



Press Release

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Aareal Bank Group posts a successful start to the 2016 financial year

- **First-quarter consolidated operating profit rises markedly, to € 87 million (Q1 2015: €67 million)**
- **Net interest income up slightly, to €180 million (Q1 2015: € 178 million)**
- **Net commission income increased – positive developments at Aareon**
- **Full-year outlook affirmed: Aareal Bank anticipates consolidated operating profit of between € 300 million and € 330 million**
- **CEO Hermann J. Merkens: "We continue to be successful, even under growing competitive pressure, and we are in the best position to implement our strategy"**

Wiesbaden, 10 May 2016 – Aareal Bank Group maintained the successful business performance of the previous year during the first quarter of the 2016 financial year: consolidated operating profit rose by just under 30 per cent compared to the same quarter of the previous year, to reach € 87 million (Q1 2015: € 67 million). Consolidated net income allocated to ordinary shareholders also increased significantly, by more than 40 per cent, to € 51 million (Q1 2015: € 36 million). Factors contributing to the increase in consolidated operating profit included net commission income, which rose to € 46 million (Q1 2015: € 41 million), as well as by the very low level of allowance for credit losses: at € 2 million, this was significantly lower than the previous year's figure (Q1 2015: € 18 million). The low figure reflects usual seasonal factors. The Bank affirms its forecast of allowance for credit losses in a range of € 80 million and € 120 million for the full year, which is down on the previous year. This demonstrates once again the high quality of Aareal Bank's credit portfolio.

Net interest income increased slightly year-on-year, to € 180 million (Q1 2015: € 178 million). Whilst the higher lending volume – due to the acquisition of Westdeutsche ImmobilienBank ("WestImmo") – had a positive effect, this was offset by the planned reduction of portfolios no longer in line with the Bank's strategy.

Administrative expenses of € 146 million clearly exceeded the previous year's figure (Q1 2015: € 132 million). The increase was in line with expectations and

largely due to the WestImmo acquisition producing higher running costs, and also reflected the fact that Aareal Bank Group already recognised the full-year European bank levy in the first quarter. The figure for the same quarter of the previous year did not fully include this.

New business originated in the Structured Property Financing segment during the period under review amounted to € 0.9 billion (Q1 2015: € 1.8 billion). The lower volume is a reflection of a deliberately cautious and selective new business policy, focused on the high-margin US market, which enabled the Bank to largely neutralise persistent margin pressures in this business segment. Aareal Bank Group maintains its new business target of between € 7 billion and € 8 billion for the 2016 financial year.

In the Consulting/Services segment, IT subsidiary Aareon continued to develop positively, with higher sales revenue and profit. Aareon is one of the Group's planned growth drivers within the framework of its "Aareal 2020" strategy presented in February. The strategy is aimed at optimising the Group's organisational structure, IT systems and processes, as well as its deployment of equity on the one hand – and at further developing the business models pursued by its two segments on the other hand.

"Aareal Bank Group has enjoyed a positive start into the current financial year", said Hermann J. Merkens, Chairman of the Management Board. "The marked increase in results for the first quarter shows that our two business segments are performing very well, even in a challenging competitive environment. We are thus in the best position to successfully implement our 'Aareal 2020' programme, through which we want to explore new, attractive growth opportunities – even beyond the interest-bearing business."

Structured Property Financing segment: focus on US-business

In its Structured Property Financing segment, Aareal Bank Group generated operating profit of € 96 million, which clearly exceeded the figure for the same period of the previous year (Q1 2015: € 74 million).

In a highly competitive business environment, and in a challenging general framework, Aareal Bank deliberately adopted a cautious stance regarding new business at the outset of 2016: the volume of new business amounted to € 0.9 billion during the period under review (Q1 2015: € 1.8 billion). Newly-originated loans accounted for approximately 66 per cent of the total. In line with the growth strategy for business in North America, around 55 per cent of new business was transacted in the US, where Aareal Bank was able to benefit from higher margin levels.

Consulting/Services segment: Aareon developed positively – volume of deposits remains stable, on a high level

Operating profit in the Consulting/Services segment totalled –€ 9 million during the first quarter of 2016 (Q1 2015: –€ 7 million). The Aareon AG subsidiary developed positively, contributing € 7 million to results (Q1 2015: € 5 million).

Averaging € 9.3 billion, the volume of deposits from the housing industry remained on the high level seen in the previous quarter (Q4/2015: € 9.0 billion). 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.

Comfortable funding situation, and strong capitalisation

Aareal Bank remained very solidly funded during the first quarter of 2016, maintaining its long-term funding inventory at a high level. It raised a total of € 0.5 billion on the capital markets during the first quarter, primarily via unsecured issues.

Aareal Bank continues to be very solidly financed. As at 31 March 2016, the Bank's Tier 1 ratio was 16.9 per cent, which is comfortable also on an international level. Assuming full implementation of Basel III, the Bank's Common Equity Tier 1 (CET1) ratio would be 13.2 per cent.

Notes to Group financial performance

At € 180 million, net interest income was slightly higher than the last year's level (€ 178 million). Whilst the higher lending volume – due to the acquisition of Westdeutsche ImmobilienBank ("WestImmo") – had a positive effect, this was offset by the planned reduction of portfolios no longer in line with the Bank's strategy.

Reflecting seasonal factors, allowance for credit losses amounted to € 2 million (Q1 2015: € 18 million) and was thus in line with Aareal Bank's lower forecast for the full year. Net commission income increased to €46 million (Q1 2015: € 41 million), mainly reflecting higher sales revenue at Aareon. The aggregate of net trading income/expenses, the net result on hedge accounting, and net result from non-trading assets totalled €10 million during the quarter under review.

Administrative expenses of € 146 million were clearly up year-on-year (Q1 2015: € 132 million), as expected. The increase was materially due to higher running costs, following the acquisition of WestImmo, as well as the European bank levy, which had not been fully recognised in Q1 2015.

Consolidated operating profit of € 87 million for the quarter under review was markedly higher than the figure for the same quarter of the previous year (Q1 2015: € 67 million). Taking tax deductions of € 27 million into account, consolidated net income was € 60 million. After deduction of € 5 million in non-controlling interest income, and assumed pro-rata net interest payable on the AT1 bond of € 4 million, consolidated net income allocated to ordinary shareholders of Aareal Bank AG amounted to € 51 million (Q1 2015: € 36 million).

Outlook for 2016 affirmed

For the current financial year 2016, Aareal Bank assumes that global economic development will remain subdued, 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. Moreover, regional differences in monetary policy will become more pronounced during the remainder of the year: whilst monetary policy within the euro zone is set to remain expansive, further cautious hikes in US key interest rates are possible during the course of the year. For commercial property markets, it is fair to assume that competitive pressure will increase further in the prevailing low interest rate environment, across all relevant markets.

In spite of existing uncertainty and challenges, Aareal Bank remains generally confident for the 2016 financial year and affirms its full-year guidance, as announced in February, according to which net interest income is expected to decline to a range between € 700 million and € 740 million. Aareal Bank anticipates allowance for credit losses to fall to 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 – a marked increase over the previous year, mainly driven by the expected positive developments at Aareon. Administrative expenses are expected to decline to a range between € 520 million and € 550 million, in spite of high one-off effects of investments as well as project and integration costs.

All in all, Aareal Bank sees good opportunities to achieve consolidated operating profit of between € 300 million and € 330 million for the current year. The upper end of this range slightly exceeds the record level of the past year, as adjusted for negative goodwill from the acquisition of WestImmo. 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 ratio 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 for the first quarter of 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-31 Mar 2016	1 Jan-31 Mar 2015
Results		
Operating profit (€ mn)	87	67
Consolidated net income (€ mn)	60	45
Consolidated net income allocated to ordinary shareholders (€ mn) ¹⁾	51	36
Cost / income ratio (%) ²⁾	49.2	48.3
Earnings per ordinary share (€) ¹⁾	0.85	0.60
RoE before taxes (%) ³⁾	12.4	10.3
RoE after taxes (%) ³⁾	8.3	6.6
Statement of financial position		
Property finance (€ mn) ⁴⁾	30,137	30,894
of which: international (€ mn)	24,882	25,243
Equity (€ mn)	3,079	3,044
Total assets (€ mn)	51,784	51,948
Regulatory indicators ⁵⁾		
Risk-weighted assets (€ mn)	16,658	16,709
Common Equity Tier 1 ratio (CET1 ratio) (%)	13.6	13.8
Tier 1 ratio (T1 ratio) (%)	16.9	17.2
Total capital ratio (TC ratio) (%)	23.7	23.8
Common Equity Tier 1 ratio (CET1 ratio) (%) – fully phased –	13.2	13.1
Employees	2,840	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) The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.

2) Structured Property Financing segment only

3) On an annualised basis

4) Excluding € 1.4 billion (31 December 2015: € 1.5 billion) in private client business and € 0.6 billion (31 December 2015: € 0.6 billion) in local authority lending business by Westdeutsche ImmobilienBank AG (WestImmo).

5) The calculation of regulatory capital takes into account the Management Board's proposal for the appropriation of profits for the financial year 2015. The appropriation of profits is subject to approval by the Annual General Meeting.

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

Consolidated income statement for the first quarter of 2016 (in accordance with IFRSs)

	1 Jan - 31 Mar 2016	1 Jan - 31 Mar 2015	Change
			%
Net interest income	180	178	1
Allowance for credit losses	2	18	-89
Net interest income after allowance for credit losses	178	160	11
Net commission income	46	41	12
Net result on hedge accounting	1	11	-91
Net trading income / expenses	9	-7	
Results from non-trading assets	0	-3	
Results from investments accounted for using the equity method	0	0	
Administrative expenses	146	132	11
Net other operating income / expenses	-1	-3	
Negative goodwill from acquisitions	-	-	
Operating profit	87	67	30
Income taxes	27	22	23
Consolidated net income	60	45	33
Consolidated net income attributable to non-controlling interests	5	5	0
Consolidated net income attributable to shareholders of Aareal Bank AG	55	40	38
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾	55	40	38
of which: allocated to ordinary shareholders	51	36	42
of which: allocated to AT1 investors	4	4	0
Earnings per ordinary share (in €) ²⁾	0.85	0.60	42
Earnings per AT1 unit (in €) ³⁾	0.04	0.04	0

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

2) 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.

3) 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 quarter of 2016 (in accordance with IFRSs)

	Structured Property Financing		Consulting / Services		Consolidation/ Reconciliation		Aareal Bank Group	
	1 Jan - 31 Mar 2016	1 Jan - 31 Mar 2015	1 Jan - 31 Mar 2016	1 Jan - 31 Mar 2015	1 Jan - 31 Mar 2016	1 Jan - 31 Mar 2015	1 Jan - 31 Mar 2016	1 Jan - 31 Mar 2015
€ mn								
Net interest income	182	178	0	0	-2	0	180	178
Allowance for credit losses	2	18					2	18
Net interest income after allowance for credit losses	180	160	0	0	-2	0	178	160
Net commission income	2	0	42	41	2	0	46	41
Net result on hedge accounting	1	11					1	11
Net trading income / expenses	9	-7	0				9	-7
Results from non-trading assets	0	-3					0	-3
Results from investments accounted for using the equity method			0	0			0	0
Administrative expenses	95	84	51	48	0	0	146	132
Net other operating income / expenses	-1	-3	0	0	0	0	-1	-3
Negative goodwill from acquisitions								
Operating profit	96	74	-9	-7	0	0	87	67
Income taxes	30	24	-3	-2			27	22
Consolidated net income	66	50	-6	-5	0	0	60	45
Consolidated net income attributable to non-controlling interests	4	4	1	1			5	5
Consolidated net income attributable to shareholders of Aareal Bank AG	62	46	-7	-6	0	0	55	40
Allocated equity	1,627	1,526	109	120	695	542	2,431	2,188
Cost / income ratio (%)	49.2	48.3	122.4	117.7			62.2	61.0
RoE before taxes (%) ^{1) 2)}	21.2	16.9	-37.7	-27.1			12.4	10.3

1) On an annualised basis

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