

Opportunities & Challenges for Securitisation in South-Eastern Europe

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Overview



Securitisation or Structured Finance...

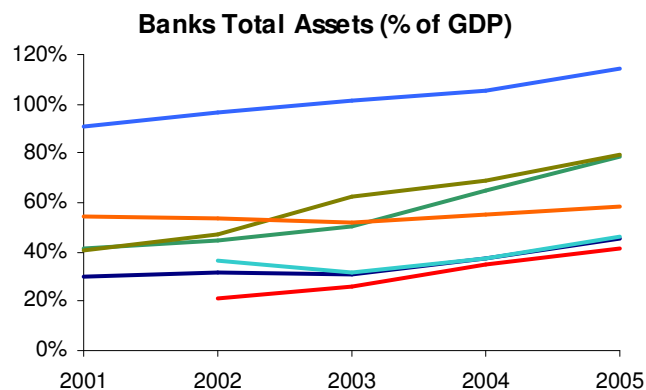
- ... means the *pooling, tranching* and *de-linking* of risky assets transferring risk from originators to investors
 - ... is a universal *risk management, capital management* and *funding* instrument
 - ... transforms *illiquid* assets into *tradable* debt securities
 - ... helps to *diversify* risk away from the banking sector
 - ... creates a *secondary market* that defines the marginal cost of credit
 - ... increases *transparency, creates market discipline* and aligns *incentives*
 - ... allows to *deal creatively with risks and constraints* with alternative structure
 - ... will eventually become an important activity for SEE banking sectors.
- ⇒ **EFSE is an excellent example of creative Structured Finance!**

1. SEE Banking Sector Snapshot



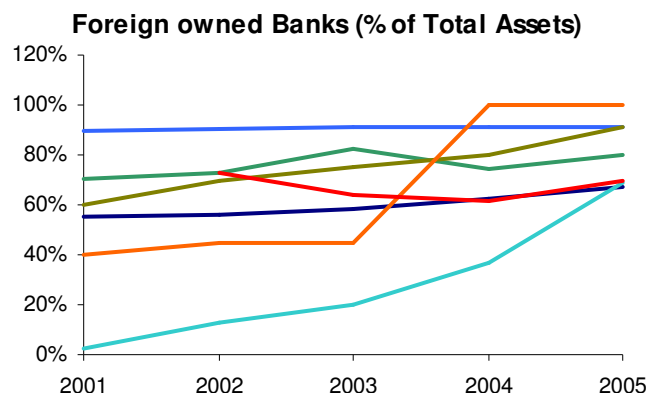
SEE Banking Sector Snapshot

Rapid growth, international parents



As Banking sectors have grown,

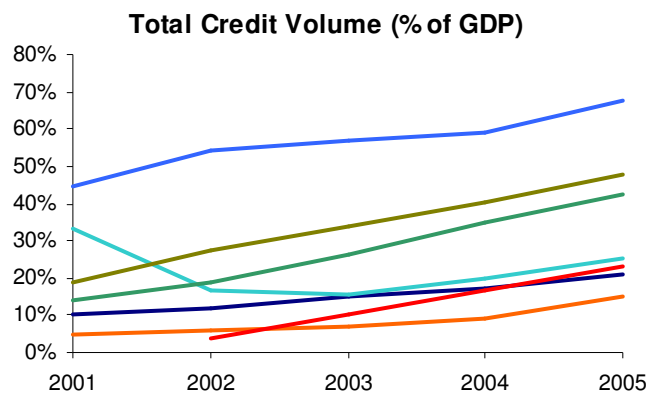
- financial intermediation has increased
- but is still low compared to EURO-Zone (2005: 224.5% of GDP)



- European Banks clearly dominate Banking Landscape throughout the region
- Cheap Funding through international parents has so far provided enough liquidity to finance the growth

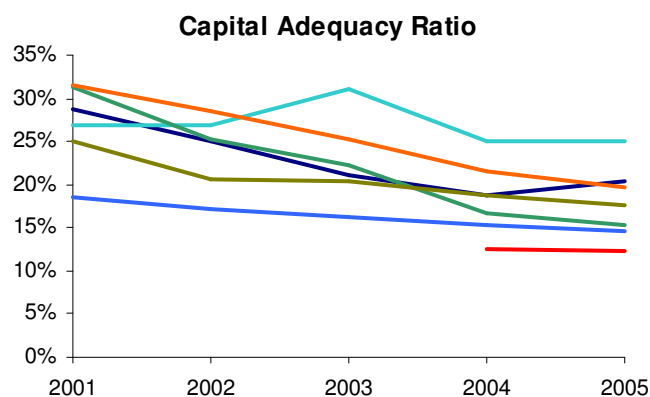
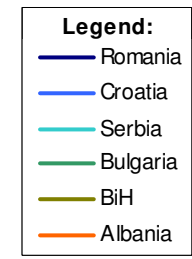
SEE Banking Sector Snapshot

Credit expansion pushing the limits



Credit growth has exceeded GDP growth in all countries...

... making central banks worried about rapid credit expansion...



... while banks' capital adequacy ratios are falling.

2. The case for Securitisation in SEE



The case for Securitisation in SEE

No immediate pressure yet, but more to come



The presence...

Funding Issues:

- Liquidity not yet a problem through Funding by international parents
- Asset / liability maturity mismatch
- Foreign Currency Exposure

Risk & regulatory Issues:

- Capitalisation Rates still comfortable (CAR \approx 20%) yet continuously declining.
- Portfolio concentration increasing
- Overheating Credit sector

... and future challenges

Continued Credit growth likely to continue \Rightarrow need for

- capital increase -- or relief!
- longer maturities
- local currency funding
- increase investor base

Need to

- manage portfolio risk
- manage regulatory capital
- transfer risk out of banking sector
- Increase transparency and discipline

Securitisation for

- Funding
 - longer maturities,
 - local currency
 - broader investor base
- Risk management
- Capital management
- Risk transfer and transparent secondary market

The case for Securitisation in SEE

Originators' Viewpoint - Drivers & Objectives



Overall motivation

- Establish and maintain presence and reputation in capital market through repeated transactions
- De-link lending growth from capital base

Funding

- Diversify funding sources
- Extended funding terms
- Reduced costs

Balance sheet management

- Asset > Capital growth
- Control capital adequacy
- Monetise illiquid assets
- Optimise cash management

Risk management

- Active Portfolio Management
- Continued business with clients despite limits
- Improve risk profile and institutional rating

⇒ Many issues, dependent on type of Securitisation: True sale or synthetic

The case for Securitisation in SEE

Opportunities and Challenges



Opportunities:

- Funding the growth while...
 - ...de-linking from capital requirements
 - ...maintain regulatory requirements
 - ...improve banking practise
- Diversify risk away from Banking Sector
- Development of local markets will kick off local currency funding
- Favourable economic conditions and sovereign ratings, buoyant bank growth
- Microfinance: Opening doors to International Investors in the search for yield

Challenges:

- Reduce remaining legal obstacles to Securitisation
- Banks' still cheap funding
- Focus on Balance Sheet growth
- Cope with declining Spread Environment (revolving transactions)
- First-time transaction cost need to test the markets

3. What KfW can offer



Structured Finance in New Markets

KfW's Mission



- Mission:** To contribute to economic growth through securitisation
capital market development
- Regional Focus:** Eastern Europe
Emerging Markets within German Development Cooperation
- Asset Classes:** Microfinance
SME
Leasing
Residential Housing Loans
Diversified Payment Rights (DPR)
Other assets in line with KfW mission

Structured Finance in New Markets

KfW's Roles

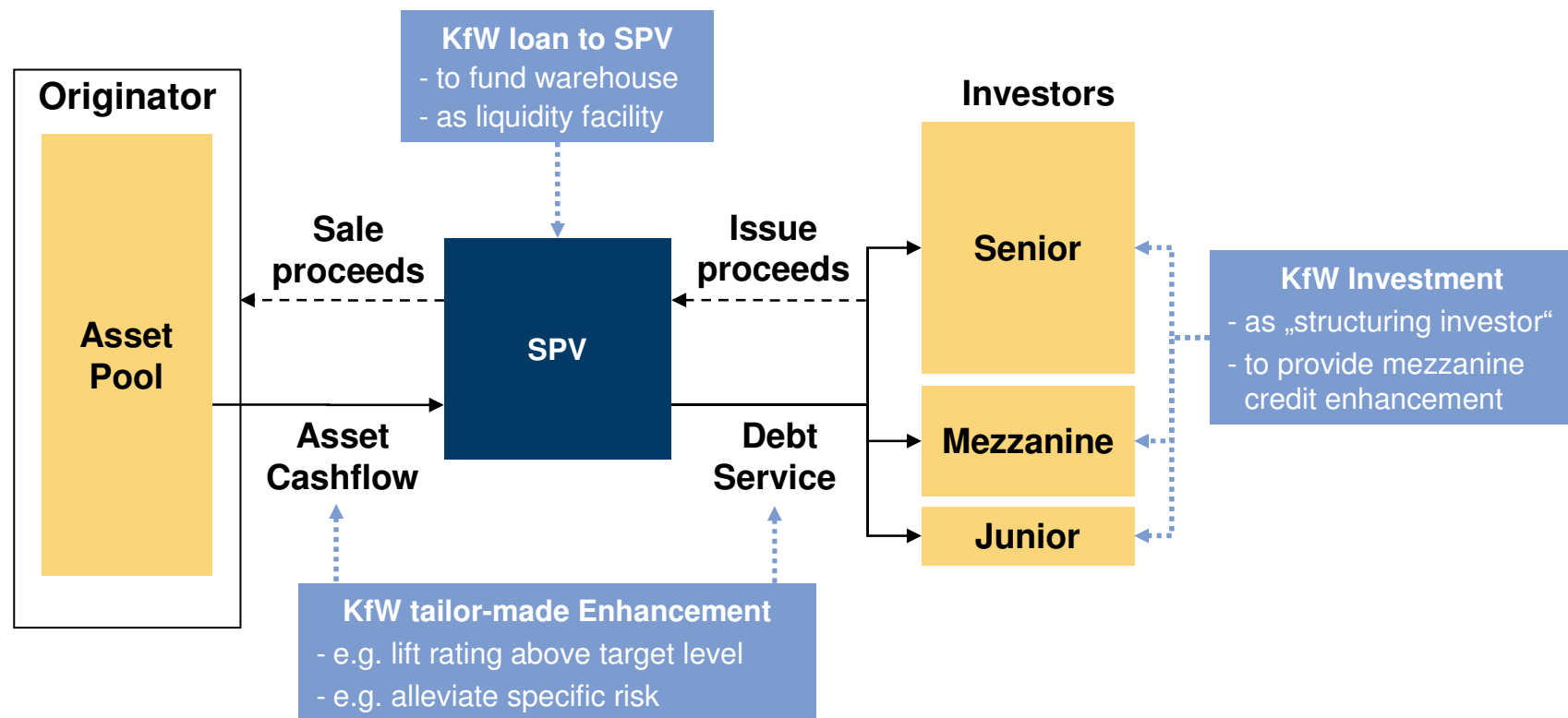


KfW can act as

- **Intermediary:**
 - offering standardized platforms for synthetic SME and RMBS transactions
- **Structuring Enhancer / Investor:**
 - tailor made enhancements for specific risks \Rightarrow achieve given target rating
 - facilitate communication and negotiations with counterparties
- **Anchor Investor**
- **Liquidity Facility Provider of**
- **Warehouse Facility Provider**
- **Structuring Advisor***

Structured Finance in New Markets

KfW's potential Involvement within the structure



Thank you for your attention!

