



EUROHYPO S.A.

Lettres de Gage Publiques

**EURO
HYPO**

Luxembourg, March 2010

Agenda

Surviving the crisis

Opportunities for Lettres de Gage in the Group

Eurohypo S.A.

Outlook

Appendix

Act on the Financial Sector Article 12

Crisis 2007 – 2010 we survived

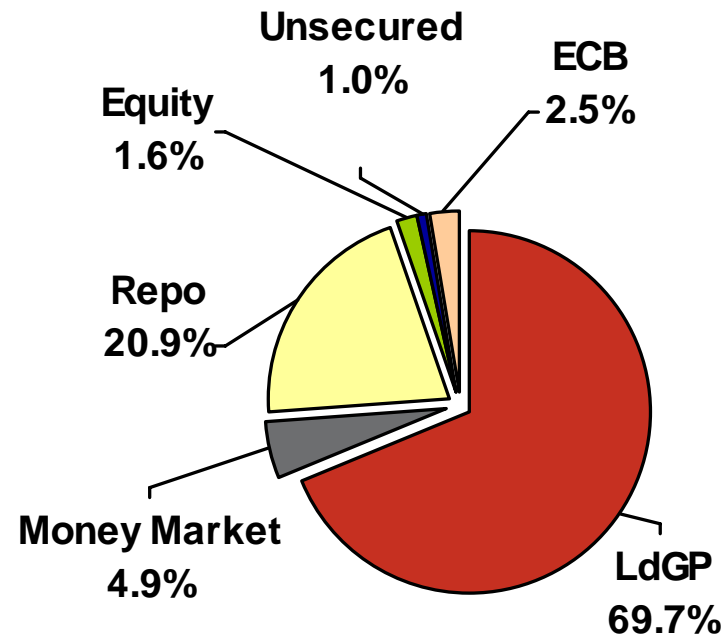
Crisis management

- **Sound refinancing mix**
- **Alternatives by use of repo**
- **Open market tender offers of the European Centralbank**
- **Consolidation in accordance with the public finance group policy**
- **Optimisation of the portfolio**
- **Support by the parent company in the money market area**

Stable refinancing mix

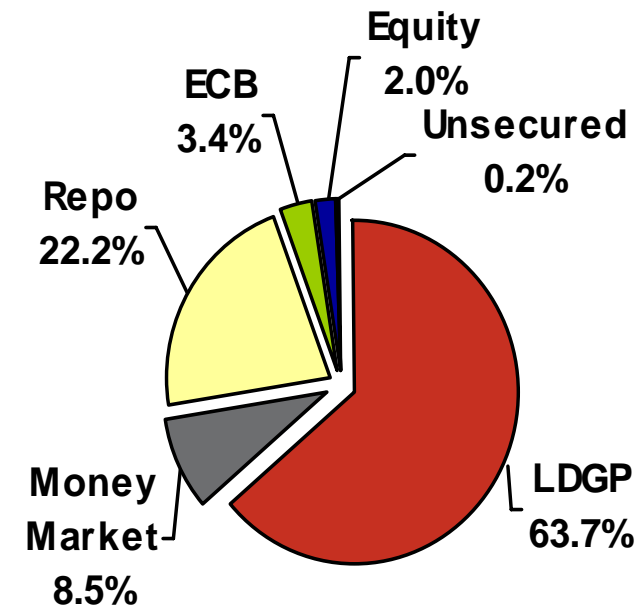
31. Dez. 2007

EUR 23.7 bn.



31. Dez. 2009

EUR 21.5 bn.



All Values after-swap
Zeros at present value

Facts and Figures: Balance sheet Lux GAAP

Balance sheet in mln. EUR	31.12.09*	30.06.09	31.12.08	31.12.07
Total assets	23,456	24,538	25,121	26,186
Lettres de Gage outstanding	14,775	15,801	16,616	17,140
Repo	4,849	4,056	4,432	5,550
ECB Tender	750	1,312	1,105	600
P&L: Interest surplus	59.3	38.7	72.3	40.5
Earnings before tax	47.3	25.7	63.0	82.9
Key figures:				
ROE before tax	15.0	16.4	22.4	30.9
Cost income ratio	11.6	9.3	9.8	19.0
Total capital ratio (Capital)	31.0	30.0	12.6	12.9
Total capital	437	437	391	372

*Provisional figures, not yet confirmed by the auditors



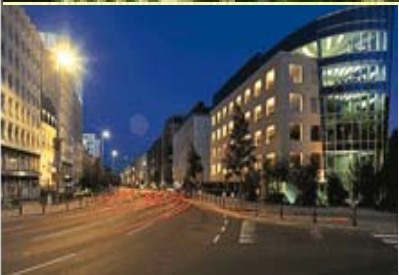
Stable profit throughout the crisis
No impairments by loan losses
Solid refinancing

Opportunities in the Financial Center Luxembourg

Brief profile and strategy

- **Special purpose bank principle: Concentration on a low risk public sector business**
- **100% subsidiary of Eurohypo AG, member of Commerzbank Group**
- **Complementary business model to Public Finance of Eurohypo AG**
 - **“cover stock eligible communal loans”**: Definition according to Luxemburg law
 - **extended geographical range (OECD)**
- **Complementary funding**
 - **Lettres de Gage issues with focus on international currencies**
 - **ECB und Repo business as alternative short term funding**
 - **unsecured funding via group resources**

Strategic importance of Eurohypo S.A. for the Group



- **Added value through Luxembourg**
 - Pragmatic and well balanced regulatory environment
 - Favorable tax treatment
- **Close proximity to the French and Benelux public finance clients**
- **International human capital**
- **Combined approach out of Germany and Luxembourg gives the most added value to the Group**

Recognized strong legal framework - optimal capital markets access with the well rated Lettres de Gage



Eurohypo S.A. Luxembourg

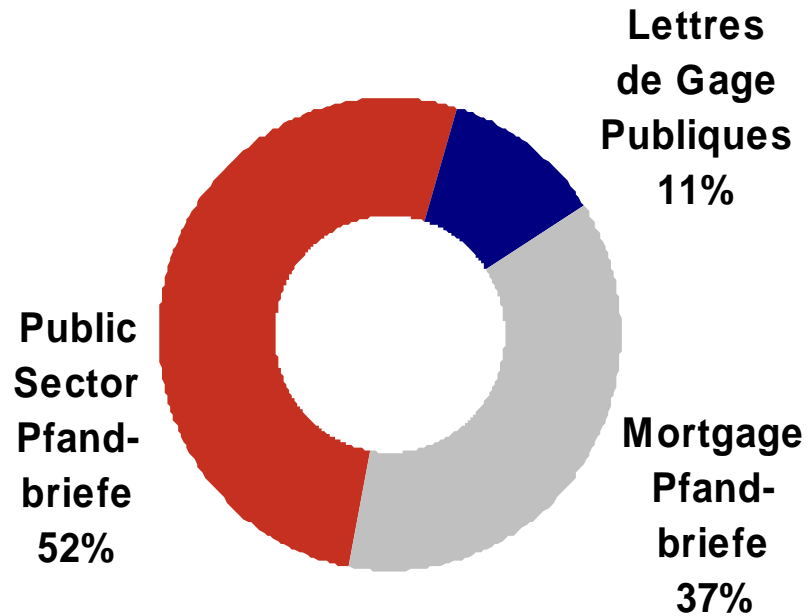


LdGP share of the total Group Covered Bond funding

Product mix

EUR 125.2 bn. total

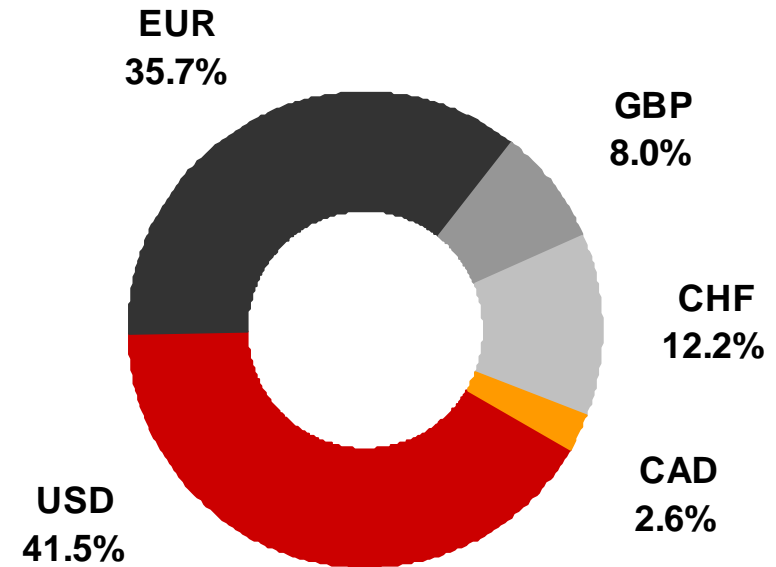
As of 31.12.2009



Lettres de Gage Publiques by currency*

EUR 14.8 bn.

As of 31.12.09

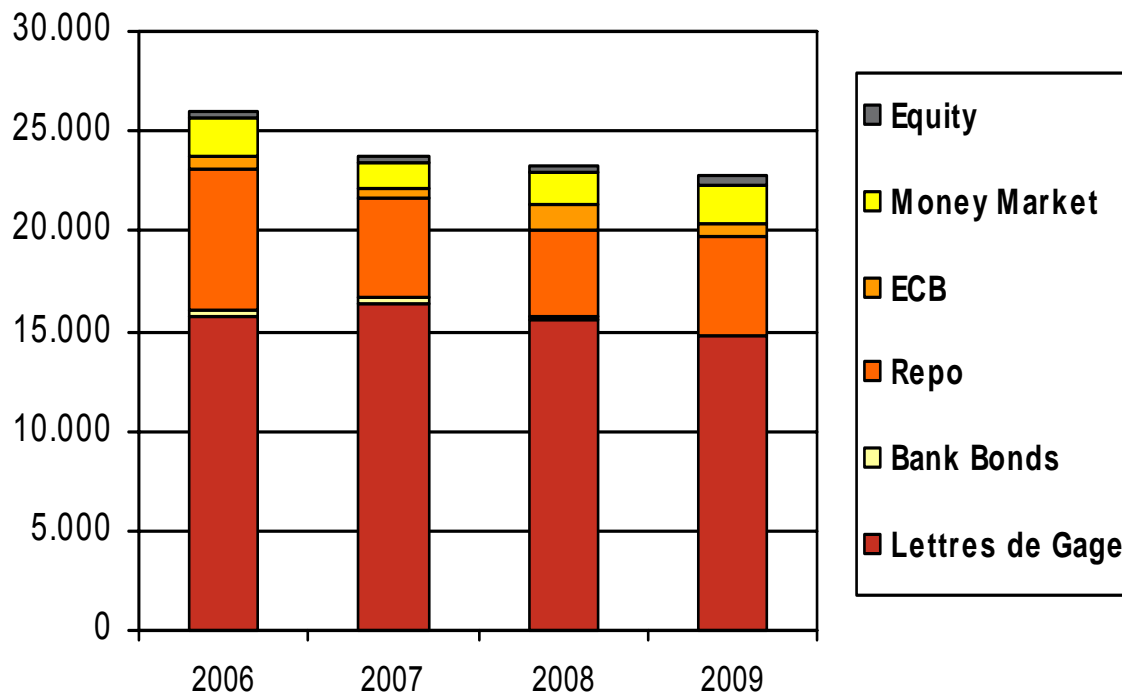


*Nominal amounts after swaps,
zero bonds on a present value basis

Refinancing schedule Eurohypo S.A.

in mln. EUR

mln. EUR



- **Collateralized refinancing:**
 - Lettres de Gage issuance
 - Repo business
 - ECB open market operations

- **Stable interest income**

- **Priority for further balance sheet reduction gives only limited flexibility for new business**

Important LdGP issues by Eurohypo S.A.

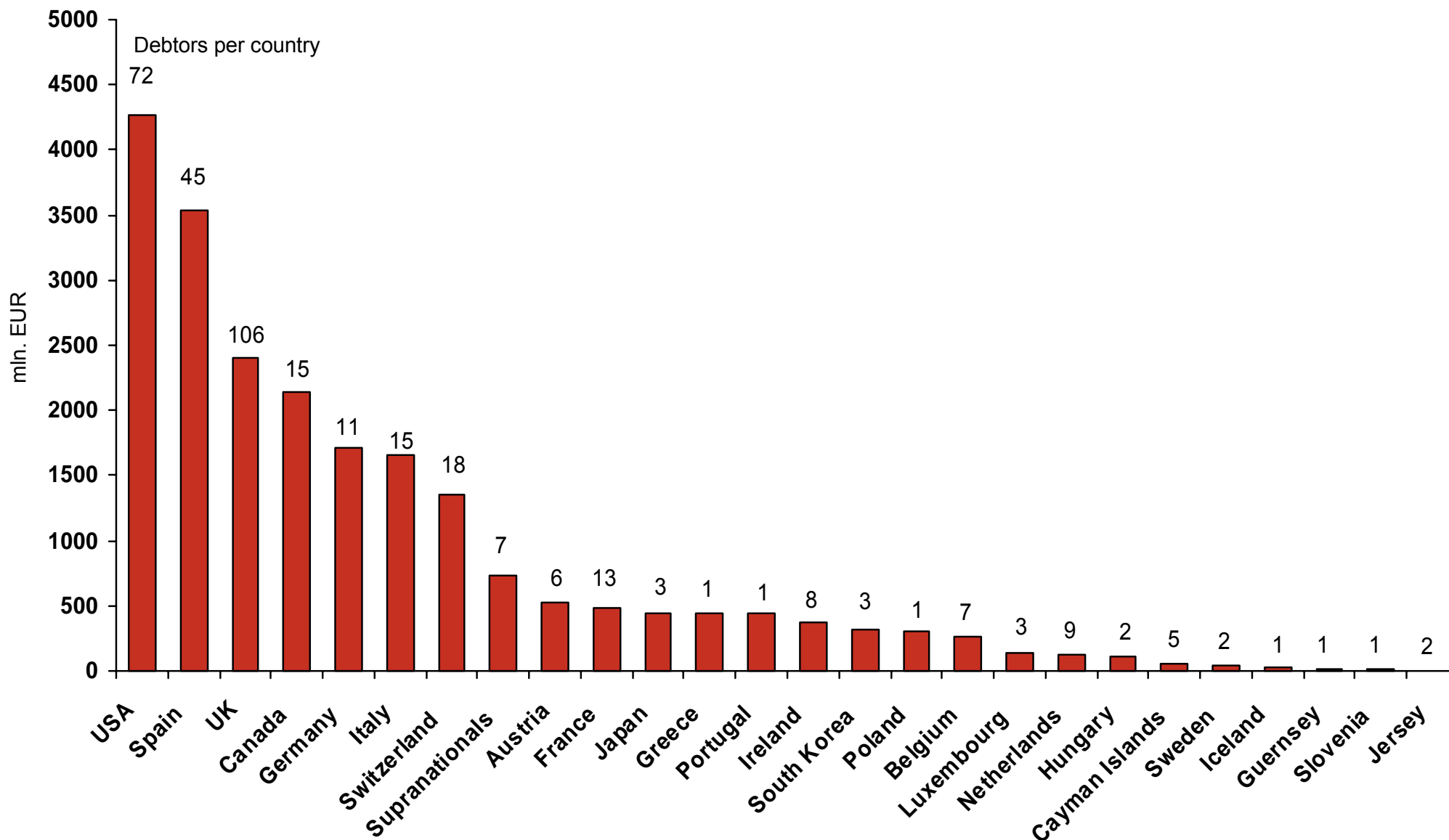
- **Not only EUR denominated Jumbos**
 - 1.25 bn. EUR Eurohypo LdGP Ser. 105 v. 2000 (2011)
 - 1.0 bn. EUR Eurohypo LdGP Ser. 123 v. 2003 (2018)

- **but also large internationally placed bonds in foreign currencies**
 - 500 mln. CHF Eurohypo LdGP Ser. 159 v. 2005 (2014)
 - 650 mln. CHF Eurohypo LdGP Ser. 161 v. 2005 (2025)
 - 475 mln. GBP Eurohypo LdGP Ser. 187 v. 2005 (2010)
 - 500 mln. GBP Eurohypo LdGP Ser. 195 v. 2006 (2011)
 - 750 mln. US\$ Eurohypo LdGP Ser. 188 v. 2006 (2011)
 - 1.0 bn. US\$ Eurohypo LdGP Ser. 194 v. 2006 (2016)

are the refinancing source for the broad diversified asset portfolio

Asset portfolio Eurohypo S.A.: Breakdown by countries in mln. EUR and number of debtors per country Total: EUR 21.5 bn.

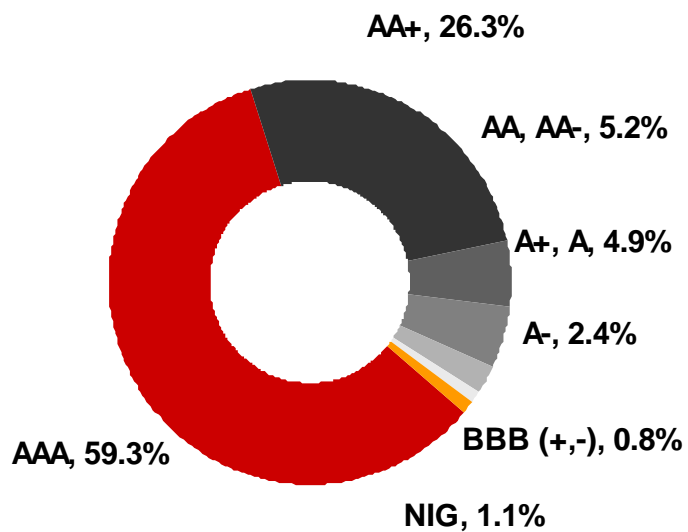
as of 31.12.2009



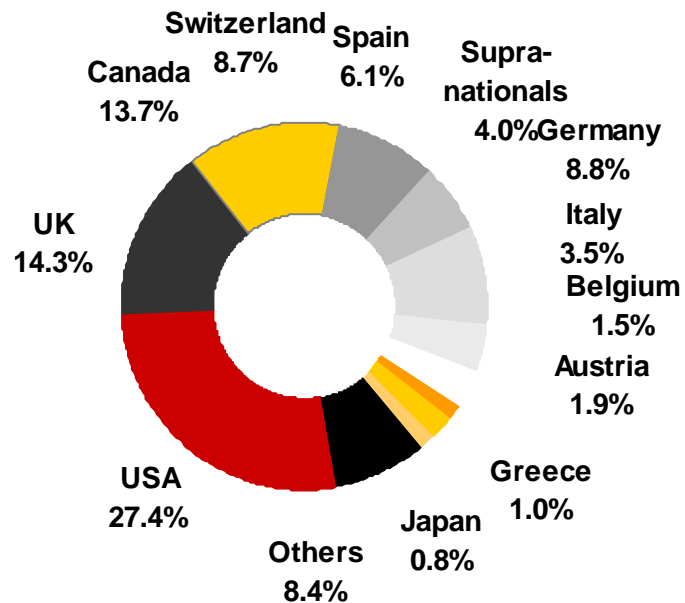
Lettres de Gage Publiques: Eurohypo S.A. Cover Pool

EUR 15.5 bn. as of 31.12.2009

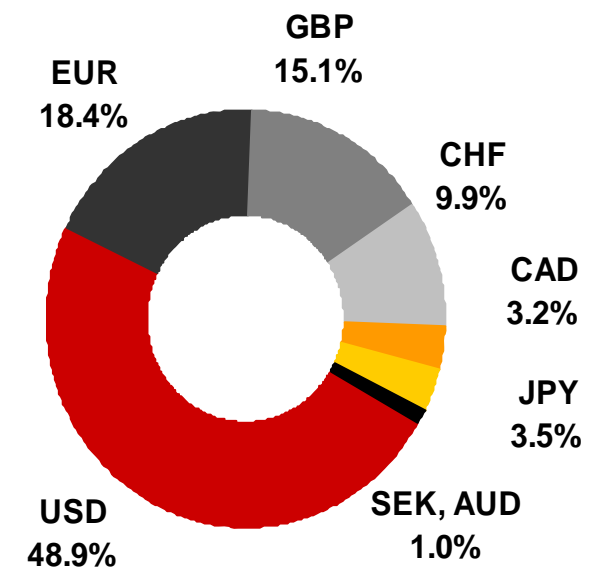
Breakdown by internal rating



Breakdown by country

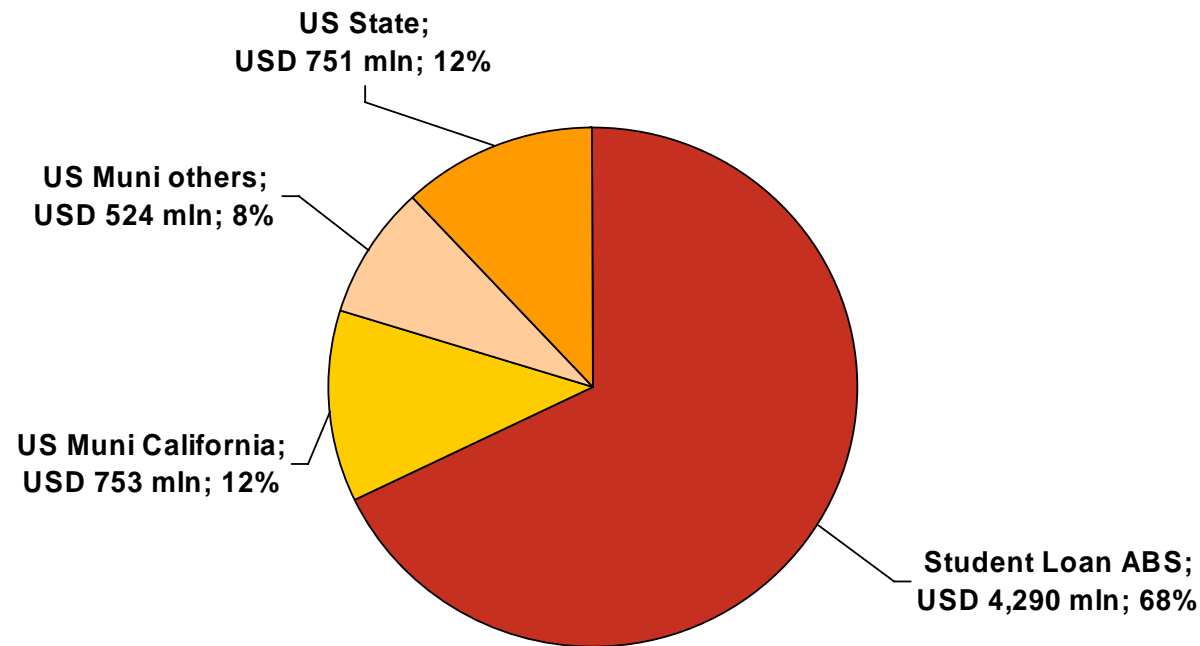


Breakdown by currency



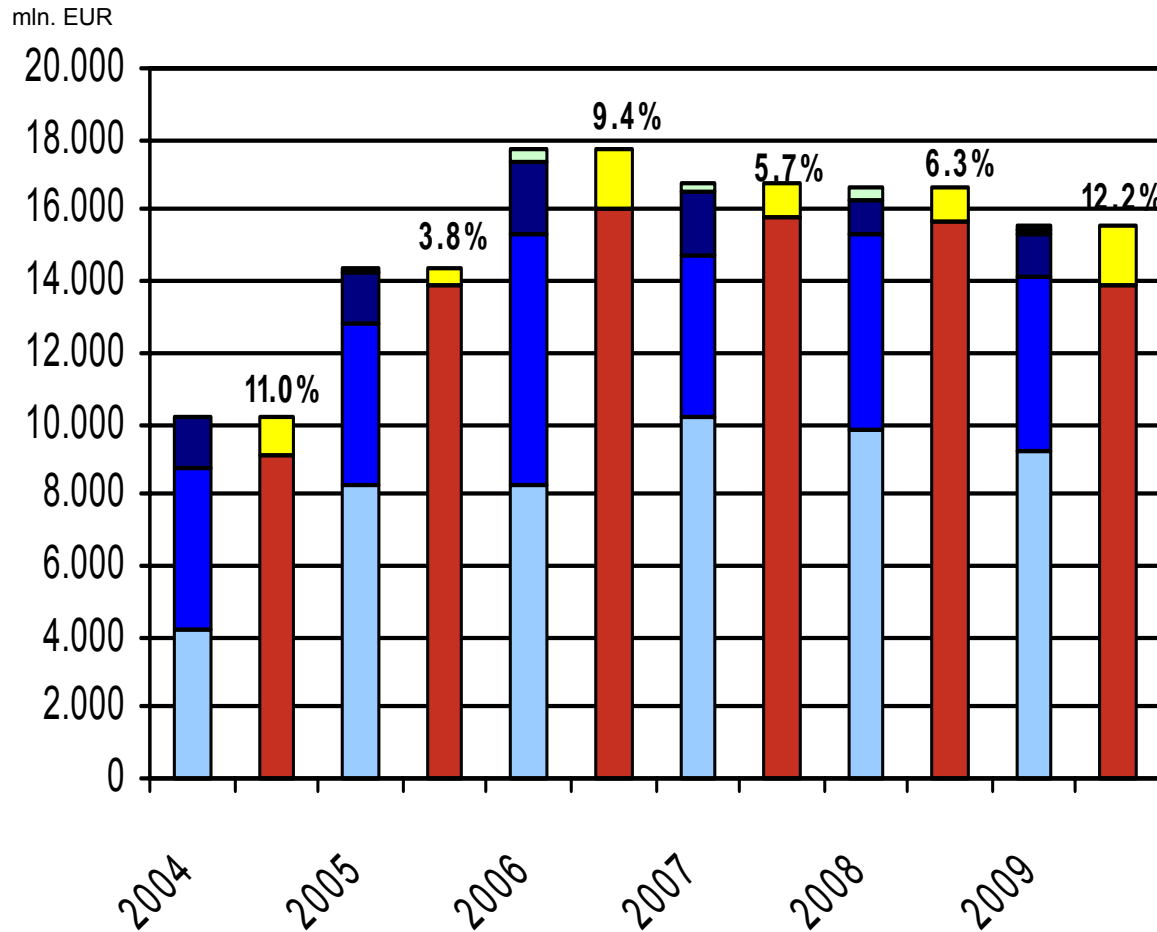
Breakdown of US Exposure in the cover pool

Total: USD 6,318 mln



- US Muni assets only General Obligations no Revenue Bonds
- US Student Loans solely FFELP Loans, which are guaranteed by the Department of Education

Cover Pool development by internal ratings and over-collateralisation



- **Broad pool diversification by regions, countries and debtors**
- **Voluntary over-collateralisation exceeds legal requirements**

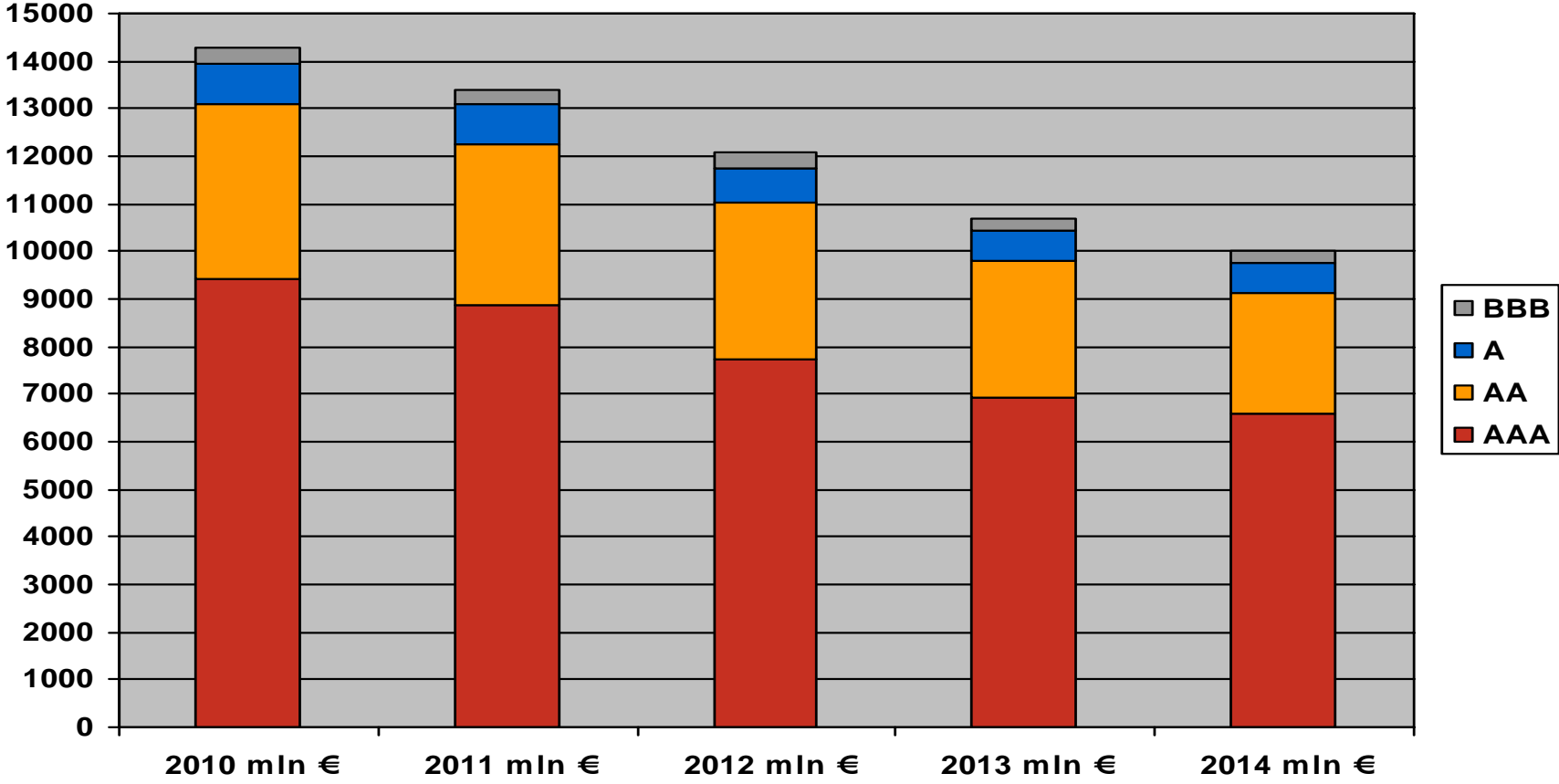
Lettres de Gage Publiques: Value of cover pool Eurohypo S.A.

as of December 31, 2009

	Public sector assets*	Lettres de Gage Publiques in circulation*	Over-collateralisation	
	in Euro bn	in Euro bn	in Euro bn	in %
Nominal	15.7	13.9	1.8	13.1%
NPV (Net Present Value)	16.1	13.9	2.2	15.8%
+ 100 bp interest rate shift	16.0	13.9	2.1	14.8%
- 100 bp interest rate shift	16.3	14.0	2.3	16.5%

*All values after swap



Development of the cover pool by internal rating in mln €




Maturities with WAL

Rating Overview

as of February 18, 2010

Ratings for Eurohypo AG	 Moody's Investors Service	The McGraw-Hill Companies	
		 STANDARD & POOR'S	FitchRatings
Public Sector Pfandbriefe	Aaa	AAA*	AAA
Mortgage Pfandbriefe	Aaa	AAA*	AAA*
Long-term Bank Deposits / Senior unsecured debt	A1*	A-*	A*
Short-term Bank Deposits / Counterparty Rating	P-1	A-2*	F1
Subordinated debt	Baa2	BBB+	A-
Bank Financial Strength / Individual Rating	D*	-	-
Support Rating	-	-	1
Rating Outlook	*Negative	*Negative	*Negative

Ratings for EUROHYPO Europäische Hypothekenbank S.A., Luxembourg	The McGraw-Hill Companies	
	 STANDARD & POOR'S	FitchRatings
Lettres de Gage	AAA*	AAA
Long-term Bank Deposits / Counterparty Rating	A-*	A*
Short-term Bank Deposits / Counterparty Rating	A-2*	F1
Support Rating	-	1
Rating Outlook	*Negative	*Negative

Business outlook

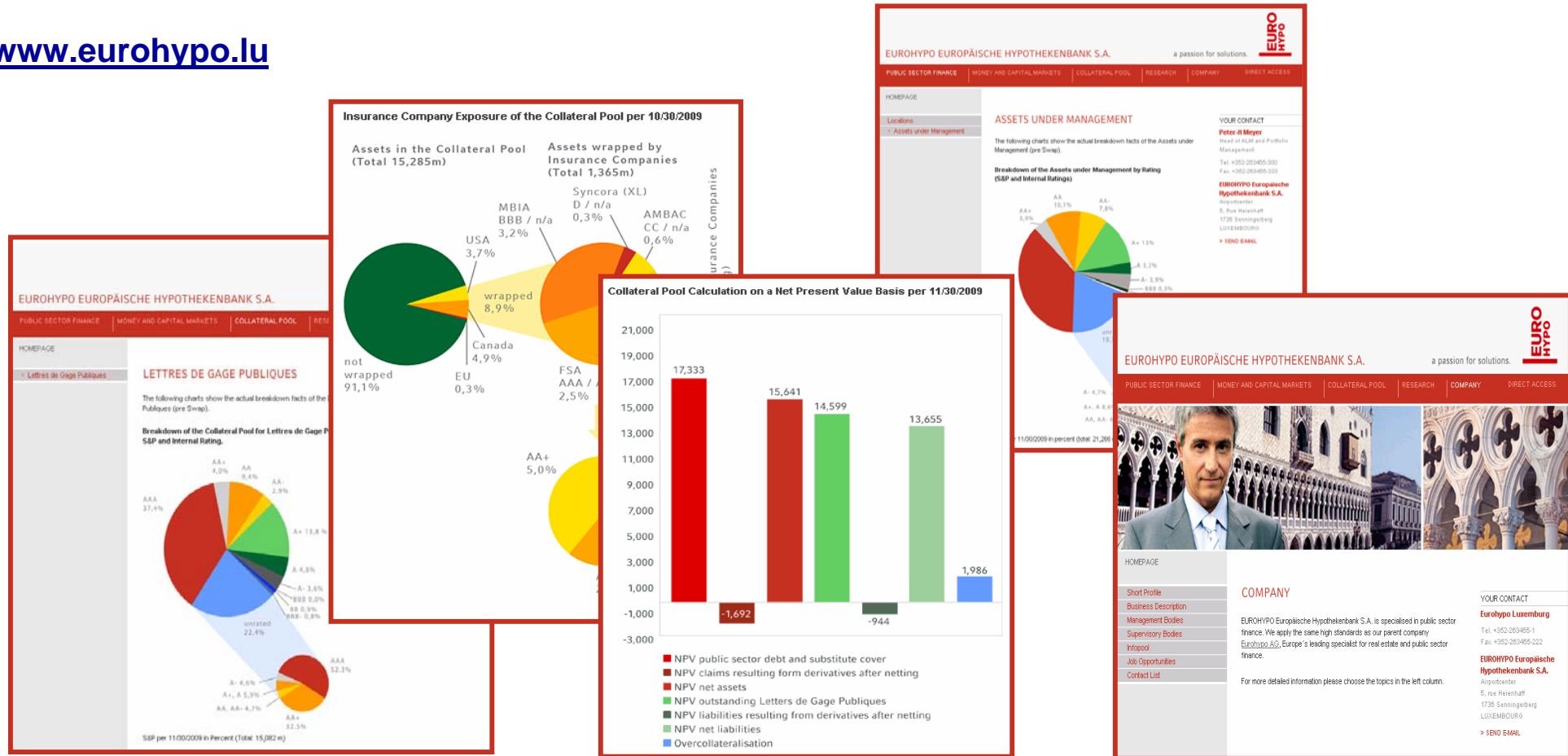
Outlook

- **Pick-up in demand for Lettres de Gage Publiques**
- **Market remains open for an upcoming EUR Lettre de Gage Publique**
- **Stabilizing the AAA Fitch Rating**
- **S&P currently analyzes the cover pool under the agency new rating methodology**
- **Rising debt of public sector entities due to the financial crisis**
- **Increased borrowing by public authorities via PPP and public companies to match the Maastricht criteria**

Transparency

The web sites are regularly updated with relevant information. The composition of the cover pool is published with a monthly frequency:

www.eurohypo.lu



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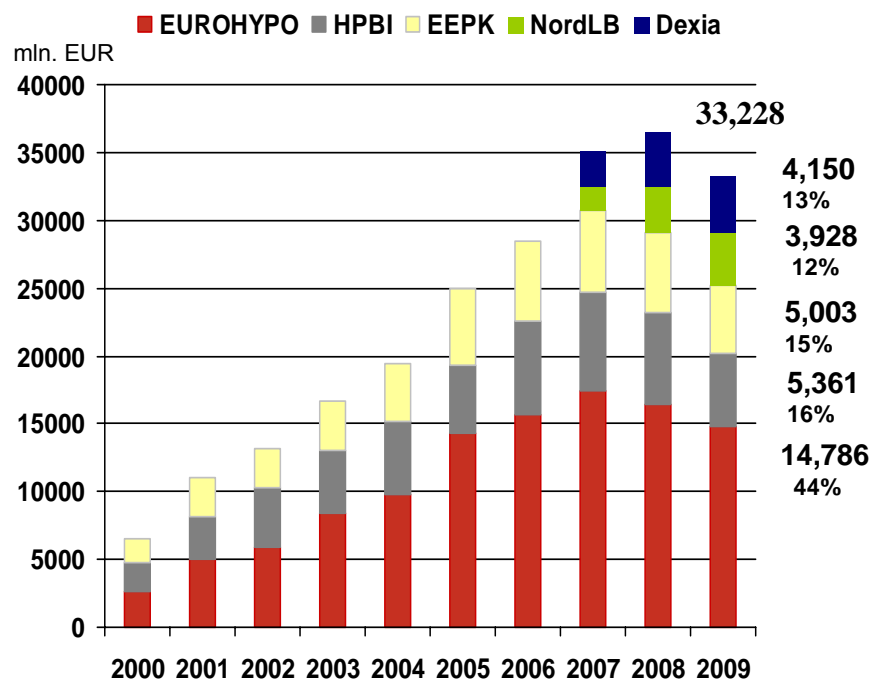
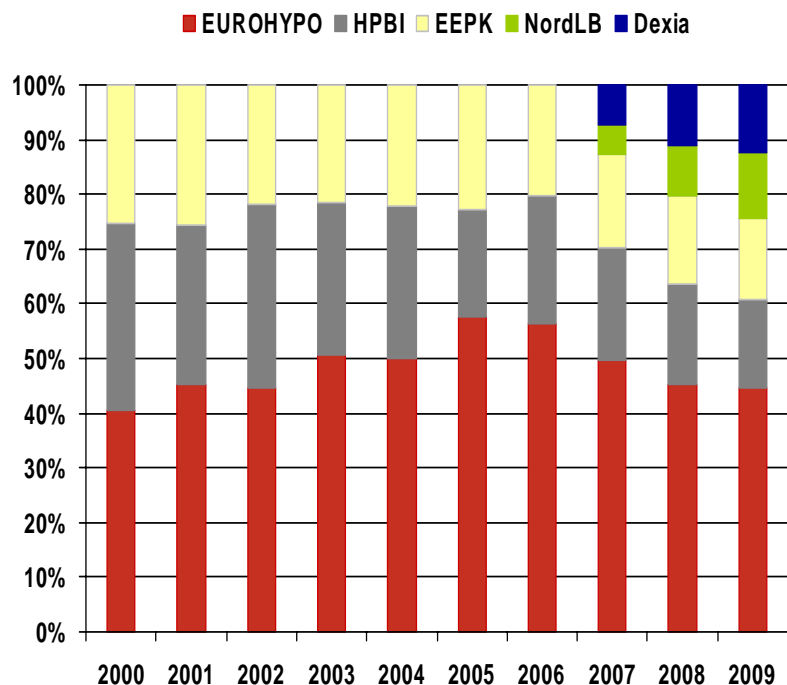
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Appendix

Covered Bond market Luxembourg



- **Steady growth since inception with new issuers and foreign currencies added**
- **Eurohypo S.A. leading issuer of Lettres de Gage**
- **Legal environment is continuously updated and modernised**

Lay out : Pre-Swap value
Zeros with FV
no inclusion of call rights

Legal foundation


Key elements of the Luxembourg legal framework (1)

- **The articles of the law of November 21, 1997 introducing the “Lettres de Gage” into Luxembourg legislation were integrated into the law on the financial sector as articles 12-1 to 12-9. This was amendmended on June 22, 2000 and October 21, 2008**
- **Special banking license for banks issuing “Lettres de Gage”**
- **Public Sector lending within all EU, EEA and OECD member countries**
- **Public authorities are the European Union, Countries, the local public authorities, other public entities as well as the other public organisms and enterprises of the member states**
- **Lettres de Gage issuers use derivatives for hedging purposes. Those derivatives have to be included in the cover stock of LdG.**
- **The substitute cover is limited to max. 20% of the outstanding LdG of the respective cover pool.**

Key elements of the Luxembourg legal framework (2)

- Investors in “Lettres de Gage” have a statutory privilege before other creditors of the bank.
- In the case of bankruptcy of the bank the collateral pool and the corresponding “Lettres de Gage” will not be part of the bankruptcy estate .
- The cover pool and the outstanding „Lettres de Gage“ will be separated and administered by the Luxembourg Supervisory Authority CSSF (Commission de Surveillance du Secteur Financier) in order to ensure all payments timely.
- The collateral pool is supervised by a “special auditor” that is different from the bank’s independent auditors for the annual accounts. But it needs to have the qualification of such an auditor.
- The special auditor is independent from the bank and the investors in order to fulfil its control function. Once a year it submits a written report to CSSF.

Amendments to the Luxembourg Covered Bond legislation as of October 21, 2008

- **The LTV for retail mortgages will be increased from 60% to 80%**
 - **Repeal of the 60 times covered bond to share capital restriction**
 - **Introduction of a mandatory 2% nominal and present value over collateralisation**
 - **New separate cover pools for movable equipment (e.g. ships , planes, railway inventory, turbines), if they are registered in a public register in the EU, EEA or OECD**
 - **Asset Backed transactions containing mortgages or loans to the public sector (rating min. AA-/Aa3) are eligible as cover for the pool under two options :**
 - **90% of the assets of securitisation are cover pool eligible**
 - **at least 50% of the assets of securitisation are cover pool eligible; in that case the securitised assets shall not exceed 20% of the total collateral pool**
-  **result is a limit of max. 10% of not cover pool eligible assets, which can be added to the pool via ABS**

Act on the Financial Sector (non binding translation)

Act of 5 April 1993 on the Financial Sector

Section 3: Special provisions for banks issuing covered bonds¹

Article 12-1 (Definition – Principal Business)

(Act of 21 November 1997)

(1) Banks issuing covered bonds are credit institutions whose main business consists in:

- (a) granting loans secured by in rem rights in immovable property or by in rem securities in immovable property and in issuing debt instruments on this basis guaranteed by these rights or these securities, called covered bonds;
- (b) granting loans guaranteed by bonds or by other similar debt instruments meeting the requirements of paragraph (2), which are in turn secured by the guarantees indicated under (a) or (e) and in issuing debt instruments on this basis benefiting from these same guarantees, called covered bonds;²
- (c) granting loans to public authorities and issuing debt instruments guaranteed by the claims resulting from these loans, called covered bonds;

Act on the Financial Sector (non binding translation)

(d) granting loans secured:

- by public authorities,
- by bonds issued by public authorities,
- by bonds meeting the requirements of paragraph (2) and issued by credit institutions established in a Member State of the “European Union”³, the European Economic Area or the Organisation for Economic Co-operation and Development (OECD), which are in turn guaranteed by claims on public authorities,
- “by other obligations of public authorities in whatever form,”⁴

and in issuing debt instruments on this basis secured by the claims resulting from these loans, called covered bonds;

(e) “granting loans secured by in rem rights in movable property or by in rem securities in movable property and in issuing debt instruments which are guaranteed by these rights or these securities called covered bonds.”⁵

(2) (Act of 24 October 2008) The loans granted in accordance with the provisions above may be granted in any form whatsoever, including in the form of the acquisition of bonds or other similar debt instruments which:

- comply with the conditions fixed in Article 43 (4) of the Act of 20 December 2002 on collective investment undertakings. These bonds or other similar debt instruments must be issued by credit institutions or by public authorities within the meaning of paragraph (4) (c) below and they must be provided with the guarantees mentioned under (1), (a) to (e);

Act on the Financial Sector (non binding translation)

- are issued by a securitisation vehicle or a compartment of a securitisation vehicle, the assets of which are constituted to at least 90% of claims, in all forms, to or guaranteed by public authorities within the meaning of paragraph (4) (c) below. The percentage is 50 % if the asset pool of the covered bonds (public sector, mortgage-backed, movable property) of the bank consists to a maximum of 20 % of the instruments mentioned in the sentence before. These bonds or debt instruments must benefit from a rating of at least AA- (by Standard and Poor's or by Fitch) or of Aa3 (by Moody's). A bank can only apply one of the two methods defined in the present indent;
- are issued by a securitisation vehicle or a compartment of a securitisation vehicle, the assets of which are constituted at least to 90% of claims guaranteed by in rem rights in immovable property or in rem securities in immovable property within the meaning of paragraph (4) (a) and (b) below. The percentage is 50 % if the asset pool of the covered bonds (public sector, mortgage-backed, movable property) of the bank consists to a maximum of 20 % of the instruments mentioned in the sentence before. These bonds or debt instruments must benefit from a rating of at least AA- (by Standard and Poor's or by Fitch) or of Aa3 (by Moody's). A bank can only apply one of the two methods defined in the present indent;
- are issued by a securitisation vehicle or a compartment of a securitisation vehicle, the assets of which are constituted at least to 90% of claims guaranteed by in rem rights in movable property or in rem securities in movable property within the meaning of paragraph (4) (a) and (b) below. The percentage is 50 % if the asset pool of the covered bonds (public sector, mortgage-backed, movable property) of the bank consists to a maximum of 20 % of the instruments mentioned in the sentence before.

Act on the Financial Sector (non binding translation)

These bonds or debt instruments must benefit from a rating of at least AA- (by Standard and Poor's or by Fitch) or of Aa3 (by Moody's). A bank can only apply one of the two methods defined in the present indent;

- are guaranteed by public authorities within the meaning of paragraph (4) (c) below.

(3) (Act of 24 October 2008) **The covered bonds issued in accordance with the provisions set out under (1) (a) and (b) shall be called *lettres de gage hypothécaires* or *Hypothekenpfandbriefe* (“mortgage-backed covered bonds”), those issued in accordance with the provisions set out under (1) (c) and (d) shall be called *lettres de gage publiques* or *Kommunalschuldverschreibungen* (“public sector covered bonds”) and those issued in accordance with the provisions set out under (1) (e) shall be called *lettres de gage mobilières* or *Mobiliarpfandbriefe* (“movable property covered bonds”) followed by the name of the category of assets of which consists the portfolio.**

(4) (a) “In rem rights in immovable property” within the meaning of this section refers to: the right of ownership and its components, the surface right, the right of long lease and all other similar in rem rights in immovable property provided for under the law of the Member States of the “European Union”⁶, the European Economic Area or the OECD, and conferring a right on immovable property situated in one of these States and having effect vis-à-vis third parties.

Act on the Financial Sector (non binding translation)

“In rem rights in movable property” within the meaning of this section refers to: the right of ownership and its components as well as all other similar in rem rights in movable property provided for under the law of the Member States of the European Union, the European Economic Area or the OECD and conferring a right on movable property registered in a public register in one of these States and having effect vis-à-vis third parties.”⁷

(b) “In rem securities in immovable property” within the meaning of this section refers to: the mortgage, antichresis and all other similar in rem securities in immovable property provided for under the law of the Member States of the “European Union”⁸, the European Economic Area or the OECD, and conferring an in rem security on immovable property situated in one of these States and having effect vis-à-vis third parties.

“In rem securities in movable property” within the meaning of this section refers to: all mortgages and all other in rem securities in movable property provided for under the law of the Member States of the European Union, the European Economic Area or the Organisation for Economic Co-operation and Development (OECD), and conferring an in rem security in movable property which has effect vis-à-vis third parties. This mortgage and these in rem securities in movable property have to be registered in a public register in one the Member States of the European Union, the European, Economic Area or the Organisation for Economic Co-operation and Development (OECD).”⁹

Act on the Financial Sector (non binding translation)

“The in rem rights in immovable property, the in rem rights in movable property, the in rem securities in immovable property and the in rem securities in movable property referred to above must, to meet the requirements of the law, be such that they authorise their holder to realise these rights and securities with a view to obtaining payment for all the claims which these rights and securities guarantee without it being possible to oppose this realisation by any rights of any kind of third parties, whether these rights are public or private rights.”¹⁰

“The in rem rights in immovable property, the in rem rights in movable property, the in rem securities in immovable property and the in rem securities in movable property are held either directly by the bank issuing covered bonds or by a third bank incorporated in a Member State of the European Union, the European Economic Area or the Organisation for Economic Co-operation and Development (OECD) on behalf of the bank issuing covered bonds.”¹¹

(c) “Public authorities” within the meaning of this section refers to: the Member States of the “European Union”¹², the European Economic Area or the OECD, their institutions or bodies, the central governments, the regional or local authorities, the other public authorities, the other public bodies or enterprises of the Member States.

(5) The provisions of Articles 86 to 94-8 of the amended Act of 10 August 1915 on commercial companies apply with regard to covered bonds.

(6) A Grand Ducal Regulation may lay down the form of the covered bonds.

Act on the Financial Sector (non binding translation)

Article 12-2 (Accessory and auxiliary business)

(Act of 21 November 1997)

(1) The banks issuing covered bonds may only engage in other banking and financial activities in a manner which is accessory and auxiliary to their main business.

For the purposes of this provision, accessory business refers in particular to the following business:

- (a) buying and selling securities in their own name on behalf of third parties, but with the exclusion of forward transactions;**
- (b) “for the purpose of granting covered loans, loans to public authorities and loans referred to under Article 12-1, (1) (a), (b), (c) and (e)**
 - receive deposits of capital from third parties, whether interest-bearing or not;**
 - contract loans and constitute securities for these loans;**
 - issue bonds which are not subject to the obligatory cover prescribed for covered bonds in paragraph (1) of Article 12-1;”¹³**
- (c) safeguard and manage securities on behalf of third parties;**
- (d) acquire participating interests in companies, where these participating interests are intended to promote the operations carried out in accordance with Article 12-1 and the liability of the bank issuing covered bonds resulting from these participating interests is limited by the legal form of the company, provided that each participating interest does not exceed in total a third of the nominal value of all the shares in the**

Act on the Financial Sector (non binding translation)

interest does not exceed in total a third of the nominal value of all the shares in the company in which the participating interest is taken. A higher participating interest is authorised in so far as the object of the company essentially covers, by law or by its articles of association, operations of the type of those which the bank issuing covered bonds is authorised to carry out itself, the total amount of these participating interests may not exceed twenty per cent of the own funds of the issuing bank.

(2) The banks issuing covered bonds may use the available funds to:

- (a) deposit them with appropriate credit institutions;
- (b) “redeem their mortgage-backed covered bonds, their public sector covered bonds and their movable property covered bonds;”¹⁴
- (c) purchase:
 - bills of exchange and cheques,
 - securities, claims, government securities and Treasury bills where the debtor is a public authority,
 - debt instruments with the payment of interest and repayment guaranteed by a public authority,
 - other debt instruments admitted to official stock exchange listing;

Act on the Financial Sector (non binding translation)

- (d) grant advances on pledged securities according to internal rules of procedures to be drawn up by the bank issuing covered bonds. The regulation must specify which securities are eligible to be pledged and set the authorised amount of the advance;
- (e) place them in the form of investment shares in assets invested according to the principle of risk-spreading, these shares having been issued by a capital investment company or a foreign investment company, subject to special official supervision for the purpose of securities holder's protection, if, under the contractual terms or the articles of the capital investment company or an investment company, the assets can only be placed in the debt instruments referred to under (c) and in bank deposits.

(3) "The acquisition of immovable and movable property is only permitted for banks issuing covered bonds for the purpose of avoiding losses on mortgages and for their own needs."¹⁵

Article 12-3 (Maximum limit on covered bonds in circulation)

(repealed by the Act of 24 October 2008)

Act on the Financial Sector (non binding translation)

Article 12-4 (Protection of the name)

(Act of 21 November 1997)

No-one may issue securities or other debt instruments under the name “*lettres de gage*” (in German “*Pfandbriefe*”, in English “mortgage bonds/covered bonds”) or under an identical or similar name in another language or take the name “*banque d’émission de lettres de gage*” (“bank issuing covered bonds”) without meeting the conditions laid down by this section.

Article 12-5 (Cover assets)

(Act of 21 November 1997)

(1) (Act of 24 October 2008) “The ordinary cover assets shall be constituted by the claims with their guarantees as described in Article 12-1, paragraph 1, (a), (b), (c), (d) and (e) and held as assets as a counterpart to the liabilities of the bank issuing covered bonds resulting from the issuing of covered bonds.”

(1bis) (Act of 24 October 2008) “Only the claims described in (c) and (d) of Article 12-1 (1) are eligible as cover assets and which are enforceable against the public authorities without them being able to plead exceptions from the underlying relation which gave rise to the claim.”

(2) (Act of 24 October 2008) “The cover assets form as many separate portfolios as there are different categories of covered bonds issued.”

Act on the Financial Sector (non binding translation)

(3) “In each of the portfolios, the ordinary cover assets may be replaced up to 20% of the nominal value of the covered bonds in circulation by replacement cover assets consisting of:”¹⁶

- (a) cash;
- (b) assets with central banks or credit institutions with their registered office in a Member State of the “European Union”¹⁷, the European Economic Area or the OECD;
- (c) bonds meeting the conditions of “Article 43 (4) of the Act of 20 December 2002 on collective investment undertakings”¹⁸.

(4) “The nominal amount of the cover assets must at all times equal at least 102% of the nominal amount of the covered bonds in circulation. The net present value of the cover assets must at all times equal at least 102% of the net present value of the covered bonds in circulation. The Commission can modify these percentages.”¹⁹ These cover assets must provide a total interest revenue at least equal to the amount of interest of these same covered bonds.

(Act of 22 June 2000) “In order to ensure the full cover in principal and interest for covered bonds in circulation and other claims benefiting from the preferential right referred to in Article 12-8, the banks issuing covered bonds must take appropriate measures and may, in particular, use forward financial instruments. The assets resulting from these measures must be included in the cover assets required by this Act. The sums payable according to these measures, after set-off if necessary, benefit from the preferential right referred to in Article 12-8.”

Act on the Financial Sector (non binding translation)

(Act of 22 June 2000) **“The sums payable according to forward financial instruments used to hedge the transactions referred to in Article 12-2 do not benefit from this preferential right.”**

(5) (Act of 24 October 2008) “The claims resulting from loans with the guarantees described in Article 12-1 (1), (a) (b) and (e) may only serve as cover assets for up to 60% of the estimated value of realisation of immovable or movable property serving as guarantee. This percentage is 80% for claims resulting from loans with the guarantees described in Article 12-1 (1), (a) and (b) and which finance residential property. This estimate is to be undertaken sincerely and prudently in accordance with the valuation rules set out in Article 12-7 (2); it will only take into consideration the lasting characteristics of the property and the lasting revenue which it can procure for any owner who makes normal use of it in accordance with its intended purpose.

The preceding paragraph is not applicable to loans granted in the form of bonds or debt instruments.

Regarding the immovable property, residential buildings as well as industrial, commercial or business buildings may serve as a guarantee.

Regarding the movable property, assets categories such as planes, ships, boats and railways objects may serve as a guarantee. This list is not limited and before financing a new category of assets, an application for approval has to be submitted to the Commission.”

Act on the Financial Sector (non binding translation)

Article 12-6 (Register of pledges)

(Act of 21 November 1997)

(1) (Act of 24 October 2008) “All banks issuing covered bonds are required to draw up a register called the “register of pledges” in which all cover assets must be recorded individually. This register comprises a many parts as there are different types of cover assets assigned to different types of covered bonds issued, pursuant to the provisions of Article 12-5 (2).”

(2) A Grand Ducal Regulation may decide the form of the register, that of the registrations and the deletions which will be made to it and all other provisions necessary with a view to ensure that this register is kept properly.

Article 12-7 (Special auditor)

(Act of 21 November 1997)

(1) All banks issuing covered bonds must have a special auditor with a qualification as a company auditor and different from the company auditor who audits its accounts. This auditor is appointed by the “Commission”²⁰ on proposal by the credit institution concerned. The special auditor is required to report to the supervisory authority on the findings and observations made when performing his duties. The special auditor may at any time be dismissed from his post by the “Commission”²¹.

(2) (Act of 24 October 2008) “The duties of the special auditor consist in ensuring that the cover assets which are to be provided by the banks issuing covered bonds pursuant to this Act are duly constituted and recorded in the register of pledges, attain the prescribed amount and continue to exist.

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The special auditor is also required to check whether the valuation of the immovable property and the movable property serving as in rem guarantees has been undertaken according to the valuation rules which the credit institution will have to draw up to this end, subject to the approval of the Commission, and whether the minimum rate of cover for which the immovable property or the movable property in question may serve as guarantee has been respected.

The special auditor is not required to verify whether the estimated value of the immovable property or the movable property in question corresponds to its real value.”

(3) The cover assets recorded in the register of pledges may only be deleted with the written agreement of the special auditor.

Together with the bank issuing covered bonds, the special auditor is required to ensure the preservation of the cover assets recorded in the register of pledges and that of the documents relating to these assets. He is required to release these assets and documents at the request of and to the bank issuing covered bonds and to agree to the deletion of the registrations in the register of pledges provided that the other cover assets recorded there are sufficient to cover the covered bonds in circulation in full.

(4) The special auditor performs his duties completely independently in relation to the credit institution, the holders of covered bonds and the supervisory authority.

(5) The special auditor does not represent the holders of covered bonds.

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(6) Before issuing covered bonds, each of them is to be provided with a confirmation of the special auditor certifying the existence of the cover required by law and its registration in the register of pledges. The special auditor's signature on the confirmation may be either manuscript, or printed or stamped on.

(7) Any dispute between the special auditor and the bank issuing covered bonds will be settled by the "Commission"²².

Article 12-8 (Preference of holders of covered bonds)

(Act of 21 November 1997)

(1) Without prejudice to the conditions to be met and the formalities to be accomplished for the constitution and maintenance of the guarantees comprised in the cover assets, the latter serve as a priority to guarantee the holders of covered bonds that their claim against the issuer of such bonds will be paid in full. The cover assets cannot be either seized or be the subject of any enforcement measure whatsoever by personal creditors of the issuer other than the holders of covered bonds.

(2) The registration of the cover assets in the register of pledges provides the covered holders of covered bonds with a preferential right, taking priority over all other rights, preferences and priorities of any nature whatsoever, including those of the Treasury, without any need to conclude a special contract for allocation, pledging, or any other special contract, to hand over the cover assets to the holders of covered bonds or to an agreed third party and to accomplish any form of service or other formality. The registration in the register gives evidence of its date.

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(3) (Act of 24 October 2008) **“Whatever the date of their issue, all covered bonds are guaranteed in the same rank by the cover assets assigned to them respectively, depending on whether they are mortgage-backed covered bonds, public sector covered bonds or movable property covered bonds, and they enjoy the same preferences in the event of collective liquidation of the bank issuing covered bonds.”**

(4) In the event of collective liquidation of the bank issuing covered bonds, the cover assets will not form part of the bankrupt’s estate.

(5) (Act of 22 June 2000) **“As soon as one of the measures described in Article “60-2 (3)”²³ or “Article 61(3)”²⁴ is taken in respect of the bank issuing covered bonds, the Commission automatically acts as the manager for the covered bonds and their cover assets as a whole. This function is exercised by the Commission as long as the reorganisation and liquidation procedures implemented as a result of the aforementioned measures are effective.**

Articles “60-2”²⁵ and 61 do not apply to the covered bonds and their cover assets as a whole.

The Commission manages the cover assets and, as these fall due, exercises the rights of the holders of covered bonds to the cover assets on behalf of the holders of covered bonds and on behalf of the bank issuing the covered bonds, in the name and on behalf of which these assets are held by third parties or are registered in public registers.

The covered bonds are paid on their respective due dates.

Act on the Financial Sector (non binding translation)

The Commission may conclude with a covered bond credit institution approved and supervised by the competent authorities of a Member State of the “European Union”²⁶, the European Economic Area or the OECD a service contract concerning the management of covered bonds and the realisation of the cover assets as and when the covered bonds fall due.

It may also transfer the covered bonds and the cover assets as a whole to a covered bond credit institution or an issuer of covered bonds approved and supervised by the competent authorities referred to in the previous paragraph.

“Regarding the Luxembourgish branch of a credit institution of EU origin, the powers of the Commission described in indents 1, 3, 5 and 6 of this paragraph are executed by the persons nominated according to Articles 60-5 or 61-6.”²⁷

If assets still remain once all the creditors benefiting from the preferential right have been paid, these assets are transferred to the estate in liquidation of the bank issuing the covered bonds.

If the cover assets prove insufficient to pay off creditors benefiting from the preferential right in full, the latter may draw on the estate and the ordinary rules of collective liquidation apply.”

(6) (Act of 22 June 2000) **Notwithstanding the provisions of Articles 450 of the Commercial Code, the collective liquidation of a bank issuing covered bonds does not render payable the covered bonds and other claims benefiting from the preferential right referred to in this article.**

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(7) (Act of 22 June 2000) The provisions of Articles 444 indent 2 and 445 of the Commercial Code do not apply to contracts concluded by or with the bank issuing covered bonds or to legal acts accomplished by it or in its favour, once these contracts or acts are directly linked to the transactions provided for in Article 12-1 and to contracts on forward financial instruments relating thereto.

(8) (Act of 24 October 2008) The right of priority and the preference instituted by the provision of paragraphs (1) and (2) exist in favour of the holders of bonds issued by covered bond credit institutions and/or issuers of covered bonds approved and supervised by the competent authorities of another Member State of the European Union, the European Economic Area or the OECD, provided that these bonds meet the conditions laid down by Article 43 (4) of the Act of 20 December 2002 on collective investment undertakings and provided that these bonds are issued by credit institutions or by public authorities within the meaning of Article 12-1 (4) and provided with the guarantees mentioned in Article 12-1 (1), (a) to (e) and that the right of priority and the preference introduced by this Article are recognised by the foreign law concerned.

Article 12-9 (Special supervision by the Commission

(Act of 21 November 1997)

In addition to the general supervision of credit institutions, the “Commission”²⁸ exercises special supervision over the credit institutions referred to in this section regarding compliance with the provisions of this section. The “Commission”²⁹ may ask the company auditor of the institution concerned or a company auditor chosen by the “Commission”³⁰ whose remuneration is payable by this institution, to carry out a partial or total inspection of the cover assets.

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