

FITCH: EUROHYPO REMAINS ON RATING WATCH NEGATIVE; AFFIRMS SUPPORT RATING

Fitch Ratings-London/Frankfurt-27 August 2010: Fitch Ratings is maintaining Germany-based EUROHYPO AG's (EUROHYPO) and its 100%-owned Luxembourg-based subsidiary EUROHYPO Europaeische Hypothekenbank SA's (EUROHYPO Lux) Long-term Issuer Default Ratings (IDR) of 'A' on Rating Watch Negative. At the same time, Fitch has affirmed both entities Short-term IDRs at 'F1' and Support Ratings at '1'. EUROHYPO's Support Rating Floor has been affirmed at 'A-'.

Simultaneously, the ratings of EUROHYPO Capital Funding Trust I and II, which are rated 'CCC', remain on RWN.

The RWNs on the banks' IDRs and hybrid instruments continue to reflect uncertainties over EUROHYPO's future ownership structure. As a condition for the European Commission's (EC) approval of Commerzbank AG's (Commerzbank, rated 'A+/'Stable) state aid in May 2009, Commerzbank has to divest EUROHYPO by end-2014. Currently, Eurohypo still benefits from a declaration of backing (Patronatserklaerung) from Commerzbank, expressing its commitment that it will ensure that Eurohypo can meet its obligations. In addition, the profit and loss transfer agreement between Commerzbank and EUROHYPO is still in place.

The RWN will be resolved as soon as Fitch has clarity about EUROHYPO's potential new ownership structure and has assessed the probability of its new owners providing support in case of need. Given the difficult market environment, a potential change in ownership is currently, in Fitch's view, unlikely to result in an upgrade of EUROHYPO's ratings. Likewise, Fitch would review the RWN should a buyer with a Long-term IDR higher than 'A' materialise.

At the same time, Fitch would expect - irrespective of EUROHYPO's ownership structure - external support for EUROHYPO to be forthcoming from public authorities, if ever required. Fitch's view is based on the bank's size and Eurohypo's importance for the German Pfandbrief market. This is reflected in EUROHYPO's Support Rating Floor, which limits the scale of possible downside risks for EUROHYPO's IDR resulting from a change in ownership.

EUROHYPO Lux's Support Rating is based on institutional support from EUROHYPO. EUROHYPO Lux is of strategic importance to EUROHYPO as it provides access to an alternative funding source for its public sector lending business (Lettre de Gage Publique) and is strongly integrated within the group.

Any changes in Fitch's view on external support are likely to trigger rating actions.

EUROHYPO is Germany's largest Pfandbrief issuer. The bank remained loss-making in H110. EUROHYPO draws on the resources of Commerzbank for a substantial part of its unsecured funding.

In Fitch's rating criteria, a bank's standalone risk is reflected in Fitch's Individual ratings and the prospect of external support is reflected in Fitch's Support ratings. Collectively these ratings drive Fitch's Long- and Short-term IDRs.

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Applicable criteria, 'Global Financial Institutions Rating Criteria', dated 13 August 2010, and 'Rating Hybrid Securities', dated 29 December 2009, are available at www.fitchratings.com.

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Additional information is available at www.fitchratings.com.

Related Research:

Global Financial Institutions Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=547685

Rating Hybrid Securities

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