subordinated claims	–	–	–	–	–	–

Loans and advances to financial institutions payable on demand include assets with the central bank amounting to € 1,000. According to a circular of the Banque Centrale de Luxembourg of 1 October 2007, it is possible to deposit further credit claims with the central bank for refinancing, retroactively as of 1 January 2007. We have taken advantage of this option and accordingly show an

amount of € 532,258 k under the heading “Treasury bills and other bills eligible for refinancing with central banks”. This reclassification is made up of loans and advances to customers of € 481,129 k and loans and advances to credit institutions of € 51,129 k.

3.2 Presentation of loans and advances and/or bonds and other fixed-interest securities vis-à-vis affiliated companies

in thousand €	31.12.2007	Previous year
Loans and advances to credit institutions	977,182	291,220
Bonds and other fixed-interest securities	200,829	146,598
Total	1,178,011	437,818
Of which own bonds	137,556	121,598

3.3 Breakdown on the basis of standardised risk weightings

Calculation of balance-sheet risk volume in thousand €	Nominal amount	Weighting	Risk equivalent
Asset items covered by internal cash deposits	–	0 %	–
Secured by local administrations of Zone A (0 % weighting)	451,738	0 %	–
Secured by local administrations of Zone A (20 % weighting)	1,224,155	20 %	244,831
Loans and advances to central governments and central banks of Zone A	1,549,302	0 %	–
Loans and advances to regional and local governments (0 % weighting)	3,080,946	0 %	–
Loans and advances to regional and local governments (20 % weighting)	848,549	20 %	169,710
Loans and advances to credit institutions of Zone A ≤ 1 year	1,071,159	20 %	214,232
Loans and advances to credit institutions of Zone A > 1 year	579,284	20 %	115,857
Loans and advances to central governments and central banks of Zone or secured by them	18,104	100 %	18,104
Bonds issued by credit institutions pursuant to circular 2000/10 part VIII, point 10.2.	665,838	10 %	66,584
Loans and advances to multilateral development banks	175,355	20 %	35,071
Loans and advances to other customers	13	100 %	13
Collection items	60	20 %	12
Prepayments and accrued income	12,547	50 %	6,273
Property, plant and equipment	502	100 %	502
Other assets	–	100 %	–
Total	9,677,552		871,189

Derivatives in thousand €	Replacement value*	Weighting	Risk equivalent
Transactions without netting			
Interest-rate transactions ≤ 1 year remaining maturity	–	20 %	–
Interest-rate transactions > 1 year ≤ 5 years remaining maturity	3,280	20 %	656
Interest-rate transactions > 5 years remaining maturity	9,646	20 %	1,929
Foreign exchange transactions ≤ 1 year remaining maturity	307	20 %	61
Foreign exchange transactions > 1 year ≤ 5 years remaining maturity	1,683	20 %	337
Foreign exchange transactions > 5 years remaining maturity	92,671	20 %	18,534
Transactions with netting	112,192	20 %	22,438
Total	219,779		43,956

*) see explanation point 5

3.4 Information regarding the credit risk

Loans and advances and bonds and other fixed-interest securities (after deduction of value adjustments) are made up as follows as at the balance-sheet date:

Remaining maturity in thousand €	≤ 1 year	> 1 year ≤ 5 years	> 5 years ≤ 10 years	> 10 years	Total
Credit institutions					
Europe	1,202,948	997,857	1,767,871	–	3,968,676
Japan	12,171	54,323	–	–	66,494
Canada	8,428	–	9,994	–	18,422
South Korea	–	26,866	26,725	–	53,591
USA	4,664	19,947	3,777	–	28,388
Others	–	–	–	17,700	17,700
Total	1,228,211	1,098,993	1,808,367	17,700	4,153,271
Public sector borrowers (not including credit institutions)					
Europe	419,830	776,381	1,051,204	1,435,512	3,682,928
Japan	19,743	61,564	–	–	81,307
Canada	24,815	66,072	33,939	192,236	317,061
South Korea	–	–	37,472	–	37,472
USA	1,415	6,768	20,413	1,350,232	1,378,828
Others	–	–	4,996	9,992	14,989
Total	465,803	910,785	1,148,024	2,987,972	5,512,584
Other borrowers (not including credit institutions)					
Europe	13	–	–	–	13
Total	13	–	–	–	13
Overall Total	1,694,027	2,009,778	2,956,391	3,005,672	9,665,868

3.5 Bonds and other fixed-interest securities (after deduction of value adjustments)

in thousand €	31.12.2007	Previous year
Listed securities	6,379,839	5,976,827
Unlisted securities	800,273	386,225
Total	7,180,112	6,363,052

Bonds and other fixed-interest securities falling due in the following year stand at € 451,389 k.

Bonds of a Member State of the European Union participating in the Euro which are eligible for refinancing with a Central Bank of the Eurozone stand at a nominal amount of € 4,391 million as at the balance-sheet date.

Notes

The "Bonds" holding breaks down as follows:

in thousand €	31.12.2007	Previous year
Financial assets	7,042,556	6,241,454
Liquid assets	137,556	121,598
Total	7,180,112	6,363,052

As at the balance-sheet date, the accumulated amount of apportioned premiums stands at € 3,154 k, accumulated apportioned discounts are shown as € 4,418 k. Repurchase commitments under repurchase agreements stand at € 1,045,022 k whereas € 810,000 k has been earmarked for tender.

No value adjustment to the lower price value has been effected for securities in the financial assets of a book value of € 3,549,192 k (market value € 3,438,410 k), since

- the fixed-interest securities in question have been hedged against interest risks by asset swaps. These hedging relations have been booked as a balancing unit. The effect of interest rate changes (€ -64,052 k) is counterbalanced by commensurate undisclosed reserves in corresponding hedging transactions.

- in the case of paper with negative changes in credit spreads (€ -46,730 k to date no failure or default has occurred or is expected).

3.6 Other assets

Other assets (€ 60 k) mainly consist of the outstanding claim arising out of foreign withholding tax.

3.7 Prepayments and accrued income

Prepayments and accrued income mainly consist of interest-rate accruals and premium and discount depreciations arising from issuing and lending business. Discounts from the issue business stand at € 711,518 k.

4. Notes on the liability items

4.1 Presentation of liabilities as at 31 December 2007

Maturity schedule

in thousand €	Amounts owed to credit institutions		Amounts owed to customers	
	31.12.2007	Previous year	31.12.2007	Previous year
Payable on demand	148,509	1,105	–	–
Up to 3 months	2,613,313	1,402,202	–	–
Over 3 months and up to 1 year	236,927	358,599	–	–
Over 1 year and up to 5 years	5,000	5,000	112,700	100,700
Over 5 years	–	20,000	1,255,097	1,135,753
Total	3,003,749	1,786,906	1,367,797	1,236,453

Of the amounts owed to credit institutions, € 1,855,022 k arise out of repurchase agreements.

Debts evidenced by certificates as at 31.12.2007

in thousand €	Public-sector Pfandbriefe	Other bonds	Others	Total
Payable on demand	–	–	–	–
Up to 3 months	50,000	–	25,000	75,000
Over 3 months and up to 1 year	913,528	–	20,000	933,528
Over 1 year and up to 5 years	3,682,822	–	–	3,682,822
Over 5 years	1,240,283	–	–	1,240,283
Total	5,886,633	–	45,000	5,931,633

Debts evidenced by certificates falling due in the next year amount to € 1,008,528 k.

4.2 Presentation of amounts owed to affiliated companies or companies, in which a participating interest is held

Amounts owed to affiliated companies consist of short-term money-market transactions amounting to € 947 million.

4.3 Other liabilities

Other liabilities (€ 333 k) as at the balance-sheet date predominantly consist of outstanding payments in respect of value added tax, income tax and social security contributions.

4.4 Accruals and deferred income

Accruals and deferred income mainly consist of interest deferrals and premiums and discounts.

4.5 Provisions

The other provisions shown were constituted to cover liabilities to staff existing as at the balance-sheet date together with liabilities to third parties applying to the financial year ended (audit costs, consultancy costs, etc.).

4.6 Subordinated liabilities

As at 28 December 2000, the Bank accepted a "silent participation" of € 9,000 k. The maturity was indefinite, with profit-related interest. For supervisory purposes, this had to be classified as first-tier supplementary capital. With effect from 1 January 2003, the silent participation was converted into a subordinate debt issue. The interest rate, the maturity and the supervisory classification remained unchanged. In the year under review, interest of € 827,100 was charged to the income statement.

On 18 May 2001, the Bank issued subordinated funds of € 15,000 k. The subordinated funds were increased by € 10,000 k to € 25,000 k on 30 January 2002 on the same terms. The subordinated funds, which are to be repaid in instalments as from 18 May 2017, will be repaid for the last time on 18 May 2026; the interest rate is 6.8 % per annum. In the year under review, interest of € 1,700 k was charged to the income statement. For supervisory purposes, these subordinated funds qualify as second-tier supplementary capital.

4.7 Equity capital

The subscribed capital amounts to € 66,000 k and is divided into 66,000 registered shares with no par value.

Under the Luxembourg Law of 10 August 1915 on commercial companies, the Bank must allocate every year a sum equivalent to at least 5 % of its annual net profit to a legal reserve until such time as the reserve reaches 10 % of the subscribed capital. No distribution may be made from the legal reserve. As at the balance-sheet date, there was a legal reserve of € 1,465 k and free reserves of € 24,257 k.

The Bank utilises the tax-credit option for the imputation of wealth tax against corporate tax, whereby five times the amount of wealth tax is deposited in a special profits reserve. No distribution of this reserve is possible for five years in so far as wealth tax is no longer to be finally paid. The free reserves contain € 12,650 k for imputation of the wealth tax. Another corresponding allocation to the reserves will be made for the year under review.

In accordance with the proposed allocation of profits, a sum of € 365 k is to be allocated to the legal reserve and € 6,935 k to the free reserves.

4.8 Assets deposited as security for own liabilities

Assets of a nominal value of € 965,179 k have been deposited with the Central Bank as security.

Notes

5. Notes on the off-balance-sheet items

Transactions in derivatives on the OTC market are effected exclusively for hedging purposes as part of the Bank's assets/liabilities management. No trading operations involving derivatives were conducted. We have, in principle, entered into netting agreements with our trading partners in the derivatives business with a view to reducing risks.

During the year under review, we included, as cover, interest-rate and currency swaps amounting to € 91 million. We have entered into contractual agreements with the counterparties concerned to provide for the duties of information and other cooperation obligations. The procedure has been approved by the supervisory authority and the trustee.

At the end of 2007, the nominal volume of outstanding off-balance-sheet transactions was € 9,673 million, of which € 5,307 million involved affiliated companies.

The address risk arising from derivatives was determined, inter alia, on the basis of the gross replacement costs. These are calculated as the sum of all positive market values, not taking netting agreements into account. At the end of 2007, the address risk thus defined (maximum risk of default) was € 180 million, or 1.9 % of the outstanding nominal volume. After netting agreements are taken into account, the address risk is reduced to € 161 million.

If, in accordance with banking supervisory criteria, add-ons and also risk weightings are taken into account for potential future risk, there is an address risk on the basis of the market-value method of € 44 million at the end of 2007. We shall also in the future pay strict attention to ensuring that the counterparty risk is kept within tight confines through active management. Our counterparties in the derivative business are solely OECD banks.

in million €	Nominal amount Remaining maturity ≤ 1 year	Nominal amount Remaining maturity ≤ 5 years	Nominal amount Remaining maturity > 5 years	Total Nominal amount	Positive market values	Negative market values	Address risks
Interest-rate transactions							
Interest-rate swaps (same currency)	1,433	4,063	3,114	8,610	95	289	–
Interest-rate options – purchases	21	117	–	138	1	–	–
Other interest-rate contracts	–	–	–	–	–	–	–
Foreign exchange transactions							
Currency-swaps	31	–	–	31	–	–	–
Cross-Currency-Swaps	60	223	611	894	84	17	–
Total	1,545	4,403	3,725	9,673	180	306	44*

*) on account of netting agreements not being apportionable

Derivatives were concluded only for hedging purposes. As against the negative market values shown above, there are corresponding undisclosed reserves in the hedged underlying transactions.

6. Notes on items of the profit and loss account**6.1 Geographical origin of income**

The Bank's income arose predominantly out of business with counterparties having their seat in Europe or North America

6.2 Result from financial operations

In addition to profits from sales of liquidity holdings, this item contains the valuation of foreign currency items and the results of currency transactions concluded for hedging purposes.

6.3 Other operating income

Other operating income mainly involves the writing back of provisions for taxes and administrative expenses in respect of previous years.

6.4 Auditor's fees

The fees for the auditor, KPMG Audit S.à r.l. Luxembourg, and member firms of the KPMG network, shown for the financial year under review under the item "other administrative expenses" are made up as follows:

Fees for in € excl. VAT	31.12.2007	Previous year
Audit of financial statements (annual accounts/group accounts)	110,000	101,786
Other audit services	25,000	–
Other services	–	646
Total	135,000	102,432

7. Other explanatory notes**7.1 Staff**

The average numbers of staff employed during the year under review were as follows:

Management, including heads of departments: 3,4
Other staff: 14,3

At the end of the year, the management was comprised of two persons. There were another 16 employees on the staff.

7.3 Deposit guarantee system

The Bank is a member of the Association pour la Garantie des Dépôts, Luxembourg (AGDL) and thus a member of the deposit-guarantee association of the banking sector in the Grand Duchy of Luxembourg. The creation of a reserve was not necessary.

7.2 Payments and loans to executive and supervisory bodies

No loans have been made to members of executive bodies (management and heads of departments) or to other members of the Board of Directors.

The members of the executive bodies were paid emoluments totalling € 609 k for the financial year.

7.4 Items not denominated in the balance-sheet currency

The total amount of assets in foreign currency (not including Euro currencies) is € 2,666 million. At the end of the year, liabilities in foreign currencies came to € 2,879 million. These items are almost fully hedged by currency and interest/currency swaps.

8. Asset overview

in thousand €	Acquisition costs	Accruals financial year	Disposals financial year	Depreciation financial year	Accumulated depreciation	Residual cost 31.12.2007	Residual cost previous year
Office and business equipment	396.1	547.1	–25.3	–312.8	–415.7	502.2	268.0
of which: IT equipment	307.4	535.2	–25.3	–298.8	–348.0	469.3	232.9
Investment securities	6,241,454,1	1,928,168,9	–1,127,067,2	–	–	7,042,555,8	6,241,454,1
Total	6,241,850,2	1,928,716,0	–1,127,092,5	–312,8	–415,7	7,043,058,0	6,241,722,1

Notes

9. Special information

Statement of cover assets held in accordance with Articles 12-1 to 12-9 of the Law of 5 April 1993 on the financial sector

The information is confined to the presentation of public-sector Pfandbriefe. No mortgage-backed Pfandbriefe were issued. Derivative financial instruments with a total value of € 91,287 k were used for cover as at the balance-sheet date.

9.1 Statement of cover assets for public-sector Pfandbriefe

in €	31.12.2007
Cover assets	6,416,510,907
Substitute cover assets	
Securities	45,400,000
Bank balances	750,000,000
Total cover	7,211,910,907
In circulation	
Bearer securities	5,744,351,858
Registered securities	696,678,069
Total circulation (requiring cover)	6,441,029,927
Excess cover	770,880,980

9.2 Additional breakdown

9.2.1 Cover assets

Standard cover	31.12.2007
in €	
Loans and advances to credit institutions	
Municipal loans or	
loans guaranteed by public institutions	722,896,885
Loans and advances to clients	
Municipal loans or	
loans guaranteed by public institutions	732,213,977
Bonds of public sector issuers	
or guaranteed by public institutions	4,672,265,258
Covered public-sector Pfandbriefe	197,848,129
Derivatives	91,286,658
Subtotal	6,416,510,907
Substitute cover assets	
Other loans and advances to credit institutions	750,000,000
Bonds pursuant to article 42 (3) of the UCITS Act	45,400,000
Cash	–
Total	7,211,910,907

9.2.2 Cover holding for municipal loans

Breakdown according to orders of magnitude	Number	in €
Up to 25 million €	64	775,584,842
Up to 50 million €	52	1,771,194,056
Up to 100 million €	30	1,878,046,012
Over 100 million €	15	2,787,085,997
Total		7,211,910,907

Breakdown by country	in €	in %
Germany	1,336,349,864	18.5
USA	1,222,799,577	16.9
Austria	1,143,843,662	15.9
Spain	645,092,279	8.9
Ireland	560,918,502	7.8
Switzerland	471,384,541	6.5
Canada	422,139,251	5.9
International organisations	201,027,997	2.8
Italy	197,742,144	2.7
Japan	147,056,618	2.0
Great Britain	146,138,559	2.0
Finland	145,982,000	2.0
Portugal	143,000,000	2.0
Belgium	113,346,891	1.6
France	105,000,000	1.5
South Korea	84,366,381	1.2
Slovenia	80,000,000	1.1
Luxembourg	11,548,129	0.2
Sweden	10,984,987	0.2
Czech Republic	10,189,525	0.1
Slovakia	8,000,000	0.1
Lithuania	5,000,000	0.1
Total	7,211,910,907	100.0

9.2.3 Statement of cover assets in terms of present value

in million €	Cover fund	Public sector Pfandbriefe* requiring cover	Excess cover	in %
Nominal value	7,212	6,441	771	12.0
Present value	7,392	6,460	932	14.4
Present value, in case of shift of the interest-rate curve				
by + 100 bp	7,177	6,279	898	14.3
by - 100 bp	7,630	6,649	981	14.8

*) Lettres de gage publiques

9.3 Accrued and deferred items

in €	31.12.2007
Prepayments and accrued income	
Accrued interest	268,233,165
From issuing and lending business	719,786,723
Others	84,851,730
Total	1,072,871,618
Accruals and deferred income	
Deferred interest	266,524,121
From issuing and lending business	1,030,381
Others	14,914,015
Total	282,468,517

9.4 Redemption of own public-sector Pfandbriefe

During the year under review, we redeemed a nominal amount of € 65.3 million of our own public-sector Pfandbriefe for price regulatory purposes. A volume of € 20.6 million was redeemed as scheduled. A holding with a book value of € 137.6 million is shown as at the balance-sheet date. Re-investment in the market is planned in so far as this is deemed to be appropriate in view of the situation on the market.

9.5 Interest arrears

Interest due during the year under review from loans and advances and securities has been received in full.

There are no arrears; no write-offs or value adjustments have been made on interest.

Executive Bodies

Board of Directors

Stephan Bub Chairman until 30.06.2007	Head of the Board of Hypo Public Finance USA, Inc., NY-Westport until 30.06.2007
Dr. Robert Grassinger Chairman since 1.07.2007	Head of the Board of Hypo Real Estate Bank AG, Neufarn since 1.04.2007
James Campbell	Member of the Board of Hypo Public Finance Bank, Dublin
Heather Nesbitt	Member of the Board of Hypo Public Finance Bank, Dublin
Orla Nicholson	Head of Treasury of Hypo Public Finance Bank, Dublin
Michael Schultheiß	Managing Director of Hypo Real Estate Bank AG, Starnberg since 1.04.2007
Klaus Söllner	Administrateur-Délégué, Trier
Martin Schulte	Administrateur-Délégué, Trier until 31.05.2007
Hagen Schmidt	Administrateur-Délégué, Trier since 1.04.2007

Management

Klaus Söllner	Administrateur-Délégué, Trier
Martin Schulte	Administrateur-Délégué, Trier until 31.05.2007
Hagen Schmidt	Administrateur-Délégué, Trier since 1.04.2007

Réviseur Spécial

PricewaterhouseCoopers S.à.r.l.

Hypo Pfandbrief Bank International S.A.
4, rue Alphonse Weicker
L-2721 Luxembourg
Tel.: +352 26 41-47 00
Fax: +352 26 41-47 99
info@hpbi.lu
www.hpbi.lu