

FITCH AFFIRMS EUROHYPO EUROPÄISCHE HYPOTHEKENBANK SA'S LETTRES DE GAGE PUBLIQUES AT 'AAA'

Fitch Ratings-London/Frankfurt-30 August 2011: Fitch Ratings has affirmed EUROHYPO Europaeische Hypothekenbank SA's (Eurohypo Lux,'A-/Stable/'F1') public sector Lettres de Gage (LdG) at 'AAA'. The affirmation follows the implementation of the agency's new Covered Bonds Counterparty Criteria (dated 14 March 2011 and available at fitchratings.com).

Following the implementation, the programme's Discontinuity Factor (D-Factor) has been changed to 19.5% from 13.8%. Together with the bank's Long-term Issuer Default Rating (IDR) of 'A-', this enables the rating to be as high as 'AA' on a probability of default (PD) basis compared to 'AA+' previously. However, the actual rating of the covered bonds on a PD basis remains unchanged at 'AA', corresponding to the maximum level of stresses supported by the overcollateralisation (OC) taken into account by the agency. In line with Fitch's rating methodology, the covered bonds rating further includes a two notch uplift to 'AAA' based on recoveries in excess of 91% given default in a 'AAA' stress scenario.

All else being equal, the covered bonds can remain rated 'AAA' as long as Eurohypo Lux's IDR is at least 'BBB+', compared to 'BBB' prior to the D-Factor change.

The D-Factor has been updated to reflect (i) the complexity derivatives add to the alternative manager's responsibilities after issuer insolvency, notably the additional burden caused by the replacement of defaulted counterparty; this is only partly mitigated by the fact that Eurohypo Lux has entered into swap agreements with several external counterparties; (ii) the involvement of intra-group entities as swap counterparties (iii) the additional liquidity stress that termination costs may have on the cover pool, as payments potentially due to defaulted swap counterparties rank *pari passu* to those due to the LdG holders; (iv) the swap documentation not being fully compliant with Fitch's criteria in terms of replacement provisions and the calculation of the collateral amount to be posted; this is counterbalanced by the fact that the rating of the counterparties currently does not constrain the rating of the LdG.

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Additional information is available at www.fitchratings.com.

Applicable criteria, 'Covered Bonds Rating Criteria', dated 13 August 2010, 'Assessment of Liquidity Risks in Covered Bonds', dated 16 August 2010, 'Covered Bonds Counterparty Criteria', published 14 March 2011 are available at www.fitchratings.com.

Applicable Criteria and Related Research:

Covered Bonds Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648551

Assessment of Liquidity Risks in Covered Bonds — Public-Sector Spread Assumption Addendum

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=582885

Covered Bonds Counterparty Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=606185

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