

DEPFA PFANDBRIEF BANK INTERNATIONAL S.A.

Société anonyme

8-10, Rue Jean Monnet

L - 2099 Luxembourg

R.C.S. Luxembourg : B71104

(the **Company**)

Report of the Board of Directors to the Meeting of the Instrument Holders
to be held on 28 August 2018

Dear *Lettres de Gages* holders,

In accordance with article 470-13 of the Luxembourg act dated 10 August 1915, as amended (the **Companies Act 1915**), the board of directors of the Company has the honour to submit to your approval an amendment to the terms and conditions of the outstanding CHF92,005,000 3.125% *Lettres de gage publiques* 2006-2020 due 31 August 2020 issued by DEPFA Pfandbrief Bank International S.A. (formerly Hypo Pfandbrief Bank International S.A.), under its Programme for the Issuance of Debt Instruments dated 9 May 2006 and final terms dated 21 August 2006 in the initial amount of CHF150,000,000 and subsequently increased (in two tranches of CHF100,000,000 in September 2006 and CHF150,000,000 in August 2007 to form a single series) to CHF400,000,000 unconditionally and irrevocably guaranteed pursuant to an universal guarantee by its then parent Hypo Public Finance Bank (now with DEPFA BANK plc), issued on 23 August 2006, with ISIN Code: CH0026463577 and listed and admitted to trading on the SIX Swiss Exchange (the **Instruments**).

This amendment is proposed for the following reasons:

The Company is owned by DEPFA BANK plc which in turn is owned by FMS-Wertmanagement (FMS-WM), the German State owned wind-down agency. The Company has not initiated any new business since 2008 and as long as it remains within the remit of the German State ownership it is prevented from carrying out any further new business. Therefore the activities of the Company are essentially limited to the administration of its assets and liabilities. The board of directors are obliged to consider ways to accelerate the wind-down of the Company and to reduce costs for the benefit of its owners. The Instruments, with a current maturity of 31 August 2020, are the longest dated *lettres de gage* outstanding and shortening their maturity will give the board of directors' scope to seek an early return of the banking licence and to expedite the liquidation of the Company.

In January 2016 FMS-WM launched a tender offer for certain securities of the DEPFA BANK plc group (the DEPFA Group) which included the Instruments. In February 2016 FMS-WM announced that it had purchased CHF 304,995,000 of the Instruments. In November 2016 the Company bought back CHF 304,995,000 of the Instruments from FMS-WM and cancelled them, reducing the principal amount to the current outstanding amount of CHF 92,005,000. In November 2017 FMS-WM launched a programme for the purchase of certain securities of the DEPFA Group which included the Instruments. FMS-WM informed the DEPFA Group (as at the date of the notice) that it holds CHF 28,450,000 (about 31% of the outstanding principal amount) of the Instruments.

Given the current market conditions, the Company proposes to amend the Maturity Date (as defined in the terms and conditions of the Instruments (the **Conditions**)) in order to reduce the Instrument's term to 27 September 2018 to facilitate an early redemption of the Instruments. The proposed amended maturity date would be 27 September 2018 (the **Amended Maturity Date**). On the Amended Maturity Date, each Instrument will be redeemed by the Company at its Final Redemption Amount (as defined in the Conditions) plus a premium calculated as per the formula set-out below in the relevant Specified Currency (as defined in the Conditions).

The Final Redemption Amount to be paid by the Issuer will be calculated based on a yield to maturity of Mid Swaps plus 18 basis points. "Mid Swaps" will be the rate to the maturity of the Instruments linearly interpolated between the 1Yr CHF Swap Mid-Rate (Bloomberg ticker "SFSW1 ICPL Curncy") and 2Yr CHF Swap Mid-Rate (Bloomberg ticker "SFSW2 ICPL Curncy") as quoted at 11.00 a.m. CET two Business Days prior to the Amended Maturity Date. On the Amended Maturity Date, the Instruments would be redeemed and cancelled by the Company.

Once the Instruments are redeemed and cancelled, the board of directors of the Company will be able to plan for an earlier wind-down of the Company as the final lettres de gage of the Company will mature in January 2019.

In accordance with the Companies Act 1915, all Instrument holders will be treated equally in the steps described above.

The Company reminds the Instrument holders that, pursuant to a universal guarantee, provided by the then parent Hypo Public Finance Bank, now DEPFA BANK plc irrevocably and unconditionally guarantees the due and punctual performance by the Company of all its obligations and the immediate payment (without deduction) of any amounts not duly and punctually paid by the Company.

Consequently, we have convened the general meeting of the Instrument holders to amend the Maturity Date (as defined in the Conditions) of the Instruments in order to reduce the Instrument's term to 27 September 2018.

A report from PricewaterhouseCoopers S.à r.l., *réviseurs d'entreprises agréés* summarising the assets and liabilities of the Company as at 30 June 2018, will be available for inspection from 22 August 2018 and tabled together with this report on the day of the meeting.

3 August 2018

Yours faithfully,



Director

Dr Matthias Achilles



Director

Fiona Flannery
Executive Director