

Germany  
Credit Update

**Duesseldorfer Hypothekbank AG**

**Ratings**

Security Class	Current Ratings
<b>Foreign Currency</b>	
Long-Term IDR	A-
Short-Term IDR	F1
<b>Individual</b>	
Support Rating	F
Support Rating Floor	1 WD
<b>Düsseldorfer Hypothekbank AG</b>	
<b>Public Sector Pfandbriefe</b>	
Long-Term IDR	AAA
<b>Sovereign Risk</b>	
Foreign Long-Term IDR	AAA
Local Long-Term IDR	AAA

**Outlook**

Foreign Long-Term IDR	Stable
Sovereign Foreign Long-Term IDR	Stable
Sovereign Local Long-Term IDR	Stable

**Financial Data**

Düsseldorfer Hypothekbank AG	31 Dec 07	31 Dec 06
Total Assets (USDm)	39,308	33,357
Total Assets (EURm)	26,702	25,328
Equity (EURm)	349	329
Net Income (EURm)	0.1	22.2
Operating Profit	8.7	24.7
Operating Profit/	2.56	8.71
ROA (%)	0	0.10
ROE (%)	0.03	7.83
Tier 1 Ratio (%)	7.5	7.1

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**Rating Rationale**

- Düsseldorfer Hypothekbank AG's (DHB) IDRs and Support Rating factor in the extremely strong potential institutional support for DHB that would be forthcoming through its indirect owner, Bundesverband deutscher Banken (BdB), if ever required. Inter alia, BdB represents Germany's major commercial banks like Commerzbank AG (rated 'A') and Deutsche Bank AG (rated 'AA-').
- DHB's Individual Rating reflects Fitch's opinion that DHB would – without BdB's takeover – have been unable to continue as a viable concern. Plans to downsize DHB's public sector lending activity over time and build up commercial real estate activities are aimed at improving core performance but are likely to prove difficult to achieve. Fitch is concerned about the sustainability of the bank's business model under continued challenging market conditions.
- Fitch considers DHB's underlying profitability to be vulnerable. While 2007 profit from real estate lending totalled EUR4m, public-sector financing has lost EUR11m, mainly due to the widening of credit spreads.
- DHB's credit risk profile has been gradually increasing, partly due to its small, albeit growing, real estate loan book. However, DHB has no exposure to the US subprime market. Non-performing loans/gross real estate lending of 2% at end-2007 is better than peers'. Loan loss reserve coverage (including general provisions) stood at a moderate but stable 39% at end-2007, reflecting management's view of the property collateral.
- While Fitch considers DHB's liquidity and funding position currently to be adequate, this might need to rely on support, should current volatile market conditions persist over a prolonged period.
- DHB reports under German accounting rules. Fitch's adjustments to book capital result in an eligible capital ratio which is materially weaker than the regulatory Tier 1 ratio of 11.3% at end-March 2008. In Fitch's opinion, the bank's capitalisation remains barely adequate, despite the injection of EUR150m of additional capital in 2008.

**Support**

Given BdB's announcement that it has agreed to acquire 100% of DHB, the source of potential external support is now institutional. The Support Rating Floor has been withdrawn accordingly.

**Key Rating Drivers**

- The Outlook on DHB's Long-Term IDR is Stable, since Fitch does not expect a change in BdB's creditworthiness.
- Fitch will monitor closely the cover pools, the development of their overcollateralisation and potentially upcoming further transactions, since the agency does not expect the new ownership structure to be a long-term solution.

**Profile**

DHB is a "Pfandbriefbank" acquired in April 2008 by two BdB-controlled holding companies. From its inception, the bank has focused on secondary market public sector lending. With narrowing opportunities for profit growth in this sector, it is aiming to expand its mortgage business in Germany and abroad. During 2007, DHB employed 88 staff on average.

**Balance Sheet Analysis**

**DUESSELDORFER HYPOTHEKENBANK AG**

	31 Dec 2007				31 Dec 2006		31 Dec 2005		31 Dec 2004	
	Year End USDm	Year End EURm	As % of Assets	Average EURm	Year End EURm	As % of Assets	Year End EURm	As % of Assets	Year End EURm	As % of Assets
	Original	Original	Original	Original	Original	Original	Original	Original	Original	Original
<b>A. LOANS</b>										
1. Loans	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
(a) Mortgages	2,112.3	1,434.9	5.37	1,400.8	1,366.6	5.40	1,221.3	6.56	1,266.2	8.23
(b) Public Sector	5,578.8	3,789.7	14.19	3,852.9	3,916.1	15.46	3,919.8	21.05	3,662.6	23.81
(c) Other	94.2	64.0	0.24	47.2	30.4	0.12	0.2	0.00	0.0	0.00
2. Assets Leased	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
3. Loan Loss Reserves(MEMO)	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
<b>TOTAL A</b>	<b>7,785.4</b>	<b>5,288.6</b>	<b>19.81</b>	<b>5,300.9</b>	<b>5,313.1</b>	<b>20.98</b>	<b>5,141.3</b>	<b>27.62</b>	<b>4,928.8</b>	<b>32.05</b>
<b>B. OTHER EARNING ASSETS</b>										
1. Inter-bank	8,622.3	5,857.1	21.93	5,679.8	5,502.5	21.72	4,499.5	24.17	3,383.5	22.00
2. Short-term Investments	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
3. Public Sector Securities	7,634.9	5,186.4	19.42	5,110.7	5,035.0	19.88	2,672.9	14.36	2,114.0	13.74
4. Other Investments	14,881.8	10,109.2	37.86	9,675.1	9,241.0	36.49	6,076.6	32.64	4,741.7	30.83
5. Equity Investments	22.5	15.3	0.06	15.3	15.3	0.06	48.2	0.26	48.2	0.31
<b>TOTAL B</b>	<b>31,161.5</b>	<b>21,168.0</b>	<b>79.27</b>	<b>20,480.9</b>	<b>19,793.8</b>	<b>78.15</b>	<b>13,297.2</b>	<b>71.42</b>	<b>10,287.4</b>	<b>66.88</b>
<b>C. TOTAL EARNING ASSETS (A+B)</b>	<b>38,946.9</b>	<b>26,456.6</b>	<b>99.08</b>	<b>25,781.8</b>	<b>25,106.9</b>	<b>99.13</b>	<b>18,438.5</b>	<b>99.04</b>	<b>15,216.2</b>	<b>98.93</b>
<b>D. FIXED ASSETS</b>	<b>27.2</b>	<b>18.5</b>	<b>0.07</b>	<b>15.5</b>	<b>12.4</b>	<b>0.05</b>	<b>5.6</b>	<b>0.03</b>	<b>5.7</b>	<b>0.04</b>
<b>E. NON-EARNING ASSETS</b>										
1. Cash and Due from Banks	93.8	63.7	0.24	50.0	36.3	0.14	56.3	0.30	59.0	0.38
2. Other	240.4	163.3	0.61	167.9	172.5	0.68	116.9	0.63	99.9	0.65
<b>F. TOTAL ASSETS</b>	<b>39,308.3</b>	<b>26,702.1</b>	<b>100.00</b>	<b>26,015.1</b>	<b>25,328.1</b>	<b>100.00</b>	<b>18,617.3</b>	<b>100.00</b>	<b>15,380.8</b>	<b>100.00</b>
<b>G. DEPOSITS &amp; MONEY MARKET FUNDING</b>										
1. Demand	29.0	19.7	0.07	24.7	29.7	0.12	0.0	0.00	0.1	0.00
2. Savings	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
3. Time	3,548.2	2,410.3	9.03	2,219.2	2,028.1	8.01	1,218.0	6.54	1,302.4	8.47
4. Interbank	10,591.8	7,195.0	26.95	6,755.4	6,315.7	24.94	2,111.6	11.34	2,040.1	13.26
5. Other	4.7	3.2	0.01	3.2	3.2	0.01	n.a.	-	n.a.	-
<b>TOTAL G</b>	<b>14,173.7</b>	<b>9,628.2</b>	<b>36.06</b>	<b>9,002.5</b>	<b>8,376.7</b>	<b>33.07</b>	<b>3,329.6</b>	<b>17.88</b>	<b>3,342.6</b>	<b>21.73</b>
<b>H. OTHER FUNDING</b>										
1. Long-term Debt	24,343.1	16,536.3	61.93	16,487.1	16,437.8	64.90	14,882.2	79.94	11,719.7	76.20
2. Subordinated Debt	118.7	80.6	0.30	83.5	86.4	0.34	77.6	0.42	27.6	0.18
3. Hybrid Capital	90.4	61.4	0.23	61.4	61.4	0.24	61.3	0.33	61.3	0.40
<b>TOTAL H</b>	<b>24,552.2</b>	<b>16,678.3</b>	<b>62.46</b>	<b>16,631.9</b>	<b>16,585.6</b>	<b>65.48</b>	<b>15,021.1</b>	<b>80.68</b>	<b>11,808.6</b>	<b>76.77</b>
<b>I. OTHER (Non-int. bearing)</b>	<b>68.2</b>	<b>46.3</b>	<b>0.17</b>	<b>41.5</b>	<b>36.7</b>	<b>0.14</b>	<b>28.8</b>	<b>0.15</b>	<b>27.6</b>	<b>0.18</b>
<b>J. LOAN LOSS RESERVES</b>	<b>n.a.</b>	<b>n.a.</b>	<b>-</b>	<b>n.a.</b>	<b>n.a.</b>	<b>-</b>	<b>n.a.</b>	<b>-</b>	<b>n.a.</b>	<b>-</b>
<b>K. OTHER RESERVES</b>	<b>n.a.</b>	<b>n.a.</b>	<b>-</b>	<b>n.a.</b>	<b>n.a.</b>	<b>-</b>	<b>n.a.</b>	<b>-</b>	<b>n.a.</b>	<b>-</b>
<b>L. EQUITY</b>										
1. Silent Participations & Preference Shares	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
2. Common Equity	514.2	349.3	1.31	339.2	329.1	1.30	237.8	1.28	202.0	1.31
<b>TOTAL L.</b>	<b>514.2</b>	<b>349.3</b>	<b>1.31</b>	<b>339.2</b>	<b>329.1</b>	<b>1.30</b>	<b>237.8</b>	<b>1.28</b>	<b>202.0</b>	<b>1.31</b>
<b>M. TOTAL LIABILITIES &amp; EQUITY</b>	<b>39,308.3</b>	<b>26,702.1</b>	<b>100.00</b>	<b>26,015.1</b>	<b>25,328.1</b>	<b>100.00</b>	<b>18,617.3</b>	<b>100.00</b>	<b>15,380.8</b>	<b>100.00</b>

Exchange Rate

USD1 = EUR 0.6793

USD1 = EUR 0.7593

USD1 = EUR 0.8477

USD1 = EUR 0.7342

**Income Statement Analysis**

**DUESSELDORFER HYPOTHEKENBANK AG**

	31 Dec 2007		31 Dec 2006		31 Dec 2005		31 Dec 2004	
	Income	As % of	Income	As % of	Income	As % of	Income	As % of
	Expenses	Total AV	Expenses	Total AV	Expenses	Total AV	Expenses	Total AV
	EURm	Earning Assts	EURm	Earning Assts	EURm	Earning Assts	EURm	Earning Assts
Original	Original	Original	Original	Original	Original	Original	Original	
1. Interest Income	3,146.3	12.20	1,738.3	7.98	1,179.5	7.01	1,011.7	7.57
2. Interest Expense	3,104.1	12.04	1,689.5	7.76	1,137.4	6.76	974.4	7.29
<b>3. NET INTEREST REVENUE</b>	<b>42.2</b>	<b>0.16</b>	<b>48.8</b>	<b>0.22</b>	<b>42.1</b>	<b>0.25</b>	<b>37.3</b>	<b>0.28</b>
4. Net Fees & Commissions	0.5	0.00	1.0	0.00	-0.4	0.00	-0.6	0.00
5. Other Operating Income	-1.9	-0.01	1.1	0.01	0.2	0.00	0.3	0.00
6. Personnel Expenses	7.2	0.03	7.8	0.04	4.1	0.02	4.1	0.03
7. Other Operating Expenses	8.8	0.03	7.6	0.03	5.6	0.03	4.0	0.03
8. Provisions	16.1	0.06	10.8	0.05	2.9	0.02	3.1	0.02
<b>9. OPERATING PROFIT</b>	<b>8.7</b>	<b>0.03</b>	<b>24.7</b>	<b>0.11</b>	<b>29.3</b>	<b>0.17</b>	<b>25.8</b>	<b>0.19</b>
11. Other Income and Expenses	-8.5	-0.03	5.1	0.02	-2.9	-0.02	-5.2	-0.04
<b>12. PROFIT BEFORE EXCEPTIONAL ITEMS</b>	<b>0.2</b>	<b>0.00</b>	<b>29.8</b>	<b>0.14</b>	<b>26.4</b>	<b>0.16</b>	<b>20.6</b>	<b>0.15</b>
13. Exceptional Items	n.a.	-	-0.5	0.00	n.a.	-	n.a.	-
<b>14. PRE-TAX PROFIT</b>	<b>0.2</b>	<b>0.00</b>	<b>29.3</b>	<b>0.13</b>	<b>26.4</b>	<b>0.16</b>	<b>20.6</b>	<b>0.15</b>
15. Taxes	0.1	0.00	7.1	0.03	8.9	0.05	5.6	0.04
16. Transfers to/(from) Equity Reserves	n.a.	-	n.a.	-	n.a.	-	n.a.	-
<b>17. Published Net Income Including Minorities</b>	<b>0.1</b>	<b>0.00</b>	<b>22.2</b>	<b>0.10</b>	<b>17.5</b>	<b>0.10</b>	<b>15.0</b>	<b>0.11</b>
18. FITCH NET INCOME before Appropriations	0.1	0.00	22.2	0.10	17.5	0.10	15.0	0.11

**Ratio Analysis**

**DUESSELDORFER HYPOTHEKENBANK AG**

		31 Dec 2007 Original	31 Dec 2006 Original	31 Dec 2005 Original	31 Dec 2004 Original
<b>I. PROFITABILITY LEVEL</b>					
1. Operating Profit/Total Assets (av.)	%	0.03	0.11	0.17	0.19
2. Operating Profit/Equity (av.)	%	2.56	8.71	13.32	12.88
3. Net income/Common Equity (av.)	%	0.03	7.83	7.96	7.49
4. Adjusted Net Income / Total Equity (av.)	%	0.03	7.83	7.96	7.49
5. Net Income/Total Assets (av.)	%	0.00	0.10	0.10	0.11
6. Non-int. Expenses/Net Int. Rev. + Other Net Operating Revenue	%	39.22	30.26	23.15	21.89
7. Net Interest Rev./Total Assets (av.)	%	0.16	0.22	0.25	0.28
<b>II. CAPITAL ADEQUACY (year end)</b>					
1. Internal Capital Generation	%	0.03	7.83	7.96	7.49
2. Equity/Total Assets	%	1.31	1.30	1.28	1.31
3. Capital/Risks - Tier 1	%	n.a.	n.a.	n.a.	n.a.
4. Capital/Risks - Total	%	n.a.	n.a.	n.a.	n.a.
5. Common Equity/Assets	%	1.31	1.30	1.28	1.31
6. Fitch Grade Capital/Assets	%	1.54	1.54	1.60	1.64
<b>III. LIQUIDITY (year end)</b>					
1. Liquid Assets/Deposits & Money Mkt Funding	%	159.34	174.80	262.06	203.09
2. Liquid Assets & Marketable Debt Securities/Deposits & Money Mkt Funding	%	219.60	231.78	388.31	298.94
3. Loans/Deposits & Money Mkt Funding	%	54.93	63.43	154.41	147.45
<b>IV. ASSET QUALITY</b>					
1.Loan Loss Provisions/Loans Net of Reserves	%	0.30	0.21	0.06	0.07
2.Loan Loss Provisions/ Pre-provs Operating Profit	%	64.92	30.42	9.01	10.73
3.Loan Loss Reserves/Loans Net of Reserves	%	n.a.	n.a.	n.a.	n.a.