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Luncheon address

Dear delegates, Ladies & Gentlemen!

I hope you are enjoying your meal and will continue to do so while allowing me to say a few words on behalf of the Association of German Pfandbrief Banks – vdp. My name is not Hans Strüder and neither have I switched jobs to LBBW, as you may expect looking at the official agenda. I am Louis Hagen from the vdp. Mr. Strüder had to cancel his visit to Paris yesterday afternoon and sends his best regards. He asked me to take over his speaking commitment.

A speech and especially a luncheon speech ought to be short and entertaining and most importantly, it should not spoil your appetite. Indeed this is pretty much a Herculean task.

A good technique for a lasting impression is to talk about the unexpected. Given the fashion week celebrated in Paris these days I should hence endeavour not to use terms like subprime or Pfandbrief and perhaps talk about Haute couture and Claudia Schiffer instead. While I do see many attractive aspects of our trade that would compare nicely with fashion this remains to be elaborated on a different occasion. I will now proceed to perform up to your expectations and therefore would like to briefly outline the challenges our industry is currently facing.

Throughout the last 12 to 14 months investors have increasingly been looking at the basis of issuance of Covered Bond and individual credit and business models issuers use. The result of this is well-known: A general re-pricing of the market and price differentiation between Covered Bond models but also within the respective markets themselves.

For Pfandbrief issuers it could be tempting to say that we saw it all coming and try to separate ourselves from the rest of the Covered Bond market.

But we take a different attitude although we of course try to limit the damage of the turmoil for the Pfandbrief market. But we do see the need to continue to promote the asset class as a whole. We have to realize that no-one is invulnerable and that we are all sitting in the same boat.

In other words, the Olympic motto “The most important thing is to take part” does not quite hit the spot where the Covered Bond market is concerned. If too many “just take part”, there is a danger of standards being diluted and transparency being limited. Within the ECBC Pfandbrief Banks have always advocated firmly anchored strict credit standards. On this note it is great to see that some countries have beefed up their framework and established a legal basis in the recent past: This trend is very positive for the reputation of our market.

Looking at the development overseas, Covered Bonds have gained surprising momentum, too. Among the policy options in the United States the Covered Bond card is tempting as never before. To make it clear – Covered Bonds are no short term relief to the severe current disruptions in the US market place.

They are a medium and long term option which is why we shall not stop to ask to “Do it right”. We feel US treasury and the administration must go through all necessary procedures in order to offer investors maximum comfort even in times of distress and volatility. In brief the US Treasury’s move is a step in the right direction but the devil is in the detail.

Faster, higher, stronger. As in sports, sustained performance of Covered Bonds –beyond quality – has to do with transparency, too, and not with doping or anything that calls for “secretiveness”. Transparency incentivizes issuers of Covered Bonds like athletes to stay clean and helps investors understand what they buy into.

What’s the bottom line so far? Quality is paramount, so is transparency for the success of Covered Bonds. They certainly played a key role when Pfandbrief issuers were able to increase total sales by almost a quarter to 84 billion euro in the first half of this year. We find this encouraging. It demonstrates that there is investor demand and that Pfandbrief issuers are able to fund their business at fair levels.

Last not least, liquidity is a key feature in the Jumbo Covered Bond market. Momentarily it poses a true challenge to all issuers and market makers. It will be crucial for our industry to devise solutions that will bring back liquidity to our markets as soon as possible. To this end it is important to find out whether we will ever return to “the old world” again or whether normality is something that has changed for good and that forces us to accept a new way of

looking at the Jumbo market model. Pfandbrief issuers have developed some ideas and are open to discuss them with the market. But every discussion must have an end and lead to results and their implementation.

With a view to the buy-side a reliable and steady German investor base has helped issuers enormously to navigate their ways through the rough seas international capital markets pose these days. Not only with a view to Pfandbrief but perhaps to almost the entire Covered Bond spectre the German investor potential has proven solid as a rock.

Why is this so?

Besides sheer size, the German buy-side fully understands and appreciates the Covered Bond concept given the long standing tradition of the Pfandbrief in the German fixed income market. Professional asset manager have always been consulted and their opinion factored into the refinement and further development of the product. Let's develop such an audience that fully appreciates Covered Bonds on a European scale! But whatever we do we must listen carefully what investors tell us and demonstrate to them that we do take care of our products and markets.

Recently some 100 buy-side accounts were polled by LBBW. The survey clearly shows that the overwhelming majority expects Jumbo Covered Bonds to be a liquid product. If this requirement is not met the consequences for issuers will be dire.

Ladies and Gentlemen, I clearly missed the mark for an exciting and memorable luncheon speech given I did make mention of Pfandbrief and Covered Bonds frequently. +

Yet I hope you may have found my remarks worth listening to and perhaps even memorable.

“From Prussia with love”, the Economist phrased it recently, when portraying the blueprint of the Covered Bond market. Prussian virtue and French sophistication as found in French Haute couture (Karl Lagerfeld!) should show the way when shaping the future of our markets.

Thank you, Ladies & Gentlemen, for your attention. Please enjoy the rest of your meal and the afternoon sessions.