

FITCH PLACES 8 GERMAN BANKS COVERED BOND PROGRAMS ON RWN

Fitch Ratings-London/Frankfurt-21 January 2010: Fitch Ratings has today placed eight German banks' mortgage covered bond programs on Rating Watch Negative (RWN) and maintained another German bank's mortgage covered bond program on RWN. A full rating breakdown is provided at the end of this comment.

The rating actions reflect the agency's view of a heightened credit risk in commercial real estate lending (for further information, please see the 15 December 2009 Fitch report, entitled 'Banks' Exposure to European Commercial Real Estate', which is available at www.fitchratings.com) coupled with the limited availability of detailed information about the commercial real estate exposure backing covered bonds which is deemed necessary to quantify the Fitch-supporting over-collateralisation (Fitch SOC) for a given rating.

The agency has updated its data templates for German commercial real estate exposures backing covered bonds to capture the inherent risks in these types of loans. The updated data templates were sent to the related issuers in October 2009, when their ratings were placed under analysis (For further information, please see the 7 October 2009 comment, entitled 'Fitch Reviews Assumptions for Covered Bonds Secured By Commercial Mortgage Loans', which is available at www.fitchratings.com). While most issuers have informed Fitch that the data collection process has been initiated, sufficiently completed data have not been received by the agency so far, partly as gathering the data represents a significant project within the issuing bank.

Fitch realises that the process could take considerable time. Nevertheless, the agency expects its review of the commercial real estate exposures in the respective cover pools to result in higher Fitch SOC for a given rating in the majority of cases. As a result, the ratings of eight issuers' mortgage covered bonds have been placed on RWN, and maintained on RWN with respect to one issuer. Fitch will review the ratings of the affected programs within the next six months taking into account the efforts made in the meantime by the issuers in respect of the data collection process.

Although Fitch considers that the loan-to-Beliehungswert (mortgage lending value) threshold, set at 60% by the German Pfandbrief Act, provides adequate protection against expected losses, even in higher stress scenarios, the agency believes that commercial real estate risks in German cover pools need to be assessed more precisely. Enhanced information on the property income profile will enable Fitch to build a more informed view on the probability of default (PD) and on the loss severity of particular loans.

Absent more detailed information, the agency is unlikely to conclude that the PD of covered bonds, largely secured by pools consisting of commercial mortgage loans, would be lower than the PD implied by the Issuer Default Rating (IDR). The information provided so far would be sufficient to form a view on the magnitude of likely recoveries provided by the respective cover pools in the event of a default under the covered bonds. Issuers that do not provide the requested data could see their respective covered bond programs downgraded to up to two notches above the issuer's IDR, when potential recoveries are taken into account.

The following eight banks' mortgage covered bond programs have been placed on RWN:

Aareal Bank AG - Mortgage Pfandbriefe: 'AAA'

Bayerische Landesbank - Mortgage Pfandbriefe: 'AAA'

Berlin-Hannoversche Hypothekenbank AG - Mortgage Pfandbriefe: 'AA+'

CorealcreditBank AG - Mortgage Pfandbriefe: 'AA-'

Deutsche Genossenschafts-Hypothekenbank AG - Mortgage Pfandbriefe: 'AAA'

Eurohypo AG - Mortgage Pfandbriefe: 'AAA'

Landesbank Hessen-Thüringen Girozentrale - Mortgage Pfandbriefe: 'AAA'

UniCredit Bank AG - Mortgage Pfandbriefe: 'AAA'

The following bank's program has been maintained on RWN:
Deutsche Pfandbriefbank AG - Mortgage Pfandbriefe: 'AA+'; RWN

Applicable criteria available on Fitch's website at www.fitchratings.com: 'Covered Bonds Rating Criteria', dated 18th December; 2009, 'Assessment of Liquidity Risks in Covered Bonds', dated 7th July, 2009; 'Counterparty Criteria for Structured Finance Transactions', dated 22nd October, 2009; 'Counterparty Criteria for Structured Finance Transactions: Derivative Addendum', dated 22nd October, 2009.

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