

Germany
Update

Duesseldorfer Hypothekbank AG

Ratings

Foreign Currency	
Long-Term IDR	BBB-
Short-Term IDR	F3
Support Rating	
Support Rating Floor	2
Individual Rating	BBB-
	E
Sovereign Risk	
Foreign-Currency Long-Term IDR	AAA
Local-Currency Long-Term IDR	AAA

Outlooks

Foreign-Currency Long-Term IDR	Stable
Sovereign Foreign-Currency Long-Term IDR	Stable
Sovereign Local-Currency Long-Term IDR	Stable

Financial Data

Duesseldorfer Hypothekbank AG		
	30 Jun 2010	31 Dec 2009
Total assets (USDm)	25,757	31,094
Total assets (EURm)	20,990	21,584
Total equity (EURm)	285	308
Operating profit (EURm)	-17	2
Net income (EURm)	-23	2
Comprehensive income (EURm)	-23	2
Operating ROAA (%)	-0.16	0.01
Operating ROAE (%)	-11.38	0.52
Fitch eligible capital/weighted risks (%)	7.1	7.6
Fitch core capital/weighted risks (%)	7.1	7.6
Tier 1 ratio (%)	7.5	7.4

Analysts

Patrick Rioual
+49 69 76 80 76 123
patrick.rioual@fitchratings.com

Simone Brehmer, CFA
+49 69 76 80 76 263
simone.brehmer@fitchratings.com

Related Research

- Applicable Criteria**
- Global Financial Institutions Rating Criteria (August 2010)
- Other Research**
- Fitch Downgrades Duesseldorfer Hypothekbank to BBB-; off Rating Watch Negative (July 2010)
 - Fitch Affirms DHB's Public Sector Pfandbriefe at 'AAA', off RWN (August 2010)

Rating Rationale

- Duesseldorfer Hypothekbank AG's (DHB) Long-Term Issuer Default Rating (LT IDR) is at its Support Rating Floor (SRF). This reflects Fitch Ratings' view that ultimately support would come from the German government if needed.
- The Individual Rating is constrained by the challenge of restoring a sustainable business model that generates adequate profitability. Additional pressure might arise if the current difficult market environment translates into higher-risk costs from its legacy (and still dominant) low-margin public sector portfolio.
- In June 2010 US investor Lone Star (LS) agreed to acquire DHB (which expects closing in August 2010) from Bundesverband deutscher Banken, an association of German private banks and DHB's ultimate majority owner since its rescue in 2008. Fitch expects LS to pursue DHB's diversification into primary commercial real estate (CRE) lending. However, DHB's progress remains limited to date and the absence of new business since 2008 has increased the challenge of restoring its capacity to originate profitable new business in a competitive CRE market. In addition, Fitch expects the resumption of significant new business to be preceded by a phase of risk reduction and downsizing, mostly via asset sales. Although this will benefit from LS's track record with comparable restructuring cases, it could be subject to delays depending on market conditions.
- DHB, whose funding partly relies on SoFFin guarantees, has yet to prove its ability to attract sufficient and adequately priced unsecured wholesale funding without external support in an increasingly testing wholesale funding environment. Despite ample use of Pfandbriefe, DHB will remain reliant on unsecured debt issues due to necessary overcollateralisation and its EUR1.6bn non-Pfandbrief-eligible asset portfolio. The capital increase accompanying the ownership change will materially improve the tight capitalisation, but leverage should remain fairly high due to the public sector assets' low risk weight.

Support

- The high probability of support from the German public authorities arises, in Fitch's view, from DHB's status as an active Pfandbrief issuer. The bank should benefit from the strong willingness of public authorities, Pfandbrief issuers and investors to safeguard the standing of Pfandbriefe and, by extension, of Pfandbrief issuers. However, Fitch's view may change if proposals for a new bank resolution regime result in a lower likelihood of support for whole banks.

Key Rating Drivers

- DHB's LT IDR is likely to remain at its SRF for the foreseeable future. Any change in Fitch's view on the level of potential external support would be likely to trigger a rating action. Positive pressure on the Individual Rating would be conditional on a clear and sustainable improvement of DHB's profitability and funding. This is likely to be gradual due to the bank's planned realignment.

Profile

Fitch expects that, under its new owner, DHB will resume the shift of its strategic focus from secondary market public sector lending to primary market CRE lending.

Duesseldorfer Hypothekbank AG Income Statement

	30 Jun 2010	31 Dec 2009	31 Dec 2008	31 Dec 2007
	Interim	Year End	Year End	Year End
	EURm	EURm	EURm	EURm
	Unaudited	Unqualified	Unqualified	Unqualified
1. Interest Income on Loans	544.6	1,603.7	2,622.7	2,461.0
2. Other Interest Income	219.0	510.9	684.1	662.1
3. Dividend Income	0.1	2.7	1.7	23.2
4. Gross Interest and Dividend Income	763.7	2,117.3	3,308.5	3,146.3
5. Interest Expense on Customer Deposits	n.a.	n.a.	n.a.	n.a.
6. Other Interest Expense	762.0	2,062.0	3,279.5	3,104.1
7. Total Interest Expense	762.0	2,062.0	3,279.5	3,104.1
8. Net Interest Income	1.7	55.3	29.0	42.2
9. Net Gains (Losses) on Trading and Derivatives	n.a.	0.0	0.0	-2.5
10. Net Gains (Losses) on Other Securities	n.a.	n.a.	n.a.	n.a.
11. Net Gains (Losses) on Assets at FV through Income Statement	n.a.	n.a.	n.a.	n.a.
12. Net Insurance Income	n.a.	n.a.	n.a.	n.a.
13. Net Fees and Commissions	-6.3	-14.3	1.4	0.5
14. Other Operating Income	2.5	5.7	0.3	0.6
15. Total Non-Interest Operating Income	-3.8	-8.6	1.7	-1.4
16. Personnel Expenses	3.5	6.9	8.5	7.2
17. Other Operating Expenses	10.4	26.2	21.7	8.8
18. Total Non-Interest Expenses	13.9	33.1	30.2	16.0
19. Equity-accounted Profit/ Loss - Operating	n.a.	n.a.	n.a.	n.a.
20. Pre-Impairment Operating Profit	-16.0	13.6	0.5	24.8
21. Loan Impairment Charge	13.5	6.7	11.9	1.3
22. Securities and Other Credit Impairment Charges	-12.8	5.3	203.7	23.3
23. Operating Profit	-16.7	1.6	-215.1	0.2
24. Equity-accounted Profit/ Loss - Non-operating	n.a.	n.a.	n.a.	n.a.
25. Non-recurring Income	n.a.	n.a.	n.a.	n.a.
26. Non-recurring Expense	6.3	n.a.	n.a.	n.a.
27. Change in Fair Value of Own Debt	n.a.	n.a.	n.a.	n.a.
28. Other Non-operating Income and Expenses	n.a.	n.a.	n.a.	n.a.
29. Pre-tax Profit	-23.0	1.6	-215.1	0.2
30. Tax expense	0.0	0.0	0.1	0.1
31. Profit/Loss from Discontinued Operations	n.a.	n.a.	n.a.	n.a.
32. Net Income	-23.0	1.6	-215.2	0.1
33. Change in Value of AFS Investments	n.a.	n.a.	n.a.	n.a.
34. Revaluation of Fixed Assets	n.a.	n.a.	n.a.	n.a.
35. Currency Translation Differences	n.a.	n.a.	n.a.	n.a.
36. Remaining OCI Gains/(losses)	n.a.	n.a.	n.a.	n.a.
37. Fitch Comprehensive Income	-23.0	1.6	-215.2	0.1
38. Memo: Profit Allocation to Non-controlling Interests	n.a.	n.a.	n.a.	n.a.
39. Memo: Net Income after Allocation to Non-controlling Interests	-23.0	1.6	-215.2	0.1
40. Memo: Common Dividends Relating to the Period	n.a.	n.a.	n.a.	n.a.
41. Memo: Preferred Dividends Related to the Period	n.a.	n.a.	n.a.	n.a.

Duesseldorfer Hypothekenbank AG
Balance Sheet

	30 Jun 2010	31 Dec 2009	31 Dec 2008	31 Dec 2007
	Interim	Year End	Year End	Year End
	EURm	EURm	EURm	EURm
Assets				
A. Loans				
1. Residential Mortgage Loans	n.a.	n.a.	n.a.	n.a.
2. Other Mortgage Loans	n.a.	n.a.	n.a.	n.a.
3. Other Consumer/ Retail Loans	n.a.	n.a.	n.a.	n.a.
4. Corporate & Commercial Loans	1,497.6	1,491.8	1,595.9	1,447.7
5. Other Loans	2,078.4	2,165.9	2,927.8	3,853.7
6. Less: Reserves for Impaired Loans/ NPLs	19.9	22.6	22.5	12.8
7. Net Loans	3,556.1	3,635.1	4,501.2	5,288.6
8. Gross Loans	3,576.0	3,657.7	4,523.7	5,301.4
9. Memo: Impaired Loans included above	n.a.	60.1	74.0	35.0
10. Memo: Loans at Fair Value included above	n.a.	n.a.	n.a.	n.a.
B. Other Earning Assets				
1. Loans and Advances to Banks	4,353.7	4,346.0	5,351.3	5,857.1
2. Trading Securities and at FV through Income	n.a.	n.a.	n.a.	n.a.
3. Derivatives	n.a.	n.a.	n.a.	n.a.
4. Available for Sale Securities	n.a.	n.a.	n.a.	n.a.
5. Held to Maturity Securities	n.a.	n.a.	n.a.	n.a.
6. At-equity Investments in Associates	15.9	15.3	15.3	15.3
7. Other Securities	12,960.3	13,439.7	14,234.5	15,295.6
8. Total Securities	12,976.2	13,455.0	14,249.8	15,310.9
9. Memo: Government Securities included Above	4,505.2	4,622.1	5,048.5	5,186.4
10. Investments in Property	n.a.	n.a.	n.a.	n.a.
11. Insurance Assets	n.a.	n.a.	n.a.	n.a.
12. Other Earning Assets	n.a.	n.a.	n.a.	n.a.
13. Total Earning Assets	20,886.0	21,436.1	24,102.3	26,456.6
C. Non-Earning Assets				
1. Cash and Due From Banks	0.8	51.1	104.8	63.7
2. Memo: Mandatory Reserves included above	n.a.	n.a.	n.a.	n.a.
3. Foreclosed Real Estate	n.a.	n.a.	n.a.	n.a.
4. Fixed Assets	16.7	16.8	20.5	17.5
5. Goodwill	0.0	0.0	0.0	0.0
6. Other Intangibles	1.0	1.0	1.4	1.0
7. Current Tax Assets	n.a.	n.a.	n.a.	n.a.
8. Deferred Tax Assets	n.a.	n.a.	n.a.	n.a.
9. Discontinued Operations	n.a.	n.a.	n.a.	n.a.
10. Other Assets	85.3	78.8	143.7	163.3
11. Total Assets	20,989.8	21,583.8	24,372.7	26,702.1
Liabilities and Equity				
D. Interest-Bearing Liabilities				
1. Customer Deposits - Current	n.a.	39.4	592.1	71.8
2. Customer Deposits - Savings	11.0	10.6	13.3	19.7
3. Customer Deposits - Term	2,261.2	2,080.3	1,716.6	2,338.5
4. Total Customer Deposits	2,272.2	2,130.3	2,322.0	2,430.0
5. Deposits from Banks	9,390.8	8,328.4	8,222.5	7,195.0
6. Other Deposits and Short-term Borrowings	24.6	24.6	23.6	3.2
7. Total Deposits, Money Market and Short-term Funding	11,687.6	10,483.3	10,568.1	9,628.2
8. Senior Debt Maturing after 1 Year	n.a.	n.a.	n.a.	n.a.
9. Subordinated Borrowing	53.9	55.1	53.0	80.6
10. Other Funding	8,853.2	10,696.3	13,362.3	16,536.3
11. Total Long Term Funding	8,907.1	10,751.4	13,415.3	16,616.9
12. Derivatives	n.a.	n.a.	n.a.	n.a.
13. Trading Liabilities	n.a.	n.a.	n.a.	n.a.
14. Total Funding	20,594.7	21,234.7	23,983.4	26,245.1
E. Non-Interest Bearing Liabilities				
1. Fair Value Portion of Debt	n.a.	n.a.	n.a.	n.a.
2. Credit impairment reserves	n.a.	n.a.	n.a.	n.a.
3. Reserves for Pensions and Other	18.3	7.4	12.5	2.8
4. Current Tax Liabilities	0.2	0.2	2.6	2.6
5. Deferred Tax Liabilities	n.a.	n.a.	n.a.	n.a.
6. Other Deferred Liabilities	14.9	17.0	24.3	31.1
7. Discontinued Operations	n.a.	n.a.	n.a.	n.a.
8. Insurance Liabilities	n.a.	n.a.	n.a.	n.a.
9. Other Liabilities	61.6	2.2	28.2	9.8
10. Total Liabilities	20,689.7	21,261.5	24,051.0	26,291.4
F. Hybrid Capital				
1. Pref. Shares and Hybrid Capital accounted for as Debt	15.6	14.8	14.2	61.4
2. Pref. Shares and Hybrid Capital accounted for as Equity	n.a.	n.a.	n.a.	n.a.
G. Equity				
1. Common Equity	284.5	307.5	307.5	349.3
2. Non-controlling Interest	n.a.	n.a.	n.a.	n.a.
3. Securities Revaluation Reserves	n.a.	n.a.	n.a.	n.a.
4. Foreign Exchange Revaluation Reserves	n.a.	n.a.	n.a.	n.a.
5. Fixed Asset Revaluations and Other Accumulated OCI	n.a.	n.a.	n.a.	n.a.
6. Total Equity	284.5	307.5	307.5	349.3
7. Total Liabilities and Equity	20,989.8	21,583.8	24,372.7	26,702.1
8. Memo: Fitch Core Capital	283.5	306.5	306.1	348.3
9. Memo: Fitch Eligible Capital	283.5	306.5	306.1	348.3

Duesseldorfer Hypothekbank AG Summary Analytics

	30 Jun 2010	31 Dec 2009	31 Dec 2008	31 Dec 2007
	Interim	Year End	Year End	Year End
A. Interest Ratios				
1. Interest Income on Loans/ Average Gross Loans	30.36	39.22	53.69	46.37
2. Interest Expense on Customer Deposits/ Average Customer Deposits	n.a.	n.a.	n.a.	n.a.
3. Interest Income/ Average Earning Assets	7.28	9.39	13.11	12.20
4. Interest Expense/ Average Interest-bearing Liabilities	7.35	9.22	13.13	12.14
5. Net Interest Income/ Average Earning Assets	0.02	0.25	0.11	0.16
6. Net Int. Inc Less Loan Impairment Charges/ Av. Earning Assets	-0.11	0.22	0.07	0.16
7. Net Interest Inc Less Preferred Stock Dividend/ Average Earning Assets	0.02	0.25	0.11	0.16
B. Other Operating Profitability Ratios				
1. Non-Interest Income/ Gross Revenues	180.95	-18.42	5.54	-3.43
2. Non-Interest Expense/ Gross Revenues	-661.90	70.88	98.37	39.22
3. Non-Interest Expense/ Average Assets	0.13	0.15	0.12	0.06
4. Pre-impairment Op. Profit/ Average Equity	-10.90	4.41	0.13	7.31
5. Pre-impairment Op. Profit/ Average Total Assets	-0.15	0.06	0.00	0.10
6. Loans and securities impairment charges/ Pre-impairment Op. Profit	-4.38	88.24	43,120.00	99.19
7. Operating Profit/ Average Equity	-11.38	0.52	-55.81	0.06
8. Operating Profit/ Average Total Assets	-0.16	0.01	-0.84	0.00
9. Taxes/ Pre-tax Profit	0.00	0.00	-0.05	50.00
10. Pre-Impairment Operating Profit / Risk Weighted Assets	-0.81	0.34	0.01	n.a.
11. Operating Profit / Risk Weighted Assets	-0.84	0.04	-5.56	n.a.
C. Other Profitability Ratios				
1. Net Income/ Average Total Equity	-15.67	0.52	-55.84	0.03
2. Net Income/ Average Total Assets	-0.22	0.01	-0.85	0.00
3. Fitch Comprehensive Income/ Average Total Equity	-15.67	0.52	-55.84	0.03
4. Fitch Comprehensive Income/ Average Total Assets	-0.22	0.01	-0.85	0.00
5. Net Income/ Av. Total Assets plus Av. Managed Assets	n.a.	n.a.	n.a.	n.a.
6. Net Income/ Risk Weighted Assets	-1.16	0.04	-5.56	n.a.
7. Fitch Comprehensive Income/ Risk Weighted Assets	-1.16	0.04	-5.56	n.a.
D. Capitalization				
1. Fitch Eligible Capital/ Fitch Adjusted Weighted Risks	7.11	7.59	7.91	7.68
2. Tangible Common Equity/ Tangible Assets	1.35	1.42	1.26	1.30
3. Tangible Common Equity/ Total Business Volume	1.35	1.42	1.25	1.29
4. Tier 1 Regulatory Capital Ratio	7.50	7.40	8.60	7.50
5. Total Regulatory Capital Ratio	9.10	9.00	10.60	10.20
6. Fitch Eligible Capital/ Tier 1 Regulatory Capital	94.82	102.51	91.92	102.44
7. Equity/ Total Assets	1.36	1.42	1.26	1.31
8. Cash Dividends Paid & Declared/ Net Income	n.a.	n.a.	n.a.	n.a.
9. Cash Dividend Paid & Declared/ Fitch Comprehensive Income	n.a.	n.a.	n.a.	n.a.
10. Net Income - Cash Dividends/ Total Equity	-16.30	0.52	-69.98	0.03
E. Loan Quality				
1. Growth of Total Assets	-2.75	-11.44	-8.72	5.42
2. Growth of Gross Loans	-2.23	-19.14	-14.67	-0.22
3. Impaired Loans(NPLs)/ Gross Loans	n.a.	1.64	1.64	0.66
4. Reserves for Impaired Loans/ Gross loans	0.56	0.62	0.50	0.24
5. Reserves for Impaired Loans/ Impaired Loans	n.a.	37.60	30.41	36.57
6. Impaired Loans less Reserves for Imp Loans/ Equity	-6.99	12.20	16.75	6.36
7. Loan Impairment Charges/ Average Gross Loans	0.75	0.16	0.24	0.02
8. Net Charge-offs/ Average Gross Loans	n.a.	n.a.	n.a.	n.a.
9. Impaired Loans + Foreclosed Assets/ Gross Loans + Foreclosed Assets	n.a.	1.64	1.64	0.66
F. Funding				
1. Loans/ Customer Deposits	157.38	171.70	194.82	218.16
2. Interbank Assets/ Interbank Liabilities	46.36	52.18	65.08	81.41

**Duesseldorfer Hypothekenbank AG
Reference Data**

	30 Jun 2010	31 Dec 2009	31 Dec 2008	31 Dec 2007
	Interim	Year End	Year End	Year End
	EURm	EURm	EURm	EURm
A. Off-Balance Sheet Items				
1. Managed Securitizated Assets Reported Off-Balance Sheet	n.a.	n.a.	n.a.	n.a.
2. Other off-balance sheet exposure to securitizations	n.a.	n.a.	n.a.	n.a.
3. Guarantees	n.a.	0.6	0.7	1.0
4. Acceptances and documentary credits reported off-balance sheet	n.a.	n.a.	n.a.	n.a.
5. Committed Credit Lines	n.a.	9.0	60.5	212.6
6. Other Contingent Liabilities	n.a.	n.a.	n.a.	n.a.
7. Total Business Volume	20,989.8	21,593.4	24,433.9	26,915.7
8. Memo: Total Weighted Risks	3,986.7	4,040.5	3,872.1	4,533.3
9. Fitch Adjustments to Weighted Risks.	n.a.	n.a.	n.a.	n.a.
10. Fitch Adjusted Weighted Risks	3,986.7	4,040.5	3,872.1	4,533.3
B. Average Balance Sheet				
Average Loans	3,616.9	4,089.4	4,884.9	5,307.3
Average Earning Assets	21,161.1	22,545.3	25,230.4	25,781.8
Average Assets	21,286.8	22,729.4	25,465.9	26,015.1
Average Managed Assets (OBS)	n.a.	n.a.	n.a.	n.a.
Average Interest-Bearing Liabilities	20,914.7	22,362.8	24,983.9	25,573.0
Average Common equity	296.0	308.4	385.4	339.2
Average Equity	296.0	308.4	385.4	339.2
Average Customer Deposits	2,201.3	2,134.1	2,384.9	2,243.9
C. Maturities				
Asset Maturities:				
Loans & Advances < 3 months	n.a.	n.a.	n.a.	n.a.
Loans & Advances 3 - 12 Months	n.a.	224.0	643.0	721.6
Loans & Advances 3 - 12 Months	n.a.	344.0	570.0	828.0
Loans and Advances 1 - 5 Years	n.a.	2,071.0	1,794.0	2,020.0
Loans & Advances > 5 years	n.a.	1,125.0	1,553.0	1,719.0
Debt Securities < 3 Months	n.a.	n.a.	n.a.	n.a.
Debt Securities 3 - 12 Months	n.a.	n.a.	n.a.	n.a.
Debt Securities 1 - 5 Years	n.a.	n.a.	n.a.	n.a.
Debt Securities > 5 Years	n.a.	n.a.	14,201.1	15,222.3
Interbank < 3 Months	n.a.	1,697.0	2,007.0	1,356.0
Interbank 3 - 12 Months	n.a.	323.0	645.0	358.0
Interbank 1 - 5 Years	n.a.	1,126.0	1,146.0	1,788.0
Interbank > 5 Years	n.a.	1,200.0	1,553.0	1,796.8
Liability Maturities:				
Retail Deposits < 3 months	n.a.	n.a.	n.a.	n.a.
Retail Deposits 3 - 12 Months	n.a.	n.a.	n.a.	77.6
Retail Deposits 1 - 5 Years	n.a.	n.a.	n.a.	n.a.
Retail Deposits > 5 Years	n.a.	n.a.	n.a.	n.a.
Other Deposits < 3 Months	n.a.	2,239.0	1,517.0	1,162.0
Other Deposits 3 - 12 Months	n.a.	642.0	620.0	576.0
Other Deposits 1 - 5 Years	n.a.	936.0	1,089.0	1,296.0
Other Deposits > 5 Years	n.a.	3,541.0	4,363.0	4,524.0
Interbank < 3 Months	n.a.	6,134.0	6,540.0	4,927.0
Interbank 3 - 12 Months	n.a.	2,251.0	1,813.0	2,476.0
Interbank 1 - 5 Years	n.a.	192.0	269.0	317.0
Interbank > 5 Years	n.a.	195.0	195.0	305.0
Senior debt Maturing < 1 year	n.a.	n.a.	n.a.	n.a.
Senior debt Maturing > 1 year	n.a.	n.a.	7,594.0	10,420.6
Total Senior Debt on Balance Sheet	8,853.2	10,696.3	13,362.3	16,536.3
Fair Value Portion of Senior Debt	n.a.	n.a.	n.a.	n.a.
Subordinated Debt maturing < 1 year	n.a.	n.a.	n.a.	n.a.
Subordinated Debt maturing > 1 year	n.a.	n.a.	n.a.	n.a.
Total Subordinated Debt on Balance Sheet	53.9	55.1	53.0	80.6
Fair Value Portion of Subordinated Debt	n.a.	n.a.	n.a.	n.a.
D. Equity Reconciliation				
1. Equity	284.5	307.5	307.5	349.3
2. Add: Pref. Shares and Hybrid Capital accounted for as Equity	n.a.	n.a.	n.a.	n.a.
3. Add: Other Adjustments	n.a.	n.a.	n.a.	n.a.
4. Published Equity	n.a.	n.a.	n.a.	n.a.
E. Fitch Eligible Capital Reconciliation				
1. Total Equity as reported (including non-controlling interests)	284.5	307.5	307.5	349.3
2. Fair value effect incl in own debt/borrowings at fv on the B/S- CC on	0.0	0.0	0.0	0.0
3. Non-loss-absorbing non-controlling interests	0.0	0.0	0.0	0.0
4. Goodwill	0.0	0.0	0.0	0.0
5. Other intangibles	1.0	1.0	1.4	1.0
6. Deferred tax assets deduction	0.0	0.0	0.0	0.0
7. Net asset value of insurance subsidiaries	0.0	0.0	0.0	0.0
8. Embedded value of insurance business	0.0	0.0	0.0	0.0
9. First loss tranches of off-balance sheet securitizations	0.0	0.0	0.0	0.0
10. Fitch Core Capital	283.5	306.5	306.1	348.3
11. Eligible weighted Hybrid capital	0.0	0.0	0.0	0.0
12. Government held Hybrid Capital	0.0	0.0	0.0	0.0
13. Fitch Eligible Capital	283.5	306.5	306.1	348.3
14. Eligible Hybrid Capital Limit	121.5	131.4	131.2	149.3

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