



Press Release

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Aareal Bank Group exceeds target operating profit for the 2013 financial year – dividend proposal of EUR 0.75 per share

- **Consolidated operating profit of €198 million came in above the forecast that was already raised during the year – consolidated net income for 2013: €93 million**
- **Dividend proposal of €0.75 per share**
- **RoE before taxes rises to 8.0 per cent – medium-term RoE target of around 12 per cent before taxes is confirmed**
- **At €10.5 billion, new business in the segment Structured Property Financing clearly exceeded projections**
- **The positive trend in the operating business is expected to continue for the 2014 financial year – a non-recurring effect from the acquisition of Corealcredit Bank AG to further improve earnings**
- **CEO Dr Wolf Schumacher: "We outperformed our original targets in our 90th anniversary year, and we are in an excellent position to maintain this positive development into the future."**

Wiesbaden, 20 February 2014 – Aareal Bank Group posted very good results for the 2013 financial year, in a market and competitive environment that remained challenging. According to preliminary, unaudited figures, consolidated operating profit increased to €198 million, up 12 per cent year-on-year (2012: €176 million), thus exceeding the very good result achieved in 2011 (€185 million). It was therefore also higher than the earnings forecast that had already been raised during the year under review. Consolidated operating profit before taxes of €58 million was achieved in the fourth quarter of 2013, making the final quarter the strongest quarter of the year under review. Consolidated net income climbed to €93 million for the year as a whole (2012: €85 million), of which €27 million was attributable to the fourth quarter.

The positive development was supported in particular by a significant increase in net interest income, which rose considerably in the year as a whole to €527 million (previous year: €486 million) and in the fourth quarter to €147 million (Q4/2012: €116 million). Especially the good margins achieved in the lending business, low funding costs, and effects from repayments that were higher than expected had a positive impact. Allowance for credit losses was recognised at €113 million (2012: €106 million) and was therefore at the lower end of the communicated range of €110 million to €150 million.

At €10.5 billion (2012: €6.3 billion), the volume of new business reached its highest level since 2007. It was therefore significantly higher than the forecast, which had already been raised to more than €8 billion the previous autumn. This was against a background of a more active transaction environment, characterised by higher liquidity than originally expected. On the one hand, this offered greater new business opportunities to be exploited, from the start of the year onwards. On the other hand, it was associated with higher loan repayments.

As already announced following the Supervisory Board meeting on 19 February 2014, the Management Board and the Supervisory Board will propose to the Annual General Meeting of Aareal Bank AG on 21 May 2014 to distribute a dividend of €0.75 per share. In addition, Aareal Bank announces a dividend policy according to which approximately 50 per cent of the consolidated profit determined in accordance with IFRS shall be distributed per financial year so far as this is consistent with a long-term and sustained business development. The proposed dividend payment will raise the net expense for SoFFin's remaining silent participation by €4 million for the year under review, to €24 million.

The return on equity (RoE) of Aareal Bank improved markedly: RoE before taxes rose to 8.0 per cent in the 2013 financial year (2012: 7.2 per cent).

The Chairman of the Management Board, Dr Wolf Schumacher, commented on the success of the 2013 financial year: "We performed better in our 90th anniversary than we had originally anticipated, given the still persistent uncertainties and intensified competition. This once again confirms the strength and resilience of our business model. We are thus in an excellent position to maintain this positive development into the future."

Financial year 2013: significant increase in results

Net interest income amounted to €527 million in the 2013 financial year after €486 million in the previous year. The increase over the previous year was therefore higher than originally forecast by Aareal Bank. Good margins achieved in the lending business, low funding costs, and effects from repayments that were higher than expected had a positive impact on net interest income. It was burdened on the other hand by a lack of attractive investment opportunities for the liquidity reserves, due to the persistent low interest rate environment.

Allowance for credit losses amounted to €113 million in the 2013 financial year (2012: €106 million), and was therefore slightly higher than the previous year's level and at the lower end of the forecast range of €110 million to €150 million for the full financial year.

Net commission income of €165 million was only slightly lower than the previous year's figure (€169 million) and points accordingly to a stable development in accordance with original expectations.

Net trading income/expenses and the net result on hedge accounting of €12 million (2012: €-14 million) were primarily attributable to the measurement of derivatives used to hedge interest rate and currency risk, and to realised and unrealised changes in value from the sale of hedges for selected EU countries. The results from non-trading assets amounted to €-8 million (2012: €1 million). This was largely due to the sale of securities as part of an active portfolio management.

Administrative expenses of €375 million (2012: €358 million) were slightly higher than the €360 million to €370 million range projected for the financial year. This was due for one to measurement effects in conjunction with share-based variable remuneration components (under the Long-Term Incentive Programme – “LTIP”), as defined by the German Regulation on Remuneration in Financial Institutions (Instituts-Vergütungsverordnung) owing to the positive performance of the Aareal Bank share. Other reasons included the acquisition of the Swedish Incit Group as at 1 July 2013, as well as higher expenses for projects compared with the previous year.

After deduction of net other operating income/expenses of €-10 million (2012: €-7 million), consolidated operating profit for the 2013 financial year amounted to €198 million (2012: €176 million). Taking into consideration income taxes of €62 million and non-controlling interest income of €19 million, net income attributable to shareholders of Aareal Bank amounted to €117 million (2012: €105 million). After deduction of the €24 million net interest payable on the SoFFin silent participation, consolidated net income stood at €93 million (2012: €85 million).

Aareal Bank will service all of its subordinated refinancing vehicles for the 2013 financial year.

Aareal Bank continued to pursue its successful business policy, strictly focusing on quality, in its **Structured Property Financing segment**.

New business originated amounted to €10.5 billion (2012: €6.3 billion) and therefore exceeded the original target of €6.0 to 7.0 billion, which itself was already raised to over €8 billion during the year. The share of newly-originated loans in total new business exceeded 61.6% in the year under review (2012: 47.2%).

Segment net interest income was €519 million (2012: €463 million). The increase over the previous year was therefore higher than originally expected. Good lending margins and low funding costs had a positive effect on net interest income. It was burdened, however, by a lack of attractive investment opportunities for the liquidity reserves, due to the persistent low interest rate environment.

At €201 million, administrative expenses were higher than the previous year's level (€191 million). This was due for one to measurement effects in conjunction with share-based variable remuneration components (under the Long-Term Incentive Programme – “LTIP”), as defined by the German Regulation on Remuneration in Financial Institutions (Instituts-Vergütungsverordnung) owing to the positive performance of the Aareal Bank share. This also resulted in higher expenses for projects compared with the previous year.

Operating profit in the Structured Property Financing segment totalled €209 million (previous year: €170 million). Taking into consideration income taxes of €65 million and non-controlling interest income of €16 million, the segment result attributable to shareholders of Aareal Bank amounted to €128 million (2012: €102 million).

Sales revenues in the **Consulting/Services segment** amounted to €187 million in the 2013 financial year (2012: €194 million). The decline resulted mainly from the low interest rate environment, which impacted heavily on the margins generated from the deposit-taking business that are reported under sales revenues.

Yet the importance of the deposit-taking business in the Consulting/Services segment goes far beyond the interest margin generated from the deposits – which is under pressure in the current interest rate environment. For Aareal Bank, deposits from the institutional housing industry are a strategically important additional source of funding for the lending business, and one that is largely independent of capital markets developments. In addition to the German Pfandbrief and unsecured bank bonds, they represent an important pillar in the Bank's long-term funding mix. Especially in relation to the changing regulatory framework, Aareal Bank sees this business as offering a particular competitive advantage.

Despite continued intense competition, the volume of deposits from the institutional housing industry rose significantly to an average of €7.2 billion in the 2013 financial year (2012: €5.6 billion).

Aareon AG recorded positive business development in 2013 in its key business segments – ERP Products, Integrated Services and International Business. Overall, sales revenues were raised from €165 million to €173 million. Despite considerable investments, EBIT of €27 million was slightly above the previous year's level of €26 million.

On balance, the Consulting/Services segment generated operating profit of €-11 million (2012: €6 million). After taxes of €-3 million and €3 million in results attributable to non-controlling interests, the segment result amounted to €-11 million (2012: €3 million).

Successful funding activities – the capital position remains solid

Aareal Bank Group successfully carried out its funding activities as planned during the 2013 financial year. Owing to the strong demand for Pfandbriefe and unsecured issues from solid issuers, the Bank was able to implement the measures as planned.

During the period under review, Aareal Bank succeeded in raising a total of €4.1 billion in medium- and long-term funds on the capital market. The issue volume of our unsecured funds amounted to €1.0 billion; subordinated bonds accounted for €0.1 billion and Mortgage Pfandbriefe made up €3.0 billion of the total volume. This highlights how very important the Pfandbrief remains to Aareal Bank's funding mix.

Aareal Bank remains very solidly financed. According to preliminary figures, the Bank's comfortable Tier 1 ratio in accordance with the German Commercial Code (HGB) amounted to 18.5 per cent as at 31 December 2013 (up from 16.7 per

cent as at year-end 2012). The core tier 1 ratio was 12.9 per cent (2012: 11.6 per cent).

Notes on the preliminary Income Statement for the fourth quarter of 2013

At €58 million, Aareal Bank Group's consolidated operating profit for the fourth quarter of 2013 was up significantly year-on-year (Q4 2012: €46 million).

According to preliminary figures, net interest income in the final quarter of 2013 stood at €147 million (Q4 2012: €116 million), and therefore exceeded the previous quarter's figure (€133 million) by €14 million. This was predominantly due to effects resulting from repayments that were higher than expected.

€39 million in allowance for credit losses was recognised during the fourth quarter (Q4 2012: €39 million).

Net commission income of €48 million was slightly lower than in the corresponding quarter of the previous year (€50 million), and €8 million higher than the previous quarter (€40 million), due to the fact that Aareon traditionally enjoys a strong fourth quarter of the year.

Net trading income/expenses and the net result on hedge accounting was slightly positive overall during the fourth quarter (Q4/2013: €1 million; Q4/2012: €10 million).

Administrative expenses amounted to €99 million during the fourth quarter (Q4 2012: €88 million).

Aareal Bank Group generated consolidated operating profit for the fourth quarter of €58 million (Q4 2012: €46 million). After deduction of income taxes of €18 million and €4 million in non-controlling interest income, net income attributable to shareholders of Aareal Bank amounted to €36 million. After deduction of the net interest payable on the SoFFin silent participation, consolidated net income stood at €27 million (Q4 2012: €18 million).

Outlook for 2014: consolidated operating profit expected to rise strongly

Aareal Bank expects a slight global recovery in 2014. Against the background of liquidity support provided by central banks in Europe and the US, the financial and capital markets continued to ease noticeably in the year under review. The key issue that will drive developments during the current year will be the markets' response – including those outside Europe and the US – to a normalisation of money supply. This holds risks for global economic developments. Considering the anticipated low inflationary pressure in the euro zone, Aareal Bank believes that the European Central Bank will keep its key interest rates at a low level – consequently, short-term interest rates in the euro zone are likely to remain low.

Aareal Bank Group's positive development is thus expected to persist during the current year. The forecasts for the 2014 financial year include expected figures for Corealcredit Bank AG for the first time, assuming a closing as at 31 March 2014. The exact contribution of Corealcredit Bank depends on the closing date for the transaction, which is still expected to be in the course of the

first half-year. Aareal Bank communicated the acquisition of Corealcredit Bank on 22 December 2013.

Aareal Bank expects net interest income in the 2014 financial year to rise to between €610 million and 640 million. Net interest income is set to benefit from good margins from the previous years' lending business, low funding costs, and the acquisition of Corealcredit Bank. The low interest rate environment continues to have negative implications for net interest income, both in relation to the deposit-taking business and because of the lack of attractive investment opportunities for the liquidity reserves.

Despite a higher loan portfolio, Aareal Bank forecasts allowance for credit losses in a range of €100 million to €150 million, which is a slightly more optimistic range than in the previous year. 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 to 450 million. A material reason for the projected increase over the previous year is the acquisition of Corealcredit Bank.

All in all, Aareal Bank sees good opportunities, including a non-recurring effect from the acquisition of Corealcredit Bank (negative goodwill), to achieve consolidated operating profit of between €370 and 390 million for the current year. Adjusted for this non-recurring effect, Aareal Bank expects consolidated operating profit of €220 million to €240 million.

RoE before taxes, excluding the aforementioned non-recurring effect, is likely to be in the region of 9 per cent; Aareal Bank's medium-term target RoE of approximately 12 per cent before tax 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 result before taxes over the previous year for its IT subsidiary Aareon, at around €28 million.

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 commercial property and housing industry services and products for managing residential property portfolios and processing payment flows.

Consolidated Income Statement of Aareal Bank Group
Preliminary results for the financial year 2013
(unaudited, in accordance with IFRS):

	1 Jan - 31 Dec 2013	1 Jan - 31 Dec 2012	Change
	€ mn	€ mn	%
Net interest income	527	486	8
Allowance for credit losses	113	106	7
Net interest income after allowance for credit losses	414	380	9
Net commission income	165	169	-2
Net result on hedge accounting	-6	-4	
Net trading income / expenses	18	-10	
Results from non-trading assets	-8	1	
Results from investments accounted for using the equity method	0	0	
Results from investment properties	-	5	
Administrative expenses	375	358	5
Net other operating income / expenses	-10	-7	
Impairment of goodwill	-	-	
Operating profit	198	176	13
Income taxes	62	52	19
Net income / loss	136	124	10
Allocation of results			
Net income / loss attributable to non-controlling interests	19	19	
Net income / loss attributable to shareholders of Aareal Bank AG	117	105	11
Appropriation of profits			
Net income / loss attributable to shareholders of Aareal Bank AG	117	105	11
Silent participation by SoFFin	24	20	20
Consolidated profit / loss	93	85	9

Segment Results of Aareal Bank Group
Preliminary results for the financial year 2013
(unaudited, in accordance with IFRS):

	Structured Property Financing		Consulting / Services		Consolidation / Reconciliation		Aareal Bank Group	
	1 Jan - 31 Dec 2013	1 Jan - 31 Dec 2012	1 Jan - 31 Dec 2013	1 Jan - 31 Dec 2012	1 Jan - 31 Dec 2013	1 Jan - 31 Dec 2012	1 Jan - 31 Dec 2013	1 Jan - 31 Dec 2012
€ mn								
Net interest income	519	463	0	0	8	23	527	486
Allowance for credit losses	113	106					113	106
Net interest income after allowance for credit losses	406	357	0	0	8	23	414	380
Net commission income	10	21	165	173	-10	-25	165	169
Net result on hedge accounting	-6	-4					-6	-4
Net trading income / expenses	18	-10					18	-10
Results from non-trading assets	-8	1					-8	1
Results from investments accounted for using the equity method		0	0				0	0
Results from investment properties		5						5
Administrative expenses	201	191	177	169	-3	-2	375	358
Net other operating income / expenses	-10	-9	1	2	-1	0	-10	-7
Impairment of goodwill								
Operating profit	209	170	-11	6	0	0	198	176
Income taxes	65	51	-3	1			62	52
Net income / loss	144	119	-8	5	0	0	136	124
Allocation of results								
Net income / loss attributable to non-controlling interests	16	17	3	2			19	19
Net income / loss attributable to shareholders of Aareal Bank AG	128	102	-11	3	0	0	117	105

Consolidated Income Statement of Aareal Bank Group
Preliminary results for the fourth quarter 2013
(unaudited, in accordance with IFRS):

	Quarter 4 2013 €mn	Quarter 4 2012 €mn	Change %
Net interest income	147	116	27
Allowance for credit losses	39	39	0
Net interest income after allowance for credit losses	108	77	40
Net commission income	48	50	-4
Net result on hedge accounting	-3	3	
Net trading income / expenses	4	7	-43
Results from non-trading assets	0	3	
Results from investments accounted for using the equity method	0	0	
Results from investment properties	0	0	
Administrative expenses	99	88	13
Net other operating income / expenses	-	-6	
Impairment of goodwill	0	-	
Operating Profit	58	46	26
Income taxes	18	19	-5
Net income / loss	40	27	48
Allocation of results			
Net income / loss attributable to non-controlling interests	4	4	0
Net income / loss attributable to shareholders of Aareal Bank AG	36	23	57
Appropriation of profits			
Net income / loss attributable to shareholders of Aareal Bank AG	36	23	57
Silent participation by SoFFin	9	5	80
Consolidated profit / loss	27	18	50

Segment Results of Aareal Bank Group
Preliminary results for the fourth quarter 2013
(unaudited, in accordance with IFRS):

	Structured Property Financing		Consulting / Services		Consolidation / Reconciliation		Aareal Bank Group	
	Quarter 4 2013	Quarter 4 2012	Quarter 4 2013	Quarter 4 2012	Quarter 4 2013	Quarter 4 2012	Quarter 4 2013	Quarter 4 2012
€mn								
Net interest income	146	113	0	0	1	3	147	116
Allowance for credit losses	39	39					39	39
Net interest income after allowance for credit losses	107	74	0	0	1	3	108	77
Net commission income	3	5	47	49	-2	-4	48	50
Net result on hedge accounting	-3	3					-3	3
Net trading income / expenses	4	7					4	7
Results from non-trading assets	0	3					0	3
Results from investments accounted for using the equity method		0	0				0	0
Results from investment properties	0	0					0	0
Administrative expenses	54	44	47	45	-2	-1	99	88
Net other operating income / expenses	-1	-4	2	-2	-1	0	0	-6
Impairment of goodwill	0						0	
Operating profit	56	44	2	2	0	0	58	46
Income taxes	18	19	0	0			18	19
Net income / loss	38	25	2	2	0	0	40	27
Allocation of results								
Net income / loss attributable to non-controlling interests	3	4	1	0			4	4
Net income / loss attributable to shareholders of Aareal Bank AG	35	21	1	2	0	0	36	23