



## Press Release

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### **Aareal Bank Group posts a successful start into the 2011 financial year**

- **First-quarter consolidated operating profit rises to € 47 million**
- **Aareal Bank executed further partial repayment of the SoFFin silent participation, and redemption of the SoFFin-guaranteed bond held on the bank's own books, as announced**
- **Tier 1 ratio further strengthened**
- **Aareal Bank affirms raised forecasts for the full year 2011**

Wiesbaden, 10 May 2011 – Aareal Bank Group started successfully into the 2011 financial year. At € 47 million, consolidated operating profit generated in the first quarter clearly exceeded the corresponding figure for the same period of the previous year (€ 30 million) as well as the already very strong figure for the fourth quarter of 2010 (€ 40 million). Thus, during the first three months of the current financial year, Aareal Bank generated the highest consolidated operating profit since the second quarter of 2008.

"Aareal Bank Group once again demonstrated its operative strength", commented Dr Wolf Schumacher, Chairman of the Management Board. "As one of the few remaining international property financing providers, Aareal Bank is in an excellent position to capitalise on the ongoing business improvement in the property sector, and to sustain its profitable growth trend."

Against this background, on 14 April 2011 the Management Board and Supervisory Board of Aareal Bank resolved to increase the capital in the form of a rights issue against cash contributions. The transaction, which has been successfully concluded, generated gross proceeds of € 269.6 million. The net proceeds from the capital increase are intended to be used for supporting the future growth of the Structured Property Financing segment, consistent with the bank's current credit risk strategy. The bank has also used the capital increase to further strengthen its regulatory capital base. Furthermore, some of the issuing proceeds have been used to make another partial repayment of € 75 million on the SoFFin silent participation, on 28 April 2011. In addition and also during April 2011, the Management Board carried out an early redemption of the SoFFin-

guaranteed € 2 billion bond maturing on 5 June 2013, which the bank held on its own books, in agreement with SoFFin.

### **Structured Property Financing segment once again increases operating profit**

At € 43 million, operating profit in the Structured Property Financing segment was not only up significantly year-on-year (Q1 2010: € 24 million), it was also above the very respectable level of the final quarter of 2010 (€ 31 million).

Net interest income in the first quarter was € 125 million, after € 106 million in the comparable period of the previous year. The year-on-year rise was attributable predominantly to higher average margins generated in the lending business.

At € 18 million, allowance for credit losses in the first quarter of 2011 was just over half of the figure for the previous year (€ 32 million). It was therefore lower than the pro-rata forecast range of € 110 million to € 140 million for the full year, but within the expected quarterly fluctuation range.

Aareal Bank's selective approach, oriented strictly upon quality, return and risk, together with the bank's medium-sized structure, once again proved to be a major competitive advantage. The bank was therefore in a position to react quickly to market developments, and to efficiently exploit opportunities that arose. New business increased slightly year-on-year, to € 1.4 billion (Q1 2010: € 1.3 billion). The share of newly acquired business increased significantly, a trend which is expected to continue during the coming months. Very positive new business origination in April 2011 provides early affirmation of Aareal Bank's optimistic assessment of the current market and competitive environment in commercial property financing. The bank's new business pipeline is very well stocked, suggesting that this development is likely to prevail going forward.

### **Consulting/Services: deposits generated by the institutional housing industry increased further**

Operating profit in the Consulting / Services segment totalled € 4 million during the first quarter (Q1 2010: € 6 million). The prevailing low interest rate environment is unfavourable for the profitability of the deposit-taking business. Nonetheless, the volume of deposits generated from the institutional housing industry increased further, to average € 4.5 billion through the quarter. Our long-standing, intensive and trusting cooperation with companies operating in the German institutional housing industry paid off once again.

Aareon AG's business performed in line with expectations during the first quarter, which is traditionally the weakest phase of the year in its market. The company succeeded in winning an additional 13 new clients for its Wodis Sigma ERP system. A total of 334 clients have now decided in favour of the product to date. Aareon's international business has also developed favourably. The integration of the Dutch company SG|automatisering bv, Emmen, effective since 1 November 2010, continues to develop successfully.

## **Refinancing activities implemented on schedule – Tier 1 ratio strengthened further**

Aareal Bank remains extremely solidly financed. In the first quarter of the current financial year, we successfully implemented all our planned refinancing activities in full – in a market environment that remained difficult, especially for unsecured issuance. Aareal Bank placed unsecured issues in the amount of € 0.3 billion, as well as Pfandbrief issues totalling € 0.8 billion.

During the first quarter of 2011, Aareal Bank continued the successful management of risk-weighted assets (RWA), and further strengthened its Tier 1 ratio. Calculated in accordance with the Advanced Internal Ratings-Based Approach (A-IRBA), Aareal Bank's Tier 1 ratio stood at 14.3 per cent as at 31 March 2011 (and thus prior to the successfully concluded capital increase). The Tier 1 ratio in accordance with the A-IRBA, excluding hybrid capital and the remaining silent participation by SoFFin, was 9.0 per cent.

One of the objectives of the capital increase conducted in April was to further strengthen the bank's capital base. As a result of the capital increase, the Tier 1 ratio in accordance with the A-IRBA – before appropriating funds for additional new business, and taking into account the further €75 million partial repayment of the SoFFin silent participation – increased to 15.5 per cent on a pro-forma basis as at 31 March 2011. The Tier 1 ratio, excluding hybrid capital and the SoFFin silent participation, rose to 10.7 per cent on a pro-forma basis as at 31 March 2011.

## **Notes to Group financial performance**

Net interest income of € 134 million (Q1 2010: € 117 million) was € 17 million (or 15%) higher than in the same period of the previous year. The year-on-year rise was attributable predominantly to higher average margins generated in the lending business. In contrast, the relatively low interest rate environment continued to burden the profitability of the deposit-taking business with the institutional housing industry.

Allowance for credit losses for the first quarter of 2011 amounted to € 18 million (Q1 2010: € 32 million). It was therefore lower than the pro-rata forecast range of € 110 million to € 140 million for the full year, but within the expected quarterly fluctuation range. Accordingly, net interest income after allowance for credit losses amounted to € 116 million (Q1 2010: € 85 million).

Unlike the same period of the previous year, net commission income of € 30 million (Q1 2010: € 30 million) reflects the running costs of € 5 million for the guarantee facility provided by SoFFin at the end of June 2010. Additionally, net commission income for the first quarter of 2011 includes € 3 million in revenue generated by SG|automatisering bv, a Dutch subsidiary acquired by Aareon during the fourth quarter of 2010. Adjusted for these effects, net commission income slightly exceeded last year's level.

Net trading income/expenses of € -8 million (2010: € 6 million) was largely attributable to the valuation of derivatives used to hedge interest rate and

currency risk, and to unrealised changes in value from sold hedging instruments on selected EU sovereign countries. Net income of € 2 million from investment securities was due to the sale of fixed-income securities (Q1 2010: € 0 million).

At € 91 million, administrative expenses were unchanged year-on-year.

Net other operating income and expenses amounted to € -2 million (Q1 2010: € -2 million).

Consolidated operating profit for the first three months of 2011 thus totalled € 47 million (Q1 2010: € 30 million). Taking into consideration taxes of € 12 million and non-controlling interest income of € 5 million, net income attributable to shareholders of Aareal Bank AG amounted to € 30 million. After deduction of net interest payable on the SoFFin silent participation, consolidated net income stood at € 24 million.

### **Outlook: Aareal Bank affirms raised forecasts for the full year 2011**

Aareal Bank Group continues to see positive prospects for maintaining its good overall business performance for the 2011 financial year.

Taking the expected positive effects of the capital increase as well as the lower level of guarantee fees into account, Aareal Bank has raised its outlook for the financial year 2011 as a whole, as already announced on 14 April 2011: anticipating moderately higher interest rate levels, and considering the expected revenues generated from additional new business compared with the previous year, the Management Board expects net interest income to increase. Thanks to the fact that relief from lower guarantee fees will occur earlier than expected, net commission income will show a more pronounced increase than has been forecasted to date. All in all, Aareal Bank expects consolidated operating profit in 2011 to increase clearly over the previous year.

"We are confident of our ability to continue growing our business profitably in the years to come, and to further extend our market position. Aareal Bank remains on course, with its business model comprising two strong pillars. From today's perspective, we anticipate being able to generate a return on equity before taxes of between 12 per cent and 13 per cent, in a normal market environment", Schumacher stated.

Note to editors: Aareal Bank's full interim report for the first quarter of 2011 is available for download from <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 25 countries.

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## Aareal Bank Group: results for the first quarter of 2011 (in accordance with IFRS)

	1 Jan - 31 Mar 2011	1 Jan - 31 Mar 2010	Change
	Euro mn	Euro mn	%
<b>Profit and loss account</b>			
Net interest income	134	117	15
Allowance for credit losses	18	32	-44
<b>Net interest income after allowance for credit losses</b>	<b>116</b>	<b>85</b>	<b>36</b>
Net commission income	30	30	0
Net result on hedge accounting	-2	2	
Net trading income / expenses	-8	6	
Results from non-trading assets	2	0	
Results from investments accounted for using the equity method	0	-	
Results from investment properties	2	0	
Administrative expenses	91	91	0
Net other operating income / expenses	-2	-2	
Impairment of goodwill	-	0	
<b>Operating Profit</b>	<b>47</b>	<b>30</b>	<b>57</b>
Income taxes	12	9	33
<b>Net income / loss</b>	<b>35</b>	<b>21</b>	<b>67</b>
<b>Allocation of results</b>			
Net income / loss attributable to non-controlling interests	5	5	0
Net income / loss attributable to shareholders of Aareal Bank AG	30	16	88
<b>Appropriation of profits</b>			
Net income / loss attributable to shareholders of Aareal Bank AG	30	16	88
Silent partnership contribution by SoFFin	6	8	-25
<b>Consolidated retained profit/accumulated loss</b>	<b>24</b>	<b>8</b>	<b>200</b>

	31 Mar 2011	31.12.2010	Change
	Euro mn	Euro mn	%
<b>Portfolio data</b>			
Property finance	22,026	22,884	-4
of which international	18,525	19,195	-3
Property finance under management	22,317	23,251	-4
of which international	18,525	19,195	-3
Equity	1,997	1,985	1
Total assets	39,916	41,217	-3

	1 Jan - 31 Mar 2011	1 Jan - 31 Mar 2010
<b>Key financial indicators</b>		
Cost/Income ratio (%) *	45.6	49.0
Earnings per share (Euro)	0.70	0.37
RoE before taxes (%) **)	9.1	5.1

\*) Structured Property Financing segment only

\*\*) on an annualised basis

## Segment results of the first quarter of 2011 (in accordance with IFRS):

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 31 Mar 2011	1 Jan - 31 Mar 2010	1 Jan - 31 Mar 2011	1 Jan - 31 Mar 2010	1 Jan - 31 Mar 2011	1 Jan - 31 Mar 2010	1 Jan - 31 Mar 2011	1 Jan - 31 Mar 2010
Euro mn								
Net interest income	125	106	0	0	9	11	134	117
Allowance for credit losses	18	32					18	32
<b>Net interest income after allowance for credit losses</b>	<b>107</b>	<b>74</b>	<b>0</b>	<b>0</b>	<b>9</b>	<b>11</b>	<b>116</b>	<b>85</b>
Net commission income	-5	-4	44	45	-9	-11	30	30
Net result on hedge accounting	-2	2					-2	2
Net trading income / expenses	-8	6					-8	6
Results from non-trading assets	2	0					2	0
Results from investments accounted for using the equity method			0				0	
Results from investment properties	2	0					2	0
Administrative expenses	51	52	40	39	0	0	91	91
Net other operating income / expenses	-2	-2	0	0	0	0	-2	-2
Impairment of goodwill		0						0
<b>Operating profit</b>	<b>43</b>	<b>24</b>	<b>4</b>	<b>6</b>	<b>0</b>	<b>0</b>	<b>47</b>	<b>30</b>
Income taxes	11	7	1	2			12	9
<b>Net income / loss</b>	<b>32</b>	<b>17</b>	<b>3</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>35</b>	<b>21</b>
<b>Allocation of results</b>								
Net income / loss attributable to non-controlling interests	4	4	1	1			5	5
Net income / loss attributable to shareholders of Aareal Bank AG	28	13	2	3	0	0	30	16
<b>Allocated equity</b>	<b>1,438</b>	<b>1,456</b>	<b>75</b>	<b>69</b>	<b>349</b>	<b>424</b>	<b>1,862</b>	<b>1,949</b>
Cost/income ratio in %	45.6	49.0	91.8	85.7			58.3	59.6
RoE before taxes in % *)	11.1	5.4	13.7	29.7			9.1	5.1

\*) on an annualised basis