



Pfandbrief

THE PFANDBRIEF – QUALITY MADE IN GERMANY

vdp VERBAND DEUTSCHER
PFANDBRIEFBANKEN
Association of German Pfandbrief Banks

The Pfandbrief 2009/2010

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Association of German Pfandbrief Banks, vdp

Paris, 16 September 2010



THE PFANDBRIEF –
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vdp is the lobbying body of Germany's Pfandbrief banks

- **36 member banks** represent almost 100% of new issuance volume and more than 95% of outstanding Pfandbrief
- Analysis and continuous refinement of Pfandbrief system in more than 20 expert committees
- Think tank for any issues related to Pfandbrief
- International Pfandbrief marketing activities
- www.pfandbrief.org



THE PFANDBRIEF –
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- I. Pfandbrief banks and the Pfandbrief market
- II. Quality of cover pools
- III. Further development of legal framework



I. Pfandbrief banks and the Pfandbrief market

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Pfandbrief banks' portfolio (bn Euro)

	2009	2008
real estate finance loans	627	628
of which		
<i>residential</i>	311	319
<i>commercial</i>	316	309
public sector loans	715	710
ship loans	72	73
aircraft loans	30	29
total	1.444	1.439
Mortgage Pfandbrief	225	217
Public Pfandbrief	486	579
Ship Pfandbrief	8	9

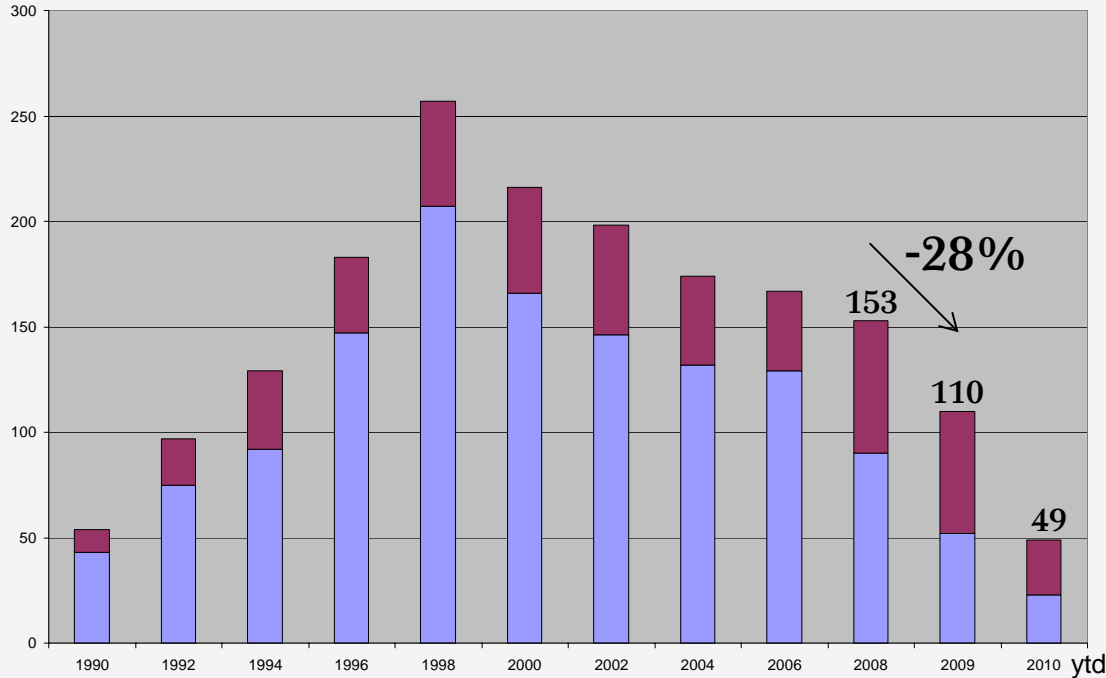
sources: Deutsche Bundesbank, vdp



I. Pfandbrief banks and the Pfandbrief market

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Pfandbrief issuance 1990-2010 (bn €)



sources: Deutsche Bundesbank, vdp

Public Pfandbrief Mortgage Pfandbrief incl. Ship Pfandbrief

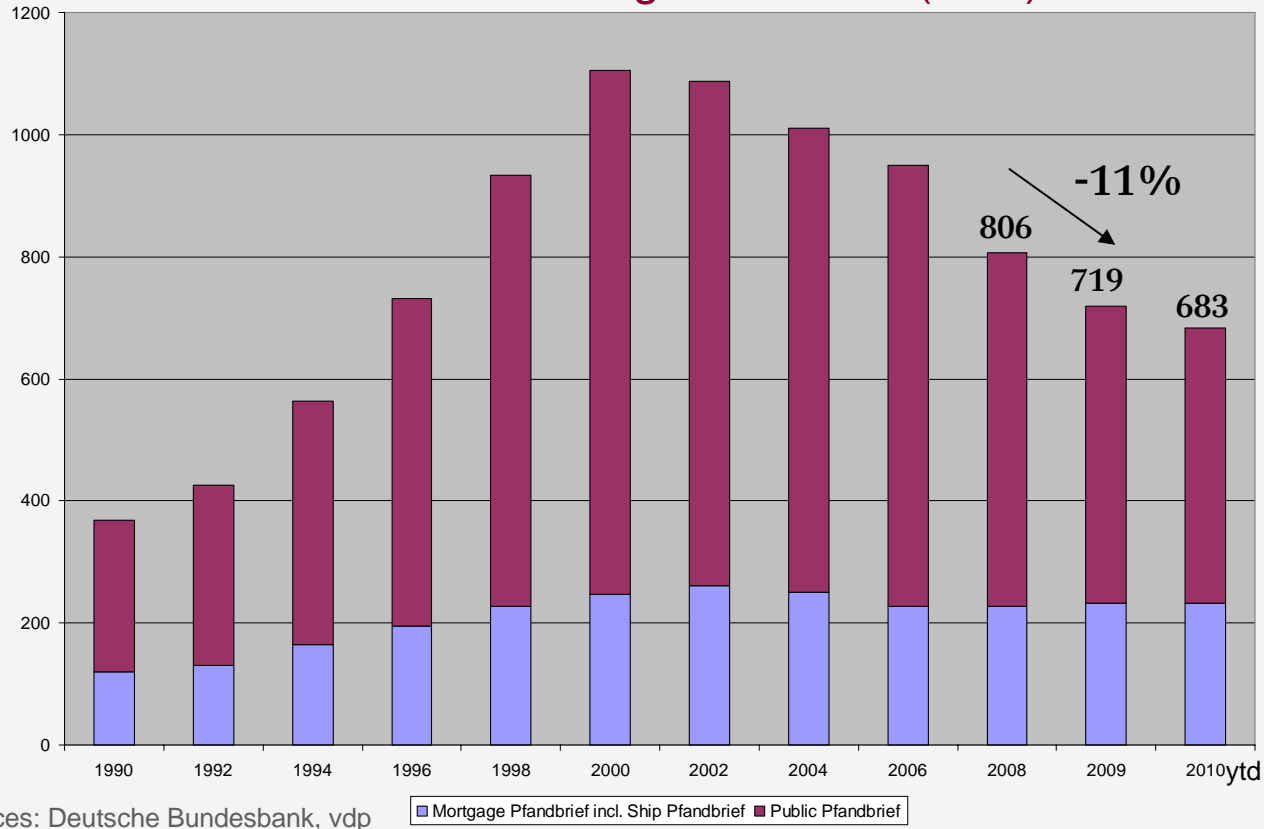
• New issues	2009: 110 bn €	2008: 153 bn €
• Mortgage Pfandbrief	2009: 57 bn €	2008: 57 bn €
• Public Pfandbrief	2009: 52 bn €	2008: 90 bn €
• Ship Pfandbrief	2009: 1 bn €	2008: 6 bn €



I. Pfandbrief banks and the Pfandbrief market

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Pfandbrief outstanding 1990-2009 (bn €)



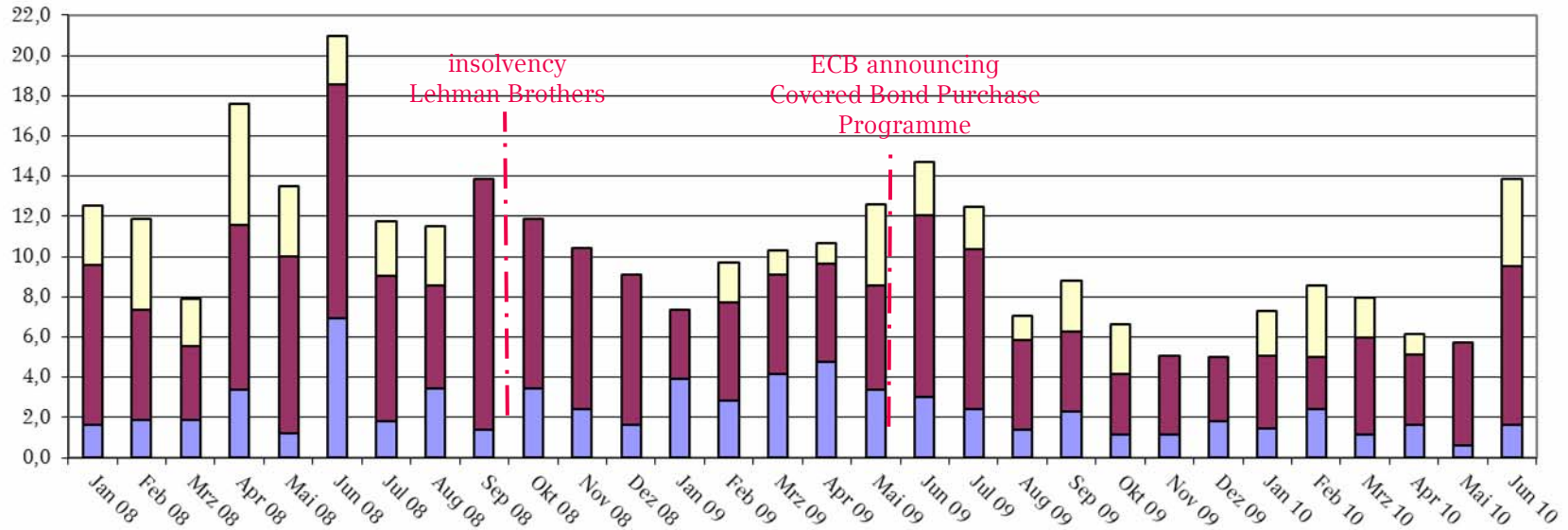
- Outstanding volume continues to decrease
- Mortgage Pfandbrief cannot make up for consolidation of Public Pfandbrief



I. Pfandbrief banks and the Pfandbrief market

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Pfandbrief issuance 2008 – Jun 2010 (bn €)



	Jan 08	Feb. 08	Mrz. 08	Apr. 08	Mai. 08	Jun. 08	Jul. 08	Aug. 08	Sep. 08	Okt. 08	Nov. 08	Dez. 08	Jan. 09	Feb. 09	Mrz. 09	Apr. 09	Mai. 09	Jun. 09	Jul. 09	Aug. 09	Sep. 09	Okt. 09	Nov. 09	Dez. 09	Jan. 10	Feb. 10	Mrz. 10	Apr. 10	Mai. 10	Jun. 10
■ Jumbo(bearer-)Pfandbrief	2,9	4,5	2,3	6,0	3,5	2,4	2,7	3,0	0,0	0,0	0,0	0,0	0,0	2,0	1,3	1,0	4,0	2,7	2,1	1,3	2,5	2,5	0,0	0,0	2,3	3,5	2,0	1,0	0,0	4,4
■ Bearer Pfandbrief	8,0	5,5	3,7	8,2	8,8	11,6	7,2	5,1	12,4	8,5	8,0	7,5	3,4	4,9	4,9	4,9	5,2	9,0	7,9	4,5	4,0	3,0	3,9	3,2	3,6	2,6	4,8	3,5	5,1	7,9
■ Registered Pfandbrief	1,7	1,9	1,9	3,4	1,2	7,0	1,8	3,5	1,4	3,4	2,4	1,6	3,9	2,9	4,1	4,8	3,4	3,0	2,4	1,4	2,3	1,1	1,2	1,8	1,4	2,4	1,1	1,6	0,6	1,6

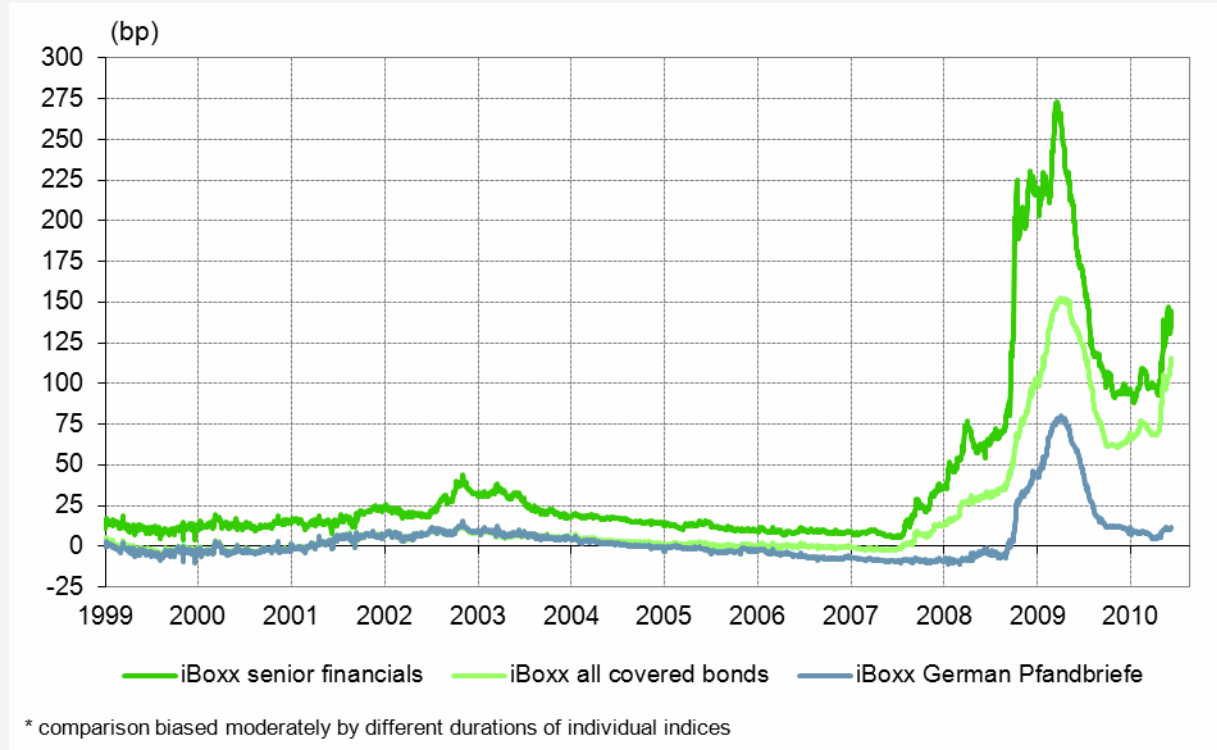
- Mortgage Pfandbrief* 2009: 58 bn € 2008: 63 bn € 2007: 27 bn €
 - Public Pfandbrief 2009: 52 bn € 2008: 90 bn € 2007: 108 bn €
 - Pfandbrief total 2009: 110 bn € 2008: 153 bn € 2007: 135 bn €
- *) incl. Ship Pfandbrief



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I. Pfandbrief banks and the Pfandbrief market

Development of swap spreads (basis points)*



source: Commerzbank Research



financial crisis increases benefit of covered funding

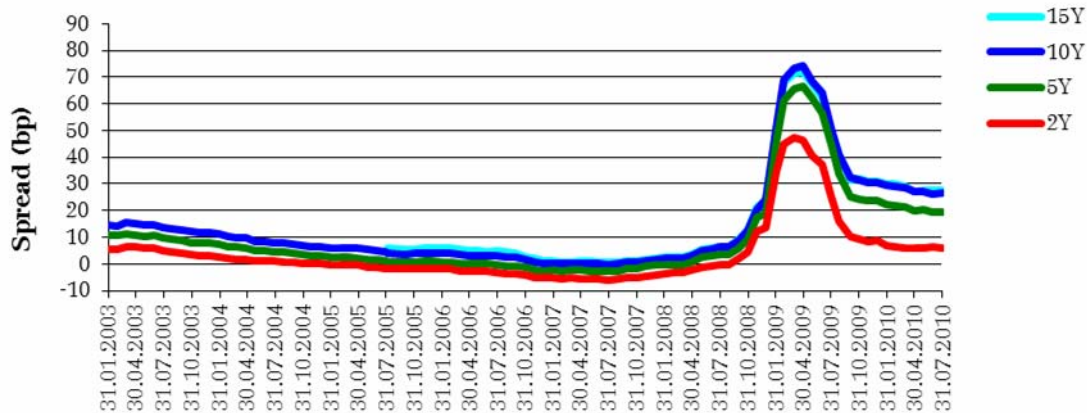


I. Pfandbrief banks and the Pfandbrief market

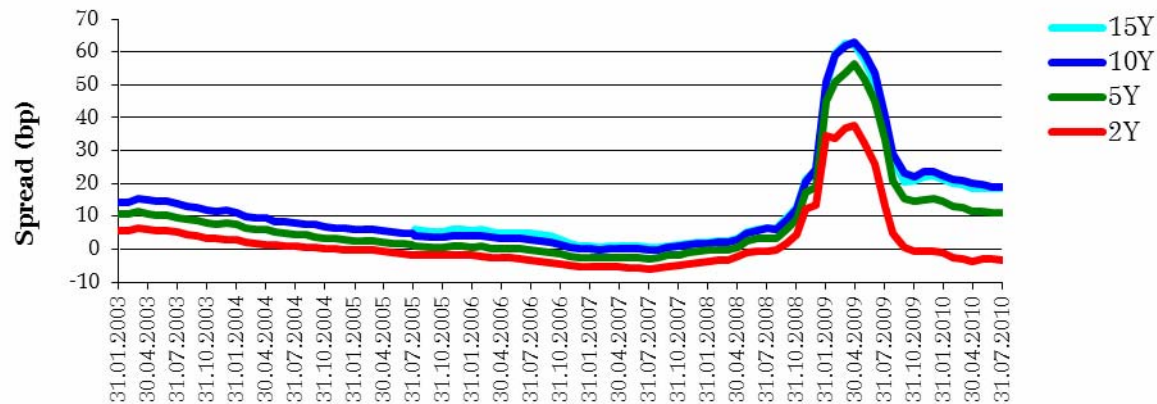
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Spread-normalisation in primary markets...

Spreads vdp-Curve (Mortgage Pfandbrief)* (vs. Swap)



Spreads vdp-Curve (Public Pfandbrief)* (vs. Swap)



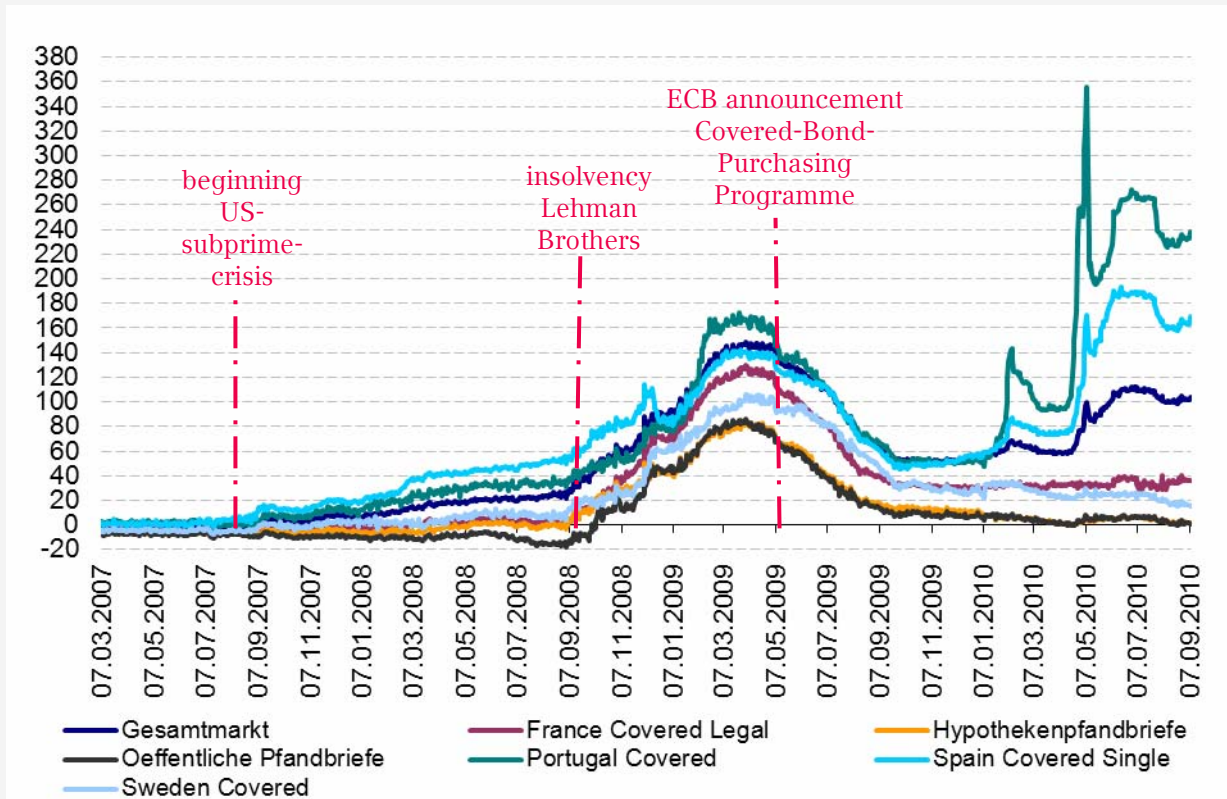
*) From April 2003 until January 2009 Mortgage Pfandbriefe and Public Pfandbriefe together formed the vdp-Pfandbrief Curve. In February 2009 different curves for each sort of Pfandbrief have been installed.



I. Pfandbrief banks and the Pfandbrief market

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... and in secondary markets



source: LBBW

- Mortgage and Public Pfandbrief less affected by financial crisis than other covered bond
- Covered bond spread universe has changed compared to before Jul 07
- differentiation has come to stay



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I. Pfandbrief banks and the Pfandbrief market

A glimpse ahead towards year end 2010

- Planned new issues comprise 100 bn Euro of which
 - 50 bn € Mortgage Pfandbrief
 - 48 bn € Public Pfandbrief and
 - 2 bn € Ship Pfandbrief
- Maturities 2010
 - 37 bn € Mortgage Pfandbrief
 - 104 bn € Public Pfandbrief and
 - 2 bn € Ship Pfandbrief
- Continued consolidation in Public Pfandbrief (large volumes without roll-over upon maturity)
- Jumbo Pfandbrief will maintain a key role for issuers but increasing shares of traditional and registered Pfandbrief
- Withdrawal of ECB from market does not impair robust conditions in Pfandbrief market
- Pfandbrief outstanding expected
 - to remain below 700 bn € until **year end 2010**
 - to stabilize with return of net sales to positive territory in **2011**



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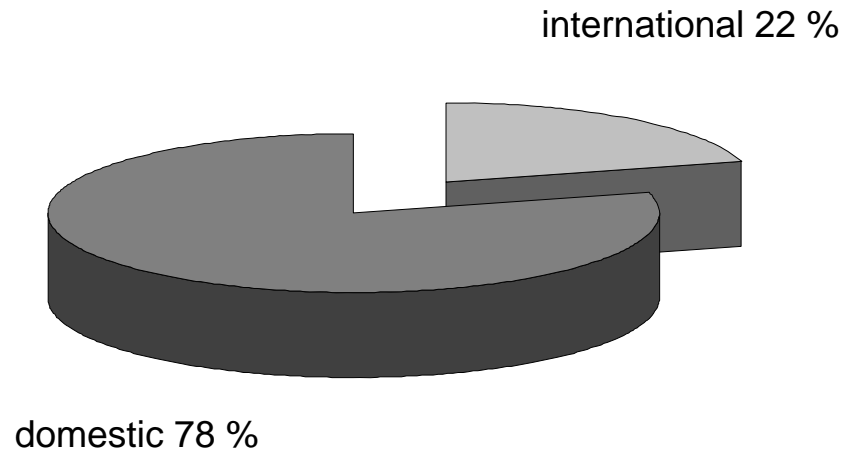
- I. Pfandbrief banks and the Pfandbrief market
- II. Quality of cover pools
- III. Further development of legal framework



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II. Quality of cover pools

Public sector cover pools



public cover assets 510 bn €
of which cross-border 111bn €
as of Mar 2010

source: banks' disclosure pursuant to Art 28 Pfandbrief Act



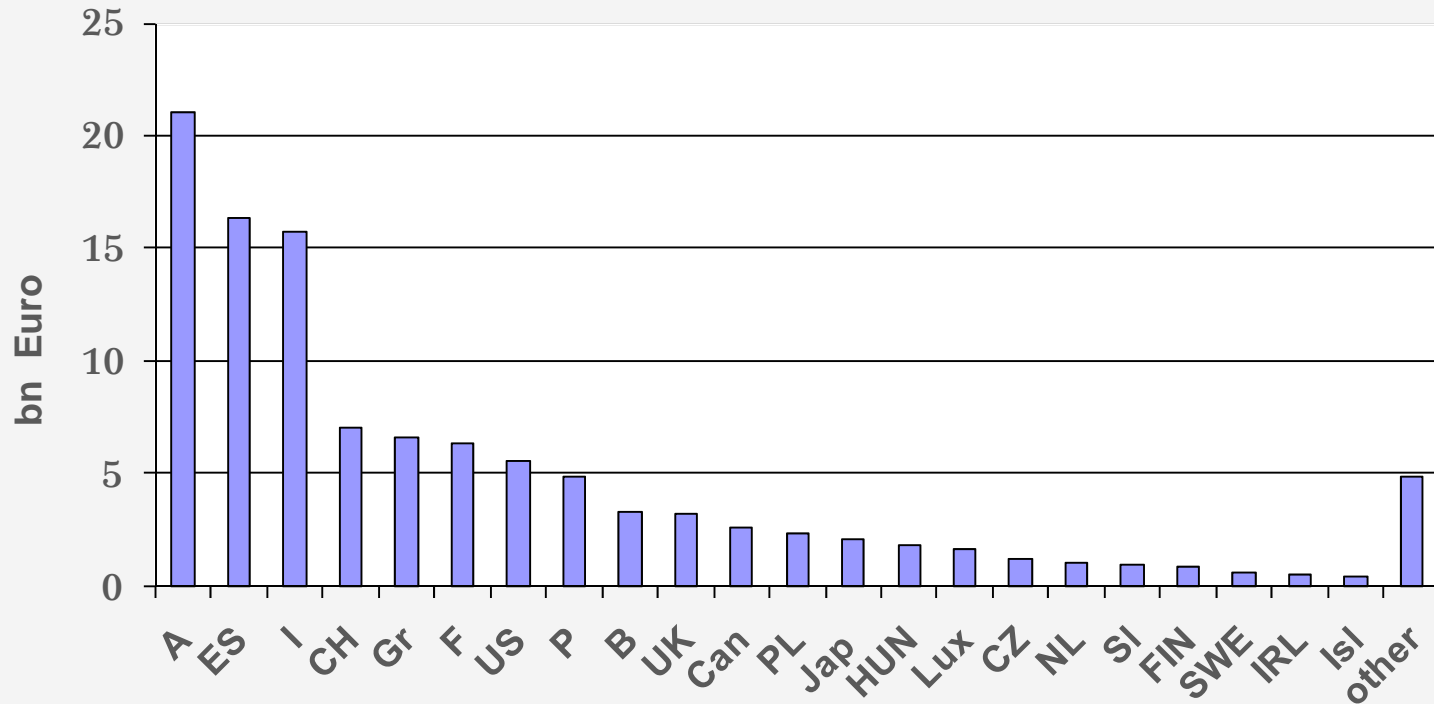
- central governments: 49 bn Euro
- regional authorities: 183 bn Euro
- local authorities: 78 bn Euro
- other: 200 bn Euro



II. Quality of cover pools

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Cross border public sector cover assets (Mar 2010)



source: banks disclosure according to Art. 28 Pfandbrief Act

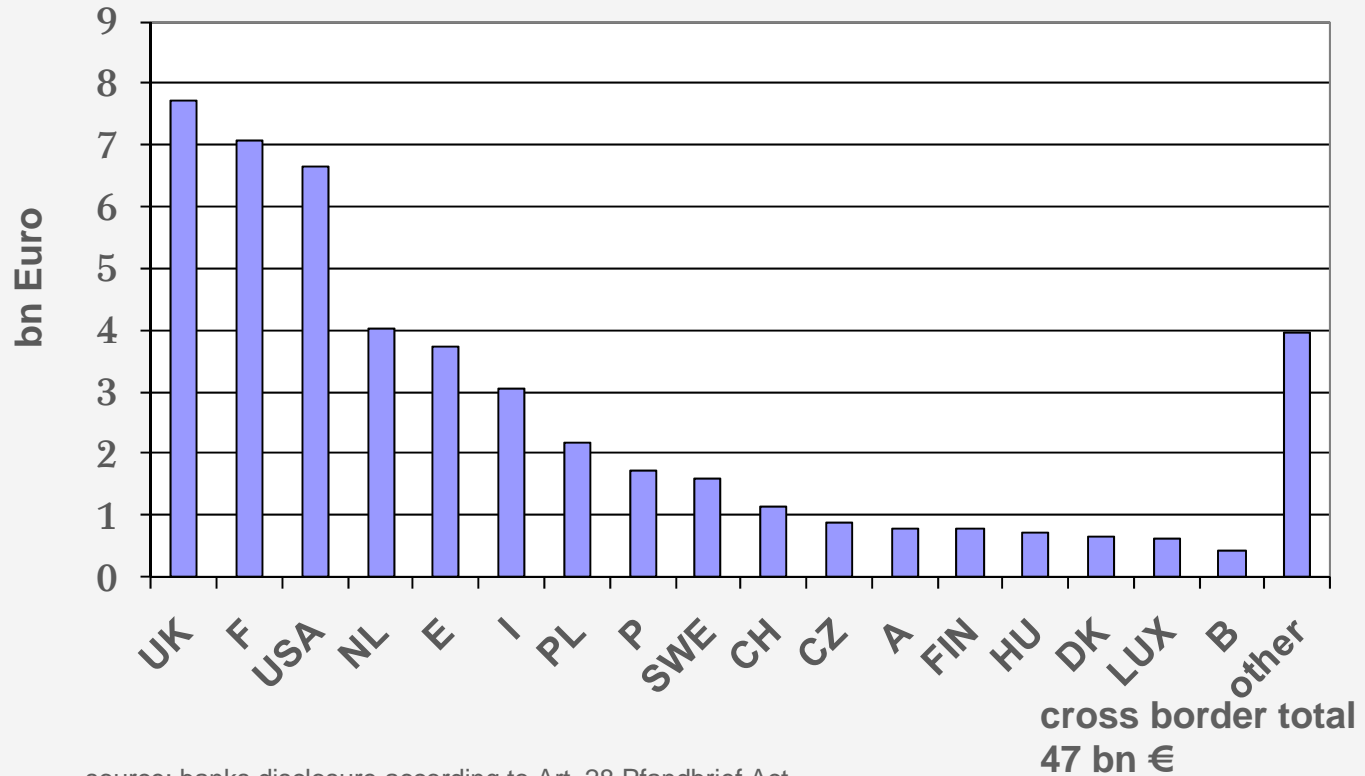
cross border total
111bn €



II. Quality of cover pools

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Cross border property loans in cover (Mar 2010)

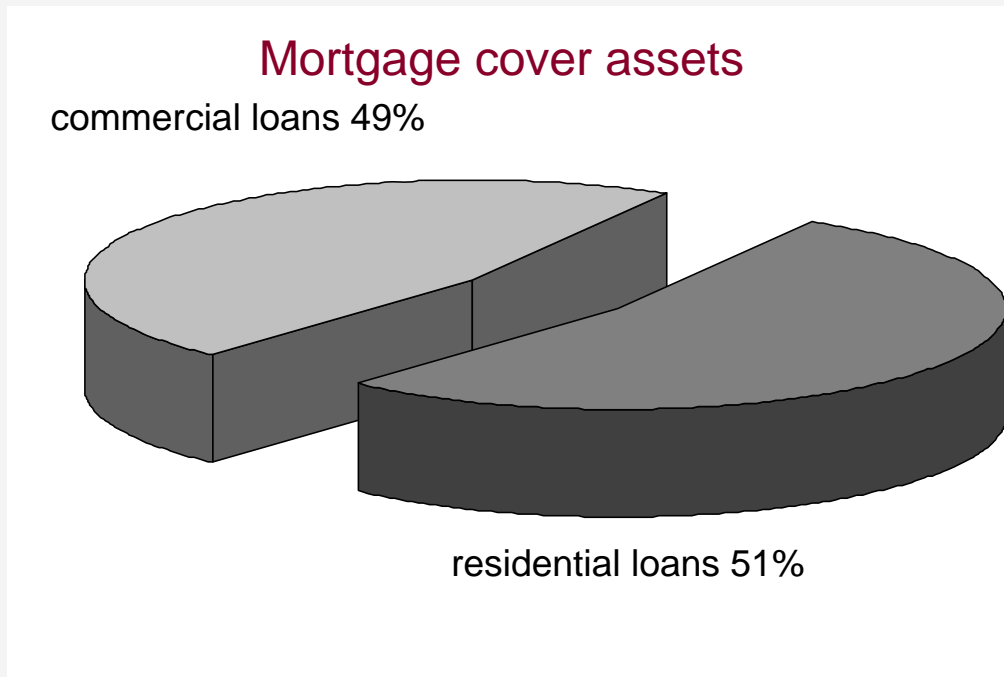


source: banks disclosure according to Art. 28 Pfandbrief Act



II. Quality of cover pools

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**mortgage cover
assets 248 bn €**
of which commercial 121bn €
of which residential 127 bn €
as of Mar 2010

source: banks' disclosure according to Art 28 Pfandbrief Act

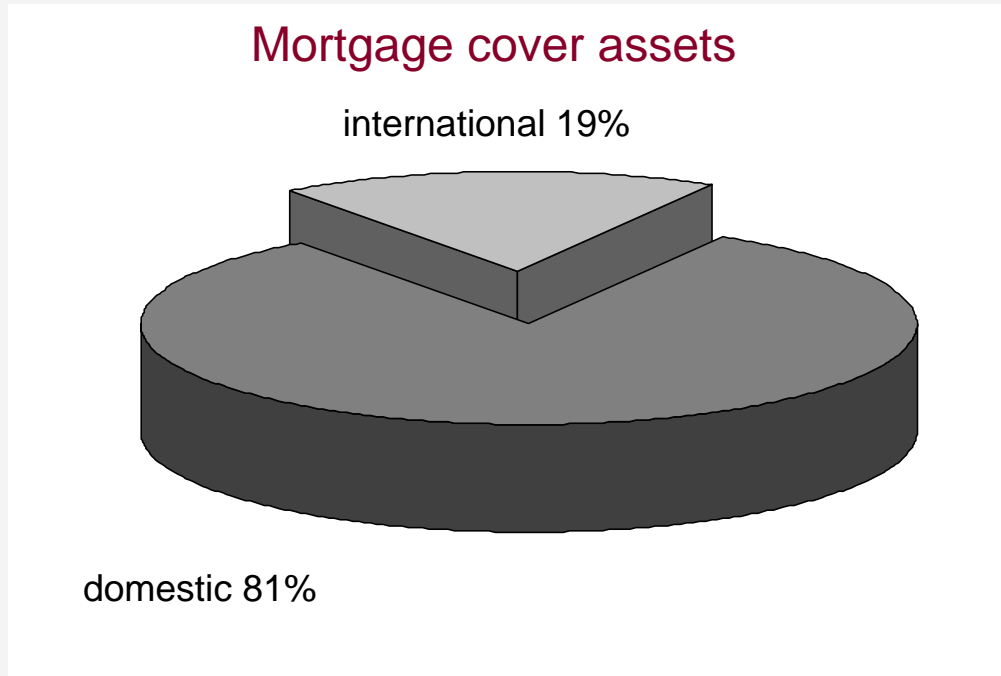


- predominance of commercial lending limited to cross-border cover business
- out of 46 bn € cross-border cover assets some 43 bn € are commercial loans
- in domestic loan portfolio 124 bn € are residential and some 77 bn € are commercial loans



II. Quality of cover pools

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mortgage cover assets
248 bn €
of which cross border
46 bn €
as of Mar 2009

source: banks' disclosure according to Art 28 Pfandbrief Act



- domestic cover assets prevail
- Pfandbrief credit quality immune from developments in single cross-border real estate market

II. Quality of cover pools

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vdp transparency initiative

- Last amendment of § 28 Pfandbrief Act in March 2009
- More detailed rules governing disclosure timeline in 2010 amendment
- „vdp transparency initiative 2010“ aims at providing individual and aggregated data of member banks on vdp website from summer 2010 onwards
 - investors find all data ready „only a click away“
 - consistency of all banks‘ data guaranteed
 - download and further computing of data (csv-format)



Pfandbrief Act is the Covered Bond framework with highest transparency requirements



II. Quality of cover pools

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Quarterly disclosure according to § 28 Pfandbrief Act

Nominal value, npv and npv at risk of Pfandbrief and respective cover pools

Maturity structure of Pfandbrief and their respective cover pools
in maturity bands < 1 yr.; > 1 – 2 yrs.; > 2 - 3 yrs.; > 3 - 4 yrs.; > 4 - 5 yrs.; > 5 – 10 yrs.; > 10 yrs.

Share of derivatives in cover pools /liabilities

Other cover assets

Cover pool Mortgage Pfandbriefe

- loans grouped according to their nominal amounts: < 0.3 mn; < 5 mn; >5 mn € incl. geographical distribution
- type of building
- payments in arrears for at least 90 days incl. geographical distribution

Cover pool Public Pfandbrief

- loans grouped according to geographical distribution (nominal values) and according to debtors
- payments in arrears for at least 90 days incl. geographical distribution

Cover pool Ship Pfandbrief

- loans grouped according to nominal amount outstanding: < 0,5 mn; 0,5 – 5 mn; > 5 mn €
- payments in arrears for at least 90 days incl. geographical distribution

Cover pool Aircraft Pfandbrief

- grouped according to nominal amount outstanding: < 0.5 mn > 0.5 – 5 mn > 5 mn€
- geographical distribution of registrations

II. Quality of cover pools

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Rating agencies' approaches to Pfandbrief

Fitch

substantial changes of methodology in 2009/2010

- Changes in components of D-Factor
- Higher stress demands in cash-flow-analysis
- one rating action
- overhaul of assumptions on commercial real estate

Moody's:

Higher demands as of spring 2009

- New stress scenarios for funding margins imply significantly higher overcollateralization demands
- Following issuer default timely payment of principal may rely on funds being raised against cover pool
- Repeatedly based on legal opinions
- three rating actions

S & P:

New rating methodology effective as of December 2009

- Introduction of link between issuer and Pfandbrief rating
- Focus on liquidity risk
- Final rating contingent upon provision of overcollateralization
- two downgrades, seven still on credit watch negative



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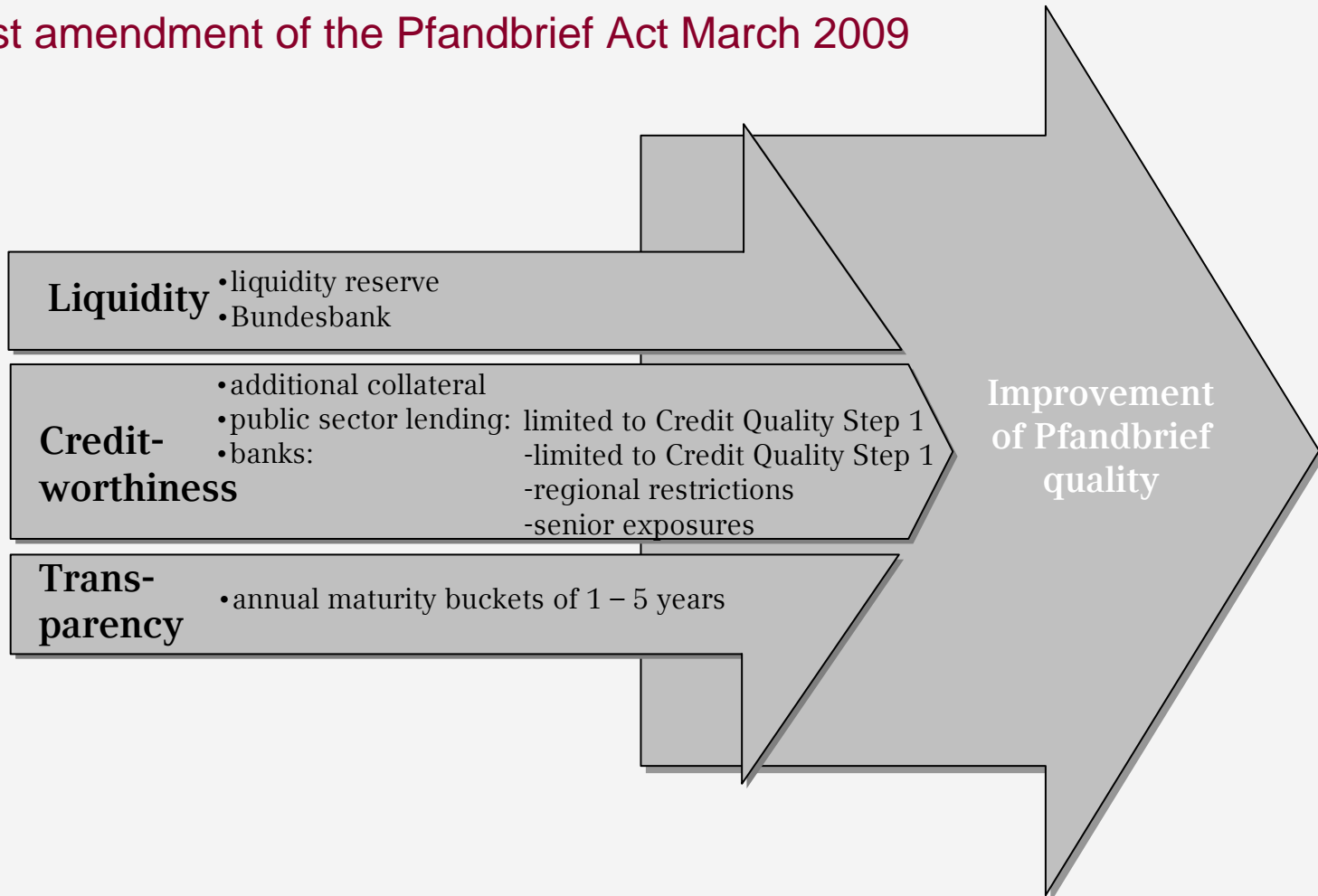
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III. Further development of legal framework

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First amendment of the Pfandbrief Act March 2009

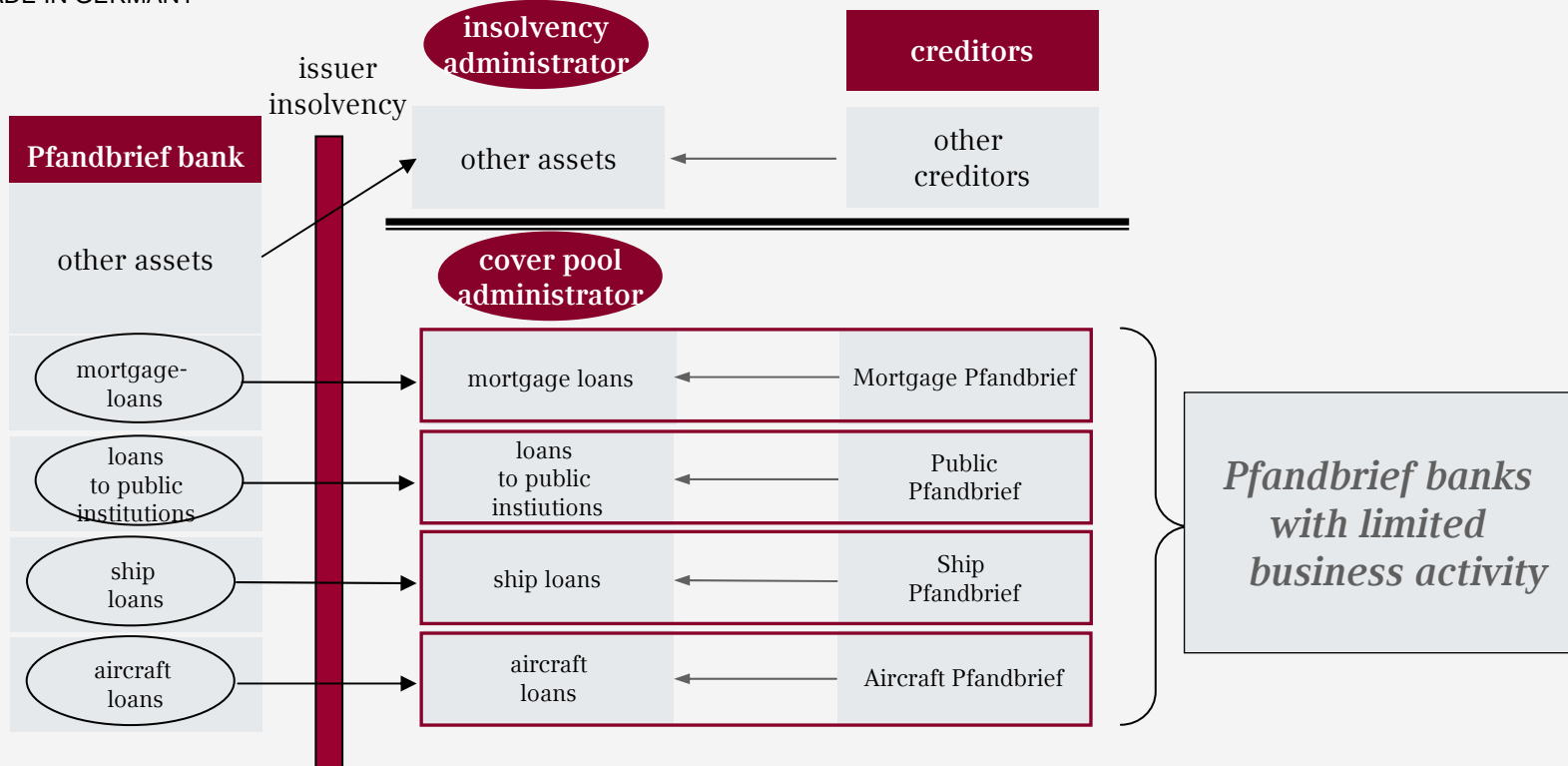




III. Further development of legal framework

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Segregation principle



- Pfandbrief does not accelerate
- Pfandbrief and cover assets are exempt from the insolvency estate
- Bank license upheld for each Pfandbrief bank with limited business activity
- Cover pool administrator



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III. Further development of legal framework

Planned amendment of the Pfandbrief Act 2010

- Strengthening legal competencies of the cover pool administrator
 - Basis for access to central bank liquidity
 - Access to minimum reserve held at central bank
 - Nomination of the cover pool administrator conditional to approval of Pfandbrief bank when helpful for transfer of cover pools and Pfandbriefe to another Pfandbrief bank
- Bank license stays valid for „Pfandbrief bank with limited business activity“
 - Cover pool administrator may issue Pfandbrief that rank pari passu with other issues



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III. Further development of legal framework

Planned amendment of the Pfandbrief Act 2010

- Concretization of the role of the cover pool monitor
 - Function on stay when cover pool administrator is nominated
 - Liability limited up to 1 mn €
 - Insurance permitted, but participation
 - Remuneration owed by issuer, not by BaFin as today, but amount determined by BaFin
- Disclosure requirements further detailed
 - Quarterly data according to Art 28 Pfandbrief Act to be published within a month's time span and two months for fourth quarter respectively



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III. Further development of legal framework

Planned 2010 amendments in a nutshell

- Improved comprehensibility of regulations on protection of Pfandbrief holders in case of issuer insolvency
- Bank license remains in force for „Pfandbrief bank with limited business activity“ by operation of law
- Pfandbrief issuance permitted for the cover pool administrator in order to bridge potential inherent liquidity mismatches of cover pools



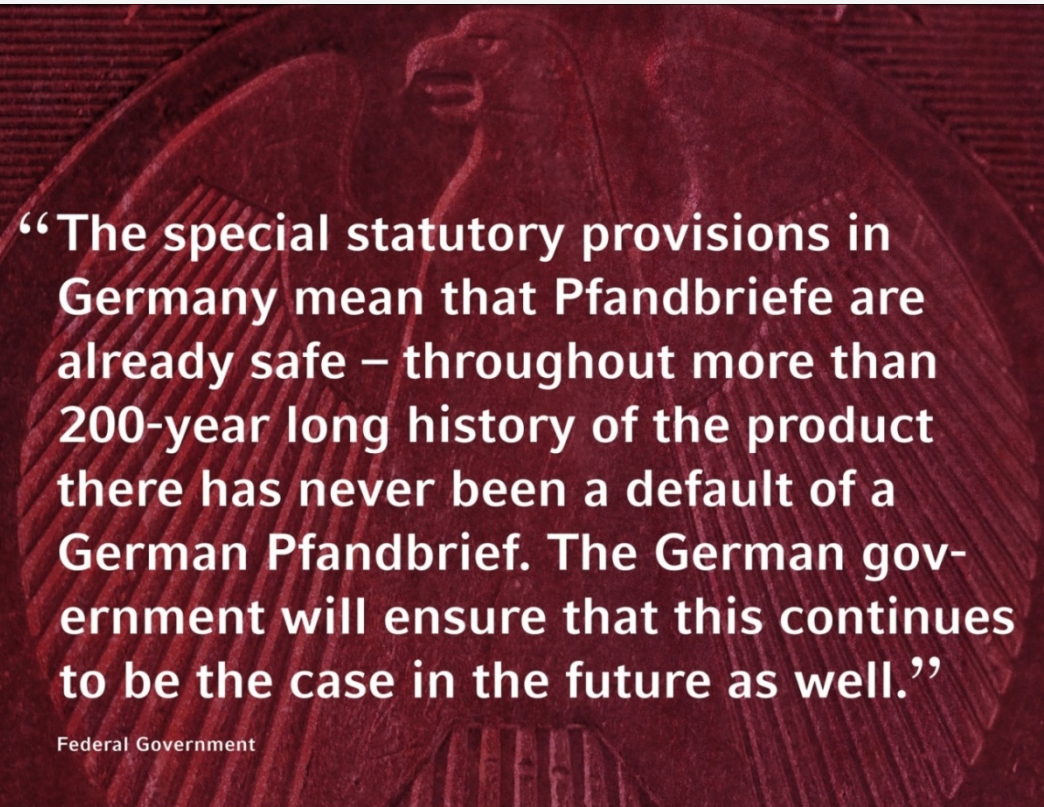
Wrap up & outlook

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- Last in, first out: Pfandbriefe were the last important bank securities market to be affected by the financial crisis, first one to get out
- Pfandbrief boasts solid, crisis proven track record, especially when compared to peer private capital market products
- Amendment of the Pfandbrief Act will further increase Pfandbrief safety
- Jumbo format will continue as key product of Pfandbrief issuers
- Positive issuance trend in Mortgage Pfandbrief to be continued
- German authorities strongly support Pfandbrief as a key bank funding tool



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“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



Official backing as manifested explicitly in the Financial Market Stabilisation Act, fall 2008







































Contact

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 Aareal Bank	 Bayern LB	 Berlin Hyp	 BREMER LANDESBANK	 COMMERZBANK	 COREALCREDIT
 DekaBank	 deutsche apotheker- und ärztebank	 Deutsche Genossenschafts-Hypothekenbank	 DEUTSCHE/HYPO Ein Unternehmen der NORD/LB	 DKB Deutsche Kreditbank AG	 PUBLIC SECTOR FINANCE REAL ESTATE FINANCE pbb DEUTSCHE PFANDBRIEFBANK
 Deutsche Schiffsbank	 DEXIA Kommunalbank Deutschland	 DHB Düsseldorfer Hypothekenbank	 DVB	 EURO HYPO	 Haspa [®] Hamburg Sparkassen
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