



**Aareal Bank**

## Press Release

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### **Aareal Bank Group continues its successful performance in the second quarter of 2013**

- Second-quarter consolidated operating profit of € 45 million
- Net interest income rose to € 126 million, confirming the turnaround seen in the first quarter
- New business in the Structured Property Financing segment grew to € 2.4 billion – twice the amount reported for the same quarter last year
- Aareal Bank affirms its consolidated operating profit forecast for the full year

Wiesbaden, 13 August 2013 – Aareal Bank managed another good performance during the second quarter of the 2013 financial year, against the background of continued market volatility and in a business environment that continues to be challenging. With consolidated operating profit of € 45 million, the Bank repeated the good performance achieved the same quarter of 2012, falling only marginally short of the € 47 million reported in the previous quarter. Consolidated net income was down slightly year-on-year, to € 21 million (Q2 2012: € 24 million), reflecting a higher full-year tax rate.

"At the mid-year point, we see no relief to the challenging environment for the banking sector, given the prevailing economic weakness in numerous markets, and increasingly demanding regulation. The fact that we continued to perform well in these circumstances once again demonstrates the viability of our business model with the two strong pillars of Structured Property Financing and Consulting/Services. We thus remain on track for achieving our targets for the year", said Dr Wolf Schumacher, Chairman of Aareal Bank's Management Board.

Aareal Bank posted another increase in net interest income for the second quarter, and thus confirmed the turnaround in this item seen during the first three months of 2013. Net interest income benefited from good margins on new business underwritten during previous periods, which offset the impact of the persistent low interest rate levels on the deposit-taking business and on investing cash and cash equivalents. At € 126 million, net interest income exceeded both the net figures for the previous quarter (€ 121 million) and the same quarter of the previous year (€ 122 million).

At € 28 million, Aareal Bank's consolidated allowance for credit losses during the second quarter was only marginally higher than the moderate figure for the previous year (€ 25 million). Once again, this testifies to the high quality of the Bank's credit portfolio.

New business in the Structured Property Financing segment totalled € 2.4 billion in the second quarter – double the amount originated in the same quarter of the previous year. "Once again, we have been able to leverage the benefits of our three-continent strategy in our commercial real estate financing business during the quarter under review", Dr Schumacher explained. "We continue to consistently exploit market opportunities available – without compromising our strict standards in terms of returns and risk profile. In this manner, we succeed in steadily expanding our market position."

#### **Structured Property Financing segment: strong new business**

Operating profit in the Structured Property Financing segment was € 50 million in the second quarter of 2013, exceeding the previous year's figure of € 44 million.

Segment net interest income in the period under review was € 124 million, after € 115 million in the comparable period of the previous year. The positive effect of higher margins generated on new business offset the impact of the persistent low interest rate levels on investing cash and cash equivalents.

Allowance for credit losses was € 28 million in the second quarter of 2013, compared with € 25 million in Q2 2012. Allowance for credit losses during the first half of the year totalled € 45 million (H1 2012: € 37 million). It was therefore lower than the pro-rata forecast range of € 110 million to € 150 million for the financial year, but within the expected range.

The volume of new business originated in the second quarter amounted to € 2.4 billion (Q2 2012: € 1.2 billion): a total of € 4.4 billion has now been generated in the first half of 2013 (H1 2012: € 1.7 billion). In contrast to 2012, Aareal Bank consistently exploited opportunities for high-margin new business from the very beginning of 2013, in a more active transaction environment characterised by higher liquidity. The share of newly-originated loans was 55.0% in the second quarter and 57.0% for the first half of 2013.

### **Consulting/Services segment: a further increase in deposit volumes**

Operating profit in the Consulting/Services segment totalled € -5 million for the quarter under review (Q2 2012: € 1 million).

The business activities of the Aareon AG subsidiary developed positively during the second quarter: operating profit amounted to € 6 million during the second quarter of 2013 (Q2 2012: € 4 million). Aareon succeeded in winning new corporate clients for its Wodis Sigma product line, which sets the benchmark for institutional housing software, thanks in particular to its interface with state-of-the-art cloud computing.

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

Against this background, deposit volumes from institutional housing industry clients continued to develop favourably during the second quarter, rising again, to average € 7.2 billion during the quarter under review (Q1 2013: € 6.7 billion).

### **Successful funding activities – strong capitalisation**

Aareal Bank continued to be successful in its refinancing activities during the second quarter. The bank raised a total of € 1.2 billion in long-term funds, Mortgage Pfandbriefe accounted for just under € 1 billion of new issuance, and unsecured funding for € 200 million. Aareal Bank has therefore maintained its long-term funding at a high level. Of the issues placed in the second quarter, the € 200 million, three-year Mortgage Pfandbrief issued in April and the five-year, € 500 million Mortgage Pfandbrief issued in June are particularly worth mentioning.

The Bank raised a total of € 2.6 billion in long-term funds on the capital market during the first six months of 2013, with Mortgage Pfandbriefe accounting for € 2.1 billion. Unsecured refinancing amounted to € 500 million. In addition, € 45 million in subordinated bonds were placed with investors.

Aareal Bank continues to be very solidly financed. The Tier 1 ratio rose to 17.5 per cent as at 30 June 2013, which is comfortable on an international level. At the same time, the core Tier 1 ratio increased to 12.0 per cent. Aareal Bank already complies today with the capital and liquidity requirements under Basel III, which will be gradually implemented between now and the end of 2018.

### **Notes to Group financial performance**

Consolidated net interest income of € 126 million in the second quarter was € 4 million higher than for the same period of the previous year (€ 122 million). The positive effect of higher margins generated on new business offset the impact of the persistent low interest rate levels on the deposit-taking business

and on investing cash and cash equivalents. Net interest income totalled €247 million for the first six months of the financial year (H1 2012: €251 million).

Consolidated net commission income of €39 million for the quarter under review was only marginally lower than the figure of €40 million for the same period of the previous year. Net commission income totalled €77 million for the first half of the year (H1 2012: €80 million).

The aggregate of net trading income/expenses, net result on hedge accounting and the result from non-trading assets was balanced (Q2 2012: €-5 million); the relevant aggregate figure for the first six months of 2013 was €2 million.

Consolidated administrative expenses totalled €90 million for the second quarter (Q2 2012: €89 million) and €182 million for the first half of the year (H1 2012: €180 million), thus remaining on the favourable previous year's level, both for the second quarter and the first half of the year.

On balance, consolidated operating profit for the second quarter amounted to €45 million (Q2 2012: €45 million). Taking into consideration income taxes of €14 million and €5 million in income attributable to non-controlling interests, net income after non-controlling interest income amounted to €26 million. After deduction of the net interest payable on the SoFFin silent participation, and taking a forecast average tax rate of 31.2 per cent for the full year 2013 into account, consolidated net income stood at €21 million in the second quarter (Q2 2012: €24 million). The average tax rate for the full year 2012 was 30 per cent.

Aareal Bank Group's consolidated operating profit for the first six months of the financial year totalled €92 million (H1 2012: €88 million). Taking into consideration income taxes of €29 million and non-controlling interest income of €10 million, net income attributable to shareholders of Aareal Bank AG amounted to €53 million. After deduction of net interest payable on the SoFFin silent participation, consolidated income stood at €43 million.

### **Outlook: Aareal Bank affirms its forecast consolidated operating profit for the full year**

Aareal Bank expects global economic growth to be subdued for the remainder of the 2013 financial year, at previous year's levels. Uncertainty with respect to the further development of the European sovereign debt crisis continues to represent a serious burden, especially in the euro zone, and will lead to significant regional divergence in economic developments. Competition in commercial real estate finance is set to intensify further, whilst stable development is expected in the institutional housing industry.

Net interest income will benefit from the good margins achieved in the lending business. However, the persistently low interest rate levels will continue to represent a burden on deposit-taking business and on investing cash and cash equivalents, so that net interest income for 2013 is expected to be only slightly higher than the previous year's figure.

Allowance for credit losses is expected to remain in a range between € 110 million and € 150 million. As in the previous years, the Bank cannot rule out additional allowance for unexpected credit losses. The Management Board expects net commission income to be stable, in a range between € 165 million and € 175 million.

Thanks to the measures implemented in 2012 to optimise the Bank's structures and processes, administrative expenses are expected to rise only slightly compared with 2012, to between € 360 million and € 370 million. Aareal Bank currently envisages administrative expenses at the upper end of this range.

Aareal Bank's current full-year target for new business in its Structured Property Financing segment is € 6 billion to € 7 billion. From today's perspective, it is perfectly possible for the Bank to generate between € 7 billion and € 8 billion of new business volume for the full year 2013, against the background of a more active transaction environment characterised by higher liquidity, particularly in the United States. This will lead to higher loan repayments, which on balance will be offset by exploiting existing, attractive opportunities for new business.

In the Consulting/Services segment, the Management Board now expects Aareon Group to generate operating profit at the level of the previous year's level.

Aareal Bank continues to believe there is a good chance the Bank's consolidated operating profit will match that of 2012; there is even potential to reach the very good results achieved in 2011.

"Thanks to its solid position, Aareal Bank has successfully mastered the challenges of the past years. And even though the macro-economic environment remains tense, thanks to our viable business model, our forward-looking business policy and outstanding market position, we are in an excellent position to succeed even in the 'new normal' for banks", Schumacher said.

In parallel to the results for the second quarter of 2013, Aareal Bank has published a Sustainability Report for the first time, in which the Bank's social and ecological performance are presented in a comprehensive and systematic manner. The document is available on <http://www.aareal-bank.com/>.

Note to editors: The full interim report for the second quarter of 2013 is available on <http://www.aareal-bank.com/en/investor-relations/financial-reports/>.

#### **Aareal Bank**

Aareal Bank AG, whose shares are traded in Deutsche Börse's MDAX segment and which celebrates its 90th anniversary this year, is a leading international property specialist. The Bank concentrates its business activities on the Structured Property Financing and the Consulting/Services segments. The Structured Property Financing segment encompasses all of Aareal Bank's property financing and funding activities. In this segment, the Bank facilitates property investment projects for its domestic and international clients, within the framework of a three-continent strategy covering Europe, North America and Asia. In the Consulting/Services segment, Aareal Bank offers the institutional housing industry services and products for managing residential property portfolios and processing payment flows.

**Aareal Bank Group:**  
**Key group figures as of 30. June 2013 (in accordance with IFRS)**

	1 Jan - 30 June 2013	1 Jan - 30 June 2012	Change
	€mn	€mn	€mn
<b>Income Statement</b>			
Operating profit	92	88	4
Net income / loss after non-controlling interests	53	55	-2
<b>Kennzahlen</b>			
Cost / income ratio (%) <sup>1)</sup>	40.1	44.1	
Earnings per share (€)	0.88	0.92	
RoE before taxes (%) <sup>2)</sup>	7.4	7.3	
RoE after taxes (%) <sup>2)</sup>	4.7	5.1	

	30 June 2013	31 Dez 2012	Change
	€mn	€mn	€mn
<b>Portfolio data</b>			
Property finance	23,538	23,304	234
of which: international	20,135	19,991	144
Property finance under management	23,714	23,496	218
of which: international	20,135	19,991	144
Equity <sup>4)</sup>	2,387	2,317	70
Total assets <sup>4)</sup>	44,342	45,750	-1,408
	%	%	
<b>Regulatory Indicators</b>			
Tier 1 ratio pursuant to AIRBA <sup>5)</sup>	17.5	16.7	
Total capital ratio pursuant to AIRBA <sup>5)</sup>	21.6	20.6	

	30 June 2013	31 Dez 2012	
<b>Ratings</b>			
Fitch Ratings, London			
Long-term	A -	A -	
Short-term	F1	F1	

1) Structured Property Financing segment only

2) On an annualised basis

3) The figure for property finance under management includes property loans managed on behalf of Deutsche Pfandbriefbank AG.

4) Comparative figures for the previous year were adjusted. Further information is included in the "Accounting policies" section of the notes to the consolidated financial statements.

5) Advanced Internal Ratings-Based Approach (AIRBA)

**Income statement for the first half of 2013 financial year  
(in accordance with IFRS)**

	<b>1 Jan - 30. Jun 2013</b>	<b>1 Jan - 30. Jun 2012</b>	<b>Change</b>
	€ mn	€ mn	%
Net interest income	247	251	-2
Allowance for credit losses	45	37	22
<b>Net interest income after allowance for credit losses</b>	<b>202</b>	<b>214</b>	<b>-6</b>
Net commission income	77	80	-4
Net result on hedge accounting	-3	-5	
Net trading income / expenses	11	-23	
Results from non-trading assets	-6	-3	
Results from investments accounted for using the equity method	-	-	
Results from investment properties	0	5	
Administrative expenses	182	180	1
Net other operating income / expenses	-7	0	
Impairment of goodwill	0	-	
<b>Operating profit</b>	<b>92</b>	<b>88</b>	<b>5</b>
Income taxes	29	23	26
<b>Net income / loss</b>	<b>63</b>	<b>65</b>	<b>-3</b>
<b>Allocation of results</b>			
Net income / loss attributable to non-controlling interests	10	10	
Net income / loss attributable to shareholders of Aareal Bank AG	53	55	-4
<b>Appropriation of profits</b>			
Net income / loss attributable to shareholders of Aareal Bank AG	53	55	-4
Silent participation by SoFFin	10	10	
<b>Consolidated profit / loss</b>	<b>43</b>	<b>45</b>	<b>-4</b>

**Segment results for the first half of 2013 financial year  
(in accordance with IFRS)**

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 30 Jun 2013	1 Jan - 30 Jun 2012	1 Jan - 30 Jun 2013	1 Jan - 30 Jun 2012	1 Jan - 30 Jun 2013	1 Jan - 30 Jun 2012	1 Jan - 30 Jun 2013	1 Jan - 30 Jun 2012
€mn								
Net interest income	242	236	0	0	5	15	247	251
Allowance for credit losses	45	37					45	37
<b>Net interest income after allowance for credit losses</b>	<b>197</b>	<b>199</b>	<b>0</b>	<b>0</b>	<b>5</b>	<b>15</b>	<b>202</b>	<b>214</b>
Net commission income	5	10	78	85	-6	-15	77	80
Net result on hedge accounting	-3	-5					-3	-5
Net trading income / expenses	11	-23					11	-23
Results from non-trading assets	-6	-3					-6	-3
Results from investments accounted for using the equity method								
Results from investment properties	0	5					0	5
Administrative expenses	97	96	86	84	-1	0	182	180
Net other operating income / expenses	-6	-3	-1	3	0	0	-7	0
Impairment of goodwill	0	0					0	0
<b>Operating profit</b>	<b>101</b>	<b>84</b>	<b>-9</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>92</b>	<b>88</b>
Income taxes	31	22	-2	1			29	23
<b>Net income / loss</b>	<b>70</b>	<b>62</b>	<b>-7</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>63</b>	<b>65</b>
<b>Allocation of results</b>								
Net income / loss attributable to non-controlling interests	9	8	1	2			10	10
Net income / loss attributable to shareholders of Aareal Bank AG	61	54	-8	1	0	0	53	55
Allocated equity	1,180	1,270	89	74	971	810	2,240	2,154
Cost / income ratio in %	40.1	44.1	111.1	96.0			57.1	59.0
RoE before taxes in % *)	15.6	12.0	-23.2	4.9			7.3	7.3

\*) On an annualised basis



**Segment results for the second quarter of 2013 financial year  
(in accordance with IFRS)**

	Structured Property Financing		Consulting / Services		Consolidation / Reconciliation		Aareal Bank Group	
	Quarter 2 2013	Quarter 2 2012	Quarter 2 2013	Quarter 2 2012	Quarter 2 2013	Quarter 2 2012	Quarter 2 2013	Quarter 2 2012
€ mn								
Net interest income	124	115	0	0	2	7	126	122
Allowance for credit losses	28	25					28	25
<b>Net interest income after allowance for credit losses</b>	<b>96</b>	<b>90</b>	<b>0</b>	<b>0</b>	<b>2</b>	<b>7</b>	<b>98</b>	<b>97</b>
Net commission income	3	6	39	41	-3	-7	39	40
Net result on hedge accounting	0	5					0	5
Net trading income / expenses	5	-7					5	-7
Results from non-trading assets	-5	-3					-5	-3
Results from investments accounted for using the equity method								
Results from investment properties	0	2					0	2
Administrative expenses	47	47	44	42	-1	0	90	89
Net other operating income / expenses	-2	-2	0	2	0	0	-2	0
Impairment of goodwill	0	0					0	0
<b>Operating profit</b>	<b>50</b>	<b>44</b>	<b>-5</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>45</b>	<b>45</b>
Income taxes	15	11	-1	0			14	11
<b>Net income / loss</b>	<b>35</b>	<b>33</b>	<b>-4</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>31</b>	<b>34</b>
<b>Allocation of results</b>								
Net income / loss attributable to non-controlling interests	5	4	0	1			5	5
Net income / loss attributable to shareholders of Aareal Bank AG	30	29	-4		0	0	26	29
Allocated equity	1,180	1,270	89	74	971	810	2,240	2,154
Cost / income ratio in %	38.2	40.3	110.2	97.3			55.3	55.9
RoE before taxes in % *)	15.3	12.6	-21.0	3.5			7.2	7.5

\*) On an annualised basis