



Press Release

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Aareal Bank Group posts a good start into the 2015 financial year

- **First-quarter consolidated operating profit of €67 million slightly exceeds the previous year's figure of €65 million (adjusted for negative goodwill from the Corealcredit acquisition)**
- **Net interest income of €178 million markedly higher year-on-year (Q1 2014: €144 million)**
- **Full-year outlook for 2015 affirmed: Aareal Bank anticipates consolidated operating profit of between €400 million and €430 million, including a positive non-recurring effect from the acquisition of WestImmo**

Wiesbaden, 7 May 2015 – Aareal Bank Group enjoyed a good start into the 2015 financial year. It generated consolidated operating profit of € 67 million, a slight year-on-year increase on the previous year's figure of € 65 million, adjusted for the one-off negative goodwill of € 154 million from the acquisition of COREALCREDIT BANK AG ("Corealcredit"), which was closed in the spring of 2014. Net interest income increased and allowance for credit losses declined year-on-year. On the other hand, there were higher expenses for the integration of Corealcredit and the expected costs of the European bank levy, which were already recognised for the full year during the period under review.

After deduction of the imputed net interest payable on the Additional Tier 1 (AT1) bond of € 4 million, consolidated net income attributable to ordinary shareholders amounted to € 36 million (Q1 2014: € 35 million, excluding the one-off effect due to Corealcredit).

Net interest income rose strongly, to € 178 million (Q1 2014: € 144 million), reflecting the higher lending volume – especially due to the acquisition of Corealcredit; the continued satisfactory average lending margins, combined with a high level of early loan repayments and low funding costs, also had a positive effect. The net figure continued to be burdened, however, by a lack of attractive investment opportunities for liquidity reserves, due to the persistent low interest rate environment.

Allowance for credit losses amounted to € 18 million in the first quarter (Q1 2014: € 37 million), thus remaining within expectations. Aareal Bank Group is exposed to securities issued by HETA Asset Resolution AG ("HETA") to a very limited extent only: impairments were limited to € 7 million, shown in the result from non-

trading assets. Of this amount, € 4 million (before taxes) were already recognised in the revaluation surplus as at the year-end 2014. This means that equity was burdened by only € 3 million (before taxes) in the first quarter of 2015.

On 22 February 2015, Aareal Bank Group announced the acquisition of Westdeutsche Immobilienbank ("WestImmo"). The transaction is still expected to be completed during the first half of 2015. The integration of Corealcredit into Aareal Bank Group is also making good progress. In terms of corporate law, Aareal Bank intends to transfer Corealcredit's operating activities to Aareal Bank, also during the first half of 2015, as announced on 15 April 2015.

CEO Dr Wolf Schumacher stated: "Aareal Bank Group's positive business performance continued into the first quarter of the current year. Once again, it is evident in the current environment that we enjoy an excellent position, thanks to our business model – and that we have taken the right strategic decisions for continuing along this path of success in the future."

Structured Property Financing: a marked increase in net interest income

Operating profit in the Structured Property Financing segment amounted to € 74 million in the first quarter of 2015, an increase compared to the same period of the previous year (€ 71 million, adjusted for the negative goodwill from the acquisition of Corealcredit). The increase was largely attributable to higher net interest income: at € 178 million in the first quarter of 2015, it clearly exceeded the figure for the same quarter of the previous year (Q1 2014: € 143 million).

New business originated in the segment during the period under review amounted to € 1.8 billion (Q1 2014: € 1.6 billion), of which newly-originated loans accounted for 47 per cent. Aareal Bank pursues a selective policy regarding new business, especially in view of increasing margin pressure, due to intensified competition, and the acquisition of WestImmo, which will lead to non-organic growth in interest-bearing lending volume.

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

Operating profit in the Consulting/Services segment totalled -€ 7 million during the first quarter of 2015 (Q1 2014: -€ 6 million). The business activities of the Aareon AG subsidiary developed in line with projections: its € 5 million profit contribution was unchanged from the previous year.

The volume of deposits in the segment's banking business remained high, averaging € 9.3 billion during the quarter under review (Q4 2014: € 9.1 billion). The persistently low interest rate environment burdened income generated from the deposit-taking business, and therefore the segment result. Nonetheless, the importance of this business goes way beyond the interest margin – which is under pressure in the current market environment – generated from the deposits. Deposits from the housing industry are a strategically important additional source of funding for Aareal Bank.

Comfortable funding situation and strong capitalisation

Aareal Bank maintained its long-term funding inventory at a high level. It raised a total of € 0.9 billion in long-term funds on the capital markets during the first quarter, including € 0.7 billion in Mortgage Pfandbriefe as well as unsecured refinancing of € 0.2 billion.

Aareal Bank continues to be very solidly capitalised. As at 31 March 2015, the Bank's Tier 1 ratio was 16,7 per cent, which is comfortable on an international level. Assuming full implementation of Basel III, the Bank's pro-forma Common Equity Tier 1 (CET1) ratio would be 12,6 per cent.

Notes to Group financial performance

Net interest income amounted to € 178 million during the quarter under review, up significantly year-on-year (Q1 2014: € 144 million). Net commission income totalled € 41 million (Q1 2014: € 40 million). The aggregate of net trading income/expenses, the net result on hedge accounting, and net result from non-trading assets totalled € 1 million during the quarter under review.

At € 132 million (Q1 2014: € 102 million), administrative expenses were higher than in the previous year, as expected. The increase was largely due to the running costs for Corealcredit, included in expenditure since the second quarter of 2014, as well as € 12 million in expenses for its integration. Moreover, the Bank recognised the expected full-year European bank levy, in the amount of € 9 million, during the first quarter of 2015.

Aareal Bank Group's consolidated operating profit stood at € 67 million in the first quarter, an increase over the same period of the previous year (€ 65 million, adjusted for negative goodwill resulting from the acquisition of Corealcredit). Taking tax deductions of € 22 million into account, consolidated net income was € 45 million. After deduction of € 5 million in non-controlling interest income, and the imputed net interest payable on the Additional Tier 1 (AT1) bond of € 4 million, consolidated net income attributable to ordinary shareholders of Aareal Bank AG amounted to € 36 million (Q1 2014: € 35 million, excluding the one-off effect due to Corealcredit).

Outlook for 2015 affirmed

For the current financial year 2015, Aareal Bank does not expect any dynamic momentum, given subdued growth. The presence of a variety of risks means that global economic development remains susceptible to disruptions. Sentiment is characterised by numerous uncertainty factors, such as the crisis in the Ukraine, the risk of deflation in Europe, as well as imponderabilities concerning the development of the European sovereign debt crisis – especially concerning Greece. For commercial property markets, it is fair to assume that competition in Europe, North America and Asia will remain intense during the course of this year.

In spite of substantial uncertainties and numerous risk factors, Aareal Bank remains generally confident for the 2015 financial year and affirms its full-year

guidance, as announced in February, according to which net interest income is expected in a range between € 720 million and € 760 million. Despite a larger loan portfolio, Aareal Bank continues to forecast allowance for credit losses in a range of € 100 million to € 150 million. As in the previous years, the Bank cannot rule out additional allowance for unexpected credit losses that may be incurred during the current year.

Net commission income for 2015 is projected to be in a range between € 170 million and € 180 million. Administrative expenses, including one-off effects related to the takeover of WestImmo and the integration of Corealcredit, are expected in the region of € 520 million to € 550 million.

All in all, Aareal Bank sees good opportunities, including negative goodwill from the acquisition of WestImmo, to achieve consolidated operating profit of between € 400 million and € 430 million for the current year. Negative goodwill from the acquisition of WestImmo is expected to amount to some € 150 million. The Bank expects RoE before taxes to be around 16 per cent, and earnings per share between € 4.80 and € 5.20, based on an assumed full-year tax ratio of 31.4 per cent. Adjusted for the non-recurring income from the acquisition of WestImmo, Aareal Bank expects RoE before taxes of around 10 per cent, with EPS in a range between € 2.30 and € 2.70.

Aareal Bank's medium-term target RoE of approximately 12 per cent before taxes remains unchanged.

New business of between € 6 billion and € 7 billion is anticipated for the Structured Property Financing segment during the current financial year.

In the Consulting/Services segment, Aareal Bank expects its IT subsidiary Aareon to contribute approximately € 27 million to results before taxes.

Note to editors: The full interim report for the first quarter of 2015 is available on <http://www.aareal-bank.com/en/investor-relations/financial-reports/>.

Aareal Bank Group

Aareal Bank Group, headquartered in Wiesbaden, Germany, is one of the leading international property specialists. It is active across three continents - in Europe, North America and Asia. Aareal Bank AG, whose shares are included in Deutsche Börse's MDAX index, is the Group's parent entity. It manages the various entities organised in the Group's two business segments: Structured Property Financing and Consulting /Services. The Structured Property Financing segment encompasses all of Aareal Bank Group'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 Group offers clients – particularly from the housing industry and the commercial property sector – services and products for managing residential property portfolios and processing payment flows.

Aareal Bank Group - Key Indicators

	1 Jan - 31 Mar 2015	1 Jan - 31 Mar 2014
	€ mn	€ mn
Results ¹⁾		
Operating profit (€ mn)	67	219
Consolidated net income (€ mn)	45	199
Consolidated net income attributable to ordinary shareholders (€ mn) ²⁾	36	189
Cost / income ratio (%) ³⁾	48.3	34.3
Earnings per ordinary share (€) ²⁾	0.60	3.16
RoE before taxes (%) ^{2) 4)}	10.3	40.3
RoE after taxes (%) ^{2) 4)}	6.6	36.7
	31 Mar 2015	31 Dec 2014
Statement of financial position		
Property finance (€ mn)	29,314	28,987
of which: international (€ mn)	23,692	22,894
Equity (€ mn)	2,800	2,723
Total assets (€ mn)	50,878	49,557
Regulatory indicators		
Risk-weighted assets (€ mn)	15,815	15,492
Common Equity Tier 1 ratio (CET1 ratio) (%)	13.1	13.6
Tier 1 ratio (T1 ratio) (%)	16.7	17.7
Total capital ratio (TC ratio) (%)	23.8	24.7
Common Equity Tier 1 ratio (CET1 ratio) (%) – fully phased –	12.6	12.9
Employees	2,546	2,548
Ratings		
Fitch Ratings, London		
long-term ⁵⁾	A - (outlook: negative)	A - (outlook: negative)
short-term ⁵⁾	F1 (outlook: negative)	F1 (outlook: negative)
Fitch Pfandbrief ratings	AAA	AAA
oekom	prime	prime

- 1) The figures for the comparative period include negative goodwill (day-one gain) in the amount of € 154 million from the acquisition of COREALCREDIT BANK AG (Corealcredit) on 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) The allocation of earnings is based on the assumption of pro-rata temporis accrual of net interest payments on the AT1 bond. SoFFin's silent participation was repaid on 30 October 2014. To facilitate comparison, and for the purposes of economic analysis, net interest paid on the SoFFin silent participation (in the amount of € 5 million) was deducted in the calculation of the comparative figure as at 31 March 2014 when determining the EpS attributable to ordinary shareholders and RoE. Likewise, the SoFFin silent participation (in the amount of € 300 million) was deducted from equity when calculating RoE.
- 3) Structured Property Financing segment only
- 4) On an annualised basis
- 5) 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 reflected a global re-assessment of government support for banks.

Consolidated income statement for the first quarter of 2015 (in accordance with IFRSs)

	1 Jan - 31 Mar 2015	1 Jan - 31 Mar 2014	Change
	€ mn	€ mn	%
Net interest income	178	144	24
Allowance for credit losses	18	37	-51
Net interest income after allowance for credit losses	160	107	50
Net commission income	41	40	3
Net result on hedge accounting	11	2	450
Net trading income / expenses	-7	2	
Results from non-trading assets	-3	0	
Results from investments accounted for using the equity method	0	-	
Administrative expenses	132	102	29
Net other operating income / expenses	-3	16	
Negative goodwill from acquisitions	-	154	
Operating profit	67	219	-69
Income taxes	22	20	10
Consolidated net income	45	199	-77
Consolidated net income attributable to non-controlling interests	5	5	0
Consolidated net income attributable to shareholders of Aareal Bank AG	40	194	-79
Earnings per share (Eps) ¹⁾			
Consolidated net income attributable to shareholders of Aareal Bank AG	40	189	-79
of which: attributable to ordinary shareholders ²⁾	36	189	-81
of which: attributable to AT1 investors	4	-	
Basic earnings per ordinary share (in €) ^{2) 3)}	0,60	3,16	-81
Basic earnings per AT1 unit (in €) ⁴⁾	0,04	-	

- 1) The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.
- 2) SoFFin's silent participation was repaid on 30 October 2014. In order to facilitate comparability and for the purpose of an economic analysis, net interest payable on the SoFFin silent participation was deducted when determining the comparative figure as at 31 March 2014 (€ 5 million) in the Eps calculation.
- 3) Earnings per ordinary share are determined by dividing the earnings attributable to ordinary shareholders of Aareal Bank AG by the weighted average of ordinary shares outstanding during the financial year (59,857,221 shares). Basic earnings per ordinary share correspond to diluted earnings per ordinary share.
- 4) Earnings per AT1 unit (based on 100,000,000 AT1 units with a notional amount of € 3 each) are determined by dividing the earnings attributable to AT1 investors by the weighted average of AT1 units outstanding during the financial year. Earnings per AT1 unit (basic) correspond to (diluted) earnings per AT1 unit.

Segment results for the first quarter of 2015 (in accordance with IFRSs)

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 31 Mar 2015	1 Jan - 31 Mar 2014	1 Jan - 31 Mar 2015	1 Jan - 31 Mar 2014	1 Jan - 31 Mar 2015	1 Jan - 31 Mar 2014	1 Jan - 31 Mar 2015	1 Jan - 31 Mar 2014
€ mn								
Net interest income	178	143	0	0	0	1	178	144
Allowance for credit losses	18	37					18	37
Net interest income after allowance for credit losses	160	106	0	0	0	1	160	107
Net commission income	0	1	41	40	0	-1	41	40
Net result on hedge accounting	11	2					11	2
Net trading income / expenses	-7	2					-7	2
Results from non-trading assets	-3	0					-3	0
Results from investments accounted for using the equity method			0				0	
Administrative expenses	84	56	48	46	0	0	132	102
Net other operating income / expenses	-3	16	0	0	0	0	-3	16
Negative goodwill from acquisitions		154						154
Operating profit	74	225	-7	-6	0	0	67	219
Income taxes	24	22	-2	-2			22	20
Consolidated net income	50	203	-5	-4	0	0	45	199
Consolidated net income attributable to non-controlling interests	4	4	1	1			5	5
Consolidated net income attributable to shareholders of Aareal Bank AG	46	199	-6	-5	0	0	40	194
Allocated equity	1.526	1.258	120	103	542	699	2.188	2.060
Cost / income ratio in %	48,3	34,3	117,7	114,5			61,0	49,8
RoE before taxes in % ¹⁾²⁾	16,9	68,3	-27,1	-26,4			10,3	40,3

1) On an annualised basis

2) The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis. SoFFin's silent participation was repaid on 30 October 2014. In order to facilitate comparability and for the purpose of an economic analysis, net interest payable on the SoFFin silent participation (€ 5 million) was deducted when determining the comparative figure as at 31 March 2014 in the RoE calculation. Likewise, the SoFFin silent participation (€ 300 million) was deducted from equity used to calculate the RoE.