



14 July 2010

EUR Liquid Credit Update

Eurohypo Luxembourg SA Lettres de Gage

Market Update

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The Luxembourgian covered bond market amounted to EUR 33.23 bn as of 31 Dec 2009. With a market share of almost 45%, Eurohypo Luxembourg (-/A-n/As) is the biggest issuer. The other issuers are Hypo Pfandbrief Bank International SA, Erste Europäische Pfandbrief- und Kommunalkreditbank SA, Nord/LB Covered Bond Finance SA and Dexia Banque à International Lux SA.

Applying the new covered bond rating approach, Eurohypo Luxembourg Lettres de Gage were affirmed AAA by S&P on 2 June 2010. Given that Lettres de Gage are only categorized in so-called category 2 at S&P (mainly due to shorter history and less systemic support), this suggests good cover pool credit quality.

The AAA rating of Eurohypo Lettres de Gage at S&P is currently the full six notches above Eurohypo Lux's senior rating (A-n), and thus a potential downgrade of Eurohypo Lux or a change to the asset liability mismatch measure (from low currently) would automatically lead to a change in the rating for Lettres de Gage. While recent rating actions have shown that covered bond ratings are generally extremely vulnerable in case of severe sovereign downgrades, the risk seems limited in case of Eurohypo Lux Lettres de Gage.

With 13.43% nominal overcollateralisation (OC) as of March 2010 (15.8% on a net present value basis, investors should be well protected. Eurohypo Lettres de Gage are rated AAA by Fitch. A supporting OC of 12% (a measure used by Fitch to show the OC needed to keep the current covered bond rating) also suggests good cover pool quality. As of 31 May 2010, the total cover pool volume amounted to EUR 16.7 bn. With EUR 3.635 bn, US exposure was dominating. With EUR 2.67 bn, German exposure ranked second before the UK with EUR 2.4 bn and Canada with EUR 2.26 bn. There is no exposure to Greece and Portugal in the cover pool.

At this stage, Eurohypo Luxembourg is 100% subsidiary of Eurohypo (A1n/A-n/Awn) which is member of Commerzbank Group (Aa3n/An/A+s). Commerzbank is 25% owned by the German government and supported by EUR 16.4 bn of silent participations by the German government.

Total assets of Eurhypo Lux SA amounted to EUR 23.45 bn as of Dec 2009 and total capital amounted to EUR 437 m (Total Capital ratio of 31%). The cost-income ratio was 11.6% as of 31 Dec 2009. With EUR 750 m as of 31 Dec 2009, ECB Tender was back to levels as of 31 Dec 2007 (EUR 650 m).

Eurohypo Lux has only two EUR benchmark bonds outstanding (EUR 1.25 bn maturing in 2011 and EUR 1 bn maturing in 2018). Eurohypo Lux has also large internationally placed bonds in foreign currencies (mainly USD, GBP and CHF), which provide a diversified refinancing source for the diversified cover pool.

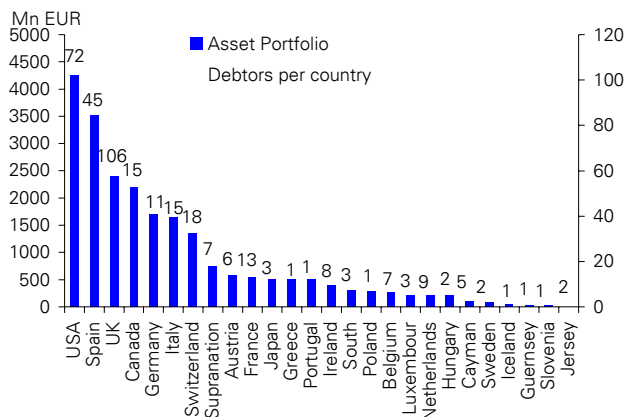
Lettres de Gages EURHYP 5.125% Jan 2016 are indicated around ms+160 bp. Public Pfandbriefe EURHYP 3.875% Nov 2016 are offered at ms+20 bp. Secondary market liquidity of USD denominated Eurohypo Lux Lettres de Gage is very low. While comparisons with USD 144a issues are generally difficult and markets are segmented anyway, the spread to USD Canadian covered bonds seems high. RY 3.125% April 2015 is trading at ms+42 bp, BMO 2.85% June 2015 is trading at ms+34.5 bp and CM 2.60% July 2015 is trading at +32.5 bp.

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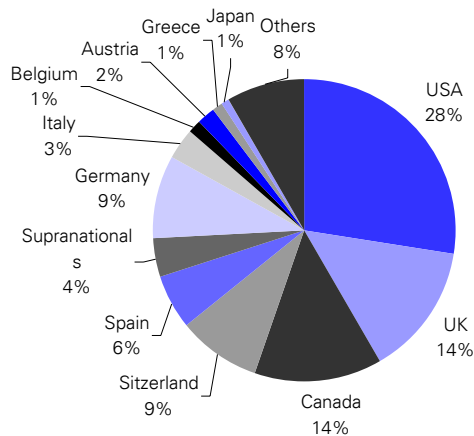
Eurohypo Luxembourg SA

Asset Portfolio Eurohypo SA: Breakdown by countries and number of debtors (as of 31 Dec 2009)



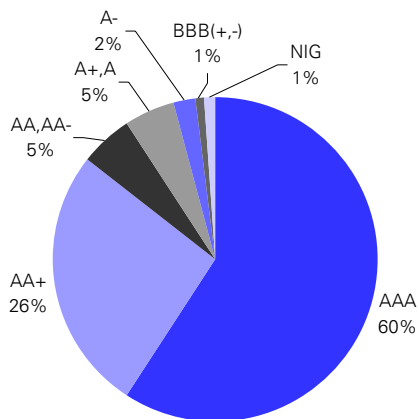
Source: Company data

Eurohypo SA: Breakdown cover pool by country



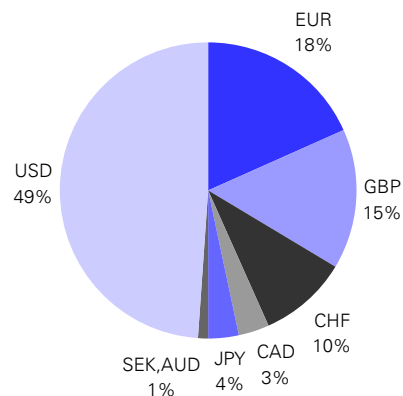
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Eurohypo SA: Breakdown cover pool by internal rating



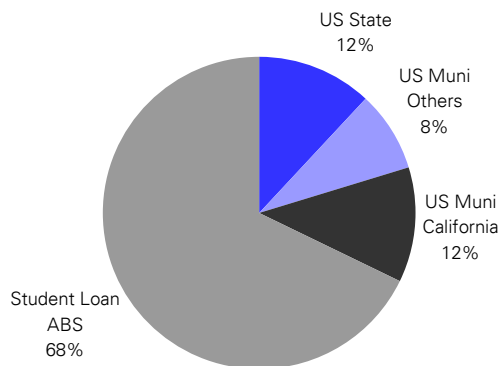
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Eurohypo SA: Breakdown cover pool by currency



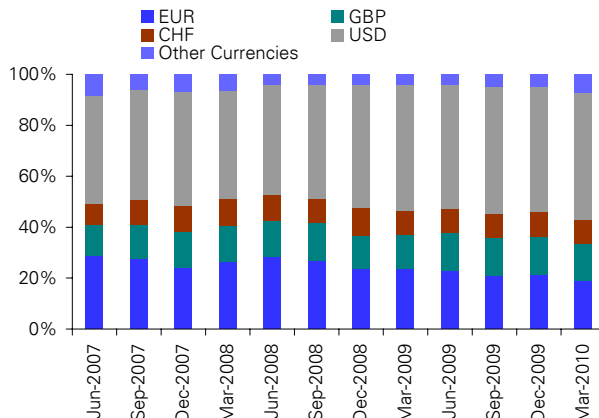
Source: Company data

Breakdown of US exposure in the cover pool of Eurohypo SA (USD 6.318 bn)



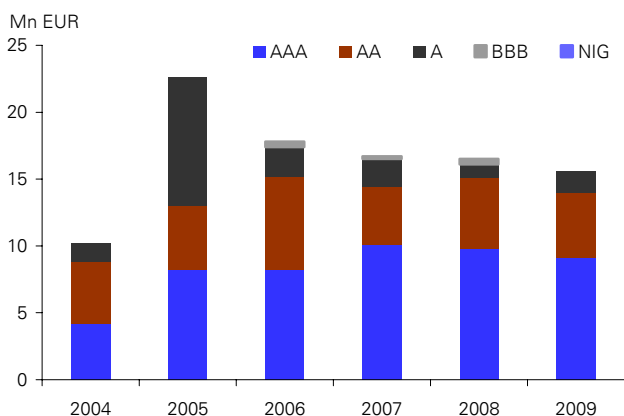
Source: Company data

Eurohypo SA cover pool: Currency composition of assets



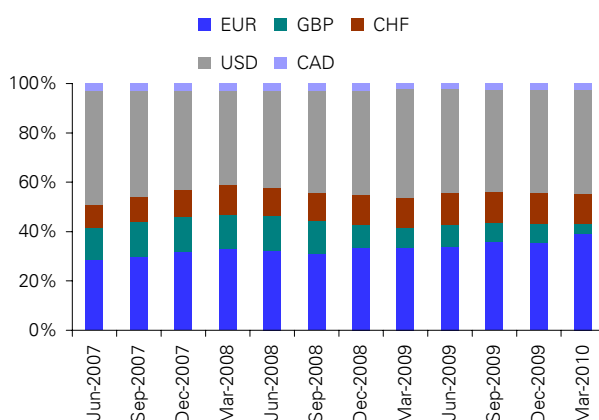
Source: Company data, Fitch, Deutsche Bank

Cover pool development of Eurohypo SA by internal ratings



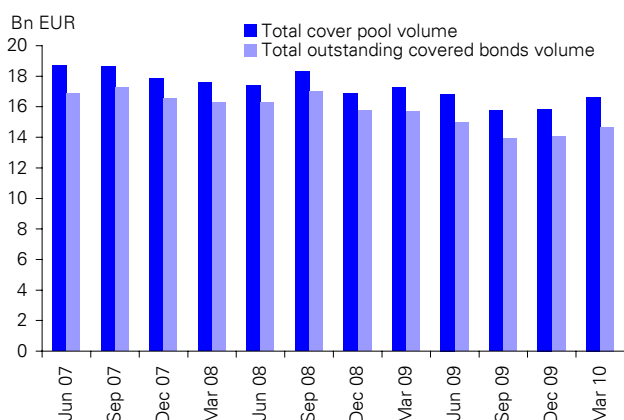
Source: Company data, Fitch, Deutsche Bank

Eurohypo SA cover pool: Currency composition of liabilities



Source: Company data, Fitch, Deutsche Bank

Eurohypo SA: Cover pool versus outstanding bonds



Source: Company data, Fitch, Deutsche Bank

Appendix 1

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