

Pfandbrief

The Pfandbrief 2009/2010

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VERBAND DEUTSCHER
PFANDBRIEFBANKEN
Association of German Pfandbrief Banks

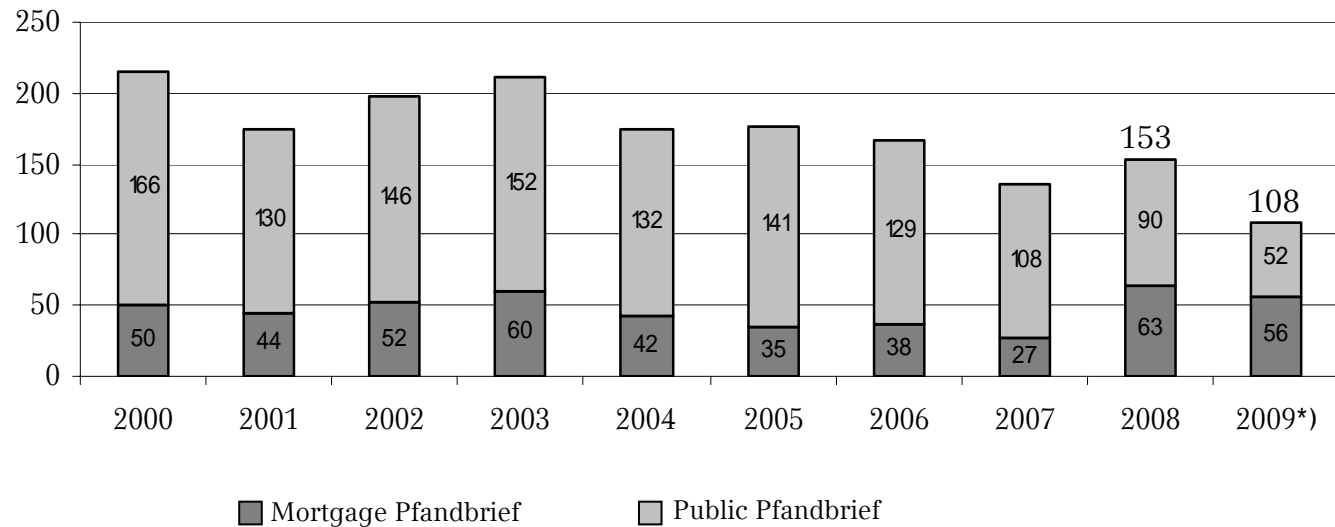
The Pfandbrief market 2009



THE PFANDBRIEF –
QUALITY, MADE IN GERMANY

Mortgage
Pfandbrief
sales rank first
in 2009

Gross sales Pfandbrief 2000-2009* (€ bn)



Sources: Deutsche Bundesbank, vdp,
*) 2009 estimate

| | | |
|------------------------------------|----------------|-------------|
| ▪ Gross sales | 2009: € 108 bn | (-29%yoy) |
| | 2008: € 153 bn | (+13%yoy) |
| ▪ Mortgage- and Ship Pfandbrief | 2009: € 56 bn | (-12%yoy) |
| | 2008: € 63 bn | (+131% yoy) |
| ▪ Public Pfandbrief | 2009: € 52 bn | (-41% yoy) |
| | 2008: € 89 bn | (-17% yoy) |

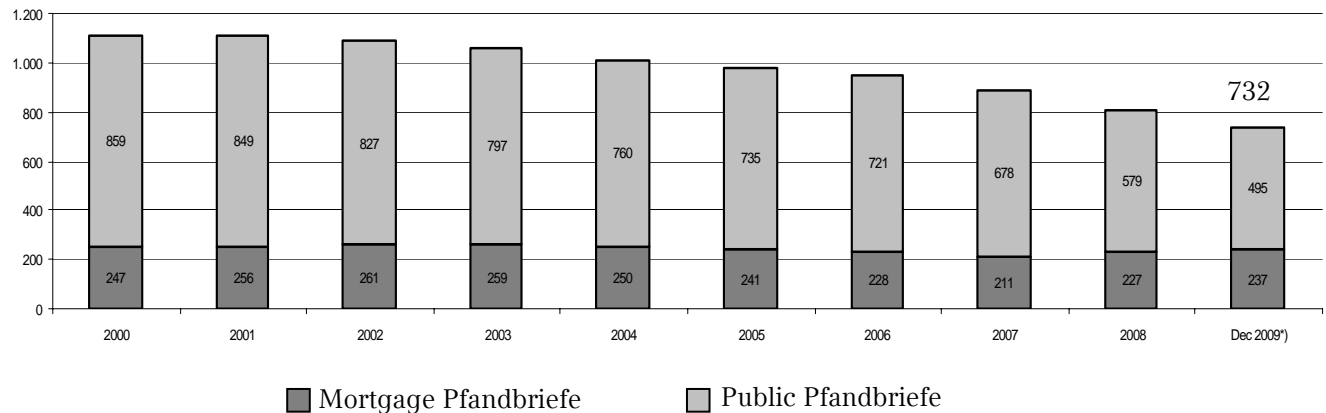
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THE PFANDBRIEF –
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continued
consolidation in
Pfandbrief
outstanding

Pfandbrief outstanding 2000 – 2009 (€ bn)



sources: Deutsche Bundesbank, vdp
*) 2009 estimate

- Stable development in Mortgage Pfandbrief outstanding cannot compensate negative trend in Public Pfandbrief
- Primary sales do not compensate for large maturities in Jumbo Pfandbrief

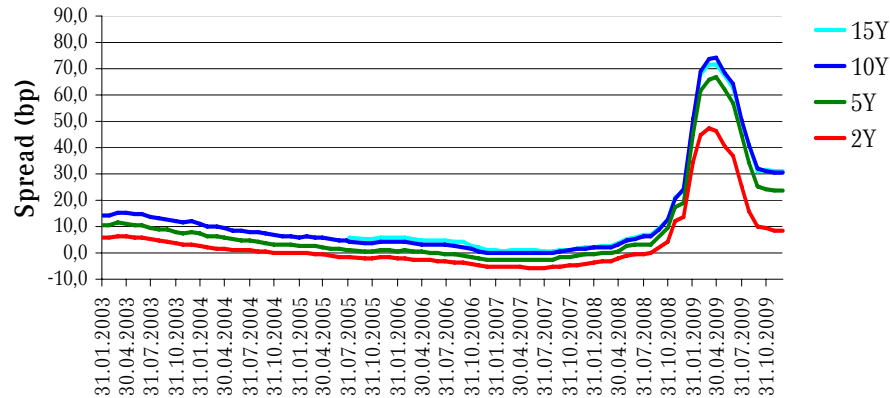
Pfandbrief market 2009/2010



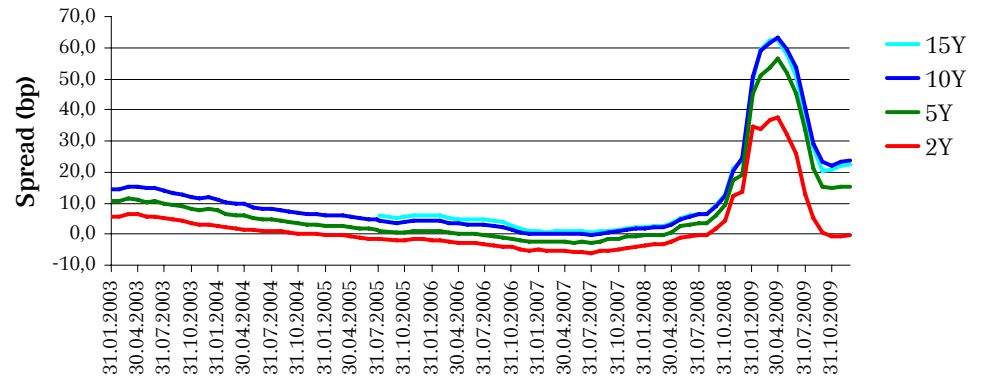
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spread-tightening
in
primary market as
well as ...

Spreads vdp-curve (Mortgage Pfandbrief) (vs. Swap)



Spreads vdp-curve (Public Pfandbrief) (vs. Swap)



source: vdp

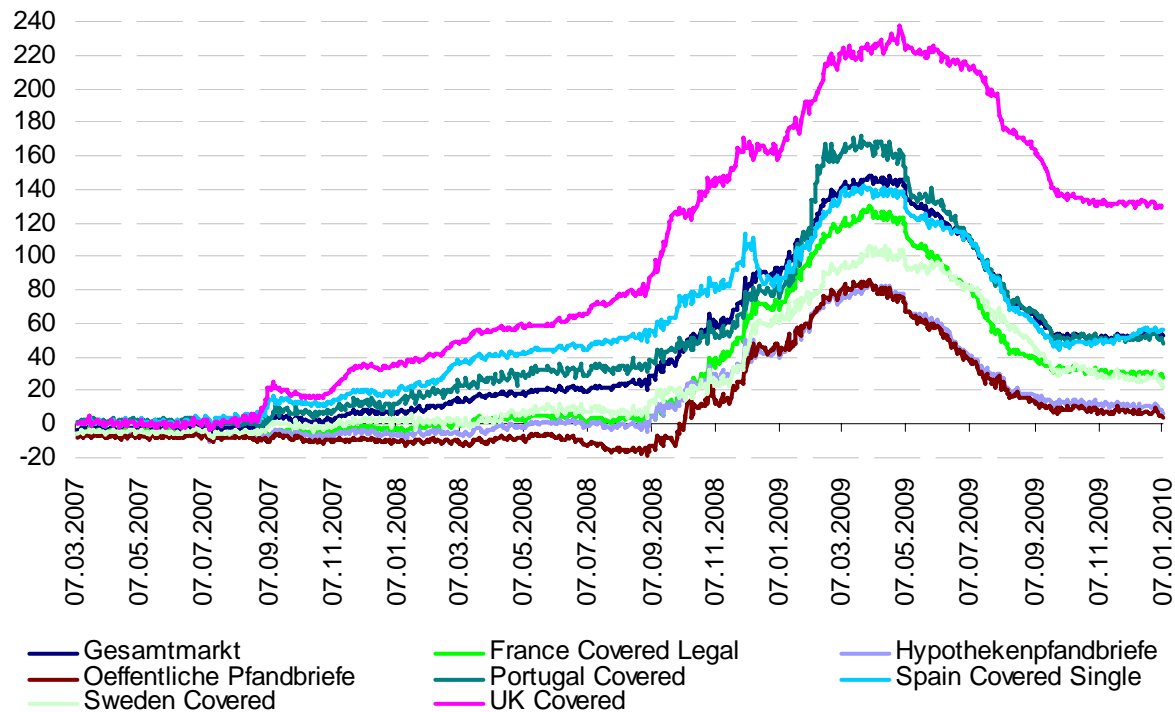
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THE PFANDBRIEF –
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... in secondary
markets: spread
compression
2009 –
differentiation
lasts?

Covered Bond swap spreads (bp)



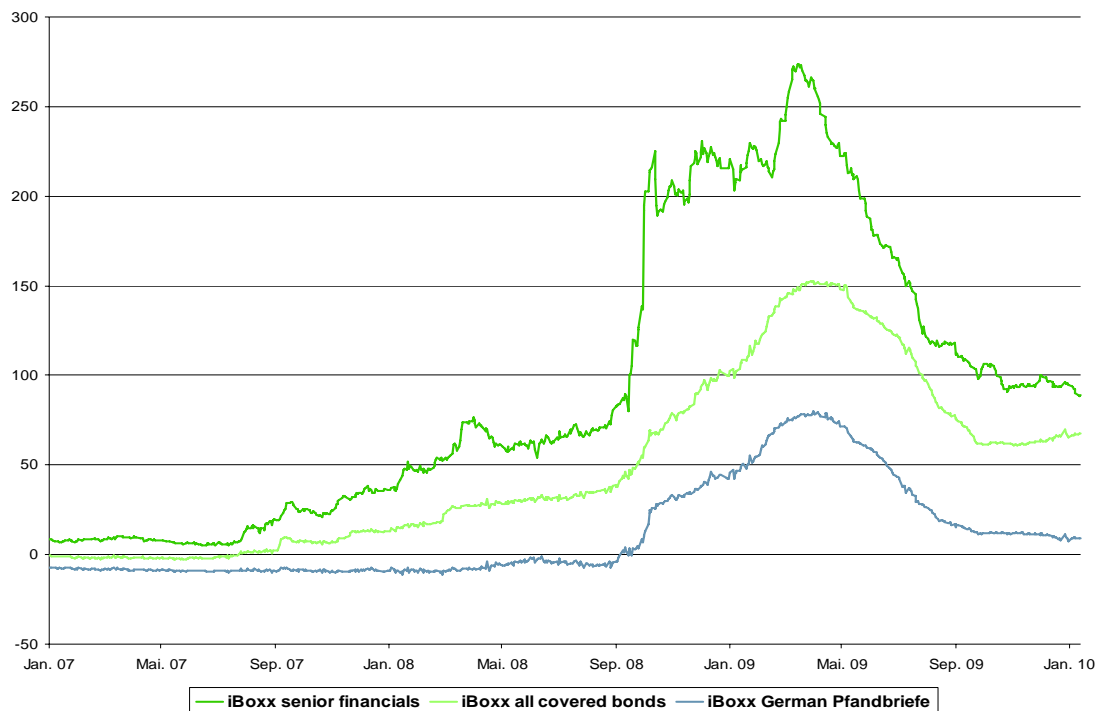
Mortgage and Public Pfandbrief not affected by financial turmoil to the extent observed in other European Covered Bond markets



THE PFANDBRIEF –
QUALITY, MADE IN GERMANY

spread
tightening
2009 –
substantial
premia
remain in
unsecured
funding

Financials vs. covered vs. Pfandbrief swap spreads (bp)



source: Commerzbank, iBoxx

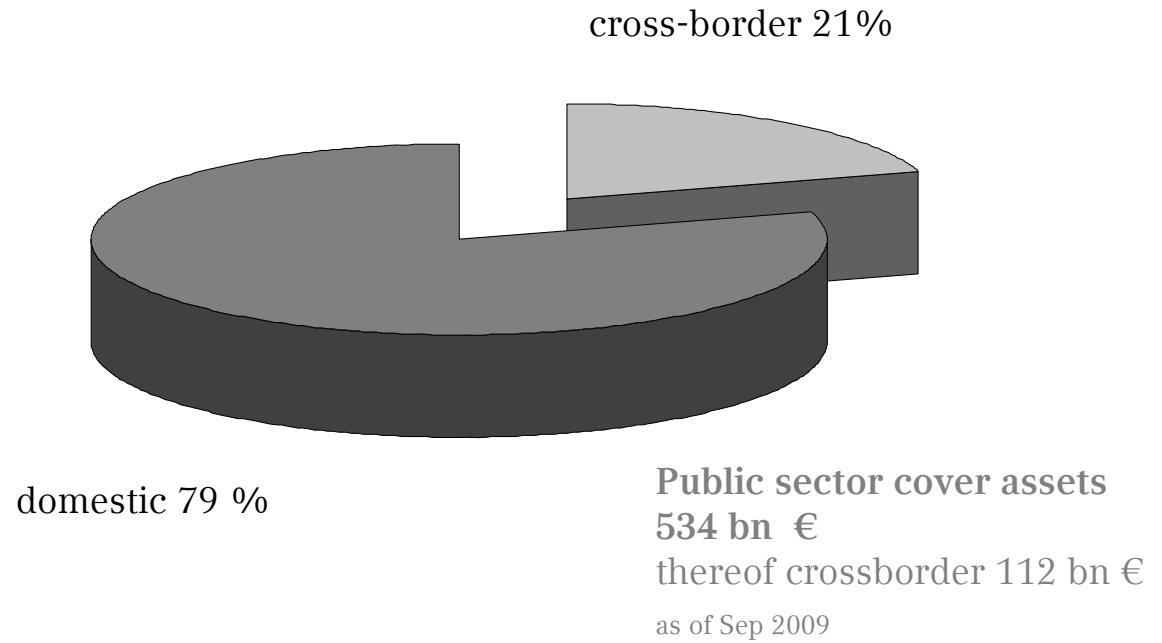
*) comparison slightly distorted by different maturities of individual indices

Pfandbrief underpins benchmark status in times of market turmoil

Cover pools Public Pfandbrief



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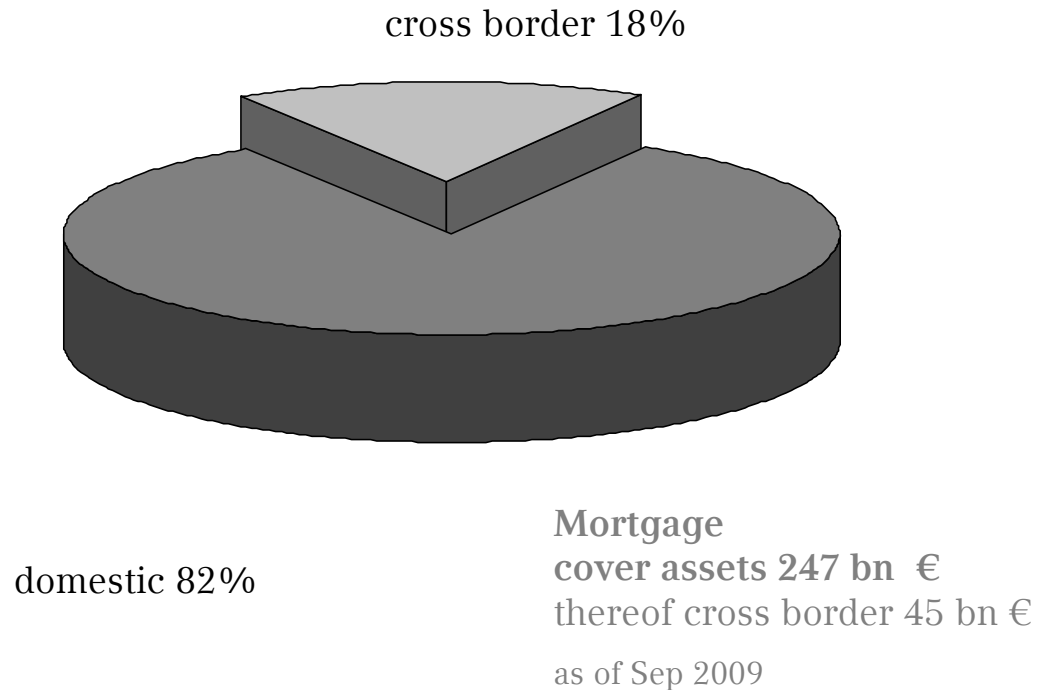
source: vdp, Pfandbrief banks' disclosure
acc. Art 28 Pfandbrief Act

- central governments: 50 bn Eur
- regional governments: 193 bn Eur
- local governments: 74 bn Eur
- other: 217 bn Eur

Cover pools Mortgage Pfandbrief



THE PFANDBRIEF –
QUALITY, MADE IN GERMANY



source: vdp, Pfandbrief banks' disclosure
acc. Art 28 Pfandbrief Act

- dominance of domestic cover assets
- Pfandbrief quality independent from development of single cross border markets



THE PFANDBRIEF –
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ECB Covered Bond-Purchase Programme (CBPP) knights Pfandbrief and Covered Bonds

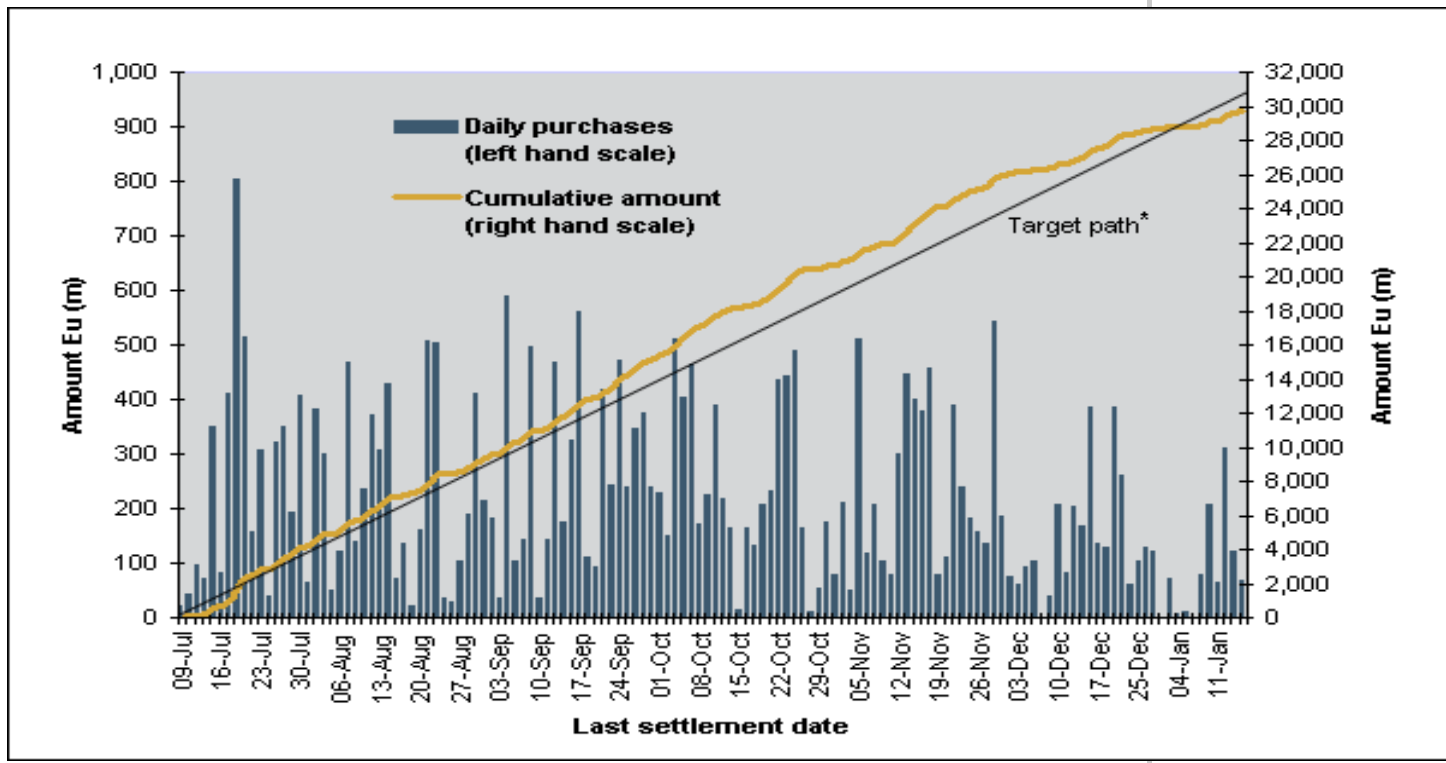
- 4 June 2009: ECB published criteria for purchasing Covered Bonds. The entire programme weighs 60 bn Euro
- purchases started in July 2009 and will be finalized in June 2010
- outright purchases in primary and secondary markets across the entire Eurozone amounted to approx. 30 bn Eur Covered Bond holdings by Euro System as at year end 2009.
- qualifying Covered Bonds must
 - be eligible for ECB repo
 - comply with the specifications of Art. 22 para 4 UCITS directive or feature comparable safety measures (Deutsche Bundesbank exclusively purchases 22(4)-eligible Covered Bonds),
 - usually have a minimum volume of 500 mn Euro, and a minimum of 100 mn Euro,
 - usually have a minimum rating of AA/Aa2 from one of the four major rating agencies, at least BBB-/Baa3,
 - have cover pools that comprise claims against private and/or public institutions

Pfandbrief market 2009



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uniform
execution of
ECB Covered
Bond Purchase
Programme



source: ECB, The Cover

- ECB 60 bn Eur initiative supports positive trend in Pfandbrief market
- Psychological effect prevails
- All else equal end of programme in June will not affect robust market condition

rebound 2009, 2010 full throttle again?



THE PFANDBRIEF –
QUALITY, MADE IN GERMANY

- Pfandbrief has performed remarkably in 2009
- ECB Covered Bond Purchase Programme supports Covered Bond markets in general and Pfandbrief market, too
- Jumbo segment reopened
- continued positive issuance trend in Mortgage Pfandbrief
- further consolidation of the Public Pfandbrief segment
- current issuance activities foreseen to reach between €8 and €10 bn per month and result in expected gross issuance total of €100 bn in 2010
- Pfandbriefe volume outstanding expected to come in below €700bn at year-end 2010
- Pfandbrief will continue to be benchmark in Covered Bonds

Last in, first out: Pfandbriefe were the last important bank market to be hit by the financial crisis. Pfandbrief offered yield pick-up for investors and access to liquidity at favourable terms for issuers at all times throughout the turmoil



























Lessons learned from financial disruptions



THE PFANDBRIEF –
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| demand for | status quo with Pfandbrief |
|---------------------------------------|--|
| tighter regulation | Pfandbrief Act including secondary regulation already provides a stringent regulatory framework |
| tighter supervision | in addition to general supervision based on German Bank Act dedicated Supervision of Pfandbrief business as demanded by Pfandbrief Act |
| simple structures | Pfandbrief design with the aim of investor protection basically unchanged for more than 200 years |
| responsible business conduct of banks | all Pfandbrief cover assets are kept on the balance of the issuer |
| increased transparency | Pfandbrief Act requires compliance with strict disclosure standards |
| regulation of rating agencies | Pfandbrief Act establishes strict quality standards. Supervisory authorities control compliance. Rating Agencies of minor Importance. |

Member Institutions of the Association of German Pfandbrief Banks

| | | | | | |
|--|---|--|---|---|--|
|  Aareal Bank |  Bayern LB |  Berlin Hyp | COMMERZBANK  |  COREALCREDIT | .DekaBank |
|  deutsche apotheker- und ärztebank |  Deutsche Genossenschafts-Hypothekenbank DG HYP | DEUTSCHE/HYPO Ein Unternehmen der NORD/LB | DKB Deutsche Kreditbank AG |  pbb DEUTSCHE PFANDBRIEFBANK |  Deutsche Schiffsbank |
|  DEXIA Kommunalbank Deutschland |  DHB Düsseldorf Hypothekenbank |  DVE |  EURO HYPO | Haspa⁺ Hamburger Sparkasse | Helaba  Landesbank Hessen-Thüringen |
| HSH NORDBANK |  HypoVereinsbank Unicredit Group | IKB  Deutsche Industriebank |  Kreissparkasse Köln | LB BW Landesbank Baden-Württemberg |  M.M. WARBURG & CO HYPOTHEKENBANK |
|  Münchener Hypothekenbank eG | NORD/LB |  Postbank |  Postbank FIRMENKUNDEN | SEB |  Sparkasse KölnBonn |
| VALOVIS BANK PFANDBRIEFBANK |  WestImmo |  WestLB |  WL BANK |  wüstenrot Partner der Württembergischen | |