

# Covered Bond & Agency Monitor

July 20, 2006

## PRIVATE PLACEMENTS IN SPAIN - LOWER DEFICITS IN GERMANY

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### MARKET TELEGRAM

Driven by rarity, Pfandbriefe and ACSs rallied to new highs. While the average public Pfandbrief currently trades at -8.7, mortgage-backed Pfandbriefe and ACSs are 2 bp cheaper. On the other hand, the expanding markets in Spain and the UK remain at their flat to +3 bp levels, which translates into a 9.5 bp pickup vs. mortgage Pfandbriefe.

### DID CÉDULAS ISSUERS OVERDO IT AND WILL THE SUMMIT COME INTO VIEW SOON?

The development of the outstanding amount of Cédulas resembles a summit of the highest category at the Tour de France – and the air is not only becoming thin near l'Alpe d'Huez.

Only one (Banco de Sabadell) out of six issuers with ten-year paper issued in 2005 and 2006 managed to price the 2006 issue at richer levels. For 15Y paper, the variety of issuers is smaller, however, the general tendency remains the same.

### HYPORE'S MORTGAGE PFANDBRIEFE MIGHT SEE UPGRADE TO AAA BY FITCH

After upgrading HYPORE on July 7 to A- s from BBB+ s, Fitch published a credit update. As mentioned in our comment on the new rating approach of Fitch, which in our view seems to be a very good mix of practical experience and theoretical foundation, AA+ rated mortgage Pfandbriefe of HYPORE have a good chance of gaining a AAA in the medium term.

### WESTIMMO'S BBB+ RATING OUTLOOK CHANGED TO POSITIVE BY S&P

S&P changed the outlook on WestImmo BBB+ rating to positive. According to rumors, WestImmo has mortgage loans in the cover pool which are held by savings banks on a fiduciary basis. As the pooling model – assumed the willingness of savings bank to keep the mortgage loans on their balance sheet – is in our view a complex funding exercise, it would be interesting to get more details on this.

### BUSINESS OF BANKGESELLSCHAFT BERLIN TRANSFERRED TO LANDESBANK BERLIN

At its general meeting on July 14, the shareholders of Bankgesellschaft Berlin approved the transfer of all business of Bankgesellschaft Berlin AG to Landesbank Berlin AG (LBB, A1/-/BBB+). BGB will continue as a financial holding company with no banking operations of its own and will change its name to Landesbank Berlin Holding AG.

### STRONG TAX REVENUES IN GERMANY, LESS BONDS ISSUANCE EXPECTED

The latest budgetary data of the German federal states indicate an improvement of their fiscal situation with higher tax revenues and lower expenditures. Thus, we have revised our forecast of bond issuance of German federal states down to around EUR 30 bn from originally EUR 40-45 bn, and Jumbo issuance down to EUR around 20 bn from originally EUR 25 bn.

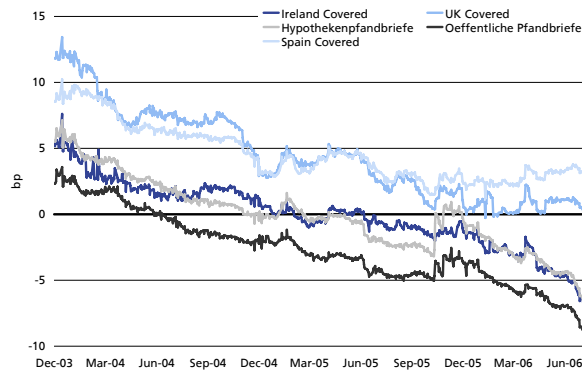
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## MARKET TELEGRAM

**Be rich –stay rich!** It's the never-ending story. Driven by rarity, Pfandbriefe and ACSs rallied to new highs. While the average public Pfandbrief currently trades at -8.7, mortgage backed Pfandbriefe and ACSs are 2 bp cheaper. On the other hand, the expanding markets in Spain and the UK remain at their flat to +3 bp levels, which translates into a 9.5 bp pickup vs. mortgage Pfandbriefe coming from 4.5 bp just before the AHBR triggered widening – and average duration as can be seen on page 4 did not change substantially until then.

### UK AND SPAIN STABLE BUT OUTPERFORMED



Source: HVB Global Markets Research

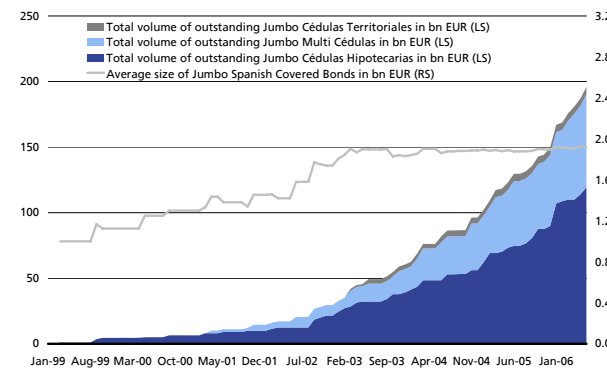
However, apart from the overall movement, the market seemed to take a pause last week with the largest one-week-difference being defined by a 0.2 bp richening of public sector Pfandbriefe.

On a single bond basis, only the HBOS 14 and the IMCEDI 20 broke ranks and were the only >3Y bonds among the 10 top performers, richening by around 1 bp. On the other side, there were only two covered bonds showing a slight widening, with the LBW 05/08 being 1.2 bp and the EURHYP 09/07 trading 1.1 bp cheaper.

## DID CÉDULAS ISSUERS OVERDO IT AND WILL THE SUMMIT COME INTO VIEW SOON?

The development of the outstanding amount of Cédulas resembles a summit of the highest category at the Tour de France – and the air is not only becoming thin near l'Alpe d'Huez. For the recent covered bond issues, Spanish banks had to increasingly provide investors with a liquidity premium.

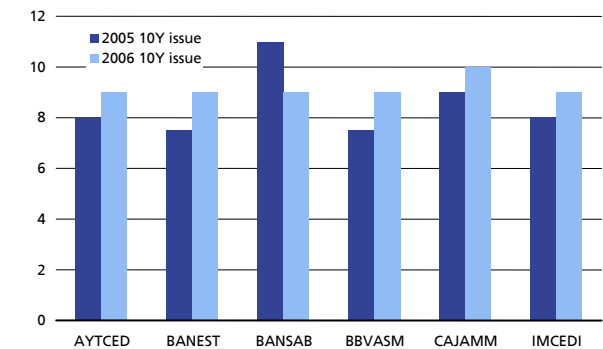
### THIN AIR FOR CÉDULAS



Source: HVB Global Markets Research

One year ago – when issuance activity was already heavy – a ten-year Cédulas was priced at around 8 bp. While all covered bond sub-segments were at least stable vs. swaps as can be seen in our graph on the left, only one (Banco de Sabadell) out of six issuers with ten-year paper issued in 2005 and 2006 managed to price the 2006 issue at richer levels. For 15Y paper, the variety of issuers is smaller, however, the general tendency remains the same.

### NEW 10Y BONDS – PRIMARY MARKET SPREADS



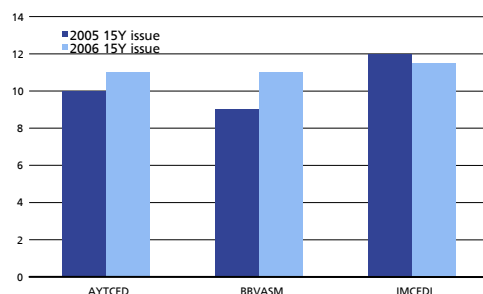
Source: HVB Global Markets Research

Triggered by wider primary market spreads, on average, 2006 bonds showed a better primary market performance than last year's 10Y paper. However, outstanding issues also widened, indicating that investors retreated from the secondary market in order to take advantage of new issue premiums.

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### NEW 15Y BONDS - PRIMARY MARKET SPREADS

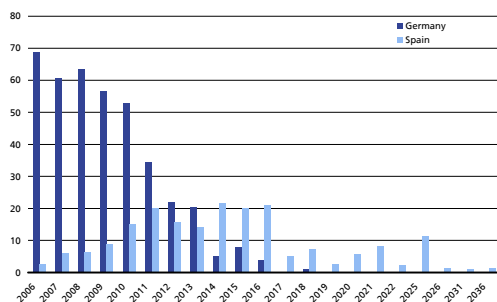


Source: HVB Global Markets Research

### TIME TO INNOVATE – GO PRIVATE

Despite the uniqueness in structure in the covered bond market, Cédulas have impressively proven their sustainability. Meanwhile, the market is entering a more mature phase. While in 2006, EUR 2.5 bn of Cédulas fell due, this amount will increase to EUR 6 bn next year and accelerate year by year as issuance has accelerated in recent years.

### REDEMPTION OF CÉDULAS INCREASING WHILE REDEMPTIONS OF GERMAN PFANDBRIEFE DECREASE



Source: HVB Global Markets Research

Apart from increasing redemptions, another characteristic of maturing markets usually is the diversification in funding. Solely concentrating the entire covered funding on Jumbo styled issues creates dependencies – eventually one of the reasons, for example, for the French issuers to partly shift into tailor-made issues: in 2005, DexMa issued 57% of its total covered funding volume privately. Though historically not shifting from Jumbo to sub-Jumbo but rather the other way around, inventing a new issue style, the Pfandbrief market demonstrates the necessity to serve various investor needs differently – in this respect, the Pfandbrief market is equally weighted between Jumbo, sub-Jumbo and registered issues.

Until now, the Cédulas market has been rather limited in funding diversification. Although the new multi-seller programs introduced around the turn of the year are targeted to allow for on-demand issues, the broad majority of stand-alone issuers are still lagging behind in that respect. A large portion of sub-Jumbo Cédulas bundled in the Mutli-Cédulas transactions currently re-appear as Jumbo paper. In Germany, Pfandbriefe of smaller issuers simply appear as what they are - sub-Jumbo Pfandbriefe. However, the majority of the Multi-Seller participants due to their size do not have an alternative choice as do larger issuers.

### ALL SPANISH PUBLICLY ISSUED SUB-JUMBOS

| Issuer                     | Ticker | CPN    | Maturity | Amt. | Issue Date |
|----------------------------|--------|--------|----------|------|------------|
| Dexia Sabadell Banco Local | DEXGRP | 3*     | Dec 06   | 700  | Dec 03     |
| Santander                  | SANTAN | 3.25   | Mar 09   | 500  | Mar 04     |
| AyT                        | AYTCED | 4      | Apr 14   | 800  | Apr 04     |
| Caja Canarias              | CAGENA | 3.185* | Jun 09   | 50   | Jun 04     |
| Dexia Sabadell Banco Local | DEXGRP | 2.78*  | Aug 07   | 600  | Aug 04     |
| Caja Duero                 | CAJASA | 3.19** | Dec 09   | 100  | Dec 04     |
| AyT Terrotorials           | AYTCED | 3.5    | Mar 12   | 665  | Mar 05     |
| Dexia Sabadell Banco Local | DEXGRP | 3.075* | Jun 09   | 500  | Jun 05     |
| C. Barcelona               | CAIXAB | 4.558* | Sep 15   | 300  | Sep 05     |
| Banco Sabadell             | BANSAB | 4.125  | May 16   | 300  | May 06     |
| Banco Sabadell             | BANSAB | 4.25   | May 16   | 120  | May 06     |
| AyT Global                 | AYTCED | 2.983* | May 17   | 550  | May 06     |
| C. Barcelona               | CAIXAB | 3.021* | Jun 16   | 150  | Jun 06     |
| C. Barcelona               | CAIXAB | 5.327* | Jul 36   | 255  | Jul 06     |
| BBVA                       | BBVASM | 4.6    | Feb 37   | 200  | Jul 06     |

\* Floater \*\*floater callable at par Dec 2007  
Source: HVB Global Markets Research

### EVEN REGISTERED CÉDULAS ALREADY POSSIBLE

According to the issuance programs of Spanish Cédulas players, smaller on-demand issues and even registered issues are possible – as has already been shown. We believe that shifting supply from a pure Jumbo style to sub-Jumbo or registered paper would be to the benefit of both investors and issuers. Issuers could place their paper – particularly in the form of registered bonds - at richer levels which has been proven true in Germany. Investors, on the other hand, benefit from

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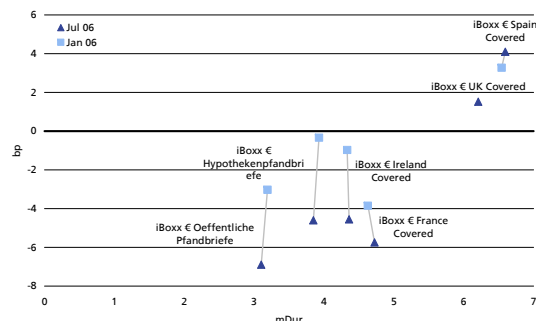
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the opportunity of being able to invest in Spanish covered bonds without being exposed to spread risk. To us, this sounds like a way out of the dilemma.

### FUNDAMENTALLY NOT JUSTIFIED

Discussing the difficult supply situation and hearing the arguments of investors concerning their cap on exposure to Cédulas, one should not disregard fundamentals. The liquidity-driven underperformance of the Spanish (and by the way also of the UK) sector is not backed by credit fundamentals. In this respect – indicated by the graph below – we think that on a fundamental basis these sectors are undervalued. Nevertheless, we recognize the dilemma of a potential new issuance wave in the fall of 2006.

### RELATIVE VALUATION IBOXX SUB-SECTORS



Source: HVB Global Markets Research

### HYPORE'S MORTGAGE PFANDBRIEFE MIGHT RECEIVE AAA BY FITCH

After upgrading Hypo Real Estate Germany on July 7 to A- s from BBB+ s, Fitch published a credit update giving some further insights into the credit and Fitch's assessment of it.

### ASSET QUALITY STILL MODERATE

According to Fitch, HYPORE's has still moderate asset quality. Impaired loans stood at about 5% of total property exposure at end-March 2006, a relative high figure by international standards but in line with most other German mortgage banks. Loan impairment coverage is satisfactory (49% of non-accrual loans at end-March 2006) and, according to Fitch, reflects HYPORE's view of the quality and value of collateral. The rating agency considers HYPORE's return on equity forecast of between 8% and 9% post tax for 2007 realistic, provided momentum on risk pricing and asset quality improvement is maintained. HYPORE aims to maintain a 7% Tier 1 ratio which Fitch considers adequate relative to HYPORE's risk profile and transaction-based business model. According to Fitch, liquidity is sound.

### PLAUSIBLE RATING DECISION AND UPGRADE POTENTIAL FOR HYPORE'S MORTGAGE PFANDBRIEFE

All in all, based on the rating announcement on July 7, the reasoning mentioned in the credit update and on the basis of our own credit quality assessment, an A- rating seems plausible. With the BBB+ rating, S&P seems to lag behind

at this stage. As mentioned in our comment on the new rating approach of Fitch, which in our view seems to be a very good mix of practical experience and theoretical foundation, AA+ mortgage Pfandbriefe of HYPORE have a good chance of gaining an AAA in the medium term. Such an upgrade to AAA seems quite possible without a further rating improvement of the issuer.

### WESTIMMO'S BBB+ RATING OUTLOOK CHANGED TO POSITIVE BY S&P

On July 13, S&P changed the outlook on Westdeutsche Immobilienbank's (WestImmo) BBB+ rating to positive. The rating for WestImmo public sector and mortgage Pfandbriefe was affirmed at AAA.

### S&P SEES SUPPORT FOR WESTIMMO FROM ITS OWNERS

The positive outlook reflects S&P's expectation that WestImmo will become a direct member of the existing protection schemes between WestImmo's 100% owner WestLB AG and its owner savings banks, Rheinischer Sparkassen- und Giroverband (RSGV) and Westfälisch-Lippischer Sparkassen- und Giroverband (WSLGV). According to S&P this underpins WestImmo's owners' willingness to provide support to WestImmo. WestImmo is responsible for mortgage funding within the WestLB group.

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### WESTLB STILL RATED ONE NOTCH HIGHER

While WestLB is still rated one notch higher at A-, S&P stated that WestImmo's BBB+ will be upgraded to A- if WestLB, RSGV and WLSGV should decide to include WestImmo in the protection schemes. However, S&P said it will revise the outlook to stable should this not occur, hence putting some pressure on the group to include WestImmo in the protection scheme. According to rumors, WestImmo has mortgage loans in the cover pool which are held by savings banks on a fiduciary basis. As the pooling model – assumed the willingness of savings bank to keep the mortgage loans on their balance sheet – is in our view a complex funding exercise, it would be interesting to get more details on the practices of this widely discussed new innovative funding technique.

### NO WIDENING OF THE EXPENSIVE JUMBO EXPECTED

WestImmo has one mortgage Jumbo Pfandbrief outstanding. WESTIB 3% 11/2009) trades very expensive at mid-swaps -10.5 bp. As a result of the scarcity of this paper, we see no trigger for a bond-specific widening in the near future.

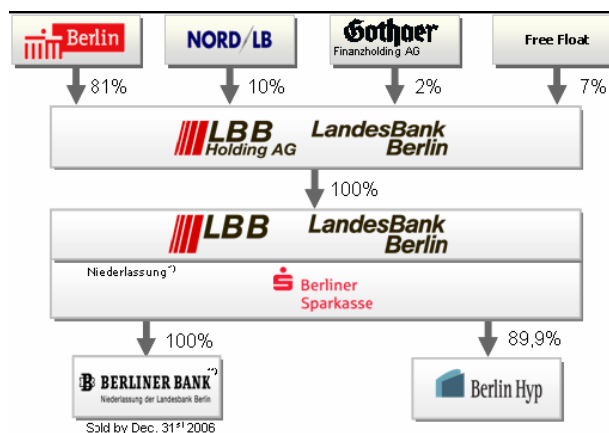
### GRANDFATHERED DEBT RATINGS AFFIRMED

The ratings affirmation on WestImmo's grandfathered debt ratings is based on the statutory guarantee (Gewährträgerhaftung) of its key guarantor, WestLB. The ratings on the grandfathered debt issued by WestLB in turn are based on the statutory guarantee of its key guarantor, State of North Rhine-Westphalia (NRW; AA-/Stable/A-1+)

### BUSINESS OF BANKGESELLSCHAFT BERLIN TRANSFERRED TO LB BERLIN

The annual general meeting of Bankgesellschaft Berlin AG (A2 s/-/BBB develop) took place on 14 July 2006. The shareholders of Bankgesellschaft Berlin approved the transfer of all business of Bankgesellschaft Berlin AG to Landesbank Berlin AG (LBB, A1/-/BBB+). BGB will continue as a financial holding company with no banking operations of its own and will change its name to Landesbank Berlin Holding AG. The group structure will change as follows:

#### LANDESBANK BERLIN GROUP STRUCTURE



<sup>1)</sup> Berliner Sparkasse is a branch of LBB AG.  
<sup>2)</sup> As of October 1st 2006 – Berliner Bank is a subsidiary of LBB AG.

Source: Company Data

### ALL NEW BUSINESS ENTERED INTO THE NAME OF LANDESBANK BERLIN

All current business activities will be transferred to Landesbank Berlin AG. Following publication in the commercial register, which is expected for the end of August, all new business will be entered into in the name of Landesbank Berlin AG. To continue its business relationship unchanged, all credit lines in favor of Bankgesellschaft Berlin AG should then be assigned to LBB AG. The technical merger of Bankgesellschaft Berlin AG's and Landesbank Berlin AG's IT-systems is planned for 23/24 September 2006. All accounts, SWIFT-addresses and settlement instructions remain unchanged for the time being.

### CREDIT QUALITY OF LBB IN LINE WITH A RATING

As a result of ongoing standalone credit quality improvements and continuing implicit support by the state of Berlin, we see LBB as a bank of A credit quality. LBB public Pfandbriefe are rated Aaa/-/AAA and its mortgage Pfandbriefe are rated AAA by Fitch. Despite the relatively low issuer credit quality at Fitch, we do not expect a change of the Pfandbrief rating (see our comment on the new rating methodology of Fitch, published on July 17). The cover pool quality is excellent and the German Pfandbrief law together with the management of the cover pool by LBB should lead to a low discontinuity factor of between 5% and 15%.

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### LBB'S PUBLIC COVER POOL WITH HIGH OVER-COLLATERALIZATION

As of 1 February 2006, LBB's outstanding public sector Pfandbriefe amounted to EUR 9.715 bn and the cover pool totaled EUR 12.488 bn, resulting in a nominal overcollateralization of 28.54%. The pool is highly concentrated on Germany (approximately 99%) while the remainder consists of bonds issued by European Union sovereigns. The largest borrower groups are the German Sovereign and federal states (47%), German guaranteed public sector banks excluding savings banks (35%) and savings banks (12%). Further borrower groups comprise municipalities, public sector companies and foreign sovereigns. The weighted average residual maturity of the cover assets is 3.07 years, while the outstanding Pfandbriefe have a weighted average residual maturity of 2.37 years. As all cover assets and covered bonds are euro-denominated, there is no currency risk..

### STRONG TAX REVENUES, LOWER BOND ISSUANCE IN GERMANY

The latest budgetary data of the German federal states indicate an improvement of their fiscal situation. With Jan-May tax revenues 7.8% higher than last year, we expect less reliance of federal states on bond financing in 2006 than we had initially expected.

Thus, we have revised our forecast of bond issuance of German federal states down to around EUR 30 bn from originally EUR 40-45 bn, and Jumbo issuance down to EUR around 20 bn from originally EUR 25 bn. The heavy funding activity through Schuldschein loans this year further supports our expectation of lower bond issuance.

### JAN-MAY 2006 DEFICITS 25% LOWER THAN LAST YEAR

In the first five months of the year, the budget deficit of the federal states was EUR 4.3 bn, or 25% lower than in the same period in 2005. During January to May 2006, the financing balance of the federal states amounted to EUR 11.8 bn, down from EUR 16.1 bn last year. Of course, the data during the first months of the year can still be volatile. Nevertheless, we still believe that the trend of an improved fiscal situation will continue in 2006 as **a)** the deficits this year have consistently been lower than the year before, **b)** the extent of the fiscal improvement is too substantial to be reversed quickly and **c)** we expect the economy

to stay strong this year ahead of the VAT hike in 2007.

### HIGHER REVENUES, LOWER EXPENDITURES, BUT GEOGRAPHICAL DIFFERENCES

In terms of geographical location, the increase in tax revenues was particularly pronounced among the Eastern States (+14.0%) and the city states (+14.3%) and somewhat lower in the Western States (5.8%). Overall expenditure decreased by 1.7%.

### FINANCING BALANCE OF FEDERAL STATES (EUR BN)

| Federal State             | Jan-May 2006 | Jan-May 2005 | Diff.       |
|---------------------------|--------------|--------------|-------------|
| Baden-Württemberg         | -1.5         | -1.7         | +0.2        |
| Bayern                    | -0.8         | -1.1         | +0.3        |
| Berlin                    | -1.9         | -1.9         | 0.0         |
| Brandenburg               | -0.5         | -0.6         | +0.1        |
| Bremen                    | -0.5         | -0.6         | +0.1        |
| Hamburg                   | +0.2         | -0.6         | +0.8        |
| Hessen                    | -0.9         | -1.5         | +0.6        |
| Mecklenburg.-Vorpommern   | -0.4         | -0.4         | 0.0         |
| Niedersachsen             | -0.8         | -1.0         | +0.2        |
| NRW                       | -2.0         | -1.8         | -0.2        |
| Rheinland.-Pfalz          | -1.2         | -1.4         | +0.2        |
| Saarland                  | -/*          | -0.4         | -/*         |
| Sachsen-Anhalt            | -0.6         | -1.1         | +0.5        |
| Sachsen                   | +0.5         | -0.4         | +0.9        |
| Schleswig-Holstein        | -0.6         | -0.6         | 0.0         |
| Thüringen                 | -0.7         | -1.0         | +0.3        |
| <b>All Federal States</b> | <b>-11.8</b> | <b>-16.1</b> | <b>+4.3</b> |

\*no data available due to technical problems  
Inconsistencies are due to rounding.  
Source: German Ministry of Finance

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However, the performance of the federal states continue to differ markedly. The improvement in the fiscal balance was the strongest for Sachsen (a surplus of EUR 500 mn) and Hamburg (a surplus of EUR 200 mn), while NRW's was the only federal state whose financing balance actually deteriorated by EUR 200 mn to EUR 2.0 bn.

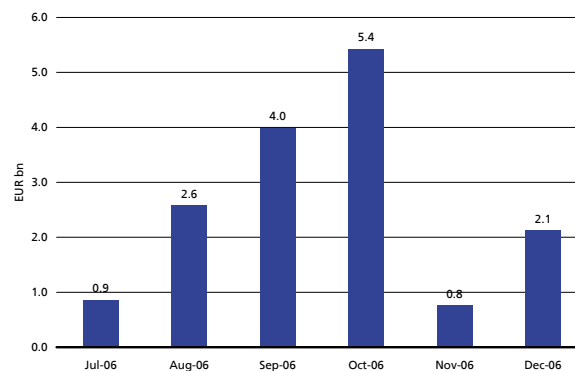
### STRONG FUNDING VIA SCHULDSCHEIN LOANS

Against the backdrop of strong tax revenues, the federal states can afford to rely less heavily on capital market funding. Already in the first half of the year, bond issuance was considerably lower than last year – both for Jumbo and non-Jumbo issuance. Furthermore, some of the federal states have been very active in issuing Schuldschein loans, which already gives them a comfortable level of funding. Some states which originally planned to come to the market with a(nother) benchmark have cancelled these plans as they are comfortably funded already.

### PROBABLY SIX MORE BENCHMARK ISSUES

In terms of expected benchmark issuance in the second half the year, Brandenburg has already mandated a EUR 1.0 bn fixed-rate bond (probably in September). Other candidates include North Rhine Westphalia with a EUR 2.0 bn benchmark and Lower Saxony with a EUR 1.5 bn floater. Possible further, but unconfirmed Jumbo issuers are Berlin and Sachsen –Anhalt (possibly with EUR 1.5 bn and EUR 1.0 bn, respectively). Due to a EUR 2 bn maturity in August, the Ländergemeinschaft is a likely candidate as well.

GERMAN FEDERAL STATE MATURITIES IN H2/2006



Source: Bloomberg

Overall, we only expect about EUR 20 bn in Jumbo issuance and around EUR 30 bn in total German federal state bond issuance (compared to our original forecast of EUR 25 bn and EUR 40-45 bn, respectively).

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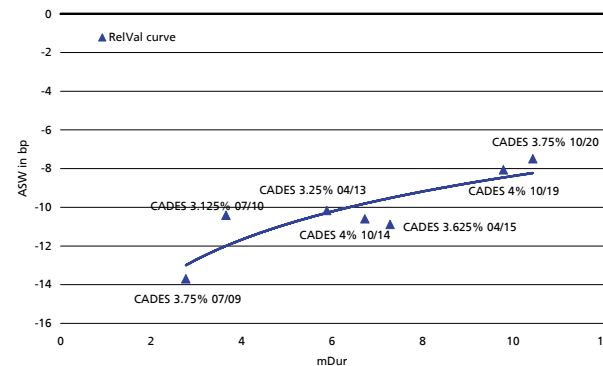
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### FITCH AFFIRMS AAA RATING OF CADES

Fitch affirmed the AAA rating of Caisse D'Amortissement de la Dette Sociale (CADES Aaas/AAAs/AAAs). According to Fitch, the changes introduced by article 73 of the Finance Bill for 2006, which has raised the possibility that the Ministry of Finance could issue debt on behalf of CADES through the Agence France Trésor (AFT), implies no change in its current status and does not mean that CADES would be closed. The rating agency sees it merely as a new funding option which has arisen for CADES. Furthermore, Fitch sees this new option as fairly remote as a decree from the Minister of Finance would be necessary, which to date has not been taken.

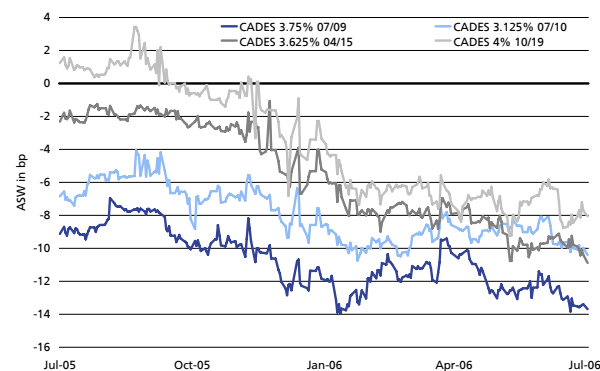
**Our view:** Fitch's comments confirm our view that there will be no significant change in the funding strategy of the French agency or the status of its outstanding bonds. This is reflected in the renewed tightening of CADES bonds.

### CADES CREDIT CURVE



Source: HVB Global Markets Research

### CADES BONDS HAVE TIGHTENED TO NEW LOWS



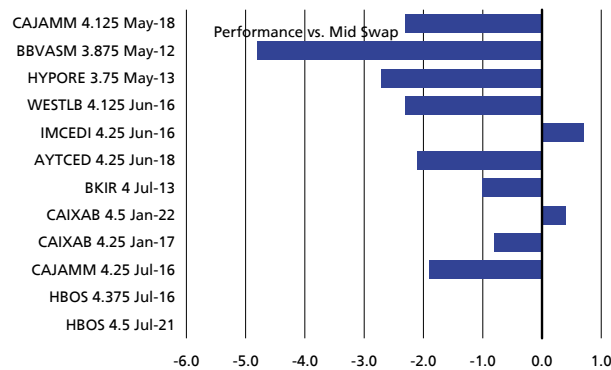
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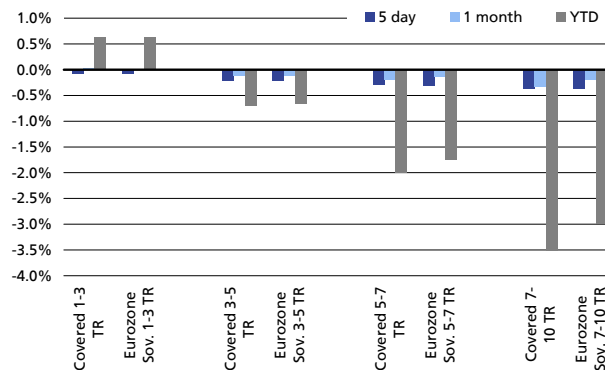
### MARKET UPDATE

#### SPREAD PERFORMANCE OF RECENTLY ISSUED BONDS



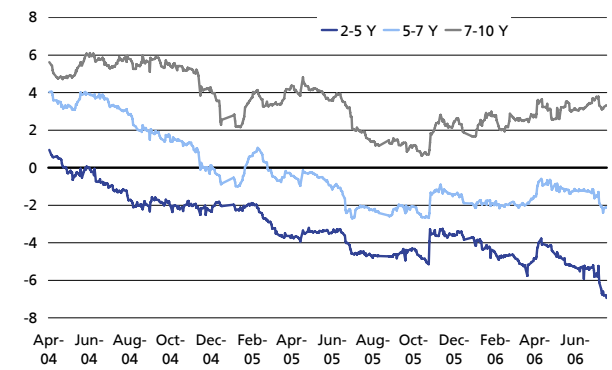
Source: Bloomberg, Reuters, HVB Global Markets Research

#### IBOXX PERFORMANCE OVERVIEW



Source: Bloomberg, Reuters, HVB Global Markets Research

#### COVERED BOND MID-SWAP SPREAD BY MATURITY



Source: Bloomberg, Reuters, HVB Global Markets Research

#### SUPPLY TABLE

| Name                             | Date   | Type | Volume in EUR mn | Maturity | Cpn   | Mid-Swap | Lead Managers   |
|----------------------------------|--------|------|------------------|----------|-------|----------|---|
| Hypothenbank in Essen            | 18 Jul | Tap  | 250              | 9/08     | 3.5   | bp       | BARC, COBA, CSFB, DB, DRKW, DZ, HSBC, HVB, IXIS, LBBW, ML, MS |
| Compagnie de Financement Foncier | 10 Jul | Tap  | 400              | 1/08     | 3.625 | bp       | SG  |

Source: Bloomberg, Reuters, HVB Global Markets Research

#### PRIMARY MARKET ACTIVITY

| Issuer | Rating      | Amount        | Mat    | Launch           | Comment                                      |
|--------|-------------|---------------|--------|------------------|--|
| SANTAN | Aa3/AA-/AA  | EUR Benchmark | t.b.d. | Week of Aug. 28  | DB, HSBC, MS, SAN                            |
| MUNHYP | Aaa         | EUR Benchmark | t.b.d. | Early Sept.      | BARCAP, BALABA, DB, DZ                       |
| SHAMPO | Exp. Aaa    | EUR Benchmark | t.b.d. | Early Sept.      | ABN, GS, HVB, SAMPO                          |
| AAB    | Aaa/AAA/AAA | EUR Benchmark | t.b.d. | Early Sept.      | ABN, IXIS, LBBW                              |
| NWIDE  | Aaa/AAA/AAA | EUR Benchmark | t.b.d. | Early Sept.      | BN, BARCAP, DB                               |
| CGD    | t.b.d.      | EUR Benchmark | t.b.d. | 2nd half of 2006 | BARCAP, CAIXA BANCO INVESTIMENTO, NOMURA, SG |

Source: Bloomberg, Reuters, HVB Global Markets Research

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### COVERED BONDS

#### TOP 10 WINNERS

| Ticker | Cpn   | Mat   | ASW   | 1w diff |
|--------|-------|-------|-------|---------|
| AHBR   | 2.25  | 09/07 | 2.8   | -0.3    |
| GPPS   | 3.375 | 01/16 | 4.0   | 3.2     |
| HESLAN | 3.25  | 02/09 | -9.1  | 3.3     |
| GPPS   | 3.75  | 01/21 | 5.3   | 3.4     |
| AYTCED | 3.75  | 06/25 | 14.6  | 3.5     |
| LRPG   | 4.75  | 04/08 | -10.9 | 3.7     |
| CAJAMM | 4     | 02/25 | 13.9  | 3.7     |
| CAIXAB | 3.875 | 02/25 | 16.0  | 3.8     |
| CFE    | 3.625 | 01/08 | -6.5  | 3.8     |
| CEDTDA | 3.875 | 05/25 | 15.2  | 3.8     |

#### TOP 10 DEAREST

| Ticker | Cpn  | Mat   | ASW  | Z-Score |
|--------|------|-------|------|---------|
| AHBR   | 2.25 | 09/07 | 2.8  | -0.7    |
| HVB    | 3    | 06/08 | -8.5 | 0.8     |
| EURHYP | 4    | 04/09 | -6.0 | 1.0     |
| LBW    | 3.5  | 06/09 | -7.1 | 1.1     |
| EURHYP | 2.5  | 06/09 | -6.7 | 1.1     |
| LBSACH | 4.5  | 10/09 | -4.7 | 1.4     |
| HESLAN | 3.25 | 02/09 | -9.1 | 1.5     |
| BYLAN  | 5.25 | 03/09 | -6.5 | 1.6     |
| HYPESS | 3.5  | 09/08 | -6.4 | 1.6     |
| BYLAN  | 3.75 | 05/11 | -7.0 | 1.7     |

### AGENCIES

#### TOP 10 WINNERS

| Ticker | Cpn   | Mat   | ASW   | 1w diff |
|--------|-------|-------|-------|---------|
| ICO    | 3     | 06/08 | -8.5  | -5.0    |
| KFW    | 3     | 02/08 | -11.9 | -0.1    |
| IBRD   | 0     | 11/16 | -2.1  | 1.0     |
| ISPA   | 5.2   | 07/34 | 22.1  | 1.6     |
| LBANK  | 4.97  | 01/08 | -1.5  | 2.1     |
| ASFING | 3.125 | 10/15 | -3.5  | 2.7     |
| IBRD   | 0     | 12/15 | -5.4  | 2.8     |
| EIB    | 4     | 10/37 | -2.9  | 2.8     |
| KFW    | 4.75  | 08/07 | -10.2 | 3.1     |
| CADES  | 3.75  | 10/20 | -3.4  | 3.1     |

#### TOP 10 DEAREST

| Ticker | Cpn   | Mat   | ASW   | Z-Score |
|--------|-------|-------|-------|---------|
| KFW    | 3.5   | 07/15 | -9.0  | 1.5     |
| LANDER | 3.75  | 09/11 | -3.7  | 1.5     |
| BAYERN | 3.75  | 01/10 | -8.3  | 1.5     |
| BNG    | 4.625 | 08/07 | -5.5  | 1.6     |
| EIB    | 3.25  | 10/08 | -24.1 | 1.7     |
| CAIDEP | 5.375 | 07/11 | 3.8   | 1.7     |
| RENTEN | 5     | 08/07 | -8.4  | 1.8     |
| CADES  | 5.25  | 10/12 | -17.2 | 1.8     |
| KFW    | 4.75  | 08/07 | -10.2 | 2.0     |
| ISPA   | 5.2   | 07/34 | 22.1  | 2.1     |

#### TOP 10 LOSERS

| Ticker | Cpn  | Mat   | ASW  | 1w diff |
|--------|------|-------|------|---------|
| BANCLC | 2.75 | 03/08 | -5.4 | 7.9     |
| AYTCED | 4.5  | 11/08 | -4.2 | 7.5     |
| LBW    | 3.25 | 05/08 | -9.4 | 7.5     |
| HYPESS | 3.5  | 09/08 | -6.4 | 7.5     |
| HVB    | 5.75 | 05/10 | 0.6  | 7.0     |
| DEPFA  | 5.25 | 07/11 | -1.4 | 6.9     |
| HYPESS | 5.25 | 01/11 | 2.1  | 6.9     |
| EURHYP | 4    | 04/09 | -6.0 | 6.9     |
| LRPG   | 3.25 | 06/10 | -5.0 | 6.8     |
| HYPESS | 2.75 | 02/09 | -3.2 | 6.8     |

#### TOP 10 CHEAPEST

| Ticker | Cpn  | Mat   | ASW  | Z-Score |
|--------|------|-------|------|---------|
| CIFEUR | 4.5  | 12/13 | 4.2  | 6.9     |
| CFE    | 4.25 | 01/14 | 3.8  | 6.9     |
| DEXMA  | 5.5  | 10/12 | 1.3  | 6.8     |
| CAIXAB | 4.5  | 11/12 | 4.7  | 6.6     |
| DEKA   | 4.25 | 01/13 | 1.1  | 6.6     |
| BANCLC | 3.75 | 04/10 | 2.7  | 6.6     |
| SANTAN | 4    | 04/20 | 10.0 | 6.6     |
| WLBANK | 3.25 | 02/09 | -1.4 | 6.6     |
| BANSAB | 3.75 | 01/11 | 6.9  | 6.5     |
| CAJAMM | 5    | 10/14 | 0.7  | 6.5     |

#### TOP 10 LOSERS

| Ticker | Cpn   | Mat   | ASW   | 1w diff |
|--------|-------|-------|-------|---------|
| WESTLB | 5     | 09/08 | 5.7   | 7.2     |
| BNG    | 5.625 | 10/10 | -4.6  | 7.0     |
| SNCF   | 4.625 | 10/09 | 1.2   | 6.8     |
| KFW    | 4     | 07/09 | -11.7 | 6.7     |
| NRW    | 5.25  | 07/11 | -1.3  | 6.6     |
| HESLAN | 5.5   | 03/12 | 8.8   | 6.6     |
| RESFER | 5.25  | 04/10 | 5.6   | 6.5     |
| WESTLB | 5.25  | 04/11 | 8.9   | 6.5     |
| IADB   | 5.5   | 03/10 | -5.2  | 6.5     |
| CNA    | 5.85  | 03/13 | 4.9   | 6.5     |

#### TOP 10 CHEAPEST

| Ticker | Cpn   | Mat   | ASW  | Z-Score |
|--------|-------|-------|------|---------|
| VALMUN | 3.25  | 07/15 | 2.1  | 6.8     |
| HESSEN | 3.5   | 01/16 | -1.3 | 6.5     |
| BERGER | 3.75  | 03/15 | 1.8  | 6.2     |
| RESFER | 5.25  | 04/10 | 5.6  | 6.1     |
| SNCF   | 4.625 | 10/09 | 1.2  | 6.1     |
| CNA    | 5.9   | 06/11 | 4.9  | 6.0     |
| SACHAN | 5.25  | 02/11 | 0.1  | 6.0     |
| SACHAN | 5.75  | 03/10 | 3.7  | 6.0     |
| RESFER | 4.625 | 03/14 | 4.6  | 5.9     |
| SACHAN | 3.5   | 04/08 | -0.6 | 5.9     |

Source: Bloomberg, Reuters, HVB Global Markets Research

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### RECOMMENDATIONS

#### MAIN SECTOR RECOMMENDATIONS

| Sector         | Rec | Mod. Dur.<br>iBoxx / HVB | iBoxx Issuer<br>Weight | Portfolio Weight |
|----------------|-----|--------------------------|------------------------|------------------|
| Sovereigns     | MW  |                          | -                      | -                |
| Collateralized | MW  | 4.6 / 4.3                | 43.30%                 | 37.50%           |
| Sub-Sovereigns | OW  | 5.0 / 5.0                | 34.00%                 | 35.00%           |

Source: Bloomberg, Reuters, HVB Global Markets Research

#### COLLATERALIZED PORTFOLIO SELECTION

| Ticker | Cpn   | Maturity  | Rating | Mod. Dur. | iBoxx weight | Portfolio weight | OW/UW |
|--------|-------|-----------|--------|-----------|--------------|------------------|-------|
| AYTCED | 4     | 4/7/2014  | AAA    | 6.9       | 2.30%        | 3.50%            | 1.20% |
| CAJAMM | 3.5   | 3/25/2011 | AAA    | 4.7       | 0.80%        | 5.50%            | 4.70% |
| DEPFA  | 3.875 | 7/15/2013 | AAA    | 6.4       | 3.60%        | 5.00%            | 1.40% |
| DEXMA  | 4.25  | 2/20/2013 | AAA    | 6         | 1.40%        | 3.00%            | 1.60% |
| DUSHYP | 3.75  | 7/4/2007  | AAA    | 1.5       | 0.30%        | 6.50%            | 6.20% |
| EURHYP | 5.75  | 7/19/2010 | AA     | 4         | 3.00%        | 7.00%            | 4.00% |
| NRBS   | 3.5   | 5/4/2009  | AAA    | 3.1       | 0.40%        | 7.00%            | 6.60% |

Source: Bloomberg, Reuters, HVB Global Markets Research

#### COVERED BOND SECTOR VIEWS

| Sector                    | Recommendation for trading accounts | Recommendation for buy-and-hold investors |
|---------------------------|-------------------------------------|---|
| Public Sector Pfandbriefe | Overweight                          | Marketweight                              |
| Mortgage Pfandbriefe      | Marketweight                        | Marketweight                              |
| Cédulas                   | Marketweight                        | Overweight                                |
| Multi-Cédulas             | Marketweight                        | Marketweight                              |
| France Covered            | Overweight                          | Underweight                               |
| UK Covered                | Marketweight                        | Overweight                                |

Source: Bloomberg, Reuters, HVB Global Markets Research

#### SSA PORTFOLIO SELECTION

| Ticker         | Cpn   | Maturity   | Rating | Mod. Dur. | iBoxx weight | Portfolio weight | OW/UW |
|----------------|-------|------------|--------|-----------|--------------|------------------|-------|
| Regions        |       |            |        |           |              |                  |       |
| BERGER         | 5     | 4/1/2011   | Aa3    | 4.8       | 0.30%        | 3.00%            | 2.70% |
| NRW            | 3.5   | 11/16/2015 | AA-    | 7.4       | 2.50%        | 3.00%            | 0.50% |
| SACHAN         | 5.75  | 3/15/2010  | AA-    | 5.8       | 1.90%        | 3.00%            | 1.10% |
| VALMUN         | 3.25  | 11/24/2010 | AA-    | 4         | 0.50%        | 3.00%            | 2.50% |
| Agencies       |       |            |        |           |              |                  |       |
| KFW            | 3.874 | 1/4/2013   | AAA    | 3         | 0.80%        | 4.00%            | 3.20% |
| LBANK          | 3.25  | 7/6/2009   | AA+    | 4.5       | 0.60%        | 2.00%            | 1.40% |
| ICO            | 2.875 | 3/16/2000  | AAA    | 4.6       | 1.10%        | 1.50%            | 0.40% |
| NEDWBK         | 4     | 3/12/2013  | AAA    | 6.3       | 1.40%        | 1.40%            | 0.00% |
| FHLMC          | 4.75  | 1/15/2013  | AAA    | 5.8       | 4.50%        | 4.50%            | 0.00% |
| Supranationals |       |            |        |           |              |                  |       |
| EIB            | 5.375 | 10/15/2012 | AAA    | 5.8       | 4.50%        | 4.50%            | 0.00% |

Source: Bloomberg, Reuters, HVB Global Markets Research

#### SSA SECTOR VIEWS

| Sector   | Sub-Sector  | Recommendation |
|----------|-------------|----------------|
| Regions  | Germany     | Marketweight   |
|          | Spain       | Overweight     |
|          | Italy       | Marketweight   |
| Agencies | Germany     | Marketweight   |
|          | Spain       | Overweight     |
|          | France      | Underweight    |
|          | Netherlands | Marketweight   |
|          | US          | Marketweight   |
| Supras   | --          | Marketweight   |

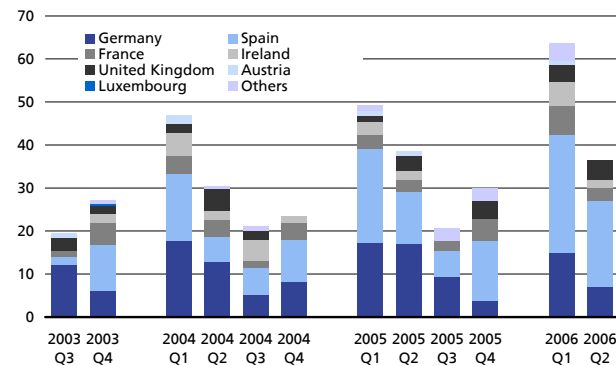
Source: Bloomberg, Reuters, HVB Global Markets Research

## Covered Bond & Agency Monitor - Private placements in Spain - lower deficits in Germany

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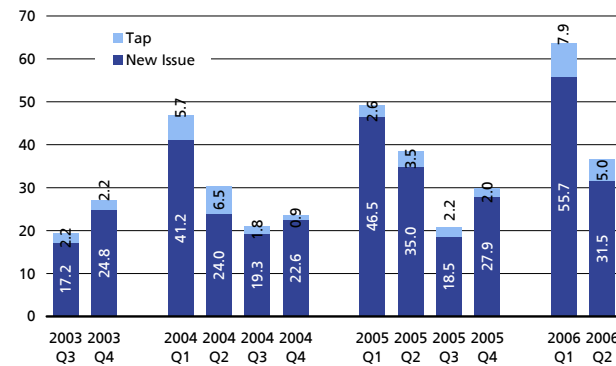
### MARKET SNAPSHOT

**TOTAL SUPPLY BY COUNTRY IN EUR BN**



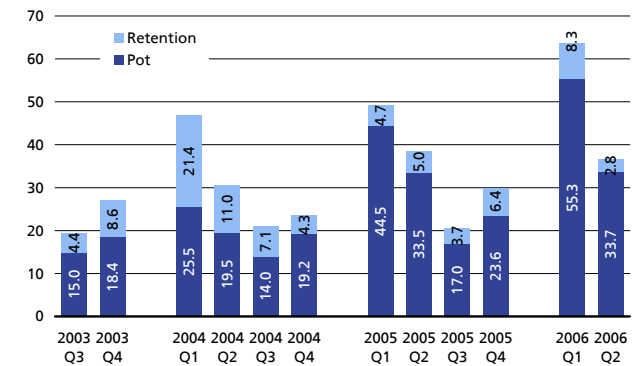
Source: Bloomberg, Reuters, HVB Global Markets Research

**TOTAL SUPPLY BY SUPPLY TYPE IN EUR BN**



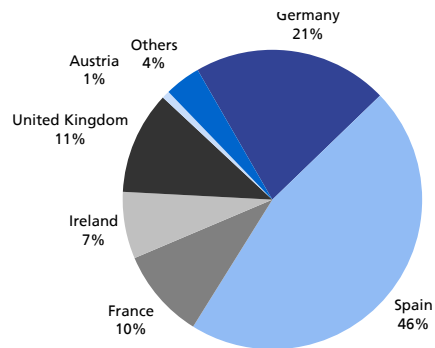
Source: Bloomberg, Reuters, HVB Global Markets Research

**TOTAL SUPPLY BY ISSUE STYLE IN EUR BN**



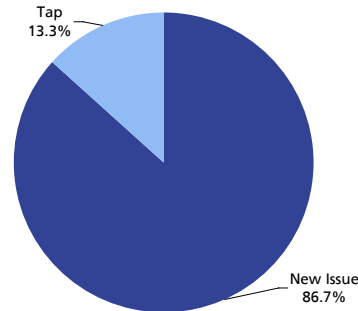
Source: Bloomberg, Reuters, HVB Global Markets Research

**SUPPLY YTD BY COUNTRY**



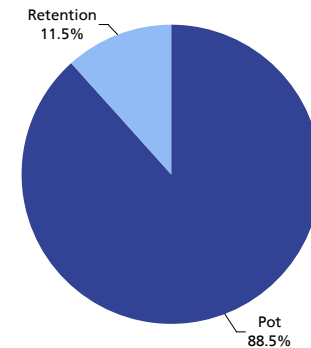
Source: Bloomberg, Reuters, HVB Global Markets Research

**SUPPLY YTD BY SUPPLY TYPE**



Source: Bloomberg, Reuters, HVB Global Markets Research

**SUPPLY YTD BY ISSUE STYLE**

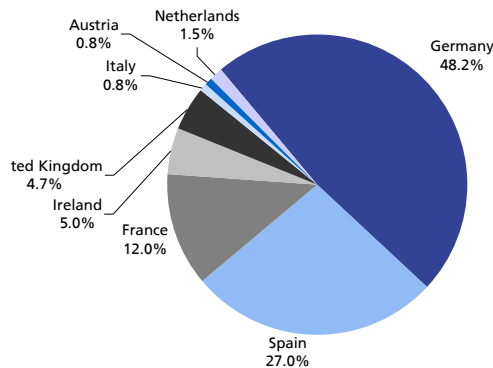


Source: Bloomberg, Reuters, HVB Global Markets Research

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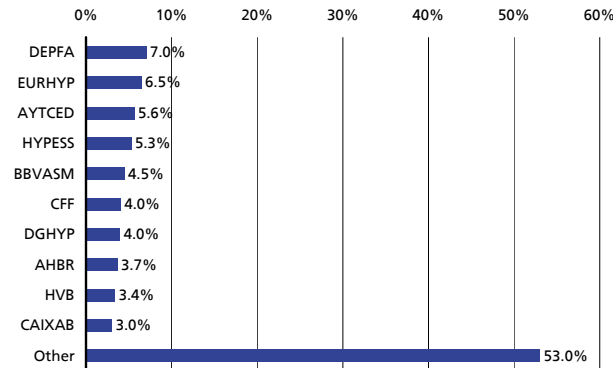
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### SECTOR SUMMARY OUTSTANDING BONDS



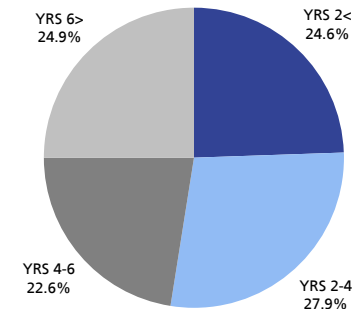
Source: Bloomberg, Reuters, HVB Global Markets Research

### MARKET SHARE OF TOP 10 ISSUERS



Source: Bloomberg, Reuters, HVB Global Markets Research

### DISTRIBUTION BY MODIFIED DURATION



Source: Bloomberg, Reuters, HVB Global Markets Research

### SECTOR SUMMARY OUTSTANDING BONDS

| Country        | Total Volume in EUR bn | No. of Bonds | Avg. Size in EUR bn | WA Mod. Dur. in Years |
|----------------|------------------------|--------------|---------------------|-----------------------|
| Germany        | 353.6                  | 217          | 1.6                 | 2.8                   |
| Spain          | 198.0                  | 104          | 1.9                 | 6.6                   |
| France         | 88.1                   | 54           | 1.6                 | 4.5                   |
| Ireland        | 37.0                   | 15           | 2.5                 | 3.9                   |
| United Kingdom | 34.8                   | 19           | 1.8                 | 6.5                   |
| Italy          | 6.0                    | 3            | 2.0                 | 4.4                   |
| Austria        | 6.0                    | 6            | 1.0                 | 4.9                   |

Source: Bloomberg, Reuters, HVB Global Markets Research

### TOP 10 ISSUER PROFILES

| Ticker  | Total Volume in EUR bn | No. of Bonds | Avg. Size in EUR bn | WA Mod. Dur. |
|---------|------------------------|--------------|---------------------|--------------|
| DEPFA   | 51.9                   | 21           | 2.5                 | 3.4          |
| EURHYP  | 47.7                   | 22           | 2.2                 | 2.8          |
| AYTCED  | 41.6                   | 19           | 2.2                 | 6.9          |
| HYPCESS | 39.0                   | 19           | 2.1                 | 2.3          |
| BBVASM  | 33.0                   | 15           | 2.2                 | 5.6          |
| CFF     | 29.8                   | 16           | 1.9                 | 4.8          |
| DGHYP   | 29.2                   | 17           | 1.7                 | 3.0          |
| AHBR    | 27.0                   | 17           | 1.6                 | 2.5          |
| HVB     | 24.9                   | 14           | 1.8                 | 3.6          |
| CAIXAB  | 22.3                   | 11           | 2.0                 | 7.5          |

Source: Bloomberg, Reuters, HVB Global Markets Research

### TOP 10 REDEMPTION MONTHS

| Month    | Volume | No. of Bonds |
|----------|--------|--------------|
| Jan-2007 | 14.6   | 8            |
| Sep-2007 | 15.2   | 8            |
| Apr-2008 | 12.9   | 6            |
| Jan-2009 | 12.9   | 6            |
| Feb-2009 | 12.0   | 8            |
| Jun-2010 | 15.7   | 7            |
| Jul-2010 | 23.8   | 10           |
| Jan-2011 | 12.9   | 7            |
| Apr-2011 | 18.4   | 9            |
| Jan-2013 | 19.7   | 9            |

Source: Bloomberg, Reuters, HVB Global Markets Research

## Covered Bond & Agency Monitor - Private placements in Spain - lower deficits in Germany

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### DISCLAIMER

This analysis was prepared by Mr. Florian Hillenbrand (Analyst), Ms. Valentina Stadler (Analyst), Mr. Bernd Volk (Analyst) and was published the first time on 07/19/2006  
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Regulatory authority: "BaFin" – Bundesanstalt für Finanzdienstleistungsaufsicht, Lurgiallee 12, 60439 Frankfurt, Germany

Important notices acc. § 4/ 4; 4 Fin AnV:

| Company | Date | Product | Rating |
|---------|------|---------|--------|
|---------|------|---------|--------|

BIW: Bank & Insurance Watch, CBM: Covered Bond Monitor, CCT: Corporate CDS Tracker, CF: Credit Flash, CSS: Credit Strategy Special, CV: Credit View, DCB: Daily Credit Briefing, ECP: Euro Credit Pilot, HGC: High Grade Compass, HYCO: Euro High Yield & Crossovers, SF: Sector Flash, SMW: Securitization Market Watch, SR: Sector Report, SU: Strategy Update

#### Other important notices:

- Key 1a: Bayerische Hypo- und Vereinsbank AG and/or a company affiliated with it pursuant to § 15 AktienG (German Stock Corporation Act) owns at least 5% of the capital stock of the company.
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**The prices used in the analysis are the closing prices of the Xetra system or the closing prices of official trading on the Frankfurt Stock Exchange or the closing prices on the relevant local stock exchanges. In the case of unlisted stocks, the average market prices based on various major broker sources (OTC market) are used.**

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### Issuer level:

**Marketweight:** We recommend to have the same portfolio exposure in the name as the respective reference index (the iBoxx index universe for high-grade names and the ML EUR HY index for sub-investment grade names)

**Overweight:** We recommend to have a higher portfolio exposure in the name as the respective reference index (the iBoxx index universe for high-grade names and the ML EUR HY index for sub-investment grade names)

**Underweight:** We recommend to have a lower portfolio exposure in the name as the respective reference index (the iBoxx index universe for high-grade names and the ML EUR HY index for sub-investment grade names)

### Instrument level:

**Core hold:** We recommend to hold the respective instrument for investors who already have exposure.

**Sell:** We recommend to sell the respective instrument for investors who already have exposure.

**Buy:** We recommend to buy the respective instrument for investors who already have exposure.

### Note on what the evaluation of equities is based:

Company valuations are based on the following valuation methods: Multiple-based models (P/E, P/cash flow, EV/sales, EV/EBIT, EV/EBITA, EV/EBITDA), peer-group comparisons, historical valuation approaches, discount models (DCF, DVMA, DDM), break-up value approaches or asset-based evaluation methods. Furthermore, recommendations are also based on the Economic profit approach. Valuation models are dependent on macroeconomic factors, such as interest rates, exchange rates, raw materials, and on assumptions about the economy. Furthermore, market sentiment affects the valuation of companies. The valuation is also based on expectations that might change rapidly and without notice, depending on developments specific to individual industries. Our recommendations and target prices derived from the models might therefore change accordingly. The investment ratings generally relate to a 6 to 9-month horizon. They are, however, also subject to market conditions and can only represent a snapshot. The ratings may in fact be achieved more quickly or slowly than expected, or need to be revised upward or downward.

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## Covered Bond & Agency Monitor - Private placements in Spain - lower deficits in Germany

July 20, 2006

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