



**EUROHYPO Group**  
**First-class reliability of Eurohypo's Pfandbriefe**

Corporate Communication | 29 October 2008

**EURO  
HYPO**

**COMMERZBANK**   
Group

## Eurohypo at a glance (1)



### Eurohypo is ...

- ... one of Germany's oldest banks, its history goes back to 1862 (foundation of Frankfurter Hypothekenbank)
  - ... a leading specialist bank with a highly flexible business model based on three strong pillars: commercial real estate finance and public finance on the asset side, Pfandbrief securities on the liabilities side
  - ... premier issuer in the Jumbo covered bond market, with a market share of 8 %\*\*
  - ... major issuer in the Pfandbrief market and largest issuer in the German Jumbo Pfandbrief market, with a market share of 23 %\*\*
  - ... well provided with a core capital ratio of 9.1%\* (according to Basel II)
- By end-September 2008 Euro 13 bn new commitments for commercial real estate finance
  - Eurohypo has an even more selective lending policy and even more restrictive risk management than before the crisis
  - Market environment:
    - Real estate markets impacted by general weakness in the economic environment
    - Real estate investors contain themselves regarding new projects

\*figures as at 30 June 2008

\*\*figures as at 30 September 2008 (Source: Dresdner Kleinwort Research)

## **Eurohypo at a glance (2)**



- **Eurohypo is a 100% owned subsidiary of Commerzbank, Germany's second largest banking group**
- **Commerzbank has issued a letter of comfort for Eurohypo AG**
  - Except in the case of political risks, Commerzbank ensures that Eurohypo AG is able to meet its contractual liabilities
- **A control and profit transfer agreement between Commerzbank Inlandsbanken Holding GmbH, which had concluded a profit transfer agreement with Commerzbank AG, and Eurohypo became effective on September 4, 2007**

## Eurohypo in strong company – as part of Commerzbank Group



- Commerzbank is well positioned in the long term.
- The fact is that Eurohypo is active in real estate and public sector finance. However, its business model differs from that of competitors: Eurohypo has refinanced all long-term receivables and loans on a long term basis. By contrast, Competitors have refinanced much of their long-term receivables in the short term – this has triggered the banking crisis extremely in Germany in the last weeks.
- The fact is, the refinancing needs of Commerzbank and all its subsidiaries – including Eurohypo – are covered for 2008 and beyond. We are comfortably positioned for 2009 as well.
- The risk and liquidity management of the Group is conservative, and has proved its strength even in difficult times. Commerzbank is in a position of strength, because it has a functioning solid and stable business model which is based primarily on strong SME and private client business.
- Since the crisis in the financial markets has started, Commerzbank has gained over one million new customers and deposits of well over Euro 20 billion. This proves that customers are trusting the Group. Also Eurohypo benefits from this trust.

## Most important feature of the Pfandbrief is its first-class reliability (1)



### ■ **Special legal regulation is the basis of the Pfandbrief's security**

Reasons for first-class reliability: legal framework and special supervisory for Pfandbrief banks.

 **In addition to the general statutory provisions of the German Banking Act (KWG) applying to all German banks, the Pfandbrief banks are subject to the regulations of the Pfandbrief Act (PfandBG).**

### ■ **Special requirements for Pfandbrief banks**

Since the Pfandbrief Act came into effect, the only banks allowed to issue Pfandbrief securities

- are those which have a core capital of at least EUR 25 million and
- which meet the requirements in the PfandBG for management, monitoring and control of risks.

 **To engage in the Pfandbrief business, a licence is required from the Federal Financial Supervisory Authority (BaFin).**

The bank must also submit a business plan to the Authority showing that it intends to engage in the Pfandbrief business on a sustained and regular basis.

## Most important feature of the Pfandbrief is its first-class reliability (2)



- **Pfandbrief qualify as trust stocks under § 1807 German Civil Code (BGB)**

Assets qualifying in this way are assets for which a loss of value can be virtually ruled out.

In other words, a cash deposit is protected against risk of loss following an insolvency of the account holder. In the case of securities, it also means that losses are widely excluded. The law explicitly states that bonds qualify as trust stocks.

An investment in securities or accounts qualifying as trust stocks is required by law for assets of a ward administered by a guardian.

## Most important feature of the Pfandbrief is its first-class reliability (3)



- **Due to their special statutory provisions, Pfandbrief securities were not directly included in the financial market stabilisation bill**
- **Statement by the Federal Government:**

*"The special statutory provisions in Germany mean that Pfandbriefe are already safe – throughout the more than 200-year long history of this product, there has never been a default of a German Pfandbrief. The German Government will ensure that this continues to be the case in future as well. Where the functioning of the Pfandbrief market so requires, the German Government will therefore adopt short-term statutory measures to secure German Pfandbriefe – taking into account the existing stock."*

## Separate cover pools



- Mortgage loans and public sector loans refinanced through Pfandbriefe form two separate cover pools. The collateral assets included herein are used to satisfy Pfandbrief holders with priority. In the event of the insolvency of a Pfandbrief bank, they are excluded from the insolvency proceedings.
- Given sound collateral assets, the claims of the Pfandbrief investors are satisfied as scheduled from the cover pool in accordance with the conditions of the issue. To ensure this, the competent court at the seat of the Pfandbrief bank appoints an independent trustee.
- **Due to the stringent requirements for the quality of the cover pools, risk management and high transparency, there has never been a case of insolvency for any bank or cover pool, even under the Mortgage Banks Act (HBG), the law proceeding the Pfandbrief Act. As a result, no Pfandbrief has ever defaulted.**

## Cover principle



- Pfandbrief securities are covered at all times by loans in the amount of at least the present nominal value of all issues in circulation and with at least the same interest rate.
    - Cover assets of public sector Pfandbriefe: public sector loans,
    - Cover assets Mortgage Pfandbriefe: first-rank secured mortgages.
  - Only mortgage loans secured by charges over property may be used as cover assets for mortgage Pfandbriefe. The mortgaged property must be located in an EU member state or another signatory to the European Economic Area Treaty, Switzerland, the USA, Canada or Japan.
  - For public sector Pfandbriefe, loans to another EU member state or another signatory to the European Economic Area Treaty, Switzerland, the USA, Canada or Japan and (to a limited extent) regional and local authorities within these are eligible as collateral assets.
- In addition, Pfandbrief banks are obliged under the Present Value Regulation to maintain an over-collateralisation in the cover pools of at least 2% of the Pfandbrief securities in circulation.
  - Reports under § 28 PfandBG and any other information on Eurohypo are available at [www.eurohypo.com](http://www.eurohypo.com)

## Low loan-to-value ratios and cover audits protect against losses of assets



- **Regulation on the determination of the mortgage lending value (BelWertV) is an elementary concretion of the PfandBG**
- The mortgage lending value must be determined by way of a report
- Reports which have been presented or commissioned by the borrower may not serve as a basis
- The PfandBG includes further protection, especially for holders of mortgage Pfandbriefe:
  - This includes limiting the mortgage lending value as a cover only up to the first 60% of the conservatively calculated mortgage lending value.
  - This safety cushion protects Pfandbrief holders comfortably against losses in value due to cyclical fluctuations in the market value of the assets in the cover pool
- Besides general banking supervision, Pfandbrief banks are subject to separate supervision by the Federal Financial Supervisory Authority (BaFin) with regard to compliance with the provisions of the Pfandbrief Act and its associated regulations. In addition, cover audits are carried out at least every second year.

## Pfandbrief reliability recognised throughout EU



- **The particularly high safety of investments in Pfandbriefe is also recognised at EU level. The strict safety requirements for Pfandbriefe have been incorporated in many EU regulations.**
  - These include regulations on the investment policy of investment companies (Art. 22 IV UCITS Directive),
  - the Solvency Ratio Directive, under which a preferred risk weighting of 10% can be applied, and
  - on the deposit of Pfandbriefe by commercial banks as category 1 security within the framework of the monetary policy operations of the European Central Bank (ECB).
- **The ECB accepts Pfandbriefe even without a rating as security for open market transactions.**
- **The Capital Requirement Directive also has a reduced equity requirement under Basel II.**

## High security of Eurohypo Pfandbriefe is confirmed by the leading rating agencies



<b>Ratings for Eurohypo AG</b>	<b>Standard &amp; Poor's</b>	<b>Moody's Investors Service</b>	<b>Fitch Ratings</b>
<b>Public sector Pfandbriefe</b>	<b>AAA</b>	<b>Aaa</b>	<b>AAA</b>
<b>Mortgage Pfandbriefe</b>	<b>AAA</b>	<b>Aaa</b>	<b>AAA</b>

- **Eurohypo is the only Pfandbrief issuer whose public-sector Pfandbriefe and mortgage Pfandbriefe are rated triple A by all three rating agencies (Standard & Poor's, Moody's Investors Service und Fitch Ratings).**
- Eurohypo Pfandbrief ratings were just confirmed in August and September 2008 (in the context of the Essen Hyp takeover).

## Outlook



- Following their experiences during this crisis, banks will manage their liquidity very carefully even in the future
- Investors will differentiate more critically and strongly between the various issuers - this development has become apparent even before the financial crisis has started
- As soon as demand exists again on the secondary markets, spreads for covered bonds will more strongly expand than spreads for Pfandbriefe - a fact that is a clear advantage for Eurohypo's Pfandbriefe
- Eurohypo will continue to engage in new business on a very selective basis and will of course meet all its loan commitments.



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- [www.eurohypo.com](http://www.eurohypo.com)

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## Do you have any questions about Eurohypo Pfandbriefe or bonds?



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