



## Press Information

**Contacts:**

Sven Korndörffer

Phone: +49 611 348 2306

[sven.korndoerffer@aareal-bank.com](mailto:sven.korndoerffer@aareal-bank.com)

Christian Feldbrügge

Phone: +49 611 348-2280

[christian.feldbruegge@aareal-bank.com](mailto:christian.feldbruegge@aareal-bank.com)

Heinrich Frömsdorf

Phone: +49 611 348-2061

[heinrich.froemsdorf@aareal-bank.com](mailto:heinrich.froemsdorf@aareal-bank.com)

### Aareal Bank Group posts a strong start to the 2014 financial year

- Consolidated operating profit of €215 million, including negative goodwill from the acquisition of Corealcredit
- Business development on schedule: consolidated operating profit excluding negative goodwill up year-on-year, to €65 million; forecast for full-year 2014 affirmed
- Capitalisation and liquidity situation remain very solid – Aareal Bank continues to comply with CRD IV requirements, even following the Corealcredit transaction

Wiesbaden, 7 May 2014 – Aareal Bank Group started the 2014 financial year with a markedly higher result, even without the non-recurring effect from the acquisition of COREALCREDIT BANK AG ("Corealcredit"). As already announced, first-quarter consolidated operating profit of €215 million was materially influenced by €150 million in negative goodwill from the acquisition of Corealcredit, which was closed with effect from 31 March 2014. But even without this non-recurring effect, Aareal Bank Group succeeded in increasing consolidated operating profit: at €65 million, it was up when compared both year-on-year (Q1 2013: €47 million) and the strong final quarter of the previous year (Q4 2013: €58 million). Consolidated profit was €185 million. Even adjusted for negative goodwill, at €35 million, it clearly exceeded the comparative figures of €22 million (Q1 2013) and €27 million (Q4 2013), respectively.

Given that the closing of the Corealcredit transaction took place on 31 March 2014, Corealcredit's operative results will be included in Aareal Bank Group's consolidated income statement for the first time in the second quarter of this year. Accordingly, the results adjusted for negative goodwill, as well as all other income statement items for the first quarter, exclusively reflect the performance of Aareal Bank Group in its structure to date.

The Bank's good net interest income was the main contributor to another very positive performance. Net interest income of €144 million for the first three months of the 2014 financial year was up 19 per cent on the same period of the previous year (Q1 2013: €121 million). In particular, the higher volume of the

credit portfolio had a positive effect on net interest income; the figure also included €4 million in non-recurring effects from early repayments.

Aareal Bank recognised €37 million in allowance for credit losses for the first quarter of 2014. The figure was lower compared to the previous quarter (Q4 2013: €39 million), yet higher than in the first quarter of 2013 (€17 million); it comprised a very low level of specific allowance for credit losses – at €6 million, this reflects the high quality of Aareal Bank's credit portfolio, plus €31 million in portfolio-based allowance for credit losses. The latter is due to a change in measurement parameters for determining the portfolio-based valuation allowance, and thus essentially non-recurring. This does not affect the forecast for the year as a whole (€100 million to €150 million).

However, due to a positive non-recurring effect from the reversal of provisions recognised at the peak phase of the financial markets crisis, net other operating income/expenses improved to €16 million (Q1 2013: –€5 million).

In spite of further intensified competition for attractive transactions, new business originated in the Structured Property Financing segment remained at a high level, totalling €1.6 billion during the first quarter. Given a lower volume of loans for renewal, the figure was slightly below the previous year's level (Q1/2013: €2.0 billion); the share of newly-originated loans increased to the high level of 67.4 per cent (Q1/2013: 59.5 per cent).

"As expected, we had a very successful start into the new financial year. Once again, we were able to fully leverage our strengths in a highly competitive environment, thus further improving results. Overall, looking at the positive performance in the first quarter, we are very confident of being able to maintain the steady upward trend that we have shown over recent financial years throughout the current year, as announced", said CEO Dr Wolf Schumacher.

### **Structured Property Financing segment: net interest income at a high level**

Consolidated operating profit in the Structured Property Financing segment amounted to €221 million in the first quarter of 2014. Excluding €150 million in negative goodwill from the acquisition of Corealcredit, it amounted to €71 million, clearly exceeding the previous year's figure of €51 million. The increase was mainly attributable to markedly higher net interest income, which rose to €143 million in the quarter under review (Q1 2013: €118 million). The higher volume of the credit portfolio had a particularly positive effect in this context.

Allowance for credit losses amounted to €37 million (Q1 2013: €17 million) in the first quarter, comprising €6 million in specific allowance for credit losses and €31 million in portfolio-based allowance for credit losses. The latter is largely due to a change in measurement parameters for determining the portfolio-based valuation allowance, and thus essentially non-recurring.

## **Consulting/Services segment: Aareon developed on schedule**

Operating profit in the Consulting/Services segment totalled –€6 million for the quarter under review (Q1 2013: –€4 million).

The business activities of the Aareon AG subsidiary developed on schedule; it contributed €5 million (Q1 2013: €5 million). Following a fourth quarter characterised by high licence fees (which is a usual feature in this type of business), the first quarter was shaped – as in the previous years – by contributions from consultancy, maintenance, and software rental fees. Aareon's international business also remained positive during the first quarter. In contrast to the first quarter of 2013, the subsidiary Incit AB was fully consolidated in the quarter under review.

As in the previous year, the banking business in the Consulting/Services segment continued to be shaped by two developments. On the one hand, deposit volumes continued to increase, averaging €8.1 billion during the quarter under review, up from €7.7 billion in the fourth quarter of 2013. On the other hand, the persistently low interest rate environment continued to burden the results generated from deposit-taking business during the first three months of the year. Yet the importance of this business therefore goes way beyond the interest margin generated from the deposits, which is under pressure in the current market environment. Deposits from the housing industry represent a strategically important additional source of funding for Aareal Bank.

## **Successful funding activities and strong capitalisation**

Aareal Bank raised a total of €1.7 billion in long-term funds on the capital market during the first quarter. This sum comprised Mortgage Pfandbriefe in the amount of €0.7 billion, unsecured funding of €0.6 billion, as well as subordinated liabilities of €0.4 billion. Aareal Bank has therefore maintained its long-term funding at a high level.

Aareal Bank therefore continues to be very solidly financed. The Tier 1 ratio as at 31 March 2014 stood at 15.9 per cent, which is comfortable on an international level, whilst the Common equity tier 1 ratio without the silent participation of SoFFin was 12.1 per cent on the reporting date. Both ratios already include the impact of the Corealcredit transaction. Aareal Bank already complies today with the capital and liquidity requirements under the CRD IV, which will be gradually implemented between now and the end of 2018.

## **Notes to Group financial performance**

Net interest income of €144 million for the first three months of the 2014 financial year was up significantly on the same period of the previous year (€121 million). Net commission income was up slightly on the previous year, to €40 million. The aggregate of net trading income/expenses, the net result on hedge accounting, and net result from non-trading assets, of €4 million resulted largely from the measurement of derivatives used to hedge interest rate and currency risk.

Administrative expenses totalled €102 million (Q1 2013: €92 million). The increase was largely attributable to higher project-related costs (including costs incurred in relation to the acquisition of Corealcredit) as well as to regulatory measures such as the Asset Quality Review by the ECB.

Net other operating income/expenses amounted to €16 million (Q1 2013: –€5 million).

Taking into consideration income taxes of €20 million and non-controlling interest income of €5 million, consolidated operating profit of €215 million (€65 million excluding the negative goodwill from the acquisition of Corealcredit) translates into net income attributable to shareholders of Aareal Bank of €190 million. After deduction of €5 million in net interest payable on the SoFFin silent participation, consolidated profit stood at €185 million for the first quarter (Q1 2013: €22 million).

### **Outlook: forecast for the full year 2014 affirmed**

Aareal Bank continues to expect a slight global recovery during the 2014 financial year, as well as more intense competition. In this environment, Aareal Bank envisages a continuation of its positive business development during the remainder of the year. One main focus of the activities will be the integration of Corealcredit. Discussions concerning the future business policy of the new subsidiary will take place over the coming months.

The Bank has already incorporated the acquisition of Corealcredit into its forecasts for the full 2014 financial year. Given the positive performance during the first quarter, Aareal Bank has affirmed its forecast for net interest income to rise to between €610 million and €640 million. Despite a larger loan portfolio, Aareal Bank continues to forecast allowance for credit losses in a range of €100 million to €150 million. As in the previous years, the Bank cannot rule out additional allowance for unexpected credit losses that may be incurred during 2014.

Net commission income is projected to increase slightly, to between €170 million and €180 million. Administrative expenses are expected in the region of €430 million to €450 million. A material reason for the projected increase over the previous year is the acquisition of Corealcredit.

All in all, Aareal Bank sees good opportunities, including the negative goodwill from the acquisition of Corealcredit, to achieve consolidated operating profit of between €370 million and €390 million for the current year. Adjusted for this non-recurring effect, the Bank anticipates consolidated operating profit of between €220 million and €240 million. On this basis, RoE before taxes is likely to be in the region of 9 per cent; Aareal Bank's medium-term target RoE of approximately 12 per cent before taxes remains unchanged.

New business of between €8 billion and €9 billion is expected for the Structured Property Financing segment in 2014.

In the Consulting/Services segment, Aareal Bank anticipates a slightly higher profit before taxes over the previous year for its Aareon subsidiary, at around €28 million.

Note to editors: The full interim report for the first quarter of 2014 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, 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 housing industry and the commercial property sector services and products for managing residential property portfolios and processing payment flows. [www.aareal-bank.com](http://www.aareal-bank.com)

## Aareal Bank Group – key indicators

	1 Jan - 31 Mar 2014	1 Jan - 31 Mar 2013
	€ mn	€ mn
<b>Income statement <sup>1)</sup></b>		
Operating profit (€ mn)	215	47
Consolidated profit (€ mn)	185	22
Cost / income ratio (%) <sup>2)</sup>	34.3	42.2
Earnings per share (€)	3.18	0.45
RoE before taxes (%) <sup>3)</sup>	35.7	7.4
RoE after taxes (%) <sup>3)</sup>	32.2	4.8
<b>Statement of financial position <sup>4)</sup></b>		
Property finance (€ mn)	28,644	24,550
of which: international (€ mn)	21,294	20,802
Equity (€ mn)	2,653	2,450
Total assets (€ mn)	49,732	42,981
<b>Regulatory indicators <sup>4) 5) 6)</sup></b>		
Risk-weighted assets (€ mn)	16,437	
Common equity tier 1 ratio (%) - fully phased - <sup>7)</sup>	11.9	
Common equity tier 1 ratio (%)	14.0	
Tier 1 ratio (%)	15.9	
Total capital ratio (%)	21.5	
<b>Employees <sup>4)</sup></b>	2,538	2,375
<b>Rating</b>		
Fitch Ratings, London		
long-term	A - (outlook: negative)	A - (outlook: stable)
short-term	F1 (outlook: negative)	F1 (outlook: stable)
Fitch Pfandbrief ratings	AAA	AAA
oekom	prime	prime

1) Q1/2014 including negative goodwill from the acquisition of COREALCREDIT BANK AG (Corealcredit)

2) Structured Property Financing segment only

3) On an annualised basis

4) Including Corealcredit

5) After confirmation of Aareal Bank AG's financial statements for 2013. The calculation of regulatory capital takes into account the Management Board's proposal for the appropriation of net profit for the financial year 2013. The appropriation of profits is subject to approval by the General Meeting.

6) Since 1 January 2014, regulatory indicators have been determined in accordance with CRD IV/CRR, based on carrying amounts in accordance with IFRSs. Until 31 December 2013, the rules of the German Solvency Regulation (SolvV) were applied for this purpose, based on carrying amounts in accordance with HGB. The Bank therefore decided against stating comparative amounts.

7) Excluding the silent participation of the Financial Markets Stabilisation Fund (SoFFin)

8) At the end of the first quarter of 2014, rating agency Fitch Ratings changed its outlook for the Long-Term Issuer Default Rating (IDR) of 18 banks within the European Union from "stable" to "negative". The corresponding outlook for an additional 18 European commercial banks remained "negative". This revision reflects a global re-assessment of government support for banks.

**Consolidated income statement for the first quarter of 2014 (in accordance with IFRSs)**

	1 Jan - 31 Mar 2014	1 Jan - 31 Mar 2013	Change
	€mn	€mn	%
Net interest income	144	121	19
Allowance for credit losses	37	17	118
<b>Net interest income after allowance for credit losses</b>	<b>107</b>	<b>104</b>	<b>3</b>
Net commission income	40	38	5
Net result on hedge accounting	2	-3	
Net trading income / expenses	2	6	-67
Results from non-trading assets	0	-1	
Results from investments accounted for using the equity method	-	-	
Administrative expenses	102	92	11
Net other operating income / expenses	16	-5	
Negative goodwill from the acquisition of Corealcredit	150	-	
<b>Operating profit</b>	<b>215</b>	<b>47</b>	<b>357</b>
Income taxes	20	15	33
<b>Net income / loss</b>	<b>195</b>	<b>32</b>	<b>509</b>
<b>Allocation of results</b>			
Net income / loss attributable to non-controlling interests	5	5	
Net income / loss attributable to shareholders of Aareal Bank AG	190	27	604
<b>Appropriation of profits</b>			
Net income / loss attributable to shareholders of Aareal Bank AG	190	27	604
Silent participation by SoFFin	5	5	
<b>Consolidated profit / loss</b>	<b>185</b>	<b>22</b>	<b>741</b>

## Segment results for the first quarter of 2014 (in accordance with IFRSs)

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 31 Mar 2014	1 Jan - 31 Mar 2013	1 Jan - 31 Mar 2014	1 Jan - 31 Mar 2013	1 Jan - 31 Mar 2014	1 Jan - 31 Mar 2013	1 Jan - 31 Mar 2014	1 Jan - 31 Mar 2013
€mn								
Net interest income	143	118	0	0	1	3	144	121
Allowance for credit losses	37	17					37	17
<b>Net interest income after allowance for credit losses</b>	<b>106</b>	<b>101</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>3</b>	<b>107</b>	<b>104</b>
Net commission income	1	2	40	39	-1	-3	40	38
Net result on hedge accounting	2	-3					2	-3
Net trading income / expenses	2	6					2	6
Results from non-trading assets	0	-1					0	-1
Results from investments accounted for using the equity method								
Administrative expenses	56	50	46	42	0	0	102	92
Net other operating income / expenses	16	-4	0	-1	0	0	16	-5
Negative goodwill from the acquisition of Corealcredit	150						150	
<b>Operating profit</b>	<b>221</b>	<b>51</b>	<b>-6</b>	<b>-4</b>	<b>0</b>	<b>0</b>	<b>215</b>	<b>47</b>
Income taxes	22	16	-2	-1			20	15
<b>Net income / loss</b>	<b>199</b>	<b>35</b>	<b>-4</b>	<b>-3</b>	<b>0</b>	<b>0</b>	<b>195</b>	<b>32</b>
<b>Allocation of results</b>								
Net income / loss attributable to non-controlling interests	4	4	1	1			5	5
Net income / loss attributable to shareholders of Aareal Bank AG	195	31	-5	-4	0	0	190	27
Allocated equity	1,258	1,197	103	85	999	948	2,360	2,230
Cost / income ratio %	34.3	42.2	114.5	111.7			49.8	59.0
RoE before taxes % <sup>1)</sup>	69.1	15.7	-26.4	-26.0			35.7	7.4

<sup>1)</sup> On an annualised basis