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## Aareal Bank Group posts solid results for the 2009 financial year

Wiesbaden (ots) -

- Profit before taxes of EUR 86 million for the full year 2009 - 23 million for the fourth quarter
- Allowance for credit losses of EUR 150 million, in line with projections
- Tier 1 ratio of 11.0% pursuant to the Credit Risk Standard Approach (CRSA)
- Initial partial redemption of SoFFin contribution planned by early 2011
- CEO Dr Wolf Schumacher: "We have performed very well during the crisis. From today's perspective, we see good potential for increasing operating profit in 2010, even though the market environment is still fraught with uncertainty."

Aareal Bank Group concluded the financial year 2009 with a solid result, in a challenging market environment. According to the preliminary, unaudited figures, consolidated operating profit amounted to EUR 86 million, after EUR 110 million the year before. Operating profit of EUR 23 million was generated in the fourth quarter of 2009, equating to an increase of EUR 13 million over the final quarter of 2008.

The comparative figures for the 2008 financial year and the fourth quarter of 2008, as well as those posted for the first three quarters of 2009, show a slight divergence from the figures released previously. This marks the successful conclusion of an IFRS accounting project Aareal Bank has conducted over several years: the related accounting change required minor adjustments to prior periods.

Against the background of a sound performance to date throughout the crisis affecting financial markets and the economy, and the bank's solid capitalisation, the Management Board aims to start repayment of the silent participation provided by the German Financial Markets Stabilisation Fund ("SoFFin"). The bank intends to repay the first tranche - the volume of which will be agreed upon in due course - already until the beginning of 2011. Aareal Bank has various options for funding the repayment; the specifics have yet to be decided upon. In any case, the high Tier 1 ratio of 11.0% (in accordance with the CRSA) offers some room for manoeuvre, when compared to the medium-term target of 10%. Aareal Bank assumes that in view of its solid refinancing situation, it will not need to draw on the remaining EUR 2 billion SoFFin guarantee facility for unsecured issues during the current year.

Dr Wolf Schumacher, Chairman of Aareal Bank's Management Board, explained: "We have weathered the crisis affecting financial markets and the economy satisfactorily up to now. On the basis of our business model comprising two pillars, we have performed well during the challenging 2009 financial year. We have achieved the targets we forecasted for the period. Furthermore, the positive results mean that Aareal Bank will service all of its subordinated refinancing vehicles for the 2009 financial year. This includes the silent participation by SoFFin. From today's perspective, we see good potential for increasing operating profit in 2010, even though the market environment is still fraught with uncertainty. Although the persistently fragile market environment calls for a careful stance, the anticipated business development in 2010 should offer us the opportunity to further strengthen our competitive position."

2009 financial year: on track in a difficult market environment

Consolidated net interest income totalled EUR 459 million for 2009 (2008: EUR 495 million). Higher margins in the lending business were offset by lower returns on the very comfortable level of liquidity reserves maintained. The unfavourable interest rate environment also burdened results in the deposit-taking business with the institutional housing industry. The figure for the previous year was characterised by an extraordinarily strong net interest income for the fourth quarter, reflecting the favourable interest rate environment at the time.

Allowance for credit losses was recognised in an amount of EUR 150 million (2008: EUR 80 million), in line with projections. Additional allowance for credit losses in an amount of EUR 34 million recognised in 2008, on account of the difficult market environment, was not utilised in the financial year under review; in fact, it was increased by an additional EUR 14 million, bringing the total additional allowance to EUR 48 million.

Net commission income of EUR 133 million (previous year: EUR 149 million) reflected - amongst other things - EUR 17 million in running costs for the guarantee facility extended by SoFFin.

Net trading income/expenses of EUR 44 million (2008: EUR -31 million) was mainly accounted for by the measurement of financial instruments in the trading portfolio. This figure was due primarily to a recovery in the value of credit derivatives.

Restructuring the securities portfolio - conducted at the beginning of 2009 within the scope of the conservative risk policy adopted - was a main influencing factor upon the result from non-trading assets of EUR -22 million (2008: EUR -101 million). No further material burdens to non-trading assets were recognised during the remainder of 2009.

Administrative expenses of EUR 361 million were virtually unchanged year-on-year (2008: EUR 364 million). This reflects the strict cost discipline pursued within the Group.

Taking into account net other operating income and expenses of EUR -14 million (2008: EUR 34 million), consolidated operating profit for the 2009 financial year totalled EUR 86 million, after EUR 110 million in 2008. Taking into consideration taxes of EUR 19 million and minority interest income of EUR 18 million, net income attributable to shareholders of Aareal Bank AG amounted to EUR 49 million (unchanged from the previous year). After deduction of the net EUR 26 million cost of the SoFFin silent participation (taking into account the related tax effects), consolidated net income stood at EUR 23 million.

Both of the business segments contributed to Aareal Bank Group's satisfactory results for 2009 in the face of difficult market conditions.

Aareal Bank continued to pursue its conservative policy, with a strict focus on quality, in the Structured Property Financing segment, and achieved a positive result, despite the impact of the crisis affecting financial markets and the economy.

The focus in originating new business was on the existing client base, and on extending loan terms for existing financing projects. At EUR 3.8 billion, the volume of new business, including renewals, exceeded the target corridor of EUR 2 to 3 billion announced originally.

Net interest income posted by the segment for the financial year under review amounted to EUR 409 million (2008: EUR 426 million). Higher margins in the lending business were offset by lower returns on the very comfortable level of liquidity reserves maintained. Aareal Bank has built up a liquidity cushion, within the framework of

its conservative liquidity management policy in a market environment defined by uncertainty. Low short-term interest rates meant that this liquidity cushion could only be invested at low yields, which had a negative effect on net interest income.

Overall, operating profit for the Structured Property Financing segment was EUR 66 million, unchanged from the previous year's figure (EUR 66 million). Taking into consideration tax expenses of EUR 12 million and EUR 16 million in minority interest income, the segment result was EUR 38 million (2008: EUR 21 million).

The Consulting/Services segment also highlighted its importance as Aareal Bank Group's second pillar in the difficult environment during 2009. The volume of deposits from the institutional housing industry remained virtually stable and averaged at around EUR 4.0 billion in the 2009 financial year. This reflects the high level of confidence that institutional housing industry clients in Germany place in Aareal Bank as their reliable banking partner. This relationship of trust built up over many decades is bearing fruit, especially in an uncertain market environment.

Sales revenue amounted to EUR 209 million in the 2009 financial year (2008: EUR 229 million). The decline was largely due to the low interest rate environment, which impacted unfavourably on profitability of the deposit-taking business with the institutional housing industry. Revenue generated by our subsidiary group Aareon AG remained stable, despite the general economic weakness, which led to a lower volume of project tenders in the market - especially in the first half of the year. This reflected the successful continuation of Aareon's multi-product strategy. The new Wodis Sigma product, which was launched in the second quarter, was met with great interest.

On balance, operating profit for the Consulting / Services segment was EUR 20 million (2008: EUR 44 million). The year-on-year decline was due on the one hand to the effects of the historically low interest rate environment, which significantly impacted on the results generated in the deposit-taking business. On the other hand, non-recurring expenses for capacity adjustments at Aareon, as well as expenditure for the suspension of non-core activities, also affected results. Taking into account these non-recurring effects, which amounted to an aggregate EUR 6 million, the segment's operating profit was within the communicated range of EUR 25-30 million.

After deduction of EUR 7 million in taxes and EUR 2 million in minority interest income, the segment result stood at EUR 11 million (2008: EUR 28 million).

#### Solid refinancing situation and good capitalisation

Aareal Bank continued to adhere to its forward-looking refinancing policy during the year under review. Several private placements as well as public issues were successfully distributed to a broad investor base over the course of the year. Pfandbriefe totalling EUR 2.3 billion were issued within the scope of the bank's refinancing activities in the 2009 financial year. Aareal Bank benefited from an easing of market sentiment that was evident from mid-year onwards, to increase its placements of unsecured bonds and promissory note loans. The issuing volume for the year as a whole amounted to EUR 1.1 billion, plus a EUR 2 billion unsecured bond issue guaranteed by SoFFin.

As at 31 December 2009, Aareal Bank's Tier 1 ratio - measured in accordance with the Credit Risk Standard Approach (CRSA) - was 11.0 %, which is high by international standards. The Tier 1 ratio is thus clearly above the medium-term target ratio of 10%, as defined by the Management Board. Good capitalisation provides Aareal Bank with the necessary scope to continue to act as a reliable financing partner for its existing clients, and also to increasingly exploit the market opportunities presented to it.

Notes on the preliminary Income Statement for the fourth quarter

of 2009

Aareal Bank Group also posted a profit in the fourth quarter of 2009. Consolidated net income after minority interests and the net interest cost on the SoFFin silent participation amounted to EUR 6 million, after EUR 3 million in the same quarter of the previous year.

According to preliminary figures, net interest income in the final quarter of 2009 stood at EUR 115 million (Q4 2008: EUR 140 million), up EUR 3 million from the third quarter of 2009. Allowance for credit losses for the period amounted to EUR 35 million (Q4 2008: EUR 20 million). Net commission income for the fourth quarter was EUR 39 million in the fourth quarter (Q4 2008: EUR 48 million).

Net trading income/expenses in the final quarter of 2009 was EUR 3 million, compared with EUR -25 million in the same quarter of the previous year. Results from non-trading assets in the fourth quarter were EUR -3 million (Q4 2008: EUR - 61 million).

Administrative expenses amounted to EUR 83 million in the fourth quarter (Q4 2008: EUR 90 million), also below the third quarter of 2009 (EUR 92 million).

On balance, operating profit for the fourth quarter was EUR 23 million (Q4 2008: EUR 10 million). After deduction of EUR 4 million in income taxes and EUR 5 million in income attributable to minority interests, consolidated net income after minority interests amounted to EUR 14 million (Q4 2008: EUR 3 million). After deduction of EUR 8 million in net interest payable on the SoFFin silent participation, consolidated net income stood at EUR 6 million.

Outlook: rising net interest income expected for 2010, allowance for credit losses will remain manageable

Aareal Bank Group anticipates a slight overall improvement in business development for the current financial year - even though the environment for commercial property finance is expected to be equally as challenging as in 2009.

Against the background of a slight to moderate increase in interest rates, the Management Board expects net interest income to grow to a range of EUR 460-480 million. This projection is based on higher lending margins, together with a lower burden from liquidity reserves.

Aareal Bank expects allowance for credit losses to remain at manageable levels during the 2010 financial year. Allowance for credit losses recognised in income is expected to range between EUR 117 million to EUR 165 million: the actual level will depend in particular on the extent to which the additional allowance for credit losses of EUR 48 million will, in fact, be utilised. As in the previous year, the bank cannot rule out additional allowances for credit losses that may be incurred during 2010.

Aareal Bank Group expects a moderate year-on-year rise in net commission income.

Although Aareal Bank does not engage in proprietary trading in the conventional sense, it is impossible to forecast net trading income/expenses owing to market-related fluctuations, the measurement of hedges within the scope of refinancing the bank's core business, as well as the measurement of financial instruments held in our trading portfolio.

Administrative expenses continue to be defined by the continued strict cost discipline, and the figure for 2010 is expected to be roughly in line with last year.

From today's perspective, Aareal Bank sees good potential for increasing operating profit in 2010, even though the market environment continues to be fraught with uncertainty.

New business generated in the Structured Property Financing segment is currently expected to range between EUR 4 billion and EUR 5 billion in 2010. Aareal Bank will continue to concentrate on the funding requirements of its existing client base. The increase in the volume of new business will reduce the share of loan term extensions relative to new business.

The Management Board believes the challenging interest rate environment will continue to impact on the segment result for Consulting/Services; profit before taxes are expected to slightly above the adjusted operating profit of the previous financial year.

#### 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.

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