



Press Release

Contacts:

Sven Korndörffer

Phone: +49 611 348-2306

sven.korndorffer@aareal-bank.com

Christian Feldbrügge

Phone: +49 611 348-2280

christian.feldbruegge@aareal-bank.com

Aareal Bank Group remains successfully on track during the second quarter of 2015

- **Consolidated operating profit of € 233 million (including negative goodwill from the acquisition of WestImmo) – adjusted figure rises to € 79 million (Q2 2014: € 65 million)**
- **Net interest income rises to € 191 million (Q2 2014: € 169 million)**
- **Full-year outlook for 2015 affirmed: Aareal Bank anticipates consolidated operating profit of between € 400 million and € 430 million (including negative goodwill)**

Wiesbaden, 11 August 2015 – Aareal Bank Group maintained its successful business performance throughout the second quarter of 2015: consolidated operating profit of € 233 million has hit a new record level. The figure includes negative goodwill in the amount of € 154 million from the acquisition of Westdeutsche ImmobilienBank AG (WestImmo), which was completed on 31 May 2015. Adjusted for this positive non-recurring effect, consolidated operating profit of € 79 million was still considerably higher than last year's figure of € 65 million – in spite of special burdens totalling € 12 million for the integration of WestImmo and of Corealcredit, which the Bank acquired one year ago, plus € 7 million for the European bank levy in 2015. These costs were offset to some extent by non-recurring single-digit million euro income from the sale of a property.

The positive development of operating profit was driven, in particular, by the increase in net interest income, to € 191 million (Q2 2014: € 169 million). Second-quarter results also include the positive pro-rata profit contribution by WestImmo for the first time; the acquisition has an impact on the Group's operating result – specifically, on net interest income and on administrative expenses. After deduction of imputed net interest payable on the Additional Tier 1 (AT1) bond of € 4 million, consolidated net income attributable to ordinary shareholders – adjusted for negative goodwill – amounted to € 46 million in the second quarter, also clearly exceeding the figure for the same period of the previous year (Q2 2014: € 34 million). Earnings per ordinary share amounted to € 0.77, adjusted for negative goodwill.

"The figures for the second quarter once again show that Aareal Bank Group is in very good shape", said Dr Wolf Schumacher, Chairman of Aareal Bank's Management Board. "We remain set for profitable growth – in a market and competitive environment that remains challenging, and is characterised by numerous uncertainty factors. This is also supported by the two recent acquisitions, which not only generated significant value for our shareholders but also further strengthened our market position."

Structured Property Financing segment: net interest income posts another increase

Operating profit in the Structured Property Financing segment was € 240 million in the second quarter of 2015, clearly exceeding the previous year's figure of € 71 million; the figure includes the non-recurring € 154 million negative goodwill from the acquisition of WestImmo.

Segment net interest income amounted to € 192 million in the second quarter of 2015, markedly higher year-on-year (Q2 2014: € 168 million). A high level of early loan repayments, low funding costs, and a considerable increase in lending volume – partly due to the acquisition of WestImmo – all had a positive effect. The net figure continued to be burdened by a lack of attractive investment opportunities for liquidity reserves, due to the persistent low interest rate environment.

Allowance for credit losses in the second quarter of 2015 amounted to € 31 million (Q2 2014: € 32 million). Allowance for credit losses during the first half of the year totalled € 49 million (H1 2014: € 69 million) and was therefore within the projected range. Aareal Bank affirms the forecast range of € 100 million to € 150 million for the full financial year.

The volume of new business originated in the second quarter amounted to € 1.8 billion (Q2 2014: € 2.6 billion): a total of € 3.6 billion has now been originated during the first half of 2014 (H1 2014: € 4.2 billion). As expected, the volume of newly-originated loans during the second quarter (€ 1.2 billion) was lower than in the previous year (Q2 2014: € 1.6 billion). Aareal Bank pursues a selective policy regarding new business, especially in view of margin pressure due to intensified competition, and the acquisition of WestImmo, which has led to non-organic growth in interest-bearing lending volume.

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

At -€ 7 million, operating profit in the Consulting/Services segment during the quarter under review was in line with the level of the first quarter, and also virtually unchanged from the previous year (Q2 2014: -€ 6 million).

Business activities of the Aareon AG subsidiary developed on schedule during the second quarter: operating profit amounted to € 6 million, unchanged year-on-year.

The volume of deposits in the segment's banking business averaged € 9.2 billion during the quarter under review (Q1 2015: € 9.3 billion), thus remaining at a high

level. 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.

Sound funding situation, and strong capitalisation

Aareal Bank Group has remained very solidly funded throughout the second quarter of 2015. Total long-term funding as at 30 June 2015 amounted to € 34.0 billion (31 December 2014: € 28.7 billion), with the increase mainly due to the consolidation of WestImmo. Thanks to Aareal Bank Group's very good funding status, no material long-term issues were placed during the second quarter. A total of € 0.9 billion in long-term funds was raised during the first half of 2015, comprising € 0.7 billion in Mortgage Pfandbriefe and € 0.2 billion in senior unsecured issues. Overall, the Bank already carried out the majority of issuance activities planned for 2015 during the first six months of the year.

Aareal Bank remains very solidly financed, even taking the WestImmo acquisition into account. As at 30 June 2015, the Bank's Tier 1 ratio was 15.8 per cent, which is comfortable also on an international level. Assuming full implementation of Basel III, the Bank's Common Equity Tier 1 (CET1) ratio would be 11.8 per cent.

Notes to Group financial performance

Consolidated net interest income of € 191 million in the second quarter was € 22 million higher than for the same period of the previous year (Q2 2014: € 169 million). The increase was mainly driven by a high level of early loan repayments, low funding costs, and a considerable increase in lending volume, which was partly due to the acquisition of WestImmo. Net interest income totalled € 369 million for the first six months of the financial year (H1 2014: € 313 million).

Net commission income of € 42 million for the second quarter was up slightly year-on-year (Q2 2014: € 39 million), and thus amounted to € 83 million for the first half of the year (H1 2014: € 79 million).

The aggregate of net trading income/expenses, the net result on hedge accounting, and the result from non-trading assets, was balanced in the second quarter (Q2 2014: € 3 million); the relevant aggregate figure for the first six months of 2015 was € 1 million (H1 2014: € 7 million).

Consolidated administrative expenses totalled € 136 million for the second quarter (Q2 2014: € 114 million) and € 268 million for the first half of the year (H1 2014: € 216 million). The increase was mainly due to integration costs – as well as running costs – for Corealcredit and WestImmo. Following availability of new information concerning the assessment basis for the European bank levy, expected expenses were increased from an original figure of € 9 million (already recognised in the first quarter of 2015) by a further € 7 million during the second quarter.

Net other operating income/expenses of € 13 million includes non-recurring income from the communicated sale of the "Main Triangel" property.

On balance, consolidated operating profit for the second quarter amounted to € 233 million; adjusted for non-recurring negative goodwill from the acquisition of WestImmo, it was € 79 million (Q2 2014: € 65 million). Taking tax deductions of € 24 million into account, consolidated net income was € 209 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 € 200 million (Q2 2014: € 34 million).

Aareal Bank Group's consolidated operating profit for the first six months of the financial year totalled € 300 million (H1 2014: € 284 million). Adjusted for the negative goodwill from the initial consolidation of WestImmo (€ 154 million), operating profit was € 146 million and thus markedly higher than the figure for the same period of the previous year (H1 2014: € 130 million, adjusted for non-recurring effects due to the acquisition of Corealcredit). Taking into consideration income taxes of € 46 million and non-controlling interest income of € 10 million, consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 244 million. Assuming the pro rata temporis accrual of net interest payments on the AT1 bond, consolidated net income attributable to ordinary shareholders stood at € 236 million (H1 2014: € 223million).

Aareal Bank affirms forecasts for the full year 2015

Aareal Bank continues to expect the challenging low interest rate environment to prevail during the second half of the year, combined with substantial uncertainty concerning the geopolitical situation and the ongoing development of the European sovereign debt crisis – with respect to Greece, for example. The Bank affirmed its outlook for 2015, as disclosed 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 € 150million. 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 the one-off effects related to the acquisition and integration of WestImmo and Corealcredit, are expected in the region of € 520 million to € 550 million.

All in all, Aareal Bank continues to see good opportunities to achieve consolidated operating profit of between € 400 million and € 430 million for the current year, including negative goodwill from the acquisition of WestImmo. The preliminary figure for negative goodwill from this acquisition has been determined at € 154 million as at 30 June 2015. As with the negative goodwill resulting from the acquisition of Corealcredit in the previous year, the negative goodwill resulting from the acquisition of WestImmo will not be included in the calculation of potential dividend payments for the 2015 financial year.

The Bank expects RoE 2015 before taxes to be around 16 per cent, and earnings per share of between € 4.80 and € 5.20, based on an assumed full-year tax ratio of 31.4 per cent. Adjusted for 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 as at 30 June 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 - 30 Jun 2015	1 Jan - 30 Jun 2014
	€ mn	€ mn
Results		
Operating profit (€ mn)	300	284
Consolidated net income (€ mn)	254	243
Consolidated net income attributable to ordinary shareholders (€ mn) ¹⁾	236	223
Cost / income ratio (%) ²⁾	45.3	36.9
Earnings per ordinary share (€) ¹⁾	3.95	3.74
RoE before taxes (%) ¹⁾³⁾	24.6	25.3
RoE after taxes (%) ¹⁾³⁾	20.8	21.6

	30 Jun 2015	31 Dec 2014
Statement of financial position		
Property finance (€ mn)	33,051	28,987
of which: international (€ mn)	26,567	22,894
Equity (€ mn)	2,949	2,723
Total assets (€ mn)	55,497	49,557
Regulatory indicators		
Risk-weighted assets (€ mn) ⁴⁾	17,717	15,492
Common Equity Tier 1 ratio (CET1 ratio) (%)	12.5	13.6
Tier 1 ratio (T1 ratio) (%)	15.8	17.7
Total capital ratio (TC ratio) (%)	22.0	24.7
Common Equity Tier 1 ratio (CET1 ratio) (%) – fully phased –	11.8	12.9
Employees	2,802	2,548
Ratings		
Fitch Ratings, London		
long-term ⁵⁾	BBB+ (outlook: stabil)	A - (outlook: negative)
short-term ⁵⁾	F2	F1
Fitch Pfandbrief ratings	AAA	AAA
oekom	prime	prime

1) 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. To facilitate comparison, and for the purposes of economic analysis, net interest paid on the SoFFin silent participation (in the amount of € 10 million) was deducted from the calculation of EpS attributable to ordinary shareholders and RoE as at 30 June 2014. Likewise, the SoFFin silent participation (in the amount of € 300 million) was deducted from equity used to calculate RoE.

2) Structured Property Financing segment only

3) On an annualised basis.

4) Excluding € 1.6 billion in retail business and €0.8 billion in local authority lending business by Westdeutsche ImmobilienBank AG (WestImmo).

5) As expected, rating agency Fitch Ratings ("Fitch") downgraded the Issuer Default Ratings of numerous banks around the world on 19 May 2015, against the background of the lower willingness of many countries to support banks in the event of a crisis and the regulatory measures introduced in this context, such as the EU Single Resolution Mechanism. Within the scope of this measure, Aareal Bank AG's Issuer Default Rating was changed from A- (with a negative outlook) to BBB+ (with a stable outlook). The Bank's short-term Issuer Rating was adjusted from F1 to F2. Fitch had raised Aareal Bank AG's stand-alone Viability Rating from bbb to bbb+ on 24 February 2015, citing the Bank's robust development throughout the financial markets crisis and the continuous strengthening of its capital base, amongst other factors.

Consolidated Income Statement (in accordance with IFRSs) for the first half of 2015

	1 Jan - 30 Jun 2015	1 Jan - 30 Jun 2014	Change
	€ mn	€ mn	%
Net interest income	369	313	18
Allowance for credit losses	49	69	-29
Net interest income after allowance for credit losses	320	244	31
Net commission income	83	79	5
Net result on hedge accounting	8	3	167
Net trading income / expenses	-5	4	
Results from non-trading assets	-2	0	
Results from investments accounted for using the equity method	0	-	
Administrative expenses	268	216	24
Net other operating income / expenses	10	16	-38
Negative goodwill from acquisitions	154	154	0
Operating profit	300	284	6
Income taxes	46	41	12
Consolidated net income	254	243	5
Consolidated net income attributable to non-controlling interests	10	10	0
Consolidated net income attributable to shareholders of Aareal Bank AG	244	233	5
Earnings per share (Eps) ¹⁾			
Consolidated net income attributable to shareholders of Aareal Bank AG	244	223	9
of which: attributable to ordinary shareholders ²⁾	236	223	6
of which: attributable to AT1 investors	8	-	
Basic earnings per ordinary share (in €) ^{2) 3)}	3.95	3.74	6
Basic earnings per AT1 unit (in €) ⁴⁾	0.08	-	

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. To facilitate comparison, and for the purposes of economic analysis, net interest payable on the SoFFin silent participation was deducted when determining the comparative figure as at 30 June 2014 (€ 10 million) in the RoE 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.

Consolidated Income Statement (in accordance with IFRSs) for the second quarter of 2015

	Quarter 2 2015	Quarter 2 2014	Change
	€ mn	€ mn	%
Net interest income	191	169	13
Allowance for credit losses	31	32	-3
Net interest income after allowance for credit losses	160	137	17
Net commission income	42	39	8
Net result on hedge accounting	-3	1	-400
Net trading income / expenses	2	2	0
Results from non-trading assets	1	0	
Results from investments accounted for using the equity method	0		
Administrative expenses	136	114	19
Net other operating income / expenses	13	0	
Negative goodwill from acquisitions	154		
Operating profit	233	65	258
Income taxes	24	21	14
Consolidated net income	209	44	375
Consolidated net income attributable to non-controlling interests	5	5	0
Consolidated net income attributable to shareholders of Aareal Bank AG	204	39	423
Earnings per share (Eps) ¹⁾			
Consolidated net income attributable to shareholders of Aareal Bank AG	204	34	500
of which: attributable to ordinary shareholders ²⁾	200	34	488
of which: attributable to AT1 investors	4	-	
Basic earnings per ordinary share (in €) ^{2) 3)}	3.35	0.58	478
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. To facilitate comparison, and for the purposes of economic analysis, net interest payable on the SoFFin silent participation was deducted when determining the comparative figure as at 30 June 2014 (€ 5 million) in the RoE 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 reporting for the first half of 2015 (in accordance with IFRSs)

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 30 Jun 2015	1 Jan - 30 Jun 2014	1 Jan - 30 Jun 2015	1 Jan - 30 Jun 2014	1 Jan - 30 Jun 2015	1 Jan - 30 Jun 2014	1 Jan - 30 Jun 2015	1 Jan - 30 Jun 2014
€ mn								
Net interest income	370	311	0	0	-1	2	369	313
Allowance for credit losses	49	69					49	69
Net interest income after allowance for credit losses	321	242	0	0	-1	2	320	244
Net commission income	2	2	81	80	0	-3	83	79
Net result on hedge accounting	8	3					8	3
Net trading income / expenses	-5	4					-5	4
Results from non-trading assets	-2	0					-2	0
Results from investments accounted for using the equity method			0				0	
Administrative expenses	173	124	96	93	-1	-1	268	216
Net other operating income / expenses	9	15	1	1	0	0	10	16
Negative goodwill from acquisitions	154	154					154	154
Operating profit	314	296	-14	-12	0	0	300	284
Income taxes	50	45	-4	-4			46	41
Consolidated net income	264	251	-10	-8	0	0	254	243
Consolidated net income attributable to non-controlling interests	8	8	2	2			10	10
Consolidated net income attributable to shareholders of Aareal Bank AG	256	243	-12	-10	0	0	244	233
Allocated equity	1,593	1,302	124	108	553	657	2,270	2,067
Cost / income ratio in %	45.3	36.9	117.6	115.0			57.9	52.0
RoE before taxes in % ^{1) 2)}	37.0	42.2	-26.2	-25.7			24.6	25.3

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. To facilitate comparison, and for the purposes of economic analysis, net interest payable on the SoFFin silent participation (€ 10 million) was deducted when determining the comparative figure as at 30 June 2014 in the RoE calculation. Likewise, the SoFFin silent participation (€ 300 million) was deducted from equity used when calculating RoE.

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

	Structured Property Financing		Consulting / Services		Consolidation / Reconciliation		Aareal Bank Group	
	Quarter 2 2015	Quarter 2 2015	Quarter 2 2015	Quarter 2 2015	Quarter 2 2015	Quarter 2 2015	Quarter 2 2015	Quarter 2 2015
€ mn								
Net interest income	192	168	0	0	-1	1	191	169
Allowance for credit losses	31	32					31	32
Net interest income after allowance for credit losses	161	136	0	0	-1	1	160	137
Net commission income	2	1	40	40		-2	42	39
Net result on hedge accounting	-3	1					-3	1
Net trading income / expenses	2	2					2	2
Results from non-trading assets	1	0					1	0
Results from investments accounted for using the equity method			0				0	
Administrative expenses	89	68	48	47	-1	-1	136	114
Net other operating income / expenses	12	-1	1	1	0	0	13	0
Negative goodwill from acquisitions	154						154	
Operating profit	240	71	-7	-6	0	0	233	65
Income taxes	26	23	-2	-2			24	21
Consolidated net income	214	48	-5	-4	0	0	209	44
Consolidated net income attributable to non-controlling interests	4	4	1	1			5	5
Consolidated net income attributable to shareholders of Aareal Bank AG	210	44	-6	-5	0	0	204	39
Allocated equity	1,593	1,302	124	108	553	657	2,270	2,067
Cost / income ratio in %	42.7	39.4	117.5	115.3			55.2	54.0
RoE before taxes in % ^{1) 2)}	57.9	18.5	-26.1	-26.0			39.2	10.3

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. To facilitate comparison, and for the purposes of economic analysis, net interest payable on the SoFFin silent participation (€ 5 million) was deducted when determining the comparative figure for the second quarter in the RoE calculation. Likewise, the SoFFin silent participation (€ 300 million) was deducted from equity used when calculating RoE.