Press Release

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Aareal Bank Group posts a solid start to the 2018 financial year

- **First-quarter consolidated operating profit of € 67 million (Q1 2017: € 71 million) in line with expectations – earnings per share up slightly**
- **Expected year-on-year decline in net interest income reflects the continued reduction of non-strategic loan portfolios from the acquisitions of Corealcredit and WestImmo**
- **Sound level of new business, with good margins, in the Structured Property Financing segment – no burden from loss allowance**
- **Further growth in net commission income, thanks to good performance at Aareon**
- **Marked reduction in administrative expenses – efficiency programme takes effect**
- **Full-year outlook affirmed: Aareal Bank anticipates consolidated operating profit of between € 260 million and € 300 million**

Wiesbaden, 9 May 2018 – With a solid start to the 2018 financial year, Aareal Bank Group maintained its good performance of the previous year, affirming its guidance for the full year 2018. Consolidated operating profit of € 67 million for the first quarter was slightly below the figure for the same period of the previous year (Q1 2017: € 71 million), as expected, yet fully in line with projections. Specifically, a continued increase in net commission income, lower costs and the absence of any burdens from loss allowance compensated for the expected decline in net interest income and lower gains from derecognition (due to low early repayments). Consolidated net income allocated to ordinary shareholders improved marginally, to € 39 million (Q1 2017: € 38 million). Earnings per ordinary share rose slightly, to € 0.65 (Q1 2017: € 0.63).

Consolidated financial statements as at 31 March 2018 were prepared applying the new International Financial Reporting Standard 9 ("Financial Instruments") for the first time, leading to individual changes (compared to previous periods) regarding the structure of the statement of financial position and of the income statement.

Including € 6 million in derecognition gains[1], which need to be reported separately in accordance with IFRS 9, net interest income for the first quarter amounted to € 139 million, after € 148 million for the fourth quarter of 2017 and € 164 million for the first quarter of 2017. The decline was primarily due to the continued and scheduled reduction of non-strategic loan portfolios from the acquisitions of Corealcredit and WestImmo; these portfolios had led to a marked increase in net interest income over recent years. Hence, current developments represent the continuation of a normalisation trend, which is in line with Aareal Bank's announcement that it will stabilise its aggregate credit portfolio – and hence, net interest income – at a solid level during the current year. Good margin levels prevailing in new business originated continued to have a positive effect during the first quarter, whilst the portfolio volume during the period was slightly below projections. Aareal Bank affirms its full-year target of between € 570 million and € 610 million for net interest income including derecognition gains or losses.

On balance, no loss allowance was recognised during the first quarter (Q1 2018: € 0 million; Q1 2017: € 2 million). Loss allowance is normally at a very low level for the first quarter of each year, due to seasonal factors. Accordingly, the Company continues to anticipate loss allowance for the full year of between € 50 million and € 80 million, a range that is markedly lower than in the previous year.

Likewise, the positive trend seen in previous years was maintained for net commission income, which improved further to € 50 million (Q1 2017: € 48 million), driven predominantly by higher sales revenue generated by Aareon. This means that net commission income continues to gain importance for Aareal Bank Group – as set out in its "Aareal 2020" programme for the future.

Moreover, the effects of efficiency-enhancing measures adopted within the scope of "Aareal 2020" are becoming increasingly evident: consolidated administrative expenses for the first three months of the year declined to € 128 million (Q1 2017: € 139 million), reflecting lower running costs. The net figure already includes full-year expenses of € 20 million (Q1 2017: € 22 million) for the bank levy and the deposit guarantee scheme.

"We have made a very solid start into the financial year, and are developing according to plan. As expected and announced, net interest income is returning to normal levels, having temporarily and significantly increased following the two major acquisitions in recent years. At the same time, we are pushing ahead with the targeted expansion of our Consulting/Services segment. Step by step, we are thus succeeding in achieving an appropriate level of earnings, even in a changing market and regulatory environment – as set out in our 'Aareal 2020' programme for the future," said CEO Hermann J. Merkens.

Structured Property Financing segment: good margins on new business

Aareal Bank Group's operating profit in its Structured Property Financing segment was virtually unchanged year-on-year, at € 75 million (Q1 2017: € 77 million).

[1] In accordance with IFRS 9, the result from the derecognition of financial assets and financial liabilities which are not measured at fair value through profit or loss is reported separately (in particular, this includes the effects from early loan repayments).

Faced with a business environment that continues to be characterised by intense competition and a challenging general framework, Aareal Bank maintained its risk-conscious, profit-oriented new business policy during the first three months of the 2018 financial year. New business originated during the period under review totalled € 1.5 billion (Q1 2017: € 1.8 billion), including € 1.0 billion in newly-originated loans. Thanks to its flexible allocation of new business – with a clear focus on the US – Aareal Bank was able to maintain average gross margin on new business at 2017's good levels, despite further intensified competition. Margins on newly-originated loans stood at 220 basis points (after currency hedging costs), with loan-to-value ratios remaining moderate.

Consulting/Services segment: Aareon develops on schedule – volume of deposits remains on a high level

Operating profit in the Consulting/Services segment totalled € –8 million during the first quarter of 2018 (Q1 2017: € –6 million). The Aareon AG subsidiary, which continued to expand its business in line with strategy during the first quarter, developed as planned. Its profit contribution of € 6 million, generated on further increases in sales revenue, was almost on a par with the previous year (Q1 2017: € 7 million).

Averaging € 10.2 billion, the volume of deposits from the housing industry remained virtually identical to the high level seen in the previous quarter (Q4 2017: € 10.4 billion). The persistently low interest rate environment continued to burden income generated from the deposit-taking business, and therefore the segment result, at the outset of the financial year. 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.

Comfortable funding situation, and strong capitalisation

Aareal Bank remained very well-funded during the first quarter of 2018, maintaining its long-term funding inventory at a comfortable level. It raised a total of € 0.7 billion on the capital markets during the first quarter: especially worth noting was the very successful placement of a benchmark € 0.5 billion Mortgage Pfandbrief issue in March 2018.

Aareal Bank remains very well capitalised. As at 31 March 2018, the Bank's Common Equity Tier 1 (CET1) ratio was 19.2 %, which is comfortable on an international level. Its Total Capital Ratio was 29.8 %. The CET1 ratio determined on the basis of the Basel Committee's final framework – the estimated so-called 'Basel IV' ratio, which is relevant for capital planning – was 13.5 %. As at 31 March 2018, this ratio (which already includes the proposed significant dividend increase for 2017, by € 0.50 to € 2.50 per share) thus clearly exceeds minimum regulatory requirements as well as the Bank's own CET1 target ratio of approximately 12.5 %.

Notes to Group financial performance

Net interest income (including gains on derecognition, which must be reported separately in accordance with IFRS 9) amounted to € 139 million (Q1 2017: € 164 million). The year-on-year decline was largely attributable to the portfolio reduction in the previous year, particularly due to the planned reduction of portfolios from WestImmo and Corealcredit. The gain from derecognition declined to € 6 million (Q1 2017: € 10 million), due to lower effects from early loan repayments. No loss allowance was recognised during the first quarter (Q1 2018: € 0 million; Q1 2017: € 2 million).

Net commission income increased to € 50 million (Q1 2017: € 48 million), which was mainly due to higher sales revenue at Aareon. The net gain or loss from financial assets (fvpl[2]) and on hedge accounting in the aggregate amount of € 1 million (Q1 2017: € -4 million) mainly resulted from exchange rate fluctuations.

At € 128 million (Q1 2017: € 139 million), administrative expenses were reduced as expected, thanks to lower running costs.

Consolidated operating profit totalled € 67 million for the quarter under review (Q1 2017: € 71 million). Taxes were incurred in a total amount of € 23 million. Following the optimisation of the capital structure in the previous year, through the termination of a hybrid bond issue, amounts deducted for non-controlling interest income declined from € 5 million in the first quarter of the previous year to € 1 million in the first quarter of 2018. Accordingly, consolidated net income attributable to shareholders of Aareal Bank AG amounted to € 43 million (Q1 2017: € 42 million). Assuming the *pro rata temporis* accrual of net interest payments on the AT1 bond, consolidated net income allocated to ordinary shareholders stood at € 39 million (Q1 2017: € 38 million).

Outlook for 2018 affirmed

Aareal Bank Group anticipates the present challenging business environment to prevail during the current financial year – with continued low interest rates in Europe, and strong competitive and margin pressure on key target markets. Against this background, Aareal Bank will continue to adhere to its business policy with a strict focus on risks and returns. The Bank will further accelerate its strategic development, within the framework of the "Aareal 2020" programme for the future, in order to safeguard its long-term success – in a business environment that is set to remain highly challenging in the future.

Following its solid start into the new year, Aareal Bank Group affirms its forecasts for the full year 2018: consolidated net interest income (including derecognition gains or losses reported separately, in accordance with IFRS 9) is projected between € 570 million and € 610 million. Loss allowance is expected in a range between € 50 million and € 80 million, which is significantly lower than in the previous year. A further increase in net commission income is projected, in a range between € 215 million and € 235 million. Administrative expenses are expected to decline to between € 470 million and € 500 million. Against this

[2] Net gain or loss from financial assets measured at fair value through profit or loss.

background, Aareal Bank expects consolidated operating profit for the current year to be in a range between € 260 million and € 300 million. The Bank expects RoE before taxes of between 9.5 per cent and 11.0 per cent for the current financial year, with earnings per share between € 2.60 and € 3.00. Aareal Bank affirms its medium-term target RoE of at around 12 per cent before taxes.

Aareal Bank will continue the reduction of non-strategic portfolios in the Structured Property Financing segment during 2018. At the same time, its core credit portfolio is planned to grow: overall, subject to exchange rate fluctuations, the aggregate credit portfolio is expected to range between € 25 billion and € 28 billion. The Bank targets new business between € 7 billion and € 8 billion for the current year, with a continued focus on the high-margin US market. In the Consulting/Services segment, Aareal Bank expects its IT subsidiary Aareon to contribute a markedly higher amount of approximately € 40 million to consolidated operating profit.

Note to editors: The full interim report for the first quarter of 2018 is available on http://www.aareal-bank.com/en/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-31 Mar 2018	1 Jan-31 Mar 2017
Results		
Operating profit (€ mn)	67	71
Consolidated net income (€ mn)	44	47
Consolidated net income allocated to ordinary shareholders (€ mn) [1]	39	38
Cost/income ratio (%) [2]	49.5	53.1
Earnings per ordinary share (€) [1]	0.65	0.63
RoE before taxes (%) [1] [3]	9.7	9.6
RoE after taxes (%) [1] [3]	6.3	6.1

	31 Mar 2018	31 Dec 2017
Statement of financial position		
Property finance (€ mn) [4]	24,641	25,088
Equity (€ mn)	2,932	2,924
Total assets (€ mn)	41,307	41,908
Regulatory indicators [5]		
Risk-weighted assets (€ mn)	11,464	11,785
Common Equity Tier 1 ratio (CET1 ratio) (%)	19.2	19.6
Tier 1 ratio (T1 ratio) (%)	21.8	22.1
Total capital ratio (TC ratio) (%)	29.8	30.0
Common Equity Tier 1 ratio (CET1 ratio) (%) – Basel IV (estimated) [6] –	13.5	13.4
Employees	2,771	2,800

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 € 0.7 billion in private client business (31 December 2017: € 0.8 billion) and € 0.5 billion in local authority lending business by former Westdeutsche ImmobilienBank AG (former WestImmo) (31 December 2017: € 0.5 billion)
5) The calculation of regulatory indicators takes into account the proposal of the Management Board and the Supervisory Board for the appropriation of profits for the financial year 2017. The appropriation of profits is subject to approval by the Annual General Meeting.
6) Underlying RWA estimate, given a 72.5 % output floor based on the final Basel Committee framework dated 7 December 2017, subject to the outstanding EU implementation as well as the implementation of additional regulatory projects (EBA requirements, TRIM, etc.).

Consolidated income statement for the first quarter of 2018 (in accordance with IFRSs)

	1 Jan - 31 Mar 2018	1 Jan - 31 Mar 2017[1)]	Change
	€ mn	€ mn	%
Net interest income	133	154	-14
Loss allowance	0	2	
Net commission income	50	48	4
Net derecognition gain or loss	6	10	-40
Net gain or loss from financial assets (fvpl)	3	-1	
Net result on hedge accounting	-2	-3	
Results from investments accounted for using the equity method			
Administrative expenses	128	139	-8
Net other operating income/expenses	5	4	25
Operating profit	**67**	**71**	**-6**
Income taxes	23	24	-4
Consolidated net income	**44**	**47**	**-6**
Consolidated net income attributable to non-controlling interests	1	5	-80
Consolidated net income attributable to shareholders of Aareal Bank AG	43	42	2
Earnings per share (EpS)			
Consolidated net income attributable to shareholders of Aareal Bank AG [2)]	43	42	2
of which: allocated to ordinary shareholders	39	38	3
of which: allocated to AT1 investors	4	4	0
Earnings per ordinary share (in €) [3)]	0.65	0.63	3
Earnings per AT1 unit (€) [4)]	0.04	0.04	0

1) Comparative amounts reclassified according to the new classification format
2) The allocation of earnings is based on the assumption that net interest payable on the AT1 bond is recognised on an accrual basis.
3) Earnings per ordinary share are determined by dividing the earnings attributable 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.
4) Earnings per AT1 unit (based on 100,000,000 AT1 units with a notional amount of € 3 each) are determined by dividing the earnings attributable 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.

1)

Segment results for the first quarter of 2018 (in accordance with IFRSs)

€ mn	Structured Property Financing 1 Jan - 31 Mar 2018	Structured Property Financing 1 Jan - 31 Mar 2017[1]	Consulting/ Services 1 Jan - 31 Mar 2018	Consulting/ Services 1 Jan - 31 Mar 2017	Consolidation/ Reconciliation 1 Jan - 31 Mar 2018	Consolidation/ Reconciliation 1 Jan - 31 Mar 2017	Aareal Bank Group 1 Jan - 31 Mar 2018	Aareal Bank Group 1 Jan - 31 Mar 2017[1]
Net interest income	136	157	0	0	-3	-3	133	154
Loss allowance	0	2	0				0	2
Net commission income	1	1	47	45	2	2	50	48
Net derecognition gain or loss	6	10					6	10
Net gain or loss from financial assets (fvpl)	3	-1					3	-1
Net result on hedge accounting	-2	-3					-2	-3
Results from investments accounted for using the equity method								
Administrative expenses	74	89	55	51	-1	-1	128	139
Net other operating income/expenses	5	4	0	0	0	0	5	4
Operating profit	**75**	**77**	**-8**	**-6**	**0**	**0**	**67**	**71**
Income taxes	26	26	-3	-2			23	24
Consolidated net income	**49**	**51**	**-5**	**-4**	**0**	**0**	**44**	**47**
Consolidated net income attributable to non-controlling interests	0	4	1	1			1	5
Consolidated net income attributable to shareholders of Aareal Bank AG	49	47	-6	-5	0	0	43	42
Allocated equity	1,839	1,853	168	146	478	509	2,485	2,508
Cost/income ratio (%)	49.5	53.1	117.9	113.4			65.6	65.9
RoE before taxes (%) [2) 3)]	15.1	14.5	-21.9	-19.2			9.7	9.6

1) Comparative amounts reclassified according to the new classification format
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.