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Düsseldorfer Hypothekenbank's Public Sector Covered Bonds On Watch Dev After Owner Changes

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FRANKFURT (Standard & Poor's) April 25, 2008—Standard & Poor's Ratings Services said today that it has placed on CreditWatch with developing implications its 'AAA' credit rating on the public sector covered bonds issued by Germany-based Düsseldorfer Hypothekenbank (Duesshyp, NR).

Today's rating action follows the April 21, 2008 announcement that the German deposit protection fund (Einlagensicherungsfonds—a subsidiary of the German Private Banking Association) has, as stated, "temporarily" taken over a 94% majority in the bank to ensure an orderly sale.

Standard & Poor's feels comfortable maintaining its 'AAA' rating on the covered bonds issued by Duesshyp. This reflects:

- Their standalone credit quality and the management guidelines aimed at providing sufficient overcollateralization to support the current rating;
- The protections afforded by German insolvency and banking laws and the special supervisory oversight for covered bonds; and
- Standard & Poor's view that the current owner remains supportive of the covered bond rating as long as it is the majority shareholder. Standard & Poor's expects that the customer protection scheme will ensure that the buyer will continue to support the maintenance of the current covered bonds' rating.

However, the CreditWatch developing placement reflects uncertainties about the timing and structure of the sale. In our opinion, there is a low risk that future owners might not be able to demonstrate the ability and willingness to support those ratings at a level commensurate with the currently assigned.

As of March 31, 2008, Duesshyp's €14.64 billion public sector covered bonds were backed by a cover pool of eligible public sector assets of €15.48 billion, providing overcollateralization of 5.73% on a nominal basis and 6.73% on a net present value basis. The quality of the public sector cover assets and their long- and short-term cash flow adequacy are, from a quantitative perspective, commensurate with the current 'AAA' rating. From a qualitative point of view, further comfort can be drawn from the bank's non-binding guidelines on the cover pool management.

Based on a matrix of eligible asset quality and concentration restrictions, as well as further risk management guidelines, the bank must provide certain minimum levels of overcollateralization. These aspects and the resulting level of voluntary overcollateralization, which is above the mandatory overcollateralization requirements of the German Covered Bond Act (Pfandbriefgesetz), aim to provide comfort to covered bond investors that the management of the bank would not exercise its discretion to reduce the level of overcollateralization to the minimum legally allowed, thus helping to maintain the stability of the 'AAA' rating.

With total assets of €26.7 billion and a Tier 1 ratio of 8% at year-end 2007, Duesshyp is a medium-sized German bank primarily focused on secondary market-sourced eligible mortgage and public sector covered bond business. Faced with meager margins in its core business, the bank has aimed to improve profitability by investing in a diversified portfolio of securities whose spreads have suffered markedly from the current market dislocation if valued on a mark-to-market basis. Reflecting some restructurings of the portfolio and some impairments considered permanent by the bank, its net income for 2007 was very low.

The ownership changes took place when the bank was about to adapt its business strategy to reduce reliance on public sector business in favor of secondary-sourced commercial real estate lending.

Standard & Poor's will closely monitor the timing and nature of the sale process, the development of the bank's and the cover pool's financial, risk, and liquidity profiles and the implications for the management of the cover pool. We will review the CreditWatch placement once we have received sufficient transparency and comfort on these factors.

Further information on Düsseldorfer Hypothekenbank's Public Sector Covered Bonds is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. Alternatively, call Client Support Europe on (44) 20-7176-7176. Members of the media may contact the Press Office Hotline on

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