

Covered Bond & Agency Monitor

August 31, 2006

REGULATORY REFORMS SAFEGUARD THE SUMMER LULL NEWSFLOW

Contents

Market Telegram	2
Covered Bond Law in Romania	2
U.S. Mortgage Market Episode 4: Washington Mutual in depth	3
vdp survey on the Jumbo covered bond market	5
Market Making for Jumbo covered bonds changed	6
DEXMA and CDEP mandate new paper	6
EssenHyp buys mortgage portfolio of AHBR	6
Switch ideas in covered bonds	7
Rating Actions	8
Market Update	9
Recommendations	11
Market Snapshot	12

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MARKET TELEGRAM

The only exception among the top 10 winners was the NRBS 09 richening 0.6 bp. Although we recognize the general hunger for shorter-dated covered bonds, we believe that the spread widening should come to a halt and start a reversal to a sustainable level in the near future.

COVERED BOND LAW IN ROMANIA

Since April, Romania is also part of the covered bond universe. The regulations in the Romanian Covered Bond Law however, introduce some new flavors to the existing market.

U.S. MORTGAGE MARKET EPISODE 4: WASHINGTON MUTUAL IN DEPTH

In our series of topics dealing with the emerging U.S. covered bond market, we are providing a detailed analysis of the dedicated inaugural issuer in this market.

VDP SURVEY ON THE JUMBO COVERED BOND MARKET

According to vdp's survey, the secondary market for Jumbo covered bonds had a total volume of EUR 1,085 bn in 2005, representing a turnover of 1.7 times outstanding volume (EUR 646 bn). It is divided into a b2b and a b2c segment.

MARKET MAKING REQUIREMENTS FOR JUMBO COVERED BONDS CHANGED

The Association of German Pfandbrief Banks (vdp), the Association of German Public Sector Banks (VÖB) and the market makers' association ACI, agreed on changes for the minimum requirements for Jumbo Pfandbriefe. These changes followed the recent debate about the abandonment of market making for AHBR Jumbos in October 2005, which caused irritation among investors.

DEXMA AND CDEP MANDATE FOR NEW 5Y

DEXMA and Cassa Depositi mandated for their upcoming paper. DEXMA will opt for a 7Y maturity while CDEP targets the five years.

ESSENHYP BUYS MORTGAGE PORTFOLIO OF AHBR

HypEssen (A2 s/A- s/A s) announced last week that it has bought a portfolio of private mortgage lending with a volume of EUR 440 mn from AHBR (Baa3 wn/BB+ n./BBB- n). The price was not revealed.

SWITCH IDEAS IN COVERED BONDS

We provide two promising switches in Cédulas and BKIR Irish ACS.

Covered Bond & Agency Monitor - Regulatory reforms safeguard the summer lull newsflow

August 31, 2006

MARKET TELEGRAM

New paper is lining up on the primary market and investors are clearing their books in preparation for buying the new issues! In this respect, the "softer" covered bonds (meaning those already "suffering" from larger long positions on the street) like Spanish paper reacted more than the rather illiquid German market. At the top of the list were the BBVA 11, 13 and 14 (widening 1.2 bp, 0.6 bp, 0,7 bp), the BANEST 14 (1 bp) and the CAJAMM 11 (0.8 bp) show that book clearing is on a very broad basis.

On the other hand, mainly German public Pfandbriefe tightened on a very broad basis. The shorter-dated bonds richened on average around 1 bp. The only exception among the top 10 winners was the NRBS 09 richening 0.6 bp. While the 10Y-2Y Bund spread is becoming flatter by the day, the NRBS 09 outpaces the NRBS 15. Although we recognize the general hunger for shorter-dated covered bonds, we believe that the spread widening should come to a halt and start a reversal to a sustainable level in the near future.

NRBS 09 WINS – NRBS 15 LOSES



Source: HVB Global Markets Research

COVERED BOND LAW IN ROMANIA

Since April, Romania is also part of the covered bond universe. The regulations in the Romanian Covered Bond Law however, introduce some new flavors to the existing market. The following summarizes an article of Otmar Stöcker, general manager at the Association of German Pfandbriefbanks (vdp) in the current edition of "Immobilien und Finanzierung".

ELEMENTS ONE WOULD EXPECT...

In many respects, the Romanian Covered Bond Law shows elements already known from preceding legislation. Coverage has to be provided in both nominal and net present value terms while there is no definition of mandatory overcollateralization. In terms of interest rate risk, the weighted average maturity of the cover assets must always be longer than the weighted average maturity of the bonds (obligatiumi ipotecare). The geographical scope of cover assets is limited to the European Economic Area. LTV limits are defined as, for example, in Spain, with 70% for commercial mortgage loans and 80% for residential mortgages. However, it is still unclear whether this is a soft or a hard limit. Comparable to the Finnish framework, the general opinion in Romania is in favor of an absolute limit. In order to be eligible for coverage, there has to be insurance in place covering all risk associated with type and location of the asset. Substitute coverage can be introduced up to 20% of the total collateral (p.n. that this goes beyond the famous 15% required by CRD). Which

assets are eligible for substitute collateral still has to be defined. The register of collateral has to be presented on a monthly schedule to the trustee. However, there is no requirement stipulated on how and when the issuer is to make this information publicly available. The Romanian central bank is the authority in charge of supervision. In case of bankruptcy, the collateral is segregated and is solely for the purpose of meeting the requirements of the covered bond holders.

... AND ELEMENTS THAT ADD A NEW FLAVOR

Apart from the fact that only loans on mortgages situated within the defined geographical area are eligible for coverage (there will be no public covered bonds), the most striking specialty is that there is no unique cover pool for all obligatiumi ipotecare together. Each single issuance is covered by a special pool of cover assets, adding a decent amount of MBS flavor. We are not too happy about this, since the mass of outstanding obligatiumi will be rather inhomogeneous, depending on the specific characteristics of each "micro pool". This will (i) potentially demand more effort from investors and (ii) potentially lead to situation where obligatiumi "A" issued by a specific bank still perform while obligatiumi "B" of the same bank are defaulted. Another novelty is the way collateral is treated accounting-wise.

This regulation, however, does not contradict the law conforming with UCITS 22(4). Hence, it meets the minimum requirements for European covered bonds and qualifies for the 10% risk weighting.

Covered Bond & Agency Monitor - Regulatory reforms safeguard the summer lull newsflow

August 31, 2006

U.S. MORTGAGE MARKET EPISODE 4: WASHINGTON MUTUAL IN DEPTH

Company profile: Washington Mutual Bank (WMB; A2s/Ap/As) is a federally chartered savings association with a focus on private customers and small businesses. In 2005, WMB had net interest income of USD 7,789 mn, net income of USD 3,530 mn, total assets of USD 330 bn and employed around 58,000 people. Washington Mutual Bank is an indirect, wholly-owned subsidiary of Washington Mutual, Inc. (WAMU; A3s/A-p/As), which is a Washington State savings and loan holding company owning two federal savings associations as well as numerous non-bank subsidiaries. Washington Mutual is a listed company with a market capital of USD 40 bn and a leading US player ranking #3 in home lending origination and servicing, #4 in home equity loans, and #1 in multi-family portfolio lending. In the past nine years, the bank's assets have grown primarily through a series of acquisitions. It is a leading savings institution with residential mortgage lending and mortgage banking as cornerstones. It accepts deposits from the general public, originates, purchases, services and sells home loans, makes credit card, other consumer, home equity and commercial real estate loans, and, to a lesser extent, engages in certain commercial banking activities such as providing credit facilities and cash management and deposit services. The bank is also active in purchasing, selling and servicing loans to sub prime borrowers through its specialty mortgage finance operations.

Its principal residential lending activities consist of originating and servicing home loans, buying and selling home loans in the secondary market, managing the home loan portfolio and originating home equity loans and lines of credit. The bank's products are offered to customers through multiple distribution channels including 2,140 retail banking stores, 352 retail home loan stores, 37 wholesale home loan centers, correspondent lenders, telephone call centers and online banking. The bank's home loan products include fixed-rate home loans (FRMs); adjustable-rate home loans (ARMs); hybrid home loans (where the interest rate is fixed for a predetermined time period and then converts to an ARM that reprices monthly or annually); Government insured or guaranteed home loans.

Sources of funds: the bank offers various consumer and business deposit products, including checking accounts, savings accounts, money market deposit accounts and time deposit accounts. Its borrowings predominantly take the form of repurchase agreements and advances from the Federal Home Loan Banks (FHLBs) of San Francisco and Seattle. In addition, WMB has a Global Bank Note Program in place for the issuance of senior and subordinated notes in the US and internationally with an available volume of USD 22 bn as of December 31, 2005.

Financial analysis: In FY 2005, net interest income increased 10% to USD 7.79 bn in 2005 due to an increase of its loan portfolio and loans held

for sale (plus 14%). In H1 2006, net interest income was 1.6% higher y-o-y at USD 5.3 bn. The net interest margin in 2005 was 2.73%, a decline of 12 basis points from 2004 due to an increase in the cost of the Bank's interest-bearing liabilities. Non-interest income in 2005 was USD 5.22 bn, an increase of USD 1.0 bn vs. 2004, primarily due to consumer loan sales and servicing income of USD 408 mn and credit card fee income of USD 139 mn, substantially all of which resulted from new card services operations, and improved revenues from the home loan banking operations. Revenue from sales and servicing of home mortgage loans was USD 1.77 bn in 2005, an increase from USD 1.40 bn in 2004, mainly driven by higher levels of gains from the sale of mortgage loans and originated mortgage backed securities.

Depositor and other retail banking fees were 10% higher y-o-y at USD 2.19 bn in 2005, as WMB continued to grow its retail banking business by opening 210 new branches. Total non-interest income was 25% higher y-o-y at USD 5.2 bn, while non-interest expenses increased just 2% to USD 7.7 bn. Net income for 2005 was USD 3.53 bn, an increase of 34% from USD 2.63 bn in 2004. In H1 2006, net income increased 6% to USD 1.9 bn.

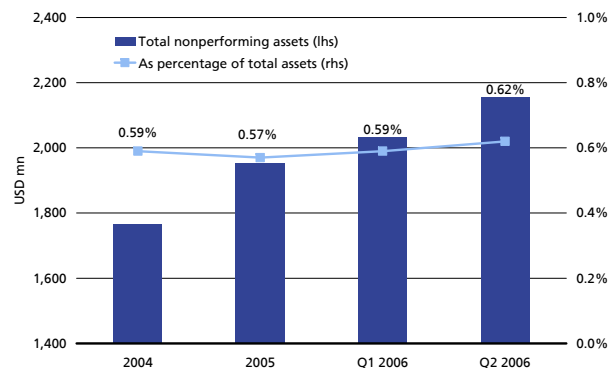
Provisions for loan and lease losses were USD 212 mn (vs. USD 205 mn in 2004), mainly attributable to card services operations (USD 195 mn). WMB benefited from a relatively benign credit risk environment for its real estate secured lending activities, reflecting the positive effects of a low mort-

Covered Bond & Agency Monitor - Regulatory reforms safeguard the summer lull newsflow

August 31, 2006

gage interest rate environment, stable or appreciating housing prices in most of its markets, and a relatively low national unemployment rate. WMB's loan mix is dominated by residential mortgages (82%), followed by commercial real estate (13%). Asset quality remained good with nonperforming loans as a percentage of total assets improving from 0.59% in 2004 to 0.57% in 2005 and increasing slightly in the first six months of 2006 to 0.62%. Please note that this ratio comprises both consumer credits and mortgage lending.

WASHINGTON MUTUAL BANK'S NONPERFORMING LOANS

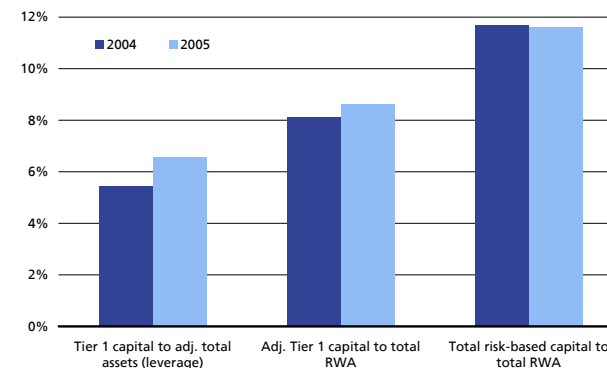


Source: Company Data, HVB Global Markets Research

WMB is well capitalized. Shareholders' equity at the end of 2005 was USD 30.0 bn (vs. USD 23.3 bn in 2004), the Tier 1 capital was USD 21.1 bn, translating into a leverage ratio of 6.56% (Tier 1 capital to adjusted total assets), the adjusted Tier 1

capital was USD 16.7 bn (adj. Tier 1 capital to total risk-weighted assets 8.61%), and the total risk based capital was USD 26.5 bn, equal to a total capital ratio of 11.62%.

CAPITAL RATIOS OF WASHINGTON MUTUAL BANK



Source: Company Data, HVB Global Markets Research

Rating Agencies view: The holding company Washington Mutual Inc. (WAMU) is rated A3s/A-p/As and Washington Mutual Bank (WMB) is rated A2s/As/As. The ratings for Washington Mutual reflect its significant presence in real-estate secured lending, along with its substantial consumer franchise and increasingly meaningful core deposit base. On February 16, 2005, S&P revised its outlook on Washington Mutual Inc. (WAMU) and its subsidiary Washington Mutual Bank (WMB) to positive from stable. The outlook revision reflected the significant improvement in risk management practices within WAMU's mortgage bank operations, in particular the risks of managing a large servicing portfolio. A bolstering of the executive

ranks in the Treasury area and in the mortgage banking area lifted the performance, strategic focus, and liquidity and risk management of WAMU. Its unique branching strategy has led to steady growth in deposits and households. It is now the nation's sixth largest depository, with a national market share of 3.2%; WAMU's core deposit growth over the past three years is among the highest in the banking sector. This coupled with its national ranking of third in mortgage originations and mortgage servicing represents a formidable retail banking franchise that is poised to continue on its path of growth. Asset quality and liquidity measures remain strong at both the holding company and bank. WAMU's capital measures have also improved, and a shift toward managing to a higher tangible capital level post Provident is expected.

Covered Bond & Agency Monitor - Regulatory reforms safeguard the summer lull newsflow

August 31, 2006

VDP SURVEY ON THE JUMBO COVERED BOND MARKET

There are various statistics about the primary market of European covered bonds, but so far there has been no data on the secondary market. Information about the secondary market was limited to spread developments. Now the German Association of German Pfandbrief Banks (vdp) has issued a survey on the 2005 secondary market business of investment banks active in the Jumbo covered bond market. According to vdp's survey, the secondary market for Jumbo covered bonds had a total volume of EUR 1085 bn in 2005, representing a turnover of 1.7 times outstanding volume (EUR 646 bn). It is divided into a b2b and a b2c segment.

B2B TRADING OF EUR 450 BN IN 2005

The b2b's market volume in 2005 was about EUR 450 bn of nominal value. Individual banks contributed volumes from EUR 6 to 80 bn with an average of EUR 28 bn. The best seller was the Pfandbrief with a market share of 62%, which was higher than its share of outstanding volume (58%), followed by Spanish Cédulas with a market share of about 20% (share of outstanding volume 23%). Other products traded included Obligations Foncières (6% market share), Irish covered bonds and UK structured covered bonds (5% each). Other covered bonds only played a minor role in the secondary market.

B2B DOMINATED BY TELEPHONE BANKING

The B2B segment is dominated by telephone transactions, with a share of 60%. 40% of trades were conducted through electronic trading platforms. The share of electronic transactions differed among individual banks ranging from 3% to 89% of total transactions. It seems that there is a significant correlation between the volume of secondary transactions and the use of electronic platforms, as banks with low trading volumes preferred an electronic exchange.

B2C TRADING OF EUR 635 BN

The B2C market for Jumbo covered bonds in 2005 had a total volume of EUR 635 bn. The turnover for individual investment banks even had a greater range than for the b2b market. Trading volumes ranged from EUR 1 to 90 bn, with an average of about EUR 20 bn. The relative importance of customer trades compared to the interbank exchange varied among individual banks, ranging from a minimum of 14% of total secondary market transactions to a maximum of 1.28 times Interbank transactions.

B2C MARKET FOCUSED ON THE FIRST QUARTER

The b2c market is focused on the first quarter of the year, with one third of the yearly trading volume being realized in the first three months. Personal contact in the b2c segment had a higher importance than in the b2b segment, as 70% of trades were executed by telephone. No individual investment bank used electronic platforms for more than 50% of executed trades. Some banks

even had non-electronic transactions in the b2c segment. Electronic platforms are mainly used by investment banks with high secondary market turnaround, which is different from the b2b segment.

MARKET DEMAND MORE TAPS – NO WONDER

Market makers were asked about their satisfaction with secondary market liquidity. Roughly one third were satisfied, another third were only partly satisfied and the rest see room for improvement. Market makers demand more frequent tabs for small and illiquid covered bonds, a more transparent tab and issuance policy of the issuers and a stricter auditing of the listing requirements.

REGULAR SURVEYS BY THE VDP MAY FOLLOW

The survey showed that the secondary market for Jumbo covered bonds has a considerable size. Therefore, covered bonds are not buy-and-hold products, but are traded regularly among banks and investors. Nevertheless, there have to be further surveys on the secondary market for Jumbo covered bonds to establish timelines in order to understand the development of the market.

Covered Bond & Agency Monitor - Regulatory reforms safeguard the summer lull newsflow

August 31, 2006

MARKET MAKING FOR JUMBO COVERED BONDS CHANGED

The Association of German Pfandbrief banks (vdp), the Association of German Public Sector Banks (VÖB) and the market makers' association ACI agreed on changes for the minimum requirements for Jumbo Pfandbriefe. These changes followed the recent debate about the abandonment of market making for AHBR Jumbos in October 2005, which caused irritation among investors. The revised standards' main goal is to continue market making in case of similar events in the future.

ESTABLISHMENT OF MARKET MAKER AND ISSUER COMMITTEE

A "Market Maker and Issuer Committee" has been established. We appreciate such a committee.

There are several binding changes of the minimum requirements for Jumbo Pfandbriefe:

- A minimum number of market makers will be increased from 3-5 (adjusting to market standards)
- Common trading hours are at least from 9:00 to 17:00 CET;
- The bid/ask spread for maturities between 20 and 25 years should be 25 cents. There is no constraint for longer maturities;
- If the abandonment of market making is inevitable, this has to be announced to the market in an appropriate way.

On top of this, there are two recommendations.

- The Market Maker and Issuer Committee shall meet regularly in the future, especially if there are signs of a crisis, to discuss appropriate measures to guarantee the continuation of market making or at least to resume market making as quickly as possible.
- The revised standards also suggest that market makers should have separate limits for Pfandbriefe of individual issuers, although it is not certain whether banks will adopt this recommendation, as it might affect the bank's risk management.

In our view, these changes are a good step to ensure investor trust in the liquidity of Jumbo Pfandbriefe, even in stormy seas.

DEXMA AND CDEP MANDATE NEW PAPER

On Wednesday, Italy's Cassa Depositi e Prestiti (CDEP Aa2 wp/AA-n/AA-wp) mandated for its upcoming 5Y covered bond. It will be the fourth of its kind. We expect CDEP to target EUR 2 bn in order to meet its communicated covered funding target of EUR 4 bn p.a. IXIS, Calyon, Nomura and Caboto – the capital markets subsidiary of Banca Intesa – will act as joint leads. DEXMA also mandated for a new 7Y paper. Barclay's, Calyon and Société Générale will act as joint leads there.

ESSENHYP BUYS MORTGAGE PORTFOLIO OF AHBR

HypEssen (A2 s/A- s/A s) announced last week that it has bought a portfolio of private mortgage lending with a volume of EUR 440 mn from AHBR (Baa3 wn/BB+ n./BBB- n). The price was not revealed. The portfolio consists of about 4,100 contracts, all performing, mainly consisting of apartments, single family and semi-detached houses, mostly in Nordrhein-Westfalen. 95% of the portfolio consists of first-class mortgages, representing a good portfolio quality.

PORTFOLIO WILL BE TRANSFERRED INTO THE COVER POOL OF HYPESSEN

The portfolio will be serviced by the National Bank which already conveyed the portfolio to AHBR. The portfolio will also be transferred into the cover pool of HypEssen, to be refinanced through the issuance of Pfandbriefe. Further purchases of parts of AHBR's portfolio seem to be possible. HypEssen is currently active in public sector lending and is the second largest issuer of Jumbo covered bonds in terms of volume outstanding with issues amounting to EUR 38.2 bn. Its mortgage portfolio represents less than 10% of its mortgage loan portfolio with a volume of EUR 7.3 bn.

In our view, AHBR is on track to get its new business model up and running. Nevertheless, at this stage, it's way too early to expect rating improvements. For HypEssen, the transaction will improve diversification and supposedly bring a nice margin.

Covered Bond & Agency Monitor - Regulatory reforms safeguard the summer lull newsflow

August 31, 2006

SWITCH IDEAS IN COVERED BONDS

We recommend two switches in the covered bond market. In the absence of heavy primary market activity as seen in H1, the time is ripe for a few switch ideas.

WE RECOMMEND ...

Buy SANTAN 3.5 14 at swaps +5.7 bp (yd 4.01%)

Sell BPESP 3 12 at swaps +1.9 bp (yd 3.92%)

We consider both bonds as almost equally rated. SANTAN will undoubtedly be upgraded by Moody's in the short term while already carrying an AAA rating by Fitch. BPESP is Aaa/AAA/AAA rated. In this respect, we do not view the spread pick-up of almost 4 bp as justified (in yield terms 9 bp). Given the duration difference in yield terms, 1 bp would be acceptable.

... AND

Buy 100% BKIR 4 13 at swaps -1 bp (yd. 3.94%)

Sell 33% BKIR 3.5 09 at swaps -7.5 bp (yd. 3.7%)

Sell 67% BKIR 3.25 15 at swaps -0.0 bp (yd. 4%)

In both swap and yield terms, this duration-neutral butterfly trade offers a pick-up of slightly more than two basis points. Nevertheless, both trades also make sense as a pure switch. Selling the shorter in favor of the BKIR 13, the investor is compensated for the longer duration by a nice pick-up; encountering the yield give-up in switching from the longer BKIR into the BKIR 13, the investor is rewarded in relative terms: he earns the same reward with a much shorter duration.

Covered Bond & Agency Monitor - Regulatory reforms safeguard the summer lull newsflow

August 31, 2006

RATING ACTIONS

RATING ACTIONS

Date	Issuer	Agency	Action	From	To
8/29	CAIXAB	Moody's	New Rating		Aaa

Source: Bloomberg, Reuters, HVB Global Markets Research

RATING FOR UPCOMING CÉDULAS TERRITORIALES OF CAIXAB

Moody's has assigned a provisional rating of Aaa to the proposed issuance of Spanish public-sector covered bonds (Cedulas Territoriales or "CTs") by Caja de Ahorros y Pensiones de Barcelona (La Caixa, rated Aa2/P-1/B+). At the end of 2005, La Caixa was Spain's largest savings bank, its third-largest banking group and the biggest financial institution in Catalonia and the Balearics. The ratings have been granted following a review of both the Spanish legal framework and the collateral backing the cover pool. The agency noted that information in the form of its recently published covered bond data template was provided.

Moody's Aaa rating is based on the following key characteristics of La Caixa's issuance of covered bonds: (i) the current rating of the Sponsor Bank (senior unsecured rating of Aa2), (ii) Moody's view of the high credit quality of the cover pool which is mainly comprised of public-sector loans in Spain, (iii) the current assets and projected liabilities composition and (iv) the sizeable 43% nominal overcollateralization required by the Spanish Financial Law.

Although Moody's considers the covered bonds to be linked to the rating of the Sponsor Bank, there may be a certain cushion for the issuer downgrade without affecting the Aaa assigned to the covered bonds.

The provisional rating addresses the expected loss posed to investors by the cover bond at the legal final maturity. Other non-credit risks have not been addressed, but may have a significant effect on the yield to investors. Moody's issues provisional ratings in advance of the final sale of securities, and these ratings only represent Moody's preliminary opinion. Upon a conclusive review of the transaction and associated documentation, Moody's will endeavor to assign a definitive rating to the bonds.

The rating follows the announcement of La Caixa that it intends to take a step into the Jumbo Cédulas Territoriales market in the near future. La Caixa will be the third player in the Jumbo Territoriales market after the pure Territoriales player Banco de Credito Local and Banco Santander, which only has one Territoriales outstanding. The Aaa rating however, was a formality since CAIXAB's Hipotecarias are already rated Aaa.

AA3 STABLE FOR MUNHYB

Moody's confirmed Münchener Hypothekbank's (Munhyp Aa3 s/-/-) Aa3 rating and has downgraded the financial strength rating (FSR) to C+ from B-. The outlook has been changed to stable from negative.

Munhyp with low risk business profile

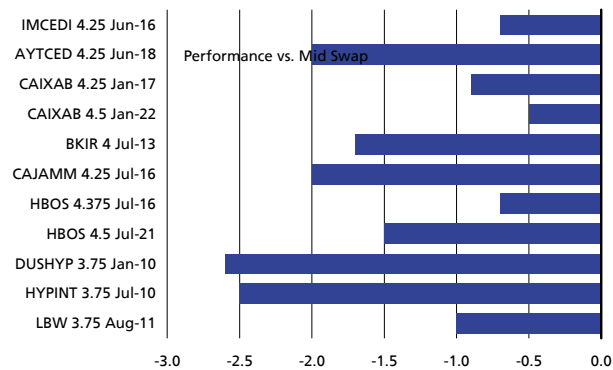
According to Moody's, the change in the FSR reflects the bank's limited business profile, but does not reflect an increased default risk. The change in outlook is due to Moody's assumption that Munhyp will continue with its low risk business profile and will further strengthen its efficiency and operating profitability.

Covered Bond & Agency Monitor - Regulatory reforms safeguard the summer lull newsflow

August 31, 2006

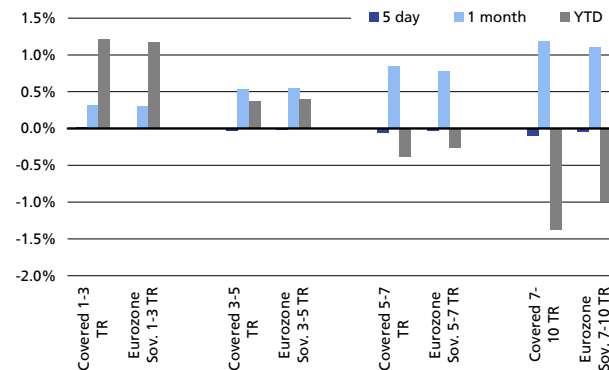
MARKET UPDATE

SPREAD PERFORMANCE OF RECENTLY ISSUED BONDS



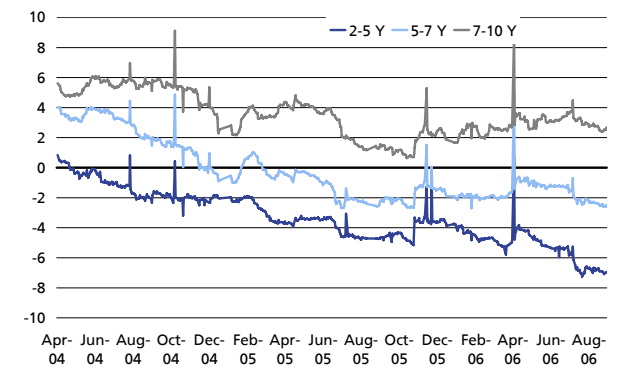
Source: Bloomberg, Reuters, HVB Global Markets Research

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
Dexia Municipal Agency	21 Aug	Tap	150	7/08	3.25	bp	CAY
Eurohypo AG	17 Aug	Tap	250	1/09	4	bp	ABN, COBA, ACAFPF, DRKW, HVB, LBSACH, NDB, DZ

Source: Bloomberg, Reuters, HVB Global Markets Research

PRIMARY MARKET ACTIVITY

Issuer	Rating	Amount	Mat	Launch	Comment
SANTAN	Aa3/AA-/AA	Benchmark	t.b.d.	This week	DB, HSBC, MS, SAN
CAIXAB	Aaa	Benchmark	5Y	Near future	ABN, CALYON, COBA, CAIXA, UBS
DEXMA	Aaa/AAA/AAA	Benchmark	7Y	Near Future	BARC, CALYON; SG
AAB	Aaa/AAA/AAA	EUR 1.0 bn +	Med.	Week 36	ABN, IXIS, LBBW
PASTOR	Aaa	Benchmark	t.b.d.	Week 37	BP, BARCAP, DKIB, IXIS
MUNHYP	Aaa	Benchmark	t.b.d.	Week 37	BARCAP, BAYLB, DB, DZ
SHAMPO	Exp. Aaa	Benchmark	t.b.d.	Early September	ABN, GS, HVB, SAMPO
WM	Aaa/AAA/AAA	Benchmark	t.b.d.	September	ABN, BARCAP, DB
NWIDE	Aaa/AAA/AAA	Benchmark	t.b.d.	November	BN, BARCAP, DB
CGD	t.b.d.	Benchmark	t.b.d.	2nd half of 2006	BARCAP, CAIXA BANCO INVESTIMENTO, NOMURA, SG

Source: Bloomberg, Reuters, HVB Global Markets Research

Covered Bond & Agency Monitor - Regulatory reforms safeguard the summer lull newsflow

August 31, 2006

COVERED BONDS

TOP 10 WINNERS

Ticker	Cpn	Mat	ASW	1w diff
WESTLB	3.5	10/08	-9.4	-1.5
DGHYP	3.5	09/08	-12.4	-1.4
BYLAN	5.75	06/10	-7.8	-1.0
HYPCESS	3.5	09/08	-12.6	-1.0
HVB	3	06/08	-12.4	-0.9
HYPCESS	2.75	02/09	-11.0	-0.9
EURHYP	3.75	11/08	-11.3	-0.7
DEPFA	5.25	07/11	-8.9	-0.7
NRBS	3.5	05/09	-8.0	-0.6
BYLAN	3.25	06/15	-9.7	-0.6

TOP 10 DEAREST

Ticker	Cpn	Mat	ASW	Z-Score
CIFEUR	4.75	10/08	-13.2	-2.6
NRBS	3.5	05/09	-8.0	-2.4
HBOS	3.75	07/10	-6.4	-2.3
BYLAN	3.25	06/15	-9.7	-2.3
HYPCESS	2.75	02/09	-11.0	-2.1
DEPFA	3.75	01/09	-23.3	-2.1
DEPFA	4.75	07/08	-18.0	-2.0
DGHYP	4.25	01/14	-5.9	-1.9
DEPFA	5.5	02/08	-11.6	-1.9
CFE	6.125	02/15	-10.6	-1.9

AGENCIES

TOP 10 WINNERS

Ticker	Cpn	Mat	ASW	1w diff
EIB	4	04/09	-20.2	-2.4
FHLMC	3.75	07/09	-10.5	-2.3
KFW	3.5	07/09	-14.6	-1.8
CADES	3.75	07/09	-16.0	-1.6
RENTEN	4.125	04/09	-16.8	-1.6
FHLMC	4.375	01/14	-3.7	-1.4
DPB	4.75	01/09	-12.4	-1.3
BNG	4.25	01/09	-20.9	-1.2
FHLMC	4.75	01/13	-4.7	-1.2
EIB	3.25	10/08	-35.5	-1.1

TOP 10 DEAREST

Ticker	Cpn	Mat	ASW	Z-Score
EIB	4	04/09	-20.2	-5.2
FHLMC	3.75	07/09	-10.5	-3.4
BNG	3	04/10	-10.4	-3.3
FHLMC	4.375	01/14	-3.7	-3.2
CADES	3.75	07/09	-16.0	-3.1
RENTEN	4.125	04/09	-16.8	-3.0
HESSSEN	4	07/09	-9.8	-2.8
BYLAN	4	05/11	-3.3	-2.7
UKRAIL	3.125	03/09	-12.9	-2.6
RENTEN	3	07/10	-9.8	-2.5

TOP 10 LOSERS

Ticker	Cpn	Mat	ASW	1w diff
AHBR	2.25	09/07	-1.2	4.1
DEXMA	3.25	07/08	-14.3	1.4
BBVASM	3.5	03/11	-0.1	1.2
AHBR	5	09/09	-0.2	1.1
BANEST	4.25	09/14	6.0	1.0
EURHYP	5.25	02/08	-14.5	0.8
CAJAMM	3.5	03/11	-1.2	0.8
BBVASM	4.25	07/14	5.6	0.7
DGHYP	4	04/11	-8.7	0.6
BBVASM	4.25	01/13	2.4	0.6

TOP 10 CHEAPEST

Ticker	Cpn	Mat	ASW	Z-Score
HVB	5.5	12/07	-7.6	2.0
SANTAN	2.5	01/11	1.0	1.9
BHH	5.5	11/07	-5.7	1.9
WHB	2.75	11/07	-11.0	1.5
BANEST	4.25	09/14	6.0	1.4
BBVASM	3.5	02/15	6.2	1.3
LBNRW	4.75	09/07	-12.0	1.2
BANSAB	3.75	01/11	1.1	1.1
DEXMA	5.25	02/17	-3.7	1.1
EURHYP	5.25	09/07	-9.4	1.0

TOP 10 LOSERS

Ticker	Cpn	Mat	ASW	1w diff
NRW	5.5	01/08	-10.5	0.7
EIB	2.75	06/08	-12.5	0.6
BERGER	3.75	06/13	-5.6	0.5
KFW	2.5	11/08	-15.9	0.3
LANDER	3.375	02/12	-6.6	0.3
KFW	5	07/08	-12.6	0.3
CAIDEP	2.75	06/08	-7.0	0.2
LBANK	4.97	01/08	-6.4	0.2
ICO	3	06/08	-6.6	0.2
CNA	4.375	05/14	-3.0	0.2

TOP 10 CHEAPEST

Ticker	Cpn	Mat	ASW	Z-Score
EIB	3	03/08	-14.7	1.8
KFW	5.5	01/18	-7.0	1.4
NRW	4	02/08	-10.0	1.3
LBW	5.375	04/08	-1.7	1.3
LBW	6.5	09/08	4.3	1.3
NRWBK	2.5	11/07	-10.9	1.3
BNG	5.625	10/10	-9.6	1.3
EIB	2.75	06/08	-12.5	1.2
ISPA	5.2	07/34	19.4	1.2
VALMUN	3.25	07/15	-2.2	1.1

Source: Bloomberg, Reuters, HVB Global Markets Research

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August 31, 2006

RECOMMENDATIONS

MAIN SECTOR RECOMMENDATIONS

Sector	Rec	Mod. Dur. iBoxx / HVB	iBoxx Issuer 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

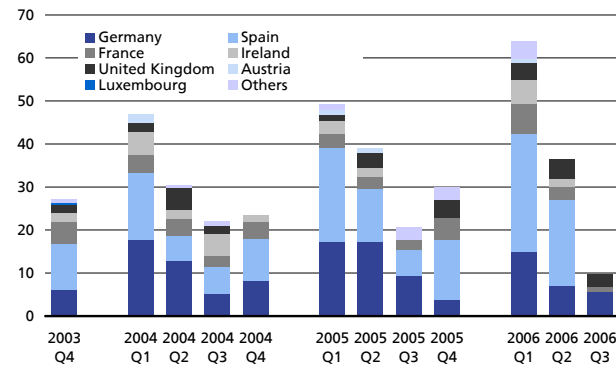
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August 31, 2006

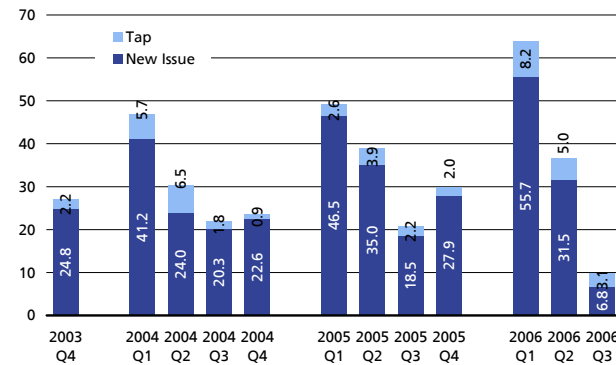
MARKET SNAPSHOT

TOTAL SUPPLY BY COUNTRY IN EUR BN



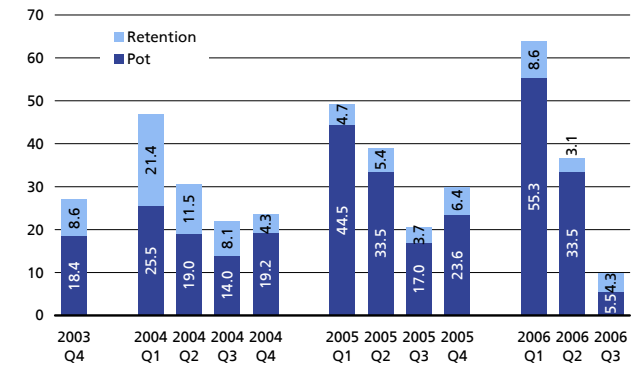
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TOTAL SUPPLY BY SUPPLY TYPE IN EUR BN



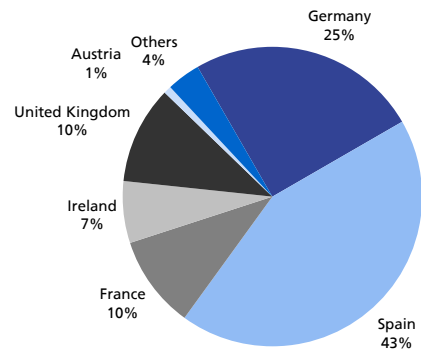
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TOTAL SUPPLY BY ISSUE STYLE IN EUR BN



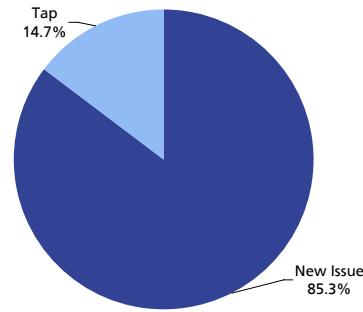
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SUPPLY YTD BY COUNTRY



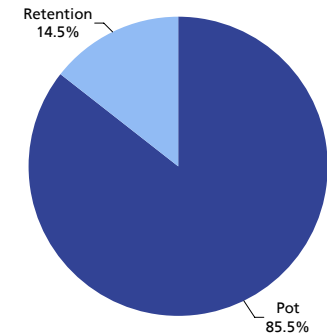
Source: Bloomberg, Reuters, HVB Global Markets Research

SUPPLY YTD BY SUPPLY TYPE



Source: Bloomberg, Reuters, HVB Global Markets Research

SUPPLY YTD BY ISSUE STYLE

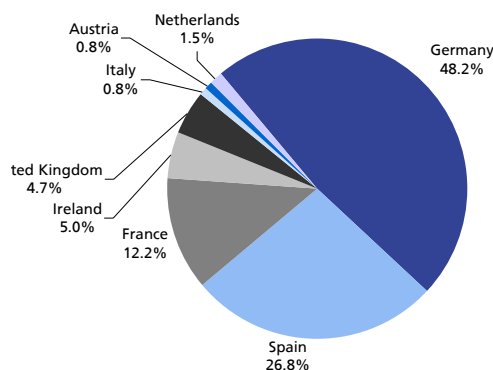


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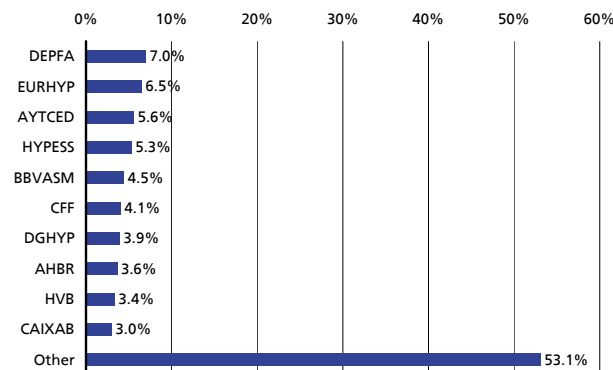
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PERCENTAGE OF OUTSTANDING BONDS BY COUNTRY



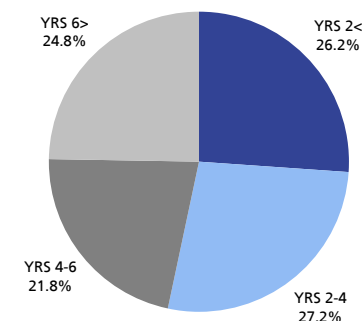
Source: Bloomberg, Reuters, HVB Global Markets Research

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	355.8	218	1.6	2.7
Spain	198.0	104	1.9	6.6
France	90.0	55	1.6	4.4
Ireland	37.0	15	2.5	3.8
United Kingdom	34.8	19	1.8	6.4
Italy	6.0	3	2.0	4.3
Austria	6.0	6	1.0	4.8

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	3.3
EURHYP	48.2	22	2.2	2.7
AYTCED	41.6	19	2.2	6.8
HYPCESS	39.5	19	2.1	2.2
BBVASM	33.0	15	2.2	5.5
CFF	30.1	16	1.9	4.7
DGHYP	29.2	17	1.7	2.9
AHBR	27.0	17	1.6	2.4
HVB	24.9	14	1.8	3.5
CAIXAB	22.3	11	2.0	7.4

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	13.4	6
Feb-2009	12.0	8
Jun-2010	15.7	7
Jul-2010	25.1	11
Jan-2011	12.9	7
Apr-2011	18.8	9
Jan-2013	19.7	9

Source: Bloomberg, Reuters, HVB Global Markets Research

Covered Bond & Agency Monitor - Regulatory reforms safeguard the summer lull newsflow

August 31, 2006

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Company	Date	Product	Rating
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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

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Covered Bond & Agency Monitor - Regulatory reforms safeguard the summer lull newsflow

August 31, 2006

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)

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

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August 31, 2006

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