

DEPFA closes third EPIC CLO

Press Release

London and Dublin, 20 December 2007.

DEPFA BANK plc has successfully completed the securitization of part of its UK infrastructure bond portfolio, through a synthetic collateralized loan obligation (CLO) structure intermediated by **KfW Bankengruppe**.

The **£666 m** issue initially comprises **19** monoline wrapped bond investments made by DEPFA to finance a combination of UK utilities in the electricity distribution and water sectors and UK PFI projects in the health and education sectors. The transaction is a follow up to DEPFA's EPIC UK PFI and EPIC II global PPP securitizations which closed in November 2004 and July 2006 respectively. EPIC III with its UK, multi-sector portfolio further extends the market for infrastructure CLOs and impressively underscores DEPFA's capability to securitize high-quality assets, even under difficult market conditions.

Deal Structure

Essentially DEPFA is transferring the major part of the credit risk of the assets in the pool by purchasing credit protection from KfW, which then in turn purchases credit protection on the reference pool from a number of banks and ultimately institutional investors. The **£598 m** Super Senior Tranche (rated **Aaa/AAA** by Moody's and S&P respectively) has been insured by Assured Guaranty, a monoline insurer. The tranches of the issue below the Super Senior Tranche (also rated **Aaa/AAA** by Moody's and S&P), in aggregate amounting to **£58 m**, take the form of floating rate credit-linked notes issued by **Third Essential Public Infrastructure Capital GmbH**, a special purpose company registered in Germany.

The pool assets will remain on DEPFA's balance sheet, which will continue to administer and manage them. DEPFA will retain the "first-loss" interest in the transaction. Merrill Lynch International was mandated to arrange the transaction. Legal advisers to DEPFA were Linklaters (in Frankfurt and London) and A&L Goodbody (in Dublin) and to Merrill Lynch International were Allen & Overy (in Frankfurt and London).

This transaction is a key part of DEPFA's capital management strategy during the transition to the new regulatory capital framework under Basel II. Hence, DEPFA has the right to call the transaction in December 2010, although the scheduled maturity is in 2059.

Benefits to DEPFA

Since October 2007, DEPFA has been a member of the **Hypo Real Estate Group**, and this transaction achieves a number of objectives for DEPFA, and the Group as a whole: DEPFA has reduced the amount of regulatory capital required to support

the assets (which under current BIS rules are 100% risk weighted, though under Basel II this will reduce substantially), and at the same time has improved the return on equity and credit risk. This transaction therefore enables DEPFA to increase its already substantial involvement in the PFI/PPP and utility markets on a competitive footing.

DEPFA's infrastructure finance business (including both lending and advisory services to public and private clients) is complementary to the Bank's direct "on-budget" lending business to central and local governments generally. Since its inception in September 1999, DEPFA's Infrastructure Finance Unit has funded over 200 projects in the transportation, water and waste management and public "accommodation" (i.e. schools, hospitals, public offices etc.) and utilities sectors.

KfW Bankengruppe

KfW Bankengruppe gives impetus to economic, political and social development worldwide. With its long-term, low-interest loans KfW promotes small and medium-sized enterprises and business start-ups, among others. With its securitisation platforms, KfW offers banks the opportunity to securitise credit risks under a highly standardised scheme. Such securitisation transactions reduce the capital requirement of the banks, thus giving them new scope for lending. The two securitisation platforms for SME loans (PROMISE) and for residential mortgage loans (PROVIDE) were set up in 2000 and 2001, respectively. In addition, KfW stimulates innovations in the equity capital markets, advances environmental protection and encourages the expansion of municipal infrastructure. The activities of KfW are not only limited to financing of investments in Germany. KfW also plays an active role in the business areas of export and project finance, promotion of the developing countries and advisory and other services.

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