

# **Benefits of Synthetic Securitisation for Growing Banks**

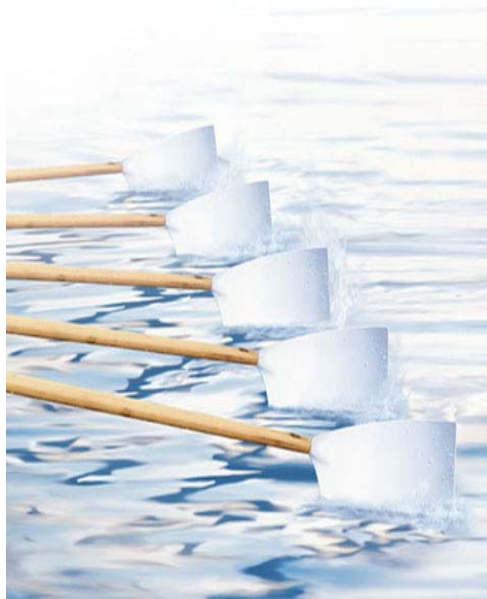
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**London, 13 October 2006**

# Outline

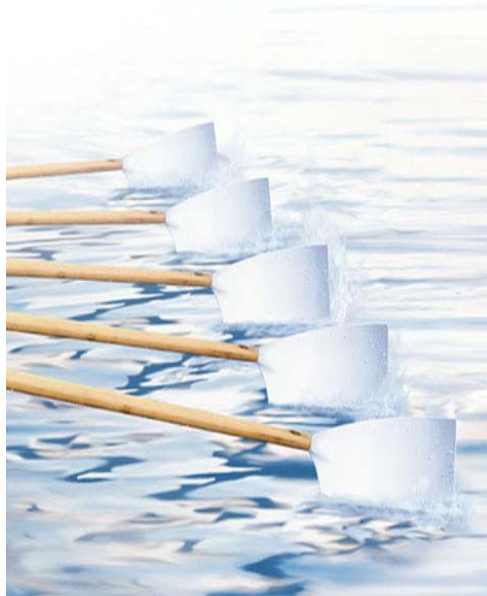


1. KfW Bankengruppe
  - a. Snapshot
  - b. Expertise in synthetic securitisation (PROMISE)
2. Synthetic Securitisation and True Sale
  - a. Transaction structure & main characteristics
  - b. Advantages of synthetic solutions
  - c. Outlook for Eastern Europe
3. Case Study: ROOF CEE 2006-1
  - a. Main characteristics
  - b. The originators and special objectives
  - c. Transaction details
  - d. Rating



# KfW Bankengruppe

## - a snapshot



- Promotional bank of the Federal Republic of Germany
- Founded in 1948
- Shareholders: Federal Republic of Germany (80%), German federal states (20%)
- Headquarters: Frankfurt am Main; branch offices: Berlin and Bonn
- Representative offices: around 50 offices and representations worldwide
- Total assets (as of Dec. 2005): EUR 341 billion
- 3,740 employees on average in 2005
- Rating: AAA/Aaa/AAA

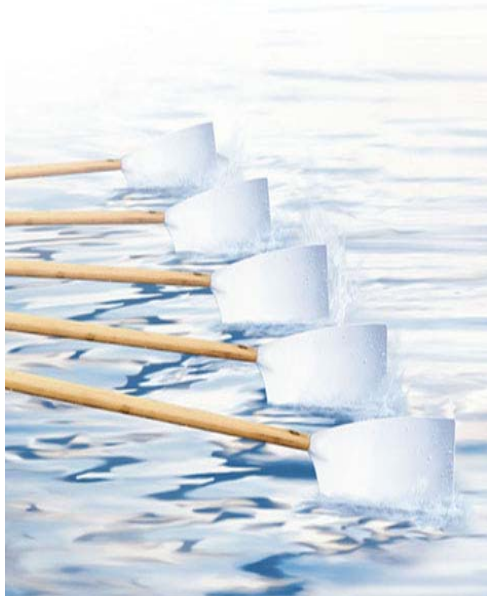
# KfW Bankengruppe

- our competence and experience



As promotional / development bank:

- We give **impulses** to the economy, politics and society.
- We finance **investments** in Germany / Europe
- We provide international **project and export finance**
- We promote **transformation / developing countries**
- We perform **tasks and services on behalf of** and act as an **adviser to the German government.**
- Funding – active **issuer in capital markets**



# KfW Bankengruppe

- Our experience with synthetic securitisations



## ❑ PROMISE (and related SME deals)

- Inception: December 2000
- 17 PROMISE deals
- 4 other synthetic SME deals
- Default risk of approx. **EUR 29,1 billions** (notional amount) transferred to investors

## ❑ PROVIDE (and related mortgage loan deals)

- Inception: October 2001
- 33 PROVIDE deals
- 4 other synthetic SME deals
- Default risk of approx. **EUR 64,1 billion** (notional amount) transferred to investors

# KfW Bankengruppe

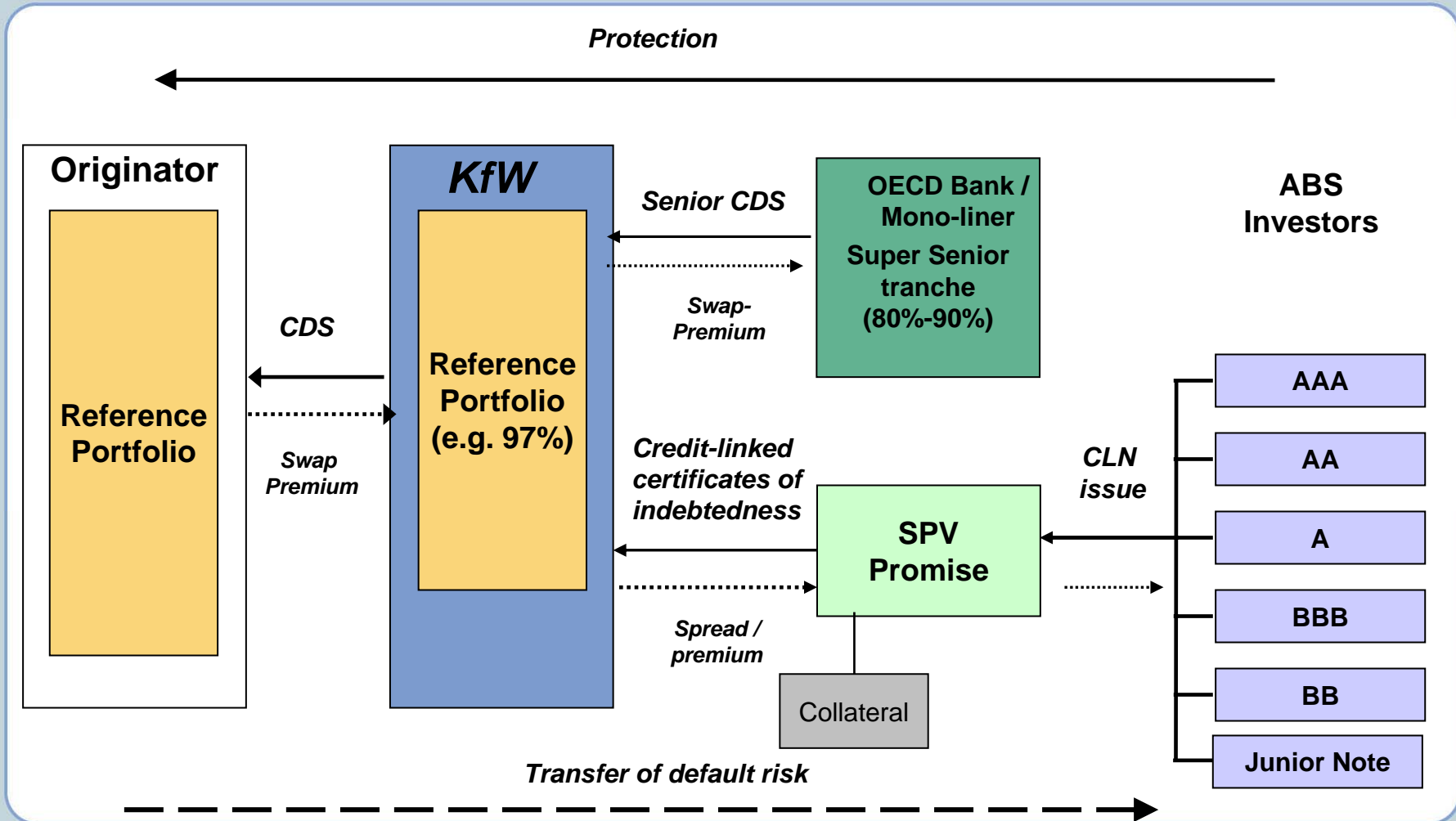
## - PROMISE (Securitisation of SME default risk)



- ❑ KfW offers **standardised platform** for large and small banks
  - Selection criteria for SME/mortgage loans of reference portfolio
  - Platform contributes to **increase transparency** of primary market lending through standardised valuation and “interactive pricing”
  
- ❑ KfW acts as competitively **neutral intermediary**
  - We **do not keep** the default **risks** - the first loss piece is retained by the originator while the other risks are transferred to investors)
  - Activity **does not distort pricing**: the premiums and spreads obtained in the capital market are passed on to the originator

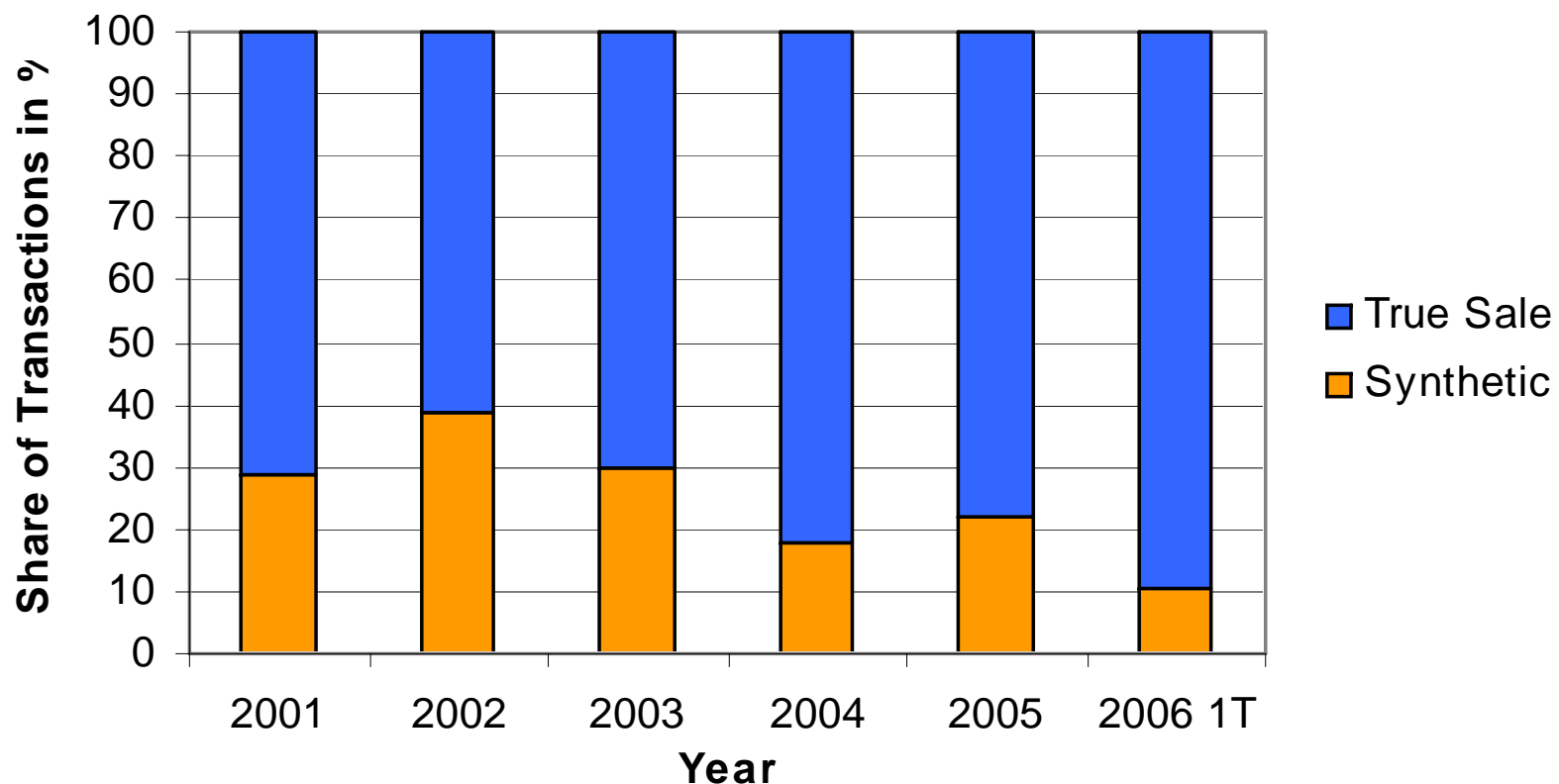
# KfW Bankengruppe

- standardised transaction structure



# Securitisation in Europe

- true sale transactions dominate in the market





# Synthetic Securitisation vs. True Sale

- main characteristics



## Synthetic Securitisation

- transfer of **default risk**
- structure is **partially or unfunded**
- SPV invests issue proceeds in highly rated securities
- **assets remain** with originator
- originator is servicer
- **no funding** alternative
- smaller investor base
- more **complex** to discuss with local regulators

## True Sale

- true **sale of assets**
- structure is **fully funded**
- SPV uses issue proceeds to purchase the asset pool
- **assets are sold** to SPV
- originator can be the servicer
- **funding** alternative
- permits tapping larger investor base
- **better understood** by regulators

# Synthetic securitisation

## - selected advantages



- ❑ **Technical** advantages, e.g.
  - It **avoids legal problems** (transfer of ownership / collateral)
  - **No intervention** in the **originator-customer-relationship** (e.g. notification, consent etc.)
  
- ❑ **Economic** advantages, e.g.
  - Transaction **costs** are **lower** than in true sale structures
  - Access to **equity** due to risk transfer **possibly cheaper** than conventional equity (Tier 1, Tier 2)
  - More **flexible** to deal with **currency** issues

## Synthetic securitisation

- Will its importance grow in CEE, CIS, Russia?



- ❑ Synthetic solutions become more attractive once **capital adequacy requirements** begin to interfere with the “funding motive”
  - Loan **portfolios** in many banks continue to **grow at impressive rates**
  - Asset growth **requires additional equity** - supporting growth process **solely** with **conventional equity** can be a **quite expensive** option
  - Given the strain on capital base to comply with regulatory capital requirements **risk transfer** is a cost-efficient way to free-up capital
  
- ❑ Although forthcoming **Basel II regulations** do aim at bringing regulatory capital requirements more in line with underlying risk – synthetic solutions continue to be a viable option
  
- ❑ Synthetic securitisation is **suitable** for **smaller originators / portfolios**

## Case Study ROOF CEE 2006-1

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- First synthetic securitisation of SME loans from banks in CEE  
First Multi-Seller transaction in CEE

# ROOF CEE 2006-1

## - main characteristics



Closing:	23 March 2006
Notional amount of reference pool	450 mln EUR:                      RBPL: 247 mln EUR (initially) RBCZ : 207 mln EUR (initially)
Relative seize of sub-pools	RBPL: 60% RBCZ: 40%
Asset class	RBPL: Loans to small business RBCZ: Loans to smaller/medium seized companies
Number of reference claims	Approx. 1,250 initially
Av.seize of reference claim	360,000 EUR (from 1,600 EUR up to 3.15 mln EUR)
Av. (shadow) rating of sub-pool	RBPL:                      Baa2 to Baa3 RBCZ:                      Baa3 to Ba1
Rating Agency	Moody's
Investors (private placement)	KfW:                      Senior CDS (partially) EIF:                        Mezzanine CDS RZB:                        Junior CDS

## ROOF CEE 2006-1

- the originators (1)



### ❑ Raiffeisen Bank Polska S.A (RBPL, Warsaw)

- Founded in 1991
- Total assets 2004: 2,7 billion Euro (**small!**)
- Net profit 2004: 22,75 million Euro
- 1,770 employees
- Market share in Poland 1,9 %
- High growth in SME sector: Market share up from 8 % (2001) to 20 % (2005)

## ROOF CEE 2006-1

- the originators (2)



### ❑ Raiffeisenbank a.s (RBCZ, Prague)

- Founded in 1993
- Total assets: 2,1 billion Euro (**small!**)
- Net profit: 9,92 million Euro
- 1,100 employees
- Sixth biggest bank in Czech Republic
- SMEs are the most important group of clients (make up 77 % of all loans), market share: 4,5 %
- Strong growth in SME lending: +55 % in 2005 (overall growth:+20%)

## ROOF CEE 2006-1

- special objectives (1)



### □ For the originators

- To successfully **compete for equity** within Raiffeisen International group (RI) at **competitive cost**
- To optimize **ROE targets** and **Capital Adequacy** in context of **strong growth** process
- To **demonstrate** the **quality** of their loan portfolios in CEE
- To **establish a benchmark** transaction in the market



## ROOF CEE 2006-1

- special objectives (2)

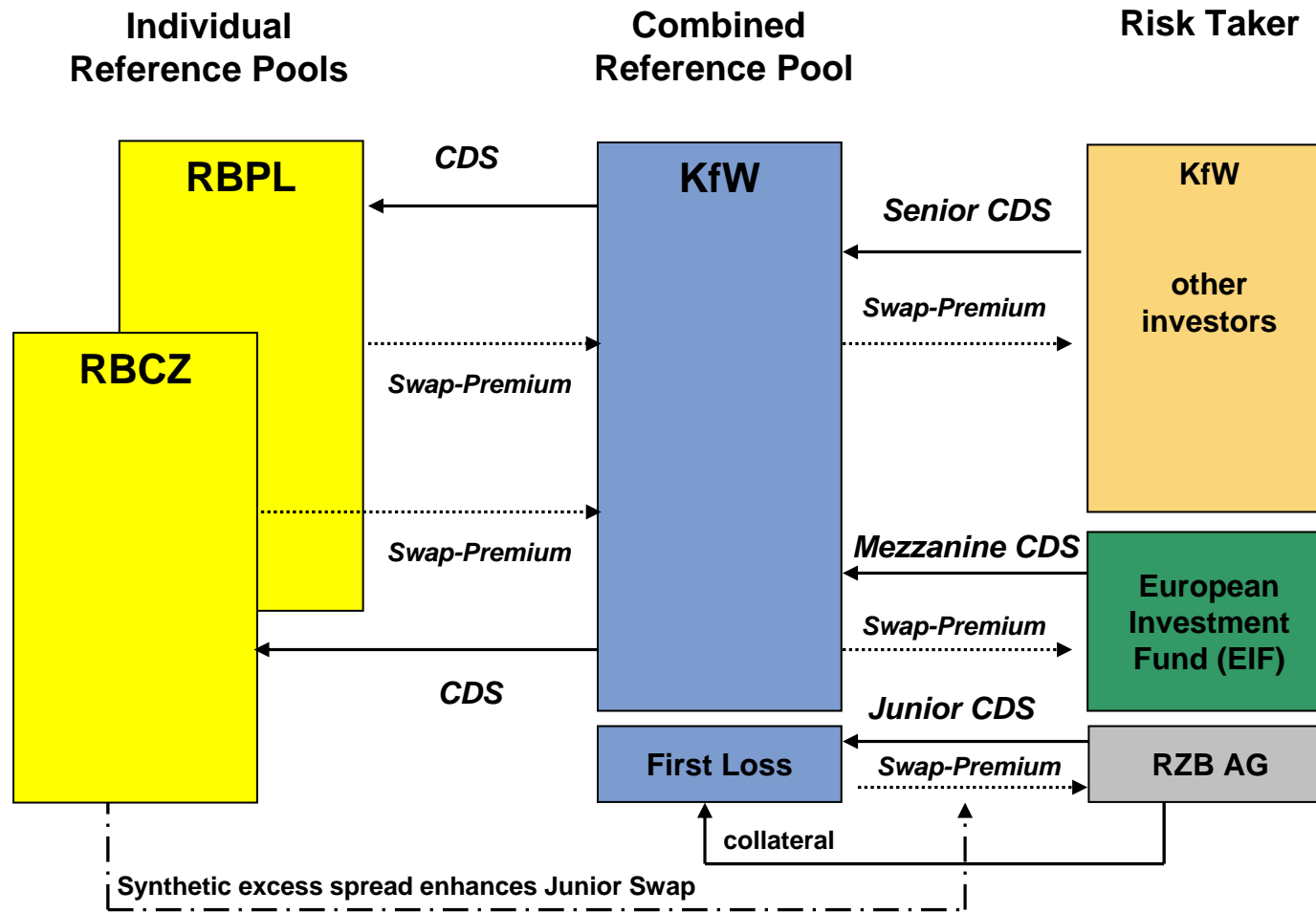


### ❑ For KfW as development bank

- To **stabilise** and **expand supply** in **SME financing** in Poland and Czech Republic
- To **create a prototype** for a **low-cost** single or multi-seller structure suitable for **smaller banks and / or smaller portfolios**
- To contribute to **market creation** through initiating steps towards developing and deepening of the market for securitisation of SME risk in Eastern Europe

# ROOF CEE 2006-1

- transaction overview



## ROOF CEE 2006-1

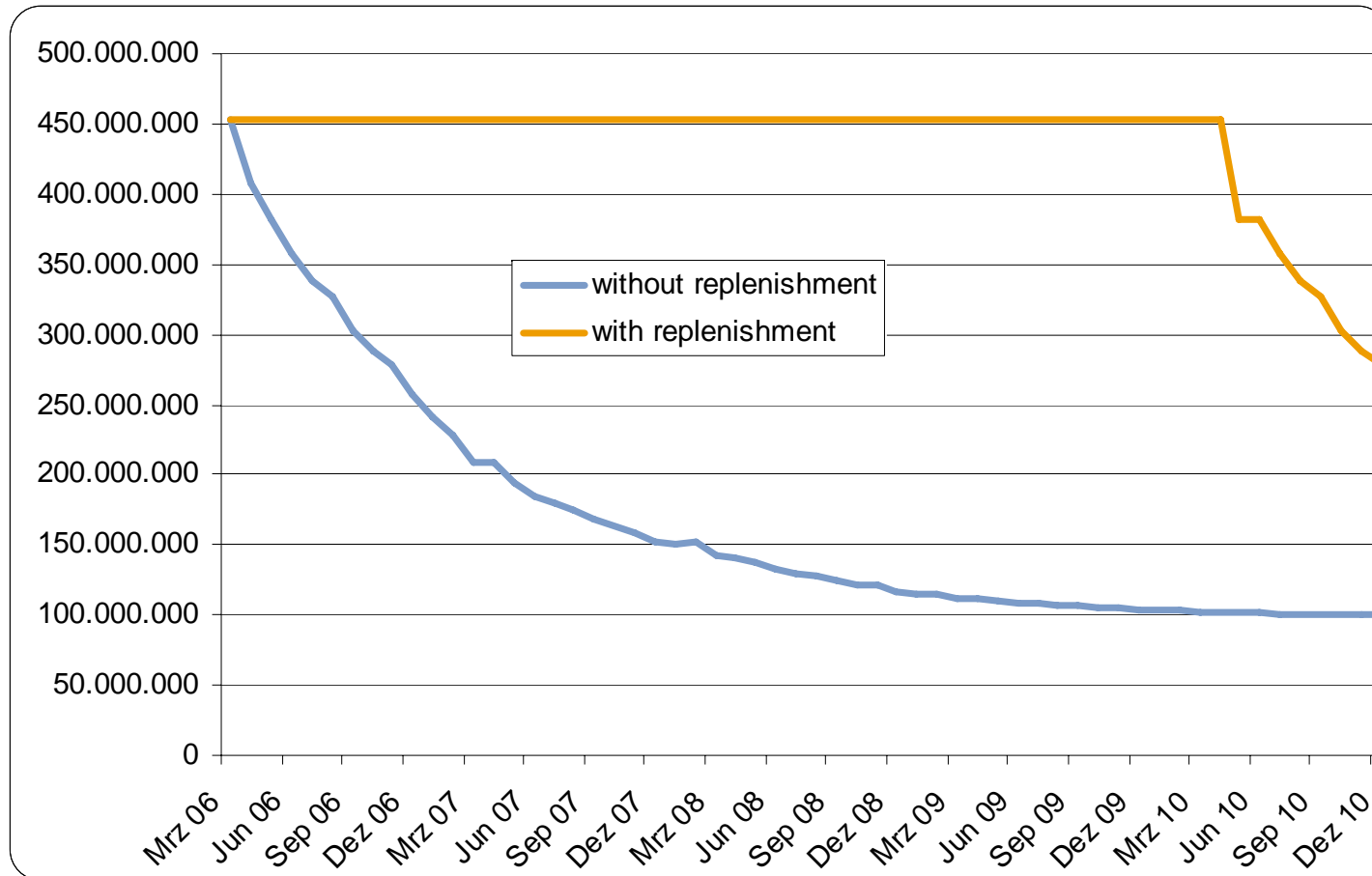
### - technical details



- ❑ **PROMISE “light”** - very similar to KfW’s PROMISE platform features, but some **distinctive differences**
  - Two independent bank swaps with originators
  - Sub-pools are not individually tranching and rated
  - KfW combines the sub-pools of Polish and Czech SME risks
  - No SPV, i.e. transaction is unfunded (fully synthetic)
  - Only one rating agency
  - Private placement
  
- ❑ All **CDS** are denominated in **EUR** (despite three currencies in pool)
- ❑ **Replenishment period** of up to 5 years permits originators
  - to realize economies of scale,
  - provides for continuing support of new business

# ROOF CEE 2006-1

- replenishment period of up to five years



# ROOF CEE 2006-1

- portfolio snapshot (granularity)

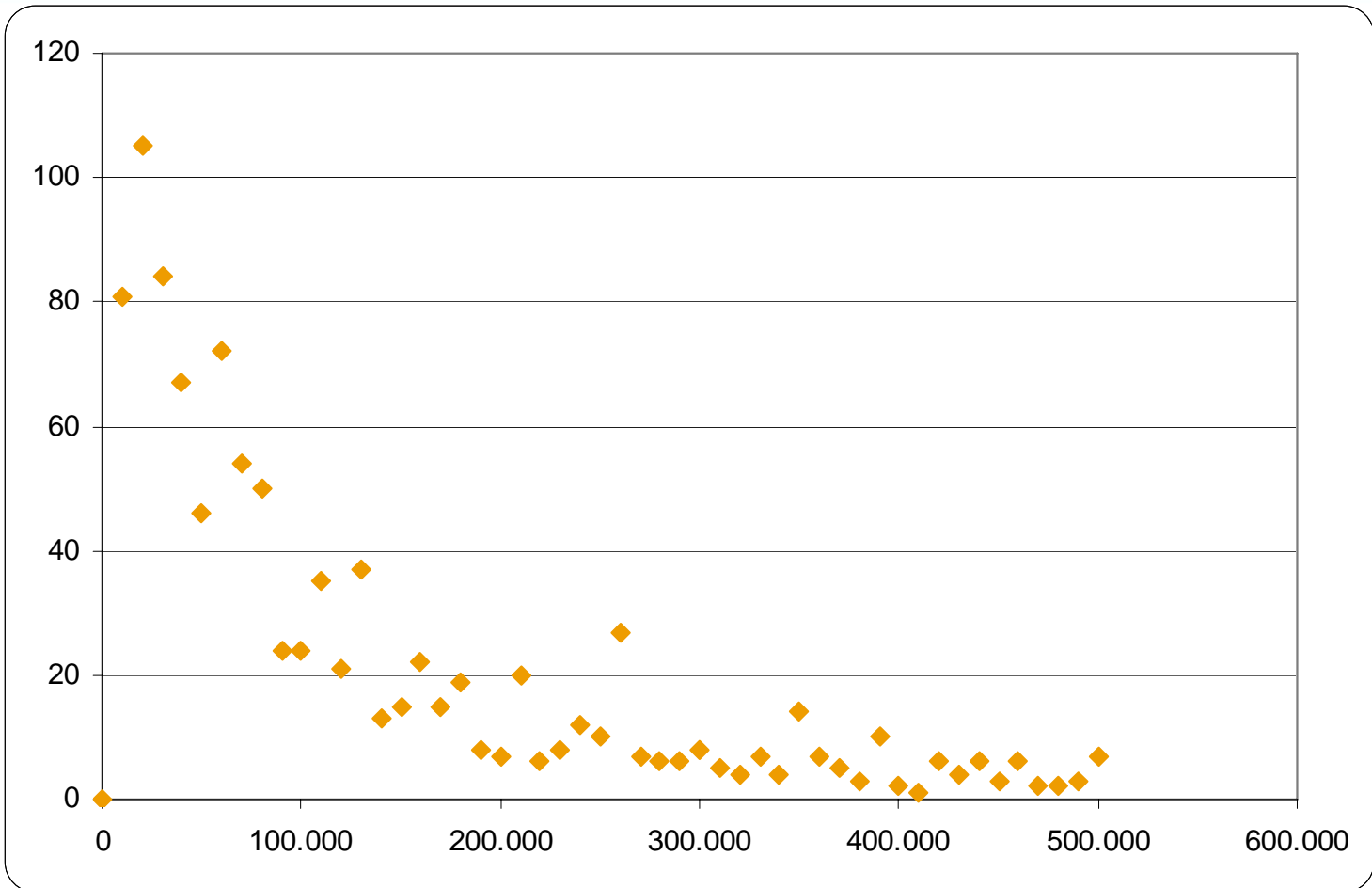


## □ Diversification

- By size of obligation (single obligor)
- By geographical region
- By industry

# ROOF CEE 2006-1

- distribution of loans as to size (initial pool)

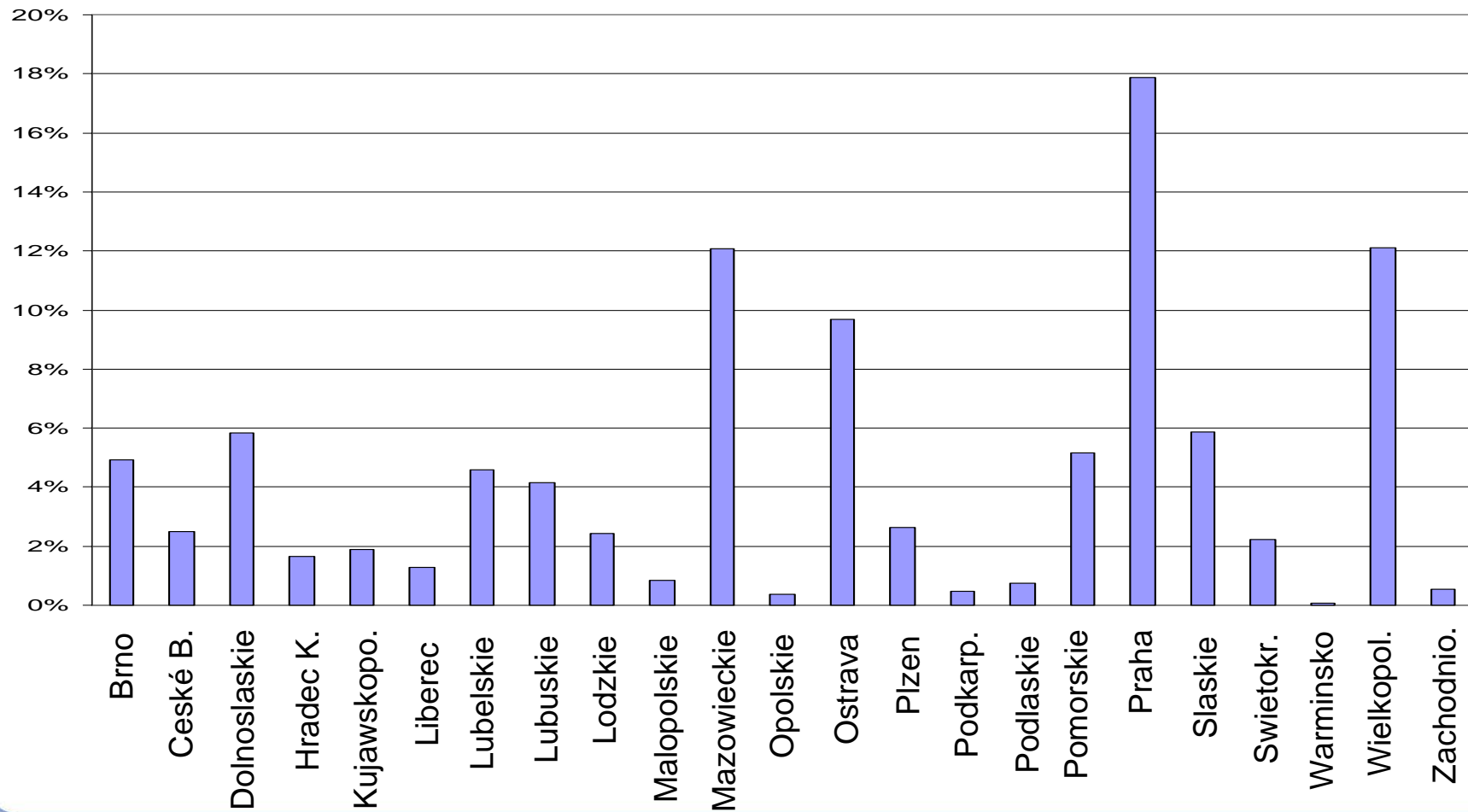


# ROOF CEE 2006-1

- regional distribution (initial combined pool)



Percent of Total

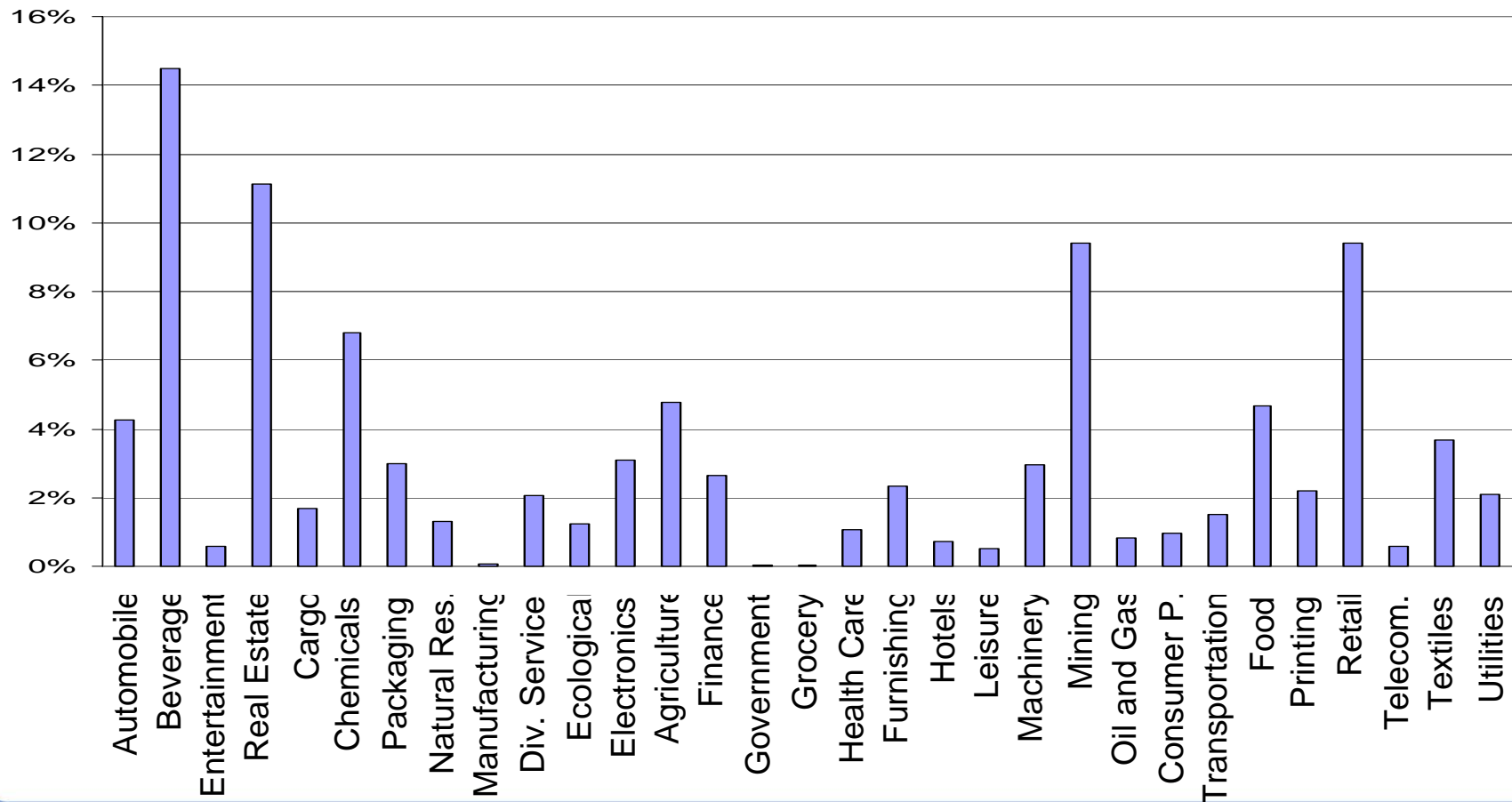


# ROOF CEE 2006-1

- industry distribution (initial pool)



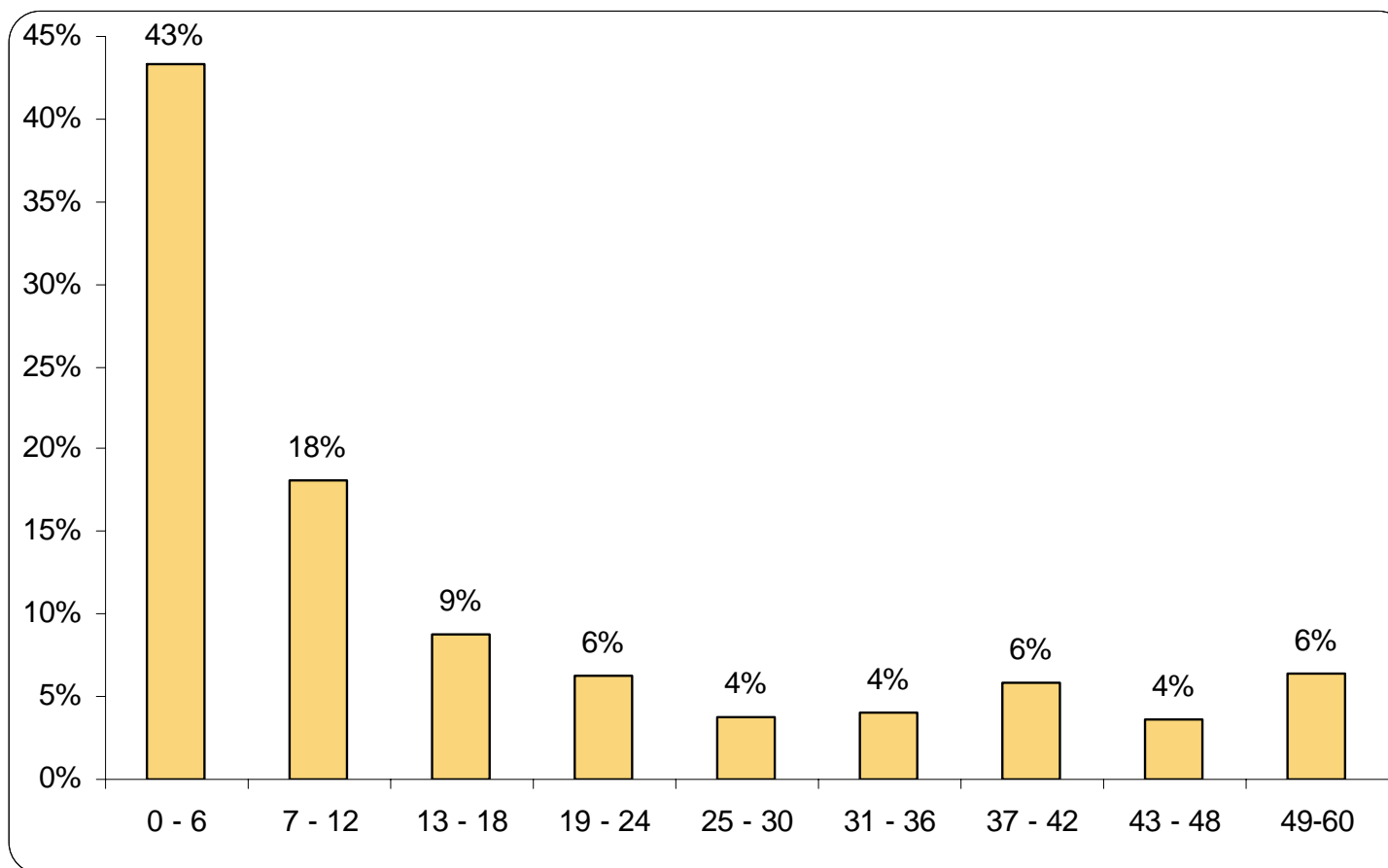
Percent of Total





# ROOF CEE 2006-1 (initial pool)

- remaining maturity, in months



# ROOF CEE 2006-1

- rating



## ❑ Challenges

Originator

- To provide accurate (reliable and consistent) data on reference pool
- To provide historical performance (delinquency) data

Rating Agency

- Moody's first securitisation of SMEs risk from Eastern Europe
- Data history and legal aspects (e.g. foreclosure procedures etc.)

Investors

- Intent to diversify their European ABS portfolios
- Limited knowledge about underlying market and concerns about the perceived risks

## ROOF CEE 2006-1

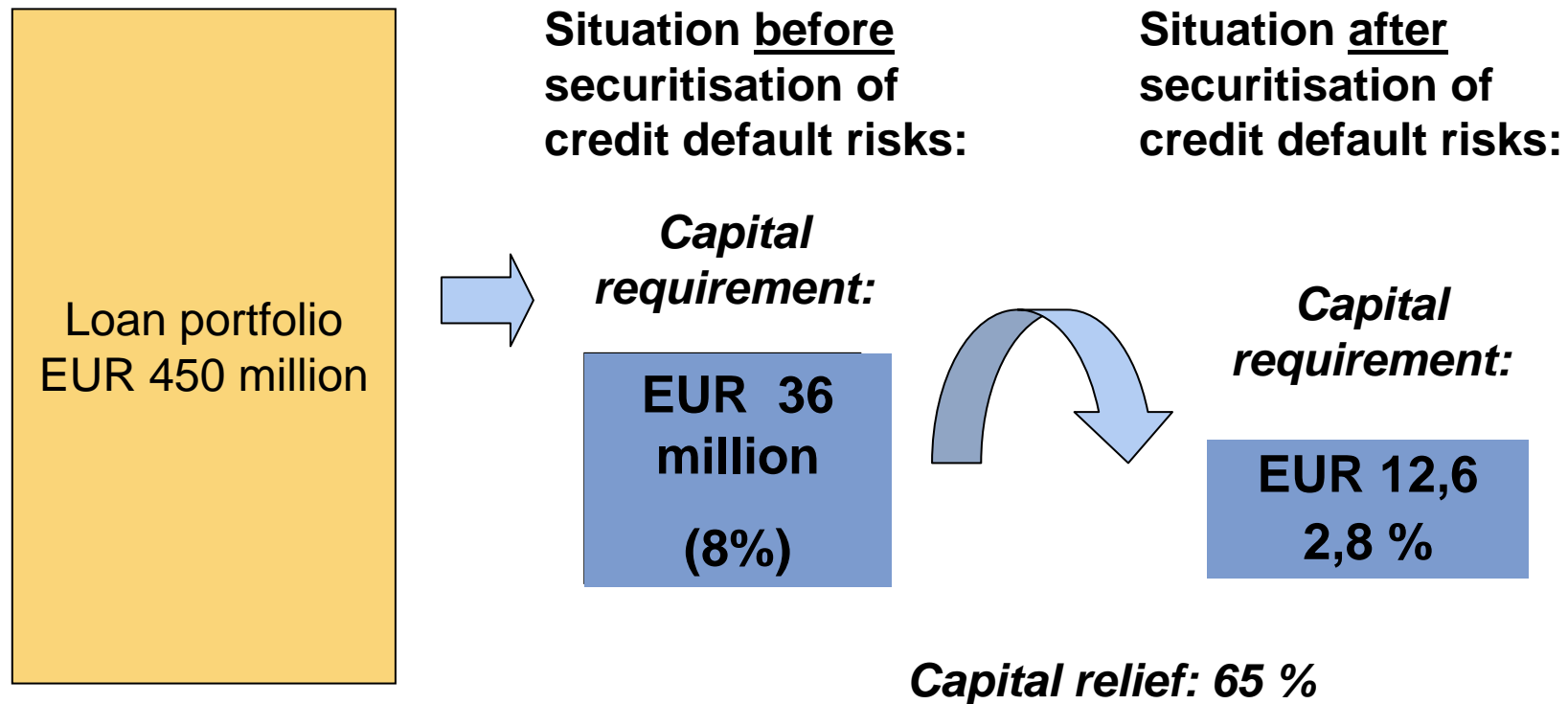
### - tranching and rating



CDS Class	Rating	Amount (million)	% of Notes
Senior	Aaa	€377.55	83.90
A	Aaa	€27.00	6.00
B	Aa2	€7.65	1.70
C	A2	€12.60	2.80
D	Ba2	€12.60	2.80
Junior	NR	€12.60	2.80
Total		€450.00	100.00

## Benefits to the originators

- release of regulatory capital



## Conclusions

- ❑ Transaction allowed RBPL and RBCZ to **diversify their capital sources - risk transfer** as alternative strategy to **access equity at competitive cost**
- ❑ Structure helps originators to **sustain growth process** and **further lending to SMEs** – at **competitive margins**
- ❑ **Excellent market reception** (largest ever CEE securitisation, very lean and efficient structure)
- ❑ **Public support** by KfW as intermediary and EIF as provider of financial guarantees was **key to allow for a successful transaction**
- ❑ Transaction contributes to **market creation / market deepening in CEE**

# Thank you very much !



- ❑ **Feel free to contact us!**

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- ❑ **More information** on all public securitisation transactions on our Website:

- [http://www.kfw.de/EN\\_Home/Loan\\_Securitisation/index.jsp](http://www.kfw.de/EN_Home/Loan_Securitisation/index.jsp)