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Aareal Bank Group set for profitable growth

Wiesbaden (ots) -

- Further enhancements to results anticipated, following the successful financial year 2010
- Business development on schedule during early 2011 - positive outlook affirmed
- CEO Dr Wolf Schumacher: "We are determined to consistently exploit our competitive edge, and to further expand our market position"

Following its successful performance during the 2010 financial year, during which Aareal Bank achieved good results in a challenging environment, the bank sees itself in an excellent position for profitable growth, and for further boosting its market position during the coming months and years. "Leveraging our sustainable strategy, we are now determined to consistently exploit our competitive edge, to further expand our strong position on key markets", said Dr Wolf Schumacher, Chairman of the Management Board, presenting the bank's 2010 Annual Report.

Schumacher affirmed that Aareal Bank's outlook for the commercial property financing business remained generally positive: he observed that key markets had now concluded their bottom-building process - as predicted one year ago. According to Schumacher, demand for financings is picking up markedly in some segments, whilst the number of competitors has clearly diminished following the financial markets crisis.

"We are convinced that, as one of the few real estate finance providers left that maintains a broad international presence, we will be able to benefit from the ongoing normalisation of the markets we cover, to a greater extent than our competitors," Schumacher said, adding: "Our transaction pipeline is very well-stocked indeed - in the current market environment, a strongly-positioned institution such as Aareal Bank sees attractive opportunities for generating high-margin new business, with an adequate risk profile. We are determined to exploit these opportunities. In the interests of our shareholders, we will therefore retain all options to boost our lending business, in line with our strategy, beyond our current planning - which would permit us to increase new business during the current year above the previous year's levels", Schumacher emphasised.

Positive outlook for the 2011 financial year affirmed

Aareal Bank Group started into the current financial year as planned: notably, the positive development of new business continued during the first quarter, which is traditionally rather weak for both of its segments.

Aareal Bank affirms its outlook for the financial year 2011 as a whole, as published on 22 February 2011. Against the background of moderately higher interest rate levels, the Management Board expects net interest income to be stable or slightly higher compared with the previous year. Due to the gradual normalisation of property markets, and although there are still various uncertainties, Aareal Bank expects allowance for credit losses for the 2011 financial year to be within a range of EUR 110 million to EUR 140 million. (The previous year's projection was a range of EUR 117 million to EUR 165 million.) As in the previous year, additional allowance for unexpected credit losses that may be incurred during 2011 cannot be ruled out. Administrative expenses will continue to be defined by the unchanged cost discipline, and the figure for 2011 is expected to be marginally higher than the previous year, including the burden associated with the special bank levy.

Overall, Aareal Bank is confident, from today's perspective, that it will increase the good operating profit achieved during the 2010 financial year, in a challenging market environment. Despite the additional burdens facing banks as a result of the bank levy, Aareal Bank considers a return on equity before taxes of at least 12 per cent to be achievable in a normal market environment.

Significant increase in results for the 2010 financial year

Aareal Bank Group concluded the financial year under review with one of the best results in its corporate history - despite a difficult market environment. According to audited figures, consolidated operating profit amounted to EUR 134 million, up 54 per cent year-on-year (2009: EUR 87 million). Aareal Bank Group had in fact already achieved its original target - to beat the previous year's figure - by the end of the third quarter of 2010.

Looking at full-year results, Aareal Bank Group not only clearly outperformed its operating profit target, but also exceeded its projections for other key financial indicators. For instance, consolidated net interest income of EUR 509 million - up 11 per cent year-on-year - was markedly higher than the EUR 460-480 million range projected. At the same time, allowance for credit losses of EUR 105 million was below the EUR 117 to 165 million range budgeted for the 2010 financial year. At EUR 6.7 billion, new business originated in the Structured Property Financing segment significantly exceeded the target corridor of EUR 4 billion to EUR 5 billion; compared to 2009, new business was up by 74 per cent. At EUR 26 million, operating profit for the Consulting / Services segment was in line with projections, despite an unfavourable interest rate environment for the deposit-taking business.

This increase in consolidated net interest income for the full year 2010, to EUR 509 million (2009: EUR 460 million) was mainly attributable to higher average margins achieved in the lending business, reflecting new exposures originated and renewals agreed upon during 2009 and 2010. Margins from the deposit-taking business with the institutional housing industry declined, due to lower interest rate levels - which persisted for longer than anticipated.

At EUR 105 million (2009: EUR 150 million), allowance for credit losses reflected the high quality of Aareal Bank Group's credit portfolio.

Net commission income of EUR 123 million (2009: EUR 133 million) reflected - amongst other things - EUR 30 million (2009: EUR 17 million) in running costs for the guarantee facility extended by SoFFin. Adjusted for these costs, net commission income exceeded the previous year's figure.

Net trading income/expenses of EUR 8 million (2009: EUR 44 million) 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 from sold hedging instruments on selected EU sovereign countries. The result from non-trading assets of EUR -12 million (2009: EUR -22 million) was mainly attributable to the sale of fixed-income securities.

A non-recurring expense of EUR 20 million was recognised for the realignment of an investment property during the financial year under review. This expense was reflected in the result from investment properties, which amounted to EUR -17 million during the 2010 financial year (2009: EUR 0 million).

Administrative expenses of EUR 366 million were virtually unchanged year-on-year (2009: EUR 361 million). This reflects the strict cost discipline pursued within the Group.

Taking into account net other operating income and expenses of EUR -9 million (2009: EUR -14 million), consolidated operating profit for the 2010 financial year totalled EUR 134 million, after EUR 87 million in 2009. Taking into consideration taxes of EUR 40 million and EUR 18 million in income attributable to non-controlling interests, net income attributable to shareholders of Aareal Bank AG amounted to EUR 76 million (2009: EUR 49 million). After deduction of the net EUR 30 million interest payable on the SoFFin silent participation, consolidated net income stood at EUR 46 million (2009: EUR 23 million).

Both of the business segments contributed to Aareal Bank Group's good results for 2010, in the face of difficult market conditions.

Aareal Bank adhered to its conservative business policy - strictly focusing on quality - in its Structured Property Financing segment. Benefiting from economic recovery, and leveraging growing transaction volumes on the commercial property markets, Aareal Bank increasingly exploited available opportunities to originate attractive new business, which increased to EUR 6.7 billion during the 2010 financial year - up from EUR 3.8 billion the year before.

Net interest income posted by the segment for the financial year under review amounted to EUR 467 million (2009: EUR 410 million). This increase was mainly attributable to higher average margins generated on new exposures and renewals during 2009 and 2010.

At EUR 217 million, administrative expenses in the Structured Property Financing segments exceeded the previous year's figure of EUR 201 million. One of the factors contributing to this increase was higher provisions for share-based remuneration, due to the positive performance of Aareal Bank's share price during the financial year under review.

Overall, operating profit for the Structured Property Financing segment was EUR 108 million (2009: EUR 67 million). Taking into consideration tax expenses of EUR 32 million and EUR 16 million in non-controlling interest income, the segment result was EUR 60 million (2009: EUR 38 million).

The Consulting/Services segment continued to show a stable performance during the 2010 financial year. While Aareon's business continued to develop on schedule, the prevailing low interest rate environment - which persisted for longer than anticipated - burdened profitability in the deposit-taking business.

Sales revenue amounted to EUR 199 million in the 2010 financial year (2009: EUR 209 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. Nonetheless, the volume of deposits from the institutional housing industry increased slightly, despite predatory competition, averaging around EUR 4.1 billion during the 2010 financial year. Sales revenue included EUR 5 million of revenue generated by SG|automatisering bv, a Dutch subsidiary acquired by Aareon during the fourth quarter of 2010.

On balance, operating profit for the Consulting / Services segment was EUR 26 million (2009: EUR 20 million). After deduction of EUR 8 million in taxes and EUR 2 million in non-controlling interest income, the segment result stood at EUR 16 million (2008: EUR 11 million).

Successful issuance and solid capitalisation

During the 2010 financial year, Aareal Bank successfully implemented its planned funding activities, in a market environment that continued to be difficult, especially for unsecured issues. Overall, Aareal Bank placed EUR 1.5 billion in unsecured issues - a confirmation of the trust that investors continue to place in Aareal Bank and its management. The bank also placed Pfandbrief issues totalling EUR 2.4 billion. Moreover, in June 2010 Aareal Bank exercised the option of drawing on the remaining EUR 2 billion available under the guarantee facility provided by the German Financial Markets Stabilisation Fund (SoFFin). This use of the guarantee facility was purely precautionary in nature; the bank continues to hold the guaranteed bond issued on its own books.

Aareal Bank has a solid capital base. The bank has applied the Advanced Internal Ratings-Based Approach (Advanced IRB Approach, "A-IRBA") to determine its capital requirements for credit risks, with retrospective effect from 31 December 2010, instead of the Credit Risk Standard Approach (CRSA) applied to date. Under the A-IRBA, Aareal Bank's Tier 1 ratio stood at 12.9 per cent as at 31 December 2010. Calculated according to the CRSA previously applicable, the bank's Tier 1 ratio would have amounted to 10.5 per cent on the same record date (30 September 2010: 10.4 per cent). The Tier 1 ratio according to the A-IRBA, excluding hybrid capital and the remaining SoFFin silent participation (of which Aareal Bank repaid an initial EUR 150 million tranche in July 2010), stood at 8.1 per cent as at the year-end. The capital ratios shown are based on the full reinvestment of profits generated during the 2010 financial year.

Note to editors:

The full annual report for 2010 is available from Aareal Bank's website: <http://www.aareal-bank.com/financialreports>.

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 20 countries.

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