

March 2009



Debt Investor Presentation Public Sector Pfandbriefe



Public Sector Pfandbriefe issued by Hypo Real Estate Bank AG

Legislation

PS Business Model

PS Risk Management

Public Sector Cover Pool

Legislation

Summary of German Covered Bond Act (Pfandbriefgesetz)

The German Pfandbrief legislation* has a history which spans over a century and was most recently updated on 19th July 2005. Some of the highlights of the legislation relating to public sector Pfandbriefe include:

- | **Strict requirements for Pfandbrief issuing institutions:** Issuers need a specific Pfandbrief licence and a professional risk management process as well as enhanced cover pool transparency in accordance with §28 of the Pfandbrief Act
- | **Diversified asset pool:** Pool may have unlimited exposure to all EU member countries and 10% exposure to USA, Canada and Japan and non-EU EEA countries Iceland, Norway and Liechtenstein as well as Switzerland in order to enhance diversification
- | **Pool eligible assets:** Public sector assets with a maximum 20% risk weighting are eligible for the cover pool. Claims against public-sector credit institutions without state support (Landesbanks) are not eligible for the cover pool (only for substitute cover claims against selected credit institutions are eligible up to 10% of the total cover pool).
- | **Mandatory over-collateralisation:** The present value of the assets must exceed that of the liabilities at all times by a minimum of 2%, also in stress testing scenarios.
- | **Preferential claims and bankruptcy remoteness:** Pfandbrief holders rank senior and have a preferred claim to the assets in the pool. The cover pool is excluded from other creditors' claims (including the German tax authorities) in the event of insolvency until all the claims of the priority creditors (i.e. Pfandbrief holders) have been satisfied
- | **Interest rate & currency matching:** Interest receivable must be equal to or exceed interest expense in any given year (coverage by nominal value and by net present value required by law). Currency risk is almost completely hedged and closely monitored.
- | **Strong monitoring:** Pfandbrief issuers are monitored by the German banking supervisor (BaFin). A qualified independent trustee (Treuhänder) is responsible for the monitoring of the cover pool and reports to BaFin

Note:

See for German Pfandbrief Act: http://www.pfandbrief.de/d/internet.nsf/tindex/de_pfandbriefrecht.htm

PS Business Model & Risk Management

New business concentrates on core European assets with focus on Germany

- I AAA cover pool rating from S&P, Fitch and Moody's achieved and it is the intention of HRE to maintain a AAA Rating for its Pfandbrief cover pool
- I Concentration on core European assets, with particular focus on Germany
- I Primarily Euro denominated issuance
- I Maintain a defined minimum volume of ECB eligible assets in the Pfandbrief cover pool
- I Minimum Aa2 average asset rating is a long term target for the public sector portfolio
- I Thorough due diligence on assets before inclusion in the cover pool
- I Pro active control of maturity profile in the cover pool (plan for asset replacements etc.)
- I Operate according to Pfandbrief Act and in line with rating agencies requirements

Public Sector Cover Pool

Process and documentation

- I In HRE all non-plain vanilla and non-German public sector cover pool assets are reviewed by the Treuhänder (trustee appointed by BaFin) on the basis of a VdP¹ checklist plus internal additional requirements before any of the assets are included in the cover pool
- I The Treuhänder maintains a register of all collateral
- I To facilitate direct access to details of assets in the cover pool and to ensure a smooth audit process, the Pfandbrief Collateral Department maintains a mirror credit documentation.
- I Special legal knowledge base for international cover pool material which is constantly updated following VdP seminars for key jurisdictions and cover pool relevant changes in regulatory frameworks
- I In case of new business: involvement of PfandBG specialists at origination stage to ensure cover pool eligibility

Note:

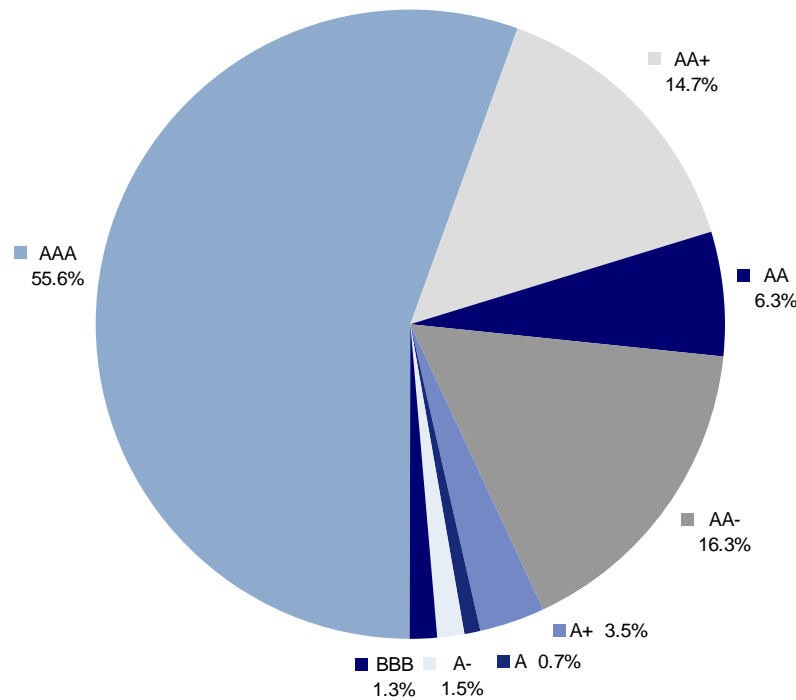
1. VdP = Verband Deutscher Pfandbriefbanken (Association of German Covered Bond Issuers)
2. PfandBG = Pfandbrief Gesetz of 2005 (Covered Bond legislation)

Public Sector Cover Pool

The public sector cover pool is dominated by high rated^{1, 2} German borrowers

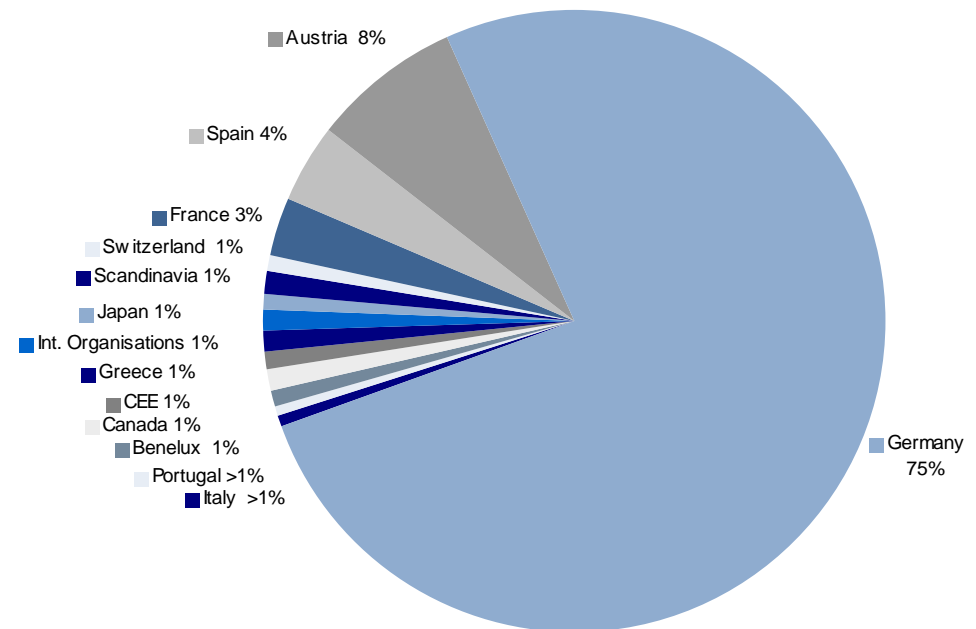
Public Sector Cover Pool

Distribution by rating in % (as per 31.12.08)



Public Sector Cover Pool

Geographical distribution in % (as per 31.12.2008)



- I Extremely high asset quality in the cover pool
- I 92,9% with rating AA- and above (55,6% AAA rated)
- I Lowest rating BBB (1,3% of total cover pool)

- I EUR 23,7 bn in the cover pool as per 31.12.2008
- I Well diversified cover pool with majority of exposures in western European countries
- I Germany by far the largest with 76 % exposure and broadly diversified within the country

Note:

6

1. Lowest rating of S&P, Moody's or Fitch; Internal rating in accordance with Basle II, if no external rating exists;
 2. Principally rating of the note, if not available, rating of guarantor, if both not available, rating of issuer

Public Sector Cover Pool

Overview Cover Pool by Country & Borrower

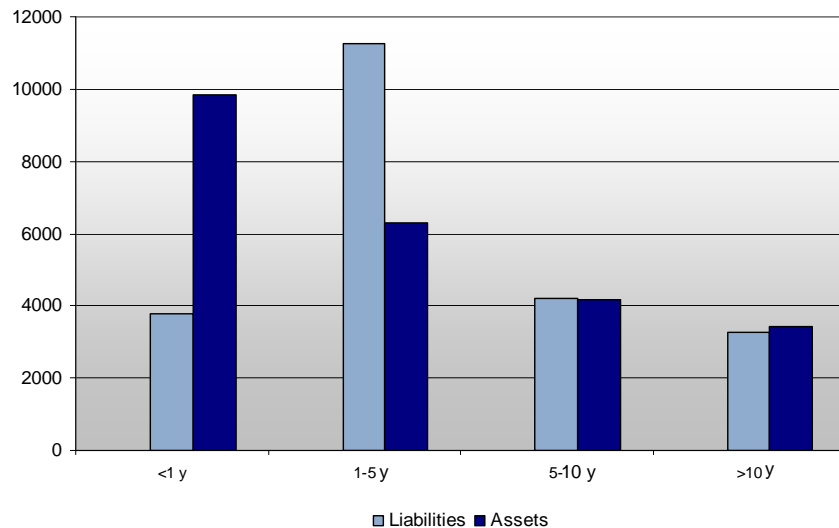
31 st December 2008	Total € m	Sovereign %	Regional Authority %	Local Authority %	Other Debtors %
Germany	18.127,9	4,3%	37,9%	1,7%	56,1%
Supranational	197,1				100,0%
Austria	1.880,5	30,5%			69,5%
Benelux	290,2	43,0%	34,5%		22,5%
Canada	239,3	20,9%	48,0%		31,1%
CEE	179,0	90,5%			9,5%
Denmark	100,0				100%
Finland	20,0	100,0%			
France	747,9	100,0%			
Greece	310,9	100,0%			
Iceland	61,1	63,8%			36,2%
Italy	312,0	77,9%	22,1%		
Japan	217,7	100,0%			
Lithuania	35,0	100,0%			
Portugal	121,0	50,4%			49,6%
Spain	910,3	36,6%	52,0%		11,4%
Sweden	30,7	100,0%			
Switzerland	150,0				100,0%
UK	15,7				100,0%
USA	50,0				100,0%
Total	23.996,3	15,51%	31,79%	1,30%	51,40%

Public Sector Cover Pool

Maturity profile of assets and liabilities on nominal basis in the cover pool as per 31.12.2008

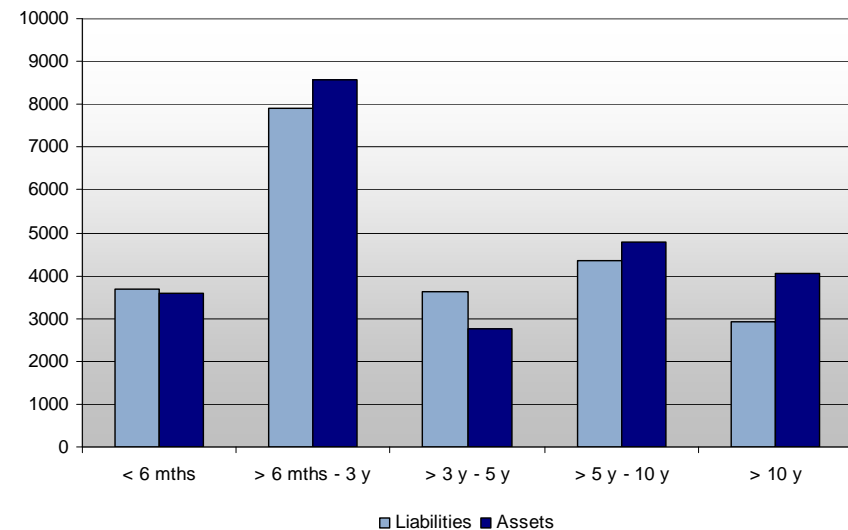
Maturity profile according to § 28 Pfandbriefgesetz

- I Liabilities to legal maturity
- I Assets to interest maturity



Maturity profile on cash-flow basis

- I Assets and liabilities to legal maturity
- I Amortisations taken into account



- I The maturity profile on a cash-flow basis gives a more realistic insight in the actual liquidity position of the cover pool

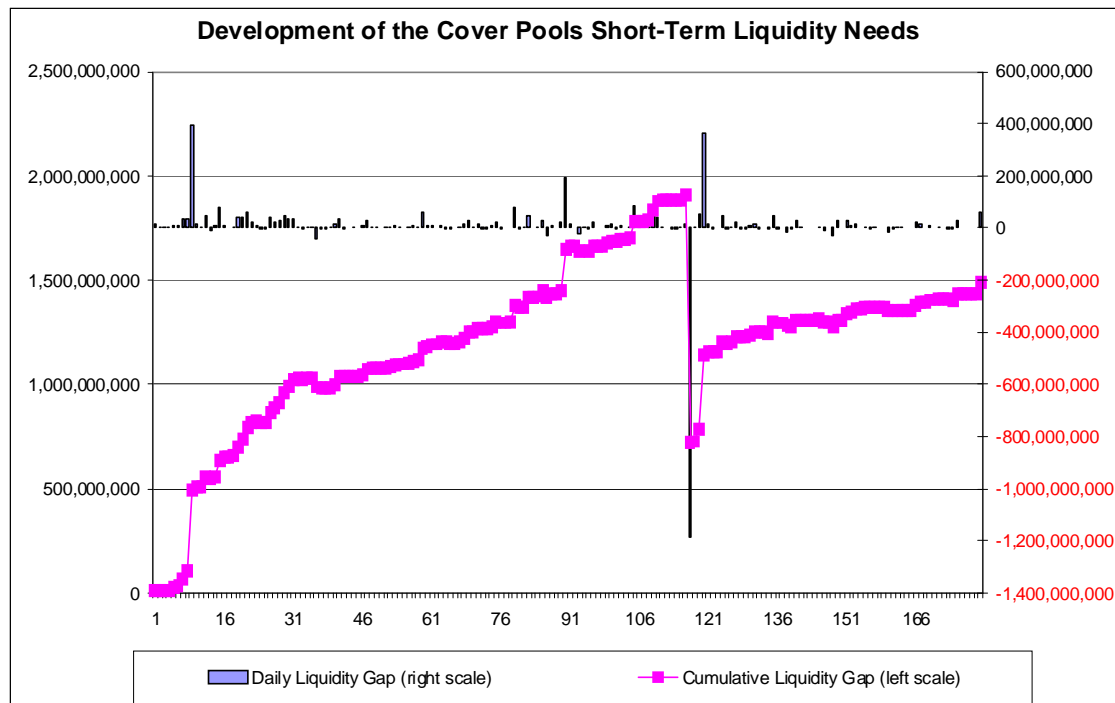
Public Sector Cover Pool

Cumulative Liquidity need over 180 days as per 31.12.2008

I The liquidity need for the crucial first 180 days after default is covered by liquid assets.

I According to § 30 part 2 of the amended German Covered Bond Act (Pfandbriefgesetz 2005) that will become effective as of November 2009, the trustee will have the possibility to use over-collateral for repo-transactions with the ECB and/or Central Banks of EEA countries in order to ensure full and timely payments of Pfandbrief liabilities.

Max Cumulative Liquidity Need Over 180 Days:	13,003,153
S&P eligible collateral to cover these needs	0
Committed Liquidity facility	0
S&P Short-Term Liquidity needs fulfilled:	YES



Note:

Although there is S&P eligible over-collateral available, the graph shows „0“ because it is not needed with a positive liquidity projection

Public Sector Cover Pool

Paragraph 28 Pfandbriefgesetz Cover Pool Transparency Requirements

- I “Total volume of Public Pfandbriefe outstanding as well as of the corresponding cover pool in the amount of the nominal value, the net present value and the risk adjusted net present value stipulated in the statutory order in accordance with § 4 par. 6”

in Euro Million*	Nominal Value	Net Present Value	Risk adjusted Net Present Value
			(Including Interest and FX Risk)
Liabilities (Pfandbriefe)	22,506.10	24,101.90	
Public Sector Cover Pool Assets	23,742.20	25,813.10	
Over-collateralisation(+), Undercollateralisation (-)	1,236.10	1,711.20	1,399.30
in % of Nominal	5.49%		
in % of NPV		7.10%	5.81%

- I “The share of derivatives included in the cover pools in accordance with § 19 par. 1 no. 4 sent. 3, also in conjunction with § 20 par. 2 no. 3 and § 26 par. 1 no. 4”

in Euro Million*	NPV	%
Ratio of Derivatives with a negative NPV in % of the Cover pool Liabilities	240.20	1.00%
Ratio of Derivatives with a positive NPV in % of the Public Sector Cover pool Assets	84.30	0.33%

- I “The total amount of payments on these claims that are at least 90 days in arrears and their regional distribution”

90 days overdue in Euro Million*	Amount	%
Total	7.1	0.03%

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 ↳ Hypo Real Estate Holding AG comments on legal action by a former member of the Management Board

03.03.2009
 ↳ DEPFA Funding IV LP will not pay the next coupon on its Preferred Securities

20.02.2009
 ↳ Hypo Real Estate Group clarifies facts regarding hedge transactions

Further Information

21.12.2008
 ↳ **Investor and Analyst Conference Call**
 on 22 December 2008 at 09:00 am (CET)

Reports/Information

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