Legislation Mortgage Bonds

Summary of German Covered Bond Act (Pfandbriefgesetz)

The German Pfandbrief legislation[1] has a history which spans over a century and was most recently amended on 26th March 2009. This amendment ensures that the Pfandbrief legislation is now CRD compliant. Some of the highlights of the legislation relating to Mortgage Pfandbriefe include:

- ► **Strict requirements for Pfandbrief issuing institutions:** Issuers need a specific Pfandbrief licence and a professional risk management process as well as enhanced cover pool transparency in accordance with §28 of the Pfandbrief Act
- ► **Pool eligible assets:** Mortgage pool may have unlimited exposure to properties situated in all EU member states and to properties in the USA, Canada and Japan and non-EU EEA countries (Iceland, Norway and Liechtenstein) as well as Switzerland. The total volume of loans granted in non- EU countries where it is not certain that the preferential rights of the Pfandbrief creditors extends to the cover assets, may not exceed 10% of the cover loans. Mortgages may only be used as cover with a maximum of 60% of the mortgage lending value.
- ► **Mandatory over-collateralisation:** The present value of the assets must exceed that of the liabilities at all times by a minimum of 2%, this minimum over-collateralisation must also be maintained in weekly stress testing scenarios
- ► **Liquidity risk:** In order to reduce liquidity risk in the cover pool, from November 1st, 2009 Pfandbrief issuers will be obliged to maintain a liquidity buffer amounting to the net cash flows in the cover pool for the following 180 days
- ► **Preferential claims and bankruptcy remoteness:** Pfandbrief holders rank senior and have a preferred claim to the assets in the pool. The cover pool is excluded from other creditors' claims (including the German tax authorities) in the event of insolvency until all the claims of the priority creditors (i.e. Pfandbrief holders) have been satisfied.
- ► **Strong monitoring:** A qualified independent trustee (Treuhänder) is responsible for the monitoring of the cover pool and reports to BaFin

1 For German Pfandbrief Act see: http://www.pfandbrief.de/d/internet.nsf/tindex/de_pfandbriefrecht.htm

Mortgage cover pool
Process and documentation

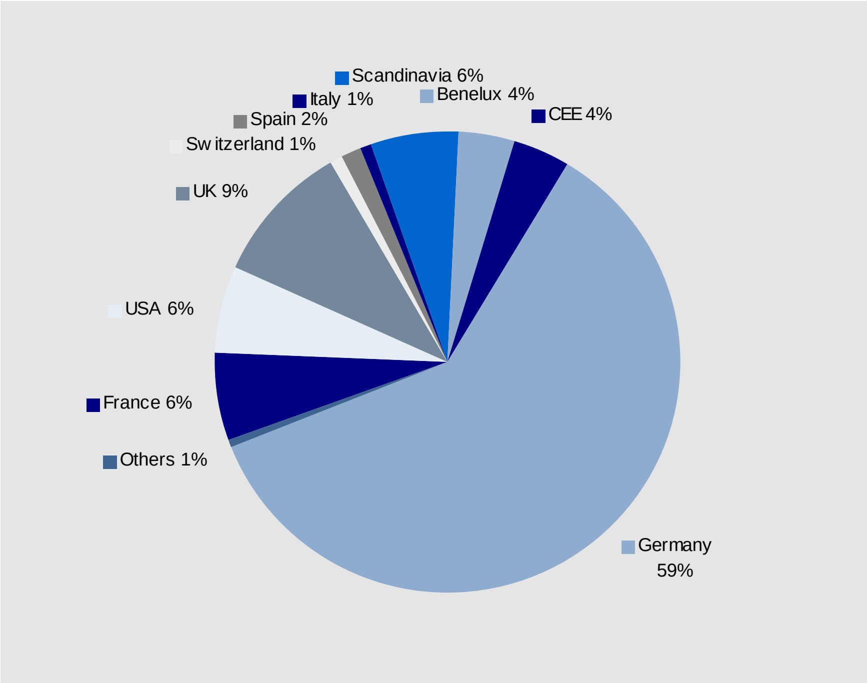
- All mortgage cover pool loans are reviewed by the Treuhänder (trustee appointed by BaFin) on the basis of vdp[1] – checklist plus additional internal requirements
- The Deutsche Pfandbrief Bank AG maintains a register of all cover pool collateral
- Sustainable mortgage values have to be the base of mortgage lending
- To facilitate direct access to details of cover pool assets and to ensure a smooth audit process, the Pfandbrief Collateral Department maintains a mirror credit and collateral documentation
- Special legal knowledge base for international cover pool material which is constantly updated following vdp seminars for key jurisdictions and cover pool relevant changes in regulatory frameworks
- In case of new business: involvement of PfandBG[2] specialists at origination stage to ensure cover pool eligible legal structures as well as realistic cover pool amount assumptions

1 vdp = Verband Deutscher Pfandbriefbanken (Association of German Covered Bond Issuers)
2 PfandBG = Pfandbrief Gesetz of 2005 (Covered Bond legislation)

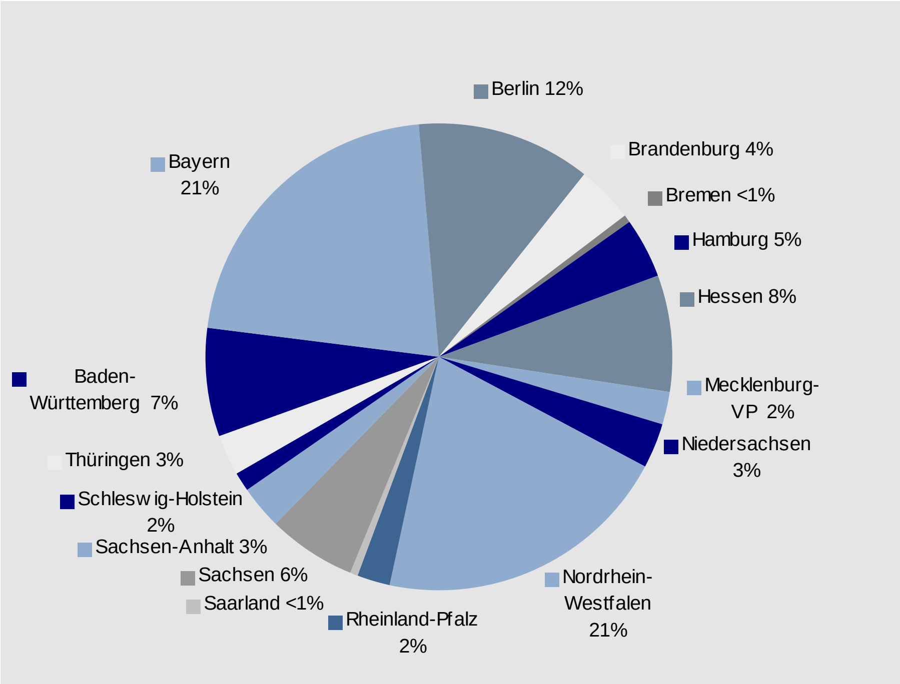
Mortgage cover pool
Geographical distribution

INTERNAL UNAUDITED FIGURES

EUR 24.0 bn[1] Mortgage Cover Pool
Geographical distribution in%[2] (06/2009)



Mortgage Cover Pool – Germany
Geographical distribution in%[2] (06/2009)



- Cover pool with majority of exposures in western European countries
- Germany by far the largest with 59% exposure

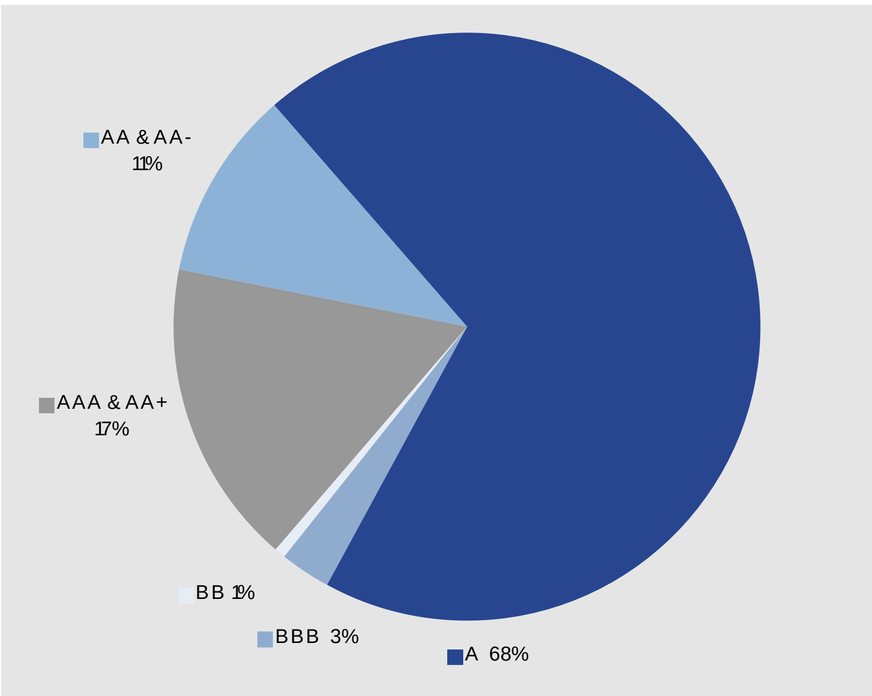
- More than 80% of the portfolio is located in the western part of Germany and the bigger cities

1 Incl. over-collateralization
2 Excl. over-collateralization

Mortgage cover pool
Emphasis on high rated and re-letable asset classes

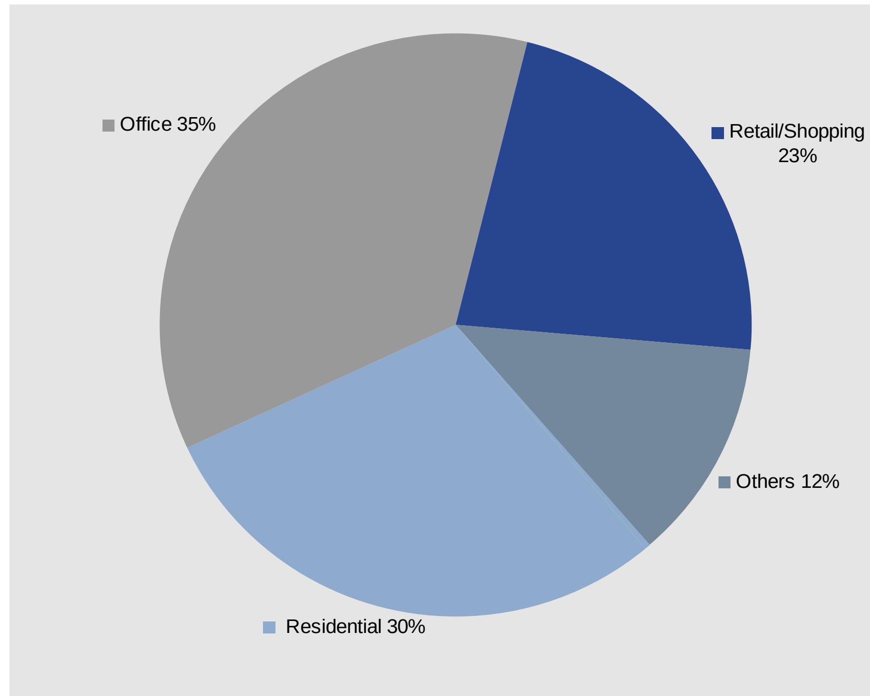
INTERNAL UNAUDITED FIGURES

EUR 24.0 bn[1] Mortgage Cover Pool
Distribution by internal rating class in% (06/2009)



- ▶ Internal ratings based on expected loss (PD x LGD) and transformed into external S&P rating structure
- ▶ 99% of assets are investment grade
- ▶ Internal rating classes AAA to A correspond with expected losses of 0% to 1.0%

EUR 24.0 bn[1] Mortgage Cover Pool
Distribution by asset class in%[2] (06/2009)



- ▶ Residential refers to commercially managed housing and privately owned properties
- ▶ Others comprises of 2% unfinished buildings and land, 10% other commercially used properties (e.g. logistics)

1 Incl. over-collateralization
2 Excl. over-collateralization

Mortgage cover pool

Overview cover pool by country and asset class

INTERNAL UNAUDITED FIGURES

As of 06/2009	Total[1] EUR millions	Residential %	Office %	Retail/Shopping %	Others %
Germany	14,243.0	42.2%	25.2%	21.1%	11.5%
Austria	91.2	0.7%	64.1%	35.1%	0.1%
Belgium	15.3		100.0%		
Czech Republic	245.4		40.9%	45.2%	13.9%
Denmark	382.4	5.3%	88.6%	3.5%	2.6%
Finland	54.9		45.7%	54.3%	
France	1,452.2	5.5%	82.8%	4.5%	7.2%
Hungary	193.5			100,0%	
Italy	157.9	25.5%	8.5%	66.0%	
Luxembourg	8.4		100.0%		
Netherlands	889.6	0.1%	77.1%	22.2%	0.6%
Norway	69.6			19.4%	80.6%
Poland	430.7		28.0%	55.7%	16.3%
Slovakia	52.3			100.0%	
Spain	354.9		40.1%	44.9%	15.0%
Sweden	995.3	37.7%	30.0%	6.1%	26.2%
Switzerland	158.0		34.4%	59.1%	6.5%
United Kingdom	2,416.1	4.9%	32.6%	31.3%	31.2%
USA	1,407.1	10.2%	63.9%	11.9%	14.0%
Total[1]	**23,653.8**	**28.7%**	**35.4%**	**22.4%**	**13.5%**

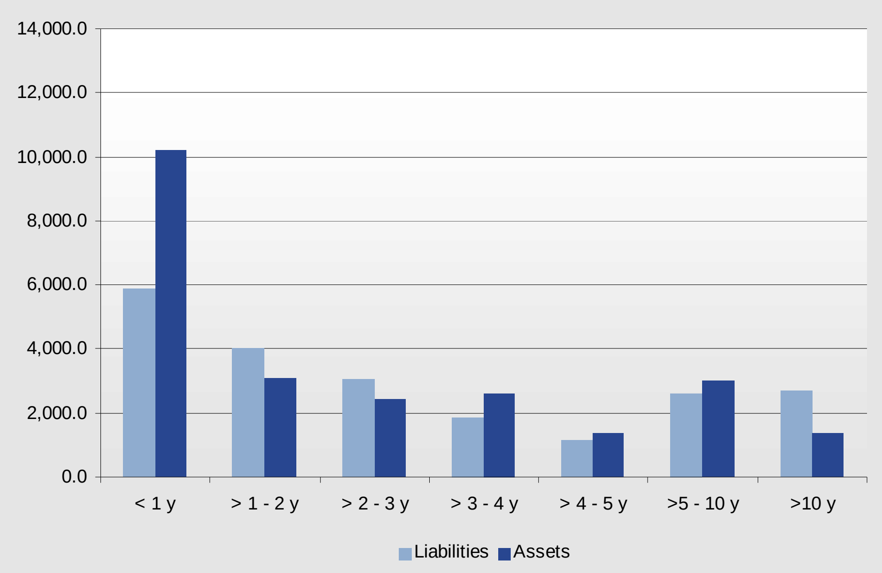
1 Excl. over-collateralization

Mortgage cover pool

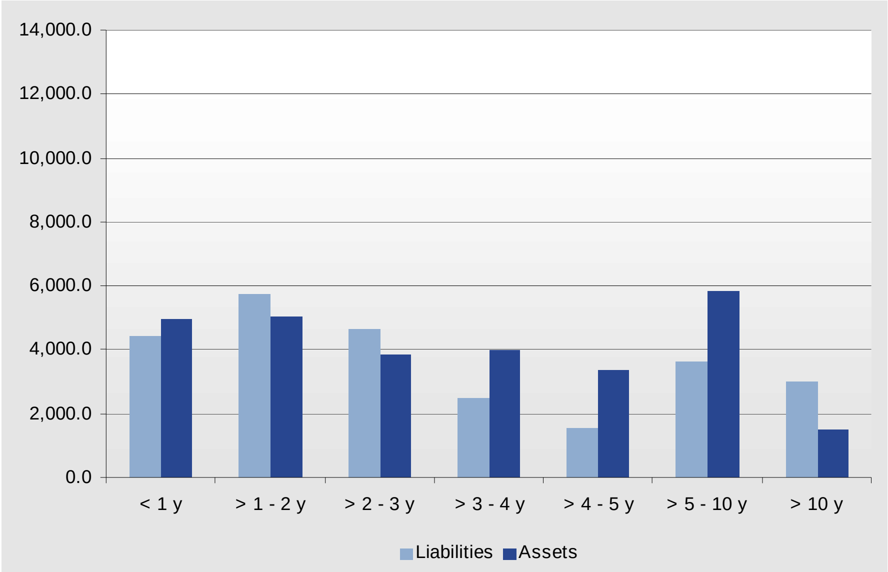
Maturity profile of assets and liabilities on nominal basis in the cover pool

INTERNAL UNAUDITED FIGURES

EUR 24.0 bn Mortgage Cover Pool
Maturity profile[1] according to §28 Pfandbriefgesetz (06/2009)



EUR 24.0 bn Mortgage Cover Pool
Maturity profile[2] on cash-flow basis (06/2009)



- ►The maturity profile on a cash-flow basis gives a more realistic insight in the actual liquidity position of the cover pool
- ►According to § 30 part 2 of the amended German Covered Bond Act (Pfandbriefgesetz 2005) that became effective as of 26th March 2009, the trustee will have the possibility to use over-collateralisation for repo-transactions with the ECB and/or Central Banks of EEA countries in order to ensure full and timely payments of Pfandbrief liabilities.

1 Assets to interest maturity; liabilities to legal maturity
2 Assets and liabilities to legal maturity; amortization and interest taken into account

Mortgage cover pool

Paragraph 28 Pfandbriefgesetz Cover Pool Transparency Requirements

INTERNAL UNAUDITED FIGURES

▶ **"Total volume of Mortgage Pfandbriefe outstanding as well as of the corresponding cover pool in the amount of the nominal value, the net present value and the risk adjusted net present value stipulated in the statutory order in accordance with § 4 par. 6"**

EUR millions (06/2009)	Nominal Value (NV)	Net Present Value (NPV)	Risk adjusted NPV[1]
Liabilities (Pfandbriefe)	21,287.70	22,415.80	
Mortgage Cover Pool Assets	24,029.40	25,915.00	
Over-collateralisation (+)/ Under-collateralisation (-)	2,741.70	3,499.20	3,377.40
In % of NV	12.88%		
In % of NPV		15.61%	15.07%

1 Dynamic stress-testing approach: Interest risk tested with 100 bp upward and downward shift; FX risk EU currencies 10%, EOCD countries 15%, USD 25% up- and down shift

▶ **"The share of derivatives included in the cover pools in accordance with § 19 par. 1 no. 4 sent. 3, also in conjunction with § 20 par. 2 no. 3 and § 26 par. 1 no. 4"**

EUR millions (06/2009)	NPV[2]	%
Ratio of derivatives with a negative NPV in % of the Pfandbrief Liabilities	-98,80	0.44%
Ratio of derivatives with a positive NPV in % of the Mortgage Cover Pool Assets	428,60	1.65%

2 Value of currency and interest rate derivatives in cover pool

▶ **"The total amount of payments on these claims that are at least 90 days in arrears and their regional distribution"**

90 days overdue (06/2009)	EUR millions	%
Germany	10.1	
Danmark	0.7	
Italy	1.6	
Sweden	0.2	
Total	**12.6**	**0.05%**