

FITCH AFFIRMS DEUTSCHE PFANDBRIEFBANK'S PUBLIC SECTOR PFANDBRIEFBANK AT 'AAA'; OFF RWN

Fitch Ratings-London/Frankfurt-27 November 2009: Fitch Ratings has today affirmed Deutsche Pfandbriefbank AG's (Pfandbriefbank, rated 'A-/Stable/'F1+') public sector Pfandbriefe at 'AAA' and removed the Rating Watch Negative (RWN). The Pfandbriefe are also no longer "under analysis", where they were placed on 7 July 2009 pending the implementation of Fitch's updated covered bond liquidity risk assessment criteria.

The resolution of the RWN and the "under analysis" status follows a review of detailed information on Pfandbriefbank's public sector cover pool and the increase in overcollateralisation (OC). The cover pool in its current form was created through the merger of Hypo Real Estate Bank International (HRE International) and Depfa Deutsche Pfandbriefbank AG (Depfa) into Hypo Real Estate Bank AG (HRE Bank) between November 2008 and end-June 2009. (HRE Bank was renamed Deutsche Pfandbriefbank AG following the merger of the three banks and their cover pools.)

The RWN assigned to the then HRE Bank's Pfandbriefe on 30 September 2008 was initially related to Fitch's concern about the bank's level of voluntary OC after the announcement of a multi-billion euro credit facility by a consortium of German banks, including guarantees from the German government, to prevent the insolvency of the HRE Group. The RWN was subsequently sustained due to the agency's doubts over whether OC resulting from the combination of the three cover pools would be sufficient to maintain a 'AAA' rating on the public sector Pfandbriefe.

As of 30 September 2009, Pfandbriefbank's public sector cover assets amounted to EUR57.1bn. Compared to outstanding public sector Pfandbriefe of EUR52.8bn, this represented a nominal OC of 8.2%. In addition, the bank has posted further public sector and substitute assets, so that nominal OC had reached 10.3% as of 27 November 2009.

Based on Pfandbriefbank's Issuer Default Rating of 'A-' and a Discontinuity Factor (D-Factor) of 6.8%, the maximum rating on a probability-of-default (PD) basis that can be reached by Pfandbriefbank's public sector covered bonds is 'AAA', provided OC between the cover assets and the covered bonds considered by Fitch is sufficient to sustain the corresponding stress scenario. In Fitch's view, the OC of 10.3% only withstands a 'AA' PD rating scenario, but simultaneously provides sufficient stressed recoveries, on covered bonds assumed to be in default in a 'AAA' scenario, to grant a two notch uplift. As a result, the agency has affirmed the 'AAA' rating on Pfandbriefbank's public sector Pfandbriefe, consisting of a 'AA' rating on a PD basis, and a two notch uplift for recoveries.

Fitch expects the bank to maintain OC in line with the supporting OC of 10.3%. Going forward, supporting OC will be affected, among other factors, by the profile of the cover assets relative to covered bonds, which can change over time.

For additional information please see the credit update available on Fitch's website, www.fitchratings.com.

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