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## Aareal Bank Group posts a marked increase in profits for the 2011 financial year

Wiesbaden (ots) -

- Consolidated operating profit up 38 per cent over the previous year to EUR 185 million - consolidated net income more than doubled,

to EUR 93 million

- Tier 1 ratio at 16.3 per cent and core Tier 1 ratio at 11.3 per cent, as at 31 December 2011
- CEO Dr Wolf Schumacher: "We exploited the opportunities available to us during the year under review, and delivered on our promises despite a challenging market environment."

Thanks to an excellent business performance also maintained during the final quarter, Aareal Bank significantly increased its 2011 financial year results over the previous year. Based on preliminary, unaudited figures, consolidated operating profit for the 2011 financial year climbed by 38% or EUR 51 million compared with 2010, to EUR 185 million - despite the very challenging market environment the bank faced for long periods during 2011. Consolidated net income reached EUR 93 million and has therefore more than doubled year-on-year (2010: EUR 46 million).

Aareal Bank Group replicated the positive performance of the previous quarters in the fourth quarter of 2011 too. At EUR 47 million, consolidated operating profit was significantly higher than in the final quarter of 2010 (EUR 40 million). Consolidated net income increased to EUR 24 million in the fourth quarter (Q4 2010: EUR 19 million).

Aareal Bank achieved its key targets in the financial year under review. The excellent result - considering the challenging market environment - is attributable to, amongst other things, a significant increase in net interest income, which benefited from the previous year's high-margin new business. Aareal Bank also consistently took advantage of available market opportunities and increased the volume of new business to EUR 8.0 billion; it was therefore at the upper end of the projected target corridor of EUR 7 billion to EUR 8 billion and clearly outperformed the level achieved in 2010 (EUR 6.7 billion). Maintaining a prudent business policy throughout 2011 paid off, too: on the one hand, allowance for credit losses totalling EUR 112 million was at the lower end of the projected range of EUR 110 to EUR 140 million and was only marginally higher than last year (EUR 105 million), despite the poor economic development.

"We delivered on our promises again in the financial year under review, despite the escalating turbulences on financial markets in the second half of the year. Our very good results show that Aareal Bank Group is well-positioned to master the challenges presented by the economic downturn, the uncertain political framework and the cumulative regulatory changes that are forthcoming", CEO Dr Schumacher explained.

2011 financial year: good performance despite challenging environment

Consolidated net interest income posted for the financial year under review amounted to EUR 547 million (2010: EUR 509 million). The increase was largely based on the higher average margins achieved in the lending business. Margins from the deposit-taking business with the institutional housing industry were lower than planned, due to lower interest rate levels - which persist for longer than anticipated.

At EUR 112 million, the allowance for credit losses in the 2011 financial year was slightly higher than the figure posted for the previous year (EUR 105 million).

The significant improvement in net commission income of EUR 144 million (2010: EUR 123 million) reflected - amongst other things - lower running costs of EUR 21 million for the guarantee facility extended by SoFFin, compared with EUR 30 million in 2010. The item also includes, for the first time, full net commission income of EUR 17 million (2010: EUR 4 million) from SG automatisering bv, which was acquired in the fourth quarter of 2010.

Net trading income/expenses, results from non-trading assets and the net result on hedge accounting totalled EUR -9 million after EUR -6 million the year before. Net trading income/expenses is primarily attributable to the measurement of derivatives used to hedge interest rate and currency risks, as well as from unrealised changes in value from the sale of hedges for selected EU sovereign countries. Results from non-trading assets were defined largely by the sale of fixed-income securities within the scope of active portfolio management.

At EUR 382 million, administrative expenses were slightly higher than the previous year (EUR 366 million). The figure includes special effects, including the bank levy that was imposed for the first time in 2011, as well as expenses incurred in conjunction with measures taken to improve efficiency and optimise income.

Taking into account net other operating income and expenses of EUR -14 million (2010: EUR -9 million), consolidated operating profit for the 2011 financial year amounted to EUR 185 million (2010: EUR 134 million). After deduction of taxes of EUR 52 million and EUR 19 million in income attributable to non-controlling interests, net income attributable to shareholders of Aareal Bank AG amounted to EUR 114 million (2010: EUR 76 million). After deduction of the EUR 21 million net interest payable on the SoFFin silent participation, consolidated net income stood at EUR 93 million (2010: EUR 46 million).

The positive results mean that Aareal Bank will service all of its subordinated refinancing vehicles for the 2011 financial year. This includes the silent participation by SoFFin, and the bank's other hybrid instruments.

Aareal Bank continued to pursue its successful business policy - strictly focusing on quality - in its Structured Property Financing segment. Despite an economic environment that deteriorated especially in the second half of the year, Aareal Bank exploited available opportunities to originate attractive new business, which increased to EUR 8.0 billion during the 2011 financial year - up from EUR 6.7 billion the year before. This increase was also supported by, amongst other things, the rights issue successfully conducted by Aareal Bank in the second quarter, raising gross issuing proceeds of around EUR 270 million. The resulting strengthening of the capital base provided greater scope for generating new business. The share of new loans extended in new business increased, exceeding 60 per cent.

Net interest income posted by the segment for the financial year under review amounted to EUR 508 million after EUR 467 million the previous year. The increase is based largely on higher average margins achieved in the lending business.

Segment administrative expenses of EUR 217 million was in line with the previous year's levels, despite special effects including the bank levy that was imposed for the first time in 2011, as well as expenses incurred in conjunction with measures taken to improve efficiency and optimise income. This highlights Aareal Bank's continued strict cost discipline.

Net income from investment property amounted to EUR 10 million and was attributable mainly to rental income. Last year's result of EUR -17 million was burdened by a non-recurring charge recognised for the repositioning of a property.

Taking into account net other operating income/expenses of EUR -17 million, operating profit for the Structured Property Financing segment amounted to EUR 165 million (2010: EUR 108 million). After deduction of tax expenses of EUR 46 million and EUR 17 million in non-controlling interest income, the segment result was EUR 102 million (previous year: EUR 60 million).

In the Consulting / Services segment, Aareon's business developed on schedule in the 2011 financial year, while the low interest rate environment which persist for longer than anticipated burdened the profitability of the deposit-taking business.

The volume of deposits placed in this segment increased significantly although it is still facing intense competition; it averaged EUR 4.7 billion in the 2011 financial year (2010: EUR 4.1 billion).

Sales revenue amounted to EUR 203 million in the 2011 financial year (2010: EUR 199 million). This increase was accounted for by, amongst other things, the sales revenue collected over the entire period under review from SG automatisering bv, which was acquired by Aareon in the fourth quarter of 2010 (2011: EUR 20 million, 2010: EUR 5 million). On the other hand, the low interest rate environment burdened the margins from the deposit-taking business that are reported in revenues.

On balance, the Consulting / Services segment generated operating profit of EUR 20 million (2010: EUR 26 million). After deduction of EUR 6 million in taxes and EUR 2 million in non-controlling interests, the segment result stands at EUR 12 million (2010: EUR 16 million).

Successful funding activities - capitalisation remains solid

Aareal Bank Group successfully carried out all its funding activities as planned during the 2011 financial year. The bank had already reached its funding targets for the full-year 2011 by the end of the third quarter, despite the challenging situation on the financial and capital markets.

Aareal Bank raised a total of EUR 4.3 billion in medium- and long-term funds on the capital market in 2011. The issue volume of long-term, unsecured funds amounted to EUR 1.6 billion in a very difficult environment, especially for unsecured issues; this confirms the trust that fixed income investors still continue to place in Aareal Bank. Pfandbriefe totalling EUR 2.7 billion were also issued, once again proving how very important this instrument is to Aareal Bank's refinancing mix.

The bank's solid refinancing situation is also reflected in the early repayment of the issue guarantee granted by the Financial Markets Stabilisation Fund (SoFFin). The EUR 2 billion SoFFin-guaranteed bond maturing on 5 June 2013, which was held on the bank's own books, was redeemed early in April 2011. Additionally, investors holding the remaining EUR 2 billion in SoFFin-guaranteed notes (maturing on 26 March 2012) were invited in June 2011 to redeem their notes early. Investors took up our offer in an amount of EUR 0.8 billion. With the repayment of the residual amount, Aareal Bank will have repaid all guarantees extended by SoFFin.

Aareal Bank remains very solidly financed. Besides an additional partial repayment of the SoFFin silent participation and the appropriation of funds for additional new business, some of the funds raised from the successful capital increase were also used to strengthen the regulatory capital. The bank's comfortable Tier 1 ratio of 16.3 per cent as at 31 December 2011 (up from 12.9 per cent at year-end 2010) is also good by international standards. The core Tier 1 ratio, excluding the SoFFin silent participation and other hybrid capital, was 11.3 per cent. The capital ratios stated are based on the full reinvestment of profits generated during the 2011 financial year.

Notes on the preliminary Income Statement for the fourth quarter of 2011

At EUR 47 million, Aareal Bank Group's operating profit in the fourth quarter was EUR 7 million higher than the same period of the previous year.

Net interest income in the final quarter of 2011 was EUR 146 million, after EUR 139 million in Q4 2010, predominantly on account of currency translation effects and non-recurring effects in the lending business.

Allowance for credit losses in the fourth quarter was EUR 34 million, compared with EUR 8 million in Q4 2010. Net interest income after allowance for credit losses amounted to EUR 112 million, compared with EUR 131 million in the same quarter of 2010.

Net commission income in the fourth quarter was EUR 45 million, compared with EUR 37 million in Q4 2010. The low costs for the guarantee facility extended by SoFFin are reflected in particular here.

The balance of net trading income/expenses, results from non-trading assets, and the net result on hedge accounting, amounted to EUR -7 million in the final quarter (Q4/2010: EUR -14 million).

Consolidated administrative expenses during the fourth quarter were EUR 102 million, compared with EUR 95 million in Q4 2010. In particular, this increase reflected measures taken to improve efficiency and optimise income.

On balance, Aareal Bank Group generated consolidated operating profit of EUR 47 million in the fourth quarter (Q4/2010: EUR 40 million). Taking into consideration income taxes of EUR 13 million and EUR 5 million in income attributable to non-controlling interests, net income after non-controlling interest income amounted to EUR 29 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated net income stood at EUR 24 million (Q4 2010: EUR 19 million).

Outlook: solid performance, despite very challenging environment

Within the scope of the sovereign debt crisis that is still unresolved, the Management Board believes financial markets will remain volatile during the current year and therefore expects the risks in the financial system to persist. The risks in relation to economic development have also increased in recent months. This is reflected in - amongst other things - a downgrading across the board of growth forecasts for the important economies, and the global economy overall. The uncertain political framework and the cumulative effects of the forthcoming changes to the regulatory environment (which have not yet been clarified) present further challenges.

Aareal Bank will counter these uncertainties, amongst other things, by pursuing a very cautious liquidity and investment strategy. This strategy will lead to a burden on net interest income that will more than offset the positive effect of higher margins on new business originated last year. On these assumptions, Aareal Bank expects a considerable decline in net interest income over the year.

The bank continues to forecast allowance for credit losses in a range of EUR 110 million to EUR 140 million, which is unchanged from last year. As in previous years, the bank cannot rule out additional allowances for unexpected credit losses in 2012. Aareal Bank expects a significant increase in net commission income over 2011, particularly since the charges on the SoFFin-guaranteed notes will no longer apply. It anticipates a marked reduction in administrative expenses, due to the cost-cutting measures that resulted in charges last year.

All in all, the Management Board sees good potential for achieving consolidated net income that is only slightly below last year's very good result. "We are cautious business people who have to take into account the deterioration of the economic framework during the current year. Nevertheless, our great flexibility allows us to react at all times to changes in the environment and to take advantages of available opportunities", Schumacher commented.

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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