

## Ratings On EUROHYPO Luxembourg's Covered Bonds Placed On CreditWatch Negative After Bank Rating Actions

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### OVERVIEW

- On Dec. 7, 2011, we placed on CreditWatch negative our 'A-/A-2' counterparty credit ratings on Eurohypo AG and on its core subsidiary EUROHYPO Europaeische Hypothekenbank S.A.
- Under our rating approach, EUROHYPO Europaeische Hypothekenbank S.A.'s public-sector covered bond ratings benefit from the maximum elevation possible above our long-term rating on the issuer.
- Therefore, any further rating action on the issuer would directly affect the ratings on these covered bonds, all else being equal.
- We have subsequently placed on CreditWatch negative our ratings on EUROHYPO Europaeische Hypothekenbank S.A.'s public-sector covered bonds issued under its medium-term note program.
- Our ratings are based on our criteria for rating covered bonds. However, certain aspects of the methodologies and assumptions underlying these criteria are under review. The ratings on all outstanding covered bonds may be affected as a result of this review.

FRANKFURT (Standard & Poor's) Jan. 6, 2012--Standard & Poor's Ratings Services today placed on CreditWatch negative its 'AAA' long-term credit ratings on EUROHYPO Europaeische Hypothekenbank S.A.'s (EUROHYPO Luxembourg; A-/Watch Neg/A-2) public-sector covered bonds ("Lettres de Gage Publiques") issued under its medium-term note program (see list below).

Today's CreditWatch negative placement follows the Dec. 7, 2011 CreditWatch

negative placement of our long-term and short-term counterparty credit ratings and our senior unsecured debt ratings on EUROHYPO Luxembourg (see "Eurohypo AG 'A-/A-2' Ratings Placed On Watch Negative Following Sovereign Rating Action").

Under our criteria for rating covered bonds, we evaluate the maximum potential rating on a covered bond program as the bank's issuer credit rating (ICR) increased by the maximum number of notches of ratings uplift. The maximum number of notches of uplift results from our assessment and classification of the program's asset-liability mismatch (ALMM) risk and the program categorization (see "Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds," published on Dec. 16, 2009).

When determining the program categorization, we consider primarily our view of the jurisdiction of a program and its ability to access external financing or monetize the cover pool. Finally, we assign the covered bonds to one of three distinct categories. Under our criteria, to achieve the maximum potential number of notches uplift, the available credit enhancement needs to be commensurate with the target credit enhancement.

Following our analysis, and given our view of the Luxembourgish legal framework, we have categorized EUROHYPO Luxembourg's public-sector covered bonds in category "2" and determined a "low" ALMM classification. Under our criteria, these combinations enable us to assign to the covered bonds a maximum potential ratings uplift of six notches above our long-term ICR on EUROHYPO Luxembourg.

As our 'AAA' ratings on EUROHYPO Luxembourg's public-sector covered bonds benefit from the maximum six-notch ratings uplift above the ICR under our rating approach, a downgrade of the ICR by one or more notches would directly affect our ratings on the covered bonds. Therefore, we have placed on CreditWatch negative our 'AAA' ratings on EUROHYPO Luxembourg's public-sector covered bonds issued under its medium-term note program following the CreditWatch negative placement of our counterparty credit ratings on EUROHYPO Luxembourg.

Our assumptions that we use to calculate the target credit enhancement in line with our Dec. 16, 2009 ALMM criteria are not dependent on the ICR or the ratings on the covered bonds themselves. Therefore, all other aspects remaining the same, a downgrade of the issuer or a downgrade of the covered bonds will not affect the target credit enhancement level we deem commensurate to support the covered bond ratings.

We aim to resolve our CreditWatch negative placement of the ratings on EUROHYPO Luxembourg's public-sector covered bonds shortly after we have resolved the CreditWatch placement of our counterparty ratings on EUROHYPO Luxembourg, and based on our review of updated credit and cash flow information. We expect to affirm or lower by one notch our ratings on EUROHYPO Luxembourg's covered bonds.

POTENTIAL EFFECTS OF PROPOSED CRITERIA CHANGES

We have taken today's rating actions on these covered bonds based on our criteria for rating covered bonds (see "Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds," published on Dec. 16, 2009). As part of our cash flow analysis, we used Standard & Poor's Covered Bond Monitor to calculate the target credit enhancement for the covered bonds. However, the assumptions and methodologies used in this cash flow analysis are under review (see "Advance Notice Of Proposed Criteria Change: Methodologies And Assumptions For Rating Certain Covered Bonds And CDOs," published on Aug. 5, 2010).

This review may result in further changes to the criteria. As a result, our future assumptions and methodologies used in our Covered Bond Monitor model may differ from our current criteria. The criteria change may affect the ratings on all outstanding covered bonds in this program. Until such time that we adopt new criteria for rating covered bonds, we will continue to rate and surveil these covered bonds using our existing criteria (see "Related Criteria And Research").

#### RELATED CRITERIA AND RESEARCH

- Eurohypo AG 'A-/A-2' Ratings Placed On Watch Negative Following Sovereign Rating Action, Dec. 7, 2011
- Global Structured Finance Scenario And Sensitivity Analysis: The Effects Of The Top Five Macroeconomic Factors, Nov. 4, 2011
- Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions, June 14, 2011
- Advance Notice Of Proposed Criteria Change: Methodologies And Assumptions For Rating Certain Covered Bonds And CDOs, Aug. 5, 2010
- Revised Methodology And Assumptions For Assessing Asset-Liability Mismatch Risk In Covered Bonds, Dec. 16, 2009
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related articles are available on RatingsDirect. Criteria, presales, servicer evaluations, and ratings information can also be found on Standard & Poor's Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4011.

#### RATINGS LIST

Program/ Country: Covered bond type	To	Rating	From
EUROHYPO Europaeische Hypothekenbank S.A.	AAA/Watch Neg		AAA/Negative
Luxembourg: Public-Sector Covered Bonds: Lettres de Gage Publiques			

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