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Aareal Bank Group reports a marked increase in third-quarter profits

Wiesbaden (ots) -

- Nine-month operating profit already exceeds full-year 2009 results - Aareal Bank has thus achieved a key objective for the current financial year
- Full-year forecasts raised for key financial indicators
- Consolidated operating profit of EUR 33 million, up from EUR 21 million in Q3 2009
- Allowance for credit losses of EUR 32 million for the third quarter remains at a manageable level

Wiesbaden, 9 November 2010 - Aareal Bank Group continued to perform well during the current financial year, posting consolidated operating profit of EUR 33 million for the third quarter - in a business environment that continues to be challenging. The bank's operative result thus not only exceeded the very satisfactory result posted for the previous quarter (EUR 31 million) but also the figure for the same period of the previous year (EUR 21 million). Once again, both of the Group's segments contributed to the strong results achieved in the third quarter. Aareal Bank Group's consolidated operating profit for the first nine months of the year thus amounts to EUR 94 million, up by close to 47 per cent year-on-year (9m 2009: EUR 64 million). At EUR 32 million, allowance for credit losses recognised from July to September was slightly below the previous quarter (Q2 2010: EUR 33 million), and clearly below the previous year's figure (Q3 2009: EUR 36 million).

Dr Wolf Schumacher, Chairman of Aareal Bank's Management Board, commented on the figures: "Thanks to the strength and soundness of our business model, we once again performed very well in a market environment that continues to be truly challenging for the property sector. We continue to consistently exploit the market opportunities available, whilst maintaining a tight rein on our risk exposure. Our consolidated operating profit already exceeds the full-year results for 2009 - this means that we have already achieved a key objective for the current financial year after only three quarters in 2010."

Structured Property Financing segment: operating profit increases markedly

Aareal Bank once again boosted operating profit in the Structured Property Financing segment during the third quarter. At EUR 28 million, it not only clearly exceeded the EUR 15 million reported in the same quarter of the previous year, but also improved on the good results posted in the second quarter of 2010 (EUR 25 million). Net interest income in the period under review was EUR 121 million after EUR 99 million in the comparable period of the previous year. The increase was largely due to higher margins achieved in the lending business.

Allowance for credit losses totalled EUR 32 million in the third quarter (Q3 2009: EUR 36 million), thus remaining within the normal fluctuation range, and so on a clearly manageable level, despite the persistently challenging environment. This fact once again highlights the high quality of Aareal Bank's property financing portfolio.

Even though the environment for the property sector has remained challenging throughout the year to date, Aareal Bank was able to leverage its strong capital and liquidity base to exploit several opportunities to generate attractive new business during the third quarter. As in the past, the bank did so selectively, with a strategy centred around quality and prudence. New business in the third quarter was EUR 1.2 billion and thus significantly higher than in the same quarter of the previous year (Q3 2009: EUR 0.7 billion). Aareal Bank therefore raised its new business to EUR 4.1 billion in the first nine months of the year, an increase of EUR 1.7 billion over the same period of the previous year. The share of loan renewals continued to decline.

Consulting/Services: interest rate environment remains unfavourable - Aareon continues to develop positively, in line with projections

At EUR 5 million, operating profit generated by the Consulting / Services segment was slightly lower compared with the corresponding quarter of the previous year (Q3 2009: EUR 6 million). Results were negatively impacted by a sustained low interest rate environment, which has persisted for longer than anticipated, and which in turn has adversely affected the profitability of the deposit business. Despite continued intense competition for client deposits, the volume of deposits from the institutional housing industry remained stable during the third quarter of 2010, averaging EUR 4.2 billion.

Aareon AG's business activities developed according to plan, and were once again shaped by its successful Wodis Sigma product line. Introduced in 2009, this product generation has met with an exceptionally positive response from Aareon's clients. Since its introduction, more than 260 companies of all sizes, managing around a million housing units between them, have opted for Wodis Sigma. This includes many new clients.

Refinancing: successful issuance activities

Aareal Bank remains solidly financed. The bank continued its successful funding activities - as planned - during the third quarter of

this year. Overall, the bank placed EUR 1.1 billion in unsecured issues during the first nine months of the year - EUR 400 million of which was during the third quarter - and placed EUR 2 billion in covered bonds (Pfandbriefe), of which EUR 300 million was during the period under review. The bank's enduringly solid and conservative refinancing and liquidity policy provides the basis for its robust operating business, and the secure foundation of its successful business model.

Aareal Bank's capitalisation remained very sound in the third quarter: as at 30 September 2010, the bank's Tier 1 ratio - measured in accordance with the Credit Risk Standard Approach (CRSA) - was 10.4 per cent, which is high by international standards.

Notes to Group financial performance

Net interest income in the third quarter of 2010 was EUR 131 million (Q3 2009: EUR 112 million), bringing the figure for the first nine months of the financial year to EUR 370 million (9m 2009: EUR 345 million). Net interest income including allowance for credit losses amounted to EUR 273 million for the first nine months (9m 2009: EUR 230 million).

Net commission income for the third quarter was EUR 24 million (Q3 2009: EUR 28 million), bringing the total figure for the first nine months to EUR 86 million (9m 2009: EUR 94 million). This item reflects EUR 20 million in running costs for the guarantee facility extended by SoFFin at the end of March 2009, for the period from January to September 2010 (9m 2009: EUR 11 million). It includes additional expenditure - incurred in the third quarter for the first time - for the precautionary utilisation of the remaining SoFFin guarantee facility. Taking this effect into account, net commission income was up slightly year-on-year.

Net trading income/expenses for the third quarter was EUR 2 million (Q3 2009: EUR 18 million), and EUR -5 million for the first nine months (9m 2009: EUR 41 million). The net result was largely attributable to the valuation of trading derivatives used to hedge interest rate and currency risks, and to realised and unrealised changes in value from sold hedging instruments on selected EU sovereign countries.

Results from non-trading assets amounted to EUR -3 million in the third quarter (Q3 2009: EUR -3 million). The corresponding figure for the first nine months of the financial year was positive, at EUR 11 million, compared to a net deficit of EUR 19 million for the first nine months of 2009.

Third-quarter administrative expenses were EUR 88 million (Q3 2009: EUR 92 million). The EUR 271 million figure for the first nine months was EUR 7 million lower year-on-year (9m 2009: EUR 278 million). This continues to reflect pursuance of the Group's strict cost discipline.

Net other operating income and expenses totalled EUR 1 million for the third quarter (Q3 2009: EUR -3 million), and EUR -7 million for the first nine months (9m 2009: EUR -2 million). The net figure included project costs and provisions recognised for subsidiaries.

Consolidated operating profit for the third quarter thus totalled EUR 33 million (Q3 2009: EUR 21 million). Taking into consideration income taxes of EUR 11 million and minority interest income of EUR 5 million, consolidated net income after non-controlling interest income amounted to EUR 17 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated income stood at EUR 10 million (Q3 2009: EUR 3 million).

Consolidated operating profit for the first nine months of the current year totalled EUR 94 million (9m 2009: EUR 64 million). Taking into consideration taxes of EUR 29 million and minority interest income of EUR 14 million, net income attributable to shareholders of Aareal Bank AG amounted to EUR 51 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated income stood at EUR 27 million.

Outlook: full-year forecasts raised for key financial indicators

Aareal Bank Group's business has outperformed expectations during the course of 2010 to date. Especially given the background of the positive results posted for the third quarter, the bank thus raised its forecasts for key financial indicators.

New business generated in the Structured Property Financing segment is currently projected to exceed the previously forecasted range of between EUR 4 billion and EUR 5 billion in 2010, with the share of renewals expected to decline further.

Owing to the positive developments in the course of the year to date, Aareal Bank now believes that the communicated target corridor for net interest income of between EUR 460 and EUR 480 million will also be exceeded. Although prevailing low interest rates will continue to depress margins generated on deposits from the institutional housing industry, this development will be offset especially by higher margins generated in the lending business.

The commercial property financing business environment remains challenging. After the first nine months of the year, Aareal Bank expects allowance for credit losses to be in the lower half of the forecast range between EUR 117 million and EUR 165 million. The exact figure depends especially on the utilisation of the additional allowance for credit losses, which was increased from EUR 34 million to EUR 48 million in the 2009 financial year. It is, however, still impossible to exclude additional impairments from unexpected losses. However, from today's perspective, Aareal Bank views this as a rather unlikely scenario.

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

In the Consulting / Services segment, Aareon continues to develop on schedule, whilst the ongoing low interest rate environment burdens profitability in the deposit-taking business.

Aareal Bank has already achieved its objective for 2010 full-year operating profit to exceed the previous year's figure after nine

months. Although the market environment remains subject to uncertainty, the international property specialist is confident of its ability to post a solid profit again in the fourth quarter, and therefore to increase the operating profit even further at year-end.

"The positive overall performance we have seen over the last months has clearly affirmed our view that commercial property financing can look forward to a bright future", said CEO Dr Wolf Schumacher. "We continue to expect the market environment to normalise gradually during the current year, and especially in 2011. Our assumption is that markets will return to normal again as of 2012. Leveraging our sustainable business model that is based on two strong segments, and a business policy rooted in solidity and sustainability, Aareal Bank is best placed to capitalise on the impending market recovery. This will enable us to further expand our position as one of the leading providers in the markets we cover", Schumacher added.

Note to editors: The full interim report for the third quarter of 2010 is available on <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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