

Unconditionally Guaranteed as to Principal, Interest and Sinking Fund by the
Free State of Saxony

\$4,000,000

Saxon State Mortgage Institution
(Sächsische Landespfandbriefanstalt)

Mortgage Collateral Sinking Fund 6½% Guaranteed Gold Bonds

Dated December 1, 1926

Due December 1, 1946

Cumulative Sinking Fund sufficient to retire entire issue by maturity

Interest payable June 1 and December 1. Coupon Bonds in denominations of \$1,000 and \$500, registerable as to principal only. Redeemable as a whole at the option of the Institution on December 1, 1931, or on any interest date thereafter at 103 upon thirty days' notice. Principal, interest and premium payable in New York City in United States gold coin of the present standard of weight and fineness, without deduction for any present or future taxes or duties levied by or within the German Reich or the Free State of Saxony, at

THE NATIONAL CITY BANK OF NEW YORK, Trustee.

Principal and interest are also collectible, at the option of the holders, at the City Office of The National City Bank of New York, in London, England, in pounds sterling, in each case at the then current buying rate of the said bank for sight exchange on New York City, New York.

SÄCHSISCHE BANK ZU DRESDEN, Co-Trustee.

Beginning June 1, 1927, a Cumulative Sinking Fund will operate semi-annually to retire the Bonds of this issue by purchase at not exceeding 100 and interest, or by redemption by lot at 100. At least one-half of the Bonds retired in each half year will be redeemed by lot.

The following is summarized from the accompanying letters of the Finance Minister of the Free State of Saxony, and of the Managing Directors of the Saxon State Mortgage Institution:

The Free State of Saxony, with a population of nearly 5,000,000, is one of the most important of the states of the German Reich, ranking third in the amount of taxes collected by the German Reich, and second in importance of industrial enterprises.

The manufactured products of the diversified industries of the Free State of Saxony enjoy an established reputation in foreign markets, which may confidently be expected to create substantial export surpluses upon the restoration of normal conditions of activity. These highly developed industries require skilled craftsmanship and perfection of detail—a condition which does not encourage mass production but results in numerous manufacturing establishments of moderate size.

These establishments are well conditioned as regards plant and equipment, but they have been hampered in securing needed working capital by the general scarcity of credit in Germany. For this reason, the Government of Saxony (although in principle not in favor of state aid to industry) has felt entirely justified in sponsoring the Saxon State Mortgage Institution, which has been established for the purpose of alleviating the present working capital stringency by the creation of long term foreign credits. The recent improvement in the industries of Saxony has emphasized the wisdom of this type of industrial financing.

In addition to the unconditional guaranty of the Free State of Saxony, these Bonds are secured by the pledge of an equivalent amount of mortgages (or cash in lieu thereof) constituting first liens on industrial properties, in amount not exceeding 30% of the conservatively appraised value of such properties, subject only to prior existing mortgages (for the discharge of which appropriate provisions will be made in the Trust Indenture) and to any charges created by the Law of Industrial Charges or the Law for the Collection of Industrial Charges, and to possible minor charges not of a capital nature.

The Saxon State Mortgage Institution is under the same managing and auditing supervision as the Saxon State Bank, which has had a successful career since its establishment in 1862. A conservative loan policy is assured through the provisions of the Charter Law and By-Laws which establish general rules limiting the amount of individual loans and requiring under certain conditions the approval of Regional Credit Committees, the State Commissioner, the Governing Board and the Ministry of Finance.

The Saxon State Mortgage Institution is not required to issue Industrial Debentures under the so-called "Dawes Plan", but it will be required to make certain payments under the Law for the Collection of Industrial Charges, estimated not to exceed \$2,500 per annum.

We offer these Bonds if, as and when issued to and received by us, subject to the approval of our counsel, Messrs. Shearman & Sterling, New York City, and Dr. Ernst Wolff, Berlin. Delivery in temporary form is expected on or about December 15, 1926.

Price 97 and interest yielding over 6.77%



The National City Company

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FREE STATE OF SAXONY

Dresden, Saxony, November 18, 1926.

The National City Company,
55 Wall Street,
New York City.

Dear Sirs:

In connection with your purchase of \$4,000,000 Sächsische Landespfandbriefanstalt (Saxon State Mortgage Institution) Mortgage Collateral Sinking Fund Six and One-Half Per Cent. Guaranteed Gold Bonds, constituting one of a series of so-called "Saxon Industrial Mortgage Bonds", authorized by the law of July 20, 1925, unconditionally guaranteed by the Free State of Saxony as to principal, interest and sinking fund, I submit the following information:

ECONOMIC CONDITIONS

While Saxony is one of the most fertile agricultural districts in Germany, the predominant characteristic of the State is its diversified industrial development, the intensity of which is reflected by the fact that Saxony ranks second among the states of the German Reich in the importance of its industries. The unique reputation enjoyed by many lines of Saxon industry is due primarily to the natural aptitude of the inhabitants for attaining approximate perfection in each unit of output. Thus the word "Dresden" has become a synonym for fine china. This inherent pride of craftsmanship has enabled the skilled workers of Saxony to excel especially in the production of articles requiring delicate and accurate adjustment, such as optical and surveying instruments, precision tools, etc., to such an extent that Saxony has been referred to as the "precision workshop" of Europe. The central position of the State in Europe, its abundant resources of coal, and the very extensive railroad facilities have also been factors contributing to the growth of its industries. Saxony is fifth among the German states in area, but ranks third in the amount of taxes collected by the German Reich.

REQUIREMENTS OF SAXON INDUSTRY

Manufacturing, in which primary emphasis is placed on the excellence of the individual units of production, does not lend itself to the principles of mass production; maximum efficiency is reached rather by numerous enterprises of restricted size, and the industries of Saxony, as might be expected, are characterized by a relatively large number of small and medium sized plants.

The period of currency inflation in Germany, which drew to a close in the latter part of 1923, was characterized, especially as regards industry, by a tendency to convert working capital into extensions and improvements, in a natural effort to counteract the effects of depreciation. Since Germany's return to a sound currency, industry has been hampered by the resulting stringency of working capital, and in these circumstances the industrial plants of Saxony have experienced the same difficulties as German industry as a whole.

While the Government of the State of Saxony does not in principle approve of state aid to industry, it feels that its present sponsorship of a mortgage institution designed to assist the industries of the State in securing at least minimum requirements in working capital is both desirable and economically sound. These enterprises are in general well off as regards plant and equipment and their products enjoy established reputations abroad. Possessed of fairly adequate working capital, these industries will, it is expected, attain rapidly to normal activity and will be capable of creating substantial export surpluses, which will not only insure the gold values necessary to meet the interest and sinking fund requirements of any foreign obligations (such as these Mortgage Institution Dollar Bonds), but will also aid materially in facilitating the conversion into appropriate foreign currencies of reparations payments by the German Reich under the "Dawes Plan", the success of which is predicated upon restoration of Germany's economic prosperity. The improvement which has taken place recently in the industries of Saxony has emphasized the wisdom of this type of industrial financing.

FINANCES

Practically all of the long term debts incurred by the State before 1914 (amounting to over \$200,000,000) were for the purpose of railroad building. None of these loans was floated outside of Germany, and the highest coupon rate was 4%. These railroad debts have been assumed by the Government of the German Reich in connection with its acquisition of the state railroads, and the outstanding funded debt of Saxony is today less than \$16,500,000, the greater part of this sum being represented by Treasury Bonds. The floating debt of the State amounts to less than \$3,000,000. In addition to the present issue of Bonds and the \$5,000,000 bonds of the Mortgage Institution previously issued, the State Government has guaranteed certain loans amounting to less than \$32,000,000 in the aggregate.

For the fiscal year ended March 31, 1926, the ordinary receipts of the State amounted to about \$78,000,000 and ordinary expenditures amounted to less than \$77,000,000. Of the total revenues of the State, approximately five-eighths are derived from State taxes and fees and from its proportionate share in the taxes levied by the Reich Government within the State. The enterprises and assets owned by the State, which are estimated to have a value of approximately \$190,000,000, contribute substantial profits.

The Free State of Saxony, one of the component states of the German Reich, lies almost in the center of Germany, with a total area of approximately 5,787 square miles and a population of nearly 5,000,000.

Very truly yours,

(Signed) DR. DEHNE,
Minister of Finance, the Free State of Saxony.

SÄCHSISCHE LANDESPFANDBRIEFANSTALT

Dresden, Saxony, November 18, 1926.

The National City Company,
55 Wall Street,
New York City.

Dear Sirs:

In connection with your purchase of \$4,000,000, aggregate principal amount, Sächsische Landespfandbriefanstalt Mortgage Collateral Sinking Fund Six and One-half per cent. Guaranteed Gold Bonds, (hereinafter referred to as the "Bonds"), constituting one of a series of so-called "Saxon Industrial Mortgage Bonds", authorized by the law of July 20, 1925, unconditionally guaranteed by the Free State of Saxony as to principal, interest and sinking fund, we take pleasure in giving you the following information:

ORGANIZATION AND PURPOSE

The Sächsische Landespfandbriefanstalt (Saxon State Mortgage Institution), which for purposes of brevity we shall refer to as "Mortgage Institution", is organized under the auspices of the Saxon State in accordance with the law of July 20, 1925, of the Saxon Landtag or Diet. Its principal office is located in the City of Dresden, the capital of Saxony. It began business October 1, 1925, with a capital of 1,000,000 Reichsmarks (\$238,095), which was contributed by the State, and operates under the detailed supervision of the State Government. It is under the same management and auditing supervision as the Saxon State Bank, which has had a successful career since its establishment in 1862.

The Mortgage Institution is restricted in its business to the granting of loans secured by mortgages on real estate (situated in Saxony) devoted primarily to industry, commerce and trade and on such other property under the same ownership as bears a direct economic relation to the same. By and with the consent of the proper governmental authorities, the Mortgage Institution is authorized to raise the necessary funds for loan purposes through the issue of bonds up to 50,000,000 Reichsmarks (\$11,904,761), aggregate principal amount, secured by mortgages of an equivalent aggregate principal and bearing at least as high a rate of interest. Under its charter law, these bonds are eligible as trustee investments in Saxony.

There are now outstanding \$4,942,000 of Mortgage Collateral Sinking Fund 7% Guaranteed Gold Bonds, due December 1, 1945, and 4,912,500 Reichsmarks (\$1,169,643) of bonds of a German issue, due June, 1946. The present issue of \$4,000,000 is therefore well within the above mentioned 50,000,000 Reichsmarks authorization.

The proceeds of the present issue of Bonds will be used by the Mortgage Institution to supply working capital to Saxon industries by means of loans secured by mortgages, the lien of which will be subject only to charges of the character hereinafter described.

SECURITY

The Bonds of this issue have the following security under the Trust Indenture:

(1) They are the direct credit obligations of the Mortgage Institution, secured by its entire resources, including its Capital and General Reserve and the Special Series Reserve set aside to secure this issue exclusively, which Special Series Reserve will eventually amount to 5% of the aggregate principal amount of the outstanding Bonds.

(2) They will at all times be secured by the pledge of mortgages of an unamortized principal equivalent in United States gold dollars or in gold marks to the aggregate principal amount of the outstanding Bonds, or, in lieu of such mortgages, cash of an equivalent amount. These mortgages will constitute absolute first liens on industrial properties of the nature indicated above, subject only to the liens of prior existing mortgages (for the discharge of which appropriate provisions will be made in the Trust Indenture) and to any charges created by the Law of Industrial Charges (Industriebelastungsgesetz) of August 30, 1924 (Industrial Debentures issued in accordance with the so-called "Dawes Plan"), or by any charge created by the Law for the Collection of Industrial Charges (Aufbringungsgesetz) of the same date, and to possible minor charges not of a capital nature, not materially affecting the value of the real estate. These mortgages may not exceed 30% of the conservatively appraised value of the real estate covered, together with improvements thereon, and the average unamortized principal of all such mortgages pledged under the Trust Indenture shall not exceed 1,000,000 Reichsmarks (\$238,095). They shall bear interest at a rate not less than 6½% per annum, and shall mature not later than December 1, 1946. The valuation of property covered by the pledged mortgages is based upon the estimated sales value of the land, buildings and machinery, after deduction of reasonable depreciation charges, such valuation to be justified in all cases by the profits which may reasonably be expected to be earned continuously on the basis of the records of previous years. The Mortgage Institution may, under certain conditions, call for the repayment of any pledged mortgage, either upon three months' notice or, with the consent of the State Commissioner, immediately, in case it has reason to apprehend danger of loss.

(3) They will be further secured by the joint and several liability of all mortgagors whose mortgages are pledged under the Trust Indenture, to pay assessments up to 10% of the original principal amount of their respective mortgages, should such assessments become necessary to insure the payment of interest and amortization of the Bonds.

(4) They will be unconditionally guaranteed by the Free State of Saxony, which will also guarantee the payment of cumulative Sinking Fund instalments sufficient to retire the whole issue by maturity.

The Mortgage Institution must obtain from the State authorities approval for the creation and issuance of any Bonds.

Inasmuch as the Mortgage Institution is exclusively a state institution, it is not required under the Law of Industrial Charges to issue either negotiable or non-negotiable Industrial Debentures under the so-called "Dawes Plan". In accordance with the Law for the Collection of Industrial Charges, which effects a further distribution within Germany of the burden of the Industrial Debentures referred to above, the Mortgage Institution will be required to make certain annual payments estimated not to exceed \$2,500 per annum.

The Saxon State Mortgage Institution completed its first year of business on October 1, 1926, and today practically all funds so far obtained from bonds issued have been placed in the form of loans secured on mortgages on real estate such as described above. No losses of any nature have been incurred to date and the income for the year ended October 1, 1926, covers all expenses, interest, etc., and permits the setting up of a liberal reserve. The Saxon State Mortgage Institution has now sufficient additional applications for further loans of the character described above to insure the early placing of funds obtained from the proceeds of this issue.

MANAGEMENT

According to the provisions of its Charter Law and By-Laws, the Mortgage Institution is under the supervision of the State through the Ministry of Finance and its agents. The business is conducted by Managing Directors. There is a Governing Board acting as an expert advisory organ, with a membership of not more than fourteen. Two of its members are officials of the Ministry of Finance, three are appointed by the Saxon Landtag or Diet, while the remainder are appointed by the State upon the recommendation of various local committees and other interests in the manner specified by the Charter Law.

A conservative policy in the granting of loans is assured through the establishment of five regional Credit Committees which must be consulted by the management regarding all loan applications of 20,000 Reichsmarks (\$4,762) and over. These committees, in accordance with the Charter Law, consist of representatives of the local Chambers of Commerce and other business interests. No loan may be made in excess of the amount approved by a local Credit Committee. In addition, the Commissioner appointed to exercise the supervisory authority of the State over the Mortgage Institution must give his consent for any loan of 100,000 Reichsmarks (\$23,810). Furthermore, the approval of the Governing Board and of the Ministry of Finance must be obtained for the granting of any loan in excess of 200,000 Reichsmarks (\$47,619).

Very truly yours,

SÄCHSISCHE LANDESPFANDBRIEFANSTALT

(Signed) CARL DEGENHARDT,
Managing Director.

DR. ERNST VOGEL,
Managing Director.

The information contained in this circular has been obtained partly by cable from official statements and statistics and from other sources which we consider reliable. We do not guarantee, but believe it to be correct. Except as otherwise stated German currency in this circular has been converted into currency of the United States of America at the rate of 4.20 Reichsmarks to the dollar.



The National City Company

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