

The Pfandbrief and its Issuers

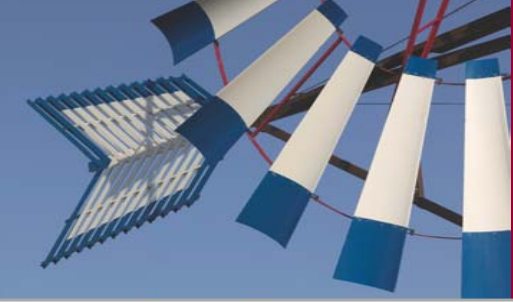


Henning Rasche

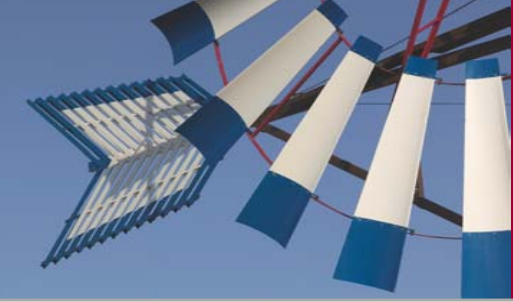
**President of the Association of German
Pfandbrief Banks (vdp)**

**Member of the Board of Eurohypo AG,
Frankfurt**

**Kampo Pfandbrief Seminar
Tokyo, 31 January 2007**



1. The Pfandbrief – History, Principles, Issuers
2. The Jumbo Pfandbrief – Blueprint for a European Asset Class
3. About vdp



1. The Pfandbrief – History, Principles, Issuers

1. The Pfandbrief History



Frederic the Great (1712 – 1786)

- mastermind of the Pfandbrief system in 1769 in aftermath of Silesian War
- Frederic the Great gave permission to issue the first Pfandbrief to finance the reconstruction of Silesia

1. The Pfandbrief History

238 years of Pfandbrief history

1860s

Foundation of various private Mortgage Banks after exelceration of population growth and urbanisation

1902

Foundation of Association of German Mortgage Banks (today: vdp)

1995

Issuance of the first Jumbo Pfandbrief by Frankfurter Hypothekenbank (today: Eurohypo)

19 July 2005

Foundation of Association of German Pfandbriefbanks (vdp)

1800

1900

2000

29 August 1769

Order of Frederic the Great led to issuance of first Pfandbriefe in 1770 for reconstruction of Silesia after 7-year war (1756-1763)

1 January 1900

Enactment of the Mortgage Bank Act, legal basis for Pfandbrief issuance of private mortgage banks

1927

Enactment of Public Pfandbrief Act – legal basis for Pfandbrief issuance of public sector banks

19 July 2005

Enactment of the Pfandbrief Act; abolition of specialist banking principle; single legal basis for issuance of Pfandbrief

1. The Pfandbrief History



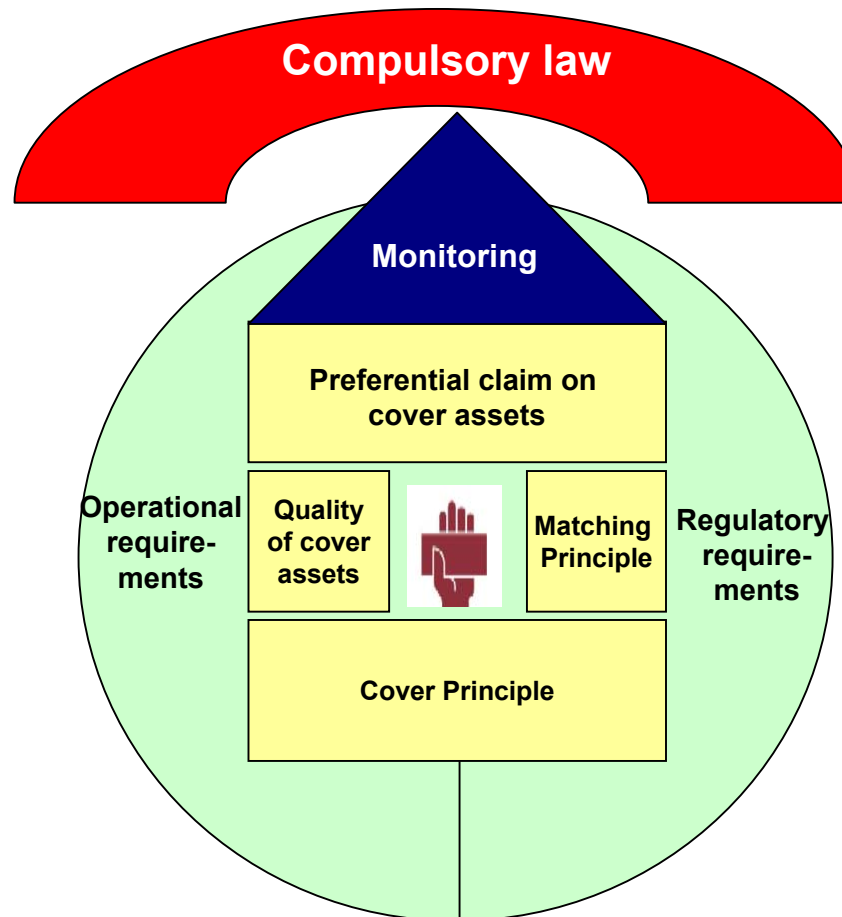
- Pfandbrief is a bank debenture issued against collateral cover pool
 - held on-balance of the issuer
 - consisting of property, public-sector & ship loans in separate cover pools
- issuance and management based on strict quality standards stipulated in Pfandbrief Act (PBA)
- in case of issuer insolvency
 - additional preferential claim of Pfandbrief creditors against separated cover pools
 - separation of cover pools from insolvent estate
 - no acceleration of Pfandbrief bonds
- Pfandbrief issuers subject to special supervision in addition to ordinary bank supervision

1. The Pfandbrief Principles



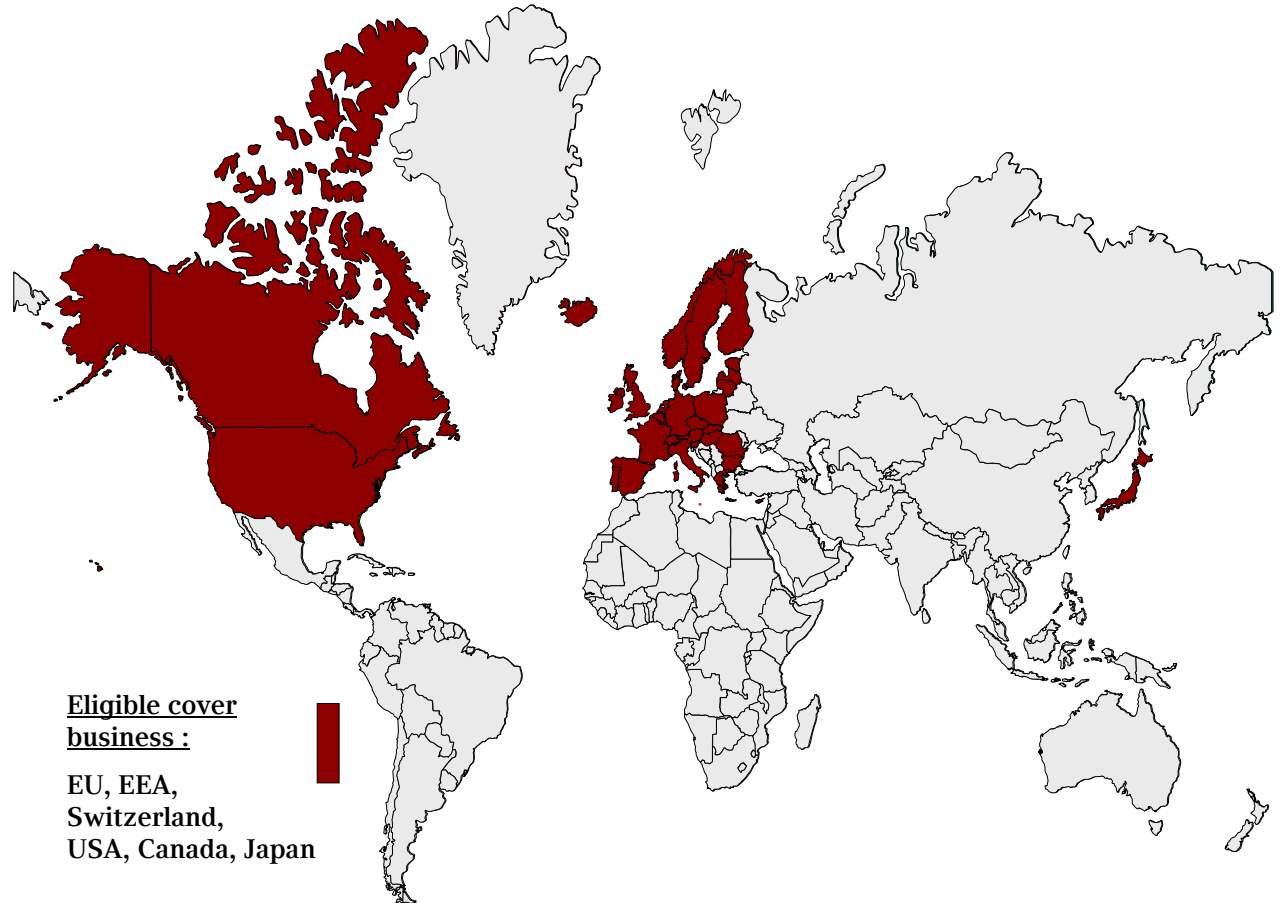
VERBAND DEUTSCHER
PFANDBRIEFBANKEN
Association of German Pfandbrief Banks

Solid shelter for
Pfandbrief holders



1. The Pfandbrief Principles

Regional restrictions
for eligible public
sector and
mortgage loan
business





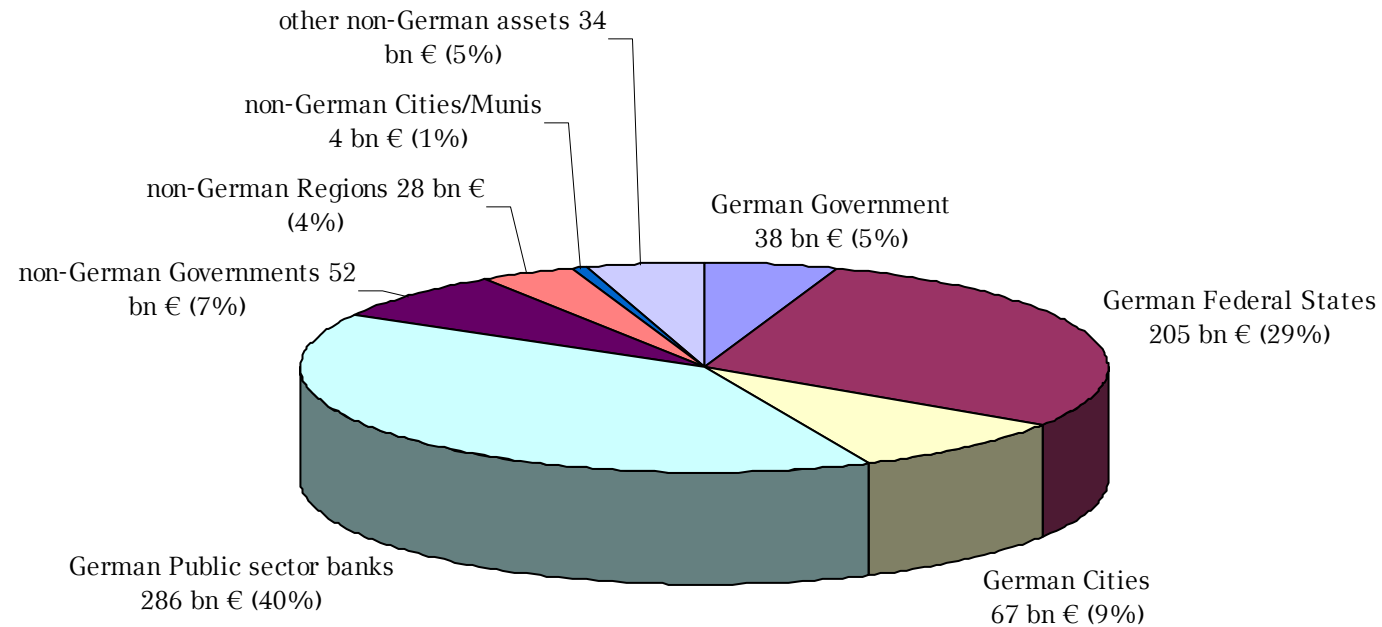
1. The Pfandbrief Principles

Eligible domestic public sector loan business

- loans to
 - the regional and local authorities and
 - such public sector authorities and institutions for which
 - state support or
 - a legally founded obligation or
 - a state refinancing guarantee applies, or which
 - are legally entitled to raise fees, rates or other levies
- safety of domestic public sector business underpinned by wide-ranging German financial equalization scheme
 - horizontal: guarantees that each Federal Land has at least 95 % of the financial means of other Länder
 - vertical: Federal Länder with below-average financial income receive money from central government up to a level of 99 % of the Federal Länder average

1. The Pfandbrief Principles

**Public sector
cover assets
as of
September 2006**

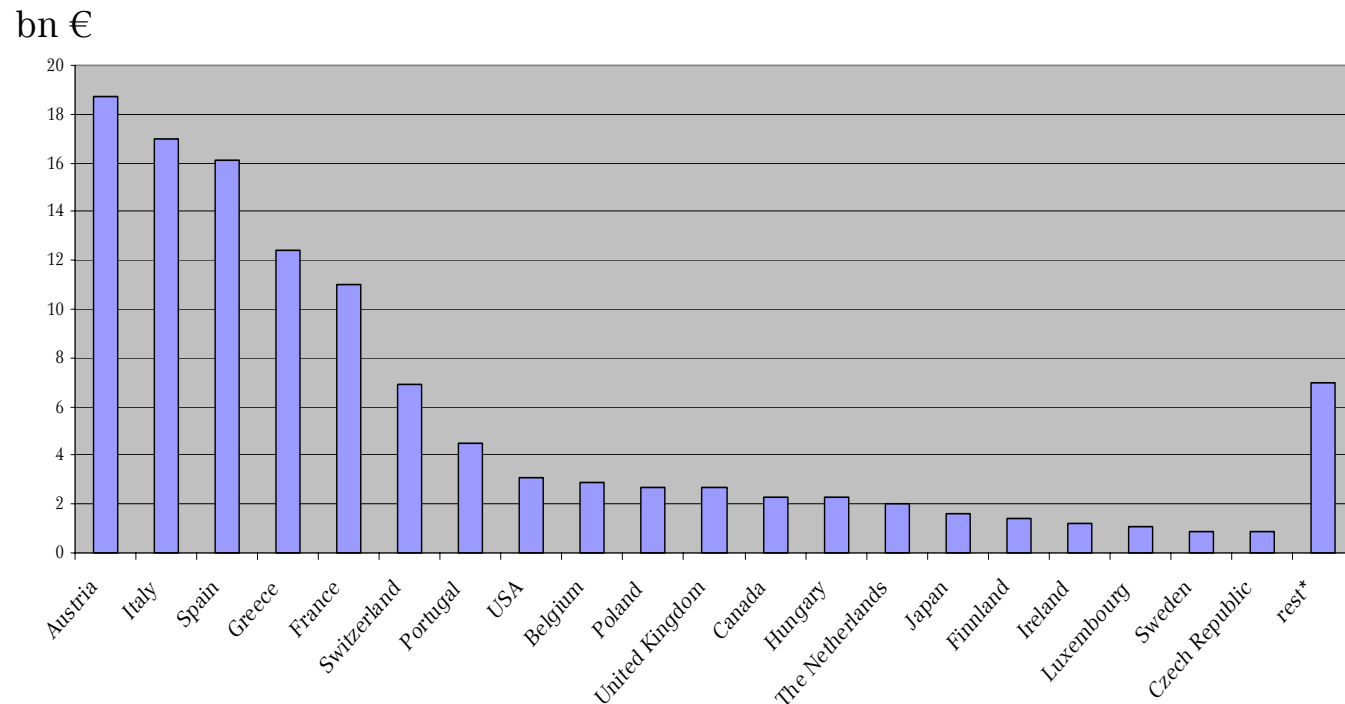


source: HSBC, vdp

total: 715 bn €

1. The Pfandbrief Principles

Cross border
public sector
cover loans as of
September 2006



total 117 bn Euro

* Iceland, Slovakia, Danmark, Lithuania, Cyprus, Slovenia, Latvia, Norway, Turkey, Estonia, supra-nationals, Isle of Man

source: HSBC, vdp



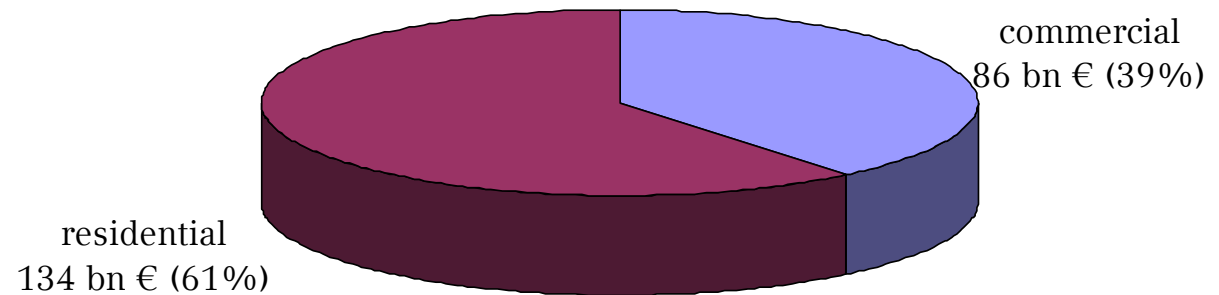
1. The Pfandbrief Principles

Strict eligibility criteria for cross border public sector loans

- since 1991 cross border business is eligible for Pfandbrief cover
- regional governments and local authorities of these states with a capital weighting of not more than 20%
- non-profit administrative organisations subordinate to central, regional or local governments if the competent authorities have set a weighting for these loans of not more than 20%
- full guarantee by above mentioned central, regional or local governments

1. The Pfandbrief Principles

**Commercial vs.
residential mortgage
cover loans as of
September 2006**



source: HSBC, vdp

total: 220 bn €



1. The Pfandbrief Principles

Eligible mortgage lending business

- financings of residential and commercial properties
- first-ranking mortgages
- funding up to 60 % of the appraised Mortgage Lending Value through Mortgage Pfandbrief
- Mortgage Lending Value: Concept based on careful appraisal of a long-term value



1. The Pfandbrief Principles

Eligible ship lending business

- first ranking ship mortgages
- ships or ships under construction recorded in a public domestic or non-domestic ship register
- cover loans limited to 60% of Ship Lending Value
- loan must have a maturity of no more than 20 years

1. The Pfandbrief Principles

Types of Pfandbrief

*differentiation
by*

**issue size and
structure**

legal implications

investor request

currency

Mortgage
Pfandbrief

Public
Pfandbrief

Ship
Pfandbrief

traditional Pfandbrief (usually smaller size)
Jumbo Pfandbrief (from 1 bn euro upwards)

bearer Pfandbrief
registered Pfandbrief

tailor made
standard

EUR, USD, SFR, JPY, AUD, (...)

1. The Pfandbrief Issuers

Issuer landscape
63 banks with
Pfandbrief
outstanding

43 active issuers

- vdp members
- affiliated to public sector vdp members
- not vdp members

R A T E D P F A N D B R I E F I S S U E R S

public sector banks

- BayernLB
- Haspa
- Helaba
- HSH Nordbank
- KSK Köln
- LBBW
- NordLB
- Sparkasse Köln-Bonn
- WestImmo
- WestLB
- Bremer Landesbank*
- DKB*
- Landesbank Rheinland-Pfalz*
- Landesbank Saar*
- Deka Bank
- Landesbank Berlin
- Landesbank Sachsen
- Sparkasse Aachen
- Sparkasse Düsseldorf

private banks

- Aareal Bank
- AHBR
- Berlin Hyp
- Deutsche Hypo (Act.-Ges.)
- Dexia Kommunalbank
- EssenHyp
- Eurohypo
- HypoRealEstate Bank
- HypoRealEstate International
- HypoVereinsbank
- SEB AG
- Wüstenrot Pfandbriefbank
- DePfa

cooperative banks

- DG Hyp
- Münchener Hyp
- WL BANK



1. The Pfandbrief Issuers

Efficient member institutions

- Pfandbrief Banks link the capital markets with the real estate and public sector
- Pfandbrief facilitates extremely efficient, capital market-driven refinancing without state support
- vdp member institutions hold sizeable market shares in their core business fields, i.e.
 - home loans
 - commercial property loans
 - public-sector loans
 - ship loans



2. The Jumbo Pfandbrief: Blueprint for a European Asset Class



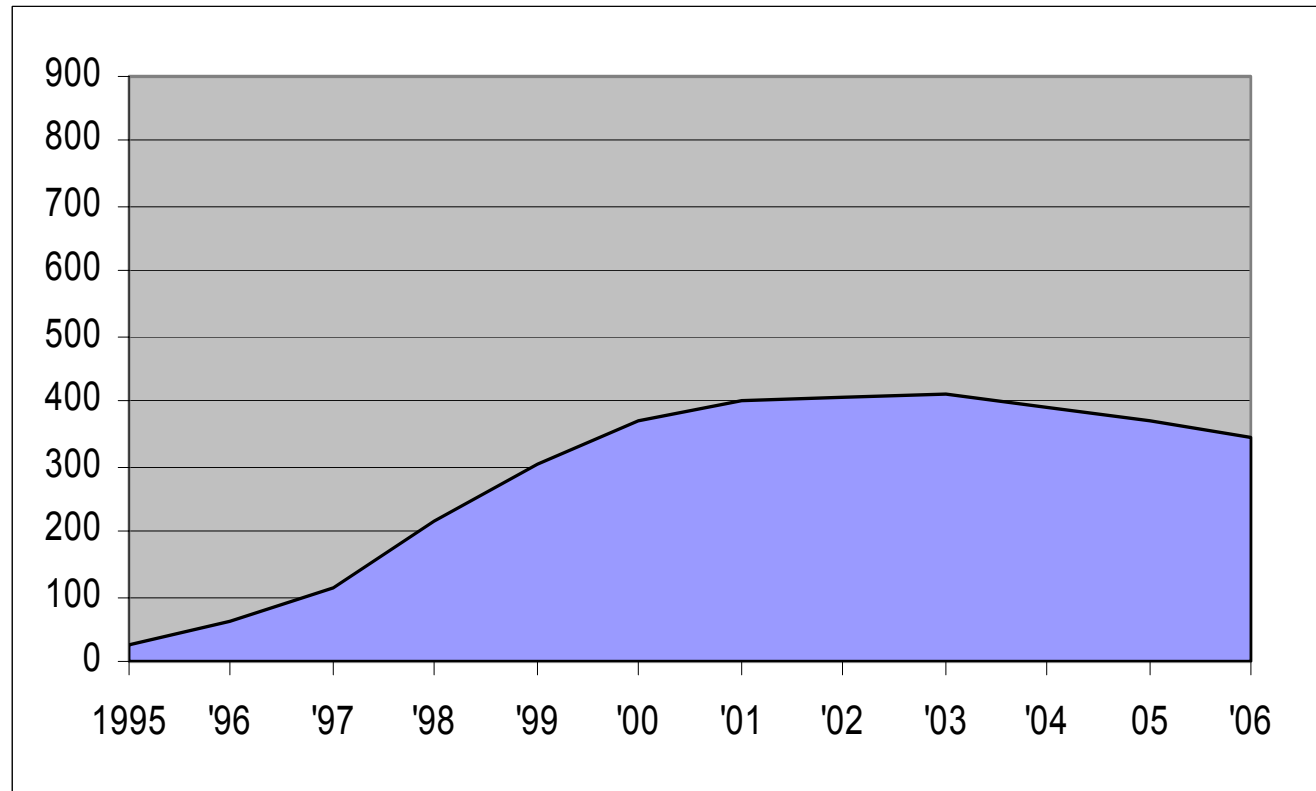
2. The Jumbo Pfandbrief: Blueprint for a European Asset Class

Introduction of Jumbo Pfandbrief in 1995

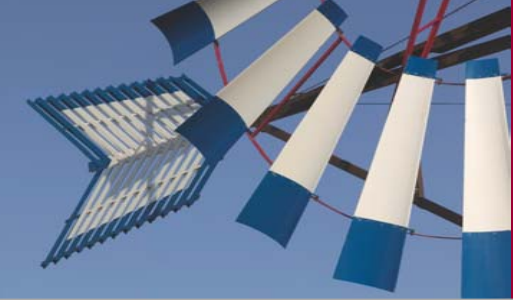
- Jumbo Pfandbrief was introduced in 1995 to create a highly liquid segment and tap international investor potential
- conformity to international issuing standards
- high degree of standardization makes liquid primary and secondary market
- market making system supports liquidity
- plain vanilla, i.e. fix coupon, hard bullet structure

2. The Jumbo Pfandbrief: Blueprint for a European Asset Class

**Jumbo Pfandbrief
outstanding
1995 – 2006 (bn €)**



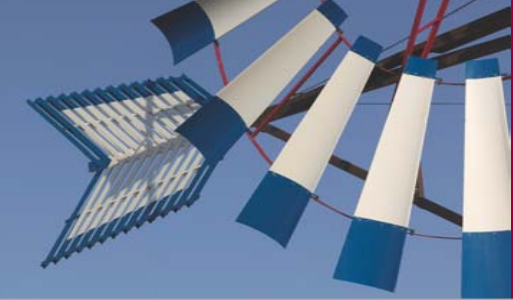
source: vdp



2. The Jumbo Pfandbrief: Blueprint for a European Asset Class

Minimum Standards for Jumbo Pfandbriefe

- minimum issue size of 1 billion euro (750mn+250mn)
- fix coupon and bullet redemption
- re-openings of at least 125 million euros each
- fixed-price-reoffer issuance procedure with a fixed fee structure
- listing at a EU or EEA stock exchange
- market making by at least 5 banks for each Jumbo, quoting two-way prices
- in a crisis market makers have to notify market immediately if market making is to be suspended
- recommended bid/offer spreads of 5, 6, 8 and 10 cents for 4, 6, 8 and 15-year maturities, 15 cents for maturities of up to 20 years and 20 cents for maturities of 20 to 25 years respectively for a trading volume of up to 15 million euros
- buy back is allowed if the outstanding volume of the issue is not less than 1 billion euros



2. The Jumbo Pfandbrief: Blueprint for a European Asset Class

Recommendations for Jumbo Pfandbriefe

- market makers are to keep separate limits for the issuer's Pfandbriefe
- joint committee of market makers and issuers „Market Maker and Issuer Committee MIC” set up
 - representatives of market makers affiliated in German Chapter of “*The Capital Market Organization ACI*” and vdp convene when crisis strikes or is imminent
 - discusses measures to prevent suspension of market making or to achieve a resumption as quickly as possible
 - e.g. widen bid/offer spread
 - lower ticket size



2. The Jumbo Pfandbrief: Blueprint for a European Asset Class

Different Pfandbrief rating methodologies

- with development of Jumbo segment ratings have gained increasing importance in the Pfandbrief market
- three big agencies Standard&Poors, Moody's and Fitch differ in their approaches towards rating Pfandbrief
 - S&P's strictly follows a structured finance approach, i.e. issuer credit is completely delinked from Pfandbrief credit
 - Moody's traditionally followed a fundamental approach whereby Pfandbrief ratings were based on issuer ratings. Recently more structured finance elements have been added to their methodology
 - Fitch applies both fundamental and structured finance elements in their approach
- a fourth supplier of ratings DBRS is currently entering the market and has started to publish solicited ratings in 2006



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

3. About vdp



3. About vdp

**Pooling of
strengths**

**Uniform
representation of
interests**

**Developing the legal
framework and
voluntary quality
standards**

- the important position of the Pfandbrief on global capital markets is reflected by an association of Pfandbrief issuers pooling their strengths
- the association provides uniform representation of interests in dealings with legislators, supervisory authorities, rating agencies and other market participants
- the association has proven its success in continuously developing the Pfandbriefs' legal framework and voluntary quality standards



3. About vdp

**Benchmark in the
Covered Bond
market**

**Center of
competence**

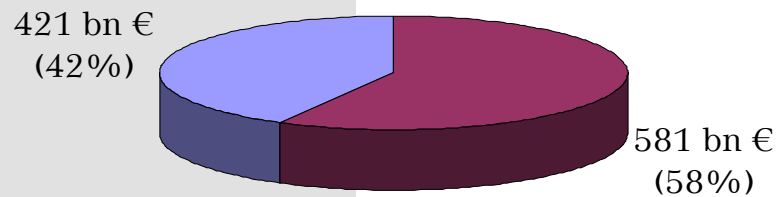
**Active issuer
support**

- globally, the association ensures the uniform positioning of the Pfandbrief as the benchmark in the Covered Bond market
- the association serves as single center of competence for all Pfandbrief issuers regardless of the banking group they belong to
- the close link between cover business and its funding via Pfandbrief requires the active support of Pfandbrief issuers in the areas of real estate, public sector and ship finance, which the association provides

3. About vdp

Pfandbrief outstanding

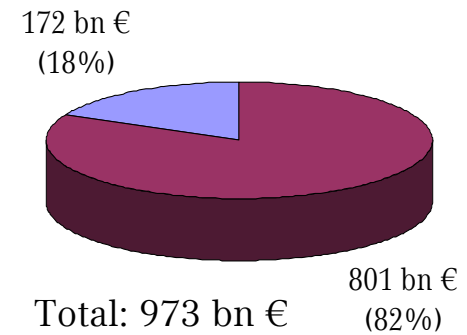
30.06.2005



Total: 1,002 bn €

■ vdp members ■ other issuers

30.06.2006



Total: 973 bn €

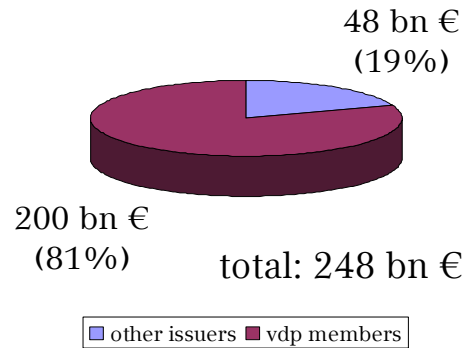
■ vdp members ■ other issuers

Source: Deutsche Bundesbank, vdp

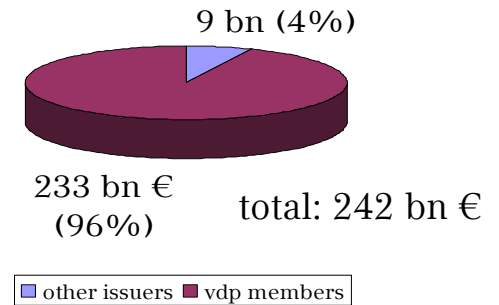
3. About vdp

Mortgage Pfandbrief outstanding

30.06.2005

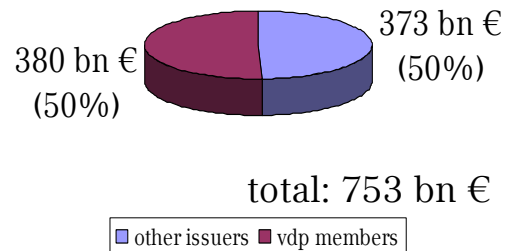


30.06.2006

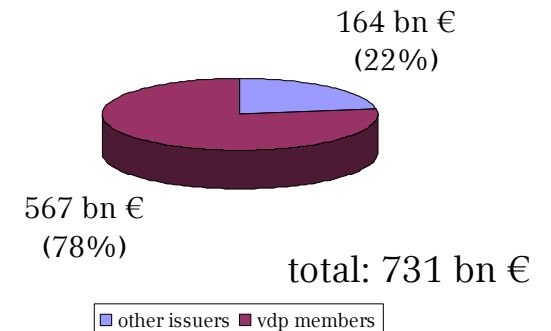


Public Pfandbrief outstanding

30.06.2005



30.06.2006



Source: Deutsche Bundesbank, vdp

Further Information

Thank you for your
attention!

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Member Institutions of the Association of German Pfandbrief Banks

 Aareal Bank	 ALLGEMEINE HYPOTHEKENBANK RHEINBODEN AG	 Bayern LB	 Berlin Hyp Berlin-Hannoversche Hypothekenbank AG	 Deutsche Genossenschafts- Hypothekenbank DG HYB	 DEUTSCHE HYPO <small>Deutsche Hypothekbank (Aktien-Gesellschaft)</small>
 Deutsche Schiffsbank	 DEXIA Kommunalbank Deutschland	 DHB <i>Düsseldorfer Hypothekenbank</i>	 EURO HYPO	 Haspa ⁺ Hamburger Sparkasse	 Helaba  Landesbank Hessen-Thüringen
 HSH NORDBANK HYPO AG	 Hypo Real Estate BANK	 Hypo Real Estate BANK INTERNATIONAL	 Hypo Real Estate HOLDING	 HYPOTHEKENBANK IN ESSEN AG	 HypoVereinsbank
 Karstadt Hypothekbank	 Kreissparkasse Köln	 LB BW Landesbank Baden-Württemberg	 M.M. WARBURG & CO HYPOTHEKENBANK	 Münchener Hypothekbank eG	 NORD/LB
 SEB	 Sparkasse KölnBonn	 Westdeutsche ImmobilienBank	 WestLB	 WL BANK	 wüstenrot Wüstenrot Bank AG Pfandbriefbank