

Aareal Bank expects to remain in the black this year

CEO considers the bank's capitalisation to be adequate

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Dr Schumacher, Aareal Bank has not reported losses in any quarter since the onset of the financial markets crisis in mid-2007; the bank portrays the burden caused by the crisis as "manageable", and its operating business performs within budget. Yet the share price has lost more than three quarters in the course of this year alone, bringing Aareal Bank's market capitalisation to below EUR 300 million. Do you have an explanation?

We assign great importance to the fact that to date, we have reported a profit for each quarter throughout the financial markets crisis. You won't find many German banks who are able to make that statement nowadays. Aareal Bank's business model has proven itself as rock-solid and sustainable. Management has chosen the right strategy. We conduct new business in a selective and prudent manner. We deliver on our promises. In contrast, the Aareal Bank share price performance has not reflected our own successful business performance, but the overall situation of the international banking sector which – in the midst of the financial markets crisis – is now also facing a slowing economy.

Is it really just the environment? After all, the Aareal Bank share price fell by 17% after publication of its most recent quarterly results. To what extent do factors such as the withdrawn full-year forecast and the potential utilisation of the government support package for the financial sector play a role?

We generate steady profits, in spite of the financial markets crisis, and our results are within projections. Can you name any other bank who is able to say that? The comments seen to date have not sufficiently appreciated the soundness and robustness of our business model – instead, the focus is on other topics which are outside our control. As far as the government rescue package is concerned, at present we do not see any need to resort to the instruments made available, for three reasons: our operating business performs within budget, our capitalisation is adequate; and our funding is sound. As an international property finance specialist, we must of course compete against institutions having access to government support programmes. This is why we are scrutinising how these firms develop once they have placed themselves under the 'umbrella' of the State. They might benefit from better ratings and cheaper funding, allowing them to re-commence generating new business – in which case Aareal Bank would have a competitive disadvantage.

How long do you intend to continue examining – leaving the market in the dark – as to whether, and to which extent Aareal Bank will require State support, such as an injection of capital?

With all due respect, the fact that Aareal Bank has not sought government support does not constitute a burden on its share price. For us, the decisive factor will be whether or not we detect distortions to competition. I cannot give you a date in this respect. In contrast to some of our German competitors, however, we do not face distress forcing us to seek government aid. We are not subject to any financial pressure, nor is there any urgency forcing us to act.

Aareal Bank considers its tier 1 ratio of 8.0% under the Credit Risk Standard Approach pursuant to the German Banking Act as an adequate level of capitalisation. The target ratios for the international banking sector (some of which were revised) are higher, albeit on a different calculation basis. Doesn't this mean you will have to catch up soon?

Our well-balanced business model incorporating two strong pillars can only be compared to the approaches taken by other firms to a very limited extent. Against this background, we consider our 8% tier 1 ratio as very adequate indeed. Based on our IFRS balance sheet, the bank's leverage (defined as the ratio of total assets to shareholders' equity) is 30.7 excluding, and only 22.5 including hybrid equity instruments. Other banks would be delighted if they could show such figures.

In your interim report as at 30 September, you state that "the current environment does not permit any reliable forecast for the year 2008 as a whole". Does this mean that you cannot exclude having to report a loss for the full year?

Let me reiterate that our operating business is within budget after the first nine months of the year. Following the collapse of Lehman Brothers, distortions on financial markets have become so severe that it is no longer possible to come up with any serious forecast. We want to be reliable in our forecasts, as has always been our style. All I can say regarding business performance for the remainder of the year is that we will achieve our full-year target in Consulting/Services, our second business segment besides Structured Property Financing. Having posted a pre-tax result of EUR 33 million for the first nine months, we are already approaching our target level of between EUR 40 million and EUR 50 million for the year as a whole. Furthermore, we affirm our projections for costs and allowance for credit losses. Considering the performance shown so far this year, the probability of having to report a loss for the full year is very remote indeed – and something we find very hard to imagine.

Will you be able to distribute a dividend of 50 cents per share, as for the 2007 financial year?

That is something we will decide once we know the final results for the year.

The interview was conducted by Carsten Steevens.