



Press Release

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Aareal Bank raises operating profit forecast for 2014 after strong third-quarter results

- Consolidated operating profit of € 66 million for the third quarter (Q3 2013: € 48 million)
- Significant increase in net interest income, to € 181 million (Q3 2013: € 133 million)
- Forecast for consolidated operating profit raised again: If strong business trend continues to materialise, range for consolidated operating profit between € 420 million and € 430 million for 2014 is achievable; this would translate into € 72 million to € 82 million for the fourth quarter
- New business target raised to around € 10 billion

Wiesbaden, 11 November 2014 – Aareal Bank Group maintained its positive business development throughout the third quarter of 2014. In a market and competitive environment that remained challenging, the Bank posted consolidated operating profit of € 66 million – up by more than one third compared to the same quarter of the previous year (€ 48 million), and a further slight increase over the very good results posted for the second quarter of the current financial year (€ 65 million). Third-quarter consolidated profit rose to € 36 million, up by around 50 per cent year-on-year (Q3/2013: € 23 million) and also exceeding the results for the previous quarter (Q2 2014: € 34 million).

Once again, net interest income – up by 36 per cent year-on-year, to € 181 million (Q3 2013: € 133 million) – was the main driver of this positive performance. The unexpectedly high effect of early loan repayments had a positive impact, as well as low funding costs, a marked increase in lending volume (also due to the acquisition of COREALCREDIT BANK AG ("Corealcredit")) as well as stable lending margins all played a role. The net figure was burdened, however, by the prevailing lack of attractive investment opportunities for liquidity reserves, due to the persistent low interest rate environment.

Allowance for credit losses of € 36 million (Q3 2013: € 29 million) recognised in the third quarter was hardly changed, compared to the previous quarters and thus remained within the pro-rata forecast range of € 100 million to € 150 million for the

full financial year. New business originated in the Structured Property Financing segment during the third quarter amounted to € 3.4 billion, thus clearly exceeding the figure for the previous quarters, as well as the same quarter of the previous year. This has increased the total figure for the first three quarters of 2014 to € 7.6 billion (9m 2013: € 6.7 billion). Aareal Bank is likely to exceed the range between € 8 billion and € 9 billion originally forecast for the full year and now expects aggregate new business of around € 10 billion.

Aareal Bank's capitalisation remains very solid. This was also confirmed within the scope of the Comprehensive Assessment carried out by the European Central Bank (ECB): Aareal Bank achieved thoroughly convincing results during this extensive bank audit – as at 30 September 2014, the Bank's Tier 1 ratio (including SoFFin's silent participation) was 16.1 per cent, which is comfortable on an international level. Aareal Bank fully repaid the remaining € 300 million silent participation provided by the German Financial Markets Stabilisation Fund (SoFFin) at the end of October. Excluding SoFFin's silent participation and assuming full implementation of Basel III, the Bank's pro-forma Common Equity Tier 1 (CET1) ratio would have been 12.0 per cent as at 30 September 2014.

"The positive development of our business over the past few months clearly shows that Aareal Bank's business model is sustainably viable. Our strategy, geared towards long-term profitable growth, has truly paid off, and we are in an excellent position – in every respect – to continue on our successful path, even in an increasingly competitive environment", said Dr Wolf Schumacher, Chairman of the Management Board of Aareal Bank.

Structured Property Financing segment: strong new loan origination, net interest income increased further

At € 74 million, operating profit generated in the Structured Property Financing segment during the third quarter of 2014 was up € 22 million over the corresponding period of the previous year (€ 52 million).

Segment net interest income amounted to € 182 million in the third quarter of 2014, up significantly year-on-year (Q3 2013: € 131 million). The unexpectedly high effect of early loan repayments had a positive impact, as did low funding costs, a marked increase in lending volume (also due to the acquisition of Corealcredit) as well as stable lending margins.

Allowance for credit losses was recognised in the amount of € 36 million for the third quarter of 2014, compared with € 29 million in the same quarter of the previous year. Allowance for credit losses thus amounted to € 105 million for the first nine months of the year (9m 2013: € 74 million), and thus remained within the pro-rata forecast range of € 100 million to € 150 million for the full financial year.

New business in the third quarter of 2014 totalled € 3.4 billion (Q3 2013: € 2.3 billion), bringing the figure for the first nine months of the financial year to € 7.6 billion (9m 2013: € 6.7 billion). The increase was attributable to stronger activity in newly-originated loans: the market continues to be characterised by high transaction volumes. In the first nine months of the current financial year, the volume of newly-originated loans amounted to € 5.0 billion, compared to

€3.7 billion in the same period of the previous year. In the third quarter, too, newly-originated loans exceeded the level of the same quarter of the previous year (Q3 2013: €1.2 billion), totaling €2.3 billion.

Consulting/Services segment: volume of deposits remains on a high level

Operating profit in the Consulting/Services segment totalled –€8 million for the quarter under review (Q3 2013: –€4 million).

The business activities of the Aareon AG subsidiary developed as expected: third-quarter operating profit amounted to €5 million, unchanged year-on-year.

Results generated from the deposit-taking business were burdened by persistently low interest rate levels. However, the importance of this business goes way beyond the interest margin generated from the deposits, which is under pressure in the current market environment. This is because the deposits from the housing industry represent a strategically important additional source of funding for Aareal Bank.

Against this background, deposit volumes from housing industry clients continued to develop favourably during the third quarter. The volume of deposits remained high, averaging €8.7 billion during the quarter under review (Q2 2014: €8.5 billion). This is clear evidence of the strong level of trust which the Bank enjoys as the long-standing lead bank to the German housing industry.

Successful funding activities – capitalisation remains solid

Aareal Bank raised €0.9 billion in long-term funds on the capital markets during the third quarter. This comprises Mortgage Pfandbriefe in the amount of €0.8 billion as well as unsecured refinancing of almost €0.1 billion. Aareal Bank has therefore maintained its long-term funding at a high level.

The total volume of long-term funding raised up to 30 September 2014 amounted to €3.0 billion, with Mortgage Pfandbriefe accounting for €1.6 billion. Unsecured refinancing amounted to €0.9 billion. In addition, €0.5 billion in subordinated bonds were placed with investors.

Aareal Bank continues to be very solidly financed. As at 30 September 2014, the Bank's Tier 1 ratio (including SoFFin's silent participation) was 16.1 per cent, which is comfortable on an international level. Excluding SoFFin's silent participation and assuming full implementation of Basel III, the Bank's pro-forma Common Equity Tier 1 (CET1) ratio would be 12.0 per cent.

Notes to Group financial performance

Net interest income amounted to €181 million in the third quarter of 2014, up significantly year-on-year (Q3 2013: €133 million). The unexpectedly high impact of early loan repayments had a positive effect, as did the low funding costs, a marked increase in lending volume (also due to the acquisition of Corealcredit) as well as stable lending margins. The net figure was burdened, however, by the prevailing lack of attractive investment opportunities for liquidity reserves, due to

the persistent low interest rate environment. Net interest income totalled € 494 million for the first nine months of the financial year (9m 2013: € 380 million).

At € 37 million, net commission income in the third quarter was slightly below the figure for same period of the previous year (Q3 2013: € 40 million), bringing the total figure for the first nine months of 2013 to € 116 million (9m 2013: € 117 million).

The aggregate of net trading income/expenses, the net result on hedge accounting, and the result from non-trading assets, was –€ 5 million in the third quarter (Q3 2013: € 1 million); the relevant aggregate figure for the first nine months of 2014 was € 2 million (9m 2013: € 3 million).

Consolidated administrative expenses amounted to € 109 million during the third quarter (Q3 2013: € 94 million). The increase is due largely to the acquisition of Corealcredit. In addition to the running costs, additional project costs were incurred in the course of the integration, as well as expenses in conjunction with the social compensation plan entered into during the quarter under review. Administrative expenses for the first nine months of the year totalled € 325 million (9m 2013: € 276 million).

On balance, consolidated operating profit for the third quarter amounted to € 66 million (Q3 2013: € 48 million). Taking into consideration income taxes of € 21 million and non-controlling interest income of € 4 million, net income attributable to shareholders of Aareal Bank AG amounted to € 41 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated net income stood at € 36 million (Q3 2013: € 23 million).

This results in consolidated operating profit of € 348 million for the first nine months of the 2014 financial year (9m 2013: € 140 million). Adjusted for the day-one profit from the initial consolidation of Corealcredit (€ 152 million), operating profit was € 196 million. Taking into consideration income taxes of € 62 million and non-controlling interest income of € 14 million, consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 272 million. Taking into consideration the net interest payable on the SoFFin silent participation, consolidated profit stood at € 257 million (9m 2013: € 66 million).

Outlook for 2014: consolidated operating profit forecast raised once again

Aareal Bank continues to expect the global economic development to be subdued during the remainder of the 2014 financial year, as the economic environment and outlook have deteriorated over the last few months, particularly in the euro zone and a number of countries in Asia. Together with increasing geopolitical uncertainty, this has also been recently burdening underlying sentiment on financial and capital markets. In contrast, property markets continue to show a high level of investor liquidity: in the persistent low interest rate environment, commercial property in particular remains a sought-after investment. Commercial property financing is expected to remain a highly competitive business, though.

Nonetheless, based on its year-to-date business performance, Aareal Bank remains optimistic for the remainder of the financial year. If the strong business

trend continues to materialise, consolidated operating profit between € 420 million and € 430 million for 2014 is achievable, including the non-recurring € 152 million effect from the acquisition of Corealcredit. This would translate into consolidated operating profit of € 72 million to € 82 million for the fourth quarter of 2014. In its previous projection, the Bank had anticipated full-year consolidated operating profit at the upper end of a range – raised in August – between € 380 million and € 400 million. Adjusted for the non-recurring effect from the Corealcredit transaction, consolidated operating profit of approximately € 270 million to € 280 million is achievable.

RoE before taxes, excluding the aforementioned non-recurring effect, is now likely to be around 10 per cent.

Aareal Bank now expects net interest income of between € 650 million and € 680 million, which would also exceed the previously-communicated range of € 610 million to € 640 million. Allowance for credit losses is expected to remain in the upper half of the unchanged range (already communicated) between €100 million and € 150 million. As in previous years, the Bank cannot rule out additional allowance for unexpected credit losses that may be incurred during 2014.

Net commission income for the full year 2014 is expected in a range between € 160 million and € 170 million, and thus slightly below the previously forecast range (€ 170 million to € 180 million). Administrative expenses are expected in an unchanged range between € 430 million and € 450 million.

New business in Aareal Bank's Structured Property Financing segment is now expected at around € 10 billion for the full year 2014.

In the Consulting/Services segment, Aareal Bank now anticipates a slightly lower profit before taxes over the previous year for its Aareon subsidiary of around € 26 million.

Note to editors: The full interim report for the third quarter of 2014 is available on <http://www.aareal-bank.com/en/investor-relations/financial-reports/>.

Aareal Bank

Aareal Bank AG, whose shares are traded in Deutsche Börse's MDAX segment, is a leading international property specialist. The Bank concentrates its business activities on the Structured Property Financing and the Consulting/Services segments. The Structured Property Financing segment encompasses all of Aareal Bank's property financing and funding activities. In this segment, the Bank facilitates property investment projects for its domestic and international clients, within the framework of a three-continent strategy covering Europe, North America and Asia. In the Consulting/Services segment, Aareal Bank offers the housing industry and the commercial property sector services and products for managing residential property portfolios and processing payment flows. www.aareal-bank.com

Aareal Bank Group – key financial indicators

	1 Jan - 30 Sep 2014	1 Jan - 30 Sep 2013
Income statement		
Operating profit (€ mn) ¹⁾	348	140
Consolidated profit (€ mn) ¹⁾	257	66
Cost / income ratio (%) ²⁾	36.9	39.6
Earnings per share (€) ¹⁾	4.54	1.35
RoE before taxes (%) ^{1) 3)}	18.7	7.4
RoE after taxes (%) ^{1) 3)}	15.2	4.8
	30 Sep 2014	31 Dez 2013
Statement of financial position ⁴⁾		
Property finance (€ mn)	29,570	24,550
of which: international (€ mn)	23,005	20,802
Equity (€ mn)	2,704	2,450
Total assets (€ mn)	49,858	42,981
Regulatory indicators ^{4) 5)}		
Risk-weighted assets	16,581	
Common equity tier 1 ratio (%)	14.2	
Tier 1 ratio (%)	16.1	
Total capital ratio (%)	22.0	
Common equity tier 1 ratio (%) -fully phased - ⁶⁾	12.0	
Employees ⁴⁾	2,560	2,375
Ratings		
Fitch Ratings, London		
long-term ⁷⁾	A - (outlook: negative)	A - (outlook: stable)
short-term ⁷⁾	F1 (outlook: negative)	F1 (outlook: stable)
Fitch Pfandbrief ratings	AAA	AAA
oekom	prime	prime

1) The disclosures covering the current period under review include negative goodwill (day-one profit) from the acquisition of COREALCREDIT BANK AG ("Corealcredit") as at 31 March 2014. Corealcredit's operating results have been included in the Income Statement of Aareal Bank Group since the beginning of Q2 2014.

2) Structured Property Financing segment only

3) On an annualised basis

4) Figures as at 30 September 2014, including Corealcredit

5) Since 1 January 2014, regulatory indicators have been determined in accordance with CRD IV/CRR, based on carrying amounts in accordance with IFRSs. Until 31 December 2013, these indicators were calculated in accordance with the German Solvency Regulation (SolvV) and based on local GAAP (book values in accordance with the German Commercial Code (HGB)). The Bank therefore decided against stating comparative amounts.

6) Excluding silent participation from the German Financial Markets Stabilisation Fund (SoFFin)

7) At the end of the first quarter of 2014, rating agency Fitch Ratings changed its outlook for the Long-Term Issuer Default Rating (IDR) of 18 banks within the European Union from "stable" to "negative". The corresponding outlook for an additional 18 European commercial banks remained "negative". This revision reflects a global re-assessment of government support for banks.

Consolidated income statement for the first nine months of
2014
(in accordance with IFRSs)

	1 Jan - 30 Sep 2014	1 Jan - 30 Sep 2013	Change
	€mn	€mn	%
Net interest income	494	380	30
Allowance for credit losses	105	74	42
Net interest income after allowance for credit losses	389	306	27
Net commission income	116	117	-1
Net result on hedge accounting	3	-3	
Net trading income / expenses	-1	14	
Results from non-trading assets	0	-8	
Results from investments accounted for using the equity method	0	-	
Administrative expenses	325	276	18
Net other operating income / expenses	14	-10	
Negative goodwill from the acquisition of Corealcredit	152	-	
Operating profit	348	140	149
Income taxes	62	44	41
Net income / loss	286	96	198
Allocation of results			
Net income / loss attributable to non-controlling interests	14	15	-7
Net income / loss attributable to shareholders of Aareal Bank AG	272	81	236
Appropriation of profits			
Net income / loss attributable to shareholders of Aareal Bank AG	272	81	236
Silent participation by SoFFin	15	15	0
Consolidated profit / loss	257	66	289

Segment results for the first nine months of 2014
(in accordance with IFRSs)

	Structured Property Financing		Consulting / Services		Consolidation / Reconciliation		Aareal Bank Group	
	1 Jan - 30 Sep 2014	1 Jan - 30 Sep 2013	1 Jan - 30 Sep 2014	1 Jan - 30 Sep 2013	1 Jan - 30 Sep 2014	1 Jan - 30 Sep 2013	1 Jan - 30 Sep 2014	1 Jan - 30 Sep 2013
€mn								
Net interest income	493	373	0	0	1	7	494	380
Allowance for credit losses	105	74					105	74
Net interest income after allowance for credit losses	388	299	0	0	1	7	389	306
Net commission income	3	7	116		-3	-8	116	117
Net result on hedge accounting	3	-3					3	-3
Net trading income / expenses	-1	14					-1	14
Results from non-trading assets	0	-8					0	-8
Results from investments accounted for using the equity method	0						0	
Administrative expenses	188	147	139	130	-2	-1	325	276
Net other operating income / expenses	11	-9	3	-1	0	0	14	-10
Negative goodwill from the aquisition of Corealcredit	152						152	
Operating profit	368	153	-20	-13	0	0	348	140
Income taxes	68	47	-6	-3			62	44
Net income / loss	300	106	-14	-10	0	0	286	96
Allocation of results								
Net income / loss attributable to non-controlling interests	12	13	2	2			14	15
Net income / loss attributable to shareholders of Aareal Bank AG	288	93	-16	-12	0	0	272	81
Allocated equity	1,326	1,159	109	92	943	1,001	2,378	2,252
Cost / income ratio in %	36.9	39.6	116.4	110.7			51.9	56.4
RoE before taxes in % *)	35.8	16.1	-26.8	-21.5			18.7	7.4

*) On an annualised basis

Segment results for the third quarter of 2014
(in accordance with IFRSs)

	Structured Property Financing		Consulting / Services		Consolidation / Reconciliation		Aareal Bank Group	
	Quarter 3 2014	Quarter 3 2013	Quarter 3 2014	Quarter 3 2013	Quarter 3 2014	Quarter 3 2013	Quarter 3 2014	Quarter 3 2013
€mn								
Net interest income	182	131	0	0	-1	2	181	133
Allowance for credit losses	36	29					36	29
Net interest income after allowance for credit losses	146	102	0	0	-1	2	145	104
Net commission income	1	2	36	40	0	-2	37	40
Net result on hedge accounting	0	0					0	0
Net trading income / expenses	-5	3					-5	3
Results from non-trading assets	0	-2					0	-2
Results from investments accounted for using the equity method	0						0	
Administrative expenses	64	50	46	44	-1	0	109	94
Net other operating income / expenses	-4	-3	2	0	0	0	-2	-3
Negative goodwill from the acquisition of Corealcredit								
Operating profit	74	52	-8	-4	0	0	66	48
Income taxes	23	16	-2	-1			21	15
Net income / loss	51	36	-6	-3	0	0	45	33
Allocation of results								
Net income / loss attributable to non-controlling interests	4	4	0	1			4	5
Net income / loss attributable to shareholders of Aareal Bank AG	47	32	-6	-4	0	0	41	28
Allocated equity	1,326	1,159	109	92	943	1,001	2,378	2,252
Cost / income ratio in %	37.1	38.6	119.6	109.8			51.8	55.1
RoE before taxes in % *)	20.9	16.5	-29.3	-19.9			10.3	7.7

*) On an annualised basis