

The Pfandbrief 2006 / 2007



**Henning Rasche, President
Association of German Pfandbrief Banks (vdp)
Member of the Board, Eurohypo AG**

**vdp Pfandbrief Conference Tokyo 2007
Hotel Conrad
30 January 2007**



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



- I. The Pfandbrief 2006 / 2007
- II. Modified Minimum Standards for Jumbo Pfandbrief
- III. The Association of German Pfandbrief Banks



I. The Pfandbrief 2006 / 2007

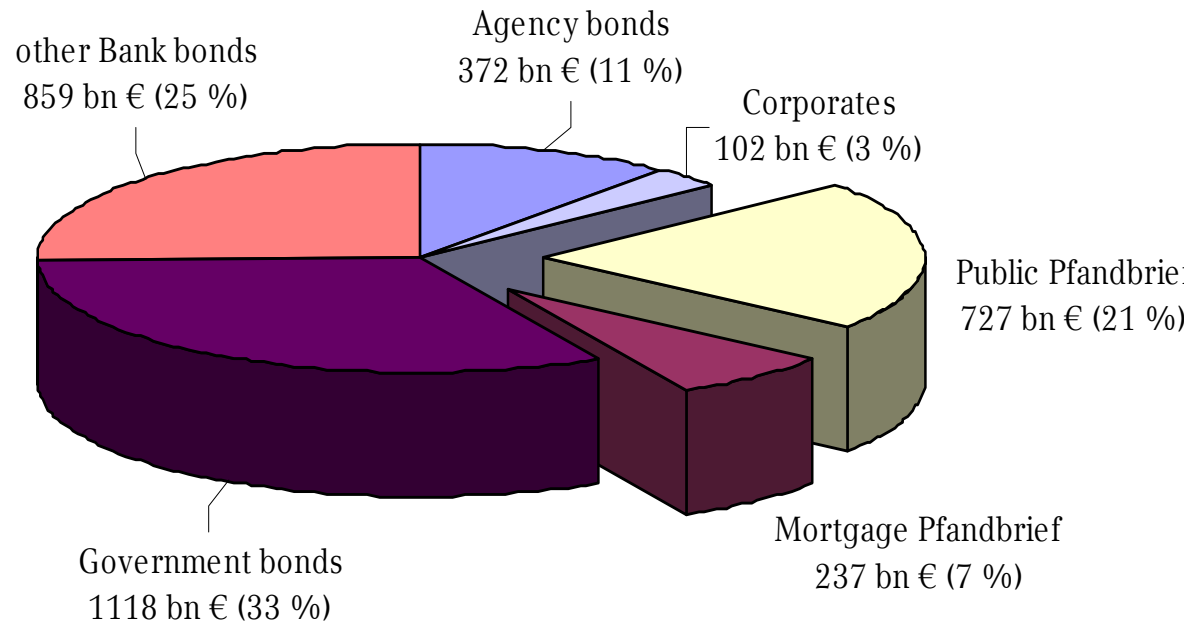


I. The Pfandbrief 2006 / 2007



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The German
bond market
outstandings as of
09/2006



total outstanding
3,415 bn €

source: Bundesbank



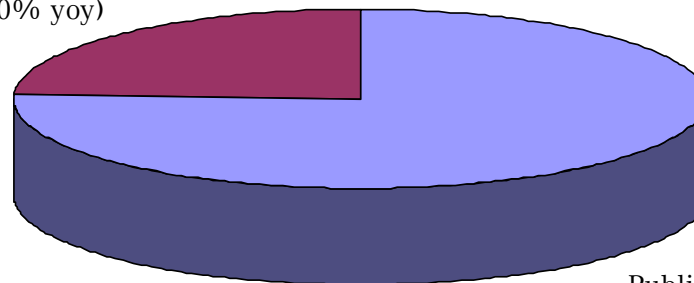
I. The Pfandbrief 2006 / 2007



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New Pfandbrief issuance Q1 – Q3 2006

Mortgage Pfandbrief
32 bn € (+20% yoy)



Public Pfandbrief
101 bn € (-5% yoy)

source: Bundesbank

total: 133 bn €

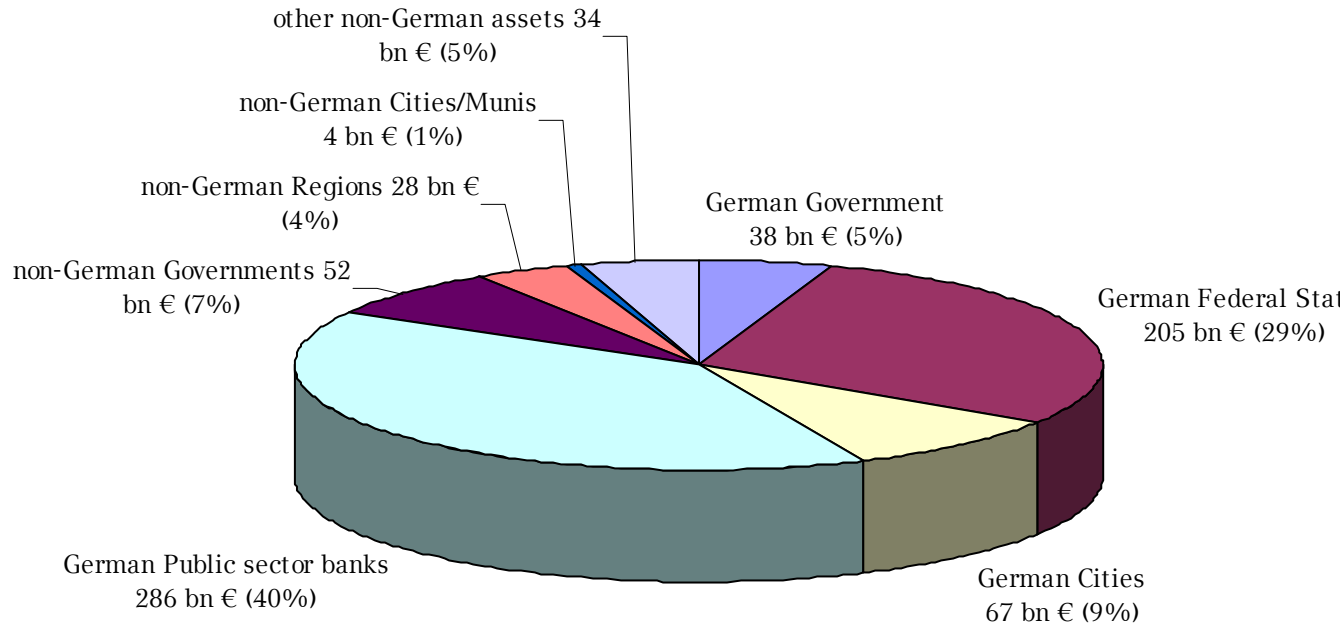


I. The Pfandbrief 2006 / 2007



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Public sector
cover assets
as of September
2006



source: HSBC, vdp

total: 715 bn €

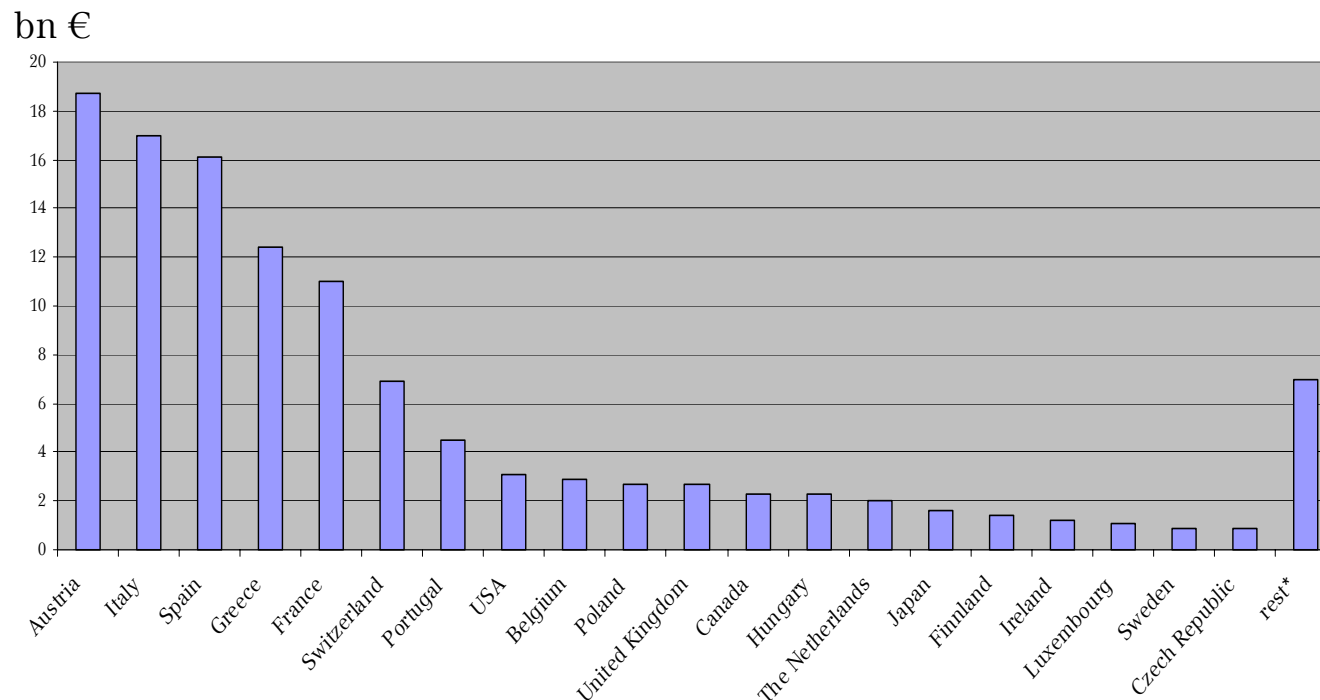


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Cross border
public sector
cover loans as of
September 2006



total: 117 bn €

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

source: HSBC, vdp

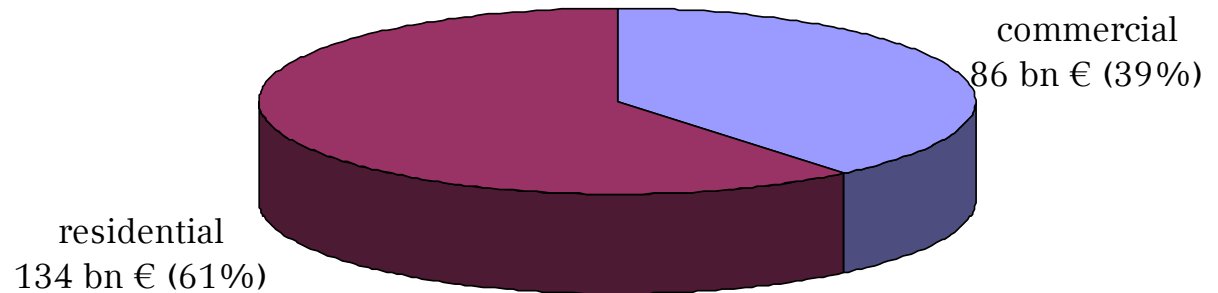


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**Commercial vs.
residential mortgage
cover loans as of
September 2006**



source: HSBC, vdp

total: 220 bn €

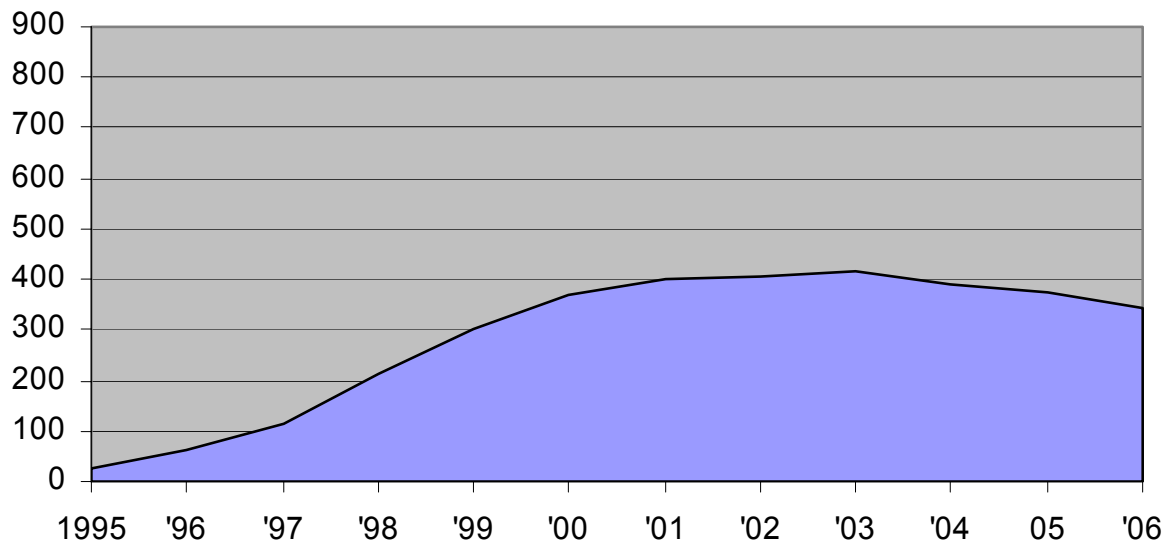


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**Jumbo Pfandbrief
outstanding 1995 –
2006 (bn €)**



source:vdp

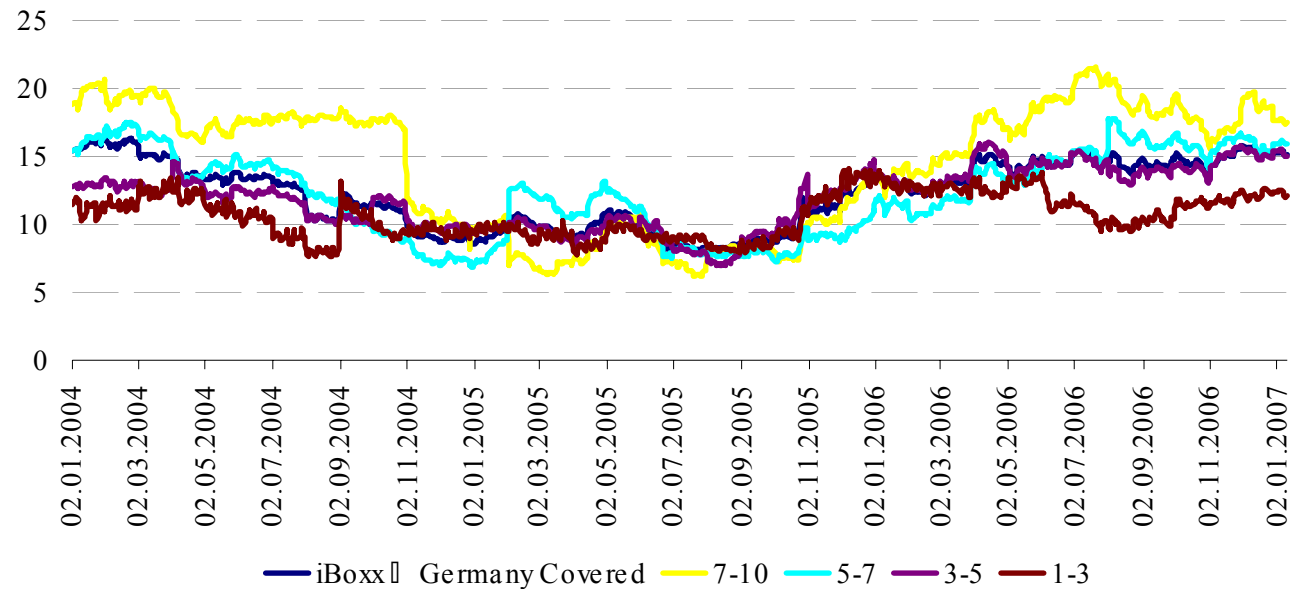


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Jumbo Pfandbrief vs.
Bund (bp)



source: LBBW

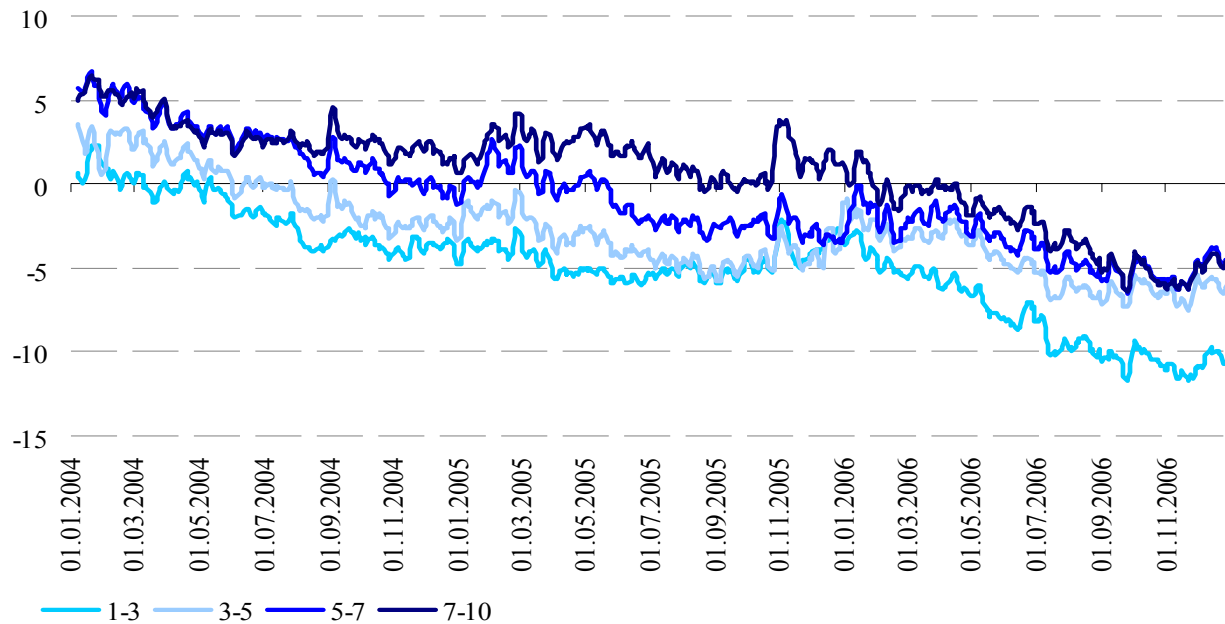


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Jumbo Pfandbrief vs.
swaps (bp)



source: LBBW



I. The Pfandbrief 2006 / 2007



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**Net Present Value
statutory order of
21 July, 2005**

**Mortgage Lending
Value determination
statutory order of
1 August 2006**

**Cover register
statutory order of
31 August 2006**

- detailed stress testing for interest- and currency risk
 - dynamic and static approach
 - drafted on best practise principles of Mortgage Lending Value determination
 - underpinning the sound and conservative evaluation procedure for property
 - cover register details all assets belonging to cover pools which are therefore in insolvency reserved for Pfandbrief creditors
 - details entry and exit of assets as recorded by cover pool monitor
- ⇒ **Pfandbrief Act incl. secondary legislation are Covered Bond benchmark regarding quality and detail of regulation**



II. Modified Minimum Standards for Jumbo Pfandbrief



II. Modified Minimum Standards for Jumbo Pfandbrief



Why new rules?

In October 2005 interbank market making for AHBR Jumbos was suspended

- old Minimum Standards not geared to accommodate an issuer crisis
- to foster investor confidence an amendment of Minimum Standards was indicated

What needed to be changed?

- rules must cover suspension of market making in exceptional situations
- fast and clear communication to the market must be ensured



II. Modified Minimum Standards for Jumbo Pfandbrief



New rules

1. committee of market makers and issuers set up: „Market Maker and Issuer Committee“ (MIC)
 - representatives of Jumbo Pfandbrief market makers associated under the umbrella of the German chapter of *The Financial Markets Organisation ACI* and vdp convene in the MIC regularly or when crisis strikes or is imminent
 - MIC discusses measures to prevent suspension of market making or to achieve resumption as quickly as possible, e.g.
 - temporary widening of bid/offer spreads
 - temporary lowering of ticket size



II. Modified Minimum Standards for Jumbo Pfandbrief



New rules

2. in a crisis market makers have to notify market participants immediately if market making is to be suspended
 - ensures an orderly procedure
 - helps to avoid uncertainty and irritation among investors
3. recommendation: investment banks acting as Market Maker should have separate limits for Pfandbriefe and other debentures of the same issuer
 - Pfandbrief cannot be equated with ordinary senior bank bonds
 - Pfandbrief Banks attach great weight to separated limits



II. Modified Minimum Standards for Jumbo Pfandbrief



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New rules

4. increase minimum number of market maker from three to five
5. precise definition of „normal trading hours“ (9-17 CET)
6. increasing bid/offer spread for maturity over 20 up to 25 years to 25 cents (before: 20 cents over 20 years)



III. About the Association of German Pfandbrief Banks



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Association of German Pfandbrief Banks

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



III. About the Association of German Pfandbrief Banks



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Association of German Pfandbrief Banks

**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

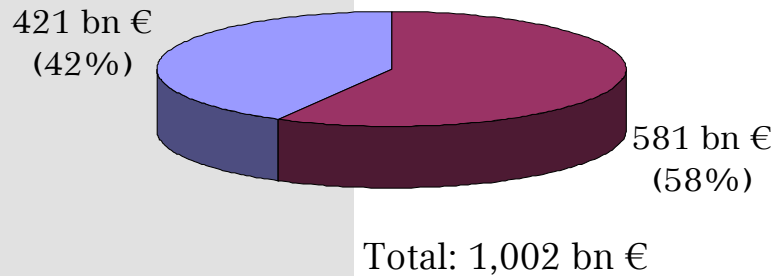
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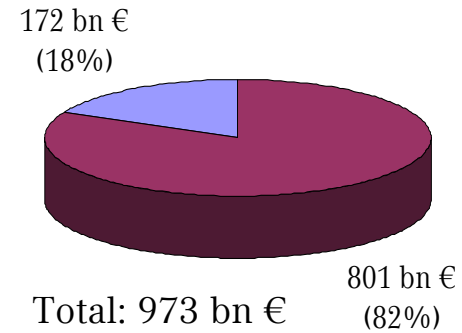
Pfandbrief outstanding

30.06.2005



■ vdp members ■ other issuers

30.06.2006



■ vdp members ■ other issuers

Source: Deutsche Bundesbank, vdp



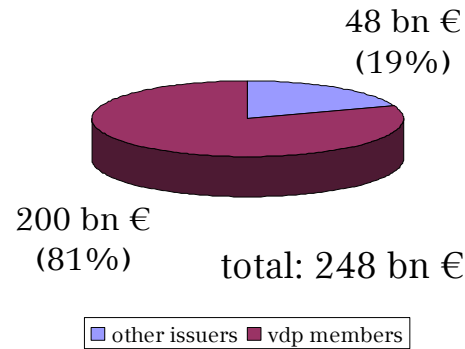
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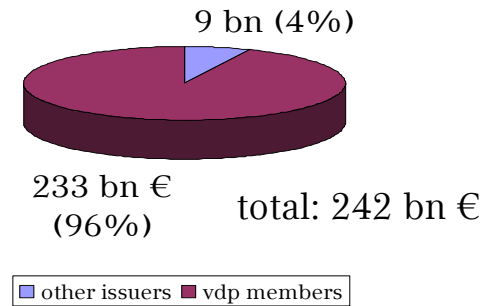
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Mortgage Pfandbrief outstanding

30.06.2005

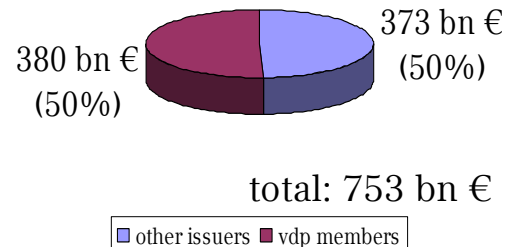


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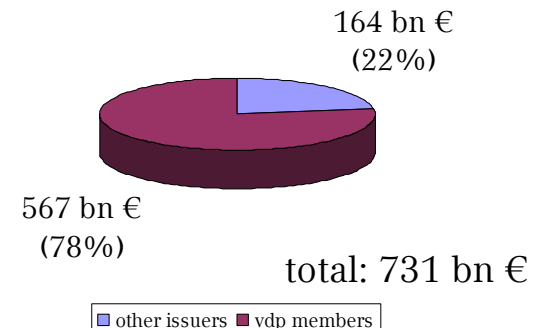


Public Pfandbrief outstanding

30.06.2005



30.06.2006



Source: Deutsche Bundesbank, vdp



Further Information



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**Thank you for your
attention!**

Association of German Pfandbrief Banks (Headquarters)	Fon +49 30 20915-100 Fax +49 30 20915-419 email: info@pfandbrief.org
Internet Homepage	http://www.pfandbrief.org
Bloomberg	HYP <GO>
Tokyo Liaison Office: International Financial Consulting K.K. (IFC)	Fon +81 3 5532-8921 Fax +81 3 5532-8367 email: h.takee@pr-liaison.com
New York Liaison Office: Makovsky & Company Inc.	Fon +1 212 508-9600 Fax +1 212 751-9710 email pfandbrief@makovsky.com

Member Institutions of the Association of German Pfandbrief Banks

 Aareal Bank	 ALLGEMEINE HYPOTHEKENBANK RHEINBODEN AG	 Bayern LB	 Berlin Hyp Berlin-Hannoversche Hypothekenbank AG	 Deutsche Genossenschaftsbank Hypothekenbank	 DEUTSCHE HYPO Deutsche Hypothekbank (Aktien-Gesellschaft)
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 SEB	 Sparkasse KölnBonn	 Westdeutsche ImmobilienBank	 WestLB	 WL BANK	 wüstenrot Wüstenrot Bank AG Pfandbriefbank