

Luxembourg
Credit Update

EUROHYPO Europaeische Hypothekenbank SA

Ratings

	Current Ratings
Foreign Currency	
Long-Term IDR	A
Short-Term IDR	F1
Support Rating	1
Sovereign Risk	
Foreign Long-Term IDR	AAA
Local Long-Term IDR	AAA

Outlook

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

Watch

Foreign Long-Term IDR	Negative
Foreign Short-Term IDR	Negative

Financial Data

EUROHYPO Europaeische Hypothekenbank SA		
	31 Dec 2007	31 Dec 2006
Total Assets (USDm)	38,548	33,970
Total Assets (EURm)	26,186	25,793
Total Equity (EURm)	311	272
Net Income (EURm)	58.9	31.4
ROA (%)	0.23	0.13
ROE (%)	20.23	11.81
Equity/Total Assets (%)	1.19	1.05

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Related Research

- [EUROHYPO AG \(Research\)](#)
- [Commerzbank AG \(Research\)](#)

Rating Rationale

- The ratings of EUROHYPO Europäische Hypothekenbank SA (Eurohypo Lux) reflect its backing from its ultimate parent, Commerzbank group (Commerz, Commerzbank AG is rated 'A'/'F1'). Commerz is 100% owner of EUROHYPO AG (Eurohypo), Eurohypo Lux's direct parent. The ratings take into account the high integration as well as centralised risk, funding and liquidity management within the group.
- Fitch Ratings has not assigned an Individual Rating to Eurohypo Lux, as it is a wholly-owned subsidiary that is fully integrated into a banking group.
- Eurohypo Lux plays an integral role in the group's portfolio management. In 2007 it expanded its public sector lending activities under the new public finance strategy of favouring higher-margin sub-nationals and sovereigns, with a growing share of non-European business. Reflecting the changes in the capital market environment, new business volume in 2008 to date was significantly lower than in previous years. Eurohypo Lux's business model will be adjusted as the group aims to downsize its public finance business in the medium term.
- EUR51m of one-off income from sales of securities following the portfolio restructuring resulted in the sharp growth of performance ratios in 2007. Efficiency benefits from extraordinarily lean corporate structures.
- Asset quality is very good. About 87% of the overall lending portfolio was rated above 'AA-' at end-2007. At end-2007, most of Eurohypo Lux's assets consisted of public-sector loans/bonds. The bulk of assets are loans to borrowers in Europe, the US, Canada, the UK and Japan. Market risk is limited. The bank aims to achieve a positive margin on each transaction rather than relying on maturity mismatches.
- Eurohypo Lux is funded by the capital markets. It is the leading issuer of Luxembourg covered bonds, "lettres de gage publiques" (LdGPs), with more than a 50% market share at end-2007. LdGPs made up 64% of the bank's non-equity funding at end-2007. The bank does not disclose its regulatory capital ratios. Eurohypo Lux's capital base is small in absolute terms.

Support

- Fitch considers the probability of support from the bank's ultimate parent, Commerz, to be extremely high, if ever required.

What Could Trigger a Downgrade?

- The Long-Term IDR is on Rating Watch Negative, mirroring the Watch on the Long-Term IDR of Eurohypo Lux's ultimate owner, Commerzbank AG. Given the high degree of integration within the group, Eurohypo Lux's Long-Term IDR would move in line with Commerzbank AG's ratings.

Profile

Eurohypo Lux, established in 1989, is a specialist bank concentrating on public sector finance. At end-2007, it employed 35 people. Commerzbank AG also operates a mortgage bank in Luxembourg: Erste Europäische Pfandbrief- und Kommunalkreditbank AG, Luxemburg (EPPK).

Balance Sheet Analysis

EUROHYPO EUROPAISCHE HYPOTHEKENBANK SA

	31 Dec 2007				31 Dec 2006		31 Dec 2005		31 Dec 2004	
	Year End USDm Original	Year End EURm Original	As % of Assets Original	Average EURm Original	Year End EURm Original	As % of Assets Original	Year End EURm Original	As % of Assets Original	Year End EURm Original	As % of Assets Original
A. LOANS										
1. Loans & Advances > 5 Years	4,616.1	3,135.7	11.97	2,935.9	2,736.0	10.61	1,957.3	8.21	960.8	5.76
2. Loans & Advances > 1 < 5 Years	975.7	662.8	2.53	647.3	631.8	2.45	822.3	3.45	802.8	4.81
3. Loans & Advances < 1 Year	396.9	269.6	1.03	314.1	358.6	1.39	69.5	0.29	156.4	0.94
TOTAL A	5,988.7	4,068.1	15.54	3,897.3	3,726.4	14.45	2,849.1	11.95	1,920.0	11.51
B. OTHER EARNING ASSETS										
1. Deposits with Banks	4,190.6	2,846.7	10.87	2,075.4	1,304.1	5.06	1,834.3	7.69	1,885.1	11.30
2. Public Debt	12,837.6	8,720.6	33.30	9,728.1	10,735.5	41.62	11,037.6	46.29	7,286.9	43.68
3. Other Investments	12,767.7	8,673.1	33.12	8,232.3	7,791.4	30.21	6,005.2	25.18	3,725.8	22.33
4. Equity Investments	0.1	0.1	0.00	0.1	0.1	0.00	0.1	0.00	0.1	0.00
TOTAL B	29,796.1	20,240.5	77.30	20,035.8	19,831.1	76.89	18,877.2	79.16	12,897.9	77.31
C. TOTAL EARNING ASSETS (A+B)	35,784.8	24,308.6	92.83	23,933.1	23,557.5	91.33	21,726.3	91.11	14,817.9	88.82
D. FIXED ASSETS	0.1	0.1	0.00	0.2	0.2	0.00	0.5	0.00	0.7	0.00
E. NON-EARNING ASSETS										
1. Cash and Due from Banks	0.0	0.0	0.00	0.5	0.9	0.00	3.8	0.02	4.7	0.03
2. Other	2,762.8	1,876.8	7.17	2,055.7	2,234.5	8.66	2,115.2	8.87	1,859.2	11.14
F. TOTAL ASSETS	38,547.8	26,185.5	100.00	25,989.3	25,793.1	100.00	23,845.8	100.00	16,682.5	100.00
G. DEPOSITS & MONEY MARKET FUNDING										
1. Deposits	1,535.1	1,042.8	3.98	1,073.6	1,104.3	4.28	1,137.6	4.77	1,119.8	6.71
2. Interbank	11,165.5	7,584.7	28.97	7,723.0	7,861.2	30.48	8,354.8	35.04	5,634.9	33.78
TOTAL G	12,700.6	8,627.5	32.95	8,796.5	8,965.5	34.76	9,492.4	39.81	6,754.7	40.49
H. OTHER FUNDING										
1. Long-Term Debt	23,952.5	16,270.9	62.14	15,973.6	15,676.2	60.78	13,429.5	56.32	8,978.6	53.82
2. Subordinated Debt	147.2	100.0	0.38	100.0	100.0	0.39	n.a.	-	n.a.	-
3. Hybrid Capital	0.0	0.0	0.00	0.0	0.0	0.00	0.0	0.00	0.0	0.00
I. OTHER (Non-Interest Bearing)	1,290.3	876.5	3.35	828.1	779.7	3.02	663.7	2.78	694.4	4.16
J. LOAN LOSS RESERVES	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
Loan loss Reserves (memo)	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
K. OTHER RESERVES	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
L. EQUITY										
1. Common Equity	457.2	310.6	1.19	291.2	271.7	1.05	260.2	1.09	254.8	1.53
TOTAL L.	457.2	310.6	1.19	291.2	271.7	1.05	260.2	1.09	254.8	1.53
M. TOTAL LIABILITIES & EQUITY	38,547.8	26,185.5	100.00	25,989.3	25,793.1	100.00	23,845.8	100.00	16,682.5	100.00

Exchange Rate

USD1 = EUR 0.6793

USD1 = EUR 0.7593

USD1 = EUR 0.8477

USD1 = EUR 0.7342

Income Statement Analysis

EUROHYPO EUROPAISCHE HYPOTHEKENBANK SA

	31 Dec 2007		31 Dec 2006		31 Dec 2005		31 Dec 2004	
	Income Expenses EURm Original	As % of Total AV Earning Assts Original	Income Expenses EURm Original	As % of Total AV Earning Assts Original	Income Expenses EURm Original	As % of Total AV Earning Assts Original	Income Expenses EURm Original	As % of Total AV Earning Assts Original
1. Interest Income	1,173.1	4.90	948.6	4.19	578.9	3.17	312.3	2.18
2. Interest Expense	1,131.4	4.73	907.9	4.01	546.1	2.99	286.6	2.00
3. NET INTEREST REVENUE	41.7	0.17	40.7	0.18	32.8	0.18	25.7	0.18
4. Net Fees & Commissions	-1.3	-0.01	-1.2	-0.01	-1.1	-0.01	-0.8	-0.01
5. Other Operating Income	0.4	0.00	14.1	0.06	8.8	0.05	5.2	0.04
6. Personnel Expenses	4.4	0.02	3.9	0.02	3.9	0.02	3.5	0.02
7. Other Operating Expenses	3.4	0.01	3.9	0.02	3.8	0.02	3.4	0.02
8. Loan Loss Provisions	2.3	0.01	8.0	0.04	5.0	0.03	5.0	0.03
9. OPERATING PROFIT	30.7	0.13	37.8	0.17	27.8	0.15	18.2	0.13
10. Other Income and Expenses	52.2	0.22	3.2	0.01	n.a.	-	-0.1	0.00
11. PROFIT BEFORE EXCEPTIONAL ITEMS	82.9	0.35	41.0	0.18	27.8	0.15	18.1	0.13
12. Exceptional Items	0.0	0.00	-0.2	0.00	-1.3	-0.01	n.a.	-
13. PRE-TAX PROFIT	82.9	0.35	40.8	0.18	26.5	0.15	18.1	0.13
14. Taxes	24.0	0.10	9.4	0.04	5.2	0.03	2.9	0.02
15. Extraordinary Items	n.a.	-	n.a.	-	n.a.	-	n.a.	-
16. Transfers from/(to) Equity Reserves	n.a.	-	n.a.	-	n.a.	-	n.a.	-
17. PUBLISHED NET INCOME INCLUDING MINORITIES	58.9	0.25	31.4	0.14	21.3	0.12	15.2	0.11
18. Memo: FITCH NET INCOME								
18. Memo: FITCH NET INCOME before appropriations and extraordinary items	58.9	0.25	31.4	0.14	21.3	0.12	15.2	0.11

Ratio Analysis

EUROHYPO EUROPAISCHE HYPOTHEKENBANK SA

		31 Dec 2007 Original	31 Dec 2006 Original	31 Dec 2005 Original	31 Dec 2004 Original
I. PROFITABILITY LEVEL					
1. Operating Profit/Total Assets (av)	%	0.12	0.15	0.14	0.11
2. Pre-Tax Profit/Total Assets (av)	%	0.32	0.16	0.13	0.11
3. Adj Net Income/Equity (av)	%	20.23	11.81	8.27	6.01
4. Adj Net Income less Pref Dividend/Common Equity (av)	%	20.23	11.81	8.27	6.01
5. Adj Net Income/Total Assets (av)	%	0.23	0.13	0.11	0.10
6. Non-Int Expenses/Net Int Rev & Other Operating Income	%	19.12	14.55	19.01	22.92
7. Net Interest Rev/Total Assets (av)	%	0.16	0.16	0.16	0.16
II. CAPITAL ADEQUACY (year end)					
1. Internal Capital Generation	%	13.36	4.29	2.06	1.46
2. Equity/Total Assets	%	1.19	1.05	1.09	1.53
3. Free Capital/Banking Assets	%	63.70	62.22	57.41	55.35
4. Equity/Loans	%	7.64	7.29	9.13	13.27
5. Capital/Risks - Tier 1	%	n.a.	n.a.	n.a.	15.02
6. Capital/Risks - Total	%	n.a.	n.a.	n.a.	n.a.
7. Common Equity/Total Assets	%	1.19	1.05	1.09	1.53
III LIQUIDITY (year end)					
1. Liquid Assets/Deposits & Money Mkt Funding	%	18.62	3.11	6.58	7.92
2. Liquid Assets & Marketable Debt Securities/Deposits & Money Mkt Funding	%	119.70	122.85	122.86	115.80
3. Loans/Deposits & Money Mkt Funding	%	47.15	41.56	30.01	28.42
IV. ASSET QUALITY					
1. Loan Loss Provisions/Loans (av)	%	0.06	0.24	0.21	0.25
2. Loan Loss Provisions/Equity (av)	%	0.79	3.01	1.94	1.98
3. Loan Loss Provisions/Pre-Prov. Profit	%	6.97	17.47	15.24	21.55