



Press Release

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Aareal Bank Group affirms full-year guidance, after solid second quarter

- **Consolidated operating profit of €109 million (Q2 2016: €120 million) affected by non-recurring items, as in the previous year, and in line with expectations – operating performance remains strong**
- **Structured Property Financing segment originated €2.0 billion in new business during the second quarter, bringing new business for the first half-year to €3.8 billion**
- **Positive trend in net commission income maintained, thanks to Aareon's good performance**
- **Westlmmo integration successfully completed**
- **Full-year outlook for 2017 affirmed: Aareal Bank anticipates consolidated operating profit of between €310 million and €350 million**

Wiesbaden, 10 August 2017 – During the second quarter of the 2017 financial year, Aareal Bank Group maintained the strong momentum seen at the opening of the year and continued its positive development. In a market and competitive environment that continued to be demanding, the Group generated consolidated operating profit of €109 million (Q2 2016: €120 million). As in the previous year, results were influenced by significant non-recurring items: a positive €50 million one-off contribution from a subsidiary's reversal of provisions against income, as already announced, was partially offset by €24 million in provisions, recognised in connection with the further optimisation of structures and processes (also already communicated), within the framework of the "Aareal 2020" programme for the future, which also includes personnel measures. Aareal Bank Group's operating profits – adjusted for non-recurring effects – thus again reached a very solid level.

Consolidated net income allocated to ordinary shareholders of Aareal Bank amounted to €62 million (Q2 2016: €73 million). Earnings per share amounted to €1.05, compared to €1.23 for the same quarter of the previous year. Besides the special effects mentioned, the – once again – very solid quarterly results particularly underline Aareal Bank Group's operating performance, which remained robust. Specifically, net interest income of €158 million was fully in line with expectations; the year-on-year decline (Q2 2016: €177 million) was largely due to the continued planned reduction of the former Westlmmo and Corealcredit portfolios, together with lower one-off income from early loan repayments. At €25 million, allowance for credit losses was lower year-on-year (Q2 2016: €29 million), and also within the expected range.

New business in the Structured Property Financing segment amounted to €2.0 billion in the second quarter, bringing the total figure for the first half-year to €3.8 billion – only slightly lower than in the very dynamic first half of 2016 (€4.4 billion). The development of average gross margins on newly-originated loans was particularly noteworthy: during the period from April to June, they rose to more than 260 basis points (net of currency costs), whereby loan-to-value ratios remained moderate. The key driver of this development was the continued business expansion into high-margin markets such as North America – a key thrust of Aareal Bank's strategy. Taking a look at the year as a whole, Aareal Bank believes that it will be able to exceed the target range of 200 to 210 basis points, even though the share of North American exposures in total new business volumes is expected to decline during the second half of the year.

In the Consulting/Services segment, which – within the scope of "Aareal 2020" – is set to evolve into a key growth driver for Aareal Bank Group, IT subsidiary Aareon has remained on track, posting another solid set of results (Q2 2017 profit contribution before taxes: €8 million) and another increase of its sales revenue. This resulted in an increase of the segment's sales revenue to €55 million (Q2/2016: €52 million), and contributed to a further slight increase in consolidated net commission income. Aareon continued to consistently pursue its core growth strategic initiatives throughout the second quarter: in fact, these are increasingly bearing fruit. For instance, recent market acceptance for Aareon's newly-developed digital solutions has grown significantly, especially in Germany, France, and the Netherlands. Aareon's sales revenue – from digital solutions already amounted to €16 million during the first half of the year – with a strongly rising trend.

Aareal Bank Group achieved a very important milestone during the second quarter, concluding the integration of WestImmo, effective 30 June 2017. Having transferred its banking operations (together with the related loan and securities portfolios) to Aareal Bank AG, by way of a split-off, former WestImmo has since been trading under the name of Westdeutsche Immobilien Servicing AG, and focuses on the servicing of the loan portfolio transferred.

"Aareal Bank Group delivers on its promises – both strategically and financially. Our good results for the second quarter have shown, once again, that we are implementing our "Aareal 2020" programme for the future from a position of strength. Firstly, this encompasses our numerous strategic projects and initiatives designed to further develop operating business in our two segments. We are seeing initial successes here. Secondly, optimising our structures and processes is another key pillar: we will be focusing on this exercise in great detail this year and next, with a bundle of measures through which optimisation will swiftly take shape. With this combination, we are laying the foundations for our Company's sustained success, in a market and competitive environment that is changing rapidly", said Hermann J. Merkens, Chairman of the Management Board.

Structured Property Financing segment: strong new business in North America

In its Structured Property Financing segment, Aareal Bank Group generated operating profit of €115 million (Q2 2016: €128 million) during the second quarter. In a business environment that continues to be highly competitive, and a very challenging general framework, Aareal Bank originated new business of €2.0 billion, up by approximately 11 per cent over the previous quarter (Q1 2017: €1.8 billion). Newly-originated loans accounted for around 75 per cent of new business in the second quarter. Around 56 per cent of new business was originated in Europe, with North America accounting for the remaining approximately

44 per cent. Aareal Bank continues to adhere to its forward-looking, flexible business policy and new business allocation in the Structured Property Financing segment.

Consulting/Services segment: Aareon's Q2 sales revenue and results on schedule

Operating profit in the Consulting/Services segment of €–6 million during the quarter under review was in line with the previous quarter (Q1 2017: €–6 million; Q2 2016: €–8 million).

The Aareon AG subsidiary generated strong sales revenue and results during the quarter under review, in line with projections. Operating profit of €8 million (Q2 2016: €8 million) was in line with the good level posted for the previous quarter.

The volume of deposits in the segment's banking business averaged €9.6 billion during the quarter under review (Q1 2017: €10.2 billion), thus remaining at a high level. The persistently low interest rate environment burdened income generated from the deposit-taking business, and therefore the segment result. Nonetheless, the importance of this business goes way beyond the interest margin generated from deposits – which is under pressure in the current market environment. Deposits from the housing industry are a strategically important additional source of funding for Aareal Bank.

Sound funding situation, continued strong capitalisation

Aareal Bank remained very solidly funded during the second quarter of 2017, maintaining its long-term funding inventory at a high level. Total long-term funding as at 30 June 2017 amounted to approximately €24.2 billion (31 March 2017: €25.8 billion).

Aareal Bank Group raised €1.1 billion on the capital markets during the first half of 2017, comprising €0.2 billion in senior unsecured, and €0.9 billion in secured issues.

Aareal Bank continues to have a very solid capital base. As at 30 June 2017, the Bank's Tier 1 ratio was 19.7 per cent, which is comfortable also on an international level. Assuming full implementation of Basel III, the Bank's fully phased-in Common Equity Tier 1 (CET1) ratio would be 16.6 per cent.

Notes to Group financial performance

Net interest income amounted to €158 million in the quarter under review, down €6 million from the previous quarter (Q1 2017: €164 million). The slight decline compared with the previous quarter essentially reflects the expected development, due to the ongoing scheduled reduction of the former WestImmo and Corealcredit portfolios. In addition, non-recurring income from early loan repayments was lower than in the previous quarter. Net interest income totalled €322 million for the first six months of the financial year (H1 2016: €357 million).

Allowance for credit losses of €25 million was lower than the previous year's figure (Q2 2016: €29 million); the total figure for the first half-year was €27 million (H1 2016: €31 million).

Net commission income of €49 million exceeded the previous year's figure (Q2 2016: €47 million), and totalled €97 million for the first half of the year (H1 2016: €93 million). The increase was due, in particular, to higher sales revenue posted by Aareon.

The aggregate of net trading income/expenses, the net result on hedge accounting, and the result from non-trading assets, was €1 million in the second quarter (Q2 2016: €69 million). The net figure for the second quarter of 2016 included, in particular, the positive non-recurring effect of €61 million from the full disposal of wholly-owned subsidiary Aquvatrium AB. The relevant aggregate figure for the first six months of 2017 was €-3 million (H1 2016: €79 million).

Consolidated administrative expenses declined to €129 million (Q2 2016: €144 million), in spite of provisions recognised in the context of the optimisation of processes and structures, within the scope of the "Aareal 2020" programme for the future. The figure for the first half of the year was €268 million (H1 2016: €290 million). The expected decline in administrative expenses was primarily due to lower running costs and integration costs for the former WestImmo. Aareal Bank already recognised €22 million in expected full-year expenses for the European bank levy and the contribution to the deposit guarantee scheme in the first quarter of 2017.

Net other operating income of €55 million (Q2 2016: €0 million) mainly reflected €50 million from a subsidiary's reversal of provisions against income, as already announced in April 2017.

On balance, consolidated operating profit for the second quarter amounted to €109 million. Taking tax deductions of €42 million into account, consolidated net income was €67 million. After deduction of €1 million in non-controlling interest income, and assuming the pro rata temporis accrual of net interest payments on the AT1 bond, consolidated net income allocated to ordinary shareholders stood at €62 million (Q2 2016: €73 million).

Aareal Bank Group's consolidated operating profit for the first six months of the financial year totalled €180 million (H1 2016: €207 million). After deduction of taxes of €66 million and non-controlling interest income of €6 million, and assuming a pro rata net interest temporis accrual of net interest payments on the AT1 bond, consolidated net income allocated to ordinary shareholders stood at €100 million (H1 2016: €124 million).

Outlook: Aareal Bank affirms full-year guidance

Based on the successful performance during the first six months of 2017, Aareal Bank Group affirms its outlook for the year as a whole, according to which net interest income is expected in a range between €620 million and €660 million. Aareal Bank forecasts allowance for credit losses to be in a range between €75 million and €100 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 increase to between €195 million and €210 million, mainly driven by the expected positive developments at Aareon. Administrative expenses are expected in a range between €470 million and €510 million.

Aareal Bank continues to anticipate being able to generate consolidated operating profit of between €310 million and €350 million for the current year. We expect RoE before taxes in a range between 11 per cent and 12.5 per cent for the current financial year, with earnings per share between €2.85 and €3.30, based on an expected tax rate of around 37 per cent. Aareal Bank's medium-term target RoE of 12 per cent before taxes remains unchanged.

The Bank continues to target new business of between €7 billion and €8 billion for the Structured Property Financing segment during 2017.

In the Consulting/Services segment, Aareal Bank expects its IT subsidiary Aareon to contribute between €34 million and €35 million to results before taxes.

Note to editors: The full interim report as at 30 June 2017 is available at www.aareal-bank.com/financialreports.

Aareal Bank Group

Aareal Bank Group, headquartered in Wiesbaden, is a leading international property specialist. It provides smart financings, software products, and digital solutions for the property sector and related industries, and is present across three continents: 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 its Consulting/Services segment Aareal Bank Group offers its European clients from the property and energy sectors a unique combination of specialised banking services as well as innovative digital products and services, designed to help clients optimise and enhance the efficiency of their business processes.

Aareal Bank Group – Key Indicators

| | 1 Jan - 30 Jun 2017 | 1 Jan - 30 Jun 2016 |
|---|---------------------|---------------------|
| Results | | |
| Operating profit (€ mn) | 180 | 207 |
| Consolidated net income (€ mn) | 114 | 142 |
| Consolidated net income allocated to ordinary shareholders (€ mn) ¹⁾ | 100 | 124 |
| Cost/income ratio (%) ²⁾ | 43.0 | 42.4 |
| Earnings per ordinary share (€) ¹⁾ | 1.68 | 2.08 |
| RoE before taxes (%) ^{1) 3)} | 13.0 | 15.1 |
| RoE after taxes (%) ^{1) 3)} | 8.0 | 10.1 |

| | 30 Jun 2017 | 31 Dec 2016 |
|---|-------------|-------------|
| Statement of financial position | | |
| Property finance (€ mn) ⁴⁾ | 27,172 | 27,928 |
| of which: international (€ mn) | 23,082 | 23,423 |
| Equity (€ mn) | 2,833 | 3,129 |
| Total assets (€ mn) | 44,113 | 47,708 |
| Regulatory indicators | | |
| Risk-weighted assets (€ mn) | 13,345 | 14,540 |
| Common Equity Tier 1 ratio (CET 1 ratio) (%) | 16.9 | 16.2 |
| Tier 1 ratio (T1 ratio) (%) | 19.7 | 19.9 |
| Total capital ratio (%) | 27.6 | 27.5 |
| Common Equity Tier 1 ratio (CET1 ratio) (%) - fully phased - | 16.6 | 15.7 |
| Employees | 2,759 | 2,728 |

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 € 1.0 billion in private client business (31 December 2016: € 1.1 billion) and € 0.6 billion in local authority lending business by former Westdeutsche ImmobilienBank AG (former Westimmo) (31 December 2016: € 0.6 billion)

Consolidated income statement for the first half of 2017
(in accordance with IFRSs)

| | 1 Jan - 30 Jun 2017 | 1 Jan - 30 Jun 2016 | Change |
|--|------------------------|------------------------|------------|
| | € mn | € mn | % |
| Net interest income | 322 | 357 | -10 |
| Allowance for credit losses | 27 | 31 | -13 |
| Net interest income after allowance for credit losses | 295 | 326 | -10 |
| Net commission income | 97 | 93 | 4 |
| Net result on hedge accounting | -6 | 1 | |
| Net trading income / expenses | 3 | 17 | -82 |
| Results from non-trading assets | 0 | 61 | |
| Results from investments accounted for using the equity method | - | 0 | |
| Administrative expenses | 268 | 290 | -8 |
| Net other operating income / expenses | 59 | -1 | |
| Operating profit | 180 | 207 | -13 |
| Income taxes | 66 | 65 | 2 |
| Consolidated net income | 114 | 142 | -20 |
| Consolidated net income attributable to non-controlling interests | 6 | 10 | -40 |
| Consolidated net income attributable to shareholders of Aareal Bank AG | 108 | 132 | -18 |
| Earnings per share (EpS) | | | |
| Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾ | 108 | 132 | -18 |
| of which: allocated to ordinary shareholders | 100 | 124 | -19 |
| of which: allocated to AT1 investors | 8 | 8 | 0 |
| Earnings per ordinary share (in €) ²⁾ | 1.68 | 2.08 | -19 |
| Earnings per AT1 unit (in €) ³⁾ | 0.08 | 0.08 | 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.

Consolidated income statement for the second quarter of 2017 (in accordance with IFRSs)

| | Quarter 2 2017 | Quarter 2 2016 | Change |
|--|-------------------|-------------------|------------|
| | €mn | €mn | % |
| Net interest income | 158 | 177 | -11 |
| Allowance for credit losses | 25 | 29 | -14 |
| Net interest income after allowance for credit losses | 133 | 148 | -10 |
| Net commission income | 49 | 47 | 4 |
| Net result on hedge accounting | -3 | 0 | |
| Net trading income / expenses | 4 | 8 | -50 |
| Results from non-trading assets | 0 | 61 | |
| Results from investments accounted for using the equity method | - | 0 | |
| Administrative expenses | 129 | 144 | -10 |
| Net other operating income / expenses | 55 | 0 | |
| Operating profit | 109 | 120 | -9 |
| Income taxes | 42 | 38 | 11 |
| Consolidated net income | 67 | 82 | -18 |
| Consolidated net income attributable to non-controlling interests | 1 | 5 | -80 |
| Consolidated net income attributable to shareholders of Aareal Bank AG | 66 | 77 | -14 |
| Earnings per share (EpS) | | | |
| Consolidated net income attributable to shareholders of Aareal Bank AG ¹⁾ | 66 | 77 | -14 |
| of which: allocated to ordinary shareholders | 62 | 73 | -15 |
| of which: allocated to AT1 investors | 4 | 4 | 0 |
| Earnings per ordinary share (in €) ²⁾ | 1.05 | 1.23 | -15 |
| 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 half of 2017 (in accordance with IFRSs)

| | Structured Property Financing | | Consulting / Services | | Consolidation/ Reconciliation | | Aareal Bank Group | |
|--|-------------------------------|---------------------|-----------------------|---------------------|-------------------------------|---------------------|---------------------|---------------------|
| | 1 Jan - 30 Jun 2017 | 1 Jan - 30 Jun 2016 | 1 Jan - 30 Jun 2017 | 1 Jan - 30 Jun 2016 | 1 Jan - 30 Jun 2017 | 1 Jan - 30 Jun 2016 | 1 Jan - 30 Jun 2017 | 1 Jan - 30 Jun 2016 |
| | € mn | | | | | | | |
| Net interest income | 327 | 363 | 0 | 0 | -5 | -6 | 322 | 357 |
| Allowance for credit losses | 27 | 31 | | | | | 27 | 31 |
| Net interest income after allowance for credit losses | 300 | 332 | 0 | 0 | -5 | -6 | 295 | 326 |
| Net commission income | 3 | 3 | 91 | 85 | 3 | 5 | 97 | 93 |
| Net result on hedge accounting | -6 | 1 | | | | | -6 | 1 |
| Net trading income / expenses | 3 | 17 | | 0 | | | 3 | 17 |
| Results from non-trading assets | 0 | 61 | | | | | 0 | 61 |
| Results from investments accounted for using the equity method | | | | 0 | | | | 0 |
| Administrative expenses ¹⁾ | 166 | 189 | 104 | 102 | -2 | -1 | 268 | 290 |
| Net other operating income / expenses | 58 | -1 | 1 | 0 | 0 | 0 | 59 | -1 |
| Operating profit | 192 | 224 | -12 | -17 | 0 | 0 | 180 | 207 |
| Income taxes | 70 | 71 | -4 | -6 | | | 66 | 65 |
| Consolidated net income | 122 | 153 | -8 | -11 | 0 | 0 | 114 | 142 |
| Consolidated net income attributable to non-controlling interests | 4 | 8 | 2 | 2 | | | 6 | 10 |
| Consolidated net income attributable to shareholders of Aareal Bank AG | 118 | 145 | -10 | -13 | 0 | 0 | 108 | 132 |
| Allocated equity | 1,813 | 1,614 | 152 | 114 | 548 | 728 | 2,513 | 2,456 |
| Cost / income ratio (%) | 43.0 | 42.4 | 112.8 | 120.2 | | | 56.3 | 54.9 |
| RoE before taxes (%) ^{2) 3)} | 19.5 | 25.4 | -17.7 | -33.3 | | | 13.0 | 15.1 |

1) € 24 million in provisions for staff-related measures recognised during the first half of 2017, resulting from the optimisation of processes and structures within the scope of the "Aareal 2020" programme for the future, was allocated to the Structured Property Financing segment in full.

2) On an annualised basis

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

Segment results for the second quarter of 2017 (in accordance with IFRSs)

| | Structured Property Financing | | Consulting / Services | | Consolidation / Reconciliation | | Aareal Bank Group | |
|--|-------------------------------|----------------|-----------------------|----------------|--------------------------------|----------------|-------------------|----------------|
| | Quarter 2 2017 | Quarter 2 2016 | Quarter 2 2017 | Quarter 2 2016 | Quarter 2 2017 | Quarter 2 2016 | Quarter 2 2017 | Quarter 2 2016 |
| € mn | | | | | | | | |
| Net interest income | 160 | 181 | 0 | 0 | -2 | -4 | 158 | 177 |
| Allowance for credit losses | 25 | 29 | | | | | 25 | 29 |
| Net interest income after allowance for credit losses | 135 | 152 | 0 | 0 | -2 | -4 | 133 | 148 |
| Net commission income | 2 | 1 | 46 | 43 | 1 | 3 | 49 | 47 |
| Net result on hedge accounting | -3 | 0 | | | | | -3 | 0 |
| Net trading income / expenses | 4 | 8 | | 0 | | | 4 | 8 |
| Results from non-trading assets | 0 | 61 | | | | | 0 | 61 |
| Results from investments accounted for using the equity method | | | | 0 | | | | 0 |
| Administrative expenses ¹⁾ | 77 | 94 | 53 | 51 | -1 | -1 | 129 | 144 |
| Net other operating income / expenses | 54 | 0 | 1 | 0 | 0 | 0 | 55 | 0 |
| Operating profit | 115 | 128 | -6 | -8 | 0 | 0 | 109 | 120 |
| Income taxes | 44 | 41 | -2 | -3 | | | 42 | 38 |
| Consolidated net income | 71 | 87 | -4 | -5 | 0 | 0 | 67 | 82 |
| Consolidated net income attributable to non-controlling interests | 0 | 4 | 1 | 1 | | | 1 | 5 |
| Consolidated net income attributable to shareholders of Aareal Bank AG | 71 | 83 | -5 | -6 | 0 | 0 | 66 | 77 |
| Allocated equity | 1,813 | 1,614 | 152 | 114 | 548 | 728 | 2,513 | 2,456 |
| Cost / income ratio in % | 35.2 | 37.2 | 112.2 | 118.0 | | | 48.7 | 49.0 |
| RoE before taxes in % ^{2) 3)} | 24.2 | 29.5 | -16.9 | -30.7 | | | 16.4 | 17.9 |

1) € 24 million in provisions for staff-related measures recognised during the first half of 2017, resulting from the optimisation of processes and structures within the scope of the "Aareal 2020" programme for the future, was allocated to the Structured Property Financing segment in full.

2) On an annualised basis

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