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Aareal Bank Group remains on course in the second quarter of 2010

Wiesbaden (ots) -

- Second-quarter consolidated operating profit rises to EUR 31 million (Q2 2009: EUR 19 million)
- Allowance for credit losses of EUR 33 million remains at a manageable level
- New Structured Property Financing business expanded to EUR 1.6 billion
- Consulting/Services segment: Aareon performs well, and on schedule - interest rate environment remains unfavourable for deposit-taking
- Outlook for the full year 2010 affirmed

Aareal Bank Group continues to develop on schedule during the current financial year, posting very satisfactory results for the second quarter of 2010, in a challenging market environment. At EUR 31 million, consolidated operating profit clearly exceeded the results of the same quarter of the previous year (EUR 19 million). Half-year consolidated operating profit of EUR 61 million was also markedly higher year-on-year (H1 2009: EUR 43 million). Both of the bank's business segments continued to contribute to this positive development.

Dr Wolf Schumacher, Chairman of the Management Board, commented on Aareal Bank's second-quarter results: "We continue to perform well during the 2010 financial year. Our good results for the second quarter - which was once again characterised by uncertainty and turbulence on the capital markets - is further evidence that our business model is viable and sustainable."

Against the background of a sound operating performance and the bank's solid capitalisation, Aareal Bank announced at the end of the second quarter that it would repay a first tranche of the silent participation by the German Financial Markets Stabilisation Fund (SoFFin). The EUR 150 million tranche was repaid on 16 July, making Aareal Bank the first bank to start repaying capital support provided by SoFFin.

"We have achieved solid consolidated results in a demanding market environment. We also markedly accelerated repayment of SoFFin funds - these are clear signs of Aareal Bank Group's strong operating performance, and the good shape the bank is in. We continue to have our risk exposure well under control; the bank has a very solid capitalisation and is well-positioned for the future", said Dr Schumacher.

Structured Property Financing segment: marked increases in operating profit and new business

Operating in a commercial property market environment that remains challenging - regardless of some early signs of improvement - Aareal Bank's Structured Property Financing segment once again performed well. The bank consistently pursued its sustainable, prudent and conservative business policy during the second quarter, increasingly exploiting opportunities for attractive new business which emerged. Overall, the bank increased the volume of new business originated during the second quarter to EUR 1.6 billion, whereby the share of renewals declined. This brings the aggregate new business figure for the first half of the year to EUR 2.9 billion - a level that is appropriate, considering the state of the sector.

At EUR 25 million, operating profit in the Structured Property Financing segment was significantly up year-on-year (Q2 2009: EUR 12 million). At EUR 111 million, net interest income in the segment was higher than in the previous quarter, and also higher than in the same period of the previous year (EUR 106 million and EUR 103 million, respectively). The increase was largely due to the higher margins achieved in the lending business. The net figure also includes a EUR 2 million payment received from Deutsche Interhotel Holding GmbH & Co. KG.

At EUR 33 million, allowance for credit losses has remained at a clearly manageable level (Q2 2009: EUR 42 million); in spite of turbulence on some key markets, the figure was virtually unchanged from the previous quarter and remained within the normal fluctuation range - once again, evidence to the high quality of Aareal Bank's property financing portfolio.

Consulting/Services segment: Aareon performs well, and on schedule - interest rate environment remains unfavourable

Aareon's positive performance has been on schedule: the subsidiary's business activities continue to develop within the defined target range. Around 250 businesses of all sizes have signed up for Wodis Sigma since this product generation was launched in 2009. Aareon acquired twelve additional Wodis Sigma accounts during the second quarter of this year alone.

The interest rate environment remained unfavourable for the profitability of the deposit-taking business during the second quarter of 2010. Nonetheless, the Consulting/Services segment once again showed a robust performance, generating operating profit of EUR 6 million (Q2 2009: EUR 7 million). Despite ongoing predatory competition for customer deposits in terms of pricing during the second quarter, the volume of deposits taken from the institutional housing industry averaged EUR 4.1 billion, up slightly

compared to the previous quarter (Q1 2009: EUR 3.9 billion). This reflects the high level of confidence that institutional housing industry clients in Germany continue to place in Aareal Bank as their reliable banking partner.

Successful funding activities - capitalisation remains solid

Aareal Bank's refinancing remains solid after the first six months of the current financial year. The bank was successful in its refinancing activities carried out during the year to date: raising some EUR 1.3 billion in long-term funding via private and public placements on the capital market during the second quarter; this included around EUR 1 billion in Pfandbrief issues and approximately EUR 300 million in unsecured issues. Overall, the bank placed EUR 700 million in unsecured issues during the first half of the year, and placed EUR 1.8 billion in Pfandbriefe.

To retain its ability to respond quickly and flexibly at all times to possible market distortions over the medium term, Aareal Bank took the decision during the second quarter to draw on the remaining EUR 2 billion tranche of the SoFFin guarantee facility for a shelf bond issue, which the bank has taken onto its own books. This utilisation of the framework guarantee is purely precautionary in nature, and there are no plans at present to place it on the market.

Aareal Bank continues to demonstrate solid capitalisation as at 30 June 2010: the Tier 1 ratio measured in accordance with the Credit Risk Standard Approach (CRSA) was 10.2 per cent, which continues to be high by international standards. The figure reported includes the partial repayment of the SoFFin silent participation, which was effected after the reporting date.

Notes to Group financial performance

Net interest income for the second quarter of 2010 was EUR 122 million (Q2 2009: EUR 116 million), thus amounting to EUR 239 million for the first six months of the financial year (H1 2009: EUR 233 million). Net interest income after allowance for credit losses for the first half of the year totalled EUR 174 million (H1 2009: EUR 154 million).

Net commission income was EUR 32 million in the second quarter (Q2 2009: EUR 30 million), bringing the total figure for the first half of the year to EUR 62 million (H1 2009: EUR 66 million). This item reflects EUR 11 million in running costs for the guarantee facility extended by SoFFin at the end of March 2009, for the period from January to June 2010 (H1 2009: EUR 6 million). Taking into account this effect, net commission income was in line with the figure posted for the same period of the previous year.

Net trading income/expenses for the second quarter was EUR -13 million (Q2 2009: EUR 5 million) and EUR -7 million for the first half of the year (H1 2009: EUR 23 million). The net result was largely attributable to the valuation of trading derivatives used to hedge interest rate and currency risk, and to realised and unrealised changes in value recognised on the sale of protection on selected EU government bonds.

Sales of fixed-income securities executed during the second quarter resulted in a positive result from non-trading assets of EUR 14 million (Q2 2009: EUR 1 million). As in the previous quarter, the measurement of non-trading assets did not result in any burdens on income during the second quarter; the figure for the first six months was also positive, at EUR 14 million (H1 2009: EUR -16 million).

Administrative expenses in the Group amounted to EUR 92 million in the second quarter (unchanged year-on-year), and EUR 183 million in the first half-year, down EUR 3 million (H1 2009: EUR 186 million). This continues to reflect pursuance of the Group's strict cost discipline.

Net other operating income and expenses in the second quarter amounted to EUR -6 million (Q2 2009: EUR 1 million), bringing the total figure for the first half of the year to EUR -8 million (H1 2009: EUR 1 million). The net figure includes project costs and provisions recognised for subsidiaries.

The payment by Deutsche Interhotel Holding GmbH & Co KG was recognised in the result of investments accounted for using the equity method, in an amount of EUR 5 million for the second quarter; this was also the figure for the first half of the year (H1 2009: nil).

On balance, consolidated operating profit for the second quarter amounted to EUR 31 million (Q2 2009: EUR 19 million). After deduction of EUR 9 million in income taxes and EUR 4 million in income attributable to non-controlling interests, net income after minority interests amounted to EUR 18 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated net income stood at EUR 9 million (Q2 2009: EUR 3 million).

Aareal Bank Group's consolidated operating profit for the first six months of 2010 totalled EUR 61 million (H1 2009: EUR 43 million). Taking into consideration taxes of EUR 18 million and non-controlling interest income of EUR 9 million, net income attributable to shareholders of Aareal Bank AG amounted to EUR 34 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated net income stood at EUR 17 million (H1 2009: EUR 15 million).

Outlook: forecasts affirmed in an environment that continues to be challenging

Notwithstanding the indications of a slight improvement on property markets, at the mid-year point Aareal Bank continues to expect the 2010 financial year to remain as challenging as 2009.

However, the bank adheres to its cautiously optimistic outlook for business performance during the remainder of the year, and affirms its forecasts communicated to date, with net interest income projected to increase to EUR 460 million to EUR 480 million. Allowance for credit losses recognised in income is expected to range between EUR 117 million and EUR 165 million: the actual level will depend in particular on the extent to which the additional allowance for credit losses (which was increased from EUR 34 million to EUR 48 million in the 2009 financial year) will, in fact, be utilised. As in the previous year, the bank cannot rule out

additional allowances for unexpected credit losses that may be incurred during the 2010 financial year.

Consolidated administrative expenses are expected to remain in line with the previous year, reflecting the Group's continued strict cost discipline.

The measures resolved during the second quarter - the utilisation of the remaining SoFFin guarantee facility, and the early partial repayment of the silent participation - impact on net commission income and on the appropriation of profits. The additional fees payable for the utilisation of the remaining framework guarantee burden operating profit. In contrast, the relief on income due to the early partial repayment of the silent participation (which virtually offsets the higher fees) is not reported in operating profit, but in the appropriation of profits. Despite this effect which burdens operating profit, from today's perspective Aareal Bank continues to anticipate potential for increasing consolidated operating profit for the full 2010 financial year, even though the market environment continues to be fraught with uncertainty.

New business generated in the Structured Property Financing segment is currently expected at the upper end of the range between EUR 4 billion and EUR 5 billion in 2010, with a lower share of renewals. In the Consulting / Services segment, Aareon continues to develop on schedule, whereas the ongoing low interest rate environment burdens profitability in the deposit-taking business.

"We will continue to adhere to our conservative business and risk policies, which have paid off for the bank, during the remaining months of 2010," said CEO Dr Schumacher, adding: "At the same time, we will increasingly exploit opportunities for attractive new business with appropriate risk/return ratios, which are emerging on a broader scale now. Leveraging our sustainable business model that is based on two strong segments, and a business policy rooted in solidity and stability, Aareal Bank will be better placed than its sector peers to capitalise on the impending market recovery. Our close proximity to clients and markets, our forward-looking funding policy, and our flexibility as a medium-sized company - these are the prerequisites for further expanding our leading market position during the years to come", Schumacher explained.

Note to editors: Aareal Bank's full interim report for the second quarter of 2010 is available for download from <http://www.aareal-bank.com/en/investor-relations/financial-reports/>.

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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