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## **Eurohypo: Preliminary key figures for 2007 - robust pre-tax profit despite subprime-crisis**

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- New commitments in Commercial Real Estate and Public Finance: EUR 57 bn
- Restatements EUR 188 m to account for subprime crisis over the whole year
- Essenhyp integration on target

**Eschborn.** According to preliminary figures, Eurohypo reports a pre-tax profit of EUR 588 m (-10% yoy). The return on equity achieved 10.1%. The ongoing weakness on international financial markets had necessitated the restatement of those securities in the US investment portfolio that were backed by subprime mortgages granted to retail customers. These adjustments amounted to EUR 60 m in the fourth quarter after EUR 128 m in the third quarter.

Adjusted for subprime-related restatements, we achieved a pre-tax profit of EUR 776 m following the previous year's figure of EUR 653 m, up by 19%; the corresponding return on equity reached 13.3%.

Bernd Knobloch, Eurohypo's CEO and member of Commerzbank's Board of Managing Directors, commented on the result: "In view of the global crisis on the financial markets, which is particularly affecting the real estate sector, I class 2007 as a good financial year. Without the restatements on our securities portfolio, Eurohypo would have reported an excellent year."

The result was also affected by the different treatment of compensation for premature repayments at Eurohypo, with the future interest cost related to the refinancing of loans prematurely repaid amounting to EUR 49 m being fully compensated. Although this procedure reduces the result for the year under review, it avoids interest expense in the future.

Administration costs were on the right path. Despite higher costs for building up and developing new offices abroad, Eurohypo's strategy of further reducing costs and increasing efficiency showed an impact with administration costs slightly decreasing by EUR 5 m to EUR 542m.

Another very satisfactory development was the increase in net interest income from the commercial real estate financing business: it rose by EUR 34 m to EUR 885 m owing to a strong new business. The international crisis on the financial markets has once again made all market players aware that risk has a price and that finance is a rare and expensive commodity. That is why margins are now climbing to a level where they account adequately for the risk.

### **New business again at a high level in 2007**

Eurohypo's new business reflected, as in the previous years, the Bank's leading position: Despite the great uncertainty on the markets in view of the high level of write-offs at the major banks, increasing fears of a recession and more selective credit approvals, new commitments to finance commercial real estate, at EUR 37 m (EUR 35 m), reached a high level again. This underlines the Bank's leading position in the market; although it squeezed the amount of loans granted in the fourth quarter somewhat, it was nevertheless able to deal with all customer enquiries.

Despite significantly decreasing liquidity in the exit channels in the course of 2007, Eurohypo syndicated a total of EUR 7.7 bn (previous year: EUR 8.23 bn) in commercial real estate loans and thus built on its leading position in Europe. This puts it globally in fourth place, after Bank of America, Wachovia and JP Morgan, although the fact that these owe their positions almost exclusively to their domestic US market means that Eurohypo is the only bank in the top four that has a really global syndicated loans business in the real estate sector. Eurohypo introduced securitisations amounting to EUR 5 bn to the market; some of these were in the second half of the year despite the crisis raging at the time. In all, this meant that it used its exits into the market to place EUR 12.7 bn (after EUR 16.3 bn in the previous year).

In the second key element of Eurohypo's business model, public finance, new business was also up in 2007. At EUR 20 bn, the volume exceeded that of the previous year by almost a third. "Following the merger of Essenhyp into Eurohypo, we shall in future be an even stronger competitor in international public finance," declared the member of the Board responsible for Public Finance, Henning Rasche, who will also be in charge of the expanded public finance business on Eurohypo's Management Board. The integration of Essenhyp is proceeding smoothly without affecting any of the current business activities.

Eurohypo succeeded in significantly expanding the international public finance business on which the Bank intends to focus even more in the future. Around half of the new business came from outside Germany.

**Outlook for 2008**

Overall, Eurohypo is cautiously optimistic about 2008. “Following the takeover of Essenhyp, we are consistently implementing our strategy, the core of which comprises active portfolio management of all business areas in the Bank and expansion of our international real estate and public finance business. This area’s clout will increase noticeably,” was Knobloch’s summary of the way ahead. Despite the expense of integrating Essenhyp, he expects public finance to break even in 2008.

There is still a big question mark over when the financial crisis will be over and this will overshadow the result at least for the first half of the year. Nevertheless Knobloch sees the crisis also providing opportunities as banks and investors become more interested in quality, and also capital markets instruments start to be used in real estate finance. He views Eurohypo as being well positioned here.

**Preliminary financial statements for 2007**

|                             | <b>2006</b> | <b>2007</b> |
|-----------------------------|-------------|-------------|
| Return on equity before tax | 11.5%       | 10.1%       |
| Cost-income ratio           | 34.7%       | 39.0%       |
| Total new business          | EUR 51 bn   | EUR 57 bn   |
| New real estate business    | EUR 35 bn   | EUR 37 bn   |
| New public finance business | EUR 16 bn   | EUR 20 bn   |

**Selected figures from the Income Statement for 2007**

| in EUR m                   | <b>2006</b> | <b>2007</b> | Change<br>against previous year |
|----------------------------|-------------|-------------|---------------------------------|
| Net interest income        | 1,249       | 1,179       | -5.6 %                          |
| Net commission income      | 177         | 227         | +28.2 %                         |
| Trading result             | 98          | -11         | >-100 %                         |
| Loan loss provisions       | 360         | 259         | -28.1 %                         |
| Operating expenses         | 547         | 542         | -0.9 %                          |
| <b>Earnings before tax</b> | <b>653</b>  | <b>588</b>  | <b>-10.0 %</b>                  |