

## The Pfandbrief 2008/2009

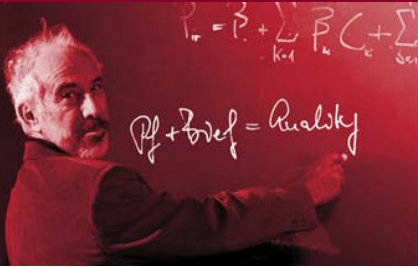


**VERBAND DEUTSCHER  
PFANDBRIEFBANKEN**  
Association of German Pfandbrief Banks

Henning Rasche  
President  
Association of German Pfandbrief Banks

Grand Hyatt Tokyo  
27 January 2009

## The big picture



**vdp** VERBAND DEUTSCHER  
PFANDBRIEFBANKEN  
Association of German Pfandbrief Banks

### dislocations everywhere...

- banking going through most severe crisis globally in decades
- financial market disruptions are widespread including sovereign bond markets
- economies are facing unparalleled simultaneous downturn

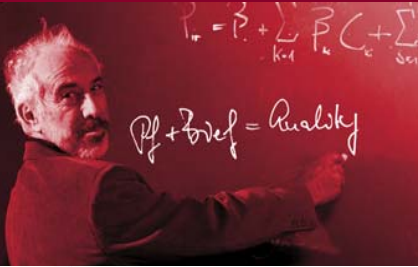
### ... (potential) measures

- accommodative monetary policies
- fiscal expansion
- state guarantees for banks' bond issuance
- recapitalization/nationalization of financial institutions
- „bad bank“

### ... and downsides

- deflationary or inflationary pressures
- state intervention vs. free market economy

## The German Banking sector

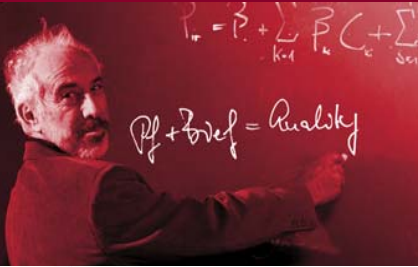


**vdp** VERBAND DEUTSCHER  
PFANDBRIEFBANKEN  
Association of German Pfandbrief Banks

The Lehman default prompted the release of a 480 bn Euro bail-out package for the German financial sector in October 2008

- State guarantees for unsecured bank debt make up new asset class – longest maturity Dec 2009 + 3 years = Dec 2012
- Recapitalization
- Troubled asset relief

➔ Bail-out package aims to catalyze return to orderly conditions in money and swap markets



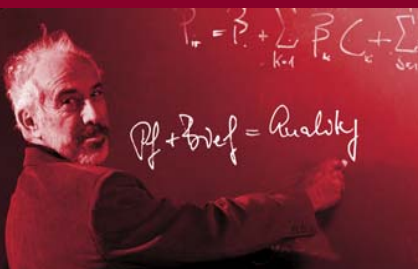
**vdp** VERBAND DEUTSCHER  
PFANDBRIEFBANKEN  
Association of German Pfandbrief Banks

“The special statutory provisions in Germany mean that Pfandbriefe are already safe – throughout more than 200-year long history of the product there has never been a default of a German Pfandbrief. The German government will ensure that this continues to be the case in the future as well.”

Federal Government

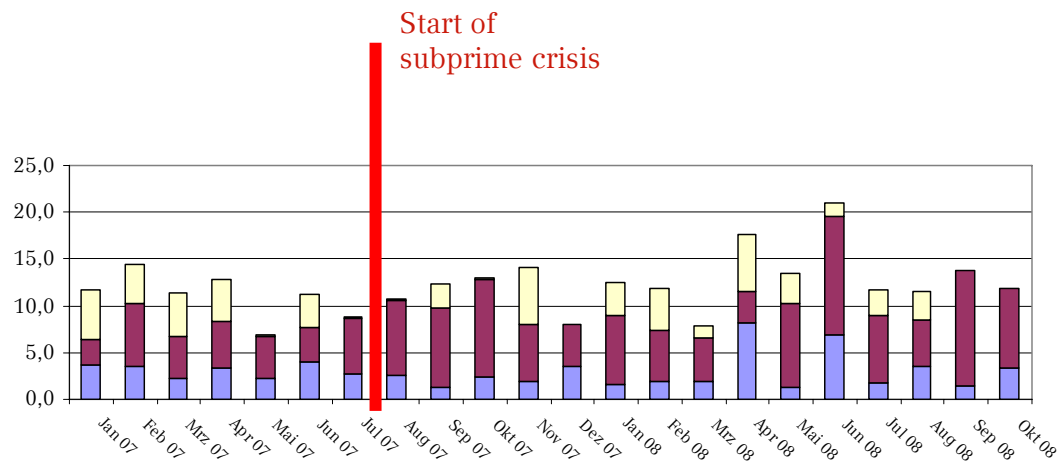
### Good News for Pfandbrief Investors

# New issuance of Pfandbrief



**vdp** VERBAND DEUTSCHER  
PFANDBRIEFBANKEN  
Association of German Pfandbrief Banks

New issuance vol. / month (bn €)

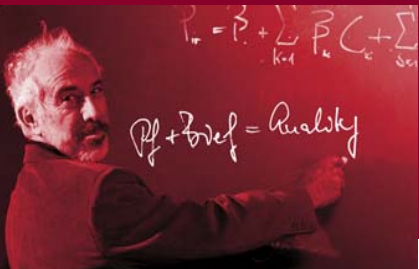


	Jan. 07	Feb. 07	Mrz. 07	Apr. 07	Mai. 07	Jun. 07	Jul. 07	Aug. 07	Sep. 07	Okt. 07	Nov. 07	Dez. 07	Jan. 08	Feb. 08	Mrz. 08	Apr. 08	Mai. 08	Jun. 08	Jul. 08	Aug. 08	Sep. 08	Okt. 08
□ Jumbo (Bearer) Pfandbriefe	5,250	4,125	4,625	4,500	0,125	3,405	0,175	0,250	2,700	0,250	6,125	0,000	3,500	4,500	1,325	6,000	3,250	1,425	2,725	3,000	0,000	0,000
■ Bear er Pfandbriefe	2,775	6,781	4,447	4,878	4,517	3,683	5,844	7,977	8,388	10,34	6,191	4,574	7,400	5,450	4,690	3,401	9,036	12,58	7,200	5,077	12,43	8,455
■ Registered Pfandbriefe	3,624	3,447	2,269	3,393	2,178	4,058	2,799	2,535	1,316	2,462	1,863	3,500	1,653	1,890	1,870	8,177	1,240	6,961	1,820	3,463	1,415	3,414

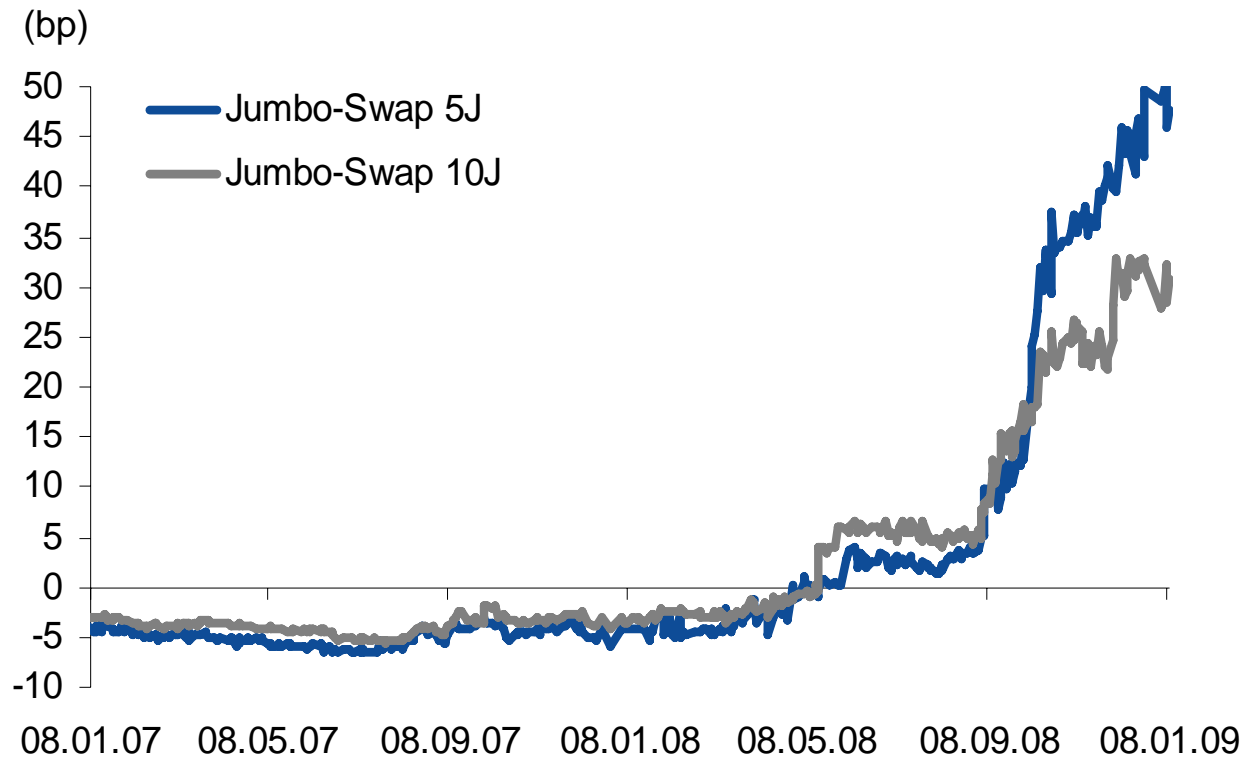
source: vdp, Deutsche Bundesbank, HVB/UniCredit

▪ total new issuance	Jan-Oct 2007: 113.2 bn € Jan-Oct 2008: 133.4 bn € (+18%)
▪ Mortgage and Ship Pfandbrief	Jan-Oct 2007: 18.1 bn € Jan-Oct 2008: 49.6 bn € (+174%)
▪ Public Pfandbrief	Jan-Oct 2007: 95.1 bn € Jan-Oct 2008: 83.8 bn € (-12%)

# Jumbo Pfandbrief vs. Swap

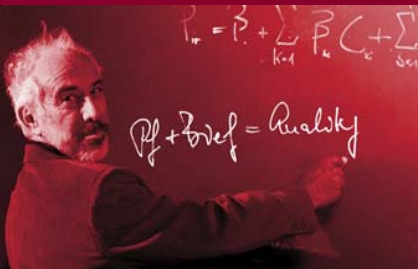


**vdp** VERBAND DEUTSCHER  
PFANDBRIEFBANKEN  
Association of German Pfandbrief Banks

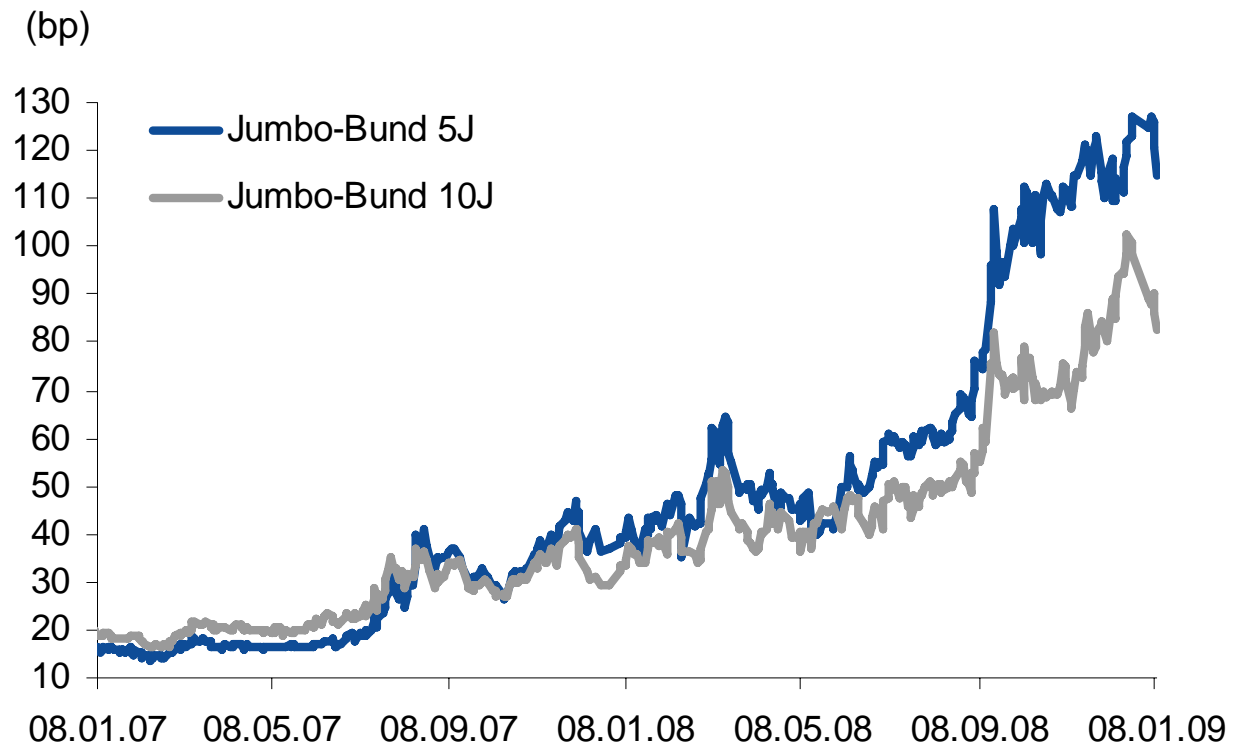


source: WestLB

# Jumbo Pfandbrief vs. Bund

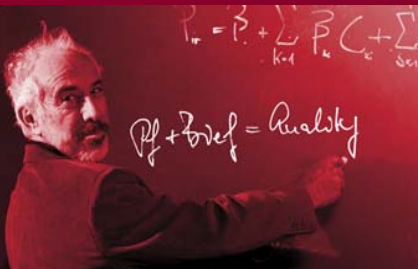


**vdp** VERBAND DEUTSCHER  
PFANDBRIEFBANKEN  
Association of German Pfandbrief Banks



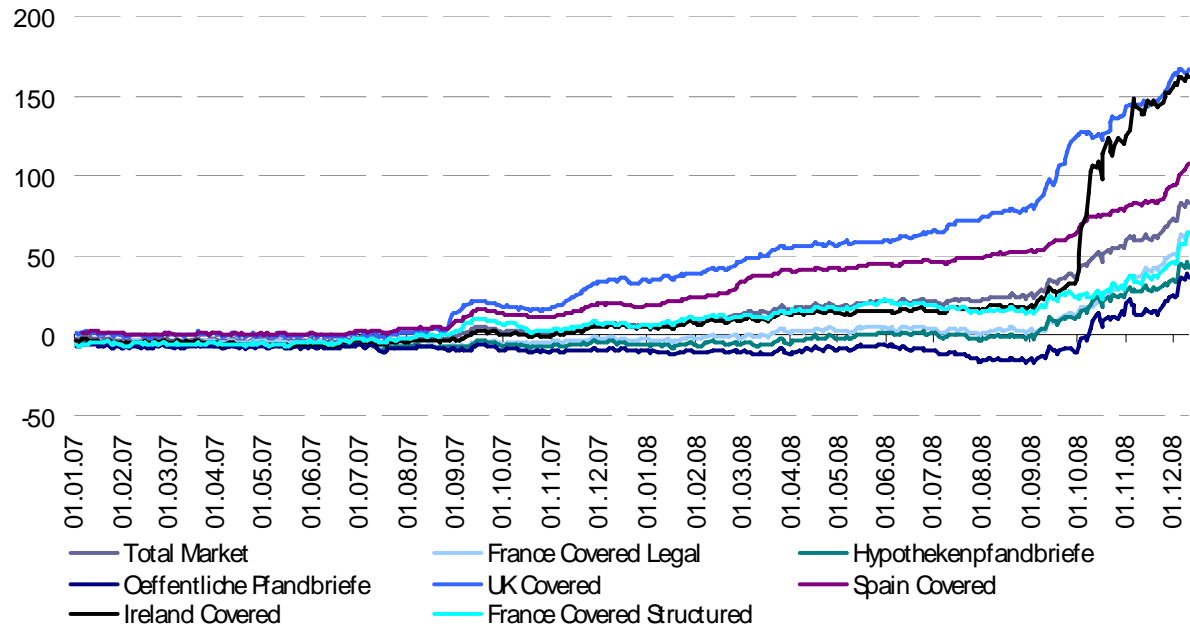
source: WestLB

# Jumbo Pfandbrief vs other Jumbo Covered Bonds

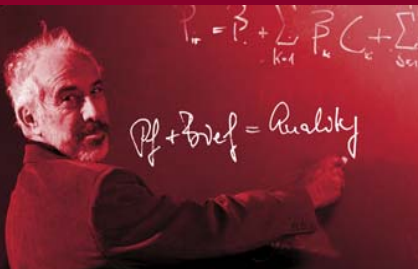


**vdp** VERBAND DEUTSCHER  
PFANDBRIEFBANKEN  
Association of German Pfandbrief Banks

## Swap Spreads in bp, average maturity

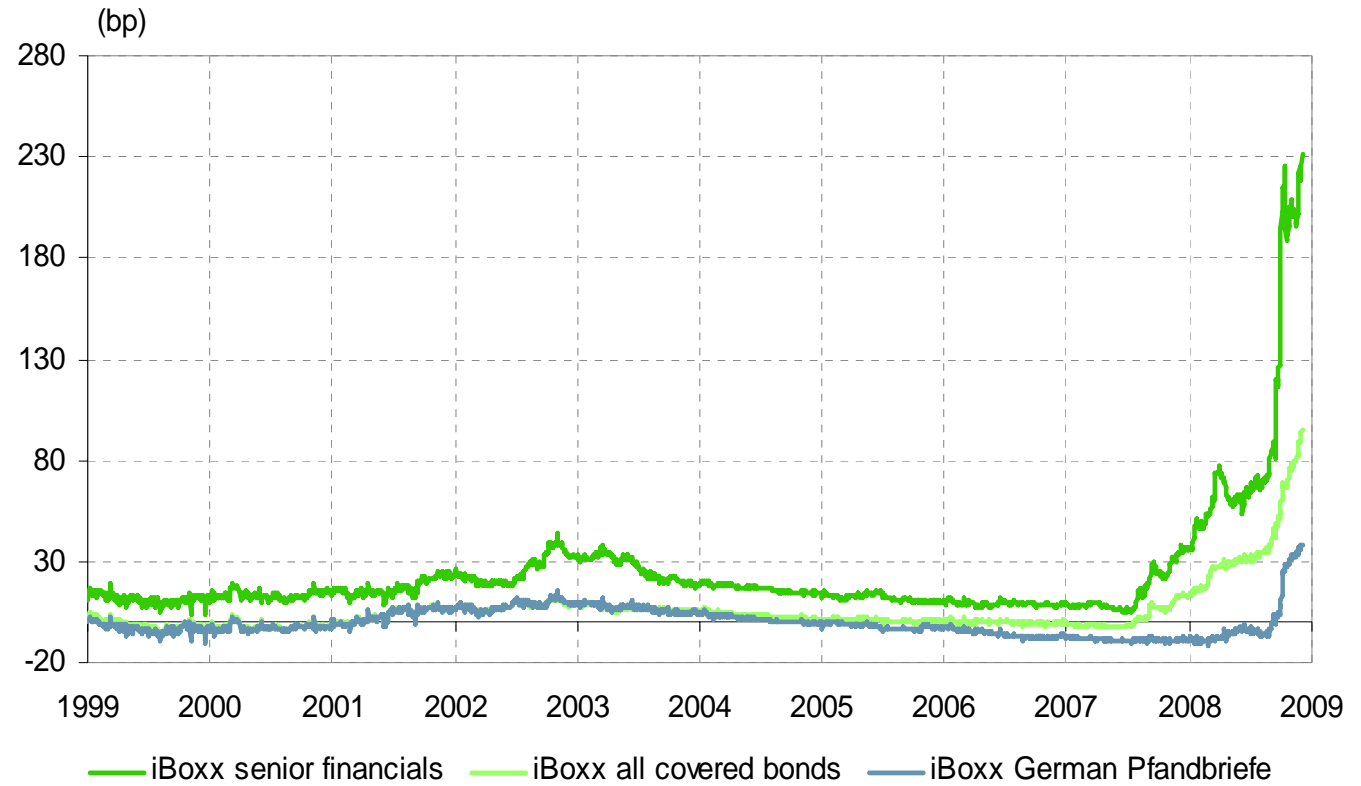


source: LBBW Credit Research, iBoxx



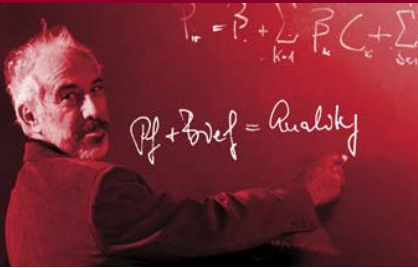
**vdp** VERBAND DEUTSCHER  
PFANDBRIEFBANKEN  
Association of German Pfandbrief Banks

## Swap spreads compared



source: Dresdner Kleinwort

# Pfandbrief - no losses in times of crisis



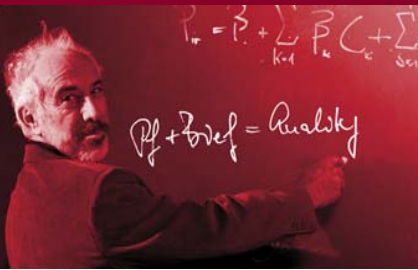
**vdp** VERBAND DEUTSCHER  
PFANDBRIEFBANKEN  
Association of German Pfandbrief Banks

Performance iBoxx EUR Jumbo-Pfandbrief (Total Return)



sources: iBoxx, HSBC

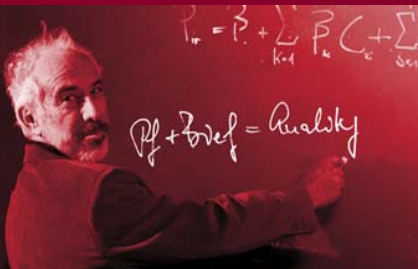
▪ iBoxx-Performance-Index for Jumbo-Pfandbrief Jan-Dec 2008: +6,986%



## Challenges 2009

- state guaranteed bonds compete with Pfandbrief in short term, i.e. H1 2009
- experts expect Pfandbrief issuance activity to gain momentum from Q3/2009 onwards
- Public Pfandbrief will continue to consolidate
- positive trend in Mortgage Pfandbrief is expected to continue
- return of Jumbo Pfandbrief issuance subject to improvement of market conditions and of investment banks' balance sheets
- discussion on request for quote electronic trading system continues

## Lessons learned from financial disruptions



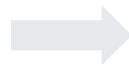
**vdp** VERBAND DEUTSCHER  
PFANDBRIEFBANKEN  
Association of German Pfandbrief Banks

### demand for

- tighter regulation
- tighter supervision
- simple structures
- responsible business conduct
- increased transparency
- regulation of rating agencies

### status quo with Pfandbrief

- ➔ Pfandbrief Act including secondary regulation already establishes a stringent regulatory framework
- ➔ In addition to general supervision based on German Bank Act dedicated supervision of Pfandbrief business as demanded by Pfandbrief Act
- ➔ Pfandbrief design with the aim of investor protection basically unchanged for more than 200 years
- ➔ all Pfandbrief cover assets are kept on balance of the issuer
- ➔ Pfandbrief Act requires compliance with strict disclosure standards
- ➔ rating agencies of minor importance. Pfandbrief Act establishes strict quality standards. Supervisory authorities control compliance.



**The future belongs to the Pfandbrief**

# Member Institutions of the Association of German Pfandbrief Banks

