



Press Release

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Aareal Bank Group remains on course during the second quarter of 2016

- **Consolidated operating profit of € 120 million for the period between April and June**
- **New Structured Property Financing business amounts to € 3.5 billion during the second quarter – nearly four times the previous quarter's figure**
- **Aareon continues to boost its contribution to results**
- **Full-year outlook for 2016 affirmed: Aareal Bank anticipates consolidated operating profit of between € 300 million and € 330 million**
- **CEO Hermann J. Merkens: "We are pursuing our corporate strategy consistently, in order to ensure the durability of our success story for the future"**

Wiesbaden, 11 August 2016 – Aareal Bank Group has continued its successful business performance in the current financial year 2016 – in an environment characterised by numerous uncertainty factors and persistently intense competition. Consolidated operating profit of € 120 million was up 52 per cent from the figure for the previous year, adjusted for negative goodwill from the WestImmo acquisition (Q2 2015: € 229 million; adjusted: € 79 million).

The quarterly results, which were once again very good, demonstrate Aareal Bank Group's strong operating performance, against the background of a challenging environment. Moreover, as expected, results were influenced by two non-recurring effects: on the one hand, the sale of a commercial property in Sweden – closed in April – yielded non-recurring income of € 61 million (subject to any potential final purchase price adjustments during the third quarter). On the other hand, there were non-recurring effects in the amount of € 30 million affecting administrative expenses, predominantly related to the integration of WestImmo – which is proceeding on schedule – as well as for strategic projects and investments.

Consolidated net income allocated to ordinary shareholders increased by 59 per cent against the adjusted figure for the same quarter of the previous year, to € 73 million (Q2 2015: € 196 million; adjusted: € 46 million). Accordingly, earnings

per share for the second quarter rose to € 1.23, compared to € 0.77 (adjusted) in the previous year.

At € 177 million, net interest income – Aareal Bank Group's key source of income – fell short of the previous year's figure (Q2 2015: € 191 million), as expected. This was due to the ongoing reduction of non-strategic portfolios, as well as to lower year-on-year effects from early repayments. Allowance for credit losses returned to normal levels, following the unusually low level seen in the first quarter of 2016: at € 29 million, it was slightly lower year-on-year (Q2 2015: € 31 million), and thus in line with our expectations. Aareal Bank affirms the forecast range of € 80 million to € 120 million for the full financial year 2016.

At € 3.5 billion (of which approximately € 2.4 billion in newly-originated loans), new business generated in the Structured Property Financing segment showed strong momentum during the second quarter. In line with the strategic "Aareal 2020" programme for the future presented in February, a focus in new business origination is on the US market, which has accounted for a share in newly-originated loans of approximately 40 per cent during the first half of 2016. Aareal Bank maintains its new business target of between € 7 billion and € 8 billion for the 2016 financial year.

In the Consulting/Services segment which – in the "Aareal 2020" framework – constitutes the Group's material growth driver, IT subsidiary Aareon once again developed positively. Aareon increased sales revenues by more than 10 per cent, boosting operating results by roughly one-third year-on-year. During the period under review, Aareon especially pursued international cross-selling of its products, and the development and/or market launch of new digital services. Results in the banking business with the housing industry continue to be shaped by historically low interest rates. At an average of € 9.5 billion, the volume of deposits remained at a high level.

"Aareal Bank Group continues to show a very strong performance, in a challenging market and competitive environment", said Hermann J. Merkens, Chairman of the Management Board. "We enjoy an excellent position in both our business segments; and we are pursuing our corporate strategy consistently, in order to ensure the durability of our success story for the future."

Structured Property Financing segment: Strong increase in new business in Europe and the US

In its Structured Property Financing segment, Aareal Bank Group generated operating profit of € 128 million during the second quarter (Q2 2015: € 236 million, including € 150 million negative goodwill from the acquisition of WestImmo).

In a business environment that continues to be highly competitive, and a very challenging general framework, Aareal Bank originated new business of € 3.5 billion – nearly four times the figure for the previous quarter (Q1 2016: € 0.9 billion). Newly-originated loans accounted for around 69 per cent of new business in the second quarter. Approximately 76 per cent of aggregate new business was originated in Europe, where Aareal Bank benefited from several

large portfolio financings; around 20 per cent was originated in the US. Germany accounted for approximately 18 per cent.

Consulting/Services segment: Aareon generated strong Q2 sales revenue and results

At € –8 million (Q2 2015: € –7 million), operating profit generated by the Consulting/Services segment showed a slight improvement over the previous quarter (Q1 2016: € –9 million).

The Aareon AG subsidiary generated strong sales revenue and results during the quarter under review, in line with projections. Operating profit of € 8 million (Q2 2015: € 6 million) exceeded the previous quarter's results by € 1 million.

The volume of deposits in the segment's banking business averaged € 9.5 billion during the quarter under review (Q1 2016: € 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 generated from the deposits – which is under pressure in the current market environment. Deposits from the housing industry are a strategically important additional source of funding for Aareal Bank.

Sound funding situation and strong capitalisation

Aareal Bank remained very solidly funded during the second quarter of 2016, maintaining its long-term funding inventory at a high level. Total long-term funding as at 30 June 2016 amounted to approximately € 29.0 billion (31 December 2015: € 30.9 billion).

Aareal Bank Group raised € 0.9 billion on the capital markets during the first half of 2016, comprising € 0.8 billion in senior unsecured, and € 0.1 billion in secured issues.

Aareal Bank continues to have a very solid capital base. As at 30 June 2016, the Bank's Tier 1 ratio was 16.9 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 13.2 per cent.

Notes to Group financial performance

Net interest income amounted to € 177 million in the quarter under review, down € 3 million from the previous quarter (Q1 2016: € 180 million). The slight decline compared with the previous quarter reflects the expected development, due to the scheduled reduction of non-strategic portfolios. Net interest income totalled € 357 million for the first six months of the financial year (H1 2015: € 369 million). The year-on-year decrease was largely attributable to lower effects of early loan repayments.

At € 29 million, allowance for credit losses was slightly lower year-on-year (Q2 2015: € 31 million), and thus within the expected range. Aareal Bank affirms

the forecast range of € 80 million to € 120 million for the full financial year 2016. Once again, this demonstrates the high quality of Aareal Bank's credit portfolio.

Net commission income of € 47 million clearly exceeded the previous year's figure (Q2 2015: € 42 million), bringing net commission income for the first half of the year to € 93 million (H1 2015: € 83 million). The increase was due, in particular, to higher sales revenue posted by Aareon.

The aggregate of net trading income/expenses, the net result on hedge accounting, and the result from non-trading assets, was € 69 million in the second quarter (Q2 2015: € 0 million); The net figure includes, in particular, the positive non-recurring effect of € 61 million from the full disposal of wholly-owned subsidiary Aqvatrium AB. The relevant aggregate figure for the first six months of 2016 was € 79 million (H1 2015: € 1 million).

Consolidated administrative expenses totalled € 144 million for the second quarter (Q2 2015: € 136 million) and € 290 million for the first half of the year (H1 2015: € 268 million). The expected increase was due particularly to running costs – as well as integration costs – for WestImmo.

Aareal Bank already accounted for the expected full-year European bank levy expenses of € 17 million in the first quarter of 2016.

Net other operating income and expenses was flat in the quarter under review, compared to € –1 million in the first quarter of the year.

On balance, consolidated operating profit for the second quarter amounted to € 120 million. Taking tax deductions of € 38 million into account, consolidated net income was € 82 million. After deduction of € 5 million in non-controlling interest income, and assuming the pro rata temporis accrual of net interest payments on the Additional Tier 1 (AT1) bond of € 4 million, consolidated net income allocated to ordinary shareholders of Aareal Bank AG amounted to € 73 million (Q2 2015: € 196 million, including € 150 million in negative goodwill from the acquisition of WestImmo).

Aareal Bank Group's consolidated operating profit for the first six months of the financial year totalled € 207 million (H1 2015: € 296 million). Taking into consideration tax expenses of € 65 million and non-controlling interest income of € 10 million, consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 132 million. Assuming the pro rata temporis accrual of net interest payments on the AT1 bond, consolidated net income allocated to ordinary shareholders stood at € 124 million (H1 2015: € 232 million).

Outlook: Full-year guidance affirmed

Aareal Bank expects global economic growth to remain subdued for the remainder of the 2016 financial year, with economic momentum likely to remain significantly differentiated in regional terms. Given a variety of uncertainty factors and burdens, economic trends will remain susceptible to disruptions. In addition, uncertainty remains regarding the final specifications of various regulatory

initiatives, which also have potentially significant implications for the property finance business.

Nonetheless, looking at its successful performance during the first six months of the year, Aareal Bank Group remains generally confident for 2016, and affirms its outlook for the year as a whole, according to which net interest income is expected in a range between € 700 million and € 740 million. Aareal Bank forecasts allowance for credit losses to be in a range between € 80 million and € 120 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 is projected to be in a range between € 190 million and € 200 million, mainly driven by the expected positive developments at Aareon. Administrative expenses are expected in a range between € 520 million and € 550 million.

Aareal Bank continues to anticipate consolidated operating profit of between € 300 million and € 330 million for the current year. The Bank expects RoE before taxes of around 11 per cent for the current financial year, with earnings per share between € 2.85 and € 3.19, based on an expected tax rate of around 31 per cent. Aareal Bank's medium-term target RoE of 12 per cent before taxes remains unchanged.

New business of between € 7 billion and € 8 billion is targeted for the Structured Property Financing segment during 2016.

In the Consulting/Services segment, Aareal Bank expects its IT subsidiary Aareon to contribute between € 33 million and € 35 million to results before taxes – a significant increase year-on-year.

Note to editors: The full interim report as at 30 June 2016 is available on www.aareal-bank.com/financialreports.

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 2016	1 Jan-30 Jun 2015
Results ¹⁾		
Operating profit (€ mn)	207	296
Consolidated net income (€ mn)	142	250
Consolidated net income allocated to ordinary shareholders (€ mn) ²⁾	124	232
Cost / income ratio (%) ³⁾	42.4	45.3
Earnings per ordinary share (€) ²⁾	2.08	3.87
RoE before taxes (%) ^{2) 4)}	15.1	24.2
RoE after taxes (%) ^{2) 4)}	10.1	20.4

	30 Jun 2016	31 Dec 2015
Statement of financial position		
Property finance (€ mn) ⁵⁾	30,271	30,894
of which: international (€ mn)	25,393	25,243
Equity (€ mn)	3,025	3,044
Total assets (€ mn)	50,925	51,948
Regulatory indicators		
Risk-weighted assets (€ mn)	16,308	16,709
Common Equity Tier 1 ratio (CET1 ratio) (%)	13.7	13.8
Tier 1 ratio (T1 ratio) (%)	16.9	17.2
Total capital ratio (TC ratio) (%)	23.8	23.8
Common Equity Tier 1 ratio (CET1 ratio) (%) – fully phased –	13.2	13.1
Employees	2,813	2,861
Ratings		
Fitch Ratings, London		
long-term	BBB+ (outlook: stable)	BBB+ (outlook: stable)
short-term	F2	F2
Fitch Pfandbrief ratings	AAA	AAA
Sustainability ⁶⁾		
oekom	prime (C)	prime (C)
Sustainalytics	68	68

1) Adjustment of previous year's figures due to completion of purchase price allocation for Westdeutsche ImmobilienBank AG (WestImmo), in accordance with IFRS 3

2) The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.

3) Structured Property Financing segment only

4) On an annualised basis

5) Excluding € 1.3 billion in private client business (31 December 2015: € 1.5 billion) and € 0.6 billion in local authority lending business by

WestImmo (31 December 2015: € 0.6 billion).

6) Please refer to our Sustainability Report for more details.

Consolidated Income Statement for the first half of 2016 (in accordance with IFRSs)¹⁾

	1 Jan - 30 Jun 2016	1 Jan - 30 Jun 2015	Change
	€ mn	€ mn	%
Net interest income	357	369	-3
Allowance for credit losses	31	49	-37
Net interest income after allowance for credit losses	326	320	2
Net commission income	93	83	12
Net result on hedge accounting	1	8	-88
Net trading income / expenses	17	-5	
Results from non-trading assets	61	-2	
Results from investments accounted for using the equity method	0	0	
Administrative expenses	290	268	8
Net other operating income / expenses	-1	10	
Negative goodwill from acquisitions	-	150	
Operating profit	207	296	-30
Income taxes	65	46	41
Consolidated net income	142	250	-43
Consolidated net income attributable to non-controlling interests	10	10	0
Consolidated net income attributable to shareholders of Aareal Bank AG	132	240	-45
Earnings per share (Eps)			
Consolidated net income attributable to shareholders of Aareal Bank AG ²⁾	132	240	-45
of which: allocated to ordinary shareholders	124	232	-47
of which: allocated to AT1 investors	8	8	0
Earnings per ordinary share (in €) ³⁾	2.08	3.87	-46
Earnings per AT1 unit (in €) ⁴⁾	0.08	0.08	0

1) Adjustment of previous year's figures due to completion of purchase price allocation for WestImmo, in accordance with IFRS 3

2) The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.

3) Earnings per ordinary share are determined by dividing the earnings allocated 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 allocated 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 for the second quarter of 2016 (in accordance with IFRSs)¹⁾

	Quarter 2 2016	Quarter 2 2015	Change
	€ mn	€ mn	%
Net interest income	177	191	-7
Allowance for credit losses	29	31	-6
Net interest income after allowance for credit losses	148	160	-8
Net commission income	47	42	12
Net result on hedge accounting	0	-3	
Net trading income / expenses	8	2	300
Results from non-trading assets	61	1	
Results from investments accounted for using the equity method	0	0	
Administrative expenses	144	136	6
Net other operating income / expenses	0	13	
Negative goodwill from acquisitions		150	
Operating profit	120	229	-48
Income taxes	38	24	58
Consolidated net income	82	205	-60
Consolidated net income attributable to non-controlling interests	5	5	0
Consolidated net income attributable to shareholders of Aareal Bank AG	77	200	-62
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG ²⁾	77	200	-62
of which: allocated to ordinary shareholders	73	196	-63
of which: allocated to AT1 investors	4	4	0
Earnings per ordinary share (in €) ³⁾	1.23	3.27	-62
Earnings per AT1 unit (in €) ⁴⁾	0.04	0.04	0

1) Adjustment of previous year's figures due to completion of purchase price allocation for WestImmo, in accordance with IFRS 3

2) The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.

3) Earnings per ordinary share are determined by dividing the earnings allocated 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 allocated 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 half of 2016 (in accordance with IFRSs)¹⁾

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 30 Jun 2016	1 Jan - 30 Jun 2015	1 Jan - 30 Jun 2016	1 Jan - 30 Jun 2015	1 Jan - 30 Jun 2016	1 Jan - 30 Jun 2015	1 Jan - 30 Jun 2016	1 Jan - 30 Jun 2015
€ mn								
Net interest income	363	370	0	0	-6	-1	357	369
Allowance for credit losses	31	49					31	49
Net interest income after allowance for credit losses	332	321	0	0	-6	-1	326	320
Net commission income	3	2	85	81	5	0	93	83
Net result on hedge accounting	1	8					1	8
Net trading income / expenses	17	-5	0				17	-5
Results from non-trading assets	61	-2					61	-2
Results from investments accounted for using the equity method			0	0			0	0
Administrative expenses	189	173	102	96	-1	-1	290	268
Net other operating income / expenses	-1	9	0	1	0	0	-1	10
Negative goodwill from acquisitions		150						150
Operating profit	224	310	-17	-14	0	0	207	296
Income taxes	71	50	-6	-4			65	46
Consolidated net income	153	260	-11	-10	0	0	142	250
Consolidated net income attributable to non-controlling interests	8	8	2	2			10	10
Consolidated net income attributable to shareholders of Aareal Bank AG	145	252	-13	-12	0	0	132	240
Allocated equity	1,614	1,593	114	124	728	550	2,456	2,267
Cost / income ratio (%)	42.4	45.3	120.2	117.6			54.9	57.9
RoE before taxes (%) ^{2) 3)}	25.4	36.5	-33.3	-26.2			15.1	24.2

1) Adjustment of previous year's figures due to completion of purchase price allocation for WestImmo, in accordance with IFRS 3

2) On an annualised basis

3) The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.

Segment Results for the second quarter of 2016 (in accordance with IFRSs)¹⁾

	Structured Property Financing		Consulting / Services		Consolidation / Reconciliation		Aareal Bank Group	
	Quarter 2 2016	Quarter 2 2015	Quarter 2 2016	Quarter 2 2015	Quarter 2 2016	Quarter 2 2015	Quarter 2 2016	Quarter 2 2015
€ mn								
Net interest income	181	192	0	0	-4	-1	177	191
Allowance for credit losses	29	31					29	31
Net interest income after allowance for credit losses	152	161	0	0	-4	-1	148	160
Net commission income	1	2	43	40	3	0	47	42
Net result on hedge accounting	0	-3					0	-3
Net trading income / expenses	8	2	0				8	2
Results from non-trading assets	61	1					61	1
Results from investments accounted for using the equity method			0	0			0	0
Administrative expenses	94	89	51	48	-1	-1	144	136
Net other operating income / expenses	0	12	0	1	0	0	0	13
Negative goodwill from acquisitions		150						150
Operating profit	128	236	-8	-7	0	0	120	229
Income taxes	41	26	-3	-2			38	24
Consolidated net income	87	210	-5	-5	0	0	82	205
Consolidated net income attributable to non-controlling interests	4	4	1	1			5	5
Consolidated net income attributable to shareholders of Aareal Bank AG	83	206	-6	-6	0	0	77	200
Allocated equity	1,614	1,593	114	124	728	550	2,456	2,267
Cost / income ratio in %	37.2	42.7	118.0	117.4			49.0	55.2
RoE before taxes in % ^{2) 3)}	29.5	56.8	-30.7	-26.2			17.9	38.5

1) Adjustment of previous year's figures due to completion of purchase price allocation for WestImmo, in accordance with IFRS 3

2) On an annualised basis

3) The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.