

19 March 2008

Eurohypo Account Press Conference 2007

- **The flexible Eurohypo business model proves its worth also in the crisis in the financial markets**
- **Integration of EssenHyp set to be concluded by the half-way point**

Eschborn. Eurohypo's balanced, stable business model enabled it to cope well with the difficult year of 2007. "Eurohypo came through 2007 in good shape", said Bernd Knobloch, CEO, at Wednesday's accounts press conference in Eschborn. The Bank had been able to react with flexibility to the far-reaching changes triggered by last year's crisis in the financial markets, he said. The quality of its staff and its products, combined with the ability to achieve success both in the capital-market field and in that of on-balance-sheet lending, had proved that the Bank's business model was viable – even in this difficult environment.

Unlike many of its competitors, Eurohypo had been lending in the market throughout the crisis period. "Thanks to our size and the extent of our capital resources", said Knobloch, "we were able to continue to give our clients the same support as we have always done in the past." With new commitments amounting to € 37 billion, the bank achieved another record result in commercial real estate finance. This is mainly due to an increase in Germany and the rest of Europe where more than three quarters of new business was generated. In Germany, its domestic market, Eurohypo remained the undisputed market leader, with new business exceeding EUR 10 bn.

In the last fiscal year Eurohypo generated pre-tax earnings of EUR 588 mn (-10%). The ongoing weakness in international financial markets due to the subprime crisis had necessitated, as a precautionary measure, the restatement of those securities in the US investment portfolio that were backed by subprime mortgages granted to retail customers. With these restatements excluded, pre-tax earnings totalled EUR 776 mn – a rise of 19% on the previous year's figure of EUR 653 mn. The pre-tax return on equity was 10.1% - without subprime at 13.3%

Despite the turbulence in the financial markets, the Bank was also successful last year in syndications and securitisations with a total volume of EUR 12.7 bn. Even in the fourth quarter, Eurohypo successfully concluded a CMBS transaction in the US for EUR 336 mn.

According to Knobloch, the Pfandbrief had yet again proved to be one of the Bank's most important competitive advantages. Refinancing using this classical product had been largely stable since the onset of the crisis. Eurohypo placed a jumbo mortgage Pfandbrief – EUR 2.5 bn – in the market on good terms at the very end of last year.

Turning to the current year, Knobloch said that as the environment – for the time being, at least – remained challenging, the process of separating the wheat from the chaff in real-estate financing would continue and intensify. “High-quality providers like Eurohypo, with a large loan book and ample capital resources, will enjoy clear advantages“, he said. Following the integration of Essen Hyp, the bank will take another step towards market leadership in the public finance business in 2008.

Knobloch believes the business is going to change. 2008 will not see many of the megadeals that were so typical of the real-estate business in past years. The securitisation market will be slow to pick up again, and new business must also be expected to decline. As against this, new commitments are going to be more profitable: “We are focussing on new business exceeding 20% return on equity.” In general, Knobloch expects the business to become rather more traditional again – not that he thinks the markets will revert to the “buy-and-hold”-model. According to Mr Knobloch, real estate economy has largely distanced itself from the turmoil on capital markets and is developing in continuous economic cycles. Eurohypo is benefiting from this situation.

In the field of public finance, Eurohypo's merger with the mortgage bank in Essen during the current year will place its successful business model on an even broader foundation. “We shall continue to expand our product range”, says Henning Rasche, member of the Management Board with responsibility for public finance. “Besides classical public-finance business, we shall offer more structured financing arrangements, make greater use of derivative instruments and push ahead with PPP financing structures.” The integration of EssenHyp is scheduled to be successfully completed this summer.

Eurohypo also exploits every opportunity to boost its earnings in the field of public finance. The Bank says it will consistently focus its portfolio more closely on higher-margin assets, as additional revenue could well be generated by structuring products.

According to Mr Rasche, Eurohypo will be speedily building up its national and international origination. “We already have our own offices in Luxembourg, London, New York, Rome and Barcelona”, he says, “and we are currently planning to expand our US business”. Generally speaking, Eurohypo would in future maintain an origination presence wherever legal certainty existed.