



## EEPK - *Erste* Europäische Pfandbrief- und Kommunalkreditbank AG in Luxemburg

January 2012

# Agenda

## 1. EEPK at a Glance

2. Legislation

3. EEPK's Asset Side

4. EEPK's Liability Side

5. Contacts

## EEPK at a Glance

### Country of residence: Luxembourg (2011)

- Population of 512.000\*
- International Character
- 43%\* foreigners (mostly EU)
- 358k\* employed
  - 29% Banking, Real Estate, Business Activities
  - 26% Trade
- European Institutions, such
  - European Investment Bank
  - Court of Justice
  - Court of Auditors
- Official Languages:
  - French
  - German
  - Luxembourgish

\* Source: ABL 2011



## EEPK at a Glance

### Country of residence: Luxembourg (2011)

#### Luxembourg Economy

- Industrial Sector, until recently dominated by steel, has become more diversified.
- During the past decades, growth of the financial sector has more than compensated for the decline in steel.
- Unemployment rate: 5.76 %\*  
(European Union: 9.7%\*)
- GDP per capita 2010: \$ 81.466\* (Germany \$ 36.081\*)

\* Source: IMF 2011; Eurostat 2011

#### Benefits of Banking in Luxembourg

- Stable, sound national environment
- Very broad range of services offered
- European hub for financial services with Professional multilingual staff
- Strict banking secrecy
- Business-orientated and flexible supervisory authorities
- The Luxembourg government played an important role in dealing with the financial crisis in cooperation with other European countries

# EEPK at a Glance

## Shareholder Structure



### New shareholder structure from March, 18<sup>th</sup> 2009

**100%** subsidiary of Commerzbank AG, Frankfurt am Main, Germany

*Erste Europäische* is a consolidated subsidiary company of Commerzbank AG and takes advantage of a **group letter of comfort**.



 						
Rating Agency	S&P	Moody's	Fitch	S&P	Moody's	Fitch
Counterparty Long Term	A	A2	A+	-	-	-
Counterparty Short Term	A-1	P-1	F1+	-	-	-
Public Sector Covered Bonds	-	-	-	AA+	-	-
Mortgage Covered Bonds	-	-	-	-	-	-
Outlook	Negative	Stable	Stable	Stable	-	-

Photo Source: Julia Schwager, Commerzbank AG





## **EEPK at a Glance**

### Business profile

- **EEPK is a niche provider in international public sector finance.**
- **EEPK is granting public finance loans to states, countries, local governments, public corporations, institutions and other public legal entities (including their special funds) and their authorities in the OECD.**
- **Sovereign and sub sovereign Assets.**
- **In each case, the bank offers financing packages tailored to the specific requirements of the borrower.**
- **Full advantage of the ability to grant loans throughout the OECD:**
  - High diversification of EEPK's portfolio
  - without losing sight of the imperative of credit quality
  - At least 50% of the loans in the cover fund have an external rating of AA-/Aa3 or better from one of the reputable rating agencies, such as Standard & Poor's, Moody's or Fitch Ratings
- **Exchange and interest rate risks are minimized by micro hedging transactions.**
- **No exposure in structured credits; no exposure in ABS/MBS.**
- **No direct exposure to Monoline Insurance companies; Monoline Insured Assets with solid underlying credit quality from the US and Canada.**

## EEPK at a Glance

Consolidated subsidiary company of Commerzbank AG

Issuers in Commerzbank Group				
Instrument \ Issuer	COMMERZBANK 		 Erste Europäische	 BRE BANK SA
Pfandbriefe		X		Domestic Issuance (secured and unsecured)
Lettre de Gage		X	X	
Unsecured (short-term)	X	X	X	
Unsecured (long-term)	X	X		
Tier I / II / III Capital	X			

## EEPK at a Glance

### Milestones

- 1997** Activity defined by Luxemburg Mortgage Banks Act in November.
- 1999** EEPK was founded in February Assignment of mortgage bank license in September.
- 2000** First Bank ever issuing Luxembourgish „Lettre de Gage“ in January. AAA rating by Standard & Poor’s on EEPK’s „Lettre de Gage Publique“ in August.
- 2001** Consolidation with Commerzbank AG and Letter of Comfort.
- 2002** Operational integration into Commerzbank Group.
- 2003** Second largest foreign issuer in CHF / 2.2 BLN. Establishment of 7.5 BLN EUR EMTN – programme
- 2004** Increased portion of USD – denominated issuance.  
Cost-Income-Ratio reduced to 32,2 %; Return on Equity increased to 14,7 % (after tax).
- 2006** First issue of a „Luxembourg mortgage bond“ (Lettre de Gage Hypothécaire) in Jan 06  
Cost-Income-Ratio 26.19 %.  
Return on Equity 20,30 % (after tax).
- 2007** Balance sheet reduction in context of financial market crisis from 7.8 bn to 7.4 bn EUR.
- 2009** Change in Shareholder structure.  
EEPK now 100% owned by Commerzbank AG

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# Legislation

## Legal Overview on Lettre de Gage

### Main legislation principles for “Lettres de Gage”

- Special banking license for “Lettres de Gage” issuers.
- Supervisory authority (CSSF) responsible for practical implementation of the legislation via directives.
- Special Supervision of Collateral pool by “Rèviser spéciale”.
- Asset collateral pool and “Lettres de Gage” will be separated from bank balance sheet in case of bankruptcy and administration will be transferred to CSSF. In this case CSSF is responsible for the administration until the final maturity of the last “Lettres de Gage”.
- Law based privilege for “Lettres de Gage” investors and derivative counterparties over all other creditors of the issuing bank.
- Lettres de Gage banks use derivatives as hedge instruments to ensure sufficient collateral for all outstanding Lettres de Gage. These hedge instruments are included in the cover pool.

### New features of the legislation introduced in October 2008

- Introduction of “Lettres de Gage mobilières”. New form of covered bonds secured by rights in movable objects, e.g. ships or aircrafts.
- Responsibility for approval of “Lettres de Gage mobilières” delegated to CSSF.
- Rights and charges on properties can be held indirectly by a third bank in the EU, EEA or OECD.
- Eligibility of securitized assets for the cover pool. These assets need to correspond with the criteria laid down for the eligibility in the specific cover pool. No synthetic securitizations.
- Issuance limit of 60 times equity capital is abolished.
- New legal overcollateralization requirement of 2% on notional and present value basis.
- LTV ratio for residential properties is increased from 60% to 80%. 60% remains for all other property classes.

# Legislation

## Selected European Covered Bond Laws

Country	Luxembourg	Germany	France	Ireland
<b>Covered Bond</b>	<b>Lettres de Gage</b>	Pfandbriefe	Obligations Foncières (OF)	Asset Covered Securities (ACS)
<b>Special Legal Framework</b>	<b>Yes</b>	Yes	Yes	Yes
<b>Special Banks</b>	<b>Yes</b>	No	Yes	Yes
<b>Assets Geographical Scope</b>	<b>EEA, OECD unlimited</b>	EEA unlimited Switzerland, USA, Canada and Japan limited up to 10% of outstanding Pfandbriefe	EEA unlimited Switzerland, USA, Canada and Japan, Australia and New Zealand	EEA unlimited Switzerland, USA, Canada, Australia, New Zealand and Japan
<b>Limits for Issue Volume</b>	<b>No limits</b>	No limits	No limits	No limits
<b>Derivatives as Part of Cover Pool</b>	<b>Yes</b>	Yes, 12% of the pool's NPV	Yes	Yes
<b>Overcollateralization required (%)</b>	<b>Yes (2% NPV)</b>	Yes (2%)	Yes	Yes (3%)
<b>Priority in Event of Bankruptcy</b>	<b>Yes (cover pool)</b>	Yes (cover pool)	Yes (cover pool)	Yes (cover pool)
<b>Treatment in Event of Bankruptcy</b>	<b>Will continue to be serviced in line with issue terms. Administration guaranteed by the Lux. Banking Supervisory</b>	Will continue to be serviced in line with issue term	Will continue to be serviced in line with issue terms	Will continue to be serviced in line with issue terms

Source: European Covered Bond Council; Respektive Legal Frameworks, Rating Agencies

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## EEPK's Asset Side Cover Pool Structure

- **Regional Allocation**

EEPK's public finance business is mainly focused on counterparties in Western Europe and Northern America

- **Granularity**

On the asset side the Luxembourg legislation has distinct advantages over other "Covered Bond Issuing Countries" permitting the lending to sub-governmental institutions and thus achieving a better distribution of risk. In this connection EEPK is a well known investor in public sector debt with an acknowledged spread expertise for OECD credits.

- **Diversification**

EEPK takes advantage of the international character of the Luxembourg law by geographically diversifying its asset pools and its investor base.

- **Asset Types**

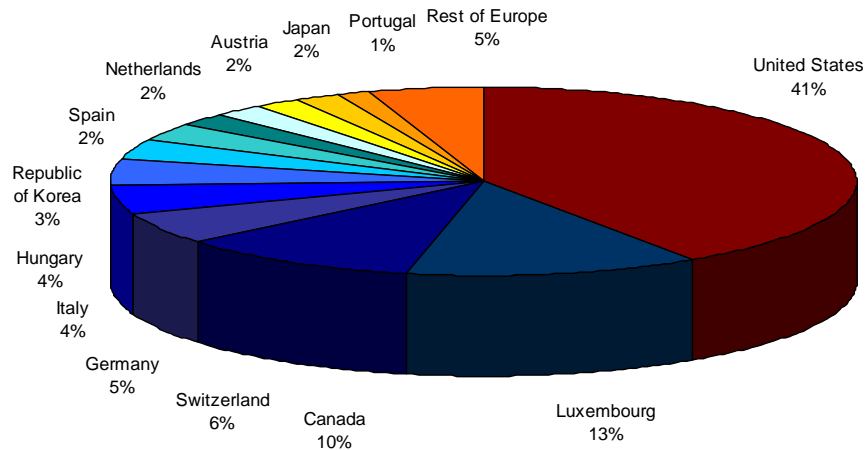
EEPK invests into straight assets without structures.

- **Currencies**

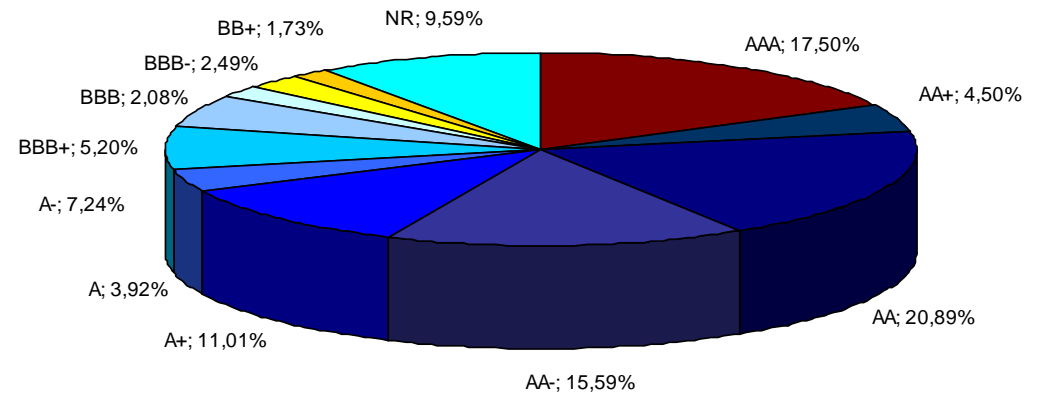
CHF, EUR, GBP, JPY, USD

# EEPK's Asset Side Cover Pool

**Cover Pool by Country**



**Cover Pool by external Rating (Composite)**



- Cover Pool 31.12.2011**

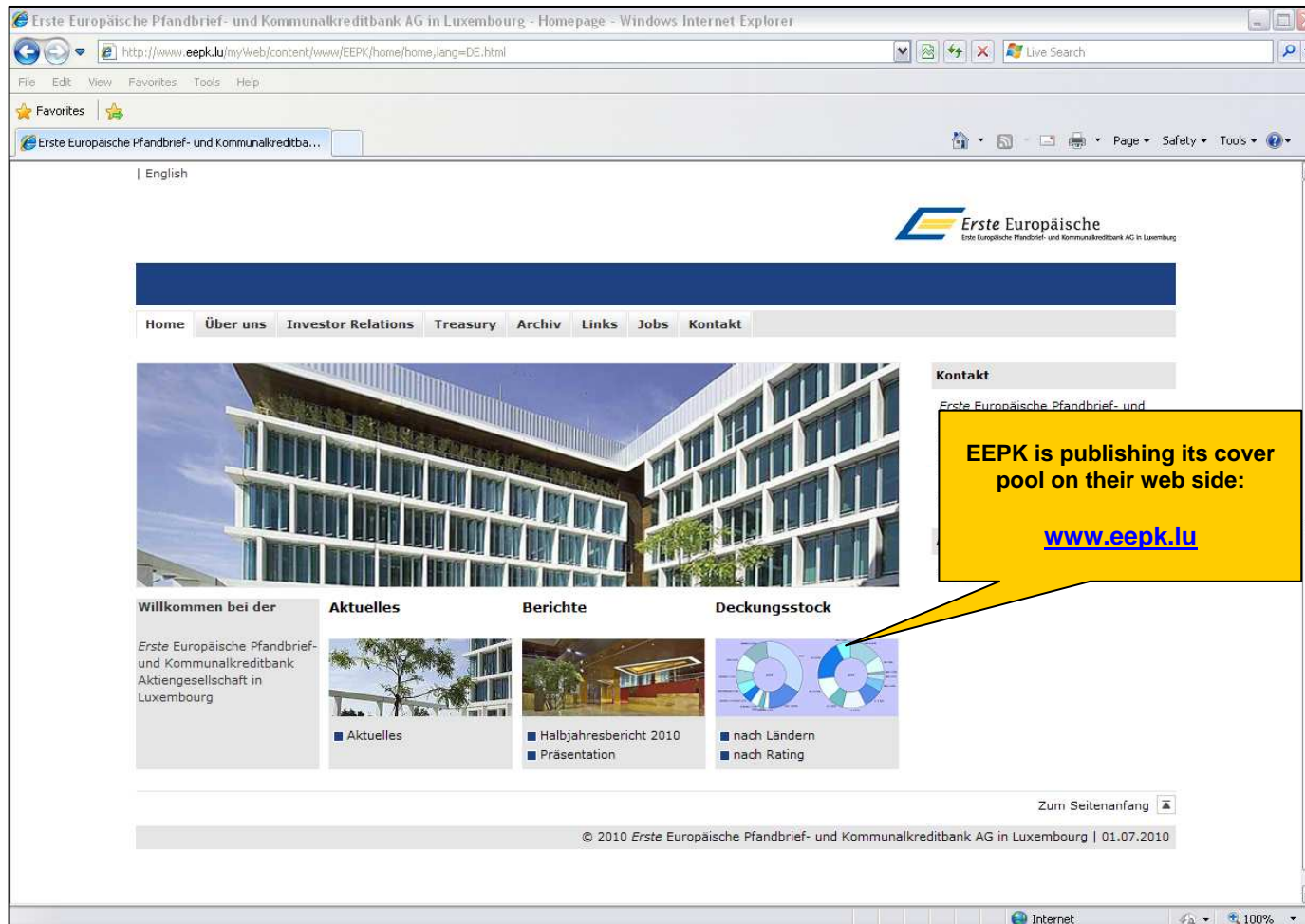
**Notional Value of Assets:** 4.632.450.968 €

**Total Lettre de Gage issued:** 4.324.998.207 €

**Overcollateralization:** 7,11 %

- Externally not rated Assets are internally rated:** 47 % AAA, 22 % AA, 12% A, below A 19%
- EEPK is a fully integrated part of Commerzbank's risk & credit controlling.**
- All assets are analysed and rated by the groups internal Basel II rating methodology**

# EEPK's Asset Side Transparency




Erste Europäische Pfandbrief- und Kommunalkreditbank AG in Luxemburg - Homepage - Windows Internet Explorer

http://www.eepk.lu/myWeb/content/www/EEPK/home/home\_lang=DE.html

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English

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Erste Europäische Pfandbrief- und Kommunalkreditbank AG in Luxemburg

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Erste Europäische Pfandbrief- und

**Willkommen bei der**  
Erste Europäische Pfandbrief- und Kommunalkreditbank Aktiengesellschaft in Luxemburg

**Aktuelles**  
Aktuelles

**Berichte**  
Halbjahresbericht 2010  
Präsentation

**Deckungsstock**  
nach Ländern  
nach Rating

Zum Seitenanfang

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Internet 100%

**EEPK is publishing its cover pool on their web side:**  
[www.eepk.lu](http://www.eepk.lu)

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## EEPK's Liability Side Structure

- **AA+ Rating with stable Outlook by Standard and Poor's**

All Lettres de Gage (Covered Bonds) issued by EEPK are rated AA+ (stable outlook) by Standard & Poor's, last rating report was published on October 12th, 2011

- **Highlights of the 2011 S&P Report**

Required Overcollateralization on a notional level: 2.5%

Low asset-liability mismatch (ALMM) of 0%

Target Credit Enhancement: 0%

Available Credit Enhancement as of June, 30th: 8.54%

- **The S&P Report is available on EEPK's web side:**

<http://www.eepk.lu/myWeb/content/Content/Internet/EEPK/ueberuns/news/thespreportis,property=data.pdf>

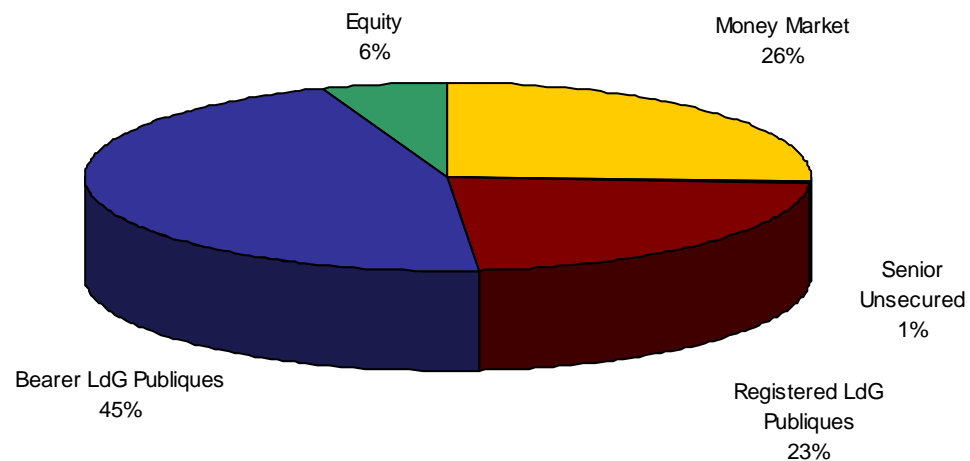
- **EEPK's Funding Currencies**

EUR, USD, CHF, NOK

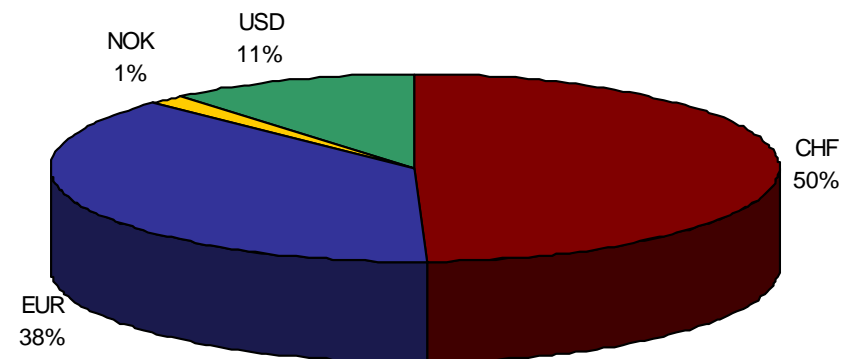
- **EEPK's role within Commerzbank group is to issue tailor made „Lettres de gage“ to our investors. EEPK is an important covered bond issuer in CHF with a total outstanding of CHF 2.62 bn.**

## EEPK's Liability Side Funding Mix

**Funding Mix via 31.12.2011**  
**Total EUR 6.3bn**



**“Lettres de Gage” outstanding by currency**  
**Total EUR 4.3bn (equivalent)**



- **EEPK is 68% funded via “Lettres de Gage”**
- Overcollateralization is funded in money market and medium term senior unsecured market
- EEPK's main issue currencies are CHF, EUR and USD

## EEPK's Liability Side

### Outstanding Lettres de Gage in CHF

Name	Currency	ISIN	Nominal	Coupon	Maturity	Cover
EEPK	CHF	CH0013850497	50,000,000	3.915%	28.03.2012	Public
EEPK	CHF	CH0036885652	150,000,000	2.75%	15.06.2012	Public
EEPK	CHF	CH0030773342	50,000,000	2.875%	15.05.2015	Public
EEPK	CHF	CH0022057902	337,000,000	2.25%	03.08.2015	Public
EEPK	CHF	CH0021645897	278,500,000	2.25%	23.06.2016	Public
EEPK	CHF	CH0019453825	300,000,000	3.00%	14.10.2016	Public
EEPK	CHF	CH0024590207	400,000,000	2.50%	27.03.2019	Public
EEPK	CHF	XS0207470724	50,000,000	2.82%	16.12.2019	Public
EEPK	CHF	CH0020371065	350,000,000	2.75%	07.02.2020	Public
EEPK	CHF	CH0023956532	200,000,000	2.375%	09.02.2021	Public
EEPK	CHF	CH0028622600	250,000,000	2.75%	09.02.2022	Public
EEPK	CHF	CH0020593874	150,000,000	2.875%	10.03.2025	Public
EEPK	CHF	CH0030229139	50,000,000	3.125%	05.04.2027	Public
	<b>CHF</b>		<b>2,615,500,000</b>	<b>Total</b>		

## EEPK's Liability Side

### European-Medium-Term-Note-Program

An EMTN program provides the framework and sample documentation for the international marketing of securities issues. EEPK utilizes its program as a flexible refinancing instrument in the international capital markets, supplementing the traditional methods of refinancing.

<b>Volume:</b>	Up to EUR 7.5 billion or equivalent value in other currencies
<b>Issuer:</b>	Erste Europäische Pfandbrief- und Kommunalkreditbank AG in Luxemburg
<b>Arranger:</b>	Commerzbank AG and Deutsche Bank AG
<b>Dealers:</b>	Commerzbank AG Credit Suisse Deutsche Bank AG DZ Bank AG Fortis Bank Unicredit JP Morgan Landesbank Baden-Württemberg The Royal Bank of Scotland PLC
<b>Paying Agent:</b>	Deutsche Bank AG
<b>Currencies:</b>	Multi

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# Contacts

## Bank

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**Bloomberg** EEPK [GO]



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