

Speech by  
Dr Wolf Schumacher  
Chairman of the Management Board  
of Aareal Bank AG

on the occasion of the

Annual General Meeting  
on 20 May 2015  
in Wiesbaden

***- the spoken word prevails -***

## **I. Welcome and introduction**

Dear shareholders,

dear guests,

I would like to take this opportunity, also on behalf of my fellow members of the Management Board, to welcome you to Aareal Bank AG's Annual General Meeting. Your attendance today gives us great pleasure, and expresses the trust you place in the Company.

I am particularly pleased today to report to you on Aareal Bank's performance during the 2014 financial year – a year that was remarkable, in many ways.

- Certainly, one of the most important events was the closing of the acquisition of Corealcredit Bank AG, which has now been a member of Aareal Bank Group since last spring. This transaction was our biggest and most important acquisition to date. We managed the acquisition from our own resources. This not only demonstrated our strong financial position and the Bank's ability to take strategic action – we also created value from day one.

Moreover, we have assumed an active role in the consolidation of our sector. We are keeping our eyes open and are looking at attractive opportunities for external growth, in line with our strategy. Westdeutsche ImmobilienBank – "WestImmo" – was such a fitting opportunity. We announced the acquisition of WestImmo in February of this year; I will come back to this later.

- A further important milestone during the year under review was the full repayment of the residual amount of the silent participation provided by the

German Financial Markets Stabilisation Fund (SoFFin) last autumn We were thus able to finally conclude an important chapter in Aareal Bank's history.

As you know, we had drawn on support available – within the scope of a government package to stabilise the financial services sector – in early 2009, at the height of the crisis affecting financial markets and the economy. At the time, we had actively taken this step, purely as a precautionary measure, to prepare Aareal Bank for weathering any future eventualities during the crisis. Today, we can say that we were successful: Aareal Bank Group has been, and remains healthy. As one of the leading finance and service providers to the property industry, the Bank has developed in a consistent and positive manner over all these years.

But it is worth noting that the support has also paid off for German taxpayers. We fully serviced SoFFin's participation from the very beginning, and we have repaid it – gradually, as quickly as possible and with the reliability that is characteristic for Aareal Bank.

- 2014 was also a remarkable year in the sense that the most important European banks – around 120 institutions, including Aareal Bank – came under direct supervision by the European Central Bank (ECB). The start of European banking supervision was preceded by extensive tests of financial statements. Aareal Bank was no exception: we were scrutinised by the ECB. This so-called "Comprehensive Assessment" involved extensive efforts for everyone involved. As with the other banks concerned, numerous staff members at Aareal Bank were involved in this exercise over the course of

several months. Their efforts have paid off: we passed all the tests with good results, having achieved 'official' confirmation that Aareal Bank is in an excellent position, and in outstanding condition.

- Finally – and importantly – 2014 was truly a record year for us, in financial terms. At €436 million, consolidated operating profit for 2014 was the highest result ever for us. I will come back to this in more detail in a few moments.

This result was only achievable through an outstanding team effort.

Throughout 2014, our staff members have mastered countless challenges with untiring efforts and maximum commitment. I would like to take this opportunity, also on behalf of my colleagues on the Management Board, to express my sincere thanks for this cooperation. We are proud of being able to work with this team!

Ladies and Gentlemen,

The year under review was not only remarkable on its own merits – it also marks the preliminary peak of a journey upon which Aareal Bank embarked ten years ago.

- Let us go back to the year 2005 for a moment. In the language of the equity markets: Aareal Bank was at an all-time low – its team was unsettled, its financial situation weak, and its business was deeply in the red. In other words: the situation was a real challenge.
- At the time, the Management Board decided to face up to this challenge – and we delivered: we worked out the NPL-portfolio of some €3 billion, in record time. We realigned the Bank, further developing our sound business model,

with the two strong pillars of Structured Property Financing and Consulting/Services.

- Looking back, what followed was probably the hardest stress test that the financial services sector ever had to endure. Of course I am talking about the crisis that swept financial markets and the economy, which kept us in suspense from 2007 onwards, for several years.
  - We have passed this stress test. What's more, in all modesty, we fared better than most other banks in Germany.
  - Not only did we post a profit in each quarter of the crisis – we also further expanded our market position during this period. And this for a simple reason: we have – and always have had – a clear view for the risks involved in our business. Even in the most difficult market phases, we were always a reliable partner to our clients, who have remained loyal to us.
- A further success factor during these ten years has been the ability to recognise opportunities, and to exploit the chances available to us. Making use of the offer to take a silent participation by SoFFin on board – as I mentioned before – was such an opportunity.
- But we have done more.
  - We have raised additional capital, optimised the capital structure, and improved the Bank's risk management systems.
  - We developed the two pillars of our business model further and explored new markets – for Aareon, to name but one example.
  - We have raised our international profile, and we have demonstrated that commercial property finance indeed has a bright future – provided you are operating like we are: opportunity-based yet risk-aware.

- And not least: during a period when our sector has undergone change on a massive scale, the Bank has grown into, and accepted the role of, a sector leader. In this sense, the Corealcredit and WestImmo acquisitions are also a clear message to our competitors: we can shape this sector, and we want to do just that.

Ladies and Gentlemen,

In the ten years since 2005, Aareal Bank – a former 'problem child' – has become one of the very few success stories in the German banking sector. During the financial crisis, a large German financial newspaper called us "the good bank from Germany". We saw this as a particular honour, but also as a motivation to earn this seal, time and again, in dealing with our clients, staff, and – of course – with you, our shareholders.

Many amongst you have been faithful to us for a long time, always positively supporting the decisions which were necessary. I would like to take this opportunity to express my sincere thanks to you.

I believe it is fair to say that your loyalty has paid off. The Aareal Bank share price has roughly doubled since 2005 – in fact, it has risen almost tenfold since the height of the financial crisis. We want to let you participate in this preliminary peak of Aareal Bank's journey, not least with our proposal to raise our dividend by 60 per cent, to €1.20 per share.

## **II. Review of the market environment 2014**

Ladies and Gentlemen,

Having taken a wider view, for obvious reasons, I would now like to take a more detailed look at the financial year under review.

The excellent results we have achieved in 2014 are all the more remarkable if you consider the business environment. 2014 was not an easy year, from an economic perspective as well as on the property financing markets. Allow me to summarise the key trends:

- Looking at the economy in the various world regions, developments were – once again – decidedly mixed. Growth in the euro zone remained weak, whereas the US economy picked up speed during the course of the year. Economic momentum in China slowed down, but remained at a relatively high level in an international context. Political uncertainty once again increased significantly – in Russia/Ukraine and the Middle East, to name but two examples.
- The effects of the ongoing low interest rate policy maintained by the central banks became increasingly evident on the financial markets: equity markets reached successive record highs, with persistently high volatility, whilst bond yields hit successive historic lows. As a result, investment pressure rose further for many institutional investors, which led to further growing interest in commercial property as an asset class. At the same time, the liquidity glut on the markets fuelled another increase in early repayments of outstanding property loans, to an extent that could not be foreseen.

- Throughout 2014, international investors continued to focus on high-quality property in top locations in particular. As transaction volumes rose significantly, an increasing number of competitors returned to the market.
- In the search for profitable business opportunities, the number of commercial property finance providers has also continued to rise – which means that competition is getting tougher. This is also visible in lending margins, which are increasingly coming under pressure. Yet if you pursue the right approach, reasonable margins are still possible, even in this environment. As far as we're concerned, we will continue to face competition in the future as we have done in the past: leveraging our quality, market knowledge and sector know-how. Competing on terms and conditions will not benefit anyone in the end – clients included. For this reason, we do not participate in this competition. Our clients know and appreciate what we provide to them.
- Besides interest rates at historically low levels, during the year under review the primary focus in the banking sector was on the establishment of a European banking union. From Aareal Bank's perspective, the main aspect of this process is the transfer of regulatory supervision to the ECB. I already reported on the associated ECB audits within the framework of the Comprehensive Assessment, and the excellent results we achieved in this respect. The efforts required to fulfil regulatory requirements once again increased overall during 2014 – and even though it is satisfying to see that some regulatory issues have been resolved, it is fair to assume that the much-needed regulatory moratorium will not materialise.



All told, throughout 2014 we have seen everything we need to expect in the 'new normal': high volatility, numerous uncertainty factors, increasing depth of regulation, and sharper competition.

It is obvious that this is indeed a challenging environment.

Yet as our results for the financial year under review have shown impressively, it is possible to generate respectable figures even in such a challenging environment.

### **III. Review of results for 2014**

As I already said, the past financial year was the most successful in Aareal Bank's corporate history so far. We not only achieved our target consolidated operating profit, which we had raised in the course of the year. In fact, we even exceeded the target – both including and excluding the negative goodwill from the acquisition of Corealcredit.

- Consolidated net interest income rose to €688 million, up by approximately 30 per cent – a record figure for Aareal Bank, once again slightly outperforming the forecast, which we last raised to a range of €650 million to €680 million in November 2014. One of the factors contributing to this increase was the effects from unexpectedly high early loan repayments, which I already mentioned. Other factors supporting net interest income included low funding costs, a significant increase in the lending volume due to the acquisition of Corealcredit, and continued stable margins. The net figure was burdened, however, by a lack of attractive investment opportunities for liquidity reserves, due to the persistent low interest rate environment.

- At €146 million, allowance for credit losses was up year-on-year, as expected – but, as forecast, remained within the communicated range of €100 million to €150 million. This was despite a non-recurring effect of €31 million, largely attributable to an alignment of measurement parameters to regulatory requirements for portfolio-based allowance for credit losses. The fact that allowance for credit losses has remained very low indeed reflects the high quality of our credit portfolio. This has not changed with the acquisition of Corealcredit.
- Net commission income of €164 million was in line with the previous year's figure, as expected.
- The aggregate of net trading income/expenses, the net result on hedge accounting, and net result from non-trading assets totalled €9 million during the quarter under review.
- Whilst administrative expenses of €439 million were markedly higher than in the previous year, they remained clearly within the forecast range of €430 million to €450 million for the 2014 financial year. The increase was largely due to the acquisition of Corealcredit. Furthermore, higher project costs were incurred during the reporting period, including those in conjunction with regulatory measures such as the ECB's Comprehensive Assessment.  
In our view, the fact that the increase in administrative expenses was not more pronounced, given these effects, reflects the positive impact of measures to enhance efficiency which we adopted over recent years.

Consolidated operating profit for the 2014 financial year totalled €436 million, including €154 million in negative goodwill from the acquisition of Corealcredit. But even without this non-recurring effect, consolidated operating profit of €282 million

exceeded the figure for 2013 by more than 40 per cent. Against the background of the demanding environment which I just outlined, this success is all the more remarkable.

After deduction of taxes of €101 million and non-controlling interest income, net income attributable to Aareal Bank AG shareholders was €316 million. After deduction of €22 million in net interest payable on the SoFFin silent participation, for the last time, consolidated profit stood at €294 million.

Ladies and Gentlemen,

This very gratifying performance was predominantly attributable to the excellent results of our **Structured Property Financing** segment, where operating profit more than doubled year-on-year, thanks to negative goodwill arising from the acquisition of Corealcredit and also due to the marked rise in net interest income, both of which I already mentioned. The segment posted record operating profit of €456 million for the full year.

With the acquisition of Corealcredit, we realised growth through acquisition for the first time. This did not stop us from growing organically as well: we consistently took advantage of numerous opportunities for attractive new business. With an aggregate volume of €10.7 billion, we matched the very good figure for the previous year – exceeding the new business target, which we raised several times during the year, most recently to €10 billion. The share of newly-originated loans stood at around 60 per cent.

What I would like to emphasise in this context is that we continued to consistently adhere to our risk-aware and cautious business policy – focused on profitable growth – throughout 2014.

In our second segment, **Consulting/Services** for the property industry, we further strengthened our position as the long-standing lead bank to the housing industry. This included the acquisition of new customers managing some 185,000 residential units between them, as well as strengthening existing customer relationships. Today, more than 2,900 business partners throughout Germany are using our banking services and products. We saw more companies from the utilities and waste disposal industries opting for Aareal Bank's payment systems and investment products; it can be said that we now have an established customer base from these sectors.

Moreover, we managed to maintain a high level of deposits in 2014. During the year, the volume of deposits averaged €8.6 billion, compared to €7.2 billion the year before. In the final quarter of 2014, we even reached an average level of €9.1 billion.

The business of our IT subsidiary Aareon also developed on schedule. During the period under review, Aareon's sales revenues were up by €5 million, to €178 million; it contributed €26 million to consolidated operating profit.

Aareon continued to be very successful during 2014; its multi-product strategy continues to pay off perfectly. Wodis Sigma, the ERP product line which was launched in 2009, is already being used by around 600 property companies of all sizes. Meanwhile, a majority of new customers has been opting for the possibility – available since 2011 – to use Wodis Sigma as a service from the exclusive Aareon Cloud, our web-based service offer. In this way, fulfilling its own ambition, Aareon has once again set the standards for housing industry software.

Aareon's international business also continued to develop positively, and on schedule. The company now generates more than 30 per cent of sales revenues

from the strategically important markets of France, the UK, the Netherlands, and Scandinavia.

However, operating profit in the Consulting/Services segment continued to be burdened by persistently low interest rate levels during 2014. It amounted to minus €20 million for the full year. With these interest rate levels, it is difficult to achieve any reasonable margins from deposit-taking. Given the current market circumstances, investing the funds entrusted to us by the housing industry in a manner that is both secure and profitable is a rather futile exercise.

Nonetheless, deposits taken from the housing industry represent a strategic competitive advantage for us, since we use these funds to refinance our aggregate balance sheet, at attractive levels. Moreover, they represent a reliable source of funding – and one that is largely independent from the ups and downs on the capital markets. The importance of this business therefore goes way beyond the interest margin generated from the deposits.

Ladies and Gentlemen,

a review of indicators and business developments in the year under review would be incomplete without some comments on Aareal Bank's capitalisation and funding situation. In short: both our liquidity status as well as our capitalisation were once again absolutely solid throughout 2014.

We further optimised our capital structure in this context. As mentioned earlier, the Bank fully repaid the remaining €300 million SoFFin silent participation at the end of October 2014. In mid-November, we issued €300 million in Additional Tier 1 capital, in the form of perpetual notes. The issue was very well received by the markets: more than 180 investors took part in the transaction, placing orders with an

aggregate volume in excess of €1.5 billion, making the issue five times oversubscribed. On the one hand, this enabled us to place the issue with an attractive coupon – on the other hand, it also demonstrated the impeccable reputation Aareal Bank enjoys as an issuer.

Accordingly, as at 31 December 2014, Aareal Bank's Tier 1 ratio was 17.7 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 have been 12.9 per cent at the year-end.

We continued to benefit from very receptive capital markets in our funding activities during the year under review. Demand for Pfandbriefe and unsecured bonds from solid issuers such as Aareal Bank was very strong, allowing us to implement our funding activities during 2014 as planned. We raised a total of €3.9 billion in medium- and long-term funds on the capital market during the period under review, including €1.1 billion in long-term senior unsecured bonds, and a further €0.6 billion in subordinated debt securities. We also issued €1.9 billion in Pfandbriefe. Accounting for close to 50 per cent of Aareal Bank's new issuance, Pfandbriefe continue to play a key role in the Bank's funding mix.

Ladies and Gentlemen,

Summarising our performance during the 2014 financial year, my assessment could hardly be more positive. We achieved excellent business performance, in an environment characterised by high liquidity, low interest rates, and growing competition. We further strengthened our market position, both organically and through acquisition. Moreover, we generated record results, based on our strategy geared towards long-term profitable growth and our viable business model.

In short: Aareal Bank Group is in top condition.

It is gratifying to see that this is also honoured by the equity markets.

#### **IV. The Aareal Bank share**

The Aareal Bank share once again showed a remarkable performance during 2014. Even though the 15 per cent year-on-year price increase did not match the performance seen in 2013 (a price rise of more than 80 per cent), overall our share price has more than doubled over the past two years.

A look at benchmark indices also shows that we can be more than satisfied with the performance of the Aareal Bank share: we clearly outperformed both the DAX and MDAX indices, which advanced by just over 2 per cent each. The same applied to Deutsche Börse's Prime Banks Performance Index, which actually fell by 17.5 per cent in the year under review. In other words: no other German bank share performed better than the Aareal Bank share in 2014!

During the course of the year, the positive price performance was mainly driven by the positive business development. Presentation of the already very good figures for the 2013 financial year took place in February of last year. Combined with the announcement that the Bank would resume an active dividend policy, and the affirmation of our long-term return target, the share price started to clearly outperform its benchmark indices – an effect that became even more pronounced every time we confirmed the good progress we were making.

At the current level, our shares are trading roughly at book value – which is remarkable since most competitors are still valued at a marked discount to their

reported equity. For us, this is a positive signal, for several reasons. Firstly, the share price level reflects the fact that Aareal Bank apparently fares better, given the current business environment, than most other banks. Secondly, the current valuation levels show that capital markets – and this includes you, dear shareholders – are trusting that we can achieve our medium-term planning, including our target RoE of around 12 per cent before taxes. Which means that we are able to earn our cost of capital: a valuation at book value implies a return on equity which is equal to the cost of capital.

A 12 per cent return on equity before taxes translates into a return after taxes of between 8 and 8.5 per cent –this excludes any special effects such as negative goodwill. We continue to adhere to our dividend policy, according to which approximately 50 per cent of consolidated profit (determined in accordance with IFRSs) after servicing hybrid capital instruments, will be distributed – to the extent that this is consistent with the Bank's long-term and sustained business development. As with the negative goodwill resulting from the acquisition of Corealcredit in 2014, the expected negative goodwill resulting from the acquisition of WestImmo will not be included in the calculation of potential dividend payments for the 2015 financial year.

Allow me to briefly comment on the share price performance during the current financial year. Encouragingly, the Aareal Bank share seamlessly carried over its good performance of the past several years into 2015. More than that: on the 14th of April, the share price reached a long-time high; on 19 May, it was up by around 13 per cent since the beginning of the year.

This is all the more remarkable when considering that, as you know, our previous anchor shareholder Aareal Holding placed its 29 per cent stake on the market in January. The market response was very positive indeed: the share price rose



markedly during the days following this placement. Furthermore, the higher free float seems to have raised the attractiveness of the Aareal Bank share even further.

At this point, please allow me to express our thanks, on behalf of the Management Board, to Aareal Holding and its representatives for the many years of constructive commitment to our work.

For us, we take the positive share price performance of the recent past as a token of confidence, for which we are grateful. At the same time, we see it as an indication that we should persist with everything in our power to earn your trust, dear shareholders, every day.

## **V. Agenda**

Ladies and Gentlemen,

At this point, I would like to give you some information about today's agenda. By way of introduction, I would like to point out that all documents related to today's General Meeting have been made available on our Company's website; these documents are also available at the sign-up desk.

**Agenda item no. 1** refers to the presentation of the statutory documents. Under **agenda item no. 2**, we propose to distribute an increased dividend of €1.20 per share, and to transfer the remaining net retained profit of €5 million to other retained earnings. I already mentioned this step, which is fully in line with our communicated dividend policy.

**Agenda items nos. 3 and 4** propose a resolution to grant formal approval to the Management Board and the Supervisory Board. **Agenda item no. 5** contains the proposal regarding appointment of the external auditors.

**Under agenda item no. 6** we request your approval for the election of six new members of the Supervisory Board. In her introduction, Ms Korsch already briefly introduced the six candidates to you, and referred to their summary CVs. We would be delighted if you were to follow the proposals put forward by the Supervisory Board, approving the proposed candidates.

**Agenda items nos. 7 and 8** includes proposals for resolutions authorising the Management Board to purchase treasury shares. These are standard resolutions designed to complement the range of financing options available to a public limited company. Under the proposed resolutions, the Management Board will be authorised, for a period of five years, to buy and sell the Company's own shares, also using derivatives for this purpose.

**Agenda item no. 9** contains a proposal to increase the remuneration for Supervisory Board members. Given higher regulatory requirements regarding the expertise of Supervisory Board members, and their increased workload, management considers a moderate increase in the remuneration paid to the Company's Supervisory Board to be appropriate.

**Under the last agenda item no. 10**, we propose two control and profit transfer agreements with newly-established subsidiaries, "Participation Achte" and "Participation Neunte". Entering into such agreements requires the approval of the General Meeting.

The shareholder meetings of these two wholly-owned subsidiaries have already approved the agreements.

These subsidiaries are shelf companies for which we would like to enter into a profit transfer agreement as a precautionary measure. In accordance with German company law, the Management Board is required to provide a verbal explanation of such agreements at the outset of the General Meeting. I would like to do this, but I will keep my comments brief. We made the agreements – and especially the written reports concerning these agreements – available when convening today's Annual General Meeting. I herewith refer to the documents we made available.

The contents of both agreements are identical, with the exception of the contractual parties. My comments therefore apply to both agreements.

These inter-company agreements are primarily entered into for tax reasons. Such inter-company agreements concluded within a corporate group are widely-used instruments to optimise a group's tax situation. Specifically, conclusion of these contracts will achieve so-called 'fiscal unity', which allows the subsidiaries to be included in Aareal Bank Group's consolidated tax group. As a consequence, profits and losses of these subsidiaries will be assigned to Aareal Bank AG, for the purposes of commercial and tax law, and consolidated with the results of other Group entities included in the consolidated tax group.

Moreover, each controlled subsidiary delegates its corporate management to Aareal Bank – meaning that Aareal Bank AG has the right to issue directions to these subsidiaries concerning their management. This is necessary in order to safeguard the uniform management of the subsidiaries and their integration into Aareal Bank Group.

Moreover, the subsidiaries undertake, subject to the provisions of section 301 of the German Public Limited Companies Act (as amended from time to time), to transfer their entire net income generated (excluding profit transfers) throughout the term of the agreement to Aareal Bank AG. Conversely, pursuant to section 302 of the German Public Limited Companies Act (as amended from time to time), Aareal Bank AG must cover all losses incurred during the term of the agreement.

The agreements will become legally effective upon their registration in the Commercial Register at the registered office of the respective subsidiary. Nonetheless, the obligations to transfer profits or cover losses have retrospective effect, commencing with the beginning of each subsidiary's financial year. Due to legal restrictions, however, Aareal Bank AG can only exercise its management authority from the time the agreements become effective, i.e. the date of entry into the Commercial Register.

In line with the requirements for a consolidated tax group, the agreements have been entered into for a fixed minimum term of five years, but may be terminated for good cause, as stipulated in more detail by each agreement.

Due to the fact that the two companies concerned are wholly-owned subsidiaries of Aareal Bank AG, no compensation must be paid to other shareholders of these subsidiaries upon conclusion of the control and profit and loss transfer agreements, nor is an examination by a court-appointed auditor required. Except for Aareal Bank AG's obligation to cover any losses, the conclusion of the agreements has not given rise to any new specific financial obligations.

As I already mentioned, further details concerning the two new control and profit and loss transfer agreements are available from the documents available at the information desk at

this General Meeting – especially from the joint written reports on the control and profit and loss transfer agreements.

This concludes my comments regarding agenda item no. 10.

Dear shareholders, on behalf of the Management Board and the Supervisory Board, I respectfully request your approval of the agenda items stated above.

## **VI. Current business development and outlook**

Ladies and Gentlemen,

I would now like to turn to current developments in the market environment and in relation to our business.

As the first three months of the current financial year have shown – on which we reported in detail on the 7th of May – things are not about to get any easier. In fact, the business environment has become even more challenging.

- This concerns the economic environment – just think about the uncertainty for the euro zone brought about by the renewed escalation of the crisis affecting Greece.
- This concerns financial markets developments – just consider the weakness of the single European currency following the ECB's decisions on quantitative easing and the Swiss National Bank's decision to let the Swiss franc float freely against the euro.
- It concerns developments on the property finance markets: I already talked about the heightened competition, which also prevails during the current year.

- And it concerns the situation of the banking sector as a whole – which needs to deal with known as well as new regulatory issues whilst having to battle with the persistent low interest rate environment, the impact of which may well turn into a grave burden for more and more banks.

Our environment remains volatile. Yet Aareal Bank not only prepared for this environment: given the circumstances in the first three months of 2015, it once again fared exceptionally well.

There is one preliminary remark I would like to make before discussing the figures in detail. As you are aware, we were able to recognise a positive non-recurring effect of €154 million during the first quarter of 2014, due to the negative goodwill upon the acquisition of Corealcredit. Accordingly, the results are hardly comparable. Therefore, when comparing results with the previous year, I will refer to figures adjusted for this effect.

- Consolidated operating profit of €67 million for the first three months of 2015 once again exceeded the previous year's figure, which was already quite good. Net interest income increased year-on-year, and allowance for credit losses declined. On the other hand, income was burdened by 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.
- The most important factor driving the increase in operating profit was net interest income, which continued to developed very positively indeed: at €178 million, it exceeded the figure for the same period of the previous year by more than one-fifth. Whilst on the one hand, this reflects the higher lending volume,

particularly as a result of the consolidation of Corealcredit, with average margins remaining satisfactory, on the other hand, we have continued to benefit from early loan repayments and low funding costs.

- At €18 million, allowance for credit losses was markedly lower than in the same quarter of the previous year, as well as in the previous quarter. However, in a year-on-year comparison, it is important to note the higher addition to portfolio-based allowance, which – as already mentioned – took place in the first quarter of 2014.
- First-quarter net commission income was up slightly year-on-year, to €41 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, 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, as I mentioned before. On top of this, administrative expenses included €9 million in costs anticipated for the European bank levy on a full-year basis.
- The consolidated operating profit of €67 million, less taxes, non-controlling interest income and the imputed net interest payable on the Additional Tier 1 (AT1) bond, translates into consolidated net income attributable to shareholders of Aareal Bank AG of €36 million. The comparable figure for the previous year was €35 million.

Ladies and Gentlemen,

Our **Structured Property Financing** segment remained the most important source of income for Aareal Bank Group at the start of the year. At €74 million, the segment's operating profit exceeded the very good figure of €71 million posted the year before (adjusted for the non-recurring effect of the Corealcredit acquisition).

Despite further intensified competition, new business originated during the first quarter increased slightly, to €1.8 billion, of which newly-originated loans accounted for 47 per cent. We continued to pursue 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.

As in the previous periods, results in our **Consulting/Services** segment continued to be influenced by partially opposing factors during the first quarter of 2015. Our subsidiary Aareon has continued to perform in line with plans. Digitisation continues to offer great opportunities for Aareon. Hence, our IT subsidiary's development activities will continue to focus on that topic during the course of this year. Aareon's international business also remained positive during the first quarter.

In the segment's banking business, the volume of customer deposits from the housing industry remained at a high level, averaging €9.3 billion during the quarter under review. However, as already stated, sustained historically low interest rates continued to weigh on results generated from deposits this quarter.

The segment's operating profit amounted to minus €7 million, compared with minus €6 million in the first quarter of the previous year.



The general statement regarding liquidity and capital has remained unchanged during the first quarter of the current year: Aareal Bank Group continues to have a solid funding base and remains well-capitalised.

Having placed unsecured bonds and Pfandbriefe totalling €0.9 billion in the first quarter of the current financial year, we thus maintained our long-term funding inventory at a high level. In view of the future capital and liquidity requirements of Basel III, we feel we remain very well positioned. Aareal Bank's Tier 1 ratio was 16.7 per cent as at 31 March 2015, 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.

Accordingly, the following statement also remains valid: Aareal Bank already complies today with the capital and liquidity requirements under the EU Capital Requirements Directive (CRD IV), which will gradually phase in the Basel III regime between now and the end of 2018.

Ladies and Gentlemen,

The very good figures are but *one* piece of positive news from the first quarter of the current financial year. I already briefly mentioned another one: On 22 February 2015, we announced the acquisition of all of the shares of Westdeutsche ImmobilienBank AG ("WestImmo"), which specialises in commercial property financing.

This acquisition is another targeted investment in our core business segment of Structured Property Financing. WestImmo's high-quality commercial property financing portfolio, which is broadly diversified – both geographically and in terms of the type of financed properties – supplements Aareal Bank's activities in line with the Bank's strategy.

With this transaction, we once again demonstrated that we are fully capable of acting strategically, even in a challenging market and competitive environment. At the same time, the second major acquisition within a period of just over one year, financed entirely from the Bank's own resources, also sends a clear signal to our competitors: we are strong enough to implement such a transaction at any time.

The impending acquisition of WestImmo not only reinforces our market position and our claim to a leading position in our sector: it is also financially attractive. We are acquiring WestImmo at a price reflecting a discount compared to the bank's equity in accordance with IFRSs. Similarly to the acquisition of Corealcredit, this gives rise to a day-one gain which, on a preliminary basis, amounts to around €150 million. Aareal Bank will be able to realise this negative goodwill, as a one-off profit, on the closing date. On the whole, we expect the acquisition to have a positive cumulative effect on Aareal Bank's earnings per share of more than €3.00 over the next three years.

This means that Aareal Bank deploys 'excess' capital in the interests of its shareholders, creating value. At the same time, assuming that we maintain our communicated dividend policy, this raises the potential for future distributions.

In short, with the acquisition of WestImmo we have exploited an attractive opportunity – in line with our strategic objectives – to execute a value-creating transaction.

Ladies and Gentlemen,

Our start into the new year was challenging as usual, but very promising indeed. Despite prevailing uncertainty in the political and economic environment, we believe Aareal Bank is perfectly on course for achieving its communicated targets for the full year 2015.

We continue to expect net interest income to increase to a range of € 720 million to 760 million. Even though the credit portfolio will grow further as a result of the planned addition of WestImmo, we continue to anticipate allowance for credit losses in a range between €100 million and €150 million. As in the previous years, we cannot rule out additional allowance for unexpected credit losses that may be incurred.

Net commission income is expected to increase slightly in 2015, to a range between €170 million and €180 million. Administrative expenses, including the one-off effects related to the acquisition 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 of approximately €150 million from the acquisition of WestImmo, to achieve consolidated operating profit of between €400 million and €430 million for the current year. 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 non-recurring income from the acquisition of WestImmo, we expect RoE before taxes of around 10 per cent, with earnings per share in a range between €2.30 and €2.70. Aareal Bank's medium-term target RoE before taxes of approximately 12 per cent remains unchanged, even taking the WestImmo acquisition into account.

We continue to expect new business of between €6 billion and €7 billion for the Structured Property Financing segment during the 2015 financial year. In the Consulting/Services segment, we expect our IT subsidiary Aareon to contribute approximately €27 million to consolidated operating profit.

Ladies and Gentlemen,

our forecast for 2015 and the affirmation of our medium-term target clearly show our general optimism that we will be able to continue our successful course, in spite of all uncertainty factors and risks.

Over the coming months, firstly, the focus will be on concluding the integration of Corealcredit. In this context, in April we announced our plan to transfer the operation of our subsidiary in Frankfurt to the Wiesbaden-based parent company.

Corealcredit's Frankfurt office will then turn into Aareal Bank's new Frankfurt branch. The related process is scheduled for completion at the end of the first half of 2015.

Secondly, we want to conclude the acquisition of WestImmo within a short period of time. We will have to await the transfer of the shareholding before we can provide more details concerning WestImmo's future development within our group. I ask for your understanding that I am unable to give you more details today, since the Mainz-based bank is not yet part of our Group.

## **VII. Strategy and outlook for the future**

Dear shareholders,

I started my comments with a look into the past: a brief review of the last ten years.

During this period, we turned Aareal Bank into what it is today: the leading provider of financing solutions and services, especially to the property sector.

This is a strong foundation upon which we are able to build the future – a future for which we have prepared in the best way possible.

- We have a tried-and-tested, viable business model. The two pillars of Structured Property Financing and Consulting/Services have supported us in the past; they will continue to guarantee our success in the future.
- Clearly, our focus is on profitable growth – both through organic growth and through acquisitions.
- We can build on the resilience of our balance sheet structure and the strong results generate by the Bank, on its excellent market position in both segments, and on the flexibility, motivation and performance of our staff.
- What is more: we still have immense potential that we are determined to realise. Let me assure you that there is a lot of momentum for this throughout the Bank.

Ladies and Gentlemen,

Besides ongoing strategic development, providing sufficient scope for this momentum to unfold – and hence, to realise the potential of our organisation – is one of the main tasks for the senior management of Aareal Bank.

We will only succeed if we communicate to executives and staff what we are doing as a bank, why we do it, and how. This is how we provide orientation – a particularly important factor in an ever more volatile environment.

Aareal Bank Group has a strong culture. We have clearly-defined targets, and place high demands upon ourselves. To name but a few:

- To take the lead in what we do.
- To not only explore markets, but to shape them.

- To apply networked thinking – acting fast, flexibly and solution-driven, in the interests of our clients.
- To consistently continue developing ourselves – recognising new market trends and changes in our environment faster than others, and to consistently exploit them in the interests of our clients and shareholders.

Over the course of the past few months, the Management Board and the first-level managers have worked on capturing Aareal Bank's strong culture in a manner so as to create a clearly-defined mission statement for all our colleagues.

This is also important since Aareal Bank is growing, with new colleagues joining from Corealcredit – and later, probably from WestImmo.

## **VIII. Conclusion**

Ladies and Gentlemen,

As you can see, we have a lot on our agenda. But you also know that Aareal Bank will not easily jump into adventures.

We are indeed growing – but growth is not an end in itself: it needs to create added value. The Bank and its employees have shown their ability to do so. Because they always deliver the quality for which Aareal Bank is well known. Because they are committed to the claim of moving things forward. And because they are determined to continue the Bank's success story.

Dear shareholders, you have placed your trust in us in the past. We want to earn this trust in the future – through solidity, far-sightedness, and a willingness to perform. I hope you will accompany us in the future, too.

Thank you very much for your attention.