

The German Pfandbrief Market 2010

A RESEARCH PUBLICATION BY DG HYP

Pfandbriefe – a crisis-proof and secure investment



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Preface

Pfandbriefe – German asset-covered bonds – fulfil the greater part of investor requirements for security and transparency. Investor confidence in these financial products remained intact during the crisis, which is why Pfandbriefe maintained their key importance as long-term funding tools.

During the first six months of this year, a total Pfandbrief issuing volume of approximately EUR 49 billion was placed, securing the top rank for Pfandbriefe amongst international covered bonds. Besides the trust demonstrated by investors, this successful development reflected the strict requirements of the German Pfandbrief Act, and the stable local real estate market.

Against the background of developments on capital markets during recent years, legislators amended the Pfandbrief Act in March 2009, further enhancing the provisions regarding liquidity reserves and transparency. Given the very dynamic evolution of the competitive environment – as well as investor requirements – yet another amendment to the German Pfandbrief Act is scheduled for this year, which has already been adopted by the German parliament.

The purpose of these latest changes is to achieve clarification – by removing existing ambiguities within the Pfandbrief Act – regarding the viability of funding operations conducted by the administrator to be appointed in the event of insolvency of a Pfandbrief issuer with Deutsche Bundesbank. Other changes to be introduced in this context include a further tightening of transparency requirements: mandatory disclosures regarding the cover assets pool will now have to be kept available for a minimum period of two years.

The German Federal Financial Supervisory Authority („BaFin“) has licensed DG HYP to use Pfandbriefe in order to refinance loans collateralised by liens on real property, as well as for the refinancing of public finance exposures. DG HYP enjoys a strong position in this business, leveraging its integration into the German Cooperative Financial Services Network and its outstanding market presence: as an institution, it offers a high degree of security and a strong credit rating.

„Pfandbriefe – a crisis-proof and secure investment“ is the motto of this report, covering developments on the German Pfandbrief market during 2010. The publication provides an overview of current developments on covered bond markets and on the various issuers. It also outlines the legal framework of German Pfandbrief issues, taking into account the imminent amendments to the German Pfandbrief Act.

Deutsche Genossenschafts-Hypothekenbank AG

September 2010

EXECUTIVE SUMMARY

- » Pfandbriefe have come through the financial crisis in relatively good shape – especially compared with other covered bond segments – with spreads only very moderately wider after the Lehman collapse. Investors were apparently persuaded that pfandbriefe were so systemically important for the capital markets and most importantly for the German pensions system that everything necessary would be done to ensure that not a single pfandbrief coupon was missed. The federal government also helped to maintain this positive sentiment when the preamble to the Financial Markets Stabilisation Act effectively provided an implied state guarantee for pfandbriefe. Although pfandbriefe were caught in the slipstream of the general negative performance of the covered bonds market as a whole, the positives we have referred to prevented a larger-scale crash.
- » Pfandbriefe with a combined nominal value of EUR 49.4bn have been issued in the first six months of the current year, EUR 13bn of this total as (classic) jumbos. Traditional pfandbriefe account for the lion's share of the bonds placed (around EUR 36bn), while registered pfandbriefe made up 17.6% of the first-half total (EUR 8.7bn). One of the main reasons for this further relative decline of jumbos is that the first half saw the placement of a total of 21 sub-jumbo-size deals between EUR 500m and EUR 1bn, more than ever before.
- » Secondary-market liquidity remains a major problem. The stop on market making, and the resulting end of the „pseudo“ liquidity that this used to provide, caused market liquidity to dry up at the very peak of the crisis. And we are still waiting today to see any broad-based normalisation. Pfandbrief turnover is now at a significantly lower level than before the Lehman collapse. Even the European Central Bank has felt the need to make concerned noises about secondary-market liquidity – the only things still missing being any proposed solutions or even suggestions for tackling this problem.
- » Another revision of Germany's pfandbrief law is scheduled for 2010. The aim of this update is to clarify or eliminate the confusion built into the Pfandbrief Banks Act (PfandBG) with regard to the practical feasibility of collateral managers/receivers conducting open-market (repo) transactions with Deutsche Bundesbank. The core question is whether a collateral manager/receiver is also entitled to engage in repos *from the Bundesbank/ECB perspective* in order to balance out mismatches in the payment flows arising from the pfandbriefe and the cover assets (i.e. bridge funding gaps)
- » Germany has a current population of 24 issuers that have jumbo pfandbriefe outstanding – this is a decline of four issuers compared with two years ago. This is explained firstly by the integration of EssenHyp into Eurohypo and secondly by the consolidation of group companies within the struggling Hypo Real Estate Group. Finally, the incorporation of Landesbank Rheinland-Pfalz and SachsenLB into the LBBW Group explains the further shrinkage of the issuers universe.

MARKET DEVELOPMENT

Pfandbriefe have come through the financial crisis in relatively good shape. True, the swap spreads of German covered bonds also widened significantly following the collapse of Lehman – especially compared with their own history. Compared with the other national segments however, the „spreads explosion“ was modest in scale. The main reasons for this encouraging performance lie in how investors viewed pfandbriefe *per se*, Germany’s pfandbrief law and the German property market – even though the majority of pfandbrief cover pools contain a significant portion of foreign assets. The history of the pfandbrief, which has delighted investors with more than 250 years without a single late coupon payment let alone default, simply did not permit the idea of any other outcome to take root in investors’ minds – even in the context of this grave crisis. Furthermore, the German property market has not suffered any major problems since sale prices and rents have not indicated any signs of a developing bubble in the Spanish or UK style. Investors were also convinced that pfandbriefe were so systemically important for the capital markets and most importantly for the German pensions system that everything necessary would be done to ensure that not a single pfandbrief coupon was missed. The federal government also did its bit to maintain this positive attitude, not least when the preamble to the Financial Markets Stabilisation Act effectively provided an implied state guarantee for pfandbriefe. Although pfandbriefe were caught in the slipstream of the general negative performance of the covered bonds market as a whole, the positives we have referred to prevented a larger-scale crash of the segment and/or a substantially higher swap spreads level. That said however, pfandbrief spreads have been virtually at a standstill for almost a year now.

Even at the height of the crisis..

...investors did not abandon their positive view of pfandbriefe

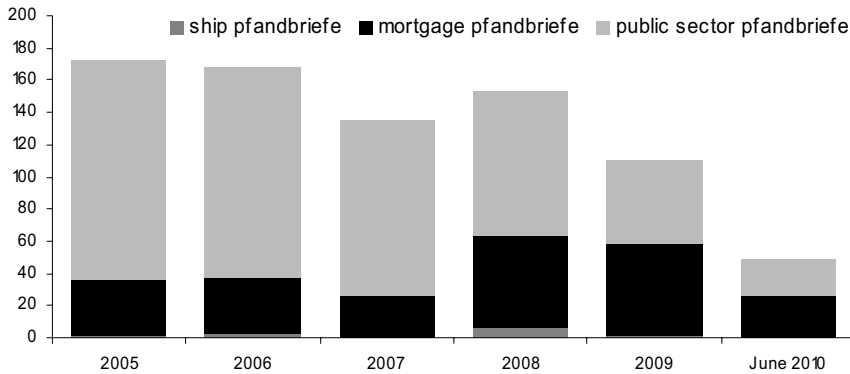
Primary market: Jumbo pfandbriefe a shrinking market segment

Pfandbriefe with a combined nominal value of EUR 49.4bn have been issued in the first six months of the current year, EUR 13bn of this total as jumbos. Traditional pfandbriefe account for the lion’s share of the bonds placed (around EUR 36bn), mostly placed privately. The advantages of this over public issues are firstly that the deals’ maturity and other structural features can be tailored to the individual needs of the predominantly institutional investors, and secondly that the pfandbriefe can be issued as registered paper and not solely in the form of bearer pfandbriefe. Registered pfandbriefe made up 17.6% of the first-half total (EUR 8.7bn). Extrapolated to the full current year, the total gross sales of all pfandbriefe to date will fall short of the 2009 total (EUR 110bn).

Just under EUR 50bn of new issues in the first half of the year

The German Pfandbrief Market 2010

TOTAL GROSS SALES OF PFANDBRIEFE (IN EUR BN)

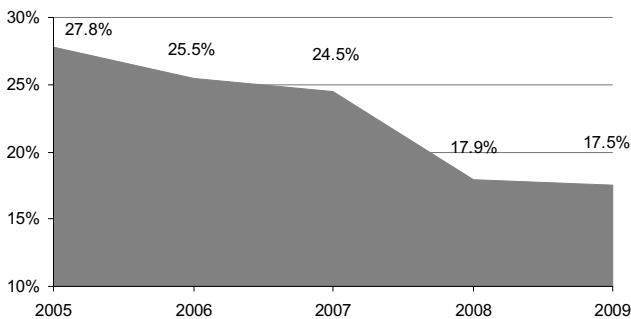


Source: vdp

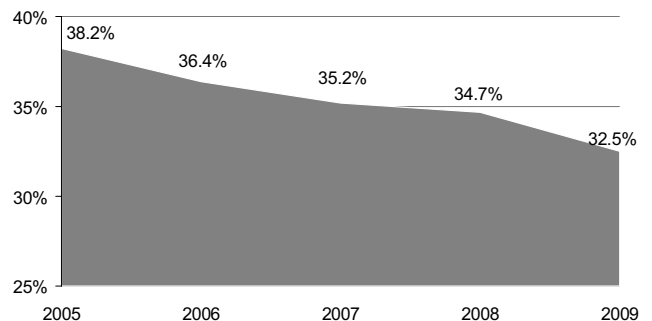
One of the main reasons for this further relative decline of jumbos (to 26.7% of total new issuance) is that the first half saw the placement of a total of 21 sub-jumbo-size deals between EUR 500m and EUR 1bn, more than ever before. One probable explanation for this smaller-deal bias in our view is the fact that issuers currently want above all to play safe. A glance at their order books shows that they have recently found it increasingly more difficult to generate sufficient demand for jumbos. This leads them to opt for a smaller-size issue in order to pre-empt the possibility of a misfire from the outset. And if the demand is there, they can always just increase the amount on offer anyway. We expect this trend to persist into the second half of this year. In addition to the benefit of small deals being easier to get away, it is quite possible that the new stricter requirements on banks' assets and liabilities management (and the resulting higher costs) will induce quite a few banks to decide against issuing jumbo pfandbriefe in the future.

Jumbos' share of total new issuance still falling on trend towards smaller deals

PROPORTION OF JUMBO ISSUES TO TOTAL NEW ISSUES



PROPORTION OF JUMBO ISSUES TO OUTSTANDING STOCK OF CB'S

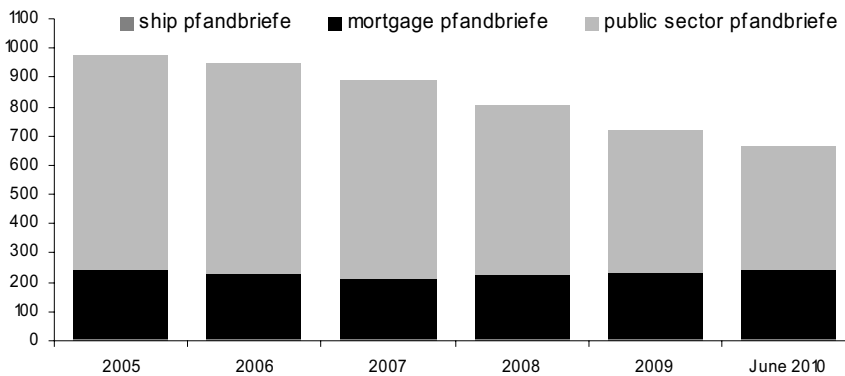


Source: vdp

As we saw in 2009, the primary market was no longer dominated by public-sector pfandbrief issues in the first six months of this year. The total of new bonds collateralised by state-sector cover assets issued in the first half (EUR 23bn) was less than the issuance of new mortgage pfandbriefe (26bn Euro). While this year's new issuance of mortgage pfandbriefe has already nearly equaled the full year's scheduled maturities, the stock of outstanding public-sector pfandbriefe will get even smaller. A total of nearly EUR 80bn worth of jumbo pfandbriefe will mature over the course of this year. Public-sector pfandbriefe account for the greater part of these repayments (EUR 58.5bn). With the mortgage banks and other pfandbrief issuers still especially cautious on the state finance front at present, or even being forced to shrink their loan books, it is likely that the second half will also see only a fraction of the strong flow of public-sector pfandbrief maturities replaced.

Stock of public-sector pfandbriefe in circulation continues to shrink ...

PFANDBRIEFE IN CIRCULATION (IN EUR BN)



Source: vdp

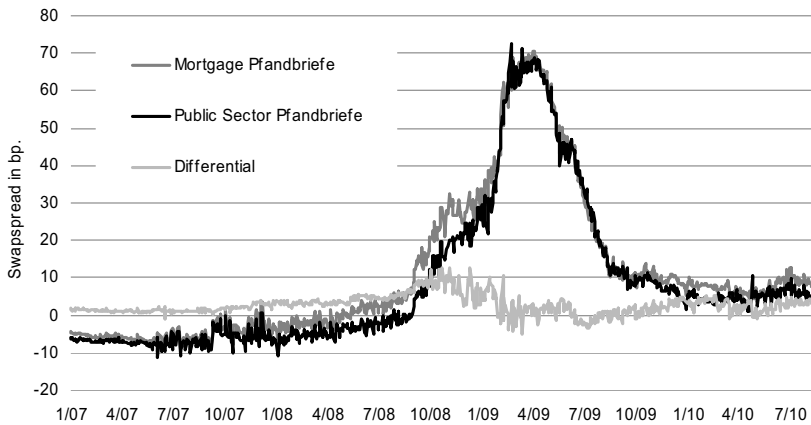
The coming years will probably see public-sector pfandbriefe continue to become relatively less and less significant – and not only jumbos. The significantly tighter margins situation in the state-finance sector (it has always been a pretty opportunistic business line) and the banks' correspondingly reduced appetite for new lending to government entities is acting to reduce their funding requirements. Also, investors are now looking at the state finance business with an increasingly more critical eye; the very few transactions that currently still offer appealing margins - in many cases even making maturity transformation– are likely to be the same ones that investors disapprove of most. And not least, this trend is also being reinforced as individual players in the pfandbrief market refocus their businesses to reveal a greater commitment to property finance. State finance is on a losing streak; players will not abandon it altogether. However, the significance of this business line is set to erode consistently in future.

... and the category is losing significance

One legitimate conclusion that investors can draw from this process is that public-sector pfandbriefe can be expected to benefit increasingly in future from a certain „rarity status“ – even though their outstanding amount still seems rather high compared to mortgage pfandbriefe. Issuers whose operations are focused primarily on Germany will have their noses in front. The recent wave of worry about the ability of several eurozone countries to manage their excessive sovereign debt could leave pfandbriefe whose public-sector cover assets are largely domiciled in the periphery states at a slight relative disadvantage. At least we can say that the limitless bonus that public-sector pfandbriefe have always enjoyed over mortgage-backed bonds, has now been effectively consumed. It can no longer be taken for granted that mortgage pfandbrief swap spreads always have to be higher than their public-assets-backed peers.

Rarity status will lend support

MORTGAGE AND PUBLIC SECTOR PFANDBRIEFE CLOSE TO EACH OTHER



Source: DZ Bank, Bloomberg data

Mortgage pfandbriefe will slowly but surely overtake publicly-backed paper. While it is true that issuers are also refocusing their mortgage lending operations, it is specifically these crisis-induced essential changes (such as lenders' more questioning attitude towards commercial property finance) that should make mortgage finance a safer and therefore even more attractive business line in the future. Mortgage pfandbriefe also now have to contend with global competition, especially as the portion of commercial mortgage loans in German cover pools is comparably high. Jurisdictions that also issue public-assets-backed covered bonds can be counted on the fingers of one hand anyway.

Mortgage pfandbriefe facing stiffer competition

Secondary market: Liquidity situation and outlook

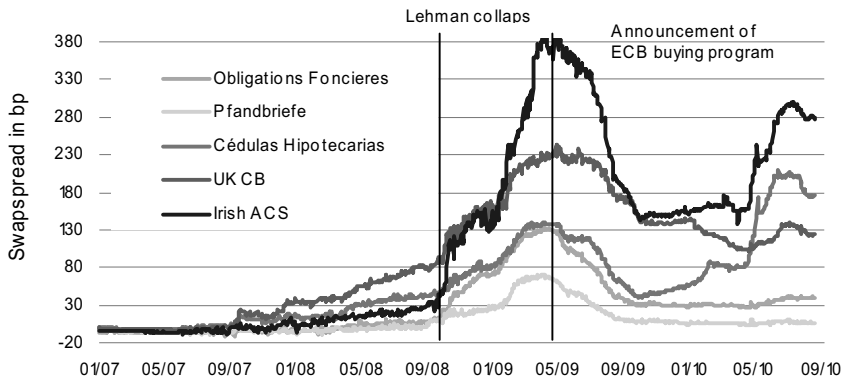
Starting from the extremely (some thought excessively) homogeneous spreads level that the entire jumbo covered bonds market had grown accustomed to before the admittedly widely unexpected eruption of the financial-markets crisis, German covered bonds' risk premiums relative to swaps widened out on average to a maximum of around 70 basis points in the five-years maturity band (which was then still the most liquid and therefore the most informative maturity range) – a figure that looked pretty dramatic for the pfandbrief segment at the time considering that many spreads

Spread widening has been modest compared with other segments

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had previously been in the double-digit negative range; compared with the spread changes seen in all the other CB segments however, this widening was modest in scale if anything. Spanish *cédulas* and French covered bonds for instance went out to swap spread levels of plus 130 basis points, while Irish ACS even briefly exploded to swap spreads close to 400 basis points.

JUMBO SWAP SPREADS: PFANDBRIEFE ACTUALLY RELATIVELY STABLE



Source: DZ BANK, Bloomberg data

The European Central Bank (ECB) then entered the stage in early May 2009 and turned the market trend on its head. From the first announcement of the ECB's EUR 60bn buy-ups program through to the end of June 2010, the swap spreads of outstanding jumbo covered bonds – including pfandbriefe – have tightened in drastically. Some German issuers' covered bonds are already back at pre-crisis swap-spread levels. Although the other national segments have also been performing extremely positively again since May last year, the market is currently differentiating much more between individual covered bond products – a pattern that is likely to persist in the medium and longer terms. After all, if investors have learned anything from the crisis, it is to analyse the various segments' strengths and weaknesses in greater depth and base their secondary market pricing on the results. That said, we always need to keep one fact in mind when considering this issue, namely that the ECB has not fundamentally changed the state of the market – its program was simply too small to do that. So we are left with the objective of affecting sentiment – and it was no more than natural that pfandbriefe, whose swap spreads had anyway only widened „accidentally“ with the rest of the herd in most investors' opinion, also returned to near pre-crisis levels the fastest.

In addition, liquidity has been and still is a major problem for the entire covered bonds secondary market – which means it is also, but not exclusively, a problem for pfandbriefe. The stop on market making, and the resulting end of the „pseudo“ liquidity that this used to provide, caused market liquidity to dry up at the very peak of the crisis. And we are still waiting today to see any broad-based normalisation – we still find it difficult even to speak of a marked improvement. Pfandbrief turnover is now at a significantly lower level than before the Lehman collapse. In some instances, buy inquiries in particular are still ending largely in frustration, firstly because many investors are preferring to keep their holding fully intact and secondly

ECB's buy-ups program drives spreads lower...

...and pfandbriefe nearly back to the pre-crisis level

Secondary-market liquidity is (still) tight

The German Pfandbrief Market 2010

because the banks do not have any more paper to use to fulfill buy orders (virtually nobody in the market wishes or would be permitted to take short positions in the current environment). Compared with the market as a whole however, pfandbriefe and French covered bonds are still seeing the most turnover – even if the volumes involved are no reason at all to express satisfaction with the secondary market situation. Even the European Central Bank has felt the need to make concerned noises about secondary-market liquidity – the only things still missing being any proposed solutions or even suggestions for tackling this problem.

ISSUERS UNIVERSE

Germany has a current population of 24 issuers that have jumbo pfandbriefe outstanding – this is a decline of four issuers compared with two years ago, before the financial crisis. This is explained firstly by the integration of EssenHyp into Eurohypo and secondly by the consolidation of group companies within the struggling Hypo Real Estate Group to create Deutsche Pfandbriefbank. As part of the restructuring of this new entity, pfandbrief operations are now being upgraded to a core expertise in order to make it capital-markets-capable again and ultimately make Deutsche Pfandbriefbank „fit for privatisation“. Finally, the incorporation of Landesbank Rheinland-Pfalz and SachsenLB into the LBBW Group explains the further shrinkage of the issuers universe.

The current 24 issuers still include seven Landesbanken as well as Dekabank Deutsche Girozentrale and Westdeutsche Immobilienbank. The other issuers are all private-sector banks, with the number of „pure“ mortgage/pfandbrief banks now reduced to nine.

We expect the population of currently active issuers to continue to reduce slightly in the future. It is an unavoidable fact that a high proportion of the issuers are still in the process of restructuring, which could lead to a complete stop of issuance activity in certain pfandbrief types. The individual banks' plans range from straightforward portfolio restructuring through to large-scale balance-sheet shrinking and EU-Commission-forced asset sales. In return for the public support they have received, the EU Commission has imposed the requirement on LBBW, BayernLB and WestLB to reduce their total assets by up to 50%, for instance. However, Commerzbank has also been ordered to divest its Eurohypo subsidiary within four years. In response, a radical restructuring of the property-finance and state-finance businesses has been launched. One possible option is for Eurohypo to withdraw altogether from public-sector lending in future. We will have to wait and see how deep the coming cuts turn out to be before we can make a more precise prediction of the impact on the issuer population.

Another complication is that the final revisions to issuers' business models are being delayed by the uncertainty surrounding the eventual outcomes of the present „banking reregulation“ process, a sharp tightening of the rules in reaction to the financial crisis. A final decision on individual bank's future strategic priorities will only be possible once the final requirements and the timetable for introducing the new regime have been agreed.

On the other hand, the last two years have also seen a new issuer - Deutsche Bank – join the pfandbrief club. The German Pfandbrief Banks Association (vdp) has also just confirmed in an interview that several foreign banking groups are currently considering applying for a pfandbrief license in order to take advantage of the cheap funding conditions on offer. Nevertheless we have to see if those plans will really be enforced and in a next step, how the German pfandbrief issuers will respond to the foreign newcomers in terms of concerns regarding the quality.

Issuer population falling

24 jumbo issuers left

High proportion of issuers in middle of restructuring process

New banking regulation process delaying changes to business models

The next few years could see new issuers join the club again

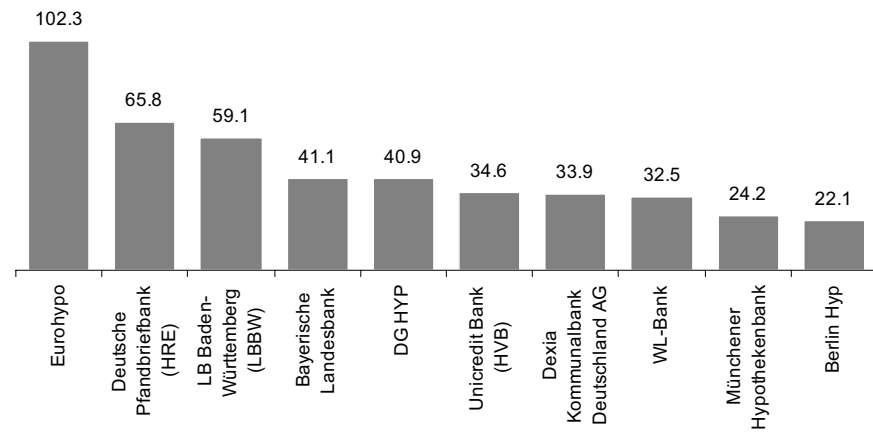
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The universe of pfandbrief issuers consists firstly of small issuers that have no more than a few pfandbriefe outstanding. On the other side, three big banking groups account between for nearly half the total jumbo pfandbriefe in circulation. Eurohypo, Deutsche Pfandbriefbank and LBBW are the issuers of more than a third the outstanding pfandbriefe (traditional plus jumbos) by value.

Large issuers dominate the market

An overview of all issuers can be found on the pages 28 and 29.

TEN BIGGEST ISSUERS' OUTSTANDING PFANDBRIEF VALUE (NOMINAL)



Source: DZ BANK

LEGAL FOUNDATIONS

2010 pfandbrief law revision

The latest revision of Germany's pfandbrief law is scheduled for 2010 and has just recently been approved by the cabinet. The aim of this update is to clarify or eliminate the confusion built into the Pfandbrief Banks Act (PfandBG) with regard to the practical feasibility of collateral managers/receivers (Sachwalter) conducting open-market (repo) transactions with Deutsche Bundesbank. The core question is whether a collateral manager/receiver (Sachwalter) is also entitled to engage in repos *from the Bundesbank/ECB perspective* in order to balance out mismatches in the payment flows arising from the pfandbriefe and the cover assets (i.e. bridge funding gaps). It is most importantly clear in the light of experiences from the financial crisis that it would be enormously in the interests of pfandbrief creditors to give the collateral manager/receiver direct access to central bank liquidity, so this revision – assuming it actually delivers the desired outcomes – would serve to enhance the quality of pfandbriefe.

Pending PfandBG rewrite to address access to central bank liquidity

To clarify and if necessary create the legal provisions, the revision will assign the cover pool „credit-institution status as a *quasi* subsidiary bank of the insolvent pfandbrief bank (...) [in order that] the collateral manager/receiver is permitted to act as the manager of a credit institution vis-a-vis Deutsche Bundesbank.“ (draft bill: page 48). The legal experts on the PfandBG say that this capability is already provided in the present version of the PfandBG, the aim of the revision is merely to make this clearer.

Cover pool to be recognised as bank property

The cover pool for which the collateral manager/receiver is responsible does not become a new legal entity/corporate body following the insolvency of the pfandbrief bank and/or the suspension of its license to conduct pfandbrief operations or banking operations in general; instead, it remains as a special or privileged part of the pfandbrief bank. The cover pool does not have its own separate legal personality either before or after the pfandbrief bank's insolvency. It follows that even after the onset of insolvency, there is no distinction under company law between the cover pool as a „special fund“, a defined part of the bank that is ring-fenced off from insolvency proceedings, and the bank's other assets: the corporate entity of the pfandbrief bank remains the beneficial legal owner of the cover pool that has no separate legal personality. The term applied to the cover pool is insolvency-protected fund, which again makes it emphatically clear that the cover pool is ring-fenced against insolvency claims and separate from the bankrupt estate from the outset – it does not need spinning out or separating off from the bankrupt estate. The cover pool continues to function as a „restricted-operation pfandbrief bank“ managed by the collateral manager/receiver, who is authorised to conduct necessary banking transactions within the meaning of § 32 KWG for the orderly servicing of pfandbrief creditors – which also includes issuing pfandbriefe¹. The prerequisite for this is the continuation of the existing license:

"Restricted-operation pfandbrief bank"

¹ This means the 2010 revision also removes the prohibition preventing the collateral manager/receiver from issuing further pfandbriefe imposed in an earlier preamble.

„In order to place the collateral manager/receiver in a position to effect transactions (...) for the benefit of (...) restricted-operation pfandbrief banks, the continuation of the bank's existing license under § 32 KWG shall be standard practice unless BaFin expressly extends the suspension of the license to the specific cover pools. Such continuation of the pfandbrief bank's operations is justified provided the various pfandbrief cover pools have the necessary inherent substantial strength, which should be assumed in the light of the special protective mechanisms required under pfandbrief law.“ (draft bill page 79).

Banking license continues provided solvency criterion is satisfied

The number of „restricted-operation pfandbrief banks“ will correspond with the number of cover pools. Where a pfandbrief bank becomes insolvent that has one cover pool for its public-sector pfandbriefe and one for its mortgage pfandbriefe, a „restricted-operation pfandbrief bank“ will continue to function for each cover pool. In order to meet the requirements imposed by central-bank law, the revision will ensure that the required minimum reserve backing the pfandbrief liabilities (original maturity: □ 2 years) cannot become part of the bankrupt estate, but belongs to the cover pool and therefore does not reduce it.

Minimum reserve belongs to the cover pool

A „restricted-operation pfandbrief bank“ does not require and must not have its own capital as defined by the KWG since, says the preamble, „the main purpose of maintaining a functional pfandbrief bank is manage a solvent cover pool in order to permit the timely servicing of the pfandbriefe.“ (draft bill page 79). This clear objective definition also makes it clear that it is not the collateral manager/receiver's function to establish a new business model and continue the bank indefinitely.

No equity capital required

In addition to editorial tidying up, the revision will introduce new limited liability for the trustee role and rules for this official's payment – the latter will also apply to the funding register administrator. The relationship between the trustee and the collateral manager/receiver will also be more clearly demarcated. In the event of the pfandbrief bank's insolvency and/or the appointment of a collateral manager/receiver, the trustee's monitoring role will terminate. In this case, the trustee would only become active again if the pfandbrief bank were to emerge from insolvency and be permitted to resume its business activity.

New cap on trustee's liability and clear role demarcation from the Sachwalter

The federal cabinet approved the expert committee's draft revision back in March 2010. Parliament is expected to pass the bill in the Fall and it will come into force on January 1.

Revision to take effect at year changeover

Our assessment

Even if the revision essentially „only“ clarifies existing regulations and requirements, it still represents a positive development in terms of the new transparency, greater precision and ease of understanding it will provide.

The law revision should be warmly applauded for helping to substantially reinforce the position of pfandbrief creditors by putting the legal framework in place for the pfandbrief-cover-pool-bank to access central-bank liquidity - no trivial matter from the credit rating perspective. In many respects, the revision is more than just a clarification. It remains to be seen after the revision takes effect however, whether the Bundesbank/ECB will then acknowledge or confirm that monetary transactions with a „restricted-operation pfandbrief bank“ are legitimate.

Despite these reservations, the revision will help Germany's pfandbrief law to remain a worldwide benchmark because of its transparency standards and because of the depth and breadth of its detailed insolvency provisions. We welcome the revision because it creates legal clarity on crucial aspects of insolvency law while also providing a framework for the collateral manager/receiver to more easily bridge liquidity gaps and further raising transparency standards.

Bold and welcome clarification...

... that will substantially strengthen the position of pfandbrief creditors

Pfandbrief law entrenches benchmark status

Germany's Pfandbrief Banks Act

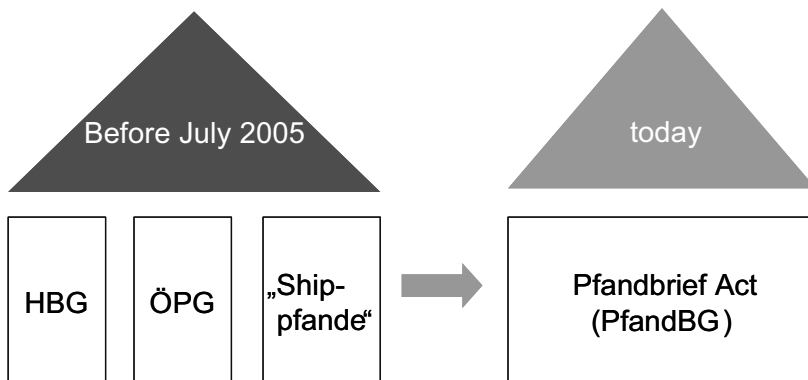
The legal basis for issuing pfandbriefe encompasses market practices/conventions and supervisory structures, as well as rules and regulations specific to the issuer, which constitute the core elements of the institutional framework in which pfandbriefe are enshrined. Even more: the pfandbrief would not exist without the Pfandbrief Banks Act. In recognition of the significant ability of the pfandbrief legal regime to promote confidence and increase ratings, we will present in more detail below the most important elements of the current applicable legal.

Pfandbriefe – subject to numerous conditions

Aside from the detailed regulations of insolvency law included in the 4th Financial Markets Promotion Act, the legislative changes that came into force in 2005 are undoubtedly the most remarkable of all the changes in the last decade. Strictly speaking, this revision was not an “ordinary” amendment of the existing pfandbrief, but rather introduced a new law that for the most part follows the proven German Mortgage Banks Act (Hypothekbankgesetz - HBG) that was in place prior to that. The Pfandbrief Banks Act (PfandBG) came into force on 19 July 2005 and amalgamated the previous separate regulations governing the issuance of pfandbriefe by specialist ship and mortgage banks as well as public sector banks, and abolished the former “specialist banks principle” with its positive connotations.

PfandBG combines three laws

PFANDBG UNIFIES THREE LAWS



HBG = Mortgage Banks Act; ÖPG = Law on Pfandbriefe and related bonds of public-sector banks; Shippfandbriefe = Pfandbriefe based on ship pfandbrief law

Source: DZ BANK

Issuing license replaces specialist banks principle

The definition of pfandbrief business as proprietary banking business in the German Banking Act (Kreditwesengesetz – KWG) will permit all banks that have a license to conduct banking business to issue pfandbriefe. A bank must apply to the Federal Financial Services Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht – BaFin) for a license to transact pfandbrief operations. The license will be granted provided the credit institution meets certain minimum requirements, which are listed below:

- The bank must have core capital of at least EUR 25 million.
- The credit institution must have a license to engage in lending business.
- The pfandbrief bank must have at its disposal suitable risk management systems, which the PfandBG specifies in more detail.
- The credit institution's business plan to be submitted to the supervisory authority must state that the credit institution will engage in pfandbrief business regularly and on a sustained basis.
- The credit institution's organisational structure and resources must be designed with the pfandbrief business in mind.
- The management must have sufficient theoretical and practical knowledge in the fields of mortgage lending, public sector and/or ship finance and their respective refinancing.

BaFin is empowered to restrict the license to issue pfandbriefe to a specific pfandbrief category, so that one credit institution for example can issue only mortgage pfandbriefe, public-sector pfandbriefe, ship pfandbriefe or aircraft pfandbriefe. The PfandBG provides the supervisory authority with the opportunity to revoke an existing pfandbrief license if the bank no longer meets the requirements. This is also possible if the pfandbrief bank has not issued any pfandbriefe for more than two years and it is not foreseeable that pfandbrief business will resume within the next six months. However, the Pfandbrief Banks Act does not stipulate any minimum issuing volume in relation to the sum of issued pfandbriefe as a prerequisite for obtaining a license. In the event that the license is revoked, BaFin is authorised to appoint a collateral manager/receiver (Sachwalter) to administer the cover pool(s) through to winding-up if applicable.

BaFin grants licenses

Minimum requirements

License can be revoked

Cover calculation

All assets that serve as cover for a bank's outstanding pfandbriefe must be recorded in the cover register maintained for the respective pfandbrief type - mortgage pfandbrief, public sector pfandbrief, ship pfandbrief or aircraft pfandbrief – and deleted again in the event that the asset no longer qualifies. This facilitates the unique identification of the assets that are part of the cover pool. Details on the form and mandatory content of the cover register and on the entries to be made are determined by a separate regulation (Cover Register Statutory Order – Deckungsregisterverordnung).

Separate cover pools for each pfandbrief class

The PfandBG gives the issuers of covered bank bonds the option to include insolvency-proof land charges held in trust by third parties in the cover pool. Credit institutions can for example, transfer loans secured by land charges to pfandbrief banks while continuing to manage the land charges themselves and report them in their balance sheet. However, to ensure that the collaterals and loans held in trust are not included in the bankrupt estate in the event of the insolvency of the collateral manager/receiver, but are recognised as the pfandbrief bank's land charges, it was necessary to change the insolvency law. At the same time, parliament also created the legal foundations for a refinancing register in 2006 by means of a KWG amendment and a Funding Register Statutory Order (Refinanzierungsregisterverordnung).

Fiduciary cover

General cover requirements

The PfandBG does not explicitly limit the permitted volume of an issuing bank's outstanding pfandbriefe. Instead, the universal capital-adequacy regulations that apply to banks indirectly limit lending business – and by extension limit the cover assets it has available and implicitly cap the permitted amount of its pfandbriefe in circulation.

Implied circulation ceiling

The provisions governing matching cover and excess cover have been carried over from the previously applicable laws. The Pfandbrief Banks Act as revised now stipulates that the respective total volume of the pfandbriefe outstanding of one type must at all times be covered at their market value by assets of at least the same amount and with at least the same interest yield. The cover calculation, which is based on the net present value of the pfandbriefe compared with the cover assets, is subject to special regulatory requirements that are defined in the Net Present Value Statutory Order (Barwertverordnung). According to this regulation, the pfandbrief bank has to ensure that the net present value cover is also maintained in so-called stress scenarios based on big changes in interest and exchange rates.

Matching cover in market-value terms

The PfandBG still requires the issuer to maintain 2% overcollateralization in relation to the total volume of its pfandbriefe in circulation in market-value terms, which must be invested in liquid assets. Voluntary overcollateralisation that exceeds this statutory minimum requirement is possible. In this context, the PfandBG clearly states that the assets that exceed the legally required minimum overcollateralization are there to satisfy the claims of pfandbrief creditors in the insolvency scenario. The minimum market-value overcollateralization of 2% can also be held as deposits with Deutsche Bundesbank or with the European Central Bank (ECB), or with all other central banks of European Union member states.

2% minimum overcollateralisation

The PfandBG has harmonised the geographical restrictions on ordinary cover assets for mortgage and public sector pfandbriefe. In addition to the European Union (EU) and European Economic Area (EEA) states and Switzerland, claims on the USA, Canada and Japan are now defined as eligible cover assets for public sector and mortgage pfandbriefe. Claims on borrowers in non-EU member states in which the priority rights of the pfandbrief creditors are not recognised in the event of insolvency, may not exceed 10% of the total cover pool assets (10% limit). The privileged treatment of pfandbrief creditors (priority in bankruptcy) is deemed to be securely recognised in all EU member states, so the aforementioned 10% ceiling does not apply to borrowers from the EU.

Geographical restrictions harmonised

In addition to the ordinary cover assets, the PfandBG also allows further cover assets to be included in pfandbrief cover pools. The bonds and loans permissible (see table) are the same for the four pfandbrief classes, although their allowed share of the outstanding volume of the covered bonds differs for the four pfandbrief categories. Unlike the cover pool for public sector pfandbriefe, the share of further cover assets in the cover pool for mortgage, ship and aircraft pfandbriefe is allowed to be up to 20% of the outstanding pfandbriefe. The only exceptions are deposits with the ECB or another central bank within the EU or bonds issued by suitable credit institutions which are limited to 10%. The share of further cover assets for public sector pfandbriefe is generally limited to 10% of the volume of public sector pfandbriefe outstanding.

Permitted further cover assets

Further cover assets for pfandbriefe (for public sector pfandbriefe only 5,6,7, apply)

1	Bonds issued by central governments in the European Union (EU), European Economic Area (EEA), Japan, Canada, Switzerland and USA (with the provision that the risk weighting of the bonds does not exceed 0%)
2	Bonds issued by regional governments in the European Union (EU), European Economic Area (EEA) without restrictions as well as bonds issued by regional governments in Japan, Canada, Switzerland and the USA (with the provision that the risk weighting of the bonds does not exceed 20%)
3	Bonds guaranteed by a central government listed under 1 or local government listed under 2 (with the provision that the risk weighting of the claims does not exceed 20%)
4	Bonds issued by supranational institutions e.g. European Investment Bank (EIB), International Bank for Reconstruction and Development (IBRD), Development Bank of the European Council (CEB), European Bank for Reconstruction and Development (EBRD)
5	Deposits with the European Central Bank or another central bank within the EU
6	Bonds issued by suitable credit institutions (for example, uncovered bank bonds). The share of the further cover assets of any individual (suitable) credit institution may not exceed 2% of the volume of pfandbriefe outstanding
7	Derivative claims entered into for hedging purposes of the cover pool

Source: PfandBG

Special requirements for public sector pfandbriefe

The potential cover assets for public sector pfandbriefe in the revised Pfandbrief Banks Act are largely in line with the provisions of the HBG and are listed in the table below. The PfandBG clearly states that claims on domestic public law entities can only be used as cover for public sector pfandbriefe provided they benefit from the principles of maintenance obligation (Anstaltslast) and guarantee obligation (Gewährträgerhaftung) or an explicit central or local government guarantee. Examples are claims on public development banks such as Kreditanstalt für Wiederaufbau

Ordinary cover

(KfW) or NRW Bank. Bonds and cash claims on German Landesbanken whose bonds are grandfathered by means of the guarantee obligation continue to qualify as cover assets for public sector pfandbrief cover pools. Claims on Landesbanken originating after 19 July 2005 are no longer eligible as ordinary cover for public sector pfandbriefe due to the abolition of the guarantee obligation.

Permissible cover assets for public sector pfandbriefe: claims against...	
1	Claims on central governments in the European Union (EU), European Economic Area (EEA), Japan, Canada, Switzerland and USA (with the provision that the risk weighting of the claims does not exceed 0%)
2	Claims on regional governments in the European Union (EU), European Economic Area (EEA) without restrictions as well as claims on regional governments in Japan, Canada, Switzerland and the USA (with the provision that the risk weighting of the claims does not exceed 20%)
3	Bonds guaranteed by a central government listed under 1 or local government listed under 2 (with the provision that the risk weighting of the claims does not exceed 20%)
4	ECB and supranational institutions e.g. European Investment Bank (EIB), International Bank for Reconstruction and Development (IBRD), Development Bank of the European Council (CEB), European Bank for Reconstruction and Development (EBRD)

Source: PfandBG

Special requirements for mortgage pfandbriefe

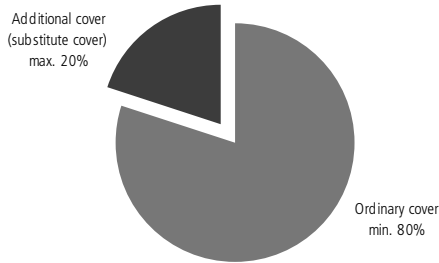
The regulations now governing the ordinary cover assets for mortgage pfandbriefe are largely identical to the provisions of the HGB. Only mortgage loans that meet certain requirements are eligible as cover assets. Hence the mortgages must encumber properties, rights equivalent to real property or such rights under a foreign legal system that are comparable with the rights equivalent to real property under German law.

A duty of insurance and an obligation to calculate lendable values also place additional requirements on mortgage loans. Only the long-term, sustainable net asset value and capitalised earnings of a property can be taken into consideration when determining its lendable value. According to the PfandBG, mortgage loans used as cover for mortgage pfandbriefe may not exceed 60% of the lendable value of a property. This limit applies regardless of whether the building is used for residential or commercial purposes. This regulation, which serves to protect pfandbrief creditors, is very strict compared with other European covered bond regimes.

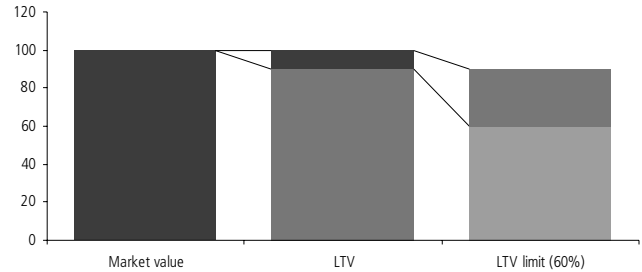
Ordinary cover

60% loan-to-value ceiling

BREAKDOWN OF COVER ASSETS *)



60% LOAN-TO-VALUE CEILING



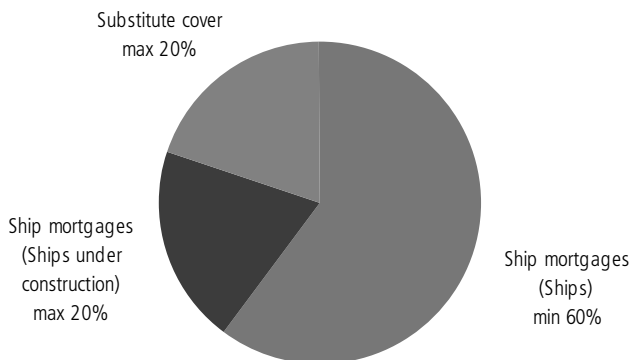
Source: DZ BANK; *) in % of the volume of mortgage pfandbriefe outstanding

Special requirements for ship pfandbriefe

Only loans that are secured by ship mortgages qualify as ordinary cover for ship pfandbriefe. The loan is limited to ships and to ships under construction which are recorded in a public register. The loans may not extend beyond the 20th year of the ship's life. The supervisory authority may allow exceptions in individual cases. Loans secured by ships or ships under construction, which are registered abroad, can also be included in the cover pool provided certain provisions that are defined in the PfandBG are met.

Ordinary cover

BREAKDOWN OF THE COVER ASSETS FOR SHIP PFANDBRIEFE *)



Source: DZ BANK; *) in % of the volume of ship pfandbriefe outstanding

Explicit provisions are also in place for calculating the underlying lendable value of the collateral assets for ship pfandbriefe, where the same lending limit of 60% applies to the cover assets as with mortgage pfandbriefe. The lendable value for the ships or ships under construction must be determined by an independent valuer with the requisite experience. The long-term features of the asset must be at the forefront

Lending values regulated by law

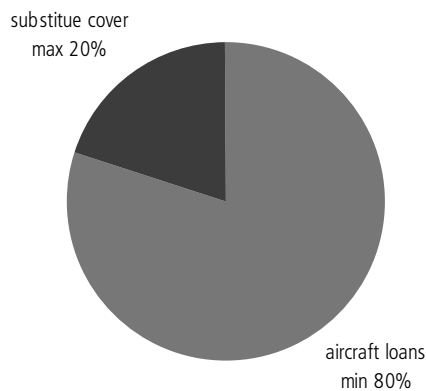
when determining this value, and the loan may not exceed the market value. The ship or the ship under construction must be insured throughout the entire duration of the loan at least in the amount of 110% of the respective loan claim outstanding.

Special requirements for aircraft pfandbriefe

Loans secured by mortgages over aircraft qualify as ordinary cover assets for aircraft pfandbriefe. To be eligible, the aircraft must be recorded in a public register. The registered mortgage or foreign aircraft mortgage must also cover the engines that account for a large part of aircraft value. The loan on the aircraft may not extend beyond 20 years of age. The supervisory authority may allow exceptions in individual cases. Loans secured by aircraft that are registered abroad can also be included in the cover pool provided certain provisions that are defined in the PfandBG are met.

Ordinary cover

BREAKDOWN OF THE COVER ASSETS FOR AIRCRAFT PFANDBRIEFE*)



Source: DZ BANK; *) in % of the volume of aircraft pfandbriefe outstanding

Explicit provisions are also in place for calculating the underlying lendable value of the collateral assets for aircraft pfandbriefe, where the same lending limit of 60% applies to the cover assets as with ship pfandbriefe. The lendable value of the aircraft must be determined by an independent valuer with the requisite experience. The long-term features of the aircraft must be at the forefront when determining this value, and the loan may not exceed the market value. The aircraft must be insured throughout the entire duration of the loan in the amount of at least 110% of the respective loan outstanding.

60% loan-to-value ceiling

Risk management

The risk management of a credit institution and in particular the cover pool is crucial to the protection of the covered bond creditors. Given that the risks inherent to the pfandbrief business differ from the general risks of other banking business, the legislator imposes specific risk-management requirements on pfandbrief banks. Every pfandbrief bank must have a fitting risk management system in place for pfandbrief business. The system must ensure the identification, assessment, control and monitoring of all risks related to the pfandbrief business, such as default risks, market price risks (interest rate or currency risks) plus operational risks and liquidity risks. Moreover, the risk management system must, amongst other things, meet the following requirements:

- The concentration of risk must be restricted by way of a limit system.
- A procedure must be in place that ensures risk reduction in the event of a pronounced increase in risk; the procedure must ensure early notification of the decision-makers.
- The risk management system must be capable of adjusting to changing conditions at short notice.
- The system must be subject to review at least once a year.
- Regular risk reports must be submitted to the management board at least quarterly.
- The risk management system must be documented in a detailed and transparent manner.

Derivative transactions are concluded for the purpose of managing market risks. According to the PfandBG, the hedging transactions that cushion the fluctuations in the value of the cover pool against for example interest rate and currency volatility, can form part of the insolvency-proof cover assets for pfandbriefe. On the basis of the net present value calculation for the cover pool, the share of derivative transactions relative to total cover assets may not exceed 12% of the outstanding pfandbriefe.

Addressing liquidity gaps

The revision of the Pfandbrief Banks Act in 2009 has introduced stricter liquidity regulations that – according to the drafters of the legislation – are more in harmony with the modern liquidity management approach. The cover pool is now required to cover the liquidity requirement of the coming 180-day period, i.e. six months ahead.

The question of liquidity gaps caused by excessive maturity transformation in the cover pool only becomes important when things get serious (the issuer-insolvency scenario with subsequent separation of the cover pool). This new regime has seen the legislators move a long way in the direction of the permanent liquidity reserves that the rating agencies have called for.

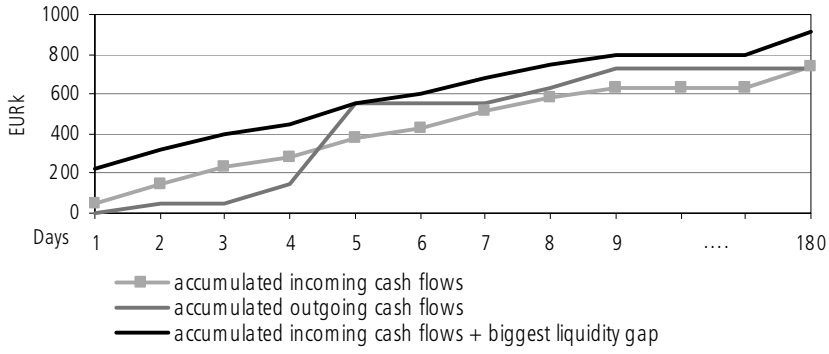
Explicit catalog of requirements

Risk management requirements

Derivatives in cover pools

Absolute certainty is impossible to guarantee in practice

POSSIBLE CASH-FLOW PATTERN OVER A 180-DAY PERIOD



Source: DZ BANK

Transparency regulations

The rules governing the provision of information (transparency regime) have been widened significantly by the introduction of the PfandBG and its recent revision. §28 PfandBG obliges pfandbrief banks to publish, on a quarterly basis and in publicly accessible form, information on the total volume of pfandbriefe outstanding as well as their cover assets. The total volume of the pfandbriefe issued in each pfandbrief category as well as the corresponding cover pools in the amount of the nominal value and net present value (plus the risk-adjusted net present value in the case of stress scenarios) must be stated. In addition, the maturity structure of the pfandbriefe as well as the fixed-interest period of the cover pools (broken down into seven maturity bands) must be published. The share of derivatives included in the cover pools must also be notified.

REGULAR PUBLICATION DUTIES...

... SPECIFICALLY FOR MORTGAGE PFANDBRIEFE:

Breakdown of the cover assets (in nominal-value terms) according to

- the amount of the individual loans in increments up to EUR 300,000, from EUR 300,000 to 5,000,000, and more than EUR 5m;
- the states in which the land is located;
- the type and use of the building;
- the aggregate value of the arrears (at least 90 days) on the claims in the cover pool;
- Additionally, extensive details on the mortgage-pfandbrief cover pool must be included in the Notes to the Financial Statements; these details include the number of foreclosure sales during the year.

Source: DZ BANK

... SPECIFICALLY FOR PUBLIC SECTOR PFANDBRIEFE:

- geographical breakdown of the claims (by state) and type (central, regional or local government);
- the aggregate value of the arrears (at least 90 days) on the claims in the cover pool.

Trustees

The PfandBG requires that a trustee and at least one deputy be appointed at every pfandbrief bank. The trustee ensures that the legal requirements in relation to the cover for the pfandbriefe are met and that the provisions for the determination of the lendable value are adhered to by the pfandbrief bank. A pfandbrief bank is not entitled to issue new pfandbriefe without trustee approval. Prior to issue, the trustee must issue a certificate for the pfandbriefe confirming that the prescribed cover exists and has been recorded in the relevant cover register.

The trustee of a pfandbrief bank is entitled to inspect the records of the pfandbrief issuer at any time, and to demand information regarding the pfandbriefe and assets recorded in the cover register. The trustee has a duty of disclosure to BaFin but is

Checking the cover calculation

Far-reaching rights to information

not bound by its instructions. The Pfandbrief Banks Act also stipulates that trustees and their deputies must possess the relevant expertise and experience necessary to enable them to fulfil their duties. The PfandBG does not explicitly require formal qualifications, such as for example official admission as tax advisor or auditor. The Act merely presumes that the qualification as auditor or sworn accountant suggests that the requisite expertise is given. The trustee must be impartial. This is regarded as given, provided no contractual or business relationship exists with the pfandbrief bank or has existed within the previous three years.

Supervision

Pfandbrief issuers are subject to special supervision by BaFin, which carries out its duties in accordance with the provisions of the Pfandbrief Banks Act and the German Banking Act. BaFin is empowered (§ 3 PfandBG) to give “any instructions that are appropriate and necessary to ensure that the business of the pfandbrief banks complies with this Act and the statutory orders issued in connection therewith.” The right of the supervisory authority to carry out random checks every two years at the latest on the cover for the pfandbriefe is particularly important, and hence to examine whether the legal provisions are met. In this way, the checks carried out regularly on mortgage banks up to now by BaFin will be extended to all pfandbrief banks. Furthermore, BaFin can take its own measures, such as for example, issuing instructions to the management or appointing people to oversee the cover pool.

Special supervision by BaFin

Insolvency of pfandbrief issuers

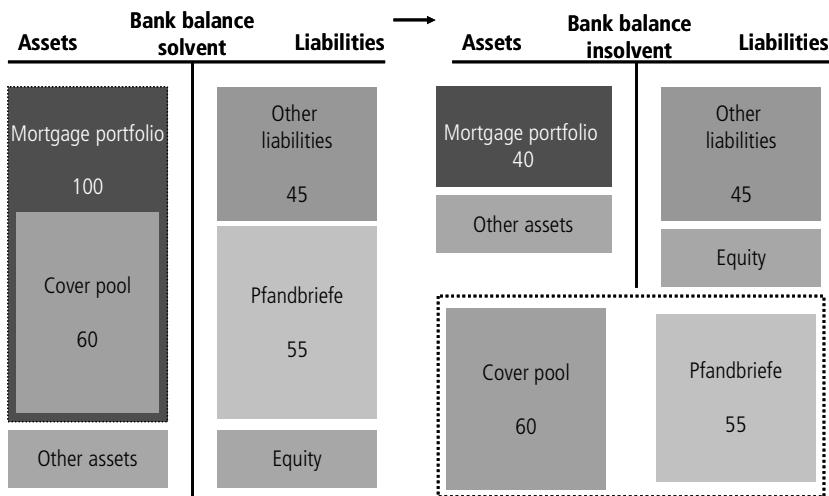
In the event of the insolvency of a pfandbrief bank, the pfandbrief cover pools are separated off from the bankrupt estate and acquire special fund status. At the same time a collateral manager/receiver (Sachwalter) is appointed by the court at BaFin's request specifically to represent the interests of the pfandbrief creditors. His twin principal functions are to administer the cover pool (winding it up if necessary), and to ensure that the claims of the pfandbrief creditors are satisfied in full. The pfandbriefe are not called for redemption (at this stage). Only when all the claims of the pfandbrief creditors have been satisfied in a full and timely manner and all the issuer's pfandbriefe have been repaid, can any amount remaining from the cover assets be used to satisfy the claims of the other bank creditors.

If the collateral manager/receiver determines that the intrinsic value of the assets as a whole is no longer sufficient to permit the full satisfaction of the pfandbrief creditors, separate insolvency proceedings must be opened in respect of the respective special funds (cover pools).

Separation of cover pools

**Liquidating the cover pool
no easy task in the current market
environment**

COVER POOL SEPARATED FROM BANKRUPT ESTATE IN INSOLVENCY SCENARIO



Source: DZ BANK

The Sachwalter

Paragraph 30 (2) of the Pfandbrief Banks Act (PfandBG) stipulates that in the event of insolvency and when requested to do so by BaFin, the court with jurisdiction over the pfandbrief bank's registered domicile must appoint one or two natural persons as collateral manager/receiver. He or they thereby acquire the right to administer and dispose of the cover assets (as a special fund separate from the bankrupt estate). The collateral manager/receiver must henceforward perform the legally effective transactions required to run down the cover pool while fully and promptly satisfying the claims of creditors. The legal foundation for this function is the fact that despite its insolvency, the pfandbrief bank retains the legal title in the cover pool (see the

The Sachwalter performs the legal transactions to run down the cover pool (winding up)

preamble to the draft revision). The only different feature is that the collateral manager/receiver acts on behalf of the bank rather than its directors.

Maintaining payment flows

The general aim of the function is to use the payments flows arising from the cover assets to service the interest and principal payments on the pfandbriefe as they fall due. It is inherent in the nature of the role that any emerging liquidity shortfalls (gaps) will only be detected at the last moment. In this case, the collateral receiver/manager is empowered to „procure liquid funds to permit the timely servicing of the outstanding pfandbriefe“, to quote the current (revised) wording of the law. In the light of the preamble to the law, this sentence has to be interpreted as authorising the *Sachwalter* to both take out loans and conduct repo transactions with the Bundesbank. The law also gives the collateral receiver/manager the right to keep going any existing funding register established by the insolvent pfandbrief bank for the benefit of his special fund, or to establish a new funding register for the pfandbrief bank. This funding register makes it easier to sell individual cover assets.

We believe that systemic support from the community of pfandbrief issuing banks could also be a positive help in raising short-term liquidity to close funding gaps. In this connection, we are confident that the „pfandbrief“ brand would promote solidarity support – either in the form of other banks declaring their willingness to take over the cover pool lock, stock and barrel, or at the very least assisting the collateral receiver/manager’s efforts to bridge last-minute liquidity shortfalls.

Standard system requirements for the work of the sachwalter

A more technical issue that has been concerning the market for some time in relation to the role of collateral receiver/manager, is what basic conditions need to apply for the appointee to perform the function. Paragraph 31 (8) says, „the collateral receiver/manager is empowered to call on the pfandbrief bank’s personnel and material resources in order to perform his functions. He shall reimburse the bankrupt estate for the actual costs incurred“. This new formulation at least makes it clear what resources the collateral receiver/manager has at his disposal when taking up the task.

Timely servicing of interest and principal payments

Support from the „pfandbrief system“

Revision of pfandbrief law brings only limited clarity

Public sector pfandbriefe

Issuer	Outstanding volume (EURbn)	Cover pool (EURbn)	OC* (in %)	Ratings (Moody's/S&P/Fitch)
Aareal	2.884	3.171	10.0	---/---/AAA
Bayerische Landesbank	33.595	48.987	45.8	Aaa/---/AAA
Berlin Hyp	10.867	12.321	13.4	Aaa/---/AAA
DekaBank	20.483	23.732	15.9	Aaa/AAA/---
Deutsche Bank	--	--	--	---/---/---
Deutsche Hypothekenbank Hannover	15.256	16.233	6.4	Aaa/---/---
Deutsche Kreditbank (DKB)	3.905	5.639	44.4	Aaa/---/---
Deutsche Pfandbriefbank (HRE)	46.596	51.685	10.9	Aaa/AAA/AAA
Deutsche Postbank AG	1.948	2.570	31.9	Aaa/AAA/AAA
Dexia Kommunalbank Deutschland AG	33.869	37.274	10.1	---/AAA/---
DG HYP	27.994	30.520	9.0	---/AAA/AAA
Düsseldorfer Hypothekenbank	8.058	8.723	8.3	---/AAA/AAA
Eurohypo	59.056	63.397	7.4	Aaa/AAA/AAA
HSH Nordbank	7.308	9.148	25.2	Aaa/---/AAA
Landesbank Berlin	2.997	4.181	39.5	Aaa/---/AAA
Landesbank Hessen-Thüringen	15.501	20.549	32.6	Aaa/AAA/AAA
LB Baden-Württemberg (LBBW)	54.765	64.777	18.3	Aaa/AAA/AAA
Münchener Hypothekenbank	10.628	11.186	5.3	Aaa/---/---
Norddeutsche Landesbank	20.207	24.047	19.0	Aaa/---/---
SEB AG	7.296	7.814	7.1	Aa1/---/---
Unicredit Bank (HVB)	6.760	10.099	49.4	Aaa/AAA/AAA
West LB AG	10.123	11.257	11.2	Aaa/AAA/---
Westdeutsche Immobilien Bank AG	2.206	2.461	11.6	---/AAA/---
WL-Bank	23.982	26.471	10.4	---/AAA/---

Data per 30.06.2010 *based on nominal value

Mortgage pfandbriefe

Issuer	Outstanding volume (EURbn)	Cover pool (EURbn)	OC* (in %)	Portion commercial/residential mortgage loans**	Ratings (Moody's/S&P/Fitch)
Aareal	7.922	8.864	11.9	86% 14%	---/---/AAA
Bayerische Landesbank	7.457	10.645	42.8	71% 29%	Aaa/---/AAA
Berlin Hyp	11.278	12.235	8.5	75% 25%	Aa1/---/AA+
DekaBank	--	--	--		---/---/---
Deutsche Bank	1.000	1.619	61.9	68% 32%	Aaa/AAA/---
Deutsche Hypothekenbank Hannover	6.098	7.383	21.1	73% 27%	Aaa/---/---
Deutsche Kreditbank (DKB)	2.002	3.182	58.9	99%	Aaa/---/---
Deutsche Pfandbriefbank (HRE)	19.190	24.130	25.7	75% 25%	Aa3/AAA/AA+
Deutsche Postbank AG	6.031	7.479	24.0	100%	Aaa/AAA/AAA
Dexia Kommunalbank Deutschland AG	--	--	--		---/---/---
DG HYP	12.875	16.228	26.0	43% 57%	---/AAA/AAA
Düsseldorfer Hypothekenbank	--	--	--		---/---/---
Eurohypo	43.214	53.389	23.5	58% 42%	Aaa/AAA/AAA
HSH Nordbank	5.023	5.572	10.9	70% 30%	Aaa/---/AAA
Landesbank Berlin	2.413	3.100	28.5	61% 39%	Aaa/---/AAA
Landesbank Hessen-Thüringen	5.208	8.910	71.1	81% 19%	---/---/AAA
LB Baden-Württemberg (LBBW)	4.362	9.075	108.0	58% 42%	Aaa/---/---
Münchener Hypothekenbank	13.543	16.060	18.6	29% 71%	Aaa/---/---
Norddeutsche Landesbank	1.038	2.699	160.0	57% 43%	Aaa/---/---
SEB AG	4.085	5.371	31.5	26% 74%	Aa1/---/---
Unicredit Bank (HVB)	27.838	32.894	18.2	27% 73%	Aa1/---/AAA
West LB AG	--	--	--		---/---/---
Westdeutsche Immobilien Bank AG	9.029	11.088	22.8	66% 34%	---/AAA/---
WL-Bank	8.524	9.833	15.4	12% 88%	---/AAA/---

Data per 30.06.2010 *based on nominal value **without surplus cover

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The German Pfandbrief Market 2010

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