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Aareal Bank Group maintains solid results in the third quarter of 2009, despite a difficult market environment

Wiesbaden (ots) -

- Operating profit before taxes of EUR 25 million in line with the previous quarter
- Structured Property Financing: allowance for credit losses remains at a clearly manageable level
- Consulting/Services showing robust business development, despite interest rates at historical lows
- Forecasts for key financial indicators affirmed

Wiesbaden, 10 November 2009 - Against the background of a market environment that continued to be challenging, Aareal Bank Group maintained its robust business development and once again generated a solid positive result - as it has done in every quarter since the outbreak of the financial markets crisis in summer 2007. The Group's profit before taxes and appropriation/attribution of results for the period from July to September was EUR 25 million, after EUR 25 million in the second quarter and EUR 17 million in the first three months of the current year. The corresponding figure for the third quarter 2008 was EUR 31 million.

"Clearly, we have been holding our course during the current financial year. The fact that we posted another set of satisfactory results - in a challenging market environment - once again emphasises the coherence, sustainability, and crisis-proof performance of our business model, incorporating the two strong pillars of Structured Property Financing and Consulting/Services. The Group's profitability remains high enough, not only to absorb the various difficulties thrown up by the financial markets crisis and the consequences of the weak economy but also to bear the additional costs incurred within the scope of the agreement with SoFFin", said Dr Wolf Schumacher, Chairman of the Management Board of Aareal Bank AG.

Structured Property Financing: sustainable business policy continues to bear fruit

Aareal Bank's Structured Property Financing segment once again posted a solid positive result, in spite of the continued challenges on the commercial property markets. At EUR 19 million, (Q3 2008: EUR 20 million), the segment's operating profit was slightly higher than in the previous quarter (EUR 18 million).

Aareal Bank's approach to lending from July to September remained very risk-aware, as it has been in the past. New business amounted to EUR 2.4 billion in the first nine months of 2009. Within the scope of new business, Aareal Bank continued to focus on its existing client base and particularly on loan extensions for existing financing projects.

Net interest income, which accounts for the most important share of segment income, amounted to EUR 98 million in the third quarter of 2009, after EUR 99 million in the comparable period of the previous year and EUR 101 million in the second quarter of 2009. Higher margins in the lending business continued to have a positive effect. Given the volatile market environment, the bank has maintained a very comfortable level of liquidity reserves: this had a slightly negative effect on net interest income, owing to extremely low short-term interest rates.

Despite the impact of the economic crisis, allowance for credit losses remained at a clearly manageable level: the EUR 36 million recognised during the third quarter of 2009 was lower than in the previous quarter (EUR 42 million), and remains within projections. Expected at EUR 150 million for the current financial year, it is therefore at the upper end of the forecasted target corridor, as has been communicated to date. Given the prevailing market environment, it is however impossible to fully exclude unexpected losses.

"In the third quarter, Aareal Bank Group once again proved that the commercial property finance business is profitable, even in the most severe economic crisis experienced for decades - provided that it is conducted in a sustainable and prudent manner. This clearly confirms our approach, and we will maintain our conservative business policy. This also applies to our tried and tested three-continent strategy to ensure regional diversification of our business: in particular, we have no plans to cut back our international branch network. Our local presence plays a key role in the segment's success", Schumacher noted.

Consulting/Services: robust segment result

Against a background of difficult general economic conditions, the segment's performance was satisfactory. Despite the low interest rate level that was very unfavourable for the deposit-taking business, the segment posted a positive result for the third quarter as well. At EUR 6 million, operating profit was close to the previous quarter (EUR 7 million), even though it fell short of the figure for the same quarter of the previous year (EUR 11 million), which had benefited from a more favourable interest rate environment.

At EUR 50 million, third quarter segment revenue was down slightly on the previous quarter (EUR 52 million), and also year-on-year (Q3 2008: EUR 54 million). The decline was largely due to the low interest rate environment, which is unfavourable for the deposit-taking business with the institutional housing industry. Moreover, the economic weakness resulted in a certain degree of investor reticence regarding new investment in specific customer segments of the Aareon AG subsidiary. Aareon's new Wodis Sigma product, which was launched in the second quarter, was met with great interest.

However, the deposit volume originated from the Institutional Housing Unit clients, which averaged EUR 3.9 billion in the third quarter and also represents a key refinancing source for Aareal Bank, remained largely stable, irrespective of the unfavourable interest rate environment. This demonstrates the high level of confidence clients keep placing in Aareal Bank, and the solid market position that the Group enjoys in the German institutional housing industry.

"Aareal Bank has been the lead bank for the German institutional housing industry for more than five decades. We maintain long-term contracts in this sector that are backed by long-term customer relationships. This approach is paying off especially in a market environment defined by uncertainties. The Consulting/Services segment is the Group's second strong pillar, and a reliable source of income - which requires lower capital backing relative to the lending business", Schumacher explained.

Solid refinancing situation and good capitalisation

Aareal Bank Group conducted its funding activities successfully during the first nine months of the year, thereby securing its good liquidity situation. The bank raised EUR 5 billion in long-term funds up until the end of September, with Pfandbriefe accounting for EUR 2.2 billion and uncovered issues for EUR 2.8 billion. In the third quarter the bank placed several very successful issues with an aggregate volume of EUR 730 million on the capital markets, by way of both public and private placements. This included a EUR 200 million bearer bond issue placed in September. Aareal Bank invests available

liquidity in a conservative manner and to ensure quick access, in order to provide continued financing support to its existing clients as well as being well equipped to deal with a potential deterioration of the situation on financial markets, which cannot be excluded.

As at 30 September 2009, Aareal Bank's Tier 1 ratio - measured in accordance with the credit risk standardised approach (CRSA) - was 10.7%, which is high by international standards.

Notes to consolidated results

Net interest income for the third quarter of 2009 was EUR 111 million (Q3 2008: EUR 117 million), thus amounting to EUR 339 million for the first nine months of the year (9m 2008: EUR 338 million). Net interest income after allowance for credit losses for the first nine months totalled EUR 224 million (9m 2008: EUR 278 million).

Net commission income totalled EUR 28 million for the third quarter (Q3 2008: EUR 34 million), and thus EUR 94 million for the first nine months of the year (9m 2008: EUR 102 million). Net commission income includes expenses of EUR 11 million for the guarantee facility extended by SoFFin for the period from April to September. Adjusted for this, net commission income was up slightly year-on-year.

Net trading income contributed EUR 19 million to third-quarter results (Q3 2008: EUR 25 million), amounting to a total of EUR 44 million for the first nine months of the year. This item was largely attributable to the measurement of stand-alone derivatives; in particular, a recovery in the value of credit derivatives +EUR 36 million).

The result from non-trading assets for the third quarter was -EUR 3 million (Q3 2008: -EUR 37 million) and -EUR 19 million for the first nine months (9m 2008: -EUR 36 million).

Administrative expenses amounted to EUR 88 million in the third quarter (Q3 2008: EUR 84 million). Taking into account the special charges of EUR 6 million incurred by Aareon AG, which were already communicated in the first quarter, administrative expenses of EUR 266 million for the first nine months of 2009 were stable compared with the previous year (EUR 261 million).

Net other operating income and expenses for the third quarter was -EUR 3 million (Q3 2008: -EUR 5 million). The figure of -EUR 8 million for the first nine months includes project expenditure (including legal and advisory costs) of EUR 6 million incurred in the first quarter in conjunction with the support measures agreed between SoFFin and the Bank. Last year's figure of EUR 17 million included non-recurring income of EUR 7 million from the Interhotel exposure.

On balance, consolidated operating profit for the third quarter amounted to EUR 25 million (Q3 2008: EUR 31 million). After deduction of EUR 3 million in income taxes and EUR 4 million in income attributable to non-controlling interests, consolidated net income after non-controlling interests amounted to EUR 18 million. After deduction of the return on the SoFFin contribution, consolidated net income stood at EUR 6 million.

Aareal Bank's consolidated operating profit for the first nine months of 2009 totalled EUR 67 million (9m 2008: EUR 106 million). Taking into consideration taxes of EUR 10 million and income attributable to non-controlling interests of EUR 13 million, net income attributable to shareholders of Aareal Bank AG amounted to EUR 44 million. After deduction of the return on the SoFFin deposit, consolidated net income stood at EUR 20 million.

Outlook: expectations for key financial indicators confirmed

Also at the end of the third quarter, Aareal Bank Group confirmed its projections for key financial indicators communicated to date. More concrete guidance is provided regarding certain indicators.

Consolidated net interest income is expected to be around EUR 455 million, and hence at the lower end of the EUR 455 - EUR 475 million range. Taking into account the EUR 35 million interest expense for the silent participation of SoFFin that is recognised under appropriation of profits, this equates to full-year net interest income of EUR 420 - EUR 440 million projected so far.

Allowance for expected credit losses is anticipated at EUR 150 million for the current year and therefore at the upper end of the forecasted target corridor, as has been communicated to date. It is, however, impossible to exclude additional impairments from unexpected losses for 2009. Administrative expenses are expected in the region of EUR 360 million and are therefore almost the same as the previous year.

From today's perspective, new business generated in the Structured Property Financing segment is expected to amount to EUR 3 billion for the year as a whole. Aareal Bank's particular focus is on extensions of existing exposures, and on financing requirements of existing clients. The bank will also exploit selected market opportunities going forward.

Aareal Bank expects net commission income in the Consulting / Services segment to rise again in the fourth quarter, with increased revenues generated by Aareon through the new Wodis Sigma product line as one contributing factor. The bank affirms its forecast of EUR 25 - EUR 30 million for the operative segment result before taxes and non-recurring effects - the forecast however remains dependant upon interest rate developments.

Aareal Bank Group anticipates its business environment to remain challenging in 2010: this expectation reflects the ongoing burdens on the real economy, which will impact with a time lag on some property markets, and the assessment that the financial markets crisis has yet to be fully remedied. "Nonetheless, we are convinced that Aareal Bank Group's coherent business model and conservative business policy - and also thanks to the precautionary usage of the measures agreed with SoFFin - has put the best possible prerequisites in place to enable us to endure the crisis in the financial markets and the accompanying economic downturn. At the same time, our company is in a good starting position to deal with the period after the crisis has been overcome. We will then be able to swiftly gain momentum, and to benefit from a competitive situation that has changed to our advantage, due to the crisis", Schumacher said.

Aareal Bank

Aareal Bank AG is one of the leading international specialist property banks. The Aareal Bank share is included in Deutsche Börse's mid-cap MDAX index. Aareal Bank operates on three continents: leveraging its successful European business model, the bank has established similar platforms in North America and in the Asia-Pacific region. It provides property financing solutions in more than 25 countries.

Contact:

Aareal Bank AG
Corporate Communications

Sven Korndörffer
phone: +49 611 348 2306
sven.korndoerffer@aareal-bank.com

Christian Feldbrügge
phone: +49 611 348 2280
christian.feldbruegge@aareal-bank.com

Investor Relations

Jürgen Junginger
phone: +49 611 348 2636
juergen.junginger@aareal-bank.com

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